



## **Corporate Social Responsibility – 2006 Report**

Bank BPH SA, the third biggest universal bank in Poland, pursuing innovative and dynamic development runs its business in a reliable and responsible way, while making use of the effect of scale. The Bank intends to bring significant contribution to the development, stability and security of the whole banking system, helping Polish economy grow. Driven by the principles of corporate social responsibility, the Bank is sensitive to the needs of all the stakeholders. We operate under the Polish legal regulations, which comply with the European Union directives. We observe Good Banking Practice, Code of Corporate Governance in Public Companies and the principles of UniCredit Group. In this way we create the image of a friendly and professional Polish financial institution.

As a subsidiary of a European capital group, Bank BPH views Corporate Governance, and, much broadly, Corporate Social Responsibility as basic corporate culture benchmarks. The supervision wielded by the Management Board under the leadership of the President, who co-ordinates implementation of the rules, ensures socially responsible activities to be high on the Bank's agenda. The employees' involvement in this process guarantees its success.

To crown the Bank's commitment to the idea of good 'corporate citizenship', we became a member of the Foundation for Corporate Social Responsibility, which obliged us during our day-to-day activities to comply with Business Rules based on resolutions of the Round Table from Caux. Both marketing and to the subject matter support from the Foundation will make the Bank more noticeable in its CSR efforts.

### **SHAREHOLDERS**

#### **The Bank as a public company**

Bank BPH is listed in Warsaw and London and has a combined capitalisation of more than 26 billion zlotys. Our stock is included in the prestigious WIG20 index in

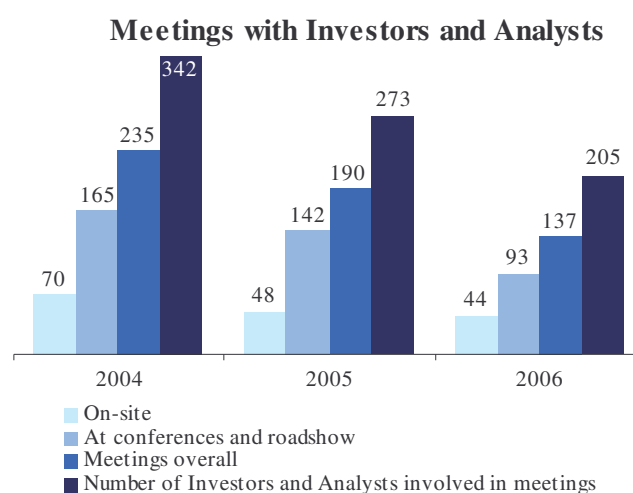
Warsaw (composed of the 20 largest and most actively traded companies), contributing ca. 7% to that index and more than 10% to WIG-Banki, the industry index. On 3 November 2006, UniCredit became the strategic investor in Bank BPH by taking over more than 71% of the Bank BPH stock from Bank Austria Creditanstalt AG in a move that followed the UniCredit's absorption of the HVB Group in November 2005.

### Communications with capital markets

Bank BPH maintains an active dialogue with the players in the capital market, such as institutional and individual investors, analysts and rating agencies. Our various communication channels include one-to-one meetings, videoconferences, Internet broadcasts and investor presentations at quarterly conferences. A large section of our website is dedicated to this specific objective.

The communication process is based on the following principles:

- transparency; all the information that it is legally obliged to disclose is published in current and periodic reports;
- reliability, which means that investors receive answers to all of their questions based on published financial data or on a qualitative assessment if the data has not yet been published in a current or periodic report;
- equal treatment, whereby all investors are given the same range of information, in Polish and English, ensuring equal access conditions;
- credibility, through reliably notifying events which have an impact on the price of the Bank's stock, including the personal involvement of the Board members in major conferences and investor meetings wherever desirable;
- quality, whereby fast and comprehensive information is provided in an understandable form of communication and appropriate format;
- comparability of data, whereby from 2005 the Bank has produced quarterly, semi-annual and annual reports in accordance with International Financial Reporting



Standards;

- coordination, meaning communication based on an annual action plan which forms a component of a comprehensive communication plan agreed internally at Bank BPH level.

The market has consistently had a high regard for the quality of our investor communications. In 2004 and 2005, the Bank was awarded the title of *Reliable Company* by the managers of Poland's largest investment funds for its adherence to corporate governance principles. This formed part of a ranking organised by the Polish Institute of Directors and the Warsaw Stock Exchange (WSE). In 2006 the London-based *IR Magazine* carried out a review of annual reports and investor relations websites. The magazine recognised the Bank BPH website in the Innovation category for its content, structure, clarity and ease of navigation. The jury of *The Best Annual Report 2005* competition organised by the Institute of Accountancy and Taxation in collaboration with the Warsaw Stock Exchange gave our report top marks for its usefulness to investors and analysts and as an important communication tool in the capital market.

### **Principles of Corporate governance**

Bank BPH fully respects the principles of corporate governance included in the *Corporate Governance Code for Polish Listed Companies 2005* and recommended by the WSE to ensure transparency in the Polish capital market. A suitable statement was adopted by the Management and Supervisory Boards and submitted to the Annual General Meeting on 10 June 2005. As required by the Code, the statement was subsequently published as an appendix to the annual report.

The Bank has adopted a more demanding threshold of independence in our Articles of Association according to which at least 30% of the Supervisory Board members should meet the independence criteria. In 2005, the Supervisory Board created an audit committee, in addition to its existing credit, investment and remuneration committees, to supervise the Bank's financial reporting process, internal audit and risk management. The working regulations of the new committee require at least two of its members, including the chairperson, to be independent members of the Supervisory Board and at least one should have qualifications and experience in the area of finance and accounting.

Bank BPH has implemented internal provisions regulating the standards of handling

confidential information on the securities market. Officers in the so-called confidentiality zones have disclosure obligations and are subject to restrictions in their private investments. The regulations cover more than 4500 employees. A good example of the high ethical standards applied is provided by the Bank's unique regulations intended to prevent a conflict of interest. Relationships between the managerial staff on the one hand and the Bank or its related companies on the other are governed by stringent internal procedures.

### Investor benefits

The year 2006 was the final year of our 2004-2006 Mid-term Development Strategy. Our performance in that year has markedly exceeded the financial targets set with a 25% gross ROE compared to the 22% target outlined in the Strategy and a record low cost/income ratio of 46.7% compared to the planned 51%. The latter result has placed us in an elite group of the most competitive banks in the European Union and set the benchmark on the Polish market. The spectacular success of the Strategy is also underlined by the nearly 10-fold increase in net profit per share during the last four years, from 4.65 zlotys in 2002 (according to Polish Accounting Standards) to 44.14 zlotys in 2006 (IFRS).

The Bank has been sharing its profits with its shareholders on a regular basis. From 2003, more than 75% of the profits have been allocated to dividends which have reached a combined total of nearly 1.8 billion zlotys. Since the formal merger of BPH and PBK, at the end of 2001, the stock price of the integrated Bank has risen by a factor of 3.5.

Key figures*	2002	2003	2004	2005	2006
Net profit (PLN thousand)**	133 535	323 189	758 557	1 027 436	1 267 769
Net profit per share**	4.65	11.25	26.42	35.78	44.15
Dividends (PLN thousand)	40 203	249 831	634 629	861 487	1 039 528
Dividends per share	1.4	8.7	22.1	30	36.2
Dividends/net profit***	31%	75%	80%	85%	86%
Stock price	18%	31%	44%	47%	24%

\*/ 2002-2003 according to Polish Accounting Standards (PAS) and subsequently according to International Financial Reporting Standards (IFRS); \*\*/ consolidated net profit; \*\*\*/ unconsolidated net profit, as dividends are paid from this profit

## CUSTOMERS

The Bank plays its role as a corporate citizen by building and maintaining sustainable partner relationships with its customers. We aim to provide long-term cooperation for our mutual benefit. Bank BPH is, after all, the *Bank Indywidualnych Rozwiązań (Bank of Tailored Solutions)*, which requires it to provide a professional approach, an innovative range of services and appropriate standards for a quality service. Customers of Bank BPH can rely on their account managers to provide them with the best individual solutions. Our two new tools, the Customer Relationship Management System (CRM) and our credit process system (Aurum), have both helped to deepen our relationship with the customers and better meet their needs, while at the same time shortening the service time and improving service quality. Account managers employ algorithms and sales scripts to better understand customer needs, making credit decisions faster and the selection of the right product for a customer easier. Detailed descriptions of the latest improvements in the area of retail and corporate Customers can be found in the section: Intellectual Capital of Bank BPH.

We continuously monitor customer satisfaction levels to ensure that we provide a quality service. In 2006, we were proud to see our customer satisfaction ratings soar above the competition. The two main factors that contributed to this result included the Bank's image and the excellent standard of customer service (Pentor Research International, 2006). Bank BPH is perceived as safe, stable, reliable, well-known, large, strong, caring and friendly (Synovate Polska: A qualitative diagnostic survey of brand perception). An independent survey of the Bank's Customers in Poland only confirmed the high rating, showing ca. 86% of the Customers satisfied or very satisfied with their relationship with Bank BPH (Millward Brown / SMG KRC, 2006).

In accordance with the adopted Principles of Good Banking Practice, with the requirements of the banking supervision authorities and the standards of the UniCredit Group, Bank BPH carefully notifies the types and terms and conditions of its services, indicating not just their benefits, but also the risks and costs involved. We follow the "four-eye" principle by involving at least two officers with appropriate individual credit decision making authority. In 2006, we analysed and made ca. 65000 credit decisions, 240 per day, to corporate and retail customers. The Bank continues to develop and improve its credit risk management methods and its tools for the benefit of its customers. During their conversations with customers, account managers provide detailed information about the various risks that should be taken

into account in selecting a product or service. The customers are also provided access to calculators to self-simulate credit terms and conditions. A deep analysis of project risk is not only performed in respect of the applicable legal regulations, such as those designed to prevent money laundering or financial terrorism, but also in compliance with the Group's stringent credit policy regulations. The Bank will not enter into a transaction that would be in any way incompatible with basic ethical values, and in particular involving companies managed by persons convicted of serious criminal offences, or with groupings or associations pursuing radical political or religious goals, or organisations whose activity in countries covered by the UniCredit Group operations are deemed unconstitutional. We will not get involved in projects that fail to meet the social and environmental standards developed by the World Bank or defined in applicable national or international regulations binding in a given region.

### **Compliance system**

Since 2001, Bank BPH has been using its internal Compliance system to prevent conflicts of interest that could potentially ensue between the Bank and its Customers or employees. The system regulates standards in handling confidential information and conducting private investments on financial markets by employees, in particular by officers in the so-called confidentiality zones.

### **Information security**

The Bank pursues an internal UniCredit Group policy designed to ensure that protected data, especially protected personal details and customer data covered by banking secrecy provisions, is appropriately collected, processed and disclosed. All of the data is processed and protected in compliance with the applicable legal regulations and security standards. It is a measure of our success that the Bank's operations in these areas contributed to minimising the operating risk in terms of violations of the principles of data protection and information security.

### **Money laundering**

We are actively participating in the development of a system in Poland to counter money laundering and the financing of terrorism. The Bank is involved in efforts taken by the Association of Polish Banks and in preparing legislation, and has participated in numerous conferences and seminars in Poland and abroad. Those employees directly in contact with the customer receive relevant training in the identification of suspect transactions and money laundering.

## **EMPLOYEES**

Human resources are crucial to the success of our organisation. In the face of an ever more competitive environment, European integration and globalisation, the management of human resources is becoming an enormous challenge. Bank BPH has developed a number of professional tools to support this area from recruitment to maintenance, motivation, and staff development. The objective of these activities is to build a corporate culture that will be a competitive advantage on the Polish market and in the UniCredit Group.

### **Relationships within the UniCredit Group**

In September 2006, the UniCredit Group initiated a process to build an integral corporate culture based on a defined common set of values, such as trust, integrity and reciprocity, listed in our Chart of Values. The Group also created its European Works Council consisting of employees from all those countries where the Group is present. The Council fulfils an information exchange and consultation role in matters to do with both the ongoing business and future activities in the areas of professional development, equal opportunities, non-discrimination and health and safety. The agreement is intended to speed-up the building of a common culture and increase the commitment of employees by involving them in the communication and consultation process. The Group has also developed its International Vacancy Bank offering opportunities for gaining international professional experience. Our staff take part in development training organised at Group level, such as under the UniQuest young talent development programme.

### **Employee appraisal**

Bank BPH employees go through an annual Periodic Employee Appraisal that has been serving as one of the basic personnel policy tools for the last four years. It facilitates an objective self- and team assessment and permits the identification of potential at both the level of the entire organisation and an individual employee. It provides a support for managers and is used in making development recommendations for the entire organisation. The training policy, recruitment process for managerial programmes and decisions on subsidising university degree courses are checked against competency gaps observed during the Appraisal. In 2006, the Chart of Values was incorporated in the Appraisal process.

## Recruitment

Bank BPH has developed three recruitment programmes in close cooperation with academic institutions; for young and ambitious students ([praktykant@sukces](mailto:praktykant@sukces); a three-month programme for students), graduates ([absolwent@sukces](mailto:absolwent@sukces); an annual programme for graduates) and people with limited work experience ([doradca@sukces](mailto:doradca@sukces); for future account managers). With these programmes targeted at people just embarking on their professional careers, the Bank has climbed to the top six most desirable employers on the market.

<b>Participants in recruitment programmes</b>	2004	2005	2006
<a href="mailto:praktykant@sukces">praktykant@sukces</a>	248	242	270
<a href="mailto:absolwent@sukces">absolwent@sukces</a>	20	20	20
<a href="mailto:doradca@sukces">doradca@sukces</a>	-	221	206

## Training

The Bank's training activities are directed at providing personnel development and strengthening the corporate culture. A number of specific programmes are designed to:

- add new competencies (based on the Annual Employee Appraisal) under the Academy of the Ambitious and the Summer School of Excellence;
- strengthen prospective competencies under the Star Odyssey Go! programme;
- develop talent: Management Development 0 and 1 for employees with high managerial potential.

In 2006, we used e-learning methods to intensify our training activity. This has resulted in much higher numbers of participants, training hours and average spending for personnel development.

<b>Participants in training programmes</b>	2004	2005	2006
Management Development 0	60	64	73
Management Development 1	25	27	34
Academy of Ambitious	-	1 420	1 619
Summer School of Excellence	-	1 100	1 022
Star Odyssey	-	-	460
Total training participants (stationary + e-learning)	14 465	44 698	53 938
Total hours of training	146 414	350 286	541 775
Hours of training per employee	15	34	50
Spending on training and development per FTE	1 232	2 125	2 196

## Health and safety

Bank BPH cares for the health and safety of its employees by providing adequate working conditions, private health care and obligatory training. We help our employees in improving their interpersonal skills by offering the specialised services of business psychologists. We work with organisations active in the area of labour protection, representatives of trade unions and voluntary labour inspector service.

<b>Analysis of accidents at work</b>	2002	2003	2004	2005	2006
Number of accidents, incl:	43	40	58	51	50
- fatal	1	0	0	1	0
Days of work lost	1 279	1 011	1 343	1 547	1 016
Accidents per 1 000 employees	3,79	3,81	5,68	4,94	4,95

During 2002-2005, the average industrial accident ratio was 4.6 per 1000 employees compared to the national average of 8.03 during the same period, according to the National Labour Inspectorate.

<b>Health and safety and first aid training</b>		2005	2006
Health and safety	Participants	2 434	2 565
	Hours	20 131	20 520
First aid	Participants	281	267
	Hours	1 124	1 068

Health and safety training was provided to all occupational groups and first aid training was provided to people responsible for providing the first aid service.

## The Bank for the society at large

Following our strong sense of social responsibility, we are participating in local, national and international projects by providing sponsorship or donations. We know the importance of health, education and culture which we support in our charitable activities. It is our objective to earn the greater confidence and satisfaction of our customers, shareholders and society at large. Open dialogue constitutes a strong foundation on which Bank BPH wants to rest.

Bank BPH does not restrict its activity to just its core business of providing banking services. We respond to the needs of society and make efforts to support projects with considerable social significance, both at the national and local levels. We have

been making our mark on international projects run under the auspices of the Bank's strategic investor.

Most of all, the image of a socially responsible Bank BPH is visible in our charitable and sponsorship activities, particularly in areas such as health protection and prevention, education and culture.

Numerous awards attest to the fact that Bank BPH successfully combines its excellent business performance with activities for the benefit of the society. This is a reason for pride and satisfaction on the part of all employees and customers of the Bank.

### **Business to business**

The Bank takes active part in lobbying and opinion-building exercises for the banking environment and for the Polish business at large. As we participate in the works of numerous organisations, such as the Polish Banks' Association, Payment System Council, Polish Confederation of Private Employers, we have the opportunity to voice our views on sensitive issues in Polish business. In this way we want to influence Polish economy and contribute to its continuous and dynamic development. Poland's accession to the European Union accelerated this process. Cohesion and assistance funds, much higher than in previous years, have stirred large interest among entrepreneurs and local authorities, as they serve as opportunity to improve competitiveness and acquire capital investments. In order to meet these expectations, the Bank launched a European Funds Office which provides on-going professional advice to Bank's customers and account managers. We also sponsor national and local conferences, symposia and fairs pertaining to European issues.

Bank BPH has been providing considerable support to Polish business. We promote enterprise, engage in education of entrepreneurs and contribute to building transparent and business-friendly regulations. Our initiatives show how important it is for us to support business, especially small and medium-sized enterprises that are the very engine for the development of Polish economy and the society at large.

## **Culture**

### **Cultural Sponsorship**

Bank BPH not only looks into the future by supporting initiatives for the development of Poland. Equally as important is our respect for tradition expressed in projects designed to preserve and enrich our national heritage. In the area of culture the

Bank's priorities include classical music, theatre and art.

The great importance that the Bank attaches to classical music is reflected in our sponsorship of no less than eleven philharmonic halls throughout the country since 2002, including the Filharmonia Świętokrzyska and the National Philharmonic Hall of Warsaw, for which we received the prestigious title of Benefactor.

In 2006, we again sponsored two unique Polish musical events: the 10<sup>th</sup> Ludwig van Beethoven Easter Festival in Warsaw and the 41<sup>st</sup> Wratislavia Cantans International Festival. The festivals involved dozens of concerts in more than ten Polish cities.

Bank BPH also sponsored the premiere of a new staging of the La Boheme opera by Giacomo Puccini, in March 2006 at the Teatr Wielki – the Polish National Opera.

The Bank sponsored the 8th Small Plays with Great Actors Review organised by Teatr na Woli in Warsaw with the performance of Grace and Gloria staged especially for the 35<sup>th</sup> anniversary of the artistic career of Ms. Stanisława Celińska.

The many cultural organisations and events co-financed by Bank BPH on a permanent basis include: the Jewish Festival in Cracow, Festival of Polish Composers in Bielsko-Biała, Festival of Lańcut, the Austrian Cultural Forum in Warsaw, the Mozart Festival and the Sinfonia Varsovia for its City Festival.

In 2006, Bank BPH also sponsored the Dance of the Vampires staged at the Roma Musical Theatre in Warsaw. The runaway success of the musical resulted in the publication of a double CD that received a Platinum Record award.

For the fourth year running we were the exclusive sponsor of the Christmas concert broadcast by Polish TV Channel 1. The programme included the recording of CDs, the proceeds of the sale of which will be donated to the Polska Akcja Humanitarna charity.

Bank BPH was the Principal Sponsor of the Grand National Concert on the first anniversary of the death of John Paul 2<sup>nd</sup> entitled: Vespers. Polish Artists in Tribute to John Paul 2<sup>nd</sup>. The concert was held simultaneously in three Polish cities: Cracow, Warsaw and Gdańsk. Having contributed to many of John Paul 2<sup>nd</sup> visits to Poland, Bank BPH became one of the Sponsors of the first Papal Visit of Benedict 16<sup>th</sup> to Poland in 2006.

### **Bank BPH for museums**

Our project by this name was born out of a sense that support for museums means an active contribution to the development of art and the promotion of eminent painters, sculptors and illustrators. Bank BPH works with: The Royal Castle in Warsaw, the National Museum in Cracow, the Wilanow Palace Museum, the Wawel Royal Castle, the Polish Rising Museum, the X. Dunikowski Sculpture Museum in

Królikarnia and the Regional Museum in Suwałki. Our long standing relationship with the Wilanow Palace Museum and the Wawel Royal Castle is not limited to financial support, but includes purchasing exhibits to enrich their collections.

During the years 2004-2006, Bank BPH was the exclusive partner of the Rising's Spoken Archive Project by the Warsaw Rising Museum. The objective was to collect accounts from those participants in the Uprising still living. By October 2006, the Museum had recorded and collected about one thousand audio and video accounts from participants in the Uprising. The Museum has a virtual version making it accessible from anywhere in Poland and the World.

The most notable among the numerous exhibitions we sponsored in 2006 include: Treasures from Around the Black Sea at the National Museum in Cracow, Hairdresser in the Coffin at Królikarnia in Warsaw, Shine of Silver and Seven Deadly Sins at the Royal Castle in Warsaw and In the Footsteps of the Preraphaelites at the Orangery of the Wilanow Palace Museum.

Bank BPH has been supporting the activities of the Jewish Historical Institute in Poland for many years now, thus contributing to the construction of the Museum of the History of Polish Jews. The Bank also supported the renovation of the synagogue in Zamość to turn it from a simple reminder of the past into a venue for current cultural and artistic events.

## **Science and education**

### **Supporting education**

We have devised a special Bank BPH for Education project to support various forms of education, including the unconventional, covering various regions, big cities and small towns. In 2006, we financially supported the Foundation for the Promotion and Accreditation of Economic Education, ABC XXI Foundation, the Foundation of Young Entrepreneurship and numerous primary, junior secondary and secondary schools and higher education colleges.

The Bank BPH Supports Young Talent programme funds scholarship grants for musically and artistically gifted children and youth and young researchers in financial difficulty. Our beneficiaries included the talented violinist Mr. Wojciech Pławner. We fund scholarship grants for graduates of painting of the Academy of the Fine Arts of Warsaw (latest award given to Ms. Aleksandra Bujnowska) and for winners of the national competition in economics for secondary schools (latest edition given to Mr. Michał Kwiatkowski and Mr. Rafał, Buła). Bank BPH is also funding awards for winners of the Iwona Borowicka National Operetta and Musical Performance

Competition.

We also continue our long involvement in the *Stay With Us* competition for young Polish researchers run by the Polityka Weekly Foundation. Winners of the competition receive 25 thousand zlotys in grant money. In this way we encourage young and gifted people to develop their scientific careers in Poland.

We are also supporting a campaign by Polskie Bractwo Kawalerów Gutenberga promoting readership, education and culture especially among children and young people from the poorest areas of Poland where access to Polish centres of culture is difficult.

## **Health and social care**

### **Charitable activity**

Bank BPH defines the scope of its charitable activities very broadly. We support orphanages, social services centres, organisations for the homeless, the sick and the needy.

In 2006, Bank BPH continued to work with Stowarzyszenie Wioski Dziecięce SOS and financed an annual food budget for one of the families under the joint *Friend* programme.

We also supported the *A Slice of Bread* campaign organised by Caritas Polska. The campaign targeted additional food for children, aid for women affected by domestic violence and food and accommodation for the homeless.

Other organisations who benefited from the Bank's support, both financial and in kind, included: Dom Dziecka w Mysłowicach (orphanage), Fundacja Pomocy Poszkodowanym w Wojskowych Operacjach Pokojowych Poza Granicami Polski oraz Ich Rodzinom "Servi Pacis" (for military veterans affected during international peace missions and their families), Polish National UNICEF Committee, Maltańskie Centrum Pomocy Niepełnosprawnym Dzieciom i Ich Rodzinom (Maltese Cross Centre for Disabled Children and their Parents).

### **Health protection and prevention**

Bank BPH also attaches great attention to health care. We wish to promote a healthy lifestyle in society and among our personnel.

The Bank continues its long standing relationship with the Promocja Zdrowia Foundation. Alongside financial support we are actively involved in the anti-smoking Kick The Habit With Us campaign and many of our staff have stopped smoking.

Bank BPH supports clinics, hospitals and other organisations taking care of the sick, addicts and the handicapped. By financing a full set of endoscope equipment for the Interior Ministry Hospital in Warsaw, the Bank got involved in the National Cancer Programme. The advanced equipment permits the early detection of lesions in the alimentary canal and increases the chance of an effective treatment. More than 800 patients from all over Poland have already been diagnosed with the equipment.

The Bank is not only financing the purchase of medical equipment, but also undertakes direct health protection or life saving activities. In 2006, we subsidised the procurement of two ambulances for the Regional Specialised Hospital in Radom, an electronic fetal monitor and an electrosurgery system for a clinic in Olkusz, a defibrillator for an Underground Rehab Treatment Centre in Wieliczka and an ambulance equipped to collect organs for transplantation for the *Centrum Zdrowia Dziecka*.

Employees of Bank BPH have been taking part in the A Drop of Life campaign for several years now. In 2006 alone our volunteers from the Polish Red Cross Honorary Blood Donors Club gave nearly 113 litres of blood. The blood donation campaigns are accompanied by the provision of free consultations, open to all, with medical specialists who are normally difficult to access in Poland.

Warsaw, April 2007