



HRVATSKA POŠTANSKA BANKA

Hrvatska poštanska banka
Communication on Progress Report 2007-2008
for UN Global Compact

Basic data:

Hrvatska poštanska banka d.d.

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Statement of continued support

Hrvatska poštanska banka, shareholding company (HPB) joined UN Global Compact initiative in March 2007, along with around seventy organizations operating in Croatia. By joining the community of those who decided to follow and improve the principals of responsible business activities HPB gave a clear verification of its business destination – acting as a leading national bank – a bank that understands and takes responsibility of financial reliance and is a close and available partner to its clients, whether citizens, corporate or public companies.

Because of the bank's fast and strong business expansion, as well as network, product and service development, it was very important to invest into business transaction stability, risk prevention and services modernization. All these tasks were included into bank's 2005 five year strategy which has been mainly realizing according to the plan.

With the bank's products and services, as well as with the availability that has been created through collaboration with Croatian Post, HPB became closer and more accessible to citizens and business partners, as well as to special civilian groups such as youth, students, parturient women, retirees (throughout Croatia – by retirement payoffs, but also state impairments and payoffs by HPB Group member – HPB Invest through bank's distribution channels and in cooperation with our strategic partner – Croatian Post).

Aware of its wider responsibility in the society, HPB's initiated stimulating domestic artists projects, notably for painters (for whom HPB Grand Prix annual award has been introduced), as well as for musicians, bookmen and sportsmen.

During the bank's growth, development and intense business network expansion, HPB employed over 590 people in the last four years, mainly young people, emphasizing the employment program on the local communities where the bank is active. Also, the importance of establishment of pleasant and friendly environments between experienced employees and the recently employed is not forgotten.

At the same time, HPB created affiance and quality collaboration relations with its business and general public, while responsibly producing noticeable income and profit for its owner – the state. This established friendly environment will allow the bank to overcome the hard times of economic recession, which became the part of Croatian everyday, with more ease.

Despite somewhat difficult business conditions on domestic and foreign market, we still believe the bank will accomplish the most important business aspirations. Our intention is a continuous

implementation of the principles of UN Global Compact responsible business, by our activity and performance.

Josip Protega

President of the Management Board

A handwritten signature in black ink, consisting of several overlapping, fluid strokes that form a stylized, somewhat abstract representation of the name Josip Protega.

Short description of basic business activity

Hrvatska poštanska banka d.d. Zagreb (HPB) was founded in October, 1991 as an universal bank organization for bank affairs conducts, in the state and abroad. By the year 2001 the majority shareholder of HPB was Croatian Post, which continued its mission of functioning of traditional postal savings, founded in Croatia in 1883.

From the beginning of the year 2001 through the funds and join-stock companies in its ownership, Republic of Croatia stands for the majority shareholder of HPB.

Croatian Privatization Fund	37,00%
Croatian Post	33,56%
Croatian Pension Insurance Institute	28,01%
Small shareholders	1,43%
Ownership structure of HPB	100 %

Today, the HPB is the biggest bank in domestic ownership and it also holds seventh place on the bank chart in Republic of Croatia, measured by the total assets.

With its business strategy, the bank is focused on the intense business network and distribution channels development, strengthening of bank's position in investment banking (in the segment of small and middle size entrepreneurs) and retail products and services developing.

According to the law, HPB conducts all the bank and financial services, as follows:

- Every kind of deposit and credit transactions for legal and natural persons in domestic and foreign currency
- Payment operations in the state and abroad
- Guarantees, avails and other forms of vouching; factoring, leasing
- Buying and selling and other services related to loan stocks

HPB is the core of HPB Group which also includes three legally connected persons – HPB-Invest, HPB-Nekretnine (Real Estate) and HPB-Stambenu štedionicu (Housing savings).

Business environment and challenges

During 2008 HPB operated in much more difficult business conditions than the earlier years. Those earlier years were imprinted with the bank development and its growth. In these years the bank was trying to keep up with the competition while developing numerous products and services which was not a part of bank's offer before. The success of the bank, as well as its business network and distribution channels rise, reputation growth and bigger trust in the bank, were the main marks of the years preceding 2008.

The strategy of growth and development predicted the bank's capital enlargement by the initial public offer of shares on Zagreb Stock Exchange in 2007. which was one of the suggested models of the bank recapitalization. However, during 2007 and 2008 this key business decision was not made, what slowed down the bank's upgrade. Therefore, the realization of some projects, such as the new IT system implementation, business networks expansion and group development was hardened. Beside those, the general economic situation intensely shook up all its participants. Income decrease, signs of the deep economic crisis in USA, which strongly affected other economies around the world – back lashed on the financial market's participants' behavior change. Noticeable fund profits, as well as those of HPB Invest's were lowered. That reflected on the business results of the bank as well. On the other hand, citizens withdrew their funds and shares and returned their assets to banks as to deposit shelters. The state guarantees of savings deposit were enlarged to 400.000 kuna by deposit and thus calmed down the ones worried about the money safety.

By the end of 2008 HPB sent a very clear message to its owners, as well as to the whole Croatian public regarding bank's established healthy and strong foundation for the bank's growth and progress. However, it cannot be made without additional capital, on which the owner's decision is still on hold. In order to fulfill the demands of the regulator – Croatian National Bank, HPB needs at least a part of the earlier required capital (around 500 million kuna). The capital adequacy ratio must be 12 per cent by the end of the first half of 2009. This will be the main focus of the bank during this year, as well as keeping its market share and main clients (corporate, citizens and state).

The reputation and trust the bank has gained amongst the Croatian specialized and general public, make it's foundation for optimistic business plans in 2009 on the matter of waiting for owner's key decisions. The Management Board and the bank's management are dedicated to the vision creating the strong domestic bank, the reliance to economy, public companies

and citizens. During the last year, HPB has been strongly immanent in national culture, art and sport related projects. Besides sponsorships and donations, HPB came up with certain amount of awards which are given to the best domestic painters, musicians and bookmen. This is the bank's way of interweaving economy with cultural and artistic circuits.

I. HUMAN RIGHTS

1 . PRINCIPLE – COMPANIES SHOULD SUPPORT AND RESPECT THE PROTECTION OF INTERNATIONALLY PROCLAIMED HUMAN RIGHTS

2. PRINCIPLE – BUSINESS SHOULD ENSURE THAT THEY ARE NOT COMPLICIT IN HUMAN RIGHTS ABUSES

Implementation activities:

In December 2008 HPB Management Board accepted the Rule book of procedure and measures for dignity and discrimination protection for the HPB employees which guarantee the employees diversity respect and their right of choice of their personality and privacy, as well as the disrespecting prevention of mentioned. This Rule book is protecting every employee, from any kind of possible discriminatory behavior (racial, gender, marital status, family relation, age, language, religion, political or any other belief, nationality, assets, birth, social status, membership in political parties or syndicate, physical or mental disabilities). The purpose of this Rule book is dignity violation protection. Also, this Rule Book protects from the dignity violation consequences, such as the fear and hostile, offensive and humiliating environment.

Also, HPB founded the three-member committee, to whom employees can send their complaints. Every business activity is conducting according to relevant procedures and rule books, transparently, in line with predetermined rules and criteria.

In order to prevent the abuse of personal employees' data and according to positive law directives, all the employees' documents and files are held secret and kept in special bookcases. All the employees' data in electronic format (applications, human resources evidence) are protected by passwords and are used only by authorized human resources personnel.

- During 2007/2008 the employees number grew for 321, so that HPB on December 31st 2008 counted total of 902 employees. The goal of HPB is young highly skilled workers employment, ready to deal with any challenges. HPB supports life long learning activities

and searches for the candidates who are continuously willing to gain new knowledge. For this purpose, HPB isolates special funds for the professional perfection employee academy program.

- Internal trainings include trainees' programs (for highly skilled employees) and lectures in business network (cashiers, personal bankers, shift managers, bureau managers). The goal of the training is to increase the service quality towards clients by organizing communication, sales, presentation and information skills trainings. The goal of such trainings is also to enhance the work with demanding clients, VIP clients, to improve IT skills, ISO and OHSAS norms and new services. Also, HPB provides professional perfection at situational, change and program management, team work and coaching.
- HPB, depending on the needs and interests of the employees, organizes the foreign languages courses, new programs tools work, project management, EBRD educations (financial analysis). HPB employees regularly attend other form of education in the following institutions – HIBO, HGK, EUROMONEY, MERCURI, NN, ALGEBRA, CETRAS, FOIP, INFODOM, TEB and other.
- HPB's five year strategy acquired in 2005 is emphasizing on the product's and service's development for the conduct of small and middle size entrepreneurs creating product packages for special client groups (parturient women, retirees, students, veterans, farmers); guidance for implementation of principle Basel II actualization
- HPB organizes regular employee meetings for ideas exchange and innovative thinking
- HPB organizes education through E-learning system according to different content, which allows employee licensing for understanding existing and new products
- The bank performs regular informational safety education to all the new employees so that they become familiar with problems, regulations and duties with informational system and property of HPB
- Every employee is warned and educated via Intranet on the problems of informational safety. They are introduced with every rule and regulation of informational property of HPB so the employee and client rights would be protected
- In 2008 HPB developed 'penetration test' on bank resources. According to the findings, needed interventions and improvements had been made. This is also a way HPB stays protected from Internet attacks
- HPB provides every employee with additional medical insurance in collaboration with Croatian insurance company

Education:

Total employees training hours in 2007 was 6713,5 hours, and in 2008. 9578 hours.

1) Internal education and trainings during 2007 / 2008

Year 2007

Number	Type	Attendees
10	New network employees	80
1	Personal banking, Successful salesman	35
1	Managers, Successful salesman, creative workshop	22

Total – 12 training types with 137 attendees

Year 2008

Number	Type	Attendees
11	New network employees	90
1	New B.A. employees	12
1	New personal bankers	12
13	Basic sales skills, Personal banking	113

Total - 26 training types with 227 attendees

2) External trainings and professional education:

Employees were educated through specialized seminars and conferences, informational trainings

- year 2007 - 192 employees educated; 6697,5 hours

- year 2008 - 286 employees educated; 9578 hours

- Postgraduate studies – 7 employees

Future goal:

The rule book of employees dignity and discrimination protection, preserves every employee from any kind of possible discriminatory behavior (nationality, racial, gender, marital status, family relation, age, language, religion, political or any other belief, assets, birth, social status, membership in political parties or syndicate).

Competent bodies of HPB prepare periodic operating ratio and business data on bank activity which are accessible to shareholders and public.

A complete and overall set of policies, rules and procedures is currently in making – this detailed set will regulate the field of informational safety and improve its basic principles:

confidentiality, integrity and availability of information. Also, this set will ensure employees' and clients' rights.

Moreover, the continuous education program is also planned to be made. This program will educate the employees about the basic aspects and problems considering informational safety.

II. WORK CONDITIONS

3. PRINCIPLE – BUSINESS SHOULD UPHOLD THE FREEDOM OF ASSOCIATION AND THE EFFECTIVE RECOGNITION OF THE RIGHT TO COLLECTIVE BARGAINING

4. PRINCIPLE – BUSINESS SHOULD SUPPORT THE ELIMINATION OF ALL FORMS OF FORCED AND COMPULSORY LABOUR

5. PRINCIPLE – BUSINESS SHOULD SUPPORT THE EFFECTIVE ABOLITION OF CHILD LABOUR

6. PRINCIPLE - BUSINESS SHOULD SUPPORT THE ELEMINATION OF DISCRIMINATION IN RESPECT OF EMPLOYMENT AND OCCUPATION

Implementation activities:

- HPB signed a Collective agreement with the representative of the Head Office of the Union of the banking and financial employees in Croatia. This is how employee rights are regulated above the law prescribed minimum.
- HPB provides every employee with additional medical insurance in collaboration with Croatian insurance company.
- HPB provides every employee with sport and recreation activities within HPB sport club, as well as in other sport clubs. The bank also allows banks' and corporation's games participation in the bank organization.
- HPB does not employ under aged workers. HPB upholds domestic and international initiatives that oppose to exploitation and underage abuse.
- HPB had not received any complaint considering mobbing or any other employee dignity violation.
- Overtime work is not ordered to disabled persons, pregnant women, mothers with children up to two years of child's age, single parents up to six years of child's age, handicapped child's parents, employees older than 55 (women) or 60 (men), without their consent.

- HPB performs occupational safety and fire hazard seminars according with regulation of Republic of Croatia. HPB also uses fire detection system in order to protect the employees from fire.
- HPB ensures safe working conditions in order to prevent employees' injuries.
- Security and safety issues education is ensured to every employee as a preventive warning and familiarizing with possible hazard, as well as introducing with protection measures and safety issues conducted in the bank.

Future goal:

Constant improvement and raising the level of protection and security along with quality education in purpose of pleasant, harmless and stress less working conditions

III. ENVIRONMENT

7. PRINCIPLE – BUSINESS SHOULD SUPPORT A PRECAUTIONARY APPROACH TO ENVIRONMENTAL CHALLENGES

8. PRINCIPLE – BUSINESS SHOULD UNDERTAKE INITIATIVES TO PROMOTE GREATER ENVIRONMENTAL RESPONSIBILITY

9. PRINCIPLE – BUSINESS SHOULD ENCOURAGE THE DEVELOPEMENT AND DIFFUSION OF ENVIRONMENTALLY FRIENDLY TECHNOLOGIES

Implementation activities:

- HPB uses virtual servers (*virtualization*) – on the physical server several logical servers are installed – energy consumption is lowered. It is estimated that the bank saves around 300.000 kWh per year.
- With the electronic banking and the office business informatization, paper and printing needs are constantly lowered.
- HPB committed the employees to keep the email communication and internal software system demands in electronic format. The printing of certain document is allowed only if there is a special need for it or at client's demand. The HPB personnel is committed to notify the client on the lowering ecology effects due to excessive use of paper.

Future goal:

The plan is to dispose every kind of electronic waste; old computers, printers and other electronic devices.

IV. ANTI-CORRUPTION

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

Implementation activities:

- In all its activities HPB actively and systematically executes anti-corruption and anti-bribery policy.
- Money laundering direction is conducting as an independent organizational unit of the bank and is directly responsible to the Management Board.
- HPB is working closely with Economy Criminal Unit within the Ministry of Interior of the Republic of Croatia.
- HPB operates in compliance with the rules and regulations on market competition protection (anti-monopoly regulations). HPB is not the only bank operating on Croatian market, so it is exposed to the free market competition.
- HPB's business activities are carried out according to the law of Republic of Croatia and international regulation, ratified by the state.
- Corporate social responsibility and business ethics policy planning and execution are the obligations of Corporate Communication Department and Human Resources Departments. HPB influences public and business policies in Croatia through its active involvement in business associations in Croatia, Europe and whole world.
- HPB is a member of Croatian Bank Association, Bank Association at Croatian Chamber of Economics, European Savings Banks Group and World Savings Banks Institute.
- HPB employees are members of national and international professional associations, and are active participants at national and international congresses, seminars, workshops and other gatherings. By their associations conducting, HPB employees participate in strategic policies and objectives creating and also transfer of experience and knowledge.

In July 2008, a new 'Money laundering combat and terrorism financing law' (AML) was adopted (published in Narodne novine no. 87/2008.). By this law Croatian legislature regulates the field of money laundering and terrorism financing, along with European Community Acquits.

In December 2008, HPB adopted a new 'Rulebook on money laundering combat and terrorism financing' which implements the new legislative framework for bank's business

activity. This legislative framework also upgrades and improves the existing money laundering combat and terrorism financing prevention system.

'The rulebook on money laundering combat and terrorism financing' defines measures, actions and regulations for money laundering combat and terrorism financing which the bank's employees conduct in everyday client business activities. These measures, actions and regulations include the following:

- Money laundering and terrorism financing possible abuse risk estimation
- Measures implementation in-depth analysis
- Assigning entitled persons and their deputies
- Regular professional trainings and bank employees education
- Regular internal audit
- The construction and padding of the recognition indicators and suspicious transactions list (situations of a reasonable doubt existence on money laundering and terrorism financing)
- Informing and delivery reports to Ministry of Finance – to the Money laundering combat office, such as statutory and required data, information and documents delivery, keeping and protecting of data as well as keeping proper reporting files
- Adequate informational system set up
- Operating of other tasks and duties, according to the law and adopted legal regulations

The corruption repression in all its forms is an integral part of AML measures and activities conducted by HPB. The emphasis is on the public political persons and in-depth analysis measures conducted during business relation set up or on the transactions that relate, according to the bank estimation, to the publicly exposed political persons. These measures include the PEP statement on the sources of fund or assets that are subject of the business relations and transactions. The Management Board, the bank's management and every HPB business unit are familiar with the new regulatory framework and the new money laundering and terrorism financing revelation system. Employees conducting clients' business relations attended special education seminar connected with this issue.

The HPB Management Board and the management (21) has been introduced to the new regulations on money laundering and terrorism financing combat rulebook (AML/CTF). Also, branch-office directors and team leaders (70), as well as the sector directors and lower management (47) have been educated on the subject. Education seminar was realized in two days (December 18 and 19) and involved 58 bank's employees.

Every HPB employee is included in money laundering and terrorism financing combat measure conducting, prescribed by the Rulebook. The Rulebook and accompanying instruction guide is available on the Intranet to every employee. The authorized bank's person or their deputies in charge of this issue must be informed about any activity considering money laundering or terrorism financing. This is a regulation defined by the law. Therefore, HPB prescribed every employee conducting this matter responsible. Further on, HPB elaborated special rulebooks according to various business activities of the bank.

Future goal:

Procedures and rules establishment, needed in order to ensure that the prescribed regulations comply with the Law, to provide the efficient implementation of measures conducting control considering money laundering or terrorism financing. Permanent AML/CTF employee education according to their responsibilities and authorities in measures conducting and money laundering or terrorism financing activities. Further development and IT system implementation needed for money laundering or terrorism financing combat improvement and support.

Contribution to the community:

- One of the bank's fundamental values is community appreciation, distinguished image establishment by close collaboration as well as cultural and social community features respect.
- HPB is contributing to the constant development and raise of employees' life quality but also of the life quality of the community in general, by participating in specific projects. The bank is actively engaged in knowledge, experience and information exchange. The bank also creates and stimulates the balanced economic development initiatives, quality life improvements and environment protection projects.
- HPB abides to the advertising rules, prescribed by advertisers. The bank abides to promotional ethics, the consumer protection law and other applicable legal and internal regulations.
- During 2008 HPB has not received any complaint considering client privacy violation at advertising and marketing.
- HPB is a Global Compact member.
- HPB surveys clients and local community to understand the impact of marketing activities. The bank is documenting the development of philanthropic management system and corporate responsibility.

- HPB strategically plans gifts for business partners. This is a way bank promotes the Croatian artists, art and culture (calendars, graphics).
- HPB founded HPB Business Club, as a special branding measure and its goal is cultural impact development, as well as the corporate responsibility up growth. HPB Business Club accomplished the following activities in 2008: Artistic Calendar promotion (containing 12 Croatian artist's paintings), HPB Gallery – art window at the bank's business office, containing new exhibition of Croatian painters every two weeks.
- HPB, as the largest bank in domestic ownership, has a special responsibility. With it's donations HPB supports projects, community and individuals on the local and national level.
- HPB organizes and conducts HPB Grand Prix, a kind of „Oscar“for painting.
- HPB promotes Croatian artists through HPB Gallery.
- HPB promotes Croatian painting between the employees as well, by repurchasing certain amount of paintings and exhibiting them in business offices (*art at work*).
- HPB supports hospitals, children homes, veterans associations and other social health sensible projects; General hospital Zadar, Croatian Doctors Associations, MEDILS (science), Children's Home (for handicap children) in Zagreb, Nazorova street, PUŽ – «Road to life», Juraj Bonači Nurture and Education Centre, Caritas Zagreb Archbishop's, Educational initiative.
- HPB supports projects of cultural institutions, associations or individuals; traditional culture, modern art, theatre and other manifestations: Vinkovačke jeseni (Vinkovci Autumns), Šokačko sijelo (traditional Slavonian customs), Tribina Jutro poezije (poetry), Puhački orkestar Ivo Tijardović (brass orchestra), Plesački ansambl Kelkope (dance), Društvo za promicanje hrvatske kulture Croatica (Croatian culture promotion), Udruga Kaštelanski suvenir (traditional Dalmatian souvenirs), Hrvatski školski muzej (Croatian school museum).
- Along with the partners, HPB organizes competitions and sponsors the 'Croatian Book of the Year' award. The bank is also a sponsor of the Croatian youngest musician award, encouraging the competitive spirit, but also appreciating the artistic creation in Croatian culture.
- HPB supports environmental sustainability projects – ecosystem protection and environmental sea, coastal, fresh waters, swamp and mountains springs, as well as other protected Croatian districts; Association Tomin hrast, Sokolarski centar Šibenik (Centre for eagles' care) , Association EOL (ecological issues).
- HPB supports educational institutions projects, as well as archaeological, sociologic, cultural, urban, architectural, musical, semantic and other researches across Croatia that contribute and improve the community; Tituš Brezovački Gymnasium, Veterinarian Faculty

Zagreb, Students' Catholic Centre Palma, University for management in tourism, High school for trade businesses Josipa Jelačića from Sinj, Elementary school Prečko in Zagreb.

- HPB supports sport associations and individuals; Blanka Vlašić, Skelin brothers, Valley-ball club Mladost, Judo club Omiš, Handball club Spačva, Handball club Metković, Water-polo club Stara Sava, HAŠK (athletic) Mladost.

- The system of enterprising philanthropy, as well as HPB donations is conducted in professional way along with clear project criteria. This is a way to continuously upgrade the quality of projects.

How will you make is this report available to your interest groups?

Beside the printed edition, this report will be available on HPB web page. The report will be delivered to HPB partners along with Annual business report for 2008.

