



## Communication on Progress Year: **2017**

**Basic data:**

**Hrvatska poštanska banka d.d. (Croatian Postal Bank plc)**

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## **The Statement of Continued Support**

The tenth Communication on Progress of Hrvatska poštanska banka provides an overview of our activities and achievements in the areas of human rights, work conditions, environment and anti-corruption in 2017 and reaffirms our on-going commitment to the UN Global Compact initiative.

Hrvatska poštanska banka, the largest Croatian-owned bank, is seeking through its socially responsible business operation to raise the standards of social development, encourage others to participate, and contribute to the general well-being of the Croatian society. The activities and projects that involve employee care and investing in their development, operational transparency, expanding availability, supporting the community where it operates and caring for the environment have been incorporated into our business and corporate values.

Oriented to creating an entrepreneurial environment, in particular to strengthening women entrepreneurs, HPB supports the projects which generate new value for the Croatian society and new jobs. We encourage excellence and entrepreneurs' audacity and want to contribute as actively as possible towards such entrepreneurial climate. Through the project "The Bank in Post Office" HPB and the Croatian Post became in 2017 the largest distribution channel for basic banking products and services in Croatia with more than 200 branches and offices. Seeking to enhance the awareness of the importance of good management of the finances of citizens, enterprises and stakeholders in public sector and political life, we carried out in 2017 a series of activities within the financial education projects and through different programs we promoted the significance of financial responsibility.

In 2017 we successfully achieved our goals with regard to the ten principles of the UN Global Compact initiative, as evidenced by this Communication on Progress.

Lidija Martinović

Director of Office of Corporate Communications

## Brief description of core business

Hrvatska poštanska banka was founded in October of 1991 and was owned by the Croatian Post. In its 26 year long history it experienced changes in ownership structure, always remaining within the framework of state ownership, it had its ups and downs and over time remained the only Croatian-owned bank with a market share of more than 1 per cent.

Hrvatska poštanska banka is 74 per cent directly or indirectly owned by the Republic of Croatia.

The ownership structure of Hrvatska poštanska banka:

Shareholders	Number of shares	Interest in the share capital (%)
Republic of Croatia	859,035	42.4293
Croatian Post plc	241,610	11.9336
State Agency for Deposit Insurance and Bank Resolution	181,818	8.9803
Croatian Pension Insurance Institute	177,311	8.7577
Hrvatska poštanska banka plc – treasury shares	795	0.0393
Other shareholders (each under 5% interest in the share capital)	564,056	27.8597
<b>Total shares</b>	<b>2,024,625</b>	<b>100%</b>

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.

HPB's business network consists of 54 branch offices and 11 regional centres and it is available to customers throughout Croatia. Through its own branch offices and through the project "The Bank in Post Office", HPB continuously increases its accessibility and in 2017, together with the Croatian Post, it has become the largest distribution channel for basic banking products and services in Croatia, with more than 200 branches and offices. In Financial Corners, which have been operating in post offices as "miniature bank branches", an increasing number of HPB's services may be arranged under the same conditions as in the Bank's branch offices.

Market-oriented Hrvatska poštanska banka provides a quality and comprehensive financial service to citizens, state administration and Croatian businessmen, especially small and medium-sized entrepreneurs. Innovation in business operation is an integral part of HPB's corporate culture, and the Bank's services and products are tailored to the different profiles and needs of its customers. The emphasis is on quality and fast services, and by applying new technologies, the Bank defines market trends which all of its customer generations reward with trust. According to independent research, HPB is the leader in client trust and referrals, and client loyalty represents the highest value of financial institutions.

In 2017, the Bank has more than 600,000 clients, HRK 19.8 billion assets, HRK 1.9 billion capital with capital adequacy of 18 per cent.

## **Business environment and business challenges**

Hrvatska poštanska banka recorded excellent second half of 2017, and despite high provisions for exposure to Agrokor Group and related entities it offset the loss made in the first six months and finished the year, according to the financial results, making a net profit of HRK 8,3 million, recording net interest and fee income growth and enjoying trust of almost 32 thousand new customers.

HRK 372,4 million operating profit realized in 2017 almost reached the level from the record 2016 when significant one-time effects were produced (gaining HRK 33.5 million from the sale of VISA Europe shares). Net interest income totalled HRK 531.3 million and was 3.3% higher if compared to the preceding year while net income generated from commissions and fees totalled HRK 192.1 million, recording 4% growth. The income generated from commissions in corporate banking segment grew 4.4% thanks to the rise in number of guarantees and kuna payment operations, and strong growth was recorded in card transactions as a result of increased number of ATM users and transactions, especially during the record tourist season.

Due to the Bank's market share of almost 5% the potential for further expansion of business was reduced until the entry into force of the new Decision on the application of the structural systemic risk buffer in August 2017. Under such restrictive conditions the assets increased by 2.5% to HRK 19.8 billion.

Almost 32 thousand retail current accounts opened during 2017 show that HPB is further strengthening customer structure and potentials for future income growth.

In 2017 HPB continued to focus on digital innovations, opened e-branch and was the first in Croatia to introduce e-cash service for cardless cash withdrawals at ATMs. In line with the expansion of business and more customers, the Regional Centre for Corporate Banking Bjelovar was opened, 10 branches were redecorated and the Small and Medium-Sized Enterprises Division was established.

Retail loans continued to rise 7,7%. On-going growth in deposits reaffirmed HPB as one of the most trusted banks by customers – 4.2% rise in 2017; individuals' and nonfinancial legal entities' deposits saw an upward trend.

At the end of 2017 HPB's capital totalled HRK 1.9 billion recording 0.9% increase. Capital adequacy ratio according to interim calculations increased to about 18% thanks to risk exposure optimization measures.

## **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 corporate social responsibility principles which refer to the respect for and observance of human rights, in 2017 Hrvatska poštanska banka carried out the activities continuously 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. The Bank controlled and improved work conditions, continuously educated and raised information and physical security awareness of its employees.

### **Information security**

During 2017 too, 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 Bank uses Anti-Malware and Anti-Fraud tools and the group for fraud prevention has been established within the Corporate Security Office.
- The educational and informational activities for the Bank's employees and customers were broadened.
- The Bank's information system security management was additionally improved and upgraded.
- The cooperation and information exchange amongst the banks in Croatia in the area of information security take place on an on-going basis.
- 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 been raised.
- The Bank is purchasing new information security related tools which raise the level of security of both, employees and customers.

### **Education and care for employees**

HPB 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 2017 the Bank focused mostly on the education of new and existing employees concerning the following topics:

- Finance for non-finance people
- Anti-money laundering and terrorist financing
- Motivating managers M1 through SDI
- What makes a successful project?
- Project management – basics – L1
- Service quality and selling skills
- Performance conversations
- Training programs for newly hired employees
- Financial statement analysis II
- MS Office Excel – basic level
- Training programs for interns
- Credit risk management with regard to natural persons

The internal courses were not only organized in order to introduce new employees into their work but also to provide regular learning opportunities to all employees to enhance their skills. In 2017 multi-day training course in mentoring skills was also organised and all intern mentors were trained how to

be a successful mentor, what makes a good mentor, what challenges a mentor may face and how to make training specific to individual interns. A significant number of employees attended, as every year, courses in soft skills, namely team work, communication skills, conflict resolution, provision of feedback, assertiveness, etc. In our opinion, the most important to stress is that we organised internal workshops for all employees working as Bankers where they could further improve their selling skills. Via the E-Classroom system, the following topics were studied: HPB-Invest agent license test, training and exam in the work with Western Union, list of indicators for recognizing suspicious transactions and persons who are reasonably suspicious of engaging in money laundering or terrorist financing, conflict of interest and personal transactions of relevant persons and 7-step sales process. At the end of the year the intensive courses were organised for persons working in the Bank's sales network in the light of the changes in law (Law on Consumer Housing Loans).

In 2017, in the external education programs the employees were acquiring their professional knowledge participating in different workshops, seminars, conferences 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. The employees also attended the conference where a foreign lecturer taught a course on customer centricity and a lot of attention was devoted in 2017 to customer centric training. The course in English and training for trainers were among the most popular. In addition to that, those employees who produce reports were focused on developing their expert skills and on several occasions external lecturers were engaged to train them in Power BI, Power Query and VBA programming.

The E-Learning platform provides access to the materials given to those employees attending certain seminars/workshops/conferences so that such materials are available also to other employees of the Bank and that the Bank may encourage knowledge sharing.

**Employees' data**

On 31 December 2017 the Bank had the total of 1122 employees.

**Structure of employees on 31 December 2017**

**1) Based on type of employment**

Temporary employment	Permanent employment	Total
<b>82</b>	<b>1040</b>	<b>1122</b>

**2) Based on age and gender structure**

Age	Total	Women	Men
19-24	13	10	3
25-29	82	55	27
30-34	223	149	74
35-39	270	186	84
40-44	217	152	65

45-49	143	114	29
50-54	78	55	23
55-59	80	55	23
60-64	16	11	5
65 and more	0	0	0
<b>Total:</b>	<b>1122</b>	<b>796</b>	<b>326</b>

Employees' average age on 31 December 2017 in the Bank was 40,2.

**3) Based on gender structure of managers and other senior officers:** men (68), women (70).

#### **Additional care for employees**

- 1) The employees have been ensured additional and supplementary health insurance in cooperation with a Croatian insurance company
- 2) Benefits in terms of discounts on theatre tickets and different recreational and wellness programmes
- 3) Lower rates of interest on loans
- 4) Discounted electricity rates (discount in case of HEPI tariff)
- 5) Various extraordinary monetary aids
- 6) The employees have been regularly informed of all important events in the Bank via Newsletter and Internal web portal

#### **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 supporting the community through grants and sponsorships.

We support the projects at the local and national level which encourage the creation of new values, seeking to promote knowledge and excellence and to preserve cultural heritage of our country. Special care is taken also of humanitarian organizations and actions.

- **For humanitarian purposes:**
  - Children's Hospital Klaićeva – assistance to purchase new diagnostic equipment
  - "MURID" – Međimurje Association on Early Childhood Intervention
  - League Against Cancer Zadar – assistance to purchase new IT equipment
  - Organisation "Debra" Croatia
  - Cancer Patients Society "Sv. Juraj" – assistance to organize The Terry Fox Run
  - Marathon Club "Marjan" – the 17<sup>th</sup> Split half-marathon and the humanitarian race "Running for the World Free of Poliomyelitis"
- **Education:**
  - National Foundation for the Support of Students' Standard



- Faculty of Electrical Engineering, Computer Science and Information Technology in Osijek – support in organising educational and sports event “Electrical Engineering Student Gathering – Elektrijska”
- Faculty of Law of the University of Rijeka – the 5<sup>th</sup> International Scientific Conference “Information and Data: The Road Ahead”
- Student Entrepreneurship Incubator of the University of Zagreb – the International Conference “BEE 2017 – Business & Entrepreneurial Economics”
- **Sport:**
  - Croatian Handball Federation
  - Croatian football club “Gorica”
  - Basketball club “Kaštela”
  - Croatian football club “Šibenik”
- **Culture and social events:**
  - 302<sup>nd</sup> “Tournament of Alka” in Sinj – the Alka Knights Tournament Society
  - 57<sup>th</sup> Split music festival
  - 50<sup>th</sup> “Šokačko sijelo” manifestation in the City of Županja
  - 4<sup>th</sup> Biennial of Painting – Croatian Association of Artists
  - 5<sup>th</sup> Festival “Visualia” – Tourist Board of the City of Pula
  - 47<sup>th</sup> Varaždin Baroque Evenings – Concert Office of Varaždin
  - 13<sup>th</sup> Cash & Carry Day – Academy of Fine Arts – University of Zagreb
  - Project European Cycling Challenge 2017 program “Cycling for Zagreb” – City of Zagreb
  - Conference Future.Build.Now – Ideas Worth Spreading, Association for Idea Promotion
- **Conferences and economic events:**
  - 12<sup>th</sup> International Conference “Challenges of Europe” – Faculty of Economics in Split
  - 20<sup>th</sup> Conference “Croatian Money Market” – “Tržište novca d.d.”
  - Conference “48 Hours” – Lider media d.o.o.
  - 5<sup>th</sup> International OFEL Conference 2017 – CIRU
  - Day of Croatian Financial Institutions – Croatian Chamber of Economy Zagreb
  - 9<sup>th</sup> Agritourism Fair of the Šibenik – Knin County
  - 22<sup>nd</sup> International Fair in Virovitica “VIRO EXPO” – Viroexpo d.o.o.
  - “Urbanovo 2017” - Wine and Grape Growers Association of Međimurje “Hortus Croatiae”

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.

### **Financial Literacy Projects**

Seeking to enhance the awareness of the importance of the proper ways of managing finances of individuals, businessmen, public sector stakeholders and those involved in political life, Hrvatska

poštanska banka carried out in 2017 a series of activities within the financial education project. As a socially responsible institution, HPB promoted through different programs the importance of the financial responsibility and literacy for different groups of customers. In order to contribute towards the improvement of financial literacy, in particular of pupils and students, in recent years the Bank 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. In 2017, HPB ran the program of education for entrepreneurs, in particular for those starting businesses. Through the program "We educate entrepreneurs" that provides for the acquisition of knowledge of finance, planning and all important challenges business face today, Hrvatska poštanska banka confirmed its social responsibility and contribution towards faster growth of economy and new businesses in Croatia.

In order to additionally provide for better understanding of financial literacy of individual customers, HPB launched at the end of 2017 educational "Cups of coffee with HPB" in its central branch in Zagreb at Jurišićeva Street. This is the project where in a friendly atmosphere the bankers give tips to customers to help them better manage their money and answer their questions concerning finances.

### **Future goals**

- In 2018, we plan to introduce the heir identification and program.
- The educational activities will be especially focused on the education of managers in the area of enhanced knowledge of HR processes application in the areas which fall within the bounds of their respective competences, strengthening of leadership skills (Leadership Academy). Also, those managers who are responsible for retail sale will attend courses in human resources management in sale.
- We plan to train all employees involved in housing loans both in traditional classrooms and through E-Classroom system.
- Records of training courses have been kept by the application software and the employees apply for training programs digitally (through HR portal).
- 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 retail customers and entrepreneurs.

## **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**

- The Bank is preparing the revision and adoption of the Occupational Health and Safety Rules.
- Control of the Bank's locations in terms of improved secure work conditions (elimination of potential risks from business premises).
- Carrying out emergency evacuation and rescue drills in the Bank's premises, seeking to reduce evacuation time.
- The Bank's employees have been educated on occupational health and safety measures on an on-going basis (the employees have been also regularly tested).
- Preventive measures and legal obligations related to occupational safety and health and fire protection were implemented and fulfilled.
- All tests prescribed by law, playing a role in the prevention and the control of employees' health, have been made.
- The employees have been ensured additional and supplementary health insurance in cooperation with a Croatian insurance company.
- Continuous improvement of workplace quality through ergonomics and occupational safety and health measures (replacement of old IT equipment and defective chairs at workplaces).

### **Future goals**

- Compliance with the amendments to the Occupational Health and Safety Act and other regulations in the area of occupational health and safety and fire prevention.
- On-going education relating to occupational health and safety via E-Classroom (new software application will be introduced).
- Control of the Bank's locations in terms of improved secure work conditions (internal control of locations).
- Carrying out emergency evacuation and rescue drills in the Bank's premises.
- Review of risk assessment in occupational health and safety domain.

### **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**

- HPB relocated primary and secondary data centres from its own premises to specialized premises intended for data centres that are significantly more energy efficient and eco-friendly. One of the important components of energy efficiency and savings in these new data centres refers to free-cooling systems which substantially save cooling energy consumption. Another environmental benefit offered by new data centres is the use of environmentally friendly gases in the automatic fire suppression systems (Novec), if compared to fire suppression gases used in former data centres (FM-200).
- HPB is renewing IT infrastructure and has replaced a significant portion of central IT equipment with new equipment significantly more energy efficient. Namely, the following energy inefficient equipment has been decommissioned: more than 10 Itanium servers, more than 15 Xeon servers and accompanying energy inefficient disk system. Air-conditioning in former system room in the Bank's seat was also turned off and decommissioned. These activities significantly minimised energy and ecological footprint of the Bank's information system.
- The list of the Bank's priority projects includes the expediting and simplifying of lending process where the use of information technology will reduce the number of steps in the process by 60%, and will lead to a reduction in the volume of documentation produced by the process, cutting the number of pages in each loan application from average 76 to 28. This is only one of the examples of considerable digitalization of HPB's business processes, facilitating the operations with customers and minimising paper and energy consumption, as well as the amount of waste produced, and making a positive environmental impact.
- Using the integrated unified communication system (Skype for Business) the number of travels to physical venues of meetings is reduced, and also the environmental impact of transport.
- 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.

#### **Green Office**

Hrvatska poštanska banka is committed to promoting the importance of healthy environment and sustainable development. The Bank regards environmental and social sustainability to be the fundamental aspect of achieving the results being in line with its goals and that the projects where environmental and

social sustainability are encouraged are among the top priorities. Having this in mind, the Environmental and Social Policy was adopted in 2017, setting forth that environmental and social impacts of the projects financed by the Bank are to be addressed by promoting and encouraging the programs that result in major environmental and social benefits.

Introducing the Green Office initiative in 2012, Hrvatska poštanska banka has opted to be the institution which soundly and rationally manage energy and waste encouraging ecologically responsible behaviour of its employees, business partners and community where it operates. Among the activities of the Green Office the education of employees plays an important role seeking to diminish negative impact on the environment and to enhance the efficient use of resources in everyday office activities. Education is raising awareness and motivation to change attitude to the consumption of energy and other materials in the offices. Taking such measures, not only the costs and negative impacts on the environment have been reduced, but also the quality of employee work has been better.

Since the launch of this Initiative, a significant saving of energy has been achieved. In 2017 the trend in reducing energy consumption mostly continued at the locations where measurements were made.

In 2017 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 on-going 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 2017, 19.4 tons of paper was collected, about 9 tons more than in 2016.
- 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**

- To complete the project involving digitalizing and expediting retail lending process which will reduce in the Bank's largest segment of lending operations paper consumption by 60%, and consequently minimise paper and printing materials consumption, archival space and its microclimate control, as well as the amount of waste produced.
- To launch a virtual branch relying on distance communication with customers, digital documents and qualified digital signature of documents. The concept of the virtual branch is not only more accessible to customers in terms of space and time but it will also have substantive positive environmental impact: distance communication reduces environmental impacts of means of transport, digital documents and signatures reduce the quantity of paper used in customer communication; a reduced need to spread bank's physical network has positive impact on the needs for office premises, energy and resources required for the operation of the Bank.
- Following the example of the lending process and virtual branch, to start further digitalization of internal business processes and customer communication.
- Further virtualization and rationalization of the IT infrastructure elements which will significantly minimise energy and ecological footprint of the Bank's information system.
- In 2018, 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**

#### **Practical activities**

##### **Implementation of Anti-Corruption Programme**

In furtherance of the Anti-Corruption Strategy of Hrvatska poštanska banka for the Period 2015 – 2020, the Bank performs the activities referring to the promotion of business integrity and transparency, through:

- improvement of corporate governance,
- 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.

The Bank is continuously aligning its operations with the Croatian and EU legislation. For the purposes of efficient compliance risk management and promotion of the standards laid down in the Compliance Policy, the compliance function in the Bank is continuously working towards developing stronger corporate awareness and culture of all employees with regard to monitoring of relevant regulations and the need for corporate compliance. Compliance function organises training programs in order to advise senior management and employees of the Bank on new regulations and requirements, and defines duties and responsibilities with regard to business compliance.

As one of the essential elements of keeping business integrity and improving transparency of operations, the Bank has adopted the Whistleblowing Policy regulating the situations where the Bank's employees report potential illegal/unlawful conduct. Receiving and addressing complaints and objections of customers with regard to irregularities in the Bank's operations and breaches of code of conduct by the Bank's employees have been regulated by the Working Instruction how to resolve complaints and objections. In 2017 no irregularity was reported either by customers or by the Bank's Employees.

The Bank plans to prepare in 2018 new code of ethics and to organise training for all the Bank's employees with regard to ethical principles in business and code of conduct for employees. The objective of the Bank is to ensure through continuous awareness of ethical principles (ethical principles in customer relationships, ethical conduct among and towards employees) that the Bank's business and the conduct of its employees are in compliance with the highest corporate values.

Since 1<sup>st</sup> September 2017 the Anti-Fraud Procedure has been in place, along with the Anti-Fraud Policy. The said Procedure sets out the actions of competent organisational units of the Bank in the anti-fraud process.

Also, the Service Quality Management Office continues to measure and survey customer satisfaction and to propose improvements to business areas responsible for service quality improvement. This Office

manages and coordinates the process of resolving complaints, objections and other requests of the customers, in cooperation with other organisational units of the Bank.

### **Prevention of money laundering and terrorist financing**

Being under obligation to undertake measures and actions set out in the Anti-Money Laundering and Terrorist Financing Law, the Bank undertook in 2017 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 organized a series of training courses/workshops for 331 employees of the Bank and 10 employees of the Croatian Post (internal trainers), and 466 employees of the Bank were delivered educational materials via E-learning platform

Since while providing payment services in the name and for the account of the Bank, the Croatian Post 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, HPB:

- 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 2017, no conflict of interest was recorded and no use of inside information by insiders was reported or noted. The Bank continued to keep the Register of personal transactions of relevant persons and employees of the Bank and personal transaction reporting has been regularly controlled. Also, all the employees discharging managerial responsibilities in the Bank and persons closely associated with them, as well as persons having access to or being in possession of inside information have to acknowledge in writing (sign statements) the legal and regulatory duties entailed and have to be aware of the sanctions applicable to trading in financial instruments on the basis of insider information and/or unlawful disclosure of inside information or market manipulation, in accordance with the provisions of EU Regulation on market abuse.

### **Future goals**

- Further enhance efficiency, integrity, ethics and transparency in business.



- The Bank plans to prepare in 2018 new code of ethics and to organise training for all the Bank's employees with regard to ethical principles in business and code of conduct for employees.
- Further improve anti money laundering and terrorist financing system and internal control system in risk assessment processes related to money laundering and terrorist financing.
- Educate and train employees in the sphere of the application of individual regulations in order to ensure compliance with and application of laws, regulations and guidelines of the regulator.
- Further enhance also a culture of money laundering and terrorist financing risk management seeking to raise 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.