REMUNERATION POLICY FOR MEMBERS OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

OF HRVATSKA POŠTANSKA BANKA p.l.c.

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1. CHRONOLOGY

The Remuneration Policy for Members of the Management Board and Supervisory Board (hereinafter: **Remuneration Policy**) is adopted pursuant to Article 247a, Article 269, paragraph 3, and Article 275, paragraph 1, item 3 of the Companies Act (OG 111/93, 34/99, 121/99, 52/00, 118/03, 107/07, 146/08, 137/09, 125/11, 152/11, 111/12, 68/13, 110/15, 40/19, 34/22, 114/22, 18/23, 130/23), following the implementation of Directive (EU) 2017/828 of the European Parliament and of the Council of 17 May 2017 amending Directive 2007/36/EC with regard to the promotion of long-term participation of shareholders.

The Remuneration Policy is adopted by the Supervisory Board and subsequently submitted for approval to the General Assembly of HRVATSKA POŠTANSKA BANKA, p.l.c. (hereinafter: **the Bank**). The chronology of actions to date is as follows:

No.	Date	Description
1	29 March 2021	Established by the Supervisory Board of the Bank
	10 May 2021	Approved by the General Assembly of the Bank
2	17 May 2024	Adopted by the Supervisory Board of the Bank
	29 August 2024	Approved by the General Assembly of the Bank

This Remuneration Policy, as the second version, replaces the initial Remuneration Policy for the members of the Management Board and Supervisory Board of HRVATSKA POŠTANSKA BANKA, p.l.c. which was established by the Supervisory Board on 29 March 2021, and approved by the General Assembly on 10 May 2021.

2. INTRODUCTORY PROVISIONS

This Remuneration Policy sets out the basic principles and guidelines that Hrvatska poštanska banka p.l.c. (hereinafter: the Bank) will apply in determining, allocating, and paying all types of remuneration to members of the Management Board and the Supervisory Board.

It is based on the principal Remuneration Policy of Hrvatska poštanska banka p.l.c. and the HPB Group (hereinafter: **the Principal Remuneration Policy**), which, in accordance with its powers under the Credit Institutions Act (hereinafter: **CIA**) and the Decision on Staff Remuneration issued by the Croatian National Bank (hereinafter: **CNB Decision**), is adopted by the Management Board with the consent of the Supervisory Board. The Principal Remuneration Policy is also aligned with the provisions of the Code of Corporate Governance drafted by the Croatian Financial Services Supervisory Agency (HANFA) and the Zagreb Stock Exchange, as well as the Code of Corporate Governance for companies in which the Republic of Croatia holds shares or stakes. The Principal Remuneration Policy applies to all matters not otherwise regulated by this Remuneration Policy.

The aforementioned Principal Remuneration Policy has been drafted in compliance with the relevant regulations governing the area of remuneration and is aligned with the business strategy, risk strategy, including environmental, social, and governance (ESG) risks, corporate culture and values, measures for preventing conflicts of interest, risk profile, risk appetite framework, and the long-term interests of the Bank and the HPB Group.

For the purposes of this Remuneration Policy, remuneration encompasses all forms of payments and benefits, whether in cash or in kind, provided to an employee in exchange for the work performed for the Bank. This includes remuneration based on employment and other payments. Remuneration may consist of fixed and variable components, with the total amount representing the gross value.

A core principle of this Remuneration Policy is the adherence to the principle of equal pay for equal work or work of equal value, irrespective of gender, race or ethnicity, language, religion, political or other beliefs, national or social origin, or other discriminatory criteria.

3. REMUNERATION POLICY GOALS

The goal of the Bank is to establish a remuneration system that clearly links set business goals with performance and is focused on the long-term interests of the institution and its shareholders. In this context, this Remuneration Policy should at least meet the following criteria:

Legal Framework	The structuring and defining of remuneration values are done within and in accordance with the legal framework governing remuneration in credit institutions. This primarily refers to the regulations prescribed by the Credit Institutions Act (CIA), the Decision on Staff Remuneration issued by the Croatian National Bank (CNB Decision), as well as related national and EU regulations, guidelines, and corporate governance codes.
Business Strategy	The remuneration system should be designed to support the attainment of the long-term goals, interests, and values of the Bank and the HPB Group. Emphasis is placed on fixed compensation to discourage members of the management bodies from taking on risks that exceed acceptable levels.
Performance Criteria	Variable compensation is determined exclusively based on performance criteria. There is no provision for guaranteed variable compensation. The determination and distribution of variable compensation are based on the performance at three levels: the overall performance of the Bank, the performance of its organizational units, and the individual performance, all assessed in relation to risk management, liquidity, and capital adequacy.
Ratio Between Fixed and Variable Compensation	Remuneration should be competitive, reasonable, and realistic, reflecting the value of the position within the institution and aligning with prevailing market conditions and practices. Fixed compensation must constitute a sufficiently significant portion of the total remuneration to enable a fully flexible approach to variable compensation, including the option of not awarding the variable component. Adherence to regulatory requirements regarding the maximum allowable ratio between fixed and variable compensation is mandatory.

4. REMUNERATION STRUCTURE

HPB's emphasis is on optimizing compensation by focusing on fixed remuneration, with the possibility of earning variable compensation under controlled conditions. This involves predefined rules for determining, allocating, and paying variable remuneration. This model aims to ensure the financial stability of employees, preventing reliance on variable compensation and avoiding actions driven solely by short-term individual interests. This approach not only enhances employee satisfaction but also contributes to the long-term provision of high-quality services for clients and more stable value for shareholders.

Accordingly, the policy stipulates that the remuneration of Management Board members may consist of both fixed and variable components, while the remuneration of Supervisory Board members, given their supervisory role, consists exclusively of fixed components. Remuneration is determined by taking into account market conditions and benchmark analyses of comparable institutions, within the framework established by this Remuneration Policy.

The remuneration of the President/Member of the Management Board is formalized through an Employment Contract (hereinafter: **the Contract**), which the President/Member of the Management Board concludes with the Bank, represented by the Supervisory Board, for a period equal to the duration of their statutory function or mandate. In certain cases, remuneration may also directly arise from the provisions of the Labour Act or other regulations, the Collective Agreement, the Work Rulebook, or other Bank acts that apply to all Bank employees.

The General Assembly decides on the remuneration of the President/Member of the Supervisory Board at least once every four years, in accordance with the provisions of the Bank's Articles of Association and within the framework established by this Remuneration Policy. It is permissible for the General Assembly to confirm a previous decision regarding remuneration.

4.1. Fixed Remuneration

Fixed remuneration reflects the demands of the position, relevant professional experience, and responsibility.

In accordance with regulatory requirements for credit institutions, remuneration is considered fixed if it meets the following conditions:

- It is based on pre-determined criteria,
- It reflects the level of professional experience, length of employment, and other criteria defined by internal regulations,
- It is transparent regarding the specific amount allocated to each individual employee,
- It is paid on a continuous basis, corresponding to the employee's position and responsibilities within the organizational structure,
- It is irrevocable, with changes occurring only through amendments to the collective agreement, work rulebook, or employment contract,
- It cannot be reduced, temporarily suspended, or discontinued, unless it results from the implementation of a disciplinary decision, a fine imposed in accordance with labour relations law, collective agreement, or work rulebook, or if the employee has consented to the withholding of salary or has given written consent for the seizure of salary or other permanent monetary income for the purpose of settling a creditor's claim, except for the portion of income exempt from enforcement, in accordance with the law governing enforcement and insurance proceedings,

– It does not induce risk-taking,
– It does not solely depend on performance, and
– It is not subject to discretionary decisions.

Fixed remuneration for the President/member of the Management Board is set by the Supervisory Board within the framework of this Remuneration Policy, primarily through the Contract and potentially other acts. Fixed remuneration for members of the Supervisory Board is determined by a decision of the General Assembly.

The framework for the highest total amount of fixed remuneration for the President/member of the Management Board for one mandate is as follows:

Salary	The gross base monthly salary for the President/member of the Management Board can be set at a maximum of five times the average gross base monthly salary of a senior management member at the B-1 level (calculated based on the average gross base monthly salary of all senior management members at the B-1 level during the previous completed business year). Adjustment mechanisms for the determined gross base monthly salary are permitted based on work tenure, the percentage increase in the harmonized consumer price index, supplements, and other criteria prescribed by the Labour Act and other regulations, the Collective Agreement, the Work Rulebook, and other internal acts of the Bank applicable to all employees. Additionally, any market-relevant criteria established by the Supervisory Board at the time of deciding on the remuneration of the President/member of the Management Board considering the market benchmark can be used. The gross base monthly salary for the President of the Management Board can be up to 20% higher than that of other members of the Management Board within the aforementioned range.
Salary Compensation	In cases prescribed by the Labour Act and other regulations, the Collective Agreement, the Work Regulations, and other internal acts of the Bank applicable to all employees, as well as in cases resulting from rights established within the provisions of this Remuneration Policy.
Company Car with 24/7 Usage, Covering All Related Costs	The maximum purchase value of the company car can be EUR 100,000.00 (including taxes and all related charges). The preferred procurement model is through operational leasing. Related costs include all expenses arising from the use and maintenance of the company car, as well as other costs (fees, interest, etc.).

Company Mobile Phone with 24/7 Usage, Covering All Related Costs	The model of the mobile device can be freely chosen, with an unlimited tariff plan, according to market prices.
D&O Insurance Policy	A D&O insurance policy can be obtained according to market standards concerning insurance parameters and premium prices for this type of insurance.
Insurance for Disability, Accidental Death, or Illness (in case of the 24/7 model, with flexible working hours)	The maximum annual premium can be EUR 10,000.00 (excluding VAT), with freely determined insurance parameters.
Education/Training	Individual education/training costs for the President/member of the Management Board can be contracted up to a maximum of EUR 15,000.00 annually (excluding VAT), with additional coverage of related costs such as transportation, accommodation, and others. The President/members of the Management Board are also entitled to education and training according to the requirements of the Credit Institutions Act (CIA), the Decision of the Croatian National Bank (CNB), the Labour Act, and related acts governing their educational needs during their tenure.
Other Remuneration	All other remunerations to which all Bank employees are entitled according to the Labour Act and other regulations, the Collective Agreement, the Work Rulebook, and other internal acts of the Bank, are permitted, subject to any restrictions arising from the Conflict of Interest Prevention Act or other equivalent laws.
Expense Reimbursement	Reimbursement of expenses incurred by the President/member of the Management Board during their mandate, in relation to fulfilling their responsibilities (including, but not limited to, daily allowances, meal expenses, transportation costs, travel, and accommodation expenses), is permitted in accordance with relevant regulations, the Collective Agreement, the Work Rulebook, and other internal Bank policies applicable to all employees. Additionally, the Bank may indemnify the President/member of the Management Board for fines and/or penalties imposed due to their role, except in cases where the offense resulted from their direct personal actions.

The President/member of the Management Board is entitled to the use of all necessary work tools, which include corporate cards for business purposes, as well as IT and telecommunication equipment, in accordance with the Contract. The Supervisory Board has full authority to independently determine the rights of the President/members of the Management Board in this regard. Additionally, these entitlements are subject to the provisions of relevant regulations, the Collective Agreement, the Work Rulebook, and other internal Bank policies applicable to all employees.

Regarding the remuneration of the President/member of the Supervisory Board, it is established that the General Assembly decides on the remuneration in accordance with the following framework set by the provisions of the Bank's Articles of Association:

- *“The Members of the Supervisory Board shall be reimbursed for all the costs incurred in connection with their work on the Supervisory Board.”*
- *“The Members of the Supervisory Board shall be entitled to remuneration for their work on the Supervisory Board in the amount established by the General Assembly.”*

The framework for the highest total amount of fixed remuneration for the President/member of the Supervisory Board for one mandate is as follows:

Compensation	Compensation (reward) for engagement in the Supervisory Board and for involvement in each individual associated committee of the Supervisory Board will be defined by a special decision of the General Assembly, made at least once every four years. It is permissible to confirm a previous decision. The compensation must be appropriate to the duties performed by the President/member of the Supervisory Board and the condition of the company.
D&O Insurance Policy	The D&O insurance policies contracted in accordance with the above framework for the Management Board and the President/members of the Management Board will also include coverage for the Supervisory Board as a group, as well as for individual members of the Supervisory Board, under the same conditions.
Education/Training	The right to education and training is recognized in accordance with the requirements of the Credit Institutions Act (CIA), the Decision of the Croatian National Bank (CNB), and related acts governing education during the tenure in the Supervisory Board, including reimbursement of related costs.
Expense Reimbursement	In accordance with the provisions of the Bank's Articles of Association, reimbursement of all expenses incurred by the President/member of the Supervisory Board during their mandate in fulfilling their responsibilities is permitted, with appropriate application of the provisions of relevant internal acts of the Bank applicable to all employees.

The relative share of fixed remuneration in the total remuneration of the President/member of the Management Board is 100% in a year without variable remuneration. If there is variable remuneration, the ratio is tied to the permissible fixed-to-variable remuneration ratio of 1:1, as further explained in section 4.2 of this Remuneration Policy.

The President/member of the Supervisory Board is entitled exclusively to fixed remuneration, which therefore constitutes 100% of their total remuneration. All remuneration for the President/member of the Supervisory Board, based on the decisions of the General Assembly, is considered fixed remuneration.

The Bank fulfils all tax obligations related to the aforementioned remuneration of the President/member of the Management Board and the President/member of the Supervisory Board in accordance with applicable regulations.

4.2. Variable Remuneration

Variable remuneration represents income that does not meet the criteria for classification as fixed remuneration. This type of remuneration depends on the performance of employees, organizational units, and the institution, and aims to:

- Attract, motivate, and retain employees through a level of income that exceeds what is possible with fixed remuneration and/or
- Recognize special contributions towards achieving business goals and positively impacting the institution's risk profile.

The Supervisory Board may only act within the limitation that the amount of variable remuneration for the President/member of the Management Board on an annual basis must not exceed the amount of the fixed part of the total annual remuneration of the President/member of the Management Board.

The following types of variable remuneration are excluded from the calculation of the maximum ratio between variable and fixed remuneration:

- Severance pay that does not exceed the amount stipulated by labour relations law,
- Severance pay determined by a collective agreement or work rulebook that is not subject to discretionary decision,
- Severance pay awarded based on a final court decision,
- Compensation paid upon termination of employment based on a non-compete clause, during the non-compete period, up to the amount of fixed remuneration that would have been paid during that period had the employee remained employed by the institution,
- Compensation paid as damages in the event of judicial termination of the contract as prescribed by labour relations law,
- Severance pay not covered by the previous points, provided the institution has demonstrated the reasons and appropriateness of the amount to the Croatian National Bank.

The framework for the highest total amount of variable remuneration for the President/member of the Management Board for one mandate is as follows:

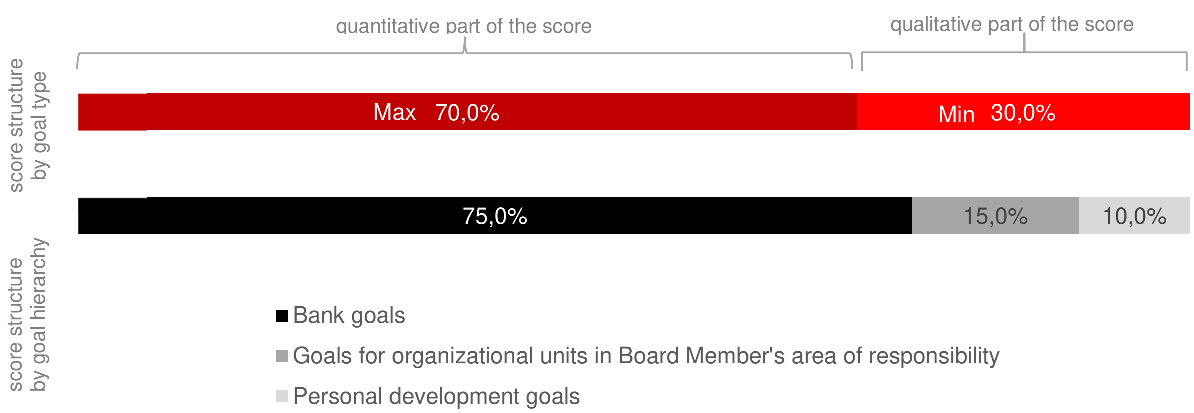
Severance Pay Agreed by Contract	A maximum of 6 monthly gross salaries of the President/member of the Management Board, based on the average monthly gross salary earned during the last three months of their mandate and employment.
Contractual Non-Compete Clause After Contract Termination	During the restriction period prescribed by the Conflict of Interest Prevention Act or equivalent law, the monthly compensation is as follows: up to 100% of the average monthly gross salary during the initial two-thirds of the non-compete period, and up to 50% during the remaining one-third of the non-compete period, based on the average monthly gross salary earned during the last three months before the contract termination. It is established that compensation for the non-compete clause can be classified as fixed remuneration, depending on the circumstances.
Bonuses and Other Rewards	If and when the Supervisory Board adopts a bonus program or other act establishing such variable remuneration, it must comply with all restrictions prescribed by the regulatory framework governing the remuneration of credit institutions, the Conflict of Interest Prevention Act, or equivalent laws. The maximum amount of such remuneration is tied to the permissible ratio of fixed and variable remuneration on an annual basis, excluding the impact of remuneration not considered in the calculation of the maximum ratio between variable and fixed parts of total remuneration.
Other	All other remuneration to which all Bank employees are entitled, in accordance with the Labour Act and other regulations, the Collective Agreement, the Work Rulebook, and other internal acts of the Bank, is permitted, subject to any restrictions arising from the Conflict of Interest Prevention Act or equivalent laws.

The regulatory framework imposes limitations on the authority to determine, allocate, and pay variable remuneration. In line with these limitations, the HPB Group has established specific principles and rules for determining, allocating, and paying variable remuneration, as defined by the Principal Remuneration Policy.

The Bank fulfils all tax obligations related to the aforementioned remuneration in accordance with applicable regulations.

4.2.1. Performance Measurement for Management Board Members

To measure the performance of the President/member of the Bank's Management Board, operational business goals derived from the business strategy, values, and long-term business goals and interests of the Bank are used. Operational business objectives, which represent desired results or outcomes of business activities, are expressed through key performance indicators (KPIs) with corresponding measurement methods. Variable remuneration is strongly linked to the system of effective risk management and the achievement of sustainable capitalization and profitability[1] Objectives and key performance indicators for all members of the Management Board for each business year are approved by the Supervisory Board. These goals must be both qualitative and quantitative in nature, with the overall performance score for members of the Management Board structured as follows:



The calculation methodology is prescribed internally within the Bank by the Performance Management Rulebook, which is part of the Principal Remuneration Policy.

Based on the adopted business strategy, key performance indicators (hereinafter: **KPIs**) are determined for a strategic period that usually lasts between three and five years.

The defined set of objectives and key performance indicators is presented in the following table. Each KPI serves as a guideline that reflects financial objectives aligned with the business strategy, goals, and long-term interests of the Bank, including ESG sustainability factors, risk profile, and risk appetite framework. For the upcoming period during which this Remuneration Policy is applied, the goals emphasize prudent risk management, creating shareholder value through market share growth and profitability, rational cost management, achieving economies of scale, generating sustainable revenues based on quality customer service, and promoting sustainable business operations. These efforts aim to achieve the optimal outcome for the Bank, its shareholders, and clients.

[1] As opposed to this, the fixed part of the remuneration is not directly related to the achievement of objectives, but represents a fixed income, which reflects the scope of responsibilities arising from the function of a member of the Management Board in a credit institution, the experience of a member of the Management Board and other elements described in paragraph 4.1 of this Remuneration Policy.

Goals for 2026 are shown below:

GROUP OF GOALS: RISK APPETITE FRAMEWORK	KPI: Capital and significant risks	Weight: 20%
GROUP OF GOALS: PROFITABILITY, MARKET SHARE	KPI: Net profit Return on assets Return on equity Balance sheet growth or balance sheet categories Market share growth	Weight: 20%
GROUP OF GOALS: EFFICIENCY AND COSTS	KPI: Cost-to-income ratio Operating expenses	Weight: 10%
GROUP OF GOALS: EMPLOYEES	KPI: Number of employees Assets per employee	Weight: 10%
GROUP OF GOALS: CUSTOMER SATISFACTION	KPI: Service quality index	Weight: 30%
GROUP OF GOALS: SUSTAINABLE BUSINESS	KPI: Volume of sustainable lending	Weight: 10%

quantitative goals (red) qualitative goals (dark grey) qualitative goals (light grey)

4.2.2. Specific Criteria for Determining, Awarding, and Paying Variable Remuneration

The Supervisory Board determines the variable remuneration for the President/member of the Management Board. Variable remuneration is awarded to the President/member of the Management Board after the assessment period of at least one year. When making decisions related to the President/member of the Management Board, performance measurement results are considered in the context of performance results over the previous three years, if comparative data exists, to assess long-term performance. This approach aims to prevent the rewarding of actions based on short-term interests, in line with good business practice.

If annual variable remuneration exceeds the amounts defined as small remuneration according to the Decision of the Croatian National Bank (CNB) and the Credit Institutions Act (CIA), it is awarded under the following conditions:

- A minimum of 40% of the variable remuneration should be deferred for payment, and in the case of extremely high variable remuneration, at least 60% should be deferred. Within the HPB Group, extremely high variable remuneration is defined as an amount of EUR 400,000 on an annual basis or variable remuneration that equals or exceeds 100% of the fixed remuneration on an annual basis;
- The deferral period for the variable remuneration should not be shorter than 5 years;
- A minimum of 50% of each portion of the variable remuneration must consist of financial instruments;

- A retention period of at least 2 years from the date of the transfer of rights to the financial instruments is mandatory, regardless of whether the variable remuneration is deferred or not.

Exceptionally, for types of variable remuneration that are not considered in the calculation of the maximum ratio between the variable and fixed parts of total remuneration, the rules related to deferral, allocation in instruments, and retention do not apply.

Deferred compensation is paid, i.e., the rights from financial instruments are transferred in full at the end of the deferral period or on several occasions during the deferral period by applying the principle of linear accrual, depending on the risks and adjustments made on a case-by-case basis. The principle of linear accrual during the payment of deferred compensation requires that for compensation deferred over n years, starting from the end of the assessment period, payments of compensation at the end of each year from the end of the assessment period constitute the deferred amount of compensation multiplied by 1/n.

During the deferral period, the instruments are not transferred to the President/member of the Management Board but are held as treasury shares. The Bank may decide not to hold the instruments during the deferral period, in which case it bears the relevant market risks.

Ordinary shares of HPB are used to pay part of the variable remuneration in financial instruments. When determining the number of shares to be allotted or any subsequent reduction in the number of shares allotted to the President/member of the Management Board based on variable remuneration, the market or fair value of the instrument at the allotment date is used.

Deferred portions of remuneration may not be paid more than once a year. The first deferred portion of remuneration may be paid at least one year after the start of the deferral period. An amount of dividend or interest on an instrument may not be paid to the President/member of the Management Board before the rights from that financial instrument have been transferred to them.

4.2.3. Ex-Post Risk Monitoring for Variable Remuneration

Variable remuneration is fully subjected to reduction by applying the provisions on malus and clawback, whereby it can be reduced by up to 100%.

Malus allows for the reduction of previously allocated remuneration that has been deferred and not yet paid. Malus applies to the entire amount of deferred unpaid variable remuneration. Clawback involves the return of amounts paid or rights transferred from instruments, regardless of whether they were deferred or not.

The decision to activate the provisions on malus and clawback is made by the Supervisory Board, which also defines the reasons, necessary measures, and rules of procedure for the specific case that necessitated their activation. Verification of whether situations have occurred that trigger the malus or clawback clauses is performed at least once a year, and the circumstances that could lead to the application of these clauses are shown in the following diagram:

MALUS	CLAWBACK
• The competent supervisory authority has decreed that the variable remuneration at the level of the institution is to be limited or cancelled • If there are serious infringements, such as: - The President/member of the Management Board participated in activities that have resulted in significant losses for the Bank or was responsible for such activities, - The President/member of the Management Board did not meet the prescribed or internally set fit-and-proper standards, - Unlawful behaviour or a serious mistake by the President/member of the Management Board has been subsequently established • The Bank has subsequently suffered significant impairment in financial performance • There have been significant risk management omissions at the Bank • Significant changes in the regular and regulatory capital (capital requirements are not met or it can be expected that they won't be met), or there has been a significant increase in capital requirements for the Bank • Supervisory measures were imposed, and the actions of the President/member of the Management Board contributed to the imposition of supervisory measures	• Fraud or other criminal offense or misleading information related to the actions of the President/member of the Management Board, with a significant negative impact on the credibility and profitability of the Bank • The allocation and payment of variable remuneration is the result of breaking rules set by the Remuneration Policy, the Principal Remuneration Policy, or other binding regulations related to remuneration • Should any of the reasons for the application of malus occur, if guided by the purpose of the Remuneration Policy or Principal Remuneration Policy, there are justifiable reasons for the appropriate application of clawback in relation to previously allocated and paid remuneration.

5. CONTRIBUTION OF THE REMUNERATION STRUCTURE TO THE BUSINESS STRATEGY AND LONG-TERM DEVELOPMENT

The foundation of the Bank's strategy is a corporate culture that discourages excessive risk-taking. This approach ensures that the Bank remains competitive and profitable while maintaining strong capitalization, liquidity, and solvency. These qualities are reflected in key indicators such as the total capital ratio, liquidity coverage ratio, and the minimum requirement for capital and eligible liabilities.

Aligned with the Bank's mission "Creating conditions for a better life in Croatia" and vision "A Croatian-owned bank with relevant market influence that cares best for clients, shareholders and the community.", the goal is to manage the Bank's operations to make a positive impact on its clients, employees, shareholders, and the community. This is demonstrated through the Bank's credit and deposit policies, return on equity aligned with market benchmarks, investments in employee education, promotion of a positive workplace environment, and increased employee satisfaction. These efforts collectively contribute to broader economic growth and social progress.

5.1. Contribution from the Perspective of Fixed Remuneration

The adequacy and sustainability of fixed remuneration for the President/member of the Management Board are ensured by determining the fixed remuneration based on market conditions and benchmark analysis for comparable institutions, with adjustments considering the provisions of the Corporate Governance Code for companies in which the Republic of Croatia holds shares or stakes. In the interest of shareholders and in line with their goals, the fixed remuneration system is aligned with the business strategy as it provides financial stability for the President/member of the Management Board appropriate to their professional experience and position. This alignment prevents the institution from taking risks that exceed acceptable levels. Performance evaluation in both short-term (one year) and long-term periods (three or more years) is conducted by considering relevant performance parameters, ensuring the implementation of the strategy and building the Bank's long-term success.

On the other hand, fixing the remuneration of the Supervisory Board ensures the independence of the supervisory function from business risks, thus providing appropriate oversight of the Management Board's work.

5.2. Contribution from the Perspective of Variable Remuneration

The Supervisory Board decides on the maximum amount of variable remuneration that the institution will determine for all employees in the business year for a certain assessment period, within the approved total expenditure budget of the institution in relation to employee remuneration. When deciding on the maximum amount of variable remuneration, the following are taken into account:

- All types of risks,
- Expected and unexpected losses,
- The ratio between variable and fixed remuneration,
- Criteria for assessing performance and risks over the long term,
- Control goals and the financial position, including capital adequacy and liquidity.

Therefore, variable remuneration at the overall level of the Bank, and at the individual level for the President/member of the Management Board, is based on a combination of the performance assessment of the President/member of the Management Board, the performance of organizational units within their area of responsibility, and the overall performance of the Bank. Corrections to the performance score can occur through qualitative and quantitative criteria for adjusting variable remuneration to performance and risks.

In this sense, the Bank's Strategy and the Risk Appetite Statement (RAS) represent a framework of risk and risk exposure that the Bank is willing to take to achieve its business objectives. These serve as the starting point for implementing risk limitations, with the possibility that certain indicators also serve as key performance indicators (e.g., the target liquidity coverage ratio (LCR) or the target regulatory capital adequacy ratio).

This promotes a culture of sustainable and consistent goal achievement. Variable remuneration is not allocated or paid in the event of failure or risk to the Bank.

Members of the Management Board are subject to the allocation and payment criteria, and the limit in the ratio of fixed and variable remuneration that applies to all identified employees of the Bank, i.e., employees whose professional activities have a significant impact on the risk profile. Thus, their position does not differ in this regard from the position of other identified employees.

6. CONTRACTUAL RELATIONS WITH THE MEMBERS OF THE MANAGEMENT BOARD

The President/member of the Management Board enters into a Contract with the Bank, represented by the Supervisory Board, to establish their employment and status relationship with the Bank. The Contract is concluded for the duration of the mandate, with provisions governing the rights of the President/member of the Management Board even after the termination of the mandate and employment relationship (e.g., severance pay, contractual non-compete clause, expense reimbursements) continuing to apply until these rights are fully executed by the Bank.

The Contract specifies the conditions for its termination as follows:

- Expiration of the term of office for which the President/member of the Management Board was appointed;
- Resignation from the position of President/member of the Management Board, with a notice period of up to 90 days, or exceptionally up to 6 months (as decided by the Supervisory Board, depending on the reasons for the resignation);
- Revocation from the position of President/member of the Management Board by the Supervisory Board, without a notice period or with a notice period of up to 90 days (as decided by the Supervisory Board, depending on the reasons for the revocation);
- The occurrence of circumstances under Article 37, paragraph 2 of the Credit Institutions Act (CIA) or the introduction of resolution measures based on the Act on Resolution of Credit Institutions and Investment Firms.

The employment contracts include obligations for severance pay for the President/member of the Management Board, as well as obligations for the contractual non-compete clause.

The allocation and payment of severance pay reflect the individual's performance over a certain period and do not reward failure. Accordingly, severance pay may be stipulated in the Contract for the President/member of the Management Board in the following cases: expiration of the term of office, resignation due to significant breaches of rights by the President/member of the Management Board, and revocation of the President/member of the Management Board, except when it results from gross misconduct or a materially substantiated vote of no confidence (denial of discharge). Severance pay obligations can be agreed upon in an amount up to a maximum of 6 monthly gross salaries of the President/member of the Management Board, based on the average gross salary earned during the last three months of the mandate and employment relationship.

The Contract includes a non-compete clause during the period prescribed by the Conflict of Interest Prevention Act or other equivalent law, after the termination of the Contract. During this period, the President/member of the Management Board must not engage in activities or hold positions contrary to the limitations set by the Conflict of Interest Prevention Act or other equivalent law. This particularly includes not accepting appointments to management positions or employment in legal entities that had business relationships with the Bank during the President/member of the Management Board's term or exercised supervisory functions over the Bank. During the non-compete period, the Bank undertakes to pay the President/member of the Management Board a monthly fee. For the initial two-thirds of the total non-compete period, this fee is up to 100% of the average monthly gross salary earned during the last three months before the termination of the Contract. For the remaining one-third of the total non-compete period, the fee is up to 50% of the average monthly gross salary earned during the last three months before the termination of the Contract. The Bank cannot withdraw from the contractual non-compete clause and stop fulfilling its obligation to pay the agreed fee unless the Conflict of Interest Prevention Commission grants consent for the President/member of the Management Board to accept an appointment, election, or contract related to the performance of the specified activities or duties before the expiry of the specified period. In this case, the non-compete clause ceases to apply for the period following the consent.

If the Contract of the President/member of the Management Board is terminated due to a final proven gross breach of duty towards the Bank or a final proven criminal offense committed by the President/member of the Management Board against the Bank, the Bank has the right to recover the amounts paid as compensation for the non-compete clause or to withhold payment if the amounts have not been paid yet.

The contractual non-compete clause represents fixed or variable remuneration, depending on the circumstances under which the President/member of the Management Board is entitled to payment.

The Bank will not apply compensation packages for the President/members of the Management Board related to additional pension benefits.

7. MANAGING CONFLICT OF INTEREST

The established remuneration system, as presented in the previous provisions of this Remuneration Policy, is aimed at performance management but also at preventing conflicts of interest. This is particularly reflected in the following:

- The emphasis is on fixed remuneration for employees. Variable remuneration is an exception and may include only a limited part of the total remuneration of the President/members of the Management Board, while it is excluded for the Supervisory Board to ensure their independence.
- Variable remuneration can only be granted under controlled conditions. These conditions relate to capital adequacy, risks, and the overall performance of the institution, organizational units, and individual employees, with assessment based on qualitative and quantitative criteria;
- Performance is measured annually. Performance measurement results are also compared with the results from the previous three years, if comparative data are available, to assess long-term performance and prevent situations focused on short-term interests;
- A non-compete clause is agreed upon for the members of the Management Board during the period prescribed by the Conflict of Interest Prevention Act and other equivalent laws, following the termination of the Contract.

The President/members of the Management Board have undertaken not to use personal strategies to protect against the risk of reduction in variable remuneration or to conclude insurance policies against the loss of variable remuneration or insurance against the unfavourable outcomes of assumed risks.

The basic principles and rules for managing conflicts of interest and the basic starting points for identifying and preventing conflicts of interest in each segment of business and employee work are prescribed by applicable legislation, other regulations as well as the Bank's internal acts related to different business segments. Implementing acts and business practices in various business segments further operationalize specific measures to prevent conflicts of interest, identify where infringements have occurred, and establish corrective measures.

The position of the President/members of the Management Board should be considered in light of the predominant state ownership. In this regard, as previously mentioned, there are additional regulations under the Law on the Prevention of Conflicts of Interest that apply to the President and members of the Management Board of predominantly state-owned companies, who, in terms of that law, hold the position of officials. These regulations provide additional protection against conflicts of interest at the HPB Group level. Specifically, in this segment, the President and members of the Management Board, as identified employees, are under additional control by the Commission for Deciding on Conflicts of Interest.

8. FINAL PROVISIONS

8.1. Adoption and Review of the Remuneration Policy

The General Assembly decides at least once every four years whether to approve the Remuneration Policy submitted by the Supervisory Board and whenever it is significantly changed. It is the duty of the Remuneration Committee to recommend the remuneration policy to the Supervisory Board for the upcoming period at least every three years.

Deviations from the Remuneration Policy are permitted even without prior amendments when necessary for the long-term benefit of the Bank. This particularly includes authorization to deviate from the Remuneration Policy in the following cases:

- To comply with regulatory requirements and supervisory measures,
- In the event of significant deterioration of the Bank's circumstances to the extent that maintaining the same level of remuneration would be unjust,
- When deviation is necessary to ensure the continuity of the President/member of the Management Board’s function or to prevent a competent manager from discontinuing or not assuming their role.

The Supervisory Board will report any deviations to the General Assembly at the next meeting and will seek to align the content of the Remuneration Policy with the necessary deviations.

Any decision to amend the Remuneration Policy will be made in accordance with the rules and roles governing the work of the Supervisory Board, the Remuneration Committee, the internal audit function, and other functions of the Bank. These roles and responsibilities regarding remuneration are detailed in the Principal Remuneration Policy and are in accordance with the provisions of the Credit Institutions Act (CIA), the Croatian National Bank (CNB) Decision, and applicable corporate governance codes. Their roles apply to this Remuneration Policy in an appropriate manner. The procedure for verifying whether the Remuneration Policy aligns with the expected effects is carried out at least once a year, simultaneously with the review of the Principal Remuneration Policy.

If deficiencies are identified during the review of the Remuneration Policy, either in content or implementation, or if it is determined that the policy does not have the expected effect, a revised policy will be submitted to the General Assembly.

If the proposed Remuneration Policy is not approved at the General Assembly, remuneration will continue to be paid in accordance with existing practices, and a revised policy will be submitted at the next General Assembly. The same applies accordingly to the decision on the amount of remuneration for members of the Supervisory Board.

8.2. Period of Application and Disclosure

This Remuneration Policy is adopted by the Supervisory Board on May 17 2024 and comes into force on the date of its approval by the General Assembly. It is applied for a maximum period of the next four years. Exceptionally, the Remuneration Policy is applied for a shorter period if it is amended and adopted in its amended form before the end of its duration.

The approved Remuneration Policy is published and made available free of charge on the Bank's website for a period of ten years.

Marijana Miličević
President of the Supervisory Board