

Addiko Bank AG Remuneration report 2020

This remuneration report provides a comprehensive overview of the remuneration paid or granted to current and former members of Addiko Bank AG's Supervisory Board and Management Board members in the business year 2020.

Key highlights of the business year 2020

Although business was marked by the global Covid-19 pandemic in 2020, Addiko Group's results demonstrated the robustness and resilience of its sustainable business model. The Group has implemented adequate measures to keep employees safe and continues to provide customers with safe and unhindered access to all banking services, fully leveraging the existing capabilities for digital services and communication channels.

The reported result after tax of EUR 1.4 million was achieved due to the profit after tax of EUR 7.8 million in the fourth quarter, which was supported by the slight economic recovery during the second half of the year, restarting new business activities and tightly managed operating costs. The overall result was significantly impacted by a considerable increase in risk provisioning, predominantly driven by macroeconomic and portfolio behaviour expectations due to Covid-19. The Group has successfully maintained its robust asset quality by upholding its prudent risk approach, preferring sustainable portfolio quality over new business and volume growth.

Addiko Group reported an operating result of EUR 62.8 million at the end of 2020, based on the newly introduced P&L structure. This is an improvement of 15.1% compared to 2019's EUR 54.6 million. The operating result reflects stable development despite the Covid-19 crisis, supported by non-recurring income (the sale of debt securities) and successful and strict cost containment as well as savings related to Covid-19. Operating expenses were successfully brought down by EUR 19.4 million or 10.3% YoY to EUR -169.7 million (YE19: EUR -189.1 million). The resulting cost-income ratio was 72.4% for the full year 2020 (YE19: 75.6%).

The share of the two focus segments Consumer and SME of the gross performing loan book increased to 65% (YE19: 62%). The size of the overall gross performing loan book declined to EUR 3,604 million (YE19: EUR 3,870 million) as a result of stricter underwriting during the global Covid-19 crisis as well as the managed run-down of the non-focus portfolios according to expectations. The focus portfolio volume remained stable with new business activities starting to pick up during the second half of 2020.

Despite the challenging environment, non-performing exposure (NPE) stood stable at EUR 243.7 million compared to 3Q20's EUR 247.6 million. It reduced by 11.9% vs. YE19's EUR 276.5 million. The resulting NPE ratio amounted to 3.5% (YE19: 3.9%) at a stable NPE coverage of 73.6% (YE19: 73.8%). The NPE ratio related to on-balance loans decreased to 5.9% vs. YE19's 6.2%.

The CET1 ratio further improved to 20.3% on a transitional basis (19.3% IFRS 9 fully loaded) with the envisaged dividend amount of up to c. EUR 46.6 million already deducted. Overall, the funding situation remained stable and liquidity solid.

Remuneration of Supervisory Board and Management Board members (regulatory framework)

Addiko Group's compensation approach has been defined to be compliant with the most recent international and national regulatory requirements, including the following documents:

- 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 - "CRD IV")
- §§ 39(2), 39b and 39c of the Austrian Banking Act (Bankwesengesetz - "BWG") and the Annex to § 39b BWG
- § 78a of the Austrian Stock Corporation Act (Aktiengesetz - "AktG")
- 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 ("RTS")
- EBA Guidelines on internal governance (EBA/GL/2017/11) dated 21 March 2018, 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 (EBA/GL/2015/22) dated 27 June 2016, EBA Guidelines on remuneration policies and practices related to the sale and provision of retail banking products and services (EBA/GL/2016/06) dated 28 September 2016, EBA Guidelines on loan origination and monitoring (EBA/GL/2020/06) dated 29 May 2020
- FMA-Circular regarding §§ 39(2), 39b and 39c BWG on the principles of remuneration policies (FMA-Rundschreiben zu §§ 39 Abs. 2, 39b und 39c BWG über Grundsätze der Vergütungspolitik und Praktiken) (Document-No 01/2018) dated 18 January 2018

At Addiko Group, remuneration is generally prescribed by the Addiko Group Remuneration Policy, and for the members of the Group's Management Board it is additionally elaborated in the Remuneration Policy of Addiko Bank AG's Management Board ("Vergütungspolitik des Vorstandes der Addiko Bank AG").

Supervisory Board Remuneration

Members of the Supervisory Board, who do not have an employment contract with an Addiko Company, could be compensated for this role, as this is an additional duty for them.

Members of the Supervisory Board, who have an employment contract with an Addiko Company, should not be compensated for this role, as their supervisory activity is considered to be part of their official duties. This must be adequately regulated in the respective job/role descriptions and employment contracts within each Addiko company.

Works Council representatives, who are members of the Supervisory Board, must not receive payment for this role.

According to the Addiko Group Remuneration Policy, Supervisory Board members' remuneration packages may consist of the following components:

1. Fixed remuneration (based on role, annual and aliquot to period of assignment),
2. Attendance fee (per meeting),
3. Reimbursement for travel expenses.

Any other components of the Supervisory Board members' remuneration must not be linked to the performance of the subject they supervise.

Since members of the Supervisory Board are regarded as Identified Staff according to the "RTS", all specific requirements for Identified Staff members apply to them.

Supervisory Board remuneration for the business year 2020

The remuneration system for Addiko Bank AG's Supervisory Board in the business year 2020 consisted of fixed remuneration based on their role and reimbursement for travel expenses, while the attendance fee was not paid out.

Figure 1 - Fixed remuneration by role in 2020 for Addiko Bank AG's Supervisory Board. (EUR gross)

<u>Supervisory Board role</u>	<u>Annual amount</u>
Chair	90,000
Deputy Chair	75,000
Member	60,000

The total remuneration paid to the members of Addiko Bank AG's Supervisory Board for the business year 2020 amounted to EUR 378,898.30. This sum was divided between the individual Supervisory Board members as presented in Figure 2.

Figure 2 -Remuneration of the members of Addiko Bank AG's Supervisory Board for 2020. (EUR gross)

<u>Name</u>	<u>Supervisory Board role</u>	<u>Fixed remuneration</u>	<u>Travel expenses</u>	<u>TOTAL</u>
Kurt Pribil	Chair	30,983.61	0.00	30,983.61
Herbert Juranek	Deputy Chair	6,803.28	0.00	6,803.28
Dragica Pilipovic-Chaffey	Member	60,000.00	2,737.73	62,737.73
Monika Wildner	Member	28,524.59	0.00	28,524.59
Sebastian Prinz Schoenaich-Carolath	Member	60,000.00	1,837.34	61,837.34
Frank Schwab	Member	5,573.77	0.00	5,573.77
<i>Herman-Josef Lamberti</i> ¹	<i>Chair</i>	<i>33,442.62</i>	<i>3,678.08</i>	<i>37,120.70</i>
<i>Hans-Hermann Lotter</i> ²	<i>Chair</i>	<i>75,901.63</i>	<i>222.18</i>	<i>76,123.81</i>
<i>Henning Giesecke</i> ³	<i>Deputy Chair</i>	<i>68,032.79</i>	<i>1,160.70</i>	<i>69,193.49</i>

¹ Chair until 15.05.2020

² Deputy Chair until 19.05.2020 and Chair from 20.05.2020 to 27.11.2020

³ Deputy Chair until 27.11.2020

In accordance with Addiko Group's Remuneration Policy, no Supervisory Board remuneration was paid to the Supervisory Board members delegated by the Works Council.

Management Board Remuneration

The principles of remuneration for Addiko Bank AG's Management Board are regulated in accordance with section 78a of the Austrian Stock Corporation Act ("AktG") by the Remuneration Policy of Addiko Bank AG's Management Board ("Vergütungspolitik des Vorstandes der Addiko Bank AG"), which is largely based on, and consistent with, Addiko Group's internal Group Remuneration Policy (remuneration policy according to section 39b BWG).

The Remuneration Policy of Addiko Bank AG's Management Board was drawn up by the Supervisory Board's Nomination and Remuneration Committee, adopted by a resolution of the Supervisory Board on 4 November 2020 and confirmed at Addiko Bank's Annual General Meeting on 27 November 2020. The Group Remuneration Policy provides a remuneration framework for all Addiko employees. It determines the principles of remuneration and takes the European and Austrian legal frameworks into account. The policy aims to enable the Group to attract and retain employees and ensure the achievement of the company's objectives in line with its strategy, long-term goals and risk management framework. In addition, together with the Group Remuneration Policy, the Remuneration Policy of Addiko Bank AG's Management Board is designed to align the Management Board members' personal objectives with Addiko's long-term interests and ensure an appropriate balance between fixed and variable remuneration components.

The methods according to which fulfilment of performance criteria is determined:

Performance-based variable remuneration is determined based on the individual's success (in quantitative and qualitative terms) as well as the success of the company. In deciding on any award of variable compensation to members of the Management Board, the committee for Management Board matters considers performance criteria, the market situation and market trends, the appropriateness of bonus payments and risk trends. In the case of termination, entitlements and claims of members of the Management Board will be agreed on an individual basis.

Figure 3 - Example of individual targets defined for the annual bonus scheme

LIST OF TARGETS		Weighting (%)	KPI (Target setting)	
			value	target weighting %
1	Cost management OPEX	20%	high threshold	100%
			low threshold	50%
2	Risk-based profitability RAROC	30%	high threshold	100%
			low threshold	50%
3	Productivity Net Operating Income	30%	high threshold	100%
			low threshold	50%
4	Non-financial objective	20%	discretionary evaluation	

The remuneration of Management Board members must be clearly defined in the contract of employment within the following framework:

As defined in the Remuneration Policy of Addiko Bank AG's Management Board, the remuneration of Management Board members is to be determined as a combination of fixed, performance-based variable pay and non-monetary remuneration, 'allowing for an alignment of interests between the Management Board and its shareholders'. Fixed remuneration is based on the level of responsibility, which constitutes a relevant part of total pay.

Variable annual remuneration is linked to the achievement of individual targets and prudent risk management which, in any case, should be lower than the fixed remuneration for the respective business year.

The maximum thresholds determined for variable remuneration:

In accordance with the Remuneration Policy of the Management Board, Addiko Bank AG's Management Board members' current contracts define the variable remuneration at amounts below the fixed remuneration for the respective business year.

Considering the annual bonus scheme as a part of the total variable remuneration, the annual bonus amounts are defined within a range between 50-60% of the annual base salary, without any material changes in the bonus system compared to the previous year.

The principles applicable to eligibility and claims of the Management Board in the event of termination:

If an employment contract is prematurely terminated by the company without good cause or for a good cause which was not the fault of the Management Board member, as well as in the case of justified premature termination by the Board member for a good cause attributable to the company, Management Board members could be entitled to one-time compensation for the loss of income for the remaining period until the end of the fixed term. Such one-time compensation cannot be higher than (i) nine times the gross monthly base salary plus (ii) the pro-rata Christmas and vacation allowance for six months plus (iii) the variable bonus, calculated based on the most recent target values and parameters (under the assumption of no more than 100% target achievement) for nine months.

The principles and conditions of the company's retirement plan for the Management Board:

No retirement plan has been implemented for the Management Board at Addiko Bank AG so far.

Stock Option Programme

No stock option programme was implemented in business year 2020.

D&O Insurance

Management Board and Supervisory Board members are covered by D&O insurance at the level of Addiko Bank AG.

Remuneration of the active members of the Management Board for the business year 2020

For 2020, the active Management Board members received EUR 3,318,580.93 in total, thereof EUR 243,750.00 as guaranteed variable remuneration and EUR 1,263,750.00 related to termination agreements.

Figure 4 - Remuneration of the members of Addiko Bank AG's Management Board paid for 2020. (EUR gross) with a comparison to the remuneration paid for 2019

Name	MB member from - to	Base salary	Other fixed ¹	Total fixed	Annual bonus	Extraordinary remuneration	Total
Csongor Nemeth CEO	01.01.-31.12.2020.	492,502.01	31,018.33	523,520.34	0	0	523,520.34
	01.01.-31.12.2019.	410,004.00	30,764.97	440,768.97	204,671.58	0	645,440.55
Markus Krause CFO/CRO	01.01.-31.12.2020.	529,999.96	31,018.33	561,018.29	0	0	561,018.29
	01.01.-31.12.2019.	459,999.96	30,764.97	490,764.93	238,031.00	0	728,795.93
Ganesh Krishnamoorthi CRBO/IT/Dig.	01.08.-31.12.2020.	208,335.73	13,536.16	221,871.89	0	243,750.00 ²	465,621.88
	-	-	-	-	-	-	-
Razvan Munteanu	01.01.-30.06.2020.	250,000.04	28,430.24	278,430.28	0	663,750.00 ³	942,180.28
	01.01.-31.12.2019.	500,000.06	30,764.97	530,765.03	279,621.66	0	810,386.69
Johannes Proksch	01.01.-29.05.2020.	185,081.29	41,158.85	226,240.14	0	600,000.00 ³	826,240.14
	01.01.-31.12.2019.	450,000.04	30,764.97	480,765.01	266,682.34	0	747,447.35

¹ Other fixed includes car allowance, social security and unused vacation day payments in case of termination

² Contractual sign-on & guaranteed bonus

³ Remuneration related to mutual termination agreement

Addiko Bank AG and all its subsidiaries decided not to pay out any performance related bonus payments for 2020 following the publication of two letters from the Chair of the European Central Bank's Supervisory Board on 28 July 2020 and 15 December 2020, in which the ECB reiterated its expectation to continue to adapt modifications to variable remuneration especially for Identified Staff until 30 September 2021.

Comparative information on the change of remuneration and company performance

Figure 5 - Comparative information on the change of remuneration and company performance (2019 & 2020)

Management Board members' remuneration (fixed + performance bonus EUR gross)	2019	2020 vs. 2019	2020
Csongor Nemeth	645,440.55	-18.9%	523,520.34
Markus Krause	728,795.93	-23.0%	561,018.29
Ganesh Krishnamoorthi	-	N/A	221,871.89
Razvan Munteanu	810,386.69	n.m. ¹	278,430.28
Johannes Proksch	747,447.35	n.m. ¹	226,240.14
TOTAL	2,932,070.52	-38.2%	1,811,080.94
Addiko Bank AG performance	2019	2020 vs. 2019	2020
Result after tax	EUR 35.1m	-96.2%	EUR 1.4 m
Operating result (new P&L structure)	EUR 54.6 m	15.1%	EUR 62.8 m
Operating expenses	EUR -189.1m	-10.3%	EUR -169.7 m
Cost-income ratio	75.6%	-3.2 pts	72.4%
Average remuneration of Addiko Bank AG's employees (fixed + performance bonus EUR gross)	2019	2020 vs. 2019	2020
Addiko Bank AG's employees w/o MB members	90,680.22	-7.1%	84,239.62

¹ not meaningful because of employment termination in May / June 2020

Remuneration from previous years paid to the Management Board in the business year 2020

Since Addiko Bank AG is considered to be an institution of medium complexity based on the complexity assessment dated February 2020 and according to the proportionality principle encoded in Article 92(2) of Directive 2013/36/EU, in previous bonus cycles the following model concerning the payment of variable remuneration was applied to Addiko Group's institutions:

- (i) in the first half of the following financial year, an employee is entitled to a bonus instalment equal to 60% of the bonus, payable in cash. The first instalment is paid as soon as reasonably possible following the end of financial year for which it has been rewarded to the employee (no later than end of the first half of Y+1)
- (ii) the remaining 40% of the bonus shall be deferred and thus paid out and proportionally allocated over a period of 5 years (8% per year), payable as soon as reasonably possible after the end of the first / second / third / fourth / fifth year following the financial year for which it has been rewarded to the employee (no later than the end of the first half of Y+2 / Y+3 / Y+4 / Y+5 / Y+6).

Exceptionally, in the case of the bonus amount exceeding EUR 150,000, 60% of the total bonus amount will be deferred and proportionally allocated over a period of 5 years, payable in the following manner:

- (i) in the first half of the following financial year, employees will be entitled to a bonus instalment equal to 40% of the bonus, payable in cash. The first instalment will be paid as soon as reasonably possible after the end of the financial year for which it has been rewarded to the employee (no later than end of the first half of Y+1).
- (ii) the remaining 60% of the bonus shall be deferred and thus paid out and proportionally allocated over a period of 5 years (12% per year), payable as soon as reasonably possible after the end of the first / second / third / fourth / fifth year following the financial year for which it has been rewarded to the employee (no later than the end of the first half of Y+2 / Y+3 / Y+4 / Y+5 / Y+6).

By applying the model described above in the previous bonus cycles (2015, 2016, 2017, 2018 & 2019), a total amount of EUR 1,161,681.11 was due for payment and paid in 2020 to Addiko Bank AG's Management Board members, of which EUR 766,048.06 was paid to active members and EUR 395,633.05 to former members of the Management Board.

Figure 6 - Bonus instalments from previous bonus cycles paid to active Management Board members in 2020. (EUR gross)

Name	Bonus 2015	Bonus 2016	Bonus 2017	Bonus 2018	Bonus 2019	Total in 2020
Csongor Nemeth		24,959.84	24,960.00	20,238.48	81,868.63	152,026.95
Markus Krause	10,935.12	29,160.43	27,570.00	30,892.32	95,212.40	193,770.27
Razvan Munteanu		36,000.72	36,000.72	32,737.80	111,848.66	216,587.90
Johannes Proksch		17,550.00	42,120.00	37,320.00	106,672.94	203,662.94

In addition to the amounts listed above, former Management Board members Ulrich Kissing, Martin Thomas and Christian Kubitschek received deferred bonus payments of EUR 395,633.05 in total during 2020 on account of their previous work on Addiko Bank AG's Management Board.

This document is a translation of the German original version. In case of any doubt the German original version prevails.