

Disclosure pursuant to article 450
Capital Requirements Regulation
as of 31 December 2015

Extensive presence in Central and Eastern Europe



Disclosure of information on remuneration policy and practices at Erste Group¹

PRINCIPLES APPLICABLE TO THE GOVERNANCE OF REMUNERATION POLICY AND PRACTICES

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

The management board of Erste Group Bank AG actively oversees the compensation system's design and operation. Experts from Group HR, Group Strategy, 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 overseeing all decisions in relation to the remuneration policy. This includes in particular the design of remuneration policies and practices in relation to incorporating financial performance, risk, capital, liquidity and strategic plans into the remuneration decision-making process. The Remuneration Committee shall take into account the short-term and long-term interests of shareholders, investors and other stakeholders. It reviews the remuneration policy and practices at least once a year. 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 five times in 2015.

PRINCIPLES APPLICABLE TO THE PERFORMANCE-LINKED COMPONENTS OF REMUNERATION

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

All employees² fix 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 (fix and variable) is in such way balanced that the fix remuneration allows for financial independence of variable remuneration on an individual level, including the possibility to pay no variable remuneration component at all. The variable pay incentive schemes do not promote excessive risk-taking. For the year 2015 a ratio variable/fix pay that is capped at 100% of the fix pay for both material risk takers and regular employees was applied.

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

- _ risk, capital, liquidity and probability as well as time of realised profits of the respective entity,
- _ performance of the overall results of the institution,
- _ performance of the business unit (department/division/entity) concerned, and
- _ performance of the individual.

Erste Group has implemented a comprehensive Enterprise-wide Risk Management (ERM) Framework, including a Group Risk Strategy and Risk Appetite Statement (RAS). The Group RAS represents a strategic statement that expresses the maximum level of risk that Erste Group (EG) is willing to accept in order to deliver its business objectives. The RAS provides a quantitative direction for the overall risk-return steering, qualitative statements in the form of key risk principles, sets the boundary for limits and target setting, and forms a key input into the annual strategic planning process, creating a holistic perspective on capital, liquidity and risk-return trade-offs.

The size of the bonus pool is calculated based on bonus potential applicable to the various staff categories. Bonus potential is either a fix amount or a percentage related to the base salary (not the fix salary). The bonus potential is capped at 100% of the base salary. The bonus pool is adjusted based on the performance of the institution and division. The individual bonus is linked to individual performance and to business unit and overall company results. The sum of individual bonuses is capped by the size of the bonus pool after the malus adjustments.

¹ "Erste Group": This includes Erste Group Bank AG and all subsidiaries, Erste Bank Oesterreich, all Sparkassen in Austria as well as cooperation and alliance partners in Austria and abroad, within the scope of "CRR" (full) consolidation.

² "All employees": Employees of all entities included in "Erste Group", see footnote 1.

The bonus pool in 2015 was on a legal entity level. In general, the bonus pool was calculated ex-ante and ex-post based on the following indicators:

- _ Common Equity Tier 1, SREP, ratio;
- _ operating results minus risk costs; and
- _ fulfilment of the annual strategy objectives according to the strategy review dialogues.

The performance-linked payments are limited to 100% of gross annual fixed salary for all employees, including material risk takers³ and Members of the management board of Erste Group Bank AG.

The remuneration system consists of 3 components:

- _ fixed remuneration: base salary, overtime, allowances, pension contributions
- _ variable remuneration⁴: annual incentive scheme, retail commission-based scheme
- _ fringe benefits: examples: holidays, company car, housing allowance, expatriate allowance

Table 1 provides an overview of the means of the total remuneration package:

Type of Remuneration	Eligibility	Detail
Base Pay	All employees	Sufficiently high proportion of the total remuneration to allow an operation of a fully flexible policy on variable remuneration components
Overtime Lump Sum	All employees (if contractually agreed)	Extra, contractually agreed payment for work performed in overtime hours
Allowances	All employees (if contractually agreed)	Leadership Allowance Market Allowance Individual Allowances
Short-term incentive	All employees	Annual (or shorter period based) bonus scheme based on the annual (period-based) performance evaluation of an employee
Commission-based incentive	Employees in sales or operations or recovery	Typically a monthly or quarterly incentive scheme based on quantity and quality of sales, products, services, transactions, operations and/or recoveries
Project-based incentive	Based on participation in the project	Incentive scheme based on special, highly complex and high-material impact projects
Retention bonus	All employees	Institutions may use retention bonuses under restructurings, in wind down or after a change of control, but also in situations where the institution can provide a rationale for its legitimate interest in retaining a staff member. A retention bonus can neither be promised nor guaranteed
Awards	Participant in Award plan	Incentive scheme which is based on an open participation for employees in a (cross-border) business line or function. Granting the award is based on practices that supported business growth or improvement and the outcome is translated into a learning event for other employees

Table 1: Overview of compensation schemes within Erste Group

Erste Group wants to be cost-competitive on the external market and to have personnel cost flexibility to follow changes in the organization and in the market. The Erste Group remuneration aims to be flexible to react on supply and demand development on the labor market. Erste Group benchmarks itself with the Central European financial institutes and targets to be positioned around the median of the salary benchmark.

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

The criteria for performance-linked components for financial year 2015 (Key Performance Indicators, “KPIs”) for the management board of Erste Group Bank AG are: Group Operating Result, Group Common Equity Tier 1 ratio, Group NPL ratio, Group NPL Coverage ratio, Group NPL Stock, Customer Experience Index and Leadership.

³Material risk takers: staff whose professional activities have a material impact on an institution's risk profile, selected according to respective regulatory technical standards (RTS) of EBA

⁴ There is no long-term incentive scheme in place

	BUSINESS KPIs (WEIGHTED 75% ON AN OVERALL BASIS)										LEADERSHIP (WEIGHTED 25% ON AN OVERALL BASIS)
GROUP	OPERATIONAL GOALS					STRATEGIC/SUSTAINABILITY GOALS					LEADERSHIP
CEO	Operating Result - Risk Cost 25%	ROTE 25%	Risk Cost/ Loans 10%			CXI 10%	Strategic Goal 30%				Leadership 100%
CFO	Operating Result - Risk Cost 25%	ROTE 25%				CXI 10%	Strategic Goal 15%	Planning Accuracy 15%	Cost Target 10%		Leadership 100%
CRO			Risk Cost/ Loans 30%			CXI 10%	Strategic Goal 15%	Planning Accuracy 5%	NPL Coverage Ratio 10%	NPL Ratio 30%	Leadership 100%
COO	Operating Result - Risk Cost 20%	ROTE 20%				CXI 10%	Strategic Goal (Projects) 40%	Planning Accuracy IT Portfolio 10%			Leadership 100%
RETAIL	OR - RC Business Line Group/Local 35%/10%	ROTE 20%				CXI 10%	Strategic Goal 15%	Lending Business Line Local 10%			Leadership 100%
C & M	OR - RC Business Line 50%	ROTE 20%				CXI 10%	Strategic Goal 15%	Planning Accuracy Business Line 5%			Leadership 100%

Table 2: Overview of KPIs of management board of Erste Group Bank AG

The criteria for performance-linked components for financial year 2015 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 pay-out of performance-linked components is linked with minimum profitability and performance objectives that resemble the success of the bank and provide a risk-balanced direction for the management board and senior management staff.

For material risk takers the payout of performance-linked compensation components depends on achieving the minimum profitability criteria as approved by the supervisory board. Each CEE bank has defined minimum profitability criteria, which meet local legal requirements which implemented the CRD IV provisions and are aligned with the long-term interests of the institute as well as of Erste Group. This means for 2015 about 2.6 % (for 2014: 2.4 %) of the entire population in Erste Group are identified as material risk takers.

The minimum profitability criteria for Erste Group Bank AG are: Common Equity Tier 1 ratio, SREP ratio and Operating Results minus Risk Costs.

The pay-out of performance-linked components for material risk takers is based on 40-60% upfront and 40-60% deferred amounts; both upfront and deferred amounts consist of a 50% cash part and a 50% non-cash instrument part. The 50% non-cash part is retained for 1 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 5 years. In the other countries the deferred element is paid out over a period of 3 years, with the exception of the Slovakia where the deferred bonus is paid out in once after 3 years holding period. In all countries Erste Group adheres to the local rules for payment of bonuses to material risk takers. Where legally allowed due to local regulations, which implemented the CRD IV provision, the applied non-cash instrument 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 information by Datastream (Thomson Reuters Corp) and taken from the published data on the Vienna Stock Exchange. The average weighted daily share price in 2015 was 25.13 EUR (2014: 22.25 EUR).

At individual level, additional reviews are conducted each year of the deferral period to determine whether there are any reasons justifying the cancellation or reduction of the deferred compensation. Such reasons can be such as lack of sustainability in the performance serv-

ing as the basis for the performance assessment, the employees risk behavior but also collective criteria such as the liquidity and profitability of Erste Group. Negative individual contributions to success or failure to meet liquidity and profitability criteria of Erste Group may result in the remuneration through the deferred variable remuneration being reduced or cancelled.

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

Table 1 provides an overview of the incentive schemes that are applied within Erste Group. Non-cash benefits are fringe benefits. None of the fringe benefits depends 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

Table 3 below represents the quantitative information on remuneration of employees and material risk takers in Erste Group, including all companies which are part of the regulatory scope of consolidation.

The remuneration data is provided for the following main categories

- _ 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).

Based on CRR consolidation requirements the total amount of variable remuneration granted to all employees until June 30th 2016 amounts to EUR 163 million whereas, as of year-end 2015 reserves and employer contributions for variable remuneration amount to EUR 236 million.

The total remuneration is balanced in such a way that it ensures sustainability and does not promote excessive risk-taking. The fix remuneration represents a significantly high portion of the total remuneration to allow the operation of a fully flexible variable remuneration policy.

The assessment process for material risk takers is performed pursuant to the selection criteria of the Erste Group Remuneration Policy and to the EBA FINAL draft regulatory technical standards on criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile under Article 94(2) of Directive 2013/36/EU ("RTS").

Specific data on the material risk takers is shown in compliance with respective remuneration policies, legal and regulatory provisions. 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 employees who belong to a core business segment.

In the Erste Group the non-cash instruments are the phantom shares, except for our banks in the Czech Republic and Slovakia where the non-cash instrument is a certificate. There are no equities granted to neither material risk takers nor other employees.

The total number of members of the supervisory board is divided into external and internal members. External members have no employment contract within Erste Group. They receive fixed remuneration and/or attendance fees for participation at 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 a guideline within Erste Group, supervisory board members of subsidiaries of Erste Group Bank AG, including local banks are not entitled to any remuneration based on the supervisory board function. Their attendance fees (if any) are deducted from their total remuneration in the following year.

Table 4 below (“Information on remuneration to high earners”) shows the remuneration (fixed and variable) paid to employees exceeding 1 million EUR in the year 2015, including the distribution to remuneration brackets. In 2015, 7 employees have received a remuneration which was higher than 1 million EUR.

The details of remuneration for members of the management board are disclosed in the annual report:

https://www.erstegroup.com/content/dam/at/eh/www_erstegroup_com/en/Investor%20Relations/2015/Reports/AR2015_FINAL_en.pdf

Part 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)	760	180	-	-	-	-	-	-	940
Total number of staff (FTE)	-	-	1,493	24,871	733	8,589	2,992	1,556	40,234
Total remuneration	1,533,851	56,637,510	112,509,784	753,335,663	50,434,093	326,614,881	140,981,078	58,759,613	1,500,806,473
hereof granted variable remuneration	60,014	13,921,409	24,529,018	72,825,115	7,203,668	28,134,841	12,396,639	3,729,378	162,800,083

Part 2

Information on remuneration for material 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 Material risk takers (Headcount)	463	180	-	-	-	-	-	-	643
Total number of staff (FTE)	-	-	119	248	97	200	215	26	906
hereof senior management	-	-	21	102	22	96	80	21	341
Total remuneration	1,407,791	56,622,076	20,443,848	28,803,159	12,790,002	30,376,220	25,054,640	4,065,721	179,563,457
hereof total fix remuneration	1,407,791	42,911,594	13,887,099	24,848,803	9,580,352	25,157,863	21,524,743	3,199,733	142,517,978
hereof in cash	1,399,557	41,638,667	13,887,073	24,842,989	9,580,352	25,030,889	21,450,327	2,848,657	140,678,511
hereof in equity (i.e. phantom shares)	0	0	0	0	0	0	0	0	0
hereof in other instruments	8,234	1,272,927	26	5,814	0	126,974	74,416	351,076	1,839,467
hereof total variable remuneration	0	13,710,482	6,556,749	3,954,356	3,209,650	5,218,357	3,529,897	865,988	37,045,479
hereof in cash	0	8,098,142	5,148,962	3,216,948	1,842,784	3,758,691	2,906,065	615,695	25,587,286
hereof in equity (i.e. phantom shares)	0	4,602,652	1,102,460	534,566	1,321,049	1,213,546	477,508	250,293	9,502,073
hereof in other instruments	0	1,036,353	305,327	202,842	45,817	246,121	146,324	0	1,982,785
hereof total deferred variable remuneration	0	7,079,879	2,252,102	708,625	1,085,879	1,318,359	606,858	334,615	13,386,317
hereof in cash	0	3,388,001	1,480,349	260,576	542,915	573,509	232,804	189,825	6,667,979
hereof in equity (i.e. phantom shares)	0	2,782,646	649,622	288,312	524,637	524,350	235,555	144,790	5,149,912
hereof in other instruments	0	909,231	122,131	159,737	18,327	220,500	138,500	0	1,568,426

Part 3

Additional information on variable pay to material risk takers

Divisions	Supervisory Function	Management Board Function	Investment Banking	Retail Banking	Asset Management	Corporate Functions	Independent Control Functions	Other	Total for all divisions
Deferred variable remuneration									
Total amount of outstanding deferred variable remuneration granted in previous years	0	6,388,843	2,353,684	668,192	422,308	1,720,040	818,563	208,458	12,580,087
Reduction of deferred payments from previous years based on performance adjustments	0	33,608	256	176	136	10,867	5,819	0	50,862
Guaranteed remuneration									
Number of employees who received guaranteed variable payments (sign-on bonus)	0	0	0	0	0	0	0	0	0
Total amount of guaranteed variable payments (sign-on bonus)	0	0	0	0	0	0	0	0	0
Severance payments									
Number of employees who received severance payments due to (early) termination	0	0	0	0	0	0	1	0	1
Total amount of severance payments	0	0	0	0	0	0	637,422	0	637,422
Highest severance payment to a single person due to early termination	0	0	0	0	0	0	637,422	0	637,422

Table 3: Aggregate quantitative information on remuneration of employees and material risk takers

Information on remuneration to high earners (Employees remunerated EUR 1 Million or more)

	Supervisory function	Management board function	Business divisions
Number of employees	0	7	0
Remuneration between EUR 1 and 1.5 Million	0	6	0
Remuneration between EUR 1.5 and 2 Million	0	0	0
Remuneration over EUR 2 Million	0	1	0

Table 4: Information on remuneration of high earners

Prepared and edited by Group HR, Erste Group Bank AG