

**Disclosure pursuant to article 450  
Capital Requirements Regulations**  
as of 31 December 2014

## Extensive presence in Central and Eastern Europe



■ Core markets of Erste Group  
□ Indirect presence in CEE

# Disclosure of information on remuneration policy and practices at Erste Group Bank AG

## PRINCIPLES APPLICABLE TO THE GOVERNANCE OF REMUNERATION POLICY AND PRACTICES

DISCLOSURE REQUIREMENTS COVERED: ART. 450 (1) (a) CRR

The entire Management Board of Erste Group actively oversees the compensation system's design and operation. Experts from Group Human Resources, Group Controlling and Group Risk Management advise the Management Board regarding remuneration policies and practices.

The Remuneration Committee of the Supervisory Board is responsible for all decisions relating to remuneration policy. This includes, in particular, the design of remuneration policies and practices with a view to incorporating financial performance, risk, capital, liquidity and strategic plans into the remuneration decision-making process. The Remuneration Committee takes into account the short-term and long-term interests of shareholders, investors and other stakeholders. It reviews remuneration policy and practices regularly. Erste Group's local subsidiaries have implemented the same governance structure for remuneration policies and practices. The Remuneration Committee is advised by the external consultants Oliver Wyman and Mercer Consulting. The Remuneration Committee met four times in 2014.

## PRINCIPLES APPLICABLE TO THE PERFORMANCE-LINKED COMPONENTS OF REMUNERATION

DISCLOSURE REQUIREMENTS COVERED: ART. 450 (1) (b) (c) (d) (e) (f) CRR

All employees' fixed salary components represent a sufficiently high proportion of the total remuneration to allow for financial independence of variable pay on an individual level. The total remuneration (fixed and variable) is balanced so as to give due consideration to sustainability (i.e. "help employees – and customers – reach prosperity and financial independence") and discourage excessive risk-taking. The variable remuneration component therefore constitutes at most a balanced proportion of total remuneration of an employee. For the year 2014, the applicable ratio of variable to fixed pay was capped at 100% of the fixed pay for material risk-takers and regular employees.

The performance-linked components of remuneration serve both the short-term and long-term interests of Erste Group Bank and help avoid excessive risk-taking behavior. The performance-linked components consider:

- \_ the performance of the individual,
- \_ the performance of the business unit (department/division/entity), and
- \_ the results (capital, liquidity, profitability and strategic achievements) of the respective company.

The size of the bonus pool is calculated based on bonus potentials applicable to the various staff categories. Bonus potentials are either a fixed amount or a percentage related to the base salary (not the fixed salary).

The bonus potential is at maximum of 100% of the base salary. The bonus pool is adjusted based on the performance on the institution and the performance of the division. The individual bonus is linked to individual performance. The sum of individual bonuses is capped by the size of the bonus pool after the malus adjustments.

The bonus pool was on company and/or profit-center level in 2014. In general, the bonus pool is calculated ex-ante and ex-post based on the following indicators:

- \_ Net profit or economic value added or operating result;
- \_ Capital adequacy and/or liquidity ratios; and
- \_ Fulfillment of the annual strategy objectives according to the strategy review dialogues.

The performance-linked payments are limited to 100% of the gross annual fixed salary for all employees, including material risk-takers and the members of the Management Board of Erste Group Bank.

The remuneration system consists of three components

- 1) fixed pay: base salary, overtime, allowances, pension contributions
- 2) Variable pay (there is no long-term incentive scheme in place): annual incentive scheme, retail commission-based scheme
- 3) Fringe benefits: examples: holidays, company car, housing allowance, expatriate allowance.

The bonus potential is based on the base salary. The key performance scorecards (KPI) of employees contain qualitative and/or quantitative objectives. A minimum of 25% of qualitative objectives is required. On average 60% to 70% of objectives are qualitative. The KPI scorecards for the top management are a balance mix of financial, risk-related, business-specific, customer and leadership objectives. At year-end, the top management's performance is assessed by a multi-source feedback evaluation process.

The criteria for the performance-linked components for the financial year 2014 for the Management Board of Erste Group Bank were: Group operating result, Group Common Equity Tier 1 ratio, Group NPL ratio, Group NPL coverage ratio, Group NPL stock, customer experience index and leadership.

The criteria for the performance-linked components for the financial year 2014 for the Management Board of CEE banks are: economic value added, divisional operating result, divisional lending growth, NPL ratio, NPL coverage ratio, NPL stock, cost/income ratio, customer experience index, leadership and other individual business-specific key performance indicators. The leadership component is evaluated based on several leadership criteria.

The payout of the performance-linked components is contingent on minimum profitability and performance objectives that represent the success of the bank and provide risk-balanced guidance for the Management Board and senior management staff.

For the material risk-takers, the payout of the performance-linked compensation components depends on the achievement of minimum profitability criteria as approved by the Supervisory Board. Each CEE bank or significant financial services subsidiary has defined minimum profitability criteria, which meet local legal CRD IV requirements and are aligned to the long-term interests of the bank as well as of Erste Group. For 2014 this meant that about 2.4% (for 2013: 1.3%) of the entire population of Erste Group were identified as material risk-takers.

The minimum profitability criteria for Erste Group Bank AG are:

- \_ Achieving the specified threshold levels for the group operating result and the solvency ratio (based on Basel III, JRAD);

The payout of performance-linked components for material risk-takers is based on 40% to 60% upfront and 40% to 60% deferred amounts of which 50% consists of cash and 50% of non-cash instruments. The 50% non-cash part is retained for one year in all countries with the exception of the Czech Republic with a retention period of 1.5 years. In Austria and Croatia, the deferred element is paid out over a period of five years. In the other countries, the deferred element is paid out over a period of three years, with the exception of Slovakia where the deferred bonus is paid out once after a three-year holding period. Erste Group adheres to the local rules for the payment of bonuses to risk-takers applicable in all countries. The payment of the deferred bonus depends on the achievement of minimum profitability in the respective performance year. Where legally allowed by local CRD IV legislation, the non-cash instrument applied is the phantom share based on the average weighted daily share price of Erste Group. The average weighted daily share price is calculated based on the official data published by Datastream (Thomson Reuters Corp) and the published data of the Vienna Stock Exchange. The average weighted daily share price was 22.25 EUR in 2014 (2013: 23.85 EUR).

Erste Group does not provide shares, stock options or any other instruments. For information on entitlements for variable pay, see the description above.

The following incentive schemes are applied within Erste Group:

- \_ Short-term incentive: annual (or shorter period) bonus scheme based on the annual (period-based) performance evaluation of an employee;
- \_ Commission-based incentive: typically a monthly or quarterly incentive scheme based on quantity and quality of sales, products, services and/or transactions;
- \_ Project-based incentive: incentive scheme based on special, highly complex and high-material impact projects;

- \_ Awards: incentive scheme which is based on an open participation for employees in a (cross-border) business line or function. The award is granted based on practices that support business growth or improvement and whose outcome is translated into a learning event for other employees;

Non-cash benefits are fringe benefits. None of the fringe benefits depend on performance, but are job related (e.g. company car) or applicable to all employees (e.g. holidays).

## REMUNERATION INFORMATION

### DISCLOSURE REQUIREMENTS COVERED: ART. 450 (1) (g) (h) (i) (j) and ART. 450 (2) CRR

The table below represents the quantitative information on the remuneration of employees and identified staff at Erste Group, including all companies which are part of the regulatory scope of consolidation.

The remuneration data is provided for the main categories set out below:

- \_ Members of the Supervisory Board,
- \_ Members of the Management Board,
- \_ Investment Banking (includes Corporate Finance, Private Equity, Capital Markets, Treasury),
- \_ Retail Banking (lending to private individuals and small and medium-sized companies),
- \_ Asset Management (managing of equity, bond and money market funds, or other alternative investments),
- \_ Control functions (Audit, Risk and Compliance)
- \_ Corporate support functions (a.o. Finance, Accounting, IT, HR, Legal, Marketing), and
- \_ Other (a.o. drivers).

The total remuneration is balanced in such a way so as to ensure sustainability and discourage excessive risk-taking. The fixed remuneration represents a significantly high portion of the total remuneration to allow the application of a fully flexible variable remuneration policy.

Specific data on identified staff is shown in compliance with respective remuneration policies and regulatory guidelines. The sub-item "senior management" includes those who are members of the Management Board and those employees who are directly subordinated to the Management Board or are employees who belong to a core business segment.

At Erste Group, the non-cash instruments used are the phantom shares, except for our banks in the Czech Republic and Slovakia where the non-cash instrument is a certificate. Neither identified staff nor other employees are granted equities.

The total number of the members of the supervisory boards (764) is divided into 482 external and 282 internal members. External members have no employment contract within Erste Group. They receive a fixed remuneration and/or attendance fees for participation in Supervisory Board meetings. No variable remuneration is paid. The internal members of the Supervisory Board are those who have employment contracts within Erste Group. Based on internal Erste Group guidelines, Supervisory Board members of subsidiaries of Erste Group Bank AG, including local banks are not entitled to any remuneration based on their Supervisory Board function. Their attendance fees (if any) are deducted from their total remuneration in the following year.

The total number of material risk-takers is 982 of which 58 are members of supervisory boards, 179 are members of management boards / managing directors and 393 are senior managers. The remaining 352 material risk-takers do not belong to any of these categories.

Many of the institutions have not (yet) defined the members of their supervisory boards as identified staff, which leads to a difference in the numbers of supervisory board members in Tables 1 and 2.

The details of remuneration for members of the Holding Board is disclosed in the annual report:

<http://www.erstegroup.com/en/Investors/Reports#X31363034323938343334>

Table 1: Information on remuneration for all staff

Divisions	Supervisory Function	Management Board Function	Investment Banking	Retail Banking	Asset Management	Corporate Functions	Independent Control Functions	Other	Total for all divisions
Number of employees (Headcount)	764	183	-	-	-	-	-	-	947
Total number of staff (FTE)	-	-	1,371	24,789	729	8,832	2,615	1,978	40,335
Annual net profit / loss	-	-	-	-	-	-	-	-	(1,441,993,000)
Total remuneration	1,250,244	51,798,622	75,310,909	719,165,977	47,245,604	325,739,693	120,441,176	64,636,945	1,406,783,744
hereof variable remuneration	0	7,577,316	15,275,598	70,710,315	6,057,768	25,997,573	11,131,191	4,087,556	140,938,447

Table 2: Information on remuneration for identified staff / Risk takers

Divisions	Supervisory Function	Management Board Function	Investment Banking	Retail Banking	Asset Management	Corporate Functions	Independent Control Functions	Other	Total for all divisions
Number of Identified Staff (Headcount)	58	179	-	-	-	-	-	-	237
Total number of staff (FTE)	-	-	91	234	35	199	152	34	745
hereof senior management	-	-	28	106	26	118	83	32	393

Divisions	Supervisory function	Management Board Function	Investment Banking	Retail Banking	Asset Management	Corporate Functions	Independent Control Functions	Other	Total for all divisions
Total remuneration	93,993	50,016,628	10,764,245	24,860,461	5,174,334	24,080,506	17,368,830	4,244,187	136,603,185
hereof total fixed remuneration	93,993	44,090,687	7,445,746	21,499,593	4,180,861	19,691,138	14,992,745	3,884,166	115,878,921
hereof in cash	93,993	43,229,704	7,445,746	3,318,499	4,180,861	19,601,836	14,892,432	3,562,731	114,566,178
hereof in equity (i.e. phantom shares)	0	0	0	0	0	0	0	0	0
hereof in other instruments	0	860,974	0	30,719	0	89,302	10,313	321,435	1,312,743
hereof total variable remuneration	0	5,925,950	3,318,499	3,360,868	993,473	4,389,368	2,376,085	360,021	20,724,264
hereof in cash	0	5,336,963	2,393,031	2,892,504	858,028	3,414,768	1,930,471	283,026	17,108,790
hereof in equity (i.e. phantom shares)	0	804,873	386,337	231,546	100,036	561,600	241,114	76,995	2,402,501
hereof in other instruments	0	793,237	539,131	236,817	35,409	413,000	204,500	0	2,222,094
hereof total deferred variable remuneration	0	2,511,059	1,084,762	463,658	174,857	890,859	421,530	91,762	5,638,487
hereof in cash	0	1,511,114	512,522	131,857	120,644	253,112	96,405	30,800	2,656,453
hereof in equity (i.e. phantom shares)	0	379,946	192,787	116,775	40,050	224,747	120,625	60,962	1,135,892
hereof in other instruments	0	619,999	379,452	215,027	14,164	413,000	204,500	0	1,846,142

**Table 3: Additional information on variable pay**

	Supervisory function	Management Board Function	Investment Banking	Retail Banking	Asset Management	Corporate Functions	Independent Control Functions	Other	Total for all divisions
<b>Deferred variable remuneration</b>									
Total amount of outstanding deferred variable remuneration granted in previous years	0	8,991,126	2,253,888	854,979	451,064	1,625,914	628,713	216,495	15,022,179
Reduction of deferred payments from previous years based on performance adjustments	0	160,593	26,977	6,732	4,754	31,971	12,950	0	243,976
<b>Guaranteed remuneration</b>									
Number of employees who received guaranteed variable payments (sign-on bonus)	0	0	0	0	0	0	0	3	3
Total amount of guaranteed variable payments (sign-on bonus)	0	0	0	0	0	0	0	38,989	38,989
<b>Severance payments</b>									
Number of employees who received severance payments due to (early) termination	0	1	0	1	0	0	0	2	4
Total amount of severance payments	0	347,783	0	51,642	0	0	0	112,343	511,768
Highest severance payment to a single person due to early termination	0	347,783	0	51,642	0	0	0	92,343	-
<b>High earners (employees remunerated EUR 1 million or more)</b>									
Number of employees	0	2	0						
Remuneration between EUR 1 and 1.5 million	0	2	0						
Remuneration between EUR 1.5 and 2 million	0	1	0						
Remuneration over EUR 2 million	0	0	0						

\*Other category\* includes business areas such as chauffeurs, cleaning personnel, procurement, money transport, back-office employees.