

UN Principles for Responsible Banking
Reporting and Self-Assessment 2023
Hipotekarna Banka April 2024



Dedicated to the future

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United Nations Principles for Responsible Banking

Sustainable banking is an essential pillar in the global transition towards a more inclusive, resilient, and low-carbon economy. The financial sector, particularly banks, plays a crucial role in addressing environmental, social, and governance (ESG) challenges by aligning their strategies with sustainability principles. The United Nations Principles for Responsible Banking (PRB), launched in 2019 by the UN Environment Programme Finance Initiative (UNEP FI), provide a comprehensive framework for banks worldwide to align their business strategies with the Sustainable Development Goals (SDGs) and the Paris Climate Agreement.

These principles guide banks in embedding sustainability into all aspects of their operations, from lending and investment decisions to corporate governance and risk management. By committing to the PRB, banks publicly demonstrate their dedication to sustainable finance and accountability in creating long-term value for society.

For more information on the Principles for Responsible Banking, please visit the UNEP FI's official page (<https://www.unepfi.org/banking/bankingprinciples/>).

This report explores the core principles of sustainable banking and their implementation, highlighting best practices and challenges faced by Hipotekarna Banka in promoting a sustainable future.

Principle 1: Alignment



We will align our business strategy to be consistent with and contribute to individuals' needs and society's goals, as expressed in the Sustainable Development Goals, the Paris Climate Agreement and relevant national and regional frameworks.

Business model

Describe (high-level) your bank's business model, including the main customer segments served, types of products and services provided, the main sectors and types of activities across the main geographies in which your bank operates or provides products and services. Please also quantify the information by disclosing e.g. the distribution of your bank's portfolio (%) in terms of geographies, segments (i.e. by balance sheet and/or off-balance sheet) or by disclosing the number of customers and clients served.

Bank's business model relies on three main sources of revenue being: fostering for the needs of corporate and retail clients as well as investment banking services, as core business. It is registered in Montenegro and all of its 21 branches are located in Montenegro and it does not have a mother company. However its steady growth has provided a competitive positioning on the market of Montenegrin banking and it is one of the leading systemically important banks of the country.

The above explained steady y-on-y has been taking place while caring about growing sustainably. The bank is equally focused on implementing its sustainability strategy as well as on the business side of its development.

*Links and references
<https://www.hipotekarnabanka.com/>*

Strategy alignment

Does your corporate strategy identify and reflect sustainability as strategic priority/ies for your bank?

☒ Yes

☐ No

Please describe how your bank has aligned and/or is planning to align its strategy to be consistent with the Sustainable Development Goals (SDGs), the Paris Climate Agreement, and relevant national and regional frameworks.

Hipotekarna Banka is in the process of preparing its inaugural sustainability report, which will comprehensively outline our commitment and actions towards sustainable practices. As part of this endeavor, we are actively addressing various aspects:

- **Scope 3 Emissions:**
The Bank is making substantial efforts to estimate Scope 3 emissions by meticulously analyzing its client portfolio, scrutinizing its suppliers, and conducting employee questionnaires to understand and mitigate the overall environmental impact.
- **ESG Integration for New Clients:**
The Bank is in the early stages of assessing new clients with a focus on Environmental, Social, and Governance (ESG) indicators. While the current approach is qualitative, the bank are diligently working on formalizing a comprehensive strategy to incorporate ESG considerations into the client onboarding process.

- **Social Commitment:**
The Bank takes great pride in its strong ties to the local community. Hipotekarna Banka is actively implementing various initiatives to support and uplift the community.

Does your bank also reference any of the following frameworks or sustainability regulatory reporting requirements in its strategic priorities or policies to implement these?

- ☐ UN Guiding Principles on Business and Human Rights
- ☐ International Labour Organization fundamental conventions
- ☐ UN Global Compact
- ☐ UN Declaration on the Rights of Indigenous Peoples
- ☒ Any applicable regulatory reporting requirements on environmental risk assessments, e.g. on climate risk - please specify which ones: GRI
- ☐ Any applicable regulatory reporting requirements on social risk assessments, e.g. on modern slavery - please specify which ones: -----
- ☐ None of the above

Response

Links and references

Principle 2: Impact and Target Setting



We will continuously increase our positive impacts while reducing the negative impacts on, and managing the risks to, people and environment resulting from our activities, products and services. To this end, we will set and publish targets where we can have the most significant impacts.

2.1 Impact Analysis (Key Step 1)

Show that your bank has performed an impact analysis of its portfolio/s to identify its most significant impact areas and determine priority areas for target-setting. The impact analysis shall be updated regularly¹ and fulfil the following requirements/elements (a-d)²:

- a) Scope:** What is the scope of your bank's impact analysis? Please describe which parts of the bank's core business areas, products/services across the main geographies that the bank operates in (as described under 1.1) have been considered in the impact analysis. Please also describe which areas have not yet been included, and why.

Response

The materiality analysis highlights the economic, social, and environmental challenges that are most important in terms of their potential influence on the Bank's strategy and Stakeholders, whether positive or negative.

Links and references

¹ That means that where the initial impact analysis has been carried out in a previous period, the information should be updated accordingly, the scope expanded as well as the quality of the impact analysis improved over time.

² Further guidance can be found in the [Interactive Guidance on impact analysis and target setting](#).

<p>Due to their possible influence on business operations and stakeholders, Hipotekarna Banka has established systems and assigned specific tasks to evaluate and manage significant social and environmental risks.</p> <p>The materiality assessment we conducted included:</p> <ol style="list-style-type: none"> 1. Mapping of the impacts connected with the sector and Hipotekarna Banka's activities along the whole value chain, in terms of double materiality, i.e. including both the impacts generated and those suffered. 2. Technical assessment of mapped impacts to measure their significance on the basis of scope, scale, irremediable character and likelihood of occurrence, and subsequent prioritisation of the most significant impacts. 	
<p>b) <u>Portfolio composition</u>: Has your bank considered the composition of its portfolio (in %) in the analysis? Please provide proportional composition of your portfolio globally and per geographical scope</p> <p>i) by sectors & industries³ for business, corporate and investment banking portfolios (i.e. sector exposure or industry breakdown in %), and/or</p> <p>ii) by products & services and by types of customers for consumer and retail banking portfolios.</p> <p>If your bank has taken another approach to determine the bank's scale of exposure, please elaborate, to show how you have considered where the bank's core business/major activities lie in terms of industries or sectors.</p>	
<p><i>Response</i></p>	<p><i>Links and references</i></p>

³ 'Key sectors' relative to different impact areas, i.e. those sectors whose positive and negative impacts are particularly strong, are particularly relevant here.

c) Context: What are the main challenges and priorities related to sustainable development in the main countries/regions in which your bank and/or your clients operate?⁴ Please describe how these have been considered, including what stakeholders you have engaged to help inform this element of the impact analysis.

This step aims to put your bank's portfolio impacts into the context of society's needs.

Response

- As Montenegro is currently undergoing the process of EU admission, we recognize the critical importance of transparency in ESG information. This is considered a top priority to facilitate a seamless alignment with EU sustainability requirements and frameworks. By prioritizing transparency, we aim to ensure that our practices and reporting meet the evolving standards set by the European Union.
- In the materiality assessment process, we have taken a comprehensive approach by engaging with a diverse range of local and international stakeholders. This inclusive method allows us to capture the shared interests of the communities where we operate. By involving local stakeholders, we gain valuable perspectives on the specific challenges and priorities unique to the region. This collaborative approach ensures that our impact analysis is well-informed, responsive, and aligned with the needs and expectations of the community.
- We remain committed to ongoing dialogue and collaboration with stakeholders to adapt our strategies and practices in line with sustainable development goals.

Links and references

Based on these first 3 elements of an impact analysis, what positive and negative impact areas has your bank identified? Which (at least two) significant impact areas did you prioritize to pursue your target setting strategy (see 2.2)⁵? Please disclose.

Response

One of the significant positive impact areas recognized is Hipotekarna Banka's commitment to **climate change mitigation**. Through strategic initiatives and investments, the bank aims to contribute to a sustainable and low-carbon future, aligning with global efforts to address climate challenges. Additionally, Hipotekarna Banka has prioritized the **enhancement of human capital**. Recognizing the pivotal role of the workforce, the bank is dedicated to fostering a culture of continuous learning and skill advancement. By investing in the intellectual growth and expertise of its employees, Hipotekarna Banka aims to strengthen internal capabilities and contribute positively to the broader community.

Links and references

⁴ Global priorities might alternatively be considered for banks with highly diversified and international portfolios.

⁵ To prioritize the areas of most significant impact, a qualitative overlay to the quantitative analysis as described in a), b) and c) will be important, e.g. through stakeholder engagement and further geographic contextualisation.

<p>These two impact areas—climate change mitigation and human capital development—are integral components of Hipotekarna Banka's target setting strategy outlined in section 2.2. The bank believes that by addressing these priorities, it can create lasting positive effects on both the environment and the individuals within the organization, driving sustainable growth and value creation.</p>	
<p>d) For these (min. two prioritized impact areas): <u>Performance measurement.</u> Has your bank identified which sectors & industries as well as types of customers financed or invested in are causing the strongest actual positive or negative impacts? Please describe how you assessed the performance of these, using appropriate indicators related to significant impact areas that apply to your bank's context.</p> <p>In determining priority areas for target-setting among its areas of most significant impact, you should consider the bank's current performance levels, i.e. qualitative and/or quantitative indicators and/or proxies of the social, economic and environmental impacts resulting from the bank's activities and provision of products and services. If you have identified climate and/or financial health&inclusion as your most significant impact areas, please also refer to the applicable indicators in the Annex.</p> <p>If your bank has taken another approach to assess the intensity of impact resulting from the bank's activities and provision of products and services, please describe this.</p> <p><i>The outcome of this step will then also provide the baseline (incl. indicators) you can use for setting targets in two areas of most significant impact.</i></p>	
<p>Response</p> <p>Climate change mitigation</p> <p>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.</p> <p>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</p>	<p>Links and references</p>

gain a comprehensive understanding of the environmental impact across various facets of our clients' operations.	
Enhancement of human capital Performance measurement for climate change mitigation have been prioritized in 2023.	

Self-assessment summary:

Which of the following components of impact analysis has your bank completed, in order to identify the areas in which your bank has its most significant (potential) positive and negative impacts?⁶

Scope:	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> In progress	<input type="checkbox"/> No
Portfolio composition:	<input type="checkbox"/> Yes	<input type="checkbox"/> In progress	<input checked="" type="checkbox"/> No
Context:	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> In progress	<input type="checkbox"/> No
Performance measurement:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> In progress	<input type="checkbox"/> No

Which most significant impact areas have you identified for your bank, as a result of the impact analysis?

Climate change mitigation, climate change adaptation, resource efficiency & circular economy, biodiversity, financial health & inclusion, human rights, gender equality, decent employment, water, pollution, other: please specify **enhancement of human capital**

How recent is the data used for and disclosed in the impact analysis?

- ☒ Up to 6 months prior to publication
- ☒ Up to 12 months prior to publication
- ☐ Up to 18 months prior to publication
- ☐ Longer than 18 months prior to publication

Open text field to describe potential challenges, aspects not covered by the above etc.:
(optional)

⁶ You can respond "Yes" to a question if you have completed one of the described steps, e.g. the initial impact analysis has been carried out, a pilot has been conducted.

2.2 Target Setting (Key Step 2)

Show that your bank has set and published a minimum of two targets which address at least two different areas of most significant impact that you identified in your impact analysis.

The targets⁷ have to be Specific, Measurable (qualitative or quantitative), Achievable, Relevant and Time-bound (SMART). Please disclose the following elements of target setting (a-d), for each target separately:

a) Alignment: which international, regional or national policy frameworks to align your bank's portfolio with⁸ have you identified as relevant? Show that the selected indicators and targets are linked to and drive alignment with and greater contribution to appropriate Sustainable Development Goals, the goals of the Paris Agreement, and other relevant international, national or regional frameworks.

You can build upon the context items under 2.1.

Response

In alignment with Sustainable Development Goal (SDG) number 13, which advocates for climate action, Hipotekarna Banka is actively developing a comprehensive strategy to mitigate climate change. The bank recognizes the urgency and significance of addressing environmental challenges and is committed to contributing to a sustainable and resilient future. This strategic initiative reflects Hipotekarna Banka's dedication to support global efforts aimed at combating climate change and promoting environmental stewardship.

In alignment with Sustainable Development Goal (SDG) number 8, which underscores the importance of promoting decent work and economic growth, our organization is actively formulating a comprehensive strategy to foster these principles. Recognizing the critical role that human capital plays in achieving broader development goals, we are committed to create a work environment that prioritizes fair labor practices, inclusive economic opportunities, and overall well-being.

The Bank will revise its targets on the basis of the analysis of the impact in line with PRB requirements.

Links and references

b) Baseline: Have you determined a baseline for selected indicators and assessed the current level of alignment? Please disclose the indicators used as well as the year of the baseline.

You can build upon the performance measurement undertaken in 2.1 to determine the baseline for your target.

A package of indicators has been developed for climate change mitigation and financial health & inclusion to guide and support banks in their target setting and implementation journey. The overview of indicators can be found in the [Annex](#) of this template.

If your bank has prioritized climate mitigation and/or financial health & inclusion as (one of) your most significant impact areas, it is strongly recommended to report on the indicators in the Annex, using an overview table like below including the impact area, all relevant indicators and the corresponding indicator codes:

Impact area	Indicator code	Response
	A.1.1	In progress (2023)
	A.1.2	No

Climate change mitigation	A.1.3	Yes (2023)
	A.1.4	In progress
	A.2.1	Yes, we have initiated an engagement process with 20 corporate clients, representing diverse sectors within our portfolio. This involves a questionnaire to delve into their ESG practices and assess their transparency in ESG-related matters.
Impact area	Indicator code	Response
Financial health & inclusion	...	
	...	
	...	
In case you have identified other and/or additional indicators as relevant to determine the baseline and assess the level of alignment towards impact driven targets, please disclose these.		
Response		Links and references

c) SMART targets (incl. key performance indicators (KPIs)⁹): Please disclose the targets for your first and your second area of most significant impact, if already in place (as well as further impact areas, if in place). Which KPIs are you using to monitor progress towards reaching the target? Please disclose.

Response	Links and references
<ul style="list-style-type: none"> Create and put into action a thorough client assessment system that incorporates ESG metrics and thresholds by the close of 2024. The goal is to enhance our ability to provide more favorable interest rates to companies with stronger ESG performance, ultimately aiming to a reduction in the impact of financed emissions. <p>KPIs: 1) number of clients that underwent the ESG assessment 2) percentage of clients whose projects align with established ESG metrics and thresholds; 3) reduction in emissions across all financed projects compared to baseline emissions.</p> <ul style="list-style-type: none"> Implement a comprehensive Human Capital Development Program by the end of 2024, aiming to enhance employee knowledge and skills through continuous learning and professional development. <p>KPIs: 1) average number of training hours completed by each employee over the course of the program (>hours at t0); 2)</p>	

⁷ Operational targets (relating to for example water consumption in office buildings, gender equality on the bank's management board or business-trip related greenhouse gas emissions) are not in scope of the PRB.

⁸ Your bank should consider the main challenges and priorities in terms of sustainable development in your main country/ies of operation for the purpose of setting targets. These can be found in National Development Plans and strategies, international goals such as the SDGs or the Paris Climate Agreement, and regional frameworks. Aligning means there should be a clear link between the bank's targets and these frameworks and priorities, therefore showing how the target supports and drives contributions to the national and global goals.

⁹ Key Performance Indicators are chosen indicators by the bank for the purpose of monitoring progress towards targets.

<p>assess the improvement rates in key skills identified for each role through pre- and post-training evaluations; 3) number of employees that undergo cross training.</p>	
<p>d) <u>Action plan:</u> which actions including milestones have you defined to meet the set targets? Please describe.</p> <p>Please also show that your bank has analysed and acknowledged significant (potential) indirect impacts of the set targets within the impact area or on other impact areas and that it has set out relevant actions to avoid, mitigate, or compensate potential negative impacts.</p>	
<p><i>Response</i></p> <ol style="list-style-type: none"> 1. Mapping scope 3 emissions 2. HR project 	<p><i>Links and references</i></p>

<p>Self-assessment summary</p> <p>Which of the following components of target setting in line with the PRB requirements has your bank completed or is currently in a process of assessing for your...</p>			
	<p>... first area of most significant impact: ... (please name it)</p>	<p>... second area of most significant impact: ... (please name it)</p>	<p>(If you are setting targets in more impact areas) ...your third (and subsequent) area(s) of impact: ... (please name it)</p>
<p>Alignment</p>	<p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> In progress <input type="checkbox"/> No</p>	<p><input type="checkbox"/> Yes <input checked="" type="checkbox"/> In progress <input type="checkbox"/> No</p>	<p><input type="checkbox"/> Yes <input type="checkbox"/> In progress <input type="checkbox"/> No</p>
<p>Baseline</p>	<p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> In progress <input type="checkbox"/> No</p>	<p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> In progress <input type="checkbox"/> No</p>	<p><input type="checkbox"/> Yes <input type="checkbox"/> In progress <input type="checkbox"/> No</p>
<p>SMART targets</p>	<p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> In progress <input type="checkbox"/> No</p>	<p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> In progress <input type="checkbox"/> No</p>	<p><input type="checkbox"/> Yes <input type="checkbox"/> In progress <input type="checkbox"/> No</p>
<p>Action plan</p>	<p><input type="checkbox"/> Yes <input checked="" type="checkbox"/> In progress <input type="checkbox"/> No</p>	<p><input type="checkbox"/> Yes <input checked="" type="checkbox"/> In progress <input type="checkbox"/> No</p>	<p><input type="checkbox"/> Yes <input type="checkbox"/> In progress <input type="checkbox"/> No</p>

2.3 Target implementation and monitoring (Key Step 2)

For each target separately:

Show that your bank has implemented the actions it had previously defined to meet the set target.

Report on your bank's progress since the last report towards achieving each of the set targets and the impact your progress resulted in, using the indicators and KPIs to monitor progress you have defined under 2.2.

Or, in case of changes to implementation plans (relevant for 2nd and subsequent reports only): describe the potential changes (changes to priority impact areas, changes to indicators, acceleration/review of targets, introduction of new milestones or revisions of action plans) and explain why those changes have become necessary.

Response

Links and references

Principle 3: Clients and Customers



We will work responsibly with our clients and our customers to encourage sustainable practices and enable economic activities that create shared prosperity for current and future generations.

3.1 Client engagement

Does your bank have a policy or engagement process with clients and customers¹⁰ in place to encourage sustainable practices?

☐ Yes ☒ In progress ☐ No

Does your bank have a policy for sectors in which you have identified the highest (potential) negative impacts?

☐ Yes ☒ In progress ☐ No

Describe how your bank has worked with and/or is planning to work with its clients and customers to encourage sustainable practices and enable sustainable economic activities¹¹). It should include information on relevant policies, actions planned/implemented to support clients' transition, selected indicators on client engagement and, where possible, the impacts achieved.

This should be based on and in line with the impact analysis, target-setting and action plans put in place by the bank (see P2).

Response

- In 2023, we initiated an engagement process with 20 corporate clients, spanning diverse sectors in our portfolio. This involved a comprehensive questionnaire to gauge their ESG practices and transparency in related matters. Moving forward, we aim to establish a robust client assessment system, incorporating ESG metrics and thresholds by the end of 2024. The objective is to offer more favorable interest rates to companies with stronger ESG performance, working towards a reduction in the impact of financed emissions.
- For all our customers, we have introduced various green products supporting their transition, such as:
 - The GGF credit line, facilitating financing for energy-efficient construction and green mortgages.
 - The EED program, initiated in 2020, focuses on subsidizing interest rates and loan processing fees for households. With a budget of approximately €800,000, the program provides interest-free loans for implementing energy efficiency measures.

Links and references

¹⁰ A client engagement process is a process of supporting clients towards transitioning their business models in line with sustainability goals by strategically accompanying them through a variety of customer relationship channels.

¹¹ Sustainable economic activities promote the transition to a low-carbon, more resource-efficient and sustainable economy.

3.2 Business opportunities

Describe what strategic business opportunities in relation to the increase of positive and the reduction of negative impacts your bank has identified and/or how you have worked on these in the reporting period. Provide information on existing products and services, information on sustainable products developed in terms of value (USD or local currency) and/or as a % of your portfolio, and which SDGs or impact areas you are striving to make a positive impact on (e.g. green mortgages – climate, social bonds – financial inclusion, etc.).

Response

Links and references

Principle 4: Stakeholders



We will proactively and responsibly consult, engage and partner with relevant stakeholders to achieve society's goals.

4.1 Stakeholder identification and consultation

Does your bank have a process to identify and regularly consult, engage, collaborate and partner with stakeholders (or stakeholder groups¹²) you have identified as relevant in relation to the impact analysis and target setting process?

☒ Yes ☐ In progress ☐ No

Please describe which stakeholders (or groups/types of stakeholders) you have identified, consulted, engaged, collaborated or partnered with for the purpose of implementing the Principles and improving your bank's impacts. This should include a high-level overview of how your bank has identified relevant stakeholders, what issues were addressed/results achieved and how they fed into the action planning process.

Response

Hipotekarna Banka materiality assessment involved collaboration with a diverse range of stakeholders, contributing to a comprehensive understanding of relevant issues and subsequent action planning. The engaged categories of stakeholders include: a corporate client, a retail client, 2 shareholders, the Central bank of Montenegro, 2 media outlets, 2 employees (one manager and one covering a client facing role), a banking partner. Each stakeholder category played a crucial role in providing unique perspectives and insights into the challenges and

Links and references

¹² Such as regulators, investors, governments, suppliers, customers and clients, academia, civil society institutions, communities, representatives of indigenous population and non-profit organizations

opportunities associated with implementing the Principles. Through consultations and engagements, we addressed various issues, leading to tangible results and influencing our action planning process. The collaborative efforts with these stakeholders have been instrumental in shaping our strategies for improving impacts and aligning with the Principles.

Additionally, we proactively engaged with 20 corporate clients through the dissemination of an ESG investigation questionnaire. This initiative marks the inaugural step in a progressive project designed to comprehensively integrate ESG information for all Hipotekarna banka clients. The aim is to establish a framework that enables the application of tailored policies based on individual ESG scores. This way, the bank aims to encourage clients to embrace more responsible business behavior, envisioning a positive impact on both corporate practices and the broader sustainability landscape. This forward-looking project underscores our commitment to advancing responsible banking practices and contributing to a more sustainable and ethical business environment.

Principle 5: Governance & Culture



We will implement our commitment to these Principles through effective governance and a culture of responsible banking

5.1 Governance Structure for Implementation of the Principles

Does your bank have a governance system in place that incorporates the PRB?

☒ Yes ☐ In progress ☐ No

Please describe the relevant governance structures, policies and procedures your bank has in place/is planning to put in place to manage significant positive and negative (potential) impacts and support the effective implementation of the Principles. This includes information about

- which committee has responsibility over the sustainability strategy as well as targets approval and monitoring (including information about the highest level of governance the PRB is subjected to),
- details about the chair of the committee and the process and frequency for the board having oversight of PRB implementation (including remedial action in the event of targets or milestones not being achieved or unexpected negative impacts being detected), as well as
- remuneration practices linked to sustainability targets.

Response

Our bank has established a robust framework to address both positive and negative impacts on sustainability, aligning with the Principles. Our Sustainability Committee convenes on a weekly basis to delve into the intricacies of our policies and procedures. Quarterly, our Management Board meets to ensure strategic alignment and effective oversight. Additionally, we maintain open channels with our shareholders through biannual meetings, fostering transparency and collaboration in our sustainability initiatives.

Links and references

5.2 Promoting a culture of responsible banking:

Describe the initiatives and measures of your bank to foster a culture of responsible banking among its employees (e.g., capacity building, e-learning, sustainability trainings for client-facing roles, inclusion in remuneration structures and performance management and leadership communication, amongst others).

Response

We actively cultivate a culture of responsible banking within our workforce through various initiatives. Our employees undergo comprehensive training on ESG principles, ensuring a deep understanding of sustainability. We've established a dedicated email address to encourage open communication and engagement on sustainability matters. Employees are not just recipients but active contributors—our bottom-up approach allows for their proposals on sustainability initiatives to be considered before budgeting. This, coupled with inclusion in remuneration

Links and references

<p>structures and regular leadership communication, reinforces our commitment to fostering a responsible banking ethos throughout the organization.</p>	
<p>5.3 Policies and due diligence processes</p> <p>Does your bank have policies in place that address environmental and social risks within your portfolio?¹³ Please describe.</p> <p>Please describe what due diligence processes your bank has installed to identify and manage environmental and social risks associated with your portfolio. This can include aspects such as identification of significant/salient risks, environmental and social risks mitigation and definition of action plans, monitoring and reporting on risks and any existing grievance mechanism, as well as the governance structures you have in place to oversee these risks.</p>	
<p><i>Response</i></p> <p>Hipotekarna Banka has a comprehensive approach to high-risk placements, encompassing not only those outlined by regulatory mandates but also specific criteria. These include investments that run afoul of internationally recognized workers' rights, involving activities that endanger lives, exploit labor, employ underage workers, and exhibit discriminatory practices contrary to branch and collective labor agreements.</p> <p>Furthermore, high-risk placements extend to investments where expected payments are contingent on the alienation of collateral, as well as engagements in the production and trade of radioactive materials. The Bank is committed to avoiding involvement in activities related to significant quantities of chemicals hazardous to health and the environment. Strict adherence to global prohibitions on the production or trade of pesticides listed on international registers is a key consideration.</p> <p>Illegal activities are unequivocally excluded from the Bank's portfolio of investments. Additionally, any activities that deviate from the EBRD Environmental and Social Risk Categorization list – revised 2014, are carefully assessed and avoided.</p> <p>This meticulous categorization of high-risk placements reflects Hipotekarna Banka's commitment to responsible and ethical banking practices, ensuring the alignment of its portfolio with stringent environmental and social criteria.</p>	<p><i>Links and references</i></p>
<p>Self-assessment summary</p> <p>Does the CEO or other C-suite officers have regular oversight over the implementation of the Principles through the bank's governance system?</p> <p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p>	

¹³ Applicable examples of types of policies are: exclusion policies for certain sectors/activities; zero-deforestation policies; zero-tolerance policies; gender-related policies; social due diligence policies; stakeholder engagement policies; whistle-blower policies etc., or any applicable national guidelines related to social risks.

Does the governance system entail structures to oversee PRB implementation (e.g. incl. impact analysis and target setting, actions to achieve these targets and processes of remedial action in the event targets/milestones are not achieved or unexpected neg. impacts are detected)?

☐ Yes

☐ No

Does your bank have measures in place to promote a culture of sustainability among employees (as described in 5.2)?

☒ Yes

☐ In progress

☐ No

Principle 6: Transparency & Accountability



We will periodically review our individual and collective implementation of these Principles and be transparent about and accountable for our positive and negative impacts and our contribution to society's goals.

6.1 Assurance

Has this publicly disclosed information on your PRB commitments been assured by an independent assurer?

☐ Yes ☐ Partially ☒ No

If applicable, please include the link or description of the assurance statement.

Response

Links and references

6.2 Reporting on other frameworks

Does your bank disclose sustainability information in any of the listed below standards and frameworks?

- ☒ GRI
☐ SASB
☐ CDP
☐ IFRS Sustainability Disclosure Standards (to be published)
☐ TCFD
☐ Other:

Response

Links and references

6.3 Outlook

What are the next steps your bank will undertake in next 12 month-reporting period (particularly on impact analysis¹⁴, target setting¹⁵ and governance structure for implementing the PRB)? Please describe briefly.

Response

Links and references

¹⁴ For example outlining plans for increasing the scope by including areas that have not yet been covered, or planned steps in terms of portfolio composition, context and performance measurement

¹⁵ For example outlining plans for baseline measurement, developing targets for (more) impact areas, setting interim targets, developing action plans etc.

6.4 Challenges

Here is a short section to find out about challenges your bank is possibly facing regarding the implementation of the Principles for Responsible Banking. Your feedback will be helpful to contextualise the collective progress of PRB signatory banks.

What challenges have you prioritized to address when implementing the Principles for Responsible Banking? Please choose what you consider the top three challenges your bank has prioritized to address in the last 12 months (optional question).

If desired, you can elaborate on challenges and how you are tackling these:

- | | |
|---|--|
| <input type="checkbox"/> Embedding PRB oversight into governance | <input checked="" type="checkbox"/> Customer engagement |
| <input type="checkbox"/> Gaining or maintaining momentum in the bank | <input checked="" type="checkbox"/> Stakeholder engagement |
| <input checked="" type="checkbox"/> Getting started: where to start and what to focus on in the beginning | <input checked="" type="checkbox"/> Data availability |
| | <input checked="" type="checkbox"/> Data quality |
| <input type="checkbox"/> Conducting an impact analysis | <input type="checkbox"/> Access to resources |
| <input type="checkbox"/> Assessing negative environmental and social impacts | <input checked="" type="checkbox"/> Reporting |
| <input checked="" type="checkbox"/> Choosing the right performance measurement methodology/ies | <input type="checkbox"/> Assurance |
| | <input type="checkbox"/> Prioritizing actions internally |
| <input type="checkbox"/> Setting targets | |
| <input type="checkbox"/> Other: ... | |

If desired, you can elaborate on challenges and how you are tackling these: