

**Remuneration policy  
of the management board  
and supervisory board of  
Erste Group Bank AG**

**ERSTE**   
Group

# Why do we present this remuneration policy to our shareholders?

Effective and sustainable engagement of shareholders is one of the cornerstones of the corporate governance model of listed companies. Erste Group Bank AG is committed to this principle.

The remuneration of management and supervisory board members was already previously described in detail in Erste Group Bank AG's annual corporate governance report and the disclosure pursuant to Art. 450 CRR (Capital Requirements Regulation). The amendments to Aktiengesetz (Austrian Stock Corporation Act) resulting from the Directive (EU) 2017/828 (Shareholders Rights Directive II) increased the requirements regarding the transparency of reports and possibilities of shareholder engagement. Particularly, the current provision establishes that the annual general meeting of listed companies should vote on the remuneration policy for the management board and the supervisory board at least every four years, as well as on any significant change in this policy.

By submitting this remuneration policy to the annual general meeting, Erste Group Bank AG is seeking to meet these increased requirements. The aim is to provide shareholders with a clear and understandable insight into the principles that govern the remuneration of members of Erste Group Bank AG's management board and supervisory board for their service. The remuneration policy presented is valid until further notice and, after first presentation at the Annual General Meeting 2020, it will be put to the vote at the annual general meeting at least every fourth subsequent financial year thereafter, as well as for each material change, in accordance with sec. 78b in conjunction with sec. 98a Austrian Stock Corporation Act (AktG).

The supervisory board proposes to adopt the remuneration policy presented.



## Remuneration policy:

The remuneration policy describes the various fixed and variable remuneration components that can be granted to the members of the management and supervisory board.



## Remuneration report:

The remuneration report provides a detailed and comprehensive overview of the remuneration granted to the members of the management and supervisory board over the course of the past financial year.

The remuneration report will be presented to the annual general meeting for the first time in 2021. Until then, this data will be contained in the corporate governance report.

# Remuneration policy for management board members of Erste Group Bank AG

## Principles

The members of the management board are motivated by the principles established in this remuneration policy to reach the objectives established in the Statement of Purpose and in the Erste Group Bank AG strategy to promote a sustainable and positive corporate development. The remuneration policy does not encourage the assumption of risks beyond the limits set by the credit institution. Therefore, the remuneration system for the members of the management board described in this remuneration policy makes a sustainable contribution to the promotion of the Erste Group Bank AG business strategy.

The design of the remuneration policy and the decisions related to the structure and amount of the remuneration of management board members are the responsibility of the supervisory board and are taken in accordance with the principles shown in the adjacent graphic.

The aim of the remuneration policy is to offer the members of the management board a remuneration package within the legal framework that is in line with the market and able to hold its own in terms of competition at the same time, in order to attract the best internationally available candidates for a management board position in Erste Group Bank AG. The design of the remuneration policy for management board members is clear and comprehensible and in accordance with the provisions of the Austrian Stock Corporation Act (AktG) as well as all binding regulations at both national and EU level.

| Remuneration principles                |  |
|--|--|
| <b>Adequate remuneration</b>           | Remuneration of management board members should match market salary trends and be competitive compared to national and international credit institutions similar in type and size. |
| <b>Performance-linked remuneration</b> | Exceptional achievements and accomplishments should be adequately compensated. The extent to which the targets were reached should be reflected in the variable remuneration.      |
| <b>Long-term remuneration</b>          | A substantial portion of the variable remuneration component is deferred. This promotes the sustainable business strategy and long-term development of Erste Group Bank AG.        |

## Structure of the remuneration of management board members

The remuneration of management board members of Erste Group Bank AG consists of two components:

- > fixed remuneration
- > variable remuneration

While fixed remuneration is not linked to performance, variable remuneration is designed to create suitable incentives for the achievement of key corporate targets and the sustainable creation of value. Remuneration is always fixed or variable.

Among other things, the fixed, non-performance-linked remuneration includes the base salary, the contributions to the company pension plan (pension fund), insurance benefits and other fringe benefits. The variable portion

of remuneration is granted exclusively on a performance-linked basis and is composed of cash payments and non-cash-remunerations in the form of phantom shares.

| Remuneration components      |   |                |   |                |
|------------------------------|---|----------------|---|----------------|
| <b>Fixed remuneration</b>    | = | Base salary    | + | Pension plan   |
|                              |   |                | + | D&O insurance  |
|                              |   |                | + | Other benefits |
| <b>Variable remuneration</b> | = | Cash payments  |   |                |
|                              |   | Phantom shares |   |                |

# Fixed remuneration

Fixed remuneration is based on each board member's scope of responsibility taking into account strategic and operating functions and promotes the collaboration within the board. Fixed remuneration is not performance-linked and includes the base salary and other remuneration. With regard to fixed remuneration, it shall be in line with the market and able to hold its own in terms of competition at the same time.

## Base salary

Every management board member receives a base salary including two special payments (holiday and Christmas remuneration).

## Other remuneration

### Contributions to the company pension plan (pension fund) and severance fund

All management board member contracts provide for a defined external contribution pension plan. All management board members participate in the defined contribution pension plan and severance fund according to the same principles as other employees of the company.

## D&O insurance

Erste Group Bank AG has a Directors and Officers Liability Insurance in place. It covers all former, current and future management board members.

## Non-cash compensation and other compensation

In addition, Erste Group Bank AG has taken out insurance to cover the risk of occupational disability and death as well as insurance to cover the risk of accidents on behalf of management board members or of beneficiaries specified by the respective management board member. The premiums due for this must be paid by the company. Other compensation can also include, for instance, payments for unused holidays, non-performance-linked one-time payments (signing bonus) and additional non-cash compensation granted by the company, such as the provision of a company car including driver and parking spot, etc.

# Variable remuneration

Any remuneration not included in fixed remuneration is considered variable remuneration. Aggregate variable remuneration is granted on a performance-linked basis. This means that award and payment of the variable remuneration are tied to specific verifiable performance criteria that are coordinated with Erste Group Bank AG's business strategy and long-term development. Both targets on a group and individual institution level that are relevant for a possible payment and individual targets, which, in particular, influence the amount of the variable remuneration, are taken into account.

Variable remuneration is paid based on targets established by the supervisory board at the beginning of each financial year. In this context, the overall assessment considers

individual operational and/or strategic targets as well as the assessment of leadership performance by the supervisory board. The consideration of financial and non-financial targets ensures that the individual targets are in accordance with long-term and sustainable corporate success. Variable remuneration is conclusively determined by the supervisory board after prior discussion and recommendation by the remuneration committee.

In order to determine the payable bonus amount, the respective bonus potential for each member of the management board is multiplied by the percentage of target achievement at group or individual institution level as well as at individual level and, if necessary, adjusted by the supervisory board:



## Bonus potential

The respective management board member's base salary is used as a basis for the maximum target amount of the level of variable remuneration.

## Minimum performance criteria

The first criteria for the calculation of variable remuneration is the success of Erste Group as a whole. The fulfilment of group and individual-institution-related minimum performance criteria is the basic prerequisite for the granting of variable remuneration. If these are not achieved, the management board is not paid any variable remuneration. Target achievement can be determined, for instance, using the following indicators: fulfilment of capital and liquidity requirements, profit, operating result minus risk costs, cost-income ratio and customer experience.

## Bonus pool multiplier

Based on achievement of the minimum performance criteria, a multiplication factor is determined using weighted, business-related key performance indicators, which reflects the achievement of targets by the group management board at group or individual institution level. This factor amounts to 0.25 to 1.2 and is subsequently multiplied by the target amount and the individual target achievement rate.

## Key performance indicators (KPIs)

Individual target achievement takes into account strategic and/or operational targets that are coordinated with the Erste Group Bank AG business strategy and that are defined annually by the supervisory board in advance for each financial year (as is shown in an exemplary performance scorecard shown hereinafter). Depending on the individual management board member's area of responsibility, differently weighted targets are defined as shown in the exemplary performance scorecard shown hereinafter.

## Leadership performance

The leadership performance of the respective management board member is also taken into account for calculation of the individual target achievement rate. Leadership performance is assessed by the supervisory board annually considering non-financial performance targets, more particularly criteria relating to the sustainable corporate governance and corporate social responsibility (ESG-criteria) of Erste Group Bank AG.

## Adjustment by the supervisory board

The bonus amount due is conclusively determined by the supervisory board with the involvement of the remuneration committee.

## Bonus-cap

Variable remuneration must not exceed the amount of fixed remuneration (100% bonus cap). By resolution of the shareholders on the increase of variable remuneration pursuant to no. 8b of the Annex to sec. 39b Austrian Banking Act (BWG), this maximum amount (100% bonus cap) can be set at a maximum of twice the fixed remuneration (200% bonus cap).



### What do we understand by environmental, social and governance (ESG) criteria?

ESG-criteria include the areas of environment, social responsibility and sustainable corporate governance. These areas are in particular considered for the assessment of the fulfilment of non-financial performance criteria within the assessment of leadership performance, promoting the long-term development of the bank as part of the sustainable business strategy of Erste Group.

Our understanding of sustainability corresponds to the definition developed by the "UN Brundtland Commission (1987)": Sustainable development is the kind of development that meets the needs of the present without compromising the ability of future generations to meet their own needs! This principle is an indispensable criterion for assessing leadership performance.

## Performance scorecard for individual targets

| Operational KPIs   | Strategic KPIs   | Leadership performance  |
|--|--|---|
| <p>Operational performance targets are defined at the beginning of the year by the supervisory board following consultations with the responsible organisational units. Target achievement is measured among other things by reference to the following indicators (depending on board division):</p> <ul style="list-style-type: none"> <li>· Operational result</li> <li>· ROTE</li> <li>· Data management</li> <li>· NPL ratio<sup>1</sup></li> <li>· Risk costs<sup>1</sup></li> </ul> | <p>Strategic performance targets are defined in accordance with the business strategy of Erste Group Bank AG by the supervisory board for each management board member individually. Among other things they consist of KPIs taking into account following criteria:</p> <ul style="list-style-type: none"> <li>· Transformation</li> <li>· Digitalisation</li> <li>· Sustainability (ESG)</li> <li>· as well as project-specific targets<sup>2</sup></li> </ul> | <p>As part of the leadership performance the management quality of each individual management board member is evaluated annually by the remuneration committee taking into account ESG-criteria. The final individual performance achievement is then determined by the supervisory board. ESG-Performance is evaluated taking into account, in particular, these criteria:</p> <ul style="list-style-type: none"> <li>· Diversity</li> <li>· Environment</li> <li>· Social responsibility</li> </ul> |

<sup>1</sup> Key risk figures are especially considered in the performance targets for the Chief Risk Officer guaranteeing an adequate consideration of each specific board division within the framework of individual KPIs.

<sup>2</sup> In order to ensure a sustainable target achievement, annual targets are derived from multiannual projects.

## Payment of variable remuneration

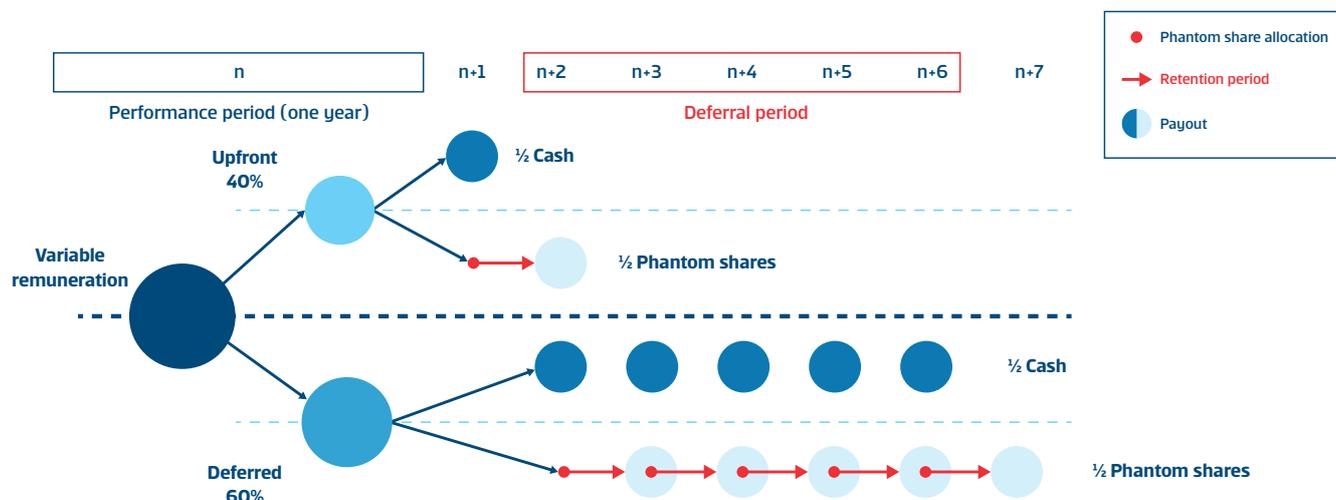
Variable remuneration is effected in part as an upfront remuneration and in part, spread over several years, as a deferred remuneration. The upfront remuneration and the deferred remuneration shall each be effected at least in half in the form of a non-cash instrument in accordance with no. 11 of the Annex to sec. 39b Austrian Banking Act (BWG), the other part in cash.

### Variable remuneration system with phantom shares

Erste Group Bank AG uses phantom shares as non-cash instruments. Phantom shares are not shares traded on the stock exchange, instead they are a unit of measure that reflects the development of Erste Group Bank AG's share prices. In this context, the non-cash amount awarded for the past performance period is converted into shares.

If variable remuneration for the performance period exceeds 100% of the fixed annual salary or EUR 150,000 gross and if the conditions for the award of variable remuneration have been met, 40% of the variable remuneration will be paid in succession in the first two years following the performance period (upfront payment): the cash payment in the amount of 20% of aggregate variable remuneration immediately in the following year (1st subsequent year), the non-cash portion in the amount of likewise 20% one year later. The remaining 60% of the variable remuneration is deferred and paid pro rata over a period of 5 years, starting from the 2nd subsequent year – provided the requirements are met. The non-cash portion of the deferred payment is distributed over the deferral period, taking the holding period into account, and its ad valorem equivalent is paid out in the subsequent years in accordance with the future annual average weighted current rate.

# Payment of variable remuneration



The upfront payment and the deferred payment has to each show a balance of at least 50% of non-cash instruments (phantom shares) in accordance with no. 11 of the Annex to sec. 39b Austrian Banking Act (BWG).

## Malus and clawbacks

In any case, variable remuneration is granted only if it is justified based on the financial situation of Erste Group Bank AG and the documented performance and conduct of the relevant management board member.

If this is not the case, variable remuneration will not be awarded or only to a limited extent (malus). Up to 100% of aggregate variable remuneration may be subject to malus or clawback agreements. Specifically, malus or clawback agreements may apply if the relevant management board member was involved in or responsible for conduct that resulted in substantial losses for the institution or failed to meet reasonable "fit & proper" standards with regard to aptitude and conduct.

In proven cases of misconduct or a serious violation of duties by the management board member, Erste Group Bank AG may reclaim any variable remuneration that was paid out within the previous five years and may retain any deferred variable remuneration (clawback).

Identification of such misconduct and reclaiming or reducing remuneration, if appropriate, is the responsibility of the supervisory board. Regardless of any misconduct on the part of a management board member, Erste Group Bank AG reserves the right of not awarding any variable remuneration.

## Procedure for the determination of the remuneration policy



## Procedure

The remuneration committee prepares a recommendation to the supervisory board for the determination of the remuneration policy for the management board and supervisory board in accordance with the requirements of sec. 78a in conjunction with sec. 98a of the Austrian Stock Corporation Act (AktG). The supervisory board then determines the remuneration policy for the management board and supervisory board by adopting it.

The remuneration policy is put to the vote at the annual general meeting at least every fourth financial year following initial announcement and in the event of any significant change in accordance with sec. 78b in conjunction with sec. 98a of the Austrian Stock Corporation Act (AktG). The remuneration policy, especially the determination of the remuneration for the management board, is implemented in accordance with statutory requirements. The remuneration for the supervisory board is determined by the annual general meeting.

Reviewing the remuneration policies for the management board and the supervisory board is the responsibility of the supervisory board, with the support of the remuneration committee or another one of its committees, if expedient. All significant amendments to the remuneration policy are described and explained by the supervisory board, indicating how shareholders' votes and views on the remuneration policy and the remuneration reports have been taken into account since the last vote on the remuneration policy was taken at the annual general meeting.

### Derogation from the remuneration policy in the event of exceptional circumstances

Erste Group Bank AG reserves the right to derogate from the principles governing the determination of variable remuneration as laid down in the remuneration policy in the event of exceptional circumstances.

An exceptional circumstance is any external event that necessitates a derogation from the remuneration policy to serve the overall long-term interests and sustainability of Erste Group Bank AG and protect the company's profitability. This includes corporate crises that endanger Erste Group Bank AG's financial and operating results in such a way that the company's long-term stability can no longer be guaranteed, general economic crises and other unpredictable developments such as pandemics and epidemics, which probably have a major impact on the business activity of the company. Recommendations, guidelines and other provisions of the competent supervisory authorities of the company as well as binding regulations at both EU and national level, which were unknown at the time of the vote on this remuneration policy at the annual general assembly, are also classified as exceptional circumstances. Exceptional circumstances can lead to a significant reduction of the maximum target amount of the variable remuneration, longer deferral and/or retention periods or to a change in the proportion of the non-cash instruments in relation to the cash component. Taking the decision on a derogation from the remuneration policy is the responsibility of the supervisory board, with the support of the remuneration committee or another one of its committees, if expedient. Any such derogation from the remuneration policy shall be reported in the annual remuneration report to the annual general meeting.

### Consideration of employee remuneration terms when setting the remuneration policy

The remuneration and employment terms of Erste Group Bank AG employees have to be duly considered in setting the remuneration policy. Meeting this objective is the responsibility of the supervisory board, which is also reflected by the inclusion of employees' representatives in the work of the supervisory board and, in particular, the remuneration committee.

## Role of the remuneration committee

In accordance with statutory requirements, the supervisory board of Erste Group Bank AG has established a remuneration committee which prepares the resolutions of the supervisory board regarding remuneration. As part of the creation of the remuneration policy for the management board and the supervisory board, this policy is discussed in detail in the remuneration committee and a recommendation to the supervisory board is adopted for approval.

The remuneration committee consists of members of the supervisory board, with at least one member having expertise and practical experience in the field of remuneration policy ("remuneration expert"). If necessary, the remuneration committee can consult external consultants.

The remuneration committee also approves the general principles of the internal remuneration policy, reviews them regularly and is responsible for their implementation.

It is a stated objective of Erste Bank Group AG to take into account in its remuneration policy for the management board and the supervisory board the long-term interests of shareholders, investors and employees as well as the economic interest in a functioning banking system and financial stability.

## Measures to avoid conflicts of interest

The handling of potential conflicts of interest of management and supervisory board members is stipulated in the internal suitability policy (fit & proper guideline) of Erste Group Bank AG. This also includes the handling of possible conflicts of interests which may arise in connection with the remuneration of the management and supervisory board.



# Management board contracts

## Duration

Management board member contracts are usually agreed for a duration of 3 to 5 years. In special cases, durations may also be shorter. An extension of management board member contracts shall be decided on by the supervisory board usually not later than 6 months before their expiry.

## Notice periods

All management board member contracts can be terminated by giving 6 months advance notice at the end of a month.

## Pension systems and early retirement scheme

All management board member contracts provide for a defined external contribution pension plan, supplemented by insurance covering the risk of occupational disability and death as well as insurance covering the risk of accidents.

## Termination payments and terms

On termination of employment, remuneration will continue to be paid during the notice period and, further, until the

end of the residual duration of the original appointment, but not exceeding the amount of one gross annual salary (without variable remuneration).

## Non-competition clause

During the contractual relationship, the company's prior written consent is required for the performance of any other gainful activity or any activity which, by its nature and scope, is usually remunerated, as well as for a participation in other companies (exceptions are regulated in an internal policy). In addition, for a period of up to one year from the end of the management board contract, an obligation applies not to work for any other credit institution – without the approval of the supervisory board – in Austria or in countries where credit and/or financial institutions are established in which Erste Group Bank AG directly or indirectly holds a majority interest at the time this management board member's contract ends.

## Activities and board functions in related companies

Management board members are not entitled to separate compensation for activities and board functions in related companies.

# Remuneration policy for supervisory board members of Erste Group Bank AG

In accordance with the law, the company's articles of association may lay down supervisory board remuneration or define a range which the annual general meeting is bound to observe. Erste Group Bank AG currently does not use this option, as a result of which supervisory board remuneration is determined exclusively by Erste Group Bank AG's annual general meeting.

In May 2018, the annual general meeting of Erste Group Bank AG granted the members of the supervisory board fixed annual remuneration for the financial year 2017 and subsequent years. The supervisory board's fixed remuneration is specified as follows:

Ordinary supervisory board members currently receive a fixed annual (gross) remuneration of EUR 60,000, the supervisory board chair of EUR 150,000, the first vice chairman of EUR 90,000, the second vice chairman of EUR 80,000, the chairman of the risk-, audit- and IT committee of EUR 10,000 each and the chairman of the remuneration- and nomination committee of EUR 5,000 each.

Remuneration for a financial year is paid to a supervisory board member after the annual general meeting granting the member's discharge for the financial year for which remuneration is to be granted. In the event of a change in the supervisory board during the financial year, remuneration is paid to the supervisory board member affected by the change proportionally (based on the duration of service on the supervisory board) in arrears, after the member's discharge.

The employee representatives on the supervisory board perform their functions in an honorary capacity and receive no remuneration for their work. Erste Group Bank AG does not currently provide for the variable remuneration of members of the supervisory board.

## Attendance fees

In addition, attendance fees paid to the members of the supervisory board were set at EUR 1,000 per meeting of the supervisory board or one of its committees until further notice. Attendance fees are paid quarterly in arrears.

## Other remuneration

Erste Group Bank AG reimburses supervisory board members for cash outlays and travel expenses incurred in exercising their supervisory board functions plus any turnover tax due on remuneration, attendance fees and reimbursed expenses.

|  |   |
|--|---|
|   | Chairman of the supervisory board<br>€ 150,000                    |
|   | 1. vice chairman of the supervisory board<br>€ 90,000             |
|   | 2. vice chairman of the supervisory board<br>€ 80,000             |
|   | Ordinary member of the supervisory board<br>€ 60,000              |
|   | Chairman of the risk-, audit- and IT committee<br>€ 10,000        |
|  | Chairman of the remuneration- and nomination committee<br>€ 5,000 |

In addition, supervisory board members are reimbursed for their expenses for education and trainings incurred in exercising their function. If required, the management board vehicle fleet (including driver) is available to the supervisory board members in connection with their duties. Erste Group Bank AG has directors' and officers' liability insurance for all members of the supervisory board covering their service as members of the supervisory board of Erste Group Bank AG with premiums paid by the company.

## Duration and termination of supervisory board mandates

Unless the shareholders' meeting has determined a shorter term of office for individual, several or all supervisory board members at the occasion of their appointment, the term of office of the members of the supervisory board shall end at the end of the shareholders' meeting which resolves on the approvals of their actions for the fourth business year following the election; a re-election shall be admissible.