



CROATIAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

SUSTAINABILITY REPORT

ZAGREB, JUNE 2024

Contents

1. INTRODUCTION BY THE PRESIDENT OF THE MANAGEMENT BOARD	3
2. PREPARATION FOR CSRD/ESRS	6
3. GENERAL INFORMATION	9
3.1. Strategy and Business Model	10
3.1.1. Strategy	10
3.1.2. Business Model	10
3.2. Results of Materiality Assessment	11
3.2.1. Sustainability Context	11
3.2.1.1. General Developments	11
3.2.1.2. Sustainability Trends in the Financial Sector of the European Union with a Special Reference to Promotional Banks	12
3.2.1.3. EU Taxonomy: Key Framework for Redirecting Capital into Sustainable Activities	13
3.2.1.4. Completing the Package of Corporate Sustainability Reporting and Sustainable Finance	13
3.2.2. Results of Impact Materiality Assessment	15
3.3. Description of Materiality Assessment Methodology	21
3.3.1. Stakeholder Engagement	22
3.4. Risk Management Relating to Sustainability Issues	22
3.4.1. Role and Composition of Top Governance Bodies	23
3.4.2. Remuneration	28
3.4.3. Diversity and Expertise of HBOR's Governance Bodies in Terms of Sustainability	29
4. HBOR'S SUSTAINABILITY RELATED BUSINESS ACTIVITIES	31
4.1. Climate Change	32
4.2. Reorientation of Portfolio	32
5. ENVIRONMENT	41
5.1.1. Energy Consumption and Greenhouse Gases Emissions	42
5.2. Other Environmental Impacts	44
5.2.1. Water Consumption	45
5.2.2. Waste Management	45

6. SOCIETY	46
6.1. Employees	47
7. GOVERNANCE	55
8. ORGANISATION PROFILE	63
8.1. ESRS Index	70
8.2. GRI Table	71
8.3. Glossary	75
9. SUSTAINABLE TRANSITION CONCEPT AND VISUAL CODE FOR A NEW FUTURE	80
10. IMPRESSUM	81

1. INTRODUCTION BY THE PRESIDENT OF THE MANAGEMENT BOARD

During 2023, HBOR significantly intensified its efforts aimed at the transition to sustainable finance in order to support projects focused on sustainability and reducing the gap in the fight against climate change. At the same time, we started preparations for reporting in accordance with the new EU regulation on sustainability reporting, which was finalised by the adoption of the European Sustainability Reporting Standards at the end of July 2023.

Our efforts to shift to sustainable finance were extensively based on the results and recommendations of the project called “Reorient HBOR’s Operations Towards Sustainable Financing and Green Transition” (Sustainable Finance project)¹, which we completed successfully in 2023. Following one of the recommendations, we started preparations to establish an ESG governance structure in HBOR and to define its key elements.

We are particularly proud that, in 2023, we successfully went through the process of obtaining accreditation from the European Commission to directly manage the EU funds. At the beginning of 2024, HBOR successfully completed this extremely complex and demanding process and received authority to directly manage the funds of the European Union. The obtained accreditation additionally confirmed the high level of quality and professional standards in our operations. This success was not only a big step forward for HBOR, but also opened the door to new opportunities to be used to intensify our support for the Croatian economy.

A further reason for satisfaction was the fact that we received a positive assessment from the European Investment Bank (EIB), which confirmed that HBOR was fully in compliance with its environmental and social standards. This was as a great recognition of our expertise and ability to adopt new standards. At the end of 2023, we signed a new contract with the EIB in the amount of EUR 200 million (out of a total of EUR 500 million of the approved framework), of which 20% was intended for green projects in accordance with the climate goals of the EIB.

Under the 2021-2026 National Recovery and Resilience Plan, HBOR was entrusted the task of implementing six financial instruments totalling EUR 256 million. During 2023, HBOR implemented five financial instruments, while the sixth financial instrument, Investment in Equity and Quasi-Equity Finance Instruments, was in the development phase. This new instrument, intended for the development of equity and quasi-equity markets, was being developed by HBOR in cooperation with the EIF, with which a joint investment deal of EUR 52 million (EUR 26 million each) was signed in July 2023.

At least 25% of the total contract amount would be allocated to the beneficiaries who met the EIF’s climate action and environmental sustainability criteria. All those financial instruments would be implemented in accordance with the Do No Significant Harm principle, which was incorporated in the Regulation Establishing the Recovery and Resilience Facility to ensure that any measure included in the recovery and resilience plans of EU member states would do no significant harm to any of the environmental objectives of the EU Taxonomy.

After the successful completion of the implementation cycle of the ESIF financial instruments intended for the growth and expansion of entrepreneurship, public lighting and energy efficiency in public sector buildings, we launched the development of new ESIF financial instruments in 2023. The implementation of the financial instrument “Working Capital for Agriculture and the Processing Industry” continued in 2024. All investments under the new financial instruments in the 2021-2027 programme period would have to comply with the Do No Significant Harm principle under the Regulation Establishing the Recovery and Resilience Facility and the Technical Guidance for preparing infrastructure for climate change in line with the Paris Agreement and the EU climate goals.

In 2023, HBOR continued with the implementation of the measures to support the Croatian economy through lending and export credit insurance operations as part of support measures implemented on behalf of the Republic of Croatia following the Russian aggression against Ukraine.

¹ The project was implemented with the funds of the European Union and in cooperation with the Directorate-General for Structural Reform Support (DG REFORM) of the European Commission.

Furthermore, we significantly intensified our activities in numerous associations and sectoral initiatives aimed at exchanging and improving the competencies required for sustainable finance.

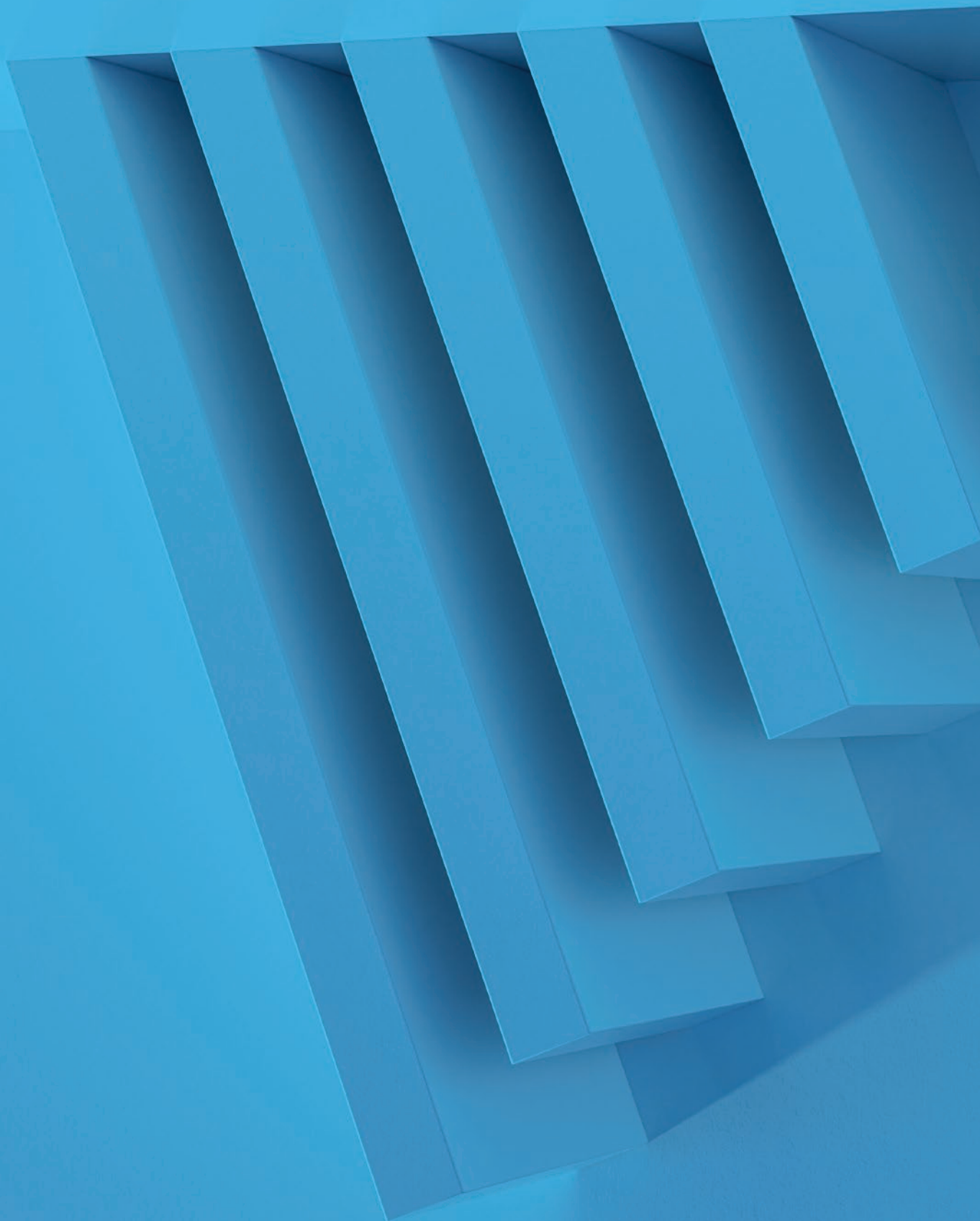
In short, 2023 was a successful and intensive year for HBOR. However, following the reporting cycle, we became increasingly aware of the complexity of the European Commission's new requirements in terms of sustainability reporting. And yet, this challenge further motivated us to continue with the preparations even more intensively and to make all the necessary efforts to align, manage and report on the significant impacts, risks and opportunities of HBOR relating to sustainability and be a generator of targeted reallocation of funds into green projects in accordance with the European Green Deal and the Paris Agreement.

Hrvoje Čuvalo, MSc

President of the Management Board

Croatian Bank for Reconstruction and Development

2 PREPARATION FOR CSRD/ESRS



During the reporting cycle, HBOR took significant steps towards the in-depth understanding of the requirements of the Corporate Sustainability Reporting Directive (CSRD) and the first set of the new European Sustainability Reporting Standard (ESRS) as well as the practical application of certain requirements with an objective of timely transition to reporting in accordance with the new EU sustainability reporting requirements.

The GRI standards were still used in the preparation of the sustainability report. The data needed for the report were collected for the period from 1 January to 31 December 2023. The requirements that were taken into account were those of the ESRS 2 standard, one of the twelve ESRS standards that is mandatory for all undertakings subject to CSRD regardless of the sector of activity. Additionally, reflecting the recommended reporting structure in accordance with the ESRS proved to be a major challenge given the specific features of the financial sector in the absence of a sector standard for financial institutions, the adoption of which was postponed by the European Commission until 30 June 2026.

Finally, the goal was to differentiate the impacts of HBOR's business operations from its impacts in the value chain through lending activities and portfolio more clearly. The differentiations also laid the foundations for the exemption of certain ESG matters from future sustainability reports.

Breakdown of the Sustainability Information in accordance with ESRS

1. General information

ESRS 2 General disclosure

- list of disclosure requirements in line with the table of data points resulting from EU legislation

2. Environmental information

Disclosure requirements in accordance with Article 8 of the Taxonomy Regulation (EU 2020/852)

ESRS E1 Climate change

ESRS E2 Pollution

ESRS E3 Water and marine resources

ESRS E4 Biodiversity and ecosystems

ESRS E5 Resource use and circular economy

3. Social information

ESRS S1 Own workforce

ESRS S2 Workers in the value chain

ESRS S3 Affected communities

ESRS S4 Consumers and end-users

4. Governance information

ESRS G1 Business conduct

This sustainability report was compiled on an individual basis for the HBOR Group parent company, i.e. for the Croatian Bank for Reconstruction and Development.

Strengthening of governance structure focused on sustainability

As part of preparations for the alignment with the ESRS and CSRD requirements, HBOR strengthened its sustainability-oriented governance structure by establishing the Sustainable Finance organisational unit. Besides, in 2024, the Sustainable Finance Committee was established and Sustainable Finance Leaders were appointed. These steps enabled better coordination and implementation of activities related to sustainable finance and management of ESG factors.

Initial assessment of the value chain

Initial assessment of the value chain was carried out, which highlighted the complexity of the analysis in terms of the identification of several main value chains. This analysis formed the basis for further analyses and ensures a relevant and faithful representation of the main areas of impacts, risks and opportunities of HBOR.

Assessment of impacts, risks and opportunities

HBOR's impacts, individual risks and opportunities were analysed and were qualitatively described in this phase. The assessment enabled a better understanding of possible challenges and opportunities arising from HBOR's activities. A clearer distinction was made among the impacts of HBOR itself in its own operations (offices, employees, management and related impacts), the impacts arising from its main task of developing the Croatian economy and the risks and opportunities arising from its portfolio.

Portfolio analysis in accordance with the EU Taxonomy criteria

Beside the above activities, an additional analysis was initiated to assess the taxonomic eligibility of HBOR's portfolio following the initial assessment carried out under the Sustainable Finance project. This analysis covered the entities subject to the Non-Financial Reporting Directive, their number and share in HBOR's portfolio.

3 GENERAL INFORMATION

The background is a solid, deep blue color. It features several 3D rectangular blocks of varying heights and positions, creating a sense of depth. These blocks are rendered with soft shadows, suggesting a light source from the upper left. The overall aesthetic is clean, modern, and architectural.

3.1. Strategy and Business Model

3.1.1. Strategy

The 2020-2024 Business Strategy of the Croatian Bank for Reconstruction and Development (HBOR) is aimed at the promotion of sustainable and even economic and social development of the Republic of Croatia. The main objectives of the Strategy include the development of equity and quasi-equity market, the promotion of economically and socially balanced regional, rural and urban development, the promotion of Croatian economy internationalisation and globalisation, the strengthening of competitiveness with a special emphasis on innovation, digital transformation and Industry 4.0 and the promotion of climate and energy neutral economy through energy efficiency, renewables, and environmental protection. HBOR is also focused at the promotion of economic recovery from the consequences of the COVID-19 pandemic and the enabling of public sector investments to mitigate the consequences of the earthquake.

HBOR achieves strategic objectives through several key initiatives. Encouraging the development of equity and quasi-equity market enables faster development of the domestic financial market, especially by supporting start-up entrepreneurs and fast-growing enterprises in the ICT sector and other innovative industries. Further development of private equity funds, education and raising the level of information of key stakeholders are also priorities.

Within the framework of promoting economically and socially balanced regional, rural and urban development, HBOR focuses on strengthening local and regional infrastructure, especially in underdeveloped areas that lag behind the national average. This includes the development of entrepreneurship, especially of micro, small and medium-sized enterprises, and the support to projects aimed at upgrading communal, economic and social infrastructure.

For the purpose of promoting the internationalisation and globalisation of the Croatian economy, HBOR as an export bank and a national export credit agency supports exporters through the programmes of export finance and export credit insurance against commercial and political risks, for which there is no offer in the private market, and strengthens their presence in international markets. HBOR develops new products and adapts existing ones to better suit the needs of exporters in cooperation with national and international financial institutions.

Strengthening the competitiveness of the domestic economy is emphasised through encouraging investment in innovation, digital transformation and Industry 4.0. HBOR supports projects that include the development of new technologies, research and development, modernisation of business processes for companies to adapt to new market conditions and become more competitive on a global level.

In addition, HBOR is focused on fostering climate and energy neutral economy through supporting investment in energy efficiency, renewable energy sources and environmental protection projects. This includes reducing energy intensity and adapting to climate change, which ensures the long-term sustainability and resilience of the economy.

Through these activities, HBOR uses, in addition to its own funds and available national funds, various financial instruments, including the European Union funds, and it cooperates with national and international institutions to ensure efficient and transparent support for the development of the Croatian economy. With a proactive business approach, HBOR encourages innovation and sustainable growth of Croatia. The goal is to create a more competitive, innovative and sustainable economy that can respond to challenges and take advantage of opportunities in the global market.

3.1.2. Business Model

HBOR is the only promotional and export bank and export credit agency in the Republic of Croatia established by a special Act². The business model of HBOR is based on the provision of various financial products and services, including loans, letters of credit, guarantees, export credit insurance products, leasing products and investments in venture capital funds.

² <https://www.hbor.hr/document-library/184>

HBOR's clients are private sector business entities (micro, small and medium-sized enterprises), medium capitalisation entities, large entities, public sector entities (units of local and regional government: municipalities, cities and counties) and companies, institutions and agencies owned or majority owned by them or the Republic of Croatia. Special target groups are young entrepreneurs, female entrepreneurs, start-ups and market competitive business entities. HBOR approves its products and services directly to clients and/or through financial intermediaries such as commercial banks and leasing companies.

HBOR also provides specialised services related to export finance loans and export credit insurance against non-market risks, which includes lending to exporters and/or providing insurance for the collection of exporters' receivables for goods and services delivered to foreign buyers as well as lending to foreign buyers under such export operations and/or insuring the collection of receivables under such loans, approving loans for working capital/liquidity of the exporters or approving pre-shipment export finance loans and/or insuring receivables under such loans, approving export-related bank guarantees and insuring payments under such guarantees.

HBOR closely cooperates with international financial institutions such as the European Investment Bank (EIB), the Council of Europe Development Bank (CEB) and the International Bank for Reconstruction and Development (IBRD), with national financial institutions such as banks, leasing companies and companies for managing alternative forms of finance. HBOR plays an important role in the use of the European Union funds, especially through financial instruments based on the EU funds, such as the Recovery and Resilience Facility (RRF) under the NextGenerationEU in accordance with the 2021-2026 National Recovery and Resilience Plan (NRRP) and the European Structural and Investment Funds (ESIF) under the multiannual programme period.

As part of its strategic initiatives, HBOR encourages the development of equity and quasi-equity market, promotes economically and socially balanced and sustainable regional, rural and urban development, promotes Croatian economy internationalisation and globalisation, strengthens competitiveness with a focus on innovation, digital transformation and Industry 4.0. Furthermore, HBOR promotes climate and energy neutral economy, projects of energy efficiency, renewable energy sources and environmental protection. Through these activities, HBOR strives to support the development of the Croatian economy, improve the competitiveness of national companies in the international market, and ensure the long-term sustainability and development of the financial market in Croatia.

3.2. Results of Materiality Assessment

3.2.1. Sustainability Context

3.2.1.1. General Developments

By introducing the Euro as the official currency on 1 January 2023, Croatia became the first EU member state to implement the process of its introduction after the 2008/2009 global financial crisis and the twentieth member of the eurozone. In January 2023, Croatia became the 27th member of the Schengen area. The introduction of the Euro reduced the currency and credit risks and the sovereign risk premium. There was no need to exchange currency during international transactions with the most important partners from the EU any longer, which reduced the costs and increased the competitiveness of Croatian companies. On the other hand, still high inflation, weakening of economic activity in the surrounding area, tightening of financial terms and conditions and global geopolitical tensions remained the main risks for financial stability in 2023. Inflationary pressures in 2023 were somewhat milder than in 2022 with an average annual inflation rate of 8.4% compared to 10.7% in 2022. The normalisation of energy prices, followed by lower food prices, contributed the most to the slowdown in overall inflation. At the same time, inflation in the euro area was reduced to 5.4% in 2023. The difference between the level of inflation in Croatia and in the euro area average was a reflection of the higher level of prices of services and food.

Economic developments were favourable. The real gross domestic product of Croatia increased by 3.1% in 2023 as a result of increased consumption by households and the government, greater

investment activities and positive developments in net exports. The Croatian economy recorded a faster growth than the average growth in the euro area and the EU, which resulted in the continuation of favourable developments in the market, the fall in inflation, the strengthening of real incomes, consumer optimism and personal consumption. Investment growth was supported by the increasing absorption of EU funds, both under the Multiannual Financial Framework (MFF) and the Recovery and Resilience Facility (RRF).

In addition to the specific development needs already covered by the NRRP, Croatia faces additional challenges in the decarbonisation of energy and transport, green transition, economic productivity and is also faced with the risk of poverty and social exclusion. By solving and mitigating these issues, Croatia will be able to show progress in meeting those sustainable development goals where it currently shows room for improvement, i.e. Affordable and Clean Energy (SDG 7), Industry, Innovation and Infrastructure (SDG 9) and Climate Action (SDG 13).³ In 2023, the European Commission amended the Regulation on binding annual greenhouse gas emission reductions by member states from 2021 to 2030 and defined the new greenhouse gas emission reduction targets for member states and their contribution to the goals of the Paris Agreement. They will jointly contribute to the greenhouse gas emission reduction of 40% below 2005 levels through effort distribution at the EU level. The new greenhouse gas emission reduction target for Croatia is 16.7%, an increase of 9.7 percentage points compared to the 7% target established in 2018. In the Croatia 2023 Country Report, the European Commission assessed that Croatia could achieve its new emission reduction target value, or even exceed it, if it applied additional measures. In 2021, Croatia still had a high share of fossil fuels of 69% in its energy mix, and renewable energy sources played a central role in the decarbonisation of the Croatian energy system. Possibilities are particularly significant in the greening of transport in Croatia because, unlike emission levels in the EU, greenhouse gas emissions in domestic transport have been growing since 2005 with the prospect of further growth by 2030.

3.2.1.2. Sustainability Trends in the Financial Sector of the European Union with a Special Reference to Promotional Banks

The financial sector in the European Union (EU) is undergoing significant changes under the influence of regulatory changes initiated by the 2018 Action Plan on Financing Sustainable Growth, which established a sustainable finance framework with constituent parts:

1. Classification system, i.e. taxonomy of sustainable economic activities,
2. Reporting framework for non-financial and financial companies that provides investors with information for making informed decisions on sustainable investments, and
3. Investment instruments, including benchmarks, standards and labels, that make it easier for financial market participants to align their investment strategies with the EU climate and environmental objectives and that provide greater transparency.

By adopting the Strategy for Financing the Transition to a Sustainable Economy in 2021⁴, the European Commission launched a new phase of sustainable finance in the EU. The strategy identified four main areas where additional measures were needed to ensure that the financial system could fully support the transition of the economy to sustainability and achievement of the European Green Deal goals: 1) financing the transition to sustainability with tools and policies that would enable economic entities to finance their transition plans and achieve climate and other environmental objectives, with a particular focus on the financing of certain activities, primarily in the energy sector, contributing to the reduction of greenhouse gas emissions and supporting the transition to climate neutrality and the EU's environmental objectives; 2) encouraging small and medium-sized enterprises and citizens as small investors to access sustainable finance opportunities, with a special emphasis on simplifying the ESRS for voluntary reporting by small and medium-sized enterprises on sustainability impacts, risks and opportunities; 3) strengthening the resilience of the financial sector to risks caused by climate change and environmental degradation due to human activities. This requires a comprehensive approach consisting of the systematic integration of financially material sustainability risks (external) and sustainability impacts (internal) into financial decision-making processes; 4) fostering global ambitions that enable global action to fully harness the global potential of sustainable finance.

³ [Croatia 2023 Country Report](#)

⁴ [Strategy for Financing the Transition to a Sustainable Economy](#)

Significant changes in the financial sector have been driven by a combination of market forces and a new regulatory framework, in which a prominent place have the following regulations: the EU Taxonomy⁵, the Sustainable Finance Disclosures Regulation (SFDR) and the Corporate Sustainability Reporting Directive (CSRD). Promotional and investment banks have a key role in promoting sustainable finance. They provide capital for projects that contribute to sustainable development, including infrastructure, renewable energy and environmental projects. Their mission includes not only economic development but also environmental sustainability and social inclusion.

3.2.1.3. EU Taxonomy: Key Framework for Redirecting Capital into Sustainable Activities

The EU Taxonomy is a comprehensive classification system that defines, on scientifically based criteria, the economic activities that can be considered sustainable and is a central element of the EU regulatory framework for sustainability. The objective of the Taxonomy is to direct investments towards those activities that significantly contribute to environmental objectives, such as reducing greenhouse gas emissions, adapting to climate change, sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, protection and restoration of biodiversity and ecosystems.

Impact on the financial sector

The EU Taxonomy has a significant impact on the financial sector, especially on promotional banks and commercial banks.

1. Management of risks and opportunities: The Taxonomy helps financial institutions identify and manage sustainability-related risks and identify opportunities to invest in sustainable projects. Banks use the Taxonomy to assess risks and opportunities in their portfolios, which enables them to better manage long-term risks and strategic objectives.
2. Transparency and reporting: The Taxonomy requires greater transparency in terms of sustainable activities and investments. Financial institutions must report on how much their activities and investments are aligned with the Taxonomy. This increases the confidence of investors and other stakeholders and reduces the risk of greenwashing.
3. Development of sustainable financial products: The Taxonomy encourages the development of new financial products that are aligned with the sustainability objectives. This includes green bonds, sustainable loans and other financial instruments that support projects with a positive environmental and social impact. Development banks, such as the European Investment Bank (EIB), are leading the way in issuing such instruments.
4. Alignment with the European Green Deal: Financial institutions align their strategies with the goals of the European Green Deal that envisages the achievement of climate neutrality by 2050. The Taxonomy provides a clear framework for directing investment towards the activities that support this goal.

3.2.1.4. Completing the Package of Corporate Sustainability Reporting and Sustainable Finance

On 31 July 2023, after a comprehensive public consultation, the European Commission adopted the Delegated Regulation on the first set of draft European Sustainability Reporting Standard (ESRS), that was published in the Official Journal of the European Union at the end of 2023. In October 2023, the European Commission made a proposal for a two-year postponement of adoption deadlines for sector-specific ESRS to 30 June 2026 in order to relax the sustainability reporting obligations and give entities subject to the Corporate Sustainability Reporting Directive (CSRD) more time to implement the first set of ESRS.

5 [REGULATION \(EU\) 2020/852 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the establishment of a framework to facilitate sustainable investment, and amending Regulation \(EU\) 2019/2088](#)

As part of the sustainable finance package, the European Commission published, on 13 June 2023, the Environmental Delegated Regulation that determined the technical verification criteria for the remaining four environmental objectives (circular economy, water and marine resources, pollution prevention and control, and protection and restoration of biodiversity and ecosystems) out of a total of six covered by the Taxonomy Regulation. The Commission also adopted amendments to the Delegated Regulation on the Taxonomy Disclosures and the Delegated Climate Regulation, which included the environmental objectives of climate change mitigation and adaptation.

The Environmental Delegated Regulation included 35 economic activities in 13 sectors. In terms of climate change mitigation, the Delegated Climate Regulation amended 22 activities and introduced seven new activities with an objective of mitigation in the production and transport sectors. In terms of climate change adaptation, 15 activities were amended and five new sectors were added with an objective of mitigation, such as water supply, sewerage, waste management and remediation activities and disaster risk management.

3.2.2. Results of Impact Materiality Assessment

Climate change

SIGNIFICANT IMPACTS, RISKS AND OPPORTUNITIES	IMPACT, RISK AND OPPORTUNITY	VALUE CHAIN LEVEL			TIME HORIZON		
		UPSTREAM	OWN OPERATIONS	DOWNSTREAM	SHORT-TERM < 1 YEAR	MEDIUM-TERM 2-5 YEARS	LONG-TERM > 5 YEARS
<p>Greenhouse gas emissions, scope 3 (financed emissions)</p> <p>Aligning the portfolio with the goals of the Paris Agreement enables HBOR to significantly reduce the financed emissions, better manage climate risks and greenhouse gas emission reduction targets and reduce the portfolio’s impact on the climate. Portfolio alignment represents a significant potential positive impact of HBOR in the fight against climate change. A potential negative impact relates to the absence of the above-mentioned measures.</p>	Potential positive and potential negative impact	+	+	+		+	+
<p>Support for low-carbon development of Croatia</p> <p>By aligning its portfolio with the Low-Carbon Development Strategy of the Republic of Croatia by 2030, HBOR supports the energy transition and directly contributes to reducing the financial gap in the fight against climate change. Aligning the portfolio means increasing the share of taxonomy-aligned activities that contribute to achieving the environmental objectives of climate change mitigation and adaptation in the sectors that contribute the most to greenhouse gas emissions. Support for Croatia’s low-carbon development means that HBOR supports its clients in their decarbonisation efforts, especially those who are required to disclose their transition plans to mitigate climate change as part of their sustainability reporting. HBOR is already having a positive impact on the decarbonisation of Croatia by investing in the projects of energy efficiency, renewable energy sources and environmental protection (sustainable management of natural resources). A potential positive impact of HBOR on the low-carbon development of Croatia relates to the targeted redirection of funds to green projects in line with the 2030 and 2050 emission reduction targets. A potential negative impact relates to the absence of the above-mentioned measures.</p>	Actual and potential positive and negative impact		+	+	+	+	+
<p>Climate risk management</p> <p>Of all environmental, social and governance risks, climate risks are increasingly relevant in lending. Climate risks include physical risks and transition risks. HBOR’s approach to climate risk management is focused on identifying climate risks, understanding their severity and probability, and determining how to manage them. This is a developing area of great complexity, as it involves a consideration of a wide range of possible future climate pathways and economic impacts. Transition risks, as well as possible physical damage due to the strengthening of the impact of climate change (according to the European State of the Climate Report, the year of 2023 was the second warmest year recorded in Europe, and among the ten warmest years in history for most of Europe) can have a negative impact on HBOR’s clients and the economy, and thus the Bank’s operations.</p>	Risk	+	+	+	+	+	+

Climate change - continued

SIGNIFICANT IMPACTS, RISKS AND OPPORTUNITIES	IMPACT, RISK AND OPPORTUNITY	VALUE CHAIN LEVEL			TIME HORIZON		
		UPSTREAM	OWN OPERATIONS	DOWNSTREAM	SHORT-TERM < 1 YEAR	MEDIUM-TERM 2-5 YEARS	LONG-TERM > 5 YEARS
<p>Development of new sustainable finance products and services</p> <p>HBOR has a significant potential for expanding the range of financial products and services that will, both in the environmental and social aspects, be aimed at accelerating the low-carbon and climate-resilient development of the Republic of Croatia and/or eliminating and/or mitigating the negative consequences of climate change (just transition). This opportunity extends to the medium-term and long-term time horizon.</p>	Opportunity	+	+	+		+	+

Own workforce

SIGNIFICANT IMPACTS, RISKS AND OPPORTUNITIES	IMPACT, RISK AND OPPORTUNITY	VALUE CHAIN LEVEL			TIME HORIZON		
		UPSTREAM	OWN OPERATIONS	DOWNSTREAM	SHORT-TERM < 1 YEAR	MEDIUM-TERM 2-5 YEARS	LONG-TERM > 5 YEARS
<p>Working conditions (adequate pay)</p> <p>According to the Croatian Bureau of Statistics, the average annual inflation in Croatia in 2023 stood at 8.4%. The year 2023 was also a year of strong demand for work and of employees' efforts to compensate for the loss of purchasing power accumulated due to high inflation. The average nominal gross wage rose by 14.4% on an annual basis, with an equally sharp rise in wages in both public and private sectors⁶. During the 2022 Impact Materiality Assessment, uncompetitive salaries in the organisation were assessed as one of the three potential or actual negative impacts with the highest probability of occurrence. Since 2022, HBOR has been conducting a dialogue on salaries with trade union representatives and is working on salary corrections. In 2023, data on the ratio of salaries of men and women and the ratio of the highest and lowest salary were calculated and disclosed for the first time. The actual and potential positive impact relates to past and future salary increase measures aiming to mitigate the effects of the price increase of a large number of goods and services during 2022. The negative impact, actual or potential, relates to the absence of measures and improvements.</p>	Actual and potential positive and negative impact		+		+	+	+

6 Source: 2023 Annual Report of the Croatian National Bank, hnb.hr

Own workforce - continued

SIGNIFICANT IMPACTS, RISKS AND OPPORTUNITIES	IMPACT, RISK AND OPPORTUNITY	VALUE CHAIN LEVEL			TIME HORIZON		
		UPSTREAM	OWN OPERATIONS	DOWNSTREAM	SHORT-TERM < 1 YEAR	MEDIUM-TERM 2-5 YEARS	LONG-TERM > 5 YEARS
<p>Working conditions (hybrid work model) The issue of working hours, overtime work and work during annual leave and sick leave was, during HBOR's 2022 Impact Materiality Assessment, assessed as a potential or actual negative impact with the highest probability of occurrence. These issues are closely related to the issue of the hybrid work model (working both at the office and from home). All HBOR's employees had the opportunity to work from home, with the exception of the employees whose workplace is connected to office premises. The actual and potential positive impact relates to past and future measures aimed at maintaining or improving flexible working conditions and hybrid work model conditions. The negative impact, actual or potential, relates to the lack of monitoring and the absence of measures and improvements.</p>	Actual and potential positive and negative impact		+		+	+	+
<p>Working conditions (working hours, work-life balance) During HBOR's 2022 Impact Materiality Assessment, the imbalance between private and work life was also assessed as a potential or actual negative impact with the highest probability of occurrence. The issue of working conditions is also related to the hybrid work model that was introduced after March 2020 (due to COVID and the earthquake). HBOR does not yet conduct surveys on the satisfaction of employees with the work-life balance. The actual negative impact is related to the lack of work-life balance employee satisfaction surveys. The potential positive impact includes continuous monitoring of employee satisfaction in this segment and, if necessary, defining goals, indicators and measures.</p>	Actual and potential positive and negative impact		+		+	+	+
<p>Professional competencies in climate risks Climate risk events are not just one of the many standalone risks that banks face. They are instead a driver for each traditional type of risk reflected in the Basel framework, from credit risk, liquidity risk and market risk to reputational and operational risk, including legal risk.⁷ HBOR must strengthen internal capacities and expertise for the successful management of sustainable finance. This includes the management of climate risks as an indispensable part of the planned strengthening of sustainable finance, which was also confirmed by the findings and recommendations of the Sustainable Finance project. The impact of strengthening competencies is actual and potential and has a positive aspect in terms of the strengthening of internal capacities and professional expertise of employees. A negative aspect of the impact is reflected in possible leaving of key team members and/or internal transfers, which results in the loss of continuity needed for the implementation of activities and recommendations. The risk is reflected in the competitive labour market and the lack of qualified experts in the field of sustainable finance.</p>	Actual and potential positive and negative impact		+	+	+	+	+

7 Frank Elderson, Member of the Executive Board of the European Central Bank

Socio-economic impact and strengthening of economic resilience

SIGNIFICANT IMPACTS, RISKS AND OPPORTUNITIES	IMPACT, RISK AND OPPORTUNITY	VALUE CHAIN LEVEL			TIME HORIZON		
		UPSTREAM	OWN OPERATIONS	DOWNSTREAM	SHORT-TERM < 1 YEAR	MEDIUM-TERM 2-5 YEARS	LONG-TERM > 5 YEARS
<p>Strengthening the competitiveness and resilience of the economy Encouraging competitiveness and internationalisation, balanced regional development and a sustainable climate and energy neutral economy as well as the development of equity and quasi-equity market are defined as key strategic goals in the 2020-2024 Business Strategy of HBOR. Within the framework of the National Recovery and Resilience Plan, HBOR implements six financial instruments with a total value of EUR 256 million, whose objective is to promote the strengthening of investment activities in the domestic economy, to enable the strengthening of the competitiveness of domestic economic entities and to enable a successful transition towards green and digital technologies as a basis for the future sustainability and competitiveness of the domestic economy. Any project that uses NRRP funds must meet Do No Significant Harm (DNSH) principles, i.e. exclude unacceptable activities, verify their sustainability and comply with the relevant legislation. This was an explicit requirement of the EU integrated by HBOR into its application approval procedures. A certain portion of the funds from each financial instrument is earmarked for financing of green transition projects and the reduction of greenhouse gas emissions. HBOR regularly reports to the relevant ministries on the progress in the implementation of financial instruments. Furthermore, through its activities, HBOR promotes the economic recovery from and resilience to the consequences of the crises caused by the COVID-19 pandemic and the Russian aggression against Ukraine. Actual and potential positive impact includes strengthening the resilience of the Croatian economy and society to future market disruptions and the transition to climate and environmental sustainability.</p>	Actual and potential positive impact	+	+	+	+	+	+
<p>Financing of social rights of communities (municipal and social infrastructure, access to finance, vulnerable groups, regional development, special areas, reduction of inequality) HBOR's activities are aimed at achieving positive socio-economic impacts. Special attention is paid to entrepreneurs who usually have difficult access to finance, such as start-ups, young entrepreneurs and female entrepreneurs. HBOR also places particular emphasis to sustainable and balanced regional development as a prerequisite for a stable and sustainable social and economic environment. By financing social infrastructure (kindergartens, schools, hospitals, nursing homes, etc.) and municipal infrastructure (water supply and sewage disposal, roads, garages, commercial vehicles, etc.), HBOR contributes to the development of a sustainable economy and society. Special conditions apply to special areas of the Republic of Croatia. Special areas of the Republic of Croatia are economically underdeveloped areas (supported areas), the islands and hill/mountain areas in the Republic of Croatia. These projects have a positive actual and potential impact on strengthening the development of local social and municipal infrastructure, eliminating/reducing inequality, supporting the most vulnerable groups, developing special areas and protecting or increasing the number of jobs.</p>	Actual and potential positive impact	+	+	+	+	+	+

End-users

SIGNIFICANT IMPACTS, RISKS AND OPPORTUNITIES	IMPACT, RISK AND OPPORTUNITY	VALUE CHAIN LEVEL			TIME HORIZON		
		UPSTREAM	OWN OPERATIONS	DOWNSTREAM	SHORT-TERM < 1 YEAR	MEDIUM-TERM 2-5 YEARS	LONG-TERM > 5 YEARS
<p>Impacts related to user information, access to (quality) information on climate and environmental requirements Adaptation of the reporting system to the requirements of financial institutions and regulators was an extremely actual topic in 2023. Improving the data infrastructure is one of the most important activities related to meeting the requirements of the new sustainability disclosure regulations. HBOR carries out activities aimed at improving the process of data collection and recording to simplify the process for clients and centralise recording, processing and reporting. A simpler process can have a positive impact on clients by reducing the administrative burden and encouraging vulnerable groups to take advantage of HBOR's finance programmes. The challenges lie in the existence of parallel reporting requirements/frameworks that are not harmonised in terms of terminology and content. An actual and potential aspect of the positive impact relates to the simplification of requirements for the provision of information and the active, continuous information and detailed familiarisation of potential users with the requirements.</p>	Actual and potential positive impact	+	+	+	+	+	+
<p>Data leakage and/or misuse HBOR uses data loss prevention software and tools that monitor and control endpoint activity, filter data flows on computer networks and monitor data in a cloud to protect data at rest, in motion and in use. Reporting is provided to meet security requirements and identify areas of weakness and anomalies for forensics and incident and event response.</p>	Actual positive impact and risk	+	+	+	+	+	+

Business conduct

SIGNIFICANT IMPACTS, RISKS AND OPPORTUNITIES	IMPACT, RISK AND OPPORTUNITY	VALUE CHAIN LEVEL			TIME HORIZON		
		UPSTREAM	OWN OPERATIONS	DOWNSTREAM	SHORT-TERM < 1 YEAR	MEDIUM-TERM 2-5 YEARS	LONG-TERM > 5 YEARS
<p>Cyber security, attack prevention and vulnerability detection, prevention included HBOR has advanced security systems such as endpoint protection, vulnerability and upgrade management, access control to critical resources, mobile device protection and data loss prevention. The system of information security and digital resilience is proactively managed in accordance with the regulations of the authorities of the Republic of Croatia and the European Union in the area of risk management of credit institutions as well as security standards in financial business sector.</p>	Actual positive impact and risk	+	+	+	+	+	+
<p>Corporate culture HBOR fosters a corporate culture in business behaviour in accordance with the law, with a focus on social responsibility and sustainable development. Behaviour is defined by HBOR's Corporate Governance Code and HBOR's Code of Conduct. By incorporating sustainability into the strategic framework and corporate governance and by defining it as one of the fundamental values, HBOR builds on it by focusing on the development of sustainable finance in the Croatian market to achieve long-term benefits for the environment and society.</p>	Actual and potential positive impact	+	+	+	+	+	+

3.3. Description of Materiality Assessment Methodology

The concept of double materiality is central to ESRS sustainability reporting. It includes the materiality of the company's impact on society and the environment and the financial materiality arising from the company's impacts, risks and opportunities with financial consequences.

In this reporting cycle, impacts were identified on the basis of the sustainability matters covered by the thematic ESRS standards, whereas matters specific to HBOR in terms of the business sector were also identified. For the aspect of financial materiality, risks and opportunities were identified that could reasonably be expected to have an impact on the future development, financial position and results of HBOR in the short, medium and long term. The assessment of financial materiality considered the factors such as regulatory changes, market dynamics and stakeholder expectations, which might change the company's financial environment. Dependencies on natural, human and social resources could be a source of financial risks and opportunities.

In analysing the value chain, the ESRS requirements and the commentary of the European Banking Supervisory Authority (EBA) during the public consultation on the draft ESRS regarding the definition of the value chain were used, according to which "the information in the sustainability report should reflect the material impacts, risks and opportunities associated with company through its direct and indirect business relationships and relate only to the main participants in the value chain".

In identifying and assessing the impacts, risks and opportunities in the initial value chain analysis, HBOR focused on the areas where these impacts, risks and opportunities would reasonably be expected to occur based on the nature of the activities, business relationships and other factors.

In this reporting cycle, the materiality assessment for HBOR included the following steps:

- **Understanding of the context:** development of a comprehensive overview of organisation's activities, business relationships and the wider context of environmental, social and governance issues.
- **Identification of impacts, risks and opportunities:** identification of actual and potential impacts, risks and opportunities related to sustainability issues through own operations and upstream and downstream value chain. For the assessment of risks and opportunities, the currently available data resulting from the analyses carried out so far were used. However, HBOR conducts a series of analyses that will provide a faithful representation of HBOR's risks and opportunities arising from the portfolio.
- **Prioritisation of material impacts, risks and opportunities:** application of criteria for impact materiality and financial materiality to determine which impacts, risks and opportunities are material. This includes setting appropriate qualitative thresholds that will be further elaborated in subsequent reporting cycles with an objective of continuously improving the relevance and faithful representation of HBOR's impacts, risks and opportunities.
- **Reporting:** documentation in the form of an audit trail and disclosure of a description of the methodology and the results of the impact materiality assessment.

The assessment of HBOR's material impacts included the following:

- Results of the material impact assessment for 2022, which included an assessment of the importance of sustainability topics and the quality of the management of the sustainability topics, in-depth discussions with experts and an assessment of the actual and potential negative impacts of HBOR,
- List of sustainability matters to be included in the materiality assessment under thematic ESRS,
- Results of the Sustainable Finance project,
- Overview of material impacts, risks and opportunities of comparable banks (EIB, CEB),
- Review of the reports of IPCC, Copernicus, European Environment Agency, UNEP FI, European Central Bank and other relevant documents (science as a "silent stakeholder"),
- Internal presentation of the preliminary list of significant impacts on the environment and society as well as exchange and harmonisation of views,

- For certain sustainability matters, previously reported by HBOR, additional analyses and calculations have shown that they are not material (significant).

3.3.1. Stakeholder Engagement

Continuous engagement

Stakeholder engagement involves continuous consultation as part of day-to-day operations and is carried out with all groups of HBOR's stakeholders based on common formats, such as various thematic surveys on employees' and/or clients' attitudes, the organisation of regular thematic conferences and meetings, participation in expert studies and testing of methodologies. In 2023, HBOR participated in the International Development Finance Club's (IDFC) Gender Mapping for 2021⁸. In 2023, HBOR also participated in the World Bank's Financial Inclusion Study – Report on Financial Access amongst Vulnerable Groups in Croatia, which is expected to be published by the end of 2024. Ongoing stakeholder engagement also relates to cooperation with various associations of which HBOR is a member (for more details, please see Chapter 7. Organisation Profile).

Engagement during report preparation

A total of 46 HBOR employees from various organisational units were involved in the analysis of HBOR's impacts, including the Sustainable Finance Leaders and their deputies as well as some members of the Sustainable Finance Committee. They attended one of the two general presentations on the key requirements of the CSRD and the ESRS. Some of the employees also participated in four thematic blocks dedicated to direct discussion of specific material impacts, risks and opportunities of HBOR. External stakeholders were not involved, as the results of in-depth discussions with experts included in the 2022 Material Impact Assessment were used, which were considered relevant for the 2023 assessment. Nature was also included as a "silent stakeholder" because the appreciation of nature as a "silent stakeholder" was essential for a comprehensive assessment of environmental impacts, risks and opportunities⁹. Data from scientific sources were used, including studies on planetary boundaries and scientifically validated data (for more details, please see Description of the Materiality Assessment Methodology).

3.4. Risk Management Relating to Sustainability Issues

By policies, ordinances, methodologies, instructions and other internal documents on risk management, HBOR defines individual risks, establishes a risk management system and manners of identifying, measuring/assessing, monitoring, containing, controlling and reporting on risks as well as the roles and responsibilities of the organisational units participating in the process of managing the risks to which HBOR is exposed or could be exposed in its operations.

The risks to which HBOR is exposed or could be exposed in its operations are identified in accordance with HBOR's Risk Catalogue. The purpose of this internal document is to identify the risks that are likely to have or could have a negative impact on HBOR's business activities in order to take timely measures to control them and to further develop measures already established that are aimed at avoiding, preventing, transferring and/or reducing the negative impact of risks on current and future business indicators and the value of HBOR's capital.

HBOR's Risk Catalogue provides an up-to-date risk profile of HBOR and is a prerequisite for the further improvement of risk management. It is updated annually, and if necessary, more frequently. All HBOR's organisational units are included in the risk identification procedure, which ensures that the risks to which HBOR is or could be exposed, which are inherent to HBOR's operations, products, activities, processes and systems and which may result in significant financial losses, are recorded. The Risk Catalogue contains definitions of all identified risks and a risk table containing the following, for each identified risk: risk significance, coverage by internal documents, method of risk assessment and measurement, method of risk management and assessment of the degree of risk mitigation. For

8 IDFC is the club that gathers 26 national, regional and bilateral public development banks. Members of the IDFC work together to implement the UN's Sustainable Development Goals (SDG), the Paris Agreement and the Kunming-Montreal Global Biodiversity Framework, of which gender equality (SDG5) is one of the key components.

9 For example, consideration of biodiversity, state of ecosystem, air and water quality, and climate change.

identified risks, HBOR continuously implements activities aimed at improving the management of these risks and reducing the initial exposure by introducing risk management measures. The most significant risks, to which HBOR is exposed in its daily operations, are: credit risk, liquidity risk, interest rate risk in the bank's book, currency risk, operational risk, outsourcing risk, legal risk, information system risk, compliance risk, reputational risk and money laundering and terrorist financing risk.

In the Risk Catalogue, HBOR has identified climate, environmental and social risks. Based on the assessment of the severity and probability of a possible adverse event, due to HBOR's exposure to climate, environmental and social risks in terms of the expected financial consequences or impact on business continuity, their significance (materiality) was categorised as low. The degree of mitigation of the initial risk exposure was also categorised to be low, as HBOR is in the process of establishing a comprehensive system for managing the aforementioned risks.

The process of assessing the environmental and/or climate risk of investments at HBOR includes, among other things, a review of compliance with environmental and climate requirements. These reviews are carried out by the Technical Analysis and Environmental Protection Department, within which the Environment and Climate Change Unit has been formed. The Department has altogether 14 employees of technical professions (engineers in construction, architecture, machinery, agronomy or other appropriate fields). Based on the documents submitted by a loan applicant (loan application, environmental protection questionnaire or self-assessment questionnaire, project documentation, other technical documentation, etc.), a project/investment compliance verification procedure is carried out as follows:

- From the standpoint of legality,
- With the relevant environmental legislation of the European Union and the Republic of Croatia,
- With the requirements of the green transition principle in terms of environmental goals,
- With the requirements of the Do No Significant Harm principle (DNSH) depending on the loan programme implemented,
- With other requirements (Paris Agreement, OECD Guidelines, InvestEU, etc.) depending on the loan programme implemented and the source of finance.

Once the analysis has been completed, the project is evaluated from the standpoint of environmental protection, expert assessment of environmental protection and sustainability, etc. The assessment includes an opinion on the project, an assessment of compliance with environmental legislation, an assessment of the project's risk category (A, B+, B-, C), an assessment of the eligibility of the project, certain key indicators, environmental risk mitigation measures, the need to monitor the project in the preparation and financing phase and in loan repayment phase, etc. The expert opinion/report prepared is included in the loan approval procedure and is issued for the overall assessment of eligibility, i.e. the risk category of the project/investment.

The Investment Supervision Department supervises the compliance of the use of the approved loan funds with the terms and conditions of the approved project during its realisation. The Department has eight employees of technical and economic professions specialised in the implementation of investment supervision.

3.4.1. Role and Composition of Top Governance Bodies

The responsibilities of governing bodies or individuals on the governing bodies are prescribed by the Act on HBOR, the By-Laws and the Corporate Governance Code of HBOR. The Management Board of HBOR actively addresses issues of sustainable finance. In accordance with the findings and recommendations of the Sustainable Finance project, preparations began for the establishment of a governance structure at HBOR that addresses environmental, social and governance (ESG) sustainability matters and consists of the following:

- Sustainable Finance Committee,
- Sustainable Finance – independent organisational unit,
- Sustainable Finance Leaders.

In December 2023, the Management Board made a decision to set up a new organisational unit called: Sustainable Finance.

Presentation of the new HBOR governance structure in relation to sustainability

The establishment of the new governance structure in relation to sustainability issues, which began in 2023, was finalised with the establishment of the Sustainable Finance Committee and the appointment of the Sustainable Finance Leaders in 2024.

Supervisory Board

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, considers the Internal Audit reports and the 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 and appoints and dismisses the President and the Members of the Management Board. Pursuant 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.

Management Board

Pursuant to the Act on HBOR and the By-Laws of HBOR, the Management Board represents HBOR, conducts HBOR's business at its own risk and administers HBOR's 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 documents 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. The Management Board of HBOR is comprised of three members, one of whom holds the position of the President of the Management Board. The members of the Management Board are appointed by the Supervisory Board.

Sustainable Finance Committee

The Sustainable Finance Committee has altogether 12 members, including three Members of the Management Board, two advisers to the Management Board and directors of six divisions and one department. The Committee is chaired by the President of the Management Board, and the Deputy Chair is a Member of the Management Board. The Committee considers proposals for the implementation of activities in the area of sustainable finance, determines their interdependencies, assesses the necessary resources, determines responsibilities, roles and deadlines for the implementation of activities, and assesses the impact on the risk and/or on the operations of the involved organisational units and HBOR as a whole. It also considers reports on the status of activities in the area of sustainable finance and other documents that Committee members deem necessary to consider at a Committee meeting. It also makes conclusions regarding strategy, policies, plans, goals and other documents in the area of sustainable finance, development of sustainable finance products, integration of ESG risks into the overall risk management process, regulatory and voluntary reporting on sustainability, necessary resources and competencies in the area of sustainable finance, cooperation with relevant stakeholders and other measures and activities in the area of sustainable finance.

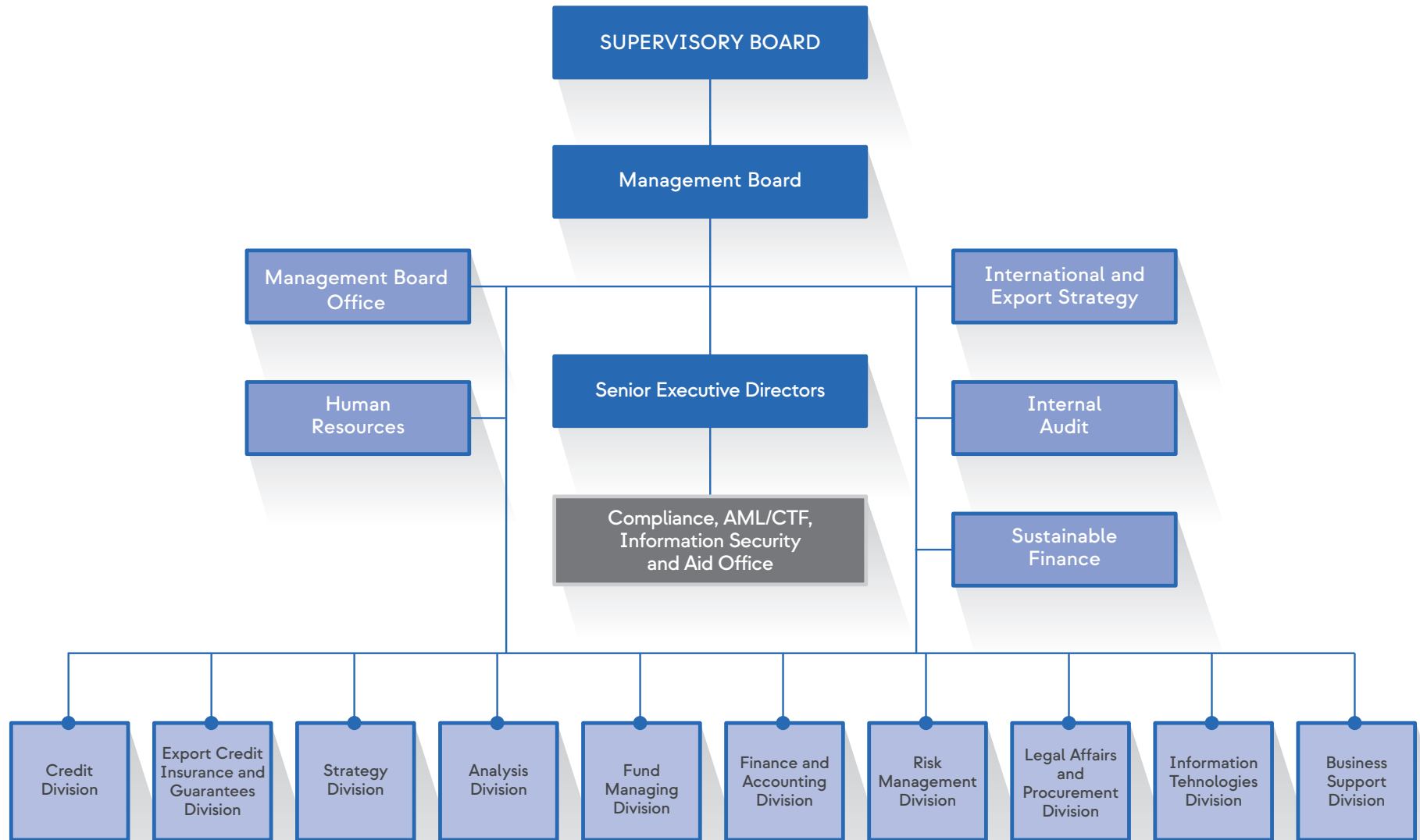
Sustainable Finance organisational unit

The Sustainable Finance is a separate organisational unit, functionally and organisationally, whose tasks are related to adaptation to the regulatory requirements of corporate sustainability reporting and coordination of incorporation of sustainable finance in HBOR. The Sustainable Finance reports directly to the Management Board of HBOR and performs the following activities: 1) runs and coordinates the activities of adaptation to the regulatory requirements of corporate sustainability reporting in terms of disclosing environmental, social and governance information; 2) coordinates the activities of implementing sustainable finance at HBOR that are carried out by different organisational units; 3) develops and encourages cooperation with different groups of stakeholders in the area of sustainable finance and sustainable development.

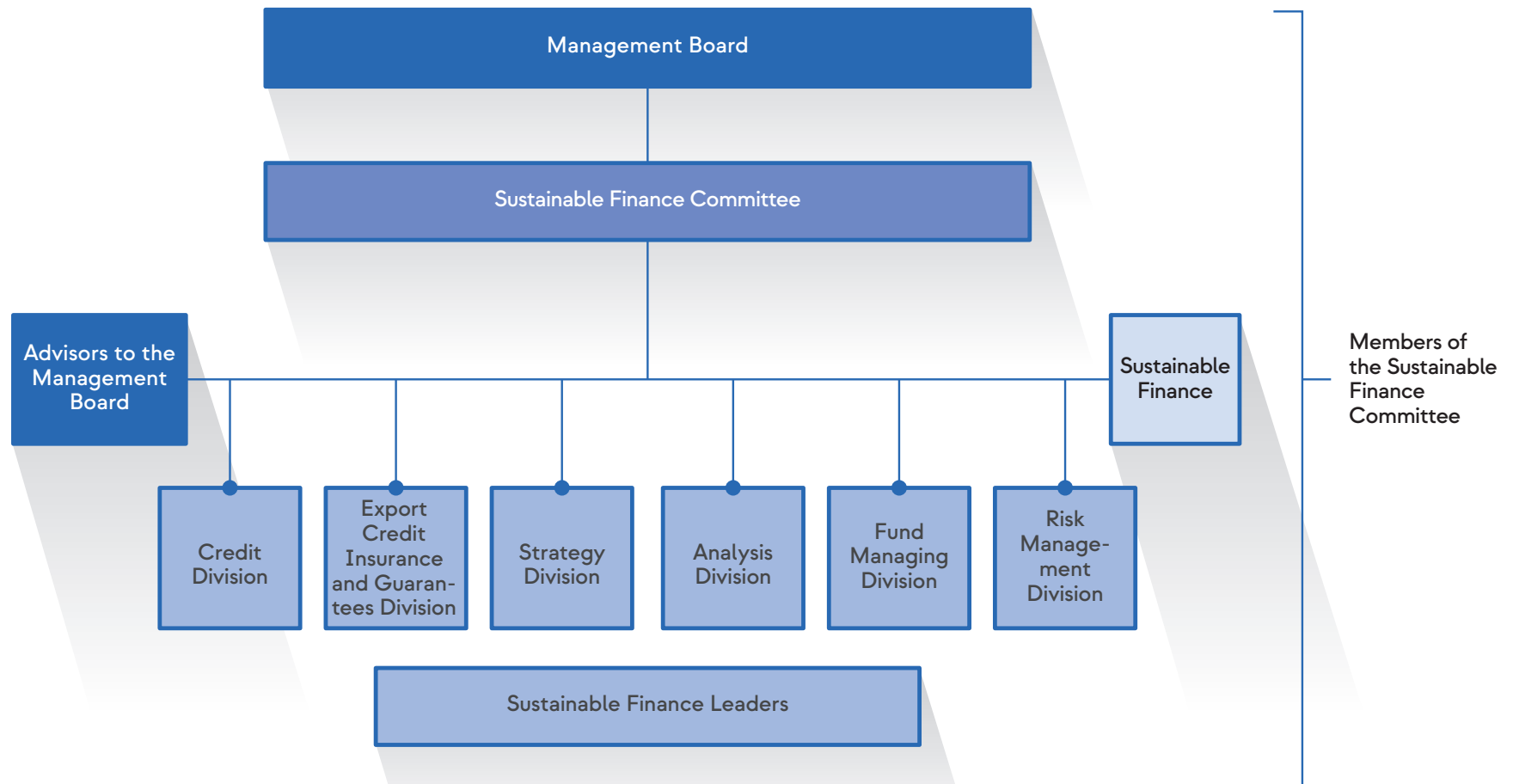
Sustainable Finance Leaders

Sustainable Finance Leaders actively contribute to the implementation of sustainable finance activities. They propose and implement ESG factors within their organisational units and scopes of work. Sustainable Finance Leaders come from the Analysis Division, the Credit Division, the Export Credit Insurance and Guarantees Division, the Fund Managing Division, the Strategy Division and the Risk Management Division.

HBOR's macro-organisation scheme



HBOR Governance Structure in relation to Sustainability Scheme



In 2023, altogether 11 meetings of the Supervisory Board, 63 meetings of the Management Board, 48 meetings of the Credit Committee and 6 meetings of the Audit Committee took place.

The following topics were discussed:

- Supervisory Board: consents to loan approvals and guarantees, changes to loan terms and conditions, adoption of and amendments to internal documents, various information, plans and reports
- Management Board: approvals of loans and guarantees, changes to loan terms and conditions, adoption of and amendments to internal documents, topics in the areas of export credit insurance and guarantees, human resources, sponsorships and donations, various information and reports
- Credit Committee: approvals of loans and guarantees, non-acceptance of loan applications, changes to loan terms and conditions, various information and reports
- Audit Committee: information, plans and reports.

The agendas of the Management Board meetings in 2023 covered numerous topics related to sustainability and ESG factors. Some of the topics about which the Management Board was informed and on which decisions were made during the meetings in 2023 included:

- Adoption of the 2022 Sustainability Report,
- Organisational changes and new capacities for ESG (establishment of the Sustainable Finance Department),
- Amendments to internal documents related to ESG in various organisational units, such as procedural actions in the processing of loan applications related to sustainability, Do No Significant Harm (DNSH),
- Results of projects related to sustainability (closing of the Sustainable Finance project), and
- Realised ESG activities and initiatives of various associations.

The Audit Committee particularly emphasised the significance of the upcoming changes in corporate sustainability reporting and the resulting amendments to the Accounting Act and the Audit Act, and the timely involvement of HBOR was requested. In addition, the topics discussed related also to the activities of the Asset and Liability Management Committee, including the upcoming requirements of special financial institutions such as the EIB (in terms of the criteria for the financing of green projects and the compliance of projects with the Paris Agreement) and the CEB (in terms of the target groups and areas of finance).

3.4.2. Remuneration

Remuneration policies

Governance bodies

The salaries of the President and Members of HBOR's Management Board are determined by the Decision on Salaries and Other Income of Presidents and Members of Management Boards of Companies (Official Gazette of the Republic of Croatia, Nos. 83/2009, 3/2011, 3/2012, 46/2012, 22/2013, 25/2014 and 77/2014). The Supervisory Board of HBOR is defined by the Act on HBOR (Official Gazette of the Republic of Croatia, Nos. 138/06 and 25/13) and the Members of the Supervisory Board perform their functions without remuneration. The remuneration of the Members of the Audit Committee is determined by a Decision of the Supervisory Board. A Member of the Audit Committee who is also a Member of the Supervisory Board as a state official has no legal right to remuneration, and the other two Members have the right to remuneration pursuant to Article 2, paragraph 11 of the Audit Committee Procedure Ordinance.

The salaries and severance pays of the Members of the Management Board are regulated by employment contracts, and they do not have the right to a variable part of the salary like other employees of HBOR. Pursuant to the Act on the Prevention of Conflicts of Interest, the Commission for Decisions on Conflicts of Interest issued the guidelines¹¹ that determined which receipts, in addition to salary, must not be received by the entities subject to the application of the abovementioned Act, including the Members of HBOR's Management Board, and which receipts they may receive, to which HBOR adheres in its activities.

Employees

Excellence in work is rewarded and encouraged by an incentive part of the salary in the form of a salary supplement that is based on the quarterly assessment of competence and goal attainment through the performance management system. The amount of the incentive part of the salary is determined in a range that depends on the overall assessment of the achievement of goals and competencies in a certain period.

3.4.3. Diversity and Expertise of HBOR's Governance Bodies in Terms of Sustainability

In 2023, the Supervisory Board consisted of 10 members, of which two women and eight men. The Management Board consisted of three male members. The Sustainable Finance Committee consisted of twelve members, of which six women and six men.

GOVERNANCE BODY	TOTAL NUMBER OF MEMBERS	NUMBER OF WOMEN	% OF WOMEN
Supervisory Board	10	2	20%
Management Board	3	0	0%
Sustainable Finance Committee	12	6	50%

The Members of the Management Board expand their expertise in the field of sustainability through active participation in the work of various associations, of which HBOR is a member, and their governance bodies, or by participating in thematic events, discussions or panels². Hrvoje Čuvalo, MSc, President of the Management Board of HBOR, as a Member of the Administrative Board of the European Association of Public Banks (EAPB), participated in the meeting of the Administrative Board of EAPB in April 2023 and in the General Assembly of EAPB in June 2023. As part of the extensive agenda, the EAPB's work programme was discussed, which included EAPB's statements regarding green bond standards and the EU Taxonomy.

Alan Herjavec, MSc, Member of the Management Board of HBOR, participated as a panellist in the international summit in Sofia in June: Green Transition CEE 2023, and as a member of the Management Board of the European Association of Long Term Investors (ELTI) in the ELTI General Assembly in July 2023 and in the panel The European Green Deal – how to address the needs of SMEs in the future. In October 2023, he participated in ELTI online meetings related to the presentations of the experiences of Altum, CDP and BGK, Latvian, Italian and Polish development financial institutions, in the project of financing affordable housing. Josip Pavković, Member of the Management Board of HBOR, participated in the annual meeting of the International Development Finance Club (IDFC) in Marrakech in October 2023 relating to the work programme of the IDFC, which fully covers the topics of sustainability.

11 2023 Annual Report of the Croatian Bank for Reconstruction and Development Group, p. 37 - 38

In addition, in 2023, the Management Board was in charge of and responsible for the tasks in the following international association:

- *The China - CEEC Inter-Bank Association.*

Besides the Management Board, HBOR's management and employees expand their expertise through participation in associations' expert groups, available educations or projects, sector studies and operational guides.

HBOR's experts also actively participated in the work of several EAPB's working bodies and took part in discussions on topics of European importance for public banks, and, in terms of sustainability, the following working bodies were the most prominent:

- Expert Working Group on ESG Risk Management,
- CAG ESG Financial Markets and Non-Financial Reporting, and
- CAG Sustainable Infrastructure.

4 HBOR'S SUSTAINABILITY RELATED BUSINESS ACTIVITIES



4.1. Climate Change

Climate change is one of the greatest global challenges with far-reaching effects on the environment, society and the economy. According to the latest 2023 report by the Intergovernmental Panel on Climate Change (IPCC), the global average temperature increased by 1.1°C above pre-industrial levels. This will lead to more frequent and intense extreme weather events that cause significant damage to ecosystems, agriculture, infrastructure and people, resulting in significant economic losses and humanitarian crises.

The banking sector plays a key role in the fight against climate change. Financial institutions such as HBOR can make an important contribution to reducing greenhouse gas emissions. As the Croatian development and export bank and export credit agency, HBOR plays a key role in the development of a sustainable financial industry and its contribution to the realisation of the Sustainable Development Goals and the climate goals of the Paris Agreement in Croatia.

This includes the financing of renewable energy sources, energy efficiency and other green technologies and practices that reduce greenhouse gas emissions. Furthermore, HBOR can play a key role in educating and encouraging its clients and partners to implement sustainable practices.

Reducing the negative impacts of climate change and capitalising on the opportunities presented by the transition to a green economy, will ensure the long-term stability and resilience of the economy to climate risks, while having a positive impact on the environment and society.

4.2. Reorientation of Portfolio

Reorientation of the portfolio in accordance with the Low Carbon Development Strategy and the Paris Agreement

Due to its role of the national development bank, HBOR can play a key role in reducing the financial gap by providing funds for the fight against climate change. The reorientation of the portfolio implies the strengthening of the strategic focus in support of the achievement of the Low Carbon Development Strategy of the Republic of Croatia and the goals of the Paris Agreement. HBOR already applies a number of environmental requirements related to the climate and the environment, and, in 2023, it started the analysis of the taxonomic eligibility of the portfolio and the calculation of financed emissions.

The goal of the reorientation of the portfolio is to ensure the continuous implementation of the activities aimed at sustainable finance that include renewable energy sources for electricity generation, energy efficiency in buildings, sustainable mobility, decarbonisation solutions in industry and low-carbon agriculture. These activities are aligned with national policy and strategic frameworks and provide HBOR with a double (financial and social) and triple (financial, social and environmental) bottom line potential. In order to update the share of individual sectors in total emissions, HBOR started a new portfolio analysis with data control to determine priority sectors in 2024.

Climate risk assessment

Climate change poses a significant risk to financial institutions because it can affect various aspects of business operations and financial stability. Climate risk assessment includes the identification, analysis and management of the risks related to climate change that may have an impact on the bank's operations. These risks are usually divided into physical risks and transition risks.

Physical risks include the direct effects of climate change such as extreme weather, rising sea level, floods, droughts and heatwaves. Such events can cause significant material damage to clients' assets, infrastructure and operations, which can lead to increased insurance costs, decreased collateral value and increased loan default risk.

Transition risks are associated with the process of transition to a low-carbon economy and include changes in legislation, technology and market conditions. Regulatory risks may arise from stricter greenhouse gas emissions regulations or carbon taxes, which may increase the clients' operating costs in high-emissions industries. Technological risks include the risks associated with the costs of transition to technologies with a lower level of emissions and/or replacement of products or services with those that have a lower impact on biodiversity or dependence on ecosystem services. Market risks can manifest themselves through changes in consumer and investor preferences towards more sustainable products and services.

To effectively manage climate risks, HBOR has started the implementation of a climate risk management system. Assessing and managing climate risks not only helps reduce potential losses for the bank, but also provides opportunities for the development of new sustainable products and services. HBOR is continuously developing a number of products and services aimed at financing green transition projects independently and in cooperation with relevant ministries and special financial institutions.

Through the proactive management of climate risks, HBOR will contribute to a more resilient and sustainable financial system.

Financed greenhouse gas emissions

In 2023, HBOR started the calculation of the financed greenhouse gas emissions in three sectors: energy, buildings and transport. The calculation of the financed emissions is based on projections and on the methodology: Partnership for Carbon Accounting Financials, (PCAF). This methodology is a globally recognised standard for estimating, analysing and reporting on greenhouse gas emissions associated with loans and investments by financial institutions. The objective of the PCAF is to enable transparent and consistent reporting on greenhouse gas emissions of financial portfolios, which helps financial institutions reduce financed emissions. Preliminary analysis indicates that HBOR's direct emissions, Scopes 1 and 2, are non-material in relation to the financed emissions (Scope 3 emissions).

For the 25% of financial institutions that report greenhouse gas emissions from Scopes 1, 2 and 3 to the CDP (Carbon Disclosure Project), the financed emissions are on average 700 times higher than the emissions resulting from their own operations (Scopes 1 and 2). However, these data are not complete as they cover less than 10% of the portfolio of financial institutions. This also shows that the financed emissions (Scope 3) are the main source of greenhouse gas emissions for financial institutions.

Analysis and systematic monitoring of financed emissions will enable HBOR to incorporate climate measures into its lending and investment activities.

Activities, programmes and measures aimed at climate transition, strengthening of positive social/economic impact and resilience of the economy

HBOR raises general and special purpose funds from various international and national funding sources and also uses its own funds. HBOR raises general and special purpose funds in domestic and international financial markets, most often in the form of loans and occasionally debt securities. Special purpose funds are provided by international financial institutions, development banks and other related institutions.

The main sources of special purpose funds include international financial institutions such as the European Investment Bank (EIB), the Council of Europe Development Bank (CEB) and the International Bank for Reconstruction and Development (IBRD). In 2023, their share in HBOR's total debt stood at 82%, of which the EIB had the largest share. The beneficiaries of the funds provided by these international financial institutions must meet special environmental and social criteria and standards.

In the reporting year, in addition to the implementation of all its existing investment and working capital loan programmes as well as financial instruments under the National Recovery and Resilience Plan, HBOR approved placements under the measures for overcoming the economic consequences of the Russian-Ukrainian crisis.

National Recovery and Resilience Plan

At the beginning of 2021, the EU started to implement the NextGenerationEU programme, under which the Recovery and Resilience Facility (RRF) was introduced. The member states were able to use grants and favourable loans through national recovery and resilience plans in order to accelerate the recovery from the consequences of the COVID-19 pandemic and to increase the resilience of the economy and society.

The Implementation of the 2021-2026 National Recovery and Resilience Plan (NRRP) is planned until 31 August 2026 at the latest. In this period, the NRRP will contribute to the achievement of four general objectives at the EU level: promoting economic, social and territorial cohesion in the Union, strengthening economic and social resilience, reducing social and economic effects of the crisis, and encouraging green and digital transition.

From the very beginning, HBOR's representatives actively participated in the creation of the NRRP, and HBOR was, together with the Ministry of Finance and the Ministry of the Economy and Sustainable Development, one of the leaders in the development and implementation of the measures of financial instruments provided for under the Economy component, the Resilient, Green and Digital Economy subcomponent (C.1.1.). This was formally confirmed in the Decision on the Management and Monitoring System for the Implementation of Activities under the 2021-2026 National Recovery and Resilience Plan (Official Gazette of the Republic of Croatia, No. 78/2021) of 9 July 2021, by which HBOR was appointed as the implementing body for six financial instruments aimed primarily at encouraging investment, recovery and resilience of the private sector and, to a lesser extent, encouraging public sector investment.

Annex to the Council Implementing Decision and the Operational Arrangement of 9 February 2022 between the European Commission and the Ministry of Finance of the Republic of Croatia set the key milestones and targets with qualitative and quantitative indicators of individual measures as well as the timeline for monitoring and implementing all of the activities under the NRRP, the timely fulfilment of which was essential for the draw down of the RRF funds. During 2022, HBOR fulfilled its obligation to establish financial instruments for small and medium-sized enterprises, for entities of medium market capitalisation, for large entities and for the public sector.

Under the NRRP, HBOR was entrusted with the implementation of six financial instruments with a total value of EUR 256 million. During 2023, HBOR implemented five financial instruments, while the sixth financial instrument for the development of venture capital funds was being prepared, and its implementation is expected in 2024:

- Financial instrument of HBOR's direct loans above EUR 100,000 for micro, small and medium-sized business entities in the total value of EUR 66 million,
- Financial instrument of Interest Subsidies Fund for loans to micro, small and medium-sized business entities in the total value of EUR 26.6 million,
- Financial instrument of Interest Subsidies Fund for loans to entities of medium market capitalisation and large business entities in the total value of EUR 26.6 million,
- Financial instrument of Interest Subsidies Fund for loans to public sector entities in the total value of EUR 26.6 million, and
- Financial instrument of Guarantees Fund for loans to entities of medium market capitalisation and large business entities in the total value of EUR 80 million.

All financial instruments comply with the Do No Significant Harm principle.

The financial instruments enable more favourable terms and conditions of finance for competitiveness and resilience strengthening projects, and even more favourable terms and conditions of finance can be achieved by projects that contribute to the digital and green transition of the economy. Operational programmes for the implementation of financial instruments define the minimum amount of each financial instrument that will be allocated for investments in green transition projects and greenhouse gases reduction projects.

Green transition projects include the projects that, in accordance with the criteria of the EU Taxonomy and the related regulations (delegated acts), contribute significantly to the achievement of at least one of the following environmental objectives:

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

and at the same time satisfy the Do No Significant Harm principle with regard to other environmental objectives. Green transition projects include, among others, investments in green technologies, business models based on the circular economy, renewable energy sources, energy efficiency, etc.

Since cooperation with banks and leasing companies is envisaged under the interest subsidy financial instruments related to the NRRP funds, on 18 January 2023, HBOR concluded the cooperation agreement with banks on interest subsidy transactions under the NRRP funds, whereas with leasing companies the agreement was signed in December 2023.

Breakdown of the use of financial instruments under the NRRP

Direct loans under the programme Special SME Segments Investment under the National Recovery and Resilience Plan (NRRP)

The financial instrument is aimed at entrepreneurs and sectors that usually have difficult access to financing: start-ups, young entrepreneurs, female entrepreneurs, investments of small and medium-sized enterprises in less developed areas, research and development. The implementation of the financial instrument started in June 2022. From the beginning of implementation until the end of 2023, 69 loans totalling EUR 16.7 million were approved.

Financial instruments of interest subsidies for the private and public sectors

Since the beginning of implementation in June 2022 and during the entire 2023, HBOR implemented three financial instruments of interest subsidies that enabled more favourable terms and conditions for financing investments of:

- micro, small and medium-sized business entities,
- entities of medium market capitalisation and large business entities,
- public sector.

Interest subsidy can be granted for investment loans aimed at investments in strengthening competitiveness and resilience, and it is even higher if it relates to investments in green and digital technologies necessary for the long-term sustainable development of the public and private sectors in the Republic of Croatia. Interest subsidies have been approved via HBOR's loan programmes through direct lending since June 2022, and since 2023 also in cooperation with 16 commercial banks. Since the beginning of implementation until the end of 2023, 107 loans were approved by HBOR in the total amount of EUR 245 million. Additionally, at the end of 2023, HBOR signed cooperation agreements with 5 leasing companies for subsidising interest through financial and operational leasing, the operational implementation of which will start in 2024.

Guarantee Fund financial instrument for loans to mid-cap entities and large business entities

In the Republic of Croatia, there have been, for many years, various guarantee schemes for investment support to micro, small and medium-sized enterprises. In order to provide similar support to mid-caps and large business entities, thus providing support for their faster transition to green and digital technologies, the National Recovery and Resilience Plan envisaged the establishment of a new model of guarantees for investment loans to mid-caps and large business entities. In 2023, HBOR issued the first guarantee for a loan in the amount of EUR 289 thousand with 80% coverage.

NRRP – Self-Assessment Questionnaire

Experts from HBOR's Environment and Climate Change Unit assess for each proposed project whether it is eligible for financing and whether its climate, environmental and social effects have the characteristics of a sustainable project based on, among other things, the data contained in the Self-Assessment Questionnaire.

The questionnaire was prepared in accordance with the climate, environmental and social standards of the Technical Guidance on Sustainability Proofing for the InvestEU Fund¹². The goal of the questionnaire was to ensure compliance of the measures with the Technical Guidance on the Application of Do No Significant Harm under the Recovery and Resilience Facility Regulation¹³ in accordance with the proposition contained in the Council Implementing Decision on the approval of the assessment of the recovery and resilience plan for Croatia in terms of the implementation of Financial Instruments and the approval of loans to final beneficiaries, for which HBOR was in charge as an implementing body.

In the case of a project, for which it is necessary to carry out a detailed review and check of climate, environmental and social requirements in accordance with the Technical Guidance on Sustainability Proofing for the InvestEU Fund, HBOR retains the right to subsequently request additional information and documentation from clients in order to determine possible risks more completely.

European Investment Bank (EIB)

During 2023, the EIB carried out an assessment of HBOR's compliance with its environmental and social standards, which showed that HBOR was fully compliant. This EIB's positive assessment of compliance is extremely important for HBOR because it confirms HBOR's capacity and expertise in adopting new standards.

In November 2023, HBOR and the EIB signed a EUR 200 million contract (of the total EUR 500 million approved framework) for the financing of small and medium-sized enterprises, mid-cap companies and public sector entities as well as large private companies, of which 20% for "green" projects. HBOR would approve the EIB's funds to private enterprises and public sector entities directly or through local financial intermediaries, whereby 70% of the total amount was intended for small and medium-sized enterprises and mid-cap companies.

This loan is expected to considerably contribute to the EU Cohesion Policy objectives and support green projects in line with the EIB's climate goals. In addition, the contract will help HBOR to absorb EU grants and structural funds, and it is expected to mobilise up to EUR 1 billion of investments in the Croatian economy.

The EIB has defined environmental and social criteria (standards) for the allocation of funds¹⁴. In terms of the environmental criteria, the EIB requires compliance of projects of energy production and related activities, of construction of new or renovation of existing facilities and of procurement of transport facilities with the Paris Agreement. Also, in accordance with the EU Taxonomy, the EIB has defined the Green Eligibility Table 2023 containing eligibility criteria. The Table includes a list

¹² [https://eur-lex.europa.eu/legal-content/HR/TXT/?uri=CELEX:52021XC0713\(02\)](https://eur-lex.europa.eu/legal-content/HR/TXT/?uri=CELEX:52021XC0713(02))

¹³ [https://eur-lex.europa.eu/legal-content/HR/TXT/PDF/?uri=CELEX:52021XC0218\(01\)](https://eur-lex.europa.eu/legal-content/HR/TXT/PDF/?uri=CELEX:52021XC0218(01))

¹⁴ EIB Environmental and Social Standards and EIB Climate Action and Environmental Sustainability (List of eligible sectors and eligibility criteria)

of green sectors and activities, categories of green projects, special criteria and conditions that significantly contribute to a green goal, green results indicators and a description of additional information (Green Additional Info). The social criteria include the impact of projects on human rights, health of people, communities and certain relevant groups.

Council of Europe Development Bank (CEB)

The projects financed from CEB's funds must be aligned with CEB's Environmental and Social Safeguards Policy and must not violate the provisions of the European Convention on Human Rights or the European Social Charter in any way.

International Bank for Reconstruction and Development (IBRD)

The IBRD has defined the Environmental and Social Framework that consists of the Vision for Sustainable Development and the Environmental and Social Standards containing requirements with regard to the beneficiaries of funds. The IBRD attributes great importance to the involvement of interested parties and the provision of timely, relevant, understandable and accessible information.

HBOR as a partner in the implementation of the InvestEU programme

During 2023, HBOR was undergoing an extremely complex and demanding Pillar Assessment procedure for the purpose of obtaining accreditation for direct use of the European funds. European national development banks and institutions as well as international financial institutions must go through this procedure for the purpose of assessing their eligibility for managing the EU funds. The assessment is carried out in three steps: submission of an application for pillar assessment, assessment of applicant's eligibility, pillar-based assessment to ensure proper management of the EU funds¹⁵, selection of partners in the implementation of the InvestEU programme and negotiations on determining the type of financial products to be implemented and the conditions associated with them, and the signing of the guarantee agreement granting the status of a partner in the implementation of the InvestEU programme.

Financial instruments

On 31 December 2023, HBOR completed the implementation of the financial instruments: "ESIF Growth and Expansion Loans", "ESIF Loans for Public Lighting", "ESIF Energy Efficiency in Public Sector Buildings". Besides, in 2023, HBOR successfully implemented the financial instruments: "Working Capital for Rural Development" and "Working Capital for Agriculture and the Processing Industry", the implementation of which continued in 2024.

The successful implementation of the existing financial instruments led to HBOR being entrusted with the implementation of new financial instruments for the 2021-2027 programme period under the 2021-2027 Competitiveness and Cohesion Programme and the 2021-2027 Integrated Territorial Programme.

All investments under the financial instruments in the 2021-2027 programme period must comply with the Do No Significant Harm principle, the environmental objectives of the Technical Guidance on the Application of Do No Significant Harm under the Recovery and Resilience Facility Regulation (2021/C 58 /01) and the Technical Guidance on the Climate Proofing of Infrastructure in the period 2021-2027 (2021/C373/01). In accordance with the Technical Guidance, climate proofing is a process that integrates climate change mitigation and adaptation measures into the development of infrastructure projects in line with the Paris Agreement.

The process is divided into two pillars (mitigation, adaptation) and two phases (screening, detailed analysis). The detailed analysis is subject to the outcome of the screening phase, which helps reduce the administrative burden.

¹⁵ Pillar assessment is an independent external audit, and the European Commission concludes its assessment on the basis of the findings of the audit report.

Venture capital funds

In the past period, HBOR participated in a number of initiatives to develop venture capital market to provide adequate resources to help the growth of entrepreneurial activities.

Through the venture capital (VC) fund Fil Rouge Capital (FRC2 CROATIA PARTNERS SCSp), which was established in 2019 with HBOR's support, a total of 212 investments were made in 145 companies. The fund's investment phase ended at the end of 2023. The fund invested in companies, in the Republic of Croatia, in the earliest stages of development focused on innovation and the desire for success. The fund consisted of two components: the accelerator programme intended for innovative start-up companies with a business idea (Start-up school) or a prototype (accelerator) and the VC component intended for companies that had already passed the early stage of development and had their first customers.

Three venture capital funds established under the CROGIP (the Croatian Growth Investment Programme) intensively invest in growing companies in the Republic of Croatia and, to a lesser extent, in Slovenia. In addition to the general goal of supporting Croatian companies and creating new jobs by ensuring the availability of equity, the purpose of CROGIP is also the development of the market and institutional capacity for equity financing in the Republic of Croatia. This is provided by actively supporting fund management companies that direct a significant part of their investments to Croatian companies.

Through the CROGIP initiative, a total of 47 investments were made by the end of 2023, into which 45.13% of HBOR's investment commitment was realised. Furthermore, under the CROGIP initiative, which enabled the establishment of the first regional platform for the launch of a fund for financing the commercialisation of innovative technological and scientific solutions of Croatian and Slovenian universities, research institutes and centres, the launch of the first fund intended for the financing of projects exclusively focused on technology transfer is expected, i.e. the launch of the Technology Transfer Fund.

European Investment Fund and HBOR

In July 2023, a new programme (the Croatian Growth Investment Programme, CROGIP II) was launched, under which a contract was signed with the European Investment Fund (EIF) of EUR 52 million (each of the contracting parties benefiting EUR 26 million) intended to launch an investment programme for supporting fast-growing small and medium-sized enterprises, small mid-cap enterprises and mid-cap enterprises established and operating in Croatia. HBOR's contribution is financed through the Recovery and Resilience Facility under the NextGenerationEU in accordance with the 2021-2026 National Recovery and Resilience Plan (NRRP).

The EIF and HBOR will jointly manage the programme and lead it through fund investments in targeted companies. The programme is not limited to any sector, although it will focus on climate and innovation. Thus, at least 25% of the total amount will be directed to financing the beneficiaries that meet the EIF's criteria for climate activities and environmental sustainability. The investment programme will also seek to support emerging teams to be located in Croatia with the fund's investment strategy focusing mostly on Croatia.

The Three Seas Initiative, a platform for cooperation among 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 investment goal of the Three Seas Initiative Investment Fund 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 integration by reducing differences in infrastructure quality. By a decision made by the Government of the Republic of Croatia, HBOR was authorised to make an investment in the Fund, in its own name and for the account of the Government of the Republic of Croatia, of up to EUR 20 million.

Active support measures following the COVID-19 pandemic and the Russian aggression against Ukraine

Measures to support the economy following the Russian aggression against Ukraine

Due to market disruptions caused by the Russian aggression against Ukraine, in 2023, HBOR continued to implement the measures to help the economy based on the Temporary Crisis Framework. Liquidity loans were granted through the “Working Capital CRISIS 2022” temporary measure and the insurance policies as collateral with the possibility of subsidising the insurance premium, which made it easier for entrepreneurs to overcome the economic consequences of the Russian-Ukrainian crisis. The measure was introduced on 1 September 2022 and was applied until 31 December 2023. Altogether 257 loans were approved totalling EUR 287 million.

Working capital for rural development

This programme was also implemented as a measure to overcome the economic consequences of the COVID-19 pandemic on the basis of the Financing Agreement with the Ministry of Agriculture and the Paying Agency for Agriculture, Fisheries and Rural Development. The funds of the Programme were intended for beneficiaries affected by disruptions in agricultural production and the agricultural products market following the COVID-19 pandemic. This made it easier for them to access the financing of working capital necessary for the smooth running of production and financing of current operations through a lower cost of financing (lower interest rate, no fee payment) and lower collateral requirements. In 2023, 57 loans were approved totalling EUR 6.5 million.

Working capital for agriculture and the processing industry

In the fourth quarter of 2023, on the basis of the Financing Agreement with the Ministry of Agriculture and the Paying Agency for Agriculture, Fisheries and Rural Development, HBOR introduced a new loan programme: Working Capital for Agriculture and the Processing Industry from the funds recovered under the financial instrument Working Capital for Rural Development. The aforementioned funds were used for further approval of loans for working capital in response to a series of disruptions in agricultural production and the market for agricultural products caused by the Russian aggression against Ukraine. In 2023, 65 loans totalling EUR 10.5 million were approved.

Export credit insurance

HBOR performs export credit insurance and reinsurance activities as mandate activities with an objective of encouraging exports, internationalisation of operations and increasing competitiveness of Croatian exporters in foreign markets. Due to the crisis caused by the Russian aggression against Ukraine, HBOR placed, also under the export credit insurance mandate activities, a special emphasis on facilitating liquidity financing for exporters. In the second half of 2022, new programmes for insuring liquidity loans for exporters were introduced (measures to support the economy of the Republic of Croatia following the Russian aggression against Ukraine), and the insurance premium subsidy programme that were implemented until 31 December 2023 pursuant to the Temporary Crisis Framework of the European Commission.

Under the export credit insurance mandate activities, through the measures to support the economy of the Republic of Croatia in the crisis conditions caused by the COVID-19 pandemic and the Russian aggression against Ukraine, HBOR insured more than EUR 1 billion in loans for the liquidity of exporters and approved more than EUR 18 million in insurance premium subsidies to exporters, thus contributing to the mitigation of adverse consequences of the respective crisis on the economy of the Republic of Croatia.

Continued Cooperation with LRGUs and HAMAG-BICRO

Interest rate subsidy in individual counties, municipalities and cities

In 2023, HBOR continued to contribute to the achievement of balanced regional development through cooperation with counties, cities and municipalities. Pursuant to business cooperation agreements concluded between HBOR and counties, cities and municipalities, entrepreneurs can make use of interest rate subsidies on HBOR's loans, awarded by a county, city or municipality. Until the end of 2023, HBOR realised the cooperation with 44 units of local and regional government – LRGUs.

Cooperation with HAMAG-BICRO

In 2023, business cooperation with HAMAG-BICRO was continued under 3 guarantee programmes. At the end of 2023, the implementation of ESIF individual guarantees for investment loans and loans for working capital as well as the ESIF limited portfolio guarantee was completed, whereas the implementation of the ESIF individual guarantees for rural development programme was continued also in 2024.

5 ENVIRONMENT

The background is a vibrant green with a complex, abstract geometric pattern. On the right side, there is a large, three-dimensional structure composed of numerous parallel, slightly curved lines that create a sense of depth and movement. The lines are rendered in various shades of green, from light to dark, and are set against a backdrop of soft, blurred green light. The overall effect is modern and dynamic.

5.1. Energy Consumption and Greenhouse Gases Emissions

HBOR uses electricity, thermal energy and natural gas from HEP Elektra and HEP Toplinarstvo in its buildings. Energy consumption is monitored for each building at three locations in Zagreb: Zelinska 3, Gajeva 33 and Strossmayerov trg 9 (consumption of natural gas is recorded only at Gajeva 33 location). Also, HBOR uses diesel fuel for 20 vehicles in its ownership, as many as it had in 2023.

RESOURCE	MEASUREMENT UNIT	2022	2023	2023 COMPARED TO 2022
Electricity	kWh	207,297	210,766.24	+1.67%
Thermal energy	kWh	158,783	125,457	-20.99%
Natural gas	m ³	8,040	8,045	+0.06%
Diesel	l		23,661.61	

Energy consumption contributes directly and indirectly to greenhouse gas emissions. Consumption of electricity and thermal energy contributes indirectly, while the consumption of diesel and natural gas contributes directly to greenhouse gas emissions. For the purposes of this report, HBOR for the first time analysed greenhouse gas emissions from Scopes 1 and 2. The analysis included greenhouse gases carbon dioxide (CO₂), methane (CH₄) and nitrogen oxide (N₂O), while the remaining greenhouse gases from the Kyoto Protocol, hydrofluorocarbons (HFC_s), perfluorocarbons (PFC_s) and sulphur hexafluoride (SF₆) have not been identified by this analysis.

The calculation of HBOR's greenhouse gas emissions is based on the requirements of the GHG Protocol Corporate Accounting and Reporting Standard¹⁶ and the requirements of the HRN EN ISO 14064-1:2018 Specification with guidelines at the organisation level for quantification and reporting on emissions and removal of greenhouse gases.

The Greenhouse Gas Protocol includes a classification of emissions called Scope 1, Scope 2 and Scope 3. By the greenhouse gas standard ISO14064-1, the following terms are defined: direct emissions of greenhouse gases as Scope 1, energy indirect emissions of greenhouse gases as Scope 2, and other indirect emissions of greenhouse gases as Scope 3.

Scope 1 includes direct emissions resulting from the consumption of diesel fuel in vehicles owned by HBOR and natural gas for heating purposes, while Scope 2 includes indirect emissions resulting from the use of electricity and thermal energy.

Each greenhouse gas has different radiative properties and therefore different effects on the climate. To enable a comparison of the contribution of different greenhouse gases to global warming, the greenhouse gas emissions are multiplied by the associated global warming potential (GWP). The emissions calculated in this way are comparable and are expressed as the equivalent of carbon dioxide emissions (term: CO₂e or CO₂eq).

Global warming potentials used to calculate greenhouse gas emissions, which refer to a time period of 100 years, were taken from the latest Sixth Report¹⁷ of the Intergovernmental Panel on Climate Change (IPCC) and are shown in Table 1.

¹⁶ Joint project of the World Resources Institute (WRI) and the World Business Council for Sustainable Development (WBCSD).

¹⁷ IPCC, 2021: Climate Change 2021: The Physical Science Basis. Contribution of Working Group I to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change [Masson-Delmotte, V., P. Zhai, A. Pirani, S.L. Connors, C. Péan, S. Berger, N. Caud, Y. Chen, L. Goldfarb, M.I. Gomis, M. Huang, K. Leitzell, E. Lonnoy, J.B.R. Matthews, T.K. Maycock, T. Waterfield, O. Yelekçi, R. Yu, and B. Zhou (eds.)]. Cambridge University Press, Cambridge, United Kingdom and New York, NY, USA, 2391 pp. (p. 1017) doi:10.1017/9781009157896.

TABLE - 1 Global warming potential values for a time horizon of 100 years

GREENHOUSE GAS	CHEMICAL FORMULA	GWP VALUES FOR A TIME HORIZON OF 100 YEARS
Carbon dioxide	CO ₂	1
Methane (fossil origin)	CH ₄	29.8
Nitrogen oxide	N ₂ O	273

Emission factors (EF) from the Sixth Report¹⁷ of the Intergovernmental Panel on Climate Change, which are shown in the table below, were used to calculate the direct emissions of Scope 1 arising from mobile and stationary energy sources:

TYPE OF FUEL	EF CO ₂ (kg/MJ)	EF CH ₄ (kg/TJ)	EF N ₂ O (kg/TJ)
Diesel	0.0741	3.9	3.9
Natural gas	0.0561	5	0.1

To calculate the indirect Scope 2 emission resulting from the use of electricity and thermal energy, emissions factors from the Croatian Database of National Emission Factors¹⁸ were used. The national factors for greenhouse gas emissions are aligned with the methodology for calculating the carbon footprint, the GHG Protocol and the standards ISO 14064-1 and ISO/TR 14069.

The database contains emission factors for 2015, 2016, 2017, 2018, 2019 and 2020 and separately for the following sectors: fuels, electricity, heat, passenger transport, freight transport, land use, land use change and forestry (LULUCF), waste and air conditioning. The emission factors were calculated for each of the greenhouse gases separately, and the CO₂-equivalent emission factor was also determined. For this analysis, the latest available emission factors from 2020 were used, which are listed in the following table:

TYPE OF ENERGY	EF CO ₂ COMBUSTION KG/MWH	EF CH ₄ COMBUSTION KG/MWH	EF N ₂ O COMBUSTION KG/MWH	EF CO ₂ EQUIVALENT COMBUSTION KG/MWH
Electricity	129.952455	0.013219	0.002574	131.031029
Thermal energy	211.509116	0.005722	0.000663	211.856532

The total greenhouse gas emissions resulting from the combustion of fuels in HBOR-owned vehicles and the consumption of natural gas in 2023 amounted to 83.95 t CO₂eq, while the total greenhouse gas emissions resulting from the consumption of electricity and thermal energy in 2023 amounted to 54.2 t CO₂eq. The total Scope 1 and Scope 2 emissions in 2023 amounted to 138.14 t CO₂eq.

18 <https://mingor.gov.hr/o-ministarstvu-1065/djelokrug/uprava-za-klimatske-aktivnosti-1879/ugljicni-otisak/8960>

The following table shows comparative data of total greenhouse gas emissions in tons of carbon dioxide equivalent:

SCOPE	SOURCE OF EMISSIONS	SOURCE OF EMISSIONS			
		CO ₂ (t)	CH ₄ (t)	N ₂ O (t)	CO ₂ eq (t)
Scope 1	Direct emissions from mobile sources	67.13	0.0035	0.0035	68.20
	Direct emissions from stationary sources	15.69	0.0014	0.00003	15.74
Scope 2	Indirect emissions from electricity cons.	27.34	0.0028	0.00054	27.62
	Indirect emissions from thermal energy cons.	26.54	0.0007	0.00008	26.58
Total		136.75	0.0084	0.0042	138.14

The analysis of greenhouse gas emissions from HBOR's own operations (Scope 1 and Scope 2) showed that their impact is not significant compared to Scope 3 emissions, particularly the emissions financed that HBOR has yet to analyse.

5.2. Other Environmental Impacts

The approach to managing HBOR's environmental impacts, especially climate change, encompasses the activities from its own operations and the impacts along the value chain that are primarily related to the promotion and implementation of projects that contribute to the development of the green economy.

Impacts of HBOR's Activities on the Environment

Considering the nature of business activities, which are mainly related to administrative tasks and analysis of collected data, HBOR has no significant negative impact on the environment.

The management policies are based on legal regulations in the field of environmental protection and sustainable waste management and are embedded in corresponding internal documents that prevent any potential negative impact on the environment. Environmental factors included in the policies relate to energy consumption and waste management. The approach to the management of environmental factors is evaluated as part of the asset management performance evaluation that HBOR conducts continuously on a quarterly basis.

The internal environmental impact management policy is implemented by the Property Maintenance Unit, a dedicated organisational unit within the Business Support Division. In accordance with its business policies, HBOR has adopted house rules that prescribe the behaviour expected of workers in their daily work. Among other things, workers are ordered to behave rationally and sparingly in order to make as little waste as possible.

All employees are familiar with the internal policies that are available to them on the Intranet and *SharePoint*. The collection of plastic, paper and cardboard waste is also organised through labelled cardboard containers placed in visible places within the bank's business premises. Boxes for waste paper have also been placed in employees' offices.

5.2.1. Water Consumption

HBOR uses water from the public water supply system of the City of Zagreb for its operations, and all water is discharged into the public sewerage system. The business activities do not require any special conditions regarding the use of water resources, and the impact of water consumption within HBOR's own operations is not significant.

The consumption is recorded using water meters, while at Gajeva and Strossmayerov trg locations, in addition to water consumption meters for each building, water consumption meters for hydrants are also installed.

In the reporting year, a total of 1,048.00 m³ of water was consumed at all locations. Compared to previous years, there is a visible decrease in consumption because the building at Strossmayerov trg was not in operation in 2023, and part of the employees were redeployed to other locations or to work from home.

LOCATIONS OF OPERATION AND CONSUMPTION	MEASUREMENT UNIT	2022	2023	2023 COMPARED TO 2022
Zelinska 3	m ³	635.00	718.00	+13.07%
Gajeva 33	m ³	258.00	330.00	+27.91%
Strossmayerov trg 9	m ³	258.00	-	-
Total water consumption	m³	1,151.00	1,048.00	-8.95%

5.2.2. Waste Management

The use of resources and waste streams in HBOR are systematically managed by monitoring the needs and consumption of different resources and by organising separate collection of recyclable waste types at the workplace (paper and plastic). Removal, disposal and recycling of waste is carried out by authorised waste management companies to which the waste is handed over, in accordance with the applicable regulations. Business activities do not require any special conditions regarding waste management, and the impact of the waste generated by HBOR's own operations is not significant.

In 2023, a total of 26,189.10 kg of waste was produced. Of this amount, 19,494.10 kg related to bulky waste, 2,680.00 kg to paper and cardboard and 3,330.00 kg to electronic waste. 685.10 kg of hazardous waste was generated: 165.1 kg from regular business activities (138.80 kg of toners and 26.30 kg of fluorescent tubes), while 520.00 kg of PVC packaging contaminated with hazardous substances was found at the location of the acquired real estate in Sračinci. Hazardous waste is handled in accordance with legal regulations, that is, each type of hazardous waste is collected and stored separately until it is handed over to an authorised waste collector. In 2022, there was no production of hazardous waste, because there was no replacement of fluorescent tubes and there was no disposal of toners due to a smaller amount of printing, because most of work was done from home. In 2023, the amount of non-hazardous waste increased compared to 2022 due to the disposal of bulky waste from the location Strossmayerov trg 9, where the building is in the phase of preparation for complete reconstruction. During the preparation for the complete reconstruction, requirements were set in the project assignment in such a way so as to improve the properties of the building in terms of environmental and social sustainability as much as possible. At the same time, the decision to reconstruct the building means that a large amount of construction waste will not be generated due to its removal.

TYPE OF WASTE	MEASUREMENT UNIT	2022	2023
Hazardous waste	t	-	0.6851
Non-hazardous waste	t	1.02	25.50
Total waste mass	t	1,020.00	26,189.10

6 SOCIETY



6.1. Employees

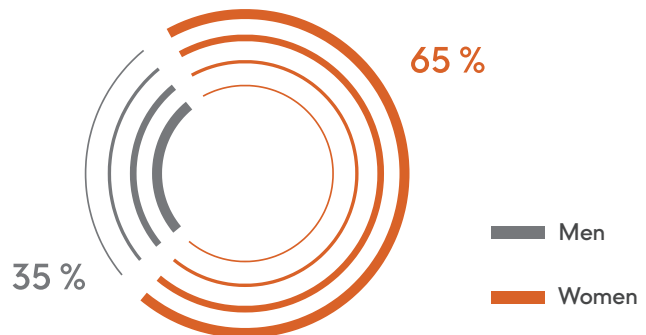
The basic document from which the fundamental rights and obligations of employees derive is the Labour Ordinance, which during 2023 was harmonised with the Act on Changes and Amendments to the Labour Act and entered into force on 30 June 2023. The adoption of the new Ordinance was preceded by consultations with the trade union representative, who has the rights and duties of the Workers' Council.

Croatian Bank for Reconstruction and Development has been participating in the Employer Partner certification since 2006, and in 2023, it became the holder of the Employer Partner certificate for the thirteenth time, an award for excellence in human resource management awarded by Selectio, the leading consulting company in Croatia for consulting in the field of human resources management.

HBOR continuously invests in the development of its employees to enable them to acquire key competencies and skills that are useful in their business and private lives. Through various educations, employees have the opportunity to improve their professional knowledge and skills needed to perform their work, develop communication skills, time management and personal efficiency. Employees have the opportunity to attend conferences related to their field of work. In addition, HBOR invests funds in employee scholarships and encourages them to enrol in postgraduate studies, which further contributes to their professional development. Within the sustainability and gender equality education, employees acquire knowledge that is essential for building an inclusive and sustainable work environment. Strengthening of organisational capacities and continuous investment in the development of professional competences of employees are key to realising the strategic goals of HBOR.

Employees

In 2023, there were 409 employees at HBOR, of which 266 were women and 143 men. The total number of employees compared to 2022, when there were 382, increased by 7.07%. Data on employees relate to 31 December 2023 and include all employees who have a contract with HBOR.



Of a total of 409 employees, 400 of them have a permanent employment contract, i.e. 97.80%, and 408 employees are employed full-time, or 99.6%. HBOR regularly publishes vacancies for recruiting of trainees and since 1 January 2022, 5 trainees have been employed. By the end of 2023, traineeship of two trainees ended, and they were offered a permanent employment contract.

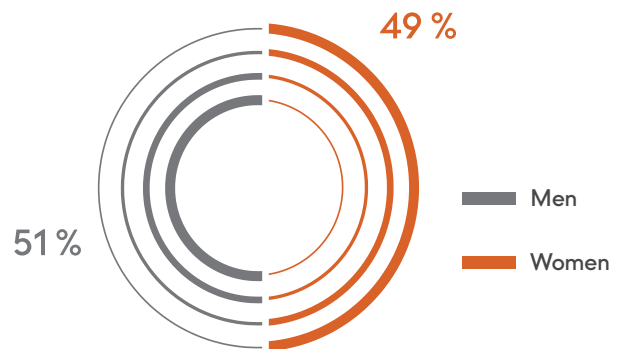
	2022	2023	2023 COMPARED TO 2022
Total number of employees	382	409	+7.07%
Women	249	266	+6.83%
Men	133	143	+7.52%
Number of employees permanently employed	380	400	+5.26%
Women	248	261	+5.24%
Men	132	139	+5.30%

Number of employees temporarily employed	2	4	+100%
Women	1	2	+100%
Men	1	2	+100%
Number of full-time employees	378	405	+7.14%
Women	245	262	+6.94%
Men	133	143	+7.52%
Number of part-time employees	4	4	+0%
Women	4	4	+0%
Men	0	0	+0%

Note: data on the number of trainees are presented separately, since these are not the same employment relationships as temporary employees (2022: 4, 2023: 5)

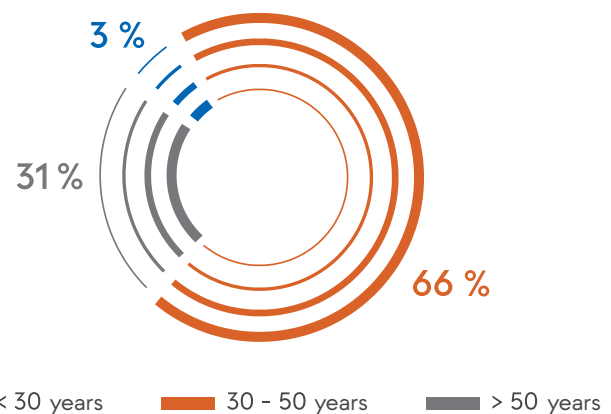
Of the total of 409 employees, 378 are highly educated, i.e. 92%.

In 2023, the share of women in the total number of employees was 65%, however, this share is somewhat lower in management positions: of the total of 55 management positions, 27 were held by women, i.e. 49% of them.



In HBOR, most of employees are in the category of 30 to 50 years, i.e., 270 of them, or 66%.

TOTAL	2022*	2023
< 30 years of age	15	11
30 - 50 years of age	269	270
> 50 years of age	98	128



* Correction of the number of employees by category of age groups in 2022, the difference caused by the different application of the definition of the category in the reporting periods

Recruitment of New Employees and Turnover of Employees by Age and Gender

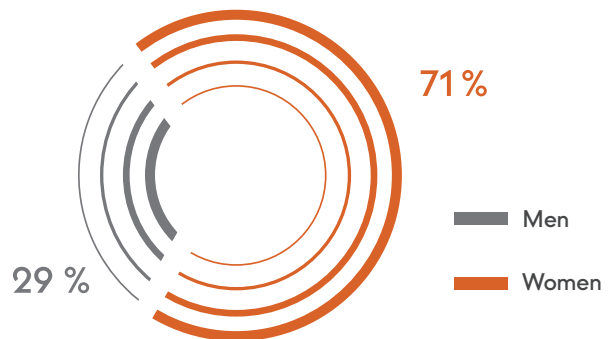
HBOR's employment policy is based on the principles of transparency and ensuring a level playing field and equal conditions for all interested candidates, in accordance with the required educational and professional competencies. This policy is based on the organisational requirements of HBOR, and enables more efficient operations and a more flexible approach to candidates.

The recruitment process is organised through open competitions, which are available on the HBOR website, where the results of the competitions are also published. The competitions are also published on the MojPosao portal and the LinkedIn social network. Applicants undergo a selection process that includes professional and psychological tests and interviews. Upon employment, new employees undergo an onboarding programme with internal training to ensure rapid adaptation and efficiency.

In 2023, HBOR hired 41 new employees, of which 29 were women and 12 were men. The largest number of new employees belongs to the category of 30 to 50 years of age, i.e., 33 of them, which makes 80.49% of new employments.

AGE GROUPS	2022	2023
< 30 years	3	5
30 - 50 years	23	33
> 50 years	1	3
TOTAL	27	41

Share of women and men in the total number of new employees



At the same time, during 2023, twelve employees left HBOR, 11 women and 1 man. The fluctuation rate in 2023 was 3.02%, a decrease compared to 2022, when it was 4.97%.

AGE GROUPS	2022	2023
< 30 years	2	1
30 - 50 years	11	6
> 50 years	6	5
TOTAL	19	12

Salary and Employee Benefits

The material rights of HBOR employees are defined by internal documents and are harmonised with laws in force. Employees are guaranteed the right to vacation, paid and unpaid leave, as well as the payment of severance pay. In addition, the Ordinance establishes the rights to jubilee award, holiday pay and Christmas bonus, health insurance subsidy, transportation allowance, seniority allowance, food allowance, permanent allowance and financial support, as well as flat-rate compensation for work from home.

Uncompetitive salaries within the organisation were assessed during the 2022 material impact assessment as one of the three potential or actual adverse impacts with the highest probability of occurrence. Since 2023, HBOR has been engaged in a dialogue on salaries with trade union representatives and has been working on salaries corrections in response to workers' efforts to compensate for the loss of purchasing power accumulated due to increased inflation, especially during 2022, when the average annual inflation was 10.7%.

Work-Life Balance, Including the Right to Parental Leave

Currently, HBOR does not conduct surveys of employee satisfaction with the work-life balance. All HBOR employees (including adoptive parents) are entitled to maternity/parental leave. In 2023, a new Labour Ordinance came into force, by which paternity leave was introduced for a duration of ten to fifteen working days, depending on the number of children born. Seven fathers used this opportunity. In 2023, a total of 30 employees used maternity/parental leave, of which 20 were women and ten were men. During 2023, all employees returned to work after having used their maternity/parental leave.

Hybrid Mode of Work

HBOR employees continued to work in a hybrid work regime during 2023, the opportunity that was used by the majority of employees. All HBOR employees had this option, except for those whose workplace is exclusively tied to office premises (drivers, writing office). In special circumstances, provided by the Labour Act, employees could request an exemption from the obligation to work in office premises, in order to work exclusively at a separate workplace.

Occupational Health and Safety

A system of occupational health and safety management was established based on the legal requirements of the Occupational Safety and Health Act, the Labour Act and secondary legislation related to the Occupational Safety and Health Act as well as internal documents related to occupational safety (Occupational Safety Ordinance, Rules of Procedure of the Occupational Health and Safety Committee, HBOR's Risk Evaluation, Ordinance on the Use of Personal Protective Equipment, Evacuation and Rescue Ordinance, etc.). The health and safety management system at the workplace covers all employees.

The basic document of occupational safety is the Risk Assessment, based on which risks are identified and measured to reduce them are prescribed. The Risk Assessment assesses the probability of a harmful event and the magnitude of consequences for a particular workplace.

Taking into account that, according to the Risk Assessment Ordinance, more than 80% of jobs in HBOR are classified as low-risk jobs (mainly administrative jobs), the following risks were identified:

- Demand for high quality work (medium risk - stress).
- Management of means of transport and fieldwork during business trips (medium risk).
- Communication with persons (medium risk - stress).

Risk assessment is carried out in cooperation with employees, based on the job description and their subjective perception of danger and risk.

Pursuant to the Occupational Safety and Health Act, HBOR is obliged to cooperate with employees in the preparation of risk assessment, risk reduction measures, procurement of personal protective equipment and other issues related to occupational safety. All communication with employees takes place on a regular basis, either directly with an individual employee or through the workers' commissioner for occupational safety. Employees participate directly and actively in the preparation of the Risk Assessment together with occupational medicine and other relevant experts. They also participate indirectly in the drafting of regulations and guidelines through their commissioners and trade union.

Employees are provided within the statutory deadlines with a preventive eye examination that is carried out in the premises of HBOR. There is also a possibility of undergoing an occupational health examination in case of problems with the musculoskeletal system in order to get a recommendation for additional ergonomic workplace arrangement (chair, lifting table, etc.). Employees working in jobs with special working conditions are sent regularly, once a year, to an occupational medicine practice for a medical examination. Employees also have a subsidised additional health insurance organised by the Human Resources and the Accounting Division, which enables them to access various health services. The employees are also insured with an insurance policy in case of disability, death and hospital stays (policies are contracted by the Human Resources). All examinations of employees are performed during working hours and at the expense of HBOR. Content related to occupational health and safety is regularly published on HBOR's intranet pages: back strengthening exercises, contents related to stress, work-life balance, advice in the event of extreme heat conditions, etc.

The Occupational Health and Safety Committee operates in HBOR that consists of employee representatives (employees' commissioners), employer's representatives (employer's authorised representatives), an occupational safety expert and an occupational health medical practitioner. The Committee is an advisory body that proposes and advises the Management Board on matters of occupational health and safety, i.e. health and safety of employees. The Committee operates in accordance with the Rules of Procedure of the Committee. The employees themselves participate in the development, application and evaluation of the system either directly or indirectly through their commissioners for occupational safety.

Employees undergo trainings prescribed by law: work in a safe manner, fire protection, training of workers' commissioner for safety at work, training of employer's authorised representatives, professional training as needed. Instructions for work in a safe manner for the jobs that require such education are published on HBOR's intranet pages and are thus available to all employees.

Injuries at work are extremely rare at the workplace and most often occur on the way from home to work and vice versa. Employees report injuries at work to an occupational health expert, who reports injuries to the Croatian Health Insurance Fund (HZZO) via CEZIH portal (*on-line*). In 2023, one work injury occurred on the way from home to work, as a result of which 28 working days, or 224 working hours, were lost. The injury was reported and acknowledged. There were no reported work-related illnesses or occupational illnesses in 2023.

Professional Development and Promotion

The most important document in terms of human resources development is 2020 – 2024 Business Strategy of the Croatian Bank for Reconstruction and Development, in which the improvement and development of internal capacities and competences of employees is recognised as part of key strategic prerequisites that will enable more efficient and proactive achievement of strategic goals.

Continuous strengthening of professional capacities and competences of employees as well as the development of a healthy and motivating work environment is the responsibility of Human Resources organisational unit. The work of this organisational unit is managed by the managing director who reports directly to the Management Board of HBOR. The area of responsibility, the scope of work and the system of managing organisational units is governed by the Macro-Organisation Ordinance of the Croatian Bank for Reconstruction and Development. Regular human resources management processes and activities cover the entire career of HBOR employees and enable management support in human resources management: employee selection and recruitment, management of goals and competencies, and rewarding and employee development.

Opportunities for advancement, promotion and recognition for HBOR employees are realised on the basis of appropriate work performance and are regulated by an HBOR's internal document. Employees can plan their annual trainings, educations and conferences in accordance with the requirements of their jobs and the development of processes within HBOR. These procedures include an annual training, education and conference attendance plan.

Professional development of employees is supported by the assessment of work performance through quarterly periods and set goals, as defined by an internal document of HBOR introduced in 2015 for systematic monitoring of work performance of every employee.

Within this system, competences and achievement of defined goals are monitored quarterly, and new goals are set for the coming quarter. In order to ensure the transparency of the competence and goal monitoring system, quarterly interviews were introduced in which employees receive feedback from their superiors.

Satisfaction with the opportunities for professional development is monitored through quarterly and annual interviews. Individual goals are set for all employees, and they are provided with specialist and professional contents aimed at their professional development or at conducting their careers towards managerial or head positions. This system continuously encourages further professional development of employees, enabling them to acquire new skills, mentoring, professional development, promotion, building a business network and independent research within the job description.

All employees of HBOR are included in the education framework, which includes participation in conferences, trainings and study visits. Skills acquisition programmes are planned on an annual basis and implemented with external contractors for three levels of employees: task actors, heads of units and managers.

During 2023, employees from 14 organisational units participated in conferences and training / education related to ESG and sustainability. According to the number of hours, these educations represent about 20% of the total hours of education, and the number of hours has increased by 1.5 times compared to 2022 (2022: 1031 hours, 2023: 1600 hours). These figures do not include educations obligatory by law, internal workshops realised within the framework of projects or consulting services, as well as educations realised through study visits, which are additional opportunities used by HBOR.

Most frequent participants in thematic conferences and trainings in 2023 come from organisational units key to the operational implementation of sustainable finance activities (Analysis Division, Credit Division and Strategy Division).

Topics of conferences and trainings included: sectoral conferences on wind, sustainable construction, sun, wood technology, renewable energy, energy sector, annual national conference on sustainable development, smart cities, women in business, equality/diversity and inclusiveness, ethics, integrity and compliance and the new regulation on sustainability. Specific topics included waste management, energy consumption, heating and cooling systems and energy needs of buildings, sustainable finance and ESG, sustainability reporting, corporate sustainability and corporate governance, ESG management and auditing, and the new EU regulations.

According to an internal document of HBOR, it is possible to train employees as preparation for a new job. All 41 new employees in 2024 went through the onboarding programme for new employees.

Also, HBOR offers student scholarship programmes, thus providing permanent employment opportunities. The development and enhancement of key competences of employees is carried out through internal and external educations, enabling them to improve their skills necessary for performing work at HBOR.

During 2023, a total of 9,168.15 hours of education were held, of which 5,843.63 hours were held for women, and 3,324.52 hours for men.

		2022		2023	
		Men	Women	Men	Women
Management	Number of hours				
	Average	18.1	13.2	37.08	63.16
	Total	453	263	1,038.1	1,705.4
Employees	Average	19.1	9.8	19.88	17.31
	Total	2,066.5	2,246.4	2,286.42	4,138.23

Professional Competencies for Sustainable Finance

The *Sustainable Finance* project has defined a clear need to acquire and improve professional competencies for sustainable finance and/or attracting new employees with appropriate professional competencies. According to Deloitte's study *Taking the Lead in Sustainable Finance*, the main problems in developing skills and talents in sustainable finance are: competing internal priorities, lack of coordination and inadequate budgets for training. In addition, the new regulatory framework for sustainable finance is extremely complex and requires multidisciplinary knowledge and skills and teams that can easily adapt to a changing environment. The study also showed that there is currently a high demand for professional and experienced capacities in sustainable finance. Experience from *Sustainable Finance* project shows that the rotation or turnover of employees who participated in the project poses an additional challenge in the development of professional skills. HBOR strives to secure and retain appropriate professional staff through continuous training.

Non-discrimination

The Labour Ordinance and other internal documents describe the procedure for protecting the dignity of employees, for which the commissioner for the protection of dignity is also responsible. The commissioner carries out the protection procedure at the request of an employee. Commissioners for the protection of employees' dignity are appointed by the Management Board, and in accordance with the provisions of the Labour Act, they are of different genders. They are authorised to receive and resolve complaints relating to the dignity of employees and propose to the Management Board that further corrective and preventive actions be taken.

Decent and dignified behaviour without discrimination is also promoted by HBOR's Code of Conduct. By the Labour Ordinance, HBOR is obliged to protect employees from direct or indirect discrimination in the field of work or working conditions, including selection criteria and employment conditions, professional guidance, professional training, promotion, etc. It is also obliged to protect the dignity of employees from actions of superiors, associates, and other persons with whom the employee comes into contact during the performance of his/her work, if the action is contrary to laws and/or internal documents.

Commissioners for the protection of employees' dignity have an approved budget for the participation in external education for the purpose of expanding the existing and acquiring new knowledge in their field of activity.

During 2023, one complaint was filed, which was dismissed after processing was carried out. The processing showed that the prerequisites for action were not met due to incomplete data on the persons involved in the case of violation of dignity, as a result of which the Commissioner could not properly process the complaint. The Management Board was informed about the circumstances related to the complaint, and took note of it.

Diversity and Equal Opportunities

Diversity and Equal Opportunities are priority of Human Resources, which continuously promote diversity and equal opportunities in employment. HBOR employees are provided with equal opportunities, equal salaries (based on equal work performed), the possibility of using maternity/parental and paternity leave. Equal opportunities are ensured by a series of procedures and internal documents that determine and structure the range of points and salaries. In 2023, in job group II-IV (less complex jobs) the salary ratio between women and men was 1.11, in job group V-VII (jobs of greater complexity) 0.97, and in job group VIII (Members of the Management Board, President of the Management Board, Senior Executive Directors and Directors) 0.96.

The ratio of the total annual compensation of the best paid employee of HBOR to the average annual total compensation of all employees (excluding the best paid one) in 2023 was 2.84.

Compliance with the institutional framework of the Republic of Croatia guarantees respect for all rights arising from the umbrella regulation of the European Parliament and the Council at the HBOR level, especially with regard to the principle of equal opportunities and equal treatment of men and women in matters of employment and work, non-discrimination on any basis, work-life balance, protection of mothers and pregnant women, occupational health and safety, and in establishing a general framework for informing and consulting with employees.

Freedom of Association and Collective Bargaining

The association of employees is formally made possible through the Trade Union of Banking and Financial Employees of Croatia - a trade union branch of HBOR. HBOR cooperates closely with the trade union commissioner, who took over the rights and obligations of the Works Council, as prescribed by the Labour Act. In the reporting period, there were no trade union initiatives for collective bargaining, and HBOR does not have a collective agreement.

7 GOVERNANCE

The background of the page is a solid, textured gold color. On the right side, there is a series of overlapping, three-dimensional rectangular blocks. These blocks are arranged in a stepped, staircase-like pattern, with each block slightly offset from the one below it. The blocks are a lighter shade of gold, and their edges are highlighted with a bright white light, creating a strong sense of depth and shadow. The overall composition is clean, modern, and architectural.

Members of the Governance Bodies

In 2023, the Supervisory Board of HBOR consisted of 10 members, of which six ministers in the Government of the Republic of Croatia, three Members of Parliament, and the President of the Croatian Chamber of Economy.

In 2023, the members of the Supervisory Board were as follows:

- Marko Primorac, PhD, Minister of Finance, President of the Supervisory Board,
- Davor Filipović, PhD, Minister of the Economy and Sustainable Development, Deputy President of the Supervisory Board, (in office until 13 December 2023),
- Nikolina Brnjac, PhD, Minister of Tourism and Sport,
- Ivan Paladina, Minister of Physical Planning, Construction and State Assets, (in office until 20 January 2023),
- Branko Bačić, Minister of Physical Planning, Construction and State Assets, (in office since 20 January 2023),
- Nataša Tramišak, Minister of Regional Development and EU Funds, (in office until 20 January 2023),
- Šime Erlić, Minister of Regional Development and EU Funds, (in office since 20 January 2023),
- Marija Vučković, MSc, Minister of Agriculture,
- Luka Burilović, PhD, President of the Croatian Chamber of Economy,
- Žarko Tušek, Member of the Croatian Parliament,
- Predrag Štromar, Member of the Croatian Parliament,
- Siniša Hajdaš Dončić, PhD, Member of the Croatian Parliament.

The Management Board of HBOR consists of the President and Members of the Management Board. Members of the Management Board of HBOR in 2023:

- Hrvoje Čuvalo, MSc, President of the Management Board,
- Alan Herjavec, MSc, Member of the Management Board,
- Josip Pavković, Member of the Management Board.

In 2023, the Audit Committee consisted of three members as follows:

- Prof.DSc. Lajoš Žager, Full Professor, Department of Accounting, Faculty of Economics and Business of the University of Zagreb, Chairman of the Audit Committee,
- Predrag Štromar, Chairman of the Physical Planning and Construction Committee of the Croatian Parliament, member of the Audit Committee,
- Prof.DSc. Boris Tušek, Full Professor, Department of Accounting, Faculty of Economics and Business of the University of Zagreb, member and Deputy Chairman of the Audit Committee.

Audit Committee

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 from among the independent members of the Audit Committee.

Main goals, tasks and powers of the Audit Committee:

- monitors the financial reporting process and submits recommendations or proposals to ensure its integrity,
- reports to the Supervisory Board on the outcome of the statutory audit and explains how the statutory audit contributed to the integrity of financial reporting and explains the role of the Audit Committee in that process,
- in terms of financial reporting, monitors the effectiveness of the internal quality control system and risk management system, including compliance risk and internal audit without violating its independence,
- monitors the performance of the statutory audit of annual financial statements and annual consolidated financial statements, taking into account all the findings and conclusions of the Ministry of Finance,
- examines and monitors the independence of the audit company in accordance with the Audit Act and EU Regulation no. 537/2014 of the European Parliament, and in particular the suitability of providing non-audit services that are subject to its prior approval,
- responsible for the selection process of the audit company and proposes the appointment of the audit company,
- takes note of the additional report of the audit company that performs the statutory audit in accordance with Article 11 of Regulation EU 537/2014 of the European Parliament.

Other Committees

The Management Board of HBOR adopts strategies, policies and/or regulations on the management of individual risks, associated methodologies and other internal documents within its authorisation. Documents on the work of control functions, as well as risk management strategies and policies are adopted with the consent of the HBOR Supervisory Board. The Management Board of HBOR is responsible for establishing a complete and effective risk management system through the organisational structure, establishing the delimitation of authority and responsibility, establishing a system of internal controls, ensuring an adequate number of qualified labour, ensuring adequate IT support for risk management, ensuring the adoption and regular revision of internal documents within the framework of the risk management system and the establishment of an appropriate risk culture.

The Management Board of HBOR has established the following committees to which it has delegated tasks and responsibilities from the scope of risk management within the framework prescribed by internal documents:

- Credit Risk Assessment and Measurement Committee – manages credit risk to which HBOR is exposed or might be exposed in its operations with the aim of reducing it,
- Asset and Liability Management Committee – manages liquidity risk, interest rate risk and currency risk with the aim of reducing exposure to the mentioned risks,
- HBOR Information System Management Committee – manages the resources of the information system and adequately manages the risks that arise from the use of the information technology.

In addition to the above three committees, the following committees also operate in HBOR:

- Business Changes Management Committee – considers the proposed business changes, considers necessary resources and the impact on the operations of the involved organisational units and HBOR as a whole.
- Sustainable Finance Committee – established in 2024.

The President and Members of the Management Board are also members of the aforementioned committees, which ensures the supervision of their work.

Anti-corruption

HBOR's Code of Conduct defines the basic standards of ethical and lawful conduct in the banking business, rules for preventing corruption and ensuring professional conduct in accordance with law. Such conduct includes the provision of true, transparent information, a fair approach to competitors, employees, partners, as well as focusing on social responsibility and sustainable development. The Code applies to all employees of HBOR, regardless of their level of responsibility and position (function). HBOR's Code of Conduct is published on HBOR's intranet and website, and all newly employed employees get familiar with the content of the Code when signing an employment contract.

In 2023, a new HBOR Code of Ethics was prepared, which is expected to be adopted in 2024. In the new HBOR Code of Ethics, particular emphasis is put on a zero-tolerance approach to all forms of corruption activities that aims to prevent, suppress, disclose and sanction all forms of corruption as a harmful phenomenon that violates basic social values, and the forms of corruptive activities are also clarified.

Every year by 31 January, an annual report is submitted to the Management Board of HBOR on submitted reports of violation and initiated procedures based on reported violations of the HBOR's Code of Conduct for the previous year. Also, in 2022, the Methodology for Evaluation of Jobs Exposed to the Risk of Corruption in HBOR was adopted. In 2023, the Compliance Monitoring Function made an overview of the preparatory activities for the first job risk assessment in accordance with that Methodology and it will coordinate its further implementation.

In 2023, no reports were submitted related to corruption.

Conflict of Interest

The interests of HBOR employees must not come into conflict with the obligations they have towards HBOR or which HBOR has towards its clients. Employees of HBOR are obliged to separate private from business interests when performing their duties at HBOR.

Members of the Management Board of HBOR are obliged to abide by the Conflict of Interest Prevention Act. If circumstances arise that can be defined as a potential conflict of interest, the obligated person shall declare this in an appropriate manner and resolve it in such a way that the public interest is safeguarded. In this case, the obligated person is exempted from making decisions, i.e. from participating in decision-making processes and concluding contracts that affect his/her own business interest or the business interest of related parties and employers with whom they were employed in the last two years before taking his/her office.

In case of unclarities related to the existence of a conflict of interest, the obliged persons must take all necessary steps to separate the private from the public interest. In case of doubt as to whether a certain behaviour constitutes a violation of the Conflict of Interest Prevention Act or other regulations, the obliged persons must address the Commission for Decision-Making on Conflict of Interest for an expert opinion. HBOR regulates the issues of conflict of interest through various internal documents, including HBOR's Corporate Governance Code, the Rules of Procedure of HBOR's Management Board, the HBOR's Compliance Monitoring Policy and the Compliance Monitoring Function Methodology. Also, in 2023, the education called "Ethical Rules in the Prevention of Conflicts of Interest" was carried out for 24 employees and new employees, as well as those, who for justified reasons, could not participate in the education in the previous cycle.

The education included ethical principles and provisions of HBOR's internal documents (HBOR's Code of Conduct, HBOR's Corporate Governance Code, HBOR's Management Board's Rules of Procedure, HBOR's Supervisory Board's Rules of Procedure, HBOR's Compliance Monitoring Policy, The Compliance Monitoring Function Working Methodologies, the Manual on Proceedings of HBOR as the Implementing Body of the ESIF Growth and Expansion Loan Financial Instrument), acts (the Conflict of Interest Prevention Act, the Public Procurement Act, the Credit Institutions Act) the Decision on the Management System, Decision on the Adoption of the Corporate Governance Code for Companies in which the Republic of Croatia has Shares or Interest, as well as the ICC Guidelines on Conflicts of Interest in Enterprises. A total of 24 employees attended the *online* education and all of them passed the test.

Grievance Mechanisms

HBOR has several grievance mechanisms, for which several different functions or organisational units are responsible depending on the purpose and type of mechanism.

The grievance officer receives and processes reported irregularities in variety of areas: public procurement, financial services, anti-money laundering, product safety, environmental protection etc., all in accordance with the Ordinance on the Method of Appointing a Grievance Officer and the Procedure for Reporting Irregularities. The person submitting an irregularity report may be the person reporting the irregularity or a third party. The report can be submitted in writing or verbally. Reports can also be submitted anonymously. The e-mail address to which reports can be sent is: povjerljivaosoba@hbor.hr. Three reports of irregularities were submitted in 2023. One report did not contain any elements relevant to reporting irregularities, in the second case, no irregularity was reported in accordance with the Act on the Protection of Persons Reporting the Irregularities, and the third irregularity report was processed and closed. None of the three reports received related to the reporting of suspected corruption.

The EU Funds and Financial Instruments organisational unit is responsible for receiving reports on irregularities in the implementation of HBOR's financial instruments, as well as objections to decisions by which loan applications are rejected. Reports are submitted to a separate e-mail address: esif.nepravilnosti@hbor.hr. There were no reports on this basis in 2023.

Information on the application of the Organisation for Economic Cooperation and Development (OECD) recommendations to lending and/or export credit insurance transactions¹⁹, related internal ordinances of HBOR and supported projects in accordance with these recommendations can be found at HBOR website²⁰. All interested stakeholders can send their inquiries about the projects to which these recommendations apply or express any concerns regarding their implementation to the e-mail address: odrzivost@hbor.hr.

The Compliance Monitoring Function receives reports of violations of the HBOR Code of Conduct. Reports can be submitted using the report form, which is available on the HBOR website in Croatian and English, along with a description of how to submit a report and the e-mail address for receipt. The e-mail address to which reports can be sent is kodeksponasanja@hbor.hr. The Compliance Monitoring Function conducts the procedure for reported violation and is obliged to review the submitted and collected data, investigate the reported violation, draw conclusions on the merits of the reported violations and inform the HBOR Management Board. The Management Board of HBOR establishes the merits of the reported violations and decides on any necessary sanctions. In 2023, two reports of violations of the HBOR Code of Conduct were submitted and, after the procedure was carried out, the merits of the reports were not established.

In 2023, there were no reports related to bribery or behaviour contrary to the principle of free market competition, or violations of the regulations on prohibited agreements by entrepreneurs or monopolies through any mechanisms.

Transparency and Publicity of Operations

As a bank established by the special Act on HBOR and a public authority to which the Right of Access to Information Act (RAIA) applies, HBOR is guided by openness and the greatest possible transparency of information. In order to fulfil its obligations as a public authority, without breaching the obligation to maintain banking secrecy that it has as a financial institution under the Credit Institutions Act, HBOR incorporated the RAIA clause in the relevant documents in 2019. This includes loan applications, loan contracts, guarantee applications, guarantee agreements, requests for insurance and similar documents.

Under this clause, clients declare that they are aware that the RAIA applies to HBOR and that HBOR will provide applicants with certain data in the event of request for access to information,

¹⁹ Recommendation of the Council on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence - The "Common Approaches", OECD/LEGAL/0393; Recommendation of the Council on Sustainable Lending Practices and Officially Supported Export Credits, OECD/LEGAL/0442; Recommendation of the Council on Bribery and Officially Supported Export Credits OECD/LEGAL/0447.

²⁰ <https://www.hbor.hr/odrzivost>

for example, in the case of a loan: name of the borrower, amount, purpose of the loan and name of the project. The most frequent requests relate to information on borrowers and final beneficiaries of loans, as well as loan amounts, export projects, decisions of the Management Board and the Supervisory Board that relate to projects financed by HBOR as an export bank and export credit agency, minutes of the Supervisory Board meetings and other information. The information officer decides on requests for access to information in consultation with the organisational units in whose jurisdiction the information is requested.

The RAIA also stipulates the obligation to publish certain information proactively. HBOR publishes information such as various regulations, general documents, annual business plans, personnel plans, annual reports on the implementation of RAIA, dates and agendas of meetings of decision-making bodies, decisions taken in the meetings of the said bodies and others, always protecting the data that are banking or business secrets or other protected information. In the period from December 2021 to March 2022, an indirect inspection was carried out at HBOR, which was initiated by the bank itself. Opinions and instructions were obtained on the proper application of the RAIA with regard to the proactive publication of information and the transparency of operations. HBOR's transparency was further increased at that time, as the bank began to publish data that it had not previously published, such as the financial plan and other data. Following the preparations carried out in 2023, HBOR published the data on beneficiaries and amounts of state aid as well as recipients and amounts of de minimis aid granted by HBOR in 2023 on its web site in 2024. The aforementioned data on aid are available via the links [Zakoni, pravilnici, akti i ostali dokumenti | HBOR](#).

All HBOR organisational units are aware that the Right of Access to Information Act applies to HBOR, and each of them publishes information that falls within its remit on the HBOR website. In addition, HBOR submits certain information prescribed by this Act to the Central Catalogue of Official Documents of the Republic of Croatia, thus ensuring its permanent availability, while certain information is forwarded to the Open Data Portal. The information officer and other employees involved in the application of the right to access to information are continuously trained in this area.

Anti-Money Laundering and Counter-Terrorism Financing

HBOR continuously implements measures, actions and procedures with the aim of preventing money laundering and terrorism financing in accordance with the internal Anti-Money Laundering and Counter-Terrorism Financing Ordinance and the Methodology for the implementation of these measures. The measures are based on the current Anti-Money Laundering and Counter-Terrorism Financing Act. In 2023, HBOR continued to strengthen this key internal system. The Anti-Money Laundering and Counter-Terrorism Financing Function (AML/CTF) developed and implemented an education programme, as part of which regular annual training sessions for HBOR employees were organised. The trainings were focused on the practical application of measures, actions and procedures relevant to AML/CTF. During 2023, 160 employees participated in the training in three groups: newly employed, employees of five relevant divisions and managers.

In addition, during the year, the employees of the AML/CTF Function participated in numerous professional meetings and trainings, which improved their own knowledge, and acquired the competencies necessary for further education of colleagues within the organisation. The AML/CTF Function also provided continuous advisory and practical support to HBOR employees in various business situations, thereby ensuring constant compliance with legal obligations and strengthening internal capacities to combat money laundering and terrorist financing.

Digital Security and Data Protection

HBOR takes data management and cybersecurity issues seriously. The information security system is provided through the ISO 27001 certificate for information security management, and the business continuity management system is certified according to the ISO 22301 standard. In addition, the compliance of the security management of digital systems is ensured by the application of security standards of NIST (The National Institute of Standards and Technology).

The area of data security and protection is regulated in HBOR by the Information System Security Policy as well as by a number of ordinances aimed at using the HBOR information system and protecting data properly. On an annual basis, the organisation assesses the risks of the information system, based on which recommendations are made for improving information security controls and business continuity management, all in accordance with the ISO 27001 and ISO 22301 standards. HBOR regularly holds annual trainings for its employees in the area of information security and personal data protection that all HBOR employees go through. Following the management standards in this field, in 2023, no complaints were registered regarding violations of users' privacy and losses of users' personal data.

In 2023, HBOR continued with updating and supplementing the Register of Personal Data Processing, adjusting business processes to GDPR, reducing redundancy in data processing by harmonising business applications, and conducting of several internal trainings for employees. Also, HBOR conducted several assessments of the impact on data protection for processing that includes higher risks, which led to changes in the methods of personal data processing, as well as to the additional reduction of risks related to the processing of personal data of employees and clients of HBOR.

The Data Protection Office (DPO) also operates in HBOR as an independent function that acts in the interest of protecting the rights of data subjects and their personal data. Some of the tasks of the DPO function is to be the primary point of contact (both for data subjects who want to exercise their rights regarding the processing of personal data and for external supervisory body), to inform and advise the Management Board, and to conduct employee training. In 2023, the DPO function conducted training and testing of employees, which was mandatory for all employees, and additional training for newly hired employees. In 2023, two reports of personal data violation were received, which were processed in accordance with the regulations on personal data protection and the internal ordinance. In both procedures, a report was prepared for the Management Board. With respect to one violation, the Personal Data Protection Agency (AZOP) was also notified, which took note of the above, but had no further requests or inquiries.

Procurement Practice

As an entity that is obliged to apply the Public Procurement Act, HBOR organises the procurement of necessary goods, services and works in compliance with the provisions of the act and the ordinances regulating the conditions for different types of procurement, including simple and public procurement. More detailed information about the procedures of public and simple procurement is available on HBOR's web pages. Financial monitoring of the implementation of the Procurement Plan is carried out by the Procurement Department (Legal Affairs and Procurement Division), and the results are published in the annual report that is prepared no later than 15 June of the current year. The report contains data on the total realisation of the Procurement Plan, realisation by types of procedures and realisation by organisational units.

In HBOR's procurement structure, domestic suppliers prevail with 92% of total procurement, while foreign suppliers account for 8% of procurement, generally in procedures for the engagement of legal experts for a certain field, such as the English law and the German law. HBOR procures mainly services that include financial, consulting and legal services, the services for maintaining applications, licences and subscriptions. Also, HBOR procures printing and graphic services, services of cleaning and securing business premises, procurement of fuel, fixed and mobile telephony services, postal services and electricity services. Of the total number of purchase orders, 3.6% relate to foreign suppliers, which further confirms HBOR's commitment to supporting the domestic economy with the occasional engagement of experts from the international environment for specialised needs.

The Public Procurement Act also prescribes additional criteria that a supplier must fulfil, including grounds for the exclusion of an economic entity. When submitting its tender, an interested economic entity must fill in the ESPD form, which is related to mandatory reasons for exclusion, such as non-fulfilment of the obligation to pay due tax obligations and obligations for pension and health insurance. The public contracting authority can exclude an economic entity from the public procurement procedure if it can adequately prove a violation of obligations in the field of environmental, social and labour law.

HBOR also applies the Conflict of Interest Assessment Methodology in procurement procedures with the intention of excluding the possibility of conflict of interests of its representatives. The list of economic entities with which HBOR representatives or connected clients are in conflict of interest is available on the HBOR website and in the procurement documentation. Besides, in its procurement procedures, HBOR promotes environmental and social responsibility through certificates such as Blue Angel²¹, EU Ecolabel, and the PEFC or FSC for paper products.

Procurement procedures in which HBOR applies the green public procurement criteria:

- Procedure for public procurement of cleaning with harmless cleaning products,
- Procedure for public procurement of company cars, where we require EURO pollution standards to be abide by,
- Procedure for public procurement of office consumables, where recycled paper is requested (Blue Angel certificate),
- Procedure for public procurement of electricity, in which the percentage of energy obtained from renewable sources is the criterion for the most economically advantageous offer.

²¹ Independent and credible eco-label that is a confirmation of strict standards for environmentally friendly products and services.

8 ORGANISATION PROFILE



HBOR promotes systematic, sustainable and balanced economic and social development in accordance with the general strategic objectives of the Republic of Croatia. The headquarters of HBOR is in Zagreb, where the bank operates at three locations. HBOR also has six regional offices:

- Regional office for Northern Dalmatia
- Regional office for Central and South Dalmatia
- Regional office for Istria
- Regional office for Lika
- Regional office for Primorje and Gorski Kotar
- Regional office for Northwestern Croatia
- Regional office for Slavonija and Baranja.

The founder and 100% owner of HBOR is the Republic of Croatia. The state guarantees for HBOR's obligations unconditionally, irrevocably and upon first call, and without issuing a special guarantee document. The responsibility of the Republic of Croatia as guarantor for HBOR's obligations is joint and several and unlimited.

Values and Operating Principles

For business entities to successfully accomplish their mission, it is of crucial importance that a set of organisational values is established. These values are the basis for the organisation's vision and culture. Organisational values determine the notion of acceptable actions both within the organisation in terms of activities and behaviours of organisation's members and of products and services provided to clients as well as outside the organisation in terms of values of clients and stakeholders with whom the organisation cooperates. Organisational values are a mirror of what we encourage and value with respect to our current and future employees and to our own business. Considering the role and goals of HBOR as the national promotional and export bank acting in the public interest of the systematic, sustainable and balance economic and social development of the Republic of Croatia, the organisational culture, which will enable the fulfilment of HBOR's vision and mission in the strategic period 2020 – 2024, is based on the following values:

Expertise

Under the activities established by the HBOR Act, HBOR shall operate as a competence centre for financial structuring and implementation of projects for the public and private sectors by providing users an easy access to financial products, to information regarding available funding sources and to other information relevant for the attainment of the goals set forth in the HBOR Act. Our expertise is based on the knowledge and skills of our employees, to which we pay special attention. We invest considerable own resources in the development of our employees and we effectively use other available sources, such as resources of the EU funds and international financial institutions. We will continue to encourage our own expertise and continuous pursuit of excellence through significant investment in the education and training of our employees who are the basis of our success.

Proactivity

A proactive approach is one of the key values that will be extremely important for HBOR. The role of promotional banks and institutions is to recognise the needs of the domestic economic system in a timely manner, which can be achieved only by a proactive approach to the gathering of information through market research, communication with key stakeholders, development and application of new products and presentation of HBOR's impacts on the economy in general. Proactivity as an approach and a characteristic of an organisation and employees is permeated through all our activities and organisational values, consequently also through HBOR's strategic goals.

Innovation

Innovation and support for innovative projects are among the key preconditions for creating higher value added, increasing competitiveness, ensuring long-term sustainability and stable development of the domestic economy. Given the lower intensity of investment in research, development and innovations in the domestic economy, HBOR pays special attention to the systematic support for innovation so that they become an indispensable part of the country's business culture. HBOR will promote innovation also by developing innovative financial products that will foster cooperation among various stakeholders in the Croatian business, public and scientific environment and support the development of the domestic financial market. By integrating innovation into own values and organisational culture, HBOR further emphasises continuous improvement, proactiveness and progress as key leverage points for own business and success.

Sustainability

Economically, environmentally and socially sustainable development is one of the main values of national, regional and global development. Regardless of whether it is about sustainable financing and orientation towards the long-term well-being of the entire community or about HBOR's internal/institutional sustainability, HBOR will strive to provide services, products and activities that contribute to the sustainable development of society, but are at the same time financially justified in terms of HBOR's sustainable operations. HBOR will focus on the development of sustainable finance in the Croatian market as one of the preconditions for the long-term well-being of the entire community, both at the national and international levels. HBOR will carry out the above activities by considering the financial sustainability of the bank's operations.

Flexibility and Efficiency

In order to achieve its goals with respect to the growth of the entire Croatian economy, HBOR will put greater efforts into the harmonisation of its organisational structure and processes with good banking practices and practices of other promotional banks with an objective of increasing efficiency of its operations and ensuring more flexible access to its clients. A more efficient use of technology is an important component of the contribution to the successful attainment of goals.

Transparency

Since HBOR as a financial institution owned by the Republic of Croatia supports business and social environments, one of HBOR's core values is the transparency of activities, towards both internal and external environments. This includes continuous reporting on activities and clear and informative communicating with all internal and external stakeholders. Furthermore, HBOR will continue to measure and publish its annual results in terms of economic effects achieved in the previous year. HBOR will strive to increase positive impacts and reduce adverse impacts on the environment as well as to appropriately manage human and environment risks arising from HBOR's activities. Business transparency will continue to be ensured through regular audits of operations and through the development of system of reporting on the impacts of HBOR's activities on the overall development of the Republic of Croatia and the society as a whole.

Overview of the most significant financial information for HBOR*

During the reporting period, HBOR approved over 2,800 loans in the total amount of more than EUR 1.1 billion, i.e., an increase in volume by 31%, and in terms of number by 22% compared to 2022. The structure of lending activity with a ratio of investment loans to working capital loans of 65:35 was in favour of investment loans.

	IN EUR MILLION 2022	IN EUR MILLION 2023
Total assets	3,853.25	4,018.68
Gross loans	3,703.40	4,077.56
Total equity	1,421.54	1,457.52
Total expense	(65.82)	(72.48)
Total income	90.53	102.32
Profit	24.71	29.84
Interest income	83.33	94.63
Interest expense	(21.02)	(28.27)
Net interest income	62.31	66.36

* The data were published in the audited Annual Financial Statements of HBOR for 2023. Pursuant to Article 9 of the Act on HBOR, HBOR is not liable to pay profit tax.

Memberships

HBOR is a member of, or participates actively in, the work and management of numerous business associations, clubs and chambers. It uses its memberships and available communication mechanisms for business development, improvement of its products and services, exchange of information, and implementation of best practices in its business processes.

INTERNATIONAL ASSOCIATIONS

Banking Association for Central and Eastern Europe (BACEE)

Berne Union – Prague Club

European Association of Public Banks (EAPB)

EIF-NPI Equity Platform

European Venture Fund Investors Network (EVFIN)

European Long-Term Investors Association (ELTI)

DOMESTIC ASSOCIATIONS

American Chamber of Commerce in Croatia (AmCham)

Society for Sports and Recreation of Bank and FINA Employees in the Republic of Croatia

Croatian Business Council for Sustainable Development (HR PSOR)

Croatian SWIFT Group

Croatian Banking Association (HUB)

Croatian Public Relations Association (HUOJ)

European Investment Fund (EIF FISG)	Croatian Association of Accountants and Financial Experts
The International Chamber of Commerce – the National Committee in Croatia (ICC Croatia)	Croatian Institute of Internal Auditors
Invest Europe	Croatian Green Building Council
Information Systems Audit and Control Association (ISACA)	Croatian Standards Institute
Inter-Bank Association of the People’s Republic of China and Central and Eastern European Countries	Croatian Archival Society
International Development Finance Club (IDFC)	Croatian-Austrian Chamber of Commerce
Network of European Financial Institutions for SMEs (NEFI)	Croatian Assessors Association
UN Environment Programme Finance Initiative (UNEP FI)	Club of Exporters – Lider
UN Global Compact	Nordic Chamber of Commerce in Croatia
	German-Croatian Chamber of Commerce and Industry (AHK)
	Partner Council of Primorsko-Goranska County
	Partner Council for Preparation and Implementation of the City of Split Development Strategy
	Business Council for Economic Cooperation with Australia
	Central State Office for Croats Abroad
	ACI FMA Croatia (Financial Markets Association Croatia)
	Association of Croatian Exporters (HIZ)
	Association Croatian Accountant
	Sports Society HBORSPORT

Description of Activities of Some International Associations

European Association of Public Banks (EAPB)

The European Association of Public Banks (EAPB) gathers European public financial institutions with regard to relevant issues: EU regulation of financial institutions, EU funds, state aid, accounting and finance, capital markets, sustainable finance and sectoral issues.

Berne Union

The Berne Union is a worldwide association of export credit insurers, the members of which are export credit agencies, private credit and political risks insurers, as well as multilateral institutions that provide insurance products, guarantees and some types 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.

European Long-Term Investors Association (ELTI)

European Long-Term Investors Association (ELTI) represents the network of national promotional banks and institutions from the majority of EU member countries. The association informs its members about discussions, initiatives, regulations and measures implemented by the EU institutions, initiates research studies, holds conferences and represents the common interests of its members at the EU institutions.

EIF-NPI Equity Platform

EIF-NPI Equity Platform is a collaborative initiative launched by the EIF that gathers national promotional institutions and promotes knowledge sharing and best practices between the EIF and national promotional institutions across EU members countries. Its goal is to enhance access to funding for micro, small and medium-sized enterprises, support the development of equity markets and provide funds for growth and development of the European economy.

United Nations Environment Programme Finance Initiative

United Nations Environment Programme Finance Initiative (UNEP FI) is a global partnership of the United Nations Environment Programme (UNEP) and the financial sector, which through its wide network of its members and the activities of the sectoral, thematic or regional working groups encourage understanding and spreading of awareness about the most important environmental and social issues in the field of sustainable finance.

UN Global Compact

UN Global Compact (UNGC) is a global initiative of the United Nations dedicated to aligning the strategies and actions of the private sector with the universal principles in the area of human rights, labour, environment and fight against corruption with the aim of contributing to broader social goals.

Invest Europe

INVEST EUROPE is the world's largest association of investors in equity and/or venture capital funds and fund managers with an objective of contributing to the development of policies that have an impact on equity investment in Europe.

International Development Finance Club (IDFC)

International Development Finance Club (IDFC) gathers national and regional development banks to work together on the implementation of Sustainable Development Goals and the Paris Climate Agreement, and acts as a platform to promote and leverage sustainable development investment worldwide.

Network of European Financial Institutions for SMEs

Network of European Financial Institutions for SMEs (NEFI) gathers 21 financial institutions from 19 member countries. NEFI promotes the issues of small and medium entrepreneurship with the EU institutions and other SME-related European associations and provides expertise on specific EU-wide promotional and financing schemes.

Donations

Further to the recommendations of the State Audit Office (Report on the Compliance Audit of HBOR for 2021 by the State Audit Office dated 4 July 2023) and the Office for Cooperation with NGOs of the Government of the Republic of Croatia, and as part of the planned outsourcing of public tender procedure for donations, on 5 October 2023, a new Ordinance on Criteria and Procedures for the Award of Donations and Sponsorships (published at www.hbor.hr) was adopted. By this Ordinance, in addition to the abovementioned procedure, the main areas of financing through the competition are defined: humanitarian work, human rights protection, promotion of gender equality, environment and climate protection, sustainable development, education and science, culture, heritage and art.

HBOR has also abolished individual awards of small donations of up to EUR 664. After the analysis of procedures and as a result of long-year experience, it was established that such awards had little effect on recipients in relation to the procedures that needed to be carried out for their award. The goal of such new practice, together with the outsourcing of procedure of donations award, is a contribution not only to the transparency of procedure, but also to the optimisation of use of internal resources of HBOR.

In 2023, HBOR approved four small donations and one extraordinary large donation for help to the population affected by the earthquake in Turkey and Syria, all under the category Humanitarian projects/programmes, human rights protection and promotion of gender equality.

In addition, HBOR awarded 32 sponsorships (selected from all individually received applications for sponsorships), of which six in the category Humanitarian projects/programmes, human rights protection and promotion of gender equality, two in the category Cultural events, and 24 in the category Encouraging the competitiveness of the Croatian economy.

8.1. ESRS Index

ESRS 2	GENERAL DISCLOSURE	PAGE
BP-1	General basis for preparation of sustainability statements	7, 8
GOV-1	The role of the administrative, management and supervisory bodies	23, 24, 25
GOV-3	Integration of sustainability-related performance in incentive schemes	28, 29
GOV-5	Risk management and internal controls over sustainability reporting	22, 23
SBM-1	Market position, strategy, business model(s) and value chain	8, 10, 11
SBM-2	Interests and views of stakeholders	22
SBM-3	Material impacts, risks and opportunities and their interaction with strategy and business model(s)	15, 16, 17, 18, 19, 20
IRO-1	Description of the processes to identify and assess material impacts, risks and opportunities	21, 22
IRO-2	Disclosure Requirements in ESRS covered by the undertaking's sustainability statements	71

8.2. GRI Table

TOPIC-SPECIFIC DISCLOSURES		PAGE
GRI 201: Economic Performance 2016	201-1 Direct economic value generated and distributed	66
	201-2 Financial implications and other risks and opportunities due to climate change	33, 34, 35
	201-3 Defined benefit plan obligations and other retirement plans	50, 51
GRI 202: Market Presence 2016	202-1 Ratios of standard entry level wage by gender compared to local minimum wage	50, 53
GRI 203: Indirect Economic Impacts 2016	203-1 Infrastructure investments and services supported	38, 39, 40, 41
	203-2 Significant indirect economic impacts	38, 39, 40, 41
GRI 204: Procurement Practices 2016	204-1 Proportion of spending on local suppliers	61, 62
GRI 205: Anti-corruption 2016	205-1 Operations assessed for risks related to corruption	59
	205-2 Communication and training about anti-corruption policies and procedures	58
	205-3 Confirmed incidents of corruption and actions taken	58
GRI 206: Anti-Competitive Behaviour 2016	206-1 Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices	59
GRI 302: Energy 2016	302-1 Energy consumption within the organisation	43
	302-4 Reduction of energy consumption	43

GRI Table - continued

TOPIC-SPECIFIC DISCLOSURES		PAGE
GRI 303: Water and Effluents 2018	303-1 Interactions with water as a shared resource	45
	303-2 Management of water discharge-related impacts	45
	303-3 Water withdrawal	45
	303-4 Water discharge	45
	303-5 Water consumption	45
GRI 305: Emission 2016	305-1 Direct (Scope 1) GHG emissions	42, 43, 44
	305-2 Energy indirect (Scope 2) GHG emissions	42, 43, 44
GRI 306: Waste 2020	306-1 Waste generation and significant waste-related impacts	45
	306-2 Management of significant waste-related impacts	45
	306-3 Waste generated	45
GRI 401: Employment 2016	401-1 New employee hires and employee turnover	49
	401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	51, 52, 53
	401-3 Parental leave	50

GRI Table - continued

TOPIC-SPECIFIC DISCLOSURES		PAGE
GRI 403: Occupational Health and Safety 2016	403-1 Occupational health and safety management system	50, 51
	403-2 Hazard identification, risk assessment, and incident investigation	51
	403-3 Occupational health services	50, 51
	403-4 Worker participation, consultation, and communication on occupational health and safety	50, 51
	403-5 Worker training on occupational health and safety	50, 51
	403-6 Promotion of worker health	50, 51
	403-8 Workers covered by an occupational health and safety management system	50, 51
	403-9 Work-related injuries	51
	GRI 404: Training and Education 2016	404-1 Average hours of training per year per employee
404-2 Programmes for upgrading employee skills and transition assistance programmes		52
404-3 Percentage of employees receiving regular performance and career development reviews		52

GRI Table - continued

TOPIC-SPECIFIC DISCLOSURES		PAGE
GRI 405: Diversity and Equal Opportunity 2016	405-1 Diversity of governance bodies and employees	49
	405-2 Ratio of basic salary and remuneration of women to men	53
GRI 406: Non-discrimination 2016	406-1 Incidents of discrimination and corrective actions taken	53
GRI 413: Local Communities 2016	413-1 Operations with local community engagement, impact assessments and development programmes	40
GRI 418: Customer Privacy 2018	418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data	60, 61

8.3. Glossary²²

DEFINED TERM	DEFINITION
Double materiality	Double materiality has two dimensions: impact materiality and financial materiality. A sustainability matter meets the criterion of double materiality if it is material from the impact perspective or the financial perspective or both.
Impact materiality	A sustainability matter is material from an impact perspective when it pertains to the undertaking's material actual or potential, positive or negative impacts on people or the environment over the short-, medium- and long-term. A material sustainability matter from an impact perspective includes impacts connected with the undertaking's own operations and upstream and downstream value chain, including through its products and services, as well as through its business relationships.
Value chain	<p>The full range of activities, resources and relationships related to the undertaking's business model and the external environment in which it operates. A value chain encompasses the activities, resources and relationships the undertaking uses and relies on to create its products or services from conception to delivery, consumption and end-of-life. Relevant activities, resources and relationships include: a) those in the undertaking's own operations, such as human resources; b) those along its supply, marketing and distribution channels, such as materials and services sourcing and product and service sale and delivery; and c) the financing, geographical, geopolitical and regulatory environment in which the undertaking operates.</p> <p>Value chain includes actors upstream and downstream from the undertaking. Actors upstream from the undertaking (e.g., suppliers) provide products or services that are used in the development of the undertaking's products or services. Entities downstream from the undertaking (e.g., distributors, customers) receive products or services from the undertaking. ESRS use the term „value chain” in the singular, although it is recognised that undertakings may have multiple value chains.</p>
Sustainability-related opportunities	Uncertain environmental, social or governance events or conditions that, if they occur, could cause a potential material positive effect on the undertaking's business model, or strategy on its capability to achieve its goals and targets and to create value, and therefore may influence its decisions and those of its business relationship partners with regard to sustainability matters. Like any other opportunity, sustainability-related opportunities are measured as a combination of an impact's magnitude and the probability of occurrence.
Sustainability-related risks	Uncertain environmental, social or governance events or conditions that, if they occur, could cause a potential material negative effect on the undertaking's business model or strategy and on its capability to achieve its goals and targets and to create value, and therefore may influence its decisions and those of its business relationships with regard to sustainability matters. Like any other risks, sustainability-related risks are the combination of an impact's magnitude and the probability of occurrence.

22 https://eur-lex.europa.eu/legal-content/HR/TXT/PDF/?uri=OJ:L_202302772

Glossary - continued

DEFINED TERM	DEFINITION
Sustainability-related impacts	The effect the undertaking has or could have on the environment and people, including effects on human rights, as a result of the undertaking's activities or business relationships. The impacts can be actual or potential, negative or positive, short-term, medium or long-term, intended or unintended, and reversible or irreversible. Impacts indicate the undertaking's contribution, negative or positive, to sustainable development.
Climate resilience	The capacity of an undertaking to adjust to climate changes, and to developments or uncertainties related to climate change. Climate resilience involves the capacity to manage climate-related Scope 1 and benefit from climate-related opportunities, including the ability to respond and adapt to transition risks and physical risks. An undertaking's climate resilience includes both its strategic resilience and its operational resilience to climate-related changes, developments and uncertainties associated with climate change.
Own workforce/own workers	Employees who are in an employment relationship with the undertaking („employees”) and non-employees who are either individual contractors supplying labour to the undertaking („self-employed people”) or people provided by undertakings primarily engaged in employment activities (NACE Code N78).
Carbon dioxide (CO₂) equivalent (eq)	The universal unit of measurement to indicate the global warming potential (GWP) of each greenhouse gas, expressed in terms of the GWP of one unit of carbon dioxide. It is used to evaluate releasing (or avoiding releasing) different greenhouse gases on a common basis.
Climate change adaptation	The process of adjustment to actual and expected climate change and its impacts.
Climate change mitigation	The process of reducing GHG emissions and holding the increase in the global average temperature to 1.5°C above pre-industrial levels, in line with the Paris Agreement.
Climate-related opportunity	Potential positive effects related to climate change for an undertaking. Efforts to mitigate and adapt to climate change can produce opportunities for undertakings. Climate-related opportunities will vary depending on the region, market, and industry where an undertaking operates.

Glossary - continued

DEFINED TERM	DEFINITION
Climate-related physical risk	Risks resulting from climate change that can be event-driven (acute) or from long-term shifts (chronic) in climate patterns. Acute physical risks arise from particular hazards, especially weather-related such as storms, floods, fires or heatwaves. Chronic physical risks arise from longer-term changes in the climate, such as temperature changes, and their effects on rising sea levels, reduced water availability, biodiversity loss and changes in land and soil productivity.
Climate-related transition risk	Risks that arise from the transition to a low-carbon and climate-resilient economy. They typically include policy risks, legal risks, technology risks, market risks and reputational risks.
Decarbonisation levers	Aggregated types of mitigation actions such as energy efficiency, electrification, fuel switching, use of renewable energy, products change, and supply-chain decarbonisation that fit with undertakings' specific actions.
GHG emission reduction	Decrease in the undertaking's Scope 1, 2, 3 or total GHG emissions at the end of the reporting period, relative to emissions in the base year. Emission reductions may result from, among others, energy efficiency, electrification, suppliers' decarbonisation, electricity mix decarbonisation, sustainable products development or changes in reporting boundaries or activities (e.g., outsourcing, reduced capacities), provided they are achieved within the undertaking's own operations and upstream and downstream value chain. Removals and avoided emissions are not counted as emission reductions.
Global warming potential (GWP)	A factor describing the radiative forcing impact (degree of harm to the atmosphere) of one unit of a given GHG relative to one unit of CO ₂ .
Greenhouse Gases (GHG)	The gases listed in Part 2 of Annex V of Regulation (EU) 2018/1999 of the European Parliament and of the Council. These include Carbon dioxide (CO ₂), Methane (CH ₄), Nitrous dioxide (N ₂ O), Sulphur hexafluoride (SF ₆), Nitrogen trifluoride (NF ₃), Hydrofluorocarbons (HFC), Perfluorocarbons (PFC).
Indirect GHG emissions	GHG emissions that are a consequence of the activities of an entity but occur at sources owned or controlled by another entity. Indirect emissions are Scope 2 GHG emissions and scope 3 GHG emissions combined.
Scope 1 GHG emissions	Direct GHG emissions from sources that are owned or controlled by the undertaking.
Scope 2 GHG emissions	Indirect emissions from the generation of purchased or acquired electricity, steam, heat or cooling consumed by the undertaking.

Glossary - continued

DEFINED TERM	DEFINITION
Scope 3 GHG emissions	All indirect GHG emissions (not included in Scope 2 GHG emissions) that occur in the value chain of the reporting undertaking, including both upstream and downstream emissions. Scope 3 GHG emissions can be broken down into Scope 3 categories. One of the 15 types of Scope 3 GHG emissions identified by the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (adapted from GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard Glossary (Version 2011). Undertakings that choose to account for their Scope 3 emissions based on the indirect GHG emissions categories of ISO 14064-1:2018 may also refer to the category defined in clause 5.2.4. (including indirect GHG emissions from imported energy) of ISO 14064-1:2018.
Affected Communities	People or group(s) living or working in the same area that have been or may be affected by a reporting undertaking's operations or through its upstream or downstream value chain. Affected communities can range from those living adjacent to the undertaking's operations (local communities) to those living at a distance. Affected communities include actually and potentially affected indigenous peoples.
Business model	The undertaking's system of transforming inputs through its activities into outputs and outcomes that aims to fulfil the undertaking's strategic purposes and create value over the short-, medium- and long-term. ESRS use the term "business model" in the singular, although it is recognised that undertakings may have more than one business model.
Dependencies	The situation of an undertaking being dependent on natural, human and/or social resources for its business processes.
Physical risks	All global economic enterprise depends on the functioning of earth systems, such as a stable climate and on ecosystem services, such as the provision of biomass (raw materials). Nature-related physical risks are a direct result of an organisation's dependence on nature. Physical risks arise when natural systems are compromised, due to the impact of climatic events (e.g., extremes of weather such as a drought), geologic events (e.g., seismic events such as an earthquake) or changes in ecosystem equilibria, such as soil quality or marine ecology, which affect the ecosystem services organisations depend on. These may be acute, chronic, or both. Nature-related physical risks arise as a result of changes in the biotic (living) and abiotic (non-living) conditions that support healthy, functioning ecosystems. Physical risks are usually location-specific. Nature-related physical risks are often associated with climate-related physical risks.

Glossary - continued

DEFINED TERM	DEFINITION
Stakeholders	Those who can affect or be affected by the undertaking. There are two main groups of stakeholders: i. Affected stakeholders: individuals or groups whose interests are affected or could be affected – positively or negatively – by the undertaking’s activities and its direct and indirect business relationships across its value chain and ii. Users of sustainability statements: primary users of general purpose financial reporting (existing and potential investors, lenders and other creditors including asset managers, credit institutions, insurance undertakings), as well as other users, including the undertaking’s business partners, trade unions and social partners, civil society and non-governmental organisations, governments, analysts and academics. Some, but not all, stakeholders may belong to the two groups.
Transition risks	Risks that result from a misalignment between an organisation’s or investor’s strategy and management and the changing regulatory, policy or societal landscape in which it operates. Developments aimed at halting or reversing damage to the climate or to nature, such as government measures, technological breakthroughs, market changes, litigation and changing consumer preferences can all create or change transition risks.

Sustainable Transition Concept²³ and Visual Code for a New Future

HBOR is a kind of basic "cube", the cornerstone of a successful development bank that promotes and actively helps the sustainable and innovative development of Croatia. For the purposes of this report, HBOR-cube has "grown" and lengthened in the new visual code by creating new forms: graphs, figures, forecasts, increases or decreases, redirections... No matter how we look at these forms, it is important to understand them as interpretation of transition elements. This new visual code supports the materiality of information, putting at the forefront its significance and relevance.



²³ Markard et al. (2012, page 956) transition to sustainability as "a long-term, multidimensional, and fundamental transformation process through which the established socio-technical systems shift to more sustainable modes of production and consumption."

Impressum

Published by: Hrvatska banka za obnovu i razvitak,
Zagreb, Strossmayerov trg 9

Reporting consultants: Oikon d.o.o.

Graphic design: Abilis komunikacije d.o.o.

All questions and suggestions related to this report can be sent to the e-mail address:
dop@hbor.hr.