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TERMS OF REFERENCE

IMPLEMENTATION OF ESG NON-FINANCIAL REPORTING

BANK, CROATIA

14 July 2023

1 | Background

The Bank is the one of the largest banks in the Croatian market with a 5.6% market share. The Bank is among the largest banking-service providers in Croatia, allowing the Bank to provide access to financial services for small and medium-sized enterprises and individuals throughout Croatia, including in remote areas. It is EFSE Partner Lending Institution (PLI) since December 2022 with the first investment in Croatia since 2012, promoting sustainability topic and strengthening ESG capacities of the Bank.

Against this background, the EFSE Development Facility will support the implementation of ESG non-financial reporting through the assignment of a Consultant to perform the below scope of work.

2 | Purpose of the assignment

The overall objective of the project is to support the Bank in its operations through implementation of ESG risk management framework and to implement a platform for reporting on sustainability of its MSME clients. The specific objective is to implement a system for non-financial reporting and monitoring, namely an ESG solution for analyzing data, which will be in accordance with European Sustainability Reporting Standards (ESRS) and EU taxonomy. The project is to ensure automated risk management for ESG, proper application of E&S procedures, and increase of return on investment.

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3 | Scope of work

The consultant will engage in the following activities:

Phase 1 - Development and implementation of systems and processes for monitoring and analyzing GHG emissions, including:

- Kick-off meeting to define project activities, business requirements and involved stakeholders.
- Define regulatory and other best practice requirements in the context of greenhouse gas emission reporting in accordance with the regulatory frameworks of the ESRS and the EU taxonomy.
- Develop the methodology and data collection processes required for scope 1, 2 and 3 emissions calculation, and define relevant emission factors (stationery consumption as fuel, energy, electricity, commercial, and industrial consumption, water consumption, waste generation, carbon dioxide emissions/carbon footprint, as well as agriculture, forestry, and other land use sector).
- Set-up, manage and implement the modeling environment and system for calculation and monitoring of defined GHG emissions.

Phase 2 - Development of systems and processes for monitoring, analyzing, and managing data and processes that are following regulatory requirements of ESRS pursuant to the CSRD:

- Kick-off meeting to define project activities, timelines, and relevant stakeholders,
- Define business requirements through a defined catalogue of KPIs related to ESRS and their calculation methodology with reference on defining the data collection process when it comes to sustainability objectives and performance.
- Map data owners in the process which will define the plan of data analysis, usage and protection.
- Development and implementation of quantitative ESRS KPIs and their integration in the reporting process which includes the necessary functional consulting, along with structuring the initial review of qualitative and quantitative key performance indicators to be used in the consolidated report.
- Manage user acceptance testing and provide additional testing and bug fixing during this process.

Phase 3 – Alignment of key performance indicators with the EU Taxonomy regulation:

- Kick-off meeting to define the project plan, activities, timelines and involved stakeholders,
- Define key performance indicators (KPIs) for financial institution reports that are in compliance with EU Taxonomy, such as the following:
 - Aggregated green asset ratio (GAR).
 - Breakdown of assets that fall under GAR according to environmental goals.
 - Breakdown of assets that comprise the GAR based on current balance and inflows.
 - Breakdown of assets that fall under the GAR based on three categories (special financing, supporting activities and transition activities).

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- Aggregated banking book taxonomy alignment ratio (BTAR).
- Breakdown of assets that fall under BTAR according to environmental goals.
- Breakdown of assets that comprise the BTAR based on current balance and inflows.
- Breakdown of assets that fall under the BTAR based on three categories (special financing, supporting activities and transition activities).
- Map data owners in the process, user roles and authorizations.
- Development of necessary qualitative KPIs and their integration in the reporting process, along with defining the frequency of reporting, types of reports and granularity based on regulatory, business and audit requirements.
- Manage user acceptance testing and bug identification during the process.

All three phases above should include the following common activities:

- Post Go Live support upon the completion of the implementation (3 months).
- Define the processes and reporting standards, types and granularity of reports to fit relevant standards, regulations, best practice, user needs and audit requirements.
- Support successful project completion (Go Live).
- Post Go Live support upon the completion of the implementation (3 months).

Deliverables for phases 1-3

- Development and implementation of Bank solutions for sustainability management (SAP SCT),
- A system for monitoring, analysis and managing data and processes with regulatory defined reporting on the defined goals of the bank's sustainability operations.
- Automated process of analysis and reporting (data on energy sources, GHG emissions, etc.).
- Detailed and comprehensive training courses and enablement sessions for key users: 5 days, 40 hours.
- Standard operating procedures.
- Production Runbook.
- Five days of training workshops for up to 10 staff members.
- Training materials such as system operation manual and handover document.

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4 | Results indicators

The EFSE DF and consultant are responsible for the monitoring and evaluation of results achieved in the project, according to the DF Impact Management Framework. The consultant will be in charge of gathering all relevant data through the evaluation forms provided by the EFSE DF.

5 | Implementation and timeline

It is expected that the project will start in September 2023 and last approximately 10 months.