Pursuant to Article 101, paragraph (2), item (5) of the Credit Institutions Act (Official Gazette 159/2013) and Article 43, paragraph (2), item (9) of the Act on the Croatian National Bank (Official Gazette 75/2008 and 54/2013), the Governor of the Croatian National Bank hereby issues the

Decision on employee remuneration

I GENERAL PROVISIONS

Subject matter and scope of the Decision
Article 1

(1) This Decision prescribes the obligations of credit institutions relating to the establishment and implementation of a remuneration policy.

(2) The provisions of this Decision shall apply to all credit institutions which have their head offices in the Republic of Croatia and are authorised by the Croatian National Bank.

(3) The provisions of this Decision shall apply *mutatis mutandis* to branches of third-country credit institutions authorised by the Croatian National Bank to establish branches of third-country credit institutions.

(4) Credit institutions shall comply with the provisions of this Decision on an individual and consolidated basis.

Definitions
Article 2

The terms used in this Decision shall have the following meaning:

1) 'Remuneration' means all forms of payments and benefits, monetary or in kind, which a credit institution pays to its employee in exchange for professional services rendered by that employee, including:
   - remuneration for employment – salary, including discretionary pension benefits;
   - remuneration for employment – remuneration in kind; and
   - other remuneration.

   Remuneration also includes payments and benefits paid to employees indirectly by a parent or other related companies of the credit institution.

   Exceptionally, remuneration shall not include payments and benefits which meet all of the following conditions:
   - they are not granted on a discretionary basis;
   - all employees of the credit institution are entitled to them; and
   - they do not pose incentive effects in terms of risk assumption (e.g. collective insurance policies for all employees).

   All remuneration can be divided into either fixed remuneration or variable remuneration. For the purposes of the requirements of this Decision, remuneration amounts are considered on a gross basis.

2) 'Business unit' means an organisational unit of a credit institution whose individual performance can be assessed by a credit institution.

3) 'Variable remuneration' means remuneration depending on the performance of an employee, a business unit and a credit institution or on other contractual criteria. Variable remuneration also includes severance payments exceeding the legally prescribed amount.

4) 'Fixed remuneration' means remuneration other than variable remuneration.

5) 'Employee' means a natural person who, based on an employment contract or some other contract concluded with the credit institution, performs certain activities for the credit institution. In case of outsourcing where the credit institution, by means of a contractual agreement, entrusts the performance of certain activities to a service provider who is a member of the credit institution's group, 'employee' also means a natural person who, based on an employment contract or some other contract concluded with the service provider, is directly engaged in the provision of services to the credit institution for the purposes of performing specific activities. For the purposes of this Decision, 'employee' also means a procurator of the credit institution.

6) 'Senior management' means senior management as defined in Article 3, item (53) of the Credit Institutions Act.

7) 'Risk takers' means employees whose professional activities exert influence on the credit institution's risk profile, including persons capable of entering into contracts/risk positions and taking decisions that affect the risk exposure of the credit institution. For the purposes of this Decision, in addition to employees whose professional activities individually exert influence on the credit institution's risk profile, 'risk takers' also means employees whose professional activities collectively (as members of a group of employees) exert influence on the credit institution's risk profile.

8) 'Control functions' means the risk control function, the compliance function and the internal audit function.

9) 'Risk profile' means risk profile as defined in the Decision on risk management.

10) 'Discretionary pension benefits' means discretionary pension benefits as defined in Article 4, paragraph (1), item (73) of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ L 176, 27.6.2013; hereinafter referred to as "Regulation (EU) No 575/2013").

11) 'Assessment period' means a period for which performance of an employee, a business unit and a credit institution is assessed and measured for the purpose of determining variable remuneration of an employee.

12) 'Determination of variable remuneration' means determination of the amount of variable remuneration for individual employees.

13) 'Remuneration deferral' means a contractual clause under which variable remuneration is not paid immediately after the assessment period. Remuneration is deferred if both of the following conditions are met: first, remuneration is not paid out or instruments are not vested to the beneficiary, and second, a malus clause has been contracted.

14) 'Deferral period' means a period during which deferred remuneration is paid out and during which unpaid deferred remuneration is subject to a malus clause. A deferral period starts with the payment of the portion of the variable remuneration component that is not deferred or the vesting of instruments that are not subject to deferral. If the total payment of the variable remuneration is deferred, a deferral period starts on the date of the determination of the variable remuneration. A deferral period ends with the payment of the last portion of the variable remuneration component or the last vesting of instruments that are subject to deferral.

15) 'Malus' means a contractual clause under which an employee agrees that a credit institution is not obliged to pay out or vest a part of the deferred unpaid variable remuneration or the whole of the deferred unpaid variable remuneration if risk outcomes lead to a downturn in performance or subdued financial performance.

16) 'Clawback' means a contractual clause under which an employee agrees to return ownership of an amount of variable remuneration, either paid out or vested, to the credit institution if risk outcomes lead to a downturn in performance or subdued financial performance. This provision may be contracted for deferred and non-deferred variable remuneration.

17) 'Remuneration retention' means a contractual clause under which an employee agrees that he may not sell variable remuneration that has been already vested and paid out in the form of instruments during a prearranged period.

18) 'Retention period' means a period of time during which an employee retains variable remuneration paid out in the form of instruments. A retention period starts with the vesting of instruments. If instruments are subject to deferral, a retention period starts with the vesting of these instruments for each deferred portion of remuneration.

19) 'Remuneration bracket' means the range between the lowest and the highest remuneration amount of a specific group of employees.

II ESTABLISHMENT AND IMPLEMENTATION OF THE REMUNERATION POLICY

Remuneration policy
Article 3

(1) A credit institution shall establish and implement a remuneration policy in accordance with the provisions of this Decision.

(2) A parent credit institution in a group of credit institutions in the Republic of Croatia shall establish and implement the remuneration policy for the group of credit institutions in the Republic of Croatia in accordance with the provisions of this Decision.

(3) Employment contracts as well as all other contracts between employees and a credit institution must be aligned with the remuneration policy referred to in paragraph (1) of this Article.

Principle of proportionality
Article 4

(1) Credit institutions shall meet the obligations set out in Articles 6 to 12 of this Decision by applying the principle of proportionality, i.e. in a way and to the extent that is appropriate to their size, internal organisation and the nature, scale and complexity of their activities.

(2) To comply with the principle of proportionality, credit institutions shall perform a risk analysis. In the risk analysis, credit institutions shall take into account their size, internal organisation and the nature, scale and complexity of their activities; their risk profile; business strategy, as well as other relevant criteria. The risk analysis must be credible, comprehensive and understandable, and well-documented by credit institutions.

(3) On the basis of the risk analysis referred to in paragraph (2) of this Article, a credit institution shall determine whether it is significant for the purposes of this Decision, i.e. if due to its specific features it is more appropriate that it applies the provisions of this Decision in a more complex way and to a larger extent, or whether it is not significant for the purposes of this Decision, i.e. if due to its specific features it is more appropriate that it applies the provisions of this Decision in a simpler way and to a lesser extent.

(4) Credit institutions that are significant shall apply all provisions of this Decision. Credit institutions that are not significant shall not be required to apply the provisions of Articles 11 and 12 of this Decision.

(5) Regardless of the risk analysis results, for the purposes of this Decision, 'significant credit institution' means any credit institution whose average amount of assets at the end of the previous three business years reported in its audited financial statements exceeds seven billion kuna.

(6) At the request of the Croatian National Bank, credit institutions shall explain the manner in which they performed the risk analysis referred to in paragraph (2) of this Article and submit all relevant documentation.

(7) Credit institutions shall meet the obligations set out in Articles 10 and 11 of this Decision by applying the principle of proportionality, i.e. in a way that is appropriate to the impact of employees referred to in Article 9 of this Decision on the credit institution's risk profile.

(8) Credit institutions that must apply the provisions of Article 11, paragraphs (5), (6) and (8) of this Decision shall apply these provisions at least to the prescribed extent.

Policy establishment and implementation
Article 5

(1) The supervisory board of a credit institution shall establish and review regularly the basic principles of the remuneration policy, and shall be responsible for overseeing its implementation.

(2) The management board of a credit institution shall establish the remuneration policy, subject to supervisory board approval, and shall be responsible for its implementation.

(3) The supervisory board shall adopt the following decisions:

1) on the total amount of variable remuneration which the credit institution determines for all credit institution employees in the business year for a certain assessment period;
2) on an individual basis, on remuneration of management board members and persons responsible for the operation of control functions; and
3) on the reduction or non payment of variable remuneration to employees, including the application of malus or clawback clauses, in case of a significant downturn in performance or losses of the credit institution, in accordance with Article 11, paragraph (2) of this Decision.

(4) Supervisory board decisions referred to in paragraph (3) of this Article shall be implemented by the credit institution's management board in line with the remuneration policy.

(5) Remuneration of employees not mentioned in paragraph (3), item (2) of this Article may be determined by the credit institution's management board on a collective basis.

(6) By way of derogation from paragraphs (2) and (3) of this Article, the credit institution's Articles of Association may provide that the remuneration policy is approved and that decisions related to remuneration of management board members are adopted at the credit institution's general meeting. For the purpose of these tasks, the supervisory board shall provide the general meeting with the decision proposals and appropriate information necessary for the adoption of the decision and shall continue to be responsible for reviewing the remuneration policy.

(7) When establishing a remuneration policy to be applied on a consolidated basis for a group of credit institutions in the Republic of Croatia, a parent credit institution in the Republic of Croatia shall take account of the following:

1) the size, internal organisation and the nature, scale and complexity of activities of individual subsidiaries, taking account of the level of risk that an individual subsidiary poses for the parent credit institution;
2) specifics of the legal framework in which individual subsidiaries operate (e.g. tax or labour laws);
3) possible differences between business models of the parent credit institution and its subsidiaries;
4) possible differences between management systems of the parent credit institution and its subsidiaries;
5) specifics of prudential requirements in other financial sectors, if members of the group of credit institutions in the Republic of Croatia perform activities outside the scope of the Credit Institutions Act; and
6) other circumstances which the credit institution deems relevant.

Policy implementation review and compliance assessment
Article 6

(1) The remuneration committee or, if a credit institution is not obliged to establish a remuneration committee in accordance with the provisions of this Decision, the supervisory board of the credit institution, shall review the remuneration policy on an annual basis at a minimum and assess the compliance of remuneration policy implementation:

1) with the credit institution's policies and possible procedures for remuneration; and
2) with the relevant regulations, standards, principles and codes.

(2) A committee/board responsible for the implementation of the procedure referred to in paragraph (1) of this Article shall involve in that procedure the credit institution's control functions, as appropriate.

(3) If deficiencies in the remuneration policy or its implementation are identified in the course of the procedure referred to in paragraph (1) of this Article, the supervisory board shall adopt a remedial plan and start with its implementation without delay.

(4) A credit institution may outsource the procedure referred to in paragraph (1) of this Article in accordance with the Decision on outsourcing. If, in the course of the procedure referred to in paragraph (1) of this Article, the service provider identifies deficiencies in the remuneration policy or its implementation, the supervisory board shall adopt a remedial plan and start with its implementation without delay.

(5) A report on the conducted procedure referred to in paragraph (1) of this Article must be submitted to the credit institution's management and supervisory board and the persons responsible for the operation of the credit institution's control functions.

III GENERAL AND SPECIFIC REQUIREMENTS ON THE REMUNERATION POLICY

Policy requirements
Article 7

(1) Credit institutions shall apply the general requirements referred to in Article 8 of this Decision to all employees.

(2) Credit institutions shall apply the specific requirements referred to in Articles 10 and 11 of this Decision to employees whose professional activities have a material impact on their risk profile.

(3) To better align remuneration with risks, credit institutions may apply some or all the specific requirements referred to in Articles 10 and 11 of this Decision also to employees whose professional activities do not have a material impact on their risk profile. This shall be prescribed in the remuneration policy and implemented consistently.

General requirements
Article 8

(1) Credit institutions shall establish a remuneration policy which meets all of the following conditions:

1) it is consistent with sound and effective risk management;
2) it promotes sound and effective risk management;
3) it does not encourage risk-taking that exceeds the level of their tolerated risk;
4) it is in line with their business strategy, objectives, values and long-term interests; and
5) it incorporates measures to avoid conflicts of interest, including the avoidance of conflicts of interest in determining the remuneration of employees engaged in control functions.

(2) The remuneration policy encourages risk-taking that exceeds the level of tolerated risk of the credit institution if either of the following conditions is met:

1) there is a strong dependence of an employee on the variable remuneration arising from an inappropriate ratio between variable and fixed components of total remuneration; or
2) payments related to the early termination of an employment contract do not reflect performance achieved over time or do not punish failure or behaviour contrary to regulations or internal bylaws.

(3) In their remuneration policies, credit institutions shall clearly distinguish the criteria for determining fixed and variable remuneration components whereby:

1) fixed remuneration primarily reflects the professional experience and responsibilities arising from a description of an individual employee's job position, while
2) variable remuneration reflects performance that is sustainable and adjusted to risks, as well as performance that exceeds the standard expected in accordance with a description of an individual employee's job position.

(4) In their remuneration policies, credit institutions shall set an appropriate ratio between the variable and fixed components of total remuneration for all categories of employees and an appropriate ceiling to this ratio above which the payment of variable remuneration is not permitted. The fixed component of total remuneration must represent a sufficiently high proportion of the total remuneration to allow the operation of a fully flexible policy on variable remuneration components, including the possibility to pay no variable remuneration component.

(5) To set an appropriate ratio between the variable and fixed components of total remuneration, credit institutions shall take into account:

1) the quality of performance measurement and associated risk adjustments;
2) the length of the deferral and retention periods;
3) the nature, scale and complexity of their activities;
4) the types of risks to which they are exposed;
5) the category of an employee;
6) the position of an employee in the organisational structure and powers and responsibilities attached to the job position; and
7) other elements they consider relevant.

(6) Notwithstanding paragraph (4) of this Article, credit institutions shall set the ratio between the variable and fixed components of the total remuneration of an employee so that the amount of the variable remuneration component does not exceed the fixed remuneration component.

(7) By way of derogation from paragraph (6) of this Article, credit institutions may set the maximum amount of the variable component of the total remuneration at double the amount of an employee's fixed component of the total remuneration provided that all of the following conditions are met:

1) at the credit institution's general meeting, a decision has been adopted to approve the amount of variable remuneration based on a management board's proposal, which comprises the rationale for such decision, the number of employees to which the decision relates and their functions as well as the expected impact of the decision on the maintenance of an adequate level of capital;
2) the decision referred to in item (1) of this paragraph has been adopted by the votes accounting for at least three quarters of the initial capital represented at the general meeting;
3) employees for which a higher ratio of the variable to fixed component is requested have not participated in the voting on the decision referred to in item (1) of this paragraph;
4) the credit institution has notified all shareholders in advance that a decision on the higher ratio of the variable to fixed component is to be proposed at the general meeting;
5) the credit institution has notified the Croatian National Bank without delay that a decision on the higher ratio of the variable to fixed component is to be proposed at the general meeting. In the notification, the credit institution shall:
   - state the requested ratio between variable and fixed components;
   - explain this ratio; and
   - demonstrate that the requested ratio would not exert a negative impact on the fulfilment of the credit institution's obligations under Regulation (EU) No 575/2013, the Credit Institutions Act and subordinate legislation adopted under that Act, in particular on the maintenance of an adequate level of own funds; and
6) the credit institution has notified the Croatian National Bank without delay on the decision adopted at the general meeting. In the notification, the credit institution shall state the higher ratio of the variable to fixed component approved at the general meeting.

(8) Credit institutions shall structure remuneration of employees engaged in control function as follows:

1) fixed remuneration may not account for less than two thirds of the employee's remuneration; and
2) total fixed annual remuneration of the employee may not be less than the two-year average of the total fixed annual remuneration of credit institution's employees holding corresponding positions and having corresponding responsibilities.

(9) The requirements referred to in paragraph (8) of this Article shall apply to a management board member or a senior management member who is also a person responsible for the operation of a control function. This provision shall not apply to the chairperson of the management board.

(10) Guaranteed variable remuneration is not consistent either with sound and efficient risk management or the principle of rewarding performance. Credit institutions shall not guarantee the payment of a specific amount of variable remuneration nor include guaranteed variable

remuneration in their remuneration policies. 'Guaranteed payment of a specific amount of variable remuneration' means a contractual obligation of the credit institution to pay out a specific amount of variable remuneration to an employee, independent of performance, i.e. exclusively under the condition that the contractual relationship is maintained until a certain date.

(11) By way of derogation from paragraph (10) of this Article, credit institutions may contract guaranteed variable remuneration provided that all of the following conditions are met:

1) guaranteed variable remuneration is contracted when hiring new employees and is limited to the first year of employment; and
2) the credit institution has an adequate level of capital.

(12) Credit institutions shall ensure that variable remuneration of employees engaged in control functions depends on the achievement of the objectives linked to their functions, independent of the performance of the business areas they control.

(13) Credit institutions shall require all employees to undertake not to use personal hedging strategies or remuneration- and liability-related insurance to undermine the risk alignment effects embedded in their remuneration arrangements. This provision refers to all employee remuneration, including deferred and retained remuneration.

(14) Credit institutions shall establish and maintain efficient mechanisms to ensure compliance with the provisions of paragraph (13) of this Article.

(15) Credit institutions shall ensure that total variable remuneration of all their employees does not limit their ability to maintain or increase the amount of capital.

(16) Credit institutions shall align the payment of discretionary pension benefits with their business strategy, objectives, values and long-term interests.

(17) If the employee leaves the credit institution before retirement, the credit institution shall convert the amount of discretionary pension benefits into instruments. The credit institution shall hold these instruments for a period of five years, counting from the date on which the employee left the credit institution.

(18) If the employee leaves the credit institution upon retirement, discretionary pension benefits shall be paid to the employee in the form of instruments subject to a five-year retention period.

(19) The remuneration policy and procedures adopted for its implementation must be clear, well-documented and available to all employees. To ensure that employee behaviour is consistent with the remuneration policy principles, the credit institution shall inform each of its employees on the relevant remuneration policy provisions in writing or via e-mail.

(20) Credit institutions may not pay variable remuneration through legal persons or methods that facilitate the avoidance of the requirements of this Decision, the Credit Institutions Act or Regulation (EU) No 575/2013.

Employees subject to specific requirements
Article 9

(1) Credit institutions shall identify employees whose professional activities have a material impact on their risk profile by applying the criteria referred to in Commission Delegated Regulation (EU) No 604/2014 of 4 March 2014 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile.

(2) Credit institutions shall perform a risk analysis to determine the method in which the provisions of Articles 10 and 11 of this Decision shall be applied to individual employees according to the principle of proportionality. In the risk analysis, credit institutions shall take into account their size and internal organisation; the nature, scale and complexity of their activities; their risk profile; employee positions, activities, responsibilities and remuneration; conditions in the labour market, as well as other criteria they deem relevant. The risk analysis must be credible, comprehensive and understandable, and well-documented by credit institutions.

Specific requirements for all credit institutions
Article 10

(1) The total amount of variable remuneration must be based on a combination of the assessment of the performance of the individual (taking into account financial and non-financial criteria) and of the business unit concerned as well as on the overall results of the credit institution.

(2) The assessment of the performance must be set in a multi-year framework in order to ensure that the assessment process is based on longer-term performance.

(3) The measurement of performance used to calculate variable remuneration components must include an adjustment for all types of risks to which the credit institution is or might be exposed and take into account the cost of the capital and the liquidity required.

(4) The determination of employee variable remuneration or the allocation of the variable remuneration components within the credit institution shall also take into account all types of risks to which the credit institution is or might be exposed.

(5) To take into account all material risks in accordance with paragraphs (3) and (4) of this Article, credit institutions shall use the methods applied in the internal capital adequacy assessment process to identify and measure risks.

Specific requirements for significant credit institutions
Article 11

(1) The variable remuneration, including the deferred portion, shall not be paid or vested unless it is sustainable and justified. The variable remuneration shall be considered sustainable if its payment does not jeopardise the financial position and the safety and stability of the credit institution's operation. The variable remuneration shall be considered justified if it is based on

the performance of the credit institution, the business unit and the individual employee concerned.

(2) Credit institutions shall considerably reduce the total variable remuneration where subdued or negative financial performance of the credit institution occurs. All of the following forms of reducing remuneration shall be taken into account:

1) reduction in the remuneration for the current business year;
2) reduction in payouts of remuneration previously determined, but deferred and not yet paid (application of a malus clause); and
3) subsequent reduction in payouts of remuneration previously determined and paid (application of a clawback clause).

(3) The variable remuneration shall in its entirety be subject to reduction by the application of malus and clawback clauses, i.e. variable remuneration can be reduced by 100% by the application of malus and clawback clauses. In their remuneration policies and contracts with employees, credit institutions shall define in detail the conditions under which malus and clawback clauses are applied and shall include at least the following cases:

1) an employee has participated in activities that created significant losses for the credit institution or was responsible for such activities; and
2) an employee has failed to meet the prescribed or internally set suitability standards.

(4) Credit institutions shall defer a substantial portion of the variable remuneration component over an appropriate period of time. The proportion of the variable remuneration component to be deferred shall be determined in line with the nature of the credit institution's business, the risks to which it is or might be exposed, the position and responsibilities of the employee concerned, the amount of variable remuneration payable to that employee and the amount of risks the employee may take. The length of the deferral period shall be established in accordance with the nature of the credit institution's business, its business cycle, the risks to which it is or might be exposed, the position and responsibilities of the employee concerned, the amount of variable remuneration payable to that employee and the amount of risks the employee may take.

(5) Notwithstanding paragraph (4) of this Article, credit institutions shall defer at least 40% of the variable remuneration component. Exceptionally, in the case of a variable remuneration component of a particularly high amount, credit institutions shall defer at least 60% of the amount.

(6) Notwithstanding paragraph (4) of this Article, the length of the deferral period for the variable remuneration component shall not be shorter than three years. Exceptionally, for those employees who have the highest material impact on the credit institution's risk profile, the deferral period shall not be shorter than five years.

(7) Credit institutions shall pay a substantial portion of the variable remuneration component, the deferred and the non-deferred part, in the form of instruments. The portion of the variable remuneration component to be paid in the form of instruments shall be determined in accordance with the position and responsibilities of the employee concerned, the amount of variable remuneration payable to that employee and the amount of risks the employee may take.

(8) Notwithstanding paragraph (7) of this Article, at least 50% of any variable remuneration shall consist of instruments.

(9) To meet the requirements set out in this Decision, credit institutions may use the following instruments:

1) ordinary shares of the credit institution;
2) instruments linked to ordinary shares of the credit institution whose value is based on the market price of shares and which have an embedded clause that limits the maximum value of instruments to their value on the date of determining the remuneration;
3) ordinary shares of a credit institution which is a direct or indirect parent of the credit institution that meets the requirements referred to in this Decision;
4) instruments linked to ordinary shares of the credit institution referred to in item (3) of this paragraph whose value is based on the market price of shares and which have an embedded clause that limits the maximum value of instruments to their value on the date of determining the remuneration;
5) instruments referred to in Commission Delegated Regulation (EU) No 527/2014 of 12 March 2014 supplementing Directive (EU) No 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards specifying the classes of instruments that adequately reflect the credit quality of an institution as a going concern and are appropriate to be used for the purposes of variable remuneration.

A credit institution may use instruments referred to in items (3) and (4) of this paragraph only if the management of capital at the level of the group of credit institutions of which the credit institution is a member prevents or significantly hinders the use of instruments issued by the credit institution itself. If possible, for the purposes of the requirements of this Decision, a credit institution shall use an appropriate ratio of instruments referred to in items (1) to (4) of this paragraph to instruments referred to in item (5) of this paragraph.

(10) Credit institutions shall establish an appropriate retention policy regarding instruments, designed to align incentives with the longer-term interests of the credit institutions. The retention policy shall be applied to both the deferred and the non-deferred portion of the variable remuneration component.

(11) In determining an appropriate retention policy, credit institutions shall take account of the following:

1) the length of the assessment period,
2) the length of the deferral period,
3) the impact of an employee on their risk profile,
4) the accuracy of risk adjustments in performance measurement and remuneration determination,
5) the time needed for the materialisation of certain relevant risks, and
6) other elements they deem relevant.

(12) Credit institutions shall not pay dividends or interests on instruments before vesting.

(13) The remuneration payable under deferral arrangements shall vest no faster than on a pro-rata basis. The principle of a pro-rata basis requires that when remuneration is deferred over an n number of years, starting from the end of the assessment period, remuneration paid at the end of each year starting from the end of the assessment period equals the deferred remuneration multiplied by 1/n.

(14) Credit institutions shall not pay deferred remuneration more often than once a year. Credit institutions shall pay the first portion of deferred remuneration at least one year after the end of the assessment period.

(15) In payouts of deferred remuneration that is not paid in the form of instruments, credit institutions may take into account the time value of money by applying an appropriate measure (e.g. consumer price index, inflation rate or the market interest rate relevant for remuneration of employees). Credit institutions shall notify the Croatian National Bank in advance if they decide to align the deferred remuneration component with the time value of money.

(16) Credit institutions shall not be required to apply the provisions of paragraphs (4) to (15) of this Article to employees whose variable remuneration does not exceed 100,000 kuna on an annual basis and to employees whose variable remuneration does not exceed 30% of their fixed remuneration on an annual basis. In their remuneration policy, credit institutions may prescribe a threshold that is in both absolute and relative terms lower than the threshold prescribed in this paragraph.

(17) If a credit institution contracts with an employee remuneration related to compensation or buy out from a contractual obligation based on the termination of the employee's contractual relationship with the former employer, the credit institution shall align such remuneration with its long-term interests, including the application of the provisions on remuneration retention, remuneration deferral, performance measurement, and malus and clawback clauses.

Remuneration committee
Article 12

(1) A credit institution that is significant in terms of Article 4 of this Decision shall establish a remuneration committee unless all of the following conditions are met:

- the credit institution is a subsidiary of a credit institution in the Republic of Croatia; and
- the parent credit institution in the Republic of Croatia has established a remuneration committee that performs the tasks for the whole group of credit institutions in the Republic of Croatia.

(2) 'Remuneration committee' means a remuneration committee established by a credit institution or a remuneration committee established by the credit institution's parent credit institution in accordance with paragraph (1) of this Article.

(3) In addition to the duty referred to in Article 53, paragraph (2), item (1) of the Credit Institutions Act, a remuneration committee shall be responsible for the following tasks:

1) providing support to the credit institution's supervisory board in the establishment and regular review of the basic principles of the remuneration policy referred to in Article 5, paragraph (1) of this Decision;
2) providing support and advice to the credit institution's management board on the design of the remuneration policy;
3) the preparation of supervisory board decisions referred to in Article 5, paragraph (3) of this Decision and of decisions adopted at the general meeting referred to in Article 5, paragraph (6) of this Decision;
4) making proposals to the credit institution's supervisory board regarding the engagement of consultants for the remuneration policy and its implementation;

5) reviewing and assessing compliance of remuneration policy implementation or providing support to the credit institution's supervisory board in the reviewing and assessing compliance of remuneration policy implementation referred to in Article 6 of this Decision; and
6) formal reviewing of a number of possible scenarios to test how the remuneration policy and its implementation will react to future external and internal events, and back testing, on an annual basis at a minimum.

IV REMUNERATION IN CASE OF EXCEPTIONAL GOVERNMENT SUPPORT

Remuneration in case of exceptional government support
Article 13

(1) 'Exceptional government support' means financial support that a credit institution receives from a state aid provider on the basis of the law governing state aid to ensure financial stability in exceptional circumstances in the financial market.

(2) In the case of credit institutions that benefit from exceptional government support, credit institutions shall assess the impact of variable remuneration on the maintenance of an adequate level of capital and the timely repayment of the funds received on the basis of government financial support. If the assessment shows that variable remuneration is inconsistent with the maintenance of an adequate level of capital and the timely repayment of the funds received on the basis of government financial support, credit institutions shall strictly limit variable remuneration as a percentage of their net revenue.

(3) No variable remuneration shall be paid to management and supervisory board members of a credit institution that received exceptional government support, unless justified.

(4) The Croatian National Bank may require credit institutions that received exceptional government support to restructure variable remuneration in a manner aligned with sound risk management and long-term growth.

(5) The restructuring of variable remuneration referred to in paragraph (4) of this Article shall imply the following measures:
1) establishing limits to the remuneration of management and supervisory board members of the credit institution;
2) prohibiting the payment of variable remuneration for the financial year in which government financial support was asked for;
3) reducing variable remuneration which was deferred and not yet paid or vested;
4) prohibiting the determination of any variable remuneration until the final repayment of government financial support or until a financial recovery plan for the credit institution is implemented/accomplished; or
5) other similar measures.

V DOCUMENTATION KEEPING

Documentation keeping
Article 14

Credit institutions shall ensure the integrity of the documentation related to employee remuneration, including:

1) the remuneration policy and possible procedures for its implementation;
2) the analysis referred to in Article 4, paragraph (2) of this Decision;
3) decisions of the supervisory board referred to in Article 5, paragraph (3) of this Decision;
4) decisions of the management board referred to in Article 5, paragraph (5) of this Decision;
5) the report referred to in Article 6, paragraph (5) of this Decision;
6) the analysis referred to in Article 9, paragraph (2) of this Decision; and
7) the methodology and the results of performance measurements in determining the variable remuneration of employees whose professional activities have a material impact on the risk profile of the credit institution.

VI REPORTING TO THE CROATIAN NATIONAL BANK

Contents of reports and reporting time limits
Article 15

(1) With regard to employees whose total annual remuneration in a financial year exceeds the equivalent of one million euro, credit institutions shall report to the Croatian National Bank, in separate remuneration brackets of one million euro:

– on the number of such employees;
– on the description of job positions and responsibilities of such employees;
– on the business areas in which such employees are employed; and
– on the amount of the total remuneration of such employees split into salaries, variable remuneration payable in cash, instruments, discretionary pension benefits, and other remuneration.

(2) Credit institutions shall effect the conversion into euro of the amounts denominated in other currencies according to the conversion rates published annually by the European Banking Authority, based on the public exchange rates used by the European Commission for financial programming and budgeting.

(3) The remuneration in a financial year referred to in paragraph (1) of this Article means:

– the variable remuneration awarded in that financial year regardless of when it is paid (e.g. cash benefits for performance awarded to an employee in a financial year which shall be partly paid in the years following that financial year shall be presented as remuneration in that financial year); and
– the fixed remuneration awarded for that financial year regardless of when it is paid (e.g. an employee's salary for December in a financial year shall be presented as remuneration in that financial year although it shall be paid in January of the year following that financial year).

(4) Once a year, credit institutions shall submit a report referred to in paragraph (1) of this Article in writing, at the latest within four months following the end of the business year to which the report relates.

(5) Credit institutions shall submit the first reports referred to in paragraph (1) of this Article as at 31 December 2013 by 30 April 2014.

Non-compliant contracts
Article 16

Credit institutions shall report to the Croatian National Bank on the number of contracts they deem are not in compliance with the requirements of this Decision as at 31 December by the end of April of the following business year at the latest.

VII TRANSITIONAL AND FINAL PROVISIONS

Compliance with the provisions of this Decision
Article 17

(1) A credit institution which was not obliged to establish a remuneration committee in accordance with the provisions of the Decision on employee remuneration (Official Gazette 67/2013) and which is obliged to establish a remuneration committee in accordance with the provisions of this Decision shall do so by 30 June 2014 at the latest.

(2) A credit institution which, by applying the criteria referred to in Article 9 of this Decision, identifies employees whose professional activities have a material impact on its risk profile which it has not identified as employees whose professional activities have a material impact on its risk profile in accordance with the Decision on employee remuneration (Official Gazette 67/2013 and 160/2013) shall start to apply the requirements set out in this Decision to those employees starting from the assessment of the performance for 2014.

Cessation of the effect of the previous Decision
Article 18

On the date of entry into force of this Decision, the Decision on employee remuneration (Official Gazette 67/2013 and 160/2013) shall cease to have effect.

Entry into force
Article 19

This Decision shall be published in the Official Gazette and shall enter into force on 26 June 2014.

No. 208-020/06-14/BV
Zagreb, 6 June 2014

Croatian National Bank Governor

Boris Vujčić