

Pursuant to Article 39 of the Articles of Association of Privredna banka Zagreb d.d. (hereinafter: the Bank) and Article 277 of the Companies Act, the Management Board of the Bank at its meeting held on 14 February 2017 made the Decision on calling of the Annual General Meeting of the Bank, in accordance with which it sends the following

I N V I T A T I O N
TO THE ANNUAL GENERAL MEETING

of **Privredna banka Zagreb d.d.**, Zagreb, Radnička cesta 50, which will be held on **27 March 2017**, beginning at **11.00 a.m.**, at the Bank's premises in Zagreb, Radnička cesta 44 B1 – 8th floor.

At the Annual General Meeting of the Bank, the shareholders shall consider the following

A G E N D A

1. The Supervisory Board Report on supervision exercised over the conduct of business affairs in the Bank in 2016
2. Annual financial statements of the Bank and consolidated annual financial statements for 2016 (confirmed by the Management Board and the Supervisory Board of the Bank), and Annual Management Board Report of Condition of the Bank and its Subsidiaries, and in this regard:
 - 2.1 Decision on the allocation of the Bank's profit earned in 2016
 - 2.2 Decision on granting the approval of action to members of the Management Board of the Bank for the year 2016
 - 2.3 Decision on granting the approval of action to members of the Supervisory Board of the Bank for the year 2016
3. Decision on the appointment of the external auditor who shall conduct the audit of the Bank's financial statements for the year 2017
4. Decision on the suitability of members of the Supervisory Board of the Bank based on the regular suitability assessment
5. Policy on the structure of the Supervisory Board of Privredna banka Zagreb d.d.
6. Policy on the assessment of the suitability of members of the Supervisory Board

Ad 1)

The Supervisory Board of the Bank hereby submits to the Annual General Meeting the following

R E P O R T
on supervision exercised over the conduct of business affairs
in Privredna banka Zagreb d.d. in 2016

I.

In 2016 the Supervisory Board of the Bank performed its duties as a body composed of seven members until mid-October, when one of the members resigned. The Nomination Committee started the process of nominating a candidate for a new member, who was elected by the General Meeting in December 2017 subject to the prior approval of the Croatian National Bank. One member of the Supervisory Board is independent, as laid down by the Credit Institutions Act and the Corporate Governance Code accepted by the Bank. The new member of the Supervisory Board will meet the independence criteria laid down by Article 24 of the Commission Delegated Regulation (EU) 2016/438 of 17 December 2015 supplementing Directive 2009/65/EC of the European Parliament and of the Council with regard to obligations of depositaries, which applies in the Republic of Croatia from 13 October 2016.

II.

In the course of 2016 the Supervisory Board held 18 meetings with physical presence of members or by letter, which includes four regular meetings held within the deadlines prescribed by law and the Bank's Articles of Association. Members of the Management Board regularly attended Supervisory Board meetings. As required by law, meetings were also attended by persons responsible for the operation of individual control functions.

Acting in conformity with the law, the Articles of Association of the Bank, as well as its Rules of Procedure, the Supervisory Board of the Bank supervised the conduct of the Bank's affairs, established the guidelines for the Bank's business policy, and actively contributed to its implementation, all on the basis of the reports of the Management Board on issues of importance for the conduct of business affairs and the condition of the Bank.

The Management Board provided the Supervisory Board with duly prepared, true, and timely reports on business policy and on other general issues related to the future conduct of business, financial plans, risk management strategies and policies, operational profitability, workflow, as well as income and the condition of the Bank, and other important issues. The Management Board of the Bank submitted to the Supervisory Board the financial reports on a quarterly, semi-annual, and annual basis and discussed their implementation with the Supervisory Board. Quarterly reports of the internal audit and the risk control function (credit, operational, and financial risks) were also submitted to the Supervisory Board in a timely manner. Reports on the work of the risk control function and the compliance function were submitted and considered semi-annually.

In accordance with the law, the Articles of Association of the Bank and its own decisions, also last year the Supervisory Board gave consent to decisions of the Credit Committee of the Bank regarding the Bank's exposure to customers/groups of related parties. It also gave consent to basic business documents adopted by the Management Board of the Bank: the budget for 2016, strategies and policies for assuming and managing risks, strategies and procedures for assessing adequacy of internal capital, and regulations which establish and ensure adequate functioning of control functions. Within the scope of its authority, the

Supervisory Board gave consent also to changes to the organizational structure of the Bank at the macro and mezzo level, thus exercising supervision over the adequacy of the Bank's organizational structure.

Continuous and constructive cooperation of the Management Board with the Supervisory Board also contributed to the fulfilment of the supervisory function. The Supervisory Board had at all times the possibility to ask for and to obtain from the Management Board information on any issue related to operations of the Bank which significantly affected or could have affected its position. Good and transparent cooperation, which was always in the best interest of the Bank, its customers and shareholders, and was also in conformity with the currently valid legal provisions and internal regulations, manifested itself in the open discussion between the Management Board and the Supervisory Board of the Bank and also in-between members of each of the two bodies.

In the light of the foregoing, the Supervisory Board finds that in 2016 the Management Board of the Bank was good and successful in managing the company's affairs in the best interest of all the shareholders and in line with its authority, as established by legal regulations and the Bank's Articles of Association.

Also in 2016 the Supervisory Board continued taking care of implementation of the long-term succession plan, by means of thoughtful and timely appointment of members of the Management Board of the Bank on the basis of a prior assessment of their suitability for the function of the president or member of the Management Board and with the approval of the Croatian National Bank.

Last year, as required by law, the Supervisory Board of the Bank participated in the process of regular suitability assessment of members of the Management Board and persons responsible for the operation of control functions in the Bank. Based on the outcome of the suitability assessment conducted by the expert service of the Bank, and with a positive opinion of the Nomination Committee, the Supervisory Board found that the president and each member of the Management Board of the Bank were suitable to perform their respective functions and that the Management Board collectively had sufficient knowledge, skills and experience to perform its duties independently and without undue influence from other persons, and in particular to understand the Bank's activities and the main risks.

Based on the assessment of the knowledge, skills, and experience of individual members of the Supervisory Board conducted by the Bank's expert service and confirmed by the Nomination Committee, the Supervisory Board finds that all of its members contributed significantly to its work, both individually and collectively, with their competences, experience, and dedication, thus enabling adequate and full supervision of the conduct of the Bank's affairs and complete performance of the Supervisory Board's function. The Supervisory Board also underlines that last year no conflict of interest of Management Board or Supervisory Board members was detected.

III.

The Supervisory Board was assisted by the Audit Committee in its work. The Chairman of the Audit Committee regularly reported on the Committee's work at the meetings of the Supervisory Board.

The Audit Committee, appointed in accordance with the law and the parent bank rules, worked in the previous year as a body composed of five members, including two members of the Supervisory Board of the Bank. Five meetings were held in 2016 to discuss issues that fall within the scope of authority of the Supervisory Board of the Bank. The Audit Committee helped the Supervisory Board perform its duties related to supervision over the process of financial reporting, audit process (including a recommendation for the selection of an external auditor given to the shareholders' meeting), as well as compliance with laws, regulations, rules, and the code of ethics. The Supervisory Board supervised, with the assistance of the Audit Committee, adequacy of the system of internal controls, which relies on three mutually

independent control functions (internal audit, risk control, and compliance) with the aim of maintaining and improving a system of internal controls that enables the Bank to monitor and detect in a timely manner all risks to which it may be exposed in its operation.

In 2016, pursuant to the provisions of the Credit Institutions Act, the Bank held meetings of the Remuneration Committee, the Nomination Committee, and the Risk Committee, technical committees of the Supervisory Board of the Bank which are composed of Supervisory Board members and are also responsible for the Bank's subsidiaries. In 2016 all the three committees held meetings to discuss issues falling within the scope of their authority, observing the deadlines set by law and the internal Charter of the Committees of the Supervisory Board. Based on regular work reports, decisions, and recommendations of its committees, the Supervisory Board finds that all the committees were successful in carrying out tasks under their authority in line with the law, by-laws, and the Charter of the Committees.

IV.

As is required by law, the Supervisory Board of the Bank examined the Annual financial reports of the Bank and consolidated financial reports for 2016, the report of condition of the Bank and its subsidiaries, and the draft decision on the allocation of the Bank's profit earned in 2016, which were submitted by the Management Board. The Supervisory Board of the Bank made no remarks on the submitted reports and it found that the Annual financial reports and consolidated financial reports of the Bank (profit and loss account, balance sheet, cash flow report, and notes to financial reports) were prepared in accordance with the balances recorded in the business books and that they fairly disclosed the assets and the financial condition of the Bank and the PBZ Group, as was confirmed also by the external auditor KPMG Croatia d.o.o., Zagreb, which audited the financial reports in 2016.

After the Supervisory Board of the Bank has given its consent to the Annual financial reports of the Bank and consolidated annual financial reports for 2016, the mentioned financial reports are considered confirmed by the Management Board and by the Supervisory Board of the Bank.

The Supervisory Board of the Bank accepted the Management Board report of condition of the Bank and its subsidiaries, and it agreed that the Bank's profit totalling HRK 1,605,188,350.76 (after taxation), earned in the year ended on 31 December 2016, should be allocated in the manner proposed by the Management Board of the Bank.

Based on the foregoing, the Supervisory Board of the Bank hereby presents the proposal to the Annual General Meeting of the Bank to take note of the Annual financial reports of the Bank and consolidated annual financial reports of the Bank for 2016 as well as the Management Board report of the condition of the Bank and its subsidiaries, and in this connection, to make the decision on granting approval of action to the members of the Management Board and the Supervisory Board of the Bank, as well as to adopt the decision on the profit allocation as proposed by the Management Board of the Bank.

Having supervised the conduct of the Bank affairs in 2016, which included also the review and examination of the Bank's documentation, the Supervisory Board established that the Bank acted in consistence with the law, by-laws, decisions of the Croatian National Bank related to performed supervisory examinations of particular segments of the Bank's operation, Bank's internal regulations, instructions and guidelines of the parent bank, as well as the decisions of the General Shareholders' Meeting of the Bank. Also, the Supervisory Board finds that the Bank's operations were successful in their entirety and that the established objectives were accomplished.

Respective decisions of the Management Board and the Supervisory Board of the Bank, by means of which the Annual financial reports of the Bank and consolidated annual financial reports of the Bank for 2016 were confirmed, constitute an integral part of this Report.

Draft decisions:

Ad 2)

2.1.

The Management Board and the Supervisory Board of the Bank hereby propose that the Annual General Meeting of the Bank adopt the following

DECISION

on the allocation of the Bank's profit earned in 2016

1. It is hereby ascertained that the Bank, in the year ended on 31 December 2016, earned net profit (i.e. profit after tax), in the amount of **HRK 1,605,188,350.76**.
2. Net profit of the Bank referred to in paragraph 1 above shall be distributed as follows:
 - The amount of **HRK 481,525,731.68**, i.e. **HRK 25.33** per share, shall be allocated for the payment of dividend to all the Bank's shareholders who are registered as holders of ordinary registered shares, with the exception of treasury shares, with the depository of the Central Depository and Clearing Company on 14 April 2017 (record date). The first day when the Bank's share trades without the right to dividend payout is 13 April 2017 (ex-date).
The claim for the payment of dividend shall mature on 20 April 2017 (payment date).
 - The amount of **HRK 1,123,662,619.08** shall be allocated to the retained earnings.
3. It is hereby ascertained that the total accumulated retained earnings of the Bank amount to **HRK 8,565,687,483.89** on the date of adoption of this Decision.
4. This Decision shall enter into force on the date of its adoption.

2.2.

The Management Board and the Supervisory Board of the Bank hereby propose that the Annual General Meeting of the Bank adopt the following

DECISION

on granting the approval of action to members of the Management Board of the Bank

1. After the Annual financial statements for 2016 have been presented to the Annual General Meeting of the Bank - which statements were confirmed by the Management Board and the Supervisory Board of the Bank, it is hereby ascertained that the Management Board of Privredna banka Zagreb d.d. managed the affairs of the Bank in accordance with the law and the Articles of Association of the Bank, and, based on the foregoing, members of the Management Board shall be granted the approval of action for the year 2016.
2. This Decision shall enter into force on the date when it has been adopted.

2.3.

The Management Board and the Supervisory Board of the Bank hereby propose that the Annual General Meeting of the Bank adopt the following

DECISION

on granting the approval of action to members of the Supervisory Board of the Bank

1. After the Annual financial statements for 2016 have been presented to the Annual General Meeting of the Bank - which statements were confirmed by the Management Board and the Supervisory Board of the Bank, it is hereby ascertained that the Supervisory Board of Privredna banka Zagreb d.d. performed its functions in accordance with the law and the Articles of Association of the Bank, and, based on the foregoing, members of the Supervisory Board shall be granted the approval of action for the year 2016.
2. This Decision shall enter into force on the date when it has been adopted.

Ad 3)

The Supervisory Board of the Bank hereby proposes that the Annual General Meeting of the Bank adopt the following

DECISION

on the appointment of the external auditor who shall conduct the audit of the financial statements of the Bank for the year 2017

1. The audit firm **KPMG Croatia d.o.o., Zagreb**, Ivana Lučića 2a, is hereby appointed as the external auditor that shall conduct the audit of the financial statements of the Bank for the year 2017.
2. This Decision shall enter into force on the date when it has been adopted.

Ad 4)

The Management Board of the Bank hereby proposes that the Annual General Meeting of the Bank adopt the following

DECISION

on the suitability of members of the Supervisory Board of the Bank based on regular suitability assessment

1. Upon completion of the regular annual assessment of the suitability to perform the function of a member of the Supervisory Board of the an assessment has been made that:
 - Ms **Draginja Đurić**, Deputy President of the Supervisory Board,
 - Mr **Fabrizio Centrone**, Mr **Branko Jeren**, Mr **Paolo Sarcinelli**, and Mr **Christophe Velle**, Members of the Supervisory Board,are suitable to perform the function of a member of the Supervisory Board.

2. It is assessed that the members of the Supervisory Board collectively or individually have the necessary knowledge, skills and experience allowing it to monitor the Bank's operations independently and without undue influence from other persons and to have an understanding of its operations and significant risks.
3. This Decision shall enter into force on the date of its adoption.

Ad 5)

The Management Board and the Supervisory Board of the Bank hereby propose that the Annual General Meeting of the Bank adopt the following

POLICY

on the Structure of the Supervisory Board of Privredna banka Zagreb d.d.

1. Introductory Provisions

This Policy sets out, in accordance with the provisions of the Decision of the Croatian National Bank on the assessment of the suitability of the chairperson of the management board, members of the management board, members of the supervisory board and key function holders in a credit institution, as follows:

- the target structure of the Supervisory Board of the Bank with respect to the nature, scope and complexity of the Bank's operations, its risk profile, and business strategy,
- detailed criteria for members of the Supervisory Board, including their specific competence, adequate knowledge, skills and experience to perform their functions,
- the requirement regarding ongoing education,
- the requirement regarding commitment of Supervisory Board members to performing their functions.

The suitability of the members of the Supervisory Board is assessed in line with the Policy on the assessment of the suitability of the members of the Supervisory Board of the Bank that was adopted by the General Meeting of the Bank pursuant to the provisions of the Credit Institutions Act, which is aligned with the Guidelines on the assessment of the suitability of members of the management body and key function holders adopted by the European Banking Authority (EBA), and the provisions of the Croatian National Bank's Decision on the assessment of the suitability of the chairperson of the management board, members of the management board, members of the supervisory board and key function holders in a credit institution.

The adopted Policy lays down the criteria for the suitability of members of the Supervisory Board.

2. Structure of the Supervisory Board of Privredna banka Zagreb d.d.

The Articles of Association of PBZ d.d. set out that only a person whose knowledge and experience in banking or economy or whose scientific work warrant that he/she will be capable of performing properly and efficiently the duties of a member of the Supervisory Board may be elected a member of the Supervisory Board.

According to provisions of the Articles of Association, the Supervisory Board may have five, or seven, or nine members, i.e. an uneven number of members. The decision on the number of members of the Supervisory Board is adopted by the General Meeting. Members of the Supervisory Board are elected by the General Meeting.

2.1. Quantitative Composition of the Supervisory Board

The decision of the General Meeting of the Bank set out that the Supervisory Board of the Bank shall be composed of seven members, a number estimated, keeping in mind the functions and the competence of the Supervisory Board, as a good solution ensuring high-quality supervision of the management of the Bank's operations which is aimed at protecting the interests of the Bank as a whole. The composition of seven members is satisfactory also considering the legal requirement to establish three Supervisory Board committees – the Remuneration Committee, the Nomination Committee, and the Risk Committee. Specifically, each committee must have at least three members who are appointed from among Supervisory Board members.

At least one member of the Supervisory Board shall be independent according to provisions of the Credit Institutions Act and by-laws as well as the Code of Corporate Governance, adopted by the Croatian Financial Services Supervisory Agency and the Zagreb Stock Exchange within the therein specified meaning.

According to the provisions of the Commission Delegated Regulation (EU) 2016/438 of 17 December 2015 supplementing Directive 2009/65/EC of the European Parliament and of the Council, as long as the Bank acts as a depositary of the UCITS funds of a company belonging to Intesa Sanpaolo Group, its Supervisory Board shall have two independent members within the meaning of the said EU Regulation.

The quantitative structure of the Supervisory Board of the Bank must ensure the targeted representation of the underrepresented gender in the Supervisory Board in accordance with the decision of the Nomination Committee.

2.2. Qualitative Composition of the Supervisory Board

Members of the Supervisory Board must have adequate knowledge, skills, and expertise as well as sufficient experience in the field of corporate governance so that they might perform their function efficiently and professionally. The experience acquired within the Intesa Sanpaolo Group and companies engaged in similar activities will be particularly valued in terms of corporate governance.

In order to achieve the optimal qualitative composition of the Supervisory Board, each member of the Supervisory Board shall have the knowledge, skills, and expertise, acquired in financial and credit institutions, medium or large companies, research centres or academic environments, in one or more areas listed below:

- banking and/or insurance and/or finance
- strategic planning
- risk management and risk management methods
- accounting and/or financial matters
- system of internal controls
- regulatory framework and prudential requirements
- corporate governance and organisation
- information technology

The composition of the Supervisory Board must be such that its members as a whole ensure that all the relevant competences/fields of operation are represented therein, all with the aim of achieving the suitability of the Supervisory Board as a whole.

The composition of the Supervisory Board must ensure the continuity of the performance of the supervisory function at the Bank.

2.3. Specific Criteria for Members of the Supervisory Board

2.3.1. Theoretical Knowledge

Members of the Supervisory Board shall have a graduate degree in one of the following areas:

- economics and other related areas (e.g. finance, accounting, or management)
- law and related fields (the terms related field refers to a graduate degree in social sciences)
- mathematics, physics, information science, electrical engineering and related areas.

By way of exception, if the Supervisory Board of the Bank is composed of at least five members, one member of the Supervisory Board is not required to have a graduate degree and/or meet the experience requirements set out in item 2.3.2 of this Policy provided that he/she meets all the other criteria laid down in this Policy and the relevant regulations.

2.3.2. Adequate Experience

Supervisory Board members shall have at least five consecutive years of experience in performing the function of a management board or a supervisory board member in a credit institution, or at least seven consecutive years of experience in performing other functions set out below:

- experience in the management board or supervisory board of a financial institution
- work with an authority competent for the supervision of credit or financial institutions
- experience gained from working for many years in academic positions
- experience gained from working for many years in key managerial positions including a high degree of autonomy with government administration bodies or public authorities
- long-year experience in the management of the organisational units of credit or financial institutions, essential for performing their activities
- experience in the management of a credit or a financial institution's branch
- experience of a procurator or advisor to the management board of a credit or a financial institution
- long-year experience in the management of financial operations in large entrepreneurs within the meaning of accounting regulations.

3. Ongoing Education

In addition to fulfilling the requirements referred to in the previous items, the members of the Supervisory Board shall also continuously extend their professional knowledge and ensure their permanent appropriateness within the scope of their authority in the area of financial markets, accounting, regulatory framework and prudential requirements, strategic planning and the knowledge of the business strategy, business plan and the accomplishment thereof, risk management, corporate governance, including the internal control system, and the analysis of a credit institution's financial information.

The above requirement means any participation at professional specialist programs (course, seminar, workshop), forum and conferences within the country and abroad, and participation in strategic meetings, coordination and educational programs organized by the Intesa Sanpaolo Group.

4. Commitment to Performing the Duties

The members of the Supervisory Board shall commit sufficient time to performing their respective duties.

In order to meet the mentioned requirement, the members of the Supervisory Board of the Bank cannot simultaneously perform:

- ~ the function of the president or a member of a credit institution's management board and another function of a member of the management board of another company or a limited partnership,
- ~ the function of a member of the management board and more than two functions of a supervisory board member, or
- ~ more than four functions of a supervisory board member.

For the purposes of the preceding paragraph, one function shall mean the functions performed in undertakings within the same group or undertakings in which the Bank holds a qualifying holding.

5. Final provisions

The Policy on the Structure of the Management Board and the Supervisory Board of Privredna banka Zagreb d.d., adopted by the Decision of the Management Board of the Bank No.: MB 4384 - 229/14 of 4 February 2014 (with the consent of the Supervisory Board), shall cease to apply upon entry into force of this Policy in the part that refers to the structure of the Supervisory Board of the Bank.

This Policy shall enter into force on the date of its adoption by the General Meeting of the Bank.

Ad 6)

The Management Board of the Bank hereby proposes that the Annual General Meeting of the Bank adopt the following

P O L I C Y

on the assessment of the suitability of members of the Supervisory Board

1. INTRODUCTION

Article 1

(1) Pursuant to the provisions of the Credit Institutions Act (National Gazette No. 159/2013, 19/2015, 102/2015 – hereinafter CIA), subordinate regulation Decision on assessment of the suitability of the president of the management board, member of the management board, member of the supervisory board, and key function holder in a credit institution made by Croatian National Bank, Commission Delegated regulation (EU) 2016/438

of 17 December 2016 supplementing Directive 2009/65/EZ of the European Parliament and of the Council with regard to obligations of depositaries, Privredna banka Zagreb d.d. (hereinafter: Bank) upon adoption of this Policy of assessment of the suitability of the members of the Supervisory Board of the Bank (hereinafter: Policy) defines the system of suitability assessment for the members of the Supervisory Board of the Bank.

Article 2

(1) The following is defined by the Policy:

1. procedure of suitability assessment including deadlines for delivery of documentation, deadlines and method for conducting the procedure, method of responding by the persons being assessed and reporting on the results of the procedure
2. structure of the Supervisory Board of the Bank
3. procedure of the suitability assessment: preparatory activities of the expert service, role of the Nomination Committee, competent authority responsible for the assessment of suitability of the members of the Supervisory Board of the Bank
4. information and documentation which shall be provided by the members of the Supervisory Board to the competent authority responsible for the assessment of suitability,
5. situations and circumstances for which an extraordinary assessment of suitability of the individual members of the Supervisory Board shall be conducted
6. method of communication and frequency of conducting suitability assessment
7. form and method of safe-keeping the documentation on conducted procedure of suitability assessment

Article 3

(1) The Policy regulates only the internal process of suitability assessment of the members of the Supervisory Board of the Bank.

(2) The Policy does not define and stays out of the obligations of the candidates of the Bank in the area of the communication with the regulator for obtaining prior consent in accordance with the applicable regulations.

Definitions

Article 4

(1) For the purposes of this Policy "procedures" are:

- investigations, prosecutions and criminal procedures and
- procedures preceding the passing of final and enforceable ruling, final and enforceable coercive measure and offence or administrative sanction.

(2) For the purposes of this Policy "close links" are persons closely linked pursuant to Article 3., point 83. CIA, respectively to article 4., paragraph 1., point 38 of the Regulation (EU) No. 575/2013 (two or more natural or legal persons linked in any of the following ways; participation in the form of ownership, direct or by way of control, of 20 % or more of the voting rights or capital of an undertaking; control; a permanent link of both or all of them to the same third person by a control relationship) and persons linked by blood in a straight line with no restriction and in a collateral line up to two times removed and in-laws. For the purposes of this Policy the in-laws are relatives by marriage and not by blood, including parents, brothers and sisters of the spouse, their children and spouses of the children.

(3) For the purposes of this Policy "significant business relation" is a business relation which meets any of the following conditions:

- if the total liabilities of the members of the Supervisory Board of the Bank and the persons related thereto to the Bank exceed the total claims and investment into the Bank by the amount which is by two per cent higher than its share capital
- the Bank or person/entity related thereto has an investment in the share capital instrument which exceeds 25% of the share capital of the company controlled by the member of the Supervisory Board
- if the company related to the member of the Supervisory Board earns the major part of income from service provision to the Bank.

(4) For the purposes of this Policy "conflict of interest" are circumstances when private interests of the person are contrary to the interests of the Bank, especially when private interests of the person influences or may influence his/her impartiality in performing duties.

(5) For the purposes of this Policy "candidate" is a person for which the Bank assesses suitability or has submitted the request for prior consent to appointment to the function of a member of the Supervisory Board.

(6) For the purposes of this Policy "Authority competent for suitability assessment" is the Corporate Function Human Resources and Organization (expert service).

(7) For the purposes of this Policy "Nomination Committee" is a committee of the Supervisory Board of the Bank composed of at least three of its members.

Structure of the Supervisory Board

Article 5

(1) When deciding on candidates for members of the Supervisory Board, the shareholders of the Bank must take into consideration that optimal variety of the structure of the Supervisory Board of the Bank is ensured, in order to perform the function of supervision of the operations of the Bank, as well as having in mind the suitability of the Supervisory Board as a whole, having regard to the nature, scale and complexity of activities, risk profile and the business strategy of the Bank.

Specific Role of the Nomination Committee

Article 6

(1) The Nomination Committee shall define the conditions for professional knowledge, abilities, dedication to duty fulfillment and experience of the president and each individual member of the Supervisory Board of the Bank in more detail, thereby taking into account that the entire composition of the Supervisory Board has necessary professional knowledge, abilities and experience which make possible impartial and independent execution of duties

(2) The Nomination Committee shall regularly examine the effectiveness and appropriateness of this Policy and issue adequate recommendations for improvements

(3) When conducting the assessment of suitability of individual members of the Supervisory Board of the Bank, the Nomination Committee shall take care of the suitability of the Supervisory Board as a whole.

(4) The Nomination Committee shall determine the targeted representation ratio of the underrepresented sex in the Supervisory Board and propose a strategy to achieve the targeted representation levels.

2. CONDITIONS FOR SUITABILITY OF MEMBERS OF THE SUPERVISORY BOARD OF THE BANK

Article 7

(1) A member of the Supervisory Board of the Bank can be the person who meets the following conditions:

- a. is of a good repute,
- b. has adequate professional knowledge, ability and experience necessary for running business of a credit institution,
- c. is not in conflict of interest in relation to the Bank, shareholders, members of the Supervisory Board, key function holders and senior management of the Bank,
- d. who can devote time enough for meeting the liabilities under the scope of the own authority and
- e. who meets the conditions for a member of the Supervisory Board in accordance with the Companies Act.

Good repute

Article 8

(1) The Authority competent for suitability assessment will take into account, when considering the category of a good repute of a candidate, all available circumstances and knowledge. The Authority competent for suitability assessment will consider that a person is not of good repute:

1. who is finally convicted or against whom the criminal procedure is pending for any of criminal offences under Art. 25, par. 1, sub-par. 1, indented line i) of the CIA,
2. who is finally convicted or against whom the criminal procedure is pending for any of criminal offences which are not included in Art. 25, par. 1, sub-par. 1, indented line i) of the CIA, but which could influence on a good repute of the person,
3. a foreign citizen who is finally convicted or against whom the criminal procedure is pending for any of crimes which are by the own description consistent with the crimes under par. 1) and 2) hereunder,
4. who is finally convicted, against whom a measure is imposed or against whom competent courts or bodies keep procedures due to irregularity or non-compliance with any of the regulation applicable on banking, financial or insurance activity or applicable on organization of securities market, securities or payment transaction instruments, non-compliance with the regulations applicable on provision of financial services or any other relevant regulations, which might give rise to any material doubt about a good repute of the candidate,
5. who manages, or managed at the time when the offence took place, the company which was finally convicted, against which measures were imposed or against which the procedures under par. 4 hereunder are pending, which might give rise to any material doubt about a good repute of the candidate,
6. who is not renowned for his/her former professional work and personal integrity,
7. whose business results endanger the person's reputation,
8. whose financial instability endangers the person's reputation and
9. for which there is any other reason for suspicion that the person is not of a good repute.

(2) When evaluating the conditions under par. 1, sub-par. 2), 3), 4) and 5) of this article, the Authority competent for performing suitability assessment will consider all the available information with regard to the type of conviction, stage of proceedings and level of appeal, punishment received, effect of rehabilitation measures, current aggravating and mitigating circumstances, significance of offence and misdemeanor, period past from the time of

criminal or misdemeanor offence and conduct of such a person in such a time. The Authority competent for suitability assessment will take care also of more minor incidents which individually do not deteriorate but cumulatively may deteriorate a good repute.

(3) Additionally, when evaluating the conditions under par. 1, sub-par 4) and 5) of this article, the Authority competent for suitability assessment will consider the information on all relevant former measures, convictions, procedures relating to the candidates or company managed by the candidate now or in the past, which conducted or are being conducted by the Croatian National Bank or any other responsible authority.

(4) When evaluating the conditions under par. 1, sub-par. 6) of this article, the Authority competent for suitability assessment will analyze the information showing incorrect conduct of the candidate in former professional work, such as non-transparent activities or non-cooperation with responsible bodies and authorities, refusal or withdrawal of the license for carrying out managerial functions or performing trade, business or profession, if being the reasons for terminating labor contract, dismissing from the key or similar function, and ban of running business or representing a legal entity imposed by the responsible authority.

(5) When evaluating the conditions under par. 1, sub-par. 7) and 8) of this article, the Authority competent for suitability assessment will consider financial and business results of a company in which the candidate is or was a significant shareholder or in which the candidate has or had significant shareholdings, or in which he/she had performed the function of the member of the management board or any other managerial function, before it was established that the company committed any major irregularity or violated law in the own business, pre-bankruptcy settlement was conducted over the company, bankruptcy procedure initiated, decision on forced liquidation made or license withdrawn, which might have impact on the candidate's repute. The Croatian National Bank will thereby appraise whether the person's conduct contributed to such a situation.

(6) When evaluating the conditions under par. 1, sub-par. 8) of this article, the Authority competent for suitability assessment may consider the financial soundness of the candidate and its potential impact on the candidate's repute. It can thereby analyze:

- a) that the candidate's assets do not jeopardize the fulfillment of his financial liabilities in the future,
- b) whether the candidate is included on the list of unreliable debtors (for example HROK, list of tax debtors of the Ministry of Finance, black list, credit registries and the like),
- c) whether the candidate's assets were subject to personal bankruptcy,
- d) whether civil lawsuits or administrative proceedings were initiated against the candidate,
- e) whether the candidate was finally convicted or whether a criminal procedure is pending against the candidate for any of crimes which are not listed in Art. 25, par. 1, sub-par. 1, indented line i), of the CIA,
- f) data on clean offence record of the candidate and whether offence proceedings are pending against the candidate and
- g) large investments or exposure and received loans.

Professional knowledge and abilities

Article 9

(1) The Authority competent for suitability assessment will consider that appropriate professional knowledge is at least finished graduate studies in a relevant area, in accordance with the regulations governing the scientific activities and high education as well as recognition of foreign educational qualifications.

(2) Exceptionally from par. 1 of this article, as far as number of members of the Supervisory Board of the Bank is at least 5, one member of the Supervisory Board of the Bank is not required to have a graduate degree and/or to fulfill conditions for experience from Art. 10, par. 1, sub-par. 1. and 2. of this Policy, if fulfills other conditions provided by this Policy or relevant laws.

(3) Relevant area from par. 1 hereof is considered to be the following:

- economy and similar areas (for example finance, management),
- law and related areas (for example administration) or
- mathematics, physics, IT science, electrical engineering and related areas

(4) The Authority competent for suitability assessment can, at assessment of professional knowledge of the candidate, except from attained educational level in accordance with par. 1 and 2 of this article check also a continuous professional training of the candidate in the following areas:

- financial markets,
- accounting framework,
- regulatory framework and prudential requirements,
- strategic planning and understanding of business strategy, business plan and its execution,
- risk management (identifying, assessing, measurement, monitoring, controlling and mitigating the main types of risks of credit institutions),
- corporate governance including the system of internal controls and
- analysis of financial information of a credit institution.

Necessary experience of members of the Supervisory Board

Article 10

(1) The Authority competent for suitability assessment will consider that appropriate experience is:

- experience in a management body or supervisory board of a credit institution,
- experience in a management body or supervisory board of a financial institution,
- work in a body responsible for supervision of credit or financial institutions,
- experience gained from long-time academic work,
- experience gained from long-time work in a body of government administration or in legal bodies at key managerial positions with high level of independency,
- long-time experience in managing of organizational units of a credit or financial institution which are essential for performing the above mentioned institution's activities,
- experience in managing of branches of a credit or financial institution,
- experience of a procurator or advisor to the management body of a credit or financial institution or
- long-time experience in managing of financial affairs at large entrepreneurs defined by accounting regulation.

(2) The experience from par. 1 of this article is considered to be minimum five years of continuous experience gained from the activities of a member of a management board or supervisory board in a credit institution or minimum seven years of a continuous experience at the tasks from par. 1 of this article.

(3) When assessing the experience of the Supervisory Board candidate, the Authority competent for suitability assessment shall verify whether a member is experienced enough to critically examine decisions and efficiently supervise the Management Board of the Bank as well as fulfill other liabilities stipulated for a member of a supervisory board.

Conflict of interest and independence of members of the Supervisory Board

Article 11

(1) The Authority competent for suitability assessment will consider that there is a conflict of interest if:

- a member of the Supervisory Board or his/her close link has a significant business relation with the Bank,
- if a member of the Supervisory Board is at the same time also a member of the supervisory board or management board in any other credit or financial institution, a mixed-activity financial holding company or a financial holding company and which are not part of the same group of credit institutions which also include the Bank or
- any other circumstances indicated that there is a conflict of interest.

(2) The Authority competent for suitability assessment, when assessing other circumstances which indicate that the candidate is in a conflict of interest, will take into account the following:

- former and present positions at which the candidate worked or has been working in the Bank or in other companies,
- personal, professional and other business relations with members of the Management Board, members of the Supervisory Board, key function holders and senior management of the Bank or its subsidiary or parent company and
- personal, professional or any other personal relations with the holders of a qualified share in a Bank or its subsidiary or parent company.

(3) Exceptionally from par. 1., point 2. of this article, if the Authority competent for suitability assessment determine, after due diligence carried out, that aforesaid circumstances are not of essential nature, it is necessary to explain which facts did affect to that conclusion and hereby excluded existence of conflict of interest.

(4) It shall be considered that a member of the Supervisory Board is independent:

- if he/she is neither a shareholder of the Bank or the Bank's affiliated company,
- if he/she is not a member of a Management Board which is affiliated to the company and if he/she has not been on the indicated position in the last five years,
- if in the last five years he/she has not been a member of the Management Board or the key function holder in the Bank,
- if he/she is not an employee of the company affiliated to the Bank or in the last three years an employee of the Bank of a company affiliated to the Bank which is not covered by the previous subparagraph of this paragraph,
- if, save the remuneration for office of the member of the Supervisory Board of the Bank and its affiliated companies, he/she receives no or has not been receiving any significant remuneration,
- if in the last three years he/she has not been a member, partner or employee of an audit company that provides or provided audit services to the Bank or to the company affiliated to the Bank,
- if he/she is not a member of the Management Board of another company in which a member of the Management Board of the Bank is a member of the Supervisory Board,
- if he/she is not affiliated to the members of the Management Board of the Bank and
- if he has not been a member of the Supervisory Board of the Bank for more than 12 years.

Dedication to duty fulfillment

Article 12

(1) The Authority competent for suitability assessment shall consider that a member of the Supervisory Board may not be dedicated sufficiently to the fulfillment of obligations under his/her competence if at the same time he/she performs:

- the function of the president or a member of a credit institution's management board and one more function of a member of the management board in another company or general partnership or limited partnership
- function of a member of the management board and more than two functions of a member of the supervisory board or
- more than four functions of a member of the supervisory board.

(2) When conducting assessment from par. 1 of this article, one function is considered to be the function of the member of the management board or supervisory board:

- in the companies within the same group
- in the companies in which the Bank has a qualifying holding.

(3) Functions of the member of the management board and supervisory board in non-profit organizations are not the focus of consideration.

3. THE PROCESS OF MAKING DECISIONS ON SUITABILITY

Authority for making decisions on the suitability

Article 13

(1) The decision on suitability of members of the Supervisory Board shall be made by the General Meeting, taking into account the opinion from the Nomination Committee.

(2) The provisions of this Policy shall not affect other liabilities prior to the appointment of members of the Supervisory Board consistent with the applicable regulations and internal documents.

Preparatory activities of the Authority competent for suitability assessment and the role of the Nomination Committee

Article 14

(1) The preparatory activities for suitability assessment of members of the Supervisory Board of the Bank are carried out by the Authority competent for suitability assessment.

(2) Upon the completion of the preparatory procedure, the Authority competent for suitability assessment establishes the results of suitability assessment in a form of a conclusion, pursuant to which the Management Board of the Bank prepares a proposal of the decision on the suitability. The proposal of the decision shall be delivered to the Nomination Committee for opinion, after which the General Meeting adopts the decision on the suitability for each member of the Supervisory Board of the Bank.

Cooperation with the other corporate functions

Article 15

- (1) The Authority competent for suitability assessment gathers, in cooperation with the Secretariat of the Bank and Compliance Department (and if necessary with other corporate functions) all the information necessary for suitability assessment.
- (2) The manner and method of cooperation between the competent authority and other organizational units can be regulated in more detail by a protocol.

4. PROCEDURE OF SUITABILITY ASSESSMENT

Frequency of suitability assessment

Article 16

- (1) The Bank shall carry out the procedure of suitability assessment and make decision on suitability of each candidate before he/she is appointed to the function of a member of the Supervisory Board of the Bank.
- (2) The Bank shall at least on an annual basis reassess the suitability and make decision on suitability of members of the Supervisory Board of the Bank with the aim of establishing their permanent suitability for performing the function to which they are appointed.
- (3) Exceptionally from par. 2 of this article, the Bank shall carry out an extraordinary suitability assessment of members of the Supervisory Board of the Bank at the occurrence of situations and circumstances due to which an extraordinary suitability assessment of each member of the Supervisory Board shall be made. Such circumstances are the following:
 - Learning about the proceedings pending against the members of the Supervisory Board of the Bank,
 - Learning about circumstances that may represent a conflict of interest,
 - Learning about circumstances that indicate the impossibility of further work at respective position,
 - Other important circumstances that may influence suitability assessment.
- (4) When carrying out the procedure from foregoing paragraph of this article, the Authority competent for suitability assessment can make only a partial assessment of influence of such changed circumstances on the suitability of members of the Supervisory Board of the Bank.

Starting the procedure of suitability assessment

Article 17

- (1) The Authority competent for suitability assessment initiates the suitability assessment procedure in the following situations:
 - at appointment of candidate for members of the Supervisory Board of the Bank,
 - at regular annual suitability assessment of already appointed members of the Supervisory Board of the Bank,
 - at the need of extraordinary suitability assessment.
- (2) The Authority competent for suitability assessment contacts the candidates or members of the Supervisory Board of the Bank and defines and notifies the above mentioned candidates about the method and scope of document collection.

(3) The members of the Supervisory Board of the Bank and the candidates for indicated positions shall completely and with no delay cooperate with the competent authority and make available all information and documents necessary for making decisions on suitability in accordance with the deadlines from Art. 19 hereunder.

(4) All the communication between the members of the Supervisory Board of the Bank on one side and competent authority on the other side shall be stored on a durable medium (paper, electronic mail and the like).

(5) The competent authority shall, in cooperation with other organizational units, define in detail methodology and the manner of collection of data and documents necessary for the suitability assessment.

Conclusions of the Authority competent for suitability assessment

Article 18

(1) Upon the analysis of all the available information, documents and statements, the Authority competent for suitability assessment prepares the assessment of suitability of each individual candidate/member of the Supervisory Board of the Bank and makes the following conclusions:

- Conclusion on suitability / insufficient suitability of a candidate/a member of the Supervisory Board,
- Conclusion on calling for the implementation of measures for removing deficiencies regarding suitability with appropriate deadline for corrective actions by the candidate/member of the Supervisory Board,
- Conclusion of a technical nature defining the scope for gathering documentation for one or more candidates members of the Supervisory Board.

(2) Taking into account the conclusion on suitability / insufficient suitability of the candidate/member of the Supervisory Board, the Management Board shall prepare a proposal for the decision on the suitability of a member of the candidate/member of the Supervisory Board and deliver it to the Nomination Committee for opinion. The decision on the suitability of the candidate/members of the Supervisory Board shall be then adopted by the General Meeting.

Deadlines and notifications

Article 19

(1) The authority competent for suitability assessment shall at least on an annual basis prepare the suitability assessment for members of the Supervisory Board of the Bank.

(2) The General Meeting shall at least on an annual basis, pursuant to the conclusions of the authority competent for suitability assessment as well as proposals of decisions defined by the Management Board of the Bank, adopt a decision on the suitability of members of the Supervisory Board.

(3) The candidate, i.e. a member of the Supervisory Board, shall provide all necessary documents and statements upon the request of the competent authority with no delay, not later than 15 days after the receipt of the request.

(4) The authority competent for suitability assessment shall, no later than within 10 work days after the adoption of the conclusion on suitability, notify the candidate on the result of the preparation of the suitability assessment and give the appropriate proposal to the

Management Board of the Bank for making a proposal of the decision of the General Meeting on the suitability of members of the Supervisory Board.

(5) The authority competent for suitability assessment shall notify the Croatian National Bank on adopted decisions on suitability of members of the Supervisory Board of the Bank no later than by 30 June of a current year for the previous year.

(6) Exceptionally, if the information change which might indicate that the president or member of the Supervisory Board of the Bank does not meet the prescribed conditions anymore, the authority competent for suitability assessment shall notify the Croatian National Bank thereupon with no delay, and not later than within eight days after the change has been detected.

Suitability assessment follow-up

Article 20

(1) If the General Meeting in the procedure of subsequent suitability assessment finds out that a member of the Supervisory Board of the Bank is not suitable anymore, it shall make decision on recall of the member of the Supervisory Board of the Bank with no delay.

(2) Exceptionally, if the authority competent for suitability assessment appraises that the deficiencies in suitability are minor and can be removed in a short term, the authority competent for suitability assessment can define the deadline for taking appropriate measures as to re-establish the suitability of such a member of the Supervisory Board.

(3) Members of the Supervisory Board shall notify the competent authority on every important event or circumstance which has significant influence on their suitability for carrying out duties to which they have been appointed, or at least on an annual basis notify the competent authority (upon call) on the fact that the information, on the basis of which the initial assessment was made, remained unchanged.

Article 21

(1) The Bank shall store all the documentation about conducted suitability assessments of members of the Supervisory Board of the Bank in an adequate way and keep at least for 5 years.

5. OTHER REQUIREMENTS AND FINAL PROVISIONS

Implementation on subsidiaries

Article 22

(1) The provisions of this Policy shall be appropriately implemented throughout the subsidiaries of the Bank which have the status of a credit institution.

(2) The subsidiaries from par. 1 hereof shall adopt this Policy as the own internal regulation and implement it in an appropriate scope.

(3) The authority competent for suitability assessment of the Bank shall prepare the suitability assessment for members of the Supervisory Board of the subsidiaries from par. 1. of this article.

Professional training

Article 23

(1) Members of the Supervisory Board of the Bank shall continuously upgrade their professional knowledge and ensure their permanent appropriateness within the scope of their authority.

(2) For the purpose of keeping continuity and adequacy of professional knowledge the following areas of priority are established for upgrading of professional knowledge of the persons appointed to the functions from par. 1. of this article:

- Strategic management and planning
- Regulatory and prudential frame
- Financial markets
- Accounting and finance
- Internal audit
- Risk management
- Human resources management and organization.

(3) For the purposes of this Policy the upgrading of knowledge and competencies is considered to be any participation at professional specialist programs (course, seminar, workshop), forum and conferences within the country and abroad, and participation in strategic meetings, coordination and educational programs organized by the Intesa Sanpaolo Group.

(4) The obligation of professional training of members of the Supervisory Board is established in minimum of 3 days in a year.

(5) The activities of a professional training are documented thorough the annual review of personal education in accordance with the organizational and individual needs for upgrading of professional knowledge.

Article 24

(1) This Policy shall be adopted by the General Meeting of the Bank at the proposal of the Management Board of the Bank. The procedure of amending the Policy is identical to the procedure of adoption.

(2) For amendments which are not of essential but technical nature, head of Compliance Department in cooperation with head of Human Resources and Organization are in charge, under the consent of superior member of Management Board subject to prior information to the competent structures of Intesa Sanpaolo S.p.A.

(3) By virtue of the entry into force of this Policy, Policy of assessment of the suitability of the members of the Supervisory Board adopted in March 2015, shall expire.

Conditions for participating in the Annual General Meeting and exercising voting rights

All shareholders of the Bank that hold ordinary registered shares are hereby invited to participate in the Annual General Meeting of the Bank.

The right to participate in the Annual General Meeting of the Bank can be exercised by those shareholders who are registered as the Bank shareholders at the depository of the Central Depository and Clearing Company on the work day immediately preceding the day of holding of the Annual General Meeting.

Each of 19,074,769 shares of the nominal value of HRK 100, in which the share capital of the Bank is divided, excluding 64,673 treasury shares, gives its holder the right to one vote, so that there shall be a total of 19,010,096 of shares with a voting right.

A shareholder can be represented by a proxy at the Annual General Meeting on the basis of a written authorisation which need not be certified by a notary public, but the original of which has to be delivered not later than on the date of holding of the General Meeting. The mentioned authorisation can be sent also via e-mail (pdf format to the e-mail address: General.Secretariat@pbz.hr).

Shareholders, or their proxies, may vote at the Annual General Meeting of the Bank on a particular matter which is the subject of decision-making *also by* returning ahead of the meeting a properly filled-in ballot paper, but only on condition that they be present at the Annual General Meeting during decision-making on that matter.

A ballot paper and a proxy form can be obtained at Privredna banka Zagreb d.d., Zagreb, Radnička cesta 44 B1-8A, and they are also available on the Bank's website (www.pbz.hr), where all other announcements can also be found, in conformity with the provisions of the Companies Act (hereinafter: the CA). Any further information in this regard may be obtained also at the telephone number: +385 1 63 60 040.

The materials for the Annual General Meeting of the Bank, which should serve as a basis for making decisions that are publicly announced, will be made available to the shareholders starting from the date when the calling of the Annual General Meeting is announced, every work day from 9.00 a.m. to 2.00 p.m., on the Bank premises in Zagreb, Radnička cesta 44 B1-8A, and will also be displayed on the web site of the Bank.

If a quorum stipulated by the Articles of Association of Privredna banka Zagreb d.d. is not constituted at this General Meeting, then the General Meeting will be held on 28 March 2017, at the same location, beginning at the same time, and the Agenda of the meeting will remain the same.

Shareholders' rights

As regards exercising of a right to:

- make an addition to the agenda (which is the right of those shareholders who, together, hold shares equal to the twentieth part, i.e. 5% of the share capital) – shareholders are advised to consult the provisions of Article 278 par. 2 of the CA
(a request by the shareholders must be received at/by the Bank at least 30 days prior to the holding of the General Meeting, where the day of receipt of the request is not included in the specified time limit, *and the request must be sent to the address: Privredna banka Zagreb d.d. – General Secretariat, Zagreb, Radnička cesta 44 B1-8A*)
- make a counterproposal in relation to proposed decision on a certain agenda item where such proposal was made by the Management Board and/or the Supervisory Board of the Bank) – shareholders are advised to consult the provisions of Article 282 par. 1, i.e. Article 283 of the CA regarding proposals for the appointment of the external auditor, together with adequate application of the provision of Article 282.
(a counterproposal must be delivered to the Bank at least 14 days prior to the holding of the General Meeting, where the day of its receipt is not included in the specified time limit, *and it must be sent to the address: Privredna banka Zagreb d.d. – General Secretariat, Zagreb, Radnička cesta 44 B1-8A*)
- a shareholder's right to be informed at the General Meeting, at one's own request, by the Management Board of the Bank, on business affairs of the company if that proves to be necessary for deliberating the items on the agenda – shareholders are advised to consult the provisions of Article 287 of the CA.

Privredna banka Zagreb d.d.