Aresbank

PRUDENTIAL RELEVANCE REPORT

2022

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Aresbank

Prudential Relevnce Report

December 31st 2022

ACRONYMS

ALCO Assets and Liabilities Committee

RWAs Risk-Weighted Assets

CET1 Common Equity Tier 1

CNMV Comisión Nacional del Mercado de Valores (Spanish Securities Market Regulator)

CRO Chief Risk Officer

EBA European Banking Authority

ECB European Central Bank

HQLAs High Quality Liquid Assets

eHQLA Eligible HQLA

ICAAP/ILAAP Report Internal Capital and Liquidity Adequacy Assessment Report

LCP Liquidity Contingency Plan

SREP Supervisory Review and Evaluation Process

IRRBB Interest Rate Risk in the Banking Book

IT Information Technologies

LCR Liquidity Coverage Ratio

RAF Risk Appetite Framework

MENA Middle East and North of Africa

NSFR Net Stable Funding Ratio

RAF Risk Appetite Framework

AML/CFT Unit Anti-Money laundering and Countering the Financing of Terrorism Unit

TSCR Total SREP capital requirements

AT2 Subordinated debt

OCR Overall capital requirement

AML/CFT Anti-Money laundering and Countering the Financing of Terrorism

ARESBANK PRUDENTIAL RELEVANCE REPORT

(31 December 2022)

CONTENTS

1. GENERAL REPORTING REQUIREMENTS

1.1. Introduction

The aim of this report is to comply with the reporting requirements laid down in Part Eight of Regulation (EU) No 575/2013 of 26 June and its subsequent amendment through Regulation (EU) No 876/2019; in Article 85 of Law 10/2014, of 26 June, on the regulation, supervision and solvency of credit institutions; in Article 93 of Royal Decree 84/2015, of 13 February, implementing the aforementioned Law; and in Rule 59 of Bank of Spain Circular 2/2016, of 2 February, to credit institutions, on supervision and solvency, which completes the adaptation of the Spanish legal system to Directive 2013/36/EU and Regulation (EU) No 575/2013. This legislation requires credit institutions to disclose, at least annually and duly integrated in a single document called "Prudential relevance report", specific information on data relating to their financial situation and activity that may be relevant for the market and other interested parties. The aim is to enable an evaluation of the risks they face, their market strategy, their risk control, their internal organisation and their financial position in order to comply with the minimum capital requirement set out in solvency legislation.

In accordance with the EBA/GL/2016/11 Guidelines, the information contained in this document complies with the principles of clarity, meaningfulness, consistency over time and comparability across institutions, describing the Institution's main activities and significant risks and providing quantitative and qualitative information on the Institution's processes and procedures for identifying, measuring and managing those risks. The Prudential Relevance Report has been verified prior to publication by the Internal Audit Department and approved by the Board of Directors as of 23rd June 2023.

This report will be presented annually and will be published on the Aresbank website (www.aresbank.es).

1.2. The Institution

The information presented in this report corresponds to the institution Aresbank, S.A. (hereinafter, "Aresbank" or "the Institution"), which was incorporated on 1 April 1975. The Institution is registered in the Companies Registry of Madrid in page No. 28,537, folio 18, entry 1 of Volume 3,740 of the General Companies Registry. Aresbank has been registered in the Special Register of Banks and Bankers of the Bank of Spain under number 0136 since 2 April 1975. Its tax identification number is A28386191.

Aresbank is a public limited company whose corporate purpose is set out in Article 3 of its Bylaws:

"The main purpose of the Institution is to contribute to the development of economic cooperation between Spain and Arab countries through the financing of foreign trade, the promotion of investments and the raising of funds from Arab and international financial markets in general.

Without prejudice to the above, the corporate purpose of the Institution is all activities related to banking operations permitted by Spanish law and not prohibited to banking institutions, except for the receipt of funds from natural persons, which will be limited to those that are involved in foreign trade operations with the Institution."

The share capital of Aresbank, S.A. as of 31 December 2022 amounts to EUR 300,000,960.00 and consists of 104,167 shares, each with a par value of EUR 2,880.00.

The registered address is located in Madrid, at Paseo de la Castellana 257, where the main office is located.

The Institution is part of a group of institutions headed by the Libyan Foreign Bank with registered office at Dat El Imad, Administrative Complex - Tower II - Tripoli - Libya, which in turn reports to the Central Bank of Libya.

1.3. Business Model and Strategy

Aresbank has total assets as of 31 December 2022 of EUR 1,283,849 thousand, equity of EUR 332,201 thousand (CET1 EUR 331,962 thousand) and off-balance sheet exposure of EUR 226,466 thousand. According to its Bylaws, its mission is to:

- Increase economic cooperation between Spain and the MENA area, financing foreign trade operations, promoting investments and raising funds in international markets.
- To identify and evaluate investment opportunities in new projects.
- To offer its expertise and technical know-how to carry out economic development programmes in the MENA area, helping to strengthen business relations in the region.
- To collaborate with Spanish financial institutions and other institutions in the task of channelling financial resources from the MENA region.

- Core business lines

Aresbank's core business lines according to the EBA methodology (EBA Op / 2015/05) are as follows:

Business Line	Sub-line
Foreign trade	Issuing, notifying and confirming documentary credits
	Collecting import and export payments
	Foreign trade financing
	Issuance of guarantees and collateral
Financing	Bilateral loans and credit to companies and banks
	Syndicated loans
Interbank financing	Interbank market transactions

Aresbank's activity is structured around the following business areas:

- Foreign trade: Aresbank channels international commercial transactions through various banking products. Although it mainly act as an intermediary in transactions aimed at meeting Libya's needs for goods and services, it is also involved in transactions involving other countries. The main products included in this line of activity are documentary credits, documentary remittances, payment orders, etc.

- Financing: Aresbank offers financing to its customers and does so through two different channels. Firstly, it offers advances, pre-financing or post-financing associated with the foreign trade products discussed in the previous point. Secondly, it provides direct corporate financing to companies.

- Interbank borrowing: Aresbank operates as an intermediary between MENA institutions and Europe.

2. GOVERNANCE, MANAGEMENT AND RISK CONTROL FRAMEWORK

Banking entails a series of risks that need to be measured, controlled and managed appropriately, ensuring that the resources necessary for this function are available at all times.

In order to provide a comprehensive structure to risk management and its documentation, the Board of Directors annually approves the Risk Appetite Framework (RAF). This framework reflects and limits the objective risk profile on the basis of the requirements and recommendations made by supervisors and best market practices.

Aresbank has set up a risk management structure based on three lines of defence. The aim of the structure is to ensure that the Commercial Department acts as the first line of defence, the Global Risk Control Department and the Regulatory Compliance area are the second line of defence and the Internal Audit Department is the third line of defence. This structure is geared towards complying with the principles set out in the Risk Appetite Framework and avoiding possible conflicts of interest arising from the Institution’s activity.

Aresbank’s Board of Directors is involved in all areas related to the Risk Appetite Framework as it is the Board that sets the Institution’s risk culture and ultimately ensures compliance with the appetite, transmitting the risk policy throughout the organisation. Following a prior assessment by the Risk and Compliance Committee, any significant modification due to changes in the business or the current economic and financial situation must be approved by the Board of Directors. The Board of Directors is therefore ultimately responsible for setting Aresbank's risk appetite, monitoring the effective risk profile and ensuring consistency between the two. Furthermore, it will ensure that the risk appetite is transmitted to all the Institution’s business units and departments, and it will assign sufficient resources for managing and controlling said risks and ensuring they are in line with the Risk Appetite Framework.

Aresbank's Risk Appetite Framework was approved by the Board of Directors on 29 March 2022 and is reviewed annually in accordance with current regulations.

2.1. Risk appetite statement

With the objective of ensuring prudent management of its risk and ensuring recurring and stable results over time, Aresbank aims to maintain a medium-low level of overall risk. The appetite and tolerance towards the risk assumed in the performance of its activity will be in line with the following general principles:

- Prudent strategies, policies, organisation and management systems appropriate to the size, scope and complexity of the Institution's activities, based on quality banking practice.
- Respect and compliance of the Institution's actions with current regulations, ensuring proper compliance at all times. It also monitors new regulatory developments so that it can implement them properly in the Institution.
- Safeguarding results by controlling risk at the level of individual, group and economic sector exposures, in accordance with the Institution's risk objective.
- Maintaining a low level of market risk so that any losses generated in stress scenarios have a limited impact on the Institution’s income statement.
- Maintaining a low level of interest rate risk, so that there is no gap sensitive to interest rate changes.
- Prudent credit risk management, through investments in counterparties with proven creditworthiness.

- Adequate and sufficient availability of human resources, systems and tools to ensure the maintenance of a risk profile compatible with the established risk appetite.
- Independent internal control functions that guarantee a strong risk culture and compliance with current legislation.

The Board of Directors, within the legal framework of Basel III, established in Europe through Directive 2013/36 and Regulation 575/2013 (and subsequent amendments), supervises the information disclosure process through approval of the Prudential Relevance Report, published on an annual basis, as well as communications with third parties with interests in the Institution, including the competent authorities.

2.2. Structure and organisation of the risk management function

Aresbank has implemented an adequate and transparent organisational and functional structure in which the internal control functions are independent of the decisions of the business lines they control, with an appropriate segregation of duties, with the necessary financial resources and sufficient staff with appropriate skills to effectively carry out their functions.

Therefore, the Institution's structure does not compromise the ability of the Board of Directors to effectively oversee and manage the risks faced by the Institution, or the ability of the competent supervisory authority.

Board of Directors

In accordance with the provisions of the Bylaws, the Institution's governing bodies are the General Shareholders' Meeting and the Board of Directors, whose activities are regulated in its own Regulations.

The specific responsibilities of the Board of Directors in relation to internal governance include the approval of all policies covering the general management of the Institution, the risk management inherent to the activity carried out by Aresbank and the establishment, approval and supervision of the general business strategy and its financing. Furthermore, it regularly monitors, through the various committees, the aforementioned strategies and policies, addressing any identified shortcomings. The members of these committees are appointed on the basis of their suitability, taking into account their knowledge, skills, experience and the tasks of each committee.

Specifically, in relation to financial year 2022, Aresbank's Board of Directors has carried out the following activities related to risk control:

Activities	Date
Approve the Risk Appetite Framework for 2022	29/03/2022 (approved by the Board of Directors)
Review of the “Risk Report” sent by the Global Risk Control department	At each meeting of the Board of Directors
Review of Risk Appetite Framework metrics	At each meeting of the Board of Directors
Review of the Anti-Money Laundering Report	At each meeting of the Board of Directors
Reviewing the 2022 Annual Report on Anti-Money Laundering	16/03/2023 (presented in the Risk and Compliance Committee)
Reviewing the 2022 Annual Report of the Customer Service Department	16/03/2023 (presented in the Risk and Compliance Committee)
Approving the Anti-Money Laundering Self-Assessment Report	17/03/2023 (approved by the Board of Directors)
Reviewing the results of the External Expert Anti-Money Laundering Report for 2022	28/02/2023 (presented to the Board of Directors)
Approving the Anti-Money Laundering Action Plan	29/03/2022 (approved by the Board of Directors)
2022 Budget Approval	10/05/2022
Approval of updates to the following documents: • Anti-Money Laundering Manual • Credit Risk Management Framework • Internal Government Policy	11/11/2022 27/01/2023 17/03/2023

Risk and Compliance Committee

In accordance with the Regulations of the Board of Directors, a Risk and Compliance Committee has been established. This is a non-executive Committee that reviews the Institution's risk strategy, as well as compliance with current legislation.

In 2022, the Committee was made up of four members, all of all of which were non-executive, with the chairman being an independent director.

The functions can be divided into two major blocks:

- Risks:

- Supervising the Global Risk Control Department and ensuring its independence and effectiveness.
- Approving the selection, nomination and re-election or change of the person responsible for Global Risk Control.
- Supporting the activities carried out by Global Risk Control and receiving periodic information on its activities.

- Analysis and decision-making in response to the internal risks in all areas of the Institution identified by Global risk Control.
- Ensuring that the proposals made by Global Risk Control are properly addressed by the General Management.
- Evaluating the staffing needs of the Global Risk Control Department in order to enable implementation of the approved risk policies.
- Proposing to the Board of Directors any changes to improve risk policies.
- Informing the Board of any problems arising from the different risks assumed.

  - Compliance:

- Supervising the Regulatory Compliance function and ensuring its independence and effectiveness.
- Approving the selection, nomination and re-election or change of the person responsible for the Regulatory Compliance, Organisation, Methods and Digitisation Department.
- Receiving regular information about its activities.
- Supervising the control of anti-money laundering manuals and procedures and, in general, on corporate governance and regulatory compliance standards.
- Checking that the General Management takes into account the conclusions and recommendations included in its reports.

Audit Committee

In accordance with the Regulations of the Board of Directors, an Audit Committee has been established. This is a non-executive committee that reviews the Institution's audit strategy. The Audit Committee has the primary responsibility of supervising the process of preparing and filing the mandatory financial reporting and ensuring that the financial information made available to the Board of Directors is accurate, complete and presents a true and fair view of the Institution.

The Audit Committee was comprised of three directors in 2022, all of which were non-executive. The Committee is chaired by an independent advisor with knowledge and experience in accounting and auditing techniques and principles.

The main functions of the Committee may be divided into two major blocks:

  - Internal Control:

- Reviewing the periodic financial reporting before it is issued, ensuring that it is prepared according to the same principles and practices that are applied in the annual accounts.
- Supervising the process of preparing and integrating the Institution's financial and accounting information, checking compliance and proper application of accounting criteria in accordance with current legislation.

- Supervising the mechanism that allows employees to confidentially and, if appropriate, anonymously report potentially significant irregularities. Especially in relation to any financial and accounting irregularities within the Institution of which they become aware.

  - Internal Audit:

- The Internal Audit Department will respond to requests for information received from the Audit Committee as part of the fulfilment of its obligations.
- Supervising the Internal Audit Department and ensuring its independence and effectiveness.
- Approving the selection, nomination and re-election or change of the person responsible for the Internal Audit Department.
- Receiving regular information about its activities.
- Checking that the Institution's Management takes into consideration the conclusions and recommendations included in its reports.

Specialised executive committees

In addition to the Board of Directors and its delegated committees, Aresbank also has specialised executive committees.

These Executive Committees are detailed below, without prejudice to certain exceptional Committees that may be set up in certain specific circumstances.

- Administration and Purchasing Committee
- Commercial Committee
- Assets and Liabilities Committee (ALCO)
- Internal Control Body (ICB) – Special Committee on Anti-Money Laundering.
- New Products Committee
- Credit and Investments Committee

Of these executive committees, the following have the greatest impact on the Institution's risk management:

  - ALCO:

The committee for monitoring and controlling liquidity and financing is the Assets and Liabilities Committee (ALCO). Its functions include the following:

- Managing financial assets and liabilities.
- Verifying that the Institution has the necessary resources to comply with the annual business budgets.
- Ensuring compliance with the minimum regulatory requirements (LCR and NSFR) in relation to liquidity risk.

- Minimising cash management risks.
- Analysing the impact of the changes in the economic/financial environment on the Institution's assets and liabilities under various scenarios.

Liquidity and financing are managed through an organisational structure with a clear segregation of the functions and responsibilities of each of the lines of defence. The aim is to prevent conflicts of interest and apply risk management that enables compliance with the risk appetite approved by the Board of Directors, as shown below:

Board of Directors		
Assets and Liabilities Committee (ALCO)		
1st Line of Defence	2nd Line of Defence	3rd Line of Defence
Treasury and Capital Market	Global Risk Control	Internal Audit
- Taking day-to-day responsibility for liquidity management - Analysing the maturities of asset and liability flows on a daily basis. - Accessing the markets to trade products in line with the authorised limits - Informing the ALCO of the key aspects for liquidity management - Ensuring compliance with the policy, as well as with the applicable established requirements regarding liquidity and financing risk - The Commercial and Operations Departments must inform the Treasury and Capital Markets Department of the planned and unplanned cash inflows and outflows	- Following up on the defined risk metrics and limits, informing the ALCO and the Risk and Compliance Committee in the event that the thresholds set out in the RAF are exceeded. - Advising the ALCO on the identification, materiality and management of the different liquidity risk categories - Development of models and methodologies for measuring liquidity and financing risks - Coordination in defining scenarios and analysing impact in stress situations. - Preparing liquidity risk reports and reviewing their consistency and completeness for submission to the ALCO	- Reviewing the suitability of the controls which, among other purposes, must guarantee the accuracy and completeness of data and information, including the capacity of the tools necessary to perform this function. - Leading the periodic review of the Institution's liquidity and financing management processes - Evaluating compliance with liquidity and financing policies and processes and informing the Audit Committee about any non-compliances

Cross-cutting Areas	
Information Systems and Technologies	Accounting
- Providing the necessary data structure for managing liquidity risk	- Generation of accounting information (asset, liability, and equity data) as well as the necessary metrics for liquidity management - Reporting of regulatory metrics: LCR and NSFR

- Credit and Investments Committee

The Credit and Investment Committee has the objective of analysing credit and investment operations in accordance with the delegations set out in the Credit Policy Framework for said body. It is also responsible for monitoring the credit portfolio, ensuring that the situation of borrowers remains within the parameters existing at the time the risk was initially granted and reviews and manages other risks to ensure that they are in line with the Institution's Strategy and Risk Appetite Framework.

The Credit and Investment Committee is made up of four members:

- The General Manager
- The Deputy General Manager
- The Commercial Director
- The Chief Risk Officer (CRO)

The Credit Policy Framework has a broad scope within the Institution, since it affects the admission, monitoring and management of credit risk. This policy is aligned with the Risk Appetite Framework (RAF) authorised by the Board of Directors, with the ultimate aim that financing should be granted to borrowers who are able to meet their economic and financial obligation under the contractual terms and conditions.

o Internal Control Body (ICB)

In compliance with the provisions of Article 26 *ter* of Law 10/2010 of 28 April and Article 35 of Law 304/2014, Aresbank has an Internal Control Body (ICB) responsible for implementation of anti-money laundering and countering the financing of terrorism procedures. The ICB is a collegiate body chaired by the Representative to SEPBLAC, who is appointed by Aresbank's Board of Directors. The other members are appointed based on their role and their relation to the fulfilment of obligations related to AML:

- Aresbank's representative to SEPBLAC, who chairs the ICB
- Head of Anti-Money Laundering and Countering the Financing of Terrorism
- Director of the Legal Department
- Chief Risk Officer (CRO)
- Commercial Director
- Operations Director
- Systems Director
- Branch Directors

The main functions of the Internal Control Body (ICB) are as follows:

- In compliance with the provisions of Article 25 of Royal Decree 304/2014 on the special examination of transactions, the ICB will be the body responsible for deciding on the reporting of suspicious transactions to SEPBLAC
- Proposing improvements to the control measures to ensure AML/CFT in the Institution.
- Reviewing and, as the case may be, approving the documentation relating to AML/CFT, including the AML/CFT Manual, the Anti-Money Laundering and Countering the Financing

of Terrorism Self-Assessment Report, the Annual Report and Annual Action Plan, the Annual External Expert Report, etc.

- Scheduling internal AML/CFT orientation and training courses or activities.
- Monitoring compliance by the Institution's employees with AML/CFT obligations.
- Delegating to other bodies as many functions as it deems appropriate in anti-money laundering and countering the financing of terrorism, keeping records of documents and reports sent to other senior management bodies. The ICB has delegated this task to the AML/CFT Unit.

In compliance with Article 26.1 of Law 10/2010, Aresbank's Board of Directors approves the policies on due diligence, information, document retention/storage, internal control, risk evaluation and management, guarantee of compliance with the relevant provisions and reporting, with the primary objective of preventing and blocking transactions related to money laundering and terrorist financing, with this being mandatory for all the Institution's employees.

Global Risk Control

The European Banking Authority (EBA), through its EBA/GL/2021/05 guidelines, lays down the need for comprehensive risk management that encompasses the entire organisation, which takes the form of a three lines of defence structure and a Risk Appetite Framework.

The main functions of Global Risk Control, which makes up the second line of defence, within the scope of risk control are as follows:

- Actively engaging in the preparation of the Institution's risk strategy and the implementation of effective procedures for managing and mitigating all risks, including the approval of new products and significant changes in existing products, processes and systems.
- Monitoring and mitigating all risks that affect the Institution's risk profile.
- Evaluating the strategies and risk appetite of the business units, including the objectives proposed by the business units, and getting involved before the management body makes a decision on such strategies and risk appetite.

2.3. Global risk profile

In its aim to ensure prudent risk management, Aresbank seeks to obtain recurring and stable results over time, while maintaining a medium-low overall risk level.

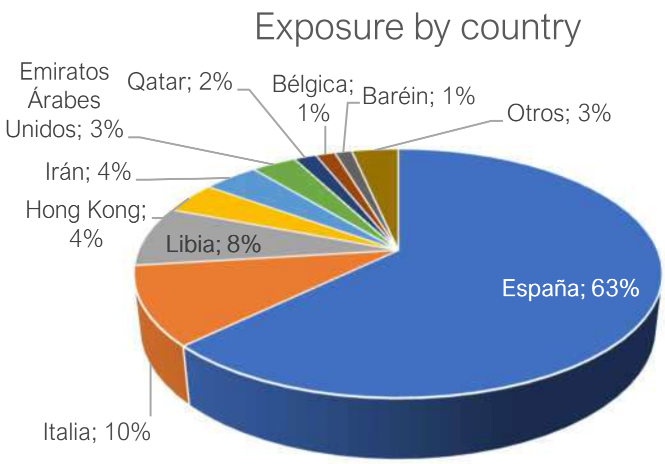
As of 31 December 2022, Aresbank has the following capital indicators, calculated in accordance with current regulations:

Indicators	31/12/2020	31/12/2021	31/12/2022
Total Capital Ratio	59.9%	58.2%	54.5%
CET1 ratio	59.9%	58.2%	54.5%
Leverage Ratio	28.7%	22.0%	23.8%

Credit risk

This is the possibility of loss arising from a debtor's failure to meet its contractual obligations. As of 31 December 2022, Aresbank's total exposure to credit risk amounted to EUR 1,517,200, corresponding to credit risk-weighted assets of EUR 569,719 thousand.

At year-end 2022, 75% of Aresbank's credit risk exposure is concentrated in Europe, including Spain:



The quality of the exposure to credit risk is adequate, with a low level of non-performing exposures (0.24% at year-end 2022).

The following can be concluded from the information shown:

- The nature and composition of the credit risk exposure implies a low risk.
- Exposure to complex operations and products is low.
- The level of non-performing and forborne exposures is low.
- The credit risk of performing exposures is low.
- Coverage of non-performing assets is high.

- Processes, methods and systems for measuring and assessing risks

The Credit Policy Framework establishes the set of credit risk monitoring and control procedures that allow the Institution to manage its credit risk exposures in line with its appetite and strategy. These procedures are backed by a robust data infrastructure to ensure that information on credit risk exposures, borrowers and guarantees is adequate and kept up-to-date. These data are integrated into the risk management, and in turn, fulfil the requirements of the authorities in relation to the regular reporting of prudential and statistical information, in addition to being used for conducting stress tests.

In accordance with the principles of proportionality set out in the EBA/GL/2018/06 Guidelines, the Credit and Investment Committee has been assigned the management of non-performing exposures, since it integrates the Institution's first and second lines of defence. This Committee will have, if necessary, reports from the Institution's other areas, especially the Legal Department, to allow it to better understand and manage the exposure.

Concentration risk

Concentration risk is the possibility of incurring losses due to significant exposures that are interrelated and whose probability of default is subject to common risk factors, such as sector of activity or geographical location.

In accordance with current legislation, no customer or economic group may account for a risk of 25% Institution capital. Where that customer is a financial institution or where the group of connected clients includes one or more financial institution, this figure may not exceed 25% of the institution's eligible capital or EUR 150 million, whichever is higher.

As a consequence of its activity and the main function described in its Bylaws, concentration risk is a relevant risk for Aresbank. However, the following aspects should be considered in relation to this risk:

- They derive from the Institution's strategic mission, which consists in increasing economic cooperation between Spain and the MENA area, financing foreign trade operations, promoting investments and raising funds in international markets.
- The high credit quality of the counterparties mitigates the risk assumed.
- Appropriate management procedures (structure of limits, monitoring and reporting) have been implemented to control this risk, including the Risk Appetite Framework and regular risk reporting.
- The concentration of sectors of activity remains at acceptable levels.

Market risk

Market risk is the risk of incurring losses due to changes in the market price of financial assets held in the portfolio.

With the aim of mitigating market risk, Aresbank performs the following actions:

- Monitoring of positions according to the defined strategy, including trading volume.
- Regular reporting to the ALCO and the Risks and Compliance Committee on portfolio positions as part of the Institution's risk management process.

- The positions are monitored using generally accepted sources of information (Bloomberg or Reuters) as a reference. Liquidity and possible hedges of risk are also assessed.

The Treasury and Capital Markets department is responsible for ensuring compliance with the rules and procedures laid down in the Market Risk Policy. The Global Risk Control department is responsible for monitoring the risk of the Trading Book in order to identify trends, concentrations and other significant risks, monitor the market value of financial assets and, lastly, oversee proper application of the Institution's policies. The trading book strategy is approved by the Board of Directors, while its implementation will be regularly reviewed by the ALCO.

Banking book risk

The main banking book risk is interest rate risk, which is defined as the current or future risk to both the recurring margin and the economic value of an institution resulting from fluctuations in interest rate sensitive instruments.

Aresbank monitors interest rate risk arising from the banking book (IRRBB) on a regular basis. As a result of Aresbank's business model, the Institution has a banking book in which most of the maturities are less than one month. This means that the repricing of assets and liabilities in the event of interest rate fluctuations is very short-term, thus mitigating banking book risk.

Liquidity risk

This is the risk of incurring losses arising from the inability or impossibility of having sufficient liquid resources to meet committed or unexpected payment obligations in a given time horizon.

Aresbank has a Liquidity Risk Policy approved by the Board of Directors aimed at meeting the targets defined in the Risk Appetite Framework in terms of liquidity indicators. Aresbank uses the following indicators as benchmark metrics for managing the Restriction’s liquidity and financing:

- Liquidity Coverage Ratio (LCR)
- Net Stable Funding Ratio (NSFR)
- Survival horizon

Financing and liquidity policies

Aresbank has a Liquidity Risk Policy which provides guidelines for:

- Setting the functions and responsibilities of the different departments that are directly involved in the management and control of liquidity and financing risk.
- Setting general criteria for identifying, quantifying, monitoring, auditing and managing liquidity risk in order to ensure consistency between commercial activities, traceability and consistency of methodologies and risk management.
- Defining the liquidity risk management indicators used by the Institution, in addition to the regulatory ratios.

Aresbank's Financing Plan is consistent with the principles set out in the Liquidity Risk Policy, which lays down the criteria governing liquidity risk management, including:

- Management of the maturity gap, checking that a positive liquidity gap is generated in the time horizon under consideration.
- The Institution has individual, sectoral and geographical concentration limits that control diversification in the banking book, limiting Aresbank's risk.
- Pursuing a conservative investment approach for the asset pool, focusing its lending activity on counterparties of recognised creditworthiness.
- Maintaining a strong cash position in central banks and a fixed income portfolio eligible as HQLA.

- Financing structure

At year-end 2022, Aresbank had a volume of deposits of EUR 943,490 thousand, of which 86% were in foreign currencies (mainly USD) and 14% in euros.

With regard to the type of liability instrument, Aresbank has the following financing structure at year-end:

Financing source	Total
Deposits of financial institutions	907,075
Customer deposits	36,415
Total financing	943,490

- Maturity gap

An analysis is made of the evolution of the maturity gap, which refers to the difference between the inflows and outflows of financing in the Institution, linked to the different terms.

Term	<1 week	Between 1 week and 1 month	Between 1 and 2 months	Between 2 and 3 months	Between 3 and 4 months	Between 4 and 5 months	> 5 months
Asset Maturities	631,850	120,929	152,977	9,507	4,453	2,788	282,824
% Inflows	*52.4%*	*10.0%*	*12.7%*	*0.8%*	*0.4%*	*0.2%*	*23.5%*
Financing Maturities	563,751	103,560	183,352	-	-	-	94,787
% Outflows	*59.7%*	*11.0%*	*19.4%*	-	-	-	*10.0%*
Diff.: Inflows – Outflows	68,099	17,369	-30,375	9,507	4,453	2,788	188,037
Cumulative GAP	*68,099*	*85,468*	*55,093*	*64,600*	*69,053*	*71,841*	*259,878*

Aresbank has a maturity structure focused on the short-term in both its assets and liabilities, maintaining cumulative positive gaps in all periods. This allows it to be highly adaptable to changes in market circumstances.

- Main liquidity indicators

The liquidity risk strategy is integrated into the Institution's strategy and the Risk Appetite Framework in terms of liquidity indicators. The main metrics and thresholds set by the Institution are as follows:

Ratio	31/12/2022
Liquidity Coverage Ratio (LCR)	129.5%
Net Stable Funding Ratio (NSFR)	114.7%
Survival horizon	>12 months

The LCR and NSFR ratios are above the regulatory requirement of 100%.

To reach the target level of the survival horizon, Aresbank carries out prudent cash flow management. This ensures that the expected cash outflows are covered by new inflows. The aim is to ensure that the cumulative gap over the different time horizons is positive. At year-end 2022, the Institution's survival horizon is greater than one year.

- Intra-day liquidity risk management

Aresbank is exposed to intra-day liquidity risk as a result of potential operational mismatches in its expected liquidity inflows. In the event of an unexpected mismatch, Aresbank has sufficient liquid assets available to cover it, given the excess of liquid assets with respect to the LCR requirements.

The following process has been implemented in order to manage intra-day liquidity:

  - Early identification of significant gaps or significant concentrations of outflows and the time which they may take place.
  - Management of the timing of inflows and outflows with the aim of minimising any gaps that may occur throughout the day.
  - Identification of significant concentrations in the expected inflows and outflows with the aim of anticipating possible actions in the event of any mismatches between them.

- Liquidity Contingency Plan

Aresbank has developed a Liquidity Contingency Plan (LCP) in order to have in place a procedure specifying the strategies to be adopted in the event of a liquidity shortfall in stress situations.

The LCP would be activated in the event of non-compliance with the liquidity metrics of the Risk Appetite Framework, other internal management indicators or in the event of any exceptional situation related to developments in the business or financial markets that make a material risk to the liquidity and financing position likely.

The Assets and Liabilities Committee (ALCO) is the body responsible for analysing current or potential events that might place the Institution at risk, detecting when any of the indicators deviates from the target level.

In the event that these deviations reach the levels set out in the LCP, an escalation process is to be initiated up to the Board of Directors, which will take one of the following decisions:

- Activate the contingency plan and agree on measures to restore the Institution's liquidity profile to the target situation.
- Accept the situation as transitory, duly justifying the decision not to activate the contingency plan.

Operational risk

This is the possibility of suffering losses due to the inadequacy of processes, systems, technical equipment, human teams, or failures within them, as well as due to external events.

The objective of controlling and managing Aresbank's operational risk focuses on identifying, measuring, evaluating, controlling, mitigating, and reporting operational risk. The priority is therefore to identify and minimise operational risk events.

- Mitigation

Aresbank has defined the following measures to mitigate and reduce operational risk:

- A Policy based on current regulations and good risk management practices.
- Internal procedures for the control of the Institution's activities, which allow it to adapt to any event.

- Organisation of operational risk functions

Aresbank has established three lines of defence for effective management and control of operational risk.

The three independent lines of defence are:

- First line of defence: all the areas of the Institution that are related to business acquisition and operations management and those that provide functional support to the performance of the activity.

- Second line of defence: Global Risk Control comprises this second line of defence, independent of the first, which will help to establish the necessary controls and analyse the operational risk situation to which the Institution is exposed.
- Third line of defence: The Internal Audit Department reviews the effectiveness of the management and control of operational risk by the first and second lines of defence.

3. CAPITAL

The current legislation on capital and supervision of Spanish credit institutions comprises Directive 2013/36/EU of the European Parliament and of the Council on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, Regulation 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms and its subsequent amendments, Law 10/2014 on the regulation, supervision and solvency of credit institutions, Royal Decree 84/2015 implementing said law and Bank of Spain Circulars 2/2014, 3/2014, 2/2016 and 3/2019.

In accordance with Part Eight of Title One of EU Regulation 575/2013 and Article 85 of Law 10/2014, institutions must publish, at least annually, relevant information to allow adequate understanding of their business profile, their policies and objectives in terms of risk management, and a breakdown of their exposure to the different risks and the composition of their capital base.

In application of Article 68.2.a) of Law 10/2014, the Bank of Spain requires Aresbank, S.A. to maintain a total capital ratio (or ratio of total SREP capital requirement – TSCR, as defined in section 1.2 of the EBA/GL/2014/13 guidelines) of 14.17% at the individual level, which includes:

- The minimum total capital ratio of 8% required by Article 92(1)(c) of Regulation (EU) No. 575/2013, which the Company must maintain at all times.
- A capital requirement of 6.17% to be held in excess of the minimum, pursuant to Article 69.1 of Law 10/2014, which the Company must maintain at all times, of which 56.25% must be met with Common Equity Tier 1 (CET1) and 75% with Tier 1 capital (CET1) at least, pursuant to Article 94(6) of Royal Decree 84/2015.
- Finally, it also requires a Pillar 2 guidance of 2.75%, above the OCR level, met by eligible capital of CET1.

As of 31 December 2022, Aresbank maintained a CET1 capital ratio of 54.5%, comfortably meeting this requirement.

Indicators	31/12/2020	31/12/2021	31/12/2022
Total Capital			
Common Equity Tier 1 (CET1)	341,407	342,619	331,962
Common Equity Tier 2 (AT2)	-	-	-
Risk-Weighted Assets (RWA)	569,879	588,323	609,469
CET1 ratio	59.9%	58.2%	54.5%
Total capital ratio	59.9%	58.2%	54.5%

Regarding the SREP letter received in December 2022 on the capital levels to be maintained as from 1 January 2023, Aresbank complies with all the requirements made by the Bank of Spain. Aresbank's eligible capital had the following composition (figures in thousands of euros):

Total Capital	2022
Capital	300,001
Retained Earnings	23,280
Other reserves	20,354
ACCUMULATED OTHER COMPREHENSIVE INCOME	- 1,313
Other adjustments	-239
Profit (loss) for the year	-10,121
Total	331,962

Thousand euros

4. CAPITAL REQUIREMENTS

As of 31 December 2022, Aresbank's capital requirements were as follows:

Risk type	Risk sub-type	Material	Approach	Regulatory Capital / Pillar I 2022	Internal Capital/ 2022
Credit Risk	Credit Risk	✓	Pillar I	45,578	45,578
	Foreign currency risk	✗	Loans vs. total		
	Country Risk	✓	Change 10% CET1 ratio		
Credit Concentration Risk	Single Name Conc.	✓	BoS Approach	-	30,753
	Sectoral Conc.	✓	BoS Approach	-	319
Market Risk	Market Risk	✗	Pillar I	-	
	Exchange Rate Risk	✗	FX vs OFs		
IRRBB		✗		-	
Operational Risk	Operational Risk	✓	Pillar 1	3,180	3,180
	Legal Risk	✗		-	636
	Technology risk	✗			
	Reputational risk	✗			
Business Risk		✓	Observed historical deviation	-	5,844
TOTAL				48,758	86,310
Total capital allocated to Pillar I risks				48,758	48,758
Total capital allocated to Pillar II risks				-	37,552

Thousand euros

The total value of the Institution's CET1 instruments and Total Capital is EUR 331,962 thousand. Accordingly, a comparison of these figures with the capital requirements shows that the Institution has leeway to meet its regulatory and internal capital requirements:

	Capital Requirements	Aresbank Total Capital*	Capital Buffer
Regulatory Capital	48,758	331,962	283,204
Internal Capital	86,310		245,652

**As of 31/12/2022, Aresbank's total capital is categorized as CET1.* *Thousand euros*

4.1. Minimum requirements for credit risk

The minimum requirements for credit risk as of 31 December 2022 have been calculated by applying the standard method in accordance with the provisions of European Regulation 575/2013 and other current regulations:

Exposure Category	Exposure	RWAs	Capital (8%)
Central Governments and Central Banks	180,033	3,046	244
Public Sector	45,000	11,250	900
Institutions	804,596	206,237	16,499
Corporates	373,761	290,697	23,256
Retail	25,234	18,360	1,469
Exposures secured by mortgages on immovable property	16,294	5,703	456
Exposures in default	3,737	2,488	199
Collective Investment Undertakings	0	0	0
Other	68,545	31,938	2,555
Total	1,517,200	569,719	45,578

Thousand euros

4.2. Requirements for concentration risk

The evaluation of capital needs for credit concentration risk has been carried out by calculating the sectoral and single name concentration indices using the simplified option proposed by the Bank of Spain.

As indicated in the Bank of Spain's ICAAP guide, the Institution's total direct risk in the EU has been used for the calculation of the concentration indices. Risk exposures to the General Government or deposit institutions, securitised assets or derivatives risks have not been included.

Single name concentration risk

	Definition
Definition	Possibility of material losses, due to the concentration of risk in a given borrower or in a group of linked borrowers.
Regulatory reference	Guidelines on common procedures and methodologies for the SREP; Regulation (EU) 575/2013.
Materiality criteria	Single Name Concentration Index defined by the Bank of Spain in the ICAAP Guide.
Materiality threshold	According to the methodology proposed by the Bank of Spain, the Single Name Concentration Index must be less than or equal to 0.10.
Figure	Single name concentration index: 10.90
Materiality	Aresbank considers the single name concentration risk to be material

Aresbank's single name concentration ratio is 10.90, which implies additional capital requirements for this risk of EUR 30,753 thousand. There has been an improvement on the previous year:

SNCI	2020	2021	2022
	11.52	13.35	10.90

Sectoral concentration risk

Evaluated aspect	Definition
Definition	Possibility of material losses stemming from the concentration of risks in a group of borrowers whose main source of income is linked to the same economic sector.
Regulatory reference	Guidelines on common procedures and methodologies for the SREP; Regulation (EU) 575/2013.
Materiality criteria	Sectoral Concentration Index defined by the Bank of Spain in the ICAAP Guide.
Materiality threshold	According to the methodology proposed by Guide, when the Sectoral Concentration Index is lower than or equal to 18, it is not considered material.
Figure	Sectoral Concentration Index: 22.62
Materiality	Aresbank considers the sectoral concentration risk to be material

Aresbank's Sectoral concentration index is 22.62, which implies additional capital requirements for this risk of EUR 319 thousand. The following table shows the distribution of exposure by sector:

Sector	Exposure
BRC. Real estate	42,314
MAT. Raw materials	16,000
IND. Processing and manufacturing industries	-
CNB. Consumer discretionary	31,011
CIT. Telecommunication and ICT services	137,945
SCP. Business and professional services	-
PPN. Staple products	45,048
SAL. Health and healthcare	10,150
SUP. Public utilities supplies	7,670
ENE. Fossil Fuels	3,658
TRL. Transportation and Logistics	53
FNB. Non-banking financial services	49,880
Total	343,730

Thousand euros

4.3. Minimum requirements for operational risk

Aresbank has followed the Basic Indicator Approach to assess the Pillar I capital requirements associated with operational risk. The capital requirement is thus set at 15% of the three-year average of the indicator defined in Article 316 of Regulation 575/2013.

As a result, the capital requirement for operational risk at year-end 2022 amounted to EUR 3,180 thousand.

Due to prudential principles, Aresbank, for the purposes of Pillar II, has decided to allocate an additional amount reflecting its potential exposure to sub-types of operational risk, such as risk arising from ICT systems and reputational risk, despite these being deemed immaterial.

For this purpose, it has applied 3% of the Pillar I capital requirements distributed as follows:

Operational risk sub-type	Distribution	Capital 2022
Legal risk	25%	159
Technology risk	30%	191
Reputational risk	45%	286
Total	100%	636

4.4. MREL

In 2021, pursuant to Article 44(1) of Law 11/2015, the Bank of Spain required Aresbank to maintain minimum requirement for capital and eligible liabilities (MREL) of not less than 13.21% of the total amount of the risk exposure and not less than 3% of the leverage ratio exposure. In accordance with the third transitional provision of Royal Decree 1012/2015, this requirement will be met no later than 1 January 2024. An update of this requirement was received in 2023, raising the capital requirement to 14.17% and maintaining the leverage ratio at 3%. Aresbank complies with CET1 the requirement of 14.17%, as the CET1 ratio stands at 54.5%. The leverage ratio stands at 23.7%, a figure higher than the aforementioned requirement.

5. CREDIT AND DILUTION RISK

The notes to the annual accounts set out the accounting principles, policies and measurement criteria applied in accordance with current legislation and describe the approaches and methods used to determine the impairment of financial assets.

Aresbank establishes a classification of transactions pursuant to Section II of Annex IX of Bank of Spain Circular 4/2017, “Classification of transactions on the basis of credit risk attributable to insolvency”. Aresbank has methodologies for estimating individualised allowances and provisions and uses alternative solutions for estimating collective allowances and provisions.

These methodologies are approved by the Board of Directors, ensuring that they are adequate and that the estimate of allowances and provisions is integrated into the Institution’s credit risk management system and are part of the processes, in particular those of pricing and granting of transactions.

1) Classification of transactions

Aresbank defines the following risk categories:

- Stage 1: Performing

- Stage 2: Performing under special monitoring.
- Stage 3: Non-performing. This category differentiates between non-performing transactions due to arrears (past-due for over 90 days) and non-performing exposures for reasons other than arrears.

Automatic risk reclassification criteria

As an automatic risk reclassification criterion, the age of the past-due amounts items will be taken into account. Accordingly, a transaction with a past-due amount of capital, interest or contractually agreed costs with an age greater than 30 days will be reclassified as performing exposure under special monitoring and if the past-due amount has an age greater than 90 days, it will be classified as non-performing. In addition, when a customer has a transaction classified as non-performing as a result of past-due amounts exceeding 90 days and this transaction accounts for over 20% of the customer's total risks with the Institution, the carry-over effect will be applied. This consists of considering all the transactions of this customer as non-performing.

Subjective criteria for risk classification

Furthermore, in addition to the automatic reclassification criteria mentioned above, Aresbank applies a review criterion of a significant increase in risk for customers subject to individualised analysis. The following aspects are assessed for this purpose:

- Performing Exposure under Special Monitoring

Aresbank considers that a customer has suffered a significant increase in risk since initial recognition when it is observed that any of the indicators analysed shows deterioration above the set thresholds. In this case, the Institution must analyse on a case-by-case basis whether it should be reclassified to this category.

- Non-performing exposure for reasons other than arrears

Aligned with the alert system defined by the Institution and the criteria set out in Annex IX of Bank of Spain Circular 4/2017, criteria have been established that would lead to reclassifying a transaction or customer as non-performing exposure, after carrying out an individualised analysis.

Forborne exposures

A forborne exposure is a debt contract granted to a customer to replace one or several previously granted debt contracts as they have difficulties in meeting the terms and conditions of the initial debt contract in a timely manner. Restructuring takes place when the debt is written down or assets are received to reduce the debt or in which the terms and conditions are modified to lengthen its maturity, vary the repayment schedule, establish grace periods etc. The aim is to reduce the financial obligations of the debt and for the customer to be able to comply with them in the context of financial difficulties.

Total write-off

Total write-offs are non-performing exposures with an age in the category of over four years or if 100% credit risk allowances and provisions have been maintained for over two years. Write-offs also cover the debt contracts of customers who are declared in bankruptcy procedures for which the liquidation stage has been or will be declared. Classification in this category for the aforementioned reasons does not mean that the Institution will suspend negotiations or take the appropriate legal action to recover the amount.

2) Credit loss allowances

In line with that established in Annex IX of Bank of Spain Circular 4/2017, Aresbank has two methodologies for calculating the amount allocated for credit loss allowances, the collective method and individualised analysis.

Collective method

This is used for calculating the credit loss allowances of performing, performing under special monitoring and non-performing exposures provided that they have not been considered as individually significant. Aresbank has adopted for the calculation of the provisions through the collective method the alternative solutions provided in Annex IX of Bank of Spain Circular 4/2017.

Individualised analysis

Individualised analysis for the calculation of credit loss allowances will be conducted for exposures classified as performing under special monitoring or non-performing that exceed the threshold of significance. The amount of the allowances and provisions for a transaction as a result of an individualised analysis will be calculated as the difference between the gross carrying amount of the transaction and the present value of the estimate of the expected cash flows to be received, discounted using the effective interest rate. In addition, the estimated amount to be recovered from effective collateral received will be considered.

5.1. Identification of the external rating agencies used

In 2022, the Institution has used for credit ratings the external rating agencies that hold the status of eligible as ECAI, in the terms specified in Regulation (EC) No. 1060/2009: Standard & Poor´s, Moody´s and Fitch.

The ratings awarded by the aforementioned agencies are used for the determination of risk weights applicable to exposures to the rated counterparties, following the specifications set out in Article 138 of Regulation (EU) No 575/2013.

5.2. Description of the process for assigning credit ratings of publicly traded security issues to comparable assets

As of 31 December 2022, the Institution has not assigned credit ratings of publicly traded security issues to comparable assets.

5.3. Effect on credit risk exposures of the application of risk mitigation techniques

The breakdown of credit risk exposures as of 31 December 2022, broken down by credit quality step (measured by the percentage applied for the purpose of calculating the risk-weighted exposure value) and by risk category, before applying the risk mitigation techniques, is as follows:

Risk Category	Breakdown of total exposures by risk weights							
	0%	20%	35%	50%	75%	100%	Other	Total
Central governments or central banks	173,942	-	-	-	-	6,091	-	**180,033**
Regional governments or local authorities	-	-	-	45,000	-	-	-	**45,000**
Institutions	-	632,248	-	130,399	-	41,949	-	**804,596**
Corporates	-	-	-	71,976	-	301,785	-	**373,761**
Retail	-	-	-	-	25,234	-	-	**25,234**
Secured by mortgages on immovable property	-	-	16,294	-	-	-	-	**16,294**
Exposures in default	-	-	-	-	-	3,737	-	**3,737**
Other exposures	10,790	-	-			57,755	-	**68,545**
Total	184,732	632,248	16,294	247,375	25,234	411,317	-	1,517,200

Thousand euros

- Geographical and counterparty distribution of impaired positions

The distribution of non-performing debt instruments by instrument type and counterparty sector is as follows:

Debt Instruments	Non-performing debt instruments	Provision
Debt securities	-	-
Loans and advances	3,737	-1,249
Central banks	-	-
General Government	-	-
Credit institutions	-	-
Other financial corporations	-	-
Non-financial corporations	3,737	-1,249
Of which: SMEs	-	-
Households	-	-
Total	3,737	-1,249

Thousand euros

The distribution of off-balance sheet non-performing exposures by instrument type and counterparty sector is as follows:

Off-balance sheet exposures	Non-performing off-balance sheet exposures	Provision
Central banks	-	-
General Government	-	-
Credit institutions	1,352	-270
Other financial corporations	-	-
Non-financial corporations	4,162	-832
Households	-	-
Total	5,514	-1,102

Thousand euros

The breakdown of non-performing debt instruments by geographical area is as follows:

	Spain		Rest of EU		Other	
	Non-performing debt instruments	Provision	Non-performing debt instruments	Provision	Non-performing debt instruments	Provision
Debt securities	-	-	-	-	-	-
Loans and advances	3,737	-1,249	-	-	-	-
Total debt instruments	3,737	-1,249	-	-	-	-

Thousand euros

The breakdown of non-performing off-balance sheet exposures by geographical area is as follows:

	Spain		Rest of EU		Other	
	Non-performing exposures	Provision	Non-performing exposures	Provision	Non-performing exposures	Provision
Loan commitments given	-	-	-	-	-	-
Financial guarantees given	-	-	-	-	-	-
Other commitments given	-	-	-	-	5,514	-1,102
Total off-balance sheet exposures	-	-	-	-	5,514	-1,102

Thousand euros

In addition, as of 31 December 2022, Aresbank had country risk provisions amounting to EUR 1,441 thousand.

5.4. Changes in impairment losses and provisions in 2022

The changes in impairment losses recorded to cover credit risk of financial assets are as follows:

	Coverage non-performing exposure	Coverage performing exposure and performing exposure under special monitoring	Coverage country-risk	Total
Balance as of 31 December 2021	561	4,484	588	5,633
Provisions	4,495	2,052	21,895	28,442
Recoveries	(3,404)	(3,860)	(306)	(7,570)
Other	(403)	2	(21,607)	(22,008)
Balance as of 31 December 2022	1,249	2,678	570	4,497

Thousand euros

6. SECURITISATION TRANSACTIONS

The Institution has not carried out asset securitisation transactions and therefore does not maintain outstanding balances of securitisation transactions.

7. INFORMATION ON THE MARKET RISK OF THE TRADING BOOK

For the purposes of calculating the capital requirements associated with the trading book, it should be noted that the Institution considers as such those positions in financial instruments that are held with the intention of trading or that serve as a hedge to the elements of said trading book.

At year-end 2022, Aresbank did not have a trading book.

8. INFORMATION ON FINANCIAL INSTRUMENTS NOT INCLUDED IN THE TRADING BOOK

The Institution holds interests in financial instruments not included in the trading book that are classified in the available-for-sale and amortised cost portfolios, the breakdown of which as of 31 December 2022 is as follows:

Nature	2022	2021
Spanish public debt	-	-
Foreign public debt (EU)	-	-
Spanish private fixed income	13,264	15,990
Spanish commercial paper	-	-
Impairment losses	(116)	(126)
Currency:		
Euro	13,148	15,864
Total	**13,148**	**15,864**

Thousand euros

Rating	2022	%	2021	%
BBB-	8,060	61.3%	9,735	61.4%
No rating	5,088	38.7%	6,129	38.6%
TOTAL	13,148	100%	15,864	100%

Thousand euros

9. INTEREST RATE RISK IN NON-TRADING BOOK POSITIONS

Interest rate risk is defined as the possibility of suffering losses as a result of the negative changes in interest rates. This risk varies depending on the structure and date of repricing of assets, liabilities and off-balance sheet operations.

The Executive Commission of the Bank of Spain, in its capacity as the competent authority for direct supervision of less significant credit institutions, adopted the Guidelines on the management of interest-rate risk arising non-trading activities (EBA/GL/2018/02) as its own on 19 February 2019. In accordance with these regulations, Aresbank regularly calculates, at least quarterly, the impact of interest rate shocks on its EVE (economic value of equity), applying 6 scenarios: parallel shock up; parallel shock down; steepened shock (short rates down and long rates up); flattener shock (short rates up long rates down); short rates shock up; and short rates shock down.

Evaluated aspect	Definition
Definition	The current or future risk to both the recurring margin and the economic value of an institution resulting from adverse interest rate movements affecting interest rate sensitive instruments.
Regulatory reference	EBA/GL/2018/02 Guidelines of the management of interest rate risk arising from non-trading book activities
Indicator	Change in economic value due to fluctuations in interest rates
Materiality criteria	It is taken from the scenario with the largest deterioration of the EVE and the comparison of said fall in economic value with the materiality threshold
Materiality threshold	This threshold is set by regulation at 20% of equity
Figure	Threshold of 20% of equity: EUR 66,440 thousand
Materiality	Non-material

The profit (loss) for the year shows that the Institution is exposed interest-rate changes, although the impact is not material. This is mainly due to the banking book and the business model, which reduces the impact of both the maturity gap and the basis gap. This conclusion is based on the following results, obtained in the EVE impact measurement exercise for each scenario:

Date of the exercise	31/12/2022
In thousand euros	∆ EVE
Parallel Shock Up	3,038
Parallel Shock Down	-11,101
Steepener shock	1,089
Flattener shock	-207
Short rates shock up	1,028
Short rates shock down	-7,555
Maximum deterioration	-11,101
Threshold of 20% of equity	66,440

Taking into account this reasoning and the conclusions of the results obtained for the different scenarios, the most adverse scenario is compared with the materiality threshold proposed by the regulations. In this regard, it is noted that the total deterioration of EVE in the scenario of a parallel shock down, estimated at EUR 11,101 thousand, is considerably lower than the materiality threshold set at EUR 66,440 thousand in reference to the equity.

10. INFORMATION ON REMUNERATION

This section of the Prudential Relevance Report contains information on the Institution's remuneration policy in force over 2022.

10.1. General principles of Aresbank's remuneration policy

In accordance with Article 74 of Directive 2013/36/EU, credit institution must have a remuneration policy for all staff. This remuneration policy must comply with the principles and requirements set out in Articles 92 to 96 of that Directive.

In this regard, Aresbank has developed a Remuneration Policy that takes into account criteria of gender impartiality, in accordance with Article 3(65)(1) of Directive 2013/36/EU and Article 157 of the Treaty on the Functioning of the European Union (TFEU). This policy aims to establish the general principles on which the remuneration system for the Institution's employees is based in order to ensure that the remuneration strategy approved by the Board of Directors is implemented in accordance with the Institution's strategy and current national and European legislation.

Aresbank's Remuneration Policy is based on the following general principles in accordance with its size, internal organisation and the nature, scope and complexity of the activities carried out by the Institution:

1. Principle of proportionality

In accordance with current legislation, Article 32.1 of Law 10/2014 establishes that, when setting and applying the overall remuneration policy, institutions shall comply with the general principles set out in the Law in a manner and to an extent consistent with their size, their internal organisation and the nature, scope and complexity of the activities carried out by the Institution.

Aresbank's Remuneration Policy is therefore intended to be compatible with its risk profile, risk appetite and strategic plan. Their special features allow application of the principle of proportionality of certain requirements relating to variable remuneration when it is estimated that the cost of applying said requirements is higher than the prudential advantage that they offer, specifically relating to payment in financial instruments, deferred payment and discretionary benefits.

2. Alignment with long-term interests and the Risk Appetite Framework

The Remuneration Policy is compatible with Aresbank's strategy, objectives, values and long-term interests and includes measures to avoid conflicts of interest.

On the basis of this principle, the valuation of the results-based remuneration component will focus on long-term results and will take into account the associated current and future risks. This is to ensure that there is an alignment with the Risk Appetite Framework.

3. Independence of the internal control functions

The staff who exercise internal control functions within the Institution will be independent of the business units they supervise, will have the necessary authority to carry out their duties and will be remunerated based on the achievement of the targets related to their functions, regardless of the results of the business areas they control.

Thus, the methods used to determine the variable remuneration of control functions will not compromise the objectivity of the staff or their independence. In addition, they will ensure that no significant conflicts of interest arise for the staff in control functions.

4. Supervision and effectiveness

Aresbank's Remuneration Policy, as well as the sums to be received as remuneration will be issues supervised and approved by the Institution’s Nomination and remuneration Committee. This ensures that the Institution’s Remuneration Policy and practices are subject to a central and independent internal review at least once a year.

The Institution’s Board of Directors will adopt and regularly review the General Principles of the Remuneration Policy and will be responsible for supervision of their application.

5. Clear distinction between the criteria for setting fixed remuneration and variable remuneration

This Policy clearly distinguishes between the criteria for setting fixed and variable remuneration. On the one hand, the fixed component will mainly reflect relevant professional experience and responsibility in the organisation as stipulated in the job description as part of the employment conditions.

On the other hand, the variable component will reflect a sustainable and risk-adapted performance that goes above and beyond that required to comply with the job description as part of the employment conditions.

6. Transparency and simplicity

The rules for remuneration management will be explicit and known by employees, always prioritising transparency in remuneration terms.

These rules will be drafted in a clear and concise manner, including both a simplified description of the rules together with the calculation method, and the applicable conditions for granting remuneration.

7. Gender equality

The remuneration conditions applicable to the Institution's years will be determined by the content of the position held without distinction in relation to the gender of the person holding the possession and without any discriminatory elements being acceptable.

10.2. Nomination and Remuneration Committee

The Nomination and Remuneration Committee is a non-executive committee that supervises proposals for nominations of directors and the identified staff and revises the remuneration policy, which must be approved by the Board of Directors. In 2022, the Committee consisted of three non-executive members of the Board of Directors. Its main functions are as follows:

- Supervising proposals for the nomination of directors and identified staff, for subsequent approval by the Board.
- Supervising the Institution's remuneration policy and compliance with said policy, its general principles and whether it is in line with the Law in terms of its limits and application, for subsequent approval by the Board of Directors.
- Supervising the selection processes and the suitability of the directors and the identified staff. Evaluating the balance of capacity, knowledge and experience of the Board, both of its members and as a whole, defining the roles and skills required of candidates to fill each vacancy, and deciding the time required and whether they need to be part-time or full-time in order to properly discharge their duties.
- Drawing up contingency and succession plans in key management positions, studying and properly organising the succession of the General Management, and making

recommendations to the Board of Directors so that the transfer of powers is carried out in a planned and orderly manner.

10.3. Staff remuneration

Aresbank pays its employees annual remuneration in accordance with the provisions of the Banking Collective Bargaining Agreement in force at any time, which follows the criteria previously set out for internal pay equity.

The annual remuneration of the staff of Aresbank S.A. is made up of:

- ✓ Fixed Remuneration: This consists of the employee's gross annual salary and will be determined according to the provisions of the Banking Agreement.
- ✓ Variable remuneration: This consists of a variable amount based on the Annual Performance Evaluation of each employee and the company's results. The targets are set at the start of the year and analysed at the end of each year. It consists of a single payment in the following year. Alternatively, Aresbank will be able to approve multi-Year Remuneration Plans that combine the achievement of targets within a given timeframe with the payment of variable remuneration in a staggered manner over a period of time.

In accordance with the principle of internal equity and in compliance with the provisions of Law 10/2014 of 26 June on Regulation, Supervision and Solvency, Aresbank's staff is organised into three types of profiles:

i. Technical and Administrative Staff
ii. Commercial Staff
iii. Internal control functions and other key function staff

i) Technical and Administrative Staff:

Their salary consists of:

- ✓ Gross fixed salary, in accordance with the principles set out in the Collective Bargaining Agreement in force at any time.
- ✓ Variable remuneration, defined according to the Annual Performance Evaluation and the Institution's results. Each employee is assessed on the basis of the performance of their daily activities and the functions corresponding to their position, as well as on the basis of annual or multi-year personal targets. The maximum amount of variable remuneration achievable by these employees will be 25% of their gross annual salary.

ii) Commercial Staff:

Their salary consists of:

- ✓ Gross fixed salary, in accordance with the principles set out in the Collective Bargaining Agreement in force at any time.
- ✓ Variable Remuneration, defined according to the Annual Performance Evaluation and the company's results, through which this group of employees will be assessed for the performance of their commercial activity duly stipulated for each financial year, as well as for annual or multi-year personal targets set. The maximum amount of variable remuneration achievable by these employees will be 30% of their gross annual salary.

On an annual basis and according to the Commercial Plan approved at the start of the year, Aresbank's commercial staff will be set quantitative and qualitative targets in order to comply with the Commercial Plan established for the year. These will be monitored by the Director of the Commercial Division.

iii) Internal control functions and other key function staff:

This group includes internal control functions and other employees in key positions for the performance of the Institution's activity.

Their salary consists of:

- ✓ Gross fixed salary, in accordance with the principles set out in the Collective Bargaining Agreement in force at any time.
- ✓ Variable Remuneration, defined according to the Annual Performance Evaluation and the company's results, through which this group of employees will be assessed for the performance of their activity duly stipulated for each financial year, as well as for annual or multi-year personal targets. The annual evaluation of this group of people will depend on the Nomination and Remuneration Committee following a report from the General Management and Human Resources, which will present the annual evaluation of these staff to the aforementioned Committee. The aim is for the Committee to have all the information necessary for the evaluation and to conduct this evaluation as objectively as possible. In the specific case of control functions, the evaluation will be carried out by the chairs of the Risk and Compliance and Audit Committees and reviewed by the Nomination and Remuneration Committee.

The maximum amount of variable remuneration achievable by this group of staff will be 30% of their gross annual salary.

The evaluation of the annual and multi-year targets set for awarding the variable remuneration will follow the basic principles set out below:

- It will promote and be compatible with adequate and effective risk management, with no incentives offered for taking on risks that exceed the level tolerated by the Institution.
- It will be compatible with the Institution's strategy, objectives, values and long-term interests, including measures to avoid conflicts of interest.
- The Institution’s General Management will always be evaluated by the Nomination Remuneration Committee.
- The Multi-Year Remuneration Plans will be based on evaluating the achievement of certain targets in a multi-year framework and their payment may be staggered over a period of time in accordance with the targets set.
- Whenever the Institution decides to implement remuneration based on a multi-year plan, the conditions for its accrual, collection, recognition, calculation and communication will be laid down in an internal regulation approved for this purpose.

10.4. Observations on the variable remuneration policy

The variable remuneration policy, despite its small amount in relation to the Institution's share capital, will follow the recommendations issued by the European Central Bank on 13 December 2016 (ECB/2016/44) regarding to compliance with minimum capital requirements. It will also comply with any other specific requirement of the Bank of Spain so as not to represent any risk at the level of the Institution’s capitalisation, solvency or liquidity.

Aresbank S.A.'s annual variable remuneration policy, which as a general rule is limited to 30% of fixed remuneration, is deemed to be prudent and in line with the Institution’s medium-term risk. Any variable remuneration above this 30% limit would be considered exceptional and would require the specific approval of the Board and the General Shareholders' Meeting, as the case may be.

The following requirements applicable to variable remuneration are established in accordance with Law 10/2014:

1. Payment with financial instruments: the remuneration policy must be commensurate with the size, internal organisation and nature, scope and complexity of the Institution’s activities.
2. Therefore, Aresbank, based on its shareholder structure, its prudent risk-taking strategy and its moderate remuneration policy, does not set variable remuneration mechanisms in the form of capital instruments, following the principle of proportionality.
3. Deferral clause When the Institution so determines, and in any case, in the event that the total variable remuneration figures exceed 1% of the share capital, deferral mechanisms will be established, together with the approval proposal, in compliance with the requirements set by current legislation.

4. Malus Clause (remuneration reduction clause): The deferred variable remuneration pending payment will be subject to reduction by Aresbank under any of the following circumstances until it is vested:
   i. A restatement of annual accounts that does not result from a regulatory change and providing the new amount to be settled is lower than the amount initially accrued.
   ii. Fraudulent conduct by the employee or conduct that has caused serious damage to the Institution through fault or negligence.
   iii. Disciplinary dismissal.
5. Clawback Clause (Remuneration recovery clause): The variable remuneration already paid will be subject to total or partial recovery by Aresbank when, during the three years immediately following its payment, it becomes clear that the corresponding sum was paid in whole or in part on the basis of information that is subsequently shown to be manifestly false or seriously inaccurate, or when risks assumed during the conditional period become apparent.
6. Variable remuneration ceiling: The variable component will not exceed 100% of the fixed component of the total remuneration of each staff. However, the General Shareholders' Meeting of Aresbank S.A. may approve a higher level than that generally provided for as long as it does not exceed 200% of the fixed component and does not affect, as indicated above, the Institution’s solvency level.

10.5. Remuneration and other benefits for the Board of Directors and General Management

a) Board of Directors

The breakdown of the total gross remuneration and attendance allowances received by the Institution’s directors in 2022 is shown below:

FY 2022	Number of people	Remuneration	Other benefits	Total
Chairman and Vice-Chairman	2	365	99	464
Other directors	6	666	97	763
TOTAL	8	1,031	196	1,227

Thousand euros

The breakdown of the total gross remuneration and attendance allowances received by the Institution’s directors in 2021 is shown below:

FY 2021	Number of people	Remuneration	Other benefits	Total
Chairman and Vice-Chairman	2	340	79	419
Other directors	5	459	47	506
TOTAL	7	799	126	925

Thousand euros

Aresbank, S.A. has no other pension and life insurance obligations in relation to any of the members of the Board of Directors. The Institution does not have direct risks in relation to the directors of the Institution as of 31 December 2022. In compliance with the requirements of Article 229 of the Companies with Share Capital Act, the directors have indicated that they have no conflicts of interest with the Institution.

b) General Management

The breakdown of the remuneration paid to the Institution's General Management in financial years 2022 and 2021 is shown below:

Year	Number of people	Remuneration	Other benefits	Total
2022	3	926	107	1,033
2021	2	1,474	201	1,675

Thousand euros

The amounts charged to the Institution's income statement for contributions to pension plans and insurance in financial year 2022 amounted to EUR 8 thousand (EUR 13 thousand in financial year 2021).

11. LEVERAGE RATIO

As laid down in Article 429 of Regulation 575/2013 (CRR), which was amended, *inter alia*, by Delegated Regulation (EU) 2015/62, institutions shall calculate the leverage ratio as the institution's capital divided by the total exposure of the institution. The Institution's CET 1 will be taken as the measure of capital. Exposure will be taken to be the sum of the exposure values of all assets and off-balance sheet items as defined in the legislation.

As of 31 December 2022, the Institution's leverage ratio was 23.72%, as shown below:

	Phase-in	Fully-loaded
Exposure value: Total exposure corresponding to the leverage ratio	1,399,422	1,399,422
Capital: Common Equity Tier 1	331,962	331,962
Leverage Ratio	23.72%	23.72%

Thousand euros

Monitoring of leverage risk is incorporated into the regular monitoring of risk indicators. There is a limit set in the Institution's Risk Appetite Framework, which is monitored and reported to the Risk and Compliance Committee. This ensures that the ratio comfortably exceeds the minimum regulatory threshold, which is considered as a reference value (3%).

12. ASSET ENCUMBRANCE

The concept of asset encumbrance refers to the Institution's assets, as well as the collateral received, that are pledged as a result of their use in secured financing transactions.

Aresbank's total balance sheet as of 31 December 2022 is shown below, distinguishing assets and collateral received with and without encumbrances by type of asset or collateral, respectively, as well as the liabilities associated with them:

	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets of the Institution			1,283,849	
Demand loans			188,628	
Debt securities			13,148	
Loans and advances other than demand loans			1,039,849	
of which: Loans secured by mortgages on immovable property			*16,294*	
Other assets			42,224	
Collateral received			48,135	
Demand loans				
Debt securities				
Loans and advances other than demand loans			48,135	

Thousand euros

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