

8/2018

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 subsidiaries, and furthermore it is consistent with the business strategy, objectives, values and long-term interests of the Bank and Bank Group 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, within the Bank Group's risk-tolerance capacity, to acknowledge the contribution of those managers and employees of OTP Bank Plc. and the Bank Group Subsidiaries who, through their professional activity, have a material impact on the risk profile of the individual institutions operating within the Bank Group, towards the achievement of bank and group-level results, and to provide an incentive for their performance.

2. Institutional and personal scope of the Remuneration Policy

The institutional scope of the Bank Group's Remuneration Policy covers OTP Bank Plc., as well as all its subsidiaries that are rendered subject to consolidated supervision by the National Bank of Hungary.

Within this institutional circle, 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 risk profile of the institutions operating within the Bank Group, 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 Bank takes the qualitative and quantitative criteria 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 operation and risk profile at consolidated level, or on the operation and risk profile of the individual institutions of the Bank Group at sub-consolidated 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 or, without excluding the possibility of this, qualitative 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 the remuneration policy – depending on the relevant statutory provisions – provided it reports this in advance to the National Bank of Hungary, or if it has permission to do so.
- Those subsidiaries that are not classed as credit institutions or investment firms and that represent less than 2% of the internal capital composition of the Bank Group or of a sub-consolidated group of an institution shall not qualify as material business units. Senior officers and regular employees of subsidiaries not classed as material business units are not, as a general rule – and in the absence of fulfilment of other identification criteria – regarded by the Bank as exercising a material impact on the risk profile of an institution.
- 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 brought by the Bank's Supervisory Board under the personal scope of the remuneration policy.

3. The framework for applying the Bank Group Remuneration Policy to the subsidiaries

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

- As a general rule, **the Bank Group Remuneration Policy** covers identified staff at subsidiaries that do not belong under the effect of the parent-bank and the local remuneration policy.
- **The local remuneration policies prepared by the foreign institutions operating within the Bank Group** – that transpose the provisions of the Bank Group Remuneration Policy to the local statutory environment of the individual countries – cover, as a general rule, the staff employed in the same country as the foreign institution who exercise a material impact on the risk profile of a bank-group institution.
- **Subsidiaries classed as fund management companies and operating in the European Union may also accept independent remuneration policies** in the interests of complying with the provisions of the AIFMD directive (Directive 2011/61/EU).

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, in the case of Bank Group member institutions operating within the European Union, ordinary shares issued by OTP Bank. The basic remuneration may not be subject to the performance of those entitled to it, or to 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 and the organisational position occupied by the senior officer or employee concerned, may vary within the bands set according to the following, with the proviso that the Supervisory Board of OTP Bank Plc. may – with consideration to the risk associated with retaining key staff as well as to local labour market practices – authorise departures from the specified bands:

		Levels							
		Level 1		Level 2		Level 3		Level 4	
		min.	max.	min.	max.	min.	max.	min.	max.
Type of position	Business	35%	50%	20%	40%	14,3%	35%	14,3%	25%
	Support	-	-	15%	35%	15%	30%	15%	25%
	Control	-	-	20%	35%	15%	30%	0%	25%

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 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.¹

The group-level RORAC indicator measures the return on risk-adjusted capital, whereas the EVA indicator measures the nominal value generation capacity of the bank group, as the difference between the profit produced by the group and the expected yield on the regulatory capital required for this purpose.

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.

¹ 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.

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, is determined, proportionately with fulfilment of the annual organisational and individual objectives,

- 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,
- in the case of the chief executives and the employees of the Bank Group subsidiaries identified at consolidated level, the body exercising owner's rights
- in the case of the managers of Bank Group subsidiaries identified at sub-consolidated and local level – not including the chief executive – and in knowledge of the position on the matter of the manager exercising employer's rights, the chief executive

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%. In the case of subsidiaries that have their registered office outside the area of the European Union, 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 cash payment of an amount equivalent to that which the beneficiary would have received had he or she received remuneration in the form of shares or a preferentially-priced share award, with the proviso that the method of calculating the nominal value of such award is to approved by an independent expert. This latter form of award must account for at least 50% of the performance-based remuneration.
- 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, in the case of a foreign subsidiary operating within the area of the European Union, the award of OTP Bank's ordinary shares or an equivalent-value cash payment is not possible due to a statutory provision or the practice of the foreign financial supervision, and furthermore, if the local tax legislation imposes substantially higher taxes on the award of OTP Bank's ordinary shares than on a cash payment, then the subsidiary is entitled to substitute this with the provision of some other asset consistent with the stipulations of Commission Delegated Regulation (EU) No 527/2014, or to apply to employees identified at consolidated level the rules applicable to subsidiaries that have their registered office outside the area of the European Union, as set out above.
- For persons participating in the share award – not including any persons who join the OTP Bank ESOP Organisation as participants – the share-based portion of the variable remuneration shall be provided 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. The assessment of risks takes place partly on the basis of criteria for assessing prudent operation, i.e. it is necessary to ensure that the capital remains above the minimum level of regulatory capital defined in the law, and that operations are conducted without a need to resort to the deposit insurance fund, and, secondly, it 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, whereas in respect of managers employed at the Bank and managers of the subsidiaries, including chief executives and managers identified at consolidated level, exceptions are permitted based on a decision of the Chairman & CEO of OTP Bank Plc. Among the staff identified at sub-consolidated and local level – not including the chief executives – exceptions are possible based on the decision of the subsidiary's chief executive, subject to the consent of the chairperson of the owner's governing body.

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 Organisation. 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 Organisation, or may be purchased, or subscribed to, by the ESOP Organisation using funds provided to it by the Bank or one of its subsidiaries. Through the handing over of these securities to the ESOP Organisation, or through the purchase of, or subscription to them by the ESOP Organisation, the beneficiary concerned shall acquire a member's share in the ESOP Organisation. The member's share in the ESOP Organisation 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.
- Among the staff identified by the Bank Group's Remuneration Policy, the detailed terms of share-based performance remuneration awards granted through an ESOP Organisation 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 Organisation, and thus the settlement of the performance remuneration through the ESOP Organisation, 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 Remuneration Policy.