

# 5th Capital Markets Day

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## Performance management and management compensation

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- **Group Performance Management**
    - Main Tasks – What is different?
    - Performance Management Process
    - KPI Definition
  
  - **Management Compensation**
    - Concept and Components
    - EVA

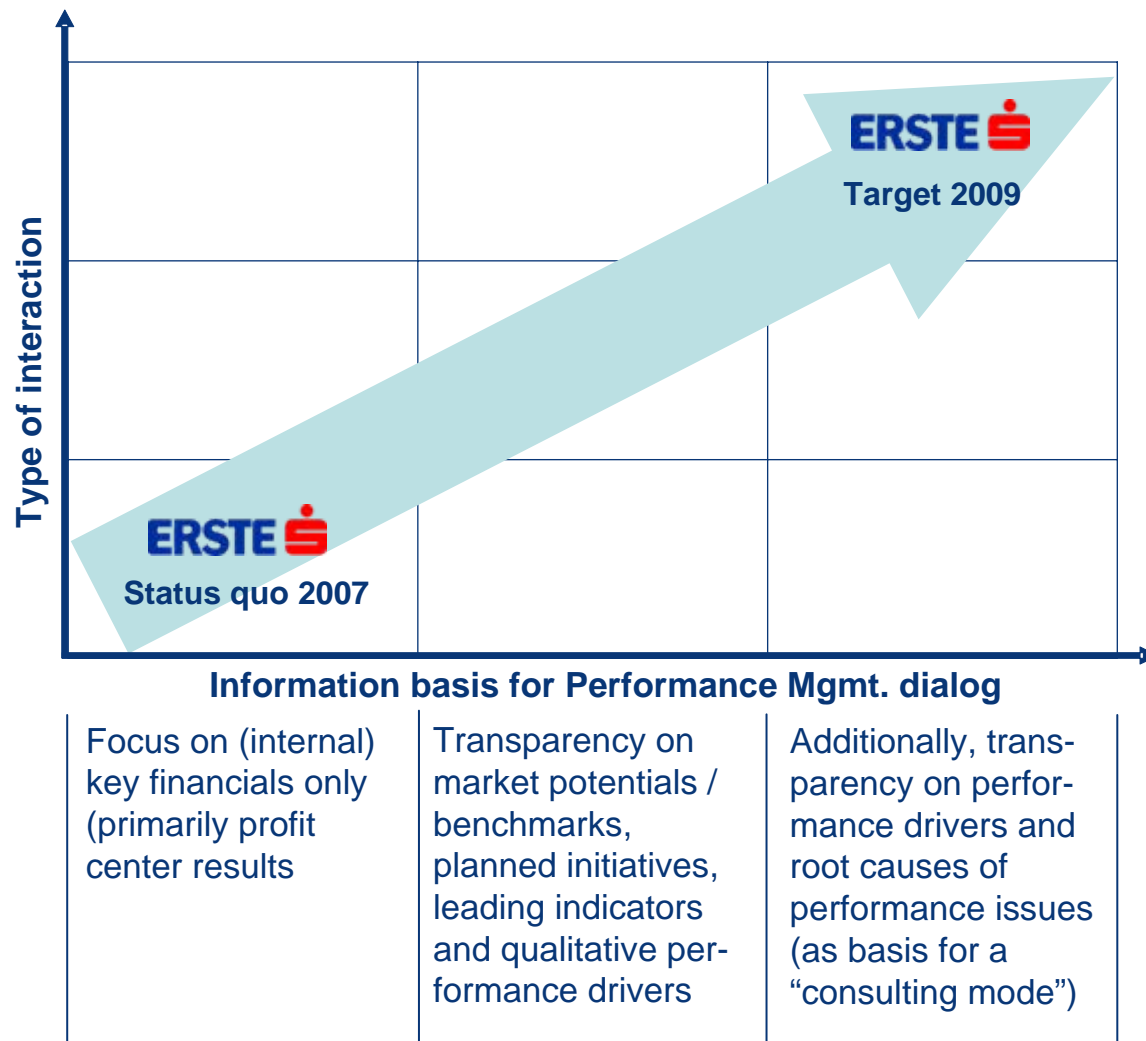
# Business Performance Management

## Targeted approach requires system upgrade

Shift of mindsets towards a trust-based, joint exploration of business potentials

Phased process with focused problem-solving sessions substantiated with a shared information basis

Bilateral bargaining process with focus on objectives and target outcomes with diverging interests and information basis



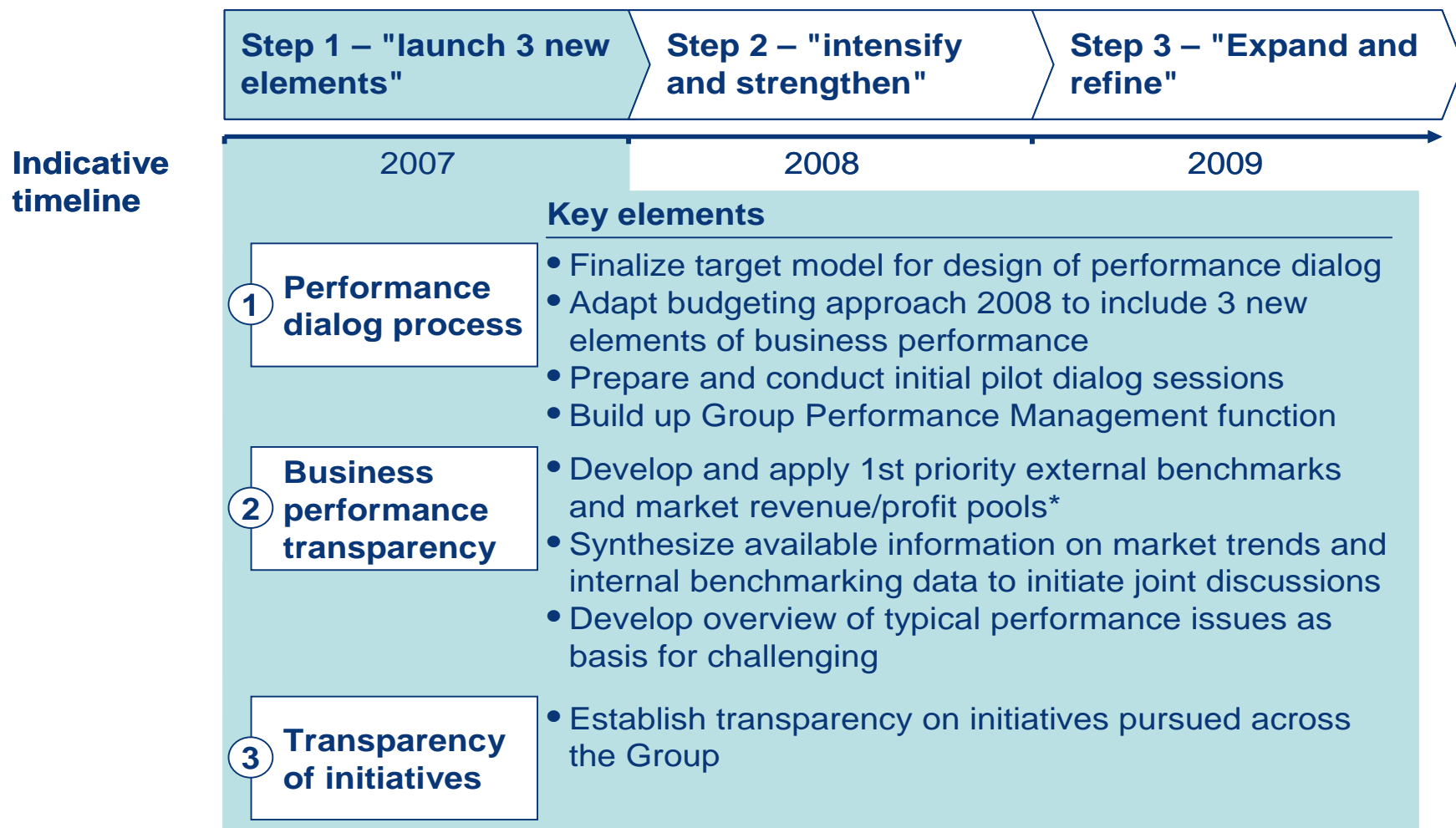
# Business Performance Management

## Moving to a more transparent measurement system

	From	To
<b>Focus</b>	Financial Indicators	Financial Indicators and business-oriented KPIs supported by Group Performance Model (GPM)
<b>Budget derivation</b>	Based on individual local assumptions and strategies	Trackable harmonised market assumptions, strategies, value drivers and initiatives
<b>Timeframe</b>	Annual Financial Budgets	3 year mid-term plan continuously reviewed against 6 quarter rolling forecast
<b>Negotiation process</b>	Focused on individual financial targets based on non-harmonised information basis	Transparent performance-focused dialogue to ensure fairness
<b>Determination of targets</b>	Negotiating skills as important determinant of individual target	Market potentials and strategies as main determinant of individual targets

# Business Performance Management

## Phased introduction of new approach

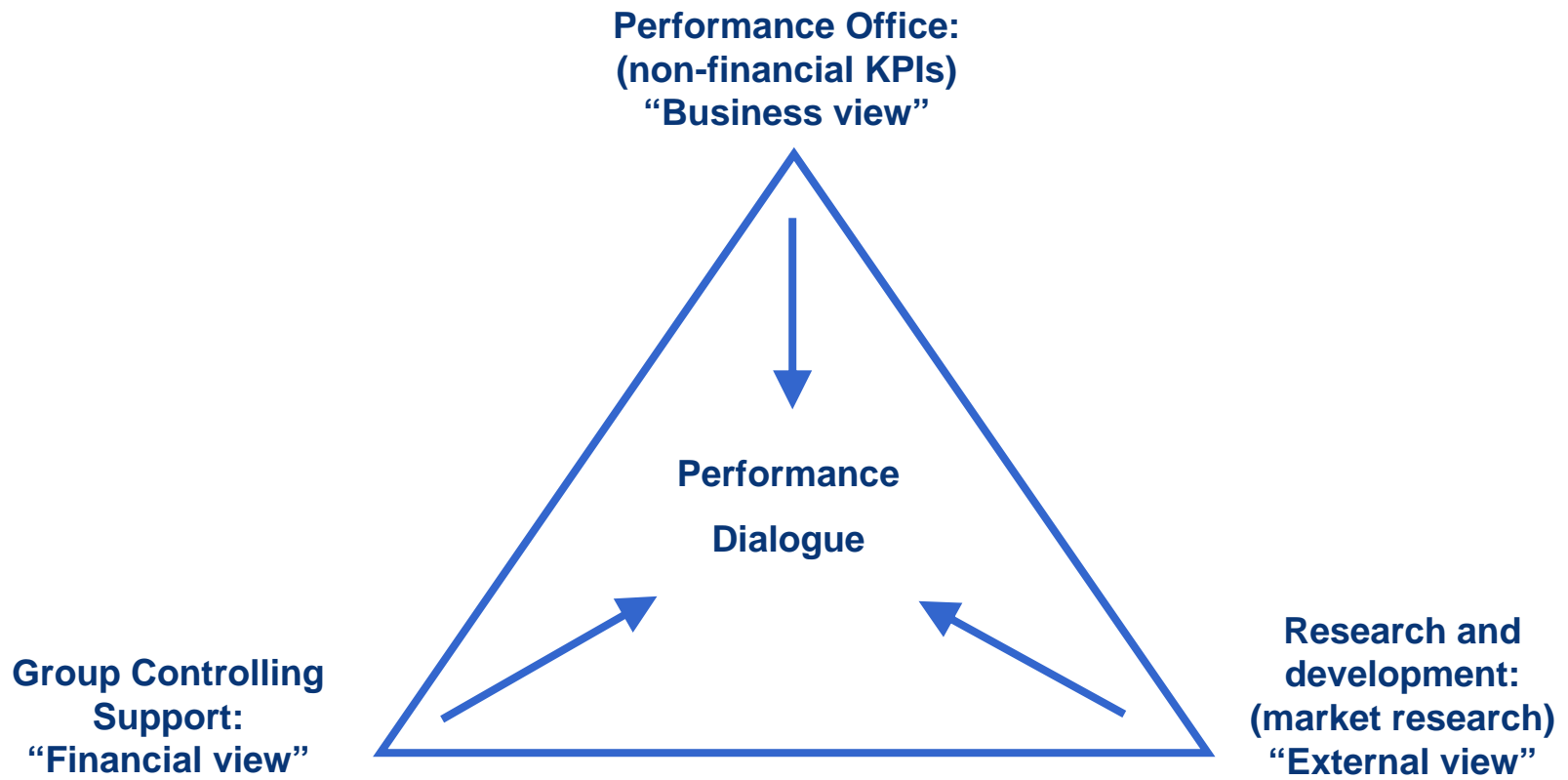


\* E.g., wealth creation, transactions (including C/A deposits), mortgages

# Business Performance Management

## Continuous dialog focusing on 3 key areas

- Ongoing business level communication is supported by regular dialogue with Top Management



# Business Performance Management

## Annual Performance Dialog Cycle

Annual cycle	Business performance	People performance	performance
First Quarter Dialog (February)	<ul style="list-style-type: none"> <li>• Business performance review, development opportunities, and revised forecast</li> <li>• Focus on review of year-end business results</li> </ul>	<ul style="list-style-type: none"> <li>• Annual people performance review</li> <li>• Development plan</li> </ul>	<div> <div>Separate 1-on-1 sessions</div> <div> <ul style="list-style-type: none"> <li>• Year-end review of individual &amp; leadership performance</li> </ul> </div> </div>
Second Quarter Dialog (May)	<ul style="list-style-type: none"> <li>• Business performance review, development opportunities, and revised forecast</li> <li>• Add-on topic: Alignment of strategic priorities and initiatives between Group &amp; local bank/division</li> </ul>		
Business Target-setting Dialog (September)	<ul style="list-style-type: none"> <li>• Business performance review, development opportunities, and revised forecast</li> <li>• Add-on topic: In-depth discussion about business targets and initiative portfolio considering, e.g., market trends, benchmarks and non-financial indicators</li> </ul>	<ul style="list-style-type: none"> <li>• Interim people performance review</li> <li>• Development plan</li> </ul>	<div> <ul style="list-style-type: none"> <li>• Interim review of individual &amp; leadership performance</li> <li>• Individual development plan</li> </ul> </div>
Fourth Quarter Dialog (November)	<ul style="list-style-type: none"> <li>• Business performance review, development opportunities, and revised forecast</li> <li>• Add-on topic: Finalization/ validation of agreed business targets</li> </ul>	<ul style="list-style-type: none"> <li>• Specification of HR resource requirements</li> </ul>	



# Business Performance Management

## Types of Key Performance Indicators (KPIs)

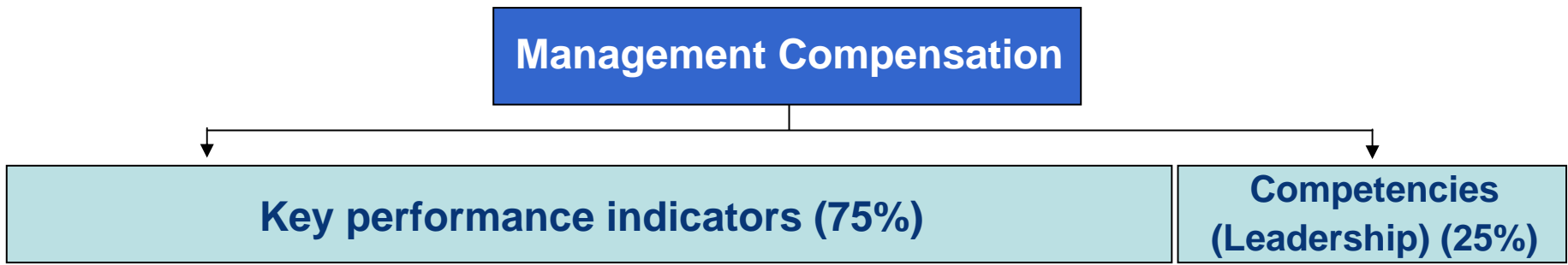
KPI type	Example	Defined by	Characteristics
Headline KPIs	Group ROE; CIR	Board, IR	Accounting measures; group-wide; market (analyst, investor) focus
Compensation KPIs	delta EVA; Market share	Board	Set appropriate, value-oriented incentives, covers responsibility
Result indicators	Contribution margin; revenues per customer	Board, GPM	Financials by business area (profit centre, customer product...)
Business-specific indicators	Cross selling ratio Products sold per account mgr per day	Business line managers	Forward-looking, sales oriented, business model-dependent

– **Result and business-specific indicators:**

- Key Performance Indicators: 5 – 10 indicators with Top Management focus, used in standard reporting
- Performance Indicators: Other indicators used internally to enhance detail, not part of standard reporting

– **Headline and Compensation KPIs are a subset of internally used result and business-specific KPIs**

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- **Performance management for leadership positions in**
  - Group Holding
  - Local Banks
  - Business divisions
- **Linking business performance and leadership performance into one model and under one process**
- **Process definition from performance planning to consequence management**
  - Full alignment with the budgeting process

# Business Performance-Related Compensation

## A strong incentive for value creation

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### – Measurement

- EVA is the main business KPI used for measuring groupwide, local and divisional profitability (replaces RoE)
- Supported by business-specific KPIs which focus on individual strategic targets by country and board responsibilities

### – Methodology

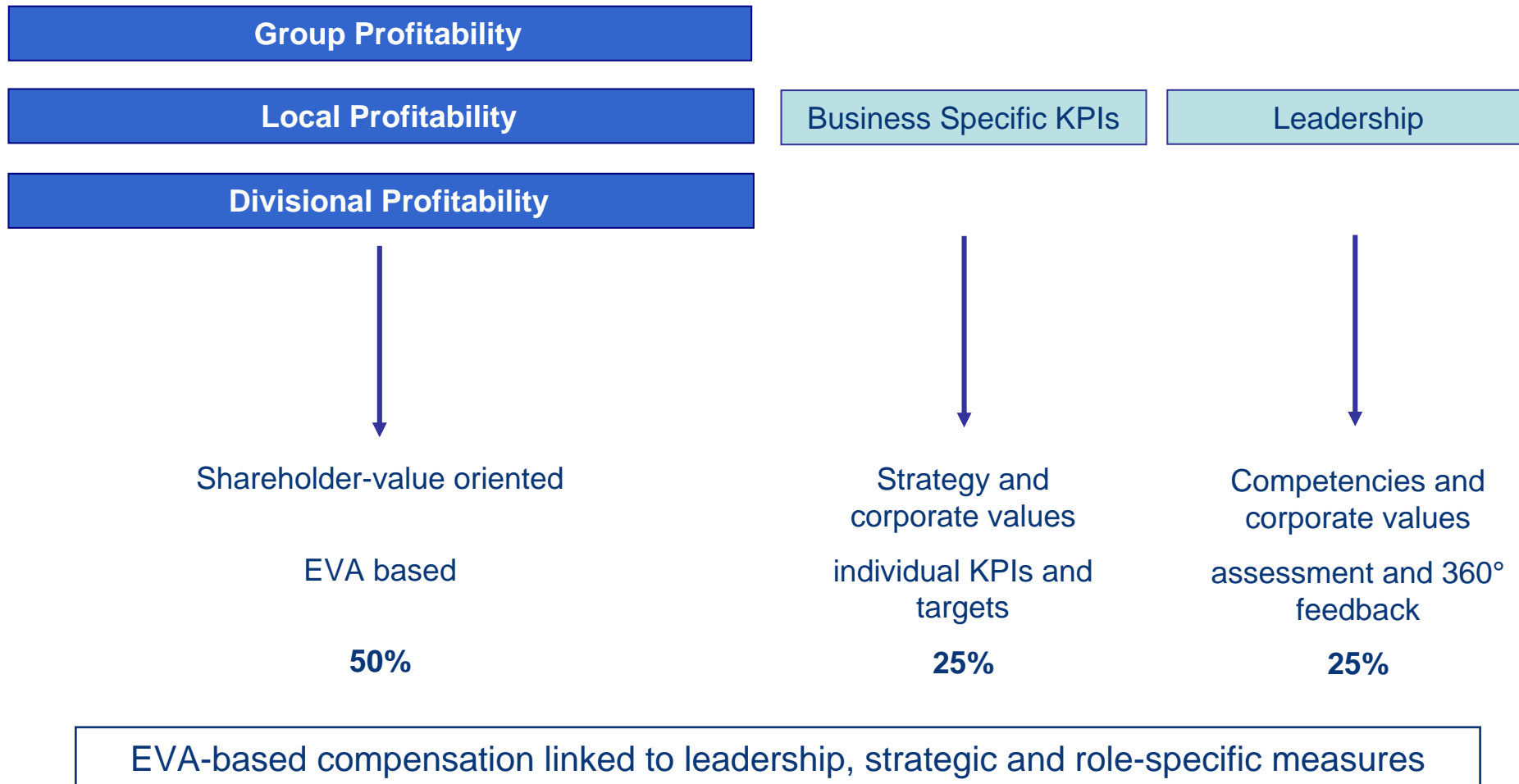
- EVA methodology based on group performance model and systems
- Consistent with external segment reporting (ie capital allocation)

### – Compensation basis

- Change of KPIs (ie delta EVA) instead of absolute figures
- Value driver matrix used to commute KPIs to lower managerial levels

# Components of variable compensation

## Promoting corporate values as well as performance



# Indicative scheme of compensation weights

## For illustration purposes only

	Long term incentive	EVA			Business specific						Leadership
	Group TSR	Group	Local	Division	Risk adj Revenue growth	#Customers* Cross Selling Ratio	Market share	NPL/TL	CIR	Efficiency	Competencies
<b>Holding Board</b>											
Group CEO	Yes	50%							25%		25%
Group CFO	Yes	50%							25%		25%
Group CRO	No	50%						25%			25%
Group COO	No	50%								25%	25%
Group GCIB	No	25%		25%	25%						25%
Group GCM	No	25%		25%	25%						25%
<b>Local Boards</b>											
Local CEO	No	25%	25%						25%		25%
Local CFO	No	25%	25%						25%		25%
Local Retail	No	10%	20%	20%		15%	10%				25%
Local Corporate	No	10%	20%	20%	25%						25%
Local COO	No	25%	25%							25%	25%
Local CRO	No	25%	25%					25%			25%
Local GCIB	No	10%	20%	20%	25%						25%
Local GCM	No	10%	20%	20%	25%						25%

 Group level KPI  Local level KPI

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- **Holistic approach to performance monitoring and incentivisation**
  - **Central analysis of financial, business and market intelligence**
  - **Generate actionable performance indicators**
  - **Encourage dynamic performance culture**
  - **Combine management of business performance management and people performance (leadership)**
  - **Result: optimise the business performance and develop additional business potentials**