

Communication on Progress 2015  
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 2014-2015.

From the banking industry point of view, in spite of the unfavorable real sector environment, the banks' operations proved to be resilient and sound. For PBZ, the consolidated net profits for 2014 amounted to HRK 914 million, representing an increase of 11 percent compared to 2013. This astonishing result was achieved by perpetual and perennial execution of our conservative and systematic approach towards all risks arising from the business transactions we are involved in. So, despite the influence of negative macroeconomic elements namely incarnating in the banking industry as the increase of non-performing portfolio we managed not only to avoid an increase in loan provisions charge in 2014 but rather to mark a notable decline compared to 2013. In spite of prevailing gloomy macroeconomic conditions, Privredna banka Zagreb dd and its subsidiaries, supported by our strategic partners Intesa Sanpaolo and European Bank for Reconstruction and Development, managed to outperform our peers in many aspects.

We were able to accomplish such achievement by executing our predetermined business strategy thus keeping a steady course, also reflecting the resilience of our earnings power in challenging conditions and the strength of customer relations that we have been continuously building. It is also important to stress that the validity of our approach towards the measurement of the risk has been tested and proven sound by detailed Asset Quality Review exercise performed by joint home host supervisory team under the European Central Bank's Comprehensive Assessment and Stress Test which encompassed most significant European banking groups.

As we are well aware that the excellence in customer orientation can only be accomplished if one stands by its customers during troubled times, we have embedded such an approach in all our business processes. Therefore, we continue developing comprehensive initiatives aimed at helping our customers during crises.

Within this framework, we have defined our plans focusing on strengthening our position as fully client oriented providers of financial services. Responsible growth will continue to be our main strategic choice. Boosting trust and improving the relationship with all parts of society that interact with the Bank represents the condition of a continuous improvement of our business. With our actions we aim to meet the needs and rise up to the expectations of all participants, from caring for the needs of our customers, employees, developing the local communities in which we are a part of, caring for the environment to creating new value for shareholders.



Božo Prka  
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 97,47% 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. Privredna banka Zagreb currently employs some 3,662 employees and is the second largest bank and banking Group in Croatia with the market share in various operating segments up to 20 percent, and in credit card operations even exceeding 30 percent.

The Bank also continues to hold a significant comparative advantage over its competitors with the most extensive branch network with around 200 branch offices throughout 5 regions and about 650 ATMs covering the entire territory of Croatia.

PBZ is one of the leading Croatian banks when it comes to corporate banking offering a wide range of products and services both locally and internationally.

The Bank has a significant role in financing small and medium-sized businesses, and it has been participating for years in various programs supporting the development of Croatian exporters.

PBZ is the first bank in the region which has successfully been certified (and recertified) for the process of authentication of the internet banking system PBZ365@NET according to the ISO 27001 standard. Out of the total number of all transactions in the Group, 80% were carried out electronically through internet banking, ATMs, EFT POS devices and mobile phones. Also, PBZ launched the very first internet trading platform in the country developed for retail and corporate clients interested in the Croatian stock market. The number of Internet banking users is constantly on the rise and today it has reached over 380,000 active users. PBZ continued to prove itself as a leader in innovative products and services with its introduction of the full service mobile tele banking mPBZ to complement the wide range of PBZ365 e-banking services already being used quite extensively.

PBZ is also the largest Fixed Income and Foreign Exchange dealer in Croatia as well as a leading player on the domestic syndicated loan market. The Bank today is the leading underwriter and arranger of debt securities in Croatia PBZ is constantly focused on the enhancement of its present services and development of new and innovative products.

### **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.

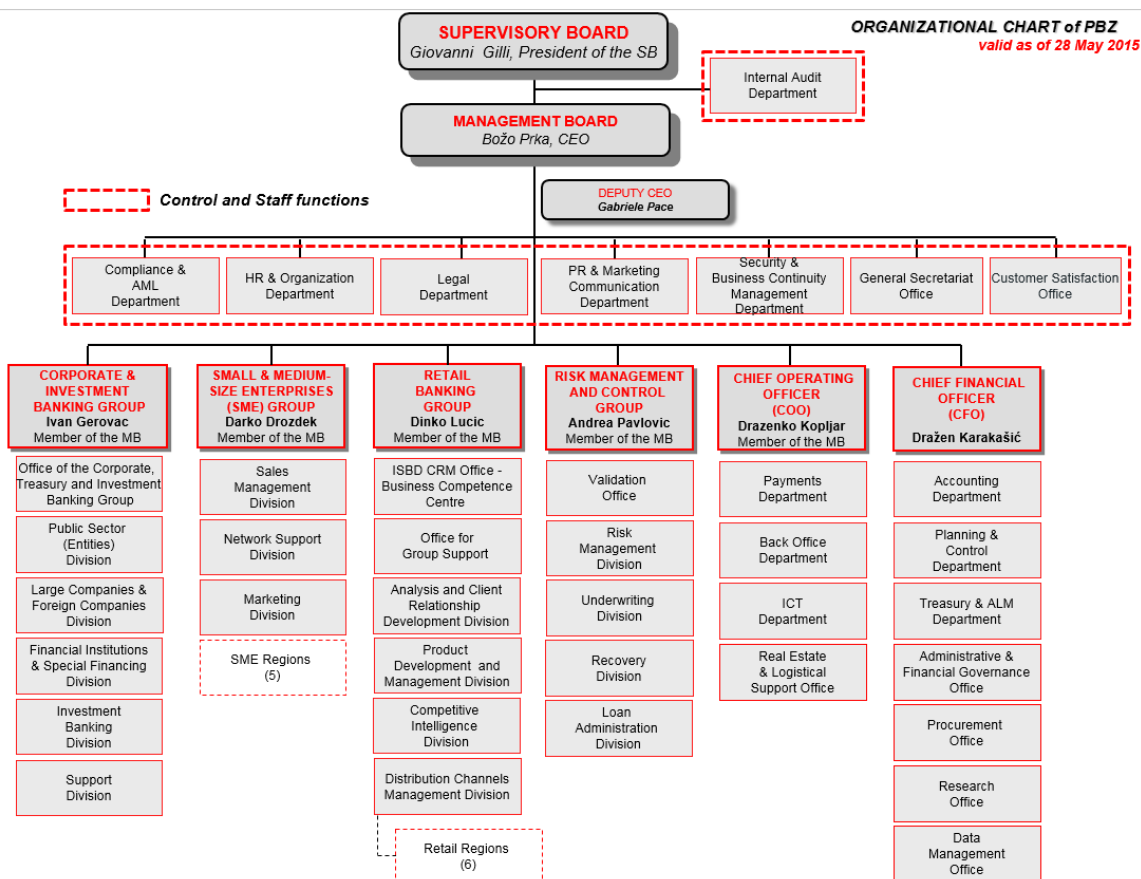
### Individual values

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.

## 2015 Organizational chart:



More information on: [www.pbz.hr](http://www.pbz.hr)

## Key impacts, risks and opportunities

After six long years of negative economic growth, 2014 ended up counting a few more positive numbers than any other year before. Based on these first green shoots 2015 is seen as the start of an economic recovery, muted at the beginning but more promising at the end.

Personal consumption declines apparently touched bottom and supported by changes in personal income tax, it is expected to stagnate or even marginally rise in 2015, even though more dynamic revival is limited by high unemployment. The positive contribution to gross domestic product developments is set to come exclusively from foreign demand. After strong performance in 2014, partly reflecting large one-offs related to EU accession, exports of goods and services are set to increase at a more moderate but stable rate owing to expected EU recovery.

2014 turned out to be the most challenging year for banks since the beginning of the crisis. The trends in the banking industry were a true reflection of the prevailing business and consumer pessimism, which caused the shift of the private sector towards aversion to debt and increased inclination to savings. The proportion of non-performing loans soared by over 1.2 pp, but still did not reach its peak.

We should witness this in 2015 due to continued deleveraging of the households, on-going corporate sector restructuring and the absence of investment activity.

In such a climate, the banks have strongly concentrated on risk management and cost control, which will surely remain strongly in focus in years to follow.

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

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## Human Rights & Labour

<b>PRINCIPLE 1</b>	<b>BUSINESS SHOULD SUPPORT AND RESPECT THE PROTECTION OF INTERNATIONALLY PROCLAIMED HUMAN RIGHTS</b>
<b>PRINCIPLE 2</b>	<b>BUSINESS SHOULD ENSURE THAT THEY ARE NOT COMPLICIT IN HUMAN RIGHT ABUSES</b>
<b>PRINCIPLE 3</b>	<b>BUSINESS SHOULD UPHOLD FREEDOM OF ASSOCIATION AND THE EFFECTIVE RECOGNITION OF THE RIGHT TO COLLECTIVE BARGAINING</b>
<b>PRINCIPLE 4</b>	<b>BUSINESS SHOULD SUPPORT THE ELIMINATION OF ALL FORMS OF FORCED AND COMPULSORY LABOUR</b>
<b>PRINCIPLE 5</b>	<b>BUSINESS SHOULD SUPPORT THE EFFECTIVE ABOLITION OF CHILD LABOUR</b>

**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 Conduct, adopted in May 2010, was updated in September 2013 in order to additionally describe measures aimed at reinforcement of preventing the conflict of interest situations, even if potential ones.

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. Latest update of the Code of Ethics was adopted in May 2012, further promoting values and principles at ISP Group level.

**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.

• **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, and personality profile) and motivational interview. All candidates go through the same steps during their evaluation: application, psychological testing, interview, hiring. The experts in psychological evaluation are in charge for professional, trait evaluation and additional mutual evaluation of HR experts and competent manager ensures objective and adequate evaluation of candidates' expertise. 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 from 2013, 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 2014:	<b>3,662</b> employees
Structure (31st Dec 2014):	<b>957</b> men (26%)
	<b>2,705</b> women (74%)

→ Education

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

University Degree:	<b>54,9 %</b> (Bachelor, Master)
High school:	<b>44,3 %</b>
Other:	<b>0,8 %</b>

→ Age structure

Executives:	63 (2%)
Officers:	553 (15%)
Employees:	3,034 (83%)
<=30:	405 (11%)
31-50:	2,288 (62%)
>50:	969 (27%)

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

- **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 2014 the total number of participants in these educational programs was 2.820 and a total of 13.797 days of training. It brings us to the respective average number of 3.8 training days per employee.

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 2014 the sixth generation graduated the 3 year program. In 2014 PBZ business school counted 228 active participants. By having more than 22 % of our employees involved in these programs we have made a significant impact in the sense of company identity.

During 2014 PBZ intensified e-learning approach to training by converting few basic programs into LMS platform. Using e-courses we enabled them for all of our employees regardless their (dis)location while making our high quality programs also timely, flexible and cost effective. In observed period, 230 participants approached e-trainings and produced over 4.000 training hours.

- **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. New system empowers and gives employees responsibility for fulfilling goal's which are more closely related to bank's results. From 2013, a novelty in evaluation of work results for sales force was implemented. Through it, the additional focus is put on balancing sales results and responsible, long-term business activities on all sales levels - from strategic to individual decisions.

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.

- **Organizational climate and satisfaction at work**

The ISBD Climate Survey 2014 was conducted in order to collect relevant information about the organizational climate in the PBZ Group. In examining of organizational climate for 2014 have been participated altogether 1911 (48%) employees of the PBZ Group, which is an increase compared with the research from 2013 (41.3%) and 2012 (36.6%). The survey results offer valuable and useful information about PBZ Group and its functioning within the ISP Group. Our employees report the highest level of job satisfaction within the ISP Group, and this trend has been continued from previous years.

The responses indicate that total of 84% of our employees are proud to can say that they work in the bank, and they believe that divides corporate values and culture of the Bank.

Job satisfaction in the PBZ Group expressed 81% of employees, who are mostly satisfied with the following aspects of employment: relationships with colleagues, confidence of clients (internal / external), job security and the balance of work and private life. Employees their jobs primarily assessed as a business that is diversified, important and interesting, and at least a job that is stress-free and easy.

The survey offered important insight in the problems our employees face and what they see as troublesome for our clients. In 2014, employees have been positively evaluated all aspects of the PBZ Group in relation with the customers. The most positive have been estimated reliability and hospitality, but our employees feel that our client satisfaction is mostly reduced due to bureaucratic processes and hard to understand procedures.

Direct superior were rated very positively, and are perceived by employees as a collaborative and cooperative.



Regarding the ISP Group, international dimension of the Intesa Sanpaolo Group is estimated largely as an added value for our group (22%), while 45% of employees have expressed that there is not enough information for expressing opinions. Results of PBZ group are similar to the results of the entire ISP group where 40% of respondents estimated that there is not enough information about the ISP group.

Thanks to the implementation of a series of socially responsible practices, PBZ is one of the first Croatian companies that have obtained the basic 'Mamforce Company' Standard. The same is awarded to organizations that implement 'family friendly' policies which means that were successful in achieving a work-life balance, i.e. a successful organization of work and working environment, especially for working mothers who, in this way, are enabled to realize both a smooth professional career development and responsible parenting.

In 2014. PBZ confirmed the status of MAMFORCE Company and received MAMFORCE COMPANY certificate for improved practices in the field of family responsibilities and gender equality in relation to the situation of a year ago.

- **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.

- **Incentives**

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

- managerial bonus for managers and key employees
- network incentive system (for Retail, SME, Corporate and Recovery Division employees) that came into the force on 1<sup>st</sup> Jan 2013\*
- Easter, Holiday and Christmas rewards for all employees
- system of promotion according to individual performance and achievement of each employee
- other benefits (company cars for managers, lap tops, mobile phones etc.)

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

\* In accordance with the initiative from the mother company Intesa Sanpaolo, International Subsidiary Bank Division (ISBD) and with regards to the need to establish the unified methodology of remuneration at the level of the entire ISP Group for sales network staff, Human resources Division in co-operation with relevant business Groups at the end of 2012 implemented the new system of stimulating sales, that includes sales jobs in the following business Groups/organisational parts:

Retail Group – branch offices and outlets

Small and Medium Enterprises Group – SME business centres

Corporate, Treasury & Investment Banking Group – sales segment

Recovery Division – employees in recovery activities

The new system is based on stimulating sales activities, transparent and objective motivation of sales staff, within the budget framework, while maintaining an adequate risk control.

- **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.

Besides the above, in this domain periodically we conducting education of employees from the Bank, named "How to manage personal finances" providing help with making personal financial decisions, to determine their short-and long-term goals, and alignment with the capabilities and preferences with regard to income and expenditure in order to change some of their habits and behavior and achieve better and more secure financial future. Education included all employees who wanted to learn the technique of managing personal finances.

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 - Association for sport recreation and health improvement 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 ten years, and in September 2015 PBZ Standard has about 2,000 members from all PBZ Group Subsidiaries.

The fundamental purpose of the Association is to achieve better health and general well-being through the realization 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 have possibility for recreation in as many cities as possible.

PBZ STANDARD organizes activities under the Towards Better Health initiative, through financing medical gymnastic recreation in fitness centers. Also, from 2013 greater focus is put on cycling and encouraging employees for greater use of bicycles as a mean of transport. The initiative named 'Biking to Work' brings together cyclists employees in order to adopt the working environment needs of cyclists and promoting cycling as a desirable lifestyle. Steps toward improvement of cycling infrastructure are already done in terms of organizing changing rooms with lockers for the employees. Also, some special prices for cycling equipment are agreed. In 2015 Bank has participated in campaign of the Union of cyclists that has been held from 1<sup>st</sup> to 28<sup>th</sup> June 2015 named 'Biking to Work', on which Bank occupied third place in the category '500+' (teams/companies with more than 500 members). This campaign attended 136 employees, of which 9 new cyclists.

One of PBZ Standard's activities is also arranging a large number of discounts cooperating with the PBZ Group clients who offer discounts on their products and services to all PBZ Group employees.

The Association is regularly informing PBZ Group employees about all its activities and news through internal house newspaper and intranet.

#### • **Internal communications**

The internal communications system is very well developed through various channels: Intranet, e-mail, the internal magazine "Moja Banka" (published in the on-line edition) and the monthly internal newspaper PBZXpress (regular published every 15th in month, 12 times in year, specificity is that readers manage content - employees' correspondents).

The 100th jubilee edition of PBZXpress has seen the light of day in January 2014. On the occasion of this anniversary, here we present the impressive figures collected in the course of eight years. About 2,751 articles have been written by 527 employees. 100 employees have been interviewed for the "Ten questions" section, whereas in the section on the best branches as many as 96 branches have been presented. Besides presenting projects, sponsorships and internal communication campaigns, through its internal house organ PBZ organizes and promotes several initiatives aimed at employees and their children. In the scope of humanitarian actions, for example, since 2011 about 690 individual wishes have been fulfilled and more than 400 gift packages have been donated to fifteen children's homes and social care institutions thanks to the selfless engagement of colleagues.

Also, as part of the Intesa Sanpaolo Group, we are connected with colleagues from other banks through internal newsletters (Wats 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 protection, safety at work 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 2009, PBZ has a certificate for information security ISO/IEC 27001 for the system of authentication for the PBZ365@NET, mPBZ and PBZmToken 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 2014 we have adopted new procurement rules according to ISP Group standards regarding the all aspects of procurement process including transparency, environmental and social responsibility.

In 2015 we have implemented so called Supplier Portal, e.g. publicly available pages where any interested company can apply as a potential PBZ Group and ISP Group supplier. Additionally, through the same tool we are now managing our tenders what is additional value/insurance of the process fairness and transparency

#### **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. Also, we will increase intensity of dialog with ISP Group subsidiaries in the procurement area with the goal of recognizing and adopting best procurement practices regarding responsible social and environment friendly management of procurement.

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#### **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.

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
2012	444,560 kg
2013	432,085 kg
2014	367,837 kg

Also, since June 01 2012, all the envelopes used in the Bank are made of recycled paper as well as A4 paper for automatic letter folding which resulted in a substantial increase in recycled paper usage. We have introduced the additional recycled paper confectionary and some hygienic products (recycled paper towels and toilet paper).

In 2014, in total paper consumption PBZ used only about 16% of paper that is not recycled, mostly for promotional material which need to be printed on special Art print paper.

## Recycled paper usage

2011	6,505 kg
2012	105,699 kg
2013	140,103 kg
2014	316,430 kg

Installing energy efficient light bulbs and electronic ballast in order to cut energy consumption for lighting is a common practice. Upon replacement of worn-out equipment, attention is paid to having such equipment replaced with one of optimal characteristics (classic light bulbs are replaced with energy efficient bulbs, air-conditioning devices with inverter technology and of higher energy efficiency degree are installed, the material and elements of good insulation properties are used in construction, LED lighting is used in advertising signs and also, heat recovery ventilation is installed.

As a result of our efforts in that direction since January 2013 we are official Partner in **GreenLight Program**.

## Electricity CONSUMPTION (KWH 000)



2009	18,617
2010	18,725
2011	17,529
2012	16,892
2013	16,966
2014	16,114

We encourage coming to work by bicycle. Earlier this year we opened locker / dressing rooms with showers for cyclists and we are currently in the process of construction of additional parking spaces. Cyclists have their own column on the Bank's intranet, and some new information can be read in almost every issue of internal bulletin.

In order to reduce the CO2 emissions, it is decided to replace the Bank's cars in the "car pool" with greener cars that meet Euro 5 norm.

**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.

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**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. Suitability assessment of members of Management and Supervisory Board, as well as Key Function Holders is conducted on annual basis.

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
- Sanction Management Rules.

Moreover, Whistleblowing procedures have been enacted, as a part of this efforts, accomplishing alignment with new Credit Institutions Act.

### 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, as a member state of the European Union since 1<sup>st</sup> July 2013, applies 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 which is incorporated in the *Rulebook on Measures and Actions for the Prevention of Money Laundering and Terrorism Financing* 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.

In the aim to perform needed sanction checks of payment transactions as well as to perform customer due diligence the Bank implemented certain tools and regularly improves its applications and business procedures to be in line with new demands imposed by relevant bodies..

The Bank uses SW for automated processing of majority of AML processes so Customer Due Diligence – CDD is applied for onboarding clients as well as ODD for existing clients. The Bank detects through automated process also unusual and suspicious transactions and customers and checks all foreign currency payments in line with obligations proscribed in embargo measures defined by UN, EU and OFAC.

Additionally to describe above, the Bank still uses some *in house* solutions as part of "four eye principal". The Bank periodically does re-assessment of all clients data base and is specially focused on high risk categories of customers but also on medium risk categories which are subjected to verification process during existence of business relationship between those client categories and the Bank.

The Bank performs each year self-evaluation of ML Risk Exposure in which is included quality of internal control system. The overall risk is evaluated based on some subjective criteria but also 17 indicators are part of assessment done on objective criteria based on concrete data.

## Training

The Bank is dedicated to perform each year regular training programs/activities and main aim of those trainings is to introduce the basic values and principles of AML and FT to all employees.

In the 2014 further number of employees were educated throughout:

- Classroom training – **1500** Bank's front office employees attended the classroom education in **56** educations (classroom trainings including case-studies). Education was organized 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), non-armament policy, off shore policy. Training was organized through 6 retail (Zagreb, Central Croatia, Dalmatia, Istria-Rijeka-Lika, Slavonia and Northern Croatia) and 5 SME regions (Zagreb, Central Croatia, Dalmatia, Istria-Rijeka-Lika and Slavonia) for front-office staff (Large Corporate staff were included).
- separate education were provided for as staff of Treasury, Internal Audit, Payment Systems, Private Banking and Investment Banking Division (**63** employees in **4** educations).
- Additional **10** educations for total of **254** employees were held on implementation of FATCA.

Special focus is also put on training of AML stuff so each employee who works in AML function needs to be informed and updated on new practices and trends applied by credit institutions so it is obligatory for them to participate on, at least one conference per year.

In this view PBZ also uses various other channels of internal communication:

- 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.



In September 2014, new Conflict of Interest Management Policy was adopted by the Management Board of the Bank, fully compliant with regulatory provisions valid in Republic of Croatia and with the *Conflict of Interest Management Policy* of the parent bank, which sets the standard for MiFID-scope subsidiaries on the level of Intesa Sanpaolo Group, with an objective to promote transparency and protection of clients and Banks interests, thus ensuring a safe and stable operation harmonized with legal and regulatory requirements.

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),
- explicitly state prohibited transactions,
- 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, also updated in September 2014, 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 fulfills 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](http://www.pbz.hr).**

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