

Communication on Progress 2011- 2012
United Nations Global Compact

Statement of support

Dear readers,

It is my pleasure to present the *Communication on Progress Report* prepared according to the UN Global Compact guidelines, which covers our activities in the field of human and labour rights, environmental protection and the fight against corruption for 2011-2012.

At the start of 2011, we had hoped that the macroeconomic and financial environment in the region and in Croatia would show gradual improvement compared to previous years. As it turned out, 2011 was yet another year of rising challenges for the financial sector and the economy in general. As the outlook in the euro area deteriorated sharply in the second half of 2011, the Croatian economy grew increasingly affected by the weakness in the European Union and the region. The growth of the domestic economy was stagnant, registering zero growth. In this challenging environment, Privredna banka Zagreb and its subsidiaries managed to achieve good business results. I am particularly proud of the fact that we demonstrated strength and endurance as conditions became more difficult in the second half of the year. Together with our strategic partners, Intesa Sanpaolo and the European Bank for Reconstruction and Development, the PBZ Group kept a strong position in the lending and deposit market while focusing on the quality of products and services to our clients. We benefited from the strategic decisions we took in response to the onset of the crisis that had commenced in 2008. We have thus been constantly balancing our earnings mix, by putting emphasis

on core banking operations, while strengthening our capital and securing stable liquidity resources that have helped us reduce our cost of funding. This strategy has proven to be sound and profitable.

The second half of 2011 was marked by increasing concerns and unrest in the financial markets. The European debt crisis that had started in southern Europe escalated and affected all other EU countries. Uncertainty continues in 2012 while the foundation for any full-fledged economic recovery appears weak. With these difficult external developments, we also expect a challenging economic environment in Croatia, currently marked by a stagnant industrial production and suppressed domestic demand.

The focus of the PBZ Group during 2012 has been to stay close to our customers and clients; effectively manage our risks; and maintain strategic momentum by capitalizing on our sound balance sheet while adhering to core banking activities at favorable prices. That is where we will be focusing our energy throughout 2012 and together with the right diversification, I am confident we will once again achieve sound financial results and continue with our strategy of growth and development aimed at creating solid and sustainable values in an economic, financial and ecological sense founded on the confidence of all our partners.



Božo Prka, M.S.

President of the Management Board

Brief description of the nature of our business

PRIVREDNA BANKA ZAGREB (PBZ) was founded in 1966 and has consistently been a leading financial institution in the Croatian market, with an established business base and a highly recognized national brand name. Along with core banking services PBZ offers a diverse range of specialized services including leasing, real estate business, fund management and credit card services. Today PBZ is a member of one of the biggest banking groups in Europe - Intesa Sanpaolo which owns 76.6% of its share capital. With a base of about 1.6 million clients, PBZ is a modern universal financial institution offering a full range of specialised products and services intended for retail and corporate clients. PBZ is the second largest bank and banking Group in Croatia with a market share in various operating segments of up to 20 percent, and in credit card operations exceeds 30 percent.

Our Vision

To be a model company and a center of excellence in creating new values, as well as in providing high quality service in all of our activities to the benefit of our clients, the community, our stakeholders and employees.

Our Mission

Our mission is to make long-term and effective use of all resources at our disposal to continuously improve all aspects of our business activities, including human resources, technology and business processes.

Our Corporate values:

Integrity

We pursue our goals with honesty, fairness and responsibility with the full and true respect of the rules and professional ethics and in the spirit of signed agreements.

Excellence

We set ourselves the goal of continuous improvement, farsightedness, anticipating challenges, cultivating extensive creativity aimed at innovation; moreover we recognize and reward merit.

Transparency

We are committed to making transparency the basis of our activities, advertising and contracts in order to allow all our stakeholders to make independent and informed decisions.

Respect for individuals

It is our intention to combine large-scale operations with deep local roots and to be a bank with a broad vision, without losing sight of individuals.

Equity

We are committed to eliminating all forms of discrimination from our conduct and to respect differences in sex, age, race, religion, political and union persuasions, language or disability.

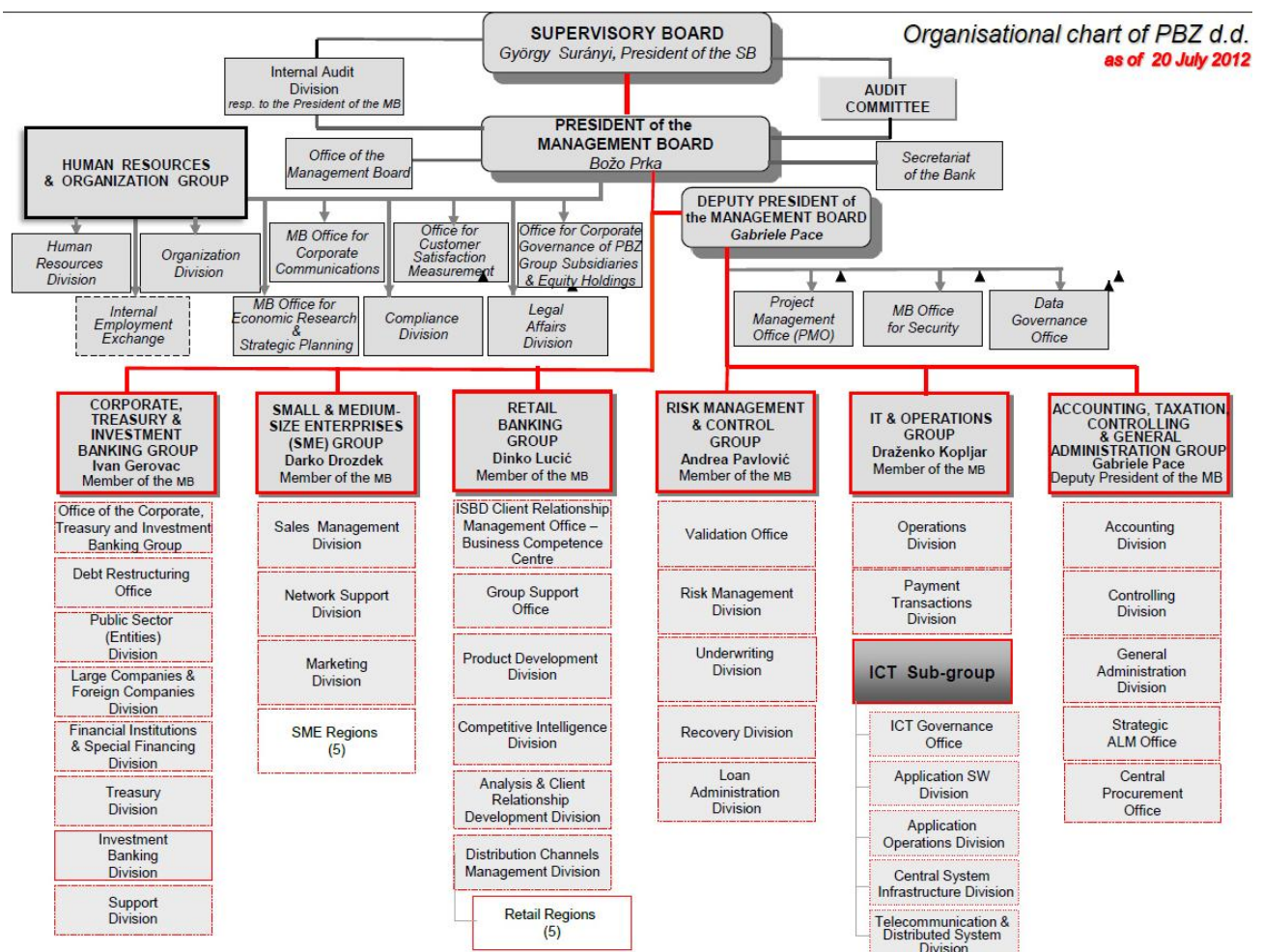
Individual values

The value of each single person is a guide for our modus operandi: we use listening and dialogue as tools for continuously improving our relationships with all our stakeholders.

Responsibility in the use of resources

We aim to use all our resources carefully, promote behavior based on the best use of resources and the avoidance of waste and ostentation, and we give priority to choices that take sustainability into account.

2012 Organizational chart:



More information on: www.pbz.hr

Key impacts, risks and opportunities

2011- a year of failed recovery

In 2011 the environment was extremely unfavourable for the Croatian economy. This was primarily so because our main trading and economic partner, i.e. the economic zone we aspire to join the euro area, has experienced a number of very notable shocks. The (public) debt crisis continued to be a major problem, with a year-round speculations about the disintegration of the euro area (with immense consequences for the whole societies), the Greek bankruptcy, and in short about the negative outlook for that economic and monetary union. According to the available information in early 2012, the worst scenario has been avoided, but the very fact that both the markets and the media were very pessimistic had a negative impact on our economy, and consequently on the operations of banks. Namely, the external climate has had a negative impact on Croatia through the following transmission channels:

1. trade - there has been a decline in demand for our export products (compared with the one that would have existed had the euro area grown at “normal rates”),
2. capital - since the beginning of the crisis, foreign investments and borrowing from abroad have decreased significantly. The Croatian economic growth in the last decade could be largely attributed to external borrowing i.e. direct foreign investments that fell short this time,
3. contagion - due to changes in perception of risk across the region, risk premiums on investments and borrowing in Croatia have increased significantly (by about 300 basis points in 2011), even though the official credit rating has not changed.

This implies a much more expensive refinancing of the total external debt, which, as we remember, has exceeded 100 percent of GDP. Therefore, it is not surprising, in economic terms, that such conditions failed to yield any growth, and that such a business environment was not favourable for the operation of banks. The year was not favourable for the economy and banks not even in terms of politics and reforms. The largest part of the year was spent in anticipation of parliamentary elections. Structural reforms, including the once announced by the previous Government, were either delayed or significantly diluted. In other words, we have not seen the eagerly anticipated trend changes.

Finally, it is important to note that macroeconomic stability was preserved in 2011, and that meant a very low inflation and a stable exchange rate of the kuna against the euro.

It remains for us to hope that next year will see much faster structural reforms and creating the necessary conditions to accelerate economic growth, which is a prerequisite for positive trends not only in banks, but also in the whole economic system and therefore the society as a whole.

In the text to follow, we give an overview of CSR activities in Privredna banka Zagreb in respect to the Global Compact Principles:

Human Rights & Labour

PRINCIPLE 1 BUSINESS SHOULD SUPPORT AND RESPECT THE PROTECTION OF INTERNATIONALLY PROCLAIMED HUMAN RIGHTS

PRINCIPLE 2 BUSINESS SHOULD ENSURE THAT THEY ARE NOT COMPLICIT IN HUMAN RIGHT ABUSES

- PRINCIPLE 3 BUSINESS SHOULD UPHOLD FREEDOM OF ASSOCIATION AND THE EFFECTIVE RECOGNITION OF THE RIGHT TO COLLECTIVE BARGAINING**
- PRINCIPLE 4 BUSINESS SHOULD SUPPORT THE ELIMINATION OF ALL FORMS OF FORCED AND COMPULSORY LABOUR**
- PRINCIPLE 5 BUSINESS SHOULD SUPPORT THE EFFECTIVE ABOLITION OF CHILD LABOUR**
- PRINCIPLE 6 BUSINESS SHOULD SUPPORT THE ELIMINATION OF DISCRIMINATION IN RESPECT OF EMPLOYMENT AND OCCUPATION**

PBZ completely respects all guidelines related to respect for human and labour rights which are regulated by the laws and Constitution of the RoC. Moreover, we continuously improve the quality of our working conditions, education and satisfaction of our employees. All employees are protected from any kind of discrimination by the PBZ Labour Relations Code and all decisions, regarding the employees, are approved by the Labour Council.

We take all the necessary measures to protect our clients and improve our relationships with our suppliers.

Actions taken:

Code of Conduct

The Bank recognizes the principles established by international conventions and has adopted the protection and maintenance of human rights as established by the Universal Declaration of 1948, as values of the Group.

Our Code of Ethics is founded on a common system of values recognized within the Intesa Sanpaolo Group, of which we are a part. It is the framework within which we shape our everyday operations in relation to our stakeholders. In 2008 we undertook a series of activities aimed at promoting and establishing these common values amongst our employees. In 2009 the Code of Ethics was updated on the issue of transparency in remuneration. The model for the implementation and monitoring of the Code of Ethics was adopted in 2010.

Working conditions

According to the principles of the Global Compact, respect for human rights is also seen in all the measures taken to ensure good working conditions and a safe and comfortable working environment for our employees.

The activities we undertake in this context in PBZ are:

- **Selection procedure and employment**

Employment policy is based on objectivity and transparency ensured by use of psychometric methodology consisted of psychological tests (intellectual ability, numerical and verbal reasoning, personality profile) and motivational interview. All candidates go through the same steps during

their evaluation: application, psychological testing, interview, hiring. The selection procedure enables equal opportunities for all candidates and tries to match job requirements with the competencies of candidates to ensure best performance and long-term employees' satisfaction.

All personal data of candidates are protected and confidential. The great accent is put on sending feedbacks to all candidates that have participated in selection procedure.

Starting this year, changes in selection process and internal rotation were made. Retail experience was put as a cornerstone for all new employees which should result in improved internal communications and understanding between different organizational parts. Changes in internal rotation procedure made possible for employees to make a career change more easily.

- **Structure of employees and management bodies**

→ Total employment in the Bank

State as on 31st Dec 2011: **3,548** employees

Structure (31st Dec 2011): **945** men (27%)

2,603 women (73%)

→ Education

Break-down of work force according to level of education and gender (degree, diploma, other):

University Degree: **51,4 %** (Bachelor, Master)

High school: **47,5 %**

Other: **1,1%**

→ Age structure

Break-down of employees by category and age:

Executives: 63 (2%)

Officers: 528 (15%)

Employees: 2.957 (83%)

<=30: 665 (19%)

31-50: 2,055 (58%)

>50: 828 (23%)

According to the age and category, the majority in PBZ are employees between 31 and 50 years old.

* **Award 'Key difference'** - PBZ is the winner of the 2011 award „Key difference“ in the category of gender equality, which aims to identify and promote employees that have implemented diversity into their work environment and have done so in a quality fashion. This is the first time this award has been given in the Republic of Croatia by the Office for Human Rights of the Government of the Republic of Croatia together with the Association for helping and educating victims of mobbing as their partner, and the Institute for Labour Market Development. The entire project was financed by the European Commission. There were 29 applications received, as well as additional 21

applications in the category of gender equality with the Bank as the winner in the mentioned category.

- **Education and development of employees**

PBZ carefully and thoroughly plans the development and training of all employees, investing in creating a pleasant work environment, and endeavors to enable the fulfillment of the professional goals of individuals. Alongside the standard intern program, in cooperation with other companies and external experts, we continuously run courses in foreign languages, information technology, specialist programs, in-house academies and programs aimed at developing managerial and highly technical skills.

In 2011 the total number of participants in these educational programs was 2,805, and a total of 12,139 days of training were held.

In February 2007, the bank established the PBZ Business School that provides continuous managerial training programs for employees with high managerial potential on three levels: young potentials, junior managers, senior managers. In 2011 the third generation graduated a 3 year program. By the end of 2011 PBZ business school graduated 434 participants and currently counts 263 active participants in 2012. By having more than 17% of our employees involved in these programs we have made a significant impact in the sense of company identity.

- **Evaluation of work results and individual results**

Work results and individual results are being evaluated through the annual performance appraisal.

Each employee is being evaluated through Key Performance Indicators achievement. For balancing goals that will ensure professional growth and success with those that ensure responsible business two sets of goals are predefined. One set of goals are financial/quantitative goals that as a target have objective measures and easily evaluated results. However, in the same time and equally weighted, as their key goals for the year managers get a set of sustainability goals that are qualitative, based on criteria that do not have direct financial impact and that ensure responsible business towards all sides included. All employees have also differentiated goals concerning the team role in their fulfillment. Through sharing one of the goals on the team level, team work and striving towards team goals is encouraged. In addition to goals setting and evaluating, 'soft' criteria as level of key competencies development and customer satisfaction index are included in performance evaluation to encourage cooperation and client-oriented approach.

Important part of annual appraisal is setting goals for the next year with mutual (manager and employee) evaluation conversation where it is important for both sides to discuss their viewpoints, expectations and possible problems. Through HR IT system, eHR every employee has insight in his own performance goals, expected date of fulfillment and comprehensive performance evaluations history. In case of dispute regarding performance appraisal, employee has a right to ask for internal arbitration which is mediated by HR. Starting this year, changes in goal setting were made. New system empowers and gives employees responsibility for fulfilling goal's which are more closely related to bank's results.

- **Organizational climate and satisfaction at work**

Employee Climate Survey from 2009. is same for all Intesa Sanpaolo Group and is happening once a year at the end of the year (November/December). All employees are included. Job satisfaction mark for 2011. is 3,14. (1= very dissatisfied to 4 = very satisfied). PBZ employees job satisfaction mark is among 3 highest in ISP Group. Our employees are the most proud to be working in the PBZ and are most glad to tell people that they work in the PBZ if compared with other banks in ISP Group.

- **Trade unions**

The right to participate actively in activities promoted by the Trade Union organization for the protection of the rights of the individual and the collective is guaranteed to all employees.

Trade Union of PBZ Employees has about 1,600 members.

- **Incentives**

PBZ incentive system is based on different types of incentives such as:

- managerial bonus for managers and key employees
- sales incentives for banking products for sales force in Retail branches
- incentives for Risk employees (collection force)
- Retail quarterly ranking model (for employees in branches)
- annual stimulation award in December for all employees except strategic management
- Easter, Holiday and Christmas rewards for all employees except strategic management
- project bonuses for employees included in different Bank projects
- system of promotion according to individual performance and achievement of employee
- other benefits (company cars for managers, lap tops, mobile phones etc.)

PBZ also has a range of non material motivators that offers to its employees (PBZ Standard association for sport activities and recreation, health examination every 2nd year, discounts on product and services of PBZ clients etc.)

In March 2008 PBZ implemented new salary and job nomenclature aimed at: simplification through a reduction in the number of job titles, better transparency in the promotion system, flexibility in career planning & improvement of salary management policy.

In 2011 PBZ has increased the gross salaries for 3% for all non managerial staff according to the CPI (consumer price index – inflation rate) changes and increased level of living costs.

- **Safety at work and health**

Socioeconomic and health care activities are organized within the Human Resources Division and these are: health checks for trainees and persons who will be recruited in the Bank, preventive health care examinations for all employees at the best Croatian medical institutions (every second year), flu vaccinations, providing support to employees who are on longer maternity leave with sick child or who work part time job, giving help to employees and their family members in purchasing medicaments and paying for medical treatment etc. Socioeconomic care include: protection of former and current employees of the Bank and giving scholarships for their children. In this domains are also include psychological crisis intervention (organized for employees and clients who were witnesses of bank robbery) and organize summer holidays in Follonica for children of PBZ group and ISP Card employees.

In line with the Safety at Work Act, a Safety at Work Committee has been founded, and the responsibilities of the committee are regulated by a Book of Rules.

The role of the committee is also to supervise the application of safety at work regulations, informing employees of the situation regarding safety at work, and implementing policies to prevent injuries and occupational diseases. Also, one person is appointed by a special Management Board Decision as a Safety Protection Commissioner.

There is a sport and recreation association in the Bank called PBZ Standard, which offers various sports and recreational programs as well as the educational program Towards Better Health for employees of the PBZ Group (and members of their families).

- **PBZ Standard**

PBZ STANDARD is an association whose registered scope of activity includes organization of recreational and sports-educational activities and whose members can be PBZ Group employees.

Use of organized recreation is also open to the immediate families of employees, meaning their spouses and children. The Association has been active for eight years and currently has about 2,400 members from all PBZ Group Subsidiaries. The fundamental purpose of the Association is to achieve better health and general well-being through the achievement of its objectives, which will positively affect the satisfaction and welfare of employees, directly improving their mental and physical health. This effect may significantly contribute to reducing the rate of sick leaves which are increasingly caused by a sedentary lifestyle and reduced physical activity of employees. With the help of PBZ Standard, employees are encouraged to engage in more physical exercise and sports activities, i.e. to lead a more active lifestyle which also increases their quality of life.

PBZ STANDARD strives to provide recreation through as many sports as possible so as to stimulate Bank employees to socialize with each other and jointly contribute to the achievement of set goals, as well as to strengthen their team spirit and make them aware of the fact that it is easier to achieve such goals with joint forces. That is why PBZ Standard expands its recreation offer throughout Croatia, ensuring that employees in as many as possible cities have possibility for recreation.

PBZ STANDARD organizes activities under the TOWARDS BETTER HEALTH initiative. Through that initiative the Association organizes lectures and workshops on prevention of the most common diseases of modern times and introduces new special recreational possibilities like medical gymnastics. One of PBZ Standard's activity is also arranging a large number of discounts with the PBZ Group clients that offer discounts on their products and services to PBZ Group employees.

About all its activities and news the Association is regularly informing PBZ Group employees through internal house organ and intranet. All employees are encouraged to send their proposals for better and tailored Association activity.

- **Internal communications**

The internal communications system is very well developed through various channels: Intranet, e-mail, the internal magazine "Moja Banka" and the monthly internal newsletter PBZXpress (regular published every 15th in month, 12 times in year, specificity is that readers manage content - employees correspondents). Interaction with readers/employees trough Christmas contest for children of employees, Christmas charity campaign to collect toys for orphans, Prize Crossword etc.

In 2011, we have introduced the new Intranet portal – enhanced with new functionalities and design.

Also, as part of the Intesa Sanpaolo Group, we are connected with colleagues from other banks through internal newsletters (What's up, News from the group), and internal communication channels (Sharing Forum, etc...).They contain all relevant information and interesting details from the Banks within the Group and in this way contribute to a feeling of belonging to this large international and multinational group.

Also, all employees are invited to contribute to the content of all the internal communication channels.

Security and safety

We believe that protecting the security of our customers, as well as their assets and confidential information, is not only a primary duty but also the basis of the trusting relationship that we wish to maintain with them and we:

- undertake to protect persons, their assets and valuables, as well as their fund of information and internal organizational processes in such a way as to provide a service that completely meets the requisites of reliability, continuity and confidentiality
- guarantee constant compliance with the law
- observe criteria of absolute transparency in informing our customers about their rights to privacy and the way in which we handle their personal information.

The Bank implements physical and technical security, fire safety and other measures that ensure the protection of our clients and employees, their assets and valuables. The Bank also implements informational security measures and protocols that provide confidentiality to our clients. All security and safety measures are completely compliant to the legal regulations, and some even meet higher security standards than those required by law. Since 2008, PBZ has a certificate for information security ISO/IEC 27001:2005 for the system of authentication for the PBZ365@NET users.

Suppliers' chain

We guarantee equal opportunity in the selection of suppliers, taking into account their compatibility with the size and needs of our company. We undertake to make sure that the contracts stipulated with our suppliers are based on fairness, especially regarding terms of payment and administrative compliance. In order to ensure transparency and fairness in the process of selecting suppliers, in 2008 we implemented an E-procurement system. As a further step, in 2009, we have started to make efforts to involve the ecological criteria for selection of suppliers.

Future goals:

In the future period we will continue to promote company unity and increase transparency in employee relations through internal communication channels. Also, our goal is to adopt policies and offer conditions that will result in a first-rate working environment for all employees.

In relation to our suppliers, we will ensure that the process of supplier selection is transparent and fair and establish a cooperative relationship based on dialogue and mutual trust.

Environment

PRINCIPLE 7	BUSINESS SHOULD SUPPORT A PRECAUTIONARY APPROACH TO ENVIRONMENTAL CHALLENGES
PRINCIPLE 8	BUSINESS SHOULD UNDERTAKE INITIATIVES TO PROMOTE GREATER ENVIRONMENTAL RESPONSIBILITY
PRINCIPLE 9	BUSINESS SHOULD ENCOURAGE THE DEVELOPMENT AND DIFFUSION OF ENVIRONMENTALLY FRIENDLY TECHNOLOGIES

We pursue the conscientious consumption of the resources necessary for carrying out our business and actively improving the energy efficiency of our activities.

Actions taken:

In 2011 we adopted the Environmental Policy with a view to clearly defining and emphasising our points on this exceptionally important and ever-present issue and in order to set up an official framework for further activities within PBZ Group. We have continuously been keeping track of our energy consumption and with various activities aim to reduce the consumption, while raising awareness of our employees on the importance of caring for the environment. On a regular basis we have been sending to our employees personalised emails so as to remind them about mandatory shutting down of their PCs after office hours, turning off their-conditioning and heating over the weekend, separating used paper from other waste for recycling purposes.

We have introduced a special column in PBZ Express bulletin called Zeleni kutak (Green Corner) for employees, where we deal with the environmental topics and aim to raise awareness about this problem.

Double sided copying of documents, which we introduced as our standard setting, reusable envelopes and other activities in that direction have resulted in a substantial decrease in the consumption of paper, which is clearly shown in the below table:

PAPER CONSUMPTION

2008	579,854 kg
2009	518,849 kg
2010	503,525 kg
2011	445,471 kg

In 2011 we also introduced recycled envelopes and have been trying to replace the regular envelopes whenever possible.

A pilot project was launched for the purpose of reducing the emission of CO₂. With that in mind we procured an electric scooter for our Business Centre Dubrovnik in order to minimize the use of cars for short-distance trips and consequently the emission of CO₂. We plan to acquire a couple of more for the needs of our coastal business centres.

Future goals:

We will continue to promote responsible use of environmental resources, especially efficient use of energy and paper and proper waste management. Also, we will increase employee training and information on environmental issues to raise awareness.

Anti-Corruption

PRINCIPLE 10 BUSINESS SHOULD WORK AGAINST CORRUPTION IN ALL ITS FORMS, INCLUDING EXTORTION AND BRIBERY

PBZ Group does not tolerate any form of corruption or bribery.

Actions taken:

Corporate Governance

PBZ systematically monitors best practice principles in the field of corporate governance, which are incorporated into PBZ's operations in accordance with the principles of good banking practice. The principles of corporate governance are implemented through the principle of publicly accessible operations, the powers of the Management Board and the Supervisory Board, internal control systems and co-operation between the Management Board and the Supervisory Board.

An integral part of the Bank's internal control systems is the compliance function. Along with risk control functions and internal audits, it is a system of processes established with the goal of insuring that the Bank operates pursuant to all relevant legal and regulatory requirements, along with guidelines of the parent bank, codes and adopted professional practices. The compliance function guarantees the existence of rules, procedures and operating practices which efficiently prevent the breach or violation of applicable regulations in the area of all the Bank's business activities, including the areas of financial mediation, anti-money laundering, usury, transparency, embargo, payment systems, safety and health at work, personal data protection, as well as regulations in the area of environmental protection.

In this respect, PBZ has appointed a Compliance Officer who investigates complaints or anonymous reports which may be sent by any employee on significant irregularities, illegal and/or unethical conduct. The Compliance Officer will insure, on the basis of such reports and pursuant to the internal regulations of the Bank, an independent investigation and adequate activities to follow-up such an investigation. Concerning these investigations, employees who report irregularities, illegal and/or unethical conduct in good faith, are protected from disciplinary measures or any other procedure or any other activity which might threaten the legitimate rights of such persons.

Policies, Systems and Commitments that support anti-corruption principle include:

- ISP Group's Code of Ethics
- ISP Group's Code of Conduct
- PBZ Code of Ethics
- PBZ Code of Conduct
- Croatian Chamber of Commerce Business Code of Ethics
- Rulebook on Measures and Actions for the Prevention of Money Laundering and Terrorism Financing with its constituent part – Indicators for suspicious transactions
- Guidelines for the Fight against Money Laundering and Terrorist Financing and for the Handling of Embargoes
- Know Your Customer Policy
- Sanction Management Rules.

Anti –Money Laundering, Combating Terrorism and Embargo

The Republic of Croatia, with the aim of preserving or re-establishing international peace and security, has adopted restrictive measures and embargos imposed by the United Nations Security Council Resolution, resulting in the partial or full suspension or weakening of economic relations with one or more third world countries.

When rendering decisions on implementing restrictive measures and embargos the Republic of Croatia also acknowledged the common position or joint action of the member countries of the European Union.

In addition, PBZ, as a member of the ISP S.p.A. Group, accepts the regulations on embargo stipulated by the Office of Foreign Assets Control (OFAC), in charge of management and implementation of economic and trade sanctions which the United States of America impose on foreign countries, terrorists, drug traffickers and all entities suspected of being involved in trade, manufacture or use of weapons of mass destruction.

The repression of corruption in all its forms is an integral part of AML measures and activities conducted by PBZ. In that way the "Know Your Customer" standard, regulated through Know Your Customer Policy, implies learning more about the customers' habits, their activities, income, business environment and reasons for choosing our Bank as their commercial bank, including all other details that help us to have an overall picture of our prospective and existing customers, to minimize potential risks and to protect the good name and reputation of our Bank.

Accordingly to the valid "Anti Money Laundering and Terrorist Financing Law" PBZ adopted *the Rulebook on Measures and Actions for the Prevention of Money Laundering and Terrorism Financing* which defines measures, actions and regulations to fight money laundering and terrorism financing, especially: money laundering and terrorism financing - possible abuse risk assessment, client due-diligence, appointing an authorized person and deputies, regular professional training and bank employee education, in-depth analysis measures conducted during business relation set up or transactions related according to the bank's estimation, to publicly exposed political persons (PEP). These measures include a PEP statement on the sources of funds or assets that are the subject of business relations and transactions.

In line with the previously defined goals, PBZ has meanwhile developed and improved the procedures by drafting the KYC Policy and the Guidelines for the Fight against Money Laundering and Terrorist Financing and for the Handling of Embargoes. Its support is being continuously developing.

Training

The main purpose of PBZ's training programs/activities is to introduce the basic values and principles which all employees should adhere to when performing their duties and professional tasks and obligations in order to become and remain in *compliance*.

In the period 2011-1H2012, 2456 Bank's front office employees have been trained (classroom trainings including case-studies) by the Compliance Division regarding anti money laundering, combating terrorism and embargo issues, ethical principles, dealing with conflict of interest and personal transactions in general (including personal transactions in financial instruments). Training was organized through 4 regional branches (Zagreb, Split, Osijek, Rijeka) for all front-office staff. E-learning course and test on AML topic was made available to the front-office employees as well.

In this view PBZ uses various channels of internal communication:

- CD-ROM – Anti Money Laundering Combating Terrorism Financing – distributed to all PBZ employees
- Compliance Guide – distributed to all PBZ employees
- Rulebook on Measures and Actions for the Prevention of Money Laundering and Terrorism Financing - distributed to all PBZ employees
- Video-presentation
- PBZ newsletter.

These documents are also available to every employee on the Intranet.

Capital Markets

In the area of capital markets PBZ assumes dual role as issuer of financial instruments (PBZ shares are listed on Zagreb Stock Exchange) and provider of investment and ancillary services. Therefore, PBZ has adopted direct measures and procedures with the clear aim of preventing or interrupting any form of corruption or conduct that may be interpreted as being on the level of less than professional involving both of the previously mentioned roles.

In that sense, and in addition to the previously mentioned tools, PBZ has three main principles around which its anti-corruption efforts (in the area of the capital market) revolve:

- prevention of conflict of interest
- management of the price sensitive information
- supervision of the personal transactions of relevant employees.

Conflict of Interest Policy prescribes the scope and measures intended to:

- identify potential and/or existing conflicts of interest that may arise when providing investment and auxiliary services and performing investment activities (with a comprehensive list of situations which are presumed to imply potential conflict of interest),
- define precautionary measures and procedures for the purpose of preventing or eliminating conflicts of interest,
- define the process of resolving conflicts of interest in situations where precautionary measures are inapplicable,
- set a high code of conduct standards and transparency in conducting business, expected to be observed by relevant persons,
- have all Bank employees and relevant persons acquainted with the rules of procedure pertaining to the management of conflicts of interest in the field of provision of investment services and performance of investment activities.

This Policy is designed as a supplement to the PBZ Code of Ethics, Code of Conduct and the Bank's other regulations and procedures, with particular focus on the capital markets and investment services issues.

The Policy for Personal Transactions with Financial Instruments sets standards for professional conduct and:

- defines and manages the price sensitive information and introduction of required measures securing that each person with access to the information fulfils all the prescribed obligations and is aware of sanctions prescribed for cases of misuse or unauthorized dissemination of such information,
- designs measures and tools for management of personal transactions by relevant persons, i.e. the obligation to undertake measures in order to prevent the execution of prohibited personal transactions by relevant persons, inform the Bank in good time of all personal transactions by relevant persons and maintain records of personal transactions of relevant persons,
- informs relevant persons and insiders and introduces them to their rights and obligations with regard to the price sensitive information and personal transactions in connection with using investment services and ancillary activities in terms of the Capital Market Act.

Specifically, any relevant person intending to trade in financial instruments issued by PBZ should obtain the consent of the Compliance Division before giving an order for the purchase/sale of a financial instrument. Also, PBZ regulates comprehensively personal transactions of employees who manage relations with clients of the Bank/issuers of listed financial instruments with financial instruments pertaining to those clients as issuers.

These internal acts demonstrate PBZ's commitment to transparent conduct in providing investment services and activities and ancillary services pursuant to the Capital Market Act and relevant subordinate regulations, in order to ensure the best possible management of legal and reputation risks in relation to the price sensitive information.

Note: All activities performed within PBZ are implemented throughout PBZ Group.

Membership

PBZ is member of:

- the Croatian Banking Association
- Bank Association at the Croatian Chamber of Commerce
- Banking Association for Central and Eastern Europe

Future goals:

Since the PBZ Group does not tolerate any form of corruption or bribery or any form of improper conduct, it continuously strives to pass on its corporate values to all employees (training, e-learning etc) and to efficiently implement measures of control in relation to money laundering and terrorism financing. Further and continuous development and IT system support and sustained educational efforts are needed to improve and facilitate the suppression of money laundering and terrorism financing.

Beside the Global Compact web site, this report will be available on www.pbz.hr.

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Zagreb 2012