

REPORT ON COMPENSATION POLICY AND PRACTICES

CIB: 18553

Fiscal year 2021

Contents

1. Governance of the compensation policy.....	2
2. Main features of the compensation policy	2
3. Information on the compensation of effective managers and persons whose professional activities have a material impact on the company's risk profile.....	3
4. Transparency and audit of the compensation policy.....	3

1. Governance of the compensation policy

Given the size of CARAX's balance sheet, the principles of the compensation policy are defined by CARAX's Board of Directors, as there is no need to establish a specialised compensation committee, in accordance with Article 104 of the French Decree of 3 November 2014.

Moreover, in accordance with Autorité de Contrôle Prudentiel et de Résolution (ACPR) instruction no. 2016-I-27, CARAX is excluded from the scope of the new provisions introduced by the EBA guidelines on compensation policies.

Pursuant to Article 11 g) of the French Decree of 3 November 2014, the compensation policy and practices have been audited as part of the audit programme.

2. Key features of the compensation policy

▪ Criteria used to identify activities that may have a material impact on the company's risk profile

Three criteria have been defined:

- Activities that may result in the institution bearing market risk greater than or equal to €150k within the meaning of prudential regulations.
- The variable compensation threshold used to identify employees with a potential impact on Carax's risk profile is €150k.
- The quantitative and qualitative criteria as established by European Regulation 604/2014 of 4 March 2014, used to identify employees whose professional activities have a material impact on the institution's risk profile.

In view of its size, internal structure and the nature, scale and complexity of its business activities, the conclusion of the analysis conducted by Carax is that there are no activities conducted by its employees that have a material impact on its risk profile.

Carax conducts two activities:

- Matched Principal activity of fixed income products for institutional clients, based in Europe. This involves conducting simultaneous purchases and sales of securities. This is the only activity that may result in the institution bearing market risk, and only in the event of default by a counterparty to a transaction. It is a brokerage activity since the transactions (purchases and sales) are concluded simultaneously,
- Unsecured debt corporate finance for mid-caps and SMEs: As indicated by its name, this activity does not offer any security that the investment will be reimbursed and Carax does not therefore bear the corresponding risk.

These activities are conducted by separate departments and organisational and physical information barriers have been settled.

In view of the nature of these two activities, one being a brokerage activity and the other an unsecured activity, the variable compensation paid to employees, which is based on revenue, has no material impact on Carax's risk profile.

Carax has therefore introduced a fixed and variable compensation system that fully applies the principle of proportionality: without limitation, deferral or diversification.

▪ Guidelines on setting variable compensation

The variable compensation of employees in the fixed-income brokerage and corporate finance departments is based on qualitative and quantitative criteria.

The quantitative criteria are based on the individual performance of the employee or group, desk or company. Variable compensation is calculated using a method based on these criteria.

The qualitative criteria aim to significantly reduce variable compensation (potentially to zero) if compliance rules or internal rules are breached.

The quantitative criteria that can be used to calculate the variable compensation are:

- the employee's results,
- the results of the employee's department,
- the results of the company,

The qualitative criteria are:

- compliance with stock market regulations,
- compliance with internal procedures,

- compliance with risk management procedures.

This variable compensation may also be reduced (potentially to zero) if a loss occurs in the fiscal year.

- **Other functions**

The variable compensation of middle office employees is set independently of the compensation of the business lines whose transactions they validate or verify. Their compensation reflects the attainment of the specific objectives associated with their function and, to no extent, the performance of the operators whose transactions they verify or the profits of the business activities they verify.

Similarly, the variable compensation of employees in administrative, finance/accounting or IT support functions reflects the attainment of the specific objectives associated with their function and, to no extent, the performance of operators or the profits of the business activities. This variable compensation may also be reduced (potentially to zero) if a loss is incurred in the fiscal year.

3. Information on the compensation of effective managers and persons whose professional activities have a material impact on the company's risk profile

Carax's compensation policy is audited and is the subject of a report. It will be updated in 2022.

The audit of the compensation policy involved verifying that the principles and criteria described above were applied over the course of the past fiscal year.

The audit findings were as follows:

- Three employees are categorised as employees who conduct an activity that has a material impact on the institution's risk profile within the meaning of European Regulation 604/2014. They comprise the Manager, the desk manager and a salesperson.
- No proprietary trading employees generated significant losses;
- No employee who received variable compensation of €150K or more caused the company to incur specific risks;
- Employment contracts reflect the principles of the compensation policy;
- The possible allocation of exceptional bonuses did not affect the institution's risk profile.

Consequently, Carax, which applies the principle of proportionality, did not, in 2021, identify any risk takers among its employees.

4. Transparency and audit of the compensation policy

The findings of the audit of the compensation policy will be submitted to Carax's Board of Directors for its approval, sent to the ACPR once approved and published on Carax's website.