



**POLICY ON THE TARGET STRUCTURE OF THE MANAGEMENT
BOARD AND THE ASSESSMENT OF THE SUITABILITY OF THE
PRESIDENT AND THE MEMBERS OF THE MANAGEMENT BOARD
OF HRVATSKA POŠTANSKA BANKA**

Zagreb, 1 January 2023

Classified as: HPB - PUBLIC

Pursuant to Article 13 of the Articles of Association of Hrvatska poštanska banka, public limited company, Zagreb, (hereinafter: the Bank), and in line with Article 38, paragraph 3 of the Credit Institutions Act, and Articles 19 and 22 of the Decision on the assessment of the suitability of the chairperson of the management board, member of the management board, member of the supervisory board and key function holder in a credit institution (Official Gazette, nos. 20/2021 and 104/2022) (hereinafter: the CNB's Decision), the Management Board of the Bank adopted on 23 December 2022 the following:

POLICY ON THE TARGET STRUCTURE OF THE MANAGEMENT BOARD AND THE ASSESSMENT OF THE SUITABILITY OF THE PRESIDENT AND THE MEMBERS OF THE MANAGEMENT BOARD OF HRVATSKA POŠTANSKA BANKA

I. POLICY SUBJECT MATTER

Article 1

- (1) This Policy on the target structure of the Management Board and the assessment of the suitability of the President and the Members of the Management Board of Hrvatska poštanska banka (hereinafter: the Policy) defines:
- the target structure of the Members of the Management Board of the Bank as a whole
 - the criteria for membership in the Management Board of the Bank
 - the procedure for and dynamics of the suitability assessment
 - o the timeframe for and the method of carrying out the procedure,
 - o the information and documentation to be submitted by a Member of the Management Board to the Bank,
 - o the manner in which the assessed person provides a response,
 - o the assessment of the collective suitability of the Management Board of the Bank ,
 - the record keeping method pertaining to a completed suitability assessment procedure.
- (2) The provisions of this Policy governing or pertaining to a Member of the Management Board of the Bank shall also apply to the President of the Management Board.
- (3) For the purposes of this Policy, the term person is used hereinafter when describing the suitability assessment of the Members of the Management Board while the term candidate refers to the initial suitability assessment and the suitability assessment in the event of reappointment of a Member of the Management Board.

II. DEFINITIONS

Article 2

(1) The terms used in this Policy shall have the following meaning:

(2) Connected persons to the person being assessed includes:

- immediate family members of the person¹
- a legal person where the person or the person's immediate family member holds a qualifying holding and
- a legal person where the person or the person's immediate family member is a member of the senior management or a member of the management board, a member of the supervisory board, or an executive director.

(3) Significant business relationship means a business relationship which meets any of the following criteria:

- the total liabilities of a Member of the Management Board, including the persons connected to him/her, to the Bank, its parent company or its subsidiary, its customers and other credit institutions with registered seats in the Republic of Croatia or subsidiaries of the credit institutions from other Member States or third countries exceed their total claims against and investments in that credit institution by an amount higher than 2% of the credit institution's share capital but are not lower than 400 000 euro.
- the Bank or a person connected to it holds an investment in the share capital instruments exceeding 25% of the share capital of a company controlled by a Member of the Management Board, or
- an undertaking connected to a Member of the Management Board of the Bank derives most of its income from the provision of services to that credit institution.

(4) Candidate means a person whom the Bank or the founders have nominated for a prior approval for the appointment to the function of the President or Member of the Management Board, including the incumbent President of the Management Board, an incumbent Member of the Management Board, and the person reappointed to any of such functions by the Bank.

(5) Conflict of interest means the situations described in Article 10 herein which the Bank is unable to manage in the manner which would ensure the independence of mind of a Member of the Management Board in performing his/her duties.

(6) Group means the parent company and its subsidiary companies, as regulated by Regulated (EU) 575/201,3 including the members of HPB Group.

(7) Appointments Committee means a committee of the Supervisory Board of the Bank. The members of the Committee shall be appointed from among the Members of the Supervisory Board of the Bank and the Committee shall have at least three members. One member of the Committee shall be appointed as the Committee Chairperson.

(8) Suitability Assessment Committee shall be composed of Executive Directors and/or Division / Office Directors responsible for:

- Human resources management
- Legal affairs
- Compliance

¹ Credit Institutions Act, Article 3, paragraph 1 point 1.

- Credit risk management.

(9) The expert functions referred to in paragraph (8) shall be responsible for the implementation of this Policy within the limits of the competences conferred upon them.

III. TARGET STRUCTURE OF THE MANAGEMENT BOARD OF THE BANK

Article 3

(1) The structure of the Management Board of the Bank is defined by the nature, scale and complexity of the operations, risk profile and business strategy of the Bank.

(2) The Members of the Management Board shall collectively possess the professional knowledge, skills and experience required to supervise the Bank's business operations severally and independently without undue influence, and in particular to understand the operations and the significant risks to the Bank.

(3) The entire composition of the Management Board shall reflect a broad range of experience.

(4) The number of the Members of the Management Board of the Bank is defined by the Bank's Articles of Association, while the Resolution on the number of the Members shall be adopted by the Supervisory Board of the Bank.

(5) The area of competence of the Members of the Management Board shall be defined by the Rules of Procedure of the Management Board of the Bank.

IV. CRITERIA FOR MEMBERSHIP IN THE MANAGEMENT BOARD OF THE BANK

Article 4

(1) A person assessed in compliance with this Policy as suitable and who has been granted prior approval of the Croatian National Bank to perform the function of a Member of the Management Board can be selected i.e., appointed as a Member of the Supervisory Board.

(2) A Member of the Management Board of the Bank can be the person who at any time meets the following criteria:

- is of good repute, honesty and integrity
- ensures independently and collectively with other Members of the Management Board of the Bank sufficient diversity of the Management Board, possesses adequate knowledge, skills and experience to carry out the duties falling within his/her area of competence and to manage the operations of the Bank independently and without undue influence, and in particular understands the operations and the significant risks to the Bank,

- is competent in expressing independent opinion and is not engaged in conflict of interest in relation to the Bank, the Shareholders, the Members of the Supervisory Board, the key function holders and the Senior Management of the Bank, to an extent it cannot be managed in the manner ensuring the independence of mind,
- can commit sufficient time to carrying out the duties falling within his/her area of competence,
- is qualified to be a Member of the Management Board in compliance with the provisions of the Companies Act and the Credit Institutions Act.

(3) The terms and conditions from the previous paragraph, indent two, are defined in terms of the specific area of competence of each individual Member of the Management Board of the Bank.

IV.1. Good repute, honesty and integrity

Article 5

(1) A Member of the Management Board shall be deemed to be of good repute if there is no evidence to suggest otherwise and there is no reasonable doubt pertaining to his/her good repute.

(2) The following candidate or the candidate's associates shall not be deemed to be of good repute, honesty and integrity:

1. a candidate convicted by a judgement with final force and effect of any of the criminal offences as defined in Article 25 paragraph 2 of the Credit Institutions Act or a candidate who has been convicted by a judgement with final force and effect of any of the criminal offences which by their definition correspond to criminal offences as defined in Article 25 paragraph 2 of the Credit Institutions Act,
2. a candidate against whom criminal offence proceedings have been initiated for any of the criminal offences as defined in Article 25 paragraph 2 of the Credit Institutions Act, or a candidate against whom criminal offence proceedings have been initiated for any of the criminal offences which by their definition correspond to criminal offences as defined in Article 25 paragraph 2 of the Credit Institutions Act, or a candidate who has been convicted by a judgement with final force and effect of, or against whom criminal offence proceedings have been initiated for any of the criminal offences not defined in Article 25 paragraph 2 of the Credit Institutions Act; including any predicate criminal offense pertaining to criminal acts of money laundering as defined by the relevant regulations governing anti-money laundering and counter-terrorist financing, which may give rise to doubt as to the good repute, honesty and integrity of the candidate,
3. a candidate who has been imposed a security or some other measure or an administrative or a misdemeanour sanction, who, in the past five years, has been under investigation or subject to proceedings by competent supervisory authorities, other public authorities or courts for irregularities or non-compliance with any of the regulations governing banking, financial or insurance activities or securities markets, securities or payment instruments, regulations governing the provision of financial services, consumer protection or any other relevant regulations, if that may give rise to doubt as to the good repute, honesty and integrity of the candidate; or if there are other

negative reports with relevant, credible and reliable information (for example as part of procedures pertaining to whistleblowing) or a person who has been informed by the Croatian National Bank or other authorized body about the intention to initiate a sanctioning procedure or who has negotiated with the Croatian National Bank or other competent authorities the terms of admission of guilt or has agreed to sanctions and measures, which may give rise to doubt as to the good repute, honesty and integrity of the candidate,

4. a candidate who manages, or had managed at the time of the offence, the undertaking which has been convicted by a judgement with final force and effect of the criminal offence referred to in items 1 and 2 of this paragraph, or who has been imposed measures or against whom proceedings and other actions defined as per item 3 of this paragraph have been initiated, which may give rise to doubt as to the good repute, honesty and integrity of the candidate,
5. a candidate who has not achieved good results by his/her past professional work and personal integrity,
6. a candidate whose business results undermine the candidate's good repute, honesty and integrity,
7. a candidate whose financial stability undermines the candidate's good repute, honesty and integrity, and
8. a candidate for whom there are other certain grounds which may give rise to doubt as to his/her good repute, honesty and integrity.

(3) It shall be deemed that a person has not achieved good results by his/her past professional work and personal integrity:

1. if he/she has been revoked from a managerial function,
2. if he/she has acted in his/her past professional work demonstrating non-transparent behaviour and has failed to cooperate with the competent authorities,
3. if he/she has been denied or revoked approvals to perform managerial functions or professional occupations or activities,
4. if his/her employment contract has been terminated in due to failures in respect of the performance of the responsibilities in the areas defined in Article 6 below.

(4) It shall be deemed that the business results and the financial stability undermine a person's good repute:

1. if bankruptcy proceedings have been initiated, pre-bankruptcy settlement proceedings carried out, a decision on the compulsory winding-up rendered, extraordinary administration proceedings initiated or the undertaking's authorisation withdrawn in which the person is or had been a significant shareholder, or in which the person has or had had a significant share in, or in which he/she has performed the function of a member of the management board or other managerial function or the function of a member of the supervisory board, or has had a significant influence over the undertaking's operation, and such circumstances may have had a potential influence on such person's good repute, honesty and integrity,
2. if execution or personal bankruptcy proceedings have been initiated over the person's property.

(5) When assessing the person's financial stability and its impact on the person's good repute, honesty and integrity, the following shall be analysed:

3. whether the person's wealth and income undermine his/her ability to meet his/her financial obligations in the future,
4. whether the person's name is included in any list of unreliable debtors (e.g., the Ministry of Finance's tax defaulter list, "black list", etc.),
5. whether consumer bankruptcy proceedings have been carried out or initiated over the person's property,
6. whether any civil, administrative, out-of-court, misdemeanour proceedings or proceedings for imposing administrative sanctions or investigations have been initiated against the person as a party therein and whether measures have been imposed against the person by competent authorities, other public authorities or professional associations across all jurisdictions, which could undermine the person's ability to meet his/her financial obligations in the future,
7. whether the person has been convicted by a judgement with final force and effect and whether criminal offence proceedings have been initiated against the person for any criminal offences not listed in Article 25 paragraph 2 of the Credit Institutions Act,
8. information that the person has not been convicted of a misdemeanour and is not subject to administrative sanctions,
9. large investments, exposures or debts of the person,
10. the financial and business results of the undertaking in which the person is or had been a significant shareholder or in which the person has or had had significant share or in which he/she had performed the function of a member of the management board, some other managerial function or the function of a member of the supervisory board, which could affect the person's good repute, honesty and integrity.

IV.2. Knowledge, skills and experience required to carry out the duties falling within the area of competence of the Members of the Management Board of the Bank

Article 6

(1) It shall be deemed that the appropriate level of knowledge is gained by completing at least graduate studies in a relevant field, in accordance with the regulations governing scientific activity and university education, while foreign educational qualifications shall also be recognized.

(2) Graduate studies completed in the following fields shall be deemed as relevant:

- economics and other related fields (e.g., banking and finance, business administration, accounting, auditing)
- law and related fields (e.g., administration, financial regulation)
- mathematics, physics, computer science, electrical engineering and related fields.

(3) When assessing the appropriate level of knowledge, in addition to the educational degree attained pursuant to the previous paragraphs, the candidate's ongoing training and professional development in the following fields shall be also verified:

- financial markets,
- accounting and auditing,
- regulatory framework and prudential requirements,

- strategic planning and knowledge of the business strategy, business planning and realisation of business plans,
- risk management (identifying, assessing, monitoring, controlling and managing the main types of risks in a credit institution),
- corporate governance including internal controls system,
- analysis of a credit institution's financial information.

Article 7

(1) The adequate skills for the performance of managerial activities shall include the candidate's ability to lead and his/her decisiveness, strategic vision, judgement on risks, leadership, power of persuasion, and the ability and willingness of the candidate to engage in ongoing learning and professional development.

(2) When assessing the professional knowledge and the skills of a candidate for membership in the Management Board, the area of competence to which the candidate is being appointed and the responsibilities that such a position on the Management Board implies shall be also taken into account in the assessment. For instance, for when assessing the professional knowledge and the skills of a Member of the Management Board in charge of the implementation of anti-money laundering and counter-terrorist financing regulations, additional professional knowledge and skills which shall be assessed include money-laundering and terrorist financing risk identification and assessment, as well as knowledge and skills in anti-money laundering and counter-terrorist policies, controls and procedures.

(3) The candidate for membership in the Management Board shall prove by his/her work programme that he/she will ensure legal, safe and stable operations of the Bank.

Article 8

(1) The adequate work experience shall include:

- experience of serving on the management board or on the level immediately below the level of the management board of a credit institution, financial institution, insurance company or large undertakings as defined by the relevant accounting regulations or,
- experience gained in key managerial positions in a competent authority carrying out the supervision of credit and financial institutions.

(2) When assessing the experience referred to in the previous paragraph of this Article, the work experience of an individual candidate shall be analysed with respect to:

- experience in banking and financial markets,
- experience in accounting and audit,
- experience in regulatory framework and requirements,
- experience in strategic planning and knowledge of the business strategy, business planning and realisation of business plans,
- experience in risk management (identifying, assessing, monitoring, controlling and managing the main types of risks in a credit institution),
- experience in climate and other environmental risks,
- experience in anti-money laundering and counter-terrorist financing,
- experience in assessment of the efficiency of the procedures and the measures of a credit institution, development of efficient management, supervision and controls, and

- experience in interpretation of a credit institution's financial information, identification of key issues based on this information and appropriate controls and measures.

(3) The adequate work experience referred to in paragraph 1 of this Article shall mean ten years of recent work experience for a candidate for the President of the Management Board and five years of recent work experience for a candidate for a Member of the Management Board.

(4) When assessing the work experience for membership in the Management Board, the area of competence to which the candidate is being appointed and the responsibilities that such a position on the Management Board implies shall be also taken into account in the assessment. For instance, for when assessing the work experience of a Member of the Management Board in charge of the implementation of anti-money laundering and counter-terrorist financing regulations, additional experience which shall be assessed includes money-laundering and terrorist financing risk identification and assessment, as well as knowledge and skills in anti-money laundering and counter-terrorist policies, controls and procedures.

(5) By way of derogation from paragraph 3 of this Article, it may be deemed that a candidate has gained adequate work experience although the candidate does not possess the number of years of work experience as stipulated in paragraph 3 of this Article, if the candidate provides a detailed explanation of the reasons and submits evidence that her/she possess other suitable experience-related qualities, such as specialist knowledge and acquired experience, required by the Bank, an exceptionally successful professional career or specific required experience suited to the special role to be carried out and the area of competence by the candidate at the Bank.

IV.3. Independence of mind of the Members of the Management Board of the Bank

Article 9

(1) A candidate shall be able to express his/her independence of mind, including the following:

- 1) the absence of a conflict of interest that cannot be managed in a manner ensuring the independence of mind,
- 2) the possession of the following qualities:
 - a) the courage, conviction and strength to effectively assess and challenge the decisions proposed by the Members of the Management Board,
 - b) the ability to resist the influence of the dominant thinking in the Management Board.

(2) When assessing the suitability at an initial appointment for membership in the Management Board, two reference letters from the members of supervisory or managerial bodies of the undertakings or institutions in which the candidate has worked shall be required; such letters shall include positive reference to the ability of the candidate to express his/her independence of mind.

IV.4. Conflict of interest of the Members of the Management Board of the Bank

Article 10

- (1) A conflict of interest that cannot be managed by the Bank shall be deemed to exist:
- where a significant business relationship has been established to exist between the Bank and the Member of the Management Board of the Bank or a person connected to him/her,
 - where a member of the Management Board of the Bank is also serving as a member of a supervisory board of any of credit or financial institution providing services in the territory of the Republic of Croatia (with the exception of the membership in supervisory boards of HPB Group members).
- (2) When assessing conflict of interest, at least the following shall be assessed:
- economic interests of a Member of the Management Board of the Bank deriving from shares, shareholding and other ownership rights or similar economic interests such as intellectual property rights in the Bank or its subsidiary, in undertakings or entities which are customers or suppliers of the Bank, and loans granted by the Bank to the candidate and persons connected to him/her as well as financial obligations towards the holder of the qualifying holding in the Bank,
 - personal, business or professional relationships of the candidate with holders of qualifying holding in the Bank or its subsidiary, whether the candidate represents any of the Shareholders of the Bank or its subsidiaries,
 - personal, business or professional relationships with the employees of the Bank, including the Members of the Management Board and the Members of the Supervisory Board of the Bank, the Bank or entities included within the scope of accounting or prudential consolidation,
 - previous employments of the candidate over the course of the last five years,
 - personal, business or professional relationships with significant suppliers, consultants or other service providers of the Bank and its subsidiaries,
 - whether the candidate holds shares or ownership rights in an undertaking or an entity with conflicting interests with respect to the Bank (e.g., the Bank's competitors),
 - political influence or relationships with politically exposed persons over the course of the last two years,
 - whether the candidate is required to observe the cooling-off period which prevents him/her from assuming and carrying out the function he/she is appointed to, and
 - whether the candidate is directly or indirectly involved in court proceedings or out-of-court dispute including mediation, arbitration and similar proceedings against the Bank or its subsidiaries or the holder of the qualifying holding.
- (3) The Bank shall request the candidate to provide updated information on all known facts defined in paragraphs 1 and 2 of this Article.
- (4) The Bank shall immediately without delay notify the Croatian National Bank on each actual, potential or perceived conflict of interest.
- (5) Based on the analysis defined in paragraph 2 of this Article, the Bank shall document, monitor and duly manage each actual, potential or perceived conflict of interest, establish the significance of the risk that arises or might arise in connection therewith and, where necessary, take the measures to mitigate or remove the conflict of interest to ensure the candidate's independence of mind and impartiality in performing his/her duties.

Article 11

(1) The President or a Member of the Management Board of the Bank shall be exempt from participating in the discussion, decision-making or voting on proposals, plans, agenda items, etc., if a conflict of interest has been established.

Article 12

(1) The Croatian National Bank may impose, or the Bank may undertake the following measures to mitigate or remove the conflict of interest as defined in Article 10 paragraph 2 of the Policy herein:

1. prohibit participation in the discussion, decision-making or voting on proposals, plans, agenda items if a conflict of interest has been identified in this regard,
2. revoke a person from a certain function,
3. perform continuous supervision and monitoring of the conflict of interest by the Bank,
4. regular reporting to the Croatian National Bank on the situation where a potential conflict of interest has been identified, including measures to ensure its management,
5. determine the period during which the candidate shall be prevented from assuming and performing the function to which he/she has been appointed,
6. implement the principles for granting loans or other financial products under the standard market conditions,
7. sale of certain asset or share in the company,
8. any other measure which shall contribute to the reduction or removal of the conflict of interest.

IV.5. Induction and ongoing training and professional development of the Members of the Management Board

Article 13

(1) On initial appointment to the Management Board, the Bank shall ensure that the Members of the Management Board are provided with induction within six months of the date of their appointment. The induction shall be organised by the Human Resources Office for the purpose of facilitating their understanding of the structure, the business model, the risk profile and the governance system and the Member's role at the Bank and in order to remove any potential shortcomings that had been established in the suitability assessment. The induction shall be organised by the Human Resources Office, and upon completing it, the Members of the Management Board shall engage in ongoing training and professional development in the field of banking and finance, as well as other relevant fields (accounting framework, regulatory framework and prudential requirements, strategic planning and business strategy, business planning, risk management, corporate governance including internal controls system etc.)

(2) ongoing training and professional development shall include participation at seminars, symposia, conferences, professional exams, certificates, licenses and the like.

(3) Each and every Member of the Management Board of the Bank shall attend professional training and professional development at least twice a year.

(4) For each and every Member of the Management Board of the Bank records shall be kept of all forms of professional training during a calendar year, specifying course topics, organisers and duration of courses and the years when vocational examinations were taken or the year when certificates, licences were obtained, etc.

(5) An internal act governing the procedure determining induction and ongoing training of the Members of the Management Board and the business segments assessed to be in need of further professional training and ongoing development shall be adopted, and if necessary updated, by the Human Resources Office; the Office shall keep the records, referred to in the previous paragraph, in electronic form.

IV.6. Sufficient time commitment

Article 14

(1) Sufficient time commitment constitutes the ability of the Member of the Management Board to commit sufficient time to carry out the duties within his/her area of competence.

(2) It shall be deemed that a Member of the Management Board is unable to commit sufficient time to perform his/her duties, if he/she simultaneously performs:

- the function of the President or a Member of the Management Board of the Bank and another function of a member of the management board of another undertaking or a managerial function in a public company or a limited partnership.
- the function of a Member of the Management Board of the Bank and more than two functions of a member of a supervisory board.

(3) The function of a member of the management board or supervisory board shall be deemed to be one function if performed:

- within HPB Group, and
- at the companies in which the Bank holds a qualifying holding.

(4) As part of the analysis defined in paragraph 2 of this Article, at least the following criteria shall be assessed:

- the number of executive and non-executive or deputy functions that the candidate performs simultaneously as well as the expected total number of days he / she shall annually commit to them,
- the type, size, scope and complexity of the work performed by the undertaking, in which the candidate holds an executive or non-executive function or a deputy function,
- the geographical location of the undertaking in which the candidate performs the function and the travel time required to perform that function,

- the annual average number of meetings of the management or supervisory board in which the candidate performs the function as well as the time required for the preparation for participation in the meetings,
- meetings of the management or supervisory board held when necessary, with the competent authorities and stakeholders,
- the position, responsibilities and area of competence that the candidate performs (e.g., whether he / she carries out the position of chairman of one of the supervisory board committees),
- other professional or political activities and all other functions and relevant activities as well as the expected total number of days that the candidate is required to commit annually,
- the number of functions in organizations or entities that had not been established primarily for the realisation of profit and
- the time necessary to be committed to induction and ongoing professional training and development.

IV.7. Diversity of the Management Board

Article 15

(1) The composition of the Management Board of the Bank shall reflect a broad set of knowledge, and diversity in respect of work experience, gender and age, taking into account required knowledge, skills and experience.

(2) The Bank has adopted the Management Board and the Supervisory Board Diversity Policy of Hrvatska poštanska banka, public limited company, which sets out the main goals and principles of diversity and gender representation in the governing bodies of the Bank, i.e., the targeted representation of the under-represented gender, the strategy and the timeframe for achieving the goal.

IV.8. Succession plan

Article 16

(1) The Bank has defined the Succession Plan for the Management Board functions to ensure continuity of decision-making and the functioning of the Management Board in the event of sudden or unexpected absences or departures of the Members of the Management Board and has determined the successor for each and every Member of the Management Board, taking into consideration the diversity requirements defined to in the previous paragraph.

(2) Each and every Member of the Management Board of the Bank has nominated for that purpose and within the area of his/her competence one key function holder who could in the event of the extraordinary circumstances defined in the previous paragraph assume the responsibility of the Member of the Management Board.

(3) The key function holder referred to in the previous paragraph shall at the moment of the appointment possess valid suitability assessment.

V. SUITABILITY ASSESSMENT PROCEDURE AND DYNAMICS

Article 17

The procedure established for the assessment of the suitability of a candidate / Member of the Management Board shall be carried out in the following situations:

- prior to submitting an application to the Croatian National Bank for the approval of the selection / appointment of a Member of the Management Board (assessment of a candidate for membership in the Management Board),
- once a year (regular annual suitability assessment of the President and the Members of the Management Board),
- when the circumstances occur for the suitability verification of a Member of the Management Board (an extraordinary suitability assessment).

V.1. The timeframe for and the method of the suitability assessment of a candidate for membership in the Management Board

Article 18

(1) For the purpose of the suitability assessment, a candidate for membership in the Management Board of the Bank shall provide to the Suitability Assessment Committee the requested documentation and information in compliance with the Credit Institutions Act, the CNB's Decision and the Policy herein.

(2) The requested documentation referred to in the previous paragraph shall include:

- Questionnaire for the candidate for the chairperson or a member of the management board or a member of the supervisory board of a credit institution,
- Statement that the candidate for the chairperson or a member of the management board or supervisory board of a credit institution has not committed a criminal offence or a misdemeanour, and that no criminal or misdemeanour proceedings have been initiated against him/her,
- extract from criminal and misdemeanour records, specifically:
 - a) for the nationals of the Republic of Croatia, the statement issued by a municipal court on whether criminal offence proceedings have been initiated against the candidate, not older than one month from the date when the application for granting prior approval was submitted,
 - b) for foreign nationals, information showing that the candidate has not been convicted of a misdemeanour or has not been subject to administrative sanctions, whether criminal offence or misdemeanour proceedings or proceedings for imposing administrative sanctions have been initiated against the candidate and whether the candidate has been convicted by a judgement with final force and effect of a criminal offence, not older than one month, from the date when the application for granting prior

approval was submitted (the data shall pertain to all jurisdictions in which the candidate had resided over the course of the last five years).

(3) The Questionnaire and the Statement from the previous paragraph shall constitute an integral part of the CNB's Decision.

(4) The suitability assessment with the proposal of the Resolution on the suitability of the Member of the Management Board of the Bank shall be drafted by the Suitability Assessment Committee. The Management Board of the Bank shall submit the proposal of the resolution on the suitability to the Supervisory Board i.e., to the Appointments Committee for an opinion.

(5) The Supervisory Board shall adopt the Resolution on the suitability of the Member of the Management Board of the Bank.

(6) The application for granting prior approval to perform the function of a Member of the Management Board shall be submitted to the Croatian National Bank no later than four months before the expiry of the term of office of a Member of the Management Board.

(7) The application shall be submitted by the President of the Supervisory Board, and it shall be submitted to the Croatian National Bank via the designated information system, electronically or in writing, and it shall contain all the necessary documentation.

(8) By way of derogation, for persons appointed by the court pursuant to Article 39 paragraph 3 and Article 46 paragraph 3 of the Credit Institutions Act, i.e., the Supervisory Board pursuant to Article 39 paragraph 13 of the Credit Institutions Act, the Bank shall not be obliged to obtain the prior approval of the Croatian National Bank.

(9) The administrative support with regard to the application for prior approval shall be provided by the Office of the Management Board.

(10) The suitability assessment of a candidate for membership in the Management Board of the Bank shall be carried out prior to the submission to the Croatian National Bank of the application for granting prior approval for the appointment of the Member of the Management Board of the Bank, pursuant to Articles 38, 39 and 40 of the Credit Institutions Act.

V.2. The timeframe for and the method of regular annual suitability assessment of the Members of the Management Board of the Bank

Article 19

(1) A regular annual assessment of the suitability of a Member of the Management Board shall be carried out once per year, in order to verify his/her individual on-going suitability for performing his/her function, as well as the collective suitability of the Management Board.

(2) For the purpose of regular annual suitability assessment, each and every Member of the Management Board shall, at the request of the Suitability Assessment Committee, submit to the Committee the updated Questionnaire referred to in Article 18, paragraph 2, first indent above, and other relevant information and evidence defined in the regulations and the Policy herein.

(3) The Bank shall notify the Croatian National Bank, not later than 30 June of the current calendar year for the previous year, of regular annual assessment of the suitability of a Member of the Management Board, submitting the updated information as defined in Article 13 paragraph 4 of the CNB's Decision for the President and the Members of the Management Board and they shall be accompanied by a reasoned result of the regular suitability assessment carried out by the Bank.

(4) By way of derogation from the previous paragraph, in the event when a change in the specified information occurs which could indicate that the person does not meet the defined conditions any longer, the Bank shall immediately and without delay notify the Croatian National Bank, and no later than eight days upon establishing such change and initiate the extraordinary suitability assessment.

V.3. Extraordinary suitability assessment of the Member of the Management Board of the Bank

Article 20

(1) An extraordinary suitability assessment shall be carried out immediately and without delay when the following situations and circumstances occur necessitating a suitability verification:

- when the circumstances occur which give rise to doubt as to individual or collective suitability and particularly in an event or situation that has or may have a material impact on the good repute, honesty, integrity or any other criteria for suitability assessment, including the cases where a Member of the Management Board is found to be in a conflict of interest that cannot be managed and in the case of a change in these persons' scope of tasks and area of competence.
- when there are reasonable grounds to suspect that money laundering or terrorist financing has been committed, or is currently underway, or that there have been attempts at money laundering or terrorist financing, or that such attempts are currently underway or when high money laundering or terrorist risk is established, and in particular in situations defined in Article 20 paragraph 1 of the Policy herein:

1) when appropriate internal controls have not been implemented or systems have not been established for managing, monitoring and mitigating money laundering or terrorist financing risk (e.g., determined on the basis of the findings of supervision as part of direct or indirect supervision or other supervisory activities or within the procedure for the imposition of administrative sanctions),

2) if the Bank breaches the duties pertaining to anti-money laundering and counter-terrorist financing in the Republic of Croatia or the host Member State in which it directly provides services through a branch or in a third country where it operates through a branch or,

3) if the Bank significantly changes its operations or the business model in a manner that indicates that its exposure to money laundering or terrorist financing risk has significantly increased.

(2) When carrying out an extraordinary suitability assessment, the Bank may carry out a partial assessment of the impact of the change in circumstances on the suitability of a Member of the Management Board.

V.4. Corrective measures and activities undertaken following the completion of the suitability assessment

Article 21

(1) In the event when the Bank establishes, in the course of the extraordinary assessment of the suitability of the Member of the Management Board of the Bank, that the Member of the Management Board of the Bank is no longer suitable, it shall initiate the procedure to replace that Member. By way of derogation, in the event when the Bank concludes that the suitability shortcomings are not serious and that they can be remedied in the short term, the Bank may take appropriate measures to restore the suitability of that Member.

(2) By way of derogation, in the event when the Bank concludes that the suitability shortcomings are not serious and that they can be remedied in the short term, the Bank may take appropriate measures to restore the suitability of that Member, on the condition that the shortcomings determined are not such that the person fails to meet the criteria of good repute, honesty and integrity which cannot be removed by corrective measures.

(3) The Bank shall, immediately and without delay, and not later than within 8 (eight) days starting from the day of completion of the suitability assessment, notify the Croatian National Bank of the results of the extraordinary suitability assessment and its resolution on the corrective measures to be taken in order to restore the candidate's suitability or the resolution to replace the candidate with another suitable candidate.

(4) If in the course of the collective suitability assessment of the Management Board of the Bank, the Bank establishes any shortcomings, the Bank shall undertake corrective measures to remove them in due course and notify the Croatian National Bank thereof immediately without delay.

(5) Corrective measures may include the application of measures to mitigate or remove conflicts of interest, professional development and additional training of either individual Members of the Management Board or the Management Board collectively, and other similar measures to ensure individual and collective suitability.

(6) The Bank shall sufficiently document all suitability assessment procedures, including regular and extraordinary suitability assessment procedures, and shall inform the assessed person in writing of the results of the repeated assessment, stating whether the conditions for membership in the Management Board have been met.

(7) The Members of the Management Board of the Bank shall inform the Bank of any and all relevant event or circumstance having a significantly material impact on their suitability to perform the function to which they had been appointed. Pursuant to Article 23 paragraph 2 of the Policy herein, the Members of the Management Board of the Bank shall inform the Bank at least once a year that the information underlying the initial suitability assessment have not changed.

V.5.4. The manner of giving response by the assessed person

Article 22

- (1) In the event when the results of the suitability assessment indicate that a candidate for membership in the Management Board is not suitable or that a Member of the Management Board (hereinafter: the assessed person) is no longer suitable, the Suitability Assessment Committee shall, prior to providing the suitability assessment, request the assessed person to submit his/her response.
- (2) The request for response with the partial or the complete assessment shall be delivered to the person being assessed by post or via means of electronic mail.
- (3) As a rule, the communication with a candidate for the President or the Member of the Management Board of the Bank shall be conducted via the person who had nominated the candidate.
- (4) The assessed person shall respond in respect of the results of the suitability assessment within the timeframe defined by the Suitability Assessment Committee; such timeframe shall not be less than 24 hours and shall not exceed three days following the day of the receipt of the request. By way of derogation, such timeframe may be less than 24 hours if the assessed person agrees to such shorter timeframe.
- (5) The Suitability Assessment Committee shall deliver to the Management Board of the Bank the response of the assessed person, together with the suitability assessment and a proposal of the resolution on the suitability.

V.6.5. The information and documentation to be submitted by a Member of the Management Board of the Bank to the Bank

Article 23

- (1) The Members of the Management Board of the Bank shall, in addition to the documentation defined in Article 14 paragraph 4 of the CNB's Decision, the Members of the Management Board of the Bank shall inform the Bank of any and all relevant event or circumstance having a significantly material impact on their suitability to perform the function to which they had been appointed.
- (2) Members of the Management Board of the Bank shall inform the Bank at least once a year that the information underlying the initial suitability assessment have not changed.
- (3) The notifications referred to above shall be delivered to the Suitability Assessment Committee.

V.7.6. Collective suitability assessment

Article 24

- (1) The Bank shall conduct the collective suitability assessment at least in the following cases:
 - on the initial appointment and each and every subsequent re-appointment of the Members of the Management Board;

- when amending the area of competence of the Members of the Management Board;
- in the event of a significant change of the Bank's business model, risk appetite and risk strategy of the Bank;
- in the event of a change in the Group structure;
- when there are reasonable grounds to suspect that money laundering or terrorist financing has been committed, or is currently underway, or that there have been attempts at money laundering or terrorist financing, or that such attempts are currently underway or when high money laundering or terrorist risk is established, and in particular in situations defined in Article 20 paragraph 1 of the Policy herein;
- and in any other event that may have a significant impact on the collective suitability of the Management Board, the Bank shall compare the current composition of the Management Board and its collective knowledge, skills and work experience against the Bank's business model, risk profile, strategy and markets served.

(2) In the procedure referred to in the previous paragraph, the Bank shall also take into account the results of the individual assessments of suitability of the Members of the Management Board. When conducting an assessment, the Methodology for collective suitability assessment shall be used by the Suitability Assessment Committee after the Policy herein enters into force.

VI. RECORD KEEPING

Article 25

(1) All the procedures of assessment of suitability of the Members of the Management Board of the Bank shall be adequately documented.

(2) All documentation pertaining to the assessment of suitability of the Members of the Management Board of the Bank shall be kept in hard copy, one original copy shall be kept at the Human Resources Office, and electronically permanently, excluding the induction and ongoing training records for the Members of the Management Board, which shall be kept for a period of 5 (five) years.

VII. FINAL PROVISIONS

Article 26

The terms importing gender and used in this Policy refer equally to masculine and feminine gender.

Article 27

(1) The Policy herein shall be within the scope of competence of the Human Resources Office, and it is adopted and updated by the Management Board of the Bank, with prior consent of the Supervisory Board.

- (2) The provisions of the Policy herein shall be suitably implemented and applied to the greatest extent possible at the level of HPB Group, which is composed of HPB p.l.c and the subsidiaries that HPB p.l.c consolidates, in order to ensure the compliance with this Policy, taking into account their specific characteristics and applicable regulations, within the framework established by the rules of HPB Group.
- (3) In the event of amendments to 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 and related regulations, and which shall enter into force following the adoption of this Policy, the provisions of such regulations shall be applied until the harmonization of this Policy with the amendments to those regulations.
- (4) The Supervisory Board, within its function of supervising the effectiveness of the Policy and the procedures for creating the Policy, shall entrust the Management Board of the Bank with carrying out all the necessary compliance activities following each regulatory amendment, whereby the Compliance function shall conduct an analysis and inform the Supervisory Board about the manner in which the Policy on the suitability assessment affects the Bank's compliance with regulations as well as its internal policies and all identified risks and issues of non-compliance.
- (5) This Policy shall enter into force as from the date of the prior consent granted by the Supervisory Board of the Bank and shall be implemented as at 1 January 2023.
- (6) As from the date of the implementation of this Policy, the Policy on the selection and assessment of the suitability of the President and the Members of the Management Board of the Bank of 18 May 2021 shall cease to be valid.

Marko Badurina

President of the Management Board