

SOCIAL RESPONSIBILITY AND SUSTAINABILITY REPORT 2019



Zagreb, May 2020

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Statement by the Management Board

Following the EU Action Plan on Financing Sustainable Growth, in 2019, a number of activities were undertaken to enhance the preconditions for reorienting capital flows to finance projects that promote sustainable and inclusive development, i.e. the implementation of the Sustainable Development Goals and the Paris Climate Agreement. Estimates indicate that Europe will need at least EUR 175 billion by 2050 only for mitigation of climate change, and that investors will be able to significantly influence business decision outcomes by taking a leading role and decisions on financing. Last year, we also witnessed far-reaching UN activities on a global scale. On the eve of the UN General Assembly on climate change in July 2019, the Principles for Responsible Banking of the United Nations Environment Programme Finance Initiative (UNEP FI) were published. The principles operationalise the application of the Sustainable Development Goals and the Paris Climate Agreement to the design of financial services focused on sustainability.

HBOR's Social Responsibility and Sustainability Report 2019 has been prepared in the context of the HBOR's 2020 – 2024 Business Strategy guidelines. The Strategy served as a starting point for assessment and underlined HBOR's importance in the development of a sustainable financial industry and in the implementation of the Sustainable Development Goals and climate goals of the Paris Climate Agreement, not only through a new vision of action, according to which HBOR is a spark of Croatia's innovation and sustainable growth, but also through the strategic goals set. One of the areas on which HBOR will put special emphasis in accordance with the new Business Strategy is the climate action and the reduction of CO₂ emissions, as well as the increasingly important issue of identifying and managing climate risks.

This year, we have also taken a step further in a comprehensive consideration of our impacts. We have conducted a survey about the attitudes of internal and external stakeholders to determine the relative importance of individual material impacts and our approach to their management. This allowed us to identify more precisely the areas in which we have the best potential to improve our operations. Satisfaction of clients and transparency have been identified as two key areas of HBOR's influence. The results of the survey showed that in these areas there is still room for additional proactive action, and for their better connection with other key identified areas, such as innovation and digitalisation, which gain special importance in the new Business Strategy.

By the case studies presented in this year's Report, we highlighted individual supported projects, through which we directly contribute to the achievement of sustainable development goals. These examples are part of the total of 2,413 projects supported by HBOR in 2019. In addition to the projects supported through extended loans, export-credit insurance programmes and issued guarantees, HBOR participated in the establishment of venture capital fund *FRC2* that invests in innovative companies with a business idea or prototype. The fund started operating in June 2019, and the first investments were already made by the end of the year. Loan programmes have been merged and their number has

been reduced from 25 to 9, while interest rates have been further reduced for certain groups of beneficiaries.

During 2019, we cooperated intensively with other public and commercial banks on the sustainability and sustainable financing issues. These were also very topical issues within the framework of work of several international organisations and clubs of which we are a member. We participated in the work of special thematic working groups and in extensive preparations for the adoption of new regulations and implementation guidelines and methodologies, in particular the InvestEU programme, in which we also plan to participate.

We are aware of the demands placed on us by global agreements and standards, as well as the measures prompted by the EU Action Plan on Financing Sustainable Growth. The impact of the EU taxonomy, based on which the decisions on investing in economic activities will be made in the future, will be far-reaching. Therefore, in this report, we have given particular consideration to raising awareness of changes in the financial industry and to understanding the direction of future changes.

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

Sustainable and Responsible Financing in the Focus of the EU

Reorienting capital flows towards sustainable investments

The Action Plan on Financing Sustainable Growth, by which the EU wants to reorient capital flows towards sustainable investments was adopted in 2018. During 2019, the EU operationalised individual action areas defined by the Action Plan. Through the EU taxonomy, investors and companies are given a basis for making informed decisions on investing in economic activities complied with the EU environmental goals.

Driven by insufficient sustainability of the financial system in terms of meeting the needs of society, the EU encouraged the adoption of the most comprehensive and demanding measures in the field of sustainable finance so far. Most of the measures, complex and comprehensive, were driven by the Action Plan on Financing Sustainable Growth¹ (also known as Action Plan on sustainable finance), adopted in March 2018. The adoption of the Action Plan was preceded by the final report of the EU High-Level Expert Group on Sustainable Finance, whose work was attended by senior representatives of civil society, financial sector and academic community. The

Action Plan is a part of broader efforts to connect finance with the specific needs of the European and global economy for the benefit of the planet and society and aims to:

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

With the adoption of the Action Plan, the European Commission has launched two parallel processes with the aim of introducing voluntary market principles and binding legislation. The Action Plan is a kind of response to the following key identified problems:

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

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

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

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

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

Source: European Commission, Sustainable Growth Finance

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

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

EU Taxonomy

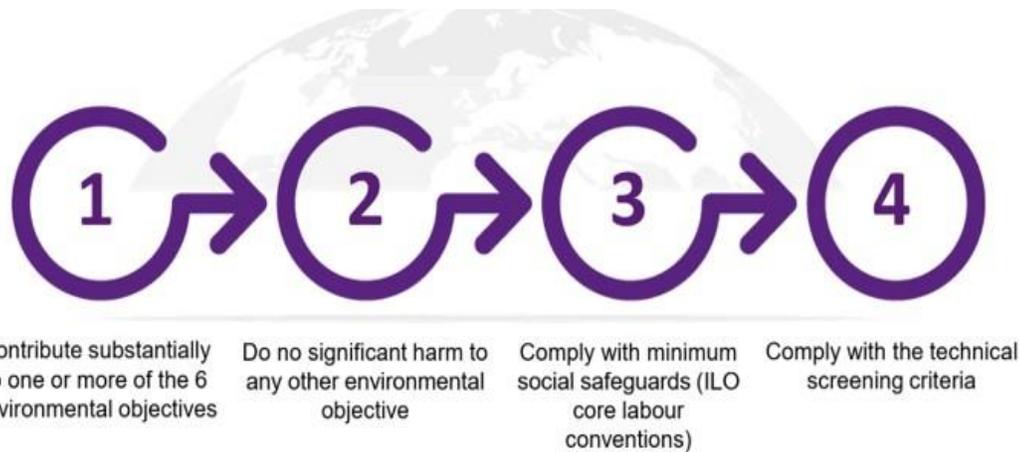
EU taxonomy is a tool to help investors and companies, i.e. classification system, which will enable them to identify environmentally sustainable economic activities with the aim of achieving a climate-neutral economy and the goals of the Paris Climate Agreement². The taxonomy defines a list of economic activities with key criteria for assessing their contribution to the six environmental objectives. These are:

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

In order to qualify for taxonomy, economic activities must meet the following criteria:

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

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



Users of the taxonomy will be all market participants in the financial sector³ that offer their products on the European market, large companies as well as EU institutions and members.



Market participants in the financial sector will have to complete, until 31 December 2021, the first set of information based on the taxonomy, where they will report on activities that significantly contribute to climate change mitigation and/or adaptation. Large companies will have to publish this information during 2022. For these two environmental objectives, the European Commission will publish technical verification criteria by the end of 2020 as an integral part of explicit legal requirements.

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

³ EU Technical Expert Group on Sustainable Finance, Using the Taxonomy, Supplementary Report 2019 and EU Technical Expert Group on Sustainable Finance, Taxonomy: Final report of the Technical Expert Group on Sustainable Finance, March 2020

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

The beneficiaries will have to publish the extended set of information on activities that significantly contribute to the achievement of six environmental goals by the end of 2022. By the end of 2021, the European Commission will prepare the technical verification criteria for activities that significantly contribute to water protection, the transition to a circular economy, pollution prevention and control and ecosystem protection.

In order to monitor the application of the taxonomy and supplement it, it is planned to establish a permanent platform for sustainable financing, which should include experts from the public and private sectors. Representatives of the public sector could be the European Environment Agency, the European Supervisory Authority and the European Investment Bank, while the platform will be managed by the European Commission.

The European Council's proposal to introduce the EU taxonomy was given the green light on 25 September 2019, and at the end of December 2019, the first legislative measures announced by the Action Plan were adopted – the Regulation on Sustainability-Related Disclosures in the Financial Services Sector and the Regulation Amending EU Climate Transition Benchmarks and EU Paris-aligned Benchmarks.

Regulation (EU) 2019/2088 on Sustainability-Related Disclosures in the Financial Services Sector ⁴	Regulation (EU) 2019/2089 Amending EU Climate Transition Benchmarks and EU Paris-aligned Benchmarks ⁵
<ul style="list-style-type: none"> ▪ Targets financial institutions that are expected to report whether they take sustainability risks into account when designing and marketing their products and services, regardless of whether they promote them as sustainable (preventing of greenwashing) ▪ Refers to all market participants, in particular undertakings for collective investment in transferable securities (UCITS), credit institutions, alternative investment fund managers (AIFMs) which manage or market alternative investment funds, including European long-term investment funds (ELTIFs), insurance undertakings, investment firms, insurance intermediaries, institutions for occupational retirement provision, managers of qualifying venture capital funds (EuVECA managers), managers of qualifying social entrepreneurship funds (EuSEF managers) and providers of pan-European personal pension products (PEPPs) ▪ Market participants are expected to make transparent disclosures about the inclusion of sustainability risk in the investment decision-making or investment advice process, taking into account the main negative impacts of investment decisions on sustainability factors and information on the extent to which remuneration policies are aligned with the integration of sustainability risk ▪ At the product level, market participants will need to describe how they have integrated sustainability risks into investment decisions, the likely impacts of sustainability risks on financial product returns and how financial products are available and consider the main negative impacts on sustainability factors. In the presentation of financial products, their environmental and social 	<ul style="list-style-type: none"> ▪ Aims to encourage companies to enable supervisors to verify that they apply measurable and science-based decarbonisation trajectories to support the long-term global goals of the Paris Agreement (no more than 2°C compared to the pre-industrial period) ▪ Refers to benchmark administrators located in the European Union, who provide benchmarks used in the European Union and who provide data used as input for benchmarks ▪ Investors need to be better informed about how benchmarks reflect environmental, social and governance objectives and align with the objectives of the Paris Agreement ▪ For each benchmark and for each family of benchmarks by which carbon reduction targets are achieved, except for currency and interest rates, the benchmark administrators must explain by 30 April 2020 how key elements of their methodology reflect the environmental, social and governance factors, and at the latest by 31 December 2021 explain how they have harmonised their methodology with the aim of reducing carbon emissions, i.e. how they achieve the objectives of the Paris Agreement ▪ For benchmarks aimed at achieving environmental, social and governance objectives, administrators must explain by 30 April 2020 how environmental, social and governance factors are reflected in their following elements: the reason for applying the methodology used to calculate the benchmarks, criteria and procedures used to determine benchmarks and potential constraints ▪ By 30 April 2020, benchmark administrators must ensure that at least the

⁴ [Regulation \(EU\) 2019/2088 of the European Parliament and the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector](#)

⁵ [Regulation \(EU\) 2019/2089 of the European Parliament and the Council of 27 November 2019 Amending Regulation \(EU\) 2016/1011 as regards EU Climate Transition Benchmarks, EU Paris-aligned Benchmarks and sustainability-related disclosures for benchmarks](#)

<p>characteristics or a combination of them must be promoted, as well as those that have sustainable investment as their goal</p> <ul style="list-style-type: none"> ▪ Market participants will have to update their environmental, social and governance policies, documents preceding contracts, marketing communications and leaflets on financial products in compliance with new legal obligations ▪ The Regulation shall apply from 10 March 2021, while the regulations for products shall apply from 30 December 2022. 	<p>minimum standards for presenting new categories of climate benchmarks are met</p>
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Role of the European Banking Authority (EBA)

The European Banking Authority⁶ published on 6 December 2019 the EBA Action Plan on Sustainable Finance⁷ outlining its approach and timeframe for fulfilling the mandates related to environmental, social and governance factors (ESG factors) that increasingly gain importance in financial markets due to climate change, public sector activities and society as a whole. Changes are expected in the fields of strategic management, risk management, public disclosure and scenario analysis. Therefore, according to the EBA, it is crucial that financial institutions can monitor and measure ESG factors in order to manage transaction risks and physical risks. Transition risk is the borrower’s risk arising from the transition to a low-carbon and climate-resilient economy, and may include political risk, legal risk, technological risk, market risk and reputational risk. Physical risk is the borrower’s risk arising from physical changes that can cause climate changes such as storms, floods, fires, long-term climate change, rising of sea levels, water availability and more. As the manifestations of these risks are still uncertain, the EBA encourages financial institutions to start incorporating ESG factors into their business strategies right now and to start identifying ESG risks and monitoring them by using simple measurement tools such as the green asset ratio. For its part, the EBA, „aware of the urgent need to act immediately“, as pointed out by the President of the EBA Jose Manuel Campa, will focus first on the strategy and risk management, the accompanying measurement tools and disclosure. In the second phase, it will develop a dedicated stress test for climate change, and in the third phase, it will be focused on examining evidence for the prudential treatment of „green exposures“ of banks. All these phases will take place according to a previously determined schedule until 2025.

⁶ The European Banking Authority (EBA)

⁷ EBA Action Plan on Sustainable Finance

Glossary of the EU Sustainable Finance

FOR THE EUROPEAN COMMISSION AND THE EXPERT GROUP ON SUSTAINABLE FINANCE AT THE EU HIGH LEVEL, ONE OF THE KEY ELEMENTS FOR REORIENTING CAPITAL FLOWS IS THE COMMON LANGUAGE OF SUSTAINABLE FINANCE. THE TERMS DEFINED IN THE ACTION PLAN ARE SOMEWHAT DIFFERENT FROM THE TERMS USED BY INDIVIDUAL MARKET PARTICIPANTS.

Sustainable investment

An economic activity contributing to the achievement of a particular environmental or social objective on the condition that the investment does not significantly harm any other environmental or social objective. The investee company is expected to „adhere to good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance“. Note: this definition differs from the definition generally used by market participants, which reads: „Any investment approach integrating environmental, social and governance factors into the selection and management of investments.“⁸

⁸ EU Action Plan on Sustainable Finance, Swiss Sustainable Finance



Source: ECOFACT and Swiss Sustainable Finance

Environmental objectives should be measured “for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, or on its impact on biodiversity and the circular economy.” – Regulation (EU) 2019/2088

Social objectives are those that contribute “to tackling inequality or that foster social cohesion, social integration and labour relations, or an investment in human capital or economically or socially disadvantaged communities.” – Regulation (EU) 2019/2088

Sustainability factors

These are environmental and social aspects, as well as employee relations, respect for human rights, anti-corruption and anti-bribery matters.

Note: This definition differs from the current understanding of many market participants. The sustainability factors covered by the EU in this definition may seem broader in scope than the traditional view of financial institutions. The EU definition is in line with the terms „responsible business conduct“ created by the Organisation for Economic Co-operation and Development (OECD).

Sustainability risk

An environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment. The definition also includes an additional category, the main material negative impact, i.e. the impact of a decision or investment advice resulting in material negative impacts on sustainability factors. This approach is one of the cornerstones of the EU sustainable finance initiatives and is aligned with the idea of risk as defined by the OECD and the UN.

Banks Worth USD 47 Trillion Endorse the Principles for Responsible Banking

United Nations Environment Programme Finance Initiative (UNEP FI) published in July 2019 the final version of The Principles for Responsible Banking. The banking sector has thus been provided with a comprehensive basis for action in line with the UN Sustainable Development Goals and the Paris Agreement.

The Principles for Responsible Banking provide a framework for the development of a sustainable banking industry by aligning it with 17 UN Sustainable Development Goals⁹ and the Paris Climate Agreement adopted in 2015. They have been developed by the founding banks of UNEP FI, 30 of them gathered in a core group, and their implementation has been supported by more than 100 banking institutions worldwide. Key features of the Principles for Responsible Banking:

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



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

Six key Principles for Responsible Banking:

- **Alignment** of business strategy to be consistent with, and contribute to, individuals' needs and society's goals, as expressed in the Sustainable Development Goals, the Paris Climate Agreement and relevant national and regional frameworks;
- **Impact & Target Setting** aimed at continuously increasing the positive impacts while reducing the negative impacts on, and managing the risks to, people and environment resulting from the bank's activities, its products and services;
- **Clients and Customers** approached responsibly with a view to encourage sustainable practices and enable economic activities that create shared prosperity for current and future generations;
- **Stakeholders** approached proactively and responsibly with the aim to achieve society's goals through consulting, engaging and partnering;
- **Governance & Culture** to implement the Principles through effective governance and a culture of responsible banking as well as ambitious and responsible setting of public targets with the most significant impact;
- **Transparency and Accountability** of Banks includes periodic review of individual and collective implementation of the Principles and transparent and accountable reporting on positive and negative impacts through non-financial reports.

The Principles were officially launched on 22 September 2019, one day ahead of the UN General Assembly, Climate Action Summit in New York. Their implementation was endorsed by banks worth USD 47 trillion that committed to design financial products and services focused on sustainability with a view to implementing far-reaching changes, including the measuring of impact of economic activities on society and the environment, as well as ongoing activities for the development of sustainable and low-carbon economy.

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

- Analyse their **positive and negative** impacts on the society, the environment and the economy and then identify where they can realise the greatest positive impacts and reduce significant negative impacts;
- Set **SMART targets** that address the significant impacts that have been identified and work towards achieving them;
- **Take accountability** through continuous and transparent reporting on progress and conducting quality assessment.

Banking for Climate Change – Banks Called for Responsible Project Financing

Measures for the responsible financing of projects are also explained in the report *Banking on Climate Change 2020*. It is a comprehensive report on global banks and financing of fossil fuel endorsed by more than 250 organisations from 45 countries. It was released by non-governmental and environmental organisations: *Rainforest Action Network, BankTrack, Indigenous Environmental Network, Oil Change International, Reclaim Finance and the Sierra Club*. The report, which analyses the period from 2016 to 2019, indicated to the fact that after the Paris Climate Agreement, 35 large world banks financed fossil fuels with an amount of \$2.7 trillion. The report also appeals to the importance of preventing negative effects that lower the living standards and the well-being of society, regarding particularly fossil fuels such as tar sands oil, arctic oil and gas, offshore oil and gas, fracked oil and gas, liquefied natural gas (LNG), coal mining and coal power.

According to the *Banking on Climate Change 2020* report, banks should:

- Measure and reduce the negative impact on the climate and align their policies and strategies with the Paris Agreement criteria, which need to be regularly reported
- Explicitly acknowledge the central role of the fossil fuel oil industry as the major driver of climate breakdown and prohibit financing for all fossil fuels and fossil fuel infrastructure expansion projects
- Phase out financing for existing projects and companies active in tar sands oil, Arctic oil and gas, offshore oil and gas, fracked oil and gas, liquefied natural gas, coal mining, and coal power
- Fully respect all human rights, particularly the rights of communities directly affected by the consequences of such platforms
- Ensure that projects and collaborating companies also support the goal of limiting global warming to 1.5 °C
- Increase transparency and work on reputation as many potential clients and shareholders care about compliance with the Paris Agreement
- Be active on the accumulation of knowledge, technology, sustainable strategies and incentives for local communities

The emphasis is on stopping the use of fossil fuels due to the urgent need to cut by 50 % carbon dioxide emissions by 2030 compared to 2010, and then completely eliminate them by 2050 if we are to have at least 50 % chance of limiting global warming to 1.5 °C. Banks are primarily expected to phase out financing fossil fuels, the consumption of which has been rising every year since the Paris Climate Agreement.

HBOR | Social Responsibility and Sustainability

Our Environment¹⁰

During 2019, Croatia recorded a stable economic growth, reduced the government debt and slowed down borrowings. GDP grew by 3 % compared to 2018. The growth was driven by improvements in the labour market, wage increases and investments. Available EU funds played a major role in such results. By the end of 2019, EUR 9.9 billion were allocated from the Cohesion Fund for various projects. During 2019, the unemployment rate continued to fall, thereby raising the disposable income of households. However, Croatia's GDP per capita relative to the EU average has remained at the same level for ten years. Croatia recorded a negative demographic trend due to the migration of the working population and low fertility rates with a long-term impact on labour shortage in many sectors. The research and development investment rate of 0.86 % of GDP is among the lowest in the EU. The largest concentration of Croatian companies is in low and medium technologically developed sectors, primarily in trade and tourism, which affects the rates of investment in R&D.

The European Commission estimates that the formation of a complete, long-term vision for improving the environmental sustainability, which will encourage transition from a linear to a circular economy, reduce air pollution, improve water supply and sewerage systems and encourage investment in green energy projects, will be crucial for Croatia's further social and economic development. The use of renewable energy sources in transport and better energy efficiency enable the achievement of sustainable development goals and the common EU goals. As for the progress made so far in achieving sustainable development goals, Croatia has made major progress in implementing Goal 8: Decent work and economic growth, and good progress in reducing poverty (Goal 1: No poverty). It is below the European average in achieving indicators in the field of social welfare and labour market, while moderate progress has been made in the segment of good health and well-being (Goal 3), quality education (Goal 4), affordable and clean energy (Goal 7) and industry, innovation and infrastructure (Goal 9).

Key Emphases for Understanding the Role of HBOR and its New Strategic Goals

- The manufacturing industry is mainly oriented towards low technology activities, outdated machinery and equipment.
- The domination of traditional sources of funding as basic sources of funds for the growth and development of entrepreneurial activities is an obstacle for stronger development of high-tech sectors and companies.
- The development of venture and private equity capital market is one of the key prerequisites for stronger development of innovative projects of start-up entrepreneurs and projects based on research and development.
- Only 15 % of companies in Croatia participate in export activities, with lower value-added exports dominating.

¹⁰Source: European Commission Country Report Croatia 2020 and 2020 – 2024 Business Strategy of the Croatian Bank for Reconstruction and Development.

- Strong EU focus on redirecting capital flows into initiatives aimed at developing renewable energy sources and energy efficiency (climate and energy neutral economy).

The share of SMEs in the Croatian economy is 99.7 % with almost 73 % of all employees. The economic activities are dominated by tourism with a share of 19.3 % in GDP, while ICT has a share of only 8.72 %. It is expected that SMEs could further encourage investment in high technologies introduction, provided that the traditional sources of finance cease to dominate and the venture and equity capital become more available. In other words, the share of SMEs in investments in development and innovations is currently only 32 %. Analyses show that the domination of traditional sources of finance and the lack of venture and equity capital make it difficult to invest in research, development and innovations (RDI projects). This is why micro, small and medium-sized companies in accelerated growth stages and start-ups with a higher degree of risk and innovation (ICT industries) face a challenging environment in terms of finding adequate sources of finance. Entrepreneurs that are less inclined to traditional sources of finance belong to the new generation of entrepreneurs raised in the conditions of accelerated ICT development, and for them, it is important to follow world trends. The domination of traditional sources of funding also affects medium-sized companies that have a small share in RDI projects, and this hinders further the development of the RDI ecosystem in Croatia. Innovation, digitalisation and automation of business processes play a key role in achieving digital transformation and encouraging the development of Industry 4.0 instead of 2.0 that currently prevails in Croatia.

Negative economic and demographic trends in some areas of Croatia have a significant impact on unbalanced regional development. This problem has been recognised throughout the EU, so the support for balanced regional development is one of the basic measures aimed at achieving diversification of activities in rural areas, especially the development of agriculture and fisheries as key drivers of the development of rural areas and the islands.

Domestic entrepreneurs also note the lack of workforce better trained in the STEM discipline (science, technology, engineering and mathematics). Croatia is still lagging far behind other EU countries in exports of value-added products. Although relatively small, the Croatian market is completely open and has for many years been characterised by a strong imbalance between imports and exports. A stronger step forward in exports will require the provision of stronger institutional support, in which HBOR has a unique role.

In Croatia, there is a significant potential for achieving Goal 7: affordable and clean energy, primarily related to the use of wind energy, solar energy, biomass, biogas and hydro energy; however, to further encourage renewable energy projects and better use of currently available funds, it will be necessary to ensure a greater volume of long-term sources of finance that have not been sufficiently available in the Croatian market. A far greater challenge is to achieve energy efficiency goals, given that residential buildings are the largest consumers of energy, followed by transport and industry. Sustainable resource management and environmental protection are also crucial to ensure long-term sustainable development of the economy, on which tourism, agriculture and fisheries in particular depend. To achieve

a better balance between urban and rural development, investments in economic, communal and social infrastructure will be greatly needed.

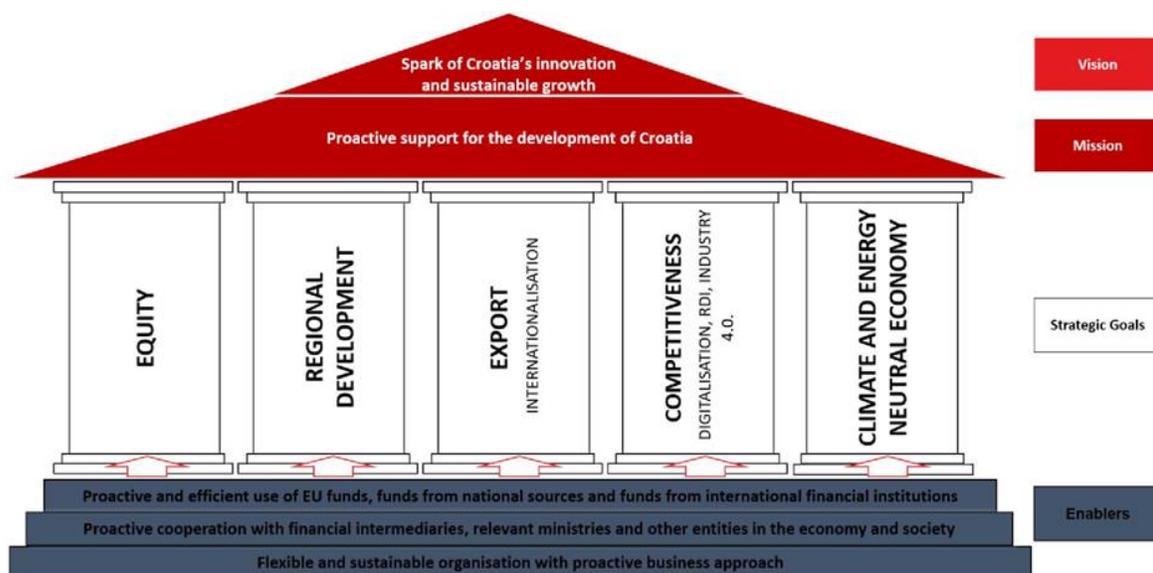
All the above was recognised as an opportunity to redefine and strengthen HBOR’s strategic development role within the 2020 – 2024 Business Strategy with special emphasis on:

- Proactive, systematic and sustainable promotion of innovation environment in Croatia,
- Encouraging the development of financial market,
- Promoting sustainable regional, social and economic development,
- Encouraging the realisation of economic goals and goals of the Croatian Government,
- Achieving the goals of the European Union, 17 sustainable development goals of the UN 2030 Agenda for Sustainable Development and the climate goals set by the Paris Agreement.

The Strategy defines the vision according to which HBOR should become in the next 5 years

Spark of Croatia’s innovation and sustainable growth

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



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

New Framework for the Assessment of HBOR's Material Impacts

Business Strategy of HBOR is a key starting point for assessing the importance of material impacts of HBOR in the sustainability context. In the process of drafting the 2019 report, the materiality assessment included an assessment of attitudes of internal and external stakeholders, and this enabled a comprehensive assessment. The assessment was done following the recommendations for continuous improvement of the quality of the materiality assessment process and non-financial reporting in general¹¹. This assessment is a step further in shaping the internal system of sustainability and accountability governance and in improving the practice of governance and reporting on the impact of HBOR's activities on the development of the Republic of Croatia and society as a whole, with the aim of further strengthening transparency of operations. In the period from 3 March to 17 March 2020, an *online* survey was conducted, in which 137 respondents participated, of which 86 representatives of employees and management of HBOR and 51 external participants. External participants were representatives of clients, NGOs, local and foreign banks, business associations, suppliers and others¹².

Material Impacts and Approach to Governance

The assessment of material impacts of HBOR covered those impacts that can „lead to stronger economic and social growth, creation of added value and reduction of adverse economic, social and environmental developments at national and regional levels“¹³. According to the Principles for Responsible Banking, material impacts are the most significant positive and negative environmental, social and economic impacts related to the goals of sustainable development, the Paris Climate Agreement and other relevant international frameworks, such as the UN Guiding Principles on Business and Human Rights.

In the survey, the following impacts and their importance for achieving the vision of HBOR as a driver of innovation and sustainable growth were evaluated:

- Financing – support for entrepreneurship and development
- Financing – support for climate and environmental protection
- Responsible financing
- Compliance with legislation and European regulations
- Transparency
- Innovations and digital solutions
- Satisfaction of clients
- Dialogue with employees¹⁴

¹¹ Following the adoption of the Action Plan: Financing Sustainable Growth (sustainable financing) and the development of a taxonomy for the classification of economic activities aimed at sustainability, non-financial reporting will undergo significant changes

¹² 102-43

¹³ 2020 – 2024 Business Strategy of the Croatian Bank for Reconstruction and Development (the Strategy)

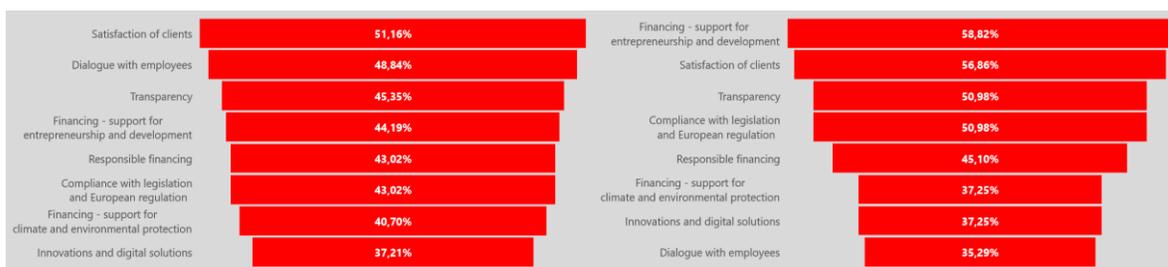
¹⁴ 102-47

Internal and external views showed significant overlaps regarding the assessment of importance of the impact areas **Satisfaction of clients, Transparency and Financing – support for entrepreneurship and development. Innovations and digital solutions** is the area with the least important impact. In the analysis and assessment of material impacts, the approach to governance, i.e. the assessment of proactivity of the organisation’s approach in governing an impact is taken into account. The more active approach, the better governing.

Assessment of importance of material impacts

Internal – employees and management

External - clients, banks, business associations, NGOs...

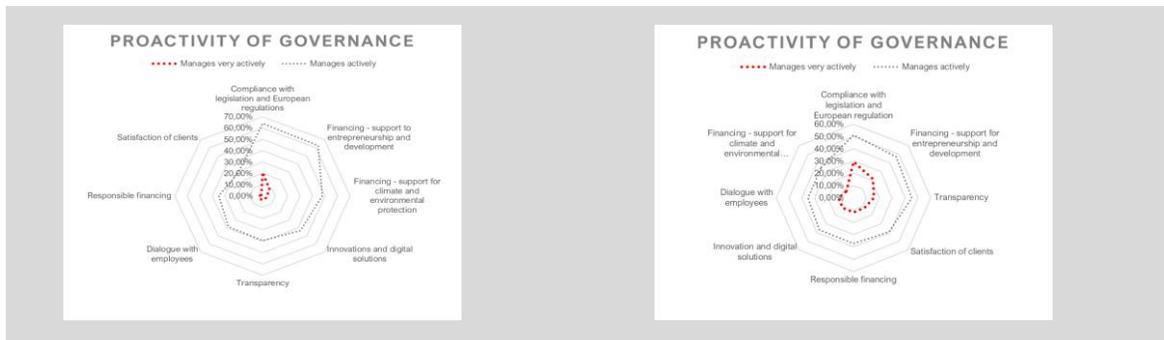


According to all respondents, HBOR has the most active approach to governance in the following two areas of impact: **Compliance with legislation and European regulations** and **Financing – support for entrepreneurship and development** (where external respondents assessed better the approach to governance than internal respondents). HBOR governs least actively, according to assessments of employees and the management, the **Satisfaction of clients**, and according to assessments of external respondents, **Financing – support for climate and environmental protection**.

Assessment of the approach to material impacts governance

Internal – employees and management

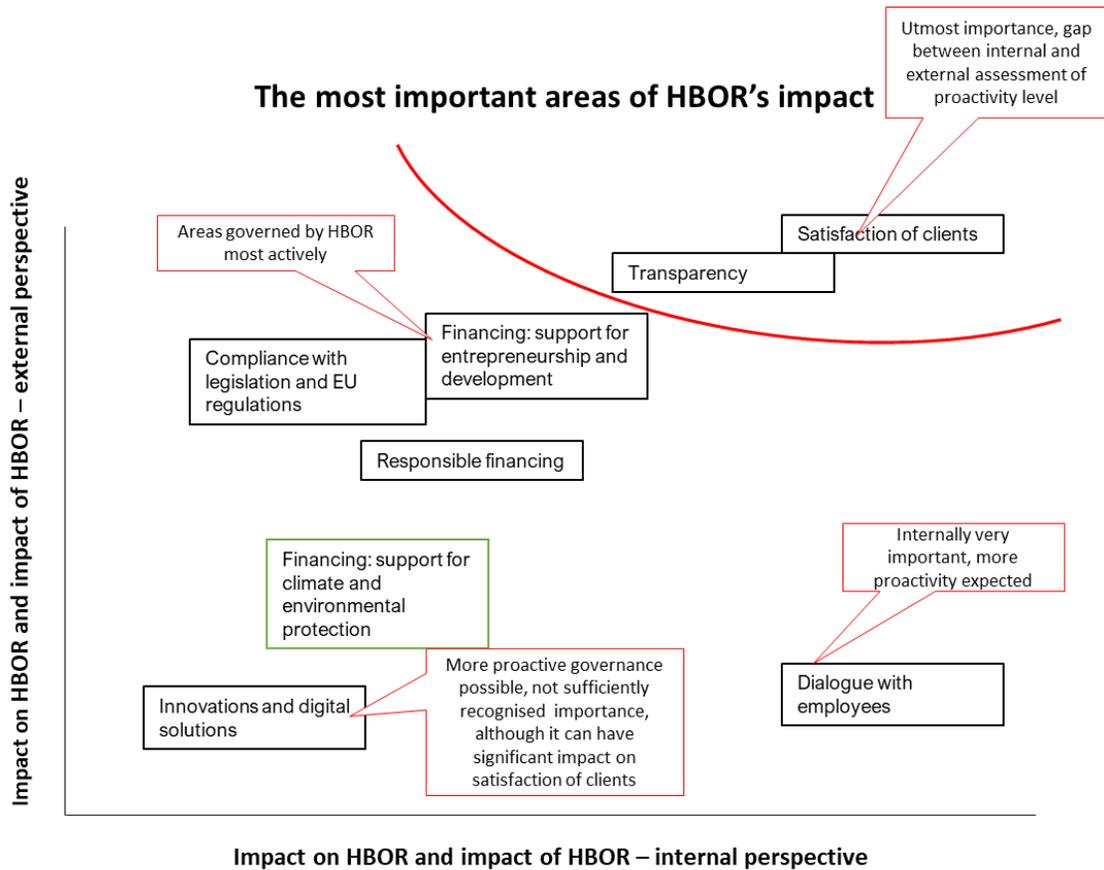
External - clients, banks, business associations, NGOs...



Areas of impact in which HBOR, according to employees and management, has room for a much more active approach¹⁵ to governance are **Satisfaction of clients, Responsible banking, Dialogue with employees, Transparency and Innovations and digital solutions and Financing – support for climate and environmental protection**. This picture is somewhat different from the perspective of external respondents, who rated the level of proactivity of governance in the above areas more positively, particularly in the assessment of a very active approach to governance.

¹⁵ Proactivity (proactive approach) is highlighted in the new Strategy as „one of the key values that will be extremely important for HBOR in the next five-year period and is defined as „proactive approach to the gathering of information through market research, communication with key stakeholders, development and application of new products, and presentation of HBOR's impacts on the economy in general“

Matrix of Material Impacts of HBOR^{16 17}



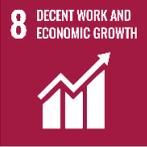
The results of the survey, together with the wider context, especially in relation to the EU policies related to sustainable financing and the new Business Strategy of HBOR, were presented in an online workshop for members of the core team on 24 April 2020. During the workshop, the participants pointed out that when presenting the results to the Management Board of HBOR, special emphasis should be placed on the need for more active governance of dialogue with employees. In addition, a special consultative meeting was held with the advisor to the Management Board, at which the results of the survey were presented and commented.

¹⁶ 102-44

¹⁷ 102-47

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

Respondents also sent a message to HBOR that there was a clear connection between the sustainable development goals and HBOR's operations aimed at achieving four strategic goals defined in the 2020 – 2024 Business Strategy of HBOR. The results also suggest that HBOR has a far greater (possible) impact through Financing: support for climate and environmental protection as perceived by employees and the management, as the largest number of external respondents, 60.78%, said that HBOR could contribute to the achievement of Goal 7: Affordable and clean energy, while in the second place with 54.90% in terms of the highest possible contribution was Goal 8: Decent work and economic growth.

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

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

 	Direct contribution
   	Strategic and sectoral contribution

Satisfaction of Clients

By merging individual loan programmes and reducing their number, the terms and conditions and criteria are more clearly presented, and the selection of an appropriate loan programme for a project is made easier for clients.

Better Understanding and Easier Use of Loan Programmes

Following an extensive analysis of the offer of products and services conducted during 2018, 25 different loan programmes were summarised in 9 main groups of programmes, and their implementation started on 1 May 2019. These are: Youth, Female and Start-Up Entrepreneurship, Pre-Export Finance, Private Sector Investment, Public Sector Investment, EU Projects, Working Capital, Buyer Credit, Supplier Credit and Financial Restructuring. The aim of this change was to make it easier for entrepreneurs to use more easily HBOR's loan programmes.

„From direct contact with users, we witness better understanding and easier use of new programmes and related documentation as compared to the old ones, which were followed by certain temporary measures. This is now embedded into the programmes, there are not so many requests for clarification, users are more confident in selecting an appropriate programme and in the transparency of the conditions and criteria. Clients are also satisfied with the faster process from an initial inquiry to approval, which was facilitated by easier use, and thus selection. In this way, decisions to apply for a loan are made easier. In other words, the period from an initial inquiry to approval has been shortened.“¹⁸

Development Department

Digitalisation of Loan Applications

With the new description of programmes that were simplified, shortened and mutually harmonised, more efficient digitalisation of loan application processing has been made possible. During 2019, the digitalisation of loan application processing began, from the initial inquiry of the potential borrower, through the loan application submission, to the decision-making and contract conclusion (so-called *loan origination*). Part of this process, the initial inquiry, has already been digitalised and works in production, and it will take at least another year and a half to complete the entire project.

HBOR
HRVATSKA BANKA
ZA OBNOVU I RAZVITAK

Kreditni upit

Prijava Registracija

1 Korisnički podaci 2 Zaporka

Korisničko ime ili e-adresa
Korisničko ime ili e-adresa

Zaboravljena zaporka Dalje

¹⁸ 417-1

With the New Regional Office in Varaždin HBOR Has Increased Its Regional Presence in Croatia



HBOR, through its regional offices, carries out the activities aimed at advising and informing entrepreneurs about the use of HBOR as a source of finance for starting a business, its growth and development. With the opening of a new regional office in Varaždin for the region of north-western Croatia in October 2019, HBOR expanded its network of regional offices from five to six. This office covers Bjelovar-Bilogora, Međimurje, Koprivnica-Križevci, Krapina-Zagorje and Varaždin counties. In this way, HBOR has increased its regional presence. In addition to the north-western Croatia, HBOR is also active in Dalmatia, Istria, Primorje and Gorski Kotar, Lika, Slavonia and Baranja. Regional offices play an important role in educating entrepreneurs, especially those who are just starting to think about entering entrepreneurship, as well as in cooperating with local government representatives who create preconditions for increasing economic activities through investments.

More Favourable Loan Terms and Conditions

In its core documents and everyday work, HBOR puts special emphasis on promoting exports. In the daily work and contact of the Credit Division with clients, it became clear that it was difficult for a large number of exporters to obtain favourable loan terms and conditions. Following this feedback, HBOR conducted an assessment of effects of relaxation of the criteria. The assessment showed that a significant number of successful exporters could achieve better competitiveness in foreign markets with more favourable loans. After that, The General Eligibility Criteria for borrowers have been changed, thus enabling exporters to achieve better competitiveness in foreign markets and to obtain a more favourable interest rate for investment loans in the private sector.

Transparency

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

- the issues and concerns of certain groups of the public, while respecting the dual character of HBOR as a financial and public institution,
- the new 2020 – 2024 Business Strategy, in which it is stated that in HBOR’s activities „additional focus will be on the goals set by the UN’s Agenda 2030 for Sustainable Development and the latest climate goals determined in the Paris Agreement“ and
- the public interest in the criteria, based on which it conducts analytical screening of documentation and makes decisions on loans and insurance of individual projects.¹⁹

During 2019, some NGOs active in Croatia and in the EU required from HBOR to review its procedures and approach to reporting and transparency, implementation of analytical screenings of individual projects related to environmental and social criteria (with special emphasis on risk assessment related to human rights, the environment and corruption) and invited HBOR to explain its approach to climate change governance and to explicitly distance itself from funding fossil fuel projects. Further to the Recommendations of the European Ombudsman in case 212/2016/JN for annual reporting on the work of export credit agencies of member states prepared by the European Commission²⁰, member states were invited to improve the quality and scope of the reports submitted by member states to the European Commission each year. Also, HBOR was invited to improve its export-credit activities in accordance with the Recommendation of the Council on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence (The “Common Approaches”).²¹

Following these invitations and the policies and practices of other export credit institutions, HBOR analysed its practices in the processing and approval of applications for export credit insurance and loans. The analysis showed that there was a need to define operational procedures in order to incorporate the Common Approaches more effectively. It was determined that special emphasis should be placed on identifying the impact of projects, analysis of collected data, proposals for future monitoring, decision-making on (non-) supporting of export transactions, public disclosure, reporting etc.²² Also, the need for various in-depth expertise was recognised, and key internal promoters of operational upgrading of HBOR’s actions related to the implementation of the Common Approaches

¹⁹ 417-1

²⁰ The European Commission should amend the reporting format with the aim to improve the reporting method in order to allow it to assess whether a member state’s export credit agency has failed to comply with the EU objectives and obligations, and should develop a methodology for reporting on non-financial issues.

²¹ Recommendation of the Council on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence (The “Common Approaches”)

²² 102-11

were identified. It was anticipated that the entire process of upgrading could be finalised in 2020.

HBOR actively monitors the issue of recommendations from the European Ombudsman to improve the methodology and procedures used by member states when they report annually to the European Commission on the work of their export credit agencies²³. In this regard, it uses several sources of information: disclosures of the European Ombudsman, information received from NGOs, as well as information received as a member of the Croatian delegation in the Export Credits Group of the Council of the EU. HBOR also analysed the proposal of a new checklist template, through which export credit agencies should report annually to the European Commission on their work pursuant to the Regulation 1233/2011²⁴. In the analysis of the proposal of the new checklist template draft, legal requirements, existing practice and capacities of HBOR were taken into account and it was assessed that partial changes in the existing reporting form on the work of export credit agencies were acceptable. The topic of the revision of the content of the checklist template will be on the agenda of meetings of the Export Credits Group of the Council of the EU in 2020.

In addition, the new Business Strategy has prompted the need to develop and adopt a special policy on measures to fight climate change and reduce CO₂ emissions, and the need to identify and incorporate climate risks into internal documents and procedures. This specific policy will be defined within the framework of the strategic operational plan for the implementation of the strategic goal Promote climate and energy neutral economy. It is estimated that, given the complexity of the issue and the existing capacities, it will take a certain period to define it, so the schedule of necessary activities will be defined during 2020.

Regarding the requests for access to information, as of 1 January 2019, HBOR has aligned its processes and documentation in accordance with the Supreme Court judgment. New practice of providing information on direct borrowers of HBOR loans includes four categories of information: name of direct borrower, loan amount, purpose and name of the project. Also, the Management Board Office conducted the process of receiving, reviewing and giving replies to inquiries, warnings and information of individual NGOs and, after consultations with relevant internal expert teams, responded to the inquiries in a timely manner.

²³ [Recommendation of the European Ombudsman in case 212/2016/JN on the European Commission's annual reviewing of Member States' export credit agencies](#)

²⁴ Checklist for Reporting according to Regulation (EU) 1233/2011

Financing | Support for Entrepreneurship and Development

Most of HBOR's loan beneficiaries during 2019 were small and medium-sized companies, to which 1,640 loans were approved, i.e. 89 percent of the total approved loans amounting to HRK 1.65 billion

In January 2019, the European Investment Fund and the Croatian Bank for Reconstruction and Development launched the Croatian Growth Investment Programme, more than EUR 70 million worth programme of joint investment in private equity funds and co-investment with funds.

Additional Reduction of Interest Rates and Fees

By reducing the number of loan programmes, interest rates and fees have been reduced for a large number of entrepreneurs and beneficiaries from the public sector:

- an interest rate of 1.5 % has been introduced for market-competitive enterprises engaged in activities of special interest: agriculture and fisheries, processing industry and computer programming,
- in the Pre-Export Finance programme, instead of the previous 2 and 3 %, respectively, the interest rate, which depends on the credit rating of the entrepreneur and collateral, can be now from 1.75 %,
- interest rate for working capital loans has been reduced from 4 % to 3.5 % for long-term loans and 2 % for short-term loans,
- investments of the public sector, depending on the area of investment, can be financed at an interest rate of 1.75 % or 2 % with no commitment fee,
- the temporary measure of reducing the loan application processing fee to 0.5 % has become a permanent one,
- the reduction of interest rate by 0.20 percentage points for small and medium-sized companies and mid-caps that employ or train young people (Jobs for Youth Initiative of the European Investment Bank) has been made possible.

Support to Innovative Companies through the Fund FRC2 Croatia Partners

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

The fund consists of two components:

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

The fund invests in companies in the Republic of Croatia in the earliest stages of development that have necessary innovation and wish to succeed. Since its establishment in June 2019 until the end of 2019, the fund reviewed more than 700 investment opportunities, the first acceleration programme was completed and the amount of almost EUR 6.5 million was invested in 33 investments.

CROGIP

In January 2019, the EIF and HBOR signed the agreement, by which the *Croatian Growth Investment Programme* (CROGIP) was launched. CROGIP initiative aims to encourage capital investments in small and medium-sized companies as well as mid-cap companies in the total amount of at least EUR 70 million. The EIF and HBOR will each commit EUR 35 million to finance this jointly developed programme. It is expected that CROGIP will catalyse additional investments into equity funds and companies. CROGIP was launched under the *EIF-NPI Equity* platform and the Investment Plan for Europe. *EIF-NPI Equity* platform is a collaborative initiative launched by the European Investment Fund and its goal is to enhance access to funding for SMEs and mid-caps, support the defragmentation of equity markets, and match national, EU and private sources of funding. HBOR joined this initiative in 2016.

The EIF and HBOR will jointly invest into:

- private equity funds to be managed by companies selected by the EIF pursuant to its methodologies, and
- co-investments with funds that already have an established cooperation with the EIF and positive references.

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

New Financial Instruments

During 2019, HBOR implemented four financial instruments, of which ESIF Growth and Expansion Loans and Investment Loans for Rural Development were intended for the private

sector. Through ESIF Growth and Expansion Loans, favourable funds for long-term investment loans to micro, small and medium-sized enterprises are provided. Loans are granted in such a way that 50 % of loan from the source of the European Structural and Investment Funds (ESIF) is financed at an interest rate of 0 %, and the other 50 % of loans from commercial bank's source at the market interest rate determined by the commercial bank. Micro, small and medium entrepreneurs from agricultural, processing and forestry sectors can finance their activities through Investment Loans for Rural Development at an interest rate of 0 % for 50 % of the loan, whereas the other 50 % of the loan is financed at the market interest rate determined by the commercial bank. This financial instrument has been available to potential beneficiaries since September 2019.

Cooperation with HAMAG-BICRO – Individual Guarantees for Rural Development

In 2019, HBOR extended its business cooperation with HAMAG-BICRO and participated in two new HAMAG-BICRO guarantee programmes:

- **ESIF individual guarantees for rural development** aim to facilitate access to finance for micro, small and medium-sized entities in the agriculture, processing and forestry industries via financial institutions that will provide guarantees for the coverage of a portion of loan principal or leasing in accordance with the terms and conditions of the Rural Development Programme of the Republic of Croatia 2014 - 2020. The minimum duration of a guarantee is 12 months, and the maximum 15 years, while the maximum guarantee amount is EUR 1.3 million. Individual guarantees are co-financed by the proceeds of the European Agricultural Fund for Rural development. Guarantees can be obtained for all locations in Croatia, except for the cities of Zagreb, Osijek, Rijeka and Split.
- **Programme PLUS**, a guarantee programme under which guarantees are issued for the coverage of a portion of the loan principal or leasing to successfully operating small business entities. In this way, access to finance via financial institutions is facilitated for micro, small and medium-sized companies. Three measures are covered by the Programme: investments, working capital and purchase of shares.

Cooperation with Counties and Cities – Interest Rate Subsidy

HBOR has also established cooperation with individual counties and cities, within the framework of which entrepreneurs investing in this area can count on an interest rate subsidy on HBOR loans from county or city funds. Thus, during 2019, entrepreneurs who invest in the Osijek-Baranja County and the City of Prelog are provided with loans with an interest rate from zero percent, and entrepreneurs in the Istria County one percent.

In Osijek-Baranja County, funds are provided under two loan programmes: Youth, Female and Start-Up Entrepreneurship and Private Sector Investment. With the subsidy of the Osijek-Baranja County, the interest rate on loans under Youth, Female and Start-Up Entrepreneurship was zero percent, and for private sector investments between zero and 0.8 %, with a subsidy of 2 %. The total lending potential amounts to HRK 90 million. Cooperation with the City of Prelog also includes two loan programmes: Youth, Female and

Start-Up Entrepreneurship and Private Sector Investment, under which the City of Prelog provided interest-free loans for business start-up or development. The lending potential amounts to HRK 5 million. Within the cooperation with the Istria County, lending potential in the amount of HRK 60 million was realised, with an interest subsidy of 1 percentage point during the loan period under the programme Youth, Female and Start-Up Entrepreneurship. These funds are used for loans to medium-sized companies, crafts businesses and cooperatives. During 2020, such cooperation has been realised with a number of other cities and counties.

Raising the Quality of Accommodation through Loans to Private Renters

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

Support to Exporters and Export Credit Insurance

In 2019, Croatian exporters were backed by HBOR in 839 projects with the total amount of HRK 2.75 billion: under all loan programmes, exporters were approved 292 loans totalling HRK 1.56 billion, through export credit insurance policies 536 export transactions were insured totalling HRK 1.14 billion and 11 bank guarantees at the request of exporters in the total amount of HRK 48.74 million were issued.

The largest increase in interest was recorded for the programme for the insurance of direct deliveries of goods and services that provides cover primarily for the export of capital equipment and related services with longer payment collection deadlines. The growth of almost 400 % is the result of growing awareness in the market of the payment collection insurance for medium to long-term export projects. Under the programme, the export of telecommunications equipment and services to the markets of Cuba and Belarus, the export of transformers to the markets of Hungary and Spain, the export of ship parts to Italy and the export of trams to Latvia were insured.

Under the programme Insurance of Pre-Export Finance Loans, banks obtained the possibility of financing working capital for exporters at the stage of export goods production, and exporters were enabled to obtain loans that would otherwise not have been obtained due to insufficient collateral. In 2019, HBOR provided cover to banks in the amount of HRK 397.24 million. In this way, support was provided to exporters in the following industries: shipbuilding, metal structures, fisheries, IT industry, manufacturing of freight waggons, welding electrodes and wires.

For small and medium-sized exporters with an annual turnover of up to EUR 2 million and for those starting the sales of their products and services in the foreign markets, during 2019,

HBOR approved insurance in the total amount of HRK 2.08 million. The majority of transactions insured related to the export of goods and services in the processing industry and to the export of agricultural and food products. The largest volume of insured export turnover was realised for buyers in Slovenia, Italy, the USA, Switzerland and Bosnia and Herzegovina.

Case Studies

Insurance of the Construction and Delivery of a High-Pressure Steam Boiler with a Firing Plant and an Integrated Steam Generator and Steam Turbine

In 2018, Đuro Đaković TEP d.o.o. (ĐĐ TEP) in consortium with GORENJE PROJEKT d.o.o. Slovenia concluded a contract for the construction and delivery of a high-pressure steam boiler with a firing plant and an integrated steam generator and steam turbine with the buyer KOLIČEVO KARTON d.o.o. Slovenia (KOLIČEVO KARTON). The buyer KOLIČEVO KARTON is active in the production of paper and paperboards and is the only producer of the coated cardboard in Slovenia made of special fibres and recycled paper. For its needs, a high-pressure steam boiler is being built, which will be installed in a cogeneration plant to enable the company to produce thermal energy and electricity within its own plants.

ĐĐ TEP prepares, delivers and installs plant components and prepares the final report for pressure equipment with accessories and manuals, as well as attest technical documentation with a contracted value of works of EUR 7.25 million. The completion of works is planned for the end of 2020. HBOR as a bank – issuer of guarantees, issued performance guarantees to ĐĐ TEP, and HBOR as an insurer issued insurance policies that insure the risk of payment under that guarantees in the event of beneficiary's call for payment. By these policies, ĐĐ TEP is protected against losses in the event of occurrence of a call for payment under the guarantee despite the due fulfilment of its obligations or due to the occurrence of some political risk or force majeure, while the bank insures itself against the risk of the exporter.

The image shows a screenshot of the website for Đuro Đaković Termoelektrična Postrojenja d.o.o. (ĐĐ TEP). The website has a navigation menu with items: 'O nama', 'Proizvodi i usluge', 'Reference', 'Novosti', 'Karijera', and 'KONTAKT'. The main banner features the text '98 GODINA DUGA TRADICIJA' and a description of the company's 100-year history in producing boiler equipment. Below the banner are two icons: '7 AFFORDABLE AND CLEAN ENERGY' with a sun icon, and '9 INDUSTRY, INNOVATION AND INFRASTRUCTURE' with a cube icon.

Arrangement and Equipping of a Cheese Production Plant with a Processing Capacity of 500 litres of milk per day in Loznati Agricultural Cooperative

Loznati Agricultural Cooperative in Loznati on the island of Cres was founded by seven member farmers in family relationship in 2008 to ensure the supply of the original island Cres lamb for the needs of the Tavern „Bukaleta“ owned by one of the member farmers. The cooperative wanted to achieve recognition and obtain top quality meat, and therefore, in 2010, it began with an organic method of cultivation. As a logical continuation of production, they began to process milk and produce cheese and cottage cheese. The idea of processing sheep and goat milk into Cres cheese, cottage cheese, yoghurt, fruit yoghurt, hard goat cheese and goat curd and mixed goat and sheep hard cheese, the cooperative turned into a project of construction, arranging and equipping of a cheese production plant with a processing capacity of 500 litres of milk per day. The project is financed with an HBOR loan under the programme Financing of EU Rural Development, Fisheries and Wine Envelope Projects in the amount of HRK 3.1 million, with the help of grants from the EU funds in the amount of HRK 1.3 million, and partly with own funds. The project began in April 2019 and the completion is scheduled for June 2020. Along with launching new activities, the cooperative also plans to hire two new employees at the cheese production plant.



NOVE VIJESTI

PROJEKT UKUPNO VRIJEDAN VIŠE OD PET MILIJUNA KUNA: Poljoprivredna zadruga Loznati s otoka Cresa gradi siranu!

AUTOR: Hina OBJAVLJENO: 02.04.2019. u 12:00



Financing | Support for Climate and Environmental Protection

Promoting a sustainable, climate and energy neutral economy is recognised in the new Business Strategy of HBOR as one of the strategic goals in line with the UN Sustainable Development Goals and the climate goals of the Paris Agreement. This is why HBOR will provide stronger support to public and business entities in the promotion of energy efficiency, renewable energy sources and environmental protection.

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

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

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

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

Very Successful Implementation of ESIF Loans for Energy Efficiency

During 2019, HBOR continued with very favourable conditions for financing the improvement of energy efficiency in public sector buildings and ensuring savings in the public lighting system.

ESIF Loans for Energy Efficiency in Public Sector Buildings

These loans are aimed at achieving a reduction of energy consumption for heating and/or cooling at year level of at least 50 percent on very favourable terms and conditions. Loans are intended for local and regional government units, public institutions and institutions engaged in social activities, state authorities, ministries, central state offices, state administrative organisations and state administration offices in counties, religious communities active in social activities and having public powers regulated by a special law. The minimum loan amount is HRK 100,000, and the maximum amount is HRK 60,000,000, with an interest rate of 0.1 % - 0.25 % - 0.5 %, which is determined depending on the level of development of the investment area. Borrowers are exempt from paying all fees that are usually charged for loan origination. During 2019, HBOR concluded 58 loans for the financing of energy efficiency in the total amount of HRK 187,582,196.76. As a result of great interest and successful implementation, due to which until September 2019 almost the entire amount of HRK 190 million was withdrawn, HBOR and the Ministry of Regional Development and EU Funds signed at the end of 2019 an addendum to the Financing Agreement, by which the initial allocation has been increased to the total of HRK 402.80 million.

ESIF Loans for Public Lighting

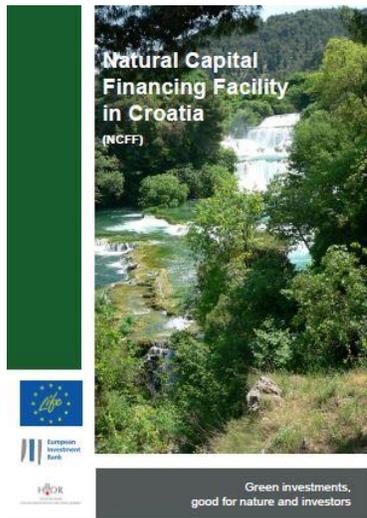
At the end of January 2019, HBOR published amendments to the programme for the purpose of making it more accessible to units of local government. Based on the feedback obtained from interested local government units, minimum technical criteria were changed without compromising the principles of energy efficiency and protection against light pollution. By changing these criteria, a different evaluation of the economic viability of projects were made possible and the conditions for obtaining funds were eased. These loans are intended for the construction of new electricity metering and billing devices, the installation of lighting and controlling equipment, the installation of photovoltaic power supply systems for public lighting with distributed or centrally positioned photovoltaic panels intended exclusively for the supply of electricity to public lighting systems. Eligible investments are those that result in energy savings of at least 50 percent compared to the current situation. Minimum loan amount is HRK 500,000, and maximum loan amount is HRK 15 million, whereas interest rate is variable and depends on the level of development of municipalities and cities. In 2019, HBOR concluded nine loan contracts for the financing of public lighting with three municipalities and six cities totalling HRK 36,430,197.44.

In March 2019, the Finance Agreement was signed between the Ministry of Regional Development and EU Funds and the Croatian Bank for Reconstruction and Development for the financing of the new financial instrument: “**ESIF Energy Efficiency Loans for Entrepreneurs**”. This Programme is available to micro, small, medium and large entrepreneurs active in the manufacturing industry or the service sector (tourism and trade).

Case Studies

Successful Construction of Capacities to Implement New Financial Instrument for Preservation and Sustainable Use of Natural Capital

As the first national development bank in the European Union to join the implementation of the financial instrument called *Natural Capital Financing Facility* (NCFF), HBOR carried out a number of activities in 2019 in order to make the start of its implementation possible in 2020. This financial instrument combines the funds of the European Investment Bank (EIB) and the funds under the LIFE programme: the programme of the European Commission for the environment and climate action. It is intended for the financing of projects that contribute to the preservation and sustainable use of natural capital as well as to the adaptation to climate change by using natural solutions (e.g. green infrastructure). With the help from consultants, HBOR's activities were targeted at four groups of activity: raising of awareness, identification of potential projects, definition of NCFF terms and conditions, and technical analysis and capacity building of HBOR for its implementation.



Under the awareness raising activity group, informative materials were prepared, key interested public entities concerned and potential financial instrument beneficiaries were identified, and workshops and meetings were organised. Within the framework of HBOR's web sites, a separate site was created dedicated to the NCFF that served as an elementary guide for potential borrowers. Those interested can find information on the goals of the NCFF, borrower eligibility criteria, eligible project categories and subcategories, loan terms and conditions, required documentation and so on. Potential borrowers can find relevant information on the NCFF in the brochure: *Natural Capital Financing Facility in Croatia: Green investments, good for nature and investors* both in the Croatian and English languages.

The projects that could be financed under the NCFF are continuously identified, reviewed and assessed at the meetings with the representatives of the interested public entities concerned and potential borrowers. The projects are assessed in terms of their bankability, positive impact on biodiversity and adaptation to climate change. At the same time, issues of mutual concern and possible areas of cooperation on related or complementary activities of other stakeholders are being identified. The Management Board of HBOR has made the Decision on the Financing of the NCFF, and special terms and conditions for the NCFF have been determined under the existing HBOR's loan programmes intended for private and public entities as borrowers, which will enable alignment with and expansion of the purpose of 9 main loan categories to suit the NCFF as well. Besides, the carrying out of the activities aimed at the strengthening of internal and external capacities for the implementation of the NCFF has been initiated. A special focus has been on the improvement of the understanding

of natural conservation projects. Altogether 4 workshops took place intended for the employees of the Credit Division and of the regional offices of HBOR for the purpose of making them capable of recognising project eligible for the NCFE and of carrying out the necessary procedure.



ELENA: Grants for the Preparation of Investment Projects in the Area of Energy Efficiency and Renewable Energy Sources

The European Local Energy Assistance (ELENA) is a technical assistance programme developed jointly by the European Commission and the European Investment Bank in order to provide support for the preparation of investments in energy efficiency and renewable energy sources. Since 2016, the programme has covered also the projects promoting sustainable and innovative urban mobility.

In 2019, the European Commission approved HBOR's application for the programme. Consequently, HBOR has gained access to a maximum EUR 2.097 million in grants (i.e. 90 percent of total eligible costs). The remaining 10 percent of costs will be provided by HBOR from HBOR's own sources. In October 2019, the European Investment Bank and HBOR signed a Finance Contract. The public procurement procedure was launched for the procurement of advisory services in construction and spatial planning for the purpose of obtaining grants under the ELENA Programme. The public procurement procedure was completed for five out of six procurement categories in the first half of 2020. Consultants are expected to start working in the third quarter of 2020.

HBOR will use the obtained grants primarily to finance architectural and engineering and related consulting services in construction and spatial planning for energy efficiency projects in buildings that include renewable energy sources.

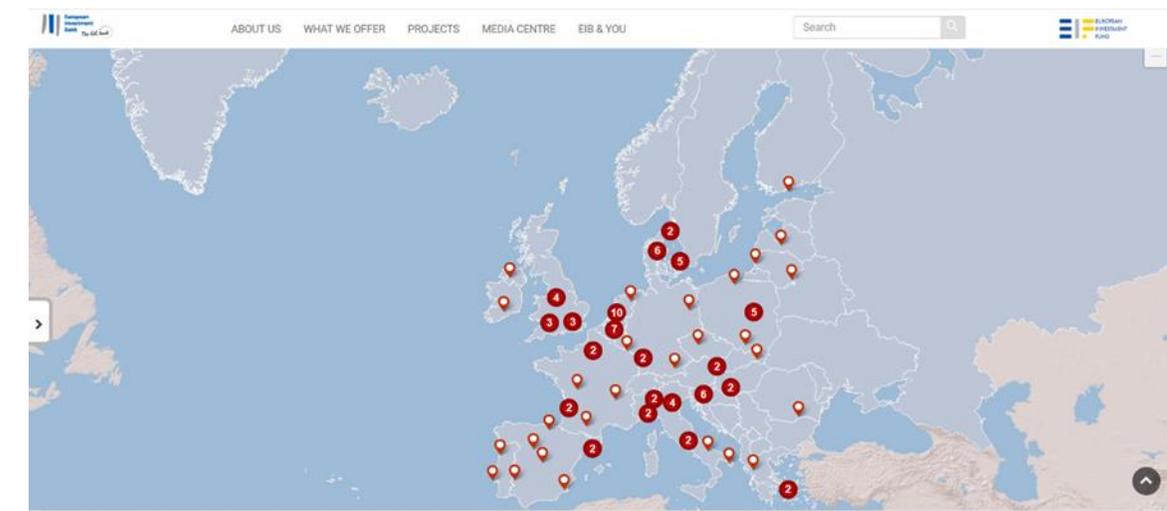
Apart from the preparation of projects financed by financial instruments or HBOR's loan programmes, technical assistance can also be used for projects financed from the borrowers' own funds or from other sources of finance.

The services will be provided by external suppliers (consultants). In addition to the costs of consulting services for the preparation of documentation, the eligible costs under the ELENA

financial support include other related administrative costs (e.g. costs of promotion and marketing, costs of external audit of the ELENA Programme, etc.). Within the ELENA Programme to be implemented by HBOR, 100 percent of the costs of investment project preparation to be performed by selected consultants will be financed.

The main indicator of the success of the ELENA Programme is the attainment of the lever, i.e. the multiplier of technical assistance grants at the level of the total portfolio of the ELENA Programme of HBOR. The level of the multiplier is 20, which means that EUR 2.097 million of ELENA grants should result in a minimum of EUR 41.9 million worth of eligible investments of ELENA grant beneficiaries. The portfolio of eligible investments for the attainment of lever under the ELENA Programme includes the sum of the amounts of investments performed throughout the duration of the ELENA Programme.

ELENA projects in Europe



Source: EIB



In Dialogue with Employees

HBOR continuously provides its employees with equal opportunities for further growth and development, offers them various education possibilities and monitors their development with a special focus on an equal work environment. In order to better monitor employee satisfaction and better understand their wishes and needs, HBOR conducted an employee satisfaction survey of organisational climate at the beginning of 2019.

The survey of organisational climate and job satisfaction was conducted in the period from 4 to 6 February 2019. The questionnaire was distributed to all HBOR's employees, including employees in all positions, both managerial and non-managerial. Altogether 352 employees were included in the survey. The questionnaire was completed by 246 employees, which represents a response rate of 69.9 percent. On the basis of the survey conducted and the conclusions made, activities aiming to develop the skills of managers (middle management) primarily in the segments of team management and task delegation, communication, motivation and feedback as well as conflict management were intensified for the purpose of improving organisational structure and strengthening job satisfaction. Middle management also received training on change management. In order to upgrade the monitoring of work efficiency and rewards, a qualitative analysis of quarterly goals set in the first and second quarters of 2019 was made, which would serve as the basis for further designing manager education. Managers were also trained in the setting of goals with an objective of ensuring that the goals were set in a more objective and qualitative manner.

The next such survey is scheduled to take place after the implementation of the reorganisation planned under the new strategy. HBOR has had a relatively low and balanced employee turnover rate over the last four years and it has recorded a moderate increase in the number of employees in the same period. In 2018, there was an increase in the departure of employees compared to 2017, whereas 20 new employees were hired, and one employee returned from an employment standstill. In 2019, the average number of employees was 368. The relatively low turnover rate, which stood at 6 percent in 2019, enables stability and continuity in business, and it can also pose a challenge in career management and professional development of employees given the increasingly dynamic environment and growing expectations that require the acquisition of new knowledge and skills.²⁷

Employee turnover rate			
	2017	2018	2019
Average number of employees	366	370	368
Departed employees	6	17	22
Employee turnover rate	1.6 %	4.6 %	6 % ²⁸

²⁷ 401-1

²⁸ 401-1

Communication with Employees

HBOR communicates openly and transparently with employees in order to provide employees with access to key information. Employees are also encouraged to communicate any feedback information such as criticism, praise or suggestions, whereas a possibility of anonymous feedback is provided for. In recent years, the intranet has been used more intensively for communication with employees in order to provide timely information. Also, every organisational unit has the ability to share folders and areas at the intranet to ensure better communication, easier work and document sharing. At the same time, regular communication with all employees has been continued via a newsletter that provides all relevant information and the latest news on the bank's activities. At the beginning of 2020, a special event took place, where the Management Board and the management staff presented the new HBOR's strategy to all employees.



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

The only body of HBOR that is composed of employees' representatives is the Occupational Health and Safety Committee, whereas HBOR's Staff Regulations define the persons authorised to receive and resolve complaints related to the dignity of employees. During 2019, no reports on the violations of the dignity of employees were filed.³⁰

Benefits

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

HBOR's employees are entitled to new-born upfront payments and to payments in the case of death of a close family member and in the case of employee's disability in the amounts of non-taxable income in accordance with the Personal Income Tax Ordinance. In addition, HBOR may pay financial assistance to employees in the case of disability of a child or spouse, as a contribution to the payment of medical aids, to the purchase of drugs abroad, to the payment of increased therapy costs, increased medical examination costs, increased hospital treatment costs and to the elimination of the consequences of a natural disaster. Requests for the payment of financial assistance is submitted by employees to the Human Resources and are approved by the Management Board.³²

Gender Equality

In 2018, HBOR adopted the 2018-2021 Action Plan for the Promotion of Gender Equality (Action Plan). This document envisages the implementation of various activities to promote and improve gender equality with two main objectives:

- Ensure efficient implementation of measures and tasks contained in the 2014-2020 Action Plan for the Implementation of Female Entrepreneurship Development Strategy and the National Gender Equality Policy;

²⁹ 402-1

³⁰ 406-1

³¹ 407-1

³² 401-2

- Promote gender equality within the framework of HBOR's regular business activities and ensure continuity in incorporating gender equality principles in HBOR's management processes.

In 2019, HBOR carried out a number of activities aimed at fulfilling the Action Plan with a focus on providing easier access to finance for women entrepreneurs. Altogether 43 applications were approved to women entrepreneurs under the special-purpose programmes Female Entrepreneurship and Youth, Female and Start-Up Entrepreneurship. At the same time, additional adjustments were introduced into the information system, so that it became possible to identify female entrepreneurs under all other loan programmes as of 1 May 2019.

Loans committed under the Female Entrepreneurship Loan Programme			
	2017	2018	2019*
Number of applications approved	49	37	43
Total commitments in HRK	24,472,463	18,257,115	21,006,719

Note: loans committed under the Female Entrepreneurship loan programme and, as of 1 May 2019, loans under the new Youth, Female and Start-Up Entrepreneurship loan programme that are marked as "female entrepreneurship".

Some other activities were carried out with the aim of incorporating the principle of equality into internal processes, strengthening capacity and developing cooperation by participating in certain key stakeholder initiatives. HBOR's representatives participated in international theme panels³³ and expert discussions on female entrepreneurship³⁴ as well as several events on the topic of equality and diversity. Also, some of the projects having received donations and grants 2019 were aimed at protecting or promoting non-discrimination, equality, diversity, human rights and non-violence.

Management Board breakdown by gender							
	2017		2018		2019		
Women	1	50 %	1	50 %	1	50 %	
Men	1	50 %	1	50 %	1	50 %	
Total	2	100 %	2	100 %	2	100 %	

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

Management staff breakdown by gender							
	2017		2018		2019		
Women	18	41 %	18	40 %	20	45 %	
Men	26	59 %	27	60 %	24	55 %	
Total	44	100 %	45	100 %	44	100 %	

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

³³ <https://www.worldgovernmentsummit.org/events/annual-gathering>

<https://www.hbor.hr/en/wgs-small-and-medium-sized-enterprises-are-the-backbone-of-the-croatian-economy/>

³⁴ <https://www.solidarna.hr/site/article/predstavljene-dobitnice-natjecaja-odvazna/hr-HR>

Employee breakdown by gender						
	2017		2018		2019	
Women	242	66 %	246	66 %	243	65 %
Men	124	34 %	124	34 %	129	35 %
Total	366	100 %	370	100 %	372	100 %

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

In 2019, the majority of employees (329 out of 372, i.e. 88 percent) were highly educated and of an average age of 43. Most of HBOR's employees are women. In 2019, 65 percent of the total number of employees were women and men accounted for 35 percent³⁵, where HBOR is no exception in terms of the sector having a general female prevalence. The managerial breakdown contains managerial jobs from the Management Board level to the level of Managing Directors. The relative share of women in the management is lower than the relative share of women in the total number of employees, and, in 2019, the share of women in the management stood at 45 percent³⁶. Furthermore, in 2019, 25 employees were on family/maternity leave, of which 24 women and 1 man³⁷.

Employee Development

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

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

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

The most usual topics of workshops include the changing of legal regulations, the adopting and upgrading of managerial knowledge, and, if necessary, the presentation of changes in processes and manners of working. Specialised workshops for the development and

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

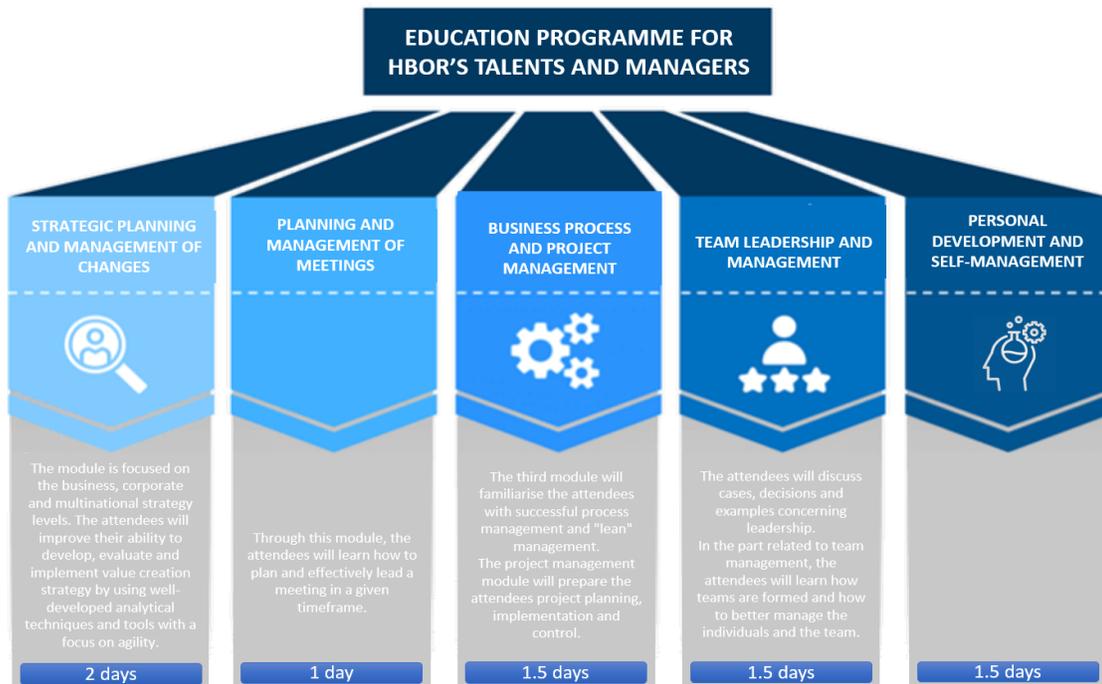
³⁶ 405-1

³⁷ 401-3

acquisition of specific knowledge and/or competences important for business are often organised and carried out by experts or relevant persons from the country or abroad.

Regular workshop cycles are organised for all new employees and trainees: In-house Education for Trainees and New Employees that ensures successful orientation and familiarisation of new employees with the internal organisation and individual work processes. The objective of such education is also to encourage the exchange of opinions among employees. The in-house education programme consists of specialist workshops and general soft skills workshops. Specialist workshops are run by experienced employees from all organisational units that have received trainer education. Furthermore, records are maintained on education activities in the field of social responsibility, human and labour rights, environmental protection and anti-corruption.³⁸

The Management Board of HBOR recognised a particular importance of the development of talents and launched the Talent Development Programme in 2018, through which talents were identified, i.e. employees with a high potential and commitment to be directed and educated through trainings and projects related to HBOR’s activities and processes. They are included in a training cycle through several specially designed workshops tailored to support their further development and stay in the organisation. Their development program includes, among others, training in the areas of strategic planning, project management, team leadership and management, and planning and management of meetings. At the beginning of 2019, the Talent Management Guidelines were developed.



The Talent Programme ended in June 2019.

³⁸ 404-2

Also, in 2019, an internal invitation was announced for the first time to apply for the award of scholarships for financing or co-financing the postgraduate studies of HBOR's employees. The invitation determined the criteria for applicants, the manner of application, the process of selection and the obligations of the winners of scholarships. The selection process includes administrative verification, relevance assessment by competent manager, additional scoring by Human Resources and possible additional interview with the Management Board (in case of multiple applications with the same number of scores). A total of five applications were received (3 female employees and 2 male employees). Three scholarships were awarded, two of which were awarded to women and one to a man.

In 2019, HBOR renewed the Employer Partner Certificate that is awarded by Selectio d.o.o. for excellence in human resource management.

In terms of education, employees attended a total of 6400 hours of education in 2019. External education includes all types of vocational training and education, paid leave for the purpose of employee education paid by the company, training or education outside the company paid in full or in part by the company as well as training on certain issues. Education does not include on-the-job training provided by a superior employee.³⁹

Evaluation of Work Performance

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

These activities resulted in all employees receiving assessments of their performance regularly with individual target goals being set for more than 90 percent of employees. Career development was implemented through possible specialist and professional promotions and through development of careers in the direction of manager or head positions.⁴⁰

Occupational Health and Safety

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

³⁹ 404-1

⁴⁰ 404-3

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

Occupational health and safety issues are defined in internal documents.⁴¹ The Occupational Safety Ordinance and the Guidelines for Occupational Injury and Occupational Disease Procedure have been published on the intranet sites and are available to all employees. Additionally, a special thematic site called Occupational Safety has been set up on the intranet site where all relevant information and instructions are regularly published. Every year, the person in charge of occupational health and safety and fire protection submits to the Management Board a written report on occupational safety measures and measures taken during the previous year as well as the plan of measures for the current year.⁴²

In 2019, all employees were included in the training in the field of firefighting by a business entity authorised by the Ministry of the Interior for this type of training, and a firefighting exercise was conducted as part of the evacuation and rescue exercise. Workshops on occupational safety were organised for all employees, which covered in more detail the following topics: stress at work, physical exercises at work, first aid – provision of first aid and behaviour in crisis situations, through which the most important activities related to occupational health and safety were presented. In the thematic part of the workshops, which referred to stress at work, self-help techniques for better coping with stress situations were explained and demonstrated. In order to better deal with the efforts, in the part related to physical exercises, employees were given instructions on how to relieve the musculoskeletal system. In the part related to the provision of first aid and behaviour in crisis situations, an attempt was made to raise awareness of the dangers that employees may face in disaster situations, how to behave and how to provide first aid in case of disasters or injuries at work. During the workshops, a short film about the behaviour in crisis situations made by HBOR's employees was shown. The workshops lasted on the average from 60 to 90 minutes and were carried out by the representatives of occupational medicine specialists and HBOR's expert services. A survey on the benefits and success of the workshops showed that employees found them useful, inspiring and instructive. They also expressed the wish that such and similar workshops be held regularly, and they showed a special interest in additional training on stress. After the workshops, leaflets (brochures) on the mentioned topics were made and published on the intranet site.

In 2019, a preventive eye examination was organised for all employees and not just for those with optical aids in order to get a real picture of the extent to which working at a computer affects employees' sight and health. With an objective of implementing preventive protection measures against the incidence of occupational and work-related diseases, the procurement of ergonomic aids (pads, etc.) and ergonomic keyboards and mice continued. Two employees with health difficulties were referred to occupational medicine for additional health protection. During 2019, 5 injuries at work were recorded. Four female employees

⁴¹ 403-4

⁴² 403-1

and one male employee suffered injuries, and there were no deaths or occupational diseases. All injuries occurred in the City of Zagreb.⁴³

Environmental Impact

Waste

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

Hazardous Waste

Electric and electronic (EE) equipment is collected, recorded and stored carefully. Each type of hazardous waste is collected and stored separately until hand-over to an authorised collector of waste. This prevents hazardous waste from polluting municipal waste and ensures its safe disposal in accordance with the law. In 2019, smaller quantities of EE waste were handed over to authorised collectors compared with the previous year as considerable quantities of electronic devices (photocopying machines) had been written off in 2018, which was not the case in 2019. The gathered data indicated that there was a significant increase in the quantity of collected waste toners as a consequence of withdrawals of devices, owing to which surplus toners were disposed of. Also, a considerable increase in collected waste fluorescent tubes and bulbs was recorded. In the past year, in order to save energy, but also to create better working conditions for all employees, fluorescent tubes and bulbs were replaced by LED bulbs.

Hazardous waste handed over / kg	2017	2018	2019
EE waste	460	2680	1000
Toners	125	15	100
Batteries	20	20	80
Fluorescent tubes and bulbs	30	7	80
Air conditioning devices	0	0	0

Other Waste

Although in 2018, compared to 2017, there was a significant increase in the collection of bulky waste as a result of the write-off of a significant quantity of fixed assets (tables and chairs), the quantity of collected bulky waste almost tripled in 2019. This was the result of the construction works that were performed in the past year as well as of the clearing of the supplies. All bulky and construction waste was disposed of by the contractors, with which the disposal of waste generated as a result of the performed works was agreed within the agreed price when contracting the terms and conditions of the works.

⁴³ 403-2

In the past years, plastic waste was collected in specially marked cardboard boxes located in the corridors of HBOR premises. In 2019, different types of plastic began to be collected separately, which is why there were no records for some of the separated and collected plastic waste, and the recorded data on collected plastic waste in 2019 were almost three times lower than the quantity recorded in the previous year.

Other waste / kg	2017	2018	2019
Construction and bulky waste	430	2560	6640
Plastic waste	487	140	48

Pursuant to the law, HBOR appoints a waste commissioner and a deputy waste commissioner whose main task is to monitor the implementation of waste management regulations, organise the implementation of waste management regulations and advise on waste management issues related to HBOR. HBOR will continue to implement waste management activities by developing the waste management system and improving the system for monitoring types and quantities of waste collected. In addition, it is planned to continue the implementation of educational activities and measures for the purpose of reducing waste generation and increasing awareness among employees of the importance of waste separation, collection and recycling. These activities are aimed at ensuring the impact on business on several levels: reduction of operating costs and removal of obstacles to the work of individual organisational units (e.g. reduction in the quantity of material stored in the archives, upgrade in the information system, better implementation of the Green Office principles, etc.).

Waste Kitchen Oil and Waste from Grease Separator

All waste quantities generated in the restaurant kitchen are collected and delivered to the entity authorised for industrial cleaning, collection and temporary disposal of waste. This primarily relates to biodegradable waste and waste kitchen oil from grease separator.

Paper and Cardboard

Compared to the previous year, when the quantity of the collected waste paper had been lower than the average as a result of the clearing of the archives and the shredding of documentation, the waste paper quantity rose again in 2019.

Waste paper and cardboard are collected in separate, clearly marked waste paper boxes. The boxes are placed around offices and in visible places in corridors, next to shared printers and copy machines. Waste paper for shredding is collected separately. Waste paper is delivered to companies in charge of collecting and recycling/disposing of paper. HBOR continuously carries out activities aimed at raising the awareness among the employees about the responsible use of resources and reduction of the use of paper documentation.

In 2019, training for the use of the newly introduced Papercut print management system was held at all three locations in Zagreb. This system has the authentication function based on

ID cards used by employees to authenticate and release print jobs, which enables better use and management of the system as well as keeping records of printed documents. Also, the digitisation of loan origination will further reduce the need for printing and circulating of paper documents.

Collected cardboard / kg			
	2017	2018	2019
Total	11,130	7,100	10,700 ⁴⁴

Energy

A significantly lower total gas consumption was recorded in 2019. The fact that the 2019 heating season was almost two months shorter than in 2018 also played an important role in reducing consumption. The consumption of other energy sources (electricity and water) remained at the same level.

In 2019, HBOR continued its efforts aimed at improving energy efficiency on the premises it used. Since 2018, at two locations in Zagreb, consumption was monitored through the Energy and Water Consumption Remote Metering System. In May 2019, this system was introduced at the third location in Zagreb at Gajeva Street as well. Like in the previous years, regular annual checks were carried out and equipment and devices were regularly serviced in 2019. During 2019, the process of gradual replacement of energy-saving bulbs and fluorescent tubes with LED lighting was continued. The replacement process is gradual and is carried out with an objective of optimising the costs of procurement and disposal⁴⁵. Energy sources used at HBOR's locations are as follows:

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

Consumption of energy sources at Strossmayerov trg⁴⁶	2017	2018	2019
Gas total (m³)	64,902.30	68,198.90	32,548.90
Electricity (kWh)	227,446.76	230,968.36	215,977.80
Water (m³)	1,782.00	1,865.20	1,865.90

*Note: There were no data relating to Gajeva and Zelinska locations, the monitoring at the Gajeva location started in May 2019.

⁴⁴ 306-2

⁴⁵ 302-4

⁴⁶ 302-1

Corporate Governance

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

HBOR's Code of Conduct defines the basic standards of ethical and legal procedures, rules for preventing corruption and ensuring professional behaviour. Also, the possibility of reporting violation of the Code is envisaged. Code of Conduct default form, description of default reporting procedure and e-mail address for reporting defaults are available at HBOR's websites.⁴⁷ The person responsible for compliance monitoring is responsible for initiating proceedings on the basis of received HBOR's Code of Conduct violation reports and for counselling⁴⁸. In 2019, no proceedings were initiated on the basis of HBOR's Code of Conduct violation reports⁴⁹. Every year, information on the reports submitted and proceedings initiated on the basis of received HBOR's Code of Conduct violation reports is submitted to the Management Board by 31 January for the preceding year.

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

Governance Bodies

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

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

In 2019, the Supervisory Board was comprised of the following members:

- Zdravko Marić, DSc, Minister of Finance, President of the Supervisory Board (Deputy Prime Minister of the Republic of Croatia since 24 July 2019),
- Darko Horvat, Minister of the Economy, Entrepreneurship and Trade, Vice President of the Supervisory Board,
- Predrag Štromar, Deputy Prime Minister of the Republic of Croatia and Minister of Construction and Physical Planning,
- Gabrijela Žalac, Minister of Regional Development and EU Funds (until 24 July 2019),
- Marko Pavić, MSc, Minister of Regional Development and EU Funds (since 24 July 2019),
- Gari Cappelli, Minister of Tourism,
- Tomislav Tolušić, Deputy Prime Minister of the Republic of Croatia and Minister of Agriculture (until 24 July 2019),
- Marija Vučković, MSc, Minister of Agriculture (since 24 July 2019),
- Luka Burilović, President of the Croatian Chamber of Economy,
- Božica Makar, Member of the Croatian Parliament,
- Grozdana Perić, Chairman of the Finance and Central Budget Committee of the Croatian Parliament,
- Boris Lalovac, MSc, Member of the Croatian Parliament (until 23 March 2019),
- Saša Đujić, Member of the Croatian Parliament (since 23 March 2019).

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

Members of HBOR's Management Board in 2019:

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

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

- Prof. DSc. Lajoš Žager, Full Professor, Department of Accounting, Faculty of Economics and Business of the University of Zagreb, President of the Audit Committee,
- Grozdana Perić, Chairman of the Finance and Central Budget Committee of the Croatian Parliament, Vice President of the Audit Committee,
- Aurora Volarević, Chief Audit Executive, Infobip, Member of the Audit Committee.

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

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

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

Compliance Monitoring

Pursuant to the legislation, the Compliance Monitoring Function has been established at HBOR. This function is independent of business processes and activities in which risks arise and it is implemented in a decentralised manner throughout all organisational units of HBOR.

In order to better regulate compliance monitoring and define responsibilities of all employees and responsible persons in charge of compliance with relevant acts, regulations, policies, standards and procedures of HBOR, the Compliance Monitoring Policy and the Compliance Monitoring Ordinance were adopted in 2018. Compliance monitoring is carried out in accordance with the annual work plan prepared on the basis of a documented risk assessment.

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

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

In accordance with the Whistleblower Protection Act ("Narodne novine" No. 17/19), which entered into force on 1 July 2019 and which gave rise to the obligation on the part of HBOR to appoint the grievance officer and to establish the internal irregularity reporting system, grievance officer and deputy grievance officer were appointed in October 2019. The grievance officer assumed the responsibility for proceedings upon irregularity reports (both in cases of internal reporting and of reporting by third persons).

In December 2019, an internal document was adopted regulating the procedure of reporting irregularities at HBOR. In order to carry out the procedure upon a report on irregularity, fraud or corruption submitted by a borrower, employee or any other interested party, it is necessary to complete an irregularity reporting form. The irregularity reporting form and the address for submitting reports are published on HBOR's Internet site at the following link: <https://www.hbor.hr/naslovnica/hbor/prijava-nepravilnosti-prijevare-sumnje-korupciju/>

In 2019, three irregularity reports were submitted. In the justification assessment procedure carried out by the grievance officer, it was established that two out of three reports were irregularity reports, whereas one report referred to a complaint. As for the two irregularity reports, the procedure was performed by the grievance officer. The report with the elements of a complaint was submitted for further resolution to the Management Board Office, the organisational unit that manages the proceedings upon dissatisfaction statements relating to the provision of HBOR services submitted to HBOR by its clients.

At the same time, reports of suspected irregularities in the implementation of financial instruments and complaints on decisions made by commercial banks rejecting loan applications are submitted to a separate address: esif.nepravilnosti@hbor.hr. This reporting mechanism is managed by the organisational unit called EU Funds and Financial Instruments. In 2019, no reports were received on this basis.

Public Disclosure of Activities

HBOR continuously performs measures aimed at increasing access to information for all stakeholders and informing the public in a proactive manner. HBOR puts a special focus on providing information to the public about its goals and about the measures for their attainment as well as about the results of its activities by simultaneously obeying the principle of bank secrecy. Therefore, all information on HBOR's operations can be found on HBOR's websites except for those subject to bank secrecy regulations pursuant to the Act on Credit Institutions.⁵⁰

In 2019, the public was regularly informed about significant changes or new developments in HBOR's operations through various forms of communication: press releases or written replies to inquiries. Annual financial statements containing independent auditor's report, semi-annual financial statements containing management report and quarterly condensed financial statements are published regularly and timely.

In the reporting year, HBOR published 18 press releases informing the public about operations, attained business results, new products and services as well as changes to the existing ones. Altogether 21 public procurement procedures were published in the Electronic Public Procurement Classifieds, whereas simple procurements procedures were published on HBOR's websites. Access to information is possible throughout the year on working days from 8 to 16 o'clock. Information officer prepares annual reports on the implementation of the Right of Access to Information Act to be submitted to information commissioner. In 2019, 38 requests for access to information were received pursuant to the Right of Access to Information Act.

<https://www.hbor.hr/naslovnica/kontakti/>

In order to improve the reputational risk management system and facilitate the work of employees working on the establishment of direct business relationships, an internal document was prepared in 2019 called the Ordinance on Reputational Risk Management of HBOR arising from a direct business relationship with a client. For the purpose of assessing the acceptability of HBOR's cooperation with a client, the Ordinance regulates risk categories of clients that are not eligible for establishing a direct business relationship, that are eligible in exceptional cases or that are eligible provided that awareness of the existence of this risk is increased. The Ordinance prescribes the manner of obligatory conduct of HBOR's employees in case of noticing the existence of HBOR's reputational risk related to a client, it determines the risk categories and the impact on a business relationship. The Ordinance also regulates the subsequent management of reputational risk, if HBOR's exposure to reputational risk is subsequently determined.

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The Ordinance regulates the impact of risk categories on a business relationship as follows:

- **Above the average high risk** indicates ineligibility of client; request for the establishment or continuation of direct business relationship is cancelled,
- **High risk** (recommendation: to be avoided) can be assumed in exceptional cases subject to an approval of the request for the establishment or continuation of direct business relationship assessed to incorporate a high reputational risk by HBOR's body in charge of making decisions on separate direct business relationships,
- **Increased risk** (eligible subject to increased awareness of the existence of risk) if the request for the establishment or continuation of direct business relationship assessed to incorporate an increased reputational risk is approved by HBOR's body in charge of making decisions on separate direct business relationships.

Clients can get insight into information on the Ordinance on HBOR's websites.

<https://www.hbor.hr/pravilnik-o-upravljanju-reputacijskim-rizikom-hbor-a-koji-proizlazi-iz-poslovnog-odnosa-s-klijentom/>

Anti-Corruption

Pursuant to the *2010-2012 Anti-Corruption Programme for Majority State-Owned Companies*, HBOR adopted measures to remove the causes of corruption. After the expiry of the programme, all documents and procedures became part of the regular business practice of HBOR. A statement of non-existence of conflict of interest is part of mandatory documentation of a procurement procedure. Criteria for the award of sponsorships and donations are publicly available. Activities of control functions are planned annually. Employees have access to information/education material in the field of ethics and conflicts of interest, and all new employees undergo a regular process of getting acquainted with these topics. HBOR's Code of Conduct defines the mechanism for proceedings upon reports of Code of Conduct violation.

Adopted principles are continuously developed through regular reviewing and updating of documents⁵¹. Since 2018, the compliance monitoring function has continuously conducted online education on business ethics with the focus on the prevention of conflicts of interest. The education has covered general ethical principles and provisions of mandatory regulations, voluntary guidelines and internal documents of HBOR (HBOR's Corporate Governance Code, Conflict of Interest Prevention Act, Procurement Act, ICC (International Chamber of Commerce) Guidance on Conflict of Interest, Decision on the Adoption of Corporate Governance Code in Companies in which the Republic of Croatia Holds Shares or Interests, Rules of Procedure of HBOR's Management Board, Rules of Procedure of HBOR's Supervisory Board, Compliance Monitoring Policy, Handbook for Procedure of HBOR as the Body Implementing the ESIF Growth and Development Financial Instrument) as well as examples from practice and recommendations. In 2019, three cycles of training were carried out for new employees and employees who could not join the training in previous cycles due to legitimate reasons⁵². In 2019, two cases of corruption suspicion were

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reported under the irregularity reporting mechanism managed by the grievance officer. In the process of investigating reports, it was established that HBOR's conduct was in compliance with the provisions of legislation and internal documents, so that both reports were dismissed as unfounded. In the same period, no legal proceedings were initiated against HBOR on the ground of corruption charges. Also, there were no cases resolved for the benefit or to the detriment of HBOR with regard to corruption⁵³.

Prevention of Financial Crime

In its operations, HBOR carries out measures, activities and procedures to prevent money laundering and terrorist financing in accordance with the provisions of the Anti-Money Laundering and Terrorist Financing Ordinance and the Methodology for the Implementation of Anti-Money Laundering and Terrorist Financing Measures, Activities and Procedures that are based on the Anti-Money Laundering and Terrorist Financing Act. In 2019, activities continued aimed at strengthening the internal system of anti-money laundering and terrorist financing (SPNFT), and HBOR aligned its business with the provisions of the Act on Amendments to the Anti-Money Laundering and Terrorist Financing Act, which came into force at the end of April 2019. In accordance with the prescribed legal obligations, the persons authorised to prevent money laundering and terrorist financing held professional training and education of HBOR's employees relating to the implementation of measures, activities and procedures aimed at preventing money laundering and terrorist financing. At the same time, the authorised person and her deputy themselves attended professional meetings and trainings on the prevention of money laundering and terrorist financing, and they were able to provide advisory and practical assistance to employees in specific business situations.

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Local Communities

Sponsorships and Donations

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

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

In addition to public invitations for the award of donations that are usually published up to twice a year (the majority of the annual amount of donations is awarded to projects selected through a public tender), those interested can contact HBOR throughout the year with a request for smaller donations and sponsorships. For this category, HBOR has also published criteria and application forms and has defined mandatory accompanying documentation. Priority areas for the award of small donations are: humanitarian projects/programmes and human rights protection. Priority areas for the award of sponsorships are: fostering the competitiveness of the Croatian economy, environmental protection, cultural events and humanitarian projects/programmes and human rights protection. The wording and the terms and conditions of public tenders for the award of donations with a list of required documentation and deadlines are published in the media and on the websites of HBOR, of the Office for Cooperation with NGOs of the Government of the Republic of Croatia and of the Foundation for Civil Society Development.

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

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

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

News and Developments in 2019

Based on the experience in the implementation of public tenders until 2018, the Ordinance on the Procedures and Criteria for the Award of Donations and Sponsorships was adopted in January 2019 and has remained in effect since. The Ordinance introduced the provisions on the sponsorship award procedure, prescribed the mandatory forms for smaller donations and sponsorships, narrowed the criteria for the award of smaller donations, additionally defined ineligible applicants and changed the methodology for final evaluation of projects in the public tender procedure.

Organisational Profile

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

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

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and globalisation, promotion of competitiveness by emphasising innovation, digital transformation and Industry 4.0, and promotion of climate and energy neutral economy through energy efficiency, renewables and environmental protection.

The primary focus of HBOR's business activities is on the Republic of Croatia, however, HBOR supports Croatian exporters through its credit lines.⁵⁶ The largest export turnover with insurance coverage was realised for buyers in Switzerland, Ukraine, Italy, Germany and France.⁵⁷

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

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

HBOR's founder and 100% owner is the Republic of Croatia. The Republic of Croatia guarantees for the obligations of HBOR unconditionally, irrevocably and at first demand without issuing a separate guarantee instrument. The liability of the Republic of Croatia as the guarantor for the obligations of HBOR is joint and several and unlimited.⁵⁹ As at 31 December 2019, there were 372 employees at HBOR.⁶⁰ In 2019, there were no major changes at HBOR or the supply chain.⁶¹

Values

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

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

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

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

Overview of the Most Significant Financial Information of HBOR

HRK million	2017	2018	2019
Total assets	28,055.80	27,198.93	26,446.49
Gross loans	26,332.99	26,243.12	26,571.11
Total capital and reserves	10,268.83	10,054.01	10,267.10
Total income	919.36	791.25	702.69
Total expense	(758.58)	(586.92)	(547.64)
Profit	160.78	204.33	155.05
Interest income	866.20	731.71	664.59
Interest expense	(390.46)	(356.07)	(311.56)
Net interest income	475.74	375.64 ⁶⁴	353.03

Note: HBOR is not subject to profits tax

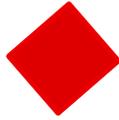
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In 2019, HBOR supported 2413 projects in the total amount exceeding HRK 7 billion through loans approved, guarantees issued and exports insured.



2413 PROJECTS FINANCED



HRK 7 BILLION

Most of the commitments relate to loans – in the reporting year, loans were approved for 1848 projects in the amount exceeding HRK 5.77 billion.

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

More than 88 percent of HBOR's total borrowings were raised through international financial institutions, of which the most important share related to the European Investment Bank. In the capital market, HBOR issued a bond accounting for 7.3 percent of HBOR's total debt. In terms of purposes, more than 55 percent of total borrowings were intended for the financing of small and medium-sized enterprises, whereas approximately 22 percent were earmarked for the financing of projects implemented by mid-cap companies.⁶⁵

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

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Memberships

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

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

Besides, HBOR is a signatory of the United Nations Global Compact (UN Global Compact), a member of the United Nations Environment Programme Finance Initiative (UNEP FI) and of the International Development Finance Club (IDFC).⁶⁶ The main activities of IDFC are directed at the sustainable development goals, primarily the development in the area of (green) infrastructure, climate change, renewable energy resources and energy efficiency, social development and social inclusion through the programmes of poverty reduction, gender equality, etc. The role of HBOR and other members of this organisation is to develop co-operation with governments, private sector and civil society in terms of bridging the finance, developing regulations and policies, upgrading technical capacities and strengthening institutions, all for the purpose of directing investments in new economic, social sectors and environmental protection sectors.

Membership of the mentioned organisations and available communication mechanisms are used by HBOR for the purpose of development of its business operations, development of its products and services, exchange of information and incorporation of the best practices in its business process. Activities are performed through participation in meetings, nomination of representatives in expert groups, participation in discussions, exchange of good practices, contributions to various studies and operating guidelines.

In 2019, HBOR participated in the activities of the EAPB in an especially active manner. The President of the Management Board of HBOR is a member of the EAPB Board, and the representatives of the management and employees participated in the activities of the boards and working and information groups. Furthermore, HBOR joined the activities of the newly established EAPB's Sustainable Finance Working Group that was established with an objective of promoting the sustainability topic among public banks, facilitating joint activities in the field of sustainable finance and exchanging good practices.

In addition, in 2019, HBOR was an active member also of the Berne Union, the largest association of export credit agencies in the world with 83 members from 73 countries from all over the world. HBOR participates in the activities of this association through management

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bodies, through the activities aimed at acquiring new knowledge and exchanging experiences in the field of export credit insurance.

HBOR is a member of the Development and Humanitarian Aid Committee administered by the Ministry of Foreign and European Affairs, whose official global framework is comprised of the 2030 Sustainable Development Programme containing 17 sustainable development goals, the Addis Ababa Action Agenda on Development Finance, the Paris Agreement on Climate Change, the World Humanitarian Summit, the Agenda for Humanity and the Sendai Framework for Disaster Risk Reduction.⁶⁷

During 2019, in cooperation with the Ministry of Finance, HBOR participated in the preparations for the 2020 Croatian Presidency of the Council of the EU. At the same time, it actively participated in the activities of the Export Credits Group, in the meetings of the OECD and the International Working Group on Export Credits (IWG), where it contributed to discussions on current topics related to the implementation of OECD recommendations in the field of environmental protection, human rights protection, fight against corruption and sustainable finance practices.

Stakeholders

The stakeholders vis-à-vis HBOR are the persons who affect HBOR or who are affected by HBOR's decisions and activities. HBOR's stakeholders are: government and public administration bodies, beneficiaries, foreign and local financial institutions, regulatory bodies, rating agencies, employees, local community, non-governmental organisations, suppliers/investors and media.⁶⁸ HBOR monitors the standpoints of the stakeholders, assesses their foundation and takes necessary measures to gradually improve relationships and develop transparency.⁶⁹ HBOR communicates with the stakeholders actively and openly with a special focus on the improvement in quality of communication with beneficiaries.⁷⁰

Reporting Practice

HBOR issued annual social responsibility report (non-financial report)⁷¹ for the period from 1 January 2019 to 31 December 2019.⁷² The report for the period from 1 January 2018 to 31 December 2018 was published on 28 June 2019.⁷³

Compared with the previous period, significant changes occurred. Besides the principles of UN Global Compact that are generally used when preparing reports, HBOR continued to use GRI Standards – Global Reporting Initiative Standards⁷⁴ and sustainable development goals

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in the identification of those benefiting directly or indirectly. Also, HBOR upgraded the process of identifying material topics by applying international standards and agreements, EU policies and rules, new HBOR's Business Strategy and other internal documents as well as assessments and evaluations of stakeholders relating to the relative significance of material topics, sustainable development goals and approach to management.⁷⁵ Material topics reflect HBOR's non-financial impacts relating to its headquarters in Zagreb at three locations and six regional offices in Croatia, unless otherwise stated in the report.⁷⁶ This report does not cover the material impacts of the HBOR Group.

HBOR Group prepares:

- Separate financial statements of the parent company – HBOR
- Consolidated financial statements that include HBOR and companies under its control – subsidiary companies.⁷⁷

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

Contact: dop@hbor.hr⁷⁸

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⁷⁷ 102-45

⁷⁸ 102-53

GRI Table of Contents

GRI INDICATOR ⁷⁹	INFORMATION	CHAPTER	UN GLOBAL COMPACT
ORGANISATION PROFILE			
102-1	Name of the organisation	Organisational profile	✓
102-2	Activities, brands, products, and services	Satisfaction of Clients	✓
102-3	Location of headquarters	Organisational Profile	
102-4	Location of operations	Organisational Profile	
102-5	Ownership and legal form	Organisational Profile	✓
102-6	Markets	Organisational Profile	✓
102-7	Scale of the organisation	Organisational Profile	✓
102-8	Employees and other workers	Gender Equality	✓
102-9	Supply chain	Overview of the Most Significant Financial Information of HBOR	✓
102-10	Significant changes to the organisation and its supply chain	Organisational Profile	✓
102-11	Precautionary principle or approach	Transparency	✓
102-12	External initiatives	Memberships	✓
102-13	Membership of associations	Memberships	
STRATEGY			
102-14	Statement from senior decision-maker	Statement by the Management Board	
102-15	Key impacts, risks and opportunities	Statement by the Management Board, Sustainable and Responsible Financing in the Focus of the EU, Our Environment, New Framework for the Assessment of HBOR's Material Impacts, Transparency, Financing – Support for Climate and Environmental Protection, Organisational Profile – Values	✓
ETHICS AND INTEGRITY			
102-16	Values, principles, standards and norms of behaviour	Values, Corporate Governance	✓
102-17	Mechanisms for advice and concerns about ethics	Corporate Governance	✓

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GOVERNANCE			
102-18	Governance structure	Governance Bodies	✓
STAKEHOLDER ENGAGEMENT			
102-40	List of stakeholders	Interested Parties	✓
102-41	Collective bargaining agreements	Benefits	✓
102-42	Identifying and selecting stakeholders	Interested Parties	
102-43	Approach to stakeholder engagement	Interested Parties, Material Impacts and Approach to Governance	✓
102-44	Key topics and concerns	Material Impacts and Approach to Governance, Matrix of Material Impacts of HBOR	✓
REPORTING PRACTICE			
102-45	Entities included in consolidated financial statements	Reporting Practice	
102-46	Defining report content and topic boundaries	Reporting Practice	
102-47	List of material topics	Material Impacts and Approach to Governance, Matrix of Material Impacts of HBOR	
102-48	Restatements of information	Reporting Practice	
102-49	Changes in reporting	Reporting Practice	
102-50	Reporting period	Reporting Practice	
102-51	Date of most recent previous report	Reporting Practice	
102-52	Reporting cycle	Reporting Practice	
102-53	Contact point for questions regarding the Report	Reporting Practice	
102-54	Claims of reporting in accordance with the GRI Standards	Reporting Practice	
102-55	GRI content index	Reporting Practice	
ECONOMIC PERFORMANCE			
201-1	Direct economic value generated and distributed	Overview of the Most Significant Financial Information of HBOR	
201-2	Financial implications and other risks and opportunities due to climate change	Financing – Support for Climate and Environmental Protection	
201-3	Defined benefit plan obligations and other retirement plans	Benefits	✓

201-4	Financial assistance received from government	Overview of the Most Significant Financial Information of HBOR	
INDIRECT ECONOMIC IMPACTS			
203-1	Infrastructure investments and services supported	Financing / Support for Entrepreneurship and Development	
203-2	Significant indirect economic impacts	Financing / Support for Entrepreneurship and Development	
ANTI-CORRUPTION			
205-1	Operations assessed for risks related to corruption	Corporate Governance, Anti-corruption	✓
205-2	Communication and training about anti-corruption policies and procedures	Corporate Governance, Anti-corruption	✓
205-3	Confirmed incidents of corruption and actions taken	Corporate Governance, Anti-Corruption	✓
ENERGY			
302-1	Energy consumption within the organisation	Energy	✓
302-4	Reduction of energy consumption	Energy	✓
WASTE			
306-2	Total weight of waste by type and disposal method	Waste	✓
EMPLOYMENT			
401-1	New employee hires and employee turnover	In Dialogue with Employees	✓
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	Benefits	✓
401-3	Parental leave	Gender Equality	
LABOUR/MANAGEMENT RELATIONS			
402-1	Minimum notice periods regarding operational changes	Communication with Employees	✓
OCCUPATIONAL HEALTH AND SAFETY			
403-1	Workers representation in formal joint management worker health and safety committees	Occupational Health and Safety	✓
403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	Occupational Health and Safety	✓
403-3	Workers with high incidence or high risk of diseases related to their occupations	Occupational Health and Safety	✓
403-4	Worker participation, consultation, and communication on	Occupational Health and Safety	✓

occupational health and safety

TRAINING AND EDUCATION

404-1	Average hours of training per year per employee	Employee Development	✓
404-2	Programmes for upgrading employee skills and transition assistance programmes	Employee Development	✓
404-3	Percentage of employees receiving regular performance and career development reviews	Employee Development	✓

DIVERSITY AND EQUAL OPPORTUNITY

405-1	Diversity of governance bodies	Gender Equality	✓
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NON-DISCRIMINATION

406-1	Total number of incidents of discrimination and corrective actions taken	Communication with Employees	✓
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MARKETING AND LABELLING

417-1	Requirements for product and service information and labelling	Transparency Satisfaction of Clients Public Disclosure of Activities	
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