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# PRINCIPLES OF CORPORATE GOVERNANCE

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## CONTENTS

|  |    |
|--|----|
| GENERAL PROVISIONS .....   | 4  |
| BODIES OF THE BANK .....   | 4  |
| Shareholders and the Bank’s General Meeting .....                    | 4  |
| Management Board .....   | 6  |
| Supervisory Board .....  | 7  |
| Committees of the Supervisory Board .....                            | 9  |
| Audit Committee .....  | 9  |
| Credit Committee .....   | 9  |
| Remuneration Committee .....   | 10 |
| Nomination Committee .....   | 10 |
| Risk Committee .....   | 10 |
| Relationship of the Management Board and the Supervisory Board ..... | 10 |
| INTERNAL CONTROL SYSTEM .....  | 11 |
| INDEPENDENT EXTERNAL AUDITOR .....                                   | 11 |
| BUSINESS TRANSPARENCY .....  | 12 |
| FINAL PROVISIONS .....   | 12 |

## GENERAL PROVISIONS

### Article 1

Corporate governance involves a set of relationships among management, Management Board, Supervisory Board, shareholders and other interested parties.

The Bank pays special attention to the corporate governance, which represents the baseline of the Bank's business.

### Article 2

In order to establish high standards, proper corporate governance and the business transparency as the basis for protection of the shareholders, investors and other interested parties, as well as care for employees, sustainable development and environment protection, the Bank adheres particularly to the following principles:

- Business transparency;
- Protection of shareholder's rights;
- Clear definition of the authorities and responsibilities of the Bank's bodies;
- Cooperation between the Management and the Supervisory Board, as well as transparency of other relations among the Bank's bodies, employees, shareholders, the Banks clients and general public;
- Efficiency of the internal control system.

### Article 3

These Principles of Corporate Governance (hereinafter: the Principles) are based on the applicable laws of the Republic of Croatia and provide the Bank strategic management, efficient supervision over management and responsibilities of the Management Board and the Supervisory Board towards Bank, its employees, clients and other interested parties.

## BODIES OF THE BANK

### Article 4

Bodies of the Bank that ensure establishment of proper corporate governance are:

- General Meeting
- Management Board
- Supervisory Board

Members of the Management Board and the Supervisory Board, as well as the members of the Supervisory Board's working bodies, possess recognized professional knowledge and experience, fully understand and fulfill their roles in management and supervision over the Bank management, and perform its duties independently and without undue influence.

The Bank clearly defined, in writing, the authorities and key responsibilities of the Supervisory Board, the Management Board, employees and the advisory, respectively the working bodies and committees of the Management Board and the Supervisory Board.

## Shareholders and the Bank's General Meeting

#### Article 5

General Meeting is the Bank's decision making body, whereby shareholders actively participate in supervision and control of the Bank, exercise their voting rights and participation in the work of the General Meeting.

Every shareholder can be represented at a General Meeting by his/her proxy who will be required to present a written Power of Attorney executed for that particular purpose.

#### Article 6

The General Meeting shall decide on all matters as required by relevant regulations and the Bank's bylaws, and in particular on the following issues:

- election and dismissal of the members of the Supervisory Board;
- suitability assessment of the Supervisory Board members;
- remuneration of the Supervisory Board members;
- distribution of profit;
- granting acquittal to the members of the Management Board and Supervisory Board for their work;
- appointment of the Bank's auditor;
- amendments of the Bank's Articles of Association;
- increase and decrease of the Bank's share capital;
- cessation of the Bank;
- change of the corporate name and headquarters of the Bank.

#### Article 7

The General Meeting shall be called by the Management Board or by the Supervisory Board at least once a year within the first eight months of the business year and when the interests of the Bank require it or the Supervisory Board deems it necessary.

The General Meeting shall also be called if so requested in writing by the Bank's shareholders who together hold not less than one twentieth (1/20) of the Bank's share capital providing that the Management Board has been notified about the purpose of the General Meeting.

#### Article 8

The Management Board shall convene the General Meeting without delay, upon receipt of the Supervisory Board's Annual Financial Statement, Report on the good standing of the Bank and the proposal of the decision on profit distribution.

#### Article 9

The General Meeting shall be called in writing and the invitation along with agenda shall be published in accordance with the Bank's bylaws and applicable regulations.

The shareholders shall duly receive complete information of the General Meeting date, place and the agenda, as well as the Management and the Supervisory Board's proposals of decisions to the General Meeting and shall have access to all materials.

#### Article 10

Voting at a General Meeting is public.

General Meeting shall make its decisions by a simple majority of the votes given by the shareholders present at the General Meeting in person or by proxy, unless applicable laws or Bank's bylaws provide otherwise.

#### Article 11

The Bank shall treat each shareholder equally and under the same conditions, regardless the number of their shares, the country of their origin or their other characteristics.

Each share carries one vote.

The Bank's shareholders shall be granted the following rights:

- right of property, use and transfer of the shares;
- right to regular and timely delivery of appropriate and relevant information, or access to such information;
- right to participate in the General Meeting by expressing their opinion on each item of the agenda, asking questions to relevant persons or voting;
- right to profit distribution.

### **Management Board**

#### Article 12

The Management Board conducts the Bank's business under its own responsibility, and represents the Bank.

The Bank is represented jointly by two members of the Management Board, or by one member of the Management Board together with the procurator, if there is any.

#### Article 13

The Management Board of the Bank has from 2 (two) to 7 (seven) members, one of them being appointed as the president.

The number of the Management Board members is determined by the Supervisory Board. The Supervisory Board shall appoint one member of the Board as the President, and may also appoint the Deputy President of the Management Board.

#### Article 14

Persons who do not meet the eligibility criteria for Management Board members as set forth under the Companies Act and the Credit Institutions Act may not be elected as the members of the Management Board.

#### Article 15

The members of the Management Board shall conduct the Bank's business with due diligence and shall keep the Bank's business data confidential.

Members of the Management Board are liable for damages jointly, whether caused by an act, non-act or omission to perform their duties, unless they prove that they were acting with due diligence of the prudent and conscientious businessman.

The Management Board members are particularly liable for coordination of the business in organizational parts of the Bank under their responsibility. The responsibility of the

Management Board members for the particular organizational part is determined by the Supervisory Board's decision on the distribution of responsibilities of the Management Board members.

#### Article 16

The remuneration of the Management Board members consists of a fixed salary which remains the same and a variable share (bonus), in accordance with duties of the individual Management Board member and the situation of the Bank.

The remunerations of the Management Board members, including premiums and bonuses, are subject to the Supervisory Board's approval, in accordance with the provisions of the Remuneration Policy.

#### Article 17

During his/her term of office no member of the Management Board shall, without prior consent of the Supervisory Board:

- take employment, mandate or engagement with any other company or bank;
- in his/her own name and for his/her own account directly or indirectly be concerned or interested in business activities which are related to the Bank's business activities;
- take membership in any company/partnership with unlimited liability.

Granting loans to the Management Board members and the members of their families is subject to the Supervisory Board's prior approval.

#### Article 18

Private interests of the Management Board members shall not be contrary to the interests of the Bank and shall not influence their impartiality in the performance of their duties.

The information that the Management Board members reveal while performing their functions may not be used in inappropriate purposes and they are not allowed to receive gifts, which by its very nature and/or unusually high values may disrupt existing business relationship with a client, or compromise the reputation of the Management Board members or the Bank itself.

#### Article 19

Organization, operation and decision making procedure of the Management Board are regulated in details by the Rules of Procedure of the Management Board.

### **Supervisory Board**

#### Article 20

The Supervisory Board shall, under its authority and responsibility, and in accordance with applicable laws, in particular perform the following tasks:

- Supervise the conduct of business of the Bank and may thereby at any time request reports in a specific format, and view and examine business records and Bank records, cash, securities and other materials, for which purpose the Supervisory Board may use some of its members and/or other professionals;

- Submit to the General Meeting a written report on the performed monitoring, in which the Supervisory Board is particularly obliged to state whether the Bank functions in accordance with the law and acts of the Bank and the decisions of the General Meeting, whether the annual financial statements are made in compliance with the ledgers of the Bank and whether the financial records show accurate assets and financial position, and its stance towards the Management Board's proposal concerning the use of profit and loss coverage in the Bank;
- Elect and recall the president and members of the Management Board and determine their number;
- Enter into contracts with members of the Management Board and analyse the adequacy of their income;
- Submit a request for compensation from members of the Management Board;
- Represent the Bank before the members of the Management Board;
- Supervise the work of the Management Board;
- Examine whether affairs of the Bank are in accordance with the laws, the Bank bylaws and resolutions of the General Meeting;
- Determine whether the Bank books accurately show the financial and operating position;
- Determine annual financial statements of the Bank
- Examine reasons for non-achievement of the planned targets;
- Examine operating results;
- If necessary, convene the General Meeting;
- Give consent or prior approval of the Management Board's decisions when prescribed by the Bank's Articles of Association and / or applicable laws.

#### Article 21

The Supervisory Board shall have 5 (five), 7 (seven), 9 (nine) or 11 (eleven) members, in accordance with the decision of the General Meeting.

Mandate of the elected member of the Supervisory Board shall begin at the first session of the Supervisory Board held after the General Meeting at which the member had been elected, unless at the time of election, the Meeting decides otherwise. Mandate shall end, if at the time of election the Meeting decides otherwise, at the end of the fourth General Meeting, which follows after the session in which the member was elected.

At least one of the elected members of the Supervisory Board has the status of an independent member, and as such is not closely associated with the Bank's management, controlling shareholders, the Bank in general and its competition.

#### Article 22

The following persons may not be elected members of the Supervisory Board:

- Member of the Management Board;
- Member of the supervisory board or board of directors in 10 (ten) companies;
- Management Board member or executive director of the company, which is a subsidiary of the Bank;
- Member of the management board of another company or bank where a member of the Bank's Management Board is a member of the management board or board of directors;
- A person who does not meet the requirements prescribed by the Companies Act and the Law on Credit Institutions.

The person whose personal or business interests may be in conflict with the interests of the Bank may also not be elected or appointed a member of the Supervisory Board.

Persons who are related to any member of the Management Board (family relationships in the first instance, or in marriage with a member of the Management Board, or otherwise living together) may not be elected or appointed members of the Supervisory Board.

#### Article 23

Members of the Supervisory Board are jointly responsible to the Bank for damages arising as a result of acts, omissions or failure to fulfill their duties, unless proving they acted with care of a good and conscientious businessman in fulfilling their duty of overseeing the management of the Bank.

#### Article 24

Organization, operations and decision making of the Supervisory Board are regulated in details by the Rules of Procedure of the Supervisory Board.

#### Article 25

The provisions of Article 18 shall be accordingly applied to resolve conflicts of interest of members of the Supervisory Board, to their use of privileged information and receiving of gifts.

### **Committees of the Supervisory Board**

#### Article 26

The Supervisory Board may, if necessary, establish working bodies, namely the committees whose members can be members of the Supervisory Board, as well as experts in particular areas of the banking business.

Working bodies and committees from the paragraph 1 of this Article are obliged to regularly report to the Supervisory Board and whenever requested by the Supervisory Board.

#### Audit Committee

#### Article 27

Audit committee is a body established by the Supervisory Board, to support the Supervisory Board and the Management Board to effectively perform their responsibilities of corporate governance, financial reporting and control of the Bank.

Organization, operation, decision making procedure, authority and responsibilities of Audit Committee are regulated in details by the Charter on the Audit Committee Work.

#### Credit Committee

#### Article 28

Credit Committee is a body established by the Supervisory Board, and is responsible for approval of the Management Board's decisions on granting loans or decisions on the limits of

the Bank's exposure to a particular customer or group of clients which exceeds the amount determined by the acts of the Bank.

## Remuneration Committee

### Article 29

Remuneration Committee is a body established by the Supervisory Board in order to make professional and independent judgment on the policies and practices regarding remuneration and its impact on risk, capital and liquidity management.

Remuneration Committee, among other things, prepares decisions of the Supervisory Board related to employees' remuneration, provides support and advice to the Bank's Management Board and Bank's Supervisory Board in the establishment and regular review of the basic principles of the remuneration policies.

## Nomination Committee

### Article 30

Nomination Committee is a body established by the Supervisory Board in order to make professional and independent judgment on the policies for selection of members of the Management Board and the Supervisory Board, as well as senior management.

Nomination Committee, among other things, submits proposals for election of the new members of the Management Board and the Supervisory Board and extension of the term of office for the current members, gives its opinion on proposal of decision on suitability of the Supervisory Board and Management Board members, prepares a description of the duties and asked conditions for a particular appointment. Regularly assess the structure, size, composition and performance of the Management Board and the Supervisory Board.

## Risk Committee

### Article 31

Risk Committee is a body established by the Supervisory Board in order to advise the Supervisory Board on overall current and future risk appetite and strategy of the Bank.

Risk Committee, among other things, Reviews whether prices of liabilities and assets offered to the clients take fully into account the Bank's business model and risk strategy. Where prices do not properly reflect risks in accordance with the business model and risk strategy, presents a remedy plan to the Management Board.

## **Relationship of the Management Board and the Supervisory Board**

### Article 32

The Management Board and the Supervisory Board cooperate in the best interest of the Bank and discuss common strategic guidelines of the Bank's business, as well as other issues important for the benefit of the Bank. Good cooperation implies an open discussion between the Management Board and the Supervisory Board.

### Article 33

The Management Board shall report to the Supervisory Board on operations of the Bank and present to the Supervisory Board, as soon as it is possible, its decisions on the budget plan and Bank investments for the next financial year and submit to the Supervisory Board quarterly written reports on business activities and assets of the Bank.

In accordance with applicable regulations and acts of the Bank, certain decisions of the Management Board shall enter into force after the approval of the Supervisory Board is received, and the conclusion of certain legal matters is subject to prior consent of the Supervisory Board.

## **INTERNAL CONTROL SYSTEM**

### Article 34

The internal control system is a system of processes and procedures established for monitoring of effectiveness of the Bank's business, reliability of its financial information and compliance with laws, regulations and good practices in order to protect the assets of the Bank.

### Article 35

The Bank's internal controls system is implemented through action of three mutually independent functions, namely:

- the risk control function,
- the compliance monitoring function and
- the internal audit function.

Each of the functions independently report on its work directly to the competent authorities in accordance with the relevant regulations and the Bank's bylaws, and there should be sufficient number of professional and skilled employees to perform the job.

## **INDEPENDENT EXTERNAL AUDITOR**

### Article 36

Independent external auditor, appointed by the General Meeting of the Bank, ensures that financial statements properly reflect the actual situation of the Bank as a whole.

Independent external auditor is considered to be the auditor who is not proprietarily or by interests associated with the Bank and does not provide, either alone or through related persons, any other services to the bank.

### Article 37

Independent external auditor is required to clearly and unequivocally express opinion about whether the financial statements that the Management Board prepares adequately reflect the state of capital and the financial condition of the Bank, and the results for a specific period of time.

The audit of the Bank's financial statements shall be carried out by independent external auditor, in accordance with the Audit Act, the International Standards on Auditing and rules of the auditing profession, the Accounting Act, the Credit Institutions Act and regulations adopted thereunder.

#### Article 38

Independent external auditor reports to Audit Committee on key issues arising from audits, particularly on significant internal control weaknesses related to financial reporting process.

#### Article 39

The same audit company conducts the audit of financial statements of the Bank up to seven consecutive years.

### **BUSINESS TRANSPARENCY**

#### Article 40

In accordance with the relevant regulations the Bank publishes all prescribed information about the business, financial position, results, ownership and management and any other information that the Bank appraise that are of interest to potential investors and to general public.

Public disclosure includes disclosure of information on the Internet website of the Bank, the Zagreb Stock Exchange, the Croatian Financial Services Supervisory Agency which keeps Official Register of Prescribed Information and HINA.

#### Article 41

Protection, publication and management of the inside information related to the Bank is regulated by the Ad hoc Disclosure policy and Compliance Manual.

Protection and management of the inside information particularly includes the protection and control over the use and transfer of inside information and limitation of the number of persons disposing of inside information as well as control of any abuses.

### **FINAL PROVISIONS**

#### Article 42

All the Bank's organizational units are obliged to adhere to the Principles.

#### Article 43

The Principles are reviewed annually and, when necessary, to comply the Principles with the applicable laws.

## Annex 1 Change Log

| Version History | Approval Date            | Section(s) | Changes                | Author(s)           | Approved by                           |
|-----------------|--------------------------|------------|------------------------|---------------------|---------------------------------------|
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| Version 2.0     | 16.02.2016<br>07.04.2016 | all        | Major change           | Maja Kuhar<br>Sobin | Management Board<br>Supervisory Board |
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