



HRVATSKA BANKA ZA OBNOVU I RAZVITAK

**2025 – 2029 BUSINESS STRATEGY
OF THE CROATIAN BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

January 2025

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Pursuant to Article 18 of the Act on the Croatian Bank for Reconstruction and Development and Article 20 of the By-Laws of the Croatian Bank for Reconstruction and Development, on the 12th meeting held on 18 December 2024, the Supervisory Board adopted the

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I. HBOR’s STRATEGIC FRAMEWORK

The Croatian Bank for Reconstruction and Development (hereinafter: HBOR) as the development and export bank and export credit agency provides financial services with the aim of promoting systematic, sustainable and balanced economic and social development of the Republic of Croatia (hereinafter: RH) based on the Act on HBOR (Official Gazette Nos.138/06, 25/13) and the Export Credit Insurance Regulation (Official Gazette No. 53/2020).

In 2010, HBOR established a subsidiary company Hrvatsko kreditno osiguranje d.d. (hereinafter: HKO d.d.). HKO is a company for the insurance of short-term receivables related to the sale of goods and services. HKO is the 100% owner of Poslovni info servis d.o.o. (hereinafter: PIS), a company that prepares analyses on creditworthiness of companies to determine the possibility of insuring receivables. The aforementioned companies form the HBOR Group. HBOR Group provides comprehensive financial services to businessmen in the Republic of Croatia in the field of financing and insuring receivables/loans.

HBOR’s operations are based on activities that are in line with the strategic goals of the Republic of Croatia, and are carried out by providing financial products and services such as loans, letters of credit, guarantees, warranties, export credit insurance products and investments in alternative investment funds, equity interests and shares.

HBOR also carries out other financial operations of interest for the Republic of Croatia entrusted to it by the relevant ministries and the Government of the Republic of Croatia, and plays an important role in the use of the European Union (hereinafter: EU) funds through EU financial instruments and other appropriate mechanisms and models.

HBOR carries out its activities directly and indirectly through financial intermediaries.

In addition to its own and available national resources, HBOR uses EU and other international sources of funds and cooperates with the relevant ministries, local and regional government units, domestic and international financial institutions and associations as well as other stakeholders in order to ensure efficient and transparent support to the development of the Croatian economy.

As a special financial institution with many years of experience and expertise, HBOR strives to identify market needs and determine market gaps in order to create programmes and initiatives and other forms of professional support in order to fulfil its mission of providing proactive support to the development of the Republic of Croatia. HBOR continuously adapts to changing market conditions by introducing new products and innovative approaches to its operations in partnership with businesses and other stakeholders in the economy and society.

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During the past strategic period 2020 – 2024¹, HBOR's activities were focused on (i) development of private equity and quasi-equity markets, (ii) economically and socially balanced regional, rural and urban development, (iii) internationalisation and globalisation of the Croatian economy, (iv) increase in the competitiveness with special emphasis on innovation, digital transformation and Industry 4.0 as well as on promoting the recovery of the economy from the consequences of the Covid-19 pandemic and the Russian aggression against Ukraine, as well as (v) promoting a climate and energy neutral economy through investments in energy efficiency, renewable energy sources and environmental protection.

Although the previous strategic period unexpectedly passed under the strong influence of the Covid-19 pandemic, earthquake, and war in Ukraine, HBOR achieved significant results within the defined strategic goals.

HBOR participated in a number of initiatives for the development of private equity market in order to ensure appropriate sources of financing for the growth of entrepreneurial activities. Five new alternative investment funds (hereinafter: alternative investment funds or AIF) have been launched, in which HBOR committed to invest almost EUR 70 million. Within these five funds, through the first regional platform of its kind in the European Union, the Technology Transfer Fund has also been launched in cooperation with the European Investment Fund (EIF) and SID bank. The Fund is intended to finance the commercialisation of innovative technological and scientific solutions from Croatian and Slovenian universities, research institutes and value centres.

HBOR supported the regional and social development of the Republic of Croatia by financing public and private sector investments, issuing guarantees for loans under the National Recovery and Resilience Plan (hereinafter: NRRP), and providing financial resources to vulnerable social groups such as women, young people and start-up entrepreneurs, entrepreneurs in less developed areas, in agriculture and rural development. Over EUR 1.8 billion in loans were approved for regional and social development, and less developed local and regional self-government units were provided with technical assistance funds for the preparation of financially sustainable projects. Taking into account that Croatia was hit by strong earthquakes in 2020 (Zagreb and Petrinja), HBOR provided favourable loan funds to the regions hit by the earthquakes.

HBOR cooperated actively with counties, cities and municipalities and, in addition to other HBOR subsidies, entrepreneurs were given the opportunity to use interest rate subsidies on HBOR loans from the funds of counties, cities or municipalities.

In the past strategic period, export-oriented entrepreneurs, as the most competitive part of the Croatian economy, were supported with more than EUR 3.3 billion in placements through the programmes of financing exporters and export credit insurance programmes against non-marketable² and temporarily non-marketable risks³, i.e. those risks for which there was no sufficient supply in the private market.

Although the initial strategic goal of increasing the competitiveness was to focus specifically on innovation, digital transformation and Industry 4.0, HBOR quickly adapted its operations when the Covid-19 pandemic occurred, which led to a change in its business strategy. In a very short time, HBOR created new products

¹ Data as at 30 September 2024

² Non-marketable risks are commercial and political risks of public and private debtors from all countries if the duration of the risk is two years or more, and risks of public and private debtors based outside the EU member countries or the OECD if the duration of risk is less than two years. Other risks are considered marketable risks.

³ Temporarily non-marketable risks are those marketable risks for which it is not possible to obtain insurance in the private market and for which the European Commission has decided to consider them temporarily non-marketable.

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as part of measures to help the Croatian economy, enabling quick access to loans and export credit insurance policies for exporters' liquidity at significantly lower financial costs, which were essential for the survival of many companies during that period. HBOR placed more than EUR 1.8 billion to entrepreneurs through its products to mitigate the consequences of the crisis caused by the Covid-19 pandemic and the war in Ukraine.

Having in mind that for the long-term resilience of the economy to crises it is necessary to promote investments that stimulate competitiveness, especially in digitalisation, research and development as well as the green transition, HBOR has created and implemented a number of measures within the framework of the NRRP to further stimulate these segments through more favourable financing conditions. Despite the crisis in the previous period, for the bridging of which the focus was put on the working capital, HBOR approved almost EUR 900 million in investment loans for digital and green transition.

HBOR's results would not have been so successful without the excellent cooperation with stakeholders, especially commercial banks and leasing companies, in cooperation with which HBOR has placed over 50% of its funds to entrepreneurs for their investments. International financial institutions and the relevant ministries have been indispensable partners in the entire process, either by securing the necessary sources of funds for project financing and interest rate subsidies, or by providing advisory services for improving HBOR's business processes and creating adequate products for crisis times.

The key foundation of HBOR's successful operations are its employees, who in the past strategic period demonstrated high expertise and focus on clients, adaptability to challenges and inventiveness in creating adequate solutions for the challenges faced by entrepreneurs. HBOR's internal reorganisation has been carried out, the IT system and risk management have been improved, and the successful completion of the demanding Pillar Assessment procedure of HBOR by the European Commission (hereinafter: EC) confirms that HBOR as an institution operates in accordance with best practices and can be directly entrusted with the management of the EU funds.

2025 – 2029 Business Strategy of HBOR (hereinafter: the Strategy) represents HBOR's vision of business operations in the new strategic period adjusted to the national development priorities of the Republic of Croatia, market demands and needs of HBOR's clients and partners. The Strategy was developed taking into account the results of the impact, risk and opportunity analysis conducted during the preparation of the 2023 Sustainability Report, when steps were taken to in-depth understanding of requirements of the Corporate Sustainability Reporting Directive (CSRD) and the first set of the new European Sustainability Reporting Standard (ESRS).

By implementing the Strategy, HBOR will continue to provide an effective response to the needs of the economic, financial and social sectors in the coming years through financial services that complement the market with transparent and responsible business operations in accordance with best practices, and contribute to the process of transformation towards a sustainable economy and society in accordance with the priorities of the National Development Strategy of the Republic of Croatia until 2030 and the UN Sustainable Development Goals⁴.

In the previous period, HBOR took important steps in transitioning to operations based on sustainable financing. The Reorient HBOR's Activities Towards Sustainable Financing and Green Transition project

⁴ United Nations Sustainable Development Goals (Agenda 2030) <https://sdgs.un.org/>

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(*Sustainable Finance project*), which was implemented with the EU funds and in cooperation with the EC Directorate-General for Structural Reform Support (DG REFORM⁵), was successfully completed in 2023. Following the recommendations, HBOR initiated a systematic adjustment to regulatory requirements on sustainability and sustainable finance, and will continue working on it during the new strategic period. HBOR has strengthened its governance structure focused on sustainability by the establishment of the Sustainable Finance Committee and the Sustainable Finance organisational unit. HBOR also received a positive assessment from the European Investment Bank (EIB), which confirmed that HBOR was fully compliant with its environmental and social standards.

In the next strategic period, HBOR will put special emphasis on the development of sustainable finance through which it will finance innovative and sustainable economic activities as well as activities that contribute to the digital and green transition and a positive impact on society. HBOR will pay special attention to encouraging innovation through support for innovative projects and technologies that have the potential to solve environmental and social challenges and contribute to the technological progress of the Croatian economy. Consequently, HBOR will strengthen activities to encourage the development of capital market in the Republic of Croatia with the aim of providing sufficient sources of funds and mobilising private investments in innovative companies, research and development, implementation and commercialisation of innovations, as well as investments in projects of cooperation among companies, research and academic institutions and other stakeholders in the economy and society in order to support innovative projects.

HBOR's Strategy is subject to revision in the case of the occurrence of significant macroeconomic and/or regulatory changes as well as in the event of significant changes in the results of assessments and materiality of impacts and financial materiality. It will be regularly evaluated to determine whether the proposed measures are efficient and result in the fulfilment of HBOR's strategic goals, vision and mission.

II. VISION, MISSION AND VALUES

1. Vision

HBOR's vision is to be a **spark of innovation and sustainable development of the Republic of Croatia** through financial support and partnership with business entities and other stakeholders in the economy and society.

HBOR wants to be a leader in promoting innovations in the Croatian economy, encouraging the development of new ideas and advanced technologies, investments in research and development (hereinafter: R&D), capital markets for investments in newly established, innovative and growing companies as well as the development of new financial products, services and business models that will improve the long-term competitiveness of Croatian entrepreneurs in the domestic and international markets.

HBOR's vision also includes promoting sustainable development by encouraging investments that contribute to the green transition, such as investments in renewable energy sources, environmental protection and energy efficiency, as well as clients' transition towards a carbon-neutral, climate-resilient and sustainable economy, and encouraging investments that have a positive impact on society, thereby striving to create a sustainable future for all citizens of the Republic of Croatia.

⁵ DG REFORM *Directorate-General for Structural Reform Support*

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Through its vision, HBOR strives to become an indispensable partner for entrepreneurs, the public sector, financial intermediaries and investors, providing them with financial products and services tailored to their needs and goals, while contributing to a stable, resilient and sustainable economy and society.

Through its operations, HBOR will contribute actively to the national and EU goals and climate goals set by the Paris Agreement⁶ as well as to the UN Sustainable Development Goals, and ensure HBOR's long-term sustainable operations.

HBOR is a driving force of change and as such wants to maintain this position and achieve a positive impact on economic development, social progress and general welfare of the Republic of Croatia.

2. Mission

HBOR's mission is to **provide proactive support to the development of the Republic of Croatia** through financial products and services. As a leading institution in promoting economic development, HBOR's mission is to provide the financial support and knowledge needed by entrepreneurs and other stakeholders to achieve their business goals and contribute to the economic and social development of the Republic of Croatia.

Proactivity is a key word in HBOR's mission. HBOR monitors actively economic trends, identifies market needs and market gaps, and responds promptly to changes in the domestic and international economic environment in order to provide relevant and effective support for the development of the Republic of Croatia.

Through partnerships with key stakeholders, relevant ministries, regional and local governments, domestic, EU and international financial institutions, national development and export banks, and export credit agencies, HBOR continuously works on the development and implementation of new financial products and initiatives with the aim of supporting the economic and social development of the Republic of Croatia and filling market gaps when the offer of financial services is insufficient to meet market needs.

HBOR will continue to adapt its operations and activities to newly emerged needs, trends, and market and economic challenges. Through its mission, HBOR will be a partner in achieving the development goals of the Republic of Croatia, providing expertise, reliability, and commitment in its activities.

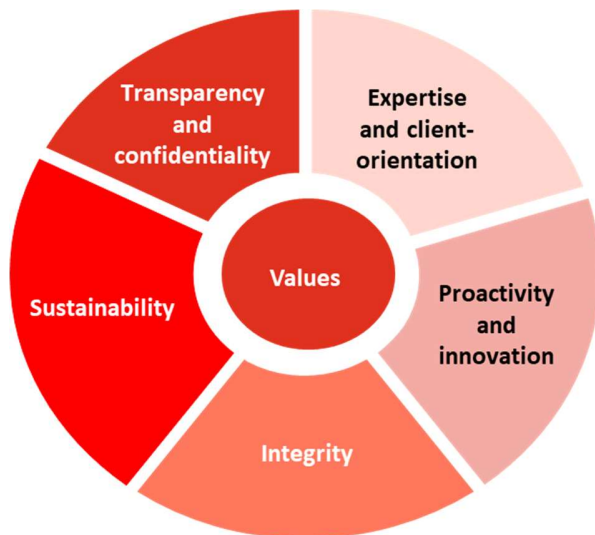
3. Values

Values are the driving force behind HBOR's organisational culture and ensure the successful implementation of the Strategy. Values describe HBOR's way of working and behaving towards clients, partners and other stakeholders, as well as towards each other at HBOR.

⁶ <https://unfccc.int/process-and-meetings/the-paris-agreement>

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Figure 1: Values that HBOR believes in and incorporates in its operations



Source: HBOR

Expertise and client-orientation

HBOR relies on the knowledge and expertise of its employees to find the best solutions. Teamwork is focused on achieving common goals through the cooperation of employees with different and complementary competencies. HBOR creates stimulating working conditions for its employees and supports them in professional development in order to achieve the full development of their personal and professional capabilities. HBOR achieves its business goals through work within well-selected teams. Clients are at the centre of HBOR's business activities and are approached professionally, conscientiously and with confidence, and the relationship between HBOR employees and clients fosters accessibility, reliability, equality and professional responsibility.

Proactivity and innovation

In HBOR, knowledge and experience are shared, and with a proactive and innovative approach, HBOR develops through continuous improvements of its business processes and digitisation of operations.

Proactivity is important not only in internal relations but also in relations with external stakeholders. HBOR exchanges experience with other national development and export banks, export credit agencies and other domestic, EU and international financial institutions and is in constant interaction with key stakeholders of the economy.

HBOR timely identifies the needs of the economy that are not covered by the market and creates innovative solutions with the aim of supporting the economic and social development of the Republic of Croatia.

Integrity

HBOR raises the awareness of its employees about ethical behaviour both towards partners and clients, as well as in mutual relationships and in relation to the tasks undertaken.

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HBOR creates an ethical culture that implies compliance with regulations, internal rules, but also respect for high business standards and ethical rules, by which HBOR encourages a high level of conscientious conduct of each employee. In their actions and decisions, HBOR employees act conscientiously, responsibly and professionally, which can be seen in the areas of good governance, financial responsibility, environmental and social responsibility as well as risk management. In their work, HBOR employees adhere to all relevant regulations, internal rules and high professional and ethical standards.

Sustainability

Through its activities, HBOR strives to be an example of sustainable and responsible business, contributing to building a better future for all. HBOR wants to make a positive contribution to sustainable development, create responsible attitudes and behaviour among its employees and other stakeholders, and responsibly use available resources that enable further development and better living conditions for us today, but also for future generations.

Sustainability is a key value of HBOR, which represents the foundation for responsible and efficient operations of HBOR, successful achievement of strategic goals and long-term sustainable development of the economy and society of the Republic of Croatia.

Environmental, Social and Governance (ESG) factors and the associated risk and opportunity assessment will be an integral part of HBOR's operations and decision-making at all levels. HBOR will continue to integrate ESG factors into its operations through risk management, project assessment, ensuring a stimulating working environment and strengthening relationships with key stakeholders in the economy and society.

HBOR will continue to develop services and products for economic activities that respect nature and the ecosystem on which the economy, human community and financial system depend, as well as to implement activities that contribute to the achievement of social goals such as respect for human rights, the combat against inequality and discrimination, social inclusion, encouraging the economy of less developed regions and financial inclusion of vulnerable social groups, provided that such activities are carried out by business entities that follow good governance practices.

HBOR will continue to strongly develop its professional knowledge and competencies for understanding ESG risks and their impacts on HBOR's operations as well as HBOR's impact on the environment and society.

Transparency and confidentiality

HBOR reports regularly on its activities to internal and external stakeholders and publishes its annual business results in terms of achieved economic impacts. Growing expectations and demands for transparency are also related to sustainability, and HBOR responds to this challenge by developing its processes, product offering and accountability reporting. HBOR places particular emphasis on the protection of personal data of all stakeholders whose personal data it processes, including its employees, and continuously promotes awareness of the need for appropriate and lawful handling of personal data and privacy protection. HBOR keeps confidential data and information it collects in the course of its business activities, especially those that may be considered banking or business secrets under special regulations.

III. STRATEGIC GOALS AND ACTIVITIES IN THE PERIOD 2025 - 2029

In order to achieve its vision and mission, HBOR's activities in the new strategic period will continue to be focused on achieving positive impacts on the Croatian economy and society.

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The Strategy represents HBOR's vision for the continuation of its business operations in the new strategic period in a direction that is aligned with the priorities of the National Development Strategy of the Republic of Croatia until 2030⁷ and adjusted to the external environment and macroeconomic forecasts, as well as the results of the analysis of the identified needs of the public and the private sectors, key areas of HBOR's activities, as well as those segments of the economy for which market gaps have been identified or which require additional support from HBOR.

HBOR's Strategy is based on five strategic goals and four strategic enablers, within which priority areas of action as well as activities that HBOR will implement in the short and medium term are defined.

Strategic goals

1. Promoting the development of venture capital, private equity and quasi-equity market in the Republic of Croatia (abbreviated: Equity (PE,VC)),
2. Promoting the balanced and sustainable economic and social regional development of the Republic of Croatia (abbreviated: Regional and Social Development),
3. Promoting the Croatian economy internationalisation (abbreviated: Internationalisation),
4. Strengthening the Competitiveness and Resilience of the Croatian economy (abbreviated: Competitiveness and Resilience),
5. Promoting the green transition of the Republic of Croatia (abbreviated: Green Transition).

Strategic enablers

1. Sustainability,
2. Active and efficient use of national, EU and other international sources of funds,
3. Flexible and sustainable organisation with a proactive business approach,
4. Proactive cooperation with stakeholders in the economy and society.

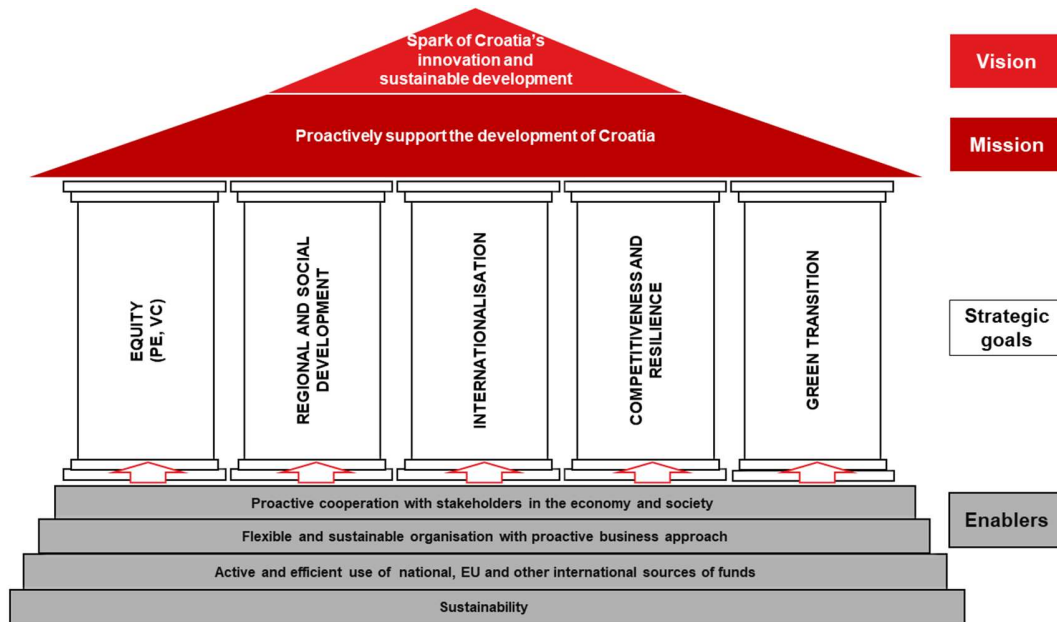
The document further elaborates in more details the priority areas of operation and key activities that HBOR will implement in order to achieve the strategic goals and strategic enablers in the next five-year period. Some business activities, although they will contribute to the achievement of multiple strategic goals or enablers, are listed under the strategic goal or enabler to which their greatest contribution is expected.

Detailed activities and deadlines for their implementation will be defined within the framework of annual operational plans adopted by the Management Board of HBOR.

⁷ https://narodne-novine.nn.hr/clanci/sluzbeni/2021_02_13_230.html

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Figure 2. Strategic house



Source: HBOR

1. Promoting the development of venture capital, private equity and quasi-equity market in the Republic of Croatia (abbreviated: Equity)

In the Republic of Croatia, traditional sources of financing in the form of bank loans are most often used, with special attention paid not only to the creditworthiness and position of entrepreneurs in the market, but also to the size of companies and the geographical region in which companies operate. Without diminishing the importance of traditional sources of finance in the Republic of Croatia, to increase the stability and availability of financial resources in the long term, it is necessary to put additional efforts in the development of alternative sources of finance.

Alternative sources of finance, such as investing in venture capital and private equity, have a positive impact on the development of that part of the economy to which access to loans is more difficult, such as small and medium-sized enterprises (hereinafter: SMEs), especially if they are in the initial phase of business, but also on the development of innovative fast-growing companies. At the same time, the development of innovative financial instruments represents the basis for significantly encouraging investment in research, development and innovation.

Although the last few years have seen positive developments in the development of the equity and quasi-equity market, the analysis of market gaps continues to show significant investment needs in the equity of companies in the Republic of Croatia, as well as in the development of the market in general. Many challenges still remain, particularly in terms of the market size, low awareness of the benefits of equity financing (both among SMEs and investors), inadequate number of investors and generally insufficient systemic support, which should consist of incubators, accelerators and hubs.

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HBOR's investment promotion develops in two directions: encouraging the development of AIFs for growth and development, i.e. private equity or PE funds and AIFs and other financial instruments for financing the earliest stage of development of a company, i.e. venture capital or VC funds and other instruments, especially for the so-called *seed* or *pre-seed*⁸ investments and commercialisation of innovations.

In order to continue positive trends from the previous strategic period in terms of the amount of invested funds and the number of companies financed with equity and quasi-equity in the Republic of Croatia (from 2019 to 2022, growth of approximately 4.5x was achieved⁹), it is necessary to continue to encourage the development of new AIFs and other financial instruments that encourage the investment of equity and quasi-equity.

Given the needs for further development of the domestic equity and quasi-equity, HBOR will, within the framework of this strategic objective, continue to implement activities to promote market development through investment in venture capital and private equity funds, as well as raising the awareness of the benefits of investing in and using equity and quasi-equity for business financing. HBOR will continue the activities aimed at providing sufficient funds for investment, further strengthening of internal capacities and cooperation with stakeholders.

What HBOR wants to accomplish:

- ✓ During the new strategic period, support the establishment of new alternative investment funds with at least EUR 100 million of investment by HBOR
- ✓ Ensure greater availability of alternative sources of funds
- ✓ Provide capital for innovative projects
- ✓ Support Start-up companies, SMEs and Mid-Caps¹⁰ with growth potential
- ✓ Support the technology sector in order to stimulate the development of innovations
- ✓ Promote investments in accordance with sustainability goals

Priority areas and activities:

- **Implementation of existing and development of new equity and quasi-equity funds in the Republic of Croatia**
 - ✓ HBOR will continue to support investments in existing funds and implement new investments from its own resources, as well as from national and the EU sources
 - ✓ HBOR will develop new equity and quasi-equity financial instruments in the Republic of Croatia intended for investment in PE and VC and technology transfer for the purpose of establishing new AIFs that are tailored to the needs of investors and companies seeking capital
 - ✓ HBOR will encourage investments in Start-ups, SMEs, Mid-Caps in order to provide stronger support to this segment of entrepreneurs in the long term and to stimulate their growth and create new jobs
 - ✓ HBOR will, through the development of new investment products, encourage research and development, digital transformation and technology transfer

⁸ Initial stage of financing of a Start-up or innovative SME in the early stage of development

⁹ https://www.investeurope.eu/media/6896/2022-cee-pe-statistics-report_-_june-2023.pdf

¹⁰ Mid-Cap – medium capitalised company in line with the Commission Recommendation 2003/361/EC concerning the definition of micro, small and medium enterprises (OJ L 124,20.5.2003)

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- ✓ HBOR will continue activities related to the possibility of using guarantees to ensure investments within the framework of InvestEU¹¹
- **Raising of awareness and cooperation with stakeholders**
 - ✓ HBOR will continue to raise the level of awareness of investors, entrepreneurs and other stakeholders about the opportunities, advantages, conditions and financial investment programmes, which is crucial for rousing interest in the market through participation and organisation of educational programmes, workshops and the organisation of HBOR's annual Invest conference
 - ✓ HBOR will promote investments in line with sustainability goals and will carry out activities to attract EU funds related to the green transition and positive impact on society
 - ✓ HBOR will continue the cooperation with higher education institutions and research institutions to support the transfer of knowledge, technology and innovation from academia to the economy through financing of research projects and technological Start-ups
 - ✓ HBOR will participate actively in the preparation of projects under InvestEU and other EU initiatives.
 - ✓ HBOR will continue to strengthen its role as a public promoter of activities related to the implementation of financial instruments from the EU funds
 - ✓ HBOR will continuously conduct a detailed market analysis to identify sectors and areas with potential equity and quasi-equity investments, which will include an assessment of market trends, capital demand and growth opportunities, and will continue to establish partnerships and encourage initiatives with domestic and international stakeholders with the aim of securing additional sources of capital, establishing new funds and developing new products to strengthen the capital market and facilitate access to finance. Special importance in the implementation of the above activities will be given to HBOR's long-standing partnership and cooperation with the EU and international institutions such as the EIB Group¹² as potential implementing entities in the transfer of knowledge, experience and competencies in capital market development
- **Development of internal capacities and competencies in the field of capital market**
 - ✓ A prerequisite for the successful implementation of the previous activities is the existence of appropriate internal capacities of HBOR. Despite the achieved high level of knowledge and competence of employees, in order to provide stronger support for the development of equity and quasi-equity, continuous improvements of HBOR's internal capacities are necessary. In this respect, HBOR will carry out improvements of existing business processes and develop resources focused exclusively on investment activities, which includes considering the possibility of spin-off of investment business into a separate company with the aim of optimising operations and increasing the efficiency, as well as building the foundations for sustainable growth and success in the future, both for HBOR and its business partners and clients.

Through the aforementioned activities, HBOR will continue to support the development of equity and quasi-equity investments in the Republic of Croatia, thus contributing to the growth and competitiveness of the domestic economy.

¹¹ InvestEU programme is the European Commission's programme for the multiannual 2021 – 2027 EU budget, which aims to continue to promote EU investments in Sustainable infrastructure, research, innovation and digitalisation, SMEs, Social investment and skills.

¹² EIB Group – *European Investment Bank Group*

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Link to currently recognised material sustainability issues

The following material impacts, risks and opportunities have been identified:

- Strengthening the competitiveness of the Croatian economy

2. Promoting the balanced and sustainable economic and social regional development of the Republic of Croatia (abbreviated: Regional and Social Development)

Regionally balanced development of the Republic of Croatia plays a key role in achieving national development goals and represents an important segment of the country's economic strategy. Regional development implies an even distribution of economic resources, increasing competitiveness and reducing socio-economic differences between different parts of the country. The development of supported areas and areas with specific features, as well as strengthening regional competitiveness, are among the goals set in the National Development Strategy of the Republic of Croatia until 2030.

Croatia is divided into four territorial units: Pannonian Croatia, Adriatic Croatia, the City of Zagreb and Northern Croatia - NUTS 2¹³ regions. Regional GDP¹⁴ per capita, which is an indicator of economic activity in individual regions, varies significantly between regions, and regions with lower GDP per capita often face challenges such as lack of investment, depopulation or underdeveloped infrastructure.

Economic, municipal and social infrastructure is significantly more developed in cities, and most of the domestic economic potential measured by GDP is concentrated in the City of Zagreb and the five largest counties.

According to Eurostat data, the City of Zagreb had by far the highest GDP in 2022 with EUR 23.1 billion, Adriatic Croatia EUR 21.6 billion, Pannonian Croatia EUR 12.3 billion, while Northern Croatia records a GDP of EUR 11 billion. Pannonian Croatia, which stands out with the highest unemployment rate among the regions of 10.9% and Adriatic Croatia with 6.8% have higher rates compared to the euro area average (6.7% in 2022).

An important role in balanced regional development and improving the quality of life, in addition to the growth of investment in the public and private sectors, is also played by supporting the development of rural areas and islands with the aim of their demographic revitalisation, sustainable development and creating better conditions for living and doing business.

The demographic challenges facing Croatia, such as migration and low birth rates, particularly affect less developed regions and rural settlements. According to Eurostat data for 2021, only 33.7% of the population in Croatia lives in rural areas, while the EU average is even lower (25.2%). Emigration from rural areas is the result of the insufficient attractiveness of these areas for living in terms of underdevelopment of infrastructure, such as transport and telecommunications connections, electrification, water supply networks, waste management, etc., as well as education and employment opportunities. The employment rate in rural areas of the Republic of Croatia of 62.3% in 2022 is lower than the EU average (69.9%).

As a result, areas in eastern Croatia, hill or mountain areas, the islands and rural areas are experiencing negative economic and demographic trends, which contributes to the creation of additional differences in the development of the regions of the Republic of Croatia. The islands and hill or mountain areas are additionally faced with their own specific features, which largely stem from transport isolation and seasonal sustainability of infrastructure.

¹³ NUTS (*Nomenclature of territorial units for statistics*) – the classification of territorial units for statistics serves for the collection, processing, analysis and publication of statistical data at the EU level

¹⁴ GDP - gross domestic product

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Social exclusion further contributes to regional differences; therefore, it is necessary to strengthen the position of socially vulnerable groups in the labour market, especially young people and women. Strengthening the ability of cities to be leaders in the development of the entire region to which they belong in order to reduce disparities and increase the quality of life throughout the area also represents the potential for the development of less developed regions.

Agriculture, forestry and fishing are key to the development of rural areas and islands. The activity of agriculture, forestry and fishing is an important sector for the economy of the Republic of Croatia and accounts for 3.6% of the total gross added value, i.e. 3.0% of GDP in 2023. The value of agricultural production grew from EUR 2.4 billion in 2019 to EUR 3.15 billion in 2023, while the agriculture strategy aims to reach EUR 3.9 billion in agricultural production by 2030.

However, labour productivity in agriculture in the Republic of Croatia (EUR 7.2 thousand EUR/AWU¹⁵) is lower than the EU average (EUR 17.2 thousand /AWU) according to Eurostat data for 2021. To achieve strategically defined food self-sufficiency and the development of the bioeconomy in the Republic of Croatia, it is necessary to achieve an increase in labour productivity in agriculture of EUR 10 thousand /AWU by 2030.

The analysis of market failures shows that the exposure of the banking system in the Republic of Croatia to companies in the agriculture, forestry and fisheries sector is low, and the aforementioned loans did not exceed 6.5% of total loans granted to non-financial companies on average in the period from 2016 to 2023, thereby falling to the lowest level of 4.5% by the end of 2023.

In line with the previously described challenges of regional development in the Republic of Croatia, HBOR has recognised the importance of continuing to provide financial support to the regional development of the Republic of Croatia as one of its strategic goals in the next five-year period.

HBOR's activities will be focused on promoting positive economic and social activities through strengthening the development of local and regional social and municipal infrastructure, reducing economic inequalities between regions by promoting the development of entrepreneurship, the development of less developed regions and supporting vulnerable social groups.

By financing investments to improve social infrastructure (kindergartens, schools, hospitals, nursing homes, etc.), municipal infrastructure (water supply and sewerage, roads, garages, utility vehicles, etc.), and less developed regions as well as micro-entrepreneurs who usually have difficult access to financing, such as start-up entrepreneurs, young entrepreneurs and women in entrepreneurship, HBOR wants to contribute to encouraging economically and socially balanced and sustainable regional development of the Republic of Croatia.

What HBOR wants to accomplish:

- ✓ During the new strategic period, at least 40% of HBOR's total business activities should be directed towards regional and social development of the Republic of Croatia
- ✓ Finance a greater number of investments aimed at improving municipal, economic and social infrastructure
- ✓ Promote investment in the development of smart and sustainable cities, villages and islands
- ✓ Contribute to the strengthening and developing less developed regions with its services

¹⁵ AWU annual work unit

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- ✓ Strengthen its activities in the area of financing the projects that have a positive social impact

Priority areas and activities:

- **Implementation of existing and development of new regional development products**
 - ✓ HBOR will continue to provide support for public sector investment
 - ✓ HBOR will implement EU financial instrument Urban Development Fund¹⁶ the aim of which is to promote investments in public and business infrastructure
 - ✓ HBOR will continue to provide financial support for less developed regions through the development of financial products for investments and current operations of entrepreneurs with more favourable terms and conditions of financing or subsidising of interest rates in order to encourage local entrepreneurship and creation of new jobs
 - ✓ HBOR will pay special attention to the analysis of needs in agriculture in order to continue providing support for agriculture and rural development by encouraging the modernisation of production with emphasis on sustainable and ecological production resilient to climate change, diversification of agricultural activities, development of agricultural tourism and other projects that contribute to rural development
 - ✓ HBOR will develop guarantees for loans with the aim of reducing risks for banks in financing investment projects and less developed regions

- **Implementation of existing and development of new regional development products with positive social impact**
 - ✓ HBOR will continue to promote entrepreneurship of vulnerable social groups such as young, women and start-up entrepreneurs on affordable terms and conditions of financing
 - ✓ HBOR will strengthen its support to financing of public and private sectors projects that contribute to the quality of life in rural and urban areas, such as municipal, health, educational, sports infrastructure and other projects that have a positive impact on society

- **Raising of awareness and cooperation with stakeholders**
 - ✓ HBOR will strengthen cooperation with local and regional government and relevant ministries with the aim of identifying key needs and potentials of regions as well as providing financing support through EU funds
 - ✓ HBOR will organise, and participate in, workshops and conferences for entrepreneurs and units of local and regional government on available financial products and services of HBOR for better information and encouragement of local entrepreneurs, infrastructure of local and regional government units, creation of new jobs and increased availability of financial services to entrepreneurs in less developed regions
 - ✓ HBOR will implement activities with the aim of providing technical assistance to local and regional government units in managing projects and funding opportunities.
 - ✓ HBOR will provide support to the Government of the Republic of Croatia and local and regional government units in the implementation of demographic and other measures for the encouragement of regional development (e.g. affordable housing)

Through close cooperation with local and regional government units, HBOR will strive to provide adequate support to the regional and social development of the Republic of Croatia, as well as to be a key driving force of positive changes and sustainable development in all parts of the Republic of Croatia.

¹⁶ <https://www.hbor.hr/urbani-razvojni-fond/1431>

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Link to currently recognised material sustainability issues

The following material impacts, risks and opportunities have been identified:

- Financing the social rights of communities (municipal and social infrastructure, access to financing, vulnerable groups, regional development, special areas, reducing inequalities)

3. Promoting the Croatian economy internationalisation (abbreviated: Internationalisation)

The internationalisation of the Croatian economy is one of the national strategic goals through which the Republic of Croatia strives to encourage domestic companies to expand their activities on the international market.

Export growth has been one of the most important sources of growth and economic recovery in the past period. The exports of the Republic of Croatia have been growing in recent years, especially after the pandemic 2020, when the share of export of goods and services amounted to 41.4% of GDP, while in 2023 it amounted to 54% of GDP (in 2022 59.2%). According to the National Development Strategy of the Republic of Croatia until 2030, one of the indicators of achieving the strategic goal of a competitive and innovative economy is to reach the value of export of goods and services of 70% of GDP.

According to the Croatian Bureau of Statistics, in 2023, total exports of the Republic of Croatia amounted to EUR 23 billion, which is a 5% decrease compared to 2022. In the same period, total imports amounted to EUR 40 billion and their value also decreased by about 5% compared to 2022. The coverage of imports by exports was 58%, as in 2022. The most important export market for the Republic of Croatia in 2023 is the area of EU member states, which accounts for about 68% of total exports.

The export sector is on average more productive than the rest of the economy in the Republic of Croatia and has strong potential to significantly contribute to increasing overall productivity. The growing export sector and the change in its structure towards higher value-added products represent the greatest potential for the Croatian economy for faster growth in the coming decade.

The technological intensity of the Republic of Croatia, measured by the share of high-tech products in total exports of goods, is continuously lagging behind the average of the Central and Eastern European countries, and the increase in investments in research and development as well as technological progress are key to increasing competitiveness of export-oriented sectors in the global market.

The export of high-tech products of the Republic of Croatia amounted to EUR 1.7 billion in 2022 (+15.6% compared to 2021). According to Eurostat data, the structure of exported high-tech products from the Republic of Croatia with a share of more than 10% in 2022 is dominated by pharmaceutical products, electronics - telecommunications, electrical machinery and scientific instruments. Smart specialisation in export-oriented sectors based on knowledge and innovation offers an opportunity to transform the Croatian economy and increase its productivity and competitiveness with the application of sustainable technologies.

In international trade, the most common prerequisite for the realisation of a certain export transaction is the possibility of selling with deferred payment. Also, competitive financing conditions for exporters or their foreign buyers are often a prerequisite for contracting export transactions. On the other hand, there is always a risk that the buyer will not pay for the goods or services when they are due, or that it will terminate the contract or that it will be unable to fulfil its obligations due to political or economic circumstances. In

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addition, there is a lack of risk appetite in the Croatian financial market for financing capital export transactions of larger amounts and longer maturities, especially when it comes to exports to high-risk countries.

HBOR provides response to these challenges by providing export credit insurance. Through export credit insurance programmes, exporters are offered the opportunity to sell goods and services with deferred payment, thereby increasing their competitiveness and consequently sales growth, enabling them to enter new markets more easily and facilitating their access to finance through the use of insurance policies as collateral for bank placements.

In the next strategic period, HBOR will continue to encourage the internationalisation of Croatian companies by improving the existing export finance and insurance programmes and by developing new programmes and initiatives in order to offer exporters, banks supporting exporters, and private credit insurers appropriate products at all stages of the export cycle, from participation in tenders to the collection under export transactions.

Continuous monitoring of market trends as well as cooperation with exporters, domestic, EU, and international financial institutions and partners and foreign export credit agencies, are key elements in achieving this strategic goal of HBOR.

Given the current EU regulations and the impossibility of promoting export activities through state aid, HBOR, as the national export credit agency, will closely cooperate with the Ministry of Finance in the next strategic period with the aim of securing sufficient funds to strengthen financial capacities for export credit insurance activities. In this way, HBOR will strive to create the preconditions for taking on new export insurance operations of significant amounts and longer maturities, which will consequently create greater potential for financing activities of capital export transactions of Croatian entrepreneurs by banks using insurance policies as collateral for loans.

What HBOR wants to accomplish:

- ✓ During the new strategic period, at least 40% of HBOR's total business activity should be directed towards promoting internationalisation
- ✓ Ensure competitive financing conditions for exporters and their foreign buyers for the sale of goods and services in foreign markets
- ✓ Financing and insuring a larger number of capital export projects that have an impact on the supply chains of Croatian companies
- ✓ Strengthen HBOR's role as the national export credit agency
- ✓ Expand the product offering by adapting them to companies of different sizes, experience and maturity

Priority areas and activities:

- **Implementation of existing and development of new export finance products**
 - ✓ Continued implementation of existing financial programmes for supporting exporters and issuing of performance-related export guarantees
 - ✓ HBOR will consider the possibility of implementing a mechanism for compensating the costs of financing export transactions with CIRR (*Commercial Interest Reference Rates*)
 - ✓ HBOR will consider introducing export factoring with export receivables insurance policies
- **Implementation of existing and development of new export credit insurance products**

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- ✓ Continued implementation of existing export credit insurance products against non-marketable risks
 - ✓ HBOR will carry out activities aimed at obtaining a permit from the EC for (re)insurance of export receivables for which there is insufficient offer on the private market, with an emphasis on SMEs
 - ✓ HBOR will continue to cooperate with foreign export credit agencies by participating in projects in which Croatian exporters, together with foreign partners, operate in third markets
 - ✓ Depending on market needs, HBOR will develop new export credit insurance products and guarantee schemes for insurance of loans and bank guarantees, with special emphasis on SMEs in order to encourage them to export in order to strengthen competitiveness and internationalisation of the economy
 - ✓ HBOR will consider introducing a programme for insurance of loans to entrepreneurs for the purchase of shares in foreign companies
 - ✓ HBOR will, if necessary, develop programmes that reduce negative impacts of crises on exports and the economy of the Republic of Croatia
- **Raising of awareness and cooperation with stakeholders**
 - ✓ HBOR will continue to develop cooperation with the Ministry of Finance as principal to strengthen HBOR as the national export credit agency and consequently strengthen the potential for financing export projects
 - ✓ In order to promote internationalisation, HBOR will continue to develop cooperation with the Ministry of Foreign and European Affairs and participate actively in the work of working groups for export credits of the Council of the EU and the Organisation for Economic Cooperation and Development (hereinafter: OECD), the Informal group of export credit agencies at the EU level, and develop cooperation with development institutions in Africa, South America and Asia
 - ✓ HBOR will develop cooperation and exchange of knowledge and experience with commercial and export banks, EU and international financial institutions, export credit agencies, associations of exporters and other relevant stakeholders in order to identify key needs and opportunities for Croatian exporters
 - ✓ HBOR will actively promote activities to encourage exporters through the organisation of workshops and business events in order to provide information on financial products and services intended for exporters and internationalisation, markets and sectors with export potential
 - ✓ HBOR will continue to cooperate with banks and other financial institutions within the scope of export insurance operations in order to provide exporters with easier access to export financing, and to offer banks high-quality collateral for placements related to exports and exporters.
 - **Development of internal capacities and competencies**
 - ✓ HBOR will continue to invest in strengthening the competencies and specialist knowledge of its employees in the field of export finance and promoting internationalisation through training and exchange of knowledge and experience with other export banks and export credit agencies
 - ✓ HBOR will continue to participate actively in the activities of the EU and OECD working groups for export credits and international associations of export credit agencies

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In accordance with the above, systematic support from the state and HBOR as the national export credit agency will play a key role in achieving this goal.

Link to currently recognised material sustainability issues

The following material impact, risks and opportunities have been identified:

- Strengthening the competitiveness of Croatian exporters on the international market

4. Strengthening the competitiveness and resilience of the Croatian economy (abbreviated: Competitiveness and Resilience)

The Croatian economy is facing challenges such as the need for a growth in productivity and innovation as well as in digital and green transition and technological progress that affect the development of the economy increasingly.

On the other hand, strengthening the economy's resilience to challenges such as economic crises, climate risks and global changes is key to strengthening the competitiveness of Croatian companies in the global market.

SMEs are of vital importance for the Croatian economy as a key source of entrepreneurship and employment strengthening the competitiveness of the economy through their innovation, development of new ideas and technologies, development of smart technologies, sustainable products and business practices as well as cooperation with research institutions, universities and other partners aiming to develop new ideas and technologies.

However, SMEs are often faced with the inaccessibility of necessary financial resources needed for growth and development of activities, particularly in the financing of initial research and innovation that are crucial to the sustainability and success of SMEs.

According to the latest available data from the Financial Agency (FINA), in 2023, altogether 156,145 entrepreneurs were operating in the Republic of Croatia, of which the majority were micro-entrepreneurs (137,950, i.e. 88.3%) employing 273,474 people (26.6%). The number of small entrepreneurs equalled 15,748 (10.1%) employing 280,543 people (27.2%), whereas the number of medium-sized stood at 1,989 (1.3%) with 187,446 employees (18.2%) and the number of large equalled 458 (0.3%) with 288,196 employees (28%).

In other words, SMEs are the vital force of the economy in terms of employment considering that they employ 72% of the employees.

According to the data from HNB¹⁷, growth in loans to non-financial companies slowed down from 20.7% in 2022 to 6.1% in 2023, which is a consequence of a pronounced growth in loans to companies in 2022, in particular large ones, due to the need to finance current operations owing to the increase in energy costs and a higher demand for investment loans. In the first four months of 2024, new loans rose by 30.3% on the same period in 2023 even though the average interest rate increased to 5.11% compared to the average in 2023 (4.64%).

Estimates of the trends in lending to non-financial companies will continue to be adversely affected by the restrictive monetary policy, since it is expected that the dynamics of interest rate decreases will be significantly slower than the dynamics of interest rate increases and will depend on the development of the

¹⁷ HNB: Croatian National Bank

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domestic demand and the recovery of the foreign demand, taking into account the noticeable growth in the indebtedness of companies during 2022.

Research, development and innovation are the main drivers of economic development, whereas the strengthening of cooperation between the scientific and entrepreneurial communities is key to the development of the innovation capacity of the Croatian economy in terms of the transfer and application of knowledge and technologies in the economy as well as the development of certain industries, from financial services to production.

Gross investments in R&D as a share of GDP are an indicator of domestic investments in research and development, and this share stands at 1.43% in the Republic of Croatia reaching only 64% of the EU average in 2022. It is expected that the planned increase in investments in R&D will ensure positive effects on economic growth and the improvement in the competitiveness of the economy, and the goal for 2030 at the national level is to reach the total expenditure for research and development in GDP of 3%.

The innovation performance of the Republic of Croatia measured on the basis of the European Innovation Scoreboard (EIS) for 2023 positions Croatia in 23rd place in the EU, and it is estimated that the contribution to the competitiveness and innovation of the Croatian economy at the national strategic level can be achieved if the EIS index improves and goes beyond the 18th place.

In the Croatian economy, digital technologies necessary for the creation of new services and business models are insufficiently developed and used. The digital transformation of the Croatian economy and society is progressing, with the greatest contribution being recorded in the area of human capital, optical network coverage and business digitalisation. Yet, in terms of the development of digitalisation of public services, the Republic of Croatia lags behind, especially of those intended for businesses (67% vs 84% in the EU). For the Republic of Croatia to achieve the strategic goal of the digital transition of society and the economy, it is necessary to focus efforts on achieving DESI¹⁸ values at the level of the EU average.

The ICT¹⁹ industry contributes to the digitalisation of the Republic of Croatia significantly as it is growing continuously and, according to the latest available data, accounted for 4.99% of GDP in 2020, slightly below the average of EU countries (5.23% of GDP). The strategically set goal of achieving a developed and innovative digital economy envisages reaching a share of ICT of 13% of GDP by 2032 according to the Digital Croatia Strategy.

The tourism industry is one of the key sectors of the economy of the Republic of Croatia, but considering its sensitivity, which can have an adverse impact on the stability of the Croatian economy, it is necessary to strengthen its sustainability, innovation and resilience.

Tourism as a strategic industry of the Republic of Croatia, together with related hospitality and service activities, represents a significant share of the Croatian GDP (income from foreign tourists stood at 19.6% of GDP in 2023). However, the Croatian tourism is characterised by high seasonality (85.5% of total overnight stays in 2022 were realised in the period from June to September), which is a consequence of the dependence on the sun and the sea, but is also due to the features of accommodation capacities characterised by a low share of hotel accommodation (15.1%) generating 25.6% of overnight stays of foreign tourists, while in comparable Mediterranean countries this share exceeds 60% of total overnight stays of tourists in 2022.

The sustainability, innovation and resilience of the Croatian tourism can be achieved through the development of year-round regionally balanced tourism by investing in health, enogastronomic, cultural and

¹⁸ DESI: Digital Economy and Society Index – a dashboard of indicators for the monitoring of progress in achieving digital goals based on four main pillars: digital skills, digital infrastructure, digitalisation of public services and digitalisation of businesses

¹⁹ ICT: Information and Communication Technology

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rural tourism while preserving physical space, environment and climate. Also, it is necessary to improve the quality and organisation of accommodation capacities and encourage innovation and digital transformation as well as monitor the needs and trends in the tourism industry.

Consequently, within the framework of the strategic goal of strengthening the competitiveness and resilience of the Croatian economy, HBOR will continue to support the private sector with an emphasis on SMEs whose innovation and entrepreneurial spirit are the basis for the further development of the Republic of Croatia towards a modern, competitive, technologically advanced and innovative economy and society.

HBOR will pay special attention to encouraging entrepreneurs who invest in new technologies, in the development of digital products and services as well as in the improvement of production processes in order to remain competitive in the domestic and global markets. HBOR will implement the EU financial instrument intended for SMEs for the modernisation of production, through which beneficiaries will be able to write off a part of the loan principal amount provided that previously established criteria are met.

Furthermore, HBOR will improve existing and develop new financial products for the financing of research, development and innovation and encourage digital transition.

HBOR will promote the segment of entrepreneurship for financing research, development and innovation not only through loans but also through the activities of investing in PE and VC and through technology transfer activities.

Within this strategic goal, HBOR will also implement the EU financial instrument intended for SMEs for sustainable tourism and will, in cooperation with the competent ministries, provide support to the private sector through the development and implementation of financial products intended for other sectors and areas of interest to the Republic of Croatia.

To strengthen the competitiveness of the Croatian economy, the financial stability of business entities is strengthened through the HKO subsidiary company, particularly in the segment of small and medium-sized enterprises. Through the services of insuring receivables of Croatian companies from foreign and domestic buyers of goods and services, HKO provides continuous support to the private sector by monitoring the creditworthiness of buyers and providing reliable protection against non-payment.

HBOR will also, in the event of new economic crises and global changes, develop and implement crisis programmes and measures in cooperation with the relevant ministries to reduce their adverse impact on the economy of the Republic of Croatia. Continuous monitoring of economic conditions in the Republic of Croatia and in the surrounding area and strengthening of cooperation with relevant ministries, commercial banks and leasing companies as well as with other domestic, EU and international financial institutions, are key elements in achieving this strategic goal, which will be aimed at strengthening the competitiveness and resilience of domestic economic entities.

What HBOR wants to accomplish:

- ✓ During the new strategic period, at least 50% of HBOR's total business activity should be directed at lending to the private sector with a focus on SMEs
- ✓ Promotion of R&D and digitalisation through lending and investing
- ✓ Continuous support to the private sector through the implementation of national and crisis measures in cooperation with the Government of the Republic of Croatia
- ✓ Strengthening of cooperation with financial intermediaries

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Priority areas and activities:

- **Implementation of existing and development of new financial products for strengthening competitiveness and resilience**
 - ✓ HBOR will continue to provide support to the private sector through loans, guarantee schemes, EU financial instruments and other products for financing investments and necessary working capital
 - ✓ HKO will develop new credit insurance products in line with the needs of the private market
 - ✓ HBOR will strengthen activities to encourage SMEs and RDI, digitalisation and Industry 4.0
 - ✓ HBOR will implement EU financial instruments for sustainable tourism and for the modernisation of production
 - ✓ HBOR will continue the implementation of the programme for issuing guarantees under the NRRP for loans that contribute to RDI and digital transition
 - ✓ HBOR will carry out the development activities of Invest EU guarantee programmes for the financing of SMEs, RDI, digitalisation and Industry 4.0

Raising of awareness and cooperation with stakeholders

- ✓ HBOR will strengthen cooperation with commercial banks and leasing companies and adapt the terms and conditions of cooperation to the needs of the market
- ✓ HBOR will encourage cooperation with research institutions and academic circles in order to encourage the exchange of knowledge, technologies and resources and accelerate the process of innovation and digitalisation
- ✓ HBOR will promote cooperation among companies, financial institutions, government agencies, local and regional governments, EU and international organisations in order to jointly support projects and initiatives aimed at achieving national goals of the competitiveness and resilience of the economy
- ✓ HBOR will cooperate with competent ministries in the implementation of national and crisis measures

In accordance with the above, within the framework of this strategic goal that will be adaptable in order to respond to changing economic and social circumstances, HBOR will focus its activities in the next strategic period on supporting the private sector in order to strengthen the resilience and competitiveness of the Croatian economy.

Link to currently recognised material sustainability issues

The following material impacts, risks and opportunities have been identified:

- Strengthening the competitiveness and resilience of the Croatian economy.

5. Promoting the green transition of the Republic of Croatia (abbreviated: Green Transition)

Climate change and negative impacts on the environment in terms of pollution, water and marine resources, biodiversity and ecosystems as well as use of resources and the circular economy²⁰ pose a growing threat in the 21st century and a challenge for all of humanity.

²⁰ The Taxonomy Regulation defines six environmental objectives: Climate change mitigation, Climate change adaptation, Sustainable use and protection of water and marine resources, Transition to a circular economy, Pollution prevention and control, Protection and restoration of biodiversity and ecosystems.

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The EU is committed to achieving climate neutrality by 2050 and fulfilling its obligations under the Paris Agreement. The goal of the Paris Agreement is to limit global warming well below 2°C, preferably to 1.5°C, compared to pre-industrial times to avoid the negative consequences of climate change. The European Climate Law²¹ set the intermediate target of reducing net greenhouse gas emissions by at least 55% by 2030 compared to levels in 1990. In 2021, the European Commission published a set of legislative proposals, “Fit for 55”²², proposing an increase in the share of renewable energy sources (hereinafter: RES) to at least 40% by 2030 by joint efforts of all member countries, whereas the REPowerEU²³ increased that share to 45%. In February 2024, the European Commission recommended the reduction in the net greenhouse gas emissions by 90% by 2040 compared to the 1990 levels.

The Eurostat data (2023) show that, in 2022, the total share of energy from RES in gross final energy consumption reached 23% at the EU level, i.e. about 1.1% more than in 2021. The achieved share of energy from RES needs to be doubled by 2030 to achieve the EU's ambitious goal, which would reduce greenhouse gas emissions and the EU's dependence on imported energy sources. The attainment of this goal depends significantly on the success of energy efficiency measures, and, therefore, the EC adopted the revised Energy Efficiency Directive²⁴, which defined a new target of reducing energy consumption by at least 11.7% by 2030 compared to the predicted energy consumption by 2030 based on the 2020 reference scenario.²⁵

The Republic of Croatia, as an EU member country, participates in the attainment of the common goal of achieving climate neutrality by 2050. In 2022, the share of energy from RES in the gross final consumption in the Republic of Croatia stood at 29.35%. After a series of consecutive years of growth starting from 2016, the share decreased by 1.93% in 2022 compared to 2021.²⁶ Domestic electricity production in 2022 covered 75.2% of electricity needs. The total import of energy into Croatia in 2022 rose by 9.3% compared to the previous year.²⁷

The low-carbon strategy of the Republic of Croatia recognises five key sectors that can contribute to the climate neutrality goal by 2050: (i) energy plants (production, consumption, import and export of energy), industry and construction, (ii) traffic, (iii) agriculture, (iv) land use, conversions in land use and forestry, and (v) waste.²⁸

The low-carbon energy transition paves the way towards a sustainable competitive economy, in which economic growth is realised with low emissions of greenhouse gases and other polluting emissions into the environment.

The contributions of the Republic of Croatia as an EU member country to the attainment of common EU goals are very demanding, and HBOR as the national development bank will actively contribute to the achievement of the national goals of the Republic of Croatia, including, among others, support for the low-carbon development of the Republic of Croatia.

Croatia has a significant natural and cultural capital, it abounds in clean water resources, preserved forests and coastline, and it has rich cultural heritage, which represents one of the most significant potentials for stronger growth in the future.

²¹ [European Climate Law – European Commission \(europa.eu\)](https://european-council.europa.eu/media/en/press-communications/infographic/infographic-climate-law-2023.pdf)

²² [Fit for 55: Delivering on the proposals - European Commission \(europa.eu\)](https://european-council.europa.eu/media/en/press-communications/infographic/infographic-fit-for-55-2023.pdf)

²³ [REPowerEU \(europa.eu\)](https://european-council.europa.eu/media/en/press-communications/infographic/infographic-repower-eu-2023.pdf)

²⁴ [Directive - 2023/1791 - EN - EUR-Lex \(europa.eu\)](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32023L1791)

²⁵ [SA-Energetika-2024.pdf \(eizg.hr\)](https://eizg.hr/sa-energetika-2024.pdf)

²⁶ [SA-Energetika-2024.pdf \(eizg.hr\)](https://eizg.hr/sa-energetika-2024.pdf)

²⁷ [Energija-u-HR-22 WEB-novo.pdf \(eihp.hr\)](https://eizg.hr/energija-u-hr-22-web-novo.pdf)

²⁸ The Low-Carbon Development Strategy of the Republic of Croatia by 2030, and looking at 2050

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On the other hand, Croatia is exposed to high risks from climate change such as extreme weather events, drought, fire, flood, sea level rise, soil erosion and air pollution, which points to the necessity of reducing the risk of negative consequences caused by climate change and increasing resilience to them. The Republic of Croatia is largely part of the Mediterranean basin (region), which is, according to the United Nations Environment Programme²⁹, warming up 20% faster than the global average³⁰. For comparison, according to the Report on the State of the European Climate³¹, 2023 was the second warmest year recorded in Europe.

Consequently, the preservation of natural capital and the protection of environment are unavoidable prerequisites for the sustainable development of the Republic of Croatia. Waste and wastewater management, greater efficiency in energy production and consumption, including the energy efficiency of buildings, and more even development of transport infrastructure can significantly contribute to the reduction of the carbon intensity of the economy, the preservation of natural capital and the improvement of the quality of life. All of the above points to the increased need for financing the measures to mitigate and adapt to climate change.

HBOR has recognised the importance of the transition towards a sustainable economy and society as one of the key goals in the 2020-2024 Business Strategy of the Croatian Bank for Reconstruction and Development. The green transition involves a transition from the current levels of efficiency in the area of environmental objectives.³²

Through various activities and finance programmes, HBOR will continue to contribute to the green transition of the Republic of Croatia in the next strategic period, especially through support for projects and activities that contribute to environmental objectives (one or more of them).

Special attention in the next strategic period will be devoted to monitoring the compliance of HBOR's portfolio with the objectives established by the Paris Agreement.

HBOR will continue to develop new sustainable finance products for financing the transition of public and private sector clients as well as for investments in projects that contribute to environmental objectives, innovations and the development of new technologies at more favourable financial terms and conditions.

What HBOR wants to accomplish:

- ✓ During the new strategic period, at least EUR 1.0 billion of HBOR's total business activity should be directed at the green transition
- ✓ Monitoring of the compliance of HBOR's portfolio with the objectives of the Paris Agreement (financed emissions) and with the Low-Carbon Development Strategy of the Republic of Croatia by 2030
- ✓ Promotion of the transition towards a sustainable economy
- ✓ Direction of financial resources towards green transition projects and activities
- ✓ Becoming a competence centre for sustainable finance

²⁹ United Nations Environment Programme, UNEP

³⁰ <https://www.unep.org/unepmap/resources/factsheets/climate-change>

³¹ <https://climate.copernicus.eu/ESOTC>, Reports are prepared by *Copernicus Climate Change Service (C3S*)*; *European State of Climate*, ECOTC

³² 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.

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Priority areas and activities:

- **Implementation of existing and development of new financial products for green transition finance**
 - ✓ HBOR will actively support entrepreneurs and public sector through loans, investments in alternative investment funds, guarantees and other financial instruments for the financing of the transition to a sustainable economy, especially of projects that contribute to environmental objectives with a focus on climate targets
 - ✓ HBOR will implement the EU financial instrument of loans for energy efficiency for entrepreneurs in cooperation with commercial banks
 - ✓ HBOR will continue the implementation of the issuing of guarantees for loans under the NRRP ensuring more favourable terms and conditions of finance for projects that contribute to the green transition
 - ✓ HBOR will develop guarantee schemes for sustainable finance to facilitate access to finance for entrepreneurs who do not have enough collateral for bank loans
 - ✓ HBOR will pay special attention to the development of new products for the financing of projects that contribute to environmental objectives and the development of new financial products for the promotion of transition
 - ✓ HBOR will carry out activities to develop guarantees under InvestEU for sustainable finance loans
 - ✓ HBOR will consider the possibilities of providing technical assistance for the structuring of green projects

- **Raising of awareness and cooperation with stakeholders**
 - ✓ HBOR will promote the transition to a sustainable economy
 - through cooperation with entrepreneurs, domestic, EU and international financial institutions, government agencies, local and regional government, domestic and international financial associations, HBOR will initiate and support projects and initiatives aimed at achieving the goals of the transition to a sustainable economy
 - through the establishment of partnerships with relevant institutions, civil society organisations, research centres and academic institutions, the goal is to exchange knowledge, resources and best practices in the field of sustainable development

- **Development of internal capacities and competencies**
 - ✓ A precondition for the successful implementation of the above activities is the existence of appropriate internal capacities and competencies of HBOR. Despite the achieved high level of knowledge and competence of the employees, in order to provide stronger support for encouraging the transition towards a sustainable economy, it is necessary to provide the necessary resources and competencies for the implementation of this strategic objective. Therefore, HBOR will regularly provide the employees with the opportunities of training and exchanging knowledge and practices through cooperation with other development banks, EU and international financial institutions and associations in the field of sustainable financing and structuring of green projects.

Through cooperation with national and international partners, HBOR will work on identifying best practices and strengthening its own professional and financial capacities necessary for the implementation of transition projects towards a sustainable economy and society. Besides, HBOR will support local initiatives for sustainable development.

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Link to currently recognised material sustainability issues

The following material impacts, risks and opportunities have been identified:

- Monitoring of the compliance of the portfolio with the objectives of the Paris Agreement (financed emissions) and with the Low-Carbon Development Strategy of the Republic of Croatia by 2030
- Climate risk management
- Development of new sustainable financial services aimed at accelerating the low-carbon and climate-resilient development of the Republic of Croatia and eliminating or mitigating the negative consequences of climate change (just transition)
- Strengthening internal capacities and professional knowledge of employees in climate risks

IV. STRATEGIC ENABLERS

1. Sustainability

The sustainability of HBOR's operations is reflected in the reduction of the negative impact on the environment, the positive impact on society and the ensuring of the long-term financial sustainability of HBOR.

In the light of global challenges such as climate change, scarcity of resources and social inequality, the role of HBOR in promoting the sustainable development of the Republic of Croatia is becoming increasingly important. Given that HBOR's operations are inseparable from its responsibility towards environment, society, work environment and employees, clients and other stakeholders in the economy and society, HBOR will continue to integrate ESG factors into its operations during the new strategic period.

Through the financing of green transition projects that contribute to environmental objectives, HBOR will contribute to the environmental dimension of sustainable development. In addition, HBOR has an important role in promoting positive social impact through social inclusion, by financing SMEs and vulnerable groups, social and municipal infrastructure projects, sustainable cities and local governments as well as through the development of financial products adapted to the needs of less developed areas of the Republic of Croatia. Furthermore, through advisory services and continuous education of its employees and clients and through partnership with international institutions, public and private sector, HBOR will strengthen awareness of the importance of sustainable development and encourage changes that lead to a more sustainable economy and society.

In line with the above, sustainability will be the basis for HBOR's operations in the next strategic period, taking into account the new regulations and the need for the development of new sustainable finance products and the improvement of business processes as well as the need for further continuous education of employees and strengthening of cooperation with stakeholders.

Pursuant to this Strategy, HBOR will aim its activities in the field of Sustainability in four directions:

1.1. Integration of ESG risks into business model, risk management strategy and relevant policies

HBOR must strengthen internal capacities and expertise for successful management of sustainable finance, including the management of ESG risks. HBOR recognises exposure to ESG risks primarily through the financed activities of its clients. Environmental risks, especially climate risks as their integral part, and broader ESG risks fundamentally change the environment in which HBOR and the entire financial sector operate. Integration of ESG risks into the risk management framework will enable the systematic identification, measurement and management of ESG risks, thus prioritising climate risks.

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The above will enable HBOR to recognise and measure ESG risks as well as to identify the opportunities that arise from ESG risk management as a precondition for HBOR's long-term and sustainable operations. Through the integration of ESG risks into its operations, HBOR will strengthen the resilience and stability of its business model by ensuring the finance of sustainable projects, while at the same time reducing HBOR's exposure to other risks associated with negative impacts on the environment and society.

1.2. Development of new financial products for the financing of green transition and economic activities that have a positive impact on society

Through the implementation of existing and the development of new financial products and services, HBOR will fill the market gap in financing green transition towards a climate-resilient and environmentally sustainable economy and will redirect its portfolio towards sustainable investments aimed at achieving climate neutrality.

Besides environmental ones, HBOR will also take into account social and governance goals in terms of supporting economic activities and investments that promote inclusion and gender equality, development of social and municipal infrastructure, development of underdeveloped areas of the Republic of Croatia, etc.

In this sense, HBOR will focus its activities on the development and implementation of new financial products for the financing of green transition and economic activities that contribute to social goals:

- ✓ Financing economic activities and projects that contribute to environmental objectives with a focus on climate targets
- ✓ Financing the transition of companies that want to become sustainable, but cannot switch in one step to a model that would be entirely environmentally acceptable and climate neutral
- ✓ Financing of the transition is necessary to ensure a timely transition of the real economy to sustainability and to ensure the competitiveness of the Croatian and EU economy. HBOR will pay special attention to the fact that different companies have different opportunities and capabilities for transition depending on their size, sector, activity they perform, geographical area in which they operate, available resources and technologies, which is why they will have different needs for finance
- ✓ Financing investments that contribute to social goals (e.g. educational, health, social and municipal infrastructure, etc.)
- ✓ Financing special target groups (e.g. young entrepreneurs, female entrepreneurs and start-up entrepreneurs) in order to facilitate their access to finance

1.3. Strengthening internal competencies and financial capacities

- ✓ HBOR will continue to strengthen its internal capacities in terms of acquiring technical expertise and developing the skills of its employees as well as providing sources of funds necessary for the initiation and implementation of sustainable investments and the integration of ESG risks into the processes of client, project and portfolio analysing, performance monitoring and reporting on ESG effects and goals
- ✓ HBOR will strengthen cooperation with international financial institutions to ensure favourable sources of funding for sustainable finance as well as exchange of knowledge and practices. In this way, HBOR will additionally strengthen its capacities for assessing environmental, social and governance impacts, risks and opportunities with the aim of

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better project assessment and redirection of capital into green transition projects and activities

1.4. Strengthening cooperation with stakeholders

- ✓ HBOR will continue to cooperate with local, regional and international sustainable finance stakeholders to mobilise the funding sources and knowledge needed to increase HBOR's portfolio of sustainable investments
- ✓ HBOR will strengthen cooperation with entrepreneurs who need transition finance
- ✓ HBOR will actively cooperate with complementary partners for joint cooperation in the matter of sustainable finance, such as commercial banks and leading international financial institutions, which will enable HBOR to expand its range of activities and performance, develop resources, expertise and products in order to support sustainable development of the Croatian economy

2. Active and efficient use of national, EU and other international sources of funds

For the successful realisation of every strategic goal, apart from its own funds, HBOR will use available national, EU and other international sources of funds to ensure adequate financial support for its strategic activities and to identify opportunities for financing projects in the areas of interest. HBOR raises general and special purpose funds in domestic and international financial markets, most often in the form of loans and occasionally debt securities.

The main sources of special purpose funds include international financial institutions such as the European Investment Bank (hereinafter: EIB), the Council of Europe Development Bank (hereinafter: CEB) and the International Bank for Reconstruction and Development (hereinafter: IBRD). Beneficiaries of funds of these international financial institutions must meet special environmental and social criteria and standards.

In order to implement the green transition, an increasing part of HBOR's funding will be allocated to projects that contribute to environmental objectives.

HBOR has an important role in the use of EU funds, especially through financial instruments under the NRRP and the European Structural and Investment Funds. During the next strategic period, HBOR will implement EU financial instruments under the 2021-2027 multi-annual programme period, which will enable more favourable funding of the private and public sectors with the aim of strengthening competitiveness, regional development and the green and digital transition of the economy. Through the new EU financial instruments, on the development of which HBOR cooperated with the relevant ministries, it will be possible to write off part of the principal loan amount if the prescribed criteria are met. During the next strategic period, HBOR will actively participate in negotiations related to the development of strategic documents for the use of EU funds in the coming 2028-2034 financial perspective and will continue to strengthen its role of a public promoter of activities related to the implementation of financial instruments from the EU funds.

HBOR's base of funding sources is balanced in order to meet the funding needs of all segments of the economy in a timely manner. By strategically using various sources of finance, HBOR creates the preconditions for expanding and diversifying its lending and investing activities, and at the same time strengthens HBOR's financial resilience, reduces risks and positions HBOR as a key participant in encouraging the sustainable development of the Croatian economy.

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Given the limited sources of funds available for implementing certain national and crisis measures, it will be necessary to secure financial support from the relevant ministries in the coming period needed for internationalisation activities and for encouraging special target groups that are strategically important for the Republic of Croatia.

Along with the active use of national funds and available EU funds as well as funds from the EU and other international sources, HBOR will continue to develop new financial products and encourage the development of special financial arrangements with international financial institutions, which will be key to the successful implementation of HBOR's planned activities in the coming strategic period.

In addition, HBOR will consider the possibility of financing through green bonds.

What HBOR wants to accomplish:

- ✓ Ensure favourable sources of funds for key strategic activities
- ✓ Develop new financial instruments
- ✓ Become a key promoter of activities for the implementation of financial instruments from EU funds
- ✓ Improve the system of reporting to financial institutions and relevant ministries

Priority areas and activities:

- **Active and efficient use of national funds**
 - ✓ HBOR will cooperate with the relevant ministries to effectively mobilise available national funds and provide subsidy funds with an objective of successfully implementing national (and, if necessary, crisis) measures and encouraging special target groups that are strategically important for the Republic of Croatia
 - ✓ HBOR will continue to strengthen its role in the development and implementation of financial products and services from national sources of funding in the areas of strategic interest to the Republic of Croatia (debt instruments, guarantee schemes, alternative sources of finance)
- **Active and efficient use of EU funds**
 - ✓ HBOR will cooperate with the relevant ministries to effectively mobilise available EU funds and strengthen the role of HBOR as a key promoter of activities related to the implementation of financial instruments from EU funds
 - ✓ HBOR will implement new financial instruments with an objective of successfully absorbing available EU funds under the 2021-2027 multi-annual programme period
 - ✓ HBOR will actively participate in negotiations related to the development of strategic documents for the use of EU funds in the new 2028-2034 financial perspective
- **Active and efficient use of international and EU centralised funds and programmes**
 - ✓ HBOR will develop and expand multi-annual successful cooperation with international financial institutions to ensure adequate financial support for its future strategic activities, especially in the segment of financing projects in priority areas, such as green and digital transition
 - ✓ HBOR will continuously monitor and coordinate the development and implementation of products under EU centralised strategic initiatives as well as special financial arrangements implemented by the EC and international financial institutions
 - ✓ HBOR will actively participate in the preparation and development of products for debt and equity activities under InvestEU

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- ✓ HBOR will launch initiatives for the development of alternative sources of finance in cooperation with the EC, the EIB Group and international financial institutions and national development banks
- **Raising funds in capital markets**
 - ✓ HBOR will consider the possibility of financing through green bonds
- **Development of internal capacities and competencies**
 - ✓ Although HBOR's employees possess the knowledge and competence necessary for the efficient use of available funds and initiatives at the national, EU and international levels as well as the development and implementation of financial programmes that are necessary for the achievement of HBOR's strategic goals, HBOR will continue to strengthen its internal capacities necessary for the development and implementation of EU and other financial instruments, products and services through the exchange of knowledge and practices with other development banks, EU and international financial institutions
 - ✓ HBOR will continue to improve IT support for monitoring of and reporting on its business activities to financial institutions and relevant ministries

3. Flexible and sustainable organisation with a proactive business approach

HBOR recognises the importance of proactivity, flexibility and sustainability in its operations in order to adapt to a dynamic environment, achieve long-term business success and fulfil its mission. This includes continuous adaptation of business models, products and services and strengthening of internal capacities.

Employees are key to the achievement of strategic goals and the long-term development of HBOR so that it can be ready to deal with environmental changes and market demands.

In a fast and dynamic environment, the flexibility of employees is crucial and includes the ability to quickly react to changes and adapt work processes and technology, which HBOR's employees have shown during the past strategic period, especially in the conditions of the introduction of crisis financial programmes.

In this sense, HBOR will continue to invest in the development of its own employees through continuous education and professional training in the field of digital knowledge, personal data protection, ESG factors, knowledge required for managing the information system and its security, and other specific business areas of importance for HBOR as well as through the exchange of knowledge and practices with other domestic and foreign financial institutions and associations.

For HBOR's success, it is important to have happy and satisfied employees, and HBOR will continue to create a motivating and stimulating work environment, in which agility, innovation, expertise and cooperation among employees are encouraged as well as a good balance between business and private life.

In addition to the above, in the next strategic period, HBOR's activities will be focused on strengthening risk management, improving reporting system, upgrading the monitoring of strategic performance indicators of HBOR, and improving the information system and information system security.

What HBOR wants to accomplish:

- ✓ Continue strengthening the internal competencies of employees
- ✓ Raise the level of satisfaction of HBOR's employees

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- ✓ Increase its own efficiency with an objective of providing services that meet the needs of the market
- ✓ Improve risk management (especially ESG)
- ✓ Improve reporting system
- ✓ Carry out further digitalisation and automation of processes and improvement of IT system
- ✓ Carry out further improvement of IT system security
- ✓ Develop system of reporting on the impact of HBOR's activities on the overall development of the Republic of Croatia

Priority areas and activities:

3.1. *Strengthening risk management*

Risk management is one of the key activities that ensures the financial stability and sustainability of HBOR's operations. HBOR continuously identifies, evaluates, measures, manages and monitors the risks to which it is or could be exposed in its operations. The risks that have or could have the most significant material impact on the operations of HBOR, i.e. the most significant financial consequences or the impact on business continuity, are: credit risk, liquidity risk, interest rate risk and operational risks. These risks are managed on a daily basis pursuant to strategy, policies, ordinances, methodologies, instructions and a system of limits, controls and decisions of competent bodies.

Due to the importance of credit risk in HBOR's operations, the rating models developed by the consulting company Deloitte as part of the Project for the development of new credit rating methodologies financed by the EC under the SRSP (Structural Reform Support Programme) for the period 2017-2020 were introduced into regular operations in 2024. The advantage of the new rating models is the calculation of the probability of default (PD) at the client level. The calculation of PD enabled the development of a methodology for calculating interest rates based on the client's riskiness (Risk Based Pricing, RBP). In the new strategic period, HBOR will continue to improve credit risk management.

Climate risks, as an integral part of environmental risks, are increasingly relevant in the operations of financial institutions. Climate change poses a significant risk for financial institutions because it can affect various aspects of operations and financial stability. Climate risk assessment includes the identification, analysis and management of risks related to climate change that may affect HBOR's operations.

HBOR's approach to climate risk management is focused on identifying climate risks, understanding their severity and occurrence probability, and determining how to manage them.

- **Activities in risk management:**

- ✓ HBOR will continue with the development and improvement of risk management activities, especially in the area of managing exposures with increased credit risk to preserve the quality of the portfolio and improve the system for early detection of increased credit risk
- ✓ Integration of ESG risks into the risk management system is one of the goals of the sustainable finance of HBOR and will be one of the key activities in the next strategic period. Priority is given to climate risks, as they represent a significant source of financial risk for HBOR, and the rules, processes and methodology for climate risk management will primarily be developed and implemented. HBOR will regularly monitor climate risks and check the effectiveness of implemented measures
- ✓ HBOR will consider the possibilities of introducing new risk parameters (PD and LGD, Loss Given Default) to improve the calculation of impairment and provisions for expected credit losses

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- ✓ HBOR will continue to further strengthen the risk management function in the credit placement approval process
- ✓ HBOR will continue to strengthen internal capacities and conduct training on risk management at the level of HBOR, as well as promote a culture of risk awareness throughout the organisation, encouraging all employees to recognise, assess and act in the framework of risk management in their activities with the aim of raising awareness about the importance of risk management and making risk-aware business decisions

3.2. *Improving reporting system*

Due to the increasing requirements for the collection and processing of data for the purpose of reporting on HBOR's performance indicators, not only for its own needs but also for the needs of reporting to the financial institutions whose funds HBOR uses for its business activities (e.g. EIB, CEB, IBRD, etc.), to the competent ministries on whose orders HBOR implements certain mandate activities and EU financial instruments as well as to the EC and other stakeholders, HBOR has recognised the need to improve the data collection, recording and reporting system (hereinafter: the Reporting System). The improvement of data infrastructure is one of the main activities related to compliance with the requirements of sustainability disclosure regulations.

The improvement of the Reporting System will simplify the process for clients, result in centralised recording and processing of data and consequently lead to greater efficiency, automation of individual processes and reduction of operational risk. A simpler process will have a positive impact on clients in terms of lower administrative burden and will encourage particularly vulnerable groups to use HBOR's finance programmes. The challenges lie in the existence of parallel reporting requirements/frameworks that are not harmonised with each other, terminologically or content-wise.

Consequently, HBOR will continue to carry out activities to improve the Reporting System and adapt the IT system.

- **Activities in Reporting System upgrade**

- ✓ Improving the process of collecting data required for reporting and monitoring the impact of HBOR's activities as well as the contribution to the UN's Sustainable Development Goals
- ✓ Education of employees so that they have the necessary expertise and skills to collect and process data in accordance with new requirements
- ✓ Testing of new data collection processes to ensure accuracy and reliability of data collected
- ✓ Further automation and digitalisation of data collection processes to facilitate their collection and reporting to all relevant stakeholders

3.3. *Improving strategic planning*

Strategic planning implies the definition of clear goals, the adoption of annual operational plans and financial and non-financial performance indicators in the implementation of defined goals. Regular monitoring and analysing of performance indicators is essential for successful management and adjustment of the Strategy and operational plans to achieve the desired results.

As part of the process of preparing annual financial plans and business activity plans based on the Strategy, HBOR will define financial and non-financial key performance indicators (hereinafter: KPI) that will measure progress towards the set strategic goals. Furthermore, the defined priority areas within each strategic goal and strategic precondition will be translated into annual operational plans through specific related activities.

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- **Activities in strategic planning upgrade**

- ✓ HBOR will continue to improve the system of defining, monitoring and evaluating financial and non-financial KPIs to monitor the achievement of strategic goals and ensure sufficient organisational and financial resources
- ✓ HBOR will conduct analyses of identified market deficiencies in the areas of strategic interest for HBOR, which will enable continuous evaluation and adjustment of the Strategy to set goals and changes in the environment
- ✓ HBOR will develop a reporting system on the impact of HBOR's activities on the overall development of the Republic of Croatia

3.4. *Improving IT system and IT system security*

HBOR's 2022-2025 IT System Strategy defines the framework for ensuring the preconditions for further improvements of HBOR's IT system through the IT infrastructure strategy and the application architecture strategy respecting the fundamental principles (confidentiality, integrity, availability, non-repudiation, provability, authenticity and reliability).

A well-arranged IT infrastructure is one of the most important preconditions for ensuring the successful and continuous operations of HBOR, whereby the selected architectural model of IT infrastructure must correspond to real business requirements, all with the aim of establishing a sufficiently stable and flexible infrastructure that will be the basis for further sustainable business development.

- **Activities in the field of improving IT system and IT system security**

In the field of IT infrastructure, HBOR will:

- ✓ Implement new business model optimisation and introduction activities
- ✓ Continue activities to raise the uniformity of applications used for monitoring and managing IT infrastructure, particularly in the domain of databases, operating systems and networks

In the field of applicative infrastructure of external suppliers, HBOR will:

- ✓ Continue activities to raise the uniformity of applications of external suppliers in the domain of databases, operating systems and technologies used
- ✓ Migrate existing outdated applications to new technology platforms
- ✓ Continue activities of uniformising the way of using existing data and exchanging data with other applications at HBOR as well as simplifying the process of installing new versions and upgrades, where possible and justified

In the field of implementing a new central banking system, HBOR will carry out the following activities:

- ✓ Continuation of activities on infrastructural and technological consolidation of existing applications, where possible and justified
- ✓ Performance of activities related to market analysis for the procurement of the new central banking system and further activities related to the possibilities of its implementation

In the field of applicative infrastructure of internally developed applications, HBOR will carry out optimisation activities and continue migrations to new technological platforms or replacement activities of existing applications with other solutions.

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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. HBOR manages the system of information security and digital resilience in accordance with the valid regulations of the Republic of Croatia and the EU in the area of risk management of credit institutions as well as security standards in the financial business sector. However, attack vectors are changing every day, and it is necessary to plan the adaptation of IT system protection and the introduction of new IT security solutions.

In the field of cybersecurity, HBOR will continuously implement the adaptation of security measures to new business conditions through the following activities:

- ✓ Continuous work on the protection of data, IT systems and users of HBOR's computer network from security threats
- ✓ Standardisation, harmonisation and uniformization of the IT security control system in HBOR's computer network
- ✓ Compliance with the guidelines of information security standards when managing processes (ISO 27001, Cobit 2019, SANS 20)
- ✓ Active implementation and management of the information security policy in accordance with the best security practices
- ✓ Collection and analysis of information on weaknesses, threats and risks related to information security
- ✓ Reduction of the overall risk to which HBOR's IT system is exposed

HBOR has competent and motivated employees in the domain of IT system management and security, and, bearing in mind that this is a very dynamic area where it is necessary to continuously improve the system in terms of infrastructure, applicative support and security, HBOR will continue to strengthen its internal capacities in acquiring the necessary technical knowledge and skills needed to manage the information system and its security.

4. Proactive cooperation with stakeholders in the economy and society

Cooperation with ministries, units of local and regional government, domestic, EU and foreign financial institutions and intermediaries, Croatian entrepreneurs and other stakeholders in the economy and society is key to the achievement of HBOR's strategic goals.

HBOR would like to develop transparent and long-term relations with stakeholders in order to ensure the harmonisation of mutual expectations and needs and in order for HBOR to strengthen its role in promoting the sustainable economic and social development of the Republic of Croatia and contribute to the achievement of national development goals.

Cooperation with stakeholders, among other things, provides HBOR with the opportunity to collect information on market trends, needs of entrepreneurs and financial intermediaries and to provide access to additional sources of funding, knowledge and good practices, which is crucial for HBOR's activities and projects supported by HBOR.

HBOR will strive for cooperation models, which will be transparent, responsible and in compliance with the highest standards of corporate governance, and will continuously evaluate and develop them.

HBOR will strive to build strong partnership relations, dialogues and joint initiatives in order to stimulate the economic and social development of the Republic of Croatia, maintain the trust of stakeholders in the economy and society and ensure the long-term sustainability of HBOR's operations.

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- **Activities in the field of proactive cooperation with stakeholders**

- ✓ HBOR will intensify cooperation with relevant ministries to support national development policies and participate in measures and definition of special terms and conditions for financial products and services aiming to achieve goals that are of special interest to the Republic of Croatia
- ✓ HBOR will continue to strengthen cooperation with banks, leasing companies and other financial intermediaries to provide the best possible financial support to entrepreneurs. This includes the launch of initiatives, the joint development of financial products adapted to the needs of clients, and the introduction of best practices
- ✓ HBOR will expand the network of cooperation with domestic and foreign financial institutions to provide better support to Croatian entrepreneurs in business and to fill market gaps when the offer of financial services is not sufficient to meet the needs of the market
- ✓ HBOR will continue to strengthen cooperation with EU and international financial institutions from which HBOR raises funds for its operating activities, especially EIB, CEB, IBRD and others, as well as with capital market participants
- ✓ HBOR will actively participate in the work of international and EU associations such as EAPB (European Association of Public Banks), ELTI (European Long-Term Investors Association), IDFC (International Development Finance Club), NEFI (Network of European Financial Institutions for SMEs), Berne Union (International Union of Credit and Investment Insurers), BACEE (Banking Association for Central and Eastern Europe) and others with the objective of defining strategies and guidelines as well as allocating funds, involving HBOR's experts in the work of the associations and using the knowledge sharing programme
- ✓ HBOR will actively participate in activities related to the accession process of the Republic of Croatia to the OECD within the framework of its competencies
- ✓ HBOR will encourage cooperation among different stakeholders such as local and regional government, EU institutions, international development and financial institutions and other domestic and foreign legal entities and associations on issues related to EU financial instruments, EU centralised initiatives, programmes and special financial arrangements aimed at achieving strategic goals
- ✓ HBOR will develop cooperation, exchange of knowledge and experience with domestic and foreign export credit insurers and international partners in the framework of associations of insurers, international financial institutions, associations of exporters and other relevant stakeholders
- ✓ HBOR will actively promote activities and opportunities for financing and investing in the capital market by organising workshops, round tables and conferences for the purpose of identifying the key needs and potentials of Croatian entrepreneurs
- ✓ HBOR will promote partnership with stakeholders through supporting events or projects that contribute to the achievement of strategic goals and that have a positive social impact in the areas of humanitarian work, protection of human rights, promotion of gender equality, environmental and climate protection, sustainable development, education, science, culture, heritage and art
- ✓ HBOR will analyse HBOR's performance in providing public services to beneficiaries (existing and potential)

HBOR will actively cooperate also with other relevant stakeholders, chambers of commerce, local and regional government, development agencies, associations of entrepreneurs, civil society and educational

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institutions. Through continuous and transparent cooperation with stakeholders, HBOR wants to ensure the stability, sustainability and success of its activities and the confirmation that its activities support the interests and needs of its relevant stakeholders.

V. CONCLUSION

In the new strategic period, HBOR will continue to encourage the development of and to strengthen the activities in the equity and quasi-equity market in the Republic of Croatia in order to provide financial support to SMEs and Mid-Caps focused on the development of innovations, new ideas and technological solutions, digital and green transition.

The development of the capital market has a key role in the promotion of the development of the startup ecosystem, innovation, technology transfer and support to SMEs in attaining their potential for growth and success.

HBOR will continue to encourage the regional and social development of the Republic of Croatia in order to achieve balance and promote economic activity throughout the country and strengthen regional competitiveness. Special emphasis will be on the development of underdeveloped areas, rural development, the development of sustainable cities, villages and islands, the development of municipal and social infrastructure and the development of support for vulnerable groups.

Encouraging the internationalisation of the Croatian economy remains high on the list of priorities. HBOR will continue to provide financial support to exporters by facilitating their access to finance as well as by offering them products that protect them against political and commercial risks in foreign markets.

To strengthen the competitiveness and resilience of our economy, a special emphasis will be placed on innovation in terms of supporting those business entities that invest in the development of new business ideas, new technologies, development of digital products and services, improvement of production processes to remain competitive in a rapidly changing market and support for the SME segment.

Finally, HBOR will actively participate in encouraging green transition of the Republic of Croatia and sustainable finance. Through the financing of projects that contribute to environmental goals (one or more of them) as well as through the financing of transition, HBOR will contribute to the reduction of greenhouse gas emissions, the preservation of natural resources and the creation of a sustainable environment for future generations.

HBOR will develop an efficient and flexible business system through good governance and high transparency of operations, improvement and further digitalisation of business processes, strengthening of internal capacities and adaptation to rapid changes in the business environment through modification of existing and development of new financial products and services.

HBOR will pay special attention to the integration of ESG factors into its business activities, the strengthening of risk management, the improvement of reporting and strategic governance systems, and the strengthening of IT data infrastructure and IT system security.

For the successful realisation of each strategic goal, in addition to its own funds, HBOR will use available national, EU and other international sources of funds to ensure adequate financial support for its activities and to identify opportunities for financing projects in the areas of interest.

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HBOR will continue to analyse identified market deficiencies in the areas of strategic interest and will continue to evaluate its performance as well as the development of models for measuring its impact on the economy and society of the Republic of Croatia.

HBOR will adapt the Strategy in accordance with changes in the economy and possible changes to the current regulations and the macroeconomic environment to ensure the achievement of the desired results and identify successes, challenges and opportunities for improvement.

Through cooperation with entrepreneurs, financial intermediaries, ministries, local and regional government units, domestic and foreign financial institutions, scientific community and other stakeholders in the economy and society, HBOR will continue to be the driver of innovation and sustainable development in the Republic of Croatia.