

**CaixaBank Wealth Management Luxembourg S.A.**  
**Policy related to Remuneration**  
**(POL-LUX-008)**

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## 1. INTRODUCTION

CaixaBank Wealth Management Luxembourg (hereinafter “**CWML**”) has developed the present Remuneration Policy (hereinafter the “**Policy**”) in order to define and describe the principles and practices that concern the remuneration of all Staff members<sup>1</sup>.

In this regard, the notion of “remuneration” encompasses all monetary or monetarily measurable ancillary benefits (contractually agreed benefits such as relocation allowances, housing support, education allowances, company car, health insurance, etc. as well as other benefits) of any kind, that the Staff members receive for the performance of their professional duties.

Based on the CaixaBank Group Remuneration Policy, this Policy forms an integral part of the CWML’s corporate governance practice<sup>2</sup> and is developed in accordance to its operational model, business strategy, objectives, values and long term interests, as well as the sustained and long-term value creation for shareholders and incorporates measures to avoid conflict of interest<sup>3</sup>.

In particular, this Policy aims at ensuring that:

- CWML is able to attract, develop and retain highly qualified and motivated employees, in their respective areas, in a competitive international market, and based on a rationale of prudent management and sustainable costs and results over time;
- There is consistency with CaixaBank Group Remuneration policy;
- Staff members are offered a competitive and market aligned remuneration package making base salaries a significant remuneration component;
- Staff members feel encouraged to create sustainable results;
- Ensuring that the Internal control functions do not benefit from incentive mechanisms linked to earnings objectives;
- There is a convergence of interests between shareholders, customers and employees.

This Policy is consistent with and promotes sound and effective risk management and does not encourage excessive risk-taking on behalf of CWML<sup>4</sup>. Indeed, inappropriate remuneration structures have been a contributing factor to excessive and imprudent risk taking.

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<sup>1</sup> The provisions of this Policy are understood without prejudice to any general or exceptional statutory, regulatory or administrative provisions which may be mandatorily established in scenarios of public intervention or public financial aid for reorganisation or restructuring which, where applicable, shall prevail over the former to the extent that they are not compatible.

<sup>2</sup> POL-LUX-036.

<sup>3</sup> Art. 38-5 (1), letter b) of the LFS.

<sup>4</sup> Art. 38-5 (1), letter a) of the LFS.

Poorly designed remuneration policies have potentially detrimental effects on the sound management of risks, control of risk and the risk taking behaviour of individuals<sup>5</sup>.

Accordingly, this Policy main purposes are the following:

- Setting out the principles governing the remuneration and incentive process of Staff members, and their alignment with CWML risk-strategy and long-term interests;
- Describing the related mechanisms, the organizational and governance related arrangements;
- Ensuring that the remuneration is in line with the applicable laws and regulations (see in **Annex II** of this Policy).

## 2. DISTRIBUTION, APPROVAL AND REVIEW

CWML Board of directors is the owner of the present Policy. It decides on its design, adopts it, defines the general applicable principles, and oversees its implementation<sup>6</sup>. The Board of Director is responsible for the regular review of the remuneration policy with the assistance of the internal control functions<sup>7</sup>. In particular, alongside the regular review of this Policy, the Board of Directors shall analyse the gender neutrality<sup>8</sup>, examining the gender pay gap in particular and its development over time.

In addition, this Policy must be approved by the CWML Board of Directors within the scope of its statutory authority to approve CWML's general policies and strategies, and, in particular, the policy for controlling and managing risks.

CWML Authorized Management shall promote the dissemination and implementation of the Policy, ensuring that it is observed, understood and fulfilled and that it is implemented, evaluated and reviewed. It shall also ensure that there are efficient information systems that confirm the members of staff to whom the Policy is applicable are aware of their duties in relation to compliance therewith.

The Legal Department assists the Board in the yearly review of the content of this Policy.

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<sup>5</sup> EBA, Final report on guidelines on sound remuneration policies under Directive 2013/36/EU, *EBA/GL/2012/04*, 2 July 2021, point 1.

<sup>6</sup> EBA, Guidelines on internal governance under Directive 2013/36/EU, *EBA/GL/2021/05*, 2 July 2021, point 22, letter f; EBA, Guidelines on sound remuneration policies under Directive 2013/36/EU, *EBA/GL/2021/04*, point 28.

<sup>7</sup> Art. 38-5 (1), letter c) of the LFS; EBA, Guidelines on sound remuneration, point 28.

<sup>8</sup> EBA, Guidelines on sound remuneration, *op. cit.*, point 24.

The main causes that can confirm a modification or update task are identified below:

- Changes in management approach or processes;
- Business Changes on the business objectives or strategies;
- Process or procedure modification;
- Amendments or update to regulatory framework;
- Changes deriving from the results obtained during follow-up and control activities;
- New policies or amendments to existing ones;

### 3. GOVERNANCE ARRANGEMENTS

#### 3.1. Application of the proportionality principle

The proportionality principle aims to match the remuneration policies and practices with the individual risk profile, risk appetite, risk tolerance and the strategy of CWML, so that the objectives of the remuneration requirements are effectively achieved<sup>9</sup>.

##### *3.1.1. Application of the proportionality principle at the “institutional level”*

According to CWML’s internal assessment and given its size, its internal organisation, the nature, the limited scope and the relatively low complexity of its activities<sup>10</sup>, the overall relatively low risk profile and risk-appetite of the Bank, CWML intends to rely on a proportional<sup>11</sup> application of the regulatory requirements (See **Annex II**), when establishing and implementing remuneration policies, which are, in any case, consistent with sound and effective risk management.

##### *3.1.2. Setting aside of the requirement to establish a remuneration committee*

Based on its internal assessment of the criteria set out in Article 38-9 of the LFS, CWML considers that it is not to be considered as a credit institution which is significant in terms of size, internal organization and the nature, the scope and the complexity of its activity within the meaning of Article 38-9 of the LFS.

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<sup>9</sup> EBA, Guidelines on sound remuneration, *op. cit.*, point 85.

<sup>10</sup> According to EBA, Guidelines on sound remuneration, *op. cit.*, point 28.

<sup>11</sup> EBA, Guidelines on sound remuneration, *op. cit.*, point 28.

In accordance with **Section 3.2** (see below), the close involvement of the Control Functions and the Board in the design and implementation of the Policy, as well as the annual review performed by internal audit, provide sufficient safeguards regarding the independence of the decision-making process governing the Policy.

The Remuneration Committee's functions are assumed by the Board of Directors.

### **3.1.3. Setting aside of the requirements on the pay-out process**

Based on the proportionality principle, CWML would be eligible<sup>12</sup> to set aside rules relating to the pay-out process of the part of the Variable Remuneration in financial instruments, retention and deferral, as regards *ex post* incorporation of risk for Variable Remuneration.

## **3.2. Roles of the involved bodies**

### **3.2.1. Duties of the CWML Board of Directors**

CWML Board of Directors will be responsible within CWML for the following tasks:

- a) adopting and maintaining the remuneration policy and overseeing its implementation to ensure it functions entirely as planned;
- b) approving any exemptions in relation to individual staff members from the principles laid down in this Policy;
- c) approving any changes to this Policy;
- d) ensuring that this Policy is appropriately implemented, aligned and consistent with CWML overall corporate governance framework, corporate and risk culture (including CaixaBank Group's one, sustainability risks, as well as with the Bank's risk and capital structure), risk appetite and the related governance process<sup>13</sup>;
- e) ensuring that this Policy promotes sound and effective risk management<sup>14</sup>;
- f) assessing the safeguards in place to ensure that the remuneration principles are applied by CWML in line with the CWML's risk assessment, liquidity and capital levels;
- g) ensuring that the Policy is in line with the CWML's risk management and business strategy and that it meets Group requirements relating to corporate culture and values;

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<sup>12</sup> EBA, Guidelines on sound remuneration, *op. cit.*, point 94.

<sup>13</sup> EBA, Guidelines on sound remuneration, *op. cit.*, point 31. See also Art. 5 of Regulation (EU) 2019/2088.

<sup>14</sup> EBA, Guidelines on sound remuneration, *op. cit.*, point 34.

- h) ensuring that the Policy serves the CWML's long-term interest and the sustainability of results over time;
- i) the functions corresponding to the Remuneration Committee according to the applicable regulation are assumed by the Board of Directors. Therefore, it directly oversees "the remuneration of the senior officers in the independent control functions, including the risk management and compliance functions"<sup>15</sup>. It also determines and oversees the remuneration of the Authorised Management<sup>16</sup>;
- j) where decision-making power falls within the remit of CWML shareholder, the CWML Board of Directors shall send when applicable the proposed resolutions, accompanied by the necessary reports;
- k) assessing whether performance targets have been reached and adjustment of risk levels where necessary, including the application of malus and clawback arrangements;
- l) implement regular reviews applying different stress scenarios to assess the impact and the resilience of the principles laid down in this policy.

### **3.2.2. Duties of the CWML Authorised Management**

CWML Authorized Management is responsible for ensuring that the information necessary to enable the Board of Directors to efficiently fulfil its responsibilities is obtained and prepared. In this regard, the Authorised Management shall work closely with the Board in order to ensure that this Policy is consistent and promotes sound and effective risk management<sup>17</sup>.

It has also to ensure that all information provided to CaixaBank S.A. in relation to this Policy and all remuneration related practice is accurate, in particular with respect to a proposed higher maximum level of the ratio between fixed and variable remuneration. CWML considers this exchange of information as appropriate within the group context<sup>18</sup>.

The Authorised Management shall also be involved in the identification of the members of staff whose professional activities have a material impact on CWMLs risk profile<sup>19</sup>.

With a view to avoiding conflicts of interest, information on the remuneration of members of the Board of Directors, when applicable, and the members of the Authorized Management, is reviewed directly by the Board of Directors<sup>20</sup>.

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<sup>15</sup> EBA, Guidelines on sound remuneration, *op. cit.*, point 37.

<sup>16</sup> *Ibid.*

<sup>17</sup> EBA, Guidelines on sound remuneration, *op. cit.*, point 34.

<sup>18</sup> EBA, Guidelines on sound remuneration, *op. cit.*, point 43.

<sup>19</sup> EBA, Guidelines on sound remuneration, *op. cit.*, point 111.

<sup>20</sup> EBA, Guidelines on sound remuneration, *op. cit.*, point 37.



### 3.2.3. Duties of the competent corporate functions

CWML Board should take into account the input provided by all competent corporate functions and bodies (control functions, human resources, legal), and business units about the design, implementation and oversight of CWML remuneration policy<sup>21</sup>.

- (i) **HR:** it participates in and informs on the drawing up and the evaluation of this Policy, including the list of Identified staff, the remuneration structure, the aspect of gender neutrality, remuneration levels and incentive schemes, in a way that would not only attract and retain CWML staff but also ensure that this Policy is aligned with the CWML's risk profile<sup>22</sup>.

In addition, HR shall:

- ensure that all relevant documentation pertaining to the design, implementation and review of the present Policy (e.g. minutes of relevant meetings, relevant reports, etc.) is adequately maintained;
  - keep records of the identification process of Identified Staff, performed in application of the Delegated Regulation (EU) 2021/923;
  - contribute to the general internal review processes of this Policy (including the related results and findings) in accordance with applicable laws and regulations, as laid down in the Annex II of this Policy.
- (ii) **Risk:** it assists with and informs on the definition of suitable risk-adjusted performance measures (including ex post adjustments), as well as with assessing how the variable remuneration structure affects the risk profile and culture of CWML. The risk management function should validate and assess risk adjustment data<sup>23</sup>.
- (iii) **Compliance:** it analyses how this Policy affects CWML's compliance with legislation, regulations, internal policies and risk culture and should report all identified compliance risks and issues of non-compliance to the Authorised Management and to the Board. The findings of the compliance function should be taken into account by the Board during the approval, review procedures and oversight of the remuneration policy<sup>24</sup>.

It also handles conflict of interest that may rise from the application of this Policy<sup>25</sup>.

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<sup>21</sup> EBA, Guidelines on sound remuneration, *op. cit.*, point 38.

<sup>22</sup> EBA, Guidelines on sound remuneration, *op. cit.*, point 39.

<sup>23</sup> EBA, Guidelines on sound remuneration, *op. cit.*, point 40.

<sup>24</sup> EBA, Guidelines on sound remuneration, *op. cit.*, point 41.

<sup>25</sup> See a.o., EBA, Guidelines on sound remuneration, *op. cit.*, point 53.

- (iv) **Legal:** upon its corporate governance duties, the Legal function shall assist the Board in the drafting of this Policy, as well as any future amendment.
- (v) **Finance:** ensure that the total variable remuneration is still allowing CWML to maintain or restore a sound capital base in the long term, considering the interests of CWML sole shareholder, depositors, investors and other stakeholders<sup>26</sup>.
- (vi) **Internal audit:** The internal audit function of the Bank shall be in charge of the regular independent review of the design, implementation and effects of this Policy on its risk profile and the way these effects are managed<sup>27</sup>. This internal evaluation, which shall be independent, should occur at least annually, and include whether this Policy is gender neutral<sup>28</sup>.

The results of the internal review performed and actions taken to remedy any findings should be documented, either through written reports or through the minutes of the Board meeting, and made available to the Authorised Management and corporate functions<sup>29</sup>.

### 3.3. Disclosure / transparency

#### 3.3.1. Internal Disclosure

This Policy shall be internally disclosed to all staff and accessible for all staff at all times. Confidential aspects of the remuneration of single staff members are not subject to internal transparency<sup>30</sup>.

CWML Staff has to be informed about the characteristics of their variable remuneration, as well as the process and criteria that will be used to assess the impact of their professional activities on the risk profile of the institution and their variable remuneration. In particular, the appraisal process with regard to the individual's performance should be properly documented and should be transparent to the staff concerned<sup>31</sup>.

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<sup>26</sup> EBA, Guidelines on sound remuneration, *op. cit.*, point 126.

<sup>27</sup> EBA, Guidelines on sound remuneration, *op. cit.*, point 42.

<sup>28</sup> EBA, Guidelines on sound remuneration, *op. cit.*, point 63.

<sup>29</sup> EBA, Guidelines on sound remuneration, *op. cit.*, point 72.

<sup>30</sup> EBA, Guidelines on sound remuneration, *op. cit.*, point 73.

<sup>31</sup> EBA, Guidelines on sound remuneration, *op. cit.*, point 74.

### 3.3.2. CSSF Disclosure

CWML shall make immediately available to the CSSF any information requested by the latter in relation to the matters contemplated in the present Policy, and in particular<sup>32</sup>:

- The aggregate quantitative information on remuneration, broken down by business area;
- The aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the institution, indicating the following:
  - (i) the amounts of remuneration for the financial year, split into fixed and variable remuneration, and the number of beneficiaries;
  - (ii) the amounts and forms of variable remuneration, split into cash, shares, share-linked instruments and other types;
  - (iii) the amounts of outstanding deferred remuneration, split into vested and unvested portions;
  - (iv) the amounts of deferred remuneration awarded during the financial year, paid out and reduced through performance adjustments;
  - (v) new sign-on and severance payments made during the financial year, and the number of beneficiaries of such payments;
  - (vi) the amounts of severance payments awarded during the financial year, number of beneficiaries and highest such award to a single person;
- The number of individuals<sup>33</sup> being remunerated EUR 1 million or more per financial year, in pay brackets of 1 million euros, including their job responsibilities, the business area involved and the main elements of salary, bonus, long-term award and pension contribution<sup>34</sup>.

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<sup>32</sup> Art. 38-10 of the LFS that refers to the Art. 450, points g), h), i) and k) of Regulation 575/2013.

<sup>33</sup> As of the validation of this Policy, CWML has no member of Staff receiving at least 1 million Euros of Remuneration. Should there be changes in this situation, CWML will inform the CSSF accordingly, as foreseen by the provisions of point 26, chapter 4, part XVII, of the CSSF Circular 06/273, as amended.

<sup>34</sup> These thresholds based on Art. 38-10 of the LFS are lower than in Art. 450 of Regulation 575/2013.

### **3.3.3. Public disclosure**

CWML shall further make available to the public, where relevant, certain information concerning the design of the Remuneration at CWML, as required by the applicable regulatory requirements<sup>35</sup>.

Compliance with regulatory guidelines related to external disclosure of remuneration practices is accomplished through notification on the CWML's website as to the availability of information related to this Policy.

## **4. GENERAL PRINCIPLES**

### **4.1. Staff categories**

#### **4.1.1. Categories overview**

This Policy applies to all CWML Staff, *i.e.*:

- Independent Board members;
- Authorised Managers;
- Identified Staff;
- Relevant persons
- Other Staff members.

These categories of Staff are all **independent from each other**. If one Employee may fall within 2 categories, he/she will be deemed to be only fallen in the highest Staff category.

#### **4.1.2. Specific categories: Identified Staff & Relevant persons**

##### **4.1.2.1. Identified staffs**

Some staff members, other than Board members and Authorised managers, can also have a material impact on an institution's risk profile. It is in particular where such staff members have managerial responsibilities for material business units or for control functions because they can make strategic or other fundamental decisions that have an impact on the business activities or on the control framework applied<sup>36</sup>; or staff members with a significant remuneration<sup>37</sup>.

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<sup>35</sup> Art. 450 of Regulation 575/2013; art. 38-11 of the LFS.

<sup>36</sup> See Recital n°1 of Commission Delegated Regulation (EU) No 2021/923.

<sup>37</sup> Art. 38-5 (2), c) of the LFS.

These staff members, who are to form part of the Identified Staff, shall be determined in line with the provisions of the Delegated Regulation (EU) No 2021/923. This regulation lays down the specific criteria for identifying the persons whose professional activities have a material impact on the risk profile of credit institutions.

Per its provisions, the process to identify members of the Identified Staff must be based on the qualitative and quantitative criteria contained therein.

Moreover, according to the Delegated Regulation (EU) No 2021/923, CWML must keep a record of the assessment performed and the personnel whose professional activities have been identified as activities with a material impact on their risk profile, in order to enable the competent authority and auditors to review the assessment<sup>38</sup>. The documentation must include the persons identified per the quantitative criteria of this regulation, but whose professional activities are not considered to have a material impact on CWML's risk profile.

Having performed and documented the above assessment as provided for in the Regulation and other applicable legislation, CWML governing bodies (Authorised Management and Board – See above) must define the list of Identified Staff members for the relevant year, who will be subject to the Remuneration Policy.

Finally, professionals who cease to hold positions included within the Identified Staff prior to year-end shall be subject to this Policy in the appropriate proportion based on complete months. Similarly, professionals who assume positions within the Identified Staff as from 1 January each year shall be subject to the Remuneration Policy proportionately, based on complete months, for the time elapsed from their incorporation until the end of the year.

#### **4.1.2.2. Relevant persons**

Pursuant to CSSF Circular 14/585 transposing the European Securities Markets Authority's (ESMA) guidelines on remuneration policies and practices (MiFID), CWML has identified the list of the so-called "Relevant Persons" i.e. *"persons who can have a significant influence on the service provided or corporate behaviour of the firm, including persons who are client-facing front-office staff, sales force staff, and/or other staff indirectly involved in the provision of investment and/or ancillary services whose remuneration may create inappropriate incentives to act against the best interests of their clients."*

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<sup>38</sup> Recital n°11 of Commission Delegated Regulation (EU) No 2021/923.

*This includes persons who oversee the sales force (such as line managers) who may be incentivised to pressurise sales staff, or financial analysts whose literature may be used by sales staff to induce clients to make investment decisions. Persons involved in complaints handling, claims processing, client retention and in product design and development are other examples of ‘relevant persons’. Relevant persons also include tied agents of the firm”.*

It is important to add that CWML has adopted and maintains measures enabling to effectively identify where the Relevant Persons might fail to act in the best interests of their client and to take remedial action.

In addition, organisational measures adopted in the context of the launch of new products or services appropriately take into account the remuneration policies and practices and the risks that these products or services may pose in terms of conduct of business and conflicts of interests.

#### 4.2. Structure of remuneration

The Remuneration of Staff shall be designed in line with the criteria set out in this Policy and taking into account the respective responsibilities of the relevant Staff, as well as with the overall situation of the Bank.

The remuneration structure is based on different components with the objective of:

- (i) ensuring that the fixed and variable remuneration components remain balanced over time (pay mix);
- (ii) implementing a flexible approach to remuneration; and
- (iii) rewarding performances based on CWML role without inducing risky or short-termist behaviour. The positioning of the remuneration package within the reference market is assessed in conjunction with CaixaBank, the parent company, on a regular basis. CABK will support.

The remuneration structure therefore consists of:

- **Fixed remuneration:** this reflects the Staff member’s technical, professional (experience) and managerial capabilities, so as his/her respective organisational responsibilities<sup>39</sup>. It is determined on an annual basis and takes into account any collective bargaining regulations that may be applicable and market practice;

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<sup>39</sup> EBA, Guidelines on sound remuneration, *op. cit.*, point 36.

Remuneration is fixed where the conditions for its award and its amount<sup>40</sup>:

- 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 CWML;
- g) do not provide incentives for risk assumption; and
- h) do not depend on performance.

In line with market practice, the remuneration package is completed by a variety of employee benefits.

- **Variable remuneration:** this acknowledges and seeks to reward previously goals assigned objectives and results achieved. It is paid in accordance with the provisions set forth in this Policy and takes the form of bonuses or incentives. It is also linked to prudent risk management and takes into account a performance assessment. This Variable Remuneration should reflect sustainable and risk-adjusted performance.

Each component of the remuneration of the staff is classified as **fixed** or **variable**<sup>41</sup>, irrespective of the name given to it<sup>42</sup>.

Fixed and Variable Remuneration are appropriately balanced and the Fixed Remuneration represents a sufficiently high proportion of the Total Annual Remuneration not to create any kind of dependency of Staff on Variable Remuneration and to allow the operation of a fully flexible policy on Variable Remuneration, including the possibility to pay no Variable Remuneration<sup>43</sup>. Variable Remuneration components are therefore not guaranteed<sup>44</sup>, i.e. all Variable Remuneration components can be zero.

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<sup>40</sup> EBA, Guidelines on sound remuneration, *op. cit.*, point 131.

<sup>41</sup> EBA, Guidelines on sound remuneration, *op. cit.*, point 129.

<sup>42</sup> As the EBA states: “*there is no third category of remuneration*” (EBA, Guidelines on sound remuneration, *op. cit.*, point 129). In addition, “*where the clear allocation of a component to the fixed remuneration is not possible based on the criteria provided in [point 131], it should be considered as variable remuneration*” (EBA, Guidelines on sound remuneration, *op. cit.*, point 130).

<sup>43</sup> Art. 38-6 (1), f) of the LFS.

<sup>44</sup> In this sense, Art. 38-6 (1), d) of the LFS.

CWML shall not reward its Staff individually with Variable Remuneration based on individual financial performance, profitability, or on any other forms that may encourage risk-taking behaviour and shall set up measures to avoid conflicts of interest. Equally, the Bank shall not establish any financial objective in whatever form to be achieved by any member of Staff or Identified Staff that may encourage risk-taking behaviour. The Variable Remuneration is thus not a function of mere financial performance.

CWML ensures, at all times, that the Variable Remuneration does not limit its ability to maintain or recover an appropriate capital base.

These remuneration elements shall be further developed in the below sections.

#### **4.3. Gender Pay Gap (GPG) and remuneration policy neutrality (Equal pay)**

This Policy reflects **gender neutrality principles** to ensure equal treatment regardless of gender and any other form of diversity, basing evaluation and remuneration criteria exclusively on professional ability<sup>45</sup>. In other words, this Policy respects the principle of equal pay for male and female workers for equal work or work of equal value<sup>46</sup>.

CWML is committed to ensuring remuneration is in line with the market, which reflects each Staff member's role, capabilities, contribution to CWML performance objectively measured, and professional experience, thus guaranteeing that the principle of equal opportunities<sup>47</sup> is applied in practice.

With reference to inclusion, CWML guarantees that all its collaborators are treated without distinction, exclusion, restriction or preference, whether direct or indirect, based on their: age, gender, sexual orientation, civil status, religion, language, ethnic or national origins, physical or mental disabilities, state of pregnancy, maternity or paternity (including as a result of adoption), personal convictions, political opinions, and/or trade union affiliation or activities.

CWML pursues the appropriate balance between genders at all its levels, focusing in particular on senior and management positions where the gender gap is most felt.

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<sup>45</sup> Art. 38-5 (1), letter h) of the LFS.

<sup>46</sup> CSSF, Circular 22/797, p. 3.

<sup>47</sup> EBA, Guidelines on sound remuneration, *op. cit.*, point 26.



## 5. FIXED REMUNERATION

### 5.1. General aspects

The fixed remuneration must essentially reflect the relevant professional experience and responsibility in the organization, as set out in the job description as part of the employment terms.

Subject to the maintenance of a sound capital base, CWML's intention is that Fixed Remuneration should be in market median ranges for a position with a comparable profile (knowledge, abilities, attitudes, responsibility, experience and contribution) in other financial entities. Any increase set out by law, collective agreement or other agreement will be offset within the existing Fixed Remuneration.

As it concerns CWML's Authorised management, fixed remuneration – and any updates – are essentially based on a market approach, having regard to salary surveys and specific *ad hoc* studies performed by CWML. The salary surveys and specific *ad hoc* studies in which CWML participates are conducted by leading companies specialising in this area and based on a comparable sample of the finance industry of the market in which CWML operates and, for positions not specific to the finance industry, other companies with a comparable turnover or specific equivalent positions or functions in other kinds of companies.

In any case, if the salary review may occur at the beginning of the year, any update will apply as from the next salary payment. In addition, there is no obligation to increase the Fixed remuneration from one year to another, other than as set out by mandatory law or applicable collective bargaining agreement.

### 5.2. Components of the Fixed Remuneration

#### 5.2.1. Base salary

The main component of the fixed remuneration shall be a base-salary consisting in a fixed amount of cash paid on a monthly basis, before the end of each month for which it is due.

The base salary shall reflect each individual Staff member's particular set of skills, function, organisational responsibility and relevant professional experience.

The amount shall be determined for a reference period of one year. Specific adjustments may be made to the base salary during a business year in case of a change of function, promotion or the granting of additional responsibilities.

The base salary will be determined, without prejudice of **Section 5.3** below, as follows<sup>48</sup>:

- for the **Authorised Management**: the base salary is determined jointly by the Shareholder<sup>49</sup> and the Board of Directors<sup>50</sup>.
- for the **Identified Staff**: the base salary shall be approved by the Board of Directors.
- for **Relevant persons** / other **Staff members** (except for the Authorised Management and Identified Staff): determined by the Authorised Management with the approval by the Board of Directors.

### **5.2.2. Additional benefits**

Identified Staff members are eligible for the general benefits policy established for the employees of the Bank, which is geared toward providing a competitive range of welfare benefits and based on harnessing the group's synergies (*i.e.* preferential financial conditions or health care).

Identified Staff members may form part, as the insured, of the civil liability insurance policy for the Bank's directors and authorised managers, to cover any liability they may incur as a result of the discharge of their duties; all subject to the scope defined in the relevant policies arranged.

### **5.2.3. Contractually agreed benefits / allowances**

**Firstly**, in specific cases, CWML may offer benefits to Staff to be hired or relocated that must align with the long-term interests of the Bank. Such benefits may take the form of welcome bonus, relocation allowances as well as health insurance, education allowances for children of Staff members, defrayal of transport. Such benefits are granted as an individually determined package<sup>51</sup>.

**Secondly**, CWML may, on a case-by-case basis, also decide to pay the residential rent of Staff members joining CWML from other locations. The cost of the rent is deducted every month from the salary of the relevant Staff member. Therefore, the payment of the residential rental does not provide the relevant Staff member with any additional salary.

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<sup>48</sup> The Board of Directors performs the duties of the "Remuneration Committee", as this latter has not been established at CWML. These duties are laid down in Art. 38-9 of the LFS.

<sup>49</sup> It has been decided that the shareholder's vote is "binding" (EBA, Guidelines on sound remuneration, *op. cit.*, point 44).

<sup>50</sup> EBA, Guidelines on sound remuneration, *op. cit.*, point 37.

<sup>51</sup> EBA, Guidelines on sound remuneration, *op. cit.*, point 131.

**Thirdly**, Identified Staff members may be granted, on a case-by-case basis, the lease of a company car by the Bank. Such company car is to be considered as a benefit in kind and falling into the fixed remuneration<sup>52</sup>, granted in addition to the Identified Staff member's monthly salary.

### 5.3. Fixed Remuneration for Board members

The Remuneration of Board members is consistent with their powers, tasks, expertise and responsibilities<sup>53</sup>. In order to properly address conflicts of interests, CWML has decided to only grant a yearly fixed remuneration. In addition to this fixed remuneration, CWML may reimburse costs (that shall be considered as part of the fixed remuneration)<sup>54</sup>.

In practice, CWML only grants a remuneration to the Independent Board members, as the other Board members are members of the CaixaBank Group. This remuneration could be proportionally reduced, in case of non-attendance to Board sessions. Its amount shall be determined jointly by the Authorised Management and the Board of Directors (excluded the Independent Board members).

## 6. VARIABLE REMUNERATION

### 6.1. General aspects

#### 6.1.1. Notion

Variable Remuneration is defined as "*all remuneration that is not fixed*"<sup>55</sup>. It shall take exclusively the form of a cash bonus and shall be paid out in the following calendar year. It shall never take the form of discretionary pension benefits<sup>56</sup>.

The overall Variable Remuneration granted has to be in line with the business strategy, objectives, values and long-term interests of the Bank, and is consistent with a sound and effective risk management, does not encourage risk-taking that exceeds the level of tolerated risk of the Bank and incorporates measures to avoid conflicts of interest. Variable Remuneration is not paid through vehicles or methods that facilitate non-compliance with the LFS or the Regulation 575/2013 and their respective implementing measures.

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<sup>52</sup> EBA, Guidelines on sound remuneration, *op. cit.*, point 136.

<sup>53</sup> EBA, Guidelines on sound remuneration, *op. cit.*, point 191.

<sup>54</sup> EBA, Guidelines on sound remuneration, *op. cit.*, point 192.

<sup>55</sup> EBA, Guidelines on sound remuneration, *op. cit.*, point 11.

<sup>56</sup> In the meaning of Article 4 (1), point 73) of the Regulation 575/2013.

Variable remuneration must reflect sustainable, risk-adapted performance that goes beyond that required to comply with the duties attributed as part of the employment terms.

Where variable remuneration is results-based, its total amount should be based on an assessment that combines the results of the individual, assessed according to financial and non-financial criteria, the relevant business unit, and the overall results of CWML<sup>57</sup>. When assessing such results, an adjustment must be made for all kinds of current and future risks, and regard should be had to the cost of capital and necessary liquidity.

Performance assessment is carried out via *ex-ante* (RAI) and *ex-post* (malus; clawbacks) variable remuneration adjustments, as a means of implementing risk control.

The possible individual Variable Remuneration is, generally, based on an annual assessment of performance for each Staff member and determined in light of the perception of the efforts it has put in discharging of his/her responsibilities, the dedication to the fulfilment of the business strategy at the level of his/her responsibilities and success in carrying out specific assignments, in the course of the year but also taking into account performance of the same over the previous 3 years.

It also takes into account the performance of the business unit to which the relevant Staff member belongs as well as the overall results of CWML. Additional criteria are laid down for the appraisal of the performance of Identified Staff.

### **6.1.2. Performance measurement**

The decision of providing a variable remuneration to any Employee will be based on the performance measurement results, which shall first consider CWML overall results, and then, the achievement of individuals goals.

Both quantitative (financial) and qualitative (non-financial) criteria are used in order to measure performance and assess individual results. The right combination of quantitative and qualitative criteria depends on the functions and responsibilities of each Staff member (also depending on the category they fall within). In all cases, the qualitative and quantitative criteria and the balance between them for each level and category must be specified and clearly documented.

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<sup>57</sup> Art. 38-6 (1), a) of the LFS.

In this regard, the Organisation & HR Department has developed a tool that allows it to assess if the individual goals have been achieved. This tool shall be lodged in the HR Folder on CWML Server. The Authorised management shall be informed when it has been updated and when they can access it. For confidentiality purposes, this tool or its outcome shall not be shared by email.

#### **6.1.3. Overall bonus budget**

Each year, the Board of Directors determines, on a first step and on the basis of the business operations, the overall bonus budget, which must be approved by the Shareholder, taking into account all types of current and future risks to which the Bank is exposed in accordance with applicable regulatory standards, the cost of the capital and the liquidity required, reflected within the forward-looking Profit & Loss (P&L) statement.

CWML takes into account the target bonus previously agreed with each employee, and makes the sum. If an amount higher than 100% of the Overall bonus budget is expected, a prior estimate is made by the Organisation & HR Department (liaising with the HR Department at CABK), then validated by the Authorized Management, based on the Finance Department's feedback how much could be achieved by the end of the year.

More generally, the Board of Directors shall ensure that the amount of the proposed Overall bonus budget does not limit the ability of the Bank to maintain or restore a sound capital base in the long term and is funded through the long-term economic performance of the Bank and based on sustainable criteria taking into account future development of performance and risk.

The Board of Directors shall consult the Control Functions when determining this overall bonus budget and, where relevant, take into account the comments and/or recommendations provided by the latter in relation to this proposed overall bonus budget.

The Board of Directors shall ensure that the Shareholder is provided with adequate information in that respect, in accordance with applicable regulatory standards, in order to be in a position to make an informed decision.

#### **6.1.4. Guaranteed Variable Remuneration**

Staff members shall not receive any type of guaranteed Variable Remuneration. Nonetheless, CWML may, in exceptional circumstances, see fit to award such remuneration in connection with the hiring of new Staff.

In this regard, Where remuneration packages relating to recruitment bonuses or other forms of remuneration or payments for withdrawal from previous contracts are agreed upon, such packages must be adapted to the Bank's long-term interests, through the establishment, per the LFS, of provisions governing retention, deferral, reduction, performance and clawback in line with those established in the Remuneration Policy<sup>58</sup>.

In any case, such variable remuneration only applies to the first year of the contract.

## **6.2. Rules applicable to Authorised managers and other identified staff members**

### **6.2.1. General principles**

#### **6.2.1.1. Thresholds**

As a principle, the Variable Remuneration shall not exceed 100% of the Fixed Remuneration (without prejudice of **Section 6.2.1.2** below).

Accordingly, the Bank considers that the higher the Variable Remuneration with respect to Fixed Remuneration, the greater the incentive to achieve the required results and the greater the potential risks associated. Elsewhere, if the fixed component is too low with respect to Variable Remuneration, it may be difficult to reduce or eliminate Variable Remuneration in a financial year in which poor results are achieved.

This necessarily implies that Variable Remuneration may become a potential incentive to assume risk, so that a low level of Variable Remuneration is a simple means of protecting against such incentives.

Elsewhere, the level of risk assumption must also take into account the professional categories of the Identified Staff, applying the principle of internal proportionality, whereby the appropriate balance of fixed and variable components or remuneration may vary between professional categories, depending on market conditions and the specific context in which the entity operates.

As such and with the aim of striking a reasonable and prudent balance between fixed and variable remuneration components, the amount of Fixed remuneration in the Bank is sufficient and the percentage of Variable Remuneration as compared to fixed annual remuneration is generally relatively small. Accordingly, bonus-based Variable Remuneration is established in advance by CWML for each of the different salary bands within each function.

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<sup>58</sup> Art. 38-6 (1), i) of the LFS.

Lastly, the EBA Guidelines provide that the remuneration of professionals responsible for independent control functions must be predominantly fixed to reflect the nature of their responsibilities<sup>59</sup>. Where such professionals receive variable remuneration, it must be determined separately from the business units that they control and from the results deriving from the business decisions (e.g. approval of new products) in which such professionals are involved.

Finally, the variable remuneration related to identified staff engaged in credit granting, credit administration and monitoring, should be consistent and not provide incentives for risk taking that exceeds the tolerated risk of the institution, and should be aligned with the business strategy, objectives and long-term interests of the institution<sup>60</sup>.

#### *6.2.1.2. Exceeding ratio for Identified Staff*

Without prejudice of the **Section 6.2.1.1** above, CWML may grant in individual cases and for a given year, in accordance with the criteria set out below, a Variable Remuneration exceeding 100% of the Fixed Remuneration (but which shall not be greater than 200% of the Fixed Remuneration) subject to the following procedure<sup>61</sup>:

- Approval of the Shareholder on a detailed recommendation by CWML giving the reasons for, and the scope of, an approval sought, including the number of Identified Staff affected, their functions and the expected impact on the requirement to maintain a sound capital base; and
- Notification to the CSSF of the recommendation to the Shareholder including the proposed higher maximum ratio and the reasons therefore, together with the demonstration that the proposed higher ratio does not conflict with the CWML's legal and regulatory obligations;
- Notification to the CSSF of the decision of the Shareholder, including any approved higher maximum ratio.

#### *6.2.1.3. Long-term instrument-based incentives*

Some or all of the Identified Staff members who are granted variable remuneration may receive additional remuneration under a long-term instrument-based incentive plan (hereinafter the “LTI”), as a multi-year variable remuneration scheme.

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<sup>59</sup> EBA, Guidelines on sound remuneration, *op. cit.*, point 196.

<sup>60</sup> EBA, Guidelines on loan origination and monitoring, *EBA/GL/2020/06*, 29 May 2020, point 82. See also, concerning real estate loans, article L-226-36 (3) of the Luxembourgish Consumer code.

<sup>61</sup> Art. 38-6 (1), g) of the LFS.

The LTI may be structured as a variable remuneration scheme that allows its participants to receive, after a certain period of time has elapsed, an amount in shares or other instruments, or options in such shares or instruments, or in cash, provided certain conditions set forth in the LTI are met.

The specific terms of the LTI (including those concerning the payment cycle and reduction and claw back clauses) shall be those established by the Board of Directors, in the relevant resolution and implementing documents, and must be tailored to and compatible with the principles of the Remuneration Policy and shall be subject to the approval of the Shareholder and the Board of Directors.

## **6.2.2. Determination of the variable remuneration**

### **6.2.2.1. Members of the Authorized Management**

The variable remuneration of CWML's Authorized Management is determined on the basis of an objective bonus set for each one of them by the Board of Directors and a maximum attainment percentage of 150 %.

As the 150% maximum attainment percentage exceeds the threshold of 100% of the fixed component of the total remuneration (but remains below 200% thereof), this ratio shall be duly substantiated and shall follow the procedure laid down in **Section 6.2.1.2** above. The attainment level is set according to the following measurable parameters:

- 50% based on individual challenges

The individual challenges portion (50 percent) must be distributed globally between challenges related to the CWMLs strategy. The final assessment to be made by the Board of Directors may fluctuate +/-25 percent in relation to the objective assessment of individual challenges, in order to take into account the qualitative assessment of the performance of the Authorised managers, and any exceptional challenges that may arise during the year and which were not established at the outset.

- 50% based on corporate challenges

The 50 percent corresponding to corporate challenges must be set for each year by the Board of Directors and should be weighted based on objective-linked concepts according to the main objectives of the institution.

Such concepts may comprise, among others, all or some of those listed below by way of example:



- ROTE (“return on tangible equity”);
- Variation in recurring operating expenses;
- RiskAppetite Framework.

The proposed composition and weighting of corporate challenges must be set in all cases per the provisions of the LFS and the implementing regulations and may vary between the members of Authorised Management.

#### *6.2.2.2. Members of the Internal Control Functions*

The amount of Variable Remuneration of Internal Control Functions is never linked to the performance of the business units they oversee but to the carrying of their specific responsibilities so as to avoid conflicts of interests.

Members exercising control functions must be remunerated according to the attainment of objectives related to their functions, independent of the performance of the business areas they control<sup>62</sup>.

In any case, the Remuneration of Identified Staff belonging to Internal Control Functions shall be predominantly fixed in order to guarantee their objectivity and independence.

#### *6.2.2.3. Other Identified Staff*

Other Identified Staff will be subject to the variable remuneration system applicable in light of their functions, and adjusted for risk depending on the area to which they belong or the position they hold. This bonus programme already includes specific sustainability objectives which influences the variable remuneration of managers involved in investment advisory activities.

Variable Remuneration to be granted to Identified Staff not being heads of Control Functions or part of the Management and not exceeding three months’ salary may be decided by the Board of Directors only, in line with the general principles of this Policy.

As a result, each of these professionals is assigned to a specific bonus programme.

Generally speaking, the pay level must be determined based on the achievement of individual and corporate challenges in the proportion set by the relevant Bonus Programmes approved by the Management and the Board of Directors.

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<sup>62</sup> Art. 38-5 (1), e) of the LFS.

The weighting of the corporate challenges must be set for each year and distributed by objective-linked concepts according to the main challenges set for each area.

Such concepts may comprise, among others, all of some of those listed below by way of example:

- ROTE (“return on tangible equity”);
- Variation in recurring operating expenses;
- RiskAppetite Framework.

The proposed composition and weighting of corporate challenges must be set in all cases per the provisions of the LFS and the implementing regulations.

### ***6.2.3. Appraisal of the variable remuneration***

#### ***6.2.3.1. Appraisal of performance***

In addition to the developments laid down under **Section 6.1.2** (see above), the indicators used to make ex ante adjustments for risk of variable remuneration accrued via Bonus vary between categories of the Identified Staff.

For the purposes of the ex-ante adjustment of variable remuneration, all members of the Identified Staff who are granted variable remuneration must be assigned to one of the following categories. They are assigned having regard to the nature of their functions and must be individually notified to each interested party.

The approach is based on individual performance (qualitative criteria) for one year and is then confronted to a performance period of 3 years insofar as possible (Short-term approach).

Additionally, the following criteria measured over a time period of 5 years are taken into consideration (Long-term approach) by the Board of Directors and the Shareholder for the purpose of their appraisals:

- Company Performance;
- Risk, Compliance, Consistency.

The Board of Directors and the Shareholder shall further take into account potential adverse developments in the future for the purpose of their appraisal (e.g. current risks, expected losses, stressed conditions associated with the Bank’s activities, etc...).

The manner in which the aforementioned criteria affected the appraisal made by the Board of Directors and the Shareholder should also be duly documented.

The adequacy of the aforementioned criteria shall be regularly reviewed by the Board of Directors. For that purpose, the Board of Directors shall consult the Control Functions and, where relevant, take into account the comments and/or recommendations provided by the latter in relation to such criteria.

The assessment of individual performance for Identified Staff shall then be measured annually, exclusively on the basis of qualitative criteria. In that respect, the following specific criteria and weighting shall apply:

#### **Weight Criteria**

- 65% achievement of individual goals;
- 15% success in carrying out strategies and policies;
- 10% compliance with legal and regulatory requirements, and internal governance;
- 10% teamwork;

Total: 100%

Weightings shall be applied equally to all Identified Staff.

The overall achievement (sum of single achievements) is capped at 100%. With an overall achievement of 100% the Variable Remuneration of the relevant Identified Staff corresponds to the entire amount allocated to the relevant Identified Staff on the basis of the Overall bonus budget calculated as per **Section 6.1.3** (see above).

Appraisal is carried out jointly by the Board of Directors and the Shareholder, except for the Management and the Heads of the Control Functions for which the appraisal is carried out jointly by the non-executive members of the Board of Directors and the Shareholder. For the purpose of such appraisals, the Board and the Shareholder shall take into account the proposals made in that respect by the Control Functions.

The result of such individual appraisals (including the detailed manner in which such a result was obtained) should be duly documented and be made available to the relevant Identified Staff upon request.

The adequacy of the aforementioned criteria shall be regularly reviewed by the Board of Directors. For that purpose, the Board of Directors shall consult the Internal Control Functions and, where relevant, take into account the comments and/or recommendations provided by the latter in relation to the appraisal criteria applied by CWML.

### *6.2.3.2. Risk adjustment*

The risk adjustment is based on CWML Risk Appetite Framework (hereinafter “**RAF**”) metrics. Each member of the Identified Staff is assigned all RAF metrics; the whole result leads to an adjustment of the variable remuneration.

The RAF consists of a set of quantitative and qualitative metrics that assess all the risks of CWML. Some of the metrics, due to their high correlation, have been grouped for the purposes of the IAR. Metrics or groupings of metrics are listed below:

- Grouping of solvency metrics (CET1 and Leverage ratio)
- Grouping of cost effectiveness metrics (ROTE and Cost-to-income ratio metrics)
- Grouping of liquidity metrics (LCR and NSFR)
- Grouping of asset quality (past due loans and cost of risk)
- Grouping of concentration (LAREX)
- Grouping of operational risk
- Grouping of legal risk
- Grouping of conduct risk
- Grouping of reputational risk

The grouping of solvency and liquidity metrics will weigh 1,5 times compared to the other metrics given that these are regulatory metrics which have an enhanced follow-up as well as regulatory impact in case of breach.

Although the assessment of the quantitative indicators that make up the RAF may be a numerical result, the RAF summarises the status of the metrics in a colour: green, amber or red. For the purposes of the RAI, the colour of the RAF metrics will be taken into account.

The Board shall approve, on a yearly basis, the expected RAF fulfilment scale, where there is a relationship between the number of tolerance at year end versus the variable remuneration fulfilment.

In case of recalibration of the RAF during the year, unless otherwise indicated by the Board of Directors, the approved budget for the year will not be reprocessed, neither in terms of the thresholds applied in the determination of the target colours. If a new metric were to be introduced, it would not be part of the RAF for the year.

#### **6.2.4. *Incompatibility with personal hedging strategies or avoidance mechanisms***

Per the provisions of 38-6 (1), p) of the LFS and the EBA Guidelines<sup>63</sup>, the professionals from the Identified Staff undertake to refrain from making use of any personal hedging or insurance strategies in relation to the remuneration that may prove detrimental to the effects of alignment with the healthy risk management underpinning the remuneration systems.

Moreover, the Bank shall not pay the variable remuneration in the form of instruments or methods that seek to ensure or effectively result in a failure to meet the remuneration requirements of the Identified Staff.

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<sup>63</sup> EBA, Guidelines on loan origination and monitoring, *op. cit.*, point 181.

## 6.3. Rules applicable to Relevant Persons and other Staff members

### 6.3.1. Relevant persons

#### 6.3.1.1. Principle

In case of a positive performance measurement of a Staff member in light of the general principles set out under **Section 6.1.2** (see above) and taking into account the available Overall bonus budget calculated as per **Section 6.1.3** (see above), the Authorised Management may, on a discretionary basis, propose to the Board of Directors, for approval, the granting of an individual Variable Remuneration to the Relevant persons. The granting of such a discretionary Variable Remuneration is not a contractual right for the Relevant persons.

The decision to grant an individual Variable Remuneration will be duly documented.

Relevant persons have a specific bonus programme, with its own design and metrics, including quantitative and qualitative elements (see **Section 6.3.1.2** below), which shall also be duly documented in advance. This programme shall include specific sustainability objectives which influences the variable remuneration of managers involved in investment advisory activities. In addition, all quantitative or qualitative criteria have to be clearly defined, in order to avoid them creating conflicts of interests<sup>64</sup>.

Generally speaking, the pay level must be determined based on the achievement of individual and corporate challenges in the proportion set by the relevant Bonus Programmes approved by the Management and the Board of Directors.

The weighting of the corporate challenges must be set for each year and distributed by objective-linked concepts according to the main challenges set for each area.

Such concepts may comprise, among others, all of some of those listed below by way of example:

- ROTE (“return on tangible equity”);
- Variation in recurring operating expenses;
- Risk Appetite Framework.

The proposed composition and weighting of corporate challenges must be set in all cases per the provisions of the LFS and the implementing regulations.

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<sup>64</sup> ESMA, Consultation Paper – Guidelines on certain aspects of the MiFID II remuneration requirements, *ESMA35-36-2324*, 19 July 2021, points 18 and 19.

### 6.3.1.2. *Appraisal of performance*

According to the developments laid down under **Section 6.1.2** (see above), qualitative criteria shall be implemented to appraise the performance of the Relevant persons. Appropriate qualitative criteria could include, among others: *“compliance with regulatory requirements such as conduct of business rules (in particular, the review of the suitability of instruments sold by relevant persons to clients, if relevant) and internal procedures, fair treatment of clients and client satisfaction”*<sup>65</sup>.

In addition, some Relevant persons may be involved in the credit granting, administration and monitoring. When it is the case, CWML shall ensure that the performance and risk measurement process to determine the variable remuneration includes appropriate credit quality metrics that are in line with CWML’s credit risk appetite<sup>66</sup>.

### 6.3.2. *Other Staff members*

For the other staff members, the variable remuneration model is called the Challenge Programme and includes all professionals of the Identified Staff that pursue their activities in business support or control areas. The challenges established in these areas are set by means of an agreement between each professional and the function manager, and must be consistent with the challenges of the area.

Generally speaking, the pay level must be determined based on the achievement of individual and corporate challenges in the proportion set by the relevant Bonus Programmes approved by the Management and the Board of Directors.

The weighting of the corporate challenges must be set for each year and distributed by objective-linked concepts according to the main challenges set for each area. Such concepts may comprise, among others, all of some of those listed below by way of example:

- ROTE (“return on tangible equity”);
- Variation in recurring operating expenses;
- Risk Appetite Framework.

The proposed composition and weighting of corporate challenges must be set in all cases per the provisions of the LFS and the implementing regulations.

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<sup>65</sup> ESMA, Consultation Paper – Guidelines on certain aspects of the MiFID II remuneration requirements, *op. cit.*, point 17.

<sup>66</sup> EBA, Guidelines on loan origination and monitoring, *op. cit.*, point 83. See also, concerning real estate loans, article L-226-36 (3) of the Luxembourgish Consumer code.

## 6.4. Payment rules

### 6.4.1. Continuity requirement

Without prejudice of expressly agreed exceptions, in the event of the holding in abeyance or termination of an employment contract of any employee participating in a variable remuneration plan, payment of the variable remuneration shall be subject to a general criterion whereby **participants who leave the entity before the end of the year shall lose all their vested rights under the programme.**

However, if the employee leaves the following year, but before the envisaged bonus is paid in the first quarter of that year, the bonus may be paid, upon CWML's documented decision, having regard to the degree to which the challenges in question are attained and the provisions of this Policy.

### 6.4.2. Payment deferral

#### a) General aspects

The LFS provides that a substantial portion (and at all times no less than 40 percent) of the variable remuneration must be deferred, for Authorised management and the Identified Staff, over a period of between four and five years at least<sup>67</sup>, and must be duly tailored to the nature of the businesses, their risks and the activities of the relevant Identified Staff member. In the case of particularly high variable remuneration, the minimum threshold stands at 60 percent<sup>68</sup>.

Moreover, the LFS provides that any remuneration payable in line with the provisions governing deferral may not be received quicker than on a proportional basis, and that the deferral period must also be set with regard to the economic cycle, the nature of the business, its risks and the activities of the Bank in question.

Elsewhere, the LFS provides that a substantial portion and in any event at least 50%, of Variable Remuneration shall consist of an appropriate balance of (i) shares or equivalent ownership interests or share-linked instruments or equivalent non-cash instruments; (ii) where possible, other instruments within the meaning of Article 52 or 63 of CRR or other instruments which can be fully converted to Common Equity Tier 1 instruments or written down, that in each case adequately reflect the credit quality of the Bank as a going concern and are appropriate to be used for the purposes of variable remuneration of the Bank. (Such instruments must be subject to a suitable retention policy, designed to ensure that the incentives are in keeping with the long-term interests of the credit institution).

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<sup>67</sup> Art. 38-6 (1), m) of the LFS; EBA, Guidelines on sound remuneration, *op. cit.*, point 260.

<sup>68</sup> EBA, Guidelines on sound remuneration, *op. cit.*, point 262.



## b) Deferral percentages

As a principle, a deferral percentage of 60% shall be applied to all Variable Remuneration granted that exceeds 500.000 EUR, regardless whether or not the total remuneration exceeds 1.000.000 EUR.

Only, where the Variable Remuneration does not exceed this abovementioned amount, the Variable Remuneration deferral percentages applied by CWML shall be as follows:

- Chief Executive Officer: 60%<sup>69</sup>;
- Other members of the Authorized Management: 50%<sup>70</sup>;
- Identified Staff members: 40%<sup>71</sup>.

For the purposes of implementing the Remuneration Policy, for the determination of the employee's high-earner status, in case of early termination payment, the amount considered to be variable (of such payment) will include the severance payments, to the exception laid down hereunder (see Section 9).

Moreover, the Board of Directors shall be empowered to decide. in the case of a Variable Remuneration component of a particularly high amount, that at least 60% of the amount shall be deferred, regardless of the above percentages.

## c) Deferral periods

The non-deferred portion of any Variable Remuneration earned with respect to the relevant category must be paid on the payment date envisaged in the Bonus programme in respect of each professional (the Initial Payment Date). The percentage of Variable Remuneration subject to deferral is detailed in the following section.

50% of the amount payable under the initial payment is paid in cash, with the remaining 50% paid in instruments.

The deferred portion of the risk-adjusted Variable Remuneration to which the members of the Authorised Management<sup>72</sup> are entitled, provided the reduction scenarios envisaged in **Section 6.4.3** have not arisen, must be paid in **five instalments**, in line with the following amounts and dates<sup>73</sup>:

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<sup>69</sup> EBA, Guidelines on sound remuneration, *op. cit.*, point 262.

<sup>70</sup> EBA, Guidelines on sound remuneration, *op. cit.*, point 261.

<sup>71</sup> EBA, Guidelines on sound remuneration, *op. cit.*, point 262. Per application of the proportional criterion inside CABK Group, this is the deferred percentage expected for to be applicable to for all Luxembourg Identified Staff.

<sup>72</sup> EBA, Guidelines on sound remuneration, *op. cit.*, point 260.

<sup>73</sup> This pro rata vesting is established according to EBA, Guidelines on sound remuneration, *op. cit.*, point 268.

- 1/5: 12 months after the Initial Payment Date;
- 1/5: 24 months after the Initial Payment Date;
- 1/5: 36 months after the Initial Payment Date;
- 1/5: 48 months after the Initial Payment Date;
- 1/5: 60 months after the Initial Payment Date.

The deferred portion of the risk-adjusted Variable Remuneration to which the **other Identified Staff**<sup>74</sup> are entitled, provided the reduction scenarios envisaged in Section 6.4.3 have not arisen, must be paid in **four instalments**, in line with the following amounts and dates:

- 1/4: 12 months after the Initial Payment Date;
- 1/4: 24 months after the Initial Payment Date;
- 1/4: 36 months after the Initial Payment Date;
- 1/4: 48 months after the Initial Payment Date.

The portion of Variable Remuneration payable under deferral arrangements shall vest no faster than on a pro-rata basis. When calculating the ratio of Instruments deferred for not less than five years, the Bank shall apply a discount rate of a maximum 25% of the total Variable Remuneration to the extent permitted and under the conditions set out by applicable regulatory requirements.

#### **d) Payments in cash and instruments**

50 percent of the amount payable on each of the dates envisaged in the preceding section c) shall be paid in cash, with the remaining 50 percent paid in instruments, net of the applicable taxes (withholdings or payments on account).

Where payment may be made in the form of instruments, such instruments should contribute to the alignment of variable remuneration with the performance and risks of CWML<sup>75</sup> and will therefore all be preferably CaixaBank shares. Nonetheless, the Bank may grant other instruments admitted for Variable Remuneration, on the terms and per the requirements envisaged in the LFS, Delegated Regulation (EU) No 527/2014 and the EBA Guidelines.

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<sup>74</sup> EBA, Guidelines on sound remuneration, *op. cit.*, point 260.

<sup>75</sup> EBA, Guidelines on sound remuneration, *op. cit.*, point 270.

**e) Withholding**

All instruments delivered are subject to a one-year withholding as from the date on which they are granted, during which the professional may not dispose of them.

When allocating the Instruments (irrespective of the fact that they are granted on a deferred basis or not), the Bank will thus ensure that such Instruments are subject to an appropriate withholding taking into account the longer-term interests of the Bank, provided that in any case the retention period for the deferred portion of Variable Remuneration should not be less than one year.

During the retention period, the exercise of any rights attaching to such instruments lies with the professional, as the owner.

**f) Payment of income in cash and deferred instruments**

Throughout the deferral period, the ownership of both instruments and any deferred cash payments lies with the entity obliged to pay such remuneration.

With respect to income from instruments, in line with the EBA Guidelines, the Entity shall not pay any interest or dividends with respect to such deferred instruments either during or after the deferral period.

**g) Special scenarios**

In special scenarios that have not been envisaged (e.g., corporate transactions affecting the ownership of the instruments granted or deferred), tailor-made solutions in keeping with the LFS, its implementing legislation and the principles of the Remuneration Policy must be applied, ensuring that the value of the relevant consideration is not artificially diluted or altered.

**h) Exception to the application of the variable remuneration payment cycle**

Where so permitted by the oversight practices of the competent authority, the provisions of the Remuneration Policy concerning deferral percentages and periods, payment in instruments and retention policies shall not apply to bonus-linked variable remuneration where the amount earned in a particular year falls below €50,000, which shall be paid in cash on the relevant payment date.

This exception shall not apply to any variable remuneration earned by the Management included within the Identified Staff, regardless of the amount.

### **6.4.3. Reduction of the Variable Remuneration**

#### **6.4.3.1. General aspects**

Per the provisions of Article 38-6 (1), n) of the LFS, variable remuneration, including the deferred portion, shall only be paid or become vested where it proves sustainable in light of the financial situation of CWML as a whole, and where it can be justified in light of the results of the Bank, the business unit and the person in question.

Notwithstanding the application of the general principles of contractual and employment law, the LFS also provides that the total variable remuneration must be reduced considerably where the Bank underperforms financially or makes a loss, factoring in both current remuneration and reductions in payouts of amounts previously earned, in the form of mechanisms to reduce remuneration (malus) or claw back remuneration already paid, which may affect up to 100 % of the total Variable Remuneration.

Credit institutions shall set specific criteria for the application of malus and clawback. Such criteria shall in particular cover situations where the staff member:

- (i) participated in or was responsible for conduct which resulted in significant losses to the credit institution;
- (ii) failed to meet appropriate standards of fitness and propriety;
- (iii) evidence of misconduct or serious error by the Identified Staff member (e.g. breach of code of conduct and other internal rules, especially concerning risks);
- (iv) whether the Bank subsequently suffers a significant downturn in its financial performance (e.g. specific business indicators), in line with the provisions of the Recovery Plan applicable to it;
- (v) whether the Bank suffers a significant failure in terms of risk management;
- (vi) significant increases in the Bank's economic or regulatory capital base, in line with the provisions of the Recovery Plan applicable to it; and
- (vii) any regulatory sanctions where the conduct of the Identified Staff member contributed to the sanction.

Malus arrangements are explicit ex post risk adjustment mechanisms where CWML itself adjusts Remuneration of the Identified Staff member based on such mechanisms (e.g. by lowering awarded cash Remuneration or by reducing the number or value of instruments awarded)<sup>76</sup>.

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<sup>76</sup> EBA, Guidelines on sound remuneration, *op. cit.*, point 290.

Ex post risk adjustments are performance or risk-related. They respond to the actual risk outcomes or changes to persisting risks of the Bank, business line or Identified Staff's activities.

#### *6.4.3.2. Reduction scenarios ("malus")*

In line with the foregoing, the amount of Variable Remuneration to which the persons included in the Identified Staff are entitled, including any amounts pending payment, whether in cash or in the form of instruments, shall be reduced, in whole or in part, in the event that the Bank as a whole or a specific area or division of the Bank underperforms financially or in the event of exposure generated by the relevant person.

To this end, the Bank must compare the performance evaluation with the subsequent conduct of the variables contributing to the targets to be met.

The scenarios triggering a reduction to the Variable Remuneration are as follows :

- a) Significant failures in the risk management of the Bank, or by a business or risk control unit, including the existence of any qualifications in the external auditor's audit report or circumstances with a detrimental effect on the financial parameters serving as the basis for the calculation of the variable remuneration.
- b) An increase in the capital requirements of the Bank or any of its business units, unforeseen at the time of calculating the risk exposure.
- c) Legislative penalties or convictions for events that may be attributed to the unit or the professional responsible for such events.
- d) The breach of legislation or the entity's internal codes of conduct, including in particular:
  - Legislative breaches attributable to the entity, classified as serious or very serious infringements;
  - Breaches of internal regulations, classified as serious or very serious;
  - Breaches of the pertinent suitability and propriety requirements;
  - Legislative breaches attributable to the entity which, whether or not they entail losses, may put the solvency of a business line at risk and, in general, participation in or responsibility for behaviour that may have given rise to significant losses.
- e) Irregular conduct, at an individual or collective level, with particular regard to the negative effects derived from the commercialisation of inappropriate products and the responsibility of the persons or bodies that made such decisions.

- f) Justified disciplinary dismissal or, in the case of contracts of a commercial nature due to just cause<sup>77</sup> at the instance of the entity (in the case, the reduction shall be total).
- g) Where the remuneration cannot be paid or become vested given the financial situation of the Bank as a whole or cannot be justified in light of the performance of the Bank or the business unit or person in question.
- h) Any such other additional scenarios as may be expressly provided for in the related contracts.
- i) Any such other scenarios as may be established by the applicable legislation or by the regulatory authorities in the exercise of their executive, regulatory or interpretative powers.

In addition to the above, Variable Remuneration shall be reduced if, at the time of performance appraisal, CWML is subject to a requirement of or recommendation by the competent authority to restrict its dividend distribution policy, or where such a reduction is required by the competent authority in exercise of the powers attributed to it by law.

Other special limitations regarding certain forms of Variable Remuneration are the following. There shall be no contractual severance entitlements, which do not reflect actual performance achieved by the relevant Staff before leaving the Bank.

#### *6.4.3.3. Clawback scenarios*

In cases where the grounds have arisen at any moment prior to a payment already made of any amount of Variable Remuneration, meaning that such payment would not have been made, in whole or in part, had such circumstance been taken into account, the professional concerned must repay the part of the Variable Remuneration unduly received to the Bank, together with any such income as may have been paid. Such repayment shall be made in cash or in instruments, as applicable.

In particular, scenarios in which the professional concerned has contributed significantly to financial underperformance or losses, or in cases of fraud or other wilful misconduct or seriously negligent conduct giving rise to significant losses, shall be deemed particularly serious.

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<sup>77</sup> Any serious and culpable breach of the duties of loyalty, diligence and good faith governing the manner in which professionals must discharge their duties at the Bank shall be deemed to constitute just cause, as shall any other serious and culpable breach of the obligations assumed under the relevant contract or any other such organic or services relationships as may be entered into by the professional and the Bank.

Clawback arrangements are explicit ex post risk adjustment mechanisms where CWML itself adjusts Remuneration of the Identified Staff member based on such mechanisms (e.g. by lowering awarded cash Remuneration or by reducing the number or value of instruments awarded)<sup>78</sup>.

#### *6.4.3.4. Common rules to Reduction and Clawbacks*

The HR Department shall be tasked with deciding on or proposing to the relevant body, as appropriate, a reduction to or forfeit of the right to receive deferred amounts, or the total or partial clawback of such amounts, in light of the characteristics and circumstances of each individual case.

In line with the provisions of the EBA Guidelines, Variable Remuneration reduction scenarios shall apply throughout the entire remuneration deferral period in question. The Variable Remuneration clawback scenarios shall apply for one year as from the date on which the Variable Remuneration is paid, save in the event of wilful misconduct or serious negligence, in which case regard shall be had to the general provisions of the civil or employment legislation concerning the statute of limitations.

The implementing regulations of the LTI must lay down the specific rules regarding reduction or clawback of benefits to be received by its participants, adapting where necessary the reduction and clawback scenarios envisaged in the Remuneration Policy to the nature and purposes of the LTI.

#### *6.4.4. Retention bonuses*

Any retention bonuses that may, exceptionally, be agreed upon with certain professionals shall be subject to the conditions and requirements laid down in the EBA Guidelines and to principles similar to those set forth in the Remuneration Policy for variable remuneration.

The retention period applied to variable remuneration paid in instruments should be set at an appropriate length in order to align incentives with the longer-term interests of the institution<sup>79</sup>.

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<sup>78</sup> EBA, Guidelines on sound remuneration, *op. cit.*, point 290.

<sup>79</sup> EBA, Guidelines on sound remuneration, *op. cit.*, point 285.

In this sense, CWML should be able to explain how the retention policy relates to other risk alignment measures and how they differentiate between instruments paid upfront and deferred instruments<sup>80</sup>.

#### **6.4.5. Early termination**

The LFS provides that payments relating to the early termination of a contract reflect performance achieved over time and do not reward failure or misconduct<sup>81</sup>.

Generally speaking, the obligations regarding severance for termination of employment by the Bank are subject to the applicable legislation. As such, in the case of ordinary employment contracts of staff members, labour law provides for specific severance to be paid in the scenarios and subject to the minimum, mandatory and restricted amounts provided for therein.

If severance payments are awarded to the Identified Staff, it shall be considered as variable remuneration, unless they fall into the exceptions of the EBA guidelines<sup>82</sup>.

Ordinary payments relating to the duration of the applicable advance notice periods shall not be deemed to constitute severance payments.

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<sup>80</sup> EBA, Guidelines on sound remuneration, *op. cit.*, point 286.

<sup>81</sup> Art. 38-6 (1), h) of the LFS.

<sup>82</sup> EBA, Guidelines on sound remuneration, *op. cit.*, point 172.



## ANNEX I – DEFINITIONS

The following terms are used for the purposes of this Policy:

Term	Definition
<b>CRD</b>	Directive 2013/36/EU, as amended
<b>CRR</b>	Regulation (EU) No 575/2013, as amended
<b>CSSF</b>	Commission de Surveillance du Secteur Financier, the Luxembourg supervisory authority of the financial sector.
<b>CWML</b>	CaixaBank Wealth Management Luxembourg S.A.
<b>EBA Guidelines</b>	EBA, Revised Guidelines on sound remuneration policies under Directive 2013/36/EU, <i>EBA/GL/2021/04</i> , 2 July 2021
<b>LFS</b>	Law of 5 April 1993 on the financial sector, as amended
<b>Policy</b>	This Remuneration policy
<b>Recovery plan</b>	Mean the CaixaBank S.A. recovery plan set up in accordance with EU Directive 2014/59/EU of the European Parliament and of the Council of the European Union of 15 May 2014 (Bank Recovery and Resolution Directive – BRRD) covering also CWML
<b>Shareholder</b>	CaixaBank S.A. which owns 100% of the shares of CWML
<b>Staff</b>	All natural persons who serve the Bank (as well as its subsidiaries, branches or representations – if any), in conducting banking transactions or activities, as applicable, including Identified Staff, in particular, on the basis of an employment agreement

## ANNEX II – LEGAL FRAMEWORK

There follows a list of regulations making up the regulatory context of this Policy:

### I. European Regulations and Directives

- 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, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC, as amended (“**CRD**”);
- Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 (“**CRR**”);
- Commission Delegated Regulation (EU) No 527/2014 of 12 March 2014 supplementing Directive (EU) No 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards specifying the classes of instruments that adequately reflect the credit quality of an institution as a going concern and are appropriate to be used for the purposes of variable remuneration;
- Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector;
- Commission Delegated Regulation (EU) No 2021/923 of 25 March 2021 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards setting out the criteria to define managerial responsibility, control functions, material business units and a significant impact on a material business unit’s risk profile, and setting out criteria for identifying staff members or categories of staff whose professional activities have an impact on the institution’s risk profile that is comparably as material as that of staff members or categories of staff referred to in Article 92(3) of that Directive.

### II. EBA Guidelines

- EBA, Guidelines on loan origination and monitoring, *EBA/GL/2020/06*, 29 May 2020;
- EBA, Revised Guidelines on sound remuneration policies under Directive 2013/36/EU, *EBA/GL/2021/04*, 2 July 2021;
- EBA, Regulatory technical standards on criteria to define managerial responsibility and control functions, a material business unit and a significant impact of its risk profile, and categories of staff whose professional activities have a material impact on an institution’s risk profile, *EBA/RTS/2020/05*, 18 June 2020;
- EBA, Guidelines on internal governance under Directive 2013/26/EU, *EBA/GL/2021/05*, 2 July 2021.

### III. ESMA Guidelines

- ESMA, Guidelines on remuneration policies and practices (MiFID), *ESMA/2013/606*, 1 October 2013;
- ESMA, Consultation paper – Guidelines on certain aspects of the MiFID II remuneration requirements, *ESMA35-26-2324*, 19 July 2021.

### IV. Luxembourgish Law / circulars

- Law of 5 April 1993 on the financial sector (“**LFS**”), as amended *a.o.* by the Luxembourg Law of 20 May 2021 transposing CRD V; in particular Articles 38-5 and 38-6;
- Luxembourgish Consumer code.

### V. CSSF Circulars

- CSSF, Circular 06/273, as amended – Definition of capital ratios;
- CSSF, Circular 14/585 on guidelines on remuneration policies and practices (MiFID);
- CSSF, Circular 10/437 on guidelines concerning the remuneration policies in the financial sector;
- CSSF, Circular 15/622 on higher ratio notification procedure applicable to remuneration policy according to Article 94 of CRD IV following its transposition into Luxembourg Law via article 19 of the law of 23 July 2015;
- CSSF, Circular 22/797 on the application of the Guidelines of the EBA on sound remuneration policies under Directive 2013/36/EU, 31 January 2022.

## ANNEX III – VERSION HISTORY

This Policy has been previously updated as follows:

Previous versions	Owner	Aut. Mgmt. Date Approval	BoD Date Approval
<b>v1.0</b>	<b>Organization &amp; HR</b>	<b>28 September 2020</b>	<b>8 October 2020</b>
<b>v2.0</b>	<b>Organization &amp; HR</b>	<b>8 February 2021</b>	<b>18 February 2021</b>
<b>v2.1</b>	<b>Organization &amp; HR</b>	<b>14 October 2021</b>	<b>21 October 2021</b>