

Principles of the Remuneration System (§ 315a Abs. 2 HGB)

The following statements regarding the remuneration of the bodies of Basler AG are statements for the notes as stipulated by § 315a Abs. 2 HGB (German Commercial Code) and statements due to provisions by the Corporate Governance Code.

Remuneration of the Management Board

The remuneration of the members of the management board consists of diverse components. Based on their employment contracts, the members of the management board are entitled to a fixed and an annually variable remuneration as well as to fringe benefits. The structure of the remuneration system for the management board and the adequacy of remuneration are regularly checked and defined by the supervisory board.

The company grants all members of the management board additional benefits provided by their executive contracts. They are partly considered as non-cash benefits and are taxed accordingly. This includes mainly the car allowance and the granting of accident insurance coverage. Secondary employment is on principle subject to approval.

The contract periods for the members of the management board are linked to the terms of appointment as member of the management board. The contracts for the members of the management board provide for a post-contractual non-competition clause. The members of the management board are contractually prohibited from supplying services to or for a competitor within the period of one and a half years after their resignation.

Own Requirements on the Remuneration System

The remuneration system for the management board intends to address the following aspects:

- Long-term perspective
- Profitability
- Growth
- Equity strength
- Performance orientation
- Efficiency of implementation
- Transparency for all parties concerned

This results in the following requirements on the remuneration system:

- Individual and adequate remuneration
- Focus on sustainable corporate development
- Breakdown into fixed and variable components
- Multi-year assessment basis
- Consideration of positive and negative developments
- Avoidance of disincentives with regard to unreasonable risks
- Relevant and ambitious targets and key figures
- Exclusion of subsequent changes of performance targets
- Limitation of variable remuneration
- Supervisory board shall be enabled to react to extraordinary developments

Structure of the Remuneration System

An individual target salary is agreed upon with each member of the management board at the time of conclusion and /or amendment of a contract. The amount of the target salary depends inter alia on the following:

- Duties and responsibilities
- Performance
- Market conditions
- Economic situation of the company
- Success and outlook of the company
- External peer groups
- Internal remuneration structure

For all members of the management board the same percentage of the salary target is defined representing the basis for calculating the variable remuneration. The amount of the variable component considers the previous and other regulations of the company, customary market conditions and the recommendations of the Corporate Governance Code.

The variable component for members of the management board at Basler AG is set at 25 % of the target salary.

Performance Indicators

The strategic goal of a profitable growth company and our fundamental decision in favor of high-equity corporate financing lead to measuring the corporate success in terms of profitability and growth.

Earnings before taxes (EBT) in relation to sales are considered as a suitable indicator for profitability.

$$\text{Profitability} = \frac{\text{EBT}}{\text{Sales}}$$

The percentage increase of the sales revenues compared to the previous year is considered as a suitable indicator for growth.

$$\text{Growth in sales} = \frac{\text{Current Sales}}{\text{Previous year's sales}} - 1$$

Targets

At the beginning of each fiscal year expected values are agreed upon as targets for both indicators. The profitability target is based on the long-term profit expectation and is supposed to show high continuity over the years. The sales expectations also take into account medium and shorter-term influences and will thus fluctuate more strongly from year to year.

At the beginning of each fiscal year tolerance ranges for both indicators are agreed upon describing the scope of normal business activity. The lower benchmark figure of the tolerance shall mark the transition from a basically satisfactory result to an unsatisfactory result. Vice versa, the upper benchmark figure marks the dividing line between good and very good performance.

The level of target achievement is determined by linear functions concerning profitability and growth. These functions will each show 100 % target achievement if the values for profitability and growth specified after conclusion of the annual financial statements exactly correspond to the expected values. The functions will show 0 % target achievement if the actual values fall below the expected values by an amount equaling the width of the tolerance. The functions will become negative if the downward deviations are even more pronounced.

Profitability and growth are equally important targets. However, in case of doubt the demand for profitability is more imperative than the demand for continuous growth. Thus, lacking profitability shall not be compensated by unrestrained growth. Accordingly, the degree of achievement for growth is limited to 400 %. The degrees of achievement are balanced at a ratio of 50 % to 50 %. Adding up both weighted degrees of achievement for profitability and growth results in the level of the total target achievement for the fiscal year.

The required limitation for the components of variable remuneration is set between -100 % to +400 %.

Bonus

The total target achievement (-100 % to 400 %) is multiplied by the variable component of the target salary as defined above and results in the amount in Euro for the bonus entitlement of the respective member of the management board for the elapsed fiscal year. Accordingly, the bonus entitlement can amount from -25 % (malus) to 75 % of the target salary.

The bonus entitlement calculated in that way is not paid immediately. In order to do justice to the re-quired sustainability and the multi-year assessment basis the bonus amounts are paid delayed by a bonus bank and are subject to the risk of a substantial decrease due to subsequent worsening of the situation. A separate account is kept for the bonus claims of each member of the management board.

The bonus or malus calculated for the elapsed fiscal year is booked to the individual account. Allow-ing for the previous balance this results in a current account balance. If this account balance is posi-tive one third will be paid out. Two thirds will be forwarded to a new account and be considered in the next year. Negative balances must be compensated by positive balances or bonus deposits before payouts can be made by the bonus bank.

In order to create a special performance incentive for the management board and to motivate its members to work in the long run on increasing the value of the company, the supervisory board decided to convert a part of the bonus into shares. From 2019 up to and including 2020, an individually fixed percentage part of the respective future claim for variable remuneration of above 100 % of target achievement will be granted in shares. For 2020, part of the variable compensation will be paid in shares into a notional share portfolio. One third of the portfolio will be effectively delivered annually and transferred to the respective management board member. Details can be found in the Notes.

In 2020, the supervisory board adopted a new share plan for the years 2021 to 2024 inclusive. It will be extended for a further financial year in each case unless the supervisory board resolves to terminate it before the end of the respective financial year. The new share plan provides that 50% of the variable compensation above 100% target achievement is granted in shares and placed in the bonus bank. The actual delivery of the shares is made in the same way as the payment in cash, with one-third of the shares being taken from the bonus pot or the virtual share deposit.

10.1.6 Total Remuneration

The total remuneration consists of the fixed salary (75 % of the target salary) and the payment made by the bonus bank.

If the targets agreed upon concerning profitability and growth are achieved on average over several years, the actual total remuneration will be in the amount of the target salary. If the targets are clearly missed for a long time, only the fixed salary will be paid out (75 % of the target salary) in the long term.

In case of significant overachievement of the profitability and the growth target over several years a gradually increasing total remuneration of a maximum of 175 % of the target salary will be paid out.

With regard to the information concerning the recommendations pursuant to nos 4.2.5 para. 3 sent. 2 DCGK (Deutscher Corporate Governance Kodex, German Corporate Governance Code) we refer to the notes.

Limits of the Model and Intervention of the Supervisory Board

No remuneration model will ever be able to consider all eventualities of real influences. It shall be as simple as possible and must consequently fail in the case of extraordinary and unpredictable boundary conditions.

In the event of serious crises (for example the global economic crisis 2008/2009) or success of the management board that cannot be represented in the profit and loss statement (for example strategic successes or the averting of threatening situations) such a remuneration model does not provide satisfactory results.

In order to reduce such system related disadvantages of a required remuneration system the supervisory board of Basler AG reserves two possibilities to intervene in the system:

- Delayed payout by the bonus bank
- Special allocations to the bonus bank

In the case of extraordinary difficult circumstances, the supervisory board may resolve on suspending or delaying impending payouts by the bonus bank, especially if bonus payments seem to be inappropriate with regard to stress on the staff or partners. The management board members' basic claim for payout remains intact.

In the case of extremely good results that are significantly above all expectations the supervisory board may resolve on making special allocations to the bonus bank, especially if these results are not necessarily represented in the profit and loss statement. As the normal bonus, these special allocations also risk to decrease before being paid out over the years. The special allocations for each member of the management board can be resolved individually. They are limited to a maximum of 50% of the annual target salary per year. Thus,

in the event of extraordinary results, management board compensation is limited to a maximum of 225% (175% + 50%) of the target salary.

If the bonus bank shows a negative balance at the time of termination of office as member of the management board, it will be cleared by the company. In return, in the case of a positive balance the employment contracts provide that this balance remains in the bonus bank and thus is subject to the risk of decrease in the following years, analogous to the entitlement calculations of the remaining members of the management board in that year. However, after resigning from the management board no new positive claims will be transferred to the bonus bank. Payouts by the bonus bank to the remaining members of the management board are made at the scheduled regular dates. Thereby, one third each is paid out of the balance existing at the two scheduled regular dates subsequent to the resigning member of the management board and the remaining balance is paid out at the third regular date.

Independently of the remuneration model, in the case of premature termination of office as member of the management board without good cause, it is agreed upon a limitation of payments to the value of two annual remunerations which are not allowed to exceed the total of claims resulting from the remaining term of the employment contract.

Thus, the remuneration model for the management board agreed upon by the shareholders' meeting 2011 meets the requirements of the Corporate Governance Code related to:

- Individual and adequate remuneration
- Focus on sustainable corporate development
- Breakdown into fixed and variable components
- Multi-year assessment basis
- Consideration of positive and negative developments
- Avoidance of disincentives with regard to unreasonable risks
- Relevant and ambitious targets and key figures
- Exclusion of subsequent changes of performance targets
- Limitation of variable remuneration
- Supervisory board's power to intervene in the case of extraordinary developments