HIPOTEKARNA BANKA

2023
Impact Report

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Contents

A message from the President of the Management Board

Our core mission at Hipotekarna banka revolves not only around fostering economic growth but also prioritizing the well-being of our customers and the communities we serve. This report on responsible business marks a significant milestone as the first of its kind issued by a commercial bank in Montenegro.

Our aim is to set a leading example in the market by placing sustainability at the forefront of our business decisions and actions. As a prominent institution in a country with a rich history, we see ourselves as a catalyst for supporting national growth and development.

Our deep commitment to sustainable development is evident in our strategic focus on environmental and community well-being. We have tailored our entire business strategy to align with sustainable practices and diligently consider our environmental impact. In today's business landscape, integrating principles of environmental protection, social responsibility, and effective management is not just an option but a necessity for responsible conduct.

We firmly believe that incorporating ESG (Environmental, Social, and Governance) considerations into our operations is essential for achieving a harmonious balance between financial success and the broader well-being of our ecosystem. In addition to addressing environmental challenges, our initiatives encompass social and governance aspects, with numerous measures and milestones achieved in 2023.

Within the Hipotekarna banka Sustainability Framework and United Nations Principles for Responsible Banking, we have made significant progress by developing green products, reducing our carbon footprint, and supporting various social causes. We recognize not only the opportunities but also the responsibility we hold in contributing to the economy beyond traditional banking practices.

By sharing this report, we aim to underscore the profound dedication of Hipotekarna Banka and our team to conducting business responsibly. We're immensely grateful for the support of our clients and the invaluable contributions of our local community, both of which are integral to our journey toward sustainability. Together, we're forging a path towards a brighter, more equitable future, where economic prosperity goes hand in hand with environmental preservation and social well-being.

Looking ahead to 2024, we remain dedicated to advancing all sustainability pillars across our bank segments. Key priorities include transitioning to a modernized and increasingly efficient vehicle fleet, optimizing energy performance in our facilities, enhancing our real estate portfolio to meet ESG standards, further embracing comprehensive digitization, and finally increasing engagement with our clients on their own sustainability practices and targets. Our ongoing efforts reflect our unwavering commitment to sustainable practices and our confidence in the path we are forging towards a more responsible and prosperous future.

Esad Zaimović

Understanding Hipotekarna Banka's Business Landscape

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About Us

Hipotekarna Banka was established in 1991. After undergoing a significant ownership change in 2005, it has become one of the top three largest banks in Montenegro and the only one among these to not be owned by a larger multinational banking conglomerate. Its current shareholder structure has been largely unchanged since 2005. The new ownership's restructuring and development strategy has shown its results in the almost 20 years that have passed since its acquisition and the rise of the bank to the top three in the country as well as also being recognized as a systemic bank for Montenegro.

The bank is well-known for its ability to think and move ahead of the curve and for its reactivity to the market, thanks to clear, effective decision processes and a transparent and responsive governance structure. It is recognized for the rigor of its quality control, trustworthiness and for its strict AML policies and procedures. Principal services include Corporate and Retail banking with a growing Investment banking division.

Domestic and international banking services are offered with a strong offering in digital & mobile solutions, making Hipotekarna Banka a reference point in its territory. Since its acquisition, the current shareholder structure has operated on a no dividend distribution policy, continually reinvesting profits into the company to help it grow and develop year over year, keeping a strong solvency ratio.

Hipotekarna Banka (hereinafter: the Bank) provides the widest range of banking and financial products and services to legal and natural persons in Montenegro in accordance with the licenses issued by the competent institutions.

The Law on Credit Institutions and the Law on Business Undertakings, as well as enabling regulations of the Central Bank of Montenegro (hereinafter: the CBCG) prescribe the conditions for founding and functioning of banks in Montenegro.

The provision of services performed by the Bank in the securities market is regulated by the Law on Capital Markets and enabling regulations of the Capital Markets Authority. The Bank also performs payment operations that are governed by the Payment System Law and relevant enabling regulations of the CBCG.

The Bank also performs the insurance agency activities that are regulated by the Law on Insurance and relevant enabling regulations of the Insurance Supervision Agency.

Road to the European Union

Montenegro's ongoing efforts to align with the EU's environmental policies pose unique opportunities for our bank to support green initiatives and invest in projects with positive environmental impacts. By delving into the exploration of this topic, we can gain valuable insights into the contextual landscape of our report. The potential to be at the forefront of sustainable development in Montenegro not only aligns with global environmental goals but also positions our bank as a catalyst for positive change in the region. This strategic alignment creates a symbiotic relationship where our financial support can fuel environmental progress while concurrently enhancing our institution's reputation as a responsible and forward-thinking player in the financial sector.

Montenegro embarked on its path to European Union (EU) membership by submitting an **application in December 2008**. After gaining **EU Candidate Status in December 2010, negotiations officially commenced in June 2012**. The accession process involves the adoption of 35 chapters of the EU Acquis - a set of rights and obligations that form the core of EU law - into national legislation, covering areas such as finance, justice, human rights, and more. Each candidate country's readiness is assessed against these chapters, and all must be negotiated, adopted, and closed before EU membership is granted[1].

As of now, Montenegro has made substantial progress, with 33 chapters screened and opened, and 3 provisionally closed[2], signaling a commitment to alignment. A European Commission's report in 2022 noted moderate progress in economic aspects, significant strides in the digital and green transition, and advancements in competitiveness and inclusive growth.

To support Montenegro's convergence, the EU provides funding through mechanisms such as the Instrument for Pre-Accession Assistance (IPA I, IPA II, IPA III), the European Investment Bank, and the Economic and Investment Plan for the Western Balkans.

The EU is a strong advocate for the alignment with the 17 UN Sustainable Development Goals (SDGs). Montenegro, in collaboration with the UN and its partners, is dedicated to realizing the SDGs. Sixteen UN agencies, funds, and programs are actively collaborating in Montenegro, pooling their efforts through the execution of the Integrated UN Programme 2017-2021. This collective initiative aims to bolster the country's advancement in aligning with national development priorities, in harmony with Agenda 2030 and the ongoing EU reform processes. The admission to the EU will imply complying with several regulations on environmental, social and governance criteria. The growing efforts on this direction are motivated by the urgency of setting and achieving more ambitious targets to keep the Earth's increase in temperature below the 1.5 degrees Celsius by the end of the century, as set by the Paris Agreement (2015).

The European Union has set itself as a leader for the green transition, and to achieve this, it has developed an ambitious set of frameworks, standards and regulations aimed at speeding up the transition in accordance with the Paris Agreement.

The EU's push for a green transition is evident in frameworks like the **European Green Deal** and the **Fit for 55 Package**, which set the target of **55% greenhouse gases emissions reductions by 2030, net emissions by 2050**, and economic growth decoupled from resource use. Moreover, one third of the €1.8 trillion of the NextGenerationEU Recovery Plan and the EU's Seven Year Budget from 2020 are aimed at sustainable objectives[3]. On top of that, a set of proposals has been drafted to revise and update EU legislation, with the aim of ensuring that public and private policy is in line with the previously mentioned objectives.

1 European Neighbourhood Policy and Enlargement Negotiations, European Commission, 2023
2 European Commission, 2023
3 Finance and Green Deal, European Commission, 2023

The EU places responsibility on financial institutions to align with ambitious sustainability targets. For Montenegro's financial institutions like Hipotekarna Banka, the compliance landscape will include:

1. **Corporate Sustainability Reporting Directive (CSRD):** Large corporations and listed companies must report on social and environmental factors, disclose risks, and undergo impact assessments. The CSRD pressures EU corporations to disclose ESG information in a standardized format and set benchmarks and targets. The reporting should be independently assured and must be done in accordance with the European Sustainability Reporting Standards (ESRS), which were developed by the European Financial Reporting Advisory Group (EFRAG).

2. **Sustainable Finance Disclosure Regulation (SFDR):** In the same way the CSRD regulates companies, the Sustainable Finance Disclosure Regulation (SFDR) puts pressure on investors, financial institutions, and other financial market participants. The SFDR requires financial firms to disclose how they integrate sustainability into their investments and into their financial products, forcing them to qualify the investments they offer in terms of their ESG characteristics. This regulation seeks to increase the transparency of available information for those who want to contribute to projects or companies supporting certain sustainable economic activities, and, in doing so, it aims to prevent greenwashing.

3. **EU Taxonomy:** A standardized framework classifying activities or investments as environmentally sustainable, requiring disclosure by financial market participants. In the EU, all financial market participants, large companies, and listed SMEs are required to report following the standards of the Taxonomy. The applicability of the taxonomy for commercial banks is being specified by the European Banking Authority (EBA). In March 2021, the EBA proposed to oblige banks to disclose a "green asset ratio" and other KPIs. The Green Asset Ratio is the proportion of "sustainable" loans and assets (under the criteria of the Taxonomy) over the total value of the balance-sheet assets of a bank.

As of January 2022	• Non-Financial entities report Taxonomy eligibility for the previous calendar year* • Financial entities report Taxonomy eligibility for the previous calendar year*
As of January 2023	• Non-Financial entities report eligibility and alignment for the previous calendar year • Financial entities report Taxonomy eligibility for the previous calendar year
As of January 2024	• Non-Financial entities report eligibility and alignment for the previous calendar year • Financial entities report Taxonomy eligibility and alignment for the previous calendar year
As of January 2025	• Financial entities may include estimates on Taxonomy alignment for DNSH assessments of third-country exposures subject to the 2024 review period
As of January 2026	• Credit institutions include Taxonomy alignment of their trading book and fees and commissions for non-banking activities

4. **Corporate Sustainability Due Diligence (CSDD):** Promoting environmental considerations, sustainable governance, and human rights integration into business operations and supply chains.

The EU's focus on ESG aligns with the global trend towards responsible and sustainable practices. Hipotekarna Banka's commitment to innovation and digitalization positions it well to meet the challenges and leverage opportunities presented by EU alignment.

Indeed, Montenegro's EU accession journey and alignment with ESG regulations reflect a commitment to sustainable development and global best practices. As Hipotekarna Banka navigates these changes, it stands poised to contribute to Montenegro's integration into the EU's economic and sustainability frameworks. It is therefore under the consideration of all the above-discussed alignment issues that Hipotekarna Banka has produced its first sustainability report.

Focus on
CBCG's Exemplary Alignment

It is worth noting the progress of the Central Bank of Montenegro (CBCG) has been perhaps the most successful in its alignment with EU standards. The 2022 report of the European Commission on Montenegro's alignment progresst pointed out several times the stability and resilience of Montenegro's banking system, and the Asset Quality Review confirmed this. During the pandemic crisis and on the recovery period, CBCG introduced temporary measures supporting domestic banks with the goal of liquidity preservation. The European Commission recognized that *"the balance sheet of domestic banks recorded significant growth"*, further stressing the reliability of the Montenegrin banking system. CBCG continually implements the recommendations set out by the Commission's reports, and in the 2022 report it was highlighted that several financial regulatory recommendations were met to a significant extent.

Through the incorporation of the Law on Credit Institutions and the Law on Resolution of Credit Institutions, along with most of their corresponding regulatory enactments, significant steps have been taken to align the legal framework more closely with prevailing EU standards. By instituting the Resolution Fund and formulating resolution plans encompassing all credit institutions within Montenegro, the Central Bank of Montenegro (CBCG) has instituted mechanisms poised to yield positive outcomes for the financial equilibrium and enduring viability of Montenegro's banking structure. The report from the European Commission also highlights that adjustments to the legal framework governing payment systems have progressed, bringing it into closer conformity with the EU Acquis. This makes evident the progress of the CBCG to align with the European Central Bank, with the European System of Central Banks (ESCB) and to eventually enter the Single Euro Payments Area.

For Montenegro, gaining access to the Single Euro Payments Area (SEPA) would signify a substantial leap forward in its financial landscape. SEPA facilitates cashless euro payments, including credit transfers and direct debits, not only within the European Union but also to several non-EU countries, in a seamless, rapid, and secure manner akin to domestic transactions. The integration into SEPA would bring about a harmonization of payment standards, eliminating disparities between national and cross-border transactions. This move would enhance the efficiency and competitiveness of Montenegro's economy, aligning it with the streamlined and standardized processes observed across all participating SEPA countries. Additionally, the broader accessibility and ease of cross-border transactions could foster increased economic collaboration and growth opportunities for Montenegro on the European stage.

Standards and Frameworks

GRI Standards and ESRS Standards

The Global Reporting Initiative (GRI)

GRI stands as an autonomous, global organization dedicated to assisting businesses and organizations in communicating their impact through a universal language. As the prevailing international standard, GRI boasts over 10,000 reporters across more than 100 countries. Employing a modular system of interconnected standards, regularly refined, GRI enables organizations to transparently and systematically report the impacts of their operations. This structured approach ensures clarity and openness to stakeholders, reinforcing the commitment to responsible and accountable business practices.

In 2021, as part of the Corporate Sustainability Reporting Directive the European Financial Reporting Advisory Group (EFRAG) was appointed as the technical advisor to the Commission responsible for developing the European Sustainability Reporting Standards (ESRS).

On the 31st of July 2023, the Commission adopted the ESRS for use by all companies subject to the CSRD. This marks another step forward in the transition to a sustainable EU economy.

The effective collaboration throughout the drafting process of the ESRS, saw EFRAG and GRI acknowledge the successful attainment of a significant level of interoperability between their individual standards concerning impact reporting. This accomplishment has eliminated the necessity for companies to engage in double reporting, leading to the establishment of a user-friendly reporting system that avoids unnecessary complexity.

United Nations Principles of Responsible Banking

Introduced at the UN General Assembly in 2019, the Principles for Responsible Banking constitute a transformative framework guiding the global banking community toward a positive transition for both people and the planet. This initiative boasts a significant global reach, with over 300 signatory banks, representing nearly half of the global banking industry. Positioned as the world's leading sustainable banking framework, these Principles foster a collective commitment to aligning core strategies, decision-making processes, and financial activities with the UN Sustainable Development Goals and other international agreements and targets.

The unique framework of the Principles for Responsible Banking centers around six core principles that infuse purpose, vision, and ambition into the realm of financial institutions.

PRINCIPLE 1: **ALIGNMENT**	PRINCIPLE 2: **IMPACT & TARGET SETTING**	PRINCIPLE 3: **CLIENTS & CUSTOMERS**
PRINCIPLE 4: **STAKEHOLDERS**	PRINCIPLE 5: **GOVERNANCE & CULTURE**	PRINCIPLE 6: **TRANSPARENCY & ACCOUNTABILITY**

Being First: Paving the Road to Sustainability

Hipotekarna Banka's vision to lead within the region is underpinned by a lasting commitment to having a positive impact on the country and the environment. While we are proud of our accomplishments, acknowledge that our journey towards responsible banking, innovation, and sustainability is an ongoing effort, and we see ourselves as catalysts for positive change in the financial sector and in the economic development of our domestic market of Montenegro and the broader Western Balkans region.

As a partner to a significant segment of the population and the enterprise sector, we recognize the responsibility to guide and support community in its sustainability-oriented endeavors. We are committed to broadening the spectrum of services we offer, enhancing the support systems that our clients depend on daily in their interactions with Hipotekarna Banka.

By becoming the **first and, to date, the only bank in the region to sign the United Nations Principles of Responsible Banking**, we are taking a significant step towards aligning our operations with global sustainability objectives. Our intention is to set high ethical standards for ourselves and inspire others within the region to follow.

Furthermore, our distinction as the **first Montenegrin bank to publish a sustainability report and conduct a materiality assessment** reflects our commitment to transparency and responsible business practices. We recognize that we are still on a journey of continuous improvement in this field. Our aim is to create a framework for measuring our environmental and social impact and to lead by example. We sincerely hope that our actions will inspire other banks and businesses to embrace sustainability and transparency as well.

The **Brundtland Report in 1987 defined sustainable development** as:

> ***"Development that meets the needs of the present generation without compromising the ability of future generations to meet their own needs".***

At Hipotekarna Banka, while our primary mission revolves around generating and preserving the wealth of our clients, our commitment extends beyond financial gains. We are a prominent institution in a country that has a rich and complex history, and we like to think of ourselves as an agent that supports the growth and development of our nation, as seen in the incredible changes that Montenegro has undergone since the independence referendum of 2006. We inherently recognize the significance of sustainable development, placing utmost importance on the well-being of the environment and the communities where we operate. In the contemporary landscape, the integration of Environmental, Social, and Governance principles is not merely an option but an imperative aspect of responsible business conduct. We firmly believe that neglecting ESG considerations in our operations and strategic endeavors would be inconceivable, reflecting our dedication to fostering a harmonious balance between financial prosperity and the broader well-being of our ecosystem.

1 The Digital Transformation Journey of Hipotekarna Banka

The Digital Transformation Journey of Hipotekarna Banka

The banking industry stands at the precipice of transformative change, driven by the relentless march of digitalization. In an era defined by rapid technological advancements and shifting customer expectations, the adoption of digital solutions has become a cornerstone of survival and success for financial institutions.

Digitalization has ushered in a new era of customer-centric banking, where accessibility and convenience reign supreme. The digitization of banking services has fundamentally reshaped the way customers interact with their financial institutions, enabling them to conduct transactions, access account information, and engage with financial products and services from the comfort of their homes or on the go. This heightened level of accessibility not only enhances customer satisfaction but also fosters loyalty, making it a pivotal driver in the evolving landscape of banking.

Digitalization Project Plan

The digitalization initiative stands as the most extensive and significant project in the history of HB. Countless individuals and various departments collaborated seamlessly, showcasing a remarkable display of teamwork and dedication. The success of the project implementation serves as a testament to the robust governance structure in place. The meticulous planning and effective coordination across teams highlight HB's commitment to embracing technological advancements while ensuring a foundation of solid and efficient governance.

The Foundation: Back Office Automation and Lean Operations

HB's digitalization process embarked on a path of **efficiency optimization**, with the initial focus set on the **automation of back-office processes** related to document and information management. This strategic move not only streamlined operations but also rendered HB a leaner institution, reaching a higher efficiency in the employment of human resources compared to its counterparts of similar size and assets. The advanced IT infrastructure bolstering the bank's operations is a testament to its commitment to digital excellence, making HB Montenegro's leading bank in IT capabilities.

This initial digitalization wave was primarily visible within the bank, transforming internal processes, but remained discreet to the external client base. Nevertheless, it set the stage for an evolutionary leap that would redefine customer interactions with HB.

Client-Centric Digitalization: A New Horizon

Today, HB's commitment to digital transformation transcends the back office, with the strategic decision to **enhance a client-facing software, including mobile apps, mobile banking, and web banking**, thus bringing it up to par with the efficiency of the bank's back-office software. To ensure top-notch design for these new software interfaces, HB collaborates with external partners and suppliers. Among these, web banking emerges as a linchpin, playing a pivotal role in the bank's interaction with corporate clients. Features such as enhanced document processing, seamless online payments, and improved research capabilities have transformed the digital experience for corporate clients.

Mobile application upgrades further **augment customer experience**, introducing features like advanced credential security through face recognition and fingerprint identification, streamlined transaction searches, document sharing and statement creation capabilities, as well as the innovative "Aktiviraj Sitniš" ("Activate Change") savings product. This product ingeniously rounds up card transactions, allocating spare change into a savings account, aligning with HB's commitment to enhancing financial well-being of its clients.

HB's forward-looking approach extends to developing a **digital card payment service for an in-person and online transactions**, poised for implementation in the near future once regulatory approvals are secured.

Focus on Advancements in Digital Payment Solutions

In line with HB's commitment to innovation, the Bank has launched an application that enables mobile phones and other Android devices to accept payment cards, effectively assuming the role of a POS terminal. Initiated in September 2021, the project went live in February 2022, marking a significant milestone in the Bank's digital transformation journey. As of December 31, 2022, HB has successfully contracted the SOFT POS service (mojPOS) with 186 clients, resulting in a total of 392 activated accounts. Remarkably, sales through the mojPOS application in 2022 totaled EUR 1M, underscoring its growing importance in our digital ecosystem.

Hipotekarna Bank's Success with VISA Cards

It's worth noting that Hipotekarna Bank has leveraged VISA cards as a cornerstone in its digitalization efforts within the banking sector. The widespread adoption of VISA cards has played a pivotal role, with these cards constituting a significant portion of the bank's card portfolio, totaling 19,531 cards by the end of 2022, representing 26% of all cards. By the end of 2023, the number of VISA HB payment cards had slightly decreased to 19,010.

Notably, the bank's second-best selling card product was the Visa Sprint, with a total of 14,562 cards sold in 2023.

Underpinned by VISA's support, the bank successfully incentivized colleagues involved in VISA product sales, resulting in the acquisition of almost 300 new VISA card users in 2022. Moreover, VISA's commitment to educational initiatives was exemplified through the organization and facilitation of the VISA Forum in Budva from June 1st to June 3rd, 2022. This forum provided a platform for informative activities and fostered engagement within the banking community.

A crucial element of HB's digital transformation focuses on elevating customer service and engagement. While the full implementation of digital tools allowing HB to complete paperwork through video calls is still in progress, we currently offer video identification services. Clients can **verify their identity via video call by presenting their ID card** and capturing photos of its front and back. We then compare this information to our database, proceeding only if it matches. In the event of any discrepancies, further steps cannot be taken.

Following successful identification, clients are not yet able to open new accounts but gain the ability to modify certain aspects of existing services. For example, they can change their electronic banking verification method (such as switching from SMS to TAN CODES list) or adjust account consents (such as introducing a new authorized person). This service is primarily designed to cater to clients residing abroad, offering them the convenience of managing specific aspects of their accounts and addressing technical difficulties through remote assistance. Additionally, the bank plans to introduce an online onboarding service, as well as the approval of small standard credits and loans, this all allowing for further enhancing client acquisition opportunities.

Altogether the new features introduce a possibility of a leaner management of customer relations, benefitting both the clients and the bank. Indeed, the deployment of these tools drastically reduces the need for physical assistance in branches, enhancing overall efficiency in terms of time and resources.

HB's commitment to digitalization extends to the integration of robotics and AI systems, enabling the **automation of data extraction from documents into the system/database**. These technologies facilitate the efficient processing of data, further streamlining operations and reducing the need for manual intervention.

Digitalization in the Last Decade: Innovation and Efficiency

Over the past decade, HB has consistently pushed the envelope in digitalization, achieving notable milestones. The bank's partnership allowing clients to **secure loans through external mediators like Tehnomax,** has seen over 50,000 loans disbursed through this channel. HB's ability to streamline loan processing, swiftly assess borrowers' financial situations, and ensure regulatory compliance sets a benchmark for efficiency.

HB's digital prowess extends to the management of loan data, non-performing loans, and the automation of interest rate calculations, deposits, annuities, loan repayments, and other financial transactions. The bank's internal software automatically manages client accounts, setting a higher interest rate for delayed payments, ultimately, if unable to settle due debt automatically, blocking client`s account after the 15-day period.

Additionally, the bank's retail sector features products such as automated transaction limits, overdrafts, and instalment-shopping limits. The first two products available for use via all types of Bank`s debit cards, whilst the later one possible to be activated through two types of Bank's debit cards: Mastercard PREMIUM as well as VISA Relax.

Remarkably, HB's adaptability to changing times is underscored by its embrace of remote work, a trend initiated in 2021. While remote work remains a relatively rare offering among banks in the region, HB's progressive approach empowers employees with flexible work arrangements.

Recent Developments: Innovation in Action

In 2022, HB introduced an **AI/OCR (Optical Character Recognition) solution that processes over 500-700 documents daily**. This solution reads, processes, and inputs data from external company invoices, such as utility bills and sanctions, into the bank's system, streamlining billing services for clients.

The year also witnessed HB's **integration with Apple Pay** and, later, in June 2023, **with Google Pay, facilitated by a longstanding partnership with Mastercard**. This landmark integration made HB the first bank in Montenegro to collaborate with Google Pay, elevating the digital payment experience for clients.

2023 and Beyond: A Glimpse into the Future

In 2023, HB embarked on a new chapter of its digitalization journey. This is the year in which all development took place, in regard to the Digitalization project, to be able to be presented to the public in the following year.

In 2024, HB envisions the second phase of its digitalization strategy, marked by transformative initiatives. Notably, the bank aspires to introduce digital card integration into mobile devices, leveraging Montenegro's existing infrastructure for digital payments. This bold step foresees a future devoid of physical plastic cards, enhancing security, convenience for clients and more sustainable spending behavior.

Additionally, a **revamped desktop and mobile banking webpage will** feature automatic billing, online proof of payment downloads, international payments, and convenient copy-paste functionality for bank account numbers. The second phase of Digitalization project, will enable the clients to **open accounts via their mobile devices, simplifying the existing onboarding process.**

Furthermore, the bank is actively pursuing online onboarding for clients and borrowers, streamlining the loan origination process through digital channels, within the existing regulatory framework.

The bank`s new desktop and mobile banking webpage will introduce automatic payment orders that clients will be able to set up themselves, allowing for automatic payments both internally and to third parties. The innovative automatic savings feature will empower clients to allocate a portion of their transactions to a savings account, perform utility or other types of payments or share funds with others.

** Chain of retail establishments functioning as a loan intermediary and credit intermediary. Clients avail themselves directly at Tehnomax stores, where loans are approved for the acquisition of items, eliminating the necessity for a physical presence at traditional bank branches*

One of the driving forces behind HB's digitalization strategy is the commitment to **enhance accessibility** to its services. Financial services should seamlessly integrate into daily operations, and the more streamlined they become, the more effective the banking service. By **reducing waiting times at branches** and providing the option to **conduct certain operations digitally**, HB ensures accessibility to its services for individuals who may be discouraged from visiting branches due to time constraints or physical limitations.

HB's commitment to digitalization is guided by a profound belief: **the more repetitive tasks that technology can assume, the more time employees have for innovation and problem-solving**.

This principle is instrumental in shaping the bank's future as it continues to harness digital tools to enhance customer experiences, streamline operations, and drive innovation in Montenegro's banking landscape.

Enhancing Efficiency Through Robotic Automation

HB implemented a "Robot" on May 10, 2022, in collaboration with Robotiq and Uhura Solutions **for the execution decisions and suspensions process in production**. The conventional method involved manually reading mail attachments from executors, extracting 15 crucial data points, and entering them into Dabar. The implementation integrated Uhura OCR/AI for mail reading, attachment processing, and parameter extraction, while the robot took charge of the data input. Previously, entering one solution or suspension required an average of 5 minutes, but with the AI and robot collaboration, this task is now completed in just 1 minute.

On October 18, 2023, **another "Robot" was introduced for the production process, specifically for terminating Tehnomax loans.** The traditional approach involved 8 steps, over 40 mouse clicks, and 8 keyboard entries to close a loan. The newly implemented robot streamlined this process, completing it in less than 2 minutes, showcasing a significant improvement in efficiency and reducing the time required for this particular task.

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Navigating the Digital Wave: A Phenomenal Increase in Online Engagement

HB Klik is an advanced online banking service designed to **streamline financial management**, enabling users to **save time, cut costs, and conduct banking transactions with enhanced ease**. The remarkable **increase of 77% in transactions through "HB klik"** (desktop banking app) **from 2019 to November 2023** attests the effectiveness of this tool. This surge not only reflects the growing popularity of "HB Klik" but also highlights its efficiency in meeting the evolving needs of users seeking a convenient and efficient platform for their financial activities.

E-commerce transactions experienced a significant and remarkable surge, reaching a level **ten times higher in November 2023 compared to the figures recorded in 2019**. This substantial increase underscores the dynamic growth and expanding popularity of online commerce within this period. The surge in E-commerce transactions not only reflects the evolution of consumer behavior towards digital platforms but also emphasizes the pivotal role and increasing reliance on online channels for conducting financial transactions. This notable tenfold increase signifies a substantial shift in the landscape of digital commerce, highlighting the adaptability and preference of users for the convenience and accessibility offered by E-commerce platforms.

2
Materiality Assessment

Materiality Assessment

[GRI 2-29] [GRI 3-1] [GRI 3-2]

Sustainability is a matter of impact, and effective sustainability management entails balancing the priorities and requirements of an organiztion with the impact it generates on its environment and its stakeholders. Empowering stakeholders to follow this balance is also an element of responsibility for companies who embark on this journey.

In line with the GRI Standards 2021 - the world's most widely used non-financial reporting standards - and the future Single European Standard developed by the European Financial Regulation Advisory Group (EFRAG), Hipotekarna Banka has chosen to focus its attention and commitment on the most relevant issues – those where the most significant positive or negative, actual or potential, generated or suffered, impacts occur throughout the value chain. These issues were identified by conducting a materiality analysis. The process allowed the Bank to assess its key impacts through dialogue with a selected group of stakeholders and management.

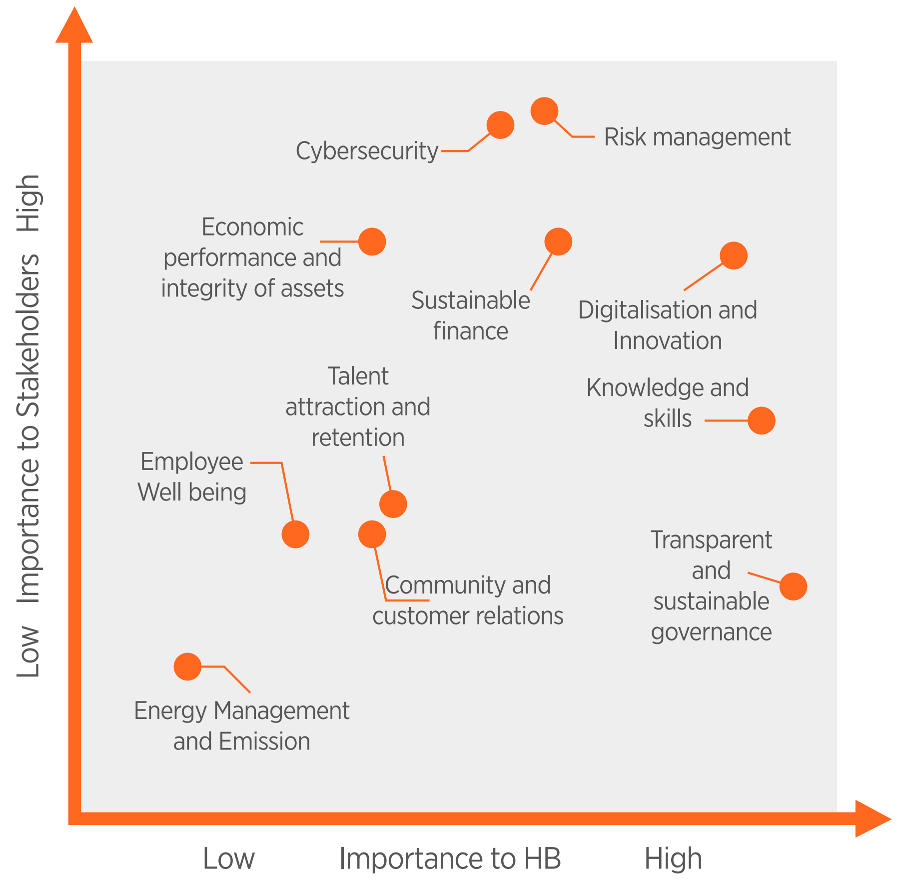
Hipotekarna Banka thus identified 15 material issues on which to focus its efforts and resources.

The materiality analysis was divided into five steps:

1. **Context analysis on the trends of the sector in which Hipotekarna Banka operates**, at a global, national and local level through bibliographic research, financial news outlets and institutional/governmental guidelines.
2. **Identification of the impacts connected with the sector and Hipotekarna Banka's activities**, in terms of double materiality, i.e. including both the impacts generated and those suffered.
3. **Assessment of the significance of impacts** on the basis of scope, scale, irremediable character and likelihood of occurrence, and subsequent prioritisation of the most significant impacts.
4. **Prioritize the most significant impacts for reporting** by combining the results of:

   a. Rating of topics by a group of stakeholders selected on the basis of their knowledge of the sector and the Company.

   b. Rating of topics by the upper management of the Bank.
5. **Definition of the materiality threshold** through dialogue with upper management and validation of results.



The materiality assessment process for Hipotekarna Banka reveals a dynamic landscape where both the internal priorities of the bank and the expectations of its stakeholders intertwine. This intricate interplay forms the foundation for a strategic approach that considers the diverse needs and concerns of all parties involved.

The shared emphasis on elements such as **risk management, digitalization and innovation, and sustainable finance** forms the nucleus of this alignment. These areas showcase the delicate equilibrium between the bank's operational strategies and the expectations of stakeholders, reflecting a mutual understanding of the importance of financial stability, cutting-edge technological advancements, and responsible financial practices.

Positioned on the podium, risk management stands as a mutual priority, ensuring financial stability and resilience. The shared emphasis on digitalization and innovation highlights a collective understanding of the transformative power of technology. The commitment to sustainable finance underscores a shared vision for responsible banking practices, aligning with global sustainability goals.

Around this core, additional priorities emerge, creating a comprehensive view of shared interests. Acknowledging the importance of **cybersecurity** reflects a joint commitment to safeguarding sensitive information and maintaining digital trust. The focus on **economic performance and asset integrity** signals a shared interest in the financial health and integrity of the bank's operations. The mutual recognition of the importance of **knowledge and skills** underscores a commitment to expertise and continuous learning as drivers of innovation and excellence.

The **materiality matrix visually represents this intricate web of priorities**. It will serve as a dynamic tool, providing a snapshot of the relative significance of each aspect to both the bank and its stakeholders. This analysis lays the foundation for a holistic strategy that not only meets the expectations of stakeholders but also aligns with the bank's internal vision for sustainability, innovation, and responsible banking practices.

Our priorities

1	Digitalization and Innovation
2	Risk management
3	Cybersecurity
4	Sustainable finance
5	Knowledge and skills
6	Transparent and sustainable governance
7	Economic performance and integrity of assets
8	Talent attraction and retention
9	Community and customer relations
10	Employee Well being
11	Energy Management and Emissions
MATERIALITY THRESHOLD	
12	Local area development
13	Climate change adaptation
14	Responsible supply chain
15	Responsible management of resources (water and waste)

3
Energy and Emissions

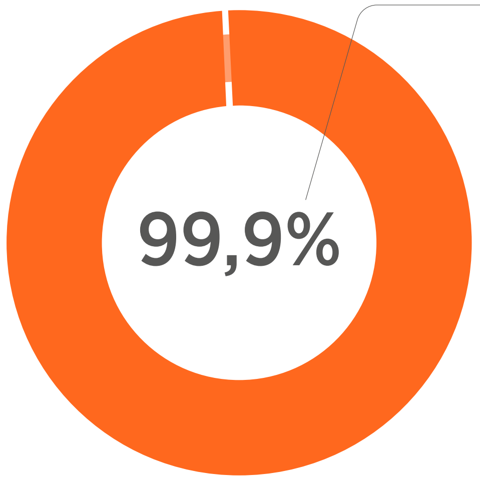
Energy and Emissions

Setting the Stage: Trends in Focus

The global stage witnesses an unprecedented focus on environmental consciousness. Rising awareness of climate change, biodiversity loss, and resource depletion has triggered urgent calls for action. International agreements and regulatory frameworks, such as the United Nations Sustainable Development Goals and the Paris Agreement, set a collective path for a low-carbon and sustainable future. Customers and stakeholders demand greater transparency and responsible practices from financial institutions. The banking sector, therefore, is under immense pressure to align its operations with global environmental goals.

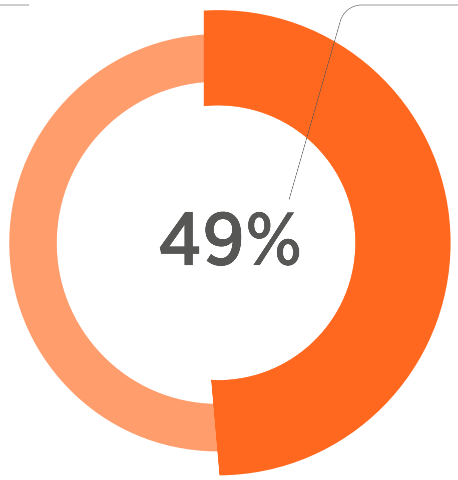
Our Committment

of financial institutions' emissions are financed emissions



(CDP, 2020)

of financial institutions indicate they do not conduct any analysis of how their portfolio impacts the climate at all.



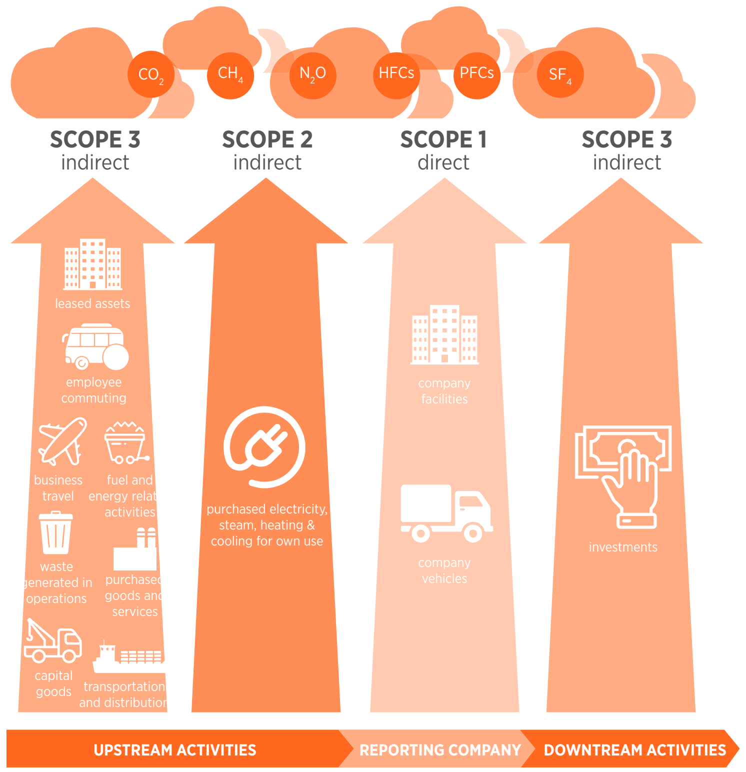
(CDP, 2020)

Over the past 170 years, human activities have contributed to an increase in the Earth's average temperature of about +1.1°C above pre-industrial levels[4]. To avoid further 'anthropization' of ecosystems, the scientific community warns, global emissions must be reduced by 43% by 2030 and achieve net zero by 2050[5]. The policies currently adopted by the countries that signed the Paris Agreement (including Montenegro), however, do not seem sufficient to meet the commitments made, and indeed, **if no action is taken, temperatures are estimated to rise by 2.7°C by the end of the century**[6]. Thus, at 2022 COP27 in Sharm El-Sheik, the member countries reaffirmed the commitment they had already made in the Glasgow 2021 Climate Pact to limit the global temperature increase to below 1.5°C.

4 IPCCC, Climate Change 2022: Impacts, Adaptation and Vulnerability, 2022
5 United Nations Framework Convention on Climate Change, 2022
6 United Nations, 2021

When evaluating the environmental impact of a bank, it's crucial to adopt a holistic approach. While many institutions focus on their direct emissions, known as Scope 1 and 2 emissions, such as energy consumption within their own operations and office spaces, the often-overlooked aspect that demands equal, if not more, attention is the indirect emissions, categorized as Scope 3 emissions. **When calculating Scope 3 emissions, the entire value chain should be taken into consideration, including both upstream and downstream activities.**

The significance of Scope 3 emissions cannot be overstated. **Banks wield considerable influence through their financing and investment decisions, and as a result, they can inadvertently contribute to a substantial carbon footprint through the projects they support**. For example, when a bank provides capital to industries heavily reliant on fossil fuels or environmentally detrimental practices, it indirectly becomes responsible for the associated emissions. These emissions can include everything from the carbon released during the extraction of natural resources to the emissions produced during manufacturing or the operation of projects.



Measuring and mitigating Scope 3 emissions poses significant challenges for banks. Unlike their direct emissions, which are often within their immediate control, **indirect emissions are influenced by a complex web of external factors.** Banks must consider the environmental practices and **performance of the companies they invest in**, as well as the ones of their **suppliers**, the **evolving regulatory landscape, market dynamics, and consumer preferences.** Accurately quantifying these emissions requires access to comprehensive data, which can be difficult to obtain, especially for international investments or complex financial instruments.

In the case of the banking industry, **Scope 3 emissions stem mainly from the bank's financial and investment activities** and are intricately linked to the companies and projects they choose to finance. Indeed, it's estimated that **financial institutions' Scope 3 emissions are 700 times greater than their direct emissions**[7], accounting for more than 99,9% of the total. Nevertheless, less than 25%[8] of global FIs are currently aiming to cut emissions along their whole value chain.

In line with the evolution of the global economic landscape, **76% of financial institutions appear interested in low-carbon transition opportunities**, identifying opportunities in sustainable finance products like sustainability-linked loans, green and transition bonds, sustainable investment funds and insurance solutions – worth up to US$ 2.9 trillion[9]. Nevertheless, while there is a growing demand for green financial products and investments, identifying credible and impactful projects

7 CDP, Finance sector's funded emissions over 700 times greater than its own, 2021
8 S&P, Global Corporate Sustainability Assessment, 2022
9 CDP, Financial Services Disclosure Report, 2020

can be challenging, as ensuring that investments truly contribute to emissions reduction and sustainable development is crucial.

Indeed, the banking sector is increasingly recognizing the significance of the green transition and the urgent need to address environmental challenges. **Governments, businesses, and consumers worldwide are driving demand for sustainable solutions, pushing financial institutions to align their strategies** with the principles of environmental responsibility. As a result, the banking sector is experiencing a surge in initiatives, institutions, and frameworks that support and promote sustainable practices.

As mentioned in the introduction, an essential development in this push toward sustainability are the Principles of Responsible Banking. The Principles are the most comprehensive sustainable banking framework in the world, with over 300 member banks representing approximately half of the global banking industry. In accordance with the UN SDGs and international agreements like the Paris Agreement, banks implement the Principles to align their core strategy, decision making, lending, and investing practices.

The banking sector is embracing the stimuli of the green transition with enthusiasm, recognizing its role and responsibility in addressing environmental challenges. The emergence of various initiatives, institutions, and frameworks, such as the ones we mentioned, reflects the industry's commitment to driving positive environmental change and contributing to the global effort in building a sustainable future. These initiatives serve as powerful catalysts, empowering banks to incorporate sustainability into their core strategies and investments, and play a pivotal role in the transition towards a greener, more resilient, and responsible banking sector.

Energy

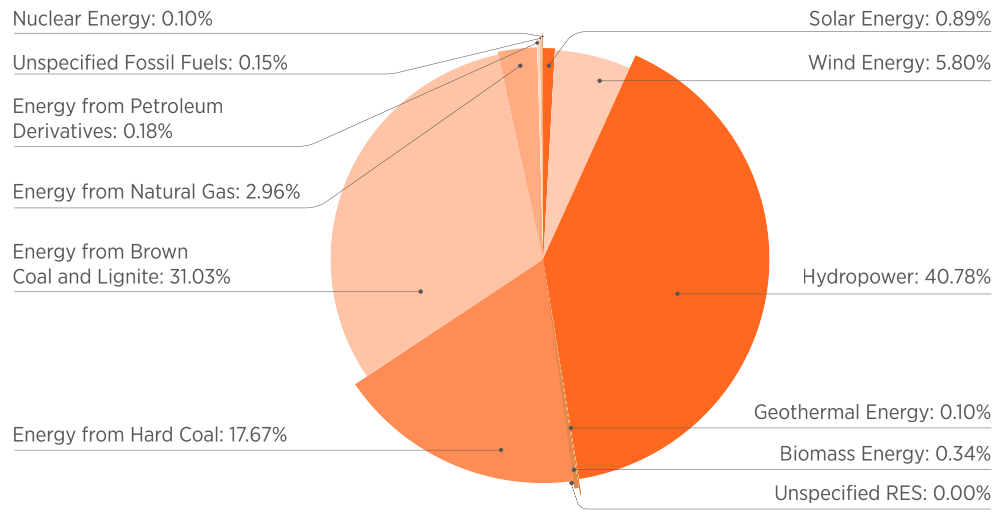
In 2022 Hipotekarna Banka consumed about 7,324.60 GJ of energy, **in 2023 the bank consumed 7,237.26 GJ of energy**. In 2023 6,036.47 GJ (6,004.36 GJ in 2022) arose from electricity consumption and 1,200.79 GJ (1,320.24 GJ in 2022) arose from fuel consumption of cars owned by the bank.

[GRI 302-1] | Energy consumption within the organization (GJ)

	Unit of measurement	2023	%	2022	%	Delta
Electricity	GJ	6,036.47	83.4%	6,004.36	82.0%	+1%
Diesel	GJ	525.21	7.3%	583.46	8.0%	-10%
Petrol	GJ	675.58	9.3%	736.78	10.1%	-8%
Total	**GJ**	**7,237.26**	**100.0%**	**7,324.60**	**100.0%**	**-1%**
From renewable sources (electricity)	GJ	*2,892.07*	*40.0%*	*2,876.69*	*39.3%*	

**The exact energy mix for 2023 will be disclosed in June 2024, computations has been made using the energy mix of 2022.*

Our energy mix (2022)



Our **car fleet accounts for 16.6% of our energy consumption**. Below are several key indicators deemed significant for Hipotekarna Banka. Our fleet comprises 38 vehicles, with 66% powered by diesel.

Car fleet indicators

	Unit of measurement	2023	%	2022	%
Diesel	Number of cars	25	66%	21	68%
Petrol	Number of cars	13	34%	10	32%
Total	**Number of cars**	**38**	**100%**	**31**	**100%**
km count of diesel cars	km	233,070	44%	207,524	43%
km count of petrol cars	km	296,812	56%	277,386	57%
Total km count	**km**	**529,883**	**100%**	**484,910**	**100%**

The energy intensity does not include energy consumption outside the organisation and was calculated by dividing the total energy consumption within the organisation by the number of employees (240 in 2022, 256 in 2023) and by the net internal surface area of the buildings (4778.5 m^2 in 2022 and 4830.5 m^2 in 2023) of the Bank.

[GRI 302-3] | Energy Intensity

	Unit of measurement	2023	2022	Delta
Total energy consumption	GJ	7,237.26	7,324.60	
Energy Intensity per employee	GJ per employee	28.27	30.52	-7%
Energy Intensity per surface	GJ/m^2	1.50	1.53	-2%

Focus On
Green Package

In its ongoing effort to transition to a lower environmental impact business, Hipotekarna took a significant step in 2023 by initiating negotiations with its energy supplier to adopt the **"Green Package," an option that delievers electricity to the consumer 100% derived from renewable sources**. Of course this choice will imply higher electricity costs, but the Bank strongly believes in investing in sustainable solutions.

We're thrilled to announce that starting from July 2023 we are working to extend this eco-friendly initiative to all our branches. **Looking ahead to 2024, the majority of HB branches are poised to undergo this transformative change** as they embrace the Green Package. However, it's important to note that, due to varying ownership structures, not all branches directly fall under our energy management responsibility. In such instances, we are working closely with landlords and partners to explore opportunities for greener energy solutions and continue our efforts to reduce our environmental footprint wherever possible.

We conducted a thorough analysis to anticipate the potential price adjustments associated with transitioning to the Green Package, and our findings reveal a modest 1,50-3,00% increase in prices. This comprehensive evaluation allows us to transparently communicate the impact of adopting the Green Package, ensuring our stakeholders are informed about the slight adjustment in pricing that aligns with our commitment to sustainability and eco-friendly practices.

Emissions

In the full knowledge that measuring is the key to improvement, Hipotekarna Banka calculates its Carbon Footprint, which estimates the greenhouse gas emissions caused by a product, service or organisation.

The carbon footprint of the organisation and the effects on climate change are expressed in tonnes *(t) of CO_2.*

Focus On
Scope 1, Scope 2, Scope 3| Definitions

Scope 1 emissions are the company's direct emissions, generated mainly by the use of fuels and the operation of cooling and refrigeration systems.
Scope 2 emissions are related to the generation of energy carriers that the company receives from outside. In this regard, it should be noted that the only energy vector purchased is electricity.
Scope 3 emissions are indirect emissions related to all other aspects of the company's operations

[GRI 305-1] [GRI 305-2] | Direct (Scope 1) GHG emissions and Energy indirect (Scope 2) GHG emissions (tCO_2)

	Unit of measurement	2023	%	2022	%	Delta
Scope 1	tCO_2	80.74	11%	88.80	13%	-9%
Scope 2	tCO_2	751.73	89%	728.17	87%	3%
Total	**tCO_2**	**832.47**	**100%**	**816.97**	**100%**	**2%**

[GRI 305-4] | Emission intensity

	Indicators	Units of measurement	2023	2022	Delta
Scope 1	Emission intensity per employee	tCO_2 per employee	0.315	0.370	-15%
	Emission intensity per surface	tCO_2 per m^2	0.017	0.019	-10%
Scope 2	Emission intensity per employee	tCO_2 per employee	2.936	3.034	-3%
	Emission intensity per surface	tCO_2 per m^2	0.156	0.152	2%
Total (scope 1 and 2)	Emission intensity per employee	tCO_2 per employee	3.252	3.404	-4%
	Emission intensity per surface	tCO_2 per m^2	0.172	0.171	1%

SCOPE 3 - Our impact beyond our boundaries

As financial institutions, Scope 3 emissions constitute the most relevant share of our overall carbon footprint. In a concerted and holistic organizational endeavor, we embarked on an analysis that transcends the boundaries of our direct operations. Our focus extends to a various array of indirect emissions, involving:

» A meticulous exploration of **Employee Commuting Habits** through a survey conducted by our esteemed workforce.
» **Financed emissions** were analyzed through collaborative efforts with the corporate clients department, resulting in a comprehensive portfolio analysis. This exploration sheds light on the emissions intricately tied to our financed activities.
» A qualitative **analysis of our suppliers**, intricately detailed in the upcoming Clients and Partners chapter. This endeavor significantly contributes to a deeper understanding of the wider environmental ramifications stemming from our financial activities.

HB Employee Commuting Habits Survey

In the pursuit of a sustainable and environmentally conscious workplace, **Hipotekarna Banka recognizes the critical role that commuting habits play in shaping its environmental footprint**. This analysis aims to delve into the intricacies of employee transportation methods, fuel choices, commute distances, and participation in sustainable practices, providing a comprehensive overview of the current state of commuting at the bank.

Through a recent survey conducted among our valued employees, we have gathered insightful data on commuting preferences and patterns. **This data-driven exploration will serve as the foundation for strategic initiatives aimed at minimizing our collective impact on the environment**. By dissecting the survey results, we aim to identify areas of improvement, set tangible goals, and chart a course towards a more sustainable and eco-friendly future.

The analysis will focus on key aspects such as the prevalence of eco-friendly transportation options, the carbon emissions associated with different fuel types, opportunities to optimize commute distances, and the promotion of sustainable practices like carpooling and remote work.

As we embark on this journey, the goal is not merely to scrutinize our commuting habits but to inspire meaningful change. **By fostering a culture of conscious commuting, we envision a workplace where each employee contributes to a greener and more sustainable future** for both the bank and the community it serves.

Results

Out of a total of 256 workers, 30 were on leave during the survey period, citing reasons such as maternity, illness, vacation, or other personal commitments.

Out of the pool of 226 available workers, we garnered responses from 174 individuals, showcasing a commendable **response rate of 77%**. Notably, this marks the first year of our survey initiative, and the enthusiastic participation from our employees is a positive sign. While the current response rate is good, we recognize the potential for significant improvement. We view this data as an opportunity and a clear signal to enhance sustainability engagement across all employees. We aim to create an inclusive atmosphere where every team member feels involved in our sustainability efforts.

Among the key findings, a significant majority of **142 respondents indicated that they primarily use a car for their daily commute**, constituting 81.6% of the surveyed population. It's noteworthy that within this group, **29 employees expressed a preference for carpooling**, highlighting a collaborative and sustainable approach to commuting.

The data collected provides a valuable foundation for understanding the commuting habits of our workforce. The prevalence of car usage, coupled with the interest in carpooling, opens up avenues for potential initiatives to support and optimize transportation choices for our employees.

As we delve deeper into the survey results, we can harness this information to tailor future transportation policies and initiatives, creating a more inclusive and sustainable commuting environment for our diverse workforce.

As part of our effort in assessing Scope 3 emissions, in addition to understanding the commuting preferences of our workforce, we conducted a detailed analysis to assess the environmental impact of employees using cars as their primary mode of commuting to work in 2023. Utilizing the GHG Protocol Distance-based method, we calculated the total emissions arising from these commuting practices.

	2023
Total Commuting Emissions*	48.33 t of CO_2

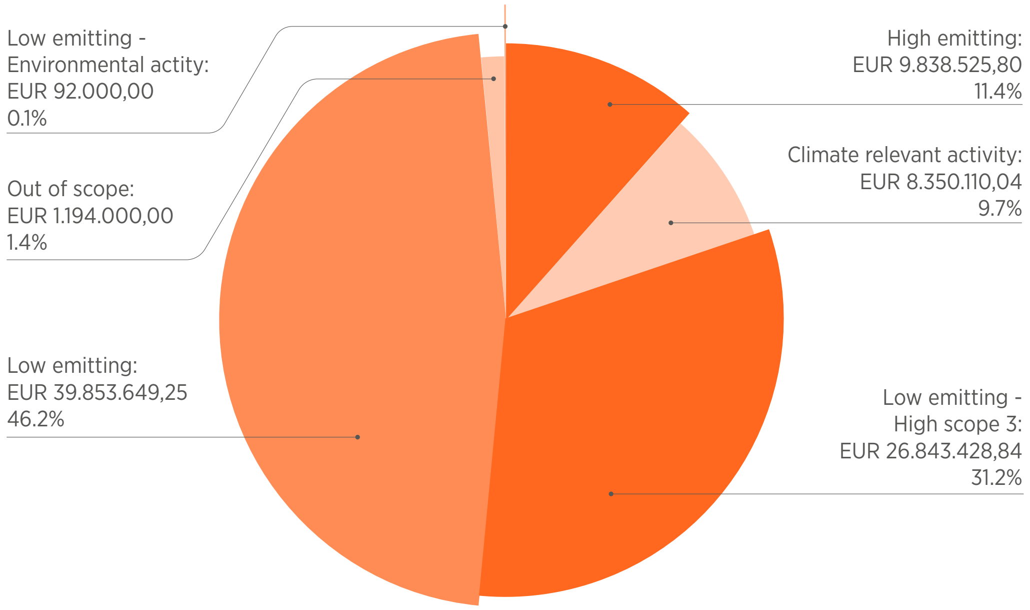
Total commuting emissions of employees using cars

This calculated figure represents the collective **carbon footprint associated with employees commuting by car**. It provides a quantitative measure of the environmental impact of our commuting habits, emphasizing the importance of considering sustainable alternatives.

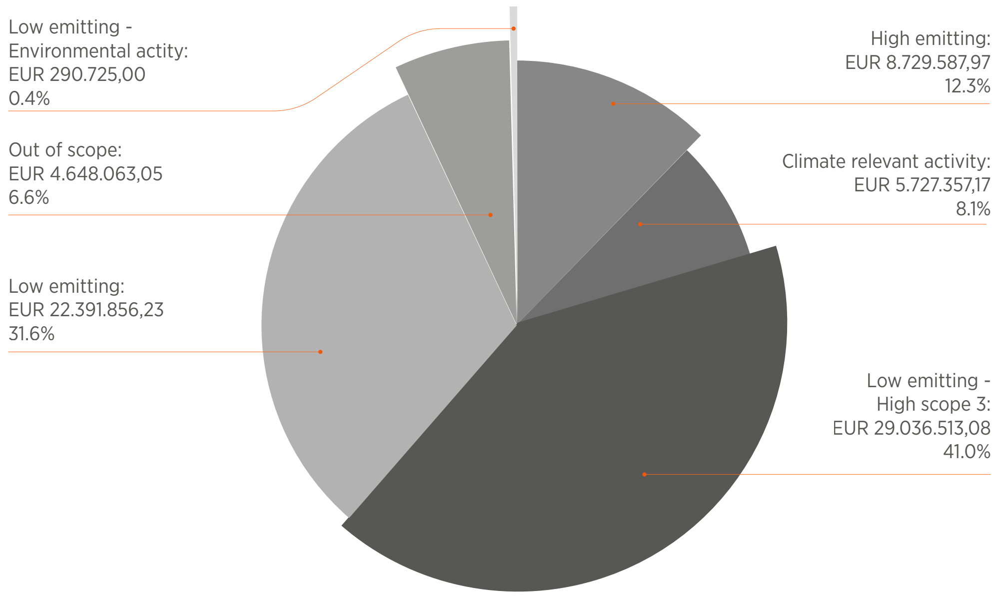
Financed emissions

As a financial institution, Hipotekarna Banka recognizes that the **most substantial portion of its emissions stems from indirect sources**, commonly known as scope 3 emissions. **Acknowledging the pivotal role we play as intermediaries, we emphasize the significance of scrutinizing the emission habits within our portfolio**. In an unprecedented move this year, we undertook a comprehensive analysis of all our clients from a unique perspective—emission categories. While the lack of specific data on emissions across our diverse client base makes it challenging to precisely calculate scope 3 emissions, this initiative yielded a crucial outcome. With a clearer understanding of how our investments are distributed across various industries in relation to different emitting categories, we are now well-positioned to formulate tailored strategies aimed at reducing emissions and fostering positive environmental impact.

Activity financed to legal entities



Total realized loans: EUR 86.171.713,93



Total realized guarantees: EUR 70.824.102,50

The outcomes derived from this analysis mark just the initiation of our commitment to assessing Scope 3 emissions. Looking ahead, our strategic vision involves progressively enhancing the depth of our analysis. **In the coming years, we aspire to conduct increasingly detailed assessments of our clients' emissions**. This will involve expanding the scope of the questionnaires and the type of data requested, particularly focusing on our corporate clients. By broadening the horizons of our evaluation, we aim to gain a comprehensive understanding of the environmental impact across various facets of our clients' operations.

Focus On
Refining Energy Practices: Data-Driven Efficiency

In early 2023, we took a significant step towards enhancing our energy efficiency by deciding to implement a **Building Management System (BMS)**. Partnering with a local data analysis company, we installed two smart meters—one at our headquarters and another at the Ulica Slobode branch. The success and benefits derived from this initiative have led us to commit to expanding this system to an additional 10 locations. The advantages of this implementation are noteworthy, **providing detailed, granular data on electricity consumption throughout the day**, which was previously unattainable. **Our vision for 2024 is to have smart meters installed at every location, further refining the quality of our Scope 2 data reporting**.

The BMS, a pivotal component of our energy management strategy, monitors and controls various aspects of building operations, optimizing functions like heating, cooling, and lighting in real-time for maximum energy efficiency. **This system not only offers detailed insights into energy usage patterns but also empowers building managers to identify and rectify areas of energy wastage**. These data-driven insights play a pivotal role in shaping future designs and operational strategies, contributing to a continuous improvement in our overall energy efficiency.

Focus On
Greening Our Path Forward: Hipotekarna's Headquarters Transition

In 2022, Hipotekarna Banka's headquarters underwent an extensive renovation project, aligning with the bank's commitment to reducing its environmental impact. Several measures were implemented during this renovation to enhance sustainability:

» **Replacement of Neon Lamps with LED Lighting**: As part of the renovation, the existing neon lamps were dismantled and replaced with energy-efficient LED bulbs. This switch not only led to significant electricity savings but also reduced the need for frequent bulb replacements due to the long service life of LEDs.

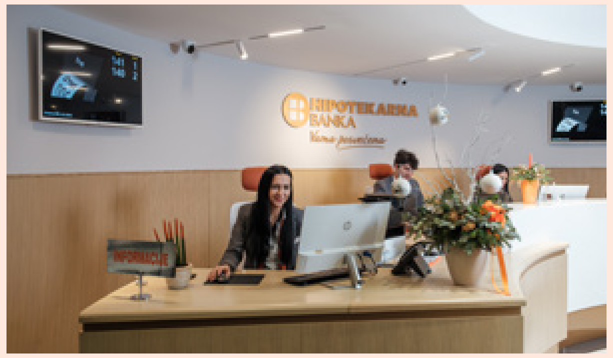
» **Formation of a Windbreak at the Entrance:** A windbreak was strategically designed at the building's entrance, featuring a portal more than 150 cm wide. This innovative feature allows for the alternate opening of the portal, effectively preventing unnecessary energy loss during heating or cooling processes.

» **Textile Replacement on Benches:** In the central hall, the bank took an eco-conscious step by removing the eco leather upholstery from the benches and replacing it with Mecis fabric. This fabric choice, known for being free from nitrogen dyes and allergenic dyes, contributes to a healthier indoor environment.

» **Wall Plastering with Acrylic Plaster (ISO14001):** All walls within the renovated space were covered with acrylic plaster certified with ISO14001, emphasizing the bank's commitment to environmental responsibility in its choice of materials.

- **Environmentally Friendly Paints:** The paints used for wall painting were sourced from Tikkurila Harmony, a leading company recognized for its sustainable practices. Tikkurila Harmony's inclusion in the EcoVadis business sustainability rating, where it ranks among only 4% of companies in the paint industry, underscores its commitment to producing environmentally responsible paints.

- **GreenGuard Certified Bank Counter Material:** The material used for crafting the bank counter holds GreenGuard certification, signifying low chemical emissions. This choice contributes to maintaining high indoor air quality standards within the headquarters.



These sustainable initiatives undertaken during the headquarters' renovation not only align with Hipotekarna Banka's commitment to environmental stewardship but also exemplify the bank's dedication to creating a greener and healthier workspace for its employees and visitors.

4

Community

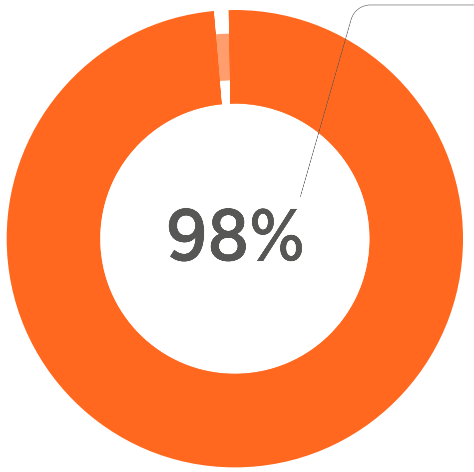
1 NO POVERTY
2 ZERO HUNGER
4 QUALITY EDUCATION
8 DECENT WORK AND ECONOMIC GROWTH
11 SUSTAINABLE CITIES AND COMMUNITIES
16 PEACE, JUSTICE AND STRONG INSTITUTIONS
17 PARTNERSHIPS FOR THE GOALS

Community

Setting the Stage: Trends in Focus

In the past, companies rarely perceived themselves as agents of social change. Yet the connection between social progress and business success is increasingly clear. The world is now witnessing a paradigm shift, with **firms increasingly acknowledging their social responsibilities. Regulations and global initiatives emphasise the need of banks as community development accelerators**. Financial institutions are aligning with the United Nations Sustainable Development Goals (SDGs), demonstrating their commitment to poverty eradication, gender equality, and inclusive growth.

largest banks worldwide do not have policies robust enough to meet the goal of keeping global warming below 1.5°C



(Banking on Climate Chaos, 2023)

Increase in references to UN Sustainable Development Goals (SDGs) in banks' annual reports from 2016 to 2022

(Capital Monitor, 2022)

Sustainable banking practises are fast growing in Europe. Regulations such as the EU's Sustainable Finance Disclosure Regulation (SFDR) emphasise the importance of banks disclosing the environmental and social implications of their financial products. European banks are pioneering the incorporation of ESG concerns into lending and investment decisions, thereby promoting socioeconomic progress while protecting the environment.

Banks emerge as transformation enablers in this changing narrative. As **financial institutions redirect resources towards community development programmes**, philanthropy becomes a conduit for social benefit. Partnerships with local colleges build talent pipelines, assuring the injection of new ideas and viewpoints from the local community.

The digital age opens up new possibilities for community engagement. Financial inclusion is enabled by banking innovations, which bridge gaps in underserved communities. Local management creates a detailed grasp of community needs while also enhancing the impact of financial services and catalysing grassroots development.

Indeed, despite their net zero language, banks' policies could be doing more to align with global climate commitments, as, fifty-nine out of the sixty largest banks worldwide do not have policies robust enough to meet the goal of keeping global warming below 1.5°C. Over the course of seven years, the **60 largest banks in the world invested more than $5,500 billion in the fossil fuel sector**, generating global climate catastrophe and fatal local community effects .

In navigating these challenges, the concept of **Shared Value**, as articulated by Michael Porter and Mark Kramer, emerges as a guiding principle. This approach reconnects a company's success to social progress within the communities it operates. Recognizing that **business success and societal well-being are intertwined**, corporations are urged to create shared value by reconceiving products and markets, redefining productivity in the value chain, and strengthening local clusters.

The imperative for shared value stems from the need to address societal challenges through business opportunities, transcending the traditional bounds of corporate social responsibility. As corporations increasingly embark on shared value initiatives, they face inherent barriers. Operating within complex ecosystems shaped by government policies, cultural norms, and societal conditions, businesses are realizing the necessity of multisectoral collaborations.

To advance shared value efforts, businesses, governments, NGOs, and community members must collaborate within a new framework. This collaborative approach, fostering alignment rather than opposition, holds the key to unlocking the full potential of shared value strategies, propelling both business success and societal progress on a global scale.

Our Committment

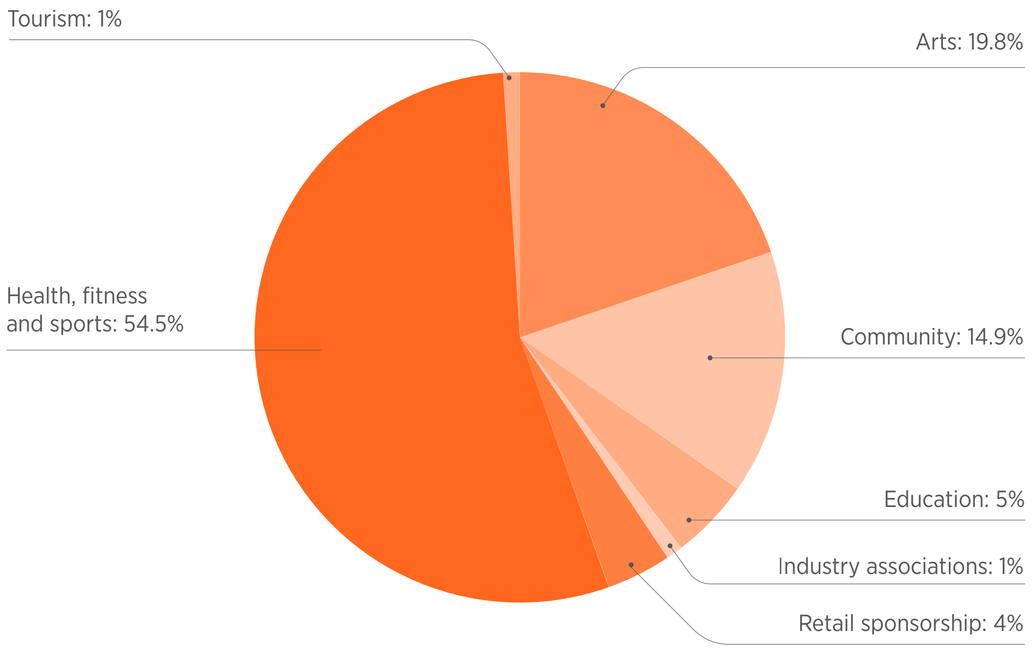
At Hipotekarna Banka, our responsibility towards the community goes beyond banking services; it's rooted in a genuine desire to make a positive impact. Year after year, we actively select and support various institutions and initiatives that align with the diverse needs of our community.

Through strategically planned actions in the fields of health, culture and education, the bank demonstrates its commitment by participating financially in raising funds alongside other socially responsible companies. These funds are often used to purchase extremely high-value technical equipment for public hospitals, ensuring that everyone can benefit from these donations.

In 2022, we directed our efforts towards initiatives that touched different aspects of community well-being. In the last few years, **Hipotekarna Banka sponsored a remarkable total of 40 initiatives, demonstrating our unwavering commitment to community well-being**.

These initiatives, amounting to a generous contribution of EUR 83,000, were strategically distributed across various sectors, reflecting the diverse needs of the community.

Community spending 2022



While each initiative holds its significance, we want to shine a spotlight on a few that resonate deeply with our values:

Christmas Magic for Children with Special Needs

In 2023, after seven consecutive years, our hearts have been dedicated to a festive humanitarian initiative tailored for children with special needs. As part of this initiative, the bank donates a package carefully curated with special fun games, mental and physical exercises, and medicinal accessories, all designed to bring smiles that last well beyond the holiday season. All this is delivered by our dedicated volunteers dressed up as Santa Claus.

Enchanting Minds with Free Books: Elementary School Support

The bank has contributed to the **education and enrichment of elementary school students** through a generous donation of EUR 5,000 worth of free sets of books every year since 2017. This initiative aims to provide educational resources and reading materials to support the learning journey of these young students. By **donating these sets of books**, the bank is actively fostering a culture of literacy and academic growth among elementary school students, empowering them with access to diverse knowledge and encouraging a love for reading.

Stop and Stare: Acknowledging the Beauty of Our Land

This ongoing initiative, which started in 2021, involves the **installation of benches strategically positioned to offer breath taking views**, creating a tapestry of visual charm for both locals and visitors. An invitation to pause and immerse oneself in the awe-inspiring beauty of Montenegro. Our effort aims at bringing the magnificence of our nation closer to the people. Starting from next year, Hipotekarna Banka has made an agreement with the National Park of Montenegro to put benches in their parks, marking a strategic expansion of our initiative to make these scenic spots even more accessible for everyone.

Healthcare in Motion: a Lifeline for Hemodialysis Patients

In a profound commitment to community well-being, in 2021 **we have donated a EUR 22,500 ambulance**, tailored for patients undergoing hemodialysis. At Hipotekarna Banka, our mission transcends traditional banking; we reach out with a caring hand in crucial moments, safeguarding the essence of health and vitality.

Hipotekarna and Fondacija Čini dobro collaboration

Hipotekarna Banka takes immense pride in its **partnership with the NGO "Čini dobro"** (Do Good). Demonstrating a profound commitment to social responsibility, Hipotekarna Banka not only provides financial support to "Čini dobro" but is actively represented in its board of directors. This collaborative engagement extends beyond monetary contributions, as the bank generously allocates human resources to support the NGO's initiatives. Furthermore, Hipotekarna Banka plays a crucial role in amplifying "Čini dobro's" impact by promoting their commendable initiatives among both employees and clients. Through this robust partnership, Hipotekarna Banka empowers Dondacija Čini Dobro to champion a diverse range of initiatives, contributing to positive change and making a meaningful difference in the communities it serves.

Investing in Education

Beyond providing financial support, we firmly believe in the transformative power of education. In **collaboration with the University of Montenegro and other organizations**, we have established meaningful partnerships to empower students through:

Hipotekarna Banka's Visionary Collaboration with the University of Montenegro

The celebration of Hipotekarna Bank's three decades in the financial landscape occurred in 2021 and was marked by a meaningful partnership with the University of Montenegro, emphasizing the pivotal role of students in the country's business development. As a testament to this commitment, Hipotekarna Bank has generously granted the University of Montenegro and its students **three years of complimentary access to the JOBIRI platform**. This initiative aims to support students in their transition to the next phase of life, guiding them through the intricacies of job hunting and career development.

A noteworthy aspect of this collaboration is the significant representation of University of Montenegro alumni among Hipotekarna Bank's workforce, a testament to the caliber of individuals nurtured by this esteemed institution.

Currently hosting over 150,000 job ads aggregated from various regional employment websites, JOBIRI stands as a digital advisor harnessing the power of artificial intelligence. Its algorithms **empower candidates to craft a comprehensive CV** in just 5 minutes, drawing from a pool of 600,000 available phrases. Beyond resume building, JOBIRI aids candidates in interview preparation, offering a repertoire of over 250 mock interview questions. Further enriching the experience, the platform provides access to 145 video lessons, all synchronized in the Montenegrin language, guiding individuals in formulating a strategic action plan for their job search.

The Jobiri platform, acting as a centralized hub for registered students and employers collaborating with the University of Montenegro, serves as a dynamic tool tailored to assist young individuals at every step of their journey towards achieving their career aspirations.

Interning With Purpose: The Dual Force of Learning Opportunities At Hipotekarna Banka

The Bank actively involves **students from the University of Montenegro who generously volunteer their time and skills to contribute to various initiatives and projects within the bank's framework**. This collaborative partnership proves to be mutually beneficial, as students gain invaluable real-world experience while actively participating in the bank's operations.

University students, through their voluntary engagement, bring forth a diverse array of skills and perspectives, making meaningful contributions across different departments within the bank. Whether involved in data analysis, research, customer service, marketing, or specific projects related to innovation or community outreach, these students play a vital role in the bank's dynamic environment.

This volunteer program not only provides students with practical exposure but also allows the bank to harness fresh ideas and perspectives. The students, with their enthusiasm, creativity, and eagerness to learn, inject the bank with new energy and innovation.

Moreover, this collaboration acts as a vital link between academia and industry, enabling students to apply theoretical knowledge to practical situations and gain a profound understanding of the intricacies within the banking sector. It cultivates a sense of community and social responsibility among the students, motivating them to actively participate in initiatives that positively impact society.

Investing in Excellence: Hipotekarna's Scholarly and Literary Endeavors

Hipotekarna Bank proudly extends its commitment to education through **individualized support, scholarships, and the cultivation of talent**. In a gesture of unwavering dedication to academic excellence, we have made significant donations to empower promising individuals on their educational journeys. A student has received support for her studies at the prestigious Oxford University of London (2023), a testament to our belief in nurturing bright minds on the global stage. Similarly, our contribution to another student education at the esteemed London School of Economics (2021) reflects our commitment to fostering future leaders in the field of economics and beyond.

Furthermore, we champion the literary arts by **supporting the publication of noteworthy works**. In the last two years:

» Esad Krcić's "Bajka o Čarobnom novcu" finds its wings with our backing, contributing to the rich tapestry of literature;
» Dejan Vuković's "FRANKFURTSKE PRIČE";
» Jelena Jovetic's "Ko li mi te brani" receive our enthusiastic support, recognizing the value of diverse voices in shaping the literary landscape.

At Hipotekarna Banka, we believe in investing in knowledge, talent, and creativity, propelling individuals towards a brighter and more enriched future.

Crisis Response and Support: Our Bank's Role in COVID-19 Response

Our Bank has demonstrated a strong commitment to supporting the community during times of crisis, notably during the challenging period of the COVID-19 pandemic.

Here are specific actions undertaken by the bank:

» **Financial Support to National Coordination Team**

In a dedicated effort to fortify the nation's response to the COVID-19 crisis, the bank made a substantial donation of EUR 100,000 to the National Coordination Team. This contribution served to enhance the overall crisis management strategy, addressing various facets of the challenging situation.

» **Aplauz Medicinarima Platform**

The bank took another impactful step by initiating this platform, channeling support to healthcare professionals. Through this online platform, a commendable sum of EUR 130,590 was raised and donated, specifically allocated for the purchase of essential protective equipment. This vital donation ensured the availability of protective gear for all healthcare workers in Montenegro, safeguarding their well-being as they tirelessly delivered essential medical care during the pandemic.

» **Employee Support with Free Testing**

Prioritizing the health and safety of its workforce, the bank implemented a proactive measure by providing free COVID-19 testing for all staff members. This initiative aimed to fortify the health of employees and maintain a secure working environment amid the ongoing pandemic.

These actions demonstrate the organization's proactive approach and commitment in addressing the challenges posed by the COVID-19 crisis. By providing financial assistance to national efforts, supporting healthcare professionals with protective equipment, and prioritizing the health of its own workforce, the organization played a significant role in supporting the community and contributing to the collective response to the pandemic.

Recognition and Awards

Award For The Most Active Bank In Montenegro By The European Bank For Reconstruction And Development

In recognition of its remarkable contributions, Hipotekarna Banka secured the prestigious title of the **most active bank in Montenegro, for 7 consecutive years**, from 2016 to 2023. The prize awarded by the European Bank for Reconstruction and Development (EBRD) as part of its Trade Facilitation Program was presented during the EBRD's annual conference and business forum, highlighting the bank's exemplary performance at international level.

The Trade Facilitation Program, initiated by the EBRD in 1999, serves the purpose of promoting trade within the countries it invests in. Hipotekarna Banka's recognition signifies its pivotal role in facilitating trade to, from, and among these nations. Through this program, the EBRD extends guarantees from international banks and short-term loans to selected banks, providing essential concessions to local exporters and distributors. The award not only acknowledges the bank's current achievements but also reinforces its commitment to fostering economic growth and trade development in the region.

Leading With Vision: Hipotekarna Banka CEO Awarded With PRO.PR Vision Manager Prize (2016)

Esad Zaimović, the Chief Executive Officer of Hipotekarna Banka AD Podgorica, proudly earned the distinguished title of **PRO.PR Vision Manager**. Bestowed with this honor, Mr. Zaimović stands as a testament to **visionary leadership and an acute understanding of the intricacies of communication processes**.

Danijel Koletić, the President of the Organizing Committee of the PRO.PR conference, emphasized that the Vision Manager award is reserved for company directors who not only grasp the significance of all communication processes but also adeptly implement them. This recognition underscores the high regard for public relations as a pivotal link contributing to the overall business success of the company.
PRO.PR holds the distinction of being the first international conference for public relations (PR) in Southeastern Europe with a program dedicated to communication management and PR across private, public, and civil sectors, as well as the media. PRO.PR serves as a crucial platform for advancing knowledge and expertise in the field. Esad Zaimović's acknowledgment as a Vision Manager further solidifies Hipotekarna Banka's commitment to excellence in communication and business success.

ISKRA - Special recognition for corporate philanthropy (2016)

Hipotekarna Banka's socially responsible business strategy unfolds across multiple dimensions, reflecting a commitment to fostering positive impact and meaningful contributions. The bank's strategic focus includes investments in culture, elderly care, health care improvement, youth education, and a broader commitment to community well-being.

In recognition of its outstanding corporate philanthropy efforts, Hipotekarna Bank AD Podgorica earned the prestigious ISKRA award in 2016. This prize underscored the **bank's multifaceted corporate responsibility**, evident in its initiatives such as health care development, cultural investments, support for the elderly, youth education, and a holistic contribution to the community.

The enduring success of this strategy is evident in tangible and widely recognized results. Employees actively engaged in corporate philanthropy at Hipotekarna Banka not only provide financial support but also establish and nurture personal partnerships with institutions and individuals involved in project implementation. Beyond financial backing, the bank encourages its employees to contribute their expertise and time, ensuring a professional commitment that enhances the outcomes of supported projects. The bank's unwavering commitment, consistency, and hands-on approach exemplify a corporate ethos deeply rooted in making a positive difference in the communities it serves.

5
Clients and Partners

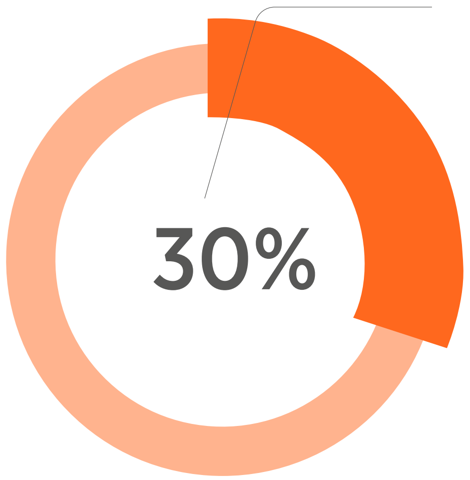
4 QUALITY EDUCATION
5 GENDER EQUALITY
8 DECENT WORK AND ECONOMIC GROWTH
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
10 REDUCED INEQUALITIES
11 SUSTAINABLE CITIES AND COMMUNITIES
12 RESPONSIBLE CONSUMPTION AND PRODUCTION
17 PARTNERSHIPS FOR THE GOALS

Clients and Partners

Setting the Stage: Trends in Focus

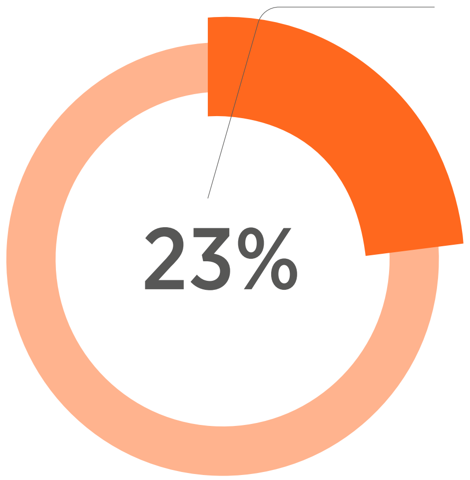
Financial institutions are reinventing customer relationships against the backdrop of global interdependence. The evolving regulatory landscape and heightened expectations for transparency in business practices compel banks to cultivate **robust client relationships grounded in trust and ethical principles**. Banks are expanding their reach beyond financial transactions in this heightened consciousness era, emerging as responsible advisors **guiding clients towards sustainable choices.**

of respondents rate their main bank's customer service as excellent



(Accenture 2023)

rate their main bank highly for its range of products and services and for the competency of its tailored financial advice



(Accenture 2023)

Sustainable banking practices are becoming more popular in Europe. Directives such as the European Green Deal highlight the banking sector's involvement in achieving a carbon-neutral economy. European banks are forging important supplier ties, incorporating ESG criteria into their product offerings, and promoting sustainable corporate practices that ripple across the business ecosystem.

The desire for long-term economic prosperity is obvious on Montenegro's horizon. As the country moves closer to EU membership, the government emphasizes creating an inclusive economic environment, supporting innovation, and cultivating strong partnerships with local partners. Banks emerge as change agents in this dynamic environment, serving as facilitators of local company growth and enablers of collaborative success.

In the digital age, innovation magnifies client relationships. Banks use technology to provide seamless digital experiences that enable clients to make informed financial decisions while also facilitating effective communication and collaboration among suppliers. These creative ideas not only improve client experiences but also drive long-term practises throughout the value chain.

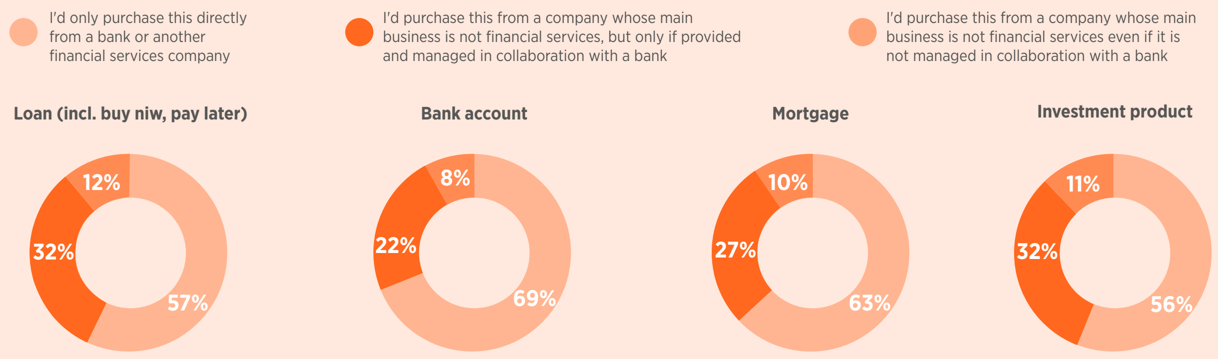
Focus on
Accenture, Banking Consumer Study: Reignite human connections, 2023[10]

In today's rapidly evolving banking landscape, the convergence of digital innovation and personal relationships stands as the cornerstone of success. Despite the allure of digital convenience, the absence of meaningful connections presents a formidable challenge for banks striving to secure customer loyalty. Our research underscores the enduring significance of physical branches, particularly for pivotal transactions. Moreover, it unveils a compelling opportunity for banks to boost revenue by up to 20% through cultivating deeper personal connections with their clientele.

Simultaneously, the banking industry is undergoing a profound transformation in revenue generation. A substantial portion of revenues, exceeding 30%, now emanates from non-banking channels. Accenture's insightful research highlights this shift, illustrating how traditional banking products such as payments, personal loans, and credit cards are increasingly sourced through non-banking third parties. This trend is not merely a fleeting phenomenon but rather a trajectory expected to intensify further in the coming years.

Consumers want banks in the loop when purchasing financial products.

Q: If the need arose, which of the following best describes your attitude to purchasing each of the following banking products through a company whose main business is not financial services, such as a retailer, broadband provider or technology company?



Source: Accenture Research on Accenture Global Banking Consumer Study

Amidst these seismic shifts, some banks may be inclined to adopt a narrow view of their role, perceiving it solely as providers of financial infrastructure. However, there lies a wealth of opportunity for those willing to embrace a more expansive vision. By leveraging strategic partnerships, banks can transcend traditional boundaries and deliver enhanced customer value. Collaborative ventures enable banks to offer personalized advice and solutions tailored to individual needs, thereby elevating customer experiences to unprecedented heights.

In this dynamic landscape, success hinges upon banks' ability to navigate the intersection of digital innovation and personalized service. By embracing this paradigm shift and forging strategic alliances, banks can not only adapt to the evolving ecosystem but also thrive amidst disruption, ensuring sustained growth and relevance in the years to come.

10 Accenture, Banking Consumer Study: Reignite human connections, 2023

Our Committment

The significance of client engagement in ESG practices lies at the heart of fostering sustainable and responsible financial relationships. **As clients increasingly prioritize ethical and environmentally conscious decision-making, their engagement with ESG principles becomes a powerful catalyst for positive change**. Financial institutions not only respond to evolving market expectations but also contribute to a more sustainable and resilient global economy. Client engagement in such practices serves as a mutual commitment towards shared values, creating a foundation for responsible financial transactions and impactful, long-term partnerships.

Corporate Clients

Questionnaire on ESG Behavior

The corporate client questionnaire, a pivotal component of our ESG initiatives, was conducted with precision and depth, encompassing insights from an initial sample of clients 19 clients selected across various business categories[11]. Structured into three comprehensive sections, the questionnaire aimed to delve into various facets of Environmental, Social, and Governance behavior.

General Section:

- Inquired about company size, providing context for understanding the scale and impact of the client's operations.
- Explored disclosure and reporting habits, seeking to gauge the client's commitment to transparency and accountability in their business practices.

Environmental Section:

- Addressed crucial aspects related to environmental sustainability.
- Probed emissions practices to understand the client's carbon footprint.
- Explored land use policies, water management strategies, and waste management practices, shedding light on the ecological impact of their operations.

Social and Governance Section:

- Focused on the client's commitment to social responsibility and robust governance.
- Sought information regarding human rights practices within their business operations.
- Explored sustainability management practices across the organization, examining the integration of sustainable principles into their overall business strategy.

This detailed and comprehensive questionnaire aimed not only to assess the current state of ESG practices among our corporate clients but also to **foster a meaningful dialogue on the path towards a more sustainable and responsible future**. The responses gathered contribute invaluable insights to our ongoing efforts to align financial practices with environmental, social, and governance considerations.

11 Hospitality, wholesale, retail, manufacturing, construction, real estate, food and beverage, financial services, tourism, mining, pharmaceutical

Sustainability Metrics and Initiatives	Percentage of Companies
Clear strategy or published statement regarding sustainable business	55%
Appointment of officers or designated unit for business sustainability	25%
Publication of information about environmental impact	20%
Preparation of periodic Sustainability Report for business partners	10%
Adoption of ESG indicators and associated KPIs in Sustainability Report	15%
Conducted ESG risk assessment	15%
Measurement and reporting on greenhouse gas emissions	10%
Implementation of measures for ecological risk compliance	45%
Risk management regulations for environmental accidents/disasters	40%
Formalized roles and responsibilities for environmental risk management	55%
Alignment with local or global Sustainability initiatives and frameworks	35%
Guidelines/KPIs for employee safety	65%
Human rights policy	80%
Gender representation in the highest governing body	85%

Retail Clients

At Hipotekarna Banka, our **commitment to our clients extends beyond financial services**. This chapter delves into our multifaceted approach to client engagement and the various programs tailored to meet their diverse needs. We have ongoing efforts to **engage with our clients, understand their preferences, and tailor our offerings** to meet their diverse needs. Through effective communication channels, innovative product offerings, and targeted support programs, we strive to create lasting relationships and enhance the overall client experience at Hipotekarna Banka.

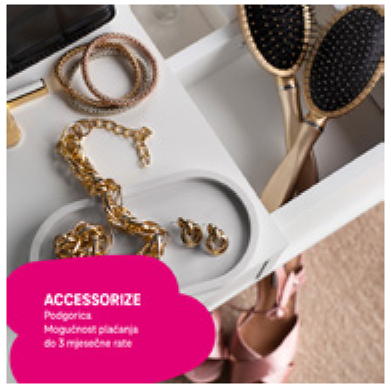
PREMIUM PROGRAM: A Decade of Exclusive Financial Strength and Benefits

For the past 12 years, our PREMIUM program, established in collaboration with Crnogorski Telekom (T-Mobile), has been a beacon of financial strength and exclusive benefits in Montenegro. Anchored by a powerful Mastercard, this program boasts the **largest cardholder base in the country, with over 55,000 clients**. Specifically tailored for the dynamic needs of young individuals, PREMIUM stands as the cornerstone of our product lineup.

The Premium program offers a range of exclusive benefits through its Premium card, catering to individuals seeking unparalleled advantages in the Montenegrin banking market. With an accessible application designed for every client, users can easily stay updated on current promotions at https://www.premiumprogram.me/.

Boasting **more than 600 partners** and a thriving community of over 55,000 Premium cardholders, the program ensures a wealth of opportunities for its members, i.e. fixed 5%-20% discounts and the possibility to pay in instalments. The Premium team goes beyond standard benefits by organizing periodic additional discounts and special offers throughout the year.

For instance, in collaboration with partner MOJ LAB, **Pink October** was commemorated with exclusive discounts of up to 60% to support breast cancer awareness. On **World Heart Day**, Premium partnered with Polyclinic Smart Med and Laboratory Smart Lab to offer complimentary cardiologist consultations and diagnostic tests.



The Premium program aligns with seasonal milestones, facilitating tailored benefits during key periods.

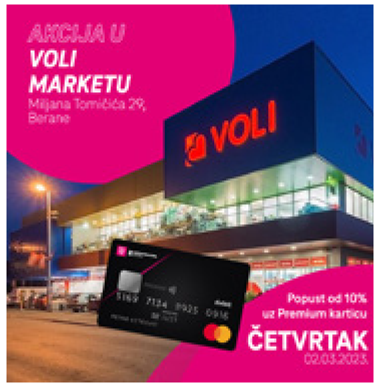
Spring sees preparations for mid-term and high school graduations, with special discounts for young members.

The beginning of the school year in September presents unique challenges, as we endeavor to support parents preparing their children for the academic year ahead by offering additional discounts at our partner bookstores.

During the winter season, we prioritize the safety of our users by offering additional discounts through our partners. This includes collaborating with car service providers to facilitate vehicle preparations for the winter months, ensuring our users are well-equipped for safe driving.

Additionally, we have introduced a feature allowing Premium users to pay for fuel in convenient installments.

Addressing inflation concerns, the program collaborates with food industry partners like Voli to organize regular weekly or monthly promotions.



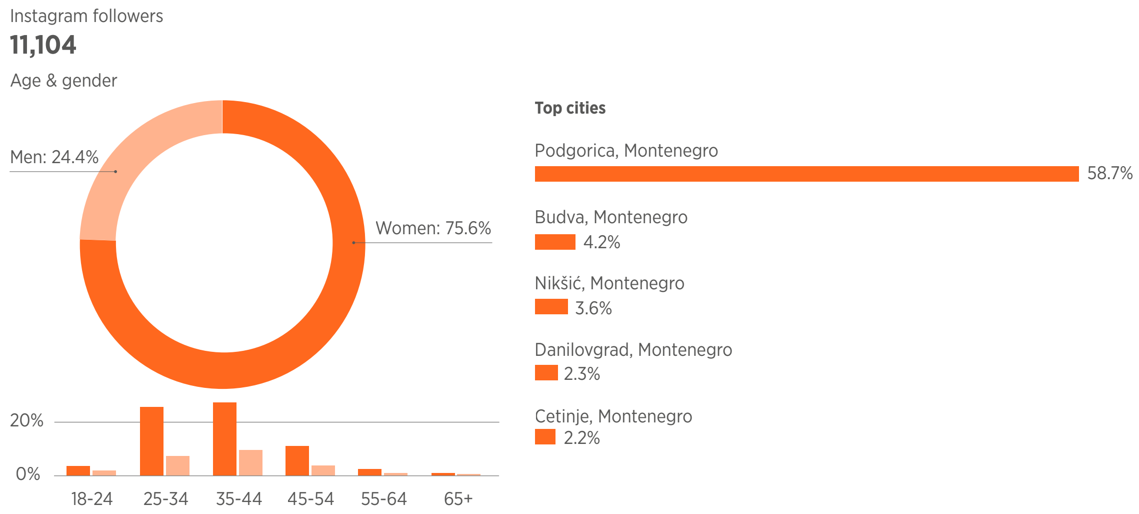
Furthermore, at least once a month, Premium treats its cardholders with practical gifts such as books, vouchers for language schools, or supermarket chains.

The Premium program continually strives to enhance the financial well-being of its members, offering a diverse array of benefits and promotions tailored to their needs and preferences.

Hipotekarna Banka's Digital Transformation: Amplifying Social Connection and Growth

Hipotekarna Banka is fully embracing the digitalization era by actively supporting various initiatives and programs. As part of this commitment, the bank is **dedicated to enhancing social media engagement.** Recognizing the importance of direct communication with clients, Hipotekarna Banka acknowledges the crucial role of involving customers in its initiatives and understanding their preferences and needs. In today's fast-paced digital landscape, social media has become more important than ever for effective communication. Consequently, the bank is intensifying efforts to develop and **expand its presence across social media channels**, focusing on **analyzing engagement trends.** This proactive approach ensures a dynamic and responsive interaction with clients, fostering a deeper connection and better aligning the bank's services with the expectations of its clientele.

In 2023, Hipotekarna Banka achieved exceptional results, showcasing growth across key parameters and solidifying its position as the leading bank on social networks in Montenegro. The longstanding effort has ensured proper development of the bank's pages, culminating in top rankings for all crucial metrics. Notably, **Facebook** serves as a vital information platform, where content related to notifications, announcements, and product/service presentations, linked to the website, garnered the best results. **Instagram** witnessed remarkable growth, especially in followers, attributed to activations with the Premium program and strategic post promotions. **Twitter**, on the other hand, saw high impressions for campaigns, Premium birthday celebrations, board visits, and conferences, with service-related posts also performing well. **LinkedIn** announcements featuring board members and marketed innovations contributed to organic growth, emphasizing the positive reception from followers. Looking forward, the bank is considering Performance campaigns for direct product/service promotions aimed at boosting online registrations, application downloads, and activation of digital services, signaling a strategic move towards measurable sales impact.



A Fresh Start: Nurturing Environmental Consciousness in New Year's Resolutions (2021)

In a thoughtful New Year's gesture for our valued clients, we presented a special gift that transcends traditional greetings — a recycling box accompanied by a cloth bag, soil, and a collection of seeds, specifically herb seeds. This distinctive and eco-friendly present was designed invite clients to engage in an interactive and sustainable activity.

Recipients were **encouraged to take an active role in this green initiative** by planting the herb seeds themselves, utilizing the provided soil and the cloth bag ingeniously repurposed as a makeshift planter. Beyond merely promoting recycling through the designated box, this initiative sought to foster a genuine connection with nature, empowering clients to cultivate their own herbs.

The core objective was to emphasize the significance of environmental consciousness, intertwining it with a delightful and fulfilling activity. By sowing and nurturing the herbs, clients not only contributed to their personal green space but also embraced the New Year with a meaningful and environmentally friendly gesture.

Green Products Initiative by Hipotekarna Banka

In line with its commitment to environmental sustainability, Hipotekarna Banka is actively involved in issuing various types of green financial products. This chapter provides an overview of three distinct green products offered by the bank: the Green Growth Fund (GGF) credit line, the Energy Efficient Home (EED) program, and the Council of Europe Development Bank (CEB) line.

Green Growth Fund (GGF) Credit Line: Providing Financing for Green Mortgages and EE Construction

The GGF credit line facilitates **financing for energy-efficient construction and green mortgages**. Eligible projects include new or renovated buildings that meet specific energy efficiency criteria. Key features of the GGF credit line include:

- Eligibility for new or renovated structures showing less than 80% of the maximum acceptable required energy.
- Green mortgages with a maximum sub-loan up to EUR 500,000.
- Support for construction finance up to 50% of construction costs (excluding land costs), with up to EUR 10 million reported to GGF.
- Technical support fully covered by GGF Technical Assistance Facility (TAF).
- Emphasis on promoting modern, efficient technologies such as heating systems, biomass utilization, and solar technologies.

Energy Efficient Home (EED) Program

The EED program, launched in 2020, aims to subsidize interest rates and loan processing fees for households. The program, with a budget of approximately €800,000, focuses on providing interest-free loans for implementing energy efficiency measures and includes planned expansions into additional measures: Installation of highly efficient heat pumps.

Why the "Energy Efficient Home" program?

The Ministry of Economy, as the leading authority in the energy field, is committed to promoting the importance and benefits of energy efficiency and the use of renewable energy sources, aligning with international commitments.

Household energy inefficiency is prevalent in Montenegro, with over 60% of total energy consumed for heating and low-efficiency firewood technologies. The implementation of promotional support programs aimed at citizens for the adoption of modern, efficient technologies and the involvement of the private sector (commercial banks, companies, etc.) is a proven model for improving energy efficiency in the household sector and has significant benefits for the economy.

What we achieved so far

The "Energy Efficient Home" program represents a sort of continuation of the "Energy Wood" program, which the Ministry of Economy implemented in three phases since 2013. Within the "Energy Wood" program, 1,010 pellet and briquette heating systems were installed throughout Montenegro.

In the previous two phases of the "Energy Efficient Home" program, energy efficiency measures (installation of heating systems, installation of facade joinery, and facade thermal insulation) were implemented in 280 households in Montenegro.

During the same period, the "Montesol" project was realized, providing interest-free loans for solar water heating devices. Through this initiative, 147 households installed solar panels in their homes using interest-free loans.

In total, during the previous period, there were **1,440 interest-free loans for citizens**, with a **total investment amounting to €3.6 million**.

These projects involved the participation of **6 banks and 21 Montenegrin companies.**

The goal of the "Energy Efficient Home" program

The objective of the "Energy Efficient Home" program is to **stimulate investments in energy efficiency** by offering favorable loans to citizens at a 0% interest rate. It aims to **foster collaboration among commercial banks, companies, and citizens** while **establishing a market for cutting-edge technologies**, including biomass heating systems, environmentally friendly heating/cooling systems, and solar technologies. Additionally, the program supports the **growth of the market for contemporary wood fuels** such as pellets and briquettes, contributing to a **reduction in harmful gas emissions** through the promotion of environmentally friendly fuel consumption.

Benefits offered by the program

The program extends various advantages, including the option for individual loans of up to €10,000 with a repayment period of up to 6 years and a 0% interest rate. It provides complete interest and fee subsidies to alleviate financial burdens. The procedures and administrative channels are streamlined for swift and efficient processing. Moreover, the program ensures suitable guarantee conditions for implemented energy efficiency measures, and an independent technical inspection is conducted to verify the quality of completed work and installed systems.

Mechanism of the EED Program

1. The client (citizen) contacts a qualified company (contractor) to obtain more detailed information about the offer within the "Energy Efficient Home" Program and a quote for the execution of the works.
2. After receiving the offer from the company, the client contacts the Ministry of Economy, requesting confirmation of qualification to participate in the Program. The client provides supporting documentation proving that the property where the works will be carried out is legal or in the process of legalization, or that construction has been approved.
3. After reviewing the documentation, the Ministry issues a confirmation to the client, qualifying them to participate in the Program. The client submits this confirmation to the selected bank along with the cost estimate for the works and the necessary credit documentation in accordance with the bank's business policy.
4. If the submitted documentation is complete and the client meets the prescribed credit conditions, the bank approves the loan for the client and informs the selected company.
5. The chosen company carries out the works within the specified timeframe and submits a report to the Ministry confirming the completion of the works.
6. Upon receiving the report, the bank transfers the approved loan amount to the company's account.
7. The Ministry of Economy transfers funds for the interest rate subsidy and loan processing costs to the bank.
8. The client repays the interest-free loan to the bank in equal monthly installments.

EED 2020-2023

1. In the last three years, the Ministry allocated €800,000 to subsidize interest rates and loan processing fees for households, targeting around 1,100 loans and an investment level exceeding €6 million. Planned expansion includes four additional measures: Installation of highly efficient heat pumps for heating/cooling buildings,
2. Installation of multisplit systems for heating and cooling buildings,
3. Installation of solar systems for electricity production, and
4. Installation of solar systems for water heating.

HIPOTEKARNA BANKA AD has a significant participation in these projects and is one of the consistent banks that have been participants in the EED project.

Accordingly, in the last three years through the EED project via Hipotekarna Bank, 165 loans have been realized. The total amount of loans realized is approximately 653,000 euros.

Public Call for Banks

In the previous call, banks, along with a letter of interest, submitted the following documentation:

- Approval from the Central Bank of Montenegro for the bank to approve dedicated loans to individuals.
- Proof/statement that the bank has branches in at least three municipalities in Montenegro.
- Information on the offered interest rate and administrative costs within the "Energy Efficient Home" program.
- Information on the method used to calculate the offered interest rate (conforming/proportional method), as well as the repayment plan for a loan amount of €10,000, with a repayment period of 6 years, for the proposed interest rate and administrative cost.
- Full name of the contact person designated by the bank for communication within the Program.
- After the conclusion of the call, the Ministry of Economy reviews all submitted proposals and invites banks that have submitted letters of interest to participate in the "Energy Efficient Home" program for negotiations. The purpose of these negotiations is to define the final terms and criteria for the participation of banks in this program.
- The Ministry of Economy signs cooperation agreements with banks that accept the finally defined terms and criteria for participation in this program.

The Ministry is now ready to consider all proposals from banks when defining the text of the public call for this year's phase of the program.

Council of Europe Development Bank (CEB) Line

Hipotekarna Banka, in collaboration with the Ministry of Finance, has initiated a loan line. While not classified as conventional green loan products, this initiative was conceived as a means for the bank to **contribute support to the market, offering funds at a favorable and competitive interest rate**, initiated in response to the challenges posed by COVID-19 and sustained thereafter. The decision, endorsed by the Bank for the Ministry of Finance, articulates the purpose of acquiring the line from MIF – intended for further disbursement to our clients. Specifically characterized as a specified-purpose loan, it is extended to both retail and corporate clients, catering to the financing needs of current assets and investments. This strategic measure serves as a means of bolstering support to the economy and individuals.

Key Points:

- Average interest rate for business loans from the bank's funds: 4.13% p.a.
- Average interest rate for loans to the economy from the project: 3.08% p.a.
- Involvement of companies with women in executive roles: 5 companies.

Note: The average interest rate mentioned was as of the reporting date on 04.30, and has since increased to 4.39% p.a. as of 31.10.2023.

Partners

To ensure an unparalleled experience for our clients, we prioritize excellence by carefully selecting reliable suppliers and fostering enduring partnerships. This commitment to choosing trusted collaborators reflects our dedication to delivering quality and value in every aspect of our services. By establishing strong alliances with suppliers who share our commitment to excellence, we aim to consistently meet and exceed the expectations of our valued clients.

Supplier Analysis

In its pursuit of sustainability and operational excellence, Hipotekarna Banka strategically selects suppliers across various departments. The bank's supplier choices are a reflection of its commitment to responsible financial practices, innovation, and a global-local balance.

Marketing Suppliers

The bank engages in diverse collaborations within the marketing realm. Partnerships with media outlets, creative agencies, and printing companies showcase a comprehensive marketing strategy. Notably, international collaborations highlight a global perspective in marketing efforts.

General Affairs Department Suppliers

From office supplies to waste management, the General Affairs Department's choice of suppliers addresses diverse operational needs. The bank exhibits financial prudence by opting for cost-effective maintenance agencies and skillful engineering solutions, ensuring a well-maintained and efficient work environment.

Legal Department Suppliers

The legal department's focus on local legal expertise underscores a commitment to understanding and complying with regional legal nuances. The bank maintains a balance between compliance and financial responsibility by making rational spending choices on legal services.

Retail and Corporate Suppliers

Strategic authorizations, such as partnering with an authorized reseller for payment cards, showcase a focused approach to financial transactions. Transparent spending figures demonstrate the bank's commitment to financial accountability and responsible management.

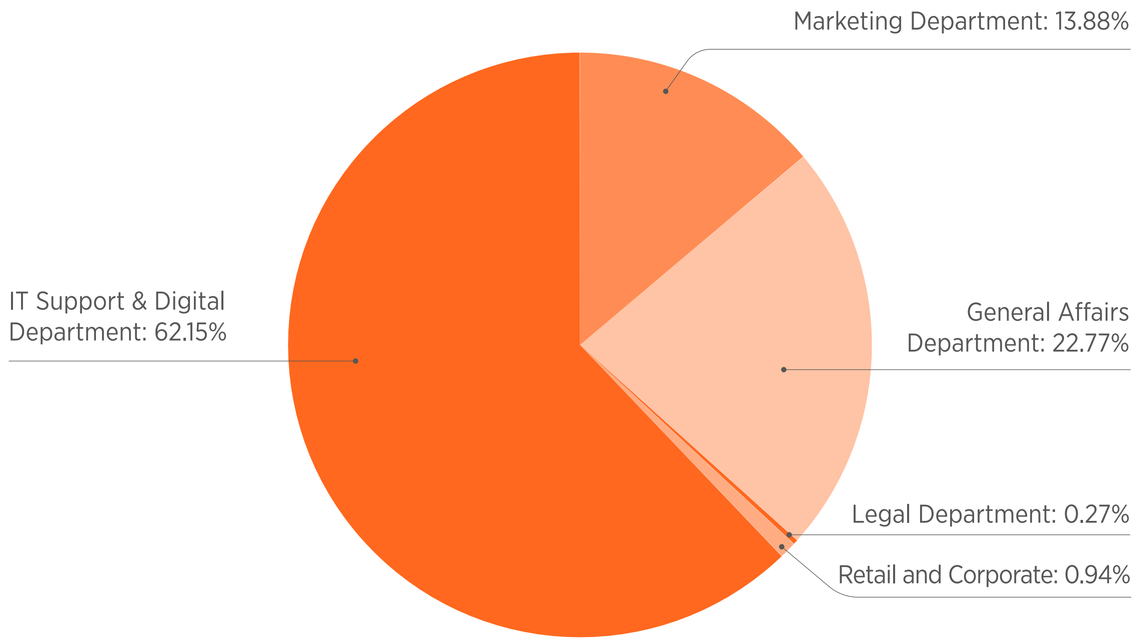
IT Support & Digital Department Suppliers

Embracing cutting-edge technologies, including OCR and AI tools and robotic processes, positions the bank as a technological innovator. Substantial investments in cybersecurity solutions underline the bank's commitment to safeguarding sensitive information.

Cross-Cutting Analysis

Throughout all departments, a discerning approach to financial allocations and cost-effective partnerships is evident. The bank's emphasis on innovation is notable, with investments in digital transformation, AI, and robotics. Engaging with a mix of local and international partners across departments reflects a balanced approach, combining global expertise with local insights.

Spending Percentages by Department (2022):



Environmental Impact Analysis of IT Industries:

IT hardware, software, and security industries collectively contribute to the bank's commitment to sustainability, each addressing unique challenges and actively working towards minimizing environmental impact.

The **IT hardware** industry is generally acknowledged as a low-emitting sector, particularly when compared to heavy manufacturing or energy production. Devices such as computers, servers, and networking equipment contribute to relatively lower direct emissions. However, the industry's sustainability encompasses broader aspects such as energy efficiency, electronic waste management, responsible sourcing, and product lifecycle. Challenges like electronic waste disposal and manufacturing processes' carbon footprint persist, but ongoing efforts, including improved energy efficiency and recycling initiatives, contribute to overall sustainability.

The **IT software** industry is considered low-emitting in terms of direct emissions, given that software development primarily involves coding, testing, and deployment with minimal greenhouse gas contributions. Sustainability factors include energy consumption in data centers, software algorithm efficiency, and development process impact. Optimization of code, energy-efficient data centers, and green computing practices enhance overall sustainability. The industry often focuses on creating applications that empower other sectors to improve environmental performance, emphasizing energy management, emissions tracking, and sustainable practices.

Similar to the IT software sector, the **IT security** industry, encompassing cybersecurity and related services, is generally regarded as low-emitting. Activities such as developing, implementing, and managing security solutions involve minimal carbon emissions. Sustainability considerations include energy consumption in security infrastructure, manufacturing's environmental impact, and electronic waste management. The industry actively develops energy-efficient security solutions, advocates responsible electronic waste disposal, and adopts sustainable manufacturing practices. Its role in enhancing the sustainability of other sectors through secure and efficient operations is paramount.

Focus on
Consumer Loan Program Collaboration: A Joint Venture of Hipotekarna Banka and Tehnomax

In a strategic alliance between Hipotekarna Banka and Tehnomax, a pioneering consumer loan initiative has been introduced, revolutionizing accessibility for citizens. This section provides an in-depth overview of the collaborative effort, highlighting key features, eligibility criteria, and the streamlined loan application process.

Loan Features and Accessibility:

Citizens can benefit from a consumer loan tailored to their needs, offering up to 24 interest-free instalments. With loan amounts ranging from €100 to €3,000, individuals can enjoy the flexibility of repaying over a span of 7 to 24 months, all without the necessity of visiting a traditional bank and free from any interest charges or additional fees.

Eligibility Criteria:
This unique loan opportunity is extended to:

» Employees affiliated with employers or trade unions engaged in a business cooperation agreement with Tehnomax DOO for retail shopping.
» Individuals with a positive history of deferred payment purchases at Tehnomax.

Loan Application Procedure:
To initiate the loan application process, prospective borrowers are required to:

» Engage in a seamless signing of the loan application at Tehnomax.
» Present essential documentation, including a verified Certificate of Employment and Salary, a Pension and Disability Fund certificate for pensioners, or a positive recommendation from Tehnomax.
» Provide valid identification, displaying the Beneficiary's JMBG number clearly.

Security and Approval:
Upon meeting the specified eligibility criteria, the loan process is concluded exclusively at Tehnomax. Buyers secure the loan by providing a predefined security measure to the loan mediator in the form of a duly signed blank bond with authorization. Subsequently, requisite documentation is collected, and the buyer formally signs the loan agreement.

This collaborative initiative exemplifies a commitment to simplifying and enhancing the accessibility of consumer loans, positioning Tehnomax as a pivotal player in redefining the landscape of retail-associated financial services.

Focus on
Mastercard Collaboration

Our **collaboration with Mastercard as regional partner for innovation initiatives** is both an honor and a responsibility that we approach with great dedication. We acknowledge the importance of staying at the vanguard of technological advancements to better serve our clients. This partnership is not just about our own competitive edge; it's about ensuring that our clients have access to the most advanced financial solutions available. We aspire to set an example that motivates other financial institutions in the region to prioritize innovation and respond to the evolving needs of their customers.

In addition to the numerous examples of collaborations with Mastercard highlighted throughout the report, there are several notable initiatives that we are excited to discuss:

UEFA Champions League Prize Draw
Hipotekarna banka, in collaboration with Mastercard, hosted a prize draw where the main prize was a trip to the final of the UEFA Champions League, held on June 10 at the awe-inspiring Atatürk Olympic Stadium. The mechanism of the prize draw allowed customers to enter by making transactions exceeding €10 with their Hipotekarna banka Mastercard within a specific period.

Soft POS |Tesla Taxi
We established a partnership with Tesla Taxi, integrating the Soft POS application with their fiscal register. Branded vehicles equipped with our logo facilitated smooth transactions through Soft POS, and a marketing campaign was executed in collaboration with Tesla, offering cashback incentives to customers who paid for Tesla rides using our cards.

Blockchain & Digital Assets Safari in San Francisco
The Blockchain & Digital Assets Safari is an immersive 3-day global blockchain and digital assets thought leadership program organized by Mastercard. The program aims to educate, inspire, and provoke attendees to engage in strategic thinking within the rapidly evolving blockchain space. Attendees explore the fundamentals of blockchain, its various use cases across industries, digital assets, and the potential impact of Central Bank Digital Currencies (CBDCs) on the banking sector. The Safari also delves into regulatory perspectives, disruptor positions, and futuristic concepts like the Metaverse and Web 3.0. This event provides a platform for banks to explore how they can leverage blockchain technology and fosters networking opportunities with potential partners.

6 Corporate Values and Workplace

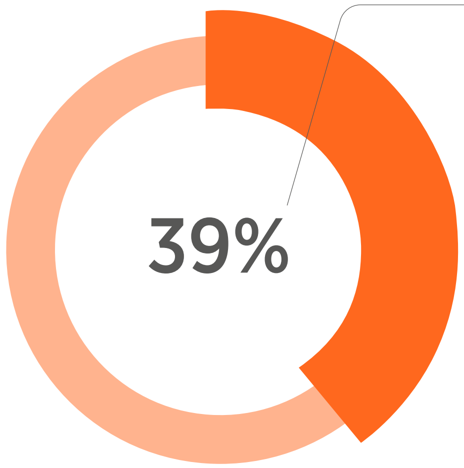
4 QUALITY EDUCATION
5 GENDER EQUALITY
8 DECENT WORK AND ECONOMIC GROWTH
10 REDUCED INEQUALITIES
12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Corporate Values and Workplace

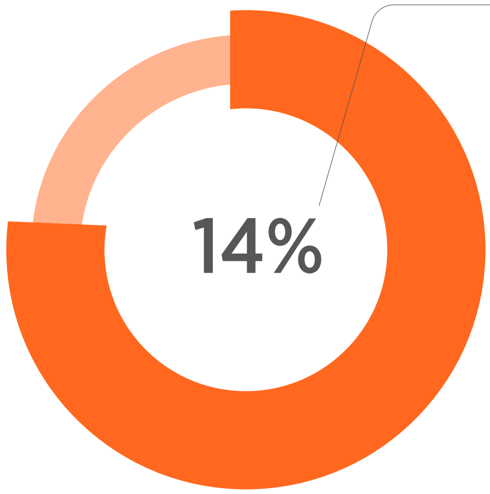
Setting the Stage: Trends in Focus

Banks' Commitment to Corporate Principles in a Global Context

Banks are undergoing a transformation in how they develop and uphold corporate principles in a global context. Increasingly strict rules, such as the EU Whistleblower Directive and code of conduct, push organizations to implement strong ethical frameworks. Today, banks go beyond profitability by embracing **openness, diversity,** and **inclusivity** as core values that define their internal and external interactions.



(Eurofound, 2018)



(Eurofound, 2018)

The European Union's emphasis on corporate social responsibility, as well as efforts such as the European Pact for Gender Equality, illustrate the critical need for matching business ideals with societal requirements. Frameworks like the European Pillar of Social Rights affirm a commitment to promoting workers' rights, health, and work-life balance. Banking institutions align with these principles, embracing initiatives that empower employees through **flexible work arrangements, remote working options**, and comprehensive **health programs**. Banking institutions in Europe develop diverse and inclusive workplaces, transforming them into epicenters of innovation while reflecting the principles they promote.

Research Insights and Considerations for Montenegro[12]

The European Training Foundation, supported by the European Foundation for the Improvement of Living and Working Conditions, carried out a continent-wide research study based on surveys on the living and working conditions of 36 countries, including the EU Member States, the United Kingdom, Norway, Switzerland, Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia, from 2020 to 2022.

12 Eurofound, European Quality of Life Survey 2016, 2018

Regarding **work-life balance**, among male respondents, the mean number of working hours per week was 41.8 in the EU-27 and 41.6 in neighboring nations, while for women it was 37.4 hours and 36.7 hours respectively. However, when we sum up the hours of unpaid household work, hours of work amount to 74.1 in the EU-27 and to 78.6 in the EU neighboring countries for men versus 91.7 and 112.6 for women. Roughly 47% of respondents expressed concerns regarding work matters during their non-working hours. Additionally, 40% felt fatigued after work to the extent that household chores became challenging to manage.

Gender-related disparities were relatively minimal, except for a notably higher prevalence of fatigue among women in the EU neighboring countries, with a statistic of 57% for women compared to 30% for men. In contrast, the divergence was narrower within the EU-27, wherein 41% of women and 32% of men cited experiencing frequent fatigue. The younger demographic within the EU neighboring countries encountered more pronounced challenges concerning the balance between work and personal life compared to their older counterparts, although this distinction was less pronounced within the EU-27. Furthermore, engaging in work-related activities during leisure hours is more prevalent within EU neighboring countries when contrasted with the EU-27. On average, within the EU neighboring countries, 54% of men and 51% of women adhere to a routine of working during their leisure hours, whereas in the EU-27, this practice is observed by 33% of men and 32% of women.

In summary, the survey highlights a concerning lack of balance between work and personal life across all surveyed countries. Nevertheless, this imbalance is particularly pronounced among female participants and individuals residing in the EU neighboring countries.

Work Arrangements and Job Quality

The inclination to **work exclusively from home or adopt a hybrid work model** escalates alongside educational attainment. Tertiary-educated individuals exhibit a higher propensity to embrace such work arrangements, particularly within the framework of the EU-27. Flexible work setups are notably more prevalent among survey participants from the EU when compared to their counterparts from the EU neighboring countries. In terms of telecommuting practices, a discernible trend emerges, with a larger proportion of respondents within the EU-27 engaging in work either exclusively from home or through a combination of home and workplace settings, totaling around 31% of the surveyed workforce. Conversely, within the EU neighboring countries, merely 14% of the surveyed workers adopt teleworking arrangements.

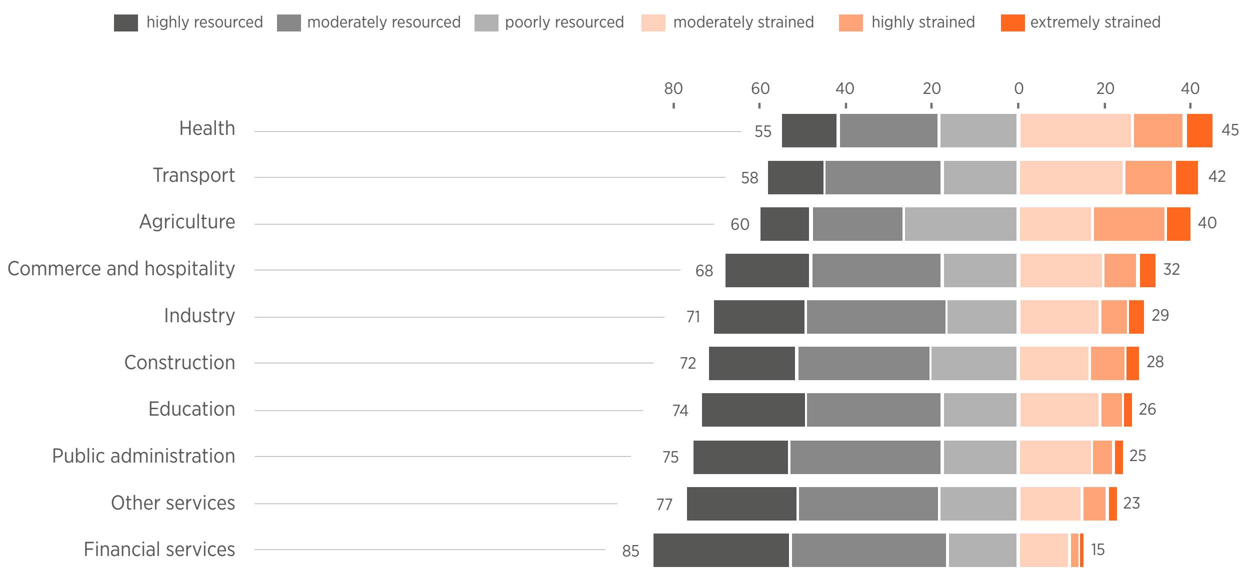
The study also dealt with **training and opportunities for skills development**. In the EU countries, 57% of employed people surveyed received job-related education and training, including courses, seminars or workshops, with the help of a designated instructor. By contrast, in neighboring countries, these trained employees amounted to 39%.

Industry Job Quality and Considerations for Montenegro

When looking at the **job quality** by industries in the EU, we see that certain industries stand out as highly resourceful, while others highlight themselves for scoring very high on job strain, according to the survey carried out.

In the EU as a whole, fortunately, 70%[13] occupied positions categorized as resourced[14] jobs. Nevertheless, it is noteworthy that nearly one-third of employees were identified as being in strained jobs. In instances of exceptionally strained jobs, the demands placed on individuals exceeded the resources accessible to them by more than twofold.

It is worth noting that the Financial Services sector had one of the highest rankings in terms of resourcefulness of all sectors, which is very pertinent to this report. Considering all the working-life factors expressed in the chart, we can see that the services sector in general, and the financial industry in particular, seem to be ranked very resourceful, as opposed to industries like the health sector, known for the high pressure and long work shifts it entails. The financial sector is sometimes regarded as an industry with long working hours, but when fairly remunerated, it seems that employees find working in these sectors as something that pays off. Of course, although the Health Sector does not seem to rank high, factors such as the vocational fulfillment are difficult to account for in any study, which might have dragged down the score of the Healthcare industry in general.



Finally, **in the case of Montenegro, there are some considerations about working life that can be extracted both from Eurofund**, as well as from a research carried out by the UN. As found by the European Quality of Life Survey (EQLS) of 2016, **work-life balance challenges are markedly more prevalent in Montenegro** when compared to the average within the EU. In 2016, a considerable 76% of respondents in Montenegro reported experiencing fatigue from work, impeding their ability to carry out household tasks multiple times a month. This statistic significantly exceeded the corresponding EU-28 average of 59%. Furthermore, during the same year, a noteworthy 62% of Montenegro's respondents encountered obstacles in fulfilling family obligations due to work commitments, surpassing the EU average of 38% by a significant margin.

Moreover, the 2020 research report from the United Nations Development Programme on the **impact of COVID-19 on the working life of Montenegro** highlighted a number of gender inequalities that should be addressed. According to the findings, the pandemic disproportionately affected women in terms of their working hours (due to unpaid labor) which, most importantly, made the societal inequalities of Montenegro self-evident. The estimated monetary valuation of unpaid care and domestic work over a three-month span during the COVID-19 pandemic (April, May, and June) amounted to EUR 122.3 million for women and EUR 63.5 million for men. This signifies a considerable discrepancy, with women's contributions to unpaid care and domestic work surpassing those of men by a substantial 92%. Considering both genders collectively, the projected monetary value of unpaid care and domestic work tallies to EUR 743 million per annum, equivalent to 15% of Montenegro's 2019 GDP.

Moreover, official data from the Employment Agency from that period indicated a profound impact of COVID-19 on the labor market. The period spanning from the end of February to the end of June 2020 saw a surge in unemployed women, with 3,560 individuals added to the ranks, accounting for 56% of the newly unemployed. Consequently, the crisis prompted a higher number of layoffs among women compared to men.

In such a context of working conditions along the EU, its neighboring states, and Montenegro in particular, Hipotekarna Banka has the task of reporting to what extent it is contributing to making the lives of its employees more fulfilling, and in a more diverse and inclusive framework that provides opportunities for training and development for everyone.

13 Article by Eurofound based on the European Working Conditions Telephone Survey (EWCTS 2021)
14 "When a position entails greater job demands than the available job resources, it is classified as a 'strained job.' Conversely, if the available resources surpass the demands, the job is characterized as a 'resourced job.", Eurofound, 2021

Our Commitment

At Hipotekarna Banka, we understand that the core of our identity is shaped by the individuals who form our dedicated workforce. Our values, ethics, strengths, and areas for growth are inherent to our employees, whom we regard as the driving force behind our achievements. Recognizing their pivotal role in our success, we make substantial investments in our people.

Employees' well-being is not just a priority but an integral part of our corporate values. We are dedicated to providing a holistic welfare experience that goes beyond the workplace, **ensuring our employees thrive both personally and professionally**.

Enhancing Efficiency: The Evolution of HR Practices at Hipotekarna Banka

In 2023, Hipotekarna Banka embarked on a significant journey aimed at revolutionizing and expanding its HR department. This transformative initiative aimed to **enhance the efficiency and effectiveness of human resource management** within the organization. As part of this overarching effort, several key projects were initiated under the HR umbrella. One such critical aspect involves the recruitment process, where the training of HR employees to undertake core process administration tasks stands as a pivotal activity. The objective of this endeavor is to garner management support, facilitated by a comprehensive manual for onboarding. The proposal suggests a collaborative approach, wherein managers review the material, offer insights, and collectively **standardize the onboarding process** based on specific positions. Responsible for spearheading this initiative is an HR officer who has exhibited the necessary knowledge, skills, and motivation. Their expertise, coupled with familiarity with ISO standards and relevant courses, positions them as a capable driver of this crucial aspect of HR management.

Promoting education

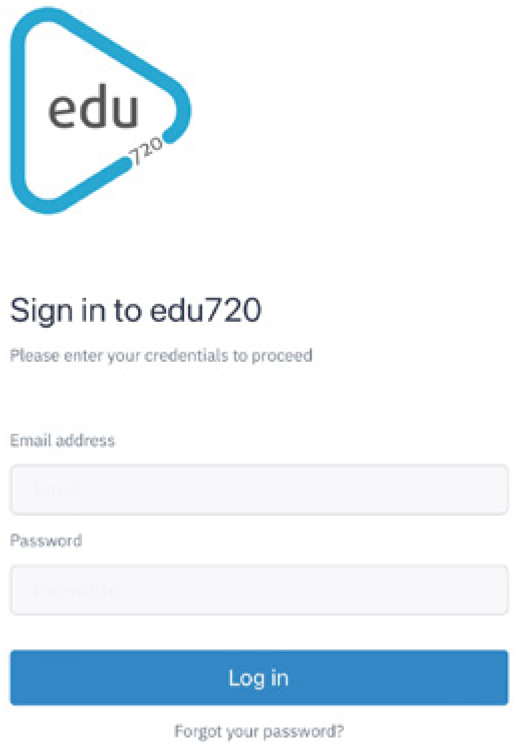
At the core of our corporate values lies a steadfast commitment to nurturing the growth and development of our employees. **Our holistic approach to employee enrichment encompasses a range of diverse opportunities**, reinforcing our dedication to fostering a knowledgeable and skilled workforce.

Revolutionizing Learning at Hipotekarna Banka

The **Edu720** platform stands as a testament to Hipotekarna Banka's commitment to innovation and modernization in knowledge dissemination and training evaluation. This software solution represents a strategic investment aimed at enhancing the learning experience for our employees. **Through this platform, the Bank gains a versatile tool to seamlessly organize educational initiatives on diverse topics**. This includes the provision of educational materials, curated video content (some of which the bank produces internally), and interactive assessments such as tests and quizzes.

Following the publication of our ESG pillars, the bank took a proactive step in fostering a culture of sustainability within our organization. We designed a tailored course on sustainability, accessible to all employees through the Edu720 platform. This course, presented in video format, provides an insightful overview of the fundamentals of ESG frameworks, current trends, and organizational aspects. The bank firmly believes that **cultivating awareness among all employees regarding the significance of sustainability,** coupled with a foundational understanding of ESG principles, is pivotal for the successful implementation of our ESG strategy across the entirety of our organization. By equipping our team with this knowledge, we aim to collectively contribute to the integration of sustainable practices and values in every facet of our operations.

In embracing the Edu720 platform, Hipotekarna Banka is strategically positioning itself to foster continuous learning, ultimately enriching the professional growth and knowledge base of our valued workforce.



Enhanced Learning Opportunities

Recognizing the paramount importance of learning and professional growth, Hipotekarna Banka is dedicated to providing **robust financial support for a wide array of educational activities**. This comprehensive support extends to seminars, licensing programs, and essential textbook materials, with the bank often fully underwriting the costs of these educational pursuits.

Furthermore, our commitment to fostering education is fortified through **strategic partnerships with industry leaders** like Mastercard. **These collaborations enable our employees to pursue educational endeavors** through mutually beneficial agreements, enriching their knowledge and skills. The seamless flow of communication between employees and the bank's management has yielded a remarkable approval rate for these educational support requests, underscoring our dedication to facilitating learning opportunities.

Specifically, our financial support extends to the maintenance of Chartered Financial Analyst (CFA) licenses, active participation in CFA education programs, attendance at seminars focused on financial markets, and covering registration fees for various educational events. This comprehensive approach to supporting our employees' educational journeys aligns with our commitment to fostering a knowledgeable and empowered workforce.

Synergies of Knowledge: External Experts Driving a Culture of Development

Through coaching sessions tailored for managers, comprehensive tests for all employees, and engaging team-building lectures, external professionals play a pivotal role in cultivating a learning culture within our organization. This multifaceted approach to employee development goes beyond traditional methods, promoting continuous improvement and fostering a cohesive spirit. This initiative encapsulates our commitment to providing diverse and meaningful learning experiences that contribute to the overall growth and development of our workforce.

Beyond Individuals: Creating A Corporate Identity

At Hipotekarna Banka, we recognize the significance of fostering a positive work environment, and in 2022 and 2023, we have implemented various initiatives to **strengthen team dynamics and show appreciation** to our employees.

As previously mentioned, team building remains a cornerstone of our employee development strategy. By fostering a collaborative and cohesive work environment, we aim to strengthen interpersonal relationships and enhance overall team dynamics.

In the culmination of our 2023 year-end celebration, Esad Zaimović, President of the Management Board, delivered a thoughtful message introducing the concept of HBTEAM. He addressed the human essence of the HB brand, emphasizing the intricate connections among our employees and their profound attachment to the bank. The president conveyed the idea that HB is more than just a workplace; it has become a second home for our members. This transformative perspective signifies a shift towards a deeper, more meaningful relationship between our staff and the organization, fostering a genuine sense of belonging and unity within the HB family.

Elevating Connections: The Bank's Signature Team-Building Weekend

Each year, the Bank organizes a **team-building weekend** in November, providing employees with a three-day/two-night stay in luxurious hotels. The event includes gala dinners every night, often with famous singers, aiming to create a memorable experience. Daytime activities focus on a combination of education and team-building exercises, covering topics related to daily bank work, education aimed at keeping on with the regulatory changes in the industry, learning about best practices in the field collected from day to day work, providing feed-back on yearly achievements of both the bank, its branches and individuals, self-improvement, psychology, and fostering team spirit.

Unity in Success: A Glance into the Annual PREMIUM Celebration

The **annual PREMIUM event** stands as a jubilant celebration, marking the successful launch of our flagship products. This exclusive gathering brings together PREMIUM partners, esteemed members of Bank management, and dedicated professionals from the commercial department. The event is distinguished by insightful speeches delivered by Bank representatives, fostering engaging networking opportunities, and culminating in the exchange of thoughtful gifts. Through this event, we not only strengthen our ties with valued PREMIUM partners but also demonstrate our commitment to giving back to the community that supports and enriches our shared journey.

Moreover, including our dedicated employees in the celebration of our success and achievements not only fosters a sense of unity but also reinforces their belongingness to the bank, creating a stronger bond with our corporate culture. This inclusive approach enhances their motivation, resulting in positive outcomes that benefit both our employees and the overall success of the bank.

Together Into The Next Year

In a gesture of appreciation towards our dedicated employees, we host an exquisite **New Year's party** set against the backdrop of luxurious 5-star hotels. The evening unfolds with a captivating gala dinner and a vibrant music program, featuring performances by renowned regional music stars—an established tradition at Hipotekarna Banka. This event serves as a delightful bonus-gift, not only creating a festive atmosphere but also contributing to the strengthening of a shared sense of community within the bank.

Last but not least, this unique event represents a perfect opportunity for the awards ceremony for the best employees of the past year. The awards are always presented in at least two categories: the best employee as per the votes of all employees (several rounds of voting is conducted prior to this event and the winner is disclosed during the event itself, representing a pleasant surprise to both the award receiver as well as to the voters) and the best employee as per the votes of the management. The award winners usually receive an award as well as a financial incentive and are asked to give a little speech, which is said to be the most emotionally touching part of the night to be remembered in the year to come.

Learn From The Experts: Annual Financial Markets Conference

In 2023, we proudly inaugurated a new recurrent highlight: the **Financial Markets Conference** held at the esteemed Hilton Hotel. This dynamic one-day event, accessible to all and free of charge, showcases both national and international luminaries in the financial realm. Distinguished figures grace the occasion with impactful speeches and insightful panel moderations. The conference features engaging presentations and provides invaluable networking opportunities, complemented by thoughtfully catered coffee breaks and cocktail sessions. This collaborative platform actively contributes to the dissemination of knowledge, fostering a spirit of community engagement and shared learning.

Honoring Leadership

Additionally, as an expression of gratitude to our managers, we organize a **formal dinner that unites all members of Hipotekarna Banka's leadership**. Traditionally held the night before the New Year's party, this intimate gathering serves as a tribute to the invaluable contributions of our managerial team, fostering a profound sense of appreciation and camaraderie among this select group of key individuals.

These initiatives not only exemplify our commitment to cultivating a positive and supportive workplace culture but also signify our dedication to cherishing and recognizing the holistic contributions of our team, where both professional and personal dimensions are esteemed and celebrated.

Organizational Culture

To gauge and nurture the organizational culture, a series of **assessment activities** were undertaken. Structured interviews with branch managers, conversations with middle management, and an exhaustive employee satisfaction survey formed the foundation of this evaluative process. The ultimate goal was to derive **proposals for improvement** measures that would contribute to a more cohesive and positive work environment. The responsibility for fostering such a culture extended to all management positions, with exceptional response and participation noted, especially from the workforce. The results of this comprehensive assessment revealed that the majority of categories were rated above industry norms. However, a closer look identified turnover risk as a significant concern. Consequently, a team-building initiative with 94 participants was executed in November, followed by additional training in December.

This strategic move aimed to ensure that all employees, by the year's end, were well-versed in the identified improvement areas, and the proposed measures were set in motion. The process was meticulously documented, with an action list of HR projects, a report to management in October 2023, and lists of training participants serving as essential accompanying documents. The ongoing proposals include the **standardization of internal communication platforms, increased internal training sessions, instructional guides** for frequently asked questions, and **video tutorials** focusing on specific workplace nuances.

Compensation and Benefits

As part of the broader HR scope, significant attention was directed towards compensation and benefits. This involved the amendment of the Remuneration Policy and a meticulous interview process to profile positions and create a matrix based on the criterion of impact on the business. Accompanying documents, such as evaluation forms on trial and during work, position profiles, and a matrix outlining the importance of 24 categories, provided a structured framework for these initiatives. The results of this effort were noteworthy, with the Compliance-approved salary policy setting the stage for further development. The Board of Directors reached a consensus to refine the mentioned documents and integrate the Performance Management process into the official salary policy by March 2024.

Working Conditions and Private and Business Life Balance

In the realm of working conditions and the delicate balance between private and business life, the bank received exceptional feedback through a dedicated survey. The survey, with a specific focus on working conditions, tools, and the relationship with immediate superiors, shed light on the positive aspects of the work environment. Several proactive activities were implemented to reinforce this positive atmosphere, including the establishment of an open space for affordable food, the introduction of fun activities for a better office ambiance, and the organization of weekly meetings with management to foster open communication. The contributions of various stakeholders, including the President of the Management Board and members of both the Board of Directors and the Supervisory Board, played a crucial role in solidifying the corporate governance structure and providing support for the introduction of the HR system. This collaborative effort, coupled with insights from the ISO methodology, enabled the personnel relations officer to create a quality framework for the Onboarding procedure, with ongoing efforts focused on developing monitoring documentation for further training initiatives.

Health Support

A healthy workforce is a cornerstone of a successful organization. At Hipotekarna Banka, we prioritize the well-being of our employees.

Healthcare Insurance (2022-2023)

In both 2022 and 2023, Hipotekarna Banka continued its steadfast commitment to employee well-being through **comprehensive healthcare insurance** initiatives. The bank proactively informs employees about available healthcare plans in the market, ensuring they are well-informed about the benefits of each option.

The bank further solidifies its dedication by actively contributing to the monthly healthcare fees for each employee. For instance, under Generali insurance in 2023, where the monthly service fee amounts to EUR 32.00 per user, the bank continues its support by shouldering EUR 15.00 of the cost. Consequently, the end user, the employee, only bears the remaining portion. This contribution includes a comprehensive system checkup, ensuring employees have access to holistic healthcare coverage.

Additionally, for another healthcare plan provided by the Vaše Zdravlje clinic, the service price is consistent at EUR 15.00. The bank continues its unwavering support by covering this amount in full, both in 2022 and 2023. Notably, the bank extends beneficial insurance terms to the spouses and children of employees, enhancing the overall coverage provided. However, it's important to note that while the bank extends these favorable insurance terms, it does not participate in covering the monthly fees for these dependents.

COVID Contributions

During the challenging period of the COVID-19 pandemic, Hipotekarna Banka played a pivotal role in contributing to the welfare and health of its employees, clients, and the broader community. For employees, the bank facilitated **remote work** by providing necessary equipment and support, ensuring the safety of its workforce.

The bank remained proactive in educating and informing employees about changes related to the pandemic, actively encouraging participation in vaccination initiatives. Offering financial support, the bank covered vaccination and associated travel costs for employees opting for specific vaccines. Additionally, the bank provided **essential materials** to prevent the spread of COVID, covered the costs of COVID tests for all employees as well as doing the necessary testing booking and reservations, and maintained full salary payments even for days when employees were unable to work due to COVID. In severe cases, the bank went above and beyond to assist employees (and their family members) in accessing the best possible medical care to combat the disease and its effects. These comprehensive measures underscore Hipotekarna Banka's dedication to the health and well-being of its workforce during challenging times.

Hipotekarna Banka's Holistic Approach to Employee Wellness

In addition to its strategic initiatives aimed at revolutionizing HR practices, Hipotekarna Banka demonstrates a steadfast commitment to employee well-being through various supportive measures.

One such initiative involves the implementation of **Ticket Restaurants**, wherein the bank subsidizes meals in the canteen, resulting in a significant discount of 20% for employees. This contribution not only eases the financial burden on staff but also promotes a healthy work-life balance by ensuring access to nutritious meals at an affordable price.

Furthermore, recognizing the diverse needs and preferences of its workforce, the bank offers **flexible working arrangements** on a case-by-case basis, tailored to the nature of the job and individual requirements. Approximately 20 employees benefit from predominantly remote work setups, allowing them to effectively manage their professional responsibilities while accommodating personal commitments or preferences.

To promote a healthy lifestyle, we have introduced an initiative offering **gym memberships** to several employees. The selection process is based on a first-come, first-served basis, allowing interested employees to benefit from yearly gym cards for various fitness centers. This approach ensures equal opportunities for our staff to engage in physical activities that contribute to their well-being.

These initiatives underscore the bank's dedication to fostering a supportive and inclusive work environment that prioritizes the well-being and satisfaction of its employees.

Recognition and Rewards

Recognizing and rewarding employees for their hard work and achievements is crucial for maintaining morale and motivation within the workplace. This can encompass various initiatives such as employee of the month programs, performance bonuses, or other acknowledgment strategies.

Hipotekarna Banka's recognition and reward system is designed to celebrate and motivate its employees, fostering a culture of excellence. Each month, the bank acknowledges the outstanding performance of teller workers and individuals in specific positions through the presentation of monthly awards. These accolades aim to highlight the dedication and proficiency demonstrated by employees in their daily tasks. Moreover, the bank implements **periodic awards to commend achievements** such as exceptional sales of a particular product, valuable contributions in specific work areas, and extraordinary accomplishments that surpass the routine tasks outlined in job descriptions. The Bank has recently also established a **monthly Best teller award**, given to the best performing teller in the network – consisting of the email notification to the entire network as well as financial incentive. Additionally, on an annual basis, the bank recognizes its **top employees** through a three-fold approach. Firstly, the management identifies and honors the Employee of the Year. Secondly, colleagues have the opportunity to cast their votes, designating two individuals for the Colleagues' Choice Awards. Lastly, the Best Worker Award acknowledges exceptional dedication and performance, creating **a comprehensive system that appreciates various aspects of excellence** within the organization. These awards collectively contribute to a positive and motivating work environment, reinforcing the bank's commitment to recognizing and celebrating the exceptional contributions of its workforce.

7 Governance and Risk Management

5 GENDER EQUALITY

8 DECENT WORK AND ECONOMIC GROWTH

Governance and Risk Management

Setting the Stage: Trends in Focus

Today the governance of financial institutions extends far beyond traditional compliance; it encompasses a commitment to fostering transparency, ethical leadership, and resilience in the face of emerging risks.

Banking institutions worldwide are in the process of recalibrating their strategies, policies, and operations to align with international ESG standards. As global financial hubs strive to adhere to initiatives such as the United Nations Principles for Responsible Banking, the Basel III framework, and regional regulatory bodies, the pressure to uphold stringent governance and performance standards has never been greater.

Climate change has progressed from a reputational danger to a strategic problem for banks.

Transition in thinking: The impact of climate change on the UK banking sector, a 2018 Bank of England (BoE) paper, **categorized banks' approaches to climate change into three categories**:

1. The **'Strategic' approach** (10% of enterprises), defined as "incorporating climate-related factors into today's financial risk management, having a board-level agreed, firm-wide strategic response, and leveraging disclosure and scenario analysis to deepen understanding of their own portfolio."
2. The **'Responsive' strategy** (60%) of enterprises is defined as "evaluating climate change as a financial risk with a three to five year time horizon."
3. The **'Responsible' strategy** (30% of enterprises) is defined as "viewing climate change through a CSR lens."

Although this BoE analysis was centered on the United Kingdom, the classification is applicable globally.

Many financial institutions do not yet report and/or manage their most significant climate-related risks – those associated with financing. Indeed, besides underreporting portfolio emissions, financial institutions are also underestimating climate-related risks. Financial institutions more commonly identify direct operational climate-related risks, such as physical damage to their operations (41%), but the vast majority are not yet reporting credit risks (65%), such as borrowers' default on loan repayments and market risks (74%), such as stranded assets and financial asset price devaluation. Yet these credit and market risks have a much higher reported potential financial impact (over USD 1 trillion combined versus just USD 34 billion[15] for the operational risks reported).

Governance

Audited financial information for the fiscal year 2023 is not currently audited and published. Therefore, the subsequent chapter relies on audited data from 2022. For a comprehensive understanding, we recommend consulting our forthcoming 2023 Annual Report, scheduled for publication on our website in the near future.

The bodies of the Bank are as follows:
1) General Shareholders Assembly,
2) Supervisory Board, and
3) Management Board

Governance Structure

General Shareholders Assembly

General Shareholders Assembly is the highest body of the Bank. The General Shareholders Assembly of the Bank is composed of its shareholders whose interests may be represented also by authorized proxies.

15 CDP, "Finance sector's funded emissions over 700 times greater than its own", 2021

Pursuant to Article 15b of the Law on Takeover of Joint Stock Companies:

1. The structure of the Bank's capital is as follows:

» The share capital of the Bank amounts to EUR 52,361,965.61, and it consists of 10,241,148 common shares issued in the name of the holder;
» The nominal value of one share is EUR 5,1129;
» The shares are dematerialized, indefinitely transferrable and issued in the name of the holder. The excerpt from the registry with the Central Securities Depository and Clearing Company AD Podgorica is the only evidence of the ownership of shares;
» A shareholder of the Bank, as the owner of common shares, is entitled to the following:

1. right to attend the General Shareholders Assembly,
2. right to manage proportionately to the share in capital of this class of shares,
3. right to dispose of shares, in accordance with the applicable regulations,
4. pre-emptive right to acquire new shares,
5. right to acquire shares free of charge in case of the increase in share capital from the Bank's funds, proportionately to its investment,
6. right to dividend pay-out, after the distribution of preferred shares to owners, when the Bank's General Shareholders Assembly decides to pay out the dividend,
7. right to obtain, at personal request, a copy of the balance sheet and profit and loss statement, as well as external auditor's report,
8. right to have an insight, thirty days prior to the session of the General Shareholders Assembly and at the General Shareholders Assembly, in the financial reports including also external auditor's report,
9. right to proportionate part of assets in case of Bank's winding up and other rights in accordance with the applicable regulations.

2. There are no restrictions for transferring shares i.e., securities;
3. Significant direct and indirect equity investments (15 largest shareholders):

Name	Number of shares	% of capital
CERERE SPA - TRST, ITALIJA	1.628.706	15.9035%
GORGONI ANTONIA	1,024,290	10.0017%
GORGONI PAOLO	880,509	8.5978%
GORGONI MARIO	804,939	7.8599%
TODOROVIC MILJAN	737,668	7.2030%
IBIS SRL	498.568	4.8683%
MONTINARI SIGILFREDO	472.723	4.6159%
MONTINARI DARIO	472.723	4.6159%
MONTINARI ANDREA	472.396	4.6127%
MONTINARI PIERO	472.396	4.6127%
GENMONT DOO TIVAT	401.840	3.9238%
CERFIN DOO	396,070	3.8674%
BALANCE AK DOO TIVAT	329.190	3.2144%
KRUGGER DOO PODGORICA	276,511	2.7000%
TODOROVIC MILJAN NIKOLA	174,823	1.7071%

1. There are no securities giving special control rights;
2. Applicable laws and other regulations apply to the acquisition of shares by employees;
3. There are no restrictions of voting rights, such as restriction of the voting right of the owner

holding a certain percentage of securities or number of shares by deadlines for exercising right to vote, and the like;
4. There is no agreement between shareholders with which the issuer is familiar and that may result in the restriction of transfer of securities and/or voting rights;
5. The manner of appointing and removing from office of members of the Management Board is defined by applicable laws and other regulations;
6. The powers of the members of the Management Board are defined by the applicable laws and other regulations;
7. There are no significant agreements in which the issuer is a contracting party and which produce legal action, are amended or terminated after the takeover of the issuer in the process of the public initial offering for takeover and their legal effects, unless these agreements are such that their disclosure would have significant harmful effects on the issuer, provided that the issuer is not explicitly obliged to disclose such a data in accordance with the law;
8. Members of the Management Board and individual directors of the organizational parts of the Bank have covenants which regulate the payment of fee for the termination of term of office in the amount ranging from 6 (six) to 18 (eighteen) monthly net salaries.

Management bodies of the Bank are: a) Supervisory Board, and b) Management Board.

Supervisory Board
The Supervisory Board is a management body of the Bank, which performs an oversight function of the operations of the Bank. The powers of the Supervisory Board are specified by the Law on Credit institutions, the Law on Business Undertakings, and the Bank's Articles of Association.

The members of the Supervisory Board are elected and appointed by the General Shareholders Assembly of the Bank.

The structure of the Supervisory Board and its bodies is as follows:
Supervisory Board of the Bank:
» Sigilfredo Montinari, Chairperson
» Miljan Todorović, Member
» Miljan Nikola Todorović, Member
» Antonio Moniaci, Member
» Mato Njavro, Member

Risk Committee:
» Antonio Moniaci, Chairperson
» Sigilfredo Montinari, Member
» Mato Njavro, Member

Remuneration Committee:
» Miljan Todorović, Chairperson
» Antonio Moniaci, Member
» Mato Njavro,

Member Nomination Committee:
» Sigilfredo Montinari, Chairperson
» Antonio Moniaci, Member
» Mato Njavro,

Member Audit Committee:
Audit Committee has 3 (three) members that are appointed and removed from office by the Supervisory Committee.
Members of the Audit Committee are:
» Draško Popović, Chairperson
» Vedrana Cicvarić, Member
» Goran Knežević, Member

During 2022, the Supervisory Board of the Bank passed decisions on the issues from within its remit, and it had continuously overseen the operations of the Bank, and periodically considered reports on the financial situation, operations and risks. In addition, the reports of the standing bodies and control functions were regularly considered at the meetings of the Supervisory Board.

The Supervisory Board also reviewed reports on the completed examinations of the CBCG, and followed up the implementation of measures and recommendations that related to the improvement of operations.

Management Board
The Management Board is a management body of the Bank which performs an executive function and is accountable for managing the Bank on day-to-day basis and for its representation. The powers of the Management Board are specified by the Law on Credit Institutions, the Law on Business Undertakings, enabling regulations, and the Bank's Articles of Association.

The members of the Management Board are elected and appointed by the Supervisory Board of the Bank.

Management Board of the Bank:
» Esad Zaimović, Chairperson
» Ana Golubović, Member
» Jelena Vuletić, Member
» Nikola Špadijer, Member
» Nataša Lakić, Member

The Management Board of the Bank holds meetings as needed, and at least once a month. During 2022, the Management Board of the Bank held 31 meeting where the issues were discussed from within its remit.

The Management Board manages the affairs of the Bank and oversees the work of the employees in the Bank on daily basis.

The Management Board of the Bank ensures that the Bank operates in accordance with the regulations governing the operations of the Bank, and set up and implement a reliable system of Bank management in accordance with the Law on Credit Institutions.

The Management Board of the Bank reviews periodically and at least once a year, the efficiency of the system for Bank management, including the suitability of procedures and efficiency of control functions, and notifies the Supervisory Board of the conclusions and take proper measures to eliminate the identified deficiencies.

The Management Board of the Bank also reviewed reports on completed examinations of the Central Bank of Montenegro, as well as reports of other supervisory institutions.

Corporate Governance Rules

The Bank has established corporate governance in accordance with legal regulations, the CBCG regulations and the best practices.

Instead of the so-called monistic (one-line) model, according to which there is one body that performs the function of oversight and management (board of directors), starting from 1 January 2022, the Bank developed an organizational structure in accordance with the provisions of the Law on Credit Institutions. The Law envisages a dualistic (two-line) management model according to which the supervisory board performs the oversight function, and the management function is performed by the credit institution's management board, whereby the management and oversight functions are more clearly delineated, and the management of the credit institution is ensured on a daily basis.

The corporate governance aims at providing a transparent organizational structure and segregation of duties and responsibilities of corporate bodies and their committees, achieving effective oversight, functioning of internal controls, with the emphasis on risk management, protection of assets and reputation of the Bank.

General Shareholders Assembly of the Bank
The shareholders of the Bank exercise their rights at the Bank's General Shareholders Assembly. The General Shareholders Assembly of the Bank decides on issues prescribed by the Law on Credit Institutions, Law on Business Undertakings, and the Bank's Articles of Association.

The Supervisory Board of the Bank convenes the General Shareholders Assembly and the right to convene the General Shareholders Assembly also have the shareholders with at least 5% holding in the share capital of the Bank in accordance the Law on Business Undertakings and the Bank's Articles of Association.

The convening of the General Shareholders Assembly, handling of the General Shareholders Assembly, the quorum, decision-making and other issues important for the work of the General Shareholders Assembly is governed by the Law on Business Undertakings, Bank's Articles of Association and its internal acts.

Supervisory Board and Management Board

The obligations and responsibilities of the members of the Bank's Supervisory and Management Boards are determined by the Law on Credit Institutions, the Law on Business Undertakings and the Bank's Articles of Association.

The process for appointing and removing from office or relieving of duty of the members of the Bank's Supervisory or Management Board is determined by the Law on Credit Institutions, the Law on Business Undertakings and the Bank's Articles of Association.

Supervisory Board

The Supervisory Board is a management body of the Bank, which performs an oversight function of the operations of the Bank. The powers of the Supervisory Board are specified by the Law on Credit institutions, the Law on Business Undertakings and the Bank's Articles of Association.

The members of the Supervisory Board of the Bank, who are previously authorized by the Central Bank of Montenegro, are elected by the General Shareholders Assembly. The term of office of the members of the Supervisory Board of the Bank lasts 4 years and they may be re-elected. Members of the Supervisory Board of the Bank must meet the requirements prescribed by the Law on Credit Institutions, the Law on Business Undertakings, relevant decisions of the Central Bank of Montenegro and Bank's internal acts. The members of the Supervisory Board must jointly have professional knowledge, skills and experience required for independent and autonomous oversight of operations of the Bank, in particular for understating tasks and significant risks of the Bank.

The Supervisory Board has at least 5 (five) and at a maximum 9 (nine) members, of which two fifths are independent members in accordance with the provisions of the Law on Business Undertakings. The Supervisory Board of the Bank established the following standing bodies:

» Nomination Committee
» Risk Committee
» Remuneration Committee
» Audit Committee

Management Board of the Bank

The Management Board is a management body of the Bank which performs an executive function and is accountable for managing the Bank on day-to-day basis and for its representation. The powers of the Management Board are specified by the applicable laws and other regulations and the Bank's Articles of Association.

The Management Board of the Bank has five members who are appointed by the Supervisory Board for a period of four years and the member whose term of office has elapsed may be reappointed.

The members of the Management Board of the Bank must meet the requirements prescribed by the Law on Credit Institutions, the Law on Business Undertakings, relevant Decision of the CBCG and Bank's internal acts.

Since the members of the Bank's Management Board manage the Bank's affairs on a daily basis, they are also responsible for managing the risks to which the Bank is exposed in its operations. The chairperson of the Management Board represents the Bank in accordance with the decisions of the Shareholders' Assembly, the Supervisory Board and the Management Board. When undertaking legal actions and legal affairs on behalf and for the account of the Bank, the chairperson of the Management Board must ensure the signature of one more member of the Management Board, who is, as a rule, functionally responsible for the business area in question, i.e. the signature of another member of the Management Board. The members of the Management Board must be employed in the Bank, full-time, and must manage the Bank's affairs from the territory of Montenegro.

Internal Controls System and Risk Management Process as regards to the Financial Reporting

With the aim to ensure the reliability and objectivity of accounting statements and reports, a system of internal control has been established in such a way that internal organization and procedures define control points, thus ensuring control of accuracy and completeness of data, as well as that all changes are accurately recorded and business books mutually consistent.

The Bank has established control procedures and activities related to data processing, segregation of duties, approval and authorization system and reporting area.

Financial reporting risk is assessed through analysis and management of internal and external risks while compiling realistic and objective financial statements in accordance with the adopted internal acts of the Bank. The internal audit controls the functioning of the internal controls system and gives recommendations for their improvement, within the audits envisaged in the annual plan. The Bank seeks, through the existing system of internal controls, to reduce the possibility of errors in the financial reporting.

New Control Function – Risk Control Service

Starting from 1 January 2022, the Bank introduced, in accordance with the new Law on Credit Institutions, another pillar of defense of the Bank against risks by establishing new and independent service – Risk Control Service.

An additional pillar of defense is an additional reminder and "conscience" of the Bank, which tries, in a formal and analytical way, to see all the risks that may befall the Bank, to proactively warn and give instructions, with the aim of keeping the Bank on the given course with high profitability, which enables quality and long-term development of the Bank.

The primary task of the Risk Control Service is to inform the Management Board, the Supervisory Board and the Risk Committee about the Bank's current status, trends, deviations from the strategy and defined objectives with the aim of timely alarming and giving recommendations in order to maintain the entire system within the framework of safe and successful operations.

In this regard, during 2022, the Risk Management Framework - RAF (Risk Appetite Framework) was introduced as an additional tool that monitors the Bank's given operations in relation to the planned, and which is expected to adequately maintain the required ratios at a high level and significantly above the minimum, giving the Bank a favorable positions to start off on the right footing for the next business years.

Diversity Policy And Structure Of The Bank's Management Body

The scope of this Policy is based on the principle of proportionality, i.e. taking into account:

» type, scope and complexity of operations;
» risk profile, and
» the Bank's business strategy.

In general, with regard to diversity, the Bank's policy is to hire the best candidates for jobs or positions, regardless of whether they are male or female or of age.

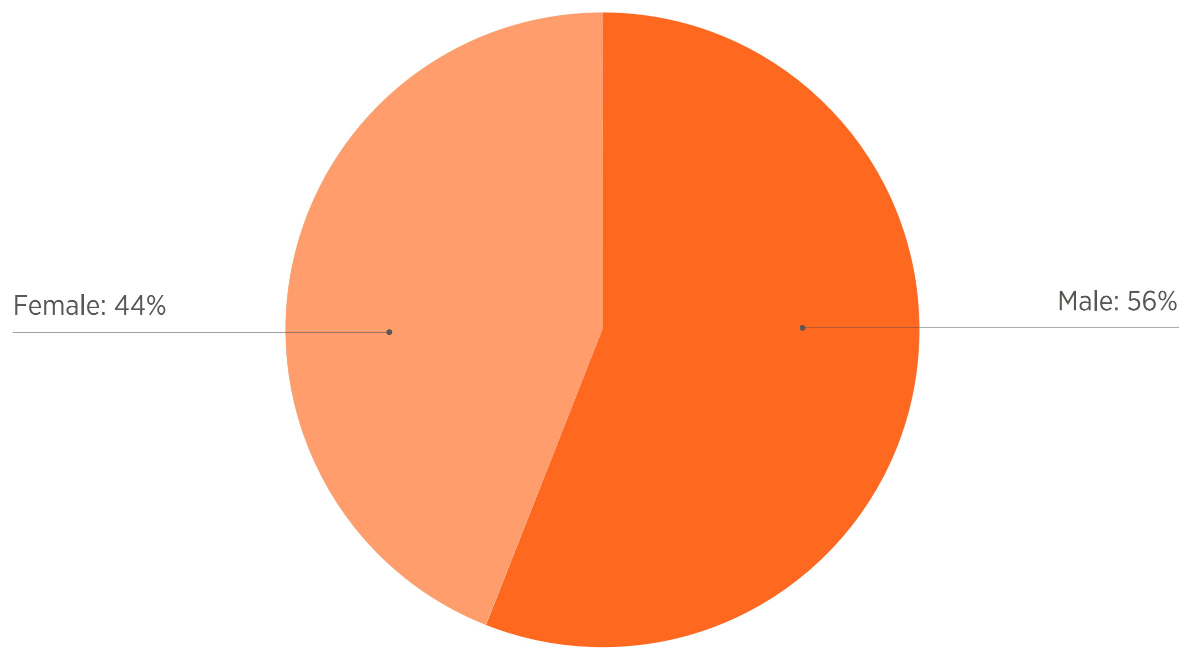
Historically speaking, the Bank had a diverse structure and a significant number of women in leading positions, and for several years an equal number of male and female executive directors.

The Bank's objectives will continue to be that, in addition to gender equality, the candidates' expertise, a wide range of skills and competences, as well as previous experience are taken into account during selection, in order to meet all the necessary criteria for diversity, and not only in management bodies, but also in the Bank as a whole, while enabling the representation of different views, experience and independence of opinion as an incentive for decision-making and the execution of tasks as a whole.

The structure of the Bank's Management Board is defined by positive regulations, the Articles of Association and other internal acts of the Bank, which ensure that the composition of the Bank's Management Board as a whole has the necessary professional knowledge, skills and experience, which enables it to independently and autonomously manage the Bank's affairs and thus to establish and implement legal, safe and stable operations of the Bank.

The powers and responsibility of the Bank's Supervisory Board and its working bodies is determined by positive regulations, the Articles of Association and other internal acts of the Bank, and the structure of the Supervisory Board in terms of diversity, or the fulfilment of the quantitative objective for the participation of the less represented gender, at the level of at least one third, is in the domain of the Bank's shareholders, so by adopting this Policy at the Bank's General Shareholders Assembly, the shareholders simultaneously assume an obligation regarding the target structure of the Bank's Supervisory Board.

[Please enter GRI 405-1 | Diversity of governance bodies and employees]



Management Of The Bank

Management Board	**Esad Zaimović**, President of the Management Board **Nikola Špadijer,** member of the Management Board for operations with natural persons, payment card operations and payment system **Ana Golubović**, member of the Management Board for operations with legal persons and financial markets **Jelena Vuletić**, member of the Management Board for risk management and control of risks **Nataša Lakić**, member of the Management Board for finance affairs, controlling and accounting
Control Functions:	
Internal Audit Division	Veselin Ivanović, Chief Internal Auditor
Compliance Service	Danka Dragićević, Director of the Service
Division For Prevention Of Money Laundering And Terrorist Financing	Sanja Mijušković, Compliance Officer for prevention of money laundering and terrorist financing
Risk Control Service	Goran Smolović, Director of the Service
Senior Management:	
Departments	Tamara Braunović, Director of the Business network Gojko Maksimović, Director of the Financial Markets Department Ivan Milatović, Acting Director of the Department for Payment Cards Operations Milena Grupković, Director of the Payment System Department Nikola Milović, Director of the Department for Support, Organisation, and Digital Transformation Božo Đurašković, Director of the Department for Legal Affairs and Human Resources Milana Stevanović, Director of the Department for Credit Risk Management Nikola Pejović, Director of the Department for Operational, Market and Other Risks Management
Independent Services	Haris Dizdarević, Director of the Service for Information and Physical and Technical Security

Standards and Compliance

Statement on the application of the corporate governance code

Compliance with internal and external regulations and codes of conduct is of great strategic importance. The conduct of banking business, which is inherently built on trust and openness, requires adherence to regulations and fairness in all actions. The preservation of customer rights, as well as the creation and maintenance of a competitive business environment, are all promoted by the culture of compliance, which aids in the growth of the region and the community.

In order to ensure high standards of compliance, Hipotekarna Banka pursues its business goals with honesty, fairness, and responsibility, in full and substantial accordance with the law, professional ethics, and the letter of the agreed agreements.

The Bank prevents misbehavior and, among other things, aids in the fight against financial crime by adhering to internal and external rules that are applicable. The ideals of openness, honesty, and professionalism guide Hipotekarna Banka's commercial dealings, which are also required to be performed in strict accordance with corporate policies and applicable legislation.

As a member of the Association of Montenegrin Banks, the Chamber of Commerce of Montenegro, and the Union of Employers of Montenegro, the Bank adheres to the objectives and guidelines of the code of business conduct of the above stated relevant organizations and the principles they contain.

The Bank is a member of the Montenegro Stock Exchange AD Podgorica.

The Code of Corporate Governance in Montenegro - the Code, adopted by the Board of Directors of Montenegro Stock Exchange AD Podgorica intended for joint stock companies whose financial instruments are listed on the stock exchange, contains a set of rules and principles aimed at improving the corporate governance practice, and its implementation is based on the application of the rule "apply or explain", thus an additional explanation of the method of regulating the issue of preventing and resolving corporate conflicts is provided below.

Namely, the Bank's internal acts regulate the issue of conflict of interest, including the issues of preventing and resolving the conflict of interest of employees. Furthermore, in accordance with regulations governing the capital market, the Bank has regulated, inter alia, the issue of preventing negative effects of the conflict of interest on the provision of investment and ancillary services, and carrying out investment activities, taking into account the interests of the Bank, other persons, and clients. In addition, the Bank's Articles of Association also regulate the prevention and resolution of conflicts of interest of members of the Management Board. As the Management Board of the Bank manages the Bank, this implies, by analogy, that it also resolves issues of possible (corporate) conflicts that may arise between shareholders and the Bank. In the same vein, the Management Board of the Bank is responsible for ensuring that the operations of the Bank are carried out in accordance with the law, other regulations and internal acts of the Bank, and thus for minimizing harmful consequences for the Bank, which may also arise from the relationship between the Bank and its shareholders. No shareholder of the Bank has been in conflict with the Bank so far, nor did they file a lawsuit against the Bank.

Having considered the aforesaid, in accordance with the provisions of Articles 15 and 19 of the Law on Accounting (OGM 145/21, 152/22), the members of the Managing Board of the Bank declare that they apply the Code of Corporate Governance in Montenegro, as well as codes of business conduct of relevant organizations, of which it is a members.

Risk Management and Operational Excellence

We recognize that effective risk management is pivotal to maintaining stability, safeguarding our stakeholders' interests, and promoting sustainable growth. Our robust risk management framework is designed to identify, assess, mitigate, and monitor a spectrum of risks, encompassing **credit risk, market risk, operational risk, liquidity risk and reputational risk.**

In our pursuit of holistic risk management, it's vital to distinguish between two critical dimensions: operational risk and credit risk. **Operational risk** encompasses a broad spectrum of potential disruptions arising from internal processes, systems, human factors, and external events. This multifaceted evaluation, conducted through an ESG perspective, provides us with insights into risks that transcend financial considerations alone.

On the other hand, **credit risk** centers on evaluating the likelihood of borrowers defaulting on their loan obligations. Our Risk Management department, which specializes in credit risk analysis, undertakes the crucial responsibility of assessing the creditworthiness of borrowers, ensuring the sustainability of our lending practices. While our current credit risk analysis focuses on financial factors, we are poised to expand this scope to include ESG parameters in the foreseeable future. This expansion aligns with our **commitment to responsible lending**, where ESG considerations stand to enrich our understanding of creditworthiness and enhance our capacity to identify potential risks and opportunities beyond traditional financial metrics. As we look ahead, integrating ESG dimensions into our credit risk assessment will further elevate our ability to make informed lending decisions that reflect a comprehensive understanding of potential risks and align with our sustainable business objectives.

Indeed, our risk management function thrives on cross-functional collaboration. We work closely with other departments to ensure a holistic approach. By fostering communication, sharing insights, and leveraging the expertise of various teams, we are better equipped to anticipate and manage potential operational disruptions.

Safeguarding Our Financial Landscape: Credit Risk Management

Within the broader canvas of risk management, one of the most critical facets pertains to credit risk. As a fundamental pillar of our operations, credit risk management is intricately interwoven with our commitment to financial stability and responsible lending practices.

Our risk management approach meticulously analyzes and assesses the creditworthiness of our borrowers, ensuring that each lending decision is underpinned by prudence, precision, and a comprehensive understanding of the associated risks. By adopting a rigorous due diligence process, we meticulously evaluate the financial health of potential borrowers, their repayment capacity, and the potential macroeconomic factors that might influence their ability to service the debt. This stringent assessment forms the bedrock of our credit risk management strategy, helping us strike the right balance between risk-taking and responsible lending, even within a dynamic and evolving financial environment.

Sustainability-Led Operational Risk Assessment

Guided by our commitment to responsible banking practices, our Sustainability team plays a pivotal role in assessing **ESG operational risk.** Recognizing that environmental, social, and governance factors are intertwined with operational vulnerabilities, the Sustainability team employs a meticulous approach to evaluate potential risks across our operations. This proactive stance enables us to identify areas of exposure, address challenges, and seize opportunities, thus enhancing the overall resilience of our business.

Our recent **materiality assessment** reflects our dedication to evaluating ESG operational risk. This assessment, conducted in alignment with the GRI 2021 recommendations, scrutinized actual and potential risks across the environmental, social, and governance domains. This all-encompassing evaluation facilitated a nuanced understanding of the risks inherent to our operations and enabled us to identify critical areas requiring diligent risk management strategies.

Partnership between the Sustainability team and Risk Management department culminated in a comprehensive list of material topics, echoing the GRI's focus on alignment with the 2021 recommendation. By evaluating ESG risks in concert with traditional risk factors, we obtained a comprehensive roster of issues that genuinely encapsulate our business's risks and opportunities. This process not only reinforces our commitment to transparency but also enriches our strategic decision-making by factoring in the multidimensional nature of operational risks.

A New Approach To Risk Management: ESG Risk

In 2023 we have developed an **ESG risk methodology** that enables us to navigate the complexities of sustainability and responsibility in our financial activities. To ensure a comprehensive approach, we have segmented our portfolio into three distinct sub-portfolios: Individuals, Securities, and Legal Entities (Companies).

ESG RATING SCALE

ESG GRADE	DESCRIPTION
A	LOW ESG RISK
B	LOW TO MODERATE ESG RISK
C	MODERATE EGS RISK
D	MODERATE TO INCREASED ESG RISK
E	INCRESED ESG RISK
F	HIGH ESG RISK

1. Individuals:
For our individual clients, the default ESG rating grade is set at B. However, exceptions apply for specific financing products such as Purpose Loans. These include financing for technical equipment with an ABC rating class (EU), improvements in energy efficiency for houses, and various ESG-focused projects. Our Commercial Department is tasked with preparing a catalog of ESG products, and loans associated with these products will be marked with an A ESG rating grade.

It's worth noting that we do not currently have buildings with ABCDEF ESG rating classes in Montenegro, and housing and mortgage financing represent a small percentage of the Bank overall portfolio.

2. Securities:
Securities falling under the forbidden activities list are ineligible for financing. However, for those operating within industries mandating ESG analyses, we proactively seek an ESG rating. This involves in-depth analyses to gain a comprehensive understanding of the environmental, social, and governance aspects. It's important to note that we exclusively finance securities holding an A-C ESG rating, underlining our commitment to supporting investments aligned with robust sustainability standards.

3. Legal Entities (Companies):
Similar to our approach with securities, we have a list of forbidden activities for legal entities. Clients not on this list proceed to a second check list for industries requiring ESG analyses. Legal entities fall into three categories: those in the forbidden activities list (not financed), those in industries requiring ESG analyses (subject to ESG rating and analysis), and others (defaulting to a B ESG rating).

For legal entities requiring ESG analyses, clients with financing needs up to EUR 20,000 undergo ESG analyses in the Commercial Department, while those above EUR 20,000 are subjected to additional scrutiny by the Credit Analyses Department. The ESG rating process ranges from a short analysis for up to 18 months to a more in-depth analysis. All legal entity clients receive an A-F ESG rating.

Moreover, for all clients achieving an ESG A rating grade, the Commercial Department is tasked with entering additional data to enhance our comprehensive understanding of their sustainability impact. The following information, if available, will be recorded:

» ESG Rating Grade
» Savings tCO_2/year
» Savings of Energy in MWh/year
» Renewable Energy Capacity Supported in MWh/year
» Waste Avoided or Treated in tons/year
» Water Saved or Treated in m3/year
» Materials Saved in tons/year
» Comment
» Drop-down List of ESG Products (Pick One)

These data points serve as valuable metrics for evaluating the environmental, social, and governance impact of our clients with an A ESG rating grade. They contribute to the generation of insightful reports, allowing us to track and quantify the positive contributions made by our clients to sustainability. The data will be analyzed to produce reports, including: number of Clients/Business Deals in A ESG Rating Class; Amounts in EUR/Year; HB Contribution to ESG Efficiency.

Over time, this approach not only facilitates ongoing monitoring of our ESG performance but also sets the stage for developing key performance indicators (KPIs) in the ESG arena. It is a tangible way for us to measure and communicate the tangible impact of our clients' sustainable practices, fostering transparency and accountability in our commitment to environmental, social, and governance responsibilities.

As of now, our ESG risk initiative has made significant strides, with a clear roadmap for the future. In 2023, we've meticulously crafted the ESG policy, methodology, and framework proposal, awaiting the crucial approval from other members of the executive board and the Board of Directors.

Looking ahead to the first semester of 2024, our focus sharpens on the commercial side. We plan to curate a comprehensive ESG product list and embark on a robust training program for the Commercial department, ensuring a nuanced understanding of ESG principles. Simultaneously, we are gearing up for the testing phase and technical assistance, delving into the intricacies of the 9 ESG fields identified. The technological aspect is not neglected, with plans for an IT application specifically designed for the 9 data fields, catering to A-rated ESG clients. The grand culmination lies in the full-scale implementation of ESG risk in both Market and Credit risk domains, solidifying our commitment to responsible and sustainable financial practices.

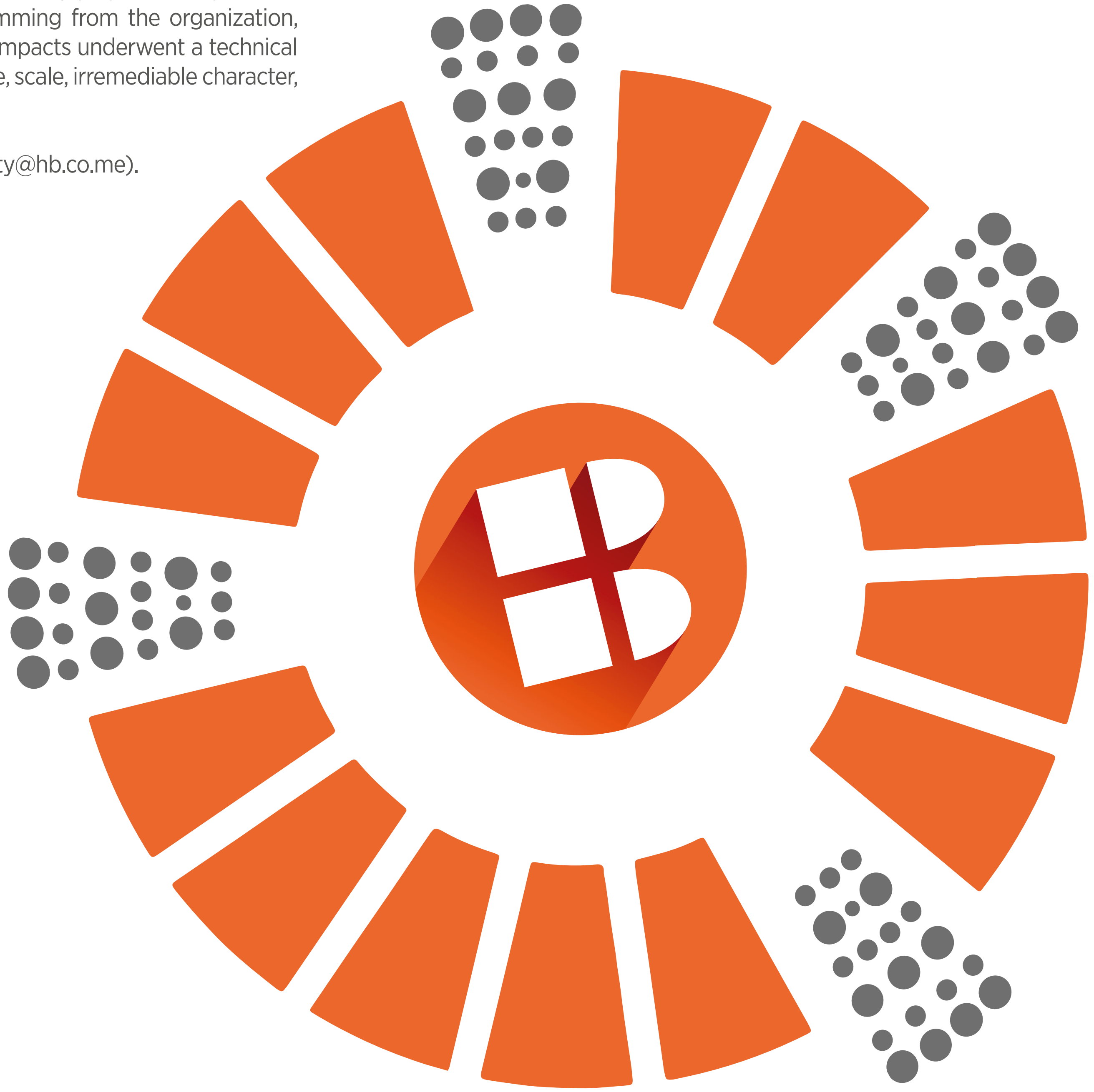
8
Methodology

Methodology

Our **inaugral** Sustainability and Impact Report has been designed to share results **and achievements for fiscal year 2021/2023** to all stakeholders. The reporting scope is the same used for the consolidated financial statements, and includes the economic, environmental and social results from the activities of Hipotekarna Banka. This document has been edited according to the GRI Standards 2021 - "in accordance" option - currently representing the main reference point for non-financial reporting at national and international level.

The document has been structured around 11 key topics identified through a materiality analysis, which sets a threshold indicating the importance for reporting. The Bank has specifically pinpointed topics that effectively capture the economic, environmental, and social impacts stemming from the organization, thereby influencing stakeholder decisions and corporate strategies. These impacts underwent a technical evaluation to determine their significance, with considerations such as scope, scale, irremediable character, and likelihood of occurrence being assessed for each.

For further information, please contact the Sustainability team (sustainability@hb.co.me).



GRI Content Index

Statement of use	Hipotekarna banka AD Podgorica has reported the information cited in this GRI content index for the period **01/01/2023 - 31/12/2023** with reference to the GRI Standards.
GRI 1 used	GRI 1: Foundation 2021

GRI STANDARD	DISCLOURE	LOCATION	NOTES
GRI 2: General Disclosures 2021	2-1 Organizational details	Legal name: Hipotekarna banka AD Podgorica Ownership and legal form: AD Location of headquarters: HIPOTEKARNA BANKA AD PODGORICA, 81000 Podgorica, Josipa Broza Tita 67 Countries of operation: Montenegro	Fully reported
	2-2 Entities included in the organization's sustainability reporting	The entities featured in the Impact Report mirror those included in the consolidated financial statements, solely comprising Hipotekarna Banka.	Fully reported
	2-3 Reporting period, frequency and contact point	The sustainability reporting period is from January 1, 2023, to December 31, 2022. The reporting period aligns with the financial reporting period. For inquiries regarding the report or reported information, please contact sustainability@hb.co.me.	Fully reported
	2-4 Restatements of information	The data presented pertains to the years prior to 2023, as this marks our inaugural edition of the sustainability report. Therefore, there are no comparative changes from previous editions.	Fully reported
	2-5 External assurance	The Impact Report 2023 has not been subject to external assurance.	Fully reported
	2-6 Activities, value chain and other business relationships	Please refer to the About Us section of the report.	Fully reported
	2-7 Employees	Please refer to sheet 2-7	Fully reported
	2-8 Workers who are not employees	Types of non-employees workers: Car maintenance company; Agency for managing social networks; Cleaning company; Notary; Human resources manager; Company for the supply space fresheners; Advertising company; Media buying company; Procurement office material; Printing materials; Company for making envelopes.	Partial disclosure
	2-9 Governance structure and composition	Please refer to § Supervisory Board; § Management Board	Fully reported

GRI 2: General Disclosures 2021	2-10 Nomination and selection of the highest governance body	Please refer to § Corporate Governance Rules	Fully reported
	2-11 Chair of the highest governance body	Please refer to § Management of the Bank	Fully reported
	2-12 Role of the highest governance body in overseeing the management of impacts	The board has entrusted the sustainability department with the responsibility of conducting an impact analysis. This analysis is designed to comprehensively assess the organization's actions and operations concerning sustainability, including their economic, environmental, and social impacts. The process begins with the sustainability department conducting a thorough impact analysis, considering various aspects such as environmental footprint, social responsibility, and economic sustainability. This analysis is then shared with and reviewed by the risk department, which evaluates the potential risks associated with the identified impacts and formulates strategies to manage them effectively. Throughout this process, the highest governance body, typically the board of directors, participates as an observer. While not directly involved in the day-to-day operations, the board holds the authority to intervene if necessary, ensuring alignment with the organization's overall strategic direction and goals. This involvement ensures that sustainability initiatives are integrated into the organization's overarching strategy and governance framework.	Fully reported
	2-7 Employees	Please refer to sheet 2-7	Fully reported
	2-13 Delegation of responsibility for managing impacts	Please refer to Disclosure 2-12	Partial disclosure
	2-14 Role of the highest governance body in sustainability reporting	Regularly scheduled every three months, the sustainability department, along with the CEO, convenes for comprehensive meeting sessions dedicated to reviewing and shaping sustainability initiatives and performance. While the CEO is not directly accountable for sustainability reporting, their involvement throughout the process is integral. The CEO actively participates in data collection, reviews findings, and provides valuable insights before integrating them into the report. This collaborative approach ensures that sustainability efforts are aligned with organizational objectives and reflect a thorough understanding of our commitments and achievements.	Fully reported

GRI 2: General Disclosures 2021	2-15 Conflicts of interest	Please refer to § Statement on the application of the corporate governance code	Fully reported
	2-16 Communication of critical concerns	Critical concerns are categorized into two distinct types: those pertaining to the survival of the bank and those that pose a risk to its reputation. For matters concerning the survival of the bank, a structured escalation process is employed, triggered by specific key parameters—such as Early Warning Indicators (EWI) 1 and 2, as well as predetermined pre-break triggers. These parameters, if endangered, signify potential threats to the bank's survival. Monitoring of these indicators occurs on a quarterly basis, with predefined actions and measures ready to be activated if EWI 1 and EWI 2 indicate imminent danger. Should a trigger break occur, the escalation process is immediately initiated in alignment with the Bank's Recovery Plan. This plan, strategically crafted beforehand, outlines recovery options including timelines, responsibilities, and measures. Following a trigger break, the Bank's management promptly convenes a meeting to delegate necessary actions, responsibilities, and deadlines. Additionally, the Supervisory Board and the Central Bank of Montenegro are promptly informed. Conversely, in the event of a reputational issue, swift action is taken utilizing the electronic database of operational risks. The matter is promptly discussed during the initial collegium meeting, wherein a comprehensive analysis is conducted to determine appropriate actions, assign responsibilities, and set deadlines. Unlike threats to the bank's survival, reputational issues do not pose an immediate existential threat. Consequently, devising suitable measures and formulating an appropriate response requires more time, in alignment with the bank's overarching vision and mission.	Fully reported
	2-17 Collective knowledge of the highest governance body	The Board endorses the ESG Strategy along with the reporting framework, encompassing the materiality analysis and milestone activities essential for target attainment. Furthermore, board members consistently engage in sustainability-focused events and conferences.	Fully reported
	2-18 Evaluation of the performance of the highest governance body	As of the reporting period, the organization does not have established processes for evaluating the performance of the highest governance body in overseeing the management of impacts.	Fully reported

GRI 2: General Disclosures 2021	2-19 Remuneration policies	The bank's management receives fixed monthly salaries. The bank adheres to a Remuneration Policy that governs the potential for disbursing variable compensation. Variable incomes are distributed on an ad hoc basis, solely at the discretion of the competent management body.	Fully reported
	2-20 Process to determine remuneration	The Supervisory Board oversees variable remuneration for the Board of Directors and senior management. For other employees, the Management Board decides on variable remuneration, guided by the Remuneration Policy.	Fully reported
	2-21 Annual total compensation ratio	The annual total compensation ratio calculated is 12,34 (298555,80/24.196,75=12,34). The change in the annual total compensation ratio calculated is -7,20%. (((298.555,8-943.572,79)/943.572,79)*100)/(((24.196,75-22.099,96)/22.099,96)*100). All those who were and are still employed during the year 2023 are included. For part-time employees, full-time equivalent wage rates are used. The types of compensation that are included are: salary, bonuses, retirement payments and termination of employment contacts, employees' work in committees, winter allowances, benefits for private health insurance, support of employees for treatment. The title of the highest paid individual is President of the Management Board.	Fully reported
	2-22 Statement on sustainable development strategy	Please refer to § CEO Letter	Fully reported
	2-23 Policy commitments	Please refert to annual report 2023 dedicated section.	Fully reported

GRI 2: General Disclosures 2021	2-24 Embedding policy commitments	The bank operates with a strategic plan and various components within its business plan, each with distinct roles in the balance sheet and profit and loss statement. Tasks and subtasks are organized into projects or subprojects, with responsibilities allocated and commitments implemented through project teams. This is achieved by involving all relevant departments in projects and adhering to written policies and procedures. Every policy and procedure delineates specific tasks, roles, responsibilities, and timelines. Each relevant department within these policies and procedures is provided with detailed descriptions of their tasks, duties, and responsible functions, along with defined targets. We conduct training sessions tailored to the specific areas of our business activities, ensuring compliance with regulatory requirements. While these sessions typically occur annually, there is a recognized need to enhance their quality and forward-looking perspective in the future. Compliance with policies and procedures is obligatory, guiding day-to-day operations. At regular intervals, as outlined in our policies and procedures, reports are compiled and submitted to higher levels of the organizational hierarchy. These reports are summarized at the top level of the bank, facilitating timely decision-making. The bank integrates its commitments into organizational strategies, operational policies, and procedures in the following manner: Starting from our strategic mission, vision, and goals, we align them with a five-year business plan, which serves as the cornerstone document. We ensure that all areas, including procurement and investment policies and practices, align with these documents. Decisions regarding the initiation, continuation, or termination of business relationships are guided by our strategy and business plan, considering their impact on key performance indicators, return on equity, return on assets, and other relevant ratios. New products, processes, or procurement processes must adhere to a policy for implementation, receiving approval from all relevant departments. In the case of outsourcing, adherence to the outsourcing policy and procedures, along with compliance with legislation, is mandatory. All initiatives are subject to internal and external audits to ensure adherence to established standards and regulatory requirements.	Fully reported

GRI 2: General Disclosures 2021	2-25 Processes to remediate negative impacts	The bank has established a comprehensive approach to managing negative impacts and addressing grievances, consisting of four distinct levels: » Media Monitoring: Daily monitoring of all media channels is conducted to track mentions of Hipotekarna Bank and our clients. This monitoring is facilitated through the receipt of daily emails from Nina Media (ops@ninamedia.me). » Legal Oversight: The Legal department diligently monitors all lawsuits filed against Hipotekarna Bank. Provisions are made in the balance sheet and profit and loss statement to account for potential losses, estimated as a percentage of the amount claimed in the lawsuit. » Compliance Procedures: A structured compliance procedure is in place to address grievances from unsatisfied clients, vendors, and stakeholders. Grievances can originate from various sources, including the call center, compliance books in business units, and through email submissions on our website. » Operational Risk Management: Provisions are made for all negative impacts recorded in the Operational Risk database. An estimation of the maximum potential loss from these impacts in future periods is based on historical records. Each of these four levels operates independently and generates reports that are submitted to the Management Board and Board of Directors at frequencies prescribed by the respective procedures. This multi-tiered approach ensures that the bank remains vigilant in identifying and addressing negative impacts and grievances, thereby safeguarding the interests of all stakeholders.	Fully reported
	2-26 Mechanisms for seeking advice and raising concerns	Individuals seeking guidance on implementing responsible business conduct policies and practices or wishing to raise concerns about the organization's business conduct are encouraged to contact the Human Resources (HR) department. HR serves as a dedicated point of contact for employees, providing assistance, clarification, and support in navigating and adhering to organizational guidelines, while also ensuring confidentiality and handling concerns with sensitivity and discretion. Through this centralized approach, the organization aims to foster a culture of transparency, accountability, and responsible business conduct.	Fully reported

GRI 2: General Disclosures 2021	2-27 Compliance with laws and regulations	During the reporting period, the Central Bank of Montenegro, serving as the regulatory authority for the banking market in Montenegro, did not identify any significant instances of non-compliance with laws and regulations involving Hipotekarna Banka. As such, there were no violations of regulations reported or recorded during the observed period.	Fully reported
	2-28 Membership associations	Please refer to: » Statement On The Application Of The Corporate Governance Code; » Being First: Paving the Road to Sustainability	Fully reported
	2-29 Approach to stakeholder engagement	Please refer to: » Materiality Assessment » Community » Client's and Partners » Corporate Values and Workplace	Fully reported
	2-30 Collective bargaining agreements	Within the bank, individual collective agreements with employees are not established. Instead, the General Collective Agreement is enforced, which is mandatory for all employers in Montenegro.	Fully reported
GRI 201: Economic Performance 2016	201-1 Direct economic value generated and distributed	See sheet 201-1	Fully reported
GRI 202: Market Presence 2016	202-1 Ratios of standard entry level wage by gender compared to local minimum wage	See sheet 202-1	Fully reported
GRI 207: Tax 2019	207-2 Tax governance, control, and risk management	The bank applies all relevant applicable laws in the area in which it operates, including tax laws. Legal service and compliance inform all relevant services about legal changes related to their area of business, which are then obliged to harmonize business with the aforementioned changes. The accounting department prepares financial reports on a monthly, quarterly and annual basis and submits them to the Central Bank and the Management Board. The final annual reports are also submitted to the tax administration through the e-portal, supplemented by other reports that the tax administration requires from the organization. The bank(accounting department) also submits to the tax administration a monthly report on the taxes paid and the contributions it made in the previous month,through the e-portal.	Fully reported

GRI 302: Energy 2016	GRI 302-1 | Energy consumption within the organization	Please refer to: » Energy.	Fully reported
	302-3 Energy intensity	Please refer to: » Energy.	Fully reported
GRI 305: Emissions 2016	305-1 Direct (Scope 1) GHG emissions	Please refer to: » Scope 1 and 2 Emissions.	Fully reported
	305-2 Energy indirect (Scope 2) GHG emissions	Please refer to: » Scope 1 and 2 Emissions.	Fully reported
	305-3 Other indirect (Scope 3) GHG emissions	Please refer to: » Scope 3 - Our Impact Beyond Our Boundaries.	Partial disclosure
	305-4 GHG emissions intensity	Please refer to: » Scope 1 and 2 Emissions.	Partial disclosure
GRI 308: Supplier Environmental Assessment 2016	GRI 308-1 | New suppliers that were screened using environmental criteria	See sheet 308-1	Fully reported
GRI 401: Employment 2016	GRI 401-3 Parental leave	See sheet 401-3	Fully reported
GRI 402: Labor/ Management Relations 2016	402-1 Minimum notice periods regarding operational changes	The minimum notice period regarding operational changes is four weeks and provisions for consultation and negotiation are specified in collective agreements.	Fully reported
GRI 403: Occupational Health and Safety 2018	403-9 Work-related injuries	There were no work-related accidents or injuries reported in 2022 or 2023 involving employees or non-employee workers of Hipotekarna Banka.	Fully reported
GRI 404: Training and Education 2016	404-1 Average hours of training per year per employee	See sheet 404-1	Fully reported
	404-2 Programs for upgrading employee skills and transition assistance programs	Please refer to: » Promoting Education	Fully reported
GRI 405: Diversity and Equal Opportunity 2016	405-1 Diversity of governance bodies and employees	Please refer to: » Diversity Policy And Structure Of The Bank's Management Body	Partial disclosure

GRI 414: Supplier Social Assessment 2016	GRI 414-1 New suppliers that were screened using social criteria	See sheet 414-1	Fully reported

GRI 2-7 | Employees

a. Employees by gender and region	2023				2022				2021				2020			
	Female	Male	Other	Total	Female	Male	Other	Total	Female	Male	Other	Total	Female	Male	Other	Total
Region 1 (central)	121	76	0	197	104	76	0	180	98	72	0	170	95	71		166
Region 2 (north)	13	7	0	20	13	7	0	20	11	7	0	18	10	6		16
Region 3 (south)	29	11	0	40	32	8	0	40	29	8	0	37	27	9		36
Total	**163**	**94**	**0**	**257**	**149**	**91**	**0**	**240**	**138**	**87**	**0**	**225**	**132**	**86**		**218**

b. Employees by contract, gender and region	2023												
	Central Montenegro				North Montenegro				South Montenegro				
	Female	Male	Other	Total	Female	Male	Other	Total	Female	Male	Other	Total	Total
Number of permanent/ full-time employees	86	65		151	9	6		15	30	7		37	203
Number of permanent/ part-time employees	25	14		39	3	1		4	4	2		6	49
Number of temporary/ full-time employees				0				0				0	0
Number of temporary/ part time employees				0				0				0	0
Number of non-guaranteed employees				0				0				0	0
Regional total	**111**	**79**	**0**	**190**	**12**	**7**	**0**	**19**	**34**	**9**	**0**	**43**	**252**

b. Employees by contract, gender and region	2022												
	Central Montenegro				North Montenegro				South Montenegro				
	Female	Male	Other	Total	Female	Male	Other	Total	Female	Male	Other	Total	Total
Number of permanent/ full-time employees	95	68		163	12	6		18	27	7		34	215
Number of permanent/ part-time employees	9	8		17	1	1		2	5	1		6	25
Number of temporary/ full-time employees				0				0				0	0
Number of temporary/ part time employees				0				0				0	0
Number of non-guaranteed employees				0				0				0	0
Regional total	**104**	**76**	**0**	**180**	**13**	**7**	**0**	**20**	**32**	**8**	**0**	**40**	**240**

b. Employees by contract, gender and region	2021												
	Central Montenegro				North Montenegro				South Montenegro				
	Female	Male	Other	Total	Female	Male	Other	Total	Female	Male	Other	Total	Total
Number of permanent/ full-time employees	88	62		150	10	6		16	22	5		27	193
Number of permanent/ part-time employees	10	10		20	1	1		2	7	3		10	32
Number of temporary/ full-time employees				0				0				0	0
Number of temporary/ part time employees				0				0				0	0
Number of non-guaranteed employees				0				0				0	0
Regional total	**98**	**72**	**0**	**170**	**11**	**7**	**0**	**18**	**29**	**8**	**0**	**37**	**225**

b. Employees by contract, gender and region	2020												
	Central Montenegro				North Montenegro				South Montenegro				
	Female	Male	Other	Total	Female	Male	Other	Total	Female	Male	Other	Total	Total
Number of permanent/ full-time employees	86	65		151	10	6		16	21	7		28	195
Number of permanent/ part-time employees	9	6		15	0	0		0	6	2		8	23
Number of temporary/ full-time employees				0				0				0	0
Number of temporary/ part time employees				0				0				0	0
Number of non-guaranteed employees				0				0				0	0
Regional total	**95**	**71**	**0**	**166**	**10**	**6**	**0**	**16**	**27**	**9**	**0**	**36**	**218**

c. Describe the methodologies and assumptions used to compile the data
Personnel program

d. Report contextual information necessary to understand the data reported under 2-7-a and 2-7-b
Region 1- central (bank branch - Podgorica, Danilovgrad i Cetinje) region 2 - northern (bank branch in Bijelo Polje, Berane, Nikšić and Žabljak); region 3- southern (bank Branch in Bar, Ulcinj, Kotor, Tivt, Herceg Novom and Budva)

e. Describe significant fluctuations in the number of employees during the reporting period and between reporting periods
There were no significant fluctuations in reporting period and between reporting periods

GRI 201-1 | Direct Economic Value Generated And Distributed

Total of all Regions (EUR '000)	2023	2022	2021	2020
Direct economic value generated	37.293	27.649	22.182	21.591
Direct economic value distributed	25.036	21.607	17.798	18.102
Operational costs	15.424	12.957	10.937	11.827
Value distributed to employees	7.040	7.255	5.969	5.551
Value distributed to capital providers	0	0	0	0
Value distributed to Public Administration	2.351	1.218	661	421
Value distributed to shareholders	0	0	0	0
Value distributed to community	220	176	231	303
Held economic value	12.257	6.042	4.384	3.488

GRI 202-1 | Ratios of standard entry level wage by gender compared to local minimum wage

a. Employee Wages Ratio, by gender and at significant locations or regions+B8:AC26	2023						2022						2021					
	Region central		Region north		Region south		Region central		Region north		Region south		Region central		Region north		Region south	
	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male
Entry Level Wage (hourly or monthly)	550	550	550	550	550	550	470	470	470	470	470	470	470	470	470	470	470	470
Local Minimum Wage (hourly or monthly)	450	450	450	450	450	450	450	450	450	450	450	450	450	450	450	450	450	450
Ratio of Entry Level Wage to Minimum Wage	122%	122%	122%	122%	122%	122%	104%	104%	104%	104%	104%	104%	104%	104%	104%	104%	104%	104%

b. Other workers (Non-employees*) Wages Ratio, by gender and at significant locations or regions	2023						2022						2021					
	Region central		Region north		Region south		Region central		Region north		Region south		Region central		Region north		Region south	
	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male
Entry Level Wage (hourly or monthly)	550	550	550	550	470	470	470	470	470	470	470	470	470	470	470	470	470	470
Local Minimum Wage (hourly or monthly)	450	450	450	450	450	450	450	450	450	450	450	450	450	450	450	450	450	450
Ratio of Entry Level Wage to Minimum Wage	122%	122%	122%	122%	104%	104%	104%	104%	104%	104%	104%	104%	104%	104%	104%	104%	104%	104%

*These individuals are employed through a staffing agency.

c. Describe the methodologies and assumptions used to compile the data
In Montenegro the minimum monthly wage defined by law is EUR 450.

GRI 308-1 | New suppliers that were screened using environmental criteria

a. New suppliers screened (%)	2023	2022	2021	2020
Total number of new suppliers	9	8	4	1
Number of suppliers screened with environmental criteria	6	6	4	0
Percentage	67%	75%	100%	0%

GRI 401-3 | Parental leave

Parental Leave	31.12.2023.			
	Female	Male	Other	Total
a. Total number of employees that were entitled to parental leave, by gender.	7	0	0	7
b. Total number of employees that took parental leave, by gender	7	0	0	7
c. Total number of employees that returned to work in the reporting period after parental leave ended, by gender.	0	0	0	0
d. Total number of employees that returned to work after parental leave ended that were still employed 12 months after their return to work, by gender.	1	0	0	1
e. Retention rates of employees that took parental leave, by gender.	100%			100%
f. Return to work rates of employees that took parental leave, by gender	100%			100%

404-1 | Average hours of training per year per employee

a. Average training hours per employee	2023	2022	2021	2020
Senior Management (in minutes)	80	75	150	30
Middle Management (in minutes)	80	75	150	30
Non-Management (in minutes)	170	135	210	165
Non-Clerical (General Services) (in minutes)		-	-	-

a. Average training hours per employee	2023	2022	2021	2020
Female	143	135	225	120
Male	143	135	225	120
Average training hours per employee	143	135	225	120

GRI 414-1 | New suppliers that were screened using social criteria

a. New suppliers screened (%)	2023	2022	2021	2020
Total number of new suppliers	9	8	4	1
Number of suppliers screened with social criteria	6	6	4	0
Percentage	67%	75%	100%	0%

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