

Remuneration Policy



1. INTRODUCTION

1.1 CONTEXT, PURPOSE AND SCOPE OF APPLICATION

This Remuneration Policy, hereafter “the Policy”, defines and describes the remuneration principles and practices set out by Andbank Luxembourg SA, hereafter “AL” or “the Bank”.

The general principles and provisions set out by the Policy shall prevail on all existing principles and rules set by other documents and apply to all employees of the Bank in Luxembourg.

The Policy is approved by the Board of Directors and becomes effective immediately as from its approval. The general provisions of the Policy apply and are made available to all the employees of the Bank.

1.2 GENERAL PRINCIPLES

The Policy’s conducting principles reflect Andbank Group’s business strategy, objectives, values and interests.

They are based on the following pillars:

- **Sound and effective risk management**

The Policy and related practices aim at protecting the interests of the Bank’s customers, employees and shareholders as well as the Bank’s financial sustainability in a long term perspective. In this context, AL has established, implemented and maintains a Policy which is consistent with and promotes sound and effective risk management and which does not induce excessive risk-taking.

- **Avoidance of conflicts of interest**

The Policy incorporates measures to avoid conflicts of interests, as set out by the Bank’s Conflicts of Interests Policy.

- **Competitive and attractive remuneration**

To ensure that client’s satisfaction and protection remain at the heart of its philosophy, AL wishes to attract, retain and motivate highly qualified professionals in their respective domains. In this light, AL offers remuneration packages that, while in line with market practices, do remain competitive attractive.

- **Alignment between performance and remuneration**

Variable remunerations, while being part of the standard compensation packages offered by the Bank, are linked to effective performance and are subject to strict assessment rules that aim at preventing excessive risk-taking behaviours. The ultimate objective consists in protecting the long term interests of the different stakeholders, i.e. the customers, the shareholders, the employees and the Bank itself. In this context, the Bank does not reward failure.

2. RISK ANALYSIS AND DEFINITION OF THE IDENTIFIED STAFF

2.1 APPROACH

In order to establish the institution's risk profile and, ultimately, to determine its Identified Staff (hereafter "IS"), AL performed a review of its activities and analysed a certain number of elements related to the entity's size, internal organization, risk profile, nature, scope and complexity of activities, etc.

This risk analysis has been carried out by the Bank's Senior Management, with the support of the Bank's control functions, in accordance with the regulatory requirements. This analysis has also been reviewed by the Nomination and Remuneration Committee.

More precisely, the list of IS has been determined according to the analysis of the following dimensions:

- AL's profile (structure, organization, activities)
- Risks related to AL's activities and related safeguards
- Staff members' profiles (based on qualitative and quantitative criteria as defined by the Commission Delegated Regulation EU 604/2014)

2.2 IDENTIFIED STAFF

The Bank has performed a detailed analysis in order to identify its members of staff whose professional activities have a material impact on the Bank's risk profile, referred to as the "Identified Staff".

This analysis of the identified staff has been performed by the HR department, in collaboration with the Risk Management and the Compliance departments, with the oversight of Senior Management and the Remuneration and Nomination Committee.

2.3 RESORT TO THE PROPORTIONALITY PRINCIPLE "AMONG INSTITUTIONS"

In the framework of this Policy, and in the light of the risk analysis performed by the control functions, AL resorts to the proportionality principle "among institutions".

This decision is motivated by the analysis of the EBA Guidelines 2015/22 Part 4 (articles 75 to 77) that will be updated on an annual basis, based on the review and analysis from the control functions. The results of the proportionality analyses will be reported to the Nomination and Remuneration Committee.

In this context of the EBA Guidelines on sound remuneration policies and the CSSF Circular 11/505, AL neutralizes the following requirement:

- Requirement to pay out a part of the variable remuneration in instruments and, de facto, the related instrument retention obligations;
- Requirement to pay out a part of the variable remuneration through a deferral scheme.

3. REMUNERATION STRUCTURE AND BONUS PAY-OUT MODALITIES

3.1 STRUCTURE OF THE REMUNERATION PACKAGES

The Bank has structured its remuneration packages around a fixed component and a variable component:

- The fixed remuneration, which includes the annual base salary and the fringe benefits and which is determined on the basis of the role of the staff member, including responsibility, job complexity and local market conditions. The Bank is also subject to terms defined under the Collective Bargaining agreement for Bank employees. The remuneration package will be composed as follows
 - Annual base.
 - Employees under a permanent contract:
 - Lunch vouchers;
 - Pension scheme. This pension scheme is aligned with the financial strategy, values of the Bank and the long term interests of the Entity.
 - Insurance scheme.
 - Life and accidents insurance.

It is also to be noted that the Bank may offer additional fringe benefits to some employees depending on their category:

- Senior Management and Senior Private Bankers may be offered parking place; company car; scholarship costs and accommodation costs.
- Heads of Departments may be offered parking place and company car.
- The rest of the employees may be offered a parking place. Parking places will be offered in accordance with the Parking Policy in place from time to time.

These benefits will be offered depending on the category of the employees and their placement will be decided by the Executive Management depending on the needs from time to time.

- The variable remuneration, which is determined on performance at individual, department and Group levels through both qualitative and quantitative criteria at individual level, enabling the alignment of the employees' interests with the Bank's. The allocation of variable compensation components will also take into account all types of current and future risks.

The total compensation linked to severances or redemption of previous employment contracts must be in line with the long-term interests of the Bank.

Fixed and variable components of total remuneration are appropriately balanced and the fixed component represents a sufficiently high proportion of the total remuneration to allow the operation of a fully flexible policy on variable remuneration components, including the possibility to pay no variable remuneration component, in accordance with Article 38-6 f) of the Luxembourg Law of 23 July 2015 transposing CRD IV (Directive 2013/36/UE)

Individuals from Senior Management are entitled to request the payment of variable remuneration on share-linked instruments, within the legal framework.

3.2 VARIABLE REMUNERATION PRINCIPLES AND UPPER LIMITS

- **Principle**

The variable or performance-based remuneration is designed to motivate and reward a sustainable and risk adjusted performance (e.g. high performers who strengthen long-term customer relationships, and generate income and shareholder value). Also, performance based remuneration is awarded in a manner which promotes sound risk management and does not induce excessive risk taking.

The total volume of variable remuneration will not limit the capacity of Andbank to reinforce its financial base.

Variable remuneration awards consider both a group component and an individual component. This seeks to reward the contribution of all employees to the financial results of the Bank and the achievements in the implementation of its strategy. Not only is financial success taken into account in the process, but also the conduct towards staff members and clients as part of carrying out business activities.

Both financial and non-financial factors shall be taken into consideration when determining the individual's variable remuneration, i.e. compliance with the Group's core values, internal guidelines and procedures, including customer and investor related guidelines. A discretionary assessment is always made to ensure that other factors – including factors which are not directly measurable – are considered.

The performance is assessed in context of divisional financial and non-financial (quantitative and qualitative) targets. The financial targets are subject to appropriate risk adjustment. For the infrastructure functions, the performance assessment is based on the achievement of cost and control targets. At the level of the individual, managers must fully appreciate both the absolute and relative risk-taking activities of individuals to ensure that variable remuneration allocations are balanced and risk-taking is not inappropriately incentivized. The factors and metrics to be considered include, but are not limited to, divisional risk-adjusted financial and non-financial performance, culture and behavioral considerations, disciplinary sanctions, and individual performance. Managers of Material Risk Takers must document the factors and risk metrics considered when making Individual variable compensation decisions, and demonstrate how these factors influenced the Individual variable compensation decision.

Moreover, the assessment of individual performance is taking into consideration both qualitative and quantitative criteria, depending on the job position, as detailed in the examples of assessment forms presented in appendix.

The discretionary bonus is not a contractual obligation and Andbank reserves the right to withhold incentives.

Variable remuneration will not be paid out in instruments or via methods whose aim is to circumvent the applicable regulatory requirements and restrictions.

The Human Resources function directs the entire remuneration process, engaging with the governing bodies, control functions and other teams responsible for verifying the Banks's earnings and financial data.

The Compliance and Risk Management departments carry out an annual assessment of the remuneration policy and its compliance with the regulatory framework. Both control functions ascertain whether the incentives provided by the remuneration system take adequate account of the Bank's risks, capital and liquidity situation, liaising with the Nominations and Remunerations Committee as appropriate. Both functions review the identification of Identified Staff and the metrics adopted, and will be involved in the review and updates of the remuneration systems and policy to ensure these are in line with the regulations in force. Compliance and Risk Management, in consultation with other departments as appropriate, will check whether or not any compliance breaches have been committed and supply such information to the relevant line manager and to the human resources functions so as to support the annual performance assessment and the decision on the variable remuneration component.

- **Considerations for specific populations**

- Non-Executive Directors

No variable remuneration is granted to Non-Executive directors. The fixed remuneration granted to Non-Executive Directors for the exercise of their mandates is decided by Board of Directors and the Ordinary General Meeting of the Bank.

- Senior Management

Senior Management has both fixed and variable remuneration, based on the role in the organization. The fixed and variable remuneration granted to Executive Directors for the exercise of their mandates is proposed by the nomination and Remuneration Committee and decided and approved by Board of Directors.

- Control Functions

The balance of fixed and variable remuneration of staff members in control function is weighted in favour of fixed remuneration. The variable remuneration granted to Control functions is proposed by the Nomination and Remuneration Committee and approved by the Board of Directors.

The remuneration of the control functions will be never linked to the performance of the business areas they control. Variable compensation to control functions will be paid out upon achievement of the objectives linked to their functions.

- Identified Staff:

The variable remuneration granted to the Identified Staff is subject to the criteria and restrictions set out in this policy. The variable remuneration granted to Other identified is proposed by the Nomination and Remuneration Committee and approved by the Board of Directors.

- Relevant Person

The variable remuneration granted to the Relevant Persons is subject to the criteria and restrictions set out in this policy. The variable remuneration granted relevant person is proposed by the Nomination and Remuneration Committee and approved by the Board of Directors.

- **Upper limits of variable remuneration**

It is also to be noted that, as a general principle, and as per the CRD IV requirements, the Bank does not pay any variable component exceeding 100 % of the fixed component to any of its employee. On an exceptional basis, AL may apply a higher maximum level of the ratio between the fixed and variable components which would in no case exceed 200 % of the fixed component for the identified staff as per the CRD IV requirements. In this case, a detailed recommendation describing the reasons for, and the scope of, the approval sought (incl. the number of staff affected, their functions and the expected impact on the requirement to maintain a sound capital base) will be submitted by the Board of Directors to the Bank's shareholders in general meeting. Copies of both the recommendation of the Board of Directors to the shareholders and the shareholders' decision will be provided to the CSSF.

Regarding the proportion of the variable remuneration, the following guidelines apply to the Bank's Identified Staff:

	Maximum Variable remuneration in % of the annual fixed remuneration
Non-Executive Board Members	0%
Senior Management	100%
Control Functions	10%
Other Identified Staff	100%

In accordance with the CSSF circular 15/622, the CSSF has to be informed on an annual basis of any approval by Andbank's shareholders of a higher maximum level of the ratio between the fixed and variable components of remuneration exceeding 100%. Andbank Luxembourg will not exceed 100% bonus for any of its employees.

3.3 DEFERRAL AND INSTRUMENT-LINKED PAY OUT PROVISIONS

The Bank resorts to the principle of proportionality amongst institutions and, as mentioned earlier, AL neutralizes the following requirements:

- Requirement to pay out a part of the variable remuneration in instruments and, de facto, the related instrument retention obligations;
- Requirement to pay out a part of the variable remuneration through a deferral scheme.

3.4 SPECIFIC PAY OUT PROVISIONS

- Malus clause (Ex post risk adjustment)

Variable remuneration is awarded to Identified Staff based on their performance and on the premise that he/she has been fully compliant with the regulatory framework and internal procedures of AL.

In case of inappropriate behaviour of the employee, such as harassment or failure to comply with the Code of Ethics and Standards of Conduct of AL or in any case a clear misalignment with the values of the group, the nomination and remuneration committee may consider a partial or total reduction of the bonus paid to the employee.

Malus event must be defined as fraud, lack of capital, regulatory issues or liquidity or solvency breaches.

Given the nature of Andbank Luxembourg business, applied pay-out structures, the period for applying malus is set in three years.

- Clawback

In certain circumstances as follows, the Board of Directors can decide that an employee will pay back the variable remuneration received:

- In case of established fraud or misleading information;
- Misbehaviour or serious error, such as breach of Andbank's policies.

Given the nature of Andbank Luxembourg business, applied pay-out structures, the period for applying clawback is set in three years.

- Sign up bonus

"Welcome bonuses" are granted in the context of recruiting of new employees will remain extraordinary and can be offered only during the first year of employment.

- Retention plan (loyalty scheme)

Employees might be awarded with an amount payable after 3 years, if they stay at the company and no malus event, as detailed above, has occurred. Retention bonuses will always be considered as variable remuneration for the purposes of calculating the upper limits of variable remuneration.

- Guaranteed bonus

Guaranteed bonuses are not allowed.

- Severance payments

Severance payments must reflect performance achieved over time and must not reward failure or misconduct. Severance pay will not be awarded where there is an obvious failure which allows for the immediate cancellation of the contract or the dismissal of the employee, or when there is a voluntary resignation.

Severance payments will be paid in the event the management of the Bank considers that the risk of losing potential court proceedings is high and will not offer severance payments that enter in conflict with the Luxembourgish Labour Law.

Severance payments for the identified staff are payable in accordance with relevant local legislation and applicable collective agreements. The overall policy and agreements on severance pay are determined by HR and relevant control functions. Severance pay will constitute an appropriate compensation for early termination by the Group, will be decided upon consideration of the individual's responsibility and decision making powers and it will be taken into account that it must not constitute a reward for failure. Normally, severance pay is linked to seniority, as employees will earn entitlement to severance pay throughout their years of service. Most employees are solely entitled to severance pay pursuant to legislation or the applicable Collective Bargaining Agreement. The amount of severance payments will be calculated taking into account Arts. 151 and 153 of EBA Guidelines.

Severance payments for the identified staff will be authorized by the Board of Directors upon assessment of the Nomination and Remuneration Committee.

For severance payments granted, documentary evidence will be retained on the reasons for the severance payment, the criteria used to determine the amount and confirmation that the severance is linked to the performance achieved over time and that it does not reward failure or misconduct.

4. PERFORMANCE ASSESSMENT

The decision of providing a variable performance-based remuneration to any employee of AL will be based on the performance assessment results. The assessment of performance will be done on a yearly basis taking into consideration a multiyear perspective and the Bank will consider the following three levels of objectives criteria:

- 4.1) Company
- 4.2) Department
- 4.3) Individual

Within these levels, the individual objectives must be a combination of both qualitative and quantitative elements relevant to the role.

Qualitative objectives: Examples of qualitative criteria are the achievement of strategic targets, customer satisfaction, adherence to risk management policy, compliance with internal and external rules, leadership, team work, creativity, motivation and cooperation with other business units, internal control and corporate functions, achievement of results, compliance with strategy within the risk appetite and compliance track record). Source: EBA Guidelines EBA/GL/2015/22.

Quantitative objectives: Examples of performance criteria are economic profit, internal economic risk capital, net economic contribution, risk-adjusted return on capital (RAROC), financial figures which relate to the budget of functions (e.g. such as legal and human resources). Source: EBA Guidelines EBA/GL/2015/22.

4.1 Company performance criteria

The bonus pool will be based primarily on an assessment of Andbank's overall results (i.e. elaboration of the financial statements of the entity based on the group's financial statements) along with several other important indicators.

At the Company level, the management will consider more quantitative performance measures to ensure that at a basic level there are sufficient funds to allocate a bonus and to determine the level of this bonus pool.

Company/Group Assessment Criteria could comprise:

- Profit before tax compared with the budget
- Cost trend (i.e. maintenance of cost control and operational efficiencies)
- Performance against the business plan and achievement of strategic objectives
- Compliance with internal business procedures
- Satisfactory audits and reports from regulators

The Board of Directors will determine the funds to be allocated to the bonus pool based on a review of the elements listed above, as well as a review of the external economic and market environment.

The control functions will be involved in the process to ensure that risk, capital and liquidity limits are not exceeded with regards to the level of bonus pool selected.

4.2 Department performance criteria

Andbank Luxembourg will also assess the milestones achieved of the objectives related to each department, which shall be defined by avoiding inappropriate incentives;

4.3 Individual performance criteria

At the beginning of the year, all individuals will agree on the performance criteria and objectives with their line managers for the year. The objectives must reflect the business strategy and risk profile of Andbank.

The assessment of the Identified Staff performance shall be effected over a multi-year framework in order to ensure that the assessment is made in view of the long term performance of the individual and that the payment is made over the business cycle of the undertaking.

Where it is appropriate, poor performance in the non-financial variables overrides good performance in terms of profit generation, i.e in the case of unethical or non-compliant behaviour, the individual performance will be impacted and the variable remuneration will not be allocated.

5. GOVERNANCE

5.1 BOARD OF DIRECTORS

The Board of Directors is responsible for the design of the Policy principles and for the monitoring of the Policy's implementation, maintenance and review.

The Board of Directors also ensures to take into account all the adequate inputs provided by all competent control functions (i.e. risk management, compliance, HR, etc.).

In addition, the Board of Directors is assisted in its tasks by the Nomination & Remuneration Committee, set up as a specialized Committee of the Board.

Finally, the Board of Directors ensures that the implementation of the Policy is reviewed on an annual basis at a minimum. Such central and independent reviews will assess whether the remuneration system (i) operates as intended and (ii) is compliant with the regulatory requirements. The independent internal audit review will be conducted by Internal Audit or an external audit firm.

5.2 NOMINATION & REMUNERATION COMMITTEE

The role of the Nomination & Remuneration Committee, as a specialized committee of the Board, is to assist and advise the Board in all analyses and decisions related to nomination and remuneration that have an impact on risk and risk management. The Nomination & Remuneration Committee will also oversee the total remuneration of staff responsible for control functions.

The Nomination & Remuneration Committee is constituted in a way that enables it to exercise competent and independent judgment on the remuneration policies and practices and the incentives created for managing risks.

The Nomination & Remuneration Committee will be formed by at least two members of the Board of Directors without executive functions within the Bank. The secretary of the Nomination & Remuneration committee will be the Head of the Human Resources Department.

5.3 EXECUTIVE MANAGEMENT

Notwithstanding the fact that the overall responsibility for the Policy remains in the hands of the Board of Directors, it is important to note the active role of the authorised management which ensures the operational implementation of the Policy and takes appropriate measures to ensure that it is applied properly.

5.4 CONTROL FUNCTIONS

As mentioned earlier, control functions (Risk Management, Compliance and Internal Audit) are closely associated and responsible of the design, draft, update and follow up of the Policy.

Risk and Compliance functions should provide effective input in accordance with their roles into the setting of bonus pools, performance criteria and remuneration awards where those functions have concerns regarding the impact on staff behaviour and the riskiness of the business undertaken.

The risk management function should assist in and inform on the definition of suitable risk-adjusted performance measures (including ex post adjustments), as well as in assessing how the variable remuneration structure affects the risk profile and culture of the institution. The risk management function should validate and assess risk adjustment data as well as be invited to attend the meetings of the remuneration committee on this matter.

Staff members are not allowed to use personal hedging or insurance strategies involving the variable component of their remuneration or other aspects which could alter or otherwise distort the fundamental alignment of the compensation mechanisms with the company's risk. The control functions will carry out annual checks on the declaration of identified staff not to use personal hedging or insurance strategies. Remuneration cannot under any circumstances be paid in forms, instruments or means that seek to avoid the regulatory provisions.

Human Resources will be responsible upon request of providing to the other control functions accurate data in order to ensure the correct implementation of this policy.