

## **Sberbank Magyarország Zrt.**

### **Remuneration Policy**

valid from 13<sup>th</sup> May 2020

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## 0. Aim terms and abbreviations used in the policy

<b>Accrual Period</b>	the period (i.e. a fiscal year) during which the performance of the staff member is assessed and measured for the purposes of determining its remuneration; the right to receive the variable remuneration is earned ("awarded") at the end of the period or during the period.
<b>AMA</b>	Advanced Measurement Approach is one of three possible operational risk methods that can be used
<b>Austrian Banking Act</b>	the Austrian Banking Act (Bankwesengesetz – BWG).
<b>BaSAG</b>	Austrian regulation for recovery and resolution of credit institutions and investment firms (Banken Sanierungs- und Abwicklungsgesetz).
<b>CDR</b>	the Commission Delegated Regulation (EU) No 604/2014 of 4 March 2014 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.
<b>CEBS</b>	the Committee of European Banking Supervisors.
<b>CEE</b>	Central and Eastern Europe.
<b>CET 1</b>	Common Equity Tier 1 capital.
<b>CRR</b>	Regulation (EU) 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (Capital Requirements Regulation).
<b>CRD IV</b>	the Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (Capital Requirements Directive IV).
<b>EBA</b>	the European Banking Authority.
<b>EEA</b>	the European Economic Area.
<b>ESMA</b>	European Securities and Markets Authority
<b>EU-Subsidiary</b>	any Subsidiary located in an EEA-Member State other than Austria.

<b>FMA</b>	the Austrian Financial Market Authority (Finanzmarktaufsichtsbehörde – FMA), the competent authority for banking supervision in Austria.
<b>ILAAP</b>	Internal Liquidity adequacy assessment process
<b>IRB</b>	Internal ratings-based approach to capital requirements for credit risk
<b>LCR</b>	Liquidity Coverage Ratio
<b>Local Policy</b>	the policy on remuneration policies and practices issued by a Subsidiary at local (solo) level.
<b>Non-EU-Subsidiary</b>	any Subsidiary located in a third country, i.e. any country which is not an EEA-Member State.
<b>NSFR</b>	Net Stable Funding Ratio
<b>General Principles</b>	as stipulated in Annex to Art. 39b Austrian Banking Act and described in detail in point 3.2 hereof.
<b>Identified Staff</b>	has the meaning given to it in point 2.3.1 hereof.
<b>Group Policy</b>	this Sberbank Europe AG Group Remuneration Policy being a group policy of SBEU on remuneration policies and practices.
<b>KPI</b>	key performance indicator.
<b>MiFID</b>	Markets in Financial Instruments Directive
<b>NPAT</b>	Net Profit After Tax
<b>RAS</b>	Risk appetite statement
<b>Remuneration Committee</b>	has the meaning given to it in point 4.1 hereof.
<b>Remuneration Rules</b>	has the meaning given to it in point 4.1 hereof.
<b>RWA</b>	Risk-weighted asset
<b>SBAG</b>	Sberbank Europe AG (including its branches, in particular Sberbank Direct, Germany [SBDE], and representative offices, if any), the superordinate (credit) institution of SBEU pursuant to Art. 30 of the Austrian Banking Act.
<b>SBEU</b>	the group of credit institutions pursuant to Art. 30 of the Austrian Banking Act consisting of SBAG as superordinate (credit) institution and the Subsidiaries as subordinate institutions.
<b>SBRF</b>	Sberbank of Russia, the (direct) parent undertaking and 100% shareholder of SBAG.
<b>Specific Principles</b>	as stipulated in Annex to Art. 39b of the Austrian Banking Act and described in detail in point 3.3 hereof.

<b>Subsidiary</b>	any (direct or indirect) subsidiary (including its branches and representative offices, if any) of SBAG included in SBEU as subordinate institution pursuant to Art. 30 of the Austrian Banking Act (i.e. credit institutions, financial institutions, investment firms, ancillary services undertakings) located in Austria or abroad.
<b>PP</b>	priority projects as defined by the Remuneration Committee.
<b>PPM</b>	Priority Projects of Manager

## 1. Introduction

SBHU is a bank located in Hungary, subsidiary of SBEU.

Remuneration policies and practices which encourage excessive risk-taking behaviour are considered to be able to undermine sound and effective risk management of the Bank. This Policy of SBHU aims to establish and maintain, for all categories of staff, remuneration policies and practices that are consistent with effective risk management taking into account the proportionality principle.

Subject matter of this policy is also covered in the following internal rules and regulations: SBHU Bonus and Performance Management guideline. In case of any conflicts, this document and its provisions shall prevail.

### 1.1. Effective Date

This Policy becomes effective as of 23.12.2019 and replaces previous version of the Policy.

Unless otherwise stated the Policy shall apply for the first time to all Remuneration paid within SBHU for the fiscal year 2019.

## 2. Proportionality Principle

### 2.1. Preliminary Remarks

The establishment and application of the principles of remuneration policies and practices have to be proportionate ("proportionality principle"):

The proportionality principle aims to consistently match the remuneration policies and practices with the individual risk profile, risk appetite and the strategy of an institution, so that the objectives of the principles are more effectively achieved. The proportionality principle applies to all remuneration principles (i.e. both, the General and Specific Principles; point 3.2; 3.3).

The application of the proportionality principle may also lead to the neutralization of some requirements if this is reconcilable with the risk profile, risk appetite and the strategy of an institution.

### 2.2. Proportionality among Institutions

#### 2.2.1. Preliminary Remarks

The different risk profiles and characteristics among institutions (e.g. complex and/or international institutions on the one hand and less complex and/or local on the other hand) justify a proportionate implementation of the remuneration principles ("proportionality among institutions").

Criteria addressing the application of the proportionality principle among institutions are the size, internal organization and the nature, scope and complexity of their activities.

An institution however which has either a balance sheet total exceeding EUR 1 billion or has issued transferrable securities admitted to trading at a regulated market qualifies as a (middle or high) complex institution pursuant to the proportionality principle.

- Size:
  - *e.g. amount of balance sheet total (complex institution = balance sheet total exceeding EUR 1 billion; high-complex institution = balance sheet total exceeding EUR 10 billion);*
  - *big size in relative terms (i.e. an institution small in the international market, but significant for its national market); high risk weighted assets, high number of staff and branches (in particular compared to its peer group)*
- Internal organization:

*e.g. legal form (of a joint-stock corporation); listing of the shares on regulated markets; use of internal/advanced methods for calculating own funds requirements (e.g. IRB, AMA methods); polynomial and/or multi-level internal organizational structure)*
- Nature, complexity, and scope of business activities:

*nature: not only typical retail banking business, but also typical investment banking business and business of big banks (such as proprietary trading in derivative and structured products); other (non-banking) business;*

*complexity: extensive, overlapping business with difficult immediate risk assessment;*

*scope: high portion of investment banking, complex and/or non-banking activities; not only regional or national, but also international activities.*

In assessing what is proportionate, the focus should be on the combination of all the mentioned criteria. A strongly marked criterion however has to be considered as more important or even decisive.

#### **2.2.2. Application of Proportionality**

The following criteria are relevant:


- SBHU does not have any trading book or any proprietary trading.
- SBHU is a non-listed institution (i.e. its shares are not listed/publicly traded) and did not issue any listed instruments (in particular no transferrable securities admitted to trading at a regulated market).
- SBHU does not have any non-cash instruments appropriate to be used for the purposes of variable remuneration, in particular no listed shares, no share-linked instruments or equivalent non-cash instruments.<sup>1</sup>
- SBHU does not carry out any typical investment banking or non-banking business. The business model of SBHU and the respective transactions carried out (including the offered products and contracts) are (to the extent possible) highly standardized, centralized, simple and non-complex.
- In addition, SBHU does not use any internal methods/models/approaches for the calculation of capital requirements.
- SBHU is a rather small bank in Hungary with a market share of 1%.
- Relevant key figures can be found within Annex 2.

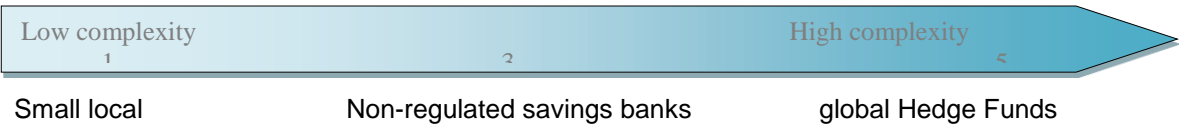
SBHU uses a scoring system for self-assessment in order to provide for a transparent and comprehensible evaluation.

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<sup>1</sup> For details on such instruments see also the Consultation Paper on "Draft Regulatory Technical Standards on classes of instruments that are appropriate to be used for the purposes of variable remuneration under Article 94(2) of the Capital Requirements Directive" (EBA/CP/2013/32) dated 29 July 2013.

Within the scoring system, all criteria are assessed individually on the basis of their characteristics and each criterion is attributed to a rating within a scale from 1 to 5. While a rating of 1 is equivalent to a low complexity evaluation, 5 corresponds to a high complexity evaluation. As the regulatory requirements require an assessment of a range of different criteria for the complexity assessment without giving an indication on possible weighting, within the complexity scoring system all criteria shall be weighted equally and be used within the complexity scoring system as set out in Table 1.

Criteria	Weight	Rating	Weighted Rating
Size of the institution	equal	 1...low complexity 5... high complexity	
Market share			
Systemic relevance			
Internal organization			
Nature of the activities			
Scope of the activities			
Complexity of the activities			
<b>Overall complexity level</b>	1	<b>Total weighted Score</b>	



As SBHU is exceeding a total balance sheet of 1 billion EUR, the institution is classified as **middle-complex**, even though according to the Government Decree 131/2011 financial institutions having balance sheet amount under HUF 500 billion shall be entitled to use neutralization rules (reference is made to point 2.1).

Details on the respective assessment can be found in Annex 2.

**2.2.3. Consequences for SBHU**

As a middle-complex institution, SBHU may:

- fully neutralize the Specific Principle regarding the payment of variable remuneration in non-cash instruments;
- apply the neutralization for the requirement to establish a Remuneration Committee. In case of exceeding market share of 5 % regarding balance sheet, it is necessary to establish a Remuneration Committee based on Hpt (CCXXXVII / 2013). The examination regarding establishment of Remuneration Committee has to be repeated once in every year during the review of the remuneration policy;
- partly neutralize some of the Specific Principles on the retention, deferral and *ex-post* incorporation of risk for variable remuneration.

**2.3. Proportionality among Categories of Staff**

**2.3.1. Preliminary Remarks**

Due to the principle proportionality, not all remuneration principles apply to all staff members in the same way; in particular, the Specific Principles (point 3.3) only apply to Identified Staff ("proportionality among categories of staff").

For this reason, SBHU identified categories of staff whose professional activities have a material impact on its risk profile, taking into account qualitative and appropriate quantitative criteria ("**Identified Staff**").<sup>2</sup>

Based on the evaluation on institutional level in addition, the following non exhaustive elements might be taken into account for make use of neutralisation also within the group of Identified Staff:

- a) size and form of material impact of the function on the risk profile of the institution, e.g.

<sup>2</sup> For the definition and the identification of categories of staff as Identified Staff, in particular also the respective CDR has to be taken into account.

- size of the obligations into which a risk taker may enter on behalf of the credit institution;
- b) the structure (form and size) of the remuneration of the staff members, e.g. the amount of the variable remuneration, the % of variable remuneration to the fixed remuneration.

### **2.3.2. Identified Staff assessment**

- (1) SBHU shall conduct an annual identification self-assessment to identify categories of staff whose professional activities have or may have a material impact on its risk profile ("Identified Staff").
- (2) This identification self-assessment shall be performed in line with the requirements provided for in CDR (Annex 1: Qualitative and Quantitative Criteria). According to this regulation every staff member within SBHU should be assessed based on the qualitative and quantitative criteria. Where needed additional criteria should be set forth by the institution that reflect the level of risk of different activities within the institution and the impact of staff members on the risk profile.
- (3) When applying the quantitative criteria, monetary and non-monetary fixed or variable remuneration components (e.g. company cars, different insurances, contributions to life insurances, etc.) shall be taken into account. Moreover quantitative criteria should apply to all staff on a consolidated and sub-consolidated basis.
- (4) To ensure a clear, consistent and properly documentation, the identification self-assessment shall be performed through an excel tool, where all relevant criteria in particular those mentioned within the CDR as well as possible additional criteria are listed. The identification self-assessment shall be performed for all staff members within SBHU as well as seconded staff members of subsidiaries or branches, if directly employed at an EU institution or branch and for members of the Supervisory and Management Board. If one of the outlined criteria is met the staff member can be considered as "Identified Staff". In some cases beforehand identified staff members can be subject to exceptions and, thus, be subsequently excluded from "Identified Staff" (e.g. staff member does not have a material impact on the institutions risk profile).
- (5) In any case at least the following facts of the performance of the identification self-assessment should be documented:
  - a) the rationale underlying the self-assessment and the scope of its application;
  - b) the approach used to assess the risks emerging from the institution's business strategy and activities, including in different geographical locations;
  - c) how persons working in institutions and other entities within the scope of consolidation, subsidiaries and branches, including such located in third countries, are assessed;
  - d) the role and responsibilities of the different corporate bodies and internal functions involved in the design, oversight, review and application of the identification self-assessment process; and
  - e) the identification outcome.
- (6) The identification self-assessment needs to be updated periodically during the year at least with regard to the criteria under Art. 3 of the CDR (staff members for whom the criteria set out in Art. 3 of the CDR are applicable or likely to be applicable for a period of at least three month in a financial year are treated as Identified Staff).

### **2.3.3. Application of Proportionality among Categories of Staff**

The group of Identified staff was defined based on the section 2.3 and of the Government Decree no. 131/2011. (VII.18.) applying the principle of proportion due to the decision/competence matrix.



The actual list with all the criteria underlying the Identified Staff is approved by the Management Board and attached as Annex 1. The result of the annual assessment of Identified Staff can be found in Annex 3 of this policy.

Members of the Management Board have to be considered as Identified Staff at Group level as well, therefore their remuneration is based on the Group Remuneration Policy of the Bank Group.

SBHU does not identify as Identified Staff those B-2 level managers who do not have any memberships in risk and credit related committees, and do not have functional decision making power on a solo level, therefore they do not have a material impact on risk management with reference to the principle of proportionality in accordance with Section 3 of the Government decree No 131/2011 (VII. 18) on application of remuneration policy with respect to the size, the quality and scope of activity and the legal form of the credit institution and investment enterprise.

#### **2.3.4. Consequences for Identified Staff within SBHU**

Based on the neutralization of some of the Specific Principles on the retention, deferral and ex-post incorporation of risk for variable remuneration (see point 2.2.3) SBHU may completely neutralize the Specific Principle on the deferral for Identified Staff members with less material impact on the institution's risk profile.

Any Identified Staff member in non-material business units is deemed to have less material impact on the institution's risk profile, except the following staff members:

- Staff members responsible and accountable to the management body for the activities of the independent risk management function, compliance function or internal audit function;
- The staff member heads the function for ALM and Controlling (including taxation, budgeting);
- Members of risk committees.

### **3. Remuneration Principles**

#### **3.1. Preliminary Remarks**

The Remuneration Rules as reflected in the Hungarian Banking Act further the related Government Decree stipulate certain remuneration principles which (due to the proportionality principle) apply to SBHU as follows:

- "General Principles": applicable to SBHU as a whole and all staff members; and
- "Specific Principles": applicable only to staff members as Identified Staff within SBHU.

#### **3.2. General Principles**

The following remuneration principles apply to SBHU as a whole as well as to all staff members of SBHU ("**General Principles**"):

- The Policy is consistent with and promotes sound and effective risk management and does not encourage risk-taking that exceeds the level of tolerated risk of the credit institution. (*Principle 1*)
- This Policy is in line with the business strategy, objectives, values and long-term interests of SBHU, and incorporates measures to avoid conflicts of interest. (*Principle 2*)
- The Supervisory Board approves and periodically reviews the general principles of the Remuneration Policy and is responsible for its implementation. (*Principle 3*)
- The implementation of the Policy is, at least annually, subject to central and independent internal review by the internal audit for verifying the compliance with policies and procedures for remuneration adopted by the Supervisory board. (*Principle 4*)
- Staff engaged in control functions (being independent from the business units they oversee and having appropriate authority), are remunerated in accordance with the achievement of

the objectives linked to their functions, independent from the performance of the business areas they control. (*Principle 5*)

- Any remuneration, taking into account national criteria on wage setting, makes a clear distinction between:
  - basic fixed remuneration reflecting relevant professional experience and organizational responsibility as set out in an staff member's job description as part of the terms of employment; and
  - variable remuneration reflecting a sustainable and risk adjusted performance as well as performance in excess of that required to fulfil the staff member's job description as part of the terms of employment.

*(Principle 6a)*

- The total variable remuneration does not limit the ability of SBHU to strengthen its capital base. (*Principle 7b*)
- Guaranteed variable remuneration shall not be part of prospective remuneration plans; it is exceptional and occurs only when hiring new staff and is limited to the first year of employment. (*Principle 7c*)
- The variable component shall not exceed 100% of the fixed component of the total remuneration for each individual. (*Principle 8a*)
- The majority shareholder (Sberbank Europe AG) may approve a higher maximum level of the ratio between the fixed and variable components of remuneration provided the overall level of the variable component shall not exceed 200% of the fixed component of the total remuneration for each individual. (*Principle 8b*)
- Payments related to the early termination of an employment contract reflect performance achieved over time and are designed in a way that does not reward failure. (*Principle 9*)
- Remuneration packages relating to compensation or buy out from contracts in previous employment must align with the long-term interests of the institution including retention, deferral, performance and claw back arrangements. (*Principle 9a*)
- The pension policy is in line with the business strategy, objectives, values and long-term interests of SBEU and SBHU; discretionary pension benefits are not allowed. (*Principle 12b*)
- Staff members are required to undertake not to use personal hedging strategies or remuneration- and liability-related insurance to undermine the risk alignment effects embedded in their remuneration arrangements. (*Principle 12c*)
- Variable remuneration is not paid through vehicles or methods that facilitate the avoidance of the legal prescriptions (*Principle 11d*)
- The remuneration principles stipulated in the Group Policy shall be applied by SBEU as a whole, i.e. by SBEU (at group level) as well as by SBAG and Subsidiary (at their solo levels). (*Principle 13*)

### **3.2.1. Prevention of Conflicts of Interest**

- (1) For the procedure regarding the identification and mitigation of possible Conflicts of Interest ("**CoI**") we are referring to the "Compliance Risk Management Policy" and "Conflicts of Interest and Corruption Risk Policy" in its most current version.
- (2) Furthermore SBHU has considered possible CoI by setting the provisions outlined within the Policy. In this respect SBHU has set special rules for considering CoI which may arise for staff in control functions.
- (3) Typical conflicts of interests in remuneration area are:
  - a) the performance indicators of the employee are limited to not so important part of his/her duties and responsibilities;
  - b) the employee responsible for controls, quality assurance etc. is evaluated based on business results (e.g. risk manager evaluated based on number of sold products);

- c) the employee's variable remuneration is solely awarded according to process indicator, which does not measure the quality of his/her work (e.g. risk manager evaluated by approval rate);
- d) the employee in sales is incentivized differently for sale of the particular products of the same product group (e.g. different rates of incentives for sale of different fund certificates);
- e) the employee receives the remuneration for tasks related with his/her work from the third party.

### 3.2.2. Shareholder Involvement

- (1) Where shareholders have the right to make decisions regarding remuneration the respective Remuneration Committee shall ensure that shareholders are provided with adequate information regarding the remuneration policy and practices.
- (2) Shareholder involvement is mainly required where the ratio between fixed and variable remuneration exceeds 100%. Shareholders who have the right to vote are those of the institution where the "Identified Staff" concerned by the higher level of variable remuneration operates. For Subsidiaries, the subsidiary's general assembly of shareholders is competent to decide and not the general assembly of the consolidating institution.

### 3.3. Specific Principles

In addition to the General Principles, the following remuneration principles apply to Identified Staff (c.f. point 2.3) of SBHU ("**Specific Principles**"):

- Where remuneration is performance related, the total amount of remuneration is based on a combination of the assessment of the performance of the individual and of the business unit concerned and of the overall results of Sberbank Europe AG and SBHU and when assessing individual performance, financial and non-financial criteria are taken into account. (*Principle 7*)
- The assessment of the performance is set in a multi-year framework in order to ensure that the assessment process is based on longer-term performance and that the actual payment of performance-based components of remuneration is spread over a period which takes account of the underlying business cycle of SBEU and SBHU their business risks. (*Principle 7a*)
- Fixed and variable components of total remuneration are appropriately balanced and the fixed component represents a sufficiently high proportion of the total remuneration to allow the operation of a fully flexible policy, on variable remuneration components, including the possibility to pay no variable remuneration component. SBEU and SBAG/the respective Subsidiary shall set the appropriate ratios between the fixed and the variable components of the total remuneration. (*Principle 8*)
- The measurement of performance used to calculate variable remuneration components or pools of variable remuneration components include an adjustment for all types of current and future risks and takes into account the cost of the capital and the liquidity required. The allocation of the variable remuneration components within the credit institution shall also take into account all types of current and future risks. (*Principle 10*)
- A substantial portion, and in any event at least 40%, of the variable remuneration component is deferred over a period of three years and is correctly aligned with the nature of the business, its risks and the activities of the member of staff in question. Remuneration payable under deferral arrangements shall vest no faster than on a pro-rata basis. In the case of a variable remuneration component of a particularly high amount, at least 60 % of the amount shall be deferred. The length of the deferral period shall be established in accordance with the business cycle, the nature of the business, its risks and the activities of the member of staff in question. (*Principle 12*)
- The **variable remuneration, including the deferred portion**, is paid or vests only if it is sustainable according to the financial situation of SBHU, and justified on the basis of (i) the

performance of SBEU and SBHU, (ii) the business unit and (iii) the individual concerned. Without prejudice to the general principles of national contract and labour law, the total variable remuneration shall generally be considerably reduced where subdued or negative financial performance of the institution occurs, taking into account both current remuneration and reductions in pay-outs of amounts previously earned, including through malus or claw back arrangements. Up to 100% of the total variable remuneration shall be subject to malus or clawback arrangements. SBHU has set specific criteria for the application of malus or clawback (as described in point 6.4.2.) which in particular cover situations where the staff member:

- participated in or was responsible for conduct which resulted in significant losses to the institution;
- failed to meet appropriate standards of fitness and propriety.

*(Principle 12a)*

## 4. Governance of Remuneration

This point is applicable for SBHU as a whole.

### 4.1. Preliminary Remarks

- (1) Based on the Remuneration Rules, this Policy stipulates certain responsibilities and delegates certain tasks to either the Supervisory Board (or any other supervisory body competent according to applicable law or the articles of association), a respective committee established by the Supervisory Board for remuneration or different control functions.
- (2) As a middle-complex institution, SBHU would need to establish a Remuneration Committee according to SBEU Group Remuneration Policy. But based on Hpt (CCXXXVII / 2013) only in case of exceeding market share of 5% regarding balance sheet, it is necessary to establish a Remuneration Committee. Thus SBHU can apply the neutralization for the requirement to establish a Remuneration Committee. The functions of the Remuneration Committee are fulfilled by the Supervisory Board. Its tasks are listed at point 4.4.
- (3) The examination regarding establishment of Remuneration Committee has to be repeated once in every year during the review of the remuneration policy;
- (4) The overall general responsibility of the members of the management board of SBHU for compliance with applicable laws remains unaffected.

### 4.2. Control Functions

- (1) Human Resources of **SBHU ("HR Department")** shall have the responsibility of remuneration policies and practices as well as the remuneration process and can, thus, be seen as the responsible expert department for remuneration. Thereby HR Department drives the process and co-ordinates all involved stakeholders. Respective departments (Risk Management, Compliance, Legal, Controlling, etc.) are asked to deliver their inputs, which cannot be solved by HR without requested information. In this respect HR Department is responsible for the submission of all applications as well as for the annual review of the Remuneration Policy. In addition, HR Department is responsible for the annual Identified staff assessment and as well as the proportionality self-assessment.
- (2) HR Department is responsible for the Identified staff assessment at least once a year (c.f. point hereof) and does thereby ensure that all relevant committees and functions are actively involved in line with their responsibilities, in accordance with their respective role and also on an ongoing basis.
- (3) In connection with remuneration policies and practices the **risk management** function shall be required to:
  - a) assist and inform on the definition of suitable risk-adjusted performance measures (incl. ex-post adjustment);
  - b) assess the effect of variable remuneration structure on the institution's risk profile and culture; and
  - c) validate and assess risk adjustment data as well as be invited to attend the meetings of the Supervisory Board.
- (4) In connection with remuneration policies and practices the **Legal&Compliance** function shall be required to:

- a) verify whether the remuneration policy complies with legislation, regulations, internal policies and risk culture; and
  - b) report identified compliance risks and issues of non-compliance to the Management Board and the Supervisory Board.
- (5) In addition to the above mentioned **Risk Management as well as Compliance Function** shall have the possibility to provide input into setting of bonus pool, performance criteria and remuneration awards where they have concerns regarding the impact on staff behavior, adherence to the Code of Conduct and other internal policies and the riskiness of the business undertaken. Therefore, HR shall provide the mentioned functions with all the relevant elements.
- (6) To ensure the cooperation of control functions SBHU has to establish the **CRD Committee** meant as a platform for cooperation of all functions/departments involved in topics related to regulation on remuneration under the guidance of HR Department as responsible expert department.

Beside the Head of HR, as chairperson of the committee and keeper of the meeting minutes, the members of the CRD Committee are the Heads of Legal, Risk, Controlling and Compliance.

The main tasks of the CRD Committee are:

- a) Discussion of proposals for Management Board/other Identified Staff subject to CRD regulation;
- b) Coordination and annual review of the Remuneration Policy;
- c) Coordination of the regular identification self-assessment.

All members have the right to vote and voting is valid in case of simple majority.

The CRD Committee meets at least once a year, before the bonus payment period. Extraordinary meetings can be scheduled by any of the members (via the Head of HR as guide of the CRD Committee) in case any relevant issues occur.

- (7) HR Department shall be responsible for annually updating the Remuneration policy. Thereby HR Department drafts the Policy and submits the draft to CRD Committee. Upon internal alignment the document is presented to Sberbank Europe and afterwards submitted to the local Management Board for pre-approval and afterwards to Supervisory Board for approval.
- (8) Details on the review of the governance process can be found in point 4.5 hereof.

### 4.3. Management Board

The Management Board shall have the ultimate responsibility for the remuneration policies and practices as well as for the identification self-assessment and is thereby responsible for the following from the operational perspective:

- a) pre-approval of the Remuneration Policy;
- b) pre-approval of the design of the identification self-assessment;
- c) overseeing the identification self-assessment on an ongoing basis;
- d) approval of material exemptions to the list of Identified staff and monitor of possible effects, monitoring and stating the reason for any exclusion of staff in accordance with Art. 4 (2) of CDR.

### 4.4. Supervisory Board

The Supervisory Board (directly or through committees) shall be in charge of the following:

- a) the approval and the periodical review of the general principles (including any amendments of) the Remuneration Policy;
- b) Overseeing the implementation of the Remuneration Policy and does thereby ensure that it is operating as intended;
- c) Re-assessment and overseeing of the identification process for the risk-identified staff according Del. Reg. (EU) No 604/2014 and 861/2016 on an ongoing basis;
- d) Approval of material exemptions for individual staff members and changes to the Remuneration Policy and carefully consider and monitor their effects.
- e) the direct oversight of the remuneration of the members of the management board and the senior management in the risk management and compliance functions unless this responsibility is covered by other committee of Supervisory Board of SBHU.
- f) the preparation of decisions regarding remuneration, including those which have implications for the risk and risk management of the institution concerned and which are to be taken by the management body, taking into account the long-term interests of shareholders, investors and other stakeholders in the institution and the public interest;
- g) monitoring of remuneration policies, practices and the incentives created for managing risk, capital and liquidity at least once a year;

- h) review the appointment of external remuneration consultants that the Supervisory Board may decide to engage for advice or support;
- i) ensuring the adequacy of the information provided to shareholders on remuneration policies and practices, in particular in cases where variable remuneration should exceed 100% of the fixed remuneration;
- j) assess the mechanisms and systems adopted to ensure that the remuneration system properly takes into account all types of risks, liquidity and capital levels and that the overall remuneration policy is consistent with and promotes sound and effective risk management and is in line with the business strategy, objectives, corporate culture and values and the long-term interest of the institution;
- k) assess the achievement of performance targets and the need for ex post risk adjustment, including the application of malus and clawback arrangements;
- l) review a number of possible scenarios to test how the remuneration policies and practices react to external and internal events, and back-test the criteria used for determining the award and the ex-ante risk adjustment based on the actual risk outcome; and
- m) further duties and tasks delegated to the Supervisory Board in this Policy (c.f. point 5 hereof).

To fulfil the above outlined tasks the Supervisory Board receives regular reports from all functions involved in the design of the remuneration process.

#### **4.4.1. *Rights and duties of the Supervisory Board with regard to remuneration issues***

- (1) Supervisory Board shall have access to all data and information concerning the decision making process of the Supervisory Board on the remuneration policies and practices design and implementation, oversight and review.
- (2) Supervisory Board shall have adequate financial resources and unfettered access to all information and data from independent control functions, including Risk Management.
- (3) Supervisory Board shall ensure proper involvement of the independent control and other relevant functions within the respective areas of expertise and where necessary seek external advice.

#### **4.4.2. *Cooperation of the Supervisory Board with other functions and committees***

- (1) Where activities may have an impact on the design and proper functioning of remuneration policies and practices the Supervisory Board shall collaborate with other established committees within SBHU.
- (2) The Risk Committee shall in the context of remuneration examine whether incentives provided by the remuneration policies and practices take into consideration the institution's risk, capital, liquidity and the likelihood and timing of earnings. This is performed through the regular assessment of remuneration system.

### **4.5. Review of the Remuneration Policy**

- (1) The Remuneration Policy as well as the identification process shall be subject to a central and independent internal review at least annually, responsibility lies with the Supervisory Board of SBHU. This review shall assess whether the overall remuneration policies, practices and processes:
  - a) operate as intended – to ensure this the Supervisory Board receives a report from HR Department as the responsible expert department and reports important issues to the Supervisory Board; and
  - b) are compliant with national and international regulations, principles and standards for this purpose HR Department in cooperation with Legal and/ or Compliance function provides an annual report to the Supervisory Board which includes identified compliance risks, issues of non-compliance and required changes due to changes in management requirements.
- (2) Internal Audit shall be required to review at least annually the adequacy as well as compliance with remuneration policies and procedures. This can be ensured through the yearly updated internal audit plan.
- (3) HR should share the results of the above mentioned review collect any relevant input by to the respective Management Board, relevant committees, CRD Committee and following departments: Internal Audit, Lean and Organization, Operational Risk and Accounting & Tax.

## **4.6. Remediation Plan**

The Supervisory Board shall ensure the proposal of a remediation plan to be implemented is the event that the remuneration policies do not operate as intended or prescribed or where recommendations are made and approving the remediation measures as well as monitoring the timeously implementation. Thereby the Supervisory Board shall be supported by HR Department which prepares the reports on the necessary remediation measures and does subsequently provide information on the processing of approved remediation measures. The remediation plan and its fulfilment is the integral part of annual report on remuneration to be provided to Supervisory Board.

## **5. Payment of Variable Remuneration**

### **5.1. Bonus pool setting**

SBEU defines the bonus pool for the whole conglomerate (Group pool) as well as the breakdown by legal entities (Country pool) for the period for which variable remuneration is awarded. When setting the bonus pools, SBEU considers the ratio between the variable and the fixed components of total remuneration applicable to categories of identified staff, performance and risk criteria defined for the overall institution, control objectives and the financial situation of the institution, including its capital base and liquidity. The performance of the Group as a whole is the starting point for the pool definition.

SBEU RemCo as well as Supervisory Board are responsible for approving the SBEU Group pool as well as the solo pool of SBAG.

Single country pools are proposed by SBAG MB and approved by local RemCo and/or Supervisory Board.

### **5.2. Capital base and significant loss (step-in for payment)**

As already stipulated as General Principle (see point 3.2, Principle 6), payment of the variable remuneration may not limit the ability of SBHU to strengthen the capital base. As a result variable remuneration for all staff members shall go down to zero in case of significant losses or the minimum capital ratios of SBHU are not met under the assumption variable remuneration is paid out even if the staff member's individual performance would justify such a payment (step-in criterion).

### **5.3. Loss and significant downturn of financial performance (reduction of payment)**

In principal the General Principles 7b and the Special Principles 7 and 12A shall not exclude the ability of the payment of variable remuneration in case of a net loss.

The closer the loss comes to the defined level of significant loss or the capital base to the non-achievement of minimum capital ratio the variable remuneration for all staff members, independently of the individual performance, shall be reduced. The variable remuneration for Identified staff members shall be reduced to a higher extent (*considerably*)<sup>3</sup> or at a lower level of loss than the variable remuneration for other staff members or even at a stage of profit but where subdued financial performance in form of significant downturn occurs.

For Identified staff members responsible for a business unit or individual tasks performing a loss in any case the variable remuneration shall go down to zero if the overall results of SBEU and SBHU show a loss.

In case a loss was budgeted because due to market/economic environment the achievement of a profit is not realistic (e.g. external factors not caused by the credit institution or the business unit), the credit institution or a business unit is in a start-up phase or the credit institution or business unit plans to exit the market exceptions of the regulations stipulated above may be applied.

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<sup>3</sup> See point 3.3, Principle 20

#### **5.4. Internal Liquidity adequacy (ILAAP) 4**

The objective of a certain threshold on liquidity is to contribute to the institution's continuity by ensuring that it has sufficient liquidity to fulfil its obligations when they fall due, to bear its risks and follow a sustainable strategy, even during a prolonged period of adverse developments. In order to assess and maintain adequate liquidity to cover the institution's risks, the internal processes and arrangements are expected to ensure that quantitative analysis of risks, as reflected in the Internal Liquidity adequacy assessment process (ILAAP), is integrated into all material business activities and decisions of SBHU.

ILAAP-based risk-adjusted performance indicators are used in the decision-making process, determining the bonus pool. In case of not meeting the minimum thresholds reflected in Annex 4.A of this policy the bonus pool should be significantly reduced, even down to zero.

Where national ILAAP provisions or guidance differ for certain Subsidiaries, their implementation may require diverging approaches to a certain degree. However, institutions are expected to ensure that this does not interfere with the effectiveness and consistency of the ILAAP on each relevant level, with a special focus on the group level.

#### **5.5. Fixed versus Variable Remuneration**

As already stipulated as General Principle (see point 3.2, Principle 6a), fixed remuneration should be sufficiently high to remunerate the professional services rendered, in line with the level of education, the degree of seniority, the level of expertise and skills required, the constraints and job experience, the relevant business sector and the geographical region.

Full time employees of the Bank shall not be eligible to separate remuneration for any positions held in the leading bodies of subsidiaries.

Fixed remuneration is guaranteed by employment or similar contract or determined by employer decision in line with labour law and internal procedures. For purposes of this remuneration policy, annual fixed remuneration is the amount (pro-rata if applicable) guaranteed by the contract or similar document, nevertheless the real paid amount of fixed remuneration differs due to application of tax or legal aspects. Gross basic salary shall be payable on 12 occasions per year.

In accordance with regulatory requirements there are only two forms of remuneration: fixed and variable remuneration. Where a clear allocation of a component to the fixed remuneration is not possible it should always be considered as variable remuneration. Remuneration can be considered as fixed where the conditions for its award and its amount:

- a) are based on predetermined criteria;
- b) are non-discretionary reflecting the level of professional experience and seniority of staff;
- c) are transparent with respect to the individual amount awarded to the individual staff member;
- d) are permanent, i.e. maintained over a period tied to the specific role and organisational responsibilities;
- e) are non-revocable; the permanent amount is only changed via collective bargaining or following renegotiation in line with national criteria on wage setting;
- f) cannot be reduced, suspended or cancelled by the institution;
- g) do not provide incentives for risk assumption; and
- h) do not depend on performance.

In any way the following remuneration components should be considered as fixed remuneration:

- a) remuneration paid to expatriate staff considering the cost of living and tax rates in a different country;
- b) allowances used to increase the basic fixed salary in situations where staff work abroad and receive less remuneration than would be paid on the local employment market for a comparable position. If the allowance is paid to all staff in similar situations, is awarded because staff work temporarily abroad or in a different position with a remuneration level requiring adjustment to reflect pay levels in the relevant market, is based on predetermined criteria and duration is tied to the duration of the situation referred above.

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<sup>4</sup> As defined in ECB Guide to the internal liquidity adequacy assessment process (ILAAP)



Further, a fully-flexible policy on variable remuneration not only requires that variable remuneration should decrease as a result of negative performance but also, that it can go down to zero in some cases. Thus, meeting this requirement implies as a prerequisite the accomplishment of several mechanisms, including:

- maximum ratio between variable / fixed remuneration;
- proper performance measurement and associated risk adjustments.

Variable forms of remuneration consists from:

- long-term incentives programs covering long-term performance (for example longer than 1 year),
- performance bonuses incentivizing the performance up to one fiscal year, including annual bonus (linked to performance management cycle) and project bonus (linked to milestones of strategic projects and activities),
- short-term incentives awarded according to individual / team performance measured mainly by quantitative performance indicators based on calculation model(s) known in advance.

The Remuneration Policy shall cover all forms of remuneration applied in SBHU, i.e. all forms of variable remuneration have to be in line with all remuneration principles as defined by this policy and/or applicable law.

SBHU cannot introduce any variable remuneration system without pre-approval by SBEU HR Department.

## **5.6. Remuneration of Control Functions**

To ensure the independence of staff engaged in control functions remuneration for those functions shall be predominantly fixed.

Methods used for determining the variable remuneration of control functions, shall not compromise objectivity and independence.

## **5.7. Remuneration Components**

### **5.7.1. Allowances**

SBHU is required to analyse possible allowances and allocate them as fixed or variable remuneration. Moreover, an assessment of new allowances should take place on a regular basis. This analysis should be based on the criteria set out in point 5.3 hereof.

In cases where allowances have been classified as fixed remuneration, but show any of the below described features, a duly documentation of the assessment is required:

- a) they are paid only to identified staff members;
- b) they are limited to cases where the ratio between the variable and the fixed components of remuneration would otherwise exceed 100% (if applicable, up to 200% where approved by shareholders);
- c) the allowances are linked to indicators that could possibly be understood as proxies for performance. In that case the institution should be able to demonstrate that these indicators are not linked to the performance of the institution, e.g. by analysing the correlation with the performance indicators used.

Allowances which are based on the role, function or organisational responsibility of staff should meet the requirements stated within point 5.3 hereof and take into account the following:

- a) the allowance is tied to a role or organisational responsibility and awarded as long as no material changes happen regarding the responsibilities and authorities of the role so that in fact the staff would have a different role or organisational responsibility;
- b) the amount does not depend on any factors other than fulfilling a certain role or having a certain organisational responsibility and reflect professional experience and organisational responsibility;
- c) any other staff member fulfilling the same role or having the same organisational responsibility and who is in a comparable situation would be entitled to a comparable allowance, without prejudice to professional experience and organisational responsibility.

#### **5.7.2. Variable Remuneration based on future performance**

At the moment SBHU does not use such reward components that would include variable remuneration based on the future performance. SBHU shall update the Policy before such indicators would be used in the future.

#### **5.7.3. Retention Bonuses**

At the moment SBHU does not pay remuneration in the form of Retention Bonuses. The respective provisions of EBA-GL Remuneration will be applied if needed. Therefore, the amount and exact parameters will be decided if applicable and according to the specific situation under consideration of requirements determined by EBA.

#### **5.7.4. Short Term Incentives**

For implemented procedures and processes regarding short term incentives we are referring to SBHU Incentive Scheme Guideline in its most current version.

In general, incentive schemes (which lay down requirements for granting short term incentives) within SBHU have to be designed in a way which takes into account the rights and interests of clients. Therefore, monetary and non-monetary forms of short term incentives do not introduce types of variable remuneration which favour employee's interests or the institution's interest, to the detriment of clients. To ensure the above mentioned SBHU has implemented qualitative and quantitative criteria which is used to determine the variable remuneration paid through short term incentives as well as appropriate controls and risk adjustment instruments

In any case, the short term incentives must be in line with the General Principles under 3.2.

Due to requirements out of SBHU Incentive Scheme Guideline pay-out process described within point 6.12 of the present policy is not applicable for short term incentives.

#### **5.7.5. Discretionary Pension Benefits**

SBHU does not use pension benefits in a way that they award single employees according to their performance. Pension benefits are always consistently granted to a category of staff. In accordance with the before mentioned granted pension benefits can always be considered as not discretionary.

#### **5.7.6. Guaranteed Variable Remuneration**

For details on the procedure for awarding guaranteed variable remuneration, please see "SBHU Regulation Bonus Guideline" in its most current version.

#### **5.7.7. Compensation or Buyout**

Remuneration can be considered as being granted as compensation or buyout of a previous contract where the deferred variable remuneration of a staff member was reduced or revoked by the previous employer because of the termination of the contract.

When granting compensation or buyout from previous employment contracts SBAG and all its Subsidiaries shall consider the conditions defined for guaranteed variable remuneration. In contrast to guaranteed variable remuneration, remuneration packages relating to compensation or buyout from contracts in previous employment, all requirements for variable remuneration apply, including deferral, retention, pay out in instruments and clawback arrangements.

#### **5.7.8. Severance pay**

- (1) Within SBHU severance payments are not provided for a disproportionate reward, but for an appropriate compensation of the staff member in cases of early termination of the contract. Severance payments must reflect performance achieved over time and must not reward failure or misconduct.
- (2) Severance pay should not be awarded where there is an obvious failure which allows for the immediate cancellation of the contract or the dismissal of staff.
- (3) Severance pay should not be awarded where a staff member resigns voluntarily in order to take up a position in a different legal entity in Sberbank group, unless a severance payment is required by national labour law.
- (4) 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:
  - a) the institution terminates the contracts of staff because of a failure of the institution;

- b) the institution wants to terminate the contract following a material reduction of the institution's activities in which the staff member was active in or where business areas are acquired by other institutions without the option for staff to stay employed in the acquiring institution;
  - c) the institution 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.
- (5) In cases where severance payments are awarded, SBHU should be able to demonstrate to the competent authority 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.
- (6) When determining the amount of severance payments to be made, it should be taken into account the performance achieved over time and assess where relevant the severity of any failure. Identified failures should be distinguished between failures of the institution and failures of the identified staff as follows:
- a) failures of the institution should be considered when the total amount of the severance payments for staff is determined, taking into account the capital base of the institution; such severance payments should not be higher than the reduction of costs achieved by the early termination of contracts;
  - b) failures of Identified Staff should lead to a downward adjustment of the amount of severance pay which would otherwise be awarded when only the performance over time would be considered in the estimation of the severance pay, including the possibility for a reduction of the amount down to zero.
- (7) Failures include the following situations:
- a) where the institution benefits from government intervention or is subject to early intervention or resolution measures;
  - b) where the opening of normal insolvency proceedings of the institution has been filed;
  - c) where significant losses lead to the situation that the institution no longer has a sound capital basis and, following this, the business area is sold or the business activity is reduced.
- (8) Failures of Identified Staff should be assessed on a case-by-case basis, and includes the following situations:
- a) where a member of the management body is no longer considered as meeting appropriate standards of fitness and propriety;
  - b) where the Identified Staff member participated in or is responsible for conduct which resulted in significant losses for the institution, as defined in the institutions' remuneration policy;
  - c) where an Identified Staff member acts contrary to internal rules, values or procedures based on intent or gross negligence.
- (9) 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 that ratio and for the application of deferral and the pay out in instruments:
- a) severance payments mandatory under national labour law or applicable collective bargaining agreement, mandatory following a decision of a court or calculated through a predefined generic formula set within the remuneration policy in the cases referred to in point 5.7.8 (4) hereof;
  - b) 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;
  - c) severance payments under subparagraph (4), 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;
  - d) severance payments compensating difficulties when seeking of the new job after termination of contract (as a part of social responsibility of employer), if the amounts is:
    - (i) below 50% of annual contractual salary for employees older than 45 years,
    - (ii) below 75% of annual contractual salary for employees older than 50 years and
    - (iii) below 100% of annual contractual salary for employees older than 55 years;
- (10) 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:
- a) the sum of any higher amounts than the fixed remuneration for the future periods under point 5.7.8 (9) (b) hereof;
  - b) any other severance pay not listed in point 5.7.8 (9) hereof.
- (11) Severance payment must anyway not exceed an amount equal to the annual fixed salary. However, for Identified Staff any amount higher than 50% of the fixed salary has to be approved

by Supervisory Board. Variable compensation shall not be considered in the calculation of the severance.

- c) Within the definition of the severance the following criteria have to be taken in account:
- d) Length of service in Sberbank Group;
- e) Performance over last 3 years;
- f) Reasons for dismissal;
- g) Analysis of legal risks/costs
- h) which are mitigated by the severance assignment.

Any amount exceeding the mentioned cap of one annual fixed salary must be duly formalized, explained and approved by SBAG CEO in a specific template which will list and assess the above mentioned criteria.

Dismissals due to special programs (e.g. redundancy programs, social plans) are not affected by the mentioned cap.

## **5.8. Prohibitions**

### **5.8.1. Personal Hedging**

As already stated in Principle 12c of the Policy if the Identified Staff is awarded with variable remuneration in instruments, it shall be ensured to the extent possible that Identified Staff members are not able to transfer the downside risk of variable remuneration to another party through hedging or certain types of insurances.

### **5.8.2. Remuneration for Members of the Supervisory Board**

Members of the Supervisory Board of SBHU shall be compensated only with fixed remuneration, except for employee representative members of the Supervisory Board of SBHU.

Members of the Management Board of SBAG/SBHU and employees of SBAG or SBRF engaged in the supervisory function will not receive any further remuneration for tasks carried out in their function as member of the Supervisory Board within SBHU/SBEU.

In case of nomination of an independent Supervisory Board member, who is not Member of the Management Board of SBHU or employee of SBHU, Human Resources of SBHU has to be pre-informed in order to check regulatory compliance of remuneration. An internal guideline has to regulate the compensation and payment process.

### **5.8.3. Avoidance of Circumvention**

Through the procedures for remuneration described within the present Policy and through the implementation of controls SBHU has taken measures to ensure that variable remuneration is not paid through vehicles or methods which aim at or effectively lead to non-compliance with remuneration requirements for Identified Staff.

## **5.9. Risk Alignment**

To limit excessive risk taking, variable remuneration should be performance-based and risk adjusted. To achieve this aim, SBHU should ensure that incentives to take risks are constrained by incentives to manage risk. Their remuneration system should be consistent with their effective risk management and governances processes.

Risk alignment process includes the performance and risk measurement process, the award process and the pay-out process. At all of these stages variable remuneration is adjusted to relevant current and future risks.

A respective risk alignment includes: (i) the performance and risk measurement process; (ii) the award process; and (iii) the pay-out process.

## **5.10. Risk Assessment**

SBHU defines objectives for their business units and staff. These objectives are derived from SBHU's business and risk strategy, corporate values, risk appetite and long-term interests and consider the cost of capital and the liquidity of SBHU.

During the risk assessment relevant future and current risks, whether on or off balance sheet, differentiating amongst risks relevant for institution, business units or individuals shall be taken into account.

The risk assessment aims at evaluating whether if all the relevant conditions for bonus payout are in place, both at individual at Bank level, such as Bank financial situation, risk profile as well as individual behaviours related to compliance with internal/external regulation, corporate values and risk management.

The risk adjustment might be applied as:

- a) **ex-ante risk adjustment**, i.e. the adjustment of the variable remuneration at the moment of the award;
- b) **ex-post risk adjustment**, i.e. the adjustment of the variable remuneration before past deferrals payout (malus) or after realization of pay-out (claw-back).

## 5.11. Budget of Variable Remuneration

The budget available for paying variable salary is to be determined on the basis of the profit achieved. Relevant data is to be provided by the Financial Division of SBAG with the approval of the Supervisory Board.

Conditions to be considered before payment of annual bonuses:

- a) meet the applicable CAR (Capital Adequacy Ratio) value;
- b) the net profit of the bank – in case that the net profit is negative, variable compensation can be paid out only in exceptional cases (for instance, if it had been planned not to achieve net profit or/and such a situation is limited in time)
- c) payment of performance remuneration cannot risk the Capital Adequacy and liquidity of the bank.
- d) change of NPL (Non Performing Loan) ratio

Preparing performance remuneration we are measuring the complete actual yearly results in terms of individual, departmental and the whole bank based on both financial and non-financial criteria.

## 5.12. Performance Criteria

### 5.12.1. General rules to determine bonuses

By setting performance criteria both quantitative and qualitative criteria need to be taken into account, including financial and non-financial performance criteria for staff members, business units and SBHU. Apart from this, the long-term performance of SBHU has to be considered when assessing the performance of the IS member. The key indicators to be used for the assessment of performance need to be risk-adjusted.

An additional risk performance re-appraisal procedure connected to a deferred payment procedure ensures the multi-year assessment applied regarding Identified Staff. Longer assessment period enables the consideration of risks incurred in the meanwhile within the performance appraisal.

Employee obtains only an eligibility for deferred remuneration in the actual year. At the end of the deferral period the previous years' performance of employee needs to be re-assessed based on which the possible payment of remuneration can be decided. Based on the results of additional re-assessment Bank can modify the scale of deferred part of the of employees remuneration.

More detailed information on procedures for setting out criteria for performance is included in the SBHU **Bonus & Performance management Guideline**.

### 5.12.2. Performance Criteria for Identified Staff

In order to ensure that the total variable remuneration properly reflects sustainable performance of SBEU and SBHU (in case of members of the Management Board of SBHU) or SBHU (in case of

Identified Staff members who directly report to the members of the Management Board) the following Special Principle applies to all performance related variable remuneration of Identified Staff within SBHU:

- the total amount of remuneration is based on a combination of the assessment of the performance of the individual and of the business unit concerned and of the overall results of SBEU and SBHU (in case of members of the Management Board of SBHU) or SBHU (in case of Identified Staff members who directly report to the members of the Management Board);
- when assessing individual performance, financial and non-financial criteria are taken into account

Starting from 2020 performance year, financial KPI's of Identified staff shall reflect their individual impact on the results (e.g. NpaT Bank level – in the responsible Bank CEO's scorecard; Net fee income – CIB segment of bank in the responsible Bank board member's scorecard; e.g. Head of HR-OPEX HR department).

#### **5.12.3. Conditions for Staff engaged in Control Functions**

Additionally to the above mentioned principles, staff members engaged in control functions shall be assessed primarily on job-related and function specific targets. The variable part of the remuneration shall be determined separately from the business units they control. If non-job-related criteria have been defined, their weighting shall not exceed 20% of the total target.

Targets of financial nature will only be based on financial results of SBHU.

#### **5.12.4. Performance Criteria for Members of the Management Board**

Performance criteria and, thus, variable remuneration for members of the Management Board of SBHU should be consistent with their power, tasks, expertise and responsibilities.

#### **5.12.5. Assessment of Performance Criteria**

SBHU uses judgemental approaches for the assessment of beforehand defined performance criteria (c.f. Annex 5 hereto). To ensure a sufficient level of transparency SBHU has taken the following measures:

- a) clear and transparent documentation (as per Bonus and Performance Management Guideline);
- b) considering the personal incentives of the staff making the judgement and any conflicts of interest;
- c) implemented an appropriate system for the evaluation of the performance criteria (Online Performance Management Tool). More detailed information is included in the Bonus and Performance Management Guideline.

### **5.13. Pay-out Principles**

The amount of variable remuneration (bonus pool) of Identified Staff per country is calculated and planned during the budgeting process by SBEU Group Controlling Department, then allocates it to countries depending on their performance and result. Group CEO informs local CEOs, local CFOs and local HR about the country bonus pool. The precise allocation rules of variable remuneration are under elaboration by SBEU Group HR Department with the cooperation of SBHU HR Department. Until the final approval of these allocation rules, it is the responsibility of Management Board of SBHU in its own competency to decide how to distribute the amount of bonus of SBHU between resorts and between B-1 managers (managers directly reporting to members of the Management Board) concerning target achievement. In each resort it is the responsibility of B-1 managers to recommend any employee for

bonus payment regarding his / her last year's final performance appraisal, and any internal or country specific regulations.

The performance is measured on a scale of 5 stages, with the following meaning:

- 1 – Unsatisfactory performance 0-70%
- 2 – Slightly below expectations 70,01-90%
- 3 – Meets expectations 90,01-110%
- 4 – Exceeds expectations 110,01-130%
- 5 – Outstanding performance 130% and above

Those employees whose last year's performance are not satisfactory (received 1 at performance appraisal, under 75%), will not be eligible for bonus payment.

In case of those employees, who performed below expectations (received grade 2), it is the competency of the B-1 manager to decide whether he could be granted with a bonus or not. If a bonus is decided, a detailed explanation has to be provided by the B-1 manager (or in case of a B-1 manager, by the Board member) reasoning why the employee could be granted with that particular amount of bonus.

In case the evaluation is 3 or above, the responsible B-1 manager or Board member decides how to distribute the bonus proportionally regarding the performance and the bonus pool.

After B-1 managers along with the relevant Board member have decided the bonus amount / employee, they send the proposals to HR to review it based on the results of performance evaluation and to approve the payment or ask for modification, clarification. Finally the CEO and the Head of HR approve the payroll of bonuses. Payroll happens after the CEO's approval and in time of the next month's payroll process (depending on the date of the CEO approval, but mostly in June). HR sends the paid amount to Accounting Department for the booking process.

#### **5.13.1. General Pay-out Principles**

For performance related variable remuneration of Identified Staff of SBHU, the following pay-out principles apply:

- Any variable remuneration will be payable with regard to approved performance assessment and will be calculated pro-rata according to the actual period of employment during the performance year in consideration.
- In order to be entitled for any variable remuneration, a minimum of six months of employment during the performance year in consideration is required.
- Basis for the calculation of the variable remuneration shall be the annual gross salary of the performance year into consideration with reference salary December; in case of transfer during the performance year in consideration from one to another Subsidiary of Sberbank Europe AG for the first assignments the last monthly salary in SBHU shall be the reference, for the actual assignment the December salary of the respective Accrual Period shall be the reference.
- Recipients of variable remuneration whose employment contract was terminated by SBHU or staff member or due to expiry of contract term before the end of the performance year in consideration will receive their variable remuneration pro rata on the basis of their salaries effective on the day of resignation (termination date of the employment contract, periods spent on gardening leave are not taken into account for the calculation of the bonus) and on the basis of their performance assessment, provided that the employment contract was not terminated by SBHU for important reasons according to the respective local legal provisions (immediate dismissal without notice) and that the bonus entitlement is not settled within the general termination conditions.
- Before awarding of performance bonus for the Identified Staff member, ex-ante risk assessment for evaluated performance year has to be done. In case the assessment shows

deficiencies in the sense of malus criteria, the bonus payment has to be adequately reduced regardless the approved goals of the Identified Staff members.

- Pay-out of bonus is subject to the decision of (i) Supervisory Board of SBHU with regard to members of Management Board of SBHU and employee representative members of the Supervisory Board of SBHU or (ii) Management Board of SBHU with regard to other Identified Staff and non-Identified Staff of SBHU.

#### **5.13.2. Pay-out Principles for Members of the Management Board**

For performance related variable remuneration of a member of the management board of SBHU, the following additional pay-out principles apply:

- The CEO of SBAG together with the functional responsible Board member of SBAG shall develop proposals for the annual variable remuneration of the members of the management board of SBHU based on the results of the annual performance assessment.
- The member of the management board is in actual employment on the date of the decision to pay variable remuneration.
- If the member of the management board's labour contract is terminated by the Bank's initiative, either during the performance year in consideration or during the consecutive year but before the bonus for the previous calendar year is awarded, a pro rata bonus is payable provided that the member of the management board has not set an important reason for immediate dismissal.

A member of the management board will not be entitled to any variable remuneration (including any deferred variable remuneration from any previous Accrual Period), unless such payment has been already awarded to the member of the management board if:

- the labour contract was terminated by resignation of the member of the management board before his function period has lapsed;
- the labour contract was terminated by the employer for important reasons according to applicable local law (immediate dismissal without notice).

### **5.14. Pay-out Process**

#### **5.14.1. Preliminary Remarks**

In order to align the actual payment of remuneration to the business cycle of the institution and the business risks, the variable remuneration is partly paid upfront (short-term) and partly deferred (long-term).

Before paying out the deferred part, a reassessment of the performance and, if necessary, a risk adjustment is required in order to align variable remuneration with risks and errors in the performance and risk assessments that have appeared since the staff members were awarded their variable remuneration component (ex post risk adjustment).

The payment of variable remuneration (together with the deferred payments from the previous performance years) takes place in the subsequent year after the performance year in consideration, i.e., generally in May at the earliest however after the operating results of SBHU have been finally determined.

#### **5.14.2. Ex-post Indicators**

Quantitative and qualitative criteria must be taken into consideration upon the pay-out of the deferred part of variable remuneration. An *ex-post* risk adjustment is an explicit risk alignment mechanism through which the institution adjusts remuneration of the staff member by means of malus arrangement



or clawback clauses.<sup>5</sup> *Ex-post* risk adjustment means that, once an initial variable remuneration component has been awarded to the staff member, and an upfront part has already been paid, the credit institution is still able to reduce the deferred part of the variable remuneration that remains to be paid out.

### Malus

Malus is a method mechanism aimed at applying risk adjustment and under certain conditions at reducing the amount of deferred remuneration, taking into account risk outcomes of the underlying performances of the institution as a whole, the business unit and, where possible, the staff member.

In particular, the following events constitute a malus event: (specific criteria are listed in Annex 4.A)

- Compliance breaches vis-à-vis with both external regulatory requirements and with internal procedures and regulations.

Examples for breaches of regulatory requirements:

- Non-compliance with provisions for AML;
- Breach of large exposure regime under pillar 1 of CRR;
- Non-compliance with supervisory reporting;
- Delayed notifications towards authorities;
- For Identified Staff failure in Fit & Proper assessment based on particular internal procedure.

Examples for non-compliance with internal procedures and regulations:

- Non-compliance with authorisation levels;
- Missing activation of defined controls;
- Breach of internal limits.

- should the regulator on Group level (European Central Bank) or on local level (National Bank of Hungary) restrict or prohibit payment of variable remuneration;
- evidence of misbehaviour or serious mistake by the staff member (e.g. breach of code of conduct and other internal rules, especially concerning risks), if such action resulted or could result in significant downturn to SBHU;
- evidence of misbehaviour or serious mistake by the staff member (e.g. breach of code of conduct and other internal rules, especially concerning risks), if such action resulted in a significant failure of risk management for the Bank and/or the business unit in which the staff member works;
- significant changes in SBHU's base of economic capital or regulatory capital (own funds).

If malus event occurred, the performance bonus of the particular Identified Staff has to be reviewed and pay-out of deferred part has to be adequately reduced. The application of malus cannot shorten the deferral period except where deferred remuneration has been reduced to zero. The fact known during awarding of performance bonus and incorporated to bonus reduction shall not again be used as malus indicator for the deferred part of the awarded variable remuneration unless certain facts relating to this malus event appear later on and have been unknown at the moment they first occurred.

### Clawback

In particular, the following events constitute a clawback event:

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<sup>5</sup> Clawback means a contractual agreement in which the staff member agrees to return ownership of an amount of remuneration to the institution under certain circumstances. This can be applied to both upfront and deferred variable remuneration. When related to risk outcomes, clawback is a form of *ex-post* risk adjustment.

- Criminal offences committed by the staff member, if such action resulted in significant losses to SBHU;
- Intentionally misleading information provided by the staff member, if such action resulted in significant losses to SBHU;
- Fraud by the staff member with high negative impact on the bank's credibility and profitability, if such action resulted in significant losses to SBHU.

If a clawback event occurs, this entails the loss of all deferred bonus amounts and the clawback of bonus payments made in the past.

#### 5.14.3. *Deferral Period*

The variable remuneration shall be paid out to the Identified Staff over such period of time, during which business related risks shall be taken into consideration.

Within SBHU the deferral period is three years. An example can be found in Annex 6 of this policy.

#### 5.14.4. *Pay-out Model*

Within SBHU, the following pay-out model applies:

- 60% of the variable remuneration is paid immediately (=upfront payment);
- 40% of the variable remuneration will be deferred for three years;

40% of the variable remuneration have to be deferred for three years. During this deferral period the deferred remuneration can only be acquired pro rata, i.e. each Accrual Period not exceeding one fifth of the deferred amount.

Any deferred part of the variable remuneration may be paid out only provided that such payment is sustainable due to the financial situation of SBEU as well as SBHU and justified by the performance of the individual and the business unit.

Provided that during the deferral period it turns out that the awarded performance was not sustainable (malus), or the payment of the deferred amount would not be (or no longer be) consistent with the financial situation of SBEU and SBHU (in case of members of the Management Board of SBHU) or SBHU (in case of Identified Staff members who directly report to the members of the Management Board), the payment of the deferred amount shall be canceled.

Any cancellation of the payment of such (deferred) variable remuneration in one or more years for the reasons mentioned before is permanent; i.e. it is not allowed to make up any such (cancelled) payment in future years (e.g. once the economic situation has improved).

#### 5.14.5. *Levels of Deferred Compensation*

Within SBHU, the following minimum thresholds apply to all Identified Staff, taking into consideration the overall objective of the variable remuneration, consisting in a prudent and consistent risk management and discouragement to excessive risk taking. These thresholds have been set because below a certain amount of annual deferred compensation, deferral and other *ex-post* risk mitigation measures do not influence the Identified Staff behaviors as the deferred component is not material.

Likewise, a significantly high level of variable compensation has been determined, above which a higher part of variable compensation should be deferred in line with the proportionality principle.

Thus, the following levels of annual variable compensation and corresponding deferral<sup>6</sup> apply to all Identified Staff within SBHU:

<b>Value of variable remuneration in an Accrual Period</b>	<b>Amount deferred</b>
below or equal to EUR 30,000.00*) and 25% of annual fixed remuneration	no deferral

<sup>6</sup> If the next remuneration level is achieved the new deferral percentage is to be applied for the whole variable remuneration and not only for the part exceeding the next level

above EUR 30,000.00*) or 25% of annual fixed remuneration	40% deferral of the variable remuneration
above EUR 150,000	60% deferral of the variable remuneration

\*) or equivalent in a local currency

## 6. Termination of employment

In case of termination of employment of a member of Identified Staff the deferred variable remuneration has to be held until the standard pay-out, moreover malus and clawback measures have to be assessed ex-post. Finally Supervisory Board has to decide about (non)payment of deferrals.

Reason of termination can be death, disability, retirement, redundancy, resignation, dismissal, transfer to another Bank entity or termination by mutual consent.

## 7. Provisions to avoid conflicts of interest

The remuneration of Supervisory Board members or any other Directors and Officers, who are not involved in day-to-day management, shall constitute only a fixed remuneration, except for employee representative members of the Supervisory Board of SBHU. Therefore, Sberbank Hungary shall not pay any performance related awards to these individuals.

Members of the Board of Directors and employee representative members of the Supervisory Board of SBHU may not make decisions about their own remuneration; such decisions are within the sole discretion of the Supervisory Board.

## 8. Publicity Document

The bank will comply with the disclosure rules as stated below:

The general principles of the remuneration policy are disclosed in the form of an independent document on the website of the bank.

The key principles of the bank's remuneration and the quantified values of remuneration-related items in the given financial year appear in the Publicity Document of the bank in accordance with the applicable legal regulations and disclosure requirements, along with other information to be published.

Each year, the Control Division indicates the Human Resources Department's deadline for the publication of the Publicity Document, which complies with the applicable legal regulations, which, in compliance with the deadline, will revise the changes in the remuneration policy, legislative changes, financial changes in the financial year and the quantified values of remuneration- and accordingly updates the Section about Remuneration Policy of the Publicity Document.

The compiled document will be sent to the Control Division by the Human Resources Department within the deadline specified. Additional steps for publishing are arranged by the Control Department.

## 9. References

### 9.1. Related instructions:

- 4-05-010 Performance Appraisal
- 4-05-018 Benefit and Compensation regulation

### 9.2. Legislation:

- Act CCXXXVII. of 2013 on credit institutions and financial enterprises (Hpt.)
- Act CXXXVIII. of 2007 on investment firms and commodity dealers, and on the regulations governing their activities

- Government decree no. 131/2011. (VII.18.) on the application of remuneration policy with regard to the size, scope of activity, nature and legal form of the credit institution and investment service
- Recommendation no. 3/2011. (VIII.04.) regarding the application of remuneration policy by the Chairman of the Hungarian Financial Supervisory Authority
- National Bank decree no. 39/2014 (X. 9.) on the rules of calculation, registration and publication of discounted value of variable remuneration;
- Commission Delegated Regulation (EU) No 604/2014 of 4 March 2014 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.
- Regulation (EU) 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (*Capital Requirements Regulation*).
- Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (*Capital Requirements Directive IV*)
- "EBA Guidelines on sound remuneration policies under Articles 74(3) and 75(2) of Directive 2013/36/EU and disclosures under Article 450 of Regulation (EU) No. 575/2013", No. EBA/GL/2015/22 dated 27 June 2016 ("EBA-GL Remuneration")
- "EBA Guidelines on the applicable notional discount rate for variable remuneration", No. EBA/GL/2014/01 dated 27 March 2014.
- ECB Guideline to the internal liquidity adequacy assessment process (ILAAP).
- Hungarian National Bank's recommendation about the remuneration (3/2017 II./9.)

## 10. ANNEX 1: Qualitative and Quantitative Criteria

### (1) Qualitative criteria

- a) The staff member is a member of the management body in its management function
  - ⇒ all members of the management board of SBHU
- b) the person is a member of the management body in its supervisory function
  - ⇒ all members of the supervisory board of SBHU
- c) the staff member is member of the senior management
  - ⇒ all the individuals in managerial (executive) functions directly responsible/reporting to the members of the management board or heading significant business lines or regional areas;
- d) 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
  - ⇒ in particular senior management responsible for heading the compliance, risk management and internal audit function;
- e) the staff member has overall responsibility for risk management within a “material business unit”: as defined in Art. 142(1)(3) of the CRR a business unit is deemed material which has internal capital distributed in accordance with Article 73 of the CRD IV that represents at least 2% of the internal capital of the institution;
  1. the staff member heads a material business unit;
  2. the staff member has managerial responsibility in the independent risk management, compliance, internal audit function or in a material business unit *and* reports directly to a staff member who is directly responsible and accountable to the Management Board for the independent risk management, compliance, internal audit function or to a staff member who has overall responsibility for risk management within a material business unit;
  3. the staff member has managerial responsibility in a material business unit and reports directly to the staff member who heads that unit;
  4. the staff member heads a function responsible for Legal Affairs, Finance including taxation and budgeting, Human Resources, remuneration policy, Information Technology, or Economic Analysis;
  5. the staff member is responsible for, or is a member of, a committee responsible for the management of a risk category provided for in Articles 79 to 87 of the CRD IV other than credit risk and market risk;
  6. 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 ("**CET 1**") and is at least EUR 5 million, the staff member:
    - (a) has authority or is a member of a committee which has the authority to take decisions 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 decisions on such credit risk exposures or is a member of a committee which has the authority to take decisions on such credit risk exposures;
  7. 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 - *either* through responsibility for initiating credit proposals or structuring credit products which can result in credit risk exposures, *or* through authority to take, approve or veto a decision on credit risk exposures - equals or exceeds a threshold of at least EUR 5 million of a nominal amount per transaction which represents 0.5% of the institution's CET 1;
  8. the staff member has authority or is a member of a committee which has the authority to take decisions to approve or veto the introduction of new products;
  9. the staff member has managerial responsibility for a staff member who meets one of the qualitative criteria set out above.

### (2) Quantitative criteria

Staff members carrying out their professional activities and authorities in a material business unit or have otherwise a material impact on the risk profile of a material business unit through the professional activities carried out shall be deemed to have a material impact on an institution's risk profile where any of the following quantitative criteria are met:

- (a) the staff member has been awarded total remuneration of EUR 500,000 or more in the preceding financial year;
- (b) the staff member is within the 0.3% of the number of staff, rounded up to the next integer, who have been awarded the highest total remuneration in the preceding financial year;
- (c) the staff member was in the preceding financial year awarded total remuneration that is equal to or greater than the lowest total remuneration awarded in that financial

year to a member of the management board, senior management or any other staff member with material impact on the institution's risk profile due to

- overall responsibility for risk management within a material business unit;
- heading a material business unit;
- managerial responsibility in a material business unit and directly reporting to the staff member heading the material business unit;
- authority or membership in a committee which has the authority to take decisions for initiating credit proposals or structuring credit products with regard to credit risk exposures of a nominal amount per transaction which represents 0.5% of the institution's CET 1 and is at least EUR 5 million;
- authority or membership in a committee which has the authority to take, approve or veto a decision on credit risk exposures of a nominal amount per transaction which represents 0.5% of the institution's CET 1 and is at least EUR 5 million;
- managerial responsibility for a group of staff members who have individual authorities to commit the institution to transactions *and* the sum of those authorities - *either* through responsibility for initiating credit proposals or structuring credit products which can result in credit risk exposures, *or* through authority to take, approve or veto a decision on credit risk exposures - equals or exceeds a threshold of at least EUR 5 million of a nominal amount per transaction which represents 0.5% of the institution's CET 1;
- authority or membership in a committee which has the authority to take decisions to approve or veto the introduction of new products.

(3) Notification requirements

An institution shall notify the competent authority responsible for its prudential supervision in case the staff member has been awarded total remuneration of

1. EUR 500,000 or more in the preceding financial year *and* in case the institution did not apply this quantitative criterion (total remuneration of EUR 500,000 or more) whereby the notification shall set out the objective assessment criteria why the staff member did not carry out his professional activities in a material business unit or did not have otherwise a material impact on the risk profile of a material business unit through the professional activities carried out.
2. EUR 750,000 or more in the preceding financial year, *or* in case the staff member is within the 0.3% of the number of staff, rounded up to the next integer, who have been awarded the highest total remuneration in the preceding financial year, *and* in case the institution did not apply these quantitative criteria (total remuneration of EUR 750,000 or more or staff member is within the 0.3% of the number of staff with the highest total remuneration) whereby the notification as stated above, regarding the assessment why the staff member did not carry out his professional activities in a material business unit or did not have otherwise a material impact on the risk profile of a material business unit through the professional activities carried out additionally shall be subject to the prior approval of the competent authority responsible for prudential supervision of that institution<sup>7</sup>.

## 11. ANNEX 2: Complexity analysis of SBHU

<b>Size of the institution</b> <ul style="list-style-type: none"> <li>○ Balance sheet total or the quantity of assets held by the institution</li> <li>○ Number of significant entities consolidated for regulatory purposes</li> <li>○ Number of staff</li> </ul>	2
<b>Market share</b> <ul style="list-style-type: none"> <li>○ Relative size within the Hungarian / European banking industry</li> </ul>	1
<b>Systemic relevance</b> <ul style="list-style-type: none"> <li>○ Relevance for Hungary</li> <li>○ Regional relevance</li> <li>○ Global relevance (Geographical presence of the institution and the size of the operations in each jurisdiction)</li> </ul>	1
<b>Internal organization</b> <ul style="list-style-type: none"> <li>○ Legal form of the institution</li> <li>○ Availability of equity and debt instruments</li> <li>○ Authorization to use internal methods for the measurement of capital requirements (e.g. IRB, AMA)</li> <li>○ Level of variable remuneration that can be paid to identified staff</li> <li>○ Institution is part of a group and the proportionality assessment is performed for the group</li> <li>○ Multi-level organization</li> </ul>	2
<b>Nature of activities</b> (type of authorized activities) <ul style="list-style-type: none"> <li>○ Legal form of the institution</li> <li>○ Investment banking</li> <li>○ Loans and deposits</li> <li>○ Non-banking services</li> </ul>	2
<b>Scope of activities</b> <ul style="list-style-type: none"> <li>○ Underlying business strategy</li> <li>○ Relatively high level of non-banking transactions</li> <li>○ Relatively high level of additional investment services</li> <li>○ Cross-border activities</li> </ul>	1
<b>Complexity of activities</b> <ul style="list-style-type: none"> <li>○ Complexity of risk measurement (measurability and predictability)</li> <li>○ Type of clients (e.g. retail, corporate, small business, public entity)</li> <li>○ Complexity of the products or contracts</li> <li>○ Funding structure of the institution</li> </ul>	2
<b>TOTAL EVALUATION</b>	<b>2</b>

The following table shows some key figures regarding application of proportionality among institutions (based on updated financial plan as of 31.12.2019):

	<b>SBHU</b>
<i>Balance sheet total (RWA, mn EUR)</i>	1,140
<i>Number of countries</i>	-
<i>Number of staff members</i>	602
<i>Number of branches</i>	27
<i>RWAs (Credit RWAs, mn EUR)</i>	600
<i>Capital ratio (TCR)</i>	21,50 %

## 12. ANNEX 3: List of Identified staff

In determining the following factors, total assets, market share, number of clients, branches and employees of the Bank in proportion to the entire banking sector, as well as the internal regulation concerning risk taking (competence matrix) shall be taken into consideration by the Bank:

Considering the individual or aggregated size and the risk character of the business transactions running by the bank, based on the proportionality principle and taking into consideration the qualitative and quantitative criteria described in this policy SBHU considers as Identified Staff the following positions:

- a. Members of Supervisory Board
- b. Members of the Board of Directors
- c. Heads of Divisions reporting direct to Board
  1. Head of Corporate Banking
  2. Head of SME Banking
  3. Head of Micro Segment Management
  4. Head of Global Markets
  5. Head of ALM
  6. Head of Risk Managers
  7. Head of Restructuring and Work Out
  8. Head of Internal Audit
  9. Head of Legal Department
  10. Head of IT Division
  11. Head of Controlling and Reporting
  12. Head of HR
  13. Head of Compliance
  14. Head of Integrated Risk Management
  15. Head of Market Risk
  16. Head of Operational Risk
  17. Head of Business and Product Support
  18. Head of Banking Operations
  19. Head of Lean and Organization
  20. Head of Accounting
  21. Head of Consumer Product Development
  22. Head of Marketing and PR
  23. Head of Facility and Support Management
- d. Other
  1. Head of Retail Credit Risk
  2. Head of Corporate Credit Risk
  3. Head of Corporate Risk Managers



### 13. ANNEX 4.A: Ex-post risk adjustment effective for SBAG/Subsidiaries (for Board Members and Identified Staff)

The below mentioned criteria 1-6 need to be differently applied for Management Board Members and other Identified Staff of SBHU. Therefore, for

- Management Board members of SBHU the below mentioned need to be considered at the level of SBEU and/or SBHU;
- Identified Staff of SBHU (other than their Management Board members) the below mentioned need to be considered at the level of SBHU.

#### 1. “Significant loss”

shall occur

- in case of budgeted profit, when negative NPAT (<0) occurs;
- in case of budgeted losses, when loss higher than budgeted level by **1%** of capital for Group criterion and **0.5%** for subsidiary level occurs

#### 2. “Significant downturn of the financial situation”

shall occur

- in case of a **deterioration of the profit trend (NPAT) of the actual year compared to the average trend of the last 3 years (result of 3Y/3) by 50% or higher** of SBEU and/or SBHU.

#### 3. “Significant liquidity issues”

shall occur

- in case the Liquidity coverage ratio (LCR) at any moment of time during the year was below the **regulatory minimum requirement defined by the local regulator**; in such case the bonus pool for SBHU can be reduced and eventually cut up to 100% after the evaluation of the breach and subject to SBAG Management Board decision and SBHU Supervisory Board approval.
- in case the Liquidity coverage ratio (LCR) at any moment of time during the year was below the **red trigger** defined in the **Risk appetite statement (RAS)**; in such case the bonus pool for SBHU can be reduced and eventually cut up to 100% after the evaluation of the breach and subject to SBAG Management Board decision and SBHU Supervisory Board approval.

#### 4. “Significant compliance breaches”

shall occur based on case-by-case evaluation. Compliance breaches are (i) conscious, and/or (ii) repeatedly, and/or (iii) undiscovered **actions against regulatory requirements or internal procedures and regulations**. Their evaluation is in any case subject to the classification described in Annex 4.B.

#### 5. “Significant failure of risk management”

shall occur based on a case-by-case evaluation. Failures of risk management occur **due to conscious non-compliance with established risk management standards**. Their evaluation is in any case subject to the classification described in Annex 4.B.

#### 6. “Significant changes of the economic and/or regulatory capital”

shall occur:

- if SBEU and/or SBHU **reach capital ratios below regulatory minimum**; and/or
- if SBEU and/or SBHU **utilize over 100% of the risk bearing capacity**, meaning that internal capital required for coverage of all material risks is not sufficient.

Remarks:

- The SBAG Remuneration Committee decides and SBHU Supervisory Board approves if a **malus event according to** the criteria outlined under **para. 1, 2 and 6 shall not apply** if caused by **unexpected, externally driven events to which SBHU has no impact** (i.e. unexpected changes in the FX rates, political crisis, changes of legal/regulatory environment, force majeure, sale of subsidiaries, etc.);
- **Unexpected means** the significant loss/downturn of the financial situation/changes of the economic and/or regulatory capital that was **not foreseen in the budgeting process** (in order to reduce the loss/downturn or increase the capital base);
- The SBAG Remuneration Committee has the right to decide on **attribution of bonus pool for an individual subsidiary in exceptional cases** of over performance despite of failure in fulfillment of any of the step-in criterion at the Group level.

## 14. ANNEX 4.B: Criteria for reduction (ex-ante risk adjustment and malus (ex-post risk adjustment) for Board Members and Identified Staff

The reduction (ex-ante risk adjustment) and/or malus (ex-post risk adjustment) shall be performed based on a comprehensive case-by-case analysis of individual breach and/or non-compliant behaviour and circumstances and the (potential) negative results for SBHU. Based on that every finding has to be classified whereas fulfil the definition of particular risk category.

Based on that, each event is classified in a specific risk impact category, based on which the following adjustment ranges apply:

- **75 – 100 %** in case of breach qualified with significant regulatory impact due to continuous/ repeated or very high-risk-bearing, i.e. having significant influence on the capital and economic results of the bank and therefore able to result in material fines or other significant consequences such as loss of operating licenses or serious reputation damage due to negative publicity for SBHU (**High-Risk**);
- **30 – 50 %** in case of not continuous, not repeated breach not affecting the internal control system but with weaknesses/ deficiencies with regulatory impact able to result in immaterial fines or minor public sanctions in terms of:
  - unresolved high risk audit findings without reasonable cause for delay; or
  - significant shortcomings in control environment with a high likelihood of a potential fraud; or
  - fundamental influence on efficiency and effectiveness of SBHU's processes; or
  - significantly threatening the objectives of the respective areas of responsibility with significant effect on SBHU's objectives; or
  - serious violation of corporate strategies, policies or values (**Medium-Risk**);
- **up to 10%** in case of a Low-Risk breach which:
  - threatens the objectives of the respective areas of responsibility significantly but the SBEU/SBHU's objectives only to a limited extent; or
  - is connected to unresolved internal audit findings not related to high risk findings; or
  - has impact on processes or economic results of the respective areas only, not of the bank as such; or
  - does not affect the P&L significantly; or
  - is the consequence of significant manual work around due to absence of standard IT support (**Low-Risk**).

Within the annual bonus cycle, CRD Committee analyzes any event that during the relevant performance year could require the application of individual risk-adjustment - such as high risk audit findings, Compliance reports, operating losses events, external audit investigations - and formulate the relevant proposals.

In accordance with Supervisory Board bylaws (9.2.), Supervisory Board assesses the achievement of performance targets and decides on the need for ex post risk adjustment, including the application of malus and clawback arrangements.

## 15. ANNEX 5: Design of performance evaluation/ex-post risk adjustment process

1. The employee performs a self-evaluation of all the individual performance elements: target evaluation, competency evaluation, development plan. Before the evaluation process starts, Controlling prepares the evaluation of financial targets (KPIs) as necessary inputs for the performance evaluation. The evaluation is done through a performance management system.
2. Manager evaluates the respective employees and has a personal feedback talk with each and every employee where the evaluation is discussed. If there is some functional co-evaluator (e.g. dotted line manager), his/her feedback is also taken into account. The evaluation as well as the confirmation from the employee that the feedback talk was held is documented in the performance management system.
3. For the overall performance evaluation this description of the 1-5 rating is valid:

Overall definition in Performance Management system		
-	<b>Unsatisfactory Performance</b>	Systematically fails to perform tasks and his/her behaviour shows a huge room for improvement
+/-	<b>Slightly below Expectation</b>	Shows unstable results. Practices the core competencies of the company, however needs improvements to fully meet expectations at all times
+	<b>Meets Expectations</b>	Performs all assigned tasks in line with the core competencies of the company
++	<b>Exceeds Expectations</b>	Achieves results significantly higher than planned and often stands out because of ideal behaviour in respect to the company's core competencies
+++	<b>Outstanding Performance</b>	Is a top performer and acts as a role model when considering the company's core competencies

### 4. Step only for Identified Staff

After all evaluations are submitted to HR Department, HR Department organizes meetings with Compliance and Internal Audit and collects all information from their information sources (audit findings, investigations and reporting activities, operating losses report etc.) and check whether all relevant findings were incorporated into the performance evaluation. If not the review of the evaluation according to para. 2 hereof is initiated.

### 5. Step only for Identified Staff

In case of any findings under para. 4 hereof, the Integrated Risk Management Department is involved in order to measure / assess the risk relevance of the findings. Based on that HR Department recommends the reduction of bonus if any.

### 6. Step only for Identified Staff

If any potential malus event arise before the closure of annual evaluation, the assessment will be put on hold until the malus assessment is completed. In case the malus event appears after the closure of the assessment, SBAG will keep the right to re-open and adjust the evaluation accordingly. In both the cases, the confirmation of the risk-adjustment (malus) will trigger a performance evaluation below "meets expectations".

### 7. Step only for Identified Staff with deferred bonus from the previous year(s)

Ex-post risk assessment is to be conducted for all employees with deferral bonuses from the previous year(s). Similarly (as in Step 4) HR Department collects all available information together with compliance department and internal audit department from available documentation (performance evaluations, investigations, audit findings). Based on collected information, the behaviour of individual persons in the previous performance years has to be analysed and assessed whether the condition for application malus and/or claw-back are fulfilled. If the assessment is positive, HR Department proposes the measurement on remuneration in form of application of malus and/or claw-back event. CRD Committee

provides expert opinion for Management Board, which decides to adjust in accordance with any listed range and formulates recommendations to Supervisory Board, which ultimately approves and clarifies specific percent of adjustment within the range.

**ANNEX 6: Deferral Calculation Model**

*Example (3 years deferral period)	Year 1	Year 2	Year 3	Year 4	Year 5
<b>Granted bonus</b>	<b>Bonus 120K</b>	<b>Bonus 90K</b>	No bonus	No bonus	No bonus
<b>60% upfront part</b>	72000	54000	0	0	0
<b>40% deferred part</b>	0	16000	16000	16000	0
<b>Total pay out this year</b>	72000	70000	28000	28000	12000

**TIMELINE**

\*) Bonus only paid out in Year 1 and Year 2 for illustration purposes