

Remuneration Policy for Erste Bank Hungary Zrt. – extract Public version

This policy contains the Remuneration Policy of Erste Bank Hungary Zrt., with due consideration to the provisions of Act CCXXXVII of 2013 on credit institutions and financial enterprises, Government Decree 131/2011 on the application of remuneration policies with regard to the features arising from the size, nature and scope of activities, and legal form of credit institutions, and investment enterprises, supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards 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 and MNB Recommendation no. 3/2071 on the application of the remuneration policy

Effective date: 3 July 2017

1.1. Purpose of the policy

The purpose of this policy is to determine for Erste Bank Zrt. (hereinafter the Bank) and the Hungarian subsidiaries of Erste Group that are subject to consolidated supervision (hereinafter the Subsidiaries) remuneration principles that will ensure the secure and prudent operation of the organisations, consistently with efficient and effective risk management, as well as with the business strategy, objectives, values and long-term interests of the entities.

Chapters 1-6 of the policy explain in detail the rules applicable to the Bank, whereas Annexes 2-3 clearly identify those sections of the policy that each individual Subsidiary regards as binding on itself, as well as the variations – arising from the specific features of the entities – subject to which they apply them. The subsidiaries arrange the approval of the relevant policy within their company. Erste Investment Zrt., Erste Building Society Zrt. and Erste Mortgagebank Zrt have their own remuneration policy, which are in line with these regulations, the remuneration policy of the other subsidiaries of the Hungarian Erste Group are included in the always effective remuneration policy with the variations – arising from the specific features of the entities – subject to which they apply them.

The remuneration strategy aims at attracting and retaining the competent and engaged employees and who perform their roles in the long-term interests of the Group's customers and shareholders.

1.2. Elaboration, implementation and control of the policy

The Bank's Supervisory Board adopts and - as frequently as required - reviews the principles of the remuneration policy based on Section 117/B (5) of the Hpt., whereas the Bank's Board of Directors is responsible for its supervision, which is audited by the Bank's Internal Audit at least once a year.

In addition to elaborating the remuneration policy, it is also the task of the SB to control any cases that are exceptional in terms of the application of the remuneration policy, to approve any necessary amendments to the remuneration policy, and to assess the impacts of such individual amendments or exceptions. The SB must involve all areas of the Bank that are important in terms of corporate governance in elaborating the remuneration policy.

The remuneration policy and practices and the procedures to determine them should be clear, well documented and transparent. Proper documentation on the decision-making process (e.g. minutes of relevant meetings, relevant reports, and other relevant documents) and the reasoning behind the remuneration policy should be maintained (based on the Act C of 2000 - on accounting, for 8 years period).

The related documents are electronically archived on the Human Resources Management.

The remuneration policy of Erste Bank Hungary is aligned with the Erste Group remuneration policy.

The detailed tasks of the Supervisory Board are set out in its by-laws.

The institution must ensure that the employees fulfilling control functions actively cooperate in the elaboration, they monitor the operation and control the implementation of the remuneration policy.

The employees fulfilling control functions shall cooperate with the Supervisory Board, the Remuneration and Nomination Committee, the Board of Directors and the executive managers.

Control areas and employees have different roles in elaborating the remuneration policy. The Strategic Risk Management evaluates the impact of the institution's variable remuneration on the institution's

risk profile. The Compliance checks that the remuneration policy is consistent with the legal provisions and with the various systems of internal control. The Human Resources Management (HR) submits proposals regarding the activities to which the remuneration policy is to be applied. The HR is responsible for ensuring compliance of the group remuneration policy with the local regulatory system and for cooperation with the responsible organisational units of Erste Group. The HR checks the correct application and evaluates the operation of the remuneration policy. The HR safeguards the contracts and documents related to remuneration. Internal Audit regularly examines the content, the application and the effects of the remuneration policy. According to the Section 110 of the Hpt. the Risk Management and Steering Committee reviews the remuneration policy in terms if the incentive elements of the remuneration system are take into consideration bank's situation regarding risks, capital and liquidity and also the timing and probability of the income.

The members of the Supervisory Board and Board of Directors are available in the company register and on the Bank's webpage-

The member of the Remuneration and Nomination Committee and the Risk Governance Committee are 3 external members of the Board of Directors (Zsiga Krisztina, Rudnay János, Frederik Silzer)

1.3. Personal scope:

The scope of this policy includes in line with Section 117. (2) of Hpt the employees of the Bank and all the Subsidiaries mentioned in Annexes 2 and 3, including all the internal and external members of the Board of Directors, the members of the Supervisory Board, the executive officers, the managers of the key areas, the material risk takers and the employees fulfilling control functions.

1.4. Material scope:

The scope of this policy extends in line with Section 117. (2) of Hpt to the remuneration of all the employees of the Bank and all the Subsidiaries indicated in Annexes 2 and 3 – including all the internal and external members of the Board of Directors, the executive officers and particularly the key area managers, the material risk takers and the employees fulfilling control functions.

1.5. Related statutory regulations

European Union (EU) regulations:

- Capital Requirements Regulation (**CRR**) - Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms

EU Directives:

- Capital Requirements Directives (**CRD IV**) - Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms
- Markets in Financial Instruments Directive (**MiFID**) - Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments

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

European Banking Authority (EBA) Guidelines

- on sound remuneration policies under article 74(3) and 75(2) of Directive 2013/36/EU and disclosures under article 450 of Regulation (EU) No 575/2013, EBA/GL/2015/22
- on remuneration policies and practices related to the sale and provision of retail banking products and services, EBA/GL/2016/06¹

¹ Valid from 01. January 2018

Opinions of the European Banking Authority

- on the application of Directive 2013/36/EU (CRD IV) regarding the principles on remuneration policies of credit institutions and investment firms and the use of allowances, EBA-2014-Op-10
- on the application of the principle of proportionality to the remuneration provisions in Directive 2013/36/EU, EBA-2016-Op-20

European Securities and Markets Authorities (ESMA) Guidelines

- on remuneration policies and practices (MiFID), ESMA/2013/606

National legislation

- Act CCXXXVII of 2013 - on investment enterprises and commodity exchange services providers and the rules governing the activities they perform
- Government Decree 131/2011 - on the application of remuneration policies with regard to the features arising from the size, nature and scope of activities, and legal form of credit institutions and investment enterprises (hereinafter the GD)
- Act CXXXVIII of 2007 - on investment enterprises and commodity exchange services providers and the rules governing the activities they perform
- Act I of 2012 - on the Labour Code
- MNB Recommendation 3/2017 (II.9) – Recommendation of the Hungarian National Bank regarding the application of the remuneration policy

2. Total remuneration scheme, remuneration components

Remuneration consists of all forms of payments or benefits, monetary and non-monetary, made by institutions within scope, in exchange for professional services rendered by staff. All remuneration can be divided into either fixed remuneration (payments or benefits without consideration of any performance criteria) or variable remuneration (additional payments or benefits depending on performance or other contractual criteria). Both components of remuneration (fixed and variable) may include monetary payments or benefits (such as cash, shares, pension contributions, cafeteria plan benefits, etc.). Remuneration is either paid through fixed or variable components.

2.1 Base salary:

The employee's guaranteed allowance paid by monthly transfer, the amount of which is determined in the employment contract or in the related amendments or supplements – including any periodic wage increases not actually determined in such amendments to the employment contract.

2.2 Fringe benefits:

The employees are entitled, in line with the terms of the cafeteria policy, to a cafeteria allowance, the amount determined in the cafeteria policy. Further, the Bank provides other benefits to all of its employees, in the same amount and with the same accessibility to all, about which the employees may get information on site as usual (via the intranet). This includes, for example, the group life and accident insurance or the buyers' club. Depending on the job classification and the nature of the job-related tasks, and in line with the car and mobile phone use policy, a specified category of employees is entitled to the use of company cars and mobile phones.

2.2.1 Pension benefits

Pension benefits are to be aligned with the long term interests, business strategy, aims and values of the credit institution.

Pension contributions that are part of a "cafeteria type" of remuneration system are considered fix remuneration.

In the Erste Group discretionary pension benefits are not allowed as part of variable remuneration.

2.3 Variable remuneration systems

General basic principles:

The performance-related remuneration shall not endanger the sustainability of the Bank's efficient operation or the strengthening of its equity, and it may not encourage excessive risk-taking. The Managing Board must take into consideration the long-term interests of the owner, the investors and the employees when making decision about performance-related remuneration to maintaining a functional and financially stable institution.

In the performance-related remuneration policies and practices it is important that the performance-related remuneration should not be connected to only one sales of financial product or service.

All of the performance-related remunerations must be in consistent with the company's strategic objectives, values and long-term objectives. The performance-related remuneration must take into consideration the risks, the capital and liquidity position and revenues of the bank and the performance of the organisation and the employee as well.

The ratio of performance-related remuneration compared to base salary may not exceed the reasonable extent defined in section 2.4, unless otherwise approved by the Remuneration and Nomination Committee and the Board of Directors.

The employee or the manager/managing director cannot decide their own remuneration.

The performance-related remuneration is always tied to performance, and no concrete commitment may be given in this respect in advance, except for any sign-on bonus agreed for the start of employment if the company have solid and sufficient equity capital. The Bank always reserves the right not to pay any performance-related remuneration, depending on the results of the institution.

Performance bonus

The employees may be entitled an annual performance bonus once every year, based on their previous year's performance. The rules of performance appraisal are set out in sections 3 and 6.3.

The given year's performance-related remuneration is paid following the closure of the given year's financial statements, in one lump sum, as a cash reward. Exception: in case of identified staff if the payment exceeds the limit in section 4.2, special rules detailed in section 6 of the policy shall be applied.

The Supervisory Board and the Management Board of the Erste Group may, together with the Group Performance Management, annually define bonus payment thresholds for the Group and its subsidiaries and for the local banks (minimum profitability).

The Remuneration and Nomination Committee and the Management Board of Erste Bank Hungary Zrt. may define those specific groups of employees that will be effected in the event that the performance does not reach the threshold specified above.

The bonus pool available for performance-related remuneration at bank level is defined prior to the given year, during the planning period. Different criteria/indicators can apply to different segments.

The bonus pool is assessed according to at least the following criteria/indicators:

- Financial results
- Capital adequacy ratio
- Fulfilment of the annual Strategic Indicators according to the strategy review and budget dialogues
- The risk, capital, liquidity and the probability as well as the time of realised profit

The assessment of these criteria results in a bonus pool multiplier. The ex-ante bonus pool is adjusted by the bonus pool multiplier, which can vary between 0% and 120%. A bonus pool multiplier below 100% is considered a "malus" due to assessment of performance on above mentioned criteria. The respective local members of the Management Board decide about the bonus pool amount for the given Performance Period. The respective Remuneration and Nomination Committee overviews these decisions and can recommend to the supervisory board to (dis)approve the guidelines and conditions related to the bonus pool.

The accrual of the bonus budget planned and approved for a given year is decided annually by the Management Board, based on a proposal submitted by the HR, with due regard to the following criteria as well: the result of the bank/group (EVA), the capital adequacy indicator, performance of the

annual strategy, although other criteria may also be taken into account during the deliberation. The Management Board may decide on a 0-100% reduction of the bonus pool.

The Bank determines the full amount that may be distributed at bank level with due regard to any current and future risks, the capital costs and the required liquidity. If the entire Bank fails to achieve the business plan defined by the Supervisory Board, then, in accordance with the Management Board's decision, the bonus payment may be reduced relative to the budget or even withdrawn.

The individual amounts are determined by the superior managers or the evaluation committees, at their own discretion, based on individual performance appraisals and/or the performance of the sub-department (section).

KPI bonus structure

The payment of bonuses to the members of the management board (Board) and first-level managers (Board-1) based on the bonus KPI structure described in section 3.2. In assessing the performance of identified staff the rules set out in section 6.3 must also be taken into account.

Payment of bonuses calculated on the basis of the bonus KPI structure is approved, in the case of identified staff, by the Remuneration and Nomination Committee, and in the case of all other managers by the person exercising employer's rights.

Project-based bonus scheme

Those employees who are also involved in various projects besides their everyday work may, in the event of a successful implementation of these projects, be entitled to a project bonus, in accordance with their performance achieved in the project, the significance of the project and their input.

Retention bonus

A variable remuneration that is offered as an incentive to keep a key employee in the organization during a particularly crucial business cycle, like a merger or acquisition, or in situations where the institution can provide a rationale for its legitimate interest in retaining a relevant staff member.

Special incentive schemes

Subject to the approval of the Management Board – and the prior opinion of the HR– it is also possible to introduce special incentive scheme, that do not belong to any of the earlier accepted incentive scheme. The accepted incentive scheme may be modified or withdrawn at any time during the year if so required by the Bank's strategic interests or by statutory changes.

Guidelines for a new incentive scheme:

- no sales incentive is granted below a minimum sales performance level specified for the individual or the group in advance,
- the annual amount of the payment (including other performance-related payment) may not exceed the value specified in section 2.4 of the remuneration policy,
- maintenance of adequate balance of fixed and variable compensation elements also with due regard to the role and the nature of the business performed. The fixed portion is maintained sufficiently high in order to allow the variable part to decrease, and in cases to drop down to zero and where the fixed remuneration allows for financial independence. Further an adequate fixed salary relates to relevant professional experience and job function (see under section 2.4.), the paid amount is influenced by not only quantitative but also qualitative criteria,
- promotion of a customer-centric approach which places customer needs and satisfaction at the forefront and which will not constitute an incentive to sell unsuitable products to clients,
- avoidance of incentives on one single product/financial instrument, as well as single banking products,
- avoidance of incentives with excessively short timeframes (e.g. less than one month),
- the employees covered by the incentive policies are regularly provided with reports for monitoring their own performance,
- the extent of the paid incentive also increases with any increase in performance above the minimum expectation and with the fulfilment of the qualitative criteria, until the maximum value is reached, but those elements which are crossing thresholds increases the proportion of bonus earned, or through paying incentives through retrospectively achieving specific targets will be not build in.
- transparency in all rewarding system communications and reporting phases that the final evaluation of employee's achievements will also be based on their compliant behaviour in respect

of external and internal rules and regulations, defining quantitative (financial and nonfinancial) goals which include elements on quality/ riskiness/sustainability/customer satisfaction of the product sold,

- qualitative measures must be accompanied by an ex ante indication of objective parameters to be considered in the evaluation,
- the evaluation must be put in writing and documented,

Incentive awards

The winners of the sales competitions announced by the Bank may receive incentive rewards as a prize for winning the competition. The detailed rules are set out in the related descriptions of the competitions.

Commercial campaigns may be organised, after the evaluation and authorisation by a responsible committee and/or head of function. Commercial campaigns represent business actions aimed at providing guidance to the sales network towards the achievement of the period's commercial targets and with a direct impact on the budget and related incentive systems. The grant of awards related to a campaign will be subordinated to behaviours compliant with the external and internal regulations. Under no circumstances may the system of remuneration and evaluation of the sales network employees constitute an incentive to sell products unsuitable to the financial needs of the customers.

2.4 Ratio of basic salary to performance-related remuneration

The Bank's goal is to ensure that cash and non-cash recognitions are balanced, and that the Bank is an attractive workplace where the employees are motivated and committed.

Remuneration is either paid through fixed or variable components; there is no third category of remuneration. Fixed remuneration reflects the relevant professional experience, competence and organisational responsibility of employees. Variable remuneration is based on performance and in exceptional cases other conditions; variable remuneration provides incentives for prudent risk taking in the long term and for sound risk management.

The Bank ensures all employees an appropriate base salary, which must be adjusted in line with each employee's qualifications, professional skills, experience, development and performance, as well as with the value of the job position and the remuneration practices of the sector. The Bank verifies this by regularly participating in salary surveys and by analysing comparative market data. The Bank focuses on being cost-competitive on the external market and has cost-flexibility components to follow organizational changes in the institution and supply and demand developments in the labour market. Internal remuneration balance, which is the balance of fix remuneration between individual employees across all jobs, is an important aspect in pay decisions.

The Bank determines the ratio of base salary to performance-related remuneration in a way that ensures employees have an interest in and are committed to the achievement of the Bank's long-term goals and interests, making sure that this is sustainable and does not encourage excessive risk-taking, and also ensuring that the performance-related remuneration can always be adjusted to the Bank's results, strategy and capital and liquidity requirements of the entity without compromising competitiveness.

The Bank may also determine for its executive officers or employees a remuneration consisting of the base salary only, provided that the determined remuneration in this manner is consistent with the institution's long-term business and risk strategy objectives. In case of executive officers who are not in an employment relationship with the Bank, the Bank may also determine remuneration to be provided in the form of an fixed remuneration/attendance fee, which, in terms of the requirements of the Hpt. with regard to remuneration policies, is classed as base salary.

With respect to various jobs, the Bank determines the maximum ratio of the performance-related remuneration to total annual pay with due regard to market pay levels as well as the particularities of each job, as follows:

- Administrative jobs: 45% of total annual pay
- Expert jobs: 45% of total annual pay
- Branch network (retail) sales jobs: 50% of total annual pay
- Corporate sales jobs: 50% of total annual pay

- Jobs related to workout activity: 50% of total annual pay
- Treasury trading and sales jobs: 50% of total annual pay
- Managing Board: 50% of total annual pay

The Bank reviews the maximum values applied to the share of performance-related remuneration at regular intervals, and any occasional deviation has to be approved by the Remuneration and Nomination Committee and the Supervisory Board.

In case of identified staff the variable remuneration exceeding 100% of the base salary must be approved in line with Section 118. (2)-(5) of Hpt.

3. Performance appraisal

3.1 Annual performance appraisal

We formally evaluate the employees' annual performance once every year, based on the targets set at the beginning of the year, and we administrate this in the Bank's electronic performance evaluation system (e-MÉR).

In order to implement the Bank's strategy and to achieve its targets, the annual target contains the following elements for the employees:

- individual quantitative and qualitative requirements and performance targets derived from the strategy of the Bank and of the given department
- competence-related expectations related to the fulfilment of the given job
- training and development targets (optional)

The evaluation of objectives and targets is documented in the electronic evaluation system (e-MÉR). The evaluation of objectives and targets is always between a Superior and Employee. In addition, the evaluation process can be performed by an appraisal committee.

Employees engaged in internal Control Functions shall be independent from the business units they oversee, have appropriate authority, and are remunerated in accordance with the achievement of objectives linked to their functions, independent of the performance of the business units they control.

3.2 KPI bonus structure determined by Erste Group

For the members of the Management Board (Board) and first-level managers (Board-1), Erste Group centrally defines a key performance indicator (KPI) structure. These indicators are determined and accepted for Management Board members by Erste Group, and for first-level managers at partially local level and partially by Erste Group.

When determining the annual performance bonuses of the managers concerned, the evaluation of these key indicators must be taken into consideration, using the calculation method specified by Erste Group or at local level.

The bonus KPI structure of Management Board members is accepted by the Remuneration and Nomination Committee, whereas the bonus KPI structure of first-level managers is accepted by the Remuneration and Nomination Committee and the Management Board, which is then communicated to the relevant managers.

Erste Group and the Bank reviews and publishes the performance indicators for the given year, the related targets and weights for the relevant managers on an annual basis.

The targets for first-level (B-1) managers contain objective and measurable key performance indicators that support the business strategy and also take into account the internal/external customer orientation.

A The risk management function should assist in and inform on the definition of suitable risk-adjusted performance measures (including ex post adjustments), as well as in assessing how the variable remuneration structure affects the risk profile and culture of the institution. The risk management function should validate and assess risk adjustment data as well as be invited to attend the meetings of the remuneration committee on this matter.

3.3 360-degree management appraisal

At managerial level, a trilateral (superior, subordinate employee, peer) evaluation is also performed annually for the purpose of measuring the performance of the evaluated managers in terms of the managerial competences that Erste Group considers to be of key competences.

4. Classification of the employees who have major influence for the company's risk profile (identified staff) and methods of proportional application of the remuneration policy

With regard to the performance-related remuneration of executive officers and material risk takers, in compliance with the principles defined in *Section 117 of the Hpt.*, the Bank determines special rules for ensuring that the performance-related remuneration does not encourage excessive risk-taking and that it is not in conflict with shareholders' interests, the business strategy, the objectives, the values and the long-term interests of the Bank.

The group of executive officers and material risk takers includes individuals in whose case a significant correlation can be demonstrated between the activities of such individuals and the Bank's results and the risks assumed by the Bank.

The impact on the Bank's risk profile with respect to the groups listed below must be examined and the jobs involving material risk-taking must be identified on an annual basis.

When defining the group of persons exercising a material impact on the Bank's risk profile, the Bank examines the following conditions:

1. which employees are identified staff according to 604/2014/EU Decree
2. which employees or employee groups are able to exercise a material impact on the P&L or balance-sheet of the institution,
3. in the case of a material risk-taking positions, what roles do they fulfil within the institution,
4. which employees receive a particularly high overall remuneration or proportionately large performance-related remuneration.

In each institute Material Risk Takers are determined in cooperation between representatives from risk management, legal, compliance, business and HR.

The Bank should keep records of the identification process and its results. The documentation should also include staff members who have been identified under quantitative criteria, but whose professional activities are assessed as not having a material impact on the institution's risk profile, in accordance with Article 4 of Commission Delegated Regulation (EU) No 604/2014. The documentation of the identification process is available on the Human Resources Management and should be maintained for 5 years.

The list of Employees identified as Material Risk Takers are approved by the respective management boards and the respective remuneration committees. The Supervisory Board approves the identification process within the remuneration policy. The identification process must be subjected to a central, independent and regular, at least annual, internal review, which is to be conducted by way of an independent internal audit.

Based on the above criteria, and in line with the proportionality principle, the Bank regards the following jobs as jobs exercising a material impact:

4.1.1 Management body in its management function

The employees who are the members of the management body in its management function are considered to be identified staff according to EU Decree article 3 section (1).

In case of the Bank and the Subsidiaries, the management function belongs to the Board of Directors. The external members of the Board of Directors don't receive any performance related remuneration, they only get fixed remuneration/attendance fee..

4.1.2 Management body in its supervisory function

The employees who have supervisory function are considered to be identified staff according to EU Decree article 3 section (2).

In case of the Bank and the Subsidiaries, the supervisory function belongs to the Supervisory Board. The members of the Supervisory Board don't receive any performance related remuneration, they only get fixed remuneration/attendance fee . Those employees who are delegated by the Workers Committee into the Supervisory Board are not being paid for their function.

4.1.3 Senior management

The members of the senior management are considered to be identified staff according to EU Decree article 3 section (3).

4.1.4 Independent risk management function, compliance function or internal audit function

The staff member is responsible and accountable to the management body for the activities of the independent risk management function, compliance function or internal audit function are considered to be identified staff according to EU Decree article 3 section (4).

4.1.5 Manager with responsibility for risk management of material business unit

The staff member has overall responsibility for risk management of material business unit are considered to be identified staff according to EU Decree article 3 section (5).

4.1.6 Heads a material business unit

The staff member heads a material business unit are considered to be identified staff according to EU Decree article 3 section (6).

4.1.7 Managers with reporting obligation to the manager of independent risk management function, compliance function or internal audit function or to the manager with responsibility for risk management of material business unit

The staff member has managerial responsibility in one of the functions referred to in point (4.1.4) or in a material business unit and reports directly to a staff member identified pursuant to point (4.1.4) or (4.1.5) are considered to be identified staff according to EU Decree article 3 section (7).

4.1.8 Managers with reporting obligation to the head of material business unit

The staff member has managerial responsibility in a material business unit and reports directly to the staff member who heads that unit are considered to be identified staff according to EU Decree article 3 section (8).

4.1.9 Heads a function responsible for legal affairs, finance, human resources, remuneration policy, information technology, or economic analysis

The staff member heads a function responsible for legal affairs, finance including taxation and budgeting, human resources, remuneration policy, information technology, or economic analysis are considered to be identified staff according to EU Decree article 3 section (9).

4.1.10 The member of a committee responsible for the management of a risk category other than credit risk and market risk

The staff member is responsible for, or is a member of, a committee responsible for the management of a risk category other than credit risk and market risk are considered to be identified staff according to EU Decree article 3 section (10). The members without voting rights or the temporary members are not being identified staff.

Relevant Committees:

- Asset-Management Committee (ALCO)
- Operational Risk Management Committee (operational risk)
- Retail Risk Committee (RRC) (credit risk, counterparty risk)
- Corporate Risk Committee (CRC) (credit risk, counterparty risk)

4.1.11 Credit risk exposure

With regard to credit risk exposures of a nominal amount per transaction which represents 0.5 % of the institution's Common Equity Tier 1 capital and is at least EUR 5 million, the staff member are considered to be identified staff according to EU Decree article 3 sections (11):

- a) is responsible for initiating credit proposals, or structuring credit products, which can result in such credit risk exposures; or
- b) has authority to take, approve or veto a decision on such credit risk exposures; or

- c) is a member of a committee which has authority to take the decisions referred to in point (a) or (b);

Based on the foregoing, the identified staff is as follows

According to the Bank's Corporate Risk-taking Policy the decision making authorities credit risk exposures is defined in the 1st Annex of the policy:

4.1.12 market risk related decisions

The staff member has authority to take, approve or veto a decision on transactions on the trading book where the standardised approach is used, an own funds requirement for market risks which represents 0.5 % or more of the institution's Common Equity Tier 1 capital are considered to be identified staff according to EU Decree article 3 section (12).

4.1.13 managerial responsibility for market and credit risk

The staff member has managerial responsibility for a group of staff members who have individual authorities to commit the institution to transactions and the sum of those authorities equals or exceeds a threshold set out in point 4.1.11 or point 4.1.12 are considered to be identified staff according to EU Decree article 3 section (13).

4.1.14 Introduction of new products

With regard to decisions to approve or veto the introduction of new products, the staff member has the authority to take such decisions or is a member of a committee which has authority to take such decisions are considered to be identified staff according to EU Decree article 3 section (14).

4.1.15 Managerial responsibility for identified staff

The staff member has managerial responsibility for a staff member who meets one of the criteria set out in points 4.1.1-4.1.14 are considered to be identified staff according to EU Decree article 3 section (15).

4.1.16. Employees identified by quantitative criteria and with major influence to the risk-taking

The identified employees according to EU Decree article 4 can be found in Annex 5. This annex has a limited access because it contains such sensitive personal data which are available only for those who needs them only for their work. The reviewing of Annex 5 without any modification of the current policy is the duty of Human Resource Management.

It's required to notify the competent (financial market) authority if any of the criteria exists described in the paragraph 4 and 5 of section 4 of the EU directive.

4.1 Reasons for proportional application in relation to the remuneration policy (GD Section 2 (2))

Pursuant to the GD Section 2 (2) on the proportional application in relation to the remuneration policy the Bank apply the bonus payment methods set out in the Group Remuneration Policy, which is to be implemented across the Group.

The bonus payments below 60.000 EUR are not deferred, they are paid in cash and in one instalment for the identified staff (material risk takers) as well. The Remuneration and Nomination Committee might define a lower limit. In case the Remuneration and Nomination Committee takes no other decision, the rules set out in the 6.1-6.3 point are not applicable for the bonus payments below 60.000 EUR.

5. Payment of the performance related remuneration

The performance related remuneration for those employees not defined as identified staff is always in cash in one instalment. The special rules for the bonus payment model of identified staff is described in the Chapter 6 of this policy. The total variable component of remuneration shall be considerably contracted where subdued or negative financial performance of Erste Group and/or any of its companies occurs due to criteria as described in chapter 2.3.1 of this policy. This assessment impacts both the current variable remuneration and reduction in pay-outs of bonus amounts previously earned. The Bank reserve the right to pay no variable remuneration component at all. Any kind of performance related remuneration remains in the Employers sole decision, the employees have no subjective right

to claim it. The Management Board is responsible for ensuring that payments of performance related remuneration are linked to sustainable profitability, the risk timeframe of performance and consider claw-back actions on the basis of a pretext subsequently proven to be erroneous.

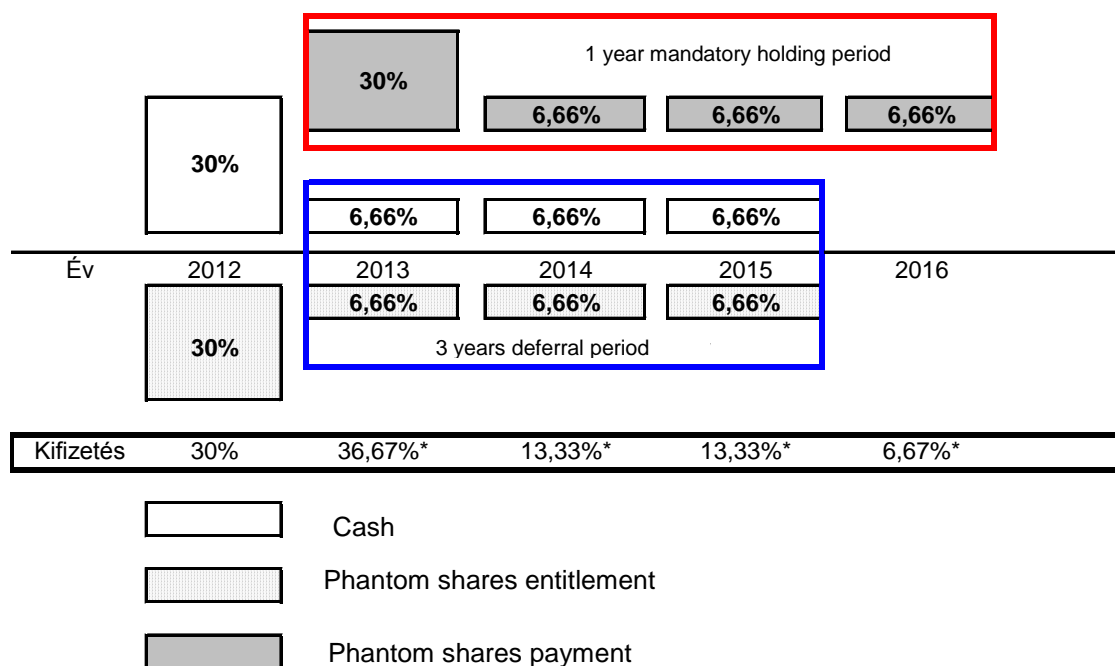
6. Special rules related to the performance-related remuneration of executive officers and employees exercising a material impact on the Bank's risk profile

6.1 Deferred and non-cash payments

- **Deferred and non-cash payments remuneration of material risk takers other than executive officers.**

With regard to the payment of the performance-related remuneration of material risk takers, the Bank applies a deferred bonus payment procedure if the bonus amount is over 60.000 EUR, according to which entitlement to 60% of the bonus determined on the basis of the current year's performance may be acquired during the current year, and 40% is deferred and distributed over 3 years, in equal instalments. The Bank provides both the current year's and the deferred bonus amounts 50% in cash and 50% in the form of phantom shares (non-cash payment). When paying the deferred bonus of Management Board members the rules of Erste Group must also be taken into account. When a bonus amount exceeds EUR 150 000 a ratio of 40% upfront payment and 60% deferral is applied. Still, 50% of all such payments have to be effected in instruments. The effective payment is always in cash (in case of phantom shares as well).

Example for 3 years deferral:



* modified with exchange rate and inflation indexation

- **Deferred and non-cash payments remuneration of executives officers**

With regard to the payment of the performance-related remuneration of executive officers, the Bank applies a deferred bonus payment procedure if the bonus amount is over 60.000 EUR. The Bank provides both the current year's and the deferred bonus amounts 50% in cash and 50% in the form of phantom shares (non-cash payment). The entitlement to 60% of the bonus in the form of cash determined on the basis of the current year's performance may be acquired during the current year, and 40% is deferred and distributed over 4 years, in equal instalments. The entitlement to 49% of the

bonus in the form of phantom shares in cash determined on the basis of the current year's performance may be acquired during the current year, and 51% is deferred and distributed over 4 years, in equal instalments. When paying the deferred bonus of Management Board members the rules of Erste Group must also be taken into account. When a bonus amount exceeds EUR 150 000 a ratio of 40% upfront payment and 60% deferral is applied. Still, 50% of all such payments have to be effected in instruments. The effective payment is always in cash (in case of phantom shares as well).

6.2 How the phantom share works:

The price of the phantom shares is tied to the price of the shares of Erste Group as quoted on the Vienna Stock Exchange. The mandatory holding period of the phantom shares is one year, which means that the value of the phantom shares is only paid to the employees after the expiry of this period. Phantom shares are always paid in cash and are never transmitted to the Employee. The deferral and retention is aligned with the longer term interests of the Bank.

6.3 Annual performance appraisal and revaluation

In the case of the performance-related remuneration of identified staff, we simultaneously evaluate, by the last working day of February of the year following the reference year, the results of the individual (based on financial and non-financial criteria), the related organisational unit and of the credit institution for the given year.

The basis for performance appraisal is the Bank's long-term performance, and therefore we set both short-term and long-term objectives for the jobs concerned. When determining the performance-related remuneration, the Bank takes into account the performance indicators for three years.

The multi-year appraisal is also assured by the subsequent risk performance re-appraisal procedure related to the deferred payment procedure applied in the case of material risk takers. This longer appraisal period enables any risks that may arise in the meantime to be taken into account in the performance appraisal.

When determining the performance-related remuneration, in addition to the results of the local performance appraisal, in case of identified staff it is also necessary to take into account the quantitative and qualitative key performance indicators described in section 3.2, i.e. the bonus KPI structure.

The bonus KPI values determined by Erste Group may include, for example, the following indicators:

- Cost/income ratio
- operating result
- Non-performing loans (NPL) coverage ratio
- Risk-weighted assets (RWA)
- Leadership

The weight of each indicator is contained in the bonus KPI structure described in section 3.2, which is determined annually based on Erste Group guidelines.

The performance-related remuneration of identified staff may only be paid if the minimum profitability criteria determined for the given year have been met.

If any of the above criteria is not met in the given year, then no payment, either immediate or deferred from previous years, may be exercised with respect to the given year, and such payment can not be exercised later either. There is a possibility for re-evaluation of the deferred, not yet paid part of the performance related remuneration according to the rules set out in the chapter 2.3.1 of this policy. The Remuneration and Nomination Committee has the right to take these decision for identified staff.

In the current year the employee only acquires entitlement to a deferred allowance. At the end of the deferment period, by the last working day of March of every year, the employee's performance achieved in the previous years must be re-appraised, and on this basis a decision is made regarding whether the deferred reward should be paid. Based on the result of the subsequent re-appraisal, the Bank may modify the amount of the employees' deferred remuneration. The subsequent re-appraisal must always be performance-related. The Bank may reduce the deferred part primarily in those case in which:

- any inappropriate conduct or failure on the part of the executive officer or employee can be clearly established,
- the financial performance of the Bank or the given organisational unit or business line has dropped significantly,
- errors or deficiencies have been identified in the given area.

In the case of the deferred phantom share allocation, the value of the shares acquired at the end of the deferment period changes during the holding period depending on changes in the share price.

6.4 Guaranteed bonus payment

A commitment to pay performance-related remuneration in respect of certain positions may only be undertaken in exceptional cases, and, for new hires, only in the first year of their employment. In such cases, the guaranteed performance-related remuneration may be paid in cash or in the form of any other asset and may be paid in one instalment without deferral. When calculating the ratio between the variable and the fixed components of the total remuneration the guaranteed bonus shouldn't be taken into account.

It's not allowed to take any commitment for performance-related remuneration and can not form part of future remuneration plans.

6.5 Reclaiming of rewards

The Remuneration and Nomination Committee may decide on reclaiming the already granted awards if during the performance appraisal or subsequent risk-related appraisal it becomes obvious that the given employee has

- committed a gross breach of the law
- Misleading information provided by the Employee, if such information had or could reasonably have had an impact on the performance assessment
- caused serious and wilful damage to the Bank
- acted unethically,
- is responsible or take part in a practice which caused significant loss for the Bank,
- The employee is dismissed by way of dismissal without notice period, according to the respective local law (in the valid constitutional edition).

The variable remuneration is awarded only if it is sustainable considering the financial situation of Erste Bank and justified according to the performance of the respective unit and the individual concerned. Otherwise, variable remuneration shall be awarded only in a limited amount (malus).

Any cash reward already paid to him/her or any phantom share allocation already acquired by him/her may be completely subsequently reclaimed or deducted. Such reclaim, deduction must always be in compliance with the effective Hungarian labour laws; it must be provable by the employer and it must be justified.

6.6 Termination of employment

In the event of the termination of employment, we differentiate between the following three cases:

1. The termination of employment is initiated by the employee, by notice of termination, or by the employer, based on Section 78 (1) of the Hungarian Labour Code (Mt.), either by termination with immediate effect, or by termination by the employer, to the extent that the employee is not entitled to severance pay according the rules of the Mt.

In this case the employee does not acquire entitlement to any deferred and not-yet-paid performance-related remuneration. In the event of termination by the employer with immediate effect, it is also necessary to examine whether there has been any such infringement of law that might give grounds for the reclaim of any effected payments discussed under section 6.5.

2. The employment relationship is terminated at the employee's initiative by immediate termination (Mt. Section 78 (1)), or at the employer's initiative, by ordinary termination – except for the termination mentioned in the previous section, if the employee retires, or if his/her fixed-term employment expires, or if it is terminated at the employer's initiative prior to the end of the fixed term.

In this case the employee might be entitled to any deferred and not-yet-paid performance-related remuneration, at the time when these payments will be effective. With respect to those years preceding the payment for which there is still a pending deferred payment, a re-appraisal procedure must be conducted, and if necessary, the payable amount must be modified in accordance with the results of the re-appraisal.

3. The employment is terminated by mutual consent.

In this case, in accordance with the circumstances of the termination of the employment, the parties enter into an individual agreement, with due regard to the above principles. Unless otherwise separately provided by the parties, the employee shall not be entitled to any payment.

6.7 Severance

Severance payments must reflect performance achieved over time and must not reward failure or misconduct. Severance pay should not be awarded where a staff member resigns voluntarily, unless the severance payment is required by national labour law.

Where severance pay is awarded, the reasons for the severance payment, the appropriateness of the amount awarded and the criteria used to determine the amount, including that it is linked to the performance achieved over time and that it does not reward failure or misconduct, must be documented.

Severance payments may include redundancy remuneration for loss of office, and may be subject to a non-competition clause in the contract. In particular, in the following situations, additional payments made, because of the early termination of a contract, should be considered as severance payment in relation with the section 77 of the Labour Code:

- the employer terminates the contracts of staff because of a failure of the employer;
- the employer wants to terminate the contract following a material reduction of the employer's activities in which the staff member was active in or where business areas are acquired by other employers without the option for staff to stay employed in the acquiring employer;
- the employer and a staff member agree on a settlement in case of a potential or actual labour dispute, to avoid a decision on a settlement by the courts.

Severance payments should be considered as variable remuneration. The following amounts of severance payments should not be taken into account for the purpose of the calculation of the ratio of fixed and variable remuneration and for the application of deferral and the pay out in shares as an instrument:

- a. severance payments mandatory under national labour law, mandatory following a decision of a court
- b. predefined generic formula set within the remuneration policy, collective agreement or in Workers council agreement
- c. settlements made for the loss of office where they are subject to a non-competition clause ('gardening leave') in the contract and paid out in future periods up to the amount of the fixed remuneration which would have been paid for the non-competition period, if staff were still employed;
- d. severance payments, not fulfilling the condition in point (a) of this paragraph, where the institution has demonstrated to the competent authority the reasons and the appropriateness of the amount of the severance payment.

Regular remuneration payments related to the duration of a notice period are fix remuneration and not considered as severance payments.

When calculating the ratio between the variable and the fixed components of the total remuneration the following amounts of severance pay should be taken into account as variable remuneration for the purpose of the calculation of that ratio for the last performance period:

- the sum of any higher amounts than the fixed remuneration for the future periods under point (c) of the above section
- any other severance pay not listed in the above section

6.8 Prohibition on hedge transactions

The Bank's manager/employer classed as a material risk taker may not conclude any personal hedge transaction to eliminate the effects of the risk assumption related to his/her performance-related remuneration. All employees are obliged to notify Legal and Compliance in writing if they wish to ask for permission for any kind of hedge transaction. Under these powers, Compliance checks the request for permission, and if the hedge transaction is aimed at eliminating the risk exposure built into the performance-related remuneration system, it rejects it. If the employer learns that the employee has breached these rules, it may reclaim, even at a later point in time, any cash rewards already paid to the employee or any phantom shares already acquired by him/her.

7. Remuneration and Nomination Committee:

Pursuant to Section 117 (6) of Hpt., the Bank must set up a remuneration committee. Members of the committee are set out in its by-laws of the Remuneration and Nomination Committee.

If, in accordance with the relevant legal provisions, any of the Subsidiaries is obliged to operate a remuneration committee, then the tasks of such remuneration committee are fulfilled by the Bank's remuneration committee with respect to the Subsidiary as well.

The Management Board and where established 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.

The Remuneration and Nomination Committee meets twice a year.

The detailed tasks of the Remuneration and Nomination Committee are set out in its by-laws, tasks in connection with the remuneration policy:

- preparation of decisions regarding the remuneration of the managers responsible for risk management and legal compliance, and the supervision of their remuneration;
- reviews ex-ante and ex-post new variable remuneration schemes or significant changes in existing variable remuneration schemes.
- preparation of Supervisory Board's decision regarding the principles of the remuneration policy revision and selection of external advisers required in relation to the elaboration and operation of the remuneration policy, defining the related tasks;
- during the elaboration and auditing of the remuneration policy, cooperation with the employees performing the auditing tasks;
- collaboration in the annual review of the remuneration policy and the elaboration of the related application practice;
- ensuring publication of the remuneration policy
- maintaining, adopting and reviewing as well as enforcing the execution of the remuneration strategy and policy. The committee members are an active part of the design process of a remuneration strategy and remuneration model
- approving of the performance indicators for BoD members and first-level managers, the Deputy CEO – Risk Management (CRO) should be invited to attend the meetings of the Remuneration and Nomination committee on this issue.
- continuous monitoring of the remuneration policy and practice as well as any related abuses
- making decisions regarding the reclaiming of any performance-related remuneration submitted to the committee and already paid
- checking whether the remuneration policy is indeed in compliance with the risks of the institution, and whether it is consistent with its capital and liquidity position and with its long-term corporate governance strategy.

Intents of the Remuneration and Nomination Committee

- has access to all the data and information supporting the decisions of the Supervisory Board regarding the elaboration and operation of the remuneration policy,
- has access to all the information related to risk management and to the activity of employees fulfilling control functions that is to be taken into account in relation to remuneration,
- ensures the involvement of internal audit and any other managers that have an interest in the matter,
- provides the Board of Directors and the General Assembly with appropriate information regarding the implementation of the remuneration policy;
- all employees must cooperate with the members of the Remuneration Committee and provide them with the necessary information.

8. Control and revision of the remuneration policy

The remuneration policy must be subjected to a central, independent and regular, at least annual, internal review, which is to be conducted by way of an independent internal audit.

The other relevant internal corporate functions (Human Resources Management, Legal & Compliance, and Strategic Management), as well as other key supervisory function committees (i.e. audit, risk and remuneration and nominations committees), should be closely involved in reviewing the remuneration policies of the institution in order to assure the alignment with the institutions' risk management strategy and framework.

If necessary, external consultants may also be brought in to assist with this review. During the course of the review, it must be examined whether the remuneration policy

- is being appropriately implemented,
- complies with national and EU legislation and standards.

The review of the remuneration policy is subject to central and independent internal review for compliance with legal requirements, regulatory provisions, policies and procedures for remuneration adopted by the management body in its supervisory function.

The internal audit report related to the implementation of the remuneration policy is to be discussed not only by the Board of Directors, but also by the Supervisory Board and, if necessary, the Remuneration Committee, all of which may submit proposals for the amendment of the remuneration policy, and elaborate the appropriate procedures. The internal audit reports as well as the findings of any other examinations regarding the application of the remuneration policy must be made accessible to all managers and organisational units involved in the elaboration and review of the remuneration policy.

9. Publication of the remuneration policy

In accordance with the Section 122-123 of the Hpt, the Bank ensures an adequate level of transparency in respect of the remuneration policy of the Bank and its Subsidiaries and the risks related thereto. It makes available the provisions of the remuneration policy to all parties concerned, including, with regard to its internal stakeholders, all managers, employees and shareholders, as well as to the public at large. During such publication the Bank provides detailed information regarding the remuneration policy, the remuneration practices and the remuneration of those employees whose activities have a material impact on the institution's risk profile. The Bank displays these publications on its website and on the intranet.

By 30 June of each year, the Bank provides MNB with the remuneration data of the year preceding the then-current year, in accordance with the provisions of MNB Decrees 49/2015 (XII.9).

The aggregated quantitative information on remuneration data for 2016 of the Bank and its subsidiaries under consolidated supervision has been published in the Pillar III report.

Remuneration policy of Erste Ingatlan Kft, Sió Ingatlan Kft, Erste In-forg Kft and Collat-Real Kft

While the capital of Erste Ingatlan Kft. is below HUF 500 billion and there isn't any executive officer or employee whose yearly remuneration from the company or from the companies under consolidated supervision reaches HUF 300 million, the section 4/a-b of the Government Decree might be used when defining the identified staff and the performance-related remuneration of identified staff, which means that the Erste Ingatlan Kft. might pay the performance-related remuneration for identified staff in cash without any deferral. The performance-related remuneration is defined based on the performance indicators and rules set out in the section 7 of GD. Based on this reasons the above listed identified staff of Erste Ingatlan Kft. are neutralized from the special rules of section 6.1, 6.2, 6.4, 6.5, 6.6, 6.7 of the Remuneration Policy.

Once the capital of Erste Ingatlan Kft. reaches HUF 500 billion and/or there will be any executive officer or employee whose yearly remuneration from the company or from the companies under consolidated supervision reaches HUF 300 million, the persons defined as identified staff and the methods of proportional application of the remuneration policy has to be reviewed.

According to the section 117 (6) of the Hpt. the Erste Ingatlan Kft, Sió Ingatlan Kft, Erste In-forg Kft and Collat-real Kft are not obligated to establish a remuneration committee while their market share is below 5%.

Remuneration policy of Erste Lakáslízing Zrt.

While the persons defined as identified staff and the managing directors of Erste Lakáslízing Zrt. are not entitled for any performance related remuneration, therefore the section 4 and 6 of the Remuneration Policy are not applicable.

According to the section 117 (6) of the Hpt. the Erste Lakáslízing Zrt. are not obligated to establish a remuneration committee while their market share is below 5%.