

**Communication on Progress 2013**  
**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 2012-2013.

In 2012 the international financial and economic crisis continued to dominate world macroeconomic developments. However, there were positive signs especially regarding the situation in the Eurozone where some tail risks decreased due to bold actions by policy makers, especially the European Central Bank. In Croatia, the situation was not favorable, but with a new Government in place, necessary reforms were sped up and we expect positive outcomes to materialize in the future. Nevertheless, the year 2012 was very challenging for Privredna banka Zagreb d.d. and its subsidiaries. Four years of stagnating or falling GDP has to have an impact on the real economy and, naturally, on the banking industry as a whole.

In spite of this, Privredna banka Zagreb d.d. and its subsidiaries, supported by our strategic partners Intesa Sanpaolo and the European Bank for Reconstruction and Development, managed to outperform many. In spite of the already mentioned unfavorable economic environment, we kept a steady course, also reflecting the resilience of our earnings power in challenging conditions and the strength of customer relations that we have continuously been building.

We have still been benefiting from the strategic decisions that had been made prior to 2008, in which we anticipated the commencement of the macroeconomic crisis. These decisions enabled us to strengthen our capital base and secure stable liquidity sources thus, reducing our costs of funding and allowing us to adopt customer driven practices that resulted in an improvement of our products and services. For Croatia, EU full membership from mid-2013 should have an additional positive impact on our economy, however not a very strong one in the short-run.

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. Needless to say, we will continue to respect all regulatory changes, as well as following technological developments and changes in the business environment in refining our strategy.

We are continuously transiting to a better balanced, more diversified and lower-risk business model. Therefore, I am confident that 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. During all periods of its history, PBZ supported the largest investment programs in tourism, agriculture, industrialisation, shipbuilding, electrification and road construction. PBZ has become a synonym for economic vitality, continuity and the 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 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 one of the universal banks that cover 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. Upon successful privatisation 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 the demands of the market and its clients.

Privredna banka Zagreb currently employs some 3,779 employees and provides a full range of specialized services in the areas of retail, corporate and investment banking services.

### **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.

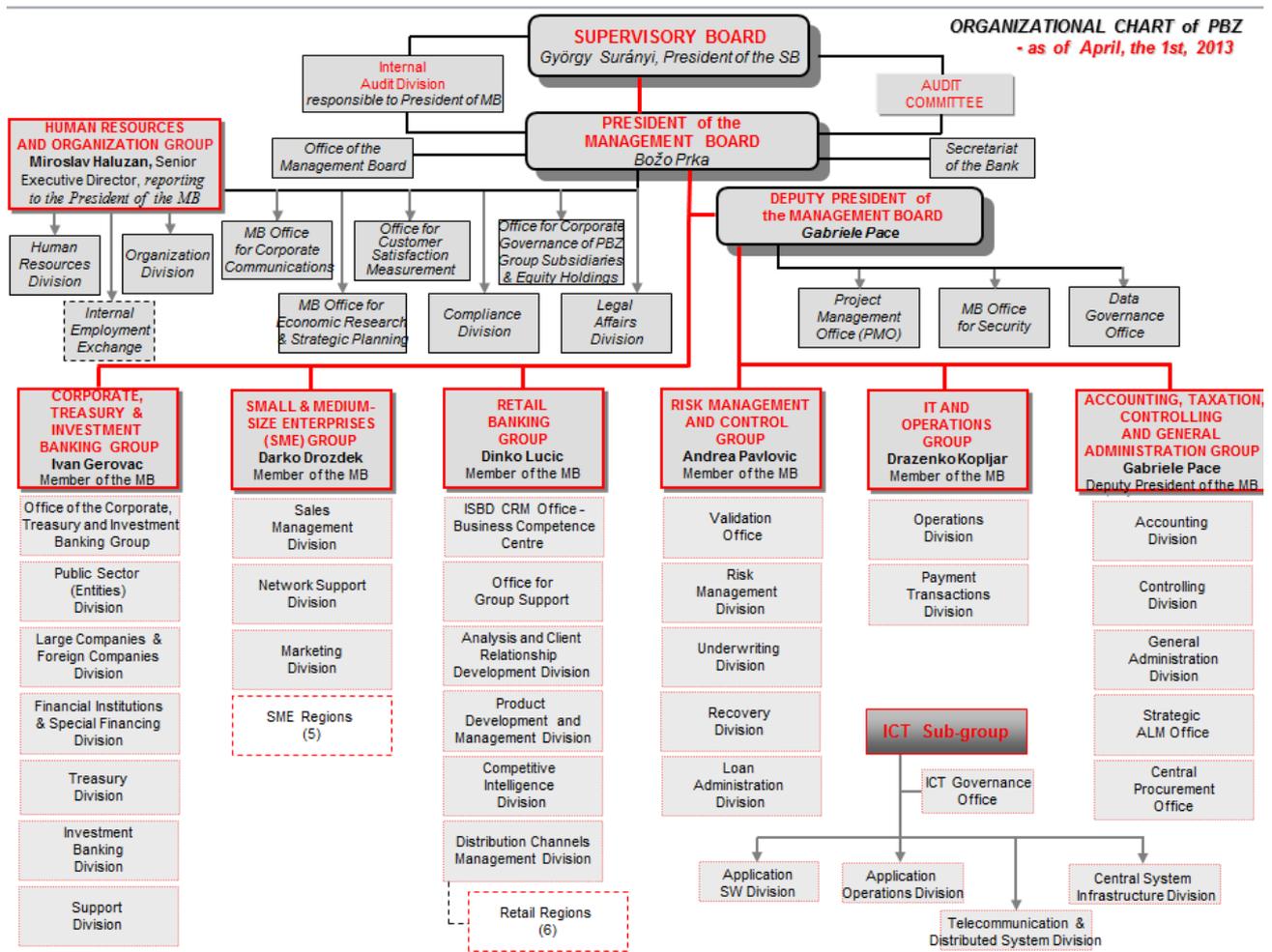
## Individual values

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.

## 2013 Organizational chart:



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

## **Key impacts, risks and opportunities**

### **From macroeconomic perspective, 2012 will not be remembered as a good year**

Unfortunately, from a macroeconomic perspective, 2012 follows along the same trends as the three years that preceded it. The fundamental reasons being are as follows:

1. After GDP stagnated in 2011, the declining trend that started in Q1 2008 continued. Cumulatively, since the beginning of the crisis GDP fell by more than 10%. In 2012, the GDP fell by 2.0% and was caused by a decline in domestic demand, primarily personal consumption and investment.
2. After Parliamentary elections and the formation of the new Government at the beginning of 2012, it was expected that the necessary structural reforms will follow. Some reforms took place but still more are to be carried out before solid positive effects are to be realized .
3. The consolidated general government deficit in 2012 fell to 4.7% of GDP and this positive trend is hoped to continue.
4. In 2012 there were no major changes in monetary policy. By mid-year a new Governor and managing body of the Central bank were elected with policy staying more or less the same.
5. As a result of negative trends in the real sector, the living standard of households decreased.
6. During 2012 the international environment was very unfavorable, especially in the Euro area, which is our main trading partner. Undoubtedly, this negatively impacted our macroeconomic results. The good news is that in the second half of 2012, risks of the Euro area disintegrating decreased significantly which significantly calmed volatility in the market.
7. Within such a framework, the banking sector could not produce good results. Its outcome can be summarized in a few words: weak growth or decline in some banking aggregates and the continuation of deterioration in the quality of banking assets. It is, however, important to point out that the banking sector remains strongly capitalized (with capital adequacy ratio above 20%) and this is an important factor of the increased stability both of the financial and economic system.
8. Very high total external debt, which is more than 100% of GDP, remains to be a serious constraint to the existing growth model. It did not shrink considerably in 2012 owing to a great surge in external government borrowing. Nevertheless, high levels of international reserves is a guarantor of a stable exchange rate and regular servicing of external creditors.

Accordingly, 2012 is a year in which we saw the continuing pressures of the economic crisis further hamper economic output but with EU membership along with greater structural & monetary reforms, the country's economy could start to realize significantly more positive trends in the not too distant future.

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

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#### 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 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, 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 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 2012: **3,779** employees

Structure (31st Dec 2012): **1,007** men (27%)

**2,772** women (73%)

→ Education

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

University Degree: **52,2 %** (Bachelor, Master)

High school: **47,4 %**

Other: **0,4 %**

→ Age structure

Break-down of employees by category and age:

Executives: 66 (2%)

Officers: 571 (15%)

Employees: 3,142 (83%)

<=30: 607 (16%)

31-50: 2,226 (59%)

>50: 946 (25%)

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 2012 the total number of participants in these educational programs was 2.855 and a total of 24.639 days of training. It brings us to the respective average number of 6,5 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 2012 the fourth generation graduated the 3 year program. In 2012 PBZ business school counted 255 active participants. By having more than 18% of our employees involved in these programs we have made a significant impact in the sense of company identity

In March 2012 PBZ launched new educational project IT – academy. Target group of this internal educational program are IT-employees who through the 8-module program develop their professional skills having in focus specific requirements of finance branch and PBZ activities.

- **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. Starting this year, a novelty in evaluation of work results for sales force were 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. In case of dispute regarding performance appraisal, employee has a right to

ask for internal arbitration which is mediated by HR. From year 2012, changes in goal setting were made.

- **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 of PBZ Group are included and through it they can express the areas of satisfaction and dissatisfaction in their working every day. From the first year of this survey conduction, job satisfaction mark is above average. For 2012 the satisfaction is even higher than last years and it amounts 3,19. (1= very dissatisfied to 4 = very satisfied). In comparison to all other banks in ISP Group, our employees are the most satisfied with their job and their social status.

- **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
- 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 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 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 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 was conducted 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 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 nine years. The main indicator of its significance and usefulness is continuous increase of its members and currently has about 2,600 members from all PBZ Group Subsidiaries what presents around 200 members more than the last year. 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. From 2013 greater focus is put on cycling and encouraging employees for greater use of bicycles as a mean of transport. Steps toward improvement of cycling infrastructure is already done and some special prices for cycling equipment are agreed.

- **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*).

Interaction with readers/employees through 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 (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.

### **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.

**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
2012	444,560 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. Total usage of recycle paper for 2012 was **105,699 kg** while in 2011 was **6,505 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 we have finished the process of the GreenLight certification of our branch offices in 2012 and on January 15 2013 we have received the welcome letter from the EC Joint Research Centre recognizing us as an official Partner in **GreenLight Program**.



#### Electricity CONSUMPTION (KWH 000)

2009	18,617
2010	18,725
2011	17,529
2012	16,892

#### 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.

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.

#### 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.

In the beginning of 2013 the Bank implemented new application Norkom/Detica for automated processing of certain AML activities (the Customer Due Diligence - CDD and Know Your Customer - KYC processes and detection of unusual and suspicious transactions and customers). The Bank was Pilot Bank in the parent company's Project to standardize IT and business performing of CDD-KYC and AML processes in its subsidiaries. In the framework of that Project and in line with obligations proscribed by the valid "Anti Money Laundering and Terrorist Financing Law" PBZ adopted *new Rulebook on Measures and Actions for the Prevention of Money Laundering and*

*Terrorism Financing* in which are defined measures, actions and regulations to fight money laundering and terrorism financing, especially: money laundering and terrorism financing - possible abuse, risk assessment, periodically risk re-assessment, client due-diligence, highly risk categories of customers, process of the verification during establishing business relationship with customers assessed as high or medium risk or when customer risk increase during the duration of business relationship, 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 the framework of mentioned Project – new Guidelines for the Fight against Money Laundering and Terrorist Financing and for the Handling of Embargoes were adopted. Also, new Sanctions Management Rules were adopted. It support is being continuously developing in other applications related to AML processes directly or indirectly.

The Bank performed first overall evaluation of AML Risk Exposure and internal control system and evaluated it as Medium based on the objective criteria – throughout of the assessment of each of 17 indicators set out in the parent bank's document AML Risk Assessment – International Network. Subsidiaries.

## 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 2012-1H2013 further number of employees were educated throughout:

- Classroom training – **2972** Bank's front office employees attended the classroom education in 108 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 4 regional branches (Zagreb, Split, Osijek, Rijeka) for all front-office staff.
- e-learning course – **1788** branch employees (Retail and LC/SME) went through elearning module "Introducing new AML processes and newly implemented application Norkom/Detica v.6.1 and changes in existing in-house applications NIS and FOR".

In this view PBZ also uses various other 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.

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:

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**Beside the Global Compact web site, this report will be available on [www.pbz.hr](http://www.pbz.hr).**

### **Contact information:**



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