

**Communication on Progress 2009- 2010**  
**United Nations Global Compact**

## Statement of support

Dear readers,

It is my pleasure to present to you 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 2009-2010.

2009 and 2010 were difficult years for the Croatian economy and this has continued to impact not just the banking industry in the country, but also our customers and our clients. Despite somewhat relaxed monetary requirements as well as certain stimulus programs introduced by the Croatian Government, consumer and business confidence generally continued to decline throughout the year. While general conditions improved internationally – such as the overall growth of the world GDP as well as pick up in cross-border trade and investment, especially in the EU countries - the resulting impact on the Croatian economy is still being felt. In this challenging environment, Privredna banka Zagreb and its subsidiaries achieved sound results.

Whilst the long-term prospects of the Croatian economy remain solid, the outlook for 2011 persists to be challenging. Conditions remain difficult both in the financial markets and the wider economy, which makes financial planning and forecasting difficult. The economic slowdown of last two years impacted all business segments we operate in. As a consequence, we strengthened our capital position, maintained liquidity and ensured that we kept sound asset quality.

For 2011 we have four priorities: staying close to customers and clients, managing our risks, adequate cost containment and maintaining our strategic position on the market. We see further synergies in sharing relationship management and sector expertise across our business segments; retail, large corporate and public institutions, small and medium-sized businesses, and finance. Successful implementation of this strategy may increase revenue growth potential in years ahead.

Together with our strategic partners, Intesa Sanpaolo and the European Bank for Reconstruction and Development, the PBZ Group maintained its strong position and its image of an innovative financial group capable of offering comprehensive, first-class financial services. Our joint strategy of growth and development aims 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 d.d. is one of the largest and among the oldest financial institutions in the Republic of Croatia, with a long continuity of banking operations. It was founded in 1966 as a universal bank on the basis and banking tradition of The First Croatian Savings Bank which was initially established in 1846 in Zagreb by the members of the Farming Association of Croatia and Slavonia.

During all periods of its history, PBZ supported the largest investment programs in tourism, agriculture, industrialization, shipbuilding, electrification and road construction. PBZ has become a synonym for economic vitality, continuity and Croatian identity.

Privredna banka Zagreb today is a modern and dynamic financial institution, which has actively sought and won the role of market leader on the financial markets in Croatia. It is a fully licensed bank with a nationwide branch network. With its nationwide network of branches and outlets, as well as a broad group of banking and non-banking subsidiaries, PBZ is a universal bank that covers the whole territory of the Republic of Croatia.

Nowadays, PBZ is the leading bank in Croatia in terms of subscribed share capital and the second bank in terms of total assets. It has consistently been a leading financial institution on the Croatian market with an established business base and a recognized national brand name.

Upon the successful privatization in December 1999, PBZ became a member of Gruppo Intesa Sanpaolo - the largest Italian banking group and one of the most significant financial institutions in Europe. With this partnership, supported by the EBRD through its non-controlling shareholding stake, PBZ has retained its business strategy aimed at modern forms of banking and new products confirming its image of a dynamic and modern European bank, which meets and exceeds the demands of the market and its clients.

### **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.

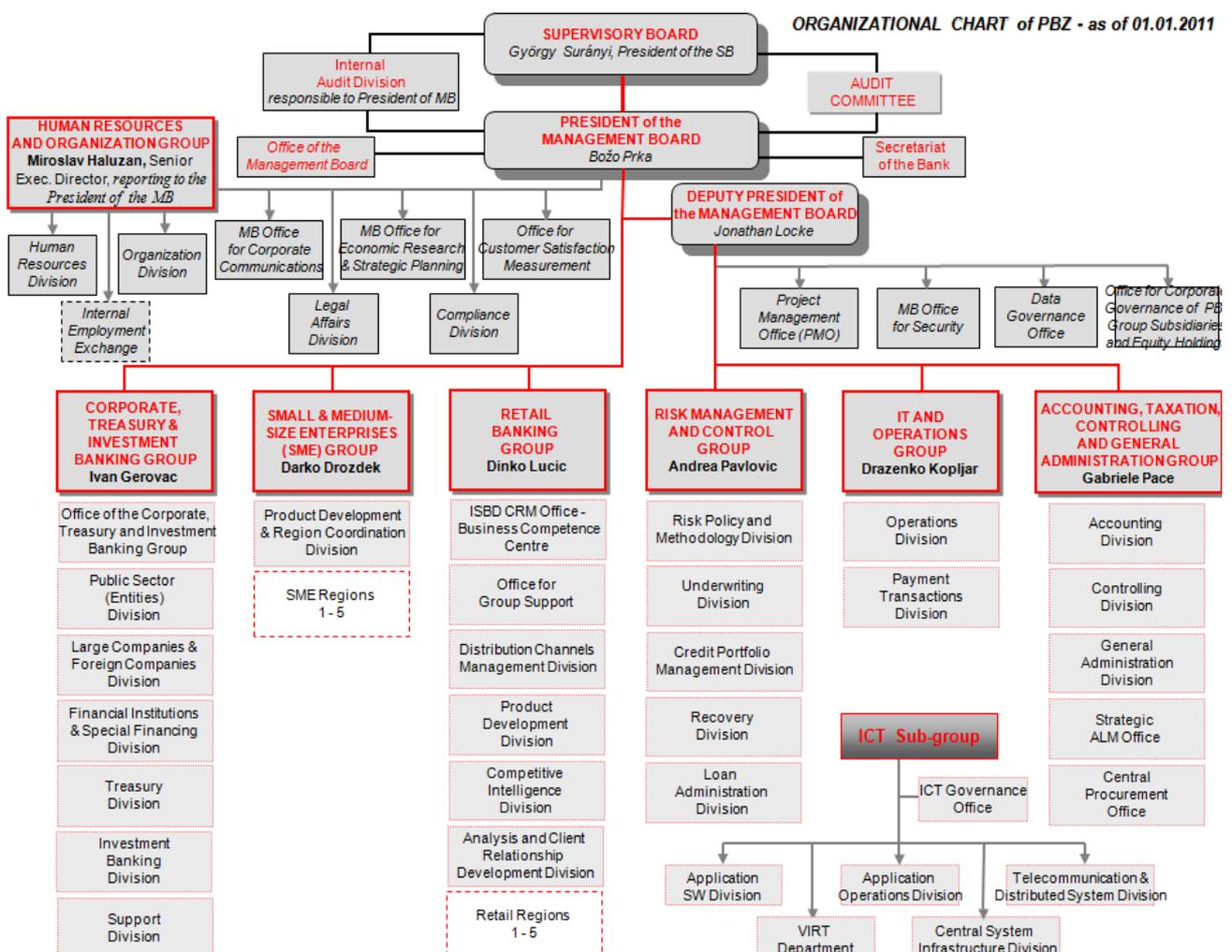
## Individual values

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.

## 2011 Organizational chart:



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

## Key impacts, risks and opportunities

### 2010 was a year of recovery for the world economy but of continuing decline for the Croatian economy

As a result of the crisis that culminated in September 2008, in 2009 there was a decline of the world GDP (by 0.6%), but even more notable was the drop of world trading volume by as much as 10.7%. In 2010 those trends have significantly changed. Firstly, GDP increased by 5.0% (as estimated by the International Monetary Fund), and world trading volume rose by 12.0%<sup>1</sup>. Since the world economy growth rates in both 2011 and 2012 are expected to exceed 4%, it is safe to say that the crisis at the global level is behind us.

On the contrary, in 2010 Croatia registered a new decline in GDP by approximately 1.4 percent and in 2011 we predict a very modest 1.4 percent growth.

In addition to being the second consecutive year of GDP drop in the economic, financial and banking history of our country, 2010 might be remembered as the year of:

- continued increase of unemployment,
- a very modest growth of the loan portfolio of commercial banks,
- continued growth of non-performing banking loans,
- very high liquidity of banks (which is why there was no need for repo operations) and interest rates on the money market remained relatively stable and low
- remarkable stability of the HRK to EUR exchange rate,
- very little change in the monetary regulation.

In summary, 2010 will probably be remembered as the year in which we missed the opportunity to carry out significant structural reforms in the country. Besides the efforts to complete negotiations with the EU, there were unfortunately no other major reforms. Crisis is a period when one can do a lot of things for one's long-term prosperity and raising the potential growth rate over the medium term. Hopefully, the coming period (especially the one after the scheduled parliamentary elections in late 2011) will bring about the acceleration of reforms, and accession to the EU will take place at the expected pace.

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 Croatia. 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 the use of psychometric methodology consisting 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 the selection procedure.

With priority given to candidates who applied voluntarily and in that way showed their interest and motivation for PBZ, vacancies are being fulfilled through job posts announced through the corporate web site and local Croatian job portals.

- **Structure of employees and management bodies**

→ Total employment in the Bank

State as on 31st Dec 2010: **3,474** employees

Structure (31st Dec 2010): **928** men (27%)

**2,546** women (73%)

→ Education

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

University Degree: **39,3 %** (Bachelor, Master)

High school: **59,6 %**

Other: **1,1%**

→ Age structure

Break-down of employees by category and age:

Executives: 60 (2%)

Officers: 536 (15%)

Employees: 2.878 (83%)

<=30: 679 (19%)

31-50: 2,038 (59%)

>50: 757 (22%)

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 and programs aimed at developing managerial skills.

In 2010 the total number of participants in these educational programs was 2,657, and a total of 12,716 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 2010 the second generation graduated a 3 year program. By the end of 2010 PBZ business school counted over 530 participants. By having more than 15% 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. Specific competencies for management and experts are defined and the level of their development is being evaluated. Realization of last year defined goals is evaluated through levels of accomplishment. One 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**

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 2010. is 3,12. (1= very dissatisfied to 4 = very satisfied).

- **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 1,800 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 non-managerial staff
- Easter, Holiday and Christmas rewards for all non managerial employees
- 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 2<sup>nd</sup> 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**

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.

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 for PBZ Group employees. Use of organized recreation is also open to the immediate families of our employees, meaning their spouses and children. The Association has been active for seven years and currently has about 2,200 members of all PBZ Group Subsidiaries. The fundamental purpose of the Association is to achieve better health and general well-being of employees 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. Trying to foster the team spirit and networking, one of PBZ Standard activities is organization and funding of the employees' participation in various sports tournaments, both in Croatia and in foreign countries.

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 internal newsletter PBZXpress.

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 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. The first phase was distribution of the CSR Policies Questionnaire for suppliers and analysis of the data in order to establish the Register of Suppliers based on CSR criteria.

### **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

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

**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:**

During the building and reconstruction of the Bank's premises we use systems and equipment with low level power consumption and high level energy utilization. In accordance with the environmental protection and waste disposal regulations, the Bank ensures the disposal of dangerous and environmental endangering waste, such as Freon gas (in servicing cooling and air conditioning systems), toners, neon light tubes, dangerous chemicals from Scanning and Microfilm Units and other dangerous waste. All air condition systems use ecological gas and the power of all systems is reduced by using inverter technology. Reduction of paper consumption is reached by implementing multifunctional devices as well as with bank-wide instructions to print on both sides of paper. Waste paper is gathered separately and collected by a contracted company that recycles it. Hazardous waste, such as cartridges, are also sorted separately and collected by a contracted company which does business in compliance with laws and regulations.

All the above is regulated by the Rulebook of Safety at Work which is adopted in 2009.

During the training of employees in fire protection and safety at work one of the topics is environmental protection. The educational brochures: Energy Saving Guidebook and Sustainability Glossary are included in the start-up package for apprentices and through these various tools we are building the awareness of employees about environmental issues.

Also, we started to use interdepartmental (reusable) envelopes and launched different activities in order to reduce energy consumption and raise the consciousness of employees about the importance of protecting the environment (shutting down PCs after work, switching off air conditioners and heating on weekends, separating waste paper from other waste for recycling purposes). Also in the last three years an obligation to copy documents on both pages and other efforts taken, resulted in the significant reduction in paper consumption.

**PAPER CONSUMPTION**

2008.	579.854 kg
2009.	518.849 kg
2010.	503.525 kg

**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.

## **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.

### 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 2009-2010, 1615 employees (Bank Officials, Personal Bankers, Internal Auditors, Branch Managers, RM's, ARM's, Brokers, Investment Consultants) have been trained 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.

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 inside 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 inside 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 inside 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 inside 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).**

**Contact information:**



Management Board Office for Corporate Communications

John Knezović, Executive director

Suzana Markotić Šilović

Adress: Račkoga 6, 10 000 Zagreb, Croatia

E-mail: [smsilovic@pbz.hr](mailto:smsilovic@pbz.hr),

[www.pbz.hr](http://www.pbz.hr)

Zagreb 2011