

## REMUNERATION GUIDELINES OF OTP BANK PLC.

The Bank Group's Remuneration Policy is an integral part of the corporate governance system, and must be enforced throughout the entire Bank Group. The Bank Group's Remuneration Policy, in keeping with the relevant European Union directive, is consistent with effective and successful risk management, and in accordance with its purpose, it does not encourage the assumption of risks that exceed the risk-assumption limits of the Bank and Bank Group-member subsidiaries, and furthermore it is consistent with the business strategy, objectives, values and long-term interests of the Bank and Bank Group-member subsidiaries, and it promotes the achievement of this.

### 1. The objective of the Remuneration Policy

The objective of the Bank Group's Remuneration Policy is to acknowledge the performance, within the risk-tolerance capacity of the Bank Group, of the management of OTP Bank and of individual managers occupying key positions, as well as of the heads of the subsidiaries of the Bank Group in contributing to results at the bank and at the group level, and to provide an incentive for performance.

### 2. Scope of application of the Remuneration Policy

The personal scope of the Bank Group's Remuneration Policy is determined, in accordance with the applicable EU regulations, on the basis of qualitative criteria drawn from the institution's own risk profile, as well as quantitative criteria determined by income level. To ensure fulfilment of the qualitative criteria the Bank applies a comprehensive risk-analysis procedure, in keeping with the group's business and risk strategy, based on which it performs an assessment once a year at consolidated, sub-consolidated and local level for the purpose of identifying employees that exercise a material impact on the risk profile. The quantitative criteria are taken into account in accordance with the prevailing statutory requirements.

**Belonging under the scope of the Bank Group Remuneration Policy** are those senior officers and regular employees who, based on qualitative and quantitative criteria defined in Commission Delegated Regulation (EU) No 604/2014, exercise a material impact on the Bank Group's risk profile at consolidated level, sub-consolidated level, or local level.

The Bank also supplements the risk criteria defined by Commission Delegated Regulation (EU) No 604/2014 with comprehensive internal risk-analysis methods approved by the Supervisory Board.

The Bank's Supervisory Board decides on the persons that fall under the scope of the Bank Group's Remuneration Policy based on the following criteria:

- In the case of those employees who are identified purely by quantitative criteria, the Bank's Supervisory Board is entitled to consider whether they exercise a material impact on the risk profile through their professional activity, and in the absence of such impact, it may decide to exclude the persons concerned from the scope of application of the remuneration policy, provided it reports such in advance to the National Bank of Hungary, or in possession of permission for such.
- In the case of subsidiaries that are not classed as credit institutions or investment firms and that represent less than 2% of the group's internal capital composition, and as such cannot be regarded as a material business unit, the persons otherwise identified on the basis of quantitative criteria shall not be regarded by the Bank as exercising a material impact on the risk profile.
- Those persons who the risk analysis have not identified, but who through their activity exercise a material impact on the Bank's operation and/or risk profile, may be excluded by the Bank's Supervisory Board from the scope of application of the remuneration policy.

### **3. The framework for applying the Bank Group's Remuneration Policy to the subsidiaries**

All basic decisions under the remuneration policy shall be made by OTP Bank Plc., while the subsidiaries shall be responsible for complying with local statutory regulations and obligations.

- As a general rule **the Bank Group Remuneration Policy** covers the persons at the parent bank and at the rest of the Bank Group that exercise a material impact on the group-level risk profile, as well as persons identified at the subsidiaries that do not belong to the sub-consolidated circle.
- **The sub-consolidated remuneration policies** cover the persons that exercise a material impact on the risk profile at sub-consolidated and local level.
- **The fund management companies may also accept the local-level remuneration policies** in the interest of compliance with the provisions of the Investment Services Act (Bszrt.) and of the Alternative Investment Fund Managers' Directive (AIFMD).

### **4. The ratio of basic remuneration and performance-based remuneration**

The **members of the Board of Directors** and the **Supervisory Board** receive an honorarium of a fixed amount for their work in this capacity, and do not receive performance-based remuneration.

For other persons falling under the effect of the remuneration policy, the remuneration consists of basic remuneration and performance-based remuneration. The main components of basic remuneration are the basic salary and ordinary shares issued by OTP Bank. The basic remuneration may not depend on the performance of the beneficiaries, or on the discretionary decision of the employer.

The ratio of basic remuneration to performance-based remuneration is determined by the Bank's Supervisory Board, on the basis of the function, size and complexity of the organisation managed. The proportion of the performance-based remuneration may not exceed 100% of the basic remuneration in the case of any individual concerned.

The ratio of performance-based remuneration to total remuneration, depending on the function performed by the manager concerned, may vary within the bands set in accordance with the following, with the proviso that in the case of managers performing a control function, the share of the performance-based remuneration approaches the lower value of the band:

- In the case of persons exercising a material impact on the Bank's risk profile at consolidated level, the share of the performance-based remuneration is set at between 40 and 50%.
- In the case of persons exercising a material impact on the Bank's risk profile at sub-consolidated level, the share of the performance-based remuneration is set at between 30 and 50%.
- In the case of persons exercising a material impact on the Bank's risk profile at local level, the share of the performance-based remuneration is set at between 30 and 40%.

## **5. The method of performance assessment linked to performance-based remuneration**

In the case of **managers employed by OTP Bank Plc.**, performance is assessed on the basis of criteria that measure performance at the bank-group and at the individual level (financial indices and indices measuring the quality of work).

In the case of the **managers of the Bank Group's subsidiaries**, performance is assessed on a differential basis, in view of the nature of the companies' respective activities.

Bank Group-level performance is, based on the decision of the Supervisory Board, assessed by applying the group-level RORAC indicator or the group-level Economic Value Added (EVA) indicator.<sup>2</sup>

The group-level RORAC indicator measures the return on risk-adjusted capital, while the EVA indicator measures the bank group's nominal value added as the difference between the profit generated by the group and the expected yield on the regulatory capital necessary for this.

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<sup>2</sup> This indicator is calculated based on the figures of the Hungarian and foreign companies operating as group members that belonged to the circle of consolidated subsidiaries throughout the entire assessed financial year.

The target value of the bank group-level indicator chosen for evaluating performance is determined by the Bank's Supervisory Board based on the approved financial plan for the given year. The Supervisory Board may modify the target value in response to statutory changes implemented after the determination thereof and/or changes in market circumstances that have a significant objective effect on the Bank Group's profit and/or the achievement of the target values set.

## **6. Determining entitlement to performance-based remuneration**

The decision regarding the maximum amount that may be spent on performance-based remuneration in respect of the assessed year, taking the Bank Group's performance into account, is made by the Supervisory Board within 45 days following the annual General Meeting closing the year in question.

Eligibility for performance-based remuneration, and the extent of the annual award are determined, proportionately with fulfilment of the corporate and individual targets,

- by the Board of Directors on the basis of a proposal by the Remuneration Committee in the case of the Chairman & CEO of OTP Bank Plc.,
- by the manager exercising employer's rights in the case of managers employed by the Bank, with the proviso that in respect of the heads of Risk Management, Internal Audit and Compliance the Remuneration Committee shall have the right of joint decision-making,
- by the body that exercises ownership rights in the case of managers of subsidiaries in the Bank Group,
- by the manager exercising employer's rights in the case of the Bank Group's managers employed at the subsidiaries

with due consideration to any restrictive decision by the Supervisory Board.

## **7. Principles and rules relating to the payment of performance-based remuneration**

### **7.1. Basic principles**

- When assessing the performance of the year evaluated (year T), the amount of performance-based remuneration is determined and broken down to the level of individuals. The amount of performance-based remuneration is determined on the basis of an evaluation of individual performance as well as of the ratio of basic and performance-based remuneration.
- For persons exercising a material impact on the risk profile at consolidated level, the performance-based remuneration is, as a general rule, provided in the form of a cash bonus and, depending on whether the beneficiary chooses it, a share award, granted

at a discounted price, with the proviso that the proportion of shares within the performance-based remuneration is at least 50%.

- For persons employed at the subsidiaries who exercise a material impact on the risk profile at sub-consolidated level or local level, the performance-based remuneration is, as a general rule, provided in the form of a cash bonus plus a cash payment of an amount equivalent to that which the beneficiary would have received had he or she been paid in shares, with the proviso that the method of calculating the nominal value of such award is approved by an independent expert. This latter form of award must account for at least 50% of the performance-based remuneration. If the application of the latter form of award is not possible at a particular foreign subsidiary due to a provision of local law, the subsidiary, if it has its registered office in the area of the European Union, is entitled to substitute this with the provision of some other asset consistent with the stipulations of Commission Delegated Regulation (EU) No 517/2014. In the case of subsidiaries that have their registered office outside the area of the European Union, if a stipulation of local law does not allow the provision of such award, the performance-based remuneration may be paid entirely in cash.
- For persons participating in the share award, the share-based portion of the variable remuneration shall be provided to them by OTP Bank Plc.
- As a general rule, for persons exercising a material impact on the risk profile at consolidated level, 60% of the performance-based remuneration is deferred, while for persons exercising a material impact on the risk profile at sub-consolidated and local level, 40% of such remuneration is deferred.
- The period of the deferment is at least 3 years – and in the case of the Chairman & CEO and the deputy CEOs of OTP Bank Plc., 4 years – during which period the amount of the deferred payment is set annually, in equal proportions.
- Eligibility to receive such deferred instalments is determined through a retrospective assessment of risks. Risks are assessed partly on the basis of criteria for evaluating prudent operation, i.e. capital must remain above the minimum regulatory capital requirement specified by law, and operations should be conducted without having to resort to the deposit insurance fund, and, secondly, the assessment is linked to the activity of the persons concerned. Based on the assessment of risks related to the activity of the persons concerned, the deferred instalment may be reduced or withdrawn in the event of a material breach of the internal rules, with particular regard to the provisions relating to risk management.
- Entitlement to the deferred instalments is linked to the subsequent assessment of risks, and is subject to the person's still being employed at the company at the time that the deferred instalment is due for payment. Exceptions to the above may only be validly authorised in respect of the executive directors (Chairman & CEO, deputy CEOs) by OTP Bank's Supervisory Board; in the case of exceptional performance, and in respect of managers employed at the Bank and managers of the subsidiaries, exceptions are permitted based on a decision of the Chairman & CEO of OTP Bank Plc.

## 7.2 Settlement rules

- Settlement of the due instalments of performance-based remuneration takes place by 30 June in the year following the assessed period, at the latest.
- The number of shares that may be used for the settlement of performance-based remuneration taking the form of shares, broken down to individuals, must be determined as the quotient of the amount of performance-based remuneration taking the form of shares, and the share price determined by the Supervisory Board.
- The share price to be taken into account when determining the number of shares is set by the Supervisory Board on the basis of the average daily quoted price of the ordinary shares issued by OTP Bank, as registered by the Budapest Stock Exchange, on the three business days preceding the date of the Supervisory Board's decision made within the 10 days preceding settlement of the performance-based remuneration.
- Concurrently with this, the specific terms and conditions of the discounted share award are also determined, with the proviso that the share allowance granted at a discounted price may contain a maximum discount of HUF 2,000 at the time of performance assessment, and the profit content per share may be a maximum of HUF 4,000 at the time of vesting the share award.
- The Bank's Board of Directors, in the interest of managing shares acquirable in the framework of the remuneration policy, has decided to establish an ESOP entity. In the course of implementing the remuneration policy, shares or bonds issued by OTP Bank Plc. as founder and that constitute coverage for payment of an award to which the beneficiary is entitled as part of his or her performance-based remuneration, may be handed over to the ESOP entity, or may be purchased, or subscribed to, by the ESOP entity using funds provided to it by the Bank or one of its subsidiaries. Through the handing over of these securities to the ESOP entity, or through the purchase of, or subscription to them by the ESOP entity, the beneficiary concerned shall acquire a member's share in the ESOP entity. The member's share in the ESOP entity is not a negotiable instrument; it may not be encumbered or pledged as collateral, and it only assures payment of the award to the individual if the conditions prescribed in the remuneration policy (result of performance assessment, retrospective assessment of risks) are fulfilled. Any share of a member who does not meet the conditions for the award shall revert to the Bank or to the Bank's subsidiary that employs the individual concerned.
- The detailed terms of performance-based remuneration awards granted through an ESOP entity may – within the constraints of the Remuneration Guidelines – be set by the Supervisory Board, with the proviso that participation of the beneficiaries in the ESOP entity, and thus the settlement of the performance-based remuneration through the ESOP entity, may only take place on the basis of the beneficiaries' voluntary decision.

The Supervisory Board of OTP Bank Plc., with the exception of matters placed under the authority of the General Meeting by law – and subject to an obligation to subsequently inform the owners – is authorised to amend the Bank Group’s Remuneration Policy.