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CARREGOSA

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Employee

Remuneration Policy

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May-2024

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## Table of Contents

I. Versions Index .....	v
II. Properties.....	vi
III. Legislative Sources and Reference Documents.....	viii
IV. Definitions, Abbreviations and Acronyms .....	viii
A. Purpose.....	1
B. General Principles.....	1
C. Subjective Scope.....	2
D. Governance .....	2
E. Remuneration Structure.....	2
F. Pensions .....	6
G. Other Benefits.....	6
H. Remuneration of ICF Employees.....	6
I. Critical Employees .....	7
I.1. Critical Employee Identification Process.....	7
I.2. Remuneration of Critical Employees.....	8
J. Public Disclosure.....	8
K. Transitional Provisions.....	8
Anexo A. Policy on the Identification of Critical Employees .....	9

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# Employee Remuneration Policy

Board of Directors

## I. Versions Index

Date	Version	Description
Aug.2016	1.0	Creation of document.
Jan.2017	2.0	Full recasting of the document so as to ensure compliance with the "Guidelines on sound remuneration policies pursuant to Articles 74(3) and 75(2) of Directive 2013/36/EU, and on the dissemination of information, under Article 450 of Regulation (EU) No. 575/2013" (EBA/GL/2015/22), with the "Guidelines on remuneration policies and practices related to the sale and provision of retail banking products" (EBA/GL/2016/06) and with the recommendations in the "Report on conduct risks related to the mis-selling of savings and investment products" of the National Council of Financial Supervisors
Jul.2019	3.0	Remove the Members of the Management and Supervisory Bodies (MOAF) and of the Statutory Auditor from the subjective scope, as there are specific regulations in this regard. Include the Policy on the Identification of Critical Employees and related provisions. Formal adjustments.
Aug.2020	4.0	Reference to the thorough review of variable remuneration, including the introduction of a new model which is expected to take effect from 2021. Reference to the implementation of a new performance management model, which is expected to take effect from 2021. Review of the Policy on the Identification of Critical Employees in accordance with legal requirements, taking into account that senior management includes all employees who report directly to the Board of Directors. Include a list of the names of all critical employees. Delete Annex II on the Variable Remuneration Policy, as this is now being thoroughly reviewed. Include a new Annex – Annex II, on the Investment Advisors Remuneration Plan.
Sept.2021	5.0	Adaptation to the Legal Framework for Credit Institutions and Financial Companies (RGICSF), the EBA/GL/2015/22 Guidelines, and Banco de Portugal Notice 3/2020; Adoption of the recommendations issued by Banco de Portugal.
Aug.2022	6.0	Review of the document, updating legal and regulatory references and adapting the document to the Bank's new template. Review of the subjective scope of the Policy. Reference to the Regulations of the Board of Directors concerning the composition of the RC. Review of the timing of the communication criteria and objectives. Include a reference to the way in which employees are assessed so that no area /individual targets are set. Introduce a specific provision relating to discretionary pension benefits. Review of the information on the Pension Fund, bearing in mind that a possible conversion process is still under evaluation. Include a general reference to the quantitative criteria used for weighting the individual assessment of the performance of Critical Employees, review the weighting of qualitative criteria in the individual assessment of such employees and how the weightings used to determine the total amount of variable remuneration to be awarded to Critical Employees are presented. Reference to the adjustments to be considered when awarding variable component of remuneration and when assessing performance.

		<p>Review of the maximum ratio between the variable and fixed components of employees' remuneration.</p> <p>Amend the definition of Critical Employees.</p> <p>Introduce a provision on retention bonuses.</p> <p>Reference to the disclosure of the results of the annual independent evaluation.</p> <p>Introduce a reference to the composition and powers of the Remuneration Committee by reference to the Regulations of the Board of Directors.</p> <p>Creation of a single section (D   Governance), which embodies the former sections D. Governance and I. Remuneration of Critical Employees.</p> <p>Include a reference to the way in which the Bank fulfils its obligation to disclose information.</p>
Jul.2023	6.1	<p>Include a reference to the impact of deteriorating credit quality on remuneration.</p> <p>Review the Transitional Provisions, removing what has already been achieved and updating the reference to the phased implementation of the variable remuneration model.</p> <p>Redrafting of the Pension Fund, in particular with regard to the scope and applicability of the Pension Fund available to the Bank's staff.</p> <p>Redrafting of the provisions under G. Other Benefits.</p> <p>Include a reference to the minimum percentage contribution of the unit's assessment to the employee's remuneration and a more detailed reference to the qualitative performance assessment.</p>
Mar.2024	6.2	<p>Updating of legislative sources and reference documents.</p> <p>Amendment of the maximum increase per individual contribution.</p> <p>Include a reference to length of service bonuses.</p> <p>Review the transitional provisions.</p>
Mai.2024	6.3	<p>Modification of the maximum possible value of the increased limit for applying variable remuneration.</p>

## II. Properties

### Proprietorship

Board of Directors

### Proponent

Executive Committee

### Contributors

Remunerations Committee, Compliance Department and People and Culture Department

### Approval

Board of Directors, on 7 May 2024

**Banco Carregosa Code**

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Strategy and Organisation | 1.16

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**Entry into effect**

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8 March 2024

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**Scope of Distribution**

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Public

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### **III. Legislative Sources and Reference Documents**

1.04 – Regulation of the Board of Directors.

1.15 – Remuneration Policy for Members of Management and Supervisory Bodies.

1.30 – Regulation on Risk Management and Compliance Functions.

1.31 – Regulation of the Internal Audit Function.

1.54 – Regulation of the Remuneration Committee.

2.04 – Conflict of Interest Policy.

4.05.01 – Regulation on the Allocation and Use of Mobile Communication Devices.

4.05.02 – Regulation on the Award of a Length of Service Bonus.

Banco de Portugal Notice 3/2020 of 15 July, regulating the internal governance and control systems and defining the minimum standards to be applied by the organisational entities subject to Banco de Portugal supervision.

Portuguese Securities Code, approved by Decree-Law No. 486/99, of 13 November.

EBA Guidelines on internal governance (EBA/GL/2021/05), published in Banco de Portugal Circular Letter CC/2021/00000057.

EBA Guidelines on remuneration policies and practices related to the sale and provision of retail banking products and services (EBA/GL/2016/06).

EBA Guidelines on sound remuneration policies (EBA/GL/2021/04), published in Banco de Portugal Circular Letter CC/2021/00000056.

Legal Framework for Credit Institutions and Financial Companies, approved by Decree-Law No. 298/92 of 31 December.

Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms.

Commission Delegated Regulation (EU) No. 923/2021, of 25 March 2021, supplementing Directive 2013/36/EU of the European Parliament and of the Council as regards regulatory technical standards laying down the criteria for defining management responsibilities, control functions, significant business units and material impact on the risk profile of a business unit, and setting out criteria for identifying the members or categories of staff whose professional activities have an impact on the risk profile of the institution comparable to the members or categories of staff referred to in Article 92(3) of the Directive.

Report on Conduct Risks associated with the mis-selling of savings and investment products, issued by the National Council of Financial Supervisors.

### **IV. Definitions, Abbreviations and Acronyms**

**GM:** General Meeting.

**ASF:** Insurance and Occupational Pensions Supervisory Authority.

**Investment Advisors:** external advisors who are not bound by any employment or similar relationship with the Bank and who provide support to the Private Banking and Savings and Investment areas.

**Bank or Banco Carregosa:** Banco L. J. Carregosa S.A.

**BoD:** Board of Directors.

**EC:** Executive Committee.



**SB:** Supervisory Board.

**Employee:** any person in an employment relationship with the Bank, irrespective of their hierarchical position or the nature and duration of that relationship, excluding, for the purposes of this Policy, the members of the BoD, the SB, the Remuneration and Assessment Committee (CRAV) and the Statutory Auditor (ROC). Investment Advisors are also excluded from the definition of the concept of employee(s).

**RC:** Remuneration Committee.

**RAC:** Remuneration and Assessment Committee.

**IAD:** Internal Audit Department.

**PBD:** Private Banking Department.

**CD:** Compliance Department.

**AMID:** Accounting and Management Information Department.

**CD:** Credit Department.

**FD:** Financial Department.

**LD:** Legal Department.

**PCD:** People and Culture Department.

**SID:** Savings and Investment Department.

**RD:** Risk Department.

**ITD:** Information Technology Department.

**ICF:** Internal Control Functions.

**Policy:** this Employee Remuneration Policy.

**RGICSF:** Legal Framework for Credit institutions and Financial Companies.

**ROC:** Statutory Auditor or Statutory Audit Firm.

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## **A. Purpose**

1. As the Bank operates in a sector that is subject to constant change and major social and technological challenges, there is an urgent need to ensure an Employee Remuneration Policy that enables the adoption of, and compliance with, remuneration practices that are consistent with prudent, sound and effective risk management and that do not encourage excessive risk-taking or create situations of conflict of interest with clients.
2. This Policy also aims to:
  - i. Promote alignment between the objectives of shareholders and other stakeholders and those of employees, based on the Bank's strategy and risk profile at any given time, recognising the importance of the contribution of all people/employees to the Bank's performance;
  - ii. Recognise exceptional performance.

## **B. General Principles**

3. Through this Policy, Banco Carregosa aims to:
  - i. Attract, motivate and retain highly talented employees who contribute to creating value in the medium and long term;
  - ii. Promote remuneration practices that encourage and are consistent with sound and prudent risk management;<sup>1</sup>
  - iii. Too not encourage risk-taking beyond that tolerated by the Bank;
  - iv. Promote the sustainable achievement of the Bank's objectives, values, and interests in line with its strategic lines;
  - v. Ensure that the remuneration of employees is appropriate and proportionate to the size and organisation of the Bank, as well as to the nature, scope and complexity of the activities carried out at any given time, without losing sight of the best market practices;
  - vi. Support management based on the values of fairness and equity, accountability and transparency, recognising the effective performance of employees and promoting excellence;
  - vii. Provide an internal reference of best practices.
4. The Bank structures its remuneration system so as to ensure an appropriate balance between the internal (functional) and external (market) levels, implementing a functional and performance assessment based on objective criteria aligned with its risk, capital and liquidity management.
5. The Bank recognises that remuneration is essential to attracting and retaining talent, consolidating a proactive corporate culture, improving the organisational climate, encouraging competent, responsible and independent conduct, promoting productivity and the professional fulfilment and satisfaction of all concerned.
6. The Bank's remuneration model should also be based on policies and practices that take into account the rights and interests of clients, ensuring that the various forms of remuneration do not create incentives for employees to favour their own interests or the Bank's interests at the expense of clients.

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<sup>1</sup> Cf. Article 14(1)(i) of the RGICSF.

### **C. Subjective Scope**

7. All employees are covered by this Policy, including:
  - i. The Bank's senior management;
  - ii. Employees responsible for ICF;
  - iii. Critical employees, other than MOAFs, to whom the provisions of document 1.15 – Remuneration Policy for Members of the Management and Supervisory Bodies apply;
  - iv. Employees who have direct contact with clients in connection with the marketing of products and services, as well as employees who are directly or indirectly involved in the management or supervision of such employees.

### **D. Governance**

8. This Policy is approved, reviewed and updated by the BoD on a proposal from the EC, following a favourable opinion from the Remuneration Committee (RC), whose composition and competences are described in 1.04 – Regulations of the Board of Directors.
9. The RC, in coordination with the ICF and the PCD, shall review this Policy on an annual basis to verify compliance with the remuneration practices adopted, and shall provide an analysis of the results, in particular their impact on the Bank's risk, capital and liquidity management, as well as the measures necessary to correct any shortcomings identified.
10. The report prepared in accordance with the previous paragraph shall be made available to the GM, the SB and the BoD, which shall ensure the implementation of the actions identified by the responsible bodies or other structural units.
11. At the request of the BdP, the said report shall be made available without delay.
12. As per paragraph 9. above, the Risk Department (RD) shall provide an opinion on the consistency of the Policy with the risk culture and on the impact on the liquidity and capital requirements resulting from each of the risks to which the institution is exposed. The Compliance Department (CD) shall provide an opinion on the proper application of the legal and regulatory framework, and on the contribution of the policy to the promotion of appropriate employee behaviour.

### **E. Remuneration Structure**

13. Employees receive a fixed annual salary in accordance with their individual employment contract, and may also receive a variable remuneration – the annual bonus – depending on the sustainable performance of the Bank, of the unit to which they belong and/or of the performance of the employee, and on their own functions and responsibilities.
14. The Bank favours the payment of a fixed remuneration<sup>2</sup>, which is intended to be a stable source of income for the employee. The fixed remuneration paid to each employee at any given time shall take into account the professional experience and responsibility assumed in the performance of their specifically assigned duties, and should be determined in accordance with average market standards for equivalent functions and for companies of similar size in the sector.
15. The EC shall be responsible for determining the remuneration provided for in the preceding paragraph, without prejudice to the provisions of paragraph 34.

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<sup>2</sup> Within the meaning of paragraphs 132 to 138 of the EBA Guidelines on sound remuneration policies (EBA/GL/2021/04).

16. Fixed remuneration shall be processed and paid to employees in accordance with the applicable labour law, in particular the rules governing the payment of monthly remuneration and any allowances.
17. Variable remuneration depends on the decision of the BoD, which determines the objectives, targets and measures, for the year in question, as well as the rules for eligibility, assessment and granting of variable remuneration to employees. Any such remuneration shall respect the following key principles:
  - i. Payment made in cash and/or in the form of flexible benefits;
  - ii. Under no circumstances may the total value of the variable component exceed the annual value of the Employee's fixed remuneration component;
  - iii. Compliance with the legal principles and rules and guidelines issued by the competent authorities, in particular those arising from the RGICSF, the Guidelines on sound remuneration policies (EBA/GL/2021/04), and from Banco de Portugal Notice 3/2020;
  - iv. Reviewing employee, business unit and Bank performance on an annual basis, taking into account financial and, where appropriate, non-financial criteria;
  - v. Disclosure of the collective and individual objectives as well as the criteria and weighting factors used to determine the variable remuneration before the start of the period and not after 31 March of the year to which they relate;
  - vi. Providing mechanisms to avoid any incentive to promote products with a higher risk than any non-professional client would wish, or to sell products considered unsuitable, i.e. to promote an objective definition of the target public and respect for it in the marketing process;
  - vii. No direct link between the remuneration and the sale of specific financial instruments or a specific class of financial instruments;
  - viii. Establishment of benchmarks for the calculation of the variable remuneration, common to all products sold;
  - ix. The payment of remuneration shall depend on the BoD's assessment of the Bank's sustainable performance and be adjusted to the Bank's risk. Its provision in this Policy should not be understood as a commitment, as variable remuneration does not in itself constitute an entitlement;
  - x. No minimum guarantees on the value of the variable remuneration, irrespective of the Bank's performance, and no arrangements to mitigate the risk inherent in variable remuneration, except in the first year of activity and where there is an adequate capital base;
  - xi. Overall consistency between the assessed objectives and the profitability and growth variables that ensure the Bank's sustainable growth;
  - xii. Definition of objectives to promote compliance with ethical principles and discourage excessive risk-taking or actions that are not in the best of interests of clients;
  - xiii. Assessment of targets calculated in the first quarter of the following year to which they relate;
  - xiv. The assessment shall be carried out:
    - a. On an annual basis, so that it can be based on the performance of the financial year in question and so that the payment of variable remuneration takes into account the underlying economic cycle and the business risks of the Bank;
    - b. In order to ensure an appropriate balance between absolute and relative, as well as quantitative and qualitative criteria, the latter should have a weighting of not less than 15% of the assessment under sub-paragraph c.;
    - c. Taking into account the following components and corresponding weighting criteria:

- The Bank's targets (quantitative and qualitative): 37.5%;
  - Area and/or Individual targets (quantitative and/or qualitative): 62.5%, with a minimum weighting of 12.5% of area targets.<sup>3</sup>
- d. The qualitative assessment of the Employee's performance and their specific contribution to the Bank's value creation is based on the assessment determined in accordance with the previous subparagraph, reducing it to a minimum of 0% or increasing it to a maximum of 150%.
- xv. Approval by the BoD in the year following the assessment, after consultation with the Remuneration Committee and the Risk Department, of the total variable remuneration to be awarded, based on the performance achieved and the foreseeable liquidity and capital requirements resulting from each of the risks to which the institution is exposed;
- xvi. If the variable remuneration does not exceed €50 000 or 1/3 of the employee's total remuneration, no deferral shall apply. If any of these limits is exceeded, 50% will be paid in the year in which the variable remuneration is calculated, and the remainder shall be deferred and paid in 4 equal instalments over the 4 following years;
- xvii. In the event of a decrease in own funds, the deferred amounts referred to in the previous paragraph shall be adjusted proportionately to the change in own funds, taking into account the comparison between the end of the year preceding the payment of the deferred amount and the end of the reference year of the deferred remuneration;
- xviii. If the credit quality indicators deteriorate in a financial year compared to the average of the previous three years, the right to receive amounts deferred by those involved in the credit granting and monitoring process is suspended;
- xix. Without prejudice to the applicable civil and labour law, the variable part of the remuneration may be reduced or cancelled by decision of the BoD, in particular in the following cases:
- a. Development of the current strategic plan;
  - b. If the assumptions defined for the award of the variable remuneration component are not verified;
  - c. If, after consulting the EC and, in respect of employees with ICFs, after obtaining the opinion of the SB, the BoD concludes that the Employee:
    - participated in or was responsible for an action that resulted in significant losses to the Bank;
    - failed to meet suitability and reliability criteria;
    - was responsible for marketing financial instruments on unsuitable terms and with a negative financial impact on Clients;
    - has intervened in the process of granting or monitoring credit in a way that is considered detrimental to the rights and legitimate interests of Clients.
  - d. If the employee is or has been subject to disciplinary proceedings;
  - e. If the employee terminates their employment contract, either at their own request or as a result of being dismissed with just cause.

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<sup>3</sup> For certain structural units, in particular in support areas, the exclusive application of the Bank's objectives may be determined, in which case the contribution will be 100%.

- xx. The mechanisms provided for in the preceding paragraph may be applied up to the date of payment of the variable remuneration in the case of a reduction, and up to 2 years after payment in the case of a cancellation;
  - xxi. Decomplicating policies and practices, avoiding combining different policies or practices and multi-layered systems.
18. For example, the following are established as qualitative criteria established for the purposes referred to in sub-paragraphs c. and d. of item xiv. of the preceding paragraph are compliance with regulatory requirements (in particular conduct of business rules and, in particular, the suitability analysis of instruments sold to clients by relevant persons) and internal procedures, fair treatment of clients and their level of satisfaction.
19. For the assessment referred to in paragraph 17(c.) and (d.) of sub-paragraph xiv., the quantitative criteria approved annually shall be taken into account, which may include, for example, the variation in the assets under the supervision of each employee in the commercial areas.
20. The Bank recognises the importance of establishing an appropriate ratio between the fixed and variable components of an Employee's total remuneration, so that the application of the latter does not encourage risks that are incompatible with the Employee's position and must be adjusted, where possible and appropriate, taking into account the risks and performance of the Bank, the business unit in which the employee works, the Employee, the rights and interests of Clients, the duties performed and internal relevance.
21. In accordance with the principle set out in the previous paragraph, variable remuneration is determined taking into account the responsibilities of each function and the performance of the employee, and is set at a minimum of 0% and a maximum of 25% of the fixed remuneration if the performance is close to the target. This limit is increased to a maximum of 37.50% for exceptional performance, without prejudice to the specific situations that may be determined by the BoD in accordance with paragraph 17(xiv)(d).
22. The Bank does not pay any retention bonuses.
23. In addition to the rules governing the remuneration of its internal staff, the Bank has a system for the payment of remuneration to external partners, known as Investment Advisors, which complies with and is aligned with the rules laid down in MiFID II on remuneration policy, and the remuneration of which may consist of a fixed component and/or a variable component.
24. The Bank does not comply with Article 115-E(3) of the RGICSF, which states that at least half of the variable remuneration should consist of shares, equivalent or otherwise indexed instruments, given that:
- i. The Bank is a small institution;
  - ii. The Bank's shares are not admitted to trading on a regulated market and, given the size and ownership of its capital, these shares lack liquidity and a regular market value;
  - iii. For the same reasons, there are no other types of financial instruments that could in any way meet the objectives of the applicable regulations and recommendations;
  - iv. The cost of effectively ensuring the mechanisms provided for in the regulations is too high, which calls into question the granting of a variable remuneration component.
25. Severance payments for early termination of functions shall be in accordance with labour law and shall reflect the Employee's performance over time in those functions, and shall not set minimum or maximum amounts or accept mechanisms that in any way encourage failure or misconduct. No compensation shall be paid for the termination of functions resulting from the dismissal of an employee for reasons for which the employee is responsible under the law, without prejudice to the payment of any outstanding remuneration.

26. Compensation paid to employees for the buy-out of previous employment contracts shall be exceptional in nature and, where applicable, shall be determined taking into account the long-term interests of the Bank, including the application of the rules on performance, payment of variable compensation, unavailability due to retention by the Bank, deferral and cancellation.

## **F. Pensions**

27. There is currently a Defined Benefit Pension Plan for a specific group of employees and a Defined Contribution Plan for all active employees with open-ended contracts, with a vesting mechanism based on length of service with the Bank.
28. The Bank intends to request the transformation of the Defined Benefit Plan of the current active beneficiaries, by integrating it into the Defined Contribution Plan, while maintaining the same in force in order to ensure the financing of (i) the pensions of former employees, (ii) the pensions in payment, (iii) the responsibilities relating to survivors' pensions, in the situation of disability and presumed disability of current active beneficiaries, and (iv) the employer's contributions to the SAMS, with the ASF being responsible for deciding on the conformity for the fulfilment of this objective.
29. The Bank does not provide discretionary pension benefits to its employees.

## **G. Other Benefits**

30. If the legal and/or internal requirements are met, the Bank provides the following benefits:
- i. Health Insurance to employees not covered by the current Defined Benefit Plan and who have an indefinite or fixed term employment contract;
  - ii. Child benefits and study grants for employees' children;
  - iii. Child and education tickets;
  - iv. Telecommunications equipment as defined in 4.05.01 – Regulation on the Allocation and Use of Mobile Communication Devices;
  - v. Length of service and/or seniority bonuses, as defined in 4.05.02 – Regulation for the Award of Length of Service Bonuses.
31. Depending on the specific working conditions of each Employee, the Bank may also pay flexible working and duty allowances, which are considered to be an integral part of fixed remuneration.
32. As this is outside the scope of its activities, the Bank does not grant mortgages or personal loans, nor does it guarantee special credit conditions to its employees in general. All lending operations are analysed in accordance with the policies and procedures in force for the granting of credit, and the specific provisions set out in the document 2.04 – Conflict of Interest Policy.

## **H. Remuneration of ICF Employees**

33. The level of remuneration of ICF employees shall be such as to enable the recruitment of qualified and experienced staff to carry out their duties, and the structure of remuneration shall be such as to reflect the nature of their responsibilities.
34. The remuneration of the employee responsible for each ICF shall be approved by the BoD after consultation with the SB and the RC.
35. The EC shall be responsible for approving the remuneration of other ICF employees, and the remuneration package shall be regularly assessed, at least annually, by the RC, the SB and the BoD.



36. Without prejudice to the provisions set out in 1.30 – Regulation of the Risk Management and Compliance Functions and in 1.31 – Internal Control Functions, whenever a variable component is determined for an ICF employee:
- i. The methods used to determine them must not compromise the objectivity and independence of the ICF employees;
  - ii. The variable part of the remuneration is determined separately from the business units controlled by the ICFs, in particular the performance resulting from business decisions in which the ICFs are involved;
  - iii. The criteria used to assess performance and risk are primarily based on the objectives of the ICFs, and may depend on the overall performance of the Bank;
  - iv. Given the nature of ICFs, the remuneration of ICF employees is predominantly fixed. The fixed component shall represent between 70% and 100% of the total remuneration. In determining the variable component, care shall be taken to ensure that the ratio between the variable and fixed components does not exceed 60% of the highest ratio established for the various functions;
  - v. The granting of variable remuneration, if any, shall be determined separately from the performance of the business areas in which the employees perform their control functions;
  - vi. The use of payment mechanisms through special purpose vehicles or other methods having equivalent effect is expressly prohibited;
  - vii. Without prejudice to applicable civil and labour law, the variable portion of the remuneration of ICF employees may be reduced or reversed by decision of the BoD in accordance with paragraph 17, xviii), c.), and the applicability of the criteria shall be reviewed by the BoD in consultation with the SB.
37. ICF employees are forbidden to use any mechanism, insurance contract or other means to cover risks or guarantee remuneration in order to mitigate the effects of the remuneration arrangements provided for in this Policy, in particular the alignment of the variable remuneration with risk. The granting of variable remuneration to ICF employees shall be subject to the assumption, at least in the form of a prior written commitment, that they will not use or enter into such mechanisms.

## **I. Critical Employees**

### **I.1. Critical Employee Identification Process**

38. The EC shall:
- i. Propose the “Policy on the Identification of Critical Employees”, which has been approved by the BoD and is attached to this Policy as Anexo A Policy on the Identification of Critical Employees;
  - ii. Design and ensure an annual self-assessment, in collaboration with the People and Culture Department (PCD), to identify all employees whose professional activities may have or have a significant impact on the Bank’s risk profile and should therefore should be identified as critical employees;
  - iii. Obtain the opinion of the CD and of the RD on the procedures referred to in the preceding sub-paragraph;
  - iv. Ensure that the identification of employees is carried out appropriately, in accordance with Commission Delegated Regulation (EU) No. 923/2021 and other applicable rules, regulations, guidelines and recommendations;
  - v. Suggest any significant exceptions or changes to the adopted policy and carefully consider and monitor their impact;
  - vi. Propose any exclusion from the critical employees classification , in accordance with Article 6(2) of the Commission Delegated Regulation No. 923/2021, if it considers that they do not meet the conditions to

satisfy the qualitative criteria defined in the said Regulation, provided that such employees do not have a significant impact on the institution's risk profile;

- vii. Periodically review the approved policy and propose changes as necessary.
- 39. The BoD is responsible for approving Anexo A | Policy on the Identification of Critical Employees, on a proposal from the EC and after obtaining the opinions referred to in sub-paragraph iii. of the preceding paragraph. The BoD may approve an exception to any of the principles set forth with respect to a particular employee or group of employees, stating the reasons for the exception.
- 40. The RC is responsible for overseeing and evaluating the critical employee identification process described in the preceding paragraphs, and for issuing an opinion whenever it deems appropriate.
- 41. The application of the principles set out in Anexo A. Policy on the Identification of Critical Employees is embodied in a list to be updated by the PCD.
- 42. Whenever the list is updated, the PCD shall send it to Compliance, so that it can be included in the documentation that Compliance keeps as evidence of the Bank's compliance with its remuneration obligations.
- 43. The EC shall submit a list of critical employees to the BoD upon request and at least on an annual basis, together with the Self-Assessment Report.
- 44. A review of the Critical Employee Identification Process and its results shall be carried out every year by the IAF or by an entity external to the institution, under the conditions defined in the Internal Audit Function's Multi-Year Plan.

## **I.2. Remuneration of Critical Employees**

- 45. The EC is responsible for approving and reviewing the remuneration structure of critical employees where there is no specific rule, as in the case of those responsible for the ICF employees referred to above, and their remuneration package is reviewed regularly, at least annually, by the RC and the BoD.
- 46. The principles and rules set out in this Policy for all other employees apply to critical employees.
- 47. In addition, Critical Employees are prohibited from using any mechanisms, insurance contracts or other arrangements designed to cover risks or guarantee remuneration and which are intended to mitigate the effects of the remuneration arrangements provided for in this Policy, in particular the alignment of variable remuneration with risk. The granting of variable remuneration to a Critical Employee shall be subject to at least a prior written commitment not to use or enter into such mechanisms.
- 48. The use of any payment mechanisms for Critical Employees through special purpose vehicles or other methods having equivalent effects is expressly prohibited.

## **J. Public Disclosure**

- 49. This Remuneration Policy is published on the Bank's website ([www.bancocarregosa.com](http://www.bancocarregosa.com)) and is available on request.

## **K. Transitional Provisions**

- 50. The remuneration provided for in paragraph 17 was first implemented in 2023 with reference to the 2022 financial year, following a phased implementation schedule, and shall be fully implemented with reference to the 2024 financial year.

## **Anexo A. Policy on the Identification of Critical Employees**

1. In accordance with Delegated Regulation (EU) 923/2021, the Bank shall establish a set of appropriate and clear qualitative and quantitative criteria to define, for the purposes of the Remuneration Policy, the categories of employees whose professional activities have a significant impact on the Bank's risk profile.
2. A Critical Employee is defined as anyone who meets one of the following criteria:
  - i. The employee is an executive member of the BoD;
  - ii. The employee is a non-executive member of the BoD or is a member of the SB;
  - iii. The employee is responsible for the Risk Department (RD), the Compliance Department (CD) or the Internal Audit Department (IAD);
  - iv. The employee is responsible for the coordination of commercial areas, the Private Banking Department (PBD), the Savings and Investment Department (SID) or the Finance Department (FD);
  - v. The employee is responsible for the Legal Department, the Accounting and Management Information Department, the People and Culture Department or the IT Department ;
  - vi. The employee is responsible for the Credit Department;
  - vii. Employees who report directly to the Board of Directors or, in the case of delegated management, to one of its executive members and who are not identified in accordance with the preceding paragraphs;
  - viii. The employee is an Assistant Director of Risk, Compliance or Internal Audit;
  - ix. The employee is an Assistant Director of the Private Banking, Savings and Investment or Finance Department;
  - x. Where the exemption for firms with small trading books provided for in Article 94 of Regulation (EU) No 575/2013 does not apply to the Bank, the employee shall:
    - a. Have the authority to make, approve or veto decisions on trading book transactions whose aggregate value reaches one of the following thresholds:
      - where the standardised approach is used, a market risk capital requirement equal to or greater than 0.5% of the bank's Tier 1 capital; or
      - Where an internal model-based approach has been approved for regulatory purposes, it represents 5% or more of the bank's internal threshold for trading book exposures at the 99% one-tailed confidence interval.
    - b. Be a member of a committee empowered to take the decisions referred to in sub-paragraph i.
  - xi. The employee undertakes management responsibilities over a group of employees who individually have the power to bind the institution in transactions, and one of the following conditions is met:
    - a. The sum of these powers is equal to or greater than the threshold defined in paragraph 10(i)(a);
    - b. Where an internal model-based approach has been approved for regulatory purposes, these powers shall be equal to or greater than 5% of the bank's internal threshold for trading book exposures at the 99% one-tailed confidence interval. If the Bank chooses not to calculate an exposure value for that employee, the threshold value for exposures for employees under its management shall be determined by addition.
  - xii. With regard to decisions to approve or veto the introduction of new products, the employee shall:
    - a. have the power to make such decisions; or
    - b. be a member of a committee with the power to make such decisions.

- xiii. The employee has managerial responsibility for an employee who meets any of the criteria set out in paragraphs iii. to xii.
- xiv. In the previous financial year, the employee received:
  - a. a total remuneration of €750 000 or more;
  - b. a remuneration higher than the average remuneration of the employees referred to in i. and ii.

