

**BANKA
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Pursuant to the first paragraph of Article 10 of the Banking Act (Official Gazette of the Republic of Slovenia, Nos. 25/15 and 44/16 [ZRPPB]; hereinafter: the ZBan-2) and the first paragraph of Article 31 of the Bank of Slovenia Act (Official Gazette of the Republic of Slovenia, Nos. 72/06 [official consolidated version] and 59/11), the Bank of Slovenia hereby issues the following

GUIDELINES

in connection with the application of the principle of proportionality in the exercise of remuneration policy

1. Article 10 of the ZBan-2 stipulates that the Bank of Slovenia issues guidelines that contain general and more detailed rules for the uniform interpretation and application of certain regulations and contribute to the formulation of best practices in banking. The guidelines are published on the Bank of Slovenia's website.

These guidelines set out the Bank of Slovenia's position on appropriate bank practices in the formulation of prudent policies and practices with regard to the remuneration of staff whose professional activities have a material impact on the risk profile (hereinafter: identified staff) of a bank or savings bank (hereinafter: bank), whereby such policies and practices meet the requirements set out in Articles 128 and 170 of the ZBan-2.

2. In accordance with point 4 of the first paragraph of Article 128 of the ZBan-2, a bank must put in place stable internal governance arrangements that include appropriate remuneration policies and practices that are consistent and promotes sound and effective risk management.

The second paragraph of the aforementioned article stipulates that the internal governance arrangements should be comprehensive and proportionate to the nature, scale and complexity of the risks inherent in the bank's business model and the activities that it performs.

3. The first paragraph of Article 170 of the ZBan-2 defines the basic principles for defining remuneration policy and practices, including the principles that a bank should:
 - (a) provide at least 50 % of the variable remuneration of every individual in the form of ordinary and preference shares of the bank, or share-linked instruments or equivalent non-cash instruments, whenever the bank's shares are not listed on a regulated market (point 7 of the first paragraph of Article 170), and
 - (b) defer a significant proportion of no less than 40 % of the variable remuneration of every individual for a period of three to five years (point 8 of the first paragraph of Article 170).

The second paragraph of Article 170 of the ZBan-2 stipulates that a bank should take into account the basic principles for defining remuneration policy and practices in a manner and to an extent corresponding to its size, its internal organisational structure, and the nature, scale and complexity of the activities that it performs.

4. With regard to the second paragraph of Article 128 of ZBan-2 and the second paragraph of Article 170 of the ZBan-2 cited above, the Bank of Slovenia finds that the law sets out the principle of proportionality as an important criterion in the formulation and exercise of remuneration policy and practices. It follows that the basic principles defining the framework for

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formulating and exercising remuneration policy and practices are interpreted in connection with the specific circumstances of the particular bank's operations (the size of the bank, the nature of its activities from the perspective of risk take-up), including risk factors inherent in the amount of variable remuneration of an individual identified staff.

The basic principles also include requirements (restrictions) with regard to the formulation and payment of variable remuneration, whereby the intention of such restrictions needs to be interpreted in connection with the risks that the variable remuneration of identified staff presents to the bank. The amount of variable remuneration that depends on the bank's general performance is a significant risk factor in the treatment of identified staff. However, the principle of proportionality requires the policy and practices with regard to variable remuneration to set out stricter restrictions in cases when the nature and amount of the variable remuneration (with regard to the criteria for payment of the variable portion) encourages identified staff to take up risks, and relaxes the aforementioned restrictions when the nature and amount of variable remuneration is not a (significant) factor in the take-up of risks at the level of an identified staff.

5. In light of the above, the Bank of Slovenia is of the opinion that points 7 and 8 of the first paragraph of Article 170 need to be interpreted such that they are applied to variable remuneration that in terms of its nature and amount (having regard for the criteria for its formulation) constitutes a material risk factor to the bank. When the variable remuneration constitutes a negligible risk to the bank in terms of its nature and amount, the remuneration need not be treated as variable remuneration to which the restrictions defined by the aforementioned basic principles referred to in Article 170 of the ZBan-2 apply.

In light of the general economic situation and, in particular, the situation in the banking system, it can be concluded that the total variable remuneration of an identified staff that does not exceed EUR 50,000 gross in a particular year generally does not constitute variable remuneration for the purposes of points 7 and 8 of the first paragraph of Article 170 of the ZBan-2.

6. A bank shall clarify any decisions with regard to the application of the de minimis threshold of variable remuneration for the purposes of points 7 and 8 of the first paragraph of Article 170 of the ZBan-2 in its remuneration policy. When the bank is part of a banking group, it shall also clarify any decisions with regard to the application of the de minimis threshold of variable remuneration at group level, where this exists, in its remuneration policy.

The bank shall document the application of the de minimis threshold of variable remuneration for the purposes of points 7 and 8 of the first paragraph of Article 170 of the ZBan-2 for each identified staff, citing at least the following information:

- the first name and surname;
- the position or function;
- the total amount of variable remuneration in a year of the application of the de minimis threshold of variable remuneration.

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7. The Bank of Slovenia shall apply these guidelines when conducting supervision of banks in accordance with the ZBan-2 and Regulation (EU) No 1024/2013.¹ The guidelines shall be applied until their abrogation or amendment, which shall be published on the Bank of Slovenia's website.

The issuance of guidelines shall not release the Bank of Slovenia from applying the currently applicable laws and regulations setting out remuneration policy and practices when exercising its powers. Should the Bank of Slovenia, in exercising its powers pursuant to the ZBan-2 or Regulation (EU) No 1024/2013, apply an interpretation of the regulations that amends or supplements the interpretation deriving from these guidelines, it shall amend or supplement these guidelines as appropriate without delay.

These guidelines shall be published on the Bank of Slovenia's website.

Ljubljana, 22 November 2016

Boštjan Jazbec
President,
Governing Board of the Bank of Slovenia

¹ Regulation (EU) No 1024/2013 is Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions (OJ L 287 of 29 October 2013, p. 63)