

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 15 February 2018 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 **28 March 2018**, beginning at **11.00 a.m.**, at the Bank's premises in Zagreb, Radnička cesta 44 B1 – 8<sup>th</sup> 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 2017
2. Annual financial statements of the Bank and consolidated annual financial statements for 2017 (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 2017
  - 2.2 Decision on granting the approval of action to members of the Management Board of the Bank for the year 2017
  - 2.3 Decision on granting the approval of action to members of the Supervisory Board of the Bank for the year 2017
  - 2.4 Decision on payment of remuneration to the president of the Supervisory Board of the Bank for 2017
3. Decision on the appointment of the external auditor who shall conduct the audit of the Bank's financial statements for the year 2018
4. Decision on the suitability of members of the Supervisory Board of the Bank based on the regular suitability assessment

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**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 2017**

I.

In 2017 the Supervisory Board of the Bank performed its duties as a body composed of seven members. The term of office of Mr Arietti, Member of the Supervisory Board elected by the General Meeting in December 2016, started in February, after obtaining the approval of the Croatian National Bank. Mr Boccolini was elected as President of the Supervisory Board after the expiry of the term of office of Mr Gilli, and the term of office of Ms Đurić, Deputy President, was renewed. The term of office of Mr Centrone, who resigned from the Supervisory Board, ended at the end of August. The Nomination Committee started the process of nomination of Mr Moreno as candidate for a new member and he was elected by the General Meeting in November 2017 with the prior approval of the Croatian National Bank.

Three members of the Supervisory Board meet the independence criteria, as laid down by the Credit Institutions Act and the Corporate Governance Code accepted by the Bank.

II.

In the course of 2017 the Supervisory Board held 19 meetings with physical presence of members or by letter, including 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, 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 2017, 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, it supervised 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, i.e. all stakeholders, 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 2017 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 2017 the Supervisory Board continued taking care of implementation of the long-term succession plan, thus ensuring continuity of governance, by means of thoughtful and timely nomination of candidates and their appointment to 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 prior approval of the Croatian National Bank.

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 after obtaining 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, and keeping in mind their participation and work done in the meetings of the Supervisory Board and its committees, 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 one member of the Supervisory Board of the Bank. Six meetings were held in 2017 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 independent external auditor given to the shareholders' meeting), as well as compliance with laws, regulations, rules, and the code of ethics. The Audit Committee in particular verified whether all the control functions are independent and properly skilled to accomplish their functions; analysed and evaluated together with the head of Internal Audit the annual plans, the activities, the headcount, the organizational structure and regulation of the Internal Audit function; examined the periodic reports of the heads of control functions (Risk Management,

Internal Audit, Compliance) and the head of the anti-money laundering function as well as information on specific situations or corporate trends; analysed and proposed to the Supervisory Board any action to be taken, and monitored the adoption of the corrective actions recommended by the control functions of the Bank. The Supervisory Board supervised, with the assistance of the Audit Committee, adequacy and efficiency of the system of internal controls, which relies on three mutually independent control functions, 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 2017, 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. The meetings discussed issues falling within the scope of authority of those committees, 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 2017, the report of condition of the Bank and its subsidiaries, and the draft decision on the allocation of the Bank's profit earned in 2017, 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 2017.

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 2017, 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 1,443,444,287.42 (after taxation), earned in the year ended on 31 December 2017, 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 2017 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 2017, 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 2017 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

### **D E C I S I O N** **on the allocation of the Bank's profit earned in 2017**

1. It is hereby ascertained that the Bank, in the year ended on 31 December 2017, earned net profit (i.e. profit after tax), in the amount of **HRK 1,443,444,287.42**.
2. Net profit of the Bank referred to in paragraph 1 above shall be distributed as follows:
  - The amount of **HRK 288,763,965.84**, i.e. **HRK 15.19** 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 12 April 2018 (record date). The first day when the Bank's share trades without the right to dividend payout is 11 April 2018 (ex-date).  
The claim for the payment of dividend shall mature on 20 April 2018 (payment date).
  - The amount of **HRK 1,154,680,321.58** shall be allocated to the retained earnings.
3. 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

### **D E C I S I O N** **on granting the approval of action to members of the Management Board of the Bank**

1. After the Annual financial statements for 2017 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 2017.
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

#### **D E C I S I O N**

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

1. After the Annual financial statements for 2017 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 2017.
2. This Decision shall enter into force on the date when it has been adopted.

### **2.4.**

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

#### **D E C I S I O N**

##### **on payment of the remuneration to the president of the Supervisory Board of the Bank for the year 2017**

1. President of the Supervisory Board of the Bank shall be paid a remuneration in the kuna equivalent of EUR 37,500.00 gross for the work performed in 2017, within 8 days after the adoption of this Decision.
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

#### **D E C I S I O N**

##### **on the appointment of the external auditor who shall conduct the audit of the financial statements of the Bank for the year 2018**

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 2018.
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

### **D E C I S I O N** **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:
  - Mr **Giovanni Boccolini**, president of the Management Board
  - Ms **Draginja Đurić**, deputy president of the Supervisory Board,
  - Mr **Adriano Arietti**, Mr **Branko Jeren**, Mr **Giulio Moreno**, 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.

#### **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 64,633 treasury shares, gives its holder the right to one vote, so that there shall be a total of 19,010,136 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](mailto: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](http://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 29 March 2018, 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.**