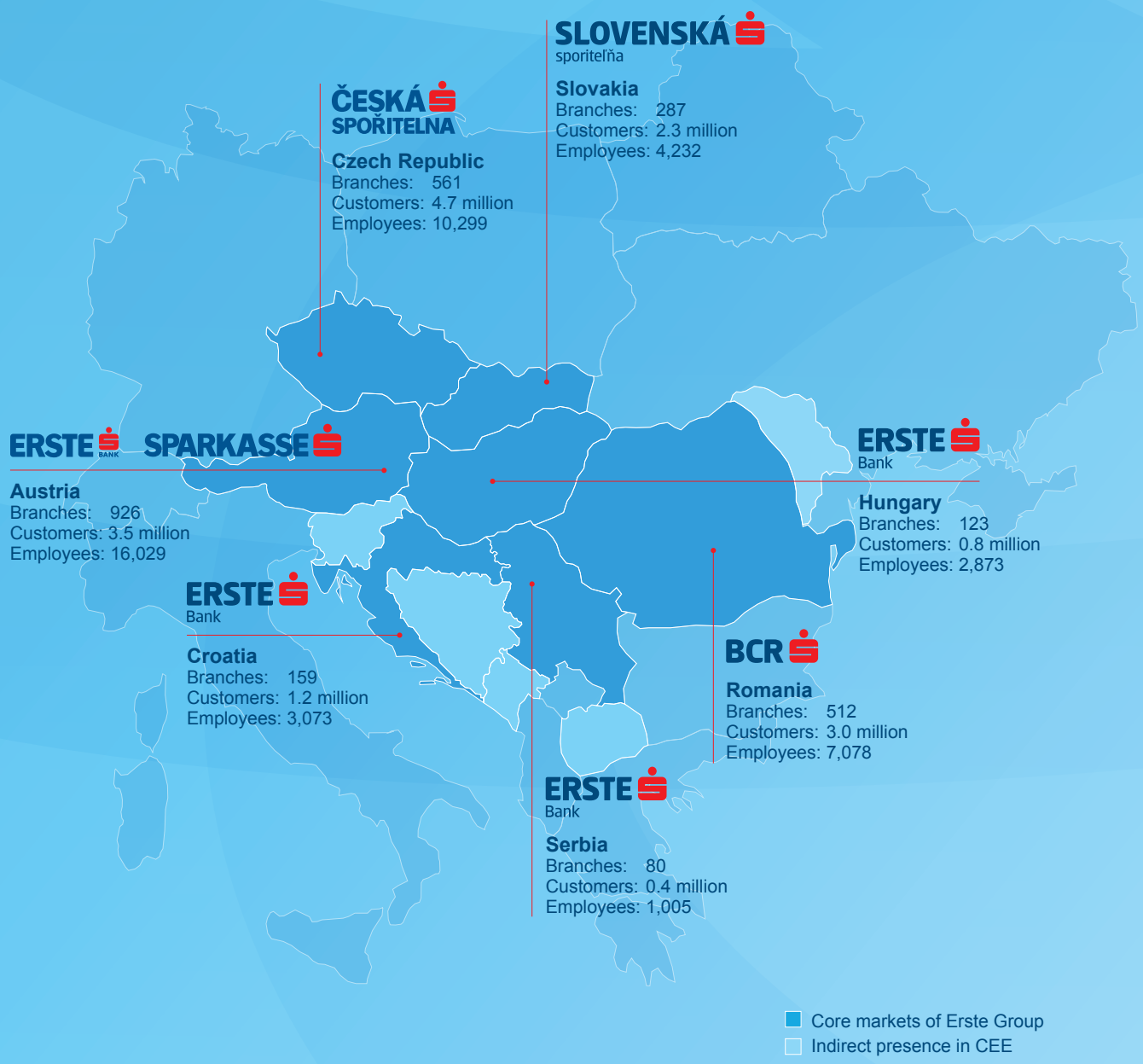


**Disclosure pursuant to article 450  
Capital Requirements Regulation**  
as of 31 December 2016

# Extensive presence in Central and Eastern Europe



# Disclosure of information on remuneration policy and practices at Erste Group<sup>1</sup>

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

### DISCLOSURE REQUIREMENTS 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 adopts and periodically reviews the general principles of the remuneration policy, amends it if needed and is responsible for its implementation. The implementation of the remuneration policy is, at least annually, subject to central and independent internal review for compliance with legal requirements, regulatory provisions, policies and procedures for remuneration adopted by the institution.

The management board and the remuneration, audit, nomination and the risk committees work closely together and ensure that the remuneration policy is consistent with and promotes sound and effective risk management, especially 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. Erste Group's local subsidiaries have implemented the same governance structure for remuneration policies and practices. The remuneration committee is advised by Mercer Consulting as external consultant. The remuneration committee met four times in 2016.

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

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

All employees'<sup>2</sup> fixed salary components (base salary) represent a sufficiently high proportion of the total remuneration to allow for financial independence of variable pay on an individual level, thus making non-payment of the performance-linked variable remuneration component possible. The variable pay incentive schemes do not promote excessive risk-taking. In 2016, the ratio variable/fixed remuneration is capped at 100% of the annual fixed remuneration for material risk takers<sup>3</sup> and employees.

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,
- \_ overall results of the entity,
- \_ 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.

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<sup>1</sup> "Erste Group": This refers to Erste Group Bank AG and all subsidiaries within the scope of "CRR" (full) consolidation.

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

<sup>3</sup> Material 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

The size of the bonus pool is calculated based on bonus potential applicable to the various staff categories. Bonus potential is either a fixed amount or a percentage related to the base salary. The bonus potential is capped at 100% of the base salary. The bonus pool is adjusted based on the performance of the entity and division. The individual bonus is linked to individual performance and to business unit and overall entity results. The sum of individual bonuses is capped by the size of the bonus pool after the malus adjustments.

The bonus pool in 2016 was determined on a legal entity level. In general, the bonus pool was calculated ex-ante and ex-post based on the following indicators:

- \_ meeting all RAS capital requirements and regulatory liquidity requirements;
- \_ Erste Group net profit and
- \_ achievement of financial and market performance targets.

The remuneration system consists of 3 components:

- \_ fixed remuneration
- \_ variable remuneration
- \_ benefits.

## Overview of remuneration components

Type of remuneration	Eligibility	Detail
Base salary / fixed salary	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.
		The amount of 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

Erste Group wants to be cost-competitive on the labor 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 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 and on the role and position of the individual employee. Key Performance scorecards of employees contain qualitative and quantitative objectives. A minimum of 25% of qualitative objectives is required. On average 60-70% of objectives are qualitative. The Key Performance 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.

For material risk takers the payout of performance-linked compensation components depends on achieving the minimum profitability criteria as approved by the remuneration committee. Local entities have defined minimum profitability criteria, which meet local legal requirements (implementing the CRD IV provisions) and are aligned with the long-term interests of the entity as well as of Erste Group.

The pay-out of performance-linked components for material risk takers consists of 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 one amount after a 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 implementing the CRD IV provisions, the applied non-cash instrument is the phantom share (except for bank subsidiaries in the Czech Republic and Slo-

vakia where the non-cash instrument is a certificate). Equities are granted to neither material risk takers nor other employees. 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 2016 was EUR 24.57 (2015: EUR 25.13).

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 may be lack of sustainability in the performance serving as the basis for the performance assessment, the employee's 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 reduction or cancellation of a deferred variable remuneration.

Job-related non-cash benefits (e.g. company car, housing allowance, expatriate allowance) are part of the fixed salary and not performance-based.

For members of Erste Group Bank AG's management board the criteria for performance-linked components for the financial year 2016 (Key Performance Indicators, "KPIs") were: Group (or Group Business Line/Division) operating result, risk costs, return on tangible equity, Group NPL ratio, risk costs/loans, Customer Experience Index, cost optimization, individual strategic goals and leadership.

The criteria for performance-linked components (bonus payment) for the financial year 2016 for the management boards of local entities were: Economic Value Added, operating result, risk costs, NPL ratio, risk costs/loans, Customer Experience Index, leadership and other individual strategic and business-specific key performance indicators. The leadership component is evaluated based on several leadership criteria.

Furthermore, there are minimum profitability requirements for paying a bonus for material risk takers (including members of the management board of Erste Group Bank AG and of local entities) for a performance period. The minimum profitability requirement is also a criterion for paying deferral elements of retained bonus amounts for material risk takers. It is based on at least two indicators, which both have to be met:

- \_ financial results and
- \_ capital ratio of the entity.

The Erste Group does not provide shares or stock options.

## REMUNERATION INFORMATION

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

The tables below provide further information on remuneration.

Quantitative information on remuneration of employees in Erste Group, including all companies which are part of the CRR scope of consolidation 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).

The assessment process for material risk takers is performed pursuant to the selection criteria of the Erste Group Remuneration Policy and to the EU regulatory technical standard with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile; Commission delegated regulation (EU) No 604/2014 in conjunction with correction EBA/RTS/2015/09<sup>4</sup>.

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<sup>4</sup> <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014R0604>

In 2016, about 4.74% (2015: 2.6%) of the entire staff of Erste Group were identified as material risk takers. The increase of the number of MRTs is due to stricter implementation of the aforementioned regulation and the increase of number of entities in the scope of the data collection.

The line-item “senior management” includes those managers who report directly to the management board.

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 (supervisory board compensation) and/or fees for attending supervisory board meetings (meeting fees). No variable remuneration is paid, unless it is required by local regulatory requirement. 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 in general not entitled to any remuneration based on the supervisory board function.

Another table (Information on remuneration of high earners) shows the remuneration (fixed and variable) paid to employees exceeding EUR 1 million, including the distribution to remuneration brackets. In 2016, 9 employees received a remuneration above EUR 1 million.

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/2016/Reports/AR2016\\_FINAL\\_en.pdf](https://www.erstegroup.com/content/dam/at/eh/www_erstegroup_com/en/Investor%20Relations/2016/Reports/AR2016_FINAL_en.pdf)

## AGGREGATE QUANTITATIVE INFORMATION ON REMUNERATION OF EMPLOYEES AND MATERIAL RISK TAKERS

### 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)	729	206	-	-	-	-	-	-	935
Total number of staff (FTE)	-	-	1,650	24,296	757	9,258	3,572	1,685	41,218
Total remuneration	3,088,364	66,085,817	123,416,650	744,622,590	53,869,244	349,734,166	158,265,356	69,123,420	1,568,205,607
hereof granted variable remuneration	15,250	18,364,372	29,113,354	67,755,212	7,767,325	34,217,702	14,756,832	6,616,734	178,606,781

### 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)	729	206	-	-	-	-	-	-	935
Total number of staff (FTE)	-	-	100	268	100	239	267	46	1,020
hereof senior management	-	-	30	105	23	147	120	30	455
Total remuneration	3,088,364	66,085,817	17,522,674	27,430,199	13,607,099	30,199,113	28,249,927	5,656,447	191,839,640
hereof total fixed remuneration	3,073,114	47,721,445	11,491,165	23,455,470	10,503,252	24,649,988	24,295,820	4,144,221	149,334,475
hereof in cash	3,071,270	47,201,198	11,456,902	23,332,539	10,493,712	24,620,822	24,160,231	4,144,123	148,480,797
hereof in equity (i.e. phantom shares)	0	0	0	0	0	0	0	0	0
hereof in other instruments	1,844	520,247	34,263	122,931	9,540	29,166	135,589	98	853,678
hereof total variable remuneration	15,250	18,364,372	6,031,509	3,974,729	3,103,847	5,549,125	3,954,107	1,512,226	42,505,165
hereof in cash	15,250	10,928,316	4,052,349	3,195,265	2,103,297	3,869,490	2,893,109	960,029	28,017,105
hereof in equity (i.e. phantom shares)	0	5,879,055	1,532,755	637,464	887,320	1,324,378	941,998	552,197	11,755,167
hereof in other instruments	0	1,557,001	446,405	142,000	113,230	355,257	119,000	0	2,732,893
hereof total deferred variable remuneration	0	9,310,242	2,418,700	800,768	965,591	1,583,516	1,011,422	861,821	16,952,060
hereof in cash	0	4,490,517	1,275,897	322,248	525,728	691,385	444,220	397,590	8,147,585
hereof in equity (i.e. phantom shares)	0	3,496,723	835,841	336,520	375,071	574,536	448,202	464,231	6,531,124
hereof in other instruments	0	1,323,002	306,962	142,000	64,792	317,595	119,000	0	2,273,351

## Additional information on variable pay to material risk takers

	Supervisory function	Management board function	Investment Banking	Retail Banking	Asset Management	Corporate functions	Independent functions	Other	Total for all divisions
<b>Deferred variable remuneration</b>									
Total amount of outstanding deferred variable remuneration granted in previous years	-	13,188,743	3,899,511	1,038,233	2,263,569	3,082,002	1,469,328	408,263	25,349,649
Hereof vested	-	3,048,608	879,336	319,721	692,482	806,707	406,694	101,176	6,254,724
Hereof non vested	-	10,140,135	3,020,175	718,512	1,571,087	2,275,295	1,062,634	307,087	19,094,925
Reduction of deferred payments from previous years based on performance adjustments	-	51,079	14,011	2,185	3,185	14,783	8,440	-	93,683
<b>Guaranteed remuneration</b>									
Number of employees who received guaranteed variable payments (sign-on bonus)	-	-	-	-	-	-	-	-	-
Total amount of guaranteed variable payments (sign-on bonus)	-	-	-	-	-	-	-	-	-
<b>Severance payments</b>									
Number of employees who received severance payments due to (early) termination	-	-	-	-	1	-	-	2	3
Total amount of severance payments	-	-	-	-	200,000	-	-	57,131	257,131
Highest severance payment to a single person due to early termination	-	-	-	-	200,000	-	-	29,712	n.a.

## Information on remuneration of high earners

	Supervisory function	Management board function	Business divisions
Number of employees	0	9	0
Remuneration between EUR 1.0 and 1.5 million	0	3	0
Remuneration between EUR 1.5 and 2.0 million	0	5	0
Remuneration between EUR 4.0 and 4.5 million	0	1	0