THE CROATIAN NATIONAL BANK

Pursuant to Article 101, paragraph (2), item (5) of the Credit Institutions Act (Official Gazette 159/2013, 19/2015 and 102/2015) 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 staff 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 a branch of a third-country credit institution.

(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 a staff member in exchange for professional services rendered by that staff member, including:
   – remuneration for employment – salary, including discretionary pension benefits;
   – remuneration for employment – remuneration in kind; and
   – other remuneration.

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

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. Dividends received by a staff member as shareholder of a credit institution shall not be considered staff remuneration.

2) 'Fixed remuneration' means payments and benefits to staff meeting the conditions for their award referred to Article 13 of this Decision.

3) 'Routine employment packages' means additional forms of remuneration that most staff members may receive on the basis of predetermined criteria including, for instance, staff insurance policies, travel allowances and similar benefits.

4) 'Variable remuneration' means remuneration depending on the performance of a staff member, a business unit and a credit institution or on other contractual criteria. Variable remuneration also includes severance payments exceeding the amount prescribed by the law governing employment relationships, discretionary pension benefits, retention bonuses, compensation or buyout from a contractual obligation based on the termination of contractual relationship with the previous employer, long-term incentive plans and all other forms of remuneration which are not fixed.

5) 'Allowances' means additional or ancillary payments or benefits which are part of fixed or variable remuneration.

6) 'Retention bonuses' means variable non-performance based remuneration awarded under the condition that staff remain employed with the credit institution for a predetermined period of time. They may be used during restructuring, winding up, bankruptcy, resolution or after a change of control over a credit institution's operation.

7) 'Guaranteed variable remuneration' means variable remuneration which can be exceptionally awarded when hiring new staff for no longer than the first year of employment and which may be in the form of a guaranteed bonus, welcome bonus, sign-on bonus or minimum bonus.

8) 'Severance payments' means payments associated with the termination of an employment contract as prescribed by the law governing employment relationships and the law governing civil obligations, including payments associated with the termination of an employment contract on which a management board member's employment with a credit institution is based pursuant to the Credit Institutions Act. Regular remuneration payments during the notice period shall not be considered severance payments.

9) 'Discretionary pension benefits' means variable remuneration as defined in point (73) of Article 4(1) 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").

10) 'Staff' means natural persons who, based on an employment contract or some other contract concluded with the credit institution, perform 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, 'staff' also means natural persons who, based on an employment contract or some other contract concluded with the service provider, are directly engaged in the provision of services to the credit institution for the purposes of performing specific activities. The provisions of this Decision shall apply *mutatis mutandis* on members of the supervisory board and procurators of credit institutions.

11) 'Identified staff' means staff whose professional activities have a material impact on the credit institution's risk profile in accordance with the criteria set out 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 (OJ L 167, 6.6.2014, hereinafter referred to as "Commission Delegated Regulation (EU) No 604/2014).

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

13) 'Senior management' shall have the meaning as defined in Article 3, item (85) of the Credit Institutions Act.

14) 'Maximum amount of variable remuneration' means the highest amount of variable remuneration which may be awarded in the award process set at the level of the credit institution or a credit institution's business unit.

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

16) 'Remuneration awarded on the basis of a multi-year assessment period' means remuneration awarded on the basis of a performance assessment which is not performed each year.

17) 'Determination of variable remuneration' means determination of the amount of variable remuneration for individual staff members.

18) 'Award' means the granting of variable remuneration for a specific performance assessment period independently of the actual point in time when the awarded amount is paid.

19) 'Upfront payments' means payments which are made immediately after the assessment period.

20) '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.

21) 'Deferral period' means the period of time between the award and the vesting of the variable remuneration during which staff is not the legal owner of the remuneration awarded. 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 variable remuneration is deferred, a deferral period starts on the date of the award of variable remuneration. A deferral period ends with the payment of the last portion of the deferred variable remuneration component or the last vesting of instruments that are subject to deferral.

22) 'Instruments' means those financial instruments or other contracts that fall within one of the categories referred to in Article 39, paragraph (3) of this Decision.

23) 'Share-linked instruments' means those instruments whose value is based on the market price of the stock, e.g. stock appreciation rights, various types of synthetic shares and other similar instruments. Where market price is unavailable, the value of such instruments is based on fair value.

24) 'Malus' means a contractual clause under which a staff member 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.

25) 'Clawback' means a contractual clause under which a staff member 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.

26) 'Remuneration retention' means a contractual clause under which a staff member agrees not to sell or access variable remuneration that has been already vested and paid out in the form of instruments during a prearranged period.

27) 'Retention period' means a period of time during which a staff member 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. During the retention period, variable remuneration may not be sold or accessed.

28) 'Circumvention of provisions on remuneration' means non-compliance with the provisions of this Decision where the credit institution formally complies with the provisions of this Decision, but does not actually meet their objective and purpose.

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

30) 'Risk profile' means the measure or assessment of all risks a credit institution is or might be exposed to in its operation.

31) 'Prudential consolidation' means the application of prudential requirements set out in the Credit Institutions Act and Regulation (EU) No 575/2013 on a consolidated or sub-consolidated basis, in accordance with Part 1, Title 2, Chapter 2 of Regulation (EU) No 575/2013. Prudential consolidation includes all subsidiaries that are institutions or financial institutions as defined in points (3) and (26) of Article 4(1) of Regulation (EU) No 575/2013 and may include also ancillary services undertakings referred to in point (18) of Article 4(1) of Regulation (EU) No 575/2013.

32) 'Consolidated basis' shall have the meaning as defined in point (48) of Article 4(1) of Regulation (EU) No 575/2013.

33) 'Sub-consolidated basis' shall have the meaning as defined in point (49) of Article 4(1) of Regulation (EU) No 575/2013.

34) 'Group of credit institutions in the Republic of Croatia' shall have the meaning as defined in Article 278 of the Credit Institutions Act.

35) 'Business unit' shall have the meaning as defined in point (3) of Article 142(1) of Regulation (EU) No 575/2013.

36) 'Extraordinary public financial support' means state aid within the meaning of Article 107(1) of the Treaty on the Functioning of the European Union or any other public financial support on supranational level which would, were it to be granted on a national level, constitute state aid which is granted for the purpose of maintaining or restoring sustainability, liquidity or solvency of a credit institution or a group of which the credit institution is a part.

II ESTABLISHMENT, IMPLEMENTATION AND REVIEW 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 staff and a credit institution must be entered into in accordance 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 5 to 42 and Article 44 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 consider the following criteria:

1) the balance sheet and profit and loss account structure;
2) available equity and debt instruments;
3) the authorisation to use internal approaches for calculating capital requirements;
4) the proportionality assessment done for the group, if the credit institution is a part of a group of credit institutions in the Republic of Croatia;
5) types of services provided to clients and types of clients (e.g. retail clients, corporate clients, small businesses, public entities);
6) business strategy, the structure of business activities, the measurability and predictability of the risks of business activities;

7) funding structure;
8) internal organisation, including the level of variable remuneration that can be paid to identified staff,
9) the complexity of products and
10) the geographical presence and the size of the operations in each jurisdiction.

(3) When applying requirements set out in this Decision in a proportionate way, credit institutions shall consider their risk profile, risk appetite and other characteristics and develop and implement remuneration policies that are appropriately aligned with the business strategy, objectives, values and long-term interests of the credit institution.

(4) Before remuneration requirements are applied in a proportionate way, credit institutions shall determine identified staff and apply the limitation of the maximum ratio between the variable and fixed components of total remuneration in accordance with Article 20 of this Decision to all staff members in the credit institution and to all staff members in the subsidiaries of the credit institution in the scope of prudential consolidation, including the subsidiaries which are not subject to the application of this Decision, provided that these staff members have an impact on the group's risk profile.

(5) On the basis of an analysis of the criteria referred to in paragraphs (2) and (3) 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.

(6) Regardless of the results of the analysis referred to in paragraph (5) of this Article, 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.

(7) Significant credit institutions shall apply all provisions of this Decision. Credit institutions which are not significant shall not be required to apply the provisions of Article 8 and Articles 38 to 42 of this Decision.

(8) At the request of the Croatian National Bank, credit institutions shall explain the manner in which they performed the analysis of criteria referred to in paragraphs (2) and (3) of this Article and submit all relevant documentation.

(9) Credit institutions shall meet the obligations set out in Articles 27 to 42 of this Decision by applying the principle of proportionality, i.e. in a way that is appropriate to the impact of identified staff on the credit institution's risk profile.

Competences and responsibilities of the management and supervisory board in the establishment and implementation of remuneration policy
Article 5

(1) Members of the supervisory board shall collectively possess adequate knowledge, skills and experience related to remuneration policy and practice, including the mechanisms for the alignment of remuneration structure with the credit institution's risk profile and capital structure.

(2) The supervisory board of a credit institution shall:
1) establish and review regularly the basic principles of the remuneration policy, and shall be responsible for overseeing its implementation;
2) ensure that remuneration policies and practices are appropriately implemented and aligned with the overall corporate governance framework, corporate culture, risk appetite and the related governance process;
3) approve any subsequent exemptions made for individual identified staff members and changes to the remuneration policy;
4) adopt the decision on the maximum amount of variable remuneration which the credit institution determines for all staff members in the business year for a certain assessment period;
5) on an individual basis, adopt the decision on the remuneration of management board members and persons responsible for the operation of control functions;
6) adopt the decision on the reduction or non-payment of variable remuneration to staff, 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 37 of this Decision; and
7) adopt the decision on the possible use of severance payments, including the maximum amount or criteria for the determination of such amounts that can be awarded as severance pay to staff.

(3) The management board of the credit institution shall establish the remuneration policy subject to the approval of the supervisory board and be responsible for its implementation. The management board shall implement the decisions of the supervisory board referred to in paragraph (2), items (4) to (7) of this Article in line with the remuneration policy. The management board may determine the remuneration of staff not mentioned in paragraph (2), item (5) of this Article on a collective basis.

(4) 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 the remuneration of management board members, including the amounts of severance payments which may be awarded to management board members after the termination of their employment contracts or the criteria for the determination of such amounts, are adopted at the credit institution's general meeting.

(5) For the purpose of fulfilling the tasks referred to in paragraph (4) of this Article, the supervisory board shall provide the general meeting with the decision proposals and information necessary for the adoption of the decision and shall continue to be responsible for reviewing the remuneration policy, the proposals submitted to the general meeting and the implementation and review of any changes to remuneration policies and practices. For the purpose of determining the maximum amount of variable remuneration it is necessary to submit detailed information regarding remuneration policies and decision-making processes, particularly regarding the types, main characteristics and objectives of remuneration and their alignment with the business and risk strategy.

Competences and responsibilities of credit institution's functions in the establishment and implementation of remuneration policy
Article 6

(1) When performing activities referred to in Article 5, paragraph (2) of this Decision, the supervisory board shall adequately include control functions, relevant business units and credit institution's human resources, legal, strategic planning and budget functions.

(2) The human resources function shall participate in and inform the credit institution's relevant bodies and functions on the drawing up and the evaluation of the remuneration policy including the remuneration structure, remuneration levels and incentive schemes, in a way that would not only attract and retain the staff the credit institution needs, but also assure that the remuneration policy is aligned with the credit institution’s risk profile.

(3) The risk control function shall participate in and inform the credit institution's relevant bodies and functions on the following:

1) the determination of appropriate criteria for the adjustment of variable remuneration to performance and the criteria for the adjustment of variable remuneration to risks, including malus and clawback;
2) the assessment of the manner in which the variable remuneration structure affects the credit institution's risk profile and culture; and
3) the assessment and validation of risk adjustment data, and shall attend the meetings of the remuneration committee on this matter.

(4) The compliance function shall analyse how the remuneration policy affects the credit institution’s compliance with legislation and risk culture and shall report all identified compliance risks and issues of non-compliance to the management and supervisory board.

(5) The internal audit function shall carry out an independent review of the design, implementation and effects of the credit institution’s remuneration policy on its risk profile and the way remuneration policy is managed.

Remuneration policies on a consolidated basis

Article 7

(1) A parent credit institution in a group of credit institutions in the Republic of Croatia shall establish a remuneration policy at group level and ensure it is applied in all subsidiaries in the scope of prudential consolidation.

(2) 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 national legal frameworks in which individual subsidiaries operate (e.g. tax regulations, possible differences between the national implementations of the limitation of the maximum ratio between the variable and fixed components of the total remuneration of an individual staff member and the requirements referred to in Articles 27 to 42 of this Decision and regulations governing employment);
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.

(3) A parent credit institution in a group of credit institutions in the Republic of Croatia shall ensure that a subsidiary in the scope of prudential consolidation which is not a credit institution or an investment firm aligns its remuneration policy with the remuneration policy of the group applied to:

1) all staff; and
2) the identified staff in the subsidiary whose professional activities have a material impact on the group's risk profile.

(4) If provisions of other regulations which a subsidiary in the scope of prudential consolidation is subject to regulate remuneration policy requirements in a manner other than provided for in this Decision, the provisions of such regulations shall apply with the exception of the provision of this Decision related to the ratio between the variable and fixed components of total remuneration.

(5) Regarding subsidiaries established in third countries that are included in the scope of prudential consolidation, a parent credit institution in a group of credit institutions in the Republic of Croatia shall:

1) as part of the remuneration policy, set the maximum ratio between the variable and fixed components of total remuneration at group level and ensure that the

instruments used to pay out variable remuneration are in line with the provisions of Article 39 of this Decision; and

2) ensure that its remuneration policy is aligned with the group's remuneration policy:
   - applied to all staff; and
   - applied to the identified staff in the subsidiary whose professional activities have a material impact on the group's risk profile.

(6) The provisions of this Decision shall also apply to short-term employment contracts, expatriated staff and posted staff during their work in a credit institution having its head office in the Republic of Croatia.

(7) The competent functions in the parent credit institution and subsidiaries shall exchange information related to the design, establishment, implementation, review and compliance assessment of remuneration policy implementation as necessary.

Remuneration committee
Article 8

(1) A credit institution that is significant in terms of Article 4 of this Decision shall set up a remuneration committee. Where a non-significant credit institution sets up a remuneration committee, tasks of the remuneration committee may be combined with other tasks as long as they do not create conflicts of interest.

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

1) providing support to the supervisory board with regard to the establishment and regular review of the basic principles of the remuneration policy referred to in Article 5, paragraph (2), item (1) of this Decision;
2) providing support and advice to the management board on the design of remuneration policy;
3) preparing decisions of the supervisory board referred to in Article 5, paragraph (2) of this Decision and of decisions adopted at the general meeting referred to in Article 5, paragraph (4) of this Decision;
4) ensuring the adequacy of the information provided to shareholders on remuneration policies and practices, in particular on a proposed higher ratio between the variable and fixed components of total remuneration;
5) assessing the mechanisms and systems adopted to ensure that the requirements referred to in Article 11, paragraph (1) of this Decision are met;
6) submitting proposals to the supervisory board related to the use of advisory services in the area of remuneration policy and its implementation;
7) reviewing and assessing the compliance of remuneration policy implementation or providing support to the supervisory board in reviewing and assessing the

compliance of remuneration policy implementation referred to in Article 9 of this Decision;
8) assessing the achievement of performance targets and the need for subsequent remuneration reduction, including the application of malus and clawback arrangements;
9) participating in the identification process;
10) reviewing a number of possible scenarios to test how the remuneration policy and its implementation will react to future external and internal events on an annual basis at a minimum; and
11) back-testing the criteria used for determining variable remuneration and the reduction of remuneration prior to their determination or payout on an annual basis at a minimum.

(3) A credit institution shall ensure that the remuneration committee has:
1) access to all data and information concerning the decision-making process of the supervisory board on the design, establishment, implementation, review and compliance assessment of remuneration policy and practices;
2) adequate financial resources and access to all information and data from control functions and, if necessary, to the human resources, legal and strategic planning functions and external advice.

(4) The remuneration committee shall collaborate with other supervisory board committees whose activities may have an impact on the design and implementation of the remuneration policy. A member of the remuneration committee shall participate in the meetings of the risk committee and vice versa.

Policy implementation review and compliance assessment
Article 9

(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) Remuneration policy review shall particularly assess:
1) whether remuneration payouts are aligned with the business strategy and whether they adequately reflect the credit institution's risk profile, long-term interests and other objectives;
2) whether they are in line with Article 140 of the Credit Institutions Act and whether they limit the credit institution's ability to maintain or increase its capital;

3) whether the criteria and the procedure for the exclusion of identified staff are in line with Article 4(2) of Commission Delegated Regulation (EU) No 604/2014; and
4) whether they are consistently implemented across the group.

(3) The committee responsible for the implementation of the procedure referred to in paragraph (1) of this Article shall involve in that procedure, as appropriate, the credit institution's control, human resources, legal and strategic planning functions as well as other supervisory board committees, if any have been established.

(4) 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.

(5) A credit institution that is not significant may outsource the procedure referred to in paragraph (1) of this Article in accordance with the provisions of the Credit Institutions Act and regulations adopted on the basis thereof. 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 ensure its implementation without delay.

(6) 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 other relevant functions and supervisory board committees.

(7) The internal audit function of the parent credit institution in the Republic of Croatia shall review the remuneration policy and assess the compliance of its implementation for a group of credit institutions in the Republic of Croatia.

(8) A credit institution that is not significant, but is a subsidiary in a group of credit institutions in the Republic of Croatia may entrust the review referred to in paragraph (7) of this Article to the internal audit function of the parent credit institution in the Republic of Croatia, provided that the following conditions are met:
1) the subsidiary is included in the review on a consolidated basis; and
2) review results are available to the supervisory board of the subsidiary.

III GENERAL AND SPECIFIC REQUIREMENTS ON THE REMUNERATION POLICY

Policy requirements
Article 10

(1) Credit institutions shall apply the general requirements referred to in Articles 11 to 26 of this Decision to all staff.

(2) Credit institutions shall apply the specific requirements referred to in Articles 27 to 42 of this Decision to identified staff.

(3) To better align remuneration with risks, credit institutions may apply some or all the specific requirements referred to in Articles 27 to 42 of this Decision to all staff. This shall be prescribed in the remuneration policy and implemented consistently.

III.1 GENERAL REQUIREMENTS OF THE REMUNERATION POLICY

General requirements
Article 11

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

1) it is consistent with and promotes sound and effective risk management and does not encourage risk-taking that exceeds the level of their tolerated risk;
2) it is in line with the credit institution's business strategy, objectives, values and long-term interests and incorporates measures to prevent conflicts of interest;
3) it does not limit the credit institution's ability to maintain or increase the amount of its capital; and
4) it provides for an effective framework for performance measurement, risk adjustment and the linkages of performance to reward.

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

1) there is a strong dependence of a staff member 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) Credit institutions shall ensure that remuneration policy implementation is aligned with:

1) its overall risk appetite, including reputational risks and risks resulting from the mis-selling of products; and
2) the long-term interests of the credit institution's shareholders.

(4) A credit institution's remuneration policy shall contain the following:

1) the performance objectives for the credit institution, business areas and staff;
2) the methods for the measurement of performance, including the performance criteria for staff or business units assuming risks and other staff or functions;
3) all types of remuneration, including the structure of variable remuneration;

4) instruments in which variable remuneration is awarded and the manner of managing potential conflicts of interest caused by the payout of instruments as part of the variable remuneration;
5) measures to reduce variable remuneration; and
6) remuneration framework for persons in charge of concluding contracts and performing legal acts in the name and for the account of the credit institution to ensure that remuneration payouts do not encourage excessive risk taking or mis-selling of products in any manner whatsoever.

(5) Credit institutions shall identify circumstances and situations that may lead to potential conflicts of interest with regard to the remuneration policy, particularly with regard to the payout of variable remuneration in instruments, and take measures to prevent such conflicts of interest, including, at a minimum:
1) the establishing of objective award criteria based on the internal reporting system, appropriate controls and the four eyes principle; and
2) acting in line with regulations governing the capital market, particularly the provisions prohibiting insider dealing and market manipulation.

Criteria for the determination of fixed and variable remuneration
Article 12

(1) 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 staff member'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 staff member's job position.

Fixed remuneration
Article 13

(1) Remuneration shall be considered fixed if it meets the following conditions:
1) it is based on predetermined criteria;
2) it reflects the level of professional experience, seniority of staff and other criteria set out in the credit institution's bylaws;
3) it is transparent with respect to the individual amount awarded to the individual staff member;
4) it is maintained over a period tied to the position of an individual staff member in the organisational structure and the powers and responsibilities arising from that position;
5) it is non-revocable; the permanent amount is only changed via collective bargaining or following changes in working regulations or the employment contract;

6) it can only be reduced, suspended or cancelled by the credit institution as a result of the implementation of a decision imposing the disciplinary measure of fine in line with the law governing employment relationships, the collective agreement or working regulations or if the staff member consented to the withholding of payment of salary or gave written consent to the attachment of salary or other permanent monetary income for the collection of the creditor's claim with the exception of the portion of income exempt from execution in accordance with the law governing execution and insurance procedures;
7) it does do not provide incentives for risk assumption;
8) it does not depend solely on performance; and
9) it does not depend on a discretionary decision.

(2) The following types of remuneration shall also be considered fixed:

1) routine employment packages;
2) remuneration paid to expatriate staff considering the cost of living and tax rates in a different country;
3) allowances used to increase the basic fixed salary in situations where staff work abroad and receive less remuneration than would be paid by the credit institution for a comparable position in the Republic of Croatia. In that case, all of the following specific conditions must be met:
   – the allowance is paid to all staff in a similar situation;
   – the allowance is awarded because the remuneration level requires adjustment to reflect pay levels in the relevant market;
   – the level of additional payments is based on predetermined criteria; and
   – the duration of the allowance is tied to the duration of the staff member's work abroad.

(3) Remuneration that does not meet the conditions referred to in paragraph (1) of this Article shall be considered variable remuneration.

Allowances
Article 14

(1) Based on the conditions referred to in Article 13 of this Decision, credit institutions shall allocate allowances to the fixed or the variable component of remuneration.

(2) Where allowances are allocated to the fixed component of remuneration, credit institutions shall duly document the results of the assessments in the following cases:

1) they are paid to identified staff members;
2) they are limited to cases where the ratio between the variable and fixed components of total remuneration would exceed the allowed ratio referred to in Article 20, paragraphs (5) and (6) of this Decision; and
3) they are paid based on the criteria replacing performance assessment criteria.

(3) Where allowances are based on the staff member's position in the organisational structure and the powers and responsibilities arising from that position, they may be allocated to the fixed remuneration component, provided that they meet the conditions referred to in Article 13 of this Decision and all of the following conditions:

1) they are awarded as long as no material changes happen regarding the position of the staff member in the organisational structure and the powers and responsibilities arising from that position;
2) the amount does not depend on any factors other than the powers and responsibilities arising from the staff member's position and the fulfilment of conditions referred to in Article 13 of this Decision; and
3) any other staff member having the same position within the organisational structure and the same powers and responsibilities arising from that position would be entitled to a comparable allowance.

Variable remuneration based on future performance
Article 15

(1) When the award of variable remuneration, including long-term incentive plans, is based on a past assessment period of at least one year, but also depends on future performance conditions, credit institutions shall:

1) set additional performance conditions that have to be met after the award for the variable remuneration to be vested;
2) assess that the conditions for the vesting of variable remuneration have been met;
3) apply provisions regarding malus, including the reduction of variable remuneration up to 100% if the additional performance criteria referred to in item (1) of this paragraph have not been met;
4) set the end of the deferral period at the earliest one year after the end of the last assessment period;
5) for the calculation of the ratio between the variable and fixed components of total remuneration, take into account the total amount of the variable remuneration awarded in the financial year for which the variable remuneration, including long-term incentive plans, was awarded.

(2) Where a remuneration plan, including long-term incentive plans, is exclusively based on future performance conditions, variable remuneration shall be awarded after the conditions referred to in paragraph (1), items (1) and (2) of this Article have been met; otherwise, no award shall be made.

(3) When determining the ratio between the variable and fixed components of total remuneration, remuneration referred to in paragraph (2) of this Article shall:

– be included in the financial year prior to their award;
– the value of variable remuneration awarded in instruments shall be determined according to their market price or the fair value at the time the remuneration plan was adopted.

Severance pay
Article 16

(1) When determining the amount of severance pay, credit institutions shall take into account the performance of staff over a specific period and adequately apply the provisions on the reduction of remuneration referred to in Article 37 of this Decision.

(2) Within the meaning of this Decision, severance pay shall also refer to payments made in the following cases:

1) the credit institution terminates the employment contract with a staff member due to a failure of the credit institution;
2) the credit institution intends to terminate the employment contract with a staff member following a material reduction of the credit institution's activities in which the staff member was active or where specific business areas of the credit institution are acquired by another company without the option for staff to stay employed in the acquiring company; and
3) the credit institution and a staff member agree on a settlement in case of a potential or actual labour dispute, including an agreement of the staff member and the employer on employment contract termination.

(3) Within the meaning of this Decision, a failure of the credit institution shall refer to the following cases:

1) the credit institution received extraordinary public financial support or is subject to early intervention or resolution measures;
2) the opening of normal insolvency proceedings of the credit institution, as defined in the regulations governing the resolution of credit institutions and investment firms, has been filed; and
3) significant losses led to the situation in which the credit institution no longer has a sound capital base and, following this, a business area is sold or a business activity is reduced.

(4) Credit institutions shall not award severance pay in case a staff member violates his or her obligations from the employment relationship.

(5) Within the meaning of this Decision, the violation of obligations from the employment relationship shall refer to the following cases:

1) a member of the management or supervisory board of a credit institution no longer meets the conditions for membership prescribed by the Credit Institutions Act;
2) a staff member participated in or was responsible for activities which resulted in significant losses for the credit institution; and
3) a staff member acted contrary to internal rules, policies or procedures based on intent or gross negligence.

(6) Exceptionally, the following types of severance payments shall not be considered variable remuneration:

1) severance pay in the amount not exceeding the amount set out by the law governing employment relationships;
2) severance pay in the amount defined by a collective agreement or working regulations that is not granted on a discretionary basis.
3) severance pay paid on the basis of a court order with final force and effect
4) remuneration paid out in case of termination of employment, during ban of competition based on a contractual provision, in the amount not exceeding the amount of fixed remuneration which would have been paid to the staff member had the staff member been employed in the credit institution during that period; and
5) remuneration paid out as indemnity in case of judicial cancellation of employment contract in line with the law governing employment relationships.

Retention bonuses
Article 17

(1) If credit institutions use retention bonuses to retain staff, they must comply with the provisions on variable remuneration, including payout, deferral, award of variable remuneration in instruments and variable remuneration retention and reduction (malus and clawback), except in the part referring to the adjustment of variable remuneration to risks when measuring performance prior to award.

(2) Retention bonuses may not be awarded to compensate for performance-related remuneration.

(3) Credit institutions shall set a retention period, or, if the exact duration of the retention period is not available in advance, set a condition that is to be met in order for the retention period to end. Retention bonuses shall be awarded after the retention period ends.

(4) For the purpose of setting the ratio between the variable and fixed components of total remuneration the annual amount of the retention bonus shall be taken into account for each year of the retention period. The aforementioned ratio shall be calculated by applying the principle of a pro-rata basis irrespective of the fact that the total amount of retention bonuses is awarded after the retention period ends.

Guaranteed variable remuneration
Article 18

(1) 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. The contractual obligation of the credit institution to pay out a specific amount of variable remuneration to staff, independent of performance, i.e. exclusively under the condition that the

contractual relationship is maintained until a certain date, shall be considered guaranteed payment of a specific amount of variable remuneration.

(2) By way of derogation from paragraph (1) 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 staff and is limited to the first year of employment; and
2) the credit institution has an adequate level of capital.

(3) Credit institutions may only award guaranteed variable remuneration to the same single staff member once. This requirement shall also apply at consolidated and sub-consolidated level and include situations where staff receive a new contract from the same company or another company within the scope of consolidation.

(4) Provisions on malus and clawback shall not apply on guaranteed variable remuneration referred to in paragraph (2) of this Article and shall not be included in the calculation of the ratio between the variable and fixed components of total remuneration for the first assessment period. Credit institutions may pay out the full amount of guaranteed variable remuneration in non-deferred cash.

Compensation or buyout from previous employment contract
Article 19

(1) If remuneration related to compensation or buyout from a contractual obligation based on the termination of a staff member's contractual relationship with the previous employer is contracted by a credit institution with a staff member, the credit institution shall align such remuneration with its long-term interests and take into account the conditions referred to in Article 18, paragraph (2) of this Decision.

(2) The provisions on variable remuneration referred to in this Decision, including performance assessment, deferral, retention, payout in instruments and clawback shall apply *mutatis mutandis* on remuneration related to compensation and buyout from contractual obligation.

Ratio between the variable and fixed components of total remuneration
Article 20

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

(2) The maximum ratio between the variable and fixed components of total remuneration shall be calculated as the ratio between the variable component of remuneration that may be awarded as a maximum in a given assessment period and the fixed part of remuneration to be awarded in relation to the same assessment period.

(3) 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 a staff member;
6) the position of a staff member in the organisational structure and the powers and responsibilities attached to the job position; and
7) other elements they consider relevant.

The ratio between the variable and fixed components of total remuneration shall be set independently of any potential remuneration reductions referred to in Article 37 of this Decision or changes in the prices of instruments in which variable remuneration may be paid out.

(4) Credit institutions may set different ratios between the variable and fixed components of total remuneration for different business units, control and other functions and different categories of identified staff. In exceptional and duly justified cases, credit institutions may set different ratios between the variable and fixed components of total remuneration for individual identified staff members belonging to the same category.

(5) Credit institutions shall set the ratio between the variable and fixed components of the total remuneration of a staff member so that the amount of the variable remuneration component does not exceed the amount of the fixed remuneration component.

(6) By way of derogation from paragraph (5) of this Article, credit institutions may set the amount of the variable component of total remuneration at double the amount of a staff member's fixed component of 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 staff members 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) staff members 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 within five business days prior to the general meeting 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.

(7) Credit institutions shall, within five business days after the date the general meeting was held, notify the Croatian National Bank on the decision adopted at the general meeting regarding the approval of:

1) a higher ratio between the variable and fixed components of remuneration, including the specification of the higher ratio; and
2) different higher ratios between variable and fixed components, if different higher ratios are applied to different business units, control and other functions and different categories of identified staff, including the specification of different higher ratios.

(8) Credit institutions shall, within the deadline referred to in paragraph (7) of this Article, submit to the Croatian National Bank the information set out in Appendix 1 to this Decision as well as other information requested by the Croatian National Bank.

(9) If the general meeting adopts a decision on the reduction of a previously set higher maximum ratio between the variable and fixed components of total remuneration, such a decision shall be adopted by a majority of votes present at the general meeting. The credit institution shall notify the Croatian National Bank of such a decision within five business days after the date the general meeting was held.

(10) The actual ratio between the variable and fixed components of total remuneration shall be calculated as the sum of all variable components of remuneration that have been awarded for the last assessment period divided by the sum of fixed components of remuneration awarded for the same period. When performance assessment is based on a multi-year assessment period, credit institutions may divide the maximum amount awarded at the end of the assessment period by the number of years of the assessment period.

Remuneration of staff engaged in control functions
Article 21

(1) Credit institutions shall ensure that variable remuneration of staff 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.

(2) Credit institutions shall structure remuneration of staff engaged in control functions as follows:

1) fixed remuneration may not account for less than two thirds of the staff member's total remuneration; and
2) total fixed annual remuneration of the staff member may not be less than the two-year average of the total fixed annual remuneration of the credit institution's staff included in the same remuneration bracket or staff performing activities of comparable scope, complexity and level of responsibility.

(3) The requirements referred to in paragraph (2) 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.

(4) The criteria used for assessing the performance of staff engaged in control functions may be the tier 1 ratio, the non-performing loan ratio, the non-performing loan recovery rate, audit findings and other similar criteria and may be based, to some extent, on the performance of the credit institution as a whole.

Remuneration of the supervisory board
Article 22

(1) Members of the supervisory board shall receive fixed remuneration. The fee for participating in the work and attending particular supervisory board meetings, including the related expenses, shall be considered fixed remuneration.

(2) Exceptionally, credit institutions may award and pay out variable remuneration to supervisory board members, whereby the award of variable remuneration and the risk-adjustment procedure must be in line with the powers and responsibilities assigned to individual supervisory board members and the work tasks and the achievement of objectives linked to their functions.

Personal hedging
Article 23

(1) Credit institutions shall require all staff members to undertake not to use personal hedging strategies or variable remuneration- and liability-related insurance to undermine

the risk alignment effects embedded in their remuneration arrangements. This provision refers to all variable remuneration of staff, including deferred and retained remuneration.

(2) Staff shall be considered to have hedged against risk if they enter into a contract with the credit institution or a third party and either of the following conditions is met:

1) the contract requires the credit institution or the third party to make direct or indirect payments to the staff member that are linked to or commensurate with the amounts by which the staff member's variable remuneration has been reduced;
2) the staff member purchases or holds derivatives that are intended to hedge against losses associated with financial instruments received as part of variable remuneration.

(3) Staff shall be considered to have hedged against risk if they take out an insurance contract with a stipulation to compensate them in the event of variable remuneration reduction.

(4) Credit institutions shall establish and maintain efficient mechanisms to ensure compliance with the provisions of paragraph (1) of this Article. In that regard, at least a declaration of self-commitment by the staff member that he or she will refrain from using personal hedging strategies or concluding insurances for the purpose of undermining the risk alignment effects is necessary.

Capital adequacy maintenance
Article 24

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

(2) When assessing the impact of total variable remuneration on the credit institution's ability to maintain or increase the amount of capital, credit institutions shall take into account its overall own funds, in particular the common equity tier 1 capital and the combined buffer requirement referred to in Article 139 of the Credit Institutions Act, and the restrictions on distributions referred to in Article 140 of the Credit Institutions Act as well as the results of the internal capital adequacy assessment process. Total variable remuneration shall also include variable remuneration that may be awarded for that year and the amount of variable remuneration that will be paid out or vested in that year.

(3) Credit institutions shall adequately include the impact of variable remuneration in its capital and liquidity planning and in their overall internal capital adequacy assessment process.

(4) Credit institutions which do not have a sound capital base or where the soundness of the capital base is at risk shall take the following measures with regard to variable remuneration:

1) reduce the maximum amount of variable remuneration, including the possibility to reduce it down to zero;
2) apply the provisions regarding malus; and
3) withhold the payout of net profit for that year and potentially for subsequent years.

(5) Credit institutions taking measures to reduce variable remuneration referred to in paragraph (4) of this Article in a particular year shall not compensate for the reduction of variable remuneration in later years.

Internal transparency
Article 25

The remuneration policy and procedures adopted for its implementation must be clear, well-documented and available to all staff members. To ensure that staff behaviour is consistent with the remuneration policy principles, the credit institution shall inform each of its staff members on the relevant remuneration policy provisions.

Circumvention of remuneration provisions
Article 26

(1) Credit institutions shall not circumvent remuneration provisions by paying variable remuneration through other legal persons or by using methods that facilitate or enable the avoidance of the requirements set out in this Decision, the Credit Institutions Act or Regulation (EU) No 575/2013. This includes arrangements between credit institutions and third parties in which a staff member has a financial or personal interest.

(2) Circumvention of remuneration provisions is considered to take place at least in the following circumstances:
1) where variable remuneration other than guaranteed variable remuneration is awarded or vested although there has been no sustainable and risk-adjusted performance by the staff member, business unit or credit institution;
2) where staff receive payments from the credit institution or an entity within the scope of consolidation which do not fall under the definition of remuneration, but are vehicles or methods of pay that contain an incentive for risk assumption and serve the purpose of remuneration requirement circumvention;
3) where fixed remuneration components are awarded as a fixed number of instruments and not as a fixed amount;
4) where adjustments to fixed remuneration components are frequently negotiated and adjustments are in fact made to align the remuneration with the performance of staff;
5) where allowances are awarded in an excessive amount that is not justified in the underlying circumstances;
6) where remuneration is labelled as payment for early retirement and not taken into account as variable remuneration,

– where in fact the payment has the character of a severance pay, as it is made in the context of early retirement; or
– where in fact the staff member does not retire after such award is made; and

7) where dividend payments are used as methods of paying variable remuneration.

III.2 SPECIFIC REQUIREMENTS ON THE REMUNERATION POLICY FOR ALL CREDIT INSTITUTIONS

Identified staff
Article 27

(1) Credit institutions shall perform the identification of staff based on the criteria set out in Commission Delegated Regulation (EU) No 604/2014 and, where necessary, based on additional internal criteria.

(2) Credit institutions shall annually perform and properly document the process of re-identification of staff based on the qualitative and quantitative criteria set out in Commission Delegated Regulation (EU) No 604/2014. The documentation shall include the following information:

1) the rationale underlying the re-identification of staff and the scope of its application;
2) the approach used to assess the risks emerging from the credit institution's business strategy and activities;
3) the approach used to assess persons working in credit institutions and other subsidiaries within the scope of consolidation and branches, including such located in third countries;
4) the powers and responsibilities of the different credit institution bodies and functions involved in the design, oversight, review and application of the re-identification process;
5) results of the re-identification, including the number of identified staff members, the number of staff identified for the first time, business tasks and activities which identified staff members perform and business areas in which identified staff members work, names or personal identification numbers of identified staff and a comparison with the results of the identification performed in the preceding business year; and
6) the rationale for staff identified on the basis of quantitative criteria for which the credit institution assessed that their professional activities do not have a material impact on its risk profile in line with the criteria set out in Article 4(2) and (3) of Commission Delegated Regulation (EU) No 604/2014.

(3) For the purpose of determining identified staff at the beginning of the current business year based on quantitative criteria referred to in Article 4 of Commission Delegated Regulation (EU) No 604/2014, credit institutions shall take into account all monetary

and non-monetary remuneration components awarded to an individual staff member in the preceding business year, independent of the fact when remuneration was paid out.

(4) Credit institutions shall periodically update the identification process at least with regard to the qualitative criteria under Article 3 of Commission Delegated Regulation (EU) No 604/2014. Staff identified on the basis of qualitative criteria for a period of at least three months in a business year shall be considered identified staff for that business year.

(5) At the request of the Croatian National Bank, credit institutions shall explain the manner in which they determined identified staff based on the qualitative and quantitative criteria set out in Commission Delegated Regulation (EU) No 604/2014 and other internal criteria and submit all relevant documentation.

Notification and prior approval of exclusions
Article 28

(1) Where a credit institution identifies staff based on quantitative criteria set out in Article 4(1) of Commission Delegated Regulation (EU) No 604/2014 and determines that their professional activities do not have a material impact on the credit institution's risk profile based on the criteria set out in Article 4(2) of that Regulation, the following shall apply:

1) in the case referred to in Article 4(4) of Commission Delegated Regulation (EU) No 604/2014, the credit institution shall notify the Croatian National Bank on the application of Article 4(2) of that Regulation at the latest within six months after the end of the preceding business year; and
2) in the case referred to in Article 4(5) of Commission Delegated Regulation (EU) No 604/2014, the credit institution shall submit to the Croatian National Bank the request for prior approval to apply Article 4(2) of that Regulation at the latest within six months after the end of the preceding business year.

(2) In addition to the notification and the request for prior approval referred to in paragraph (1) of this Article, credit institutions shall also include the names or personal identification numbers of identified staff to which exclusions apply, the percentage of internal capital allocated to the business unit or subsidiary and the analysis of the impact of staff on the credit institution's risk profile under the criteria set out in Article 4(3) of Commission Delegated Regulation (EU) No 604/2014.

(3) The decision on the exclusion referred to in paragraph (1) of this Article shall be taken by the management board subject to the approval of the supervisory board.

Competences and responsibilities in the identification process
Article 29

(1) In addition to the competences of the supervisory board referred to in Article 5 of this Decision, the supervisory board shall have the following competences in the identification process of a credit institution:

1) granting approval for the identification process policy to the management board;
2) ensuring that the assessment for the identification of staff is made in accordance with this Decision;
3) overseeing the identification process on an ongoing basis;
4) approving any exclusion of staff in accordance with Article 4(2) of Commission Delegated Regulation (EU) No 604/2014.

(2) The remuneration committee shall be actively involved in the identification process for the purpose of preparing decisions on staff remuneration. The risk control, compliance, legal and human resources functions and other supervisory board committees shall participate in the identification process in line with their powers and responsibilities. Credit institutions shall ensure a proper exchange of information among all participants included in the identification process.

(3) The internal audit function of the credit institution shall review the identification process and results.

Identification process on an individual and consolidated basis
Article 30

(1) A parent credit institution in a group of credit institution in the Republic of Croatia shall, on a consolidated and sub-consolidated basis, identify staff having material impact on the group's risk profile by applying the criteria set out in Commission Delegated Regulation (EU) No 604/2014 and on the basis of consolidated information. When applying the qualitative criteria set out in Article 3 of Commission Delegated Regulation (EU) No 604/2014 in the identification process, staff members in a subsidiary are only captured if they are responsible for the functions referred to in these criteria on a consolidated or sub-consolidated basis. The quantitative criteria set out in Article 4 of Commission Delegated Regulation (EU) No 604/2014 apply to all staff on a consolidated and sub-consolidated basis, including all subsidiaries in the scope of prudential consolidation.

(2) The parent credit institution referred to in paragraph (1) of this Article shall ensure that all subsidiaries in the scope of the prudential consolidation, including subsidiaries that are not credit institutions and investment firms and subsidiaries in third countries:

1) implement group remuneration policy and actively participate in the identification process at group level; and
2) submit information necessary to perform the identification of staff at group level.

(3) The parent credit institution referred to in paragraph (1) of this Article shall perform the identification process for subsidiaries which are not credit institutions and investment firms on an individual basis based on the information submitted by subsidiaries.

(4) Credit institutions which are not significant, but are included in the identification process on a consolidated basis, may delegate the identification process on an individual basis to the parent credit institution referred to in paragraph (1) of this Article.

(5) Credit institutions which have their head office in the Republic of Croatia and are subsidiaries of a third-country parent credit institution and branches of third-country credit institutions shall notify their parent credit institutions of identification process results.

(6) Credit institutions shall perform the identification of staff in their branches established in third countries by applying the criteria applied on an individual basis.

Risk alignment process
Article 31

(1) Credit institutions shall perform the risk alignment process with regard to variable remuneration during:
1) performance measurement;
2) variable remuneration award; and
3) variable remuneration payout.

(2) Credit institutions shall set appropriate qualitative and quantitative criteria for risk alignment. When setting the criteria, the credit institution's strategy, risk profile and risk appetite must be taken into account, as well as the results of a comparison performed with peer credit institutions.

(3) If, when setting the criteria referred to in paragraph (2) of this Article, credit institutions apply judgmental approaches, they shall:
1) set parameters on which the judgment is based;
2) document the risk alignment process;
3) involve control functions in the process; and
4) take measures to prevent any conflicts of interest.

Criteria for risk alignment
Article 32

(1) Quantitative criteria for risk alignment include indicators typically used by the credit institution for internal risk management purposes. In order to take into account all material risks, credit institutions shall rely on methods applied in their internal capital adequacy assessment and liquidity adequacy assessment processes in identifying and measuring risks.

(2) Qualitative criteria for risk alignment may include information on compliance with regulations and internal bylaws, internal audit results and findings and other similar criteria.

Criteria for performance adjustment
Article 33

(1) Credit institutions shall set appropriate qualitative and quantitative performance criteria for individual staff members, business units and the credit institution which do not incentivise excessive risk taking or mis-selling of products.

(2) Quantitative criteria for performance assessment may include risk-adjusted capital, liquidity and profit indicators, capital indicators based on the data from financial statements, data on risks from the internal capital adequacy assessment process, budgets of individual corporate functions, including the legal and human resources functions, and other similar indicators. Operating efficiency criteria such as net profits, total revenues or market indicators such as share price or return on equity are not typically taken into consideration as the only quantitative criteria for performance assessment.

(3) Qualitative criteria for performance assessment may include the achievement of strategic targets, customer satisfaction, adherence to the risk management policy, compliance with regulations, leadership, team work, creativity, motivation and cooperation with other business units, internal control and corporate functions and other similar criteria.

Performance measurement and assessment
Article 34

(1) The measurement of performance used to calculate variable remuneration components or the maximum amount of variable remuneration must include an adjustment for all types of risks to which the credit institution is or might be exposed and take into account the costs of the capital and the liquidity required. Where an exact quantification of risk exposure is difficult, for example in case of reputational or operational risk, risk assessment should be based on suitable proxies, such as risk indicators, capital requirements or scenario analysis.

(2) Where variable remuneration depends on performance, the total amount of variable remuneration of a staff member shall be based on a combination of the assessment of the performance of an individual (taking into account quantitative and qualitative criteria) and of the business unit concerned as well as on the overall results of the credit institution.

(3) Performance assessment must be set in a multi-year framework in order to ensure that the assessment process is based on longer-term performance and that the actual payment of variable remuneration takes place during a period which takes into account

the credit institution's business cycle and any risks that the credit institution is or might be exposed to in its operation.

Award of variable remuneration
Article 35

(1) Credit institutions shall set a maximum amount of variable remuneration for the period for which variable remuneration is awarded. Variable remuneration shall be awarded after the end of the assessment period, which shall be at least one year.

(2) When setting the maximum amount of variable remuneration and awarding variable remuneration, credit institutions shall take into account all types of risks, expected and unexpected losses and the ratio between the variable and fixed components, the criteria for performance and risk assessment, control objectives and the financial situation of the credit institution, including its capital adequacy and liquidity. The performance indicators used by credit institutions to calculate the maximum amount of variable remuneration shall include long-term performance indicators and take into account the realised financial results.

Payment of variable remuneration
Article 36

(1) Prior to paying out variable remuneration, credit institutions shall perform a re-assessment of performance in order to adjust variable remuneration to any additional risks that may have been identified after variable remuneration award.

(2) The variable remuneration, including the deferred portion, shall not be paid or vested unless it is sustainable and justified. Variable remuneration shall be considered sustainable if its payment does not jeopardise the credit institution's financial situation and the safety and stability of the credit institution's operation. Variable remuneration shall be considered justified if it is based on the performance of the credit institution, the business unit and the individual staff member concerned.

Variable remuneration reduction
Article 37

(1) Credit institutions shall considerably reduce 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 earned, but deferred and not yet paid (application of a malus clause); and
3) subsequent reduction in payouts of remuneration previously earned and paid (application of a clawback clause).

(2) Variable remuneration shall in its entirety be subject to reduction by the application of malus and clawback clauses. Variable remuneration can be reduced by 100% by the application of malus and clawback clauses.

(3) In their remuneration policies and contracts with staff members, 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) a staff member has participated in activities that created significant losses for the credit institution or was responsible for such activities;
2) a staff member has failed to meet the prescribed or internally set suitability standards;
3) there is evidence of misconduct or serious error by the staff member;
4) the credit institution or the business unit in which the staff member works has subsequently suffered a significant downturn in its financial performance;
5) the credit institution or the business unit in which the staff member works has suffered a significant failure of risk management;
6) there has been a significant increase in the credit institution's capital requirements; and
7) the staff member's conduct contributed to the imposing of supervisory measures.

(4) Developments in the prices of shares or instruments related to shares shall not constitute a criterion for the application of malus and clawback clauses.

III.3 SPECIFIC REQUIREMENTS ON THE REMUNERATION POLICY FOR SIGNIFICANT CREDIT INSTITUTIONS

Variable remuneration deferral
Article 38

(1) Credit institutions shall defer a substantial portion of the variable remuneration component over an appropriate period of time and ensure that variable remuneration deferral is in line with the nature of the credit institution's operations, its operational risks and individual staff member's tasks.

(2) The length of the deferral period and the portion of variable remuneration to be deferred shall be set according to:

1) the powers and responsibilities of staff members and the tasks they perform;
2) the nature, scope and complexity of the credit institution's operations;
3) the credit institution's business cycle;
4) expected fluctuations in the credit institution's economic activity and operations and the impact of staff on these fluctuations;
5) the risks to which the credit institution and business unit is or may be exposed to; and

6) the approved ratio between the variable and fixed components of total remuneration, the absolute amount of variable remuneration and the amount of risk which an individual staff member may assume.

(3) 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 variable remuneration component. For the purposes of this paragraph, credit institutions shall define a particularly high amount of variable remuneration by taking into account the average remuneration paid within the credit institution, remuneration trends and practices at the level of the banking system in the Republic of Croatia and other remuneration benchmarking results.

(4) Variable remuneration in the amount of three million kuna on an annual basis or variable remuneration which amounts to or exceeds 100% of fixed remuneration on an annual basis shall be considered a particularly high amount.

(5) The length of the deferral period for the variable remuneration component shall not be shorter than three years. For members of the management board, the deferral period shall not be shorter than five years.

(6) The remuneration payable under deferral arrangements shall be paid or shall vest in its entirety at the end of the deferral period or on multiple occasions during the deferral period by applying the principle of 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.

(7) Credit institutions shall not pay deferred remuneration more often than once a year. Credit institutions may pay the first portion of deferred remuneration at least one year after the beginning of the deferral period.

Award of variable remuneration in instruments
Article 39

(1) 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 staff member concerned, the amount of variable remuneration payable to that staff member and the amount of risks the staff member may take.

(2) At least 50% of any variable remuneration shall consist of instruments.

(3) 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 which have an embedded clause that limits the maximum allowed value of instruments to their value on the date the remuneration was awarded;
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 which have an embedded clause that limits the maximum allowed value of instruments to their value on the date the remuneration was awarded;
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.

(4) Credit institutions may use instruments referred to in items (3) and (4) of paragraph (3) of this Article 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.

(5) If possible, for the purposes of the requirements set out in this Decision, credit institutions shall use an appropriate ratio of instruments referred to in items (1) to (4) of paragraph (3) to instruments referred to in item (5) of paragraph (3) of this Article.

(6) Instruments shall be priced at the market price or their fair value on the date of the award of these instruments. This price is the basis for the determination of the initial number of instruments and for later possible reduction in the number of instruments or their value.

(7) Credit institutions shall not pay any amount based on dividend or interest on instruments before vesting.

Retention
Article 40

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

(2) When setting the retention period, credit institutions shall consider the overall length of the deferral and the planned retention period as well as the impact of the category of staff on the credit institution's risk profile and the length of the business cycle relevant for the category of staff.

(3) The length of the retention period shall not be shorter than six months of the date of vesting for each deferred portion of remuneration. For members of the management board the retention period shall not be shorter than one year.

(4) After the end of the deferral and the retention period, staff may sell or access the instruments concerned.

Discretionary pension benefits
Article 41

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

(2) If a staff member leaves the credit institutions 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 staff member left the credit institution.

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

Exemptions for small remuneration
Article 42

(1) Credit institutions shall not be required to apply the provisions of Articles 38 to 41 of this Decision to staff whose variable remuneration on an annual basis does not exceed:
1) the amount of 200,000 kuna; and
2) 30% of their fixed remuneration on an annual basis.

(2) 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 Article.

IV REMUNERATION IN CASE OF EXTRAORDINARY PUBLIC FINANCIAL SUPPORT

Remuneration in case of extraordinary public financial support
Article 43

(1) When implementing their remuneration policies, credit institutions receiving extraordinary public financial support shall apply the rules governing government support to the financial sector in the EU.

(2) In the case of credit institutions benefitting from extraordinary public financial support, credit institutions shall assess the impact of variable remuneration on:
1) the maintenance of an adequate level of capital;
2) the timely repayment of the funds received; and
3) the objectives of the restructuring plan.

(3) If the assessment shows that variable remuneration has a negative impact on the requirements referred to in paragraph (2) of this Article, credit institutions shall strictly limit variable remuneration as a percentage of their net revenue.

(4) No variable remuneration shall be awarded and paid to management and supervisory board members of a credit institution that received extraordinary public financial support, unless justified.

(5) By way of derogation from paragraph (4) of this Article, variable remuneration may be paid to management board members who received prior approval from the Croatian National Bank after the credit institution asked for extraordinary public financial support, provided that all other requirements referred to in paragraph (2) of this Article have been met.

(6) The Croatian National Bank may require credit institutions that received extraordinary public financial support to restructure variable remuneration in a manner aligned with sound risk management and long-term growth, including a limitation of the amount of the credit institution's net revenue that may be used in determining and paying out variable remuneration.

(7) The restructuring of variable remuneration referred to in paragraph (6) 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 extraordinary public financial support was asked for;
3) reducing previously determined variable remuneration which was deferred and not yet paid or vested;
4) prohibiting the determination of any variable remuneration until the final repayment of extraordinary public financial support or until a financial recovery plan for the credit institution is implemented or accomplished;
5) aligning performance criteria with the progress made by the credit institution in achieving the objectives provided for by the restructuring plan and the contribution of identified staff in that regard;
6) increasing the percentage of deferred variable remuneration up to 100%;

7) aligning the assessment and deferral periods for variable remuneration with the deadlines for achieving the objectives provided for by the restructuring plan; or
8) other similar measures.

V PUBLIC DISCLOSURE

Public disclosure
Article 44

(1) When disclosing the information regarding the remuneration policy referred to in Article 450 of Regulation (EU) No 575/2013, the credit institution's size, internal organisation and the nature, scope and complexity of its operations shall be taken into account.

(2) Credit institutions shall disclose information on significant differences in remuneration policies for different categories of identified staff and, where applicable, differences in remuneration policies at group, parent credit institution and subsidiary level. These disclosures shall primarily include differences related to the ratio between the variable and fixed components of total remuneration, remuneration plans and vehicles available and remuneration instruments that can be awarded. Credit institutions shall state the reasons for those differences, as well as describe their impact on the determination of the maximum amount of variable remuneration for different business areas.

(3) Credit institutions shall disclose any material changes made to the remuneration policy, including its impact on the composition of variable and fixed remuneration components, and the governance process used to determine the remuneration policy.

(4) Credit institutions shall disclose how they have applied the requirements on remuneration policies and variable remuneration, including the requirements set out in Commission Delegated Regulation (EU) No 604/2014.

(5) Credit institutions shall disclose the number of identified staff broken down by business area, senior management and other identified staff and provide an explanation of significant changes in the number of identified staff relative to the preceding financial year.

(6) Within the framework of the disclosure of information about the decision-making process used for determining the remuneration policy within the meaning of point (a) of Article 450(1) of Regulation (EU) No 575/2013, credit institutions shall disclose information on the competences and responsibilities of particular bodies, functions and persons participating in the process of establishing, implementing and reviewing the remuneration policy.

(7) Within the framework of the disclosure of information about the link between pay and performance within the meaning of point (b) of Article 450(1) of Regulation (EU) No 575/2013, credit institutions shall disclose information on the link between variable remuneration and performance assessment including performance objective, the scope of staff for whom variable remuneration is foreseen and how variable remuneration reacts to changes in the credit institution’s performance.

(8) Within the framework of the disclosure of the most important design characteristics of the remuneration system within the meaning of point (c) of Article 450(1) of Regulation (EU) No 575/2013, the following information shall be disclosed:

1) the key objectives of the remuneration policy and the processes and methods of promoting sound and effective risk management;
2) quantitative and qualitative performance and risk metrics used for the assessment of performance of the credit institution, business unit and individuals and how different metrics are combined;
3) criteria used in the risk alignment process;
4) amounts and forms in which variable remuneration is paid (i.e. cash, shares, other capital instruments, short-term and long-term incentive plans) and the rationale for using these different forms and for allocating them to different categories of identified staff, in particular for members of the management board and for staff in control functions;
5) how the credit institution remunerates staff in control functions;
6) the criteria for determining fixed and variable remuneration components;
7) the mechanisms used to adjust performance to risk in order to take into account the long-term performance, including:
    - the parameters used to decide on the length of the deferral period and the ratio of deferred and non-deferred remuneration, and the vesting schedule and retention periods for different categories of identified staff;
    - the applied ratios and periods of deferral and retention, separate for different instruments awarded;
    - the criteria for applying ex ante and ex post risk adjustments, including the application of malus and clawback; and
    - specific shareholding requirements;
8) how proportionality is taken into account in the credit institution’s remuneration policy; and
9) policies and criteria applied for the award of guaranteed variable remuneration and severance payments.

(9) Within the framework of the disclosure of the ratios between fixed and variable remuneration within the meaning of point (d) of Article 450(1) of Regulation (EU) No 575/2013, credit institutions shall provide a tabular disclosure of the different ratios between the variable and fixed remuneration components of total remuneration for the management and supervisory board, business areas and corporate and control functions with at least a breakdown between senior management and other identified staff.

(10) Where the general meeting of a credit institution has taken the decision to apply a higher ratio between the variable and fixed components of total remuneration, the credit institution shall disclose the following information:

1) the percentage of voting rights represented and the percentage of voting rights in favour of increasing the ratio;
2) the approved higher ratios, including, where higher ratios differ between business areas, the respective higher ratio for each business area; and
3) the date of the decision.

(11) Within the framework of the disclosure of information on the performance criteria on which the entitlement to shares, options or variable components of remuneration is based within the meaning of point (e) of Article 450(1) of Regulation (EU) No 575/2013, credit institutions shall disclose the criteria used to determine the balance between different types of instruments awarded.

(12) Within the framework of the disclosure of information on the main parameters and rationale for any variable component scheme and any other non-cash benefits within the meaning of point (f) of Article 450(1) of Regulation (EU) No 575/2013, credit institutions shall disclose the information on long-term incentive plans and the details of any variable remuneration element which is considered to be non-routine remuneration practice, including for instance the use of role- or position-based allowances and discretionary fringe benefits, as well as the conditions under which such allowances or benefits can be withdrawn or changed in value.

(13) Within the framework of the disclosure of quantitative information on remuneration within the meaning of points (g) and (h) of Article 450(1) and Article 450(2) of Regulation (EU) 575/2013, credit institutions shall report the information separately for each of their major business areas, including investment banking, retail banking and asset management and for the management and supervisory board, control and corporate functions and all other business areas. The above information shall be broken down by senior management and other identified staff.

(14) Credit institutions shall disclose the information on total fixed and variable remuneration components for the total number of their staff.

VI DOCUMENTATION KEEPING

Documentation keeping
Article 45

(1) Credit institutions shall ensure the integrity of the documentation related to staff remuneration, including:

1) the remuneration policy and possible procedures for its implementation;

2) decisions of the supervisory board referred to in Article 5, paragraph (2) of this Decision;
3) decisions of the management board regarding staff remuneration which are not referred to in Article 5, paragraph (2), item (5) of this Decision;
4) the report referred to in Article 9, paragraph (6) of this Decision;
5) the methodology and the results of performance measurements in determining the variable remuneration of identified staff; and
6) the methodology for setting the maximum amount of variable remuneration awarded to staff for a particular assessment period, including the determining of the maximum ratio between the variable and fixed components of total remuneration referred to in Article 20 of this Decision.

(2) At the request of the Croatian National Bank, credit institutions shall explain the manner in which they performed the following activities and submit all relevant documentation:
1) the risk alignment process referred to in Article 31 of this Decision;
2) allocation of allowances to the fixed remuneration component referred to in Article 14 of this Decision;
3) award of retention bonuses for particular staff members within the meaning of Article 17 of this Decision;
4) payout of severance pay, the adequacy of the awarded amount and the criteria applied in the determination of the amount of severance pay within the meaning of Article 16 of this Decision;
5) other similar activities proving that the remuneration policy and practices are consistent with effective risk management.

VII REPORTING TO THE CROATIAN NATIONAL BANK

High remuneration
Article 46

(1) With regard to staff members whose total annual remuneration in a financial year amounts to or 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 staff members;
- on the description of job positions and responsibilities of such staff members;
- on the business areas in which such staff members are employed; and
- on the amount of the total remuneration of such staff members allocated to the fixed remuneration component, the variable remuneration component 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 shall cover variable remuneration awarded for that financial year, irrespective of when it was paid out, as well as fixed remuneration paid out for that year.

(4) Once a year, credit institutions shall submit the 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.

VIII TRANSITIONAL AND FINAL PROVISIONS

Entry into force and application
Article 47

(1) The provisions of the regulations in force up to the date of the entry into force of this Decision shall apply to variable remuneration awarded and paid out for the assessment period ending on 31 December 2016.

(2) On the date of the entry into force of this Decision, the Decision on employee remuneration (Official Gazette 73/2014) shall cease to have effect.

(3) This Decision shall enter into force on the eighth day following its publication in the Official Gazette.

No.
Zagreb,

Croatian National Bank
Governor
Boris Vujčić

Annex 1 – Information with regard to the approval of higher ratios

Credit institution name	*text*
Legal entity identifier (LEI)	*text*
Number of staff (end of the last financial year)	*number*
Number of identified staff (outcome of the last identification process)	*number*
Balance sheet total (end of the last financial year)	*number*
Decision taken	*dd/mm/yyyy*
Decided ratio	*number (percentage)*
Where different ratios within the credit institution were approved, please provide the business areas and approved percentages and the maximum approved ratio.	*text*