



2015.

Communication on Progress

Basic data:

Hrvatska poštanska banka plc

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Statement of Continued Support

We have pleasure in presenting you our 2015 Communication on Progress, the eighth 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 corporate values integrated into our everyday business practices do not include only business success but we base our work on the principles of social responsibility demonstrated over several segments – care of employees and investment in their training and development, transparency in our daily operations and accessibility to customers, provision of support to the community and environmental responsibility. Seeking to enhance public awareness of the importance of good personal finance management, in the last two years we have strongly promoted through different programs and activities the significance of financial responsibility and literacy of the residents of the Republic of Croatia, especially of the pupils and students, educating them and drawing their attention to potential financial risks. Our total dedication to our customers has produced visible results for years now – HPB has been ranked among the best for customer recommendations and trust.

In 2015 again, HPB consistently implemented the ten principles of the Global Compact Initiative, contributing to the responsible and sustainable business operation which is important for its future, as well as for the progress of the whole business environment. Continuing the practice of reporting on responsible business conduct, in the 2015 Communication on Progress we give the

summary of the activities and achievements in that period in the light of the objectives we set out to meet, as well as the outline of further plans in the areas of human rights, labour, environment and anti-corruption.

In 2016, Hrvatska poštanska banka will continue to implement the principles of socially responsible business conduct and even more strongly promote their importance among its employees, customers, owners and business associates.

Dubravka Kolarić
Member of HPB Management Board

Brief description of the fundamental business operation

Hrvatska poštanska banka plc was founded in October of 1991 as a universal banking organization to provide all banking services at home and abroad. Until 2001, the majority owner of Hrvatska poštanska banka was Croatian Post plc which through the good business practice of postal banks in Europe, continued to accomplish, through a newly established bank, the mission of the postal savings banks which were founded in Croatia in 1883.

Since the beginning of 2001, the Republic of Croatia is the majority owner of Hrvatska poštanska banka via funds or companies owned by it.

The ownership structure of Hrvatska poštanska banka:

Republic of Croatia	42,4293%
Croatian Post plc	11,9336%
State Agency for Deposit Insurance and Bank Resolution	8,9803%
Croatian Pension Insurance Institute	8,7577%
Hrvatska poštanska banka plc – own treasury shares	0,0393%
Minority shareholders (285)	27,8597%

Hrvatska poštanska banka is the core of the HPB Group which also includes – HPB-Invest Ltd., HPB-Real Estate Ltd. and HPB-Home Savings plc.

One of the major pillars of the business strategy of HPB is its accessibility and availability. The cooperation with the Croatian Post and the use of the post-offices as its distribution channels enabled the bank to be the most accessible bank in Croatia. Along with its accessibility, HPB is especially committed to creating innovative and competitive products and services responsive to the needs of its customers.

Hrvatska poštanska banka is the largest and one of the few Croatia owned banks. HPB is the fourth bank in Croatia based on the number of customers, the seventh based on the assets value, the second based on the number of cash transactions, and according to the researches, the first one based on the recommendations; it is also among the leading banks based on the customers' trust.

As the largest Croatia owned bank, HPB accepts responsibility and takes full account of not only economic but also of social processes in Croatia, and contributes through its actions to their further development.

Business environment and business challenges

In 2015 which was an extremely challenging year, Hrvatska poštanska banka carried out the recapitalization and achieved required capital adequacy ratio, introduced new organization, increased operational efficiency, attracted new customers, and reported the best business results in its corporate history.

Continuing the same trend, the Bank achieved in 2015 a record operating profit of HRK 324 million, 8.1% higher than a year ago. Following the strong operating result, HPB made the net profit of HRK 123 million and recorded the highest one in its corporate history. 60% of the operating profit was allocated for provisions and the coverage of non-performing loans (NPL) by value adjustments increased in 2015 by 2.9% to 64.1% whereby HPB significantly surpassed the average ratio for the banking system.

At the end of 2015, HPB had 640,000 customers, representing a net addition of 4,000 customers on an annual basis. The retail banking sector has seen the highest growth – as many as 32,000 new current accounts; the corporate banking segment has more than 1,200 newly acquired business accounts, and among the customers there are also 10 cities and municipalities. When developing and upgrading the products, HPB uses more frequently contemporary technologies in order to offer to its customers the highest level of the services.

On 31 December 2015, the assets amounted to HRK 17.7 billion and were 1.8% higher than at the end of the previous year. Household loans recorded again in 2015 an upward trend (+5.7%) where home loans grew 12.3%

which would, taking into account the market stagnation, increase HPB's market shares. The total deposits increased by 2.9% and amounted to HRK 14.6 billion. The retail banking segment also recorded continuing growth in both term and sight deposits and HPB's market share, while the portion of relatively expensive term deposits was returned to legal persons, and the growth in sight and limited deposits continued. These developments were the result of increased number of corporate accounts and individual current accounts, as well as the reflection of savers' trust in HPB.

Seeking to maintain the service quality at the highest level, the Bank enhanced the accessibility of its services to customers, and improved its business network, opening new and moving certain branch offices to better locations. At the same time, the Bank continued to develop and improve distribution channels and to add new business functions and products and services. At the end of 2015, the Bank had 60 business units, and with more than 1,000 postal offices where also the services of the Bank were provided, HPB provided its customers with the widest branch network in Croatia.

I HUMAN RIGHTS

A hand is shown placing a blue puzzle piece into a structure of white rectangular blocks. The blocks are arranged in a stepped, ascending pattern from left to right. The hand is positioned on the right side, holding the puzzle piece and about to fit it into a gap between two blocks. The background is a plain, light color.

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

In connection with the principles of responsible business operation referring to the respect for and observance of human rights, Hrvatska poštanska banka continued in 2015 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 2015, the Bank strongly focused on the protection from fraud attacks against its information system, as well as on a recently growing number of malware-based attacks against financial institutions.

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 processes in connection with the Bank's information security have been continuously improved.

The cooperation and information exchange amongst the banks in Croatia were both improved.

The Bank is keeping pace with the global trends in the protection of information and against new security threats to the information system. The awareness of the need for more investments in the information security systems has risen.

Education and care for employees

Hrvatska poštanska banka is continuously 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, the Bank's employees are obliged to maintain their professional skills and comply with the professional and applicable regulatory requirements. HPB is supporting and promoting lifelong learning whereby it is directly affecting the creation of the added value of the company and is providing the opportunity to every employee to acquire knowledge necessary for his or her respective area of work. The employees have been actively trained 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. We continued 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 properly into the Bank's business, both in individual areas and in general, and to prepare them in the best possible manner 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.

The educational programs include:

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

In case of the internal education in 2015, 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.

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 sales coaching and mentoring system was implemented in branch offices. Also, in 2015 the Bank continued to provide the courses focused on the sale of insurance products of the insurance company “Croatia osiguranje”. These educational programs were implemented by the employees of the Sales, Reporting, Planning and Controlling Unit. The same employees also educated the sales network of the Croatian Post on the Bank’s products.

Via the E-Classroom system, the following topics were studied: HPB-Invest agent license test, man-in-the-middle attacks against on-line payments, “man-in-the-middle”, preventing ML and FT, SEPA and occupational safety and health.

In 2015, in the external education programs the 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 both, the required courses and the exams. Also, the Bank organized the employee training on compliance with regulatory framework and changes.

Employees’ data

In 2015, the number of employees in HPB was reduced by 17 persons, and on 31 December 2015 the Bank had the total of 1067 employees.

Structure of employees on 31 December 2015

1) Based on type of employment

Temporary employment	Permanent employment	Total
31	1036	1067

2) Based on age and gender structure

Age	Total	Women	Men
19-24	5	4	1
25-29	92	66	26
30-34	225	159	66
35-39	259	170	89
40-44	199	146	53
45-49	99	73	26
50-54	88	64	24
55-59	81	63	18
60-64	19	11	8
65 and more	0	0	0
Total:	1067	756	311

3) Based on gender structure of managers and other senior officers: men (59), women (56).



Employees' average age on 31 December 2015 in the Bank was 40.

Additional care for employees

Employee satisfaction survey

In 2015, a comprehensive employee satisfaction survey was carried out to measure job and organizational climate satisfaction in the Bank in order to get a better glimpse about the employees' perception of the Bank as their employer and organization, its advantages and disadvantages, and how they feel working for it.

The objective was to identify the key factors in the daily workplace environment which if improved would have a significant effect on the job satisfaction, employee commitment, and thereby on the quality of the whole organizational climate. The results of the survey were also important guidelines for introducing plans and specific actions for the purpose of achieving improvements in the organizational processes and workplace environment.

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, updates on new employees, promotions and new products of the Bank, 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 columns are written by employees working in other sectors of the Bank and the number of employees participat-

ing in providing materials for the newsletter is growing constantly.

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. Each organizational unit has its space within this portal (team page) for sharing contents and other materials required for their daily operation.

Intranet pages have been continuously updated and developed – employees are provided with more contents and new functionalities.

Contribution towards community

Hrvatska poštanska banka is a socially responsible institution, aware of its environmental impact, and understands that activities and business operation in a society imply also a constant care and respect for it. One of the activities whereby the Bank exercises social responsibility is always readily supporting the community through grants and sponsorships. As the largest Croatia owned bank, by participating in and sponsoring relevant cultural events, the Bank sends a strong message about the importance of looking after and preserving

the Croatian cultural scene and heritage.

During 2015, 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 2015, 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, the 26th National Selection Conference of the European Youth Parliament Croatia, organized by the national branch of the European Youth Parliament.
- **For humanitarian purposes:** Foundation "Your Post", contribution to the humanitarian project "Good People for the Children of Croatia".

Through **sponsorships** HPB invested in 2015 primarily in sports and culture:

- **Sport:** Croatian Football Club "Gorica", Croatian Football Club "Zmaj".
- **Culture and social events:** the Faculty of Textile Technology – Zagreb, the implementation of the project "Fashion Closet 2015", the Croatian Association of Artists, the organization of the 3rd Biennial of Painting, the Croatian Chamber of Economy, in the campaign "Buy Croatian 2015".

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 associates throughout Croatia, as well as to special groups of individuals, such as young people, students and pensioners.

Improving financial literacy among population

In the last two years, HPB carried out and presented to the public different surveys on the importance of people's timely and inclusive awareness of finance, their understanding of financial risks and sound personal finance management. HPB sees itself as an institution which can participate in and contribute to the process of enhancing financial literacy, especially in case of pupils and students.

In 2015, the Bank carried out a series of activities within the financial education project, and as a socially responsible institution promoted through different programs the importance of the financial responsibility and literacy for young people. Seeking to enhance the awareness of the importance of the proper ways in which the Bank manages not only its customers' finances, but also those of other people, businessmen, public sector stakeholders and those involved in political life, stronger cooperation with schools, faculties and student associations through joint researches, competitions and promotion of the importance of knowledge has been given priority.

Future goals

- Within the project “Introducing Performance Management System”, in 2016 we will proceed with the first cycle where the objectives will be developed and employee performance assessed.
- The Bank will continue to run internal and external education programs for its employees for the purpose of introducing the internal training system and internal trainer database.
- The educational activities will be especially focused on the education of managers in the area of enhanced knowledge of HR processes application, strengthening of leadership skills (Leadership Academy), and particularly in the area of employee performance management, leading and setting development objectives and conducting annual interviews.
- Further enhanced activities through E-Classroom system will include more training courses for HPB Group’s employees, and they will be aimed at preventing discrimination, mobbing and violations of dignity in the workplace environment in general.
- The Bank will continue to support the community and society where it operates through sponsorships and grants to those who need them most.
- The Bank will further develop internal communication through existing channels (newsletter and intranet).
- Further activities and projects fostering financial literacy in the population.





II WORK CONDITIONS

Principle 3 businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining

Principle 5 the effective abolition of child labour

Principle 4 the elimination of all forms of forced and compulsory labour

Principle 6 the elimination of discrimination in respect of employment and occupation

Practical activities

In 2015, Hrvatska poštanska banka developed new risk assessment for all positions:

- The appropriate training and education regarding occupational health and safety were provided to all employees.
- All other measures and legal obligations related to occupational safety and health and fire protection were also implemented and fulfilled.
- HPB provided 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 concerning occupational health and safety will be further updated.
- Implementation of occupational health and safety measures in compliance with new regulations.
- Further improvement of work conditions and enhanced level of security in the Bank.
- Control of the Bank's locations in terms of improved secure work conditions.
- The exams by occupational medicine specialists will be arranged for those working with computers.



III ENVIRONMENT

Principle 7 business should support a precautionary approach to environmental challenges

Principle 9 business should encourage the development and diffusion of environmentally friendly technologies

Principle 8 business should undertake initiatives to promote greater environmental responsibility



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, 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.
- In the Data Centre in Vinkovci, the implementation of new technologies and process optimization has resulted since October 2015 in reduced average electricity consumption by 25% per month.
- 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.

- Redefining of print management has been in progress and this will result in reduced quantity of print jobs, and reduced toner, paper and electricity consumption.
- For the purposes of learning, distance learning system is used with Share-Point 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.
- The Bank continued to use the integrated unified communication system Lync/Skype for Business which comprises instant messaging and presence status, audio, video and web conferencing, telephony and voice mail, in order to enable easier communication at all levels.

Green Office

Hrvatska poštanska banka carries out through the Green Office Initiative the activities which should be also carried out by all employees of HPB Group in their daily tasks in order to minimize in the office operation negative environmental impacts and enhance efficient use of resources. Since the launch of this Initiative, a significant saving of energy has been achieved, and the greatest progress has been marked in the paper consumption.

In 2015, by continuing the trend of more rational use of energy sources the consumption of electricity and water was reduced at all locations where measurements were made. If compared to the previous year, a significant saving of paper was achieved – each month in 2015, 74,000 pages less were printed on average which is almost 10% less a year. In case of the gas consumption, slight increase was recorded at some locations.

In 2015, 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 in details 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 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.
- A record of the quantity of collected waste paper was kept by means of accompanying lists. In 2015, totally 19.82 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 and paper consumption in the way that the number of copies made by each printer was recorded at the level of the entire Croatia. Also, by monthly reports showing paper consumption the employees become aware of the importance of the environment protection.
- 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 offers its customers the option of receiving bank account and credit card statements and updates via electronic mail.
- 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 2016, the Bank will continue to implement the Green Office activities and will reduce office supplies and energy consumption even more.





IV ANTI-CORRUPTION

Principle 10 businesses should work against corruption in all its forms, including extortion and bribery

Implementation of Anti-Corruption Programme

In furtherance of the current Anti-Corruption Strategy for the Period 2015 – 2020, the Bank continued in 2015 to perform the activities referring to the promotion of business integrity and transparency, through:

- 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 this year, a special instruction was issued on how to deal with complaints/objections/reports submitted to the Bank's ethics officer and irregularity officer, setting out a mechanism for receiving and resolving complaints of irregularities in the Bank's operations and breaches of the Bank's Code of Ethics. The irregularity officer and ethics officer are responsible for resolving such complaints and reports. Seeking to further improve the customer relationship and communication, new Service Quality Management Office was established to manage the quality of the services provided to the Bank's customers through on-going customer satisfaction surveys and

measurements and giving recommendations to improve the service quality. This office is also responsible for the customer complaint, objection and other request resolution.

Prevention of 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 2015 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 in accordance with the Law,
- The Bank was systematically developing and improving software in the area of money laundering and terrorist financing detection and prevention,
- The Bank also organized a series of training courses for 110 employees of the Bank and 13 employees of the Croatian Post plc (internal trainers).

Since while providing payment services in the name and for the account of the Bank, HP – Croatian Post plc as "the third party" takes measures and carries out activities prescribed under the Anti Money Laundering and Terrorist Financing Law, and in order to ensure that the standards used by the Bank for detecting and preventing money laundering are also applied by the

Croatian Post, the Bank:

provides for the education of the internal trainers of the Croatian Post, checks whether the bylaws of the Croatian Post governing the detection and prevention of money laundering and terrorist financing are in compliance with the standards used by the Bank, supervises efficient implementation of measures, actions and procedures to detect and prevent money laundering and terrorist financing, prescribed under the bylaws of the Bank and the Post.

Prevention of market abuse and manipulation

In 2015, no conflict of interest was recorded and no use of inside information by insiders was reported or noted. The Bank 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. After the Bank's shares had been listed on the official market of the Zagreb Stock Exchange, the workshop was held for the senior management and relevant persons and the following topics were discussed: inside information and persons who have access to inside information, inside information management and public disclosure. The workshop focused on new obligations to be fulfilled by the Bank as the issu-

er of shares listed on the official market, in accordance with the applicable regulations and corporate governance and business transparency standards when applying the requirements of the Corporate Governance Code.



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.
- Educate and train employees in the sphere of the application of individual regulations; further enhance a culture of money laundering and terrorist financing risk management through planning and implementing programs of education, in order to ensure conformity to and application of laws, regulations and guidelines of the legislator, and to enhance the awareness and understanding of money laundering and terrorist financing risks.
- Continue to 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 actively implement and improve the practices that enhance the transparency of procedures and business operation, including also reassessment and improvement of public disclosure.

