

# Disclosure pursuant to article 450 Capital Requirements Regulation

as of 31 December 2019

## 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 Compliance, Group Controlling and Group Risk Management advise the management board regarding remuneration policies and practices.

The remuneration committee of an entity (which is a committee of the supervisory board) approves, implements, periodically reviews and – if needed – amends the general principles of the remuneration policy. The implementation of the remuneration policy is, at least annually, subject to central and independent internal review for compliance with legal requirements, regulatory provisions and procedures for remuneration adopted by the institution.

The management board and the remuneration, audit, nomination and the risk committee 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 of Erste Group Bank AG met four times in 2019.

## 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 creating the possibility not to pay any performance-linked variable remuneration at all. In 2019, 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 realized profits of the respective entity,
- \_ Overall results of the entity,
- \_ Performance of the business unit (department/division/entity) concerned, and
- \_ Performance of the individual, consisting of the achievement of agreed targets and the way these business targets have been achieved, including the individual's risk behavior according to Erste Group strategy and policies.

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 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 RAS and the remuneration policy are directly linked at Group and local level as the determination of the annual bonus pool<sup>4</sup> requires the relevant core metrics to be above the defined limit (e.g. minimum capital requirements).

---

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

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

<sup>3</sup> Staff, whose professional activities have a material impact on an institution's risk profile, selected according to respective Regulatory Technical Standards (RTS) of EBA.

<sup>4</sup> Determination of the total volume of funds earmarked for variable remuneration.

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 pool is adjusted based on the performance of the entity and division. The individual bonus is linked to individual and business unit performance and overall entity results. The sum of individual bonuses is capped by the size of the bonus pool after the malus adjustments.

In 2019, the bonus pool 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 and liquidity requirements,
- \_ Erste Group net profit, and
- \_ Minimum achievement of financial and market performance targets.

The total reward system of Erste Group consists of the following components:

- \_ Fixed remuneration, and
- \_ Variable remuneration.

These reward components are summarized in the following figure:

Type of remuneration	Detailed description
Annual basic salary	Monthly basic salary multiplied by 12
Annual base salary	Annual basic salary plus any 13th or 14th salary based on local regulations
Annual guaranteed cash	Annual base salary plus the annual value of major allowances such as market / leadership allowance and/or overtime lump sum
	Leadership Allowance
	Market Allowance
- Allowances	Individual Allowances
Annual total cash (also called "compensation")	Annual guaranteed cash plus short term incentive and other incentives
- Short-term incentive	Annual (or shorter period based) 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, transactions, operations and/or recoveries
- Project-based incentive	Incentive scheme based on special, highly complex and high-material impact projects
	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.
- Retention bonus	The amount of a retention bonus can neither be promised nor guaranteed
	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
- Awards	
Total remuneration	Total annual cash plus any major company-wide provided benefits (benefits in kind or cash allowances as parts of fix pay)
Total reward	Total remuneration plus annual value of other significant employment terms

Table 1: Overview of reward components at Erste Group

Erste Group does not provide shares, stock options or equities, neither to Material Risk Takers nor to other employees.

Erste Group seeks to be competitive on the labor market and to have personnel cost flexibility to allow for changes in the organization and to adapt to changes in the market. Erste Group benchmarks itself with Austrian and Central European financial institutes.

The bonus potential is based on the base salary, the role and the position of the individual employee. Key Performance scorecards of employees contain well balanced qualitative and quantitative objectives. On average 50-60% of objectives are quantitative. Employees who work in the retail area are required to have at least 40% of qualitative targets. 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 as for all other employees on achieving the minimum performance criteria as approved by the remuneration committee and individual performance. Local entities have defined minimum performance 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.

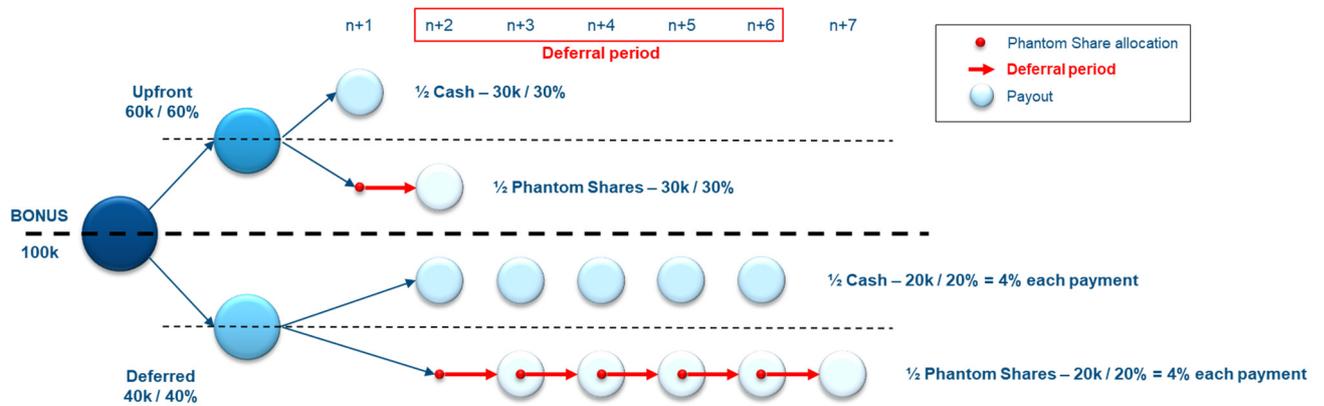
The pay-out of performance-linked components for Material Risk Takers consists of two models: 40-60% or 60-40% deferred amounts; minimum 50% of variable remuneration consists of instruments with a minimum retention period of 1 year.

In Austria variable remuneration is deferred over a period of 5 years, whereas in other countries it is deferred over a period of 3 to 5 years. In all countries, Erste Group adheres to the local rules for payment of bonuses to Material Risk Takers. In general, the applied non-cash instrument is the phantom share, using the average weighted daily share price of Erste Group of the performance year (except for banks & subsidiaries in the Czech Republic and Slovakia where the non-cash instrument is a certificate and in Romania a phantom certificate).

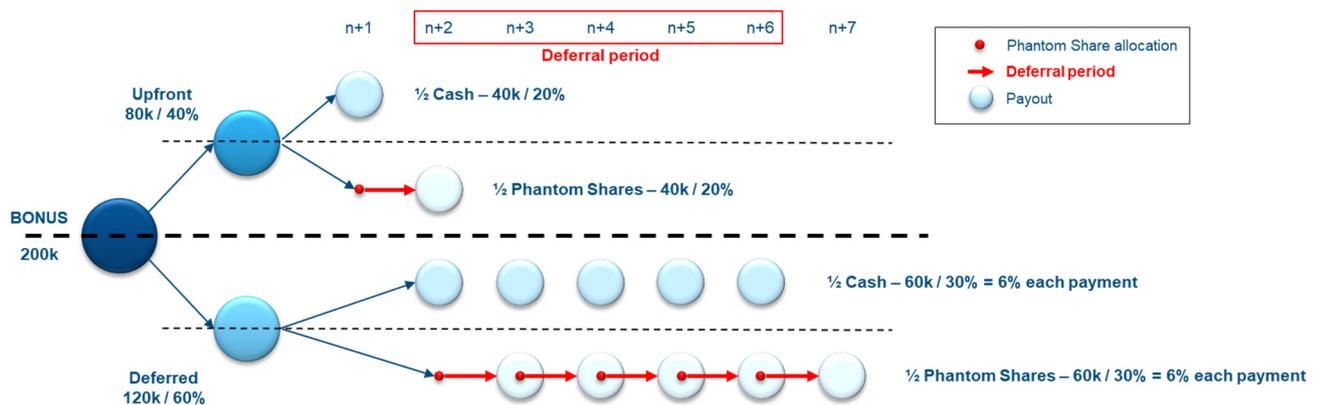
The average weighted daily share price in 2019 was EUR 32.08 (2018: EUR 36.88).

As an example, the following figure shows the bonus payment structure applied to Material Risk Takers, when the amount is equal to or higher than EUR 60,000.

### Bonus EUR 60k-150k



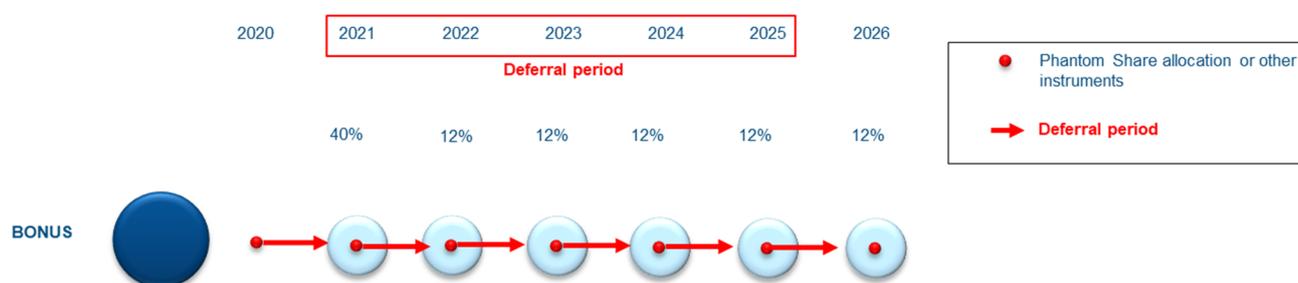
### Bonus EUR >150k



Picture 1: Bonus payment structure visualization for Material Risk Takers

Following EBA-Statement on dividends distribution, share buybacks and variable remuneration<sup>5</sup>, in order to achieve an appropriate alignment with risks stemming from the COVID-19 pandemic, a larger part of the variable remuneration will be deferred for a longer period and a larger proportion could be allocated, and depending on meeting minimum performance standards be paid out in phantom shares.

For performance year 2019, 100% of any variable remuneration of the management board in Erste Group Bank AG and Local Banks are granted in non-cash instruments. After the performance period the number of non-cash instruments (e.g. phantom shares for Holding and EBOe) is calculated in the following way: 100% of the gross bonus amount is divided by the average weighted daily share price of Erste Group Bank AG shares during the performance period (year n/2019). The result constitutes the total number of non-cash instruments (phantom shares). The payout starts proportionally from 2021.



Picture 2: Bonus payment structure visualization for Holding management board and local board members for performance year 2019

Related to Material Risk Takers at individual level, additional reviews are conducted each year of the deferral period in order to determine whether there are any reasons for justifying a cancellation or reduction of the deferred compensation. Such reasons may be a 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. Individual contribution or decision which is assessed ex-post as disadvantageous or negative may result in the reduction or cancellation of a deferred variable remuneration.

For members of Erste Group Bank AG’s management board, the criteria for performance-linked components for the financial year 2019 (Key Performance Indicators, “KPIs”) were: Group (or Group Business Line/Division) operating result, return on tangible equity, Group NPL ratio, risk costs/loans, Credit RWA, Net Promoter Score, data management, individual strategic goals and leadership.

For members of the management boards of local entities, the criteria for performance-linked components (bonus payment) for the financial year 2019 were: operating result, pre-tax profit, NPL ratio, risk costs/loans, Credit RWA, Net Promoter Score, data management, leadership and other individual strategic and business-specific KPIs.

Furthermore, there are minimum performance requirements for paying outstanding deferrals for Material Risk Takers (including members of the management board of Erste Group Bank AG and of local entities) for previous performance periods. The minimum performance 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.

<sup>5</sup> Published on 31.3.2020

## 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 (among others Finance, Accounting, IT, HR, Legal, Marketing), and
- \_ Others (among others drivers).

The assessment process for Material Risk Takers (MRTs) 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.<sup>6</sup>

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 regulations. Internal members of the supervisory board are those who have employment contracts within Erste Group.

Employees of Erste Group Bank AG, who in addition to their daily function, are nominated by the shareholders as internal supervisory board members of Erste Group Bank AG subsidiaries, are not eligible for receiving supervisory board remuneration (this also refers to members of the Employees' Council). Fixed remuneration and attendance fees for members of Employees' Council /Trade Union are paid into Employees' Council fund (based on local entity guidelines).

The scope of this disclosure is different from the scope of the Annual Report, the latter is based on IFRS consolidation scope.

The number of FTEs is calculated based on the requirements of the EBA Remuneration Benchmarking Exercise (EBA/GL/2014/08), therefore, the numbers – besides the scope of the two reports – are different than those disclosed in the Annual Report of Erste Group for 2019 (e.g. employees on unpaid leave are included in the table below, but such are excluded from the FTEs of the Annual Report).

The table "Information on remuneration of high earners" shows the number of employees who received a total remuneration (fix and variable) in the year 2019 equal to or exceeding EUR 1 million.

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

<https://www.erstegroup.com/en/investors/OnlineAR2019>

---

<sup>6</sup> Commission delegated regulation (EU) No 604/2014 in conjunction with correction EBA/RTS/2015/09

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

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

### Information on remuneration for all staff

Divisions	Supervisory functions	Management board functions	Investment Banking	Retail Banking	Asset Management	Corporate functions	Independent functions	Other	Total for all divisions
Number of employees (headcount)	460	270	-	-	-	-	-	-	730
Total number of staff (FTE)	-	-	1,851	26,729	642	14,671	3,223	2,189	49,305
Total remuneration	3,198,023	76,392,830	135,393,018	842,774,257	47,980,408	673,765,637	168,876,096	55,059,929	2,003,440,198
hereof granted variable remuneration	19,427	21,230,887	31,345,786	77,598,081	7,058,492	53,246,975	14,767,676	3,067,704	208,335,028

### Information on remuneration for Material Risk Takers

Divisions	Supervisory functions	Management board functions	Investment Banking	Retail Banking	Asset Management	Corporate functions	Independent functions	Other	Total for all divisions
Number of MRTs (headcount)	460	270	-	-	-	-	-	-	730
Total number of staff (FTE)	-	-	120	304	107	339	275	14	1,159
hereof senior management	-	-	36	123	22	245	129	7	562
Total remuneration	3,198,023	76,392,830	20,928,593	33,971,496	14,067,000	46,621,029	29,522,451	1,375,112	226,076,534
hereof total fixed remuneration	3,178,596	55,161,943	14,020,230	29,076,900	10,340,914	37,298,718	25,664,783	1,285,575	176,027,659
hereof in cash	3,178,596	55,161,943	14,020,230	29,076,900	10,340,914	37,298,718	25,664,783	1,285,575	176,027,659
hereof in equity (i.e. phantom shares)	-	-	-	-	-	-	-	-	-
hereof in other instruments	-	-	-	-	-	-	-	-	-
hereof total variable remuneration	19,427	21,230,887	6,908,363	4,894,596	3,726,086	9,322,311	3,857,668	89,537	50,048,875
hereof in cash	19,427	6,591,777	4,203,977	3,842,083	2,189,275	6,214,091	2,936,589	44,768	26,041,987
hereof in equity (i.e. phantom shares)	-	10,523,685	2,061,528	717,202	1,536,811	2,296,896	550,055	-	17,686,177
hereof in other instruments	-	4,115,425	642,859	335,311	-	811,324	371,024	44,768	6,320,711
hereof total deferred variable remuneration	13,599	12,768,737	3,010,370	1,153,477	1,288,076	2,809,063	842,096	35,814	21,921,232
hereof in cash	13,599	1,811,157	1,426,542	537,597	646,11	1,043,305	367,14	17,907	5,863,357
hereof in equity (i.e. phantom shares)	-	6,902,406	1,175,185	389,656	641,966	1,152,029	220,047	-	10,481,289
hereof in other instruments	-	4,055,174	408,643	226,224	-	613,729	254,909	17,907	5,576,586

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

### Information on remuneration for Material Risk Takers

Deferred variable remuneration	Supervisory functions	Management board functions	Investment Banking	Retail Banking	Asset Management	Corporate functions	Independent functions	Other	Total for all divisions
Total amount of outstanding deferred variable remuneration granted in previous years	17,846								
hereof vested	4,56	26,012,970	7,289,357	2,403,026	3,062,547	10,855,068	1,825,922	106,417	51,573,153
hereof non vested	13,286	3,482,938	1,314,593	493,465	721,549	1,651,151	471,545	40,797	8,180,598
Reduction of deferred payments from previous years based on performance adjustments	-	22,530,032	5,974,764	1,909,561	2,340,998	9,203,917	1,354,377	65,62	43,392,555
		270,917	140,203	40,109	12,234	212,449	37,209	-	713,121
<b>Guaranteed remuneration</b>									
Number of employees who received guaranteed variable payments (sign-on bonus)	-	2	-	-	-	-	-	-	2
Total amount of guaranteed variable payments (sign-on bonus)	-	20,259	-	-	-	-	-	-	20,259
<b>Severance payments</b>									
Number of employees who received severance payments due to (early) termination	-	5	-	1	-	2	1	-	9
Total amount of severance payments	-	597,874	-	1,815	-	156,893	90,207	-	846,789
Highest severance payment to a single person due to early termination	-	228,764	-	1,815	-	127,793	90,207	-	448,579

### Information on remuneration of high earners

	Supervisory function	Management board function	Business divisions
Number of employees	-	11	-
Remuneration between EUR 1.0 and 1.5 million	-	5	-
Remuneration between EUR 1.5 and 2.0 million	-	5	-
Remuneration between EUR 4.0 and 4.5 million	-	1	-