

Communication on Progress 2016

United Nations Global Compact

Statement of support

Dear readers,

It is my pleasure to present the Communication on Progress Report prepared according to the UN Global Compact guidelines, which covers our activities in the field of human and labour rights, environmental protection and the fight against corruption for 2015-2016.

In spite of still unsupportive macroeconomic conditions as well as turbulent and adverse repercussions of the situation related to Swiss franc pegged loans, our operations proved to be resilient and sound. Therefore, Privredna banka Zagreb dd and its subsidiaries, supported by our strategic partner Intesa Sanpaolo, managed to substantially outperform our peers in most relevant business aspects. We were able to accomplish such an achievement by continuing to execute our predetermined business strategy built around customer relations and well-diversified sources of income, thus keeping a steady course and reflecting the resilience of our earnings power in these challenging conditions.

All our business segments managed to cope extremely well with the surrounding conditions, while our SME business segment managed to even increase the size of its portfolio. Supplementary to this, we have been investing significant efforts into shaping ourselves into well-capacitated, experienced and an agile entity able to exceptionally manage non-performing loans. Commitment to do so enabled us to hike the selling of the non-performing part of our portfolio, its collections and restructuring; results of applying this mix of activities showed to substantially decreased the non-performing loans share and provisions costs.

As we are well aware that excellence in customer orientation can only be accomplished if you stand by your customers during troubled times, we have embedded such an approach in all our business processes. For this reason we have developed comprehensive initiatives aimed at helping our customers during periods of crises and we are committed to continue on doing so.

Within this framework, we have defined our plans focusing on strengthening our position as fully client oriented providers of financial services. Responsible growth will continue to be our main strategic choice. Boosting trust and improving the relationship with all parts of society that interact with the Bank represents the condition of a continuous improvement of our business. With our actions we aim to meet the needs and rise up to the expectations of all participants, from caring for the needs of our customers, employees, help the development of the local communities in which we are a part of, caring for the environment to creating new and added value for not only our shareholders, but all our stakeholders.



Božo Prka
President of the Management Board

Brief description of the nature of our business

Privredna banka Zagreb dd was founded in 1966 and has consistently been a leading financial institution in the Croatian market, with an established business base and a highly recognized national brand name. During all periods of its history, PBZ supported the largest investment programs in tourism, agriculture, industrialisation, shipbuilding, electrification and road construction. PBZ has become a synonym for economic vitality, continuity and the Croatian identity.

Privredna banka Zagreb dd today is a modern and dynamic financial institution, which has actively sought and won the role of market leader on the financial markets in Croatia. It is a fully licensed bank with a nationwide branch network. With its nationwide network of branches and outlets, as well as a broad group of banking and non-banking subsidiaries, PBZ is one of the universal banks that cover the whole territory of Croatia. Today PBZ is a member of one of the biggest banking groups in Europe - Intesa Sanpaolo which owns 97.47% of its share capital.

Along with core banking services PBZ offers a diverse range of specialised services including leasing, real estate business, fund management and credit card services. With a base of about 1.8 million clients, PBZ is a universal credit institution offering a wide range of specialised financial products and services for retail, SMEs and corporate clients both locally and internationally. PBZ is the second largest bank and banking Group in Croatia with a market share in various operating segments of up to 20 percent, and in credit card operations even exceeding 30 percent.

PBZ is also one of the largest Fixed Income and Foreign Exchange dealers in Croatia as well as a leading player on the domestic syndicated loan market. With an outstanding reputation for innovative financial solutions, the Bank has been consistently recognised as the leading Arranger of equity, debt and commercial papers issues in the Republic of Croatia. The Bank has specialised origination, syndication and sales desks that deal with different types of debt (short and long-term) and equity issues.

In PBZ, over 90% of payment transactions take place through electronic channels, recording a constant growth in internet and mobile banking users. The Bank also continues to hold a significant comparative advantage over its competitors with the most extensive branch network with about 250 branch offices throughout 6 regions and around 780 ATMs covering the entire territory of Croatia.

The Bank is strongly focused on customer satisfaction and offering a high quality customer experience. A shift in customer experience from branch-centric to omni-channels is taking place - The Bank is where you want it to be! It leverages its strengths and synergies of all channels to improve the overall customer banking experience. Aware of its role and influence on society, PBZ's corporate values integrated in daily operations include not only business success, but also care for people, the sustainable development of its business and the overall improvement of quality of life in the community where it operates.

Our Vision

To be a model company and a center of excellence in creating new values, as well as in providing high quality service in all of our activities to the benefit of our clients, the community, our stakeholders and employees.

Our Mission

Our mission is to make long-term and effective use of all resources at our disposal to continuously improve all aspects of our business activities, including human resources, technology and business processes.

Our Corporate values:

Integrity

We pursue our goals with honesty, fairness and responsibility with the full and true respect of the rules and professional ethics and in the spirit of signed agreements.

Excellence

We set ourselves the goal of continuous improvement, farsightedness, anticipating challenges, cultivating extensive creativity aimed at innovation; moreover we recognize and reward merit.

Transparency

We are committed to making transparency the basis of our activities, advertising and contracts in order to allow all our stakeholders to make independent and informed decisions.

Respect for specific qualities

It is our intention to combine large-scale operations with deep local roots and to be a bank with a broad vision, without losing sight of individuals.

Equality

We are committed to eliminating all forms of discrimination from our conduct and to respect differences in sex, age, race, religion, political and union persuasions, language or disability.

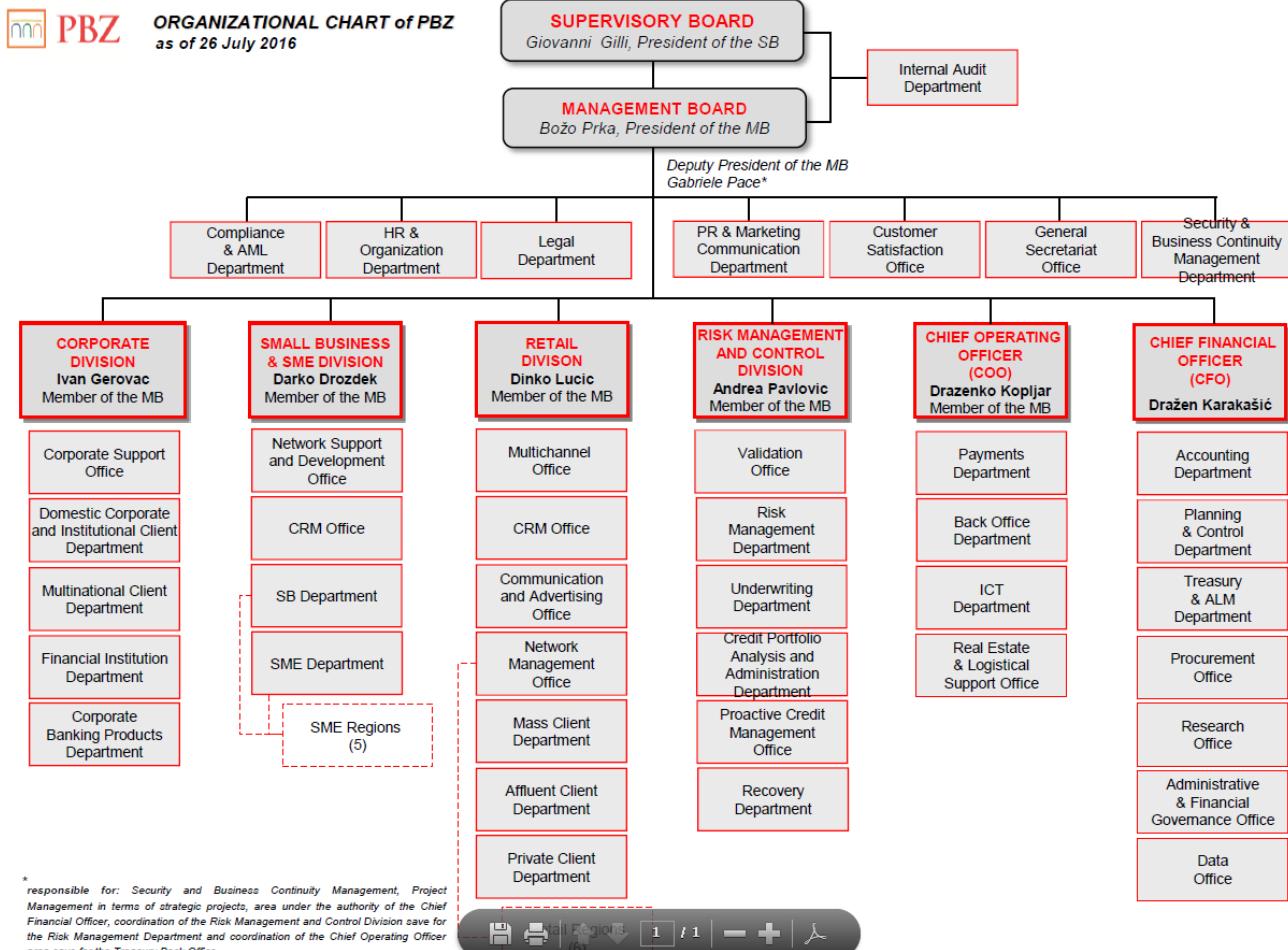
Values of the individual

The value of each single person is a guide for our modus operandi: we use listening and dialogue as tools for continuously improving our relationships with all our stakeholders.

Responsibility in the use of resources

We aim to use all our resources carefully, promote behaviour based on the best use of resources and the avoidance of waste and ostentation, and we give priority to choices that take sustainability into account.

2016 Organizational chart:



More information on: www.pbz.hr

Key impacts, risks and opportunities

After six long years of economic contraction, Croatia started a gradual recovery in 2015. A continued recovery in the EU and unfortunate events in competing tourist markets boosted exports of goods and services, while oil and commodity prices declines and income tax changes contributed to a rebound in private consumption. The recovery is expected to continue in 2016-17 at an average of 1.5%. However, external factors like the economic slowdown in Croatia's main trading partners, the FED's tightening of the monetary policy and a surge in emerging markets risk premium, could undermine this fragile recovery, affecting exports and rising financing costs of an already highly indebted government and other domestic sectors.

On the “domestic front” difficulties in forming a new government (following general elections held in November 2015), and unclear fiscal consolidation measures for 2016-17 could hamper the growth outlook. In addition, a stronger recovery of personal consumption is limited by still high levels of unemployment, particularly youth unemployment, while domestic demand in general will remain

burdened by low investment activity, even though dynamic utilisation of EU funds will be supportive to growth. The fact that Croatia is lagging behind other EU member states in terms of recovery stresses the necessity of structural reforms in order to enhance the country's competitiveness and to ensure a more dynamic growth.

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

Human Rights & Labour

PRINCIPLE 1	BUSINESS SHOULD SUPPORT AND RESPECT THE PROTECTION OF INTERNATIONALLY PROCLAIMED HUMAN RIGHTS
PRINCIPLE 2	BUSINESS SHOULD ENSURE THAT THEY ARE NOT COMPLICIT IN HUMAN RIGHT ABUSES
PRINCIPLE 3	BUSINESS SHOULD UPHOLD FREEDOM OF ASSOCIATION AND THE EFFECTIVE RECOGNITION OF THE RIGHT TO COLLECTIVE BARGAINING
PRINCIPLE 4	BUSINESS SHOULD SUPPORT THE ELIMINATION OF ALL FORMS OF FORCED AND COMPULSORY LABOUR
PRINCIPLE 5	BUSINESS SHOULD SUPPORT THE EFFECTIVE ABOLITION OF CHILD LABOUR
PRINCIPLE 6	BUSINESS SHOULD SUPPORT THE ELIMINATION OF DISCRIMINATION IN RESPECT OF EMPLOYMENT AND OCCUPATION

PBZ completely respects all guidelines related to respect for human and labour rights which are regulated by the laws and Constitution of the RoC. Moreover, we continuously improve the quality of our working conditions, education and satisfaction of our employees. All employees are protected from any kind of discrimination by the PBZ Labour Relations Code and all decisions, regarding the employees, are approved by the Labour Council.

We take all the necessary measures to protect our clients and improve our relationships with our suppliers.

Actions taken:

Code of Conduct

The Bank recognizes the principles established by international conventions and has adopted the protection and maintenance of human rights as established by the Universal Declaration of 1948, as values of the Group. Our Code of Conduct, adopted in May 2010, was updated in September 2013

in order to additionally describe measures aimed at reinforcement of preventing the conflict of interest situations, even if potential ones.

Our **Code of Ethics** is founded on a common system of values recognized within the Intesa Sanpaolo Group, of which we are a part. It is the framework within which we shape our everyday operations in relation to our stakeholders. In 2008 we undertook a series of activities aimed at promoting and establishing these common values amongst our employees. In 2009 the Code of Ethics was updated on the issue of transparency in remuneration. The model for the implementation and monitoring of the Code of Ethics was adopted in 2010. Latest update of the Code of Ethics was adopted in May 2012, further promoting values and principles at ISP Group level.

Working conditions

According to the principles of the Global Compact, respect for human rights is also seen in all the measures taken to ensure good working conditions and a safe and comfortable working environment for our employees.

• Selection procedure and employment

Employment policy is based on objectivity and transparency ensured by use of psychometric methodology which consists of psychological tests (intellectual ability, numerical and verbal reasoning, and personality profile) and motivational interview.

All candidates go through the same steps during their evaluation: application, psychological testing, interview, hiring.

From this year there are three levels of the interview process. The experts in evaluation within HRO department are in charge of professional and trait evaluation. This is where some candidates do not meet the required standards, and those who do continue to the interview with HR experts and competent manager who ensures objective and adequate evaluation of candidates' expertise.

The newly introduced step of interviewing is the final conversation with responsible manager of HRO department, which is obligatory for all new employees and also all employees who continue their employment through an open-ended contract.

The selection procedure enables equal opportunities for all candidates and tries to match job requirements with the competencies of candidates to ensure best performance and long-term employees' satisfaction.

All personal data of candidates is protected and confidential. The great accent is put on sending feedbacks to all candidates that have participated in selection procedure.

Starting from 2013, changes in selection process and internal rotation were made. Retail experience was put as a cornerstone for all new employees which should result in improved internal communications and understanding between different organizational parts. Changes in internal rotation procedure made possible for employees to make a career change more easily.

• Structure of employees and management bodies

→ Total employment in the Bank

State as on 31st Dec 2015:	3,462 employees
Structure (31st Dec 2015):	957 men (26%)
	2,705 women (74%)

→ Education

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

University Degree: **57,0 %** (Bachelor, Master)

High school:	42,4 %
Other:	0,6 %

→ Age structure

Executives:	63 (2%)
Officers:	560 (16%)
Employees:	2,838 (82%)
<=30:	345 (10%)
31-50:	2,294 (66%)
>50:	823 (24%)

According to the age and category, the majority in PBZ are employees between 31 and 50 years old.

- **Education and development of employees**

PBZ carefully and thoroughly plans the development and training of all employees, investing in creating a pleasant work environment, and endeavors to enable the fulfillment of the professional goals of individuals. Alongside the standard intern program, in cooperation with other companies and external experts, we continuously run courses in foreign languages, information technology, specialist programs, in-house academies and programs aimed at developing managerial and highly technical skills.

In 2015 the total number of participants in these educational programs was 2.428 and a total of 12.536 days of training. It brings us to the respective average number of 3.6 training days per employee.

In February 2007, the bank established the PBZ Business School that provides continuous managerial training programs for employees with high managerial potential on three levels: young potentials, junior managers, senior managers. In 2015 the seventh generation graduated the 3 year program. In 2015 PBZ business school counted 209 active participants. By having more than 20% of our employees involved in these programs we have made a significant impact in the sense of company identity.

During 2015 PBZ continued to intensify e-learning approach to training by converting additional basic programs into LMS platform (such as Introduction program for new employees). Using e-courses we enabled them for all of our employees regardless their (dis)location while making our high quality programs also timely, flexible and cost effective. In observed period, over 1.345 training days were produced via LMS platform.

- **Evaluation of work results and individual results**

Work results and individual results are evaluated each year through the Annual performance appraisal. Taking into account specificity of different job position levels and adjusting methodology to best fit business processes, (three) different/tailored methodologies are in force.

Strategic managerial methodology ensures the balance between goals that are oriented towards professional growth and financial success with those that endorse responsible and sustainable business. Two sets of goals are predefined. One set of goals are financial/quantitative goals that have objective measures and the results are easily evaluated. However, at the same time and equally weighted, as their key annual goals managers get a set of sustainability goals that are qualitative, based on criteria that do not have direct financial impact and that ensure responsible business towards all included parts.

All other employees are evaluated according to methodology that also balances business-oriented behavior and those that ensures responsible behavior towards colleagues and clients. Methodology for evaluation of employees engaged in sales and collection stimulates achieving and exceeding the target budget but discourages risky and excessive sale. In addition to sales result, working behavior that guides towards integrity, responsibility and accountability is being evaluated. For non-sales employees, through setting and evaluating a shared (solidarity) goal on the team level, team work and striving towards achieving team goals is encouraged. And through evaluating role specific goal, key parts of individual working role is covered. In addition to KPI evaluations, key competencies for each role are also evaluated.

The Performance evaluation process is supported by IT system and it empowers employees and makes them responsible for fulfilling goals which are more closely related to the Bank's results. An important part of annual appraisal is setting goals for the next year. An evaluation conversation between a manager and an employee is key part and allows both sides to discuss their viewpoints, expectations and possible problems. Through the HR IT system, eHR, every employee has an insight in his own performance goals, expected date of fulfillment and comprehensive performance evaluations history. In case of dispute regarding performance appraisal, any employee can ask for an internal arbitration procedure, which is mediated by HR.

- **Organizational climate and satisfaction at work**

Mamforce certificate

Thanks to the implementation of a series of socially responsible practices, PBZ is one of the first Croatian companies that have obtained the basic 'Mamforce Company' Standard. The same is awarded to organizations that implement 'family friendly' policies which means that were successful in achieving a work-life balance, i.e. a successful organization of work and working environment, especially for working mothers who, in this way, are enabled to realize both a smooth professional career development and responsible parenting.

In 2014, PBZ confirmed the status of MAMFORCE Company and received MAMFORCE COMPANY certificate for improved practices in the field of family responsibilities and gender equality in relation to the situation of a year ago.

PBZ Kindergarten

In September 2012, Privredna banka Zagreb opened the corporate kindergarten of PBZ Group, which is organized as a private kindergarten. Currently, there are 96 enrolled children in the kindergarten. The kindergarten of PBZ Group is located in the ground floor of an office building in Radnička 50, it has 495 m² of internal surface used for the kindergarten and 300 m² of outdoor courtyard. In order to make the price of the kindergarten even more favorable for employees of PBZ Group, the PBZ Group adopted a decision to participate in the part of the cost of the program in kindergarten in the amount of 600.00 HRK (approx. 79 €) monthly per child for those employees who enroll their child in corporate kindergarten of PBZ Group.

- **Trade unions**

The Bank has an extensive and efficient cooperation with the Trade Union of workers of Privredna banka Zagreb. In that sense the right to participate actively in activities promoted by the Trade Union organization for the protection of the rights of the individual and the collective is guaranteed to all employees. In July 2016 the Bank and the Trade Union of workers of Privredna banka Zagreb have concluded a Collective agreement of a general character. This is the second such agreement. The first Collective agreement of a general character was concluded in 2003 and have been effected till the end of 2006. Besides the Collective agreement of a general character, The Bank and the Trade Union of Workers of Privredna banka Zagreb concluded the two collective agreements which regulate certain areas of employment and related to employment. In 2008 was concluded Collective agreement on how to resolve labor disputes in which the contracting parties regulate way for settlement of labor disputes in the Bank. This Collective agreement is still in force. The conditions for

the payment of severance pay is regulated by a special agreement for the first time in 2005. Currently, the Agreement from 2015 is in force and applies until end of 2017.

- **Incentives**

PBZ incentive system is based on different types of incentives such as:

- Managerial and Non managerial bonus – incentives for managers and key employees
- Network incentive system – incentives for Retail, SME, Corporate, Treasury and Recovery Department employees, system came into the force on 1st Jan 2013*
- Easter, Holiday and Christmas rewards for all employees
- gift to primary and secondary school children of employees for purpose of buying school books
- system of promotion according to individual performance and achievement of each employee
- other benefits (company cars for managers, lap tops, mobile phones etc.)

PBZ also has a range of nonmaterial motivators that offers to its employees (PBZ Standard association for sport activities and recreation, health examination every two years, discounts on product and services of PBZ clients etc.)

* In accordance with the initiative from the mother company Intesa Sanpaolo, International Subsidiary Bank Division (ISBD) and with regards to the need to establish the unified methodology of remuneration at the level of the entire ISP Group for sales network staff, Human Resources in co-operation with relevant business Groups at the end of 2012 implemented the new system of stimulating sales, that includes sales jobs in the following business Groups/organisational parts:

- Retail Division – branch offices and outlets, private client department
- Small Business and SME Division – SME business centres
- Corporate Division – sales segment
- Treasury Department– sales segment
- Recovery Department – employees in recovery activities

This system is based on stimulating sales activities, transparent and objective motivation of sales staff, within the budget framework, while maintaining an adequate risk control.

- **Safety at work and health**

Socioeconomic and health care activities are organized within the Human Resources Division and these are: health checks for trainees and persons who will be recruited in the Bank, preventive health care examinations for all employees at the best Croatian medical institutions (every second year), flu vaccinations, providing support to employees who are on longer maternity leave with sick child or who work part time job, giving help to employees and their family members in purchasing medicaments and paying for medical treatment etc. Socioeconomic care include: protection of former and current employees of the Bank and giving scholarships for their children. In this domains are also include psychological crisis intervention (organized for employees and clients who were witnesses of bank robbery) and organize summer holidays in Follonica for children of PBZ group and ISP Card employees.

Besides the above, in this domain periodically we conducting education of employees from the Bank, named "How to manage personal finances" providing help with making personal financial decisions, to determine their short-and long-term goals, and alignment with the capabilities and preferences with regard to income and expenditure in order to change some of their habits and behavior and achieve better and more secure financial future. Education included all employees who wanted to learn the technique of managing personal finances.

In line with the Safety at Work Act, a Safety at Work Committee has been founded, and the responsibilities of the committee are regulated by a Book of Rules.

The role of the committee is also to supervise the application of safety at work regulations, informing employees of the situation regarding safety at work, and implementing policies to prevent injuries and

occupational diseases. Also, one person is appointed by a special Management Board Decision as a Safety Protection Commissioner.

There is a sport and recreation association in the Bank called PBZ Standard, which offers various sports and recreational programs as well as the educational program Towards Better Health for employees of the PBZ Group (and members of their families).

- **PBZ Standard**

PBZ STANDARD - Association for sport recreation and health improvement is an association whose registered scope of activity includes organization of recreational and sports-educational activities and whose members can be PBZ Group employees.

Use of organized recreation is also open to the immediate families of employees, meaning their spouses and children. The Association has been active for eleven years, and in September 2016 PBZ Standard has about 2,000 members from all PBZ Group Subsidiaries.

The fundamental purpose of the Association is to achieve better health and general well-being through the realization of its objectives, which will positively affect the satisfaction and welfare of employees, directly improving their mental and physical health. This effect may significantly contribute to reducing the rate of sick leaves which are increasingly caused by a sedentary lifestyle and reduced physical activity of employees. With the help of PBZ Standard, employees are encouraged to engage in more physical exercise and sports activities, i.e. to lead a more active lifestyle which also increases their quality of life.

PBZ STANDARD strives to provide recreation through as many sports as possible so as to stimulate Bank employees to socialize with each other and jointly contribute to the achievement of set goals, as well as to strengthen their team spirit and make them aware of the fact that it is easier to achieve such goals with joint forces. That is why PBZ Standard expands its recreation offer throughout Croatia, ensuring that employees have possibility for recreation in as many cities as possible.

PBZ STANDARD organizes activities under the Towards Better Health initiative, through financing medical gymnastic recreation in fitness centers. Also, from 2013 greater focus is put on cycling and encouraging employees for greater use of bicycles as a mean of transport. Steps toward improvement of cycling infrastructure are already done in terms of organizing changing rooms with lockers for the employees. Additionally, some special prices for cycling equipment are agreed. In 2016, also as in previous year, Bank has participated in campaign of the Union of cyclists named 'Biking to work'. This campaign has been held from 2nd May to 2nd June 2016, on which Bank occupied fourth place in Croatia, and third place in Zagreb in the category '500+' (teams/companies with more than 500 members). This campaign registered 155 employees. This initiative brings together cyclists employees in order to adopt the working environment needs of cyclists and promoting cycling as a desirable lifestyle.

One of PBZ Standard's activities is also arranging a large number of discounts cooperating with the PBZ Group clients who offer discounts on their products and services to all PBZ Group employees.

The Association is regularly informing PBZ Group employees about all its activities and news through internal house newspaper and intranet.

- **Internal communications**

The internal communications system is very well developed through various channels: Intranet, e-mail, the internal magazine "Moja Banka" (published in the on-line edition) and the monthly internal newspaper PBZXpress (regular published every 15th in month, 12 times in year, specificity is that readers manage content - employees' correspondents).

The 100th jubilee edition of PBZXpress has seen the light of day in January 2014. On the occasion of this anniversary, here we present the impressive figures collected in the course of eight years. About 2,751 articles have been written by 527 employees. 100 employees have been interviewed for the "Ten questions" section, whereas in the section on the best branches as many as 96 branches have been presented. Besides presenting projects, sponsorships and internal communication campaigns, through its internal house organ PBZ organizes and promotes several initiatives aimed

at employees and their children. In the scope of humanitarian actions, for example, since 2011 about 690 individual wishes have been fulfilled and more than 400 gift packages have been donated to fifteen children's homes and social care institutions thanks to the selfless engagement of colleagues. During 2015 in humanitarian action have been participated 240 employees who have collected packages for 250 families.

Also, as part of the Intesa Sanpaolo Group, we are connected with colleagues from other banks through internal newsletters (Wats up, News from the group), and internal communication channels (Sharing Forum, etc...). They contain all relevant information and interesting details from the Banks within the Group and in this way contribute to a feeling of belonging to this large international and multinational group. Also, all employees are invited to contribute to the content of all the internal communication channels.

Corporate volunteering

This year Privredna banka Zagreb has been involved in manifestation "Croatian volunteers in 2016", organized by the Croatian network of volunteer. It is an event that mobilizes an extremely large number of volunteer organizers and volunteers. This year's event took place in the period 16 to 21 May 2016 in the cities of Zagreb, Osijek and Split, and the goal of the campaign was to promote volunteering in business sector.

In this manifestation has been attended 40 employees of the Privredna banka Zagreb. Employees have been volunteered at the "Center for Rehabilitation Sloboština" where they were included in editing area, garden and sandy hippodrome, together with beneficiaries and employees of the Center. For employees who were participated in volunteering, Privredna banka Zagreb has been approved a day of paid leave.

Security and safety

We believe that protecting the security of our customers, as well as their assets and confidential information, is not only a primary duty but also the basis of the trusting relationship that we wish to maintain with them and we:

- undertake to protect persons, their assets and valuables, as well as their fund of information and internal organizational processes in such a way as to provide a service that completely meets the requisites of reliability, continuity and confidentiality
- guarantee constant compliance with the law
- observe criteria of absolute transparency in informing our customers about their rights to privacy and the way in which we handle their personal information.

The Bank implements physical and technical security, fire protection, safety at work and other measures that ensure the protection of our clients and employees, their assets and valuables. The Bank also implements informational security measures and protocols that provide confidentiality to our clients.

All security and safety measures are completely compliant to the legal regulations, and some even meet higher security standards than those required by law. Since 2009, PBZ has a certificate for information security ISO/IEC 27001 for the system of authentication for the PBZ365@NET, mPBZ and PBZmToken users.

Suppliers' chain

We guarantee equal opportunity in the selection of suppliers, taking into account their compatibility with the size and needs of our company. We undertake to make sure that the contracts stipulated with our suppliers are based on fairness, especially regarding terms of payment and administrative compliance.

In 2014 we have adopted new procurement rules according to ISP Group standards regarding the all aspects of procurement process including transparency, environmental and social responsibility.

In 2015 we have implemented Supplier Portal, e.g. publicly available pages where any interested company can apply as a potential PBZ Group and ISP Group supplier. Additionally, through the same tool we are now managing our tenders what is additional value/insurance of the process fairness and transparency

Future goals:

In the future period we will continue to promote company unity and increase transparency in employee relations through internal communication channels. Also, our goal is to adopt policies and offer conditions that will result in a first-rate working environment for all employees.

In relation to our suppliers, we will ensure that the process of supplier selection is transparent and fair and establish a cooperative relationship based on dialogue and mutual trust. Also, we will increase intensity of dialog with ISP Group subsidiaries in the procurement area with the goal of recognizing and adopting best procurement practices regarding responsible social and environment friendly management of procurement.

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

We pursue the conscientious consumption of the resources necessary for carrying out our business and actively improving the energy efficiency of our activities.

Actions taken:

In 2011 we adopted the Environmental Policy with a view to clearly defining and emphasising our points on this exceptionally important and ever-present issue and in order to set up an official framework for further activities within PBZ Group. We have continuously been keeping track of our energy consumption and with various activities aim to reduce the consumption, while raising awareness of our employees on the importance of caring for the environment. On a regular basis we have been sending to our employees personalised emails so as to remind them about mandatory shutting down of their PCs after office hours, turning off their-conditioning and heating over the weekend, separating used paper from other waste for recycling purposes.

Double sided copying of documents, is our standard for several years, reusable envelopes and other activities in that direction have resulted in a substantial decrease in the consumption of paper, which is in the last two years on the lowest level, and now only shows the increase or decrease of activities in business, and not irrational spending:

Also, since June 01 2012, all the envelopes used for machine inserting in the Bank are made of recycled paper as well as A4 paper for automatic letter folding which resulted in a substantial increase in recycled paper usage. In fact all A4 and A5 paper, 80gr that is consumed in sub branches and everyday business in the whole PBZ is exclusively recycled. We have introduced some years ago

the recycled paper confectionery and some hygienic products (recycled paper towels and toilet paper) and now they are standard.

Within the last 5 years a reduction of over 100,000 kg in paper consumption has been realized and in the same period an increase of recycled paper usage of over 250,000 kg

We are monitoring the market of printed forms and other paper products used in Bank in order to find more alternative products made from recycled paper.

Installing energy efficient light bulbs and electronic ballast in order to cut energy consumption for lighting is a common practice. Upon replacement of worn-out equipment, attention is paid to having such equipment replaced with one of optimal characteristics (classic light bulbs are replaced with energy efficient bulbs, air-conditioning devices with inverter technology and of higher energy efficiency degree are installed, the material and elements of good insulation properties are used in construction, LED lighting is used in advertising signs and also, heat recovery ventilation is installed.

As a result of our efforts in that direction since January 2013 we are official Partner in **GreenLight Program**.

Electricity CONSUMPTION (MWH 000)



2009	18.617
2010	18.725
2011	17.529
2012	16.892
2013	16.966
2014	16.114
2015	16.788

- In the second half of the year 2015, Bank implemented 265 LED luminaire (downlighters) in central office building situated in Radnička 42-46.
- In 2015 in new branches LED bulbs and eco heating system with eco-friendly cooling medium R-410 were installed in branches (Sisak, Zaprešić, Samobor and Mali Lošinj). Additional LED bulbs were replaced in branches Pula and Oktogon Zagreb.
- Energy-efficient device in the cooling system was installed in Regional branch building Slavonski Brod and Poreč.
- Energy-efficient device in the heating system was installed in Regional branch building Gospic.
- New (energy-efficient) gas heating system was installed in branch Sisak and Regional branch building Sisak.
- In terms of reducing heating consumption we finished installing thermostatic valves into heaters that were recommended in energy certificates issued for building owned by PZB Group (branch Sisak and Regional branch building Sisak).
- Retrofitting in devices in the cooling systems – replacement of cooling medium in cooling system with eco-friendly R-410 (Đakovo and Biograd na Moru)
- According to the new legislation for environmental protection, managers for waste disposal are appointed. They have successfully completed three-day training in 12/2015.

We encourage coming to work by bicycle. Earlier this year we opened locker / dressing rooms with showers for cyclists and we are currently in the process of construction of additional parking spaces. Cyclists have their own column on the Bank's intranet, and some new information can be read in almost every issue of internal bulletin.

In order to reduce the CO2 emissions, it is decided to replace the Bank's cars in the "car pool" with greener cars that meet Euro 6 norm.

Future goals:

We will continue to promote responsible use of environmental resources, especially efficient use of energy and paper and proper waste management. Also, we will increase employee training and information on environmental issues to raise awareness.

Anti-Corruption

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

PBZ Group does not tolerate any form of corruption or bribery.

Actions taken:

Corporate Governance

PBZ systematically monitors best practice principles in the field of corporate governance, which are incorporated into PBZ's operations in accordance with the principles of good banking practice. The principles of corporate governance are implemented through the principle of publicly accessible operations, the powers of the Management Board and the Supervisory Board, internal control systems and co-operation between the Management Board and the Supervisory Board. Suitability assessment of members of Management and Supervisory Board, as well as Key Function Holders is conducted on annual basis.

An integral part of the Bank's internal control systems is the compliance function. Along with risk control functions and internal audits, it is a system of processes established with the goal of insuring that the Bank operates pursuant to all relevant legal and regulatory requirements, along with guidelines of the parent bank, codes and adopted professional practices. The compliance function guarantees the existence of rules, procedures and operating practices which efficiently prevent the breach or violation of applicable regulations in the area of all the Bank's business activities, including the areas of financial mediation, anti-money laundering, usury, transparency, embargo, payment systems, safety and health at work, personal data protection, as well as regulations in the area of environmental protection.

In this respect, PBZ has appointed a Compliance Officer who investigates complaints or anonymous reports which may be sent by any employee on significant irregularities, illegal and/or unethical conduct. The Compliance Officer will insure, on the basis of such reports and pursuant to the internal regulations of the Bank, an independent investigation and adequate activities to follow-up such an investigation. Concerning these investigations, employees who report irregularities, illegal and/or unethical conduct in good faith, are protected from disciplinary measures or any other procedure or any other activity which might threaten the legitimate rights of such persons.

Policies, Systems and Commitments that support anti-corruption principle include:

- ISP Group's Code of Ethics
- ISP Group's Code of Conduct
- PBZ Code of Ethics

- PBZ Code of Conduct
- Croatian Chamber of Commerce Business Code of Ethics
- Rulebook on Measures and Actions for the Prevention of Money Laundering and Terrorism Financing with its constituent part – Indicators for suspicious transactions
- Guidelines for the Fight against Money Laundering and Terrorist Financing and for the Handling of Embargoes
- Sanction Management Rules.

Moreover, Whistleblowing procedures have been enacted, as a part of this efforts, accomplishing alignment with new Credit Institutions Act.

Anti –Money Laundering, Combating Terrorism and Embargo

The Republic of Croatia, with the aim of preserving or re-establishing international peace and security, has adopted restrictive measures and embargos imposed by the United Nations Security Council Resolution, resulting in the partial or full suspension or weakening of economic relations with one or more third world countries.

When rendering decisions on implementing restrictive measures and embargos the Republic of Croatia, as a member state of the European Union since 1st July 2013, applies the common position or joint action of the member countries of the European Union.

In addition, PBZ, as a member of the ISP S.p.A. Group, accepts the regulations on embargo stipulated by the Office of Foreign Assets Control (OFAC), in charge of management and implementation of economic and trade sanctions which the United States of America impose on foreign countries, terrorists, drug traffickers and all entities suspected of being involved in trade, manufacture or use of weapons of mass destruction.

The repression of corruption in all its forms is an integral part of AML measures and activities conducted by PBZ. In that way the "Know Your Customer" standard which is incorporated in the *Rulebook on Measures and Actions for the Prevention of Money Laundering and Terrorism Financing* implies learning more about the customers' habits, their activities, income, business environment and reasons for choosing our Bank as their commercial bank, including all other details that help us to have an overall picture of our prospective and existing customers, to minimize potential risks and to protect the good name and reputation of our Bank.

In the aim to perform needed sanction checks of payment transactions as well as to perform customer due diligence the Bank implemented certain tools and regularly improves its applications and business procedures to be in line with new demands imposed by relevant bodies..

The Bank uses SW for automated processing of majority of AML processes so Customer Due Diligence – CDD is applied for onboarding clients as well as ODD for existing clients. The Bank detects through automated process also unusual and suspicious transactions and customers and checks all foreign currency payments in line with obligations proscribed in embargo measures defined by UN, EU and OFAC.

Additionally to describe above, the Bank still uses some *in house* solutions as part of "four eye principal". The Bank periodically does re-assessment of all clients data base and is specially focused on high risk categories of customers but also on medium risk categories which are subjected to verification process during existence of business relationship between those client categories and the Bank.

The Bank performs each year self-evaluation of ML Risk Exposure in which is included quality of internal control system. The overall risk is evaluated based on some subjective criteria but also 17 indicators are part of assessment done on objective criteria based on concrete data.

Training

The Bank is dedicated to perform each year regular training programs/activities and main aim of those trainings is to introduce the basic values and principles of AML and FT to all employees.

In the 2015 further number of employees were educated throughout:

- Annual Classroom training – **1597** Bank's front office employees attended the classroom education in **61** educations (classroom trainings including case-studies). Education was organized by the Compliance regarding anti money laundering, combating terrorism and embargo issues, ethical principles, dealing with conflict of interest and personal transactions in general (including personal transactions in financial instruments), non-armament policy, off shore policy. Training was organized through 6 retail (Zagreb, Central Croatia, Dalmatia, Istria-Rijeka-Lika, Slavonia and Northern Croatia) and 5 SME regions (Zagreb, Central Croatia, Dalmatia, Istria-Rijeka-Lika and Slavonia) for front-office staff (Large Corporate staff were included)
- new employees were also covered by separate education (**278**), while education were also provided for the staff of Treasury, Internal Audit, Payment Systems, Private Banking and Investment Banking (total of **77** employees).
- special education regarding implementation of Common Reporting Standard and FATCA were produced for front office stuff of Retail and SME.

Special focus is also put on training of AML stuff so each employee who works in AML function needs to be informed and updated on new practices and trends applied by credit institutions so it is obligatory for them to participate on, at least one conference per year.

In this view PBZ also uses various other channels of internal communication:

- Video-presentation
- PBZ newsletter.

These documents are also available to every employee on the Intranet.

Capital Markets

In the area of capital markets PBZ assumes dual role as issuer of financial instruments (PBZ shares are listed on Zagreb Stock Exchange) and provider of investment and ancillary services. Therefore, PBZ has adopted direct measures and procedures with the clear aim of preventing or interrupting any form of corruption or conduct that may be interpreted as being on the level of less than professional involving both of the previously mentioned roles.

In that sense, and in addition to the previously mentioned tools, PBZ has three main principles around which its anti-corruption efforts (in the area of the capital market) revolve:

- prevention of conflict of interest
- management of the price sensitive information
- supervision of the personal transactions of relevant employees.

The Policy for Personal Transactions with Financial Instruments, was updated in July 2015, with following main points:

- all relevant persons / insiders intending to trade in any financial instrument must notify Compliance & AML Department thereof before placing any order for the purchase/sale of financial instruments (for transactions in PBZ shares a prior consent is required – already existing provision)

- clear indication that third-party employees can and must be recorded onto registers if they have potential access to the inside information (relating to the Bank and/or third-party issuers)
- clear designation of responsibilities for recognition and recording in case an information should be registered onto the List of relevant business activities
- update of the content of registers.

This internal act, along with Conflict of Interest Management Policy (updated in 2014) demonstrate PBZ's commitment to transparent conduct in providing investment services and activities and ancillary services pursuant to the Capital Market Act and relevant subordinate regulations, in order to ensure the best possible management of legal and reputation risks in relation to the price sensitive information.

Note: All activities performed within PBZ are implemented throughout PBZ Group.

Membership

PBZ is member of:

- The Croatian Banking Association
- Bank Association at the Croatian Chamber of Commerce
- Banking Association for Central and Eastern Europe

Future goals:

Since the PBZ Group does not tolerate any form of corruption or bribery or any form of improper conduct, it continuously strives to pass on its corporate values to all employees (training, e-learning etc.) and to efficiently implement measures of control in relation to money laundering and terrorism financing. Further and continuous development and IT system support and sustained educational efforts are needed to improve and facilitate the suppression of money laundering and terrorism financing.

Beside the Global Compact web site, this report will be available on www.pbz.hr.

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