Association of Pension Fund Management Companies and Pension Insurance Companies, in accordance with the provision of Article 49, Paragraph 7 of the Mandatory Pension Funds Act (OG 19/14, 93/15, 64/18, 115/18), hereby adopts on 27 June 2019

PRINCIPLES OF CORPORATE GOVERNANCE IN COMPANIES WHERE PENSION FUND ASSETS ARE INVESTED

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PRINCIPLES OF CORPORATE GOVERNANCE IN COMPANIES WHERE PENSION FUND ASSETS ARE INVESTED

I. OBJECTIVES AND PRINCIPLES

1.1. The Association of Pension Fund Management Companies and Pension Insurance Companies is a professional, independent, non-profit organisation, whose objective is to promote and represent the common interests of mandatory and voluntary pension funds, as well as pension insurance companies and their members.

1.2. These Principles of Corporate Governance (hereinafter: the Code) regulate the guidelines and principles by which pension companies shall be governed in:

i matters of corporate governance standards in issuers where pension fund assets are invested. This includes the representation of pension companies on supervisory boards, taking into account legal constraints and other matters relevant to corporate governance;

ii matters of participation and voting at the General Assemblies of issuers..

1.3. The purpose of this Code is to ensure transparent operations, establish detailed work procedures, avoid conflicts of interest involving key individuals within pension companies, and establish an effective system of accountability.

1.4. As significant participants in the capital market, pension companies, through their involvement in corporate governance of issuers, aim to become strong stabilisers of the market as a whole and contribute to the transparency of business operations in joint-stock companies in which they invest, thereby building trust among participants in the Croatian capital market.

1.5. Pension companies particularly value the following areas of ownership activity:
- responsibility of corporate structures of the issuer;
- the principle of equal treatment of shareholders;
- transparency of issuers and dialogue with stakeholders;
- the proper functioning and integrity of financial markets;
- and the promotion of ethical standards and a positive impact on social outcomes.

1.6. In cases where specific laws or codes applicable to issuers regulate certain matters addressed by this Code, the provisions/obligations of those specific laws or codes shall take precedence over the application of this Code, and pension companies shall evaluate and monitor the issuer’s compliance with legal or higher standards.

1.7. Pension companies shall take measures to protect the assets of the funds under their management in accordance with their declared participation policies, investment strategies, and internal acts, in cases where issuers severely breach their own corporate governance codes or the corporate governance standards outlined in this Code.

II. STANDARDS OF CORPORATE GOVERNANCE

2.1. Pension companies consider the process of selecting and clearly defining the duties and responsibilities of the Supervisory Board and the Management Board in the governance of issuers as crucial. Therefore, pension companies will not interfere in the day-to-day operations (micro-management) of issuers but expect full accountability from the Supervisory Board and Management Board of the issuer in the implementation of the issuer's strategy and business operations. Issuers are required to ensure a clear, fair, and transparent process for appointing members of the Management Board and Supervisory Board, and to ensure that a succession plan is in place for each member of these bodies to guarantee business continuity.

2.2. Based on the above, pension companies expect that:

- i the Supervisory Board and Management Board of the issuer are aware of their role and responsibilities;
- ii the Supervisory Board and Management Board of the issuer fulfil their obligations with due quality;
- iii shareholders are free to participate in the election and appointment of members of the Supervisory Board of the issuer;
- iv the Supervisory Board and Management Board of the issuer communicate their strategies, procedures, and results transparently;
- v the Supervisory Board and Management Board of the issuer assume full responsibility for the outcomes and results of the business operations in a conscious and diligent manner.

2.3. In light of the foregoing, pension companies will not engage in detailed matters but will focus on outcomes for shareholders, supporting the independence and autonomy of the Supervisory Board and Management Board of the issuer, and will call upon other shareholders to engage in shareholder activism when deemed necessary.

Supervisory Board

3.1. Pension funds expect the members of the issuer's supervisory board to:

- i act in the best long-term interest of the issuer,
- ii oversee the management in the implementation of the issuer's strategy,

iii approve key strategic decisions in the interest of the shareholders and the issuer,

iv establish a rational and cost-effective corporate governance system within the issuer that minimises management costs,
v ensure the provision of timely, appropriate, and accurate information to the market and the issuer's shareholders,
vi ensure the oversight of related party transactions,
vii not be subject to undue influence in the performance of their duties as members of the issuer's supervisory board,
viii dedicate sufficient time to fulfil the obligations within their remit, and
ix demonstrate a willingness to engage constructively with institutional investors and, through the exchange of views, establish a better framework for monitoring the issuer's business operations.

3.1.1. Expertise and Suitability of Supervisory Board Members

Pension funds expect that members of the issuer's supervisory board possess an adequate level of expertise and suitability to perform their roles. This includes industry knowledge, appropriate financial acumen, relevant competencies and skills, as well as adequate experience and a good reputation.

3.1.2. Representatives of Pension Funds on Supervisory Boards

When a pension fund nominates or appoints a member of the issuer's supervisory board, the candidate of the respective pension fund must not have business, familial, or other connections with that pension fund, the majority shareholder or unit holder, or the group of majority shareholders or unit holders, or with the members of the management or supervisory board of the pension fund or the majority shareholder or unit holder. Any such business, familial, or other connection must be significant or deviate from normal terms. For instance, a significant supplier/service provider is considered to be any supplier/service provider to whom the pension fund has paid more than 50% of the total costs paid to all suppliers/service providers in a given calendar year.

A connection is not considered significant if it relates to a standard business relationship, including, but not limited to: if the individual in question is a member of a pension fund managed by the pension fund, if the individual has a credit relationship established with a credit institution, where such a credit relationship arises from the regular business activities of the credit institution, or if the individual holds an insurance policy resulting from the regular business activities of an insurance company.

A familial connection means a spouse or a person regarded as equivalent to a spouse under national law, or a relative up to and including the second degree in the direct line of descent with the majority shareholder or unit holder (if the shareholder or unit holder is a natural person), a member of the management or supervisory board of the pension fund or the majority shareholder or unit holder.

3.1.3. Independence of Supervisory Board Members

A supervisory board member proposed or appointed by a pension fund is an independent member. The duty of an independent member is to act in the best long-term interest of the issuer, not in their own interest, or in the interest of the pension fund that proposed or appointed them, or in the interest of related persons of the pension fund. In assessing the long-term interests of the issuer, the supervisory board member shall take into account the interests of employees, shareholders (including minority shareholders), and other stakeholders.

3.1.4. Diversity of Supervisory Board Members

In addition to the requirements of expertise and suitability, pension funds place particular importance on the diversity of the supervisory board members and an adequate number of supervisory board members. Therefore, pension funds particularly support diversity in education, age, gender, etc. The number of supervisory board members should ensure efficient and accountable functioning. Pension funds consider that, depending on the size and complexity of the issuer and the jurisdiction in which it operates, this is generally between five and nine supervisory board members.

3.1.5. Equality of Supervisory Board Members

Pension funds do not support practices that do not ensure equality and fairness for all supervisory board members.

3.1.6. Election and Appointment of Supervisory Board Members of the Issuer

Pension funds expect the issuer's general assembly to be fully and promptly informed of the expiration of supervisory board members' terms so that shareholders can assess their contribution to the work and added value to the issuer, ensuring the continuity of the supervisory board's mandates and operations.

It is expected that the issuer discloses information in its annual report regarding the members of the supervisory board, their biographies, professional qualifications and competencies, professional experience, how they contribute to the work of the supervisory board, their attendance rate at supervisory board meetings, and their independence, as well as the reasons/conditions that a supervisory board member meets to be considered independent.

The list of candidates for membership in the issuer's supervisory board shall be submitted to the general assembly as early as possible and shall include information reflecting all the provisions of this Code.

3.1.7. Participation in Supervisory Board Meetings and Other Committees of the Issuer

Pension funds expect that members of the supervisory board and other committees of the issuer devote sufficient time to fulfilling their duties. Therefore, it is expected that they participate in at least 75% of all meetings of the supervisory board and other committees of the issuer to which they are appointed. Participation data should be available to shareholders.

3.2. Issuer Committees

Pension funds recommend that the following subcommittees of the issuer's supervisory board be established: (i) the audit committee, (ii) the remuneration committee, and, where justified by the size of the issuer, (iii) the nomination committee.

It is expected that the work report of each committee is published in the issuer's annual report.

Management Board

4.1. The management board conducts the issuer's affairs independently and at its own discretion, making all decisions solely based on its own judgement. The existence of approvals from other issuer bodies does not absolve the management board of its responsibility for managing the business with the due diligence of a prudent manager.

In performing its duties, the issuer's management board is not bound by the instructions of other issuer bodies, not even by the instructions of the majority shareholders or the supervisory board.

The management board is required to always act exclusively in the interest of the issuer and its shareholders, taking into account the interests of employees and the broader community, with the goal of increasing the issuer’s value.

4.2. Members of the management board must have the necessary skills, knowledge, education, experience, and diversity to effectively perform their duties. Each individual member possesses the appropriate professional knowledge required for their area of responsibility.

4.3. The responsibilities of the management board include:
- developing and implementing the issuer’s strategy and business plans;

- managing the issuer’s activities and resources;
- promoting the values and ethics of the issuer;
- selecting and appointing senior management members;
- introducing effective risk management and internal control systems; and
- maintaining constructive relationships with all shareholders and significant stakeholders.

Remuneration

5.1. Pension funds believe that only motivated and adequately compensated employees and management can contribute to the continuous sustainable growth of the issuer. Therefore, pension funds will support remuneration systems that ensure stable, continuous, and long-term sustainable growth for the issuer, without diminishing the interests of the issuer’s shareholders.

5.2. The issuer’s supervisory board is responsible for ensuring a formal and transparent remuneration policy for the issuer that applies to members of the management board in a manner that aligns long-term issuer objectives with the successful and ethical implementation of the issuer’s strategy.

5.2. In remunerating members of the issuer’s management board, the following factors must be considered:
- achieved results should reflect the issuer’s medium and long-term objectives;
- the issuer's performance should not be measured solely by one aspect or one key indicator;
- the sustainability of the issuer’s operations, as well as the achievement of social, environmental, and good governance objectives, are essential criteria;
- the risks undertaken must be considered to avoid rewarding actions that are risky for the issuer and its shareholders;
- performance should be measured over an extended period (preferably 3 years) to accurately determine the value generated for the issuer and its shareholders, and
- provisions for clawback and malus, as well as the deferral and/or retention of part of the variable payments, should be in place.

5.4. Pension funds expect the issuer to inform its shareholders about the criteria for remuneration and their fulfilment.

5.5. Pension funds believe that the remuneration of the issuer's supervisory board members must be aligned with the issuer's long-term interests in a manner that does not compromise their independence from the management and/or majority shareholders and does not encourage the assumption of excessive risks.

Risk Management, Internal Control, and Audit

6.1. Pension companies believe that issuers with supervisory boards adhering to high corporate governance standards are better equipped to make sound strategic decisions and oversee risk management. Accordingly, it is the responsibility of the issuer to ensure the existence of an effective system for managing all material risks by identifying, measuring, and proactively managing these risks.

6.2. The supervisory board of the issuer is required to ensure that effective structures, policies, and procedures are in place to identify, report, manage, and monitor significant risks faced by the issuer and to guarantee the independence and effectiveness of both internal and external audit functions.

General Assembly

7.1. Pension companies expect issuers to take and implement measures to ensure that all shareholders are treated equally, have access to the issuer's information, and can participate in the general assembly without any additional restrictions.

7.2. Pension companies place particular emphasis on the principle of equal treatment of shareholders and the principle of "one share, one vote." Given the particularly sensitive position and vulnerability of small shareholders, pension companies will ensure that the issuer's supervisory board: (i) acts in the interests of all shareholders, (ii) makes fair decisions for all shareholders, and (iii) takes steps to ensure equal treatment of all shareholders.

7.3. Pension companies expect that the supervisory board and the management of the issuer act with transparency, provide accurate, precise, and timely information, adhere to established strategies, and achieve satisfactory results while taking into account the interests of shareholders and the principle of equality.

7.4. Pension companies expect the issuer to establish effective formal mechanisms that enable minority shareholders to ask questions directly to members of the management and supervisory boards. Details regarding the operation of such mechanisms will be published on the issuer's website.

7.5. Pension companies will use their statutory powers to convene general meetings, propose special resolutions, or submit counterproposals to proposed resolutions if they determine that the proposed decisions and the issuer's expected development are inconsistent with their investment strategies and internal member protection rules.

Conflict of Interest

8.1. Pension companies expect issuers to establish an effective system to monitor and prevent conflicts of interest, particularly at the management level.

8.2. Pension companies expect that all management levels, including board members and supervisory board members, abstain from decision-making in situations that may present actual or potential conflicts of interest with the issuer.

8.3. Pension companies expect the issuer to establish an effective mechanism for monitoring, documenting, reporting, and disclosing related-party transactions to the supervisory board, which will discuss and report such transactions to the general assembly as part of the written supervisory report.

8.4. Additionally, it is expected that the issuer's management will report in writing on all significant related-party transactions, including how such transactions are monitored and documented, and how conflicts of interest are prevented.

8.4. Pension companies will generally accept related-party transactions only if they:
- Are subject to proper oversight and regular audits;
- Are clearly justified and beneficial to the issuer;
- Fall within the scope of ordinary business operations;
- Are conducted under market conditions;
- Adhere to best practices;
- Serve the interests of all shareholders.

Reporting and Transparency

9.1. Pension companies believe that issuers should adhere to high standards of information disclosure and business transparency.

In this respect, pension companies expect issuers to:
- Publish quarterly reports, where applicable;
- Follow consistent internationally recognised financial reporting standards;
- Ensure the availability of financial information and investor-related information in Croatian, and where possible, in English;
- Provide guidelines for reading financial statements, with explanations of proposed decisions;
- Publish key internal documents on the issuer's website;
- Report on the application of the corporate governance code with annual evaluations and

continuous improvements in investor communication in accordance with the requirements of the regulated market where the issuer's transferable securities are traded;
- Ensure the mandatory presence of board members at general assembly meetings;
- Provide standardised voting forms.

III. PARTICIPATION AND VOTING AT THE GENERAL ASSEMBLIES OF ISSUERS

Corporate Governance Procedures of Pension Companies

10.1. In their participation in corporate governance, pension companies act in the best interests of the members of pension funds and the achievement of investment goals. As long as these principles are respected, investments by the issuer that promote local industry or create jobs in the community, or provide other community benefits, will be regarded as equal to the issuer’s profits in other socio-economic contexts.

10.2. Pension companies establish appropriate and effective procedures for exercising voting rights and other rights arising from financial instruments in which pension fund assets are invested. A summary of the established measures and procedures will be published on the companies' websites.

Participation of Pension Companies

11.1. Pension companies base their responsible investment on a risk management approach, which involves monitoring the operations of issuers in which pension fund assets are invested.

11.2. Monitoring the issuer's operations may include strategy, business model, capital structure, financial and non-financial performance, social and environmental impact, and corporate governance, taking into account the potential financial risk to pension companies and the risk of reduced investment value. Such monitoring is conducted in line with the size of the pension fund’s shareholding in the issuer’s capital and the proportion of pension fund assets under management.

11.3. To manage risks in the investment process and in compliance with regulatory requirements, pension companies adopt and publicly disclose policies for effective and sustainable shareholder participation.

11.4. Part of the active investment process and supervision of pension fund assets includes interaction with issuers via meetings, conference calls, or written communications.

11.5. Where necessary to escalate material issues, pension companies may request the convening of a general meeting and the passing of appropriate resolutions.

Voting at General Assemblies

12.1. Notices regarding participation and voting at issuers' general assemblies will be published on the websites of pension companies 15 days before the general assembly, unless the meeting is convened on shorter notice or if the vote is not relevant due to the subject matter or the size of the shareholding.

Conflict of Interest Management

13.1. Pension companies establish, implement, and regularly update and oversee measures and procedures for managing conflicts of interest that may arise concerning their participation policies and voting decisions.

Reporting

14.1. Pension companies shall report annually on how they implement their participation policies. This report will be published on the pension company's website and will include information on how they voted on key decisions and whether they used voting advisory services.

IV. FINAL PROVISIONS

15.1. Members of the Pension Funds Association and Pension Insurance Companies undertake to fully comply with this Code and accept it as an integral part of their regular business and management practices.