



Communication on Progress

Year: **2014**

Basic data:

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Statement of Continued Support

This "Communication on Progress" for 2014 is the seventh consecutive communication since Hrvatska poštanska banka has become committed to complying with and incorporating in its business activities the UNDP Global Compact Initiative principles and submitting communications on progress following the example of numerous companies in the world.

The Croatian economy saw yet another year of prevailing negative trends. In protracted recessionary conditions the preceding year was extremely challenging for the banking industry not only in terms of the responsibility for its own business operations but also in terms of the role of the banks in encouraging economic recovery.

Despite strong market challenges Hrvatska poštanska banka generated in 2014 record operating profit of HRK 296 million i.e. 13% higher than in the year before. Because of increased provisions for bad placements the Bank reported loss. The Bank's assets at the end of 2014 were HRK 17.4 billion.

In 2014, the Bank got the new Management Board, and owing to the continuation of expert and professional management and effort of its employees, HPB not only maintained its market position and stability but also reinforced the trust of its customers.

In 2014, the Bank continued to implement the initiatives seeking to contribute to the responsible and sustainable business activities significant for its own future and progress of the entire business environment. As an institution where the trust of the customers has been always the most important objective, the Bank continues to be focused on making further significant efforts devoted to developing the relations with customers, providing them with financial products and services that satisfy their needs and expectations. Continued development of products and services, as well as investments in the modern technological solutions, business network and channels of distribution provide for stronger closeness and trust between the customers and the Bank.

In 2014, Hrvatska poštanska banka continued again to improve its performance indicators in the retail operations segment and made significant breakthrough in a competitive banking market.

Tomislav Vuić
President of HPB Management Board



Business environment and business challenges

Continued unfavourable economic environment was reflected in the drop in lending activities in the banking sector that ended up 2014 recording the decline in assets whereas the profit of the banks rose if compared to the previous year. It was the result of significantly lower loss provisions than in 2013 when the banks in Croatia applied for the first time new legislation regarding the placement classification and potential liabilities.

In 2014 Hrvatska poštanska banka marked record operating profit in its corporate history, of HRK 296 million or 13% higher than in the previous year. Despite good operating results, the Bank disclosed loss due to increased provisions. The provisions were quadrupled if compared to 2013 and for the most part (about 90%) referred to the placements approved before 2009. Due to high cost to income ratio being above the market average value in the conditions of reduced demand and still very difficult economic circumstances, Hrvatska poštanska banka is preparing restructuring and reorganization as a part of the recapitalisation process.

In the context of the unrewarding economic developments and stronger competition in the banking sector, the Bank's assets dropped by 5% primarily impacted by the provisions. Despite of that retail loans continued to record the growth (+7%), as well as the deposits of the companies (+8%) and individuals (+1%). The most important impact on the growth of the Bank's operating profit in 2014 had the jump in the net interest income (+12%), and owing to contracted more favourable sources interest costs were reduced by 7%.

In order to maintain high quality of its services the Bank enhanced availability to customers and improved its business network, opening new and moving certain branch offices to better locations. The Bank also continued to develop and improve channels of distribution and to broaden business functions and offering. At the end of 2014, there were 60 business units of the Bank, and with more than 1000 postal offices where also the services of the Bank were provided, HPB ensured to its customers the most widely spread banking network in Croatia.

I. HUMAN RIGHTS

Principle 1 BUSINESSES SHOULD SUPPORT AND RESPECT THE PROTECTION OF INTERNATIONALLY PROCLAIMED HUMAN RIGHTS WITHIN THEIR SPHERES OF INFLUENCE

Principle 2 BUSINESSES SHOULD MAKE SURE THEY ARE NOT COMPLICIT IN HUMAN RIGHTS ABUSES

Practical activities

In connection with the principles of responsible business operation referring to the respect for and observance of human rights, Hrvatska poštanska banka continued in 2014 to undertake the activities not only in the sphere of information security in business, but also in the sphere of protection, education and care of all employees of the Bank.

Information security

During 2014, the Bank strongly focused on the protection from fraud attacks against its information system.

- The procedures and guidelines for successful detection and prevention of fraud activities were developed.
- The educational and information activities for the Bank's employees and customers were added.
- The Bank's information system security management was additionally improved and upgraded.
- The cooperation and information exchange amongst the banks in Croatia were both improved.
- The processes in connection with the Bank's information security have been continuously improved.
- The Bank is keeping pace with the global trends in the protection of information and against new security threats to the information system.

Education and care for employees

In the same way as before, Hrvatska poštanska banka d.d. is taking care of and providing for the expertise and education of its employees in terms of the ever present foundation of the Bank's competitive power on the market. Besides, our employees are obliged to maintain their professional skills and comply with the professional and applicable regulatory requirements. Hrvatska poštanska banka d.d. is supporting and promoting lifelong learning because in such a way it is directly affecting the creation of the added value of the company and it is providing the opportunity to all employees to acquire knowledge necessary for their work. Hrvatska poštanska banka d.d. is actively implementing and supporting education and development of its employees both inside and outside the workplace

through professional counselling, workshops, seminars, conferences, specialized training courses and language and computer courses.

The E-Classroom system has been further used and made permanently available to all employees irrespective of the time of use and location of a place of work.

Using the system of instruction provided with the help from internal trainers new and existing employees are continually educated for specific workplaces and provided with all necessary educational contents in order to train and prepare them sufficiently to perform their daily professional activities.

Hrvatska poštanska banka d.d. continues to organize and implement on regular basis all relevant educational programs specifically designed for new employees – interns with the aim of introducing them directly and on a quality basis into the Bank's business, both in individual areas and in general, for the purpose of expert and relevant preparation of new employees - interns for their future work. After the completion of such programs all interns must take internship exam based on which their future employment status is determined and they are steered in the direction of business areas where they can achieve the best possible results.

Hrvatska poštanska banka d.d. is providing education and training through:

- Internal education
- External education
- Education via E-Learning platform

In case of the internal education in 2014, the Bank focused mostly on the education of new and existing employees concerning the anti-money laundering and terrorism financing prevention. The internal courses were organized in order to introduce new employees into their work. Sometimes, the internal courses focused on new employees were combined with the external courses, especially for those areas of work that require highly specialized expertise and knowledge. This was implemented in the IT Sector when the Bank was hiring new programmers and it organized three-day internal training when the interns learned about the Bank, its structure, methods of communication inside and outside the Bank, banking products, payment operations involving Kuna and foreign currencies and basics of accounting. The training was followed by the external multiday training in basic SQL and basic PL/SQL.

All prerequisites have been fulfilled and the implementation of the Project “Introducing Performance Management System” is nearing as the conditions are set for objective and transparent employee performance and career management that will contribute to better and more efficient employee management and will enlarge employee satisfaction.

In case of the education of the existing employees, the Bank prepared, while introducing new product for the retail customers, all employees working in the Retail Sector in May of 2014 for the sale of the product “HPB Combination”, Also, from the beginning of August the Bank started to provide the courses focused on the insurance products of the insurance company “Croatia osiguranje d.d.”. These educational programs were provided by the Coordinators of the retail business network.

Via the E-Classroom system, the following topics were studied: legal person due diligence, customer due diligence for custody section and brokers, customer due diligence for branch and local offices, prevention of terrorism financing – legislative framework, information security.

In case of the external education, in 2014 the focus was placed on the intensive business English courses designed specifically for the employees occupying executive management positions.

Throughout the entire last year, the Bank's employees were acquiring their professional knowledge participating in different workshops, seminars and programs of education. In addition to that, for employees occupying the positions requiring them under the law to pass certain state-level exams the Bank organized the courses where they were prepared for such exams and also the opportunities to take them. Also, the Bank organized the courses in the alignment with regulatory framework and changes.

Employees' data

During 2014, the Bank hired 9 persons so that on 31 December 2014, the Bank had the total of 1084 employees.

Structure of employees on 31 December 2014

1) Based on type of employment

Temporary employment	Permanent employment	Total
136	948	1084

2) Based on age and gender structure

Age	Total	Women	Men
19-24	10	7	3
25-29	130	89	41
30-34	241	184	67
35-39	246	156	90
40-44	175	135	40
45-49	102	73	29
50-54	81	57	24
55-59	78	60	18
60-64	21	13	8
65 and more	0	0	0
Total:	1084	764	320

Employees' average age on 31 December 2014 in the Bank was 39.3.

3) Based on gender structure of managers and other senior officers: men (64), women (80).

Additional care for employees

1) Newsletter

The Bank continued to publish its newsletter “Moja HPBanka” four times a year. The newsletter is intended for employees, it is available in electronic format, and is following and reporting on important events within HPB Group, publishing interviews, articles on employees’ humanitarian efforts, financial market trends, updates on new employees, promotions for employees, and also interesting casual topics. The goal of the newsletter is to improve vertical and horizontal communication within the Bank and to allow employees to get to know their colleagues from all over Croatia. Some articles are written by employees working in other sectors of the Bank and the number of employees participating in providing materials for the newsletter is growing constantly.

2) Internal web portal

HPB Intra is an internal web portal, official communication channel available to all employees of HPB Group. It regularly publishes the Bank’s acts and decisions, and also other news and information relevant for the quality work of the employees. In addition, the intranet is a place where employees can find all important information and instructions related to the Bank’s business and professional training programs. They can also access websites of the Union, HPB Sport Association and Green Office that is performing the activities seeking to preserve environment and is continuously educating the employees about rational usage of energy, office materials and equipment, requirement to reduce waste and the significance of recycling. Also, each organizational unit has its space within this portal (team page) for sharing contents and other materials required for their daily operation.

Contribution towards community

During 2014, Hrvatska poštanska banka continued to contribute towards community through its grants and sponsorships and to encourage projects at the local and national level. HPB continues on a regular basis its collaboration with educational, sport, culture and scientific institutions.

During 2014, HPB invested through its **grants** mostly in education and humanitarian causes.

- **Education:** National Foundation for Supporting the Pupil and Student Standard of Living; conference “Croatian Money Market” organized by Money and Short-Term Securities Market, donation of computers in the comprehensive humanitarian project “Lika” organized by the Rotary Club Zagreb.
- **For humanitarian purposes:** the Croatian Red Cross on humanitarian aid and fundraising for victims of floods in Slavonia.

Through **sponsorships** HPB invested in 2014 primarily in sports and culture.

- **Sport:** Croatian Football Club “Gorica“, Croatian Football Club “Zmaj“, Women Basketball Club Gospić, Moto Club “Kvarner“.

- **Culture and social events:** the Croatian Conservation Institute in the implementation of the project “Peristyle on Kaptol – Days with Restorers”.

Not only through sponsorships and grants, but also through its products and services and their availability through the cooperation with the Croatian Post, the Bank remained close and accessible to individuals and business partners throughout Croatia, as well as to special groups of individuals, such as young people, students and pensioners.

Future goals

- Within the project “Introducing Performance Management System”, the Bank will in 2015 continue its activities according to the project plan and will implement the project at all levels.
- The Bank will continue to run internal and external education programs for new and existing employees with the goal of increasing performance.
- The Bank will continue to support the community and society where it operates through sponsorships and grants to those who need them most.
- Enhanced activities through E-Classroom system will include even more training courses for HPB Group’s employees.
- The Bank will further develop internal communication through existing channels (newsletter and intranet).

II. WORK CONDITIONS

Principle 3 BUSINESSES SHOULD UPHOLD THE FREEDOM OF ASSOCIATION AND THE EFFECTIVE RECOGNITION OF THE RIGHT TO COLLECTIVE BARGAINING

Principle 4 THE ELIMINATION OF ALL FORMS OF FORCED AND COMPULSORY LABOUR

Principle 5 THE EFFECTIVE ABOLITION OF CHILD LABOUR

Principle 6 THE ELIMINATION OF DISCRIMINATION IN RESPECT OF EMPLOYMENT AND OCCUPATION

Practical activities

- In 2014, Hrvatska poštanska banka adopted new regulations on occupational health and safety. In addition to the implementation of regular measures in the field of occupational health and safety, the Bank also started to fulfil the responsibilities arising under new Occupational Health and Safety Act adopted in 2014.
- Also, education is available on a regular basis via e-learning to all employees regarding potential occupational hazards with the purpose of enhancing employees’ awareness of safety and health at work.
- All other measures and legal obligations related to employees' safety, occupational safety and health and fire protection were also implemented and fulfilled.
- During 2014, HPB provided again its employees with additional and supplementary health insurance with a Croatian insurance company.

- Continuous improvement of workplace quality through ergonomics and occupational safety and health measures.

Future goals

- Internal acts of the Bank will be adjusted to the new Occupational Health and Safety Act and to other regulations applicable in the field of safety and protection.
- Implementation of occupational safety measures in compliance with new regulations.
- Through E-Classroom, to train further all newly employed persons in the sphere of occupational safety and health, familiarizing them with potential hazards arising from work process and with measures relating to the protection of employees at their workplaces, all in order to reduce the number of occupational injuries.
- Further promotion and improvement of protection and safety levels by quality education, in order to create as agreeable work conditions as possible, with the lowest stress level and significantly reduced potential for occurrence of occupational injuries.
- To ensure safe work conditions in the Bank's new locations.
- Introducing risk assessment in accordance with the relevant legislation, the Bank's objective is to reduce as much as possible the level of the occurrence of injuries suffered by the Bank's employees.

III. ENVIRONMENT

Principle 7 BUSINESS SHOULD SUPPORT A PRECAUTIONARY APPROACH TO ENVIRONMENTAL CHALLENGES

Principle 8 BUSINESS SHOULD UNDERTAKE INITIATIVES TO PROMOTE GREATER ENVIRONMENTAL RESPONSIBILITY

Principle 9 BUSINESS SHOULD ENCOURAGE THE DEVELOPMENT AND DIFFUSION OF ENVIRONMENTALLY FRIENDLY TECHNOLOGIES

Practical activities

- E-waste has been disposed in accordance with the legislation and contracts with suppliers, and the price of disposal has been incorporated into the sale price of electronic equipment. Once obsolete equipment has been written off, the Bank invites the company responsible for the transport of such waste to the site designated for waste disposal (ecological landfill).
- HPB's strategy is to acquire the most up-to-date IT equipment in terms of ecological efficiency. Also, all new computers are all-in-one meaning that all the components are integrated in the same case and that we will upon the disposal of obsolete equipment have significantly less e-waste.
- HPB continued to use server virtualisation trend meaning that on one physical server multiple logical servers are mounted (1:20 ratio achieved) which reduces the energy consumption for power and cooling. It is estimated that the Bank saves around 350,000 kWh per year.

- With the continued development of electronic banking and introduction of information technology and automation of office work, the Bank is continuously reducing paper consumption and printing needs. E-Invoicing was implemented, replacing physical invoices for telecommunication, utility and other services and reducing the quantity of paper documents and printing needs.
- A management reporting has been implemented at the intranet portal, successfully reducing the need for printing reports used by the organizational units. This refers primarily to the reports on general and administrative costs.
- With document scanning and implementation of document management system “Documentum” and in-house developed systems, the Bank significantly reduced the quantity of paper documents and printing needs. The Bank also fully implemented document classification project which paved the way for the document archiving and digitization project and in the long-term, also for the transition to fully electronic documents.
- The Bank fully implemented the print management project Page+ which would cut down on print jobs and reduce toner, paper and electricity consumption.
- For the purposes of learning, distance learning system is used with SharePoint platform and digital educational contents were implemented for the purpose of facilitating education for all the employees of the Bank. Consequently, educational materials are no longer printed.
- In order to facilitate easier communication at all levels, the Bank continued to use the integrated unified communication system Lync which comprises instant messaging, audio, video and web conferencing, telephony and voice mail.

Green Office

The Green Office Initiative started its activities at the beginning of 2012 with the aim to improve the efficient use of resources, minimize negative environmental impacts and reduce energy and office supplies costs.

In just one year after the initiative has been started significant activities have been carried out with the purpose of the preservation of environment (gathering of old paper, proper disposal of old toners and electric equipment, etc.), the employees have been continuously educated on the rational use of energy sources, office material and equipment, requirement to reduce waste and importance of recycling. Consequently, in 2012 and 2013 significant savings of energy and paper were realized in individual segments.

Despite specific work conditions in the specified period, in some locations savings in the consumption of certain resources (electricity and water) were realized. Consequently, it may be concluded that a large number of employees complied with the rules providing for the savings.

In 2014, by rational usage of energy sources the consumption of electricity and gas was reduced at all locations where measurements were made. The consumption of water was reduced at some locations while the total consumption of paper increased. Consequently, the quantity of collected waste paper increased too. Seeking to increase savings and decrease negative impact on environment, the Green

Office started at the beginning of 2014 to measure the quantity of print copies in the way that the number of copies made by each printer was recorded at the level of the entire Croatia.

In 2014, the following actions were taken:

- Through the informative and educational Intranet Site – Green Message Board, the Bank continued to educate and advise employees on an ongoing basis on the Green Office measures in terms of reduced paper consumption, optimum heat regulation in the premises, rational water and lighting consumption, gathering old paper and toners in the special boxes, etc.
- In the newsletter “Moja HPBanka”, in its column “HPB thinks green” current environmental issues were discussed and the employees were advised on the manners in which they could contribute to the protection of environment.
- Waste paper was continuously collected in cooperation with the licensed company which was supplying the boxes for waste paper. All waste paper was transported for recycling. The boxes were placed in 5 locations (business buildings) in the City of Zagreb and in 37 branch offices throughout Croatia.
- A record of the quantity of collected waste paper was kept by means of accompanying lists. In 2014, totally 13.43 tons of paper was collected throughout Croatia.
- Seeking to increase savings and decrease negative impact on environment, the Green Office started at the beginning of 2014 to measure the quantity of print copies in the way that the number of copies made by each printer was recorded at the level of the entire Croatia
- The licensed company did not cover the entire area of Croatia and individual branch offices of HPB took the initiative and joined independently the waste paper collection scheme in cooperation with other institutions.
- All e-waste (obsolete computers, printers, fax machines) was properly disposed of at the companies licensed for e-waste disposal.
- In all its units and Bank’s operational locations, throughout Croatia, the Bank introduced boxes for the purpose of gathering waste toners; they are then transported and disposed of in the correct manner at the company responsible for that.
- The Bank started to send via e-mail account statements and change notices
- Reports on expenditure were regularly sent via emails to the users of corporate mobile phones for the purpose of achieving more rational use of such phones.

Future goals

- Further rationalization and integration of technology platforms, leading subsequently to the reduction in different technologies and needs for physical/virtual environments.
- To pilot and implement desktop computer virtualization which would replace a significant number of physical computers and whereby energy would be significantly saved and the quantities of e-waste to be disposed of reduced.
- In 2015, the Bank will continue to implement the Green Office activities and will reduce office supplies and energy consumption even more.

- From the beginning of 2015, the Green Office will start to measure the quantity of print copies and consumed paper and to publish the results on a monthly basis seeking to ensure as much as possible environmental awareness among employees.

IV. ANTI-CORRUPTION

Principle 10 BUSINESSES SHOULD WORK AGAINST CORRUPTION IN ALL ITS FORMS, INCLUDING EXTORTION AND BRIBERY

Practical activities

Implementation of Anti-Corruption Programme

In furtherance of the Anti-Corruption Program for state majority owned companies for the period 2010-2012, adopted by the Croatian Government, and the *Action plan for implementation of Anti-Corruption Program in Hrvatska poštanska banka*, the Bank continued in 2014 to perform the activities referring to the promotion of business integrity and transparency,

- improvement of corporate management,
- improvement of customer relationship and communication by strengthening customer satisfaction and loyalty and intensifying customer relationship on behalf of the Bank,
- alignment of business operation with laws, regulations and norms,
- improvement of internal control system and operation of control functions,
- promotion of ethical conduct and behaviour.

At the beginning of 2014, the *whistle-blowing policy* was made and published as an internal act of the Bank, describing the procedure according to which the employees may report via special, independent and autonomous internal channel any violation of laws by responsible persons or other employees; it also provides a method for dealing with such reports by the Bank.

In case of the activities performed in relation to the improvement of customer relationship and communication, the focus was on strengthening customer satisfaction and loyalty and intensifying customer relationship on behalf of the Bank. One of the measures was also the introduction of updated customer complaint and inquiry management system at the end of the year.

Fight against money laundering and terrorist financing

Being under obligation to undertake measures and actions set in the Anti Money Laundering and Terrorist Financing Law, the Bank undertook in 2014 in the sphere of money laundering and terrorist financing prevention the following:

- The Bank was undertaking in a consistent manner the measures and actions prescribed by law and regulations passed based on the Law,
- The Bank was systematically developing and improving software in the area of money laundering and terrorist financing detection and prevention,

- The Bank organized a series of training courses for 354 employees, comprising those responsible for business relationship introduction and transactions carried out in branches and subsidiaries, those working in the payment operations sector, business support sector, financial markets sector and in the internal audit office, and the topics included legislative framework, due diligence, risk assessment, embargo lists application, detection of suspicious, complex and unusual transactions, money laundering and terrorist financing typologies with practical examples, record keeping obligations and document retention periods. The course dealing with the prevention of money laundering and terrorist financing also included the topic of customer/transaction monitoring and was attended by 284 employees through E-Classroom system.

Prevention of market abuse and manipulation

In 2014, we continued to control reporting of performed transactions to the Register of personal transactions of relevant persons and employees of the Bank, kept under the Ordinance on personal transactions of relevant persons and Ordinance on personal transactions of employees of the Bank.

In compliance with the required procedures the supervision of potential conflicts of interest and disposal of inside information was carried out and required registers duly maintained.

In 2014, no conflict of interest was recorded and no use of inside information by insiders was reported or noted.

Future goals

- Further enhance efficiency, integrity, ethics and transparency in business.
- Further improve anti money laundering and terrorist financing system and internal control system in risk assessment processes related to money laundering and terrorist financing in order to bring the measures to be undertaken in line with the identified risks.
- Education and training of employees in the sphere of reporting irregularities and protection of whistleblowers, detection of money laundering and terrorist financing, in order to ensure conformity to and application of laws, regulations and guidelines of the legislator
- Introduce new software for detection and prevention of money laundering and terrorist financing in order to facilitate and accelerate detection of suspicious transactions and persons, simplify analytical work and improve communication of responsible persons in the Bank.
- Continue to implement and improve transparency of procedures and business.