

# BANQUE CARNEGIE LUXEMBOURG

## REMUNERATION POLICY

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# Table of contents

1	Introduction.....	3
2	Scope .....	3
3	Background .....	4
4	General remuneration model.....	4
5	Remuneration components .....	5
5.1	Fixed remuneration (salary).....	5
5.2	Variable remuneration.....	5
5.3	Partnership.....	5
5.4	Pension benefits.....	5
5.5	Severance payments.....	5
5.6	Guaranteed variable remuneration.....	5
5.7	Other benefits.....	6
6	Principles Governing Variable Remuneration .....	6
6.1	Maximum ratios .....	6
6.2	Performance measurement.....	6
6.3	Deferral and retention.....	7
7	Governance.....	10
8	Information and Disclosure .....	11

# 1 INTRODUCTION

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Reference is made to the Group Remuneration Policy (the “Group Policy”), which outlines the governing principles for remuneration in Carnegie Holding AB, including branches and subsidiaries (the “Group” or “Carnegie”).

Reference is also made to the below regulatory framework:

- Law of 23 July 2015 amending the Law of 5 April 1993;
- Law of 5 April 1993 on the financial sector, as amended (Chap. 4bis; Art. 38 - 38-13);
- Circular CSSF 10/496 amending Circular CSSF 06/273 defining capital ratios and providing further details on the supervisory review of remuneration policies;
- Circular CSSF 11/505, which further specifies how the “principle of proportionality” applies when establishing and implementing remuneration policies that are consistent with sound and effective risk management;
- Circular CSSF 14/585 transposing the ESMA guidelines on remuneration policies and practices into annexe V of Circular CSSF 07/307 (MiFID) and which deals with conflicts of interest and inducements concerning persons who can have a significant influence on the service provided or corporate behaviour of the institution;
- Circular CSSF 15/622 on the procedure of notification to a higher 1:1 ratio as defined under article 19, 7°, point g) of the Law of 23 July 2015;
- European Regulation (EU) No 604/2014 on regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile; and
- Article 450, (EU) No 575/2013, with regards to disclosure requirements.

The Bank’s Remuneration Policy (the “Bank Policy”), which is largely inspired from the Group Policy, has been designed by taking into account the size of the Bank, as well as the nature and complexity of its activities. In this respect, the Bank has requested to the CSSF the application in its favour of the principle of proportionality and the subsequent neutralisation of any remuneration related requirements (as described in point (2) of Section 12 – chapter 4-1 – letters n), o) and p), as well as chapter 4-2 – of Circular CSSF 10/496) that are not part of the Group Policy. The CSSF has confirmed that it has no objection to this.

The Bank’s executive management ensures on a yearly basis that the thresholds of point 10. of Circular CSSF 11/505, in relation with the application of the proportionality principle, are not trespassed.

The Bank Policy aims at aligning the personal objectives of staff members with the long term interests of the Bank and sound risk management.

## 2 SCOPE

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The Bank Policy replaces previous remuneration policies and applies to all forms of remuneration to all the employees of the Bank and its subsidiary, Carnegie Fund Services S.A., Luxembourg (“CFS”). The Bank Policy thus applies on an individual and consolidated basis.

The Bank Policy may be supplemented with further instructions where required.

## 3 BACKGROUND

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Carnegie is an independent investment bank group of companies operating within the business areas Securities, Investment Banking, Private Banking and Funds.

The Bank is a wholly owned subsidiary of Carnegie Investment Bank AB, Stockholm and owns itself the above-mentioned subsidiary.

From a business perspective, the Bank belongs to the Group's Private Banking business area.

The Bank is a sound and very qualified organisation, which has succeeded in combining a low risk profile with a high performance operation.

The Bank is wholly specialised in providing asset management, private banking and investment fund services and is also, to a limited extent, engaged in money market and foreign exchange operations for its own account.

The purpose of CFS, a Chapter 15 Management Company, is the collective management of Luxembourg and/or foreign UCITS that have been approved in accordance with Directive 85/611/EEC as amended or replaced and other Luxembourg and/or foreign collective investment undertakings or funds that are not covered by this directive.

It should be further noted that CFS does not carry out any investment management activities. Hence, the specific provisions on remuneration, as set out in the law of 10 May 2016 transposing Directive 2014/91/EU, which are exclusively related to investment management activities and the remuneration of investment managers, do not apply to CFS.

The Bank provides its subsidiary with IT, administration and other business support services.

Carnegie's business success is, among other things, based on the clients' confidence in Carnegie and their perception of Carnegie as an attractive cooperation partner as well as the employees' willingness and ability to meet the clients' expectations. Therefore, a key factor for success is highly skilled and committed employees. The employees contribute to Carnegie's business both individually and in cooperation with colleagues in formal and informal teams – within and across business areas, branches and subsidiaries.

The Bank Policy is to provide the fundamentals to ensure that the remuneration practices that are implemented and maintained promote sound and effective risk management, as well as fair treatment of customers and management of potential conflicts of interest, thus encouraging controlled risk taking within the Bank.

## 4 GENERAL REMUNERATION MODEL

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The Bank aims to retain and attract competent, committed and highly motivated employees and thus offers competitive terms and conditions of employment.

The Bank's remuneration model supports Carnegie owners' long-term business ambitions. The Bank's remuneration model is built on owner value and is structured to achieve a sound balance between fixed remuneration, variable remuneration and other remuneration components.

The composition of fixed and variable remuneration varies between employee categories having regard to the employees' work duties, competencies, responsibilities and performance.

This model enhances long-term development of competence and promotes team and individual performance. Fixed remuneration, partnership, pension and other benefits are not dependent upon short-term profit results.

The mix of components and deferral elements promotes the Bank's sustainable growth prospects, a sound risk culture, and the protection of its clients and investors.

## 5 REMUNERATION COMPONENTS

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The Bank's overall level of remuneration is decided by its Board of Directors considering, among other things, the Bank's ability to be profitable over an economic cycle.

The Bank's remuneration model consists of the following remuneration components:

### 5.1 Fixed remuneration (salary)

Fixed remuneration is the most important remuneration component for the largest part of the Bank's employees and represents a sufficiently high proportion of the total remuneration for all the Bank's employees.

The fixed remuneration package, which is defined as the annual gross remuneration in all employment contracts, is set based on a number of parameters, including the employee's skills, responsibilities and long-term performance.

The Bank may, for selected employees and at the demand of the latter, provide other forms of remuneration in kind, provided that such benefits comply with the Luxembourg Labour and Tax laws and practices, and provided that the related aggregate amount is deducted from the related employee's annual remuneration. The remaining nominal gross salary is then payable to the employee in arrears on a 13 months basis.

The Bank monitors salary developments on the local labour-market to maintain its position as an attractive and competitive employer in general and for top performers and skilled individuals in particular.

### 5.2 Variable remuneration

Variable remuneration is a tool whereby the employee's efforts and remuneration are aligned with Carnegie's business goals and financial performance taking the owners' long term interests into consideration. All employees may be considered for variable remuneration, subject to achievement and fulfilment of predetermined financial and non-financial performance criteria.

### 5.3 Partnership

The partnership programs offer key employees the opportunity to invest in Carnegie. The employee's strategic importance is a parameter when the participation share is decided and thus strengthens the programs' ability to promote long-term value creation. The partnership programs promote long-term viable business decisions in line with the overall good of Carnegie.

### 5.4 Pension benefits

Pension benefits may be offered in accordance with local law, regulation and market practice. Pension schemes applied within the Bank are defined contribution pension schemes. Pension benefits aim at providing financial security for the employees concerned. The Bank does not apply discretionary pension benefits and variable remuneration is not paid out as pension benefits.

### 5.5 Severance payments

The Bank' standard employment contracts do not include any provision regarding the payment of severance pay in case of early contract termination, other than any indemnities due in accordance with the Luxembourg Labour laws and other rules applicable to the financial sector.

### 5.6 Guaranteed variable remuneration

Guaranteed variable remuneration may only be used in connection with hiring new staff in special circumstances, e.g. with the aim to compensate the employee for any loss of variable remuneration due to his termination of previous professional occupation, and is limited to the first year of employment.

## 5.7 Other benefits

All the Bank's employees are provided with various additional benefits, as favourable terms and conditions on private bank accounts and for personal loans, accident and third party liability insurances.

Reference is made to "chapter 16 – Human Resources" of the Bank's procedures manual (section 5 - Staff benefits), which describes the above benefits.

The Bank's employees may also benefit from educational and competence enhancement programs where and when required.

# 6 PRINCIPLES GOVERNING VARIABLE REMUNERATION

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## 6.1 Maximum ratios

The employees' fixed salary represents a sufficiently high proportion of their total remuneration, so as to allow the Bank to have the possibility to pay no variable remuneration.

Variable remuneration allocated to Identified Staff (as defined below) shall not exceed the individual employee's annual fixed salary including benefits in relation thereto.

Variable remuneration allocated to employees who are not Identified Staff shall not exceed three times the relevant employee's annual fixed salary including benefits in relation thereto.

Exceptions from the maximum ratios must in each case be approved by the Group Board.

## 6.2 Performance measurement

Variable remuneration within the Bank is based on risk-adjusted performance measures.

### *Corporate level*

Performance is measured having regard to the Bank's business cycle and the risks connected with the Bank's long term business interests. Both current and future risks are taken into account, as well as the costs of capital and liquidity.

A multi-year perspective is applied considering previous years' performance and the scenario analysis made in the ICAAP. Hence, the assessment of performance is set in a three-year framework, so as to ensure that the assessment process is based on longer-term performance and that the actual payment of performance-related components of remuneration is spread over the Bank's business cycle.

The amount that is available for variable remuneration is calculated for the Group taken as a whole, as well as for each business area and relevant subsidiary.

### *Individual level*

- Individual performance criteria shall be determined in the annual, group-wide, mandatory performance management process. Individual objectives shall be designed so as to support the business strategy. Performance criteria shall not be solely based on financial results – the criteria shall be based on both financial and non-financial criteria. Also, the criteria shall be defined in such a way so as not to create incentives that may lead employees to favour their own interest, or the firm's interest to the potential detriment of clients. For example the following practices should be avoided: Performance criteria linked to the sale of specific financial instruments or a specific category of financial instruments. This may influence staff to sell, or 'push', one product or category of product rather than another (e.g. 'in-house' products) without appropriate regard to the client's best interests.
- Criteria based only on volumes sold without any assessment of criteria linked to the client's best interest.

Instead performance criteria should be aligned with the Bank's and clients' best interest. Examples of good practice include:

- Criteria linked to compliance with regulatory requirements such as ensuring the suitability of instruments sold to clients.
- Performance measures based on client satisfaction.
- Measures based on both volume of products sold and effective return of these products for the client over an appropriate timeframe.

Carnegie has implemented a standardised Group-wide performance management process for all employees with the same timeline, areas of measurements and evaluation criteria. The primary purposes of the performance management process is to make sure we comply with regulatory requirements, promote personal development and have a common process for follow-up and group-wide measurements of risk and performance.

The appropriate weighting of quantitative (financial) and qualitative (non-financial) criteria in the performance management process depends on the tasks and responsibilities of each function. The quantitative and qualitative criteria and the balance between them, for each level and category of staff, are agreed-upon between the line manager and the employee in defining the employee's objectives which support business strategy.

The Performance Management Process is described in Appendix A.

The cycle includes start of year objectives setting, a mid-year follow-up and a year-end review.

At the beginning of the year, each employee will have a meeting to agree upon objectives. Objectives will be set in four categories, concerning both soft and hard skills.

These are:

- Financial performance / Efficiency (quantitative);
- Customer focus (qualitative);
- Risk and control (qualitative); and
- People and personal skills (qualitative).

It should be noted, however, that for staff within the Bank's Administration Department, including executive management, the financial performance may be also regarded as a qualitative criterion, since the performance assessment takes into consideration the efficiency aimed at keeping costs to a minimum rather than any delivery of revenues. Hence, effective quantitative measures only apply to Front-office staff.

The documentation and follow-up of the performance objectives shall be sufficiently complete to clearly demonstrate how the employee's variable remuneration is determined at the individual level.

### *Employees in control functions*

The criteria for variable remuneration for employees in control functions are designed to safeguard the integrity and independence of these employees.

Variable remuneration for employees in control functions is therefore based on targets connected to such functions, independent of the performance of the business units they control.

## **6.3 Deferral and retention**

Any risk effects that variable remuneration components may give rise to, are aligned with Carnegie's business cycle and business risks by way of partial deferral of variable remuneration awarded to "Identified Staff" (as defined below). Retention is not required under local regulations, with the application of the proportionality principle.

## *Identified Staff*

The group of employees who qualifies as Identified Staff shall be identified on an annual basis. The categories of staff and the rationale for their identification shall be documented in a risk analysis performed by the risk control function.

Identified Staff shall include the below categories, at a minimum, and shall have part of their variable remuneration deferred, as described hereunder.

- Executive management;
- Employees in leading strategic positions;
- Employees responsible for an independent control function;
- Risk takers; and
- Other employees.

### Executive management

Executive management encompasses members of the executive management of the Bank and its subsidiary.

### Employees in leading strategic positions

This category comprises:

- Members of any committee responsible for the management of any risk, with the mandate to approve individual credit exposures and market risk transactions and/or approve or recommend limits for credit, market and liquidity risks;
- Staff members who have managerial responsibility in a business area and report directly to the head of that business area;
- Heads of support functions, including middle office, accounting and financial reporting, HR, operations and IT;

### Employees responsible for an independent control function

Control functions comprise risk control, compliance and internal audit. Only employees responsible for a control function fall into this category.

### Risk takers

Risk takers shall be identified on the basis of their authority to commit to credit risk exposures and market risk transactions as these risk categories are defined in the Group's Risk Policy. Such risk takers comprise:

- in relation to credit risk, employees who have the authority to initiate, take, approve or veto a decision on credit exposures of EUR 5m;
- in relation to market risk transactions, staff members who have the authority to take, approve or veto a decision on transactions on the trading book which in aggregate represent an own funds requirement of 0.5 per cent or more of the CET1 capital.

In addition, managers of groups of staff who individually or collectively have the authority to commit to credit risk exposures or market risk transactions as described above should be defined as a risk taker.

### Other employees

Other employees include staff members who in the preceding financial year were awarded a total remuneration:

- a) of EUR 500,000 or more;
- b) as a consequence of which the relevant employee is among the 0.3 per cent of staff, rounded to the next higher integral figure, who have been awarded the highest total remuneration in that year;



- c) that is equal to or greater than the lowest total remuneration awarded in that year to any staff who (1) is a member of Executive Management or (2) is identified as employees in leading strategic positions or risk takers in which case staff in support functions (see above) shall be disregarded.

Exceptions to the above criteria may be permissible if it can be established that staff identified by these criteria do not in fact have a material impact on the risk profile. Any exception shall be well-reasoned and documented. All exceptions shall be approved by the Group Board on the recommendation by the Bank's Management Committee.

It is the responsibility of each line manager to notify the relevant employee/s in his/her area of responsibility of their identified staff classification.

The group of Identified Staff has been assessed and selected as part of the risk analysis on which the Bank Policy is based, as detailed further in Appendix B. Management will notify the employees concerned regarding their Identified Staff classification.

### *Award of variable remuneration and right of ownership*

When amounting to or exceeding the gross amount of SEK100k, or equivalent in EUR, any variable remuneration awarded to Identified Staff is subject to partial deferral. Hence, at the date of the award, Identified Staff do not acquire a right to the part of the variable remuneration which is subject to deferral.

Identified Staff may (provided all conditions indicated below under "Conditions for vesting" are met) acquire a right, or ownership, to the awarded and deferred variable remuneration as described below under "Deferral". Such time at which Identified Staff acquire a right, or ownership, to deferred variable remuneration is referred to as "vesting".

### *Deferral*

According to the Group Policy, the amount subject to deferral ranges between 40 to 60 per cent and the period of deferral ranges between three to five years, depending on the amount of variable remuneration awarded and the responsibilities and risk mandates of the Identified Staff in question.

Based on the risk analysis carried out by the Bank, its low risk profile, long-term strategy and historical records, the CSSF has confirmed that it has no objection to the application of the proportionality principle. Therefore, the Bank's executive management has fixed the standard deferral level for all Identified Staff to 40 per cent of variable remuneration, over a period of 3 years.

However, for members of executive management and Identified Staff receiving particularly high amounts of variable remuneration, which would be equivalent to executive management, 60 per cent of the variable remuneration shall be deferred over a period of three years. Where the ratios defined in section 6.1 would be exceeded, subject to approval of the Group Board, and for a member of executive management who would also become part of Carnegie Group executive management, the deferral period shall be extended to five years.

### *Conditions for vesting*

Deferred variable remuneration is vested on a pro rata basis during the deferral period. However, deferred variable remuneration is only vested if it is (a) justifiable considering Carnegie's financial situation, having due regard to any and all legal and regulatory requirements, and (b) motivated considering the relevant business unit's and the individual employee's performance measured as set out in section 6.2. Typically, non-vesting (wholly or partly) of deferred variable remuneration will occur in cases where:

- payment of deferred variable remuneration may lead to Carnegie not complying with applicable legal and regulatory requirements in relation to capital and liquidity;
- risks that were not duly taken into account when establishing the amount of the deferred variable remuneration have materialised;
- the relevant employee's employment has been or may be terminated due to misconduct, including but not limited to, dishonesty, fraud, misrepresentation, disclosure or use of proprietary information or breach of trust.

Moreover, deferred variable remuneration is vested on condition that the Identified Staff remains employed and has not given notice to terminate his employment, save where mandatory law provides otherwise.

For the purposes of vesting of deferred variable remuneration, the individual Identified Staff will be deemed to remain employed if he has ceased to be employed for any of the reasons set out below, evidenced to the satisfaction of the Bank's Board of Directors:

- Retirement according to plan or by agreement with the Bank;
- Death, injury or disability;
- Redundancy;
- The employing entity is no longer part of the Group; or
- Specific circumstances in which the Bank's Board determines that vesting is reasonable despite termination of the employment.

### *Payment of variable remuneration*

Variable remuneration is generally paid out in connection with customary salary payments.

Variable remuneration does not form the basis for any right to receive any benefits, such as pension, holiday or any other benefits, unless such right follows from any applicable mandatory law. Variable remuneration will, if required, be adjusted accordingly.

### *Hedging prohibition*

In connection with awarding variable remuneration, Identified Staff may not to use any hedging strategies or insurances to mitigate or undermine the effects of deferred variable remuneration being subject to potential forfeiture (reduction either in whole or in part).

### *Reduction and claw back*

Any deferred, non-vested variable remuneration can be either fully or partially reduced if deemed justified considering the financial situation of the Group or the performance of the business area or the individual concerned.

The Bank shall be entitled to claw back (partially or in full) any paid variable remuneration if it can be documented that the variable remuneration has been calculated based on information or results which prove to be false, and the recipient was in bad faith.

## **7 GOVERNANCE**

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The grandparent principle is adhered to when deciding on remuneration components for individual employees. The Group Board decides on remuneration for the Bank's Managing Directors. As regards the other members of executive management and the employees responsible for control functions, the remuneration components are decided by the Bank's Board.

Final decisions in relation to variable remuneration, including decisions relating to forfeiture of variable remuneration, are made by the Group Board, on proposal by the Board's Remuneration Committee. Decisions on allocation are made by the Managing Directors, except in relation to the Bank's executive management itself, where the decision is made by the Bank's Board.

It is the responsibility of each line manager to notify the employees in his area of responsibility who are eligible for variable remuneration of the relevant success criteria that govern their remuneration and the process for evaluating performance and to document such criteria and decisions in relation thereto.

The internal control functions, i.e. risk control, compliance and internal audit, as well as the human resources function, which is covered by the General Manager in charge of the Bank's Administration Department, have been closely involved in the design of the Bank Policy.

Internal audit shall independently review on a yearly basis whether the Bank's remunerations comply with the Bank Policy. Internal audit shall report its findings to the Board of Directors of the Bank no later than in connection with the adoption of the annual accounts.

The Group Policy is adopted by the Bank's Board of Directors. Local deviations to the Group Policy and its underlying instructions shall in connection therewith be adopted if required under binding local laws or regulations.

The Bank's Board of Directors will regularly review the remuneration policies and procedures implemented by the Bank's authorised management and ensure that they comply with the Group Policy and the Bank's own business strategy, long term interests and risk profile.

## 8 INFORMATION AND DISCLOSURE

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The Bank Policy and the Group Policy are accessible to all employees.

The Bank will disclose information on the Bank Policy in accordance with the requirements laid down in any applicable law and regulation. In particular, the elements that shall be disclosed in line with the requirements of Article 450 of Regulation (EU) No 575/2013 are, where applicable, all disclosed in the Bank's Policy, which is made available on the Bank's public website.

The information disclosed will safeguard the secrecy of the individual employee's financial situation.