Aresbank

PRUDENTIAL RELEVANCE REPORT

2021

www.aresbank.es

Aresbank

Prudential Relevnce Report

December 31st 2021

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1. GENERAL REQUIREMENTS OF INFORMATION

1.1. Introduction

The objective of this Report is to comply with the information requirements established in the eighth part of Regulation (EU) No. 575/2013, of 26 June; in article 85 of Law 10/2014, of 26 June, of management, supervision and solvency of credit institutions; in article 93 of Royal Decree 84/2015, of 13 February, which develops the aforementioned Law; and in Rule 59 of Circular 2/2016, of 02 February, Bank of Spain, 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 regulation requires credit institutions to make public, at least annually and properly integrated into a single document called "prudential relevance report", specific information on those data of financial situation and activity in which the market and other parties may have an interest in order to assess the risks they face, their market strategy, their risk control, their internal organization and their situation in order to comply with the minimum requirements of own resources provided for in the regulations of the solvency.

The content of this report has been approved by the Board of Directors of Aresbank, at its meeting held on 5th July 2022, at the proposal of the Risk and Compliance Committee.

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

1.2. Conceptual definitions

The information presented in this report corresponds to the entity Aresbank, S.A. (hereinafter, “Aresbank” or the “Bank”). It was established by public deed dated 01 April 1975. The Bank is registered in the Mercantile Registry of Madrid, on page nº 28.537, sheet 18, 1st inscription of General Companies Volume 3.740. Since 02 April 1975, Aresbank is registered at the Bank of Spain's Special Registry for Banks and Bankers under number 0136. Its fiscal ID number is A28386191.

Aresbank is a joint stock company. Its corporate purpose per Article 3 of its bylaws is as follows:

“The main object of the Bank is to contribute to the development of the economic cooperation between the Arab countries and Spain by financing foreign trade and promoting investment and attracting funds from Arab and International Financial Markets.

Notwithstanding the above mentioned, the corporate object of the Bank consists of all activities relating to banking operations allowed by the Spanish legislation and not forbidden to banking entities except the reception of funds from individuals which will be limited to those who are involved in foreign trade transactions with the Bank.

The activities included in the company’s object may be carried out by the company wholly or partly indirectly, by means of holding shares or interests in companies having identical or similar purpose. “

The share capital of Aresbank, S.A. as of 31 December 2021 amounts to Euro 300.000.960,00 and it is formed of 104.167 registered shares with a nominal value of Euro 2.880,00 each.

The Bank's registered address is Paseo de la Castellana 257, Madrid, where its Head Office is located.

2. INTERNAL GOVERNANCE STRUCTURE

Aresbank's internal governance structure has been set up primarily to serve the business needs of its Head Office located in Madrid, and its branch located in Barcelona. Most of the business transactions are carried out centrally at the Head Office and are closely monitored by the General Management and the Board of Directors.

The assumed risks are managed and controlled in such a manner as to guarantee the fulfilment of the following two specific conditions which form the business objective of the Bank:

- Risks, once assumed, are subject to regular supervision to check their progress and to take, when necessary, the appropriate rectifying action.
- All the Bank's risks are authorized and controlled from the management, maintaining always a prudent profile adequate to the experience and the available resources in Aresbank.

The purpose of the Bank's organizational structure is to guarantee an adequate level of control that assures a suitable segregation of functions while at the same time aiming to achieve its business objective.

The Bank understands that the control functions need to maintain independence from business operations. As a result, the Internal Audit department, the Global Risk Management department and the Compliance department report functionally to the Audit, and Risk and Compliance Committees, respectively, and administratively to the Bank's General Management. Depending also on the Board of Directors, is the Nominations and Remunerations Committee.

As part of its overall management the Bank has also put in place the following committees:

1. Credit and Investments Committee
2. Assets and Liabilities Committee
3. Administration Committee
4. Internal Control Committee
5. Buying Committee
6. New products Committee

The principles of Aresbank´s risk management are based in the following pillars:

- Strategies, policies, organization, and management systems adequate to the size, scope and complexity of the Bank´s activities, based on quality banking practice.
- Respect and adaptation of the Bank's performance to the established regulatory requirements, limits and restrictions, ensuring at all times that current regulations are properly complied with, and also maintaining principles of anticipation in the face of new regulatory developments that allow the potential impact of these to be reduced.
- Safeguard the results by controlling risk at the level of individual, group and business exposures, in accordance with the Bank's risk objective.
- Maintaining a low level of market risk so that, in stressful scenarios, the losses generated have a very low impact on the Bank's income statement.
- The maturity profile of assets and liabilities, concentrated in the short term, minimize the sensitivity to variations in interest rates, resulting in a low level of interest rates risk.
- Focus on growth in the strategic segments of medium and large corporates, following a conservative approach or risk oriented to companies with sound

solvency levels. Furthermore, the global relationship between the bank and the company is considered.

- Adequate and sufficient availability of the necessary human resources, systems, and tools to guarantee the maintenance of a risk profile compatible with the established risk appetite.
- The establishment of a remuneration policy that contains the necessary incentives, to ensure that the individual interests of employees and managers are aligned with the corporate risk appetite framework and that these are consistent with the evolution of the Bank's results in the long term.
- An independent risk area with an intense participation of Management, which guarantees a strong risk culture focused on protection and assurance of adequate profitability of capital.

2.1. Credit Risk

Aresbank has a Credit Risk Policy that covers both management and evaluation of risk aspects. The management of this type of risk is applied in the decision-making process as follows:

Governance and strategy	The operational governance structure has been defined comprehensively in terms of hierarchy, and the bank's strategy has been clearly communicated.
Credit risk measurement	The impact of a credit risk decision on capital requirements will be analysed considering the established evaluation criteria.
Credit risk management	Provides a structured approach to credit risk management.
Credit risk reports	Provides the Management with information on the risks of its portfolio to enable it to be properly assessed.

Debtors or economic groups (individuals or legal entities) and countries are classified by Aresbank, in terms of risk, based on their capacity and willingness to meet commitments.

The Risk Department is responsible for the classification of the debtors or economic groups once a new risk proposal has been received or in the cases of periodic reviews carried out of the existing risks. The classification will be based on the analysis of the financial information of the debtor or group, the characteristics of the requested or revised operation and the internal procedures applied to score the reviewed factors.

In compliance with the regulatory criteria and considering the risk category and the nature of the debtor, Aresbank establishes the internal risk limits.

The limits established for each risk category will be subject to a periodic review (or when necessary) by the Entity to accommodate changes in the business and the markets in which it operates, as part of compliance with Aresbank's risk appetite.

The Global Risk Management Department function is separated from the commercial division (business generating function) and is functionally dependent on the Risk and Compliance Committee of the Board of Directors. Its role in the credit risk management process is as follows:

- Assess general risk limits according to certain parameters.

- Review and comment on operations from a risk perspective when presented for approval.
- Develop risk and capital management models to assess client risk (including calculation of capital requirements), in accordance with the guidelines established by the Bank of Spain and Basel III.

The Credit Committee and the General Management will consider the opinions of the Global Risk Management Department when making its credit investment decisions.

2.2. Concentration Risk

Aresbank has defined limits and alerts in its concentration policy to manage the concentration risk, in line with the Bank's risk appetite:

Concentration risk with an economic group or counterparty

Aresbank sets limits for the management and control of credit risk concentration with an economic group or individual counterparty, which are applied related to the amount of Aresbank's own funds.

Industry concentration risk

The risk of concentration of banks' credit portfolios arises, from excessive exposure either to a single sector or for several highly correlated sectors.

Aresbank groups the exposures granted to economic sectors according to the classification of activities required by the Bank of Spain according to the CNAE 2009. Based on these data, Aresbank will assign the different activity sectors with which it has commercial relations in different groups of economic activity, establishing industry concentration alerts.

Any excess of any of the established alerts will be reported to the Credit Committee, the General Management and the Risk and Compliance Committee in order to analyse the business strategies to be followed.

The monitoring and control of concentration risk is centralized within the Global Risk Management Department, so all its roles and responsibilities are applicable to concentration risk.

2.3. Market Risk

Aresbank has defined a policy setting out the principles for managing market risk arising from the trading book and the position in other currencies. In addition, a specific function has been established to monitor and manage market risk.

It is the responsibility of the Board of Directors to approve the Market Risk Policy and to delegate its review and compliance to the Assets and Liabilities Committee (ALCO) and the Global Risk Management Department.

Aresbank has established limits to the operations in currency, as well as limits to the acquisition of fixed-income securities.

On a day-to-day basis, the Treasury and Capital Markets Department is responsible for ensuring compliance with the rules and guidelines established in the Market Risk Policy.

The Global Risk Management Department is responsible for managing and monitoring the risk of the Trading Portfolio in order to identify trends, concentrations and other matters of importance to the Bank, to carry out the frequent valuation of this type of instruments in the Trading Portfolio and, finally, to supervise the application of the Bank's policies.

The trading portfolio strategy is suitably documented, communicated and approved by the Board of Directors. Changes to the trading strategy will be recommended by the ALCO and approved by the Board of Directors of the Bank.

2.4. Operational Risk

Aresbank's operational risk control and management objective is focused on the identification, measurement/evaluation, control/mitigation and reporting of operational risk. The priority is therefore to identify and eliminate outbreaks of risk, whether or not they have caused losses. Measurement also contributes to the prioritization of operational risk management.

Aresbank has established 3 lines of defence for effective operational risk management and control. The three independent defensive lines are:

- The business, management and support areas exposed to Operational Risk. The areas that make up this first defensive line are all the Bank's departments that are daily related to business acquisition, operations management and provide functional support for the performance of the activity.
- An Operational Risk Manager independent of the business areas. The Global Risk Management Department composes this second line of defence, independent of the former, which will help to establish the necessary controls and analyse the operational risk situation to which the Bank is exposed.
- Internal audit: The Internal Audit Department composes this third line of defence. Internal auditors, through their high level of independence, review the way in which the first and second defensive lines achieve their objectives of Operational Risk Management and internal control as well as their effectiveness.

The bodies and functions involved in operational risk management are:

Board of Directors / Risks and Compliance Committee	• Review and approve the Operational Risk Policy • Set the strategy and appetite for operational risk • Ensure that operational risk management is subject to an effective internal audit process • Periodic review of the reports presented by the Operational Risk Manager about the Bank's operational risk and of the decisions taken in this area

General Management	• To ensure that the Operational Risk Policy approved by the Board of Directors is properly implemented • Establish a general risk management framework consisting of policies, manuals, and procedures applicable to the Bank's different operating, management, and support units • To promote an organizational culture that enacts the effective management of Operational Risk and strict compliance with operational controls • Review reports generated by the Operational Risk Manager • Analyse and approve the measures proposed by the Global Risk Management Department /Operational Risk Manager, if applicable, to mitigate Operational Risk
Risk Department / Operational Risk Manager	• To prepare and periodically review the Operational Risk Policy • Measurement, control, and monitoring of operational risk • Evaluate the operational risk events reported by the Bank's departments • Report to the General Management and the Risk and Compliance Committee about Operational Risk and the measures to mitigate it • To promote the application of the Operational Risk Policy among all relevant products, activities, processes, and systems of the Bank • To elaborate and maintain the "internal database of losses for operational risk events", focusing on its reliability and integrity
Internal Audit Department	• Review compliance with the Operational Risk Policy by all departments of the Bank • To report to the Audit Committee and to the General Management on the conclusions reached in periodic reviews carried out on the implementation of the Operational Risk Policy and on the accuracy and completeness of the "Internal database of losses due to operational risk events" • Immediately inform the General Management, the Operational Risk Manager and the departments involved of any serious breaches detected and the recommended corrective measures

Operational, management and support departments	• To understand the basic concepts defined in the approved Operational Risk Policy • Actively participate in the process of managing operational risk • To record, at the time of the event, all information relating to operational risk events • Define corrective or preventive actions to eliminate or mitigate the operational risk events that have occurred • To inform the Security Officer or the Responsible Owner of the File in matters of Data Protection, through the form available on Aresbank's intranet, of any registered Operational Risk event that is related to the security of personal data in compliance with the Organic Law on Data Protection

2.5. Liquidity Risk

Aresbank has a Liquidity Risk Policy that provides guidelines for:

- Establish the internal rules of the Bank in relation to the functions, responsibilities and committees of the different departments that are directly involved in the management or maintenance of liquidity and funding risk.
- Cover the general criteria for identifying, quantifying, monitoring, reporting, and managing liquidity risk to ensure consistency between business activities, stability of methodologies and transparency of risk.
- Define the indicators used by the Bank to monitor liquidity and funding, as well as those required by regulators.
- To define the risk appetite of the Bank.
- Establish the principles and criteria that will make up the management of the pool of assets.

The Liquidity risk strategy is integrated into the Bank's commercial strategy and the approved Risk Appetite Framework in terms of liquidity indicators. The main indicators and thresholds defined by the Bank are as follows:

Ratio	Description
LCR	High Quality Liquid Assets (HQLA) to cover liquidity needs in a liquidity stress scenario of 30 calendar days
NSFR	Amount of stable financing available / Amount of stable financing required
LtD interbank	Interbank Assets / Interbank liabilities
Survival horizon	Measure of the survival period based on LCR methodology

As of December 31st, 2021, Aresbank maintained an LCR ratio of 127,9%, above the minimum regulatory requirements (120%).

In addition, to calculate the funding gap, Aresbank performs a prudent management of cash flows and concentration of assets and liabilities that guarantees that the cash outflows are covered with new inflows. The criteria defined for the management of the gap is to ensure that the gap accumulated over the different time horizons is always positive. The Bank carries out a control of the outgoing and incoming maturity flows, identifying possible residual gaps through seven intervals of time. Maturity mismatches are valued in terms of residual maturities and do not induce accumulated negative mismatches in any period, as shown in the following table of maturity mismatches as of 31 December 2021:

Term	<1 week	1 week y 1 month	Between 1 y 2 months	Between 2 y 3 months	Between 3 y 4 months	Between 4 and 5 months	> 5 months
Assets Maturities (EUR mill)	**546.593**	**391.856**	**231.305**	**28.240**	**13.062**	**244**	**125.477**
% Inflows	*40,89%*	*29,31%*	*17,30%*	*2,11%*	*0,98%*	*0,02%*	*9,39%*
Financing Maturities	**326.182**	**415.013**	**282.546**	**-**	**-**	**-**	**3.862**
% Outflows	*31,74%*	*40,39%*	*27,50%*	-	-	-	*0,38%*
Dif: Inflows – Outflows	**220.411**	**-23.157**	**-51.241**	**28.240**	**13.062**	**244**	**121.615**

Aresbank also defines and calculates the following liquidity indicators used in its management: (i) funding concentration ratio, (ii) short-term wholesale funding ratio, (iii) liquidity buffer quality ratio and (iv) the ratio of loans over deposits.

2.6. Other risks

The control systems extend to other risks of the Bank's activity, not included in the above risks, such as business, conduct, reputational, technological and model risks.

3. COMPUTABLE EQUITY

3.1. Summary of the main characteristics and conditions of the elements computed as equity

For the purposes of calculating its minimum capital requirements, the bank considers as its own resources the elements defined in Part Two of Titles I and II of Regulation (EU) No. 575/2013, considering their corresponding deductions and limits.

The Equity of the bank is formed by the Tier 1 Capital, considered as the aggregation of the Tier 1 Ordinary Capital and Additional Tier 1 Capital, and by the Tier 2 Capital.

The elements of the Tier 1 ordinary capital are characterized as being components of the own funds that can be used immediately and without restrictions for the coverage of risks or losses as soon as they occur. These elements are characterized by showing a stability and permanence in time superior to the Tier 2 capital elements.

On the other hand, own funds of Tier 2 capital, are characterized by having, a priori, greater volatility and/or a lower degree of permanence than the elements considered as equity of ordinary Tier 1 Capital.

3.2. Total Equity

On 31 December 2021 the capital base of Aresbank comprises only Tier 1 capital which includes share capital of 300.001 thousand Euro, reserves that amounted to a total of 19.650 thousand Euro and retained earnings of 23.280 thousand Euro.

Aresbank reports its banking solvency calculated according to the relevant guidelines issued by the Spanish regulator. Aresbank´s Capital Adequacy ratio is 58,24%.

Capital Tier 1	2021	%
Capital	300.001	87,56%
Retained earnings	23.280	6,79%
Other reserves	19.650	5,74%
Otros	- 312	-0,09%
Total	**342.619**	**100,00%**

Thousand EUR

4. MINIMUM CAPITAL REQUIREMENTS

4.1. Capital requirements due to credit risk and counterparty

What follows is the amount of the minimum capital requirements of the bank due to the credit and counterparty risk as of 31 December 2021, calculated for each of the categories to which the standard method has been applied.

Exposure category	Exposure	APRs	Capital (8%)
Central Banks	215.263	7.213	577
Public Sector	-	-	-
Financial Institutions	1.024.094	232.342	18,587
Companies	250.083	250.083	20.007
Retail	27.581	20.686	1.655
Exposures granted by mortgages	4.606	1.612	129
Exposures in default	561	-	-
Mutual Funds	-	-	-
Others	36.438	32.199	2.576
Total	**1.558.626**	**544.135**	**43.531**

Thousand EUR

4.2. Risk weighted assets and capital requirements

Aresbank classifies credit risks according to the capital adequacy framework of Basel II, following the Standard method. Aresbank calculates the risk-weighted assets as a result of the exposure and the risk weight determined by the supervisor. The risk weights are determined according to the type of borrower and depend on the external credit assessments prepared by the ECAIs (Standard & Poor's, Moody’s, and Fitch), and also depend on the type of product or asset.

4.3. Concentration risk capital needs assessment

The assessment of capital needs for credit concentration risk has been carried out by calculating sectorial and individual concentration rates, using the simplified option proposed by the Bank of Spain.

As indicated in the Bank of Spain's IACL guide, to calculate de concentration rates, the total risk of the Bank within the UE has been considered (including discounting of commercial paper, credits, loans, debt securities, available limits and guarantees provided through CDs and any other form of financial support). For this purpose, risks with the general government and deposit institutions, securitized assets and the risk of derivative products have not been included.

The balances to be considered have not been reduced by any risk mitigating factor (guarantees, pledged deposits, etc.). In the case of sectorial concentration, they are net of provisions whereas in the case of individual concentration, the latter concept is not deducted.

4.3.1. Industry Concentration Risk

Sectorial Exposure

Sectorial exposure	2019	2020	2021
BRC. Real estate	15.542	9.845	17.212
MAT. Raw materials	-	-	4.443
IND. Transformation and manufacturing industries	20.658	3.173	4.988
CNB. Non basic or discretionary consumption	139.756	43.208	188.473
CIT. Telecommunication and information technology services	204	-	-
SCP. Business and professional services	24.453	20.388	26.613
PPN. Essential products	14.418	7.531	14.814
SAL. Health and assistance	2.901	-	-
SUP. Public utility supplies	71.850	8.704	14.997
ENE. Fossil energy	31.527	-	-
TRL. Transport and logistic	10.009	10	-
FNB. Non-banking finances	-	33.983	-
Total	**331.319**	**126.843**	**271.541**

Thousand EUR

Sectorial Concentration Risk Surcharge

	2019	2020	2021
Sectorial concentration index	24,84	22,85	50,20
Enterprise reducing factors (FRE) %.	16,15	43,52	36,81
Cyclic reducing factors (CRF) %.	65,98	70,83	54,75
Capital surcharge (%)	0,73	1,50	6,49
Internal Capital requirements for credit risk corresponding to those considered for the calculation of the SCI	15.733	12.351	13.354
Total Capital Surcharge	**115**	**185**	**867**

Thousand EUR

4.3.2 Individual Concentration Risk

The following formula has been used to calculate the concentration risk capital requirements:

$$(\Sigma x2)/((\Sigma y)\text{^}2\ ) \times 100$$

In the case of Aresbank, the number of borrowers or groups of borrowers does not exceed 1,000, which is why the above calculation has been made on the total number of borrowers. The surcharge will be applied to the credit risk capital requirements for borrowers from whom the individual concentration rate has been calculated.

Individual Risk Concentration Surcharge

	Individual concentration
$\sum x^2$	EUR 9.878.978.504.369.110
$((\sum y)^2\ )$	EUR 74.004.345.456.308.000
Individual Concentration Index	13,35
Capital Surcharge (%)	270,44%
Total Capital Surcharge (thousand EUR)	**36.183**

4.4. Assessment of capital needs for market risk

Capital requirements for market risk have been calculated using the Standardised Approach. At the end of 2021, the amount of the trading portfolio was null. Additionally, Aresbank is exposed to foreign currency risk and the net currency position in each currency has been calculated to verify that it represents 2% or more of the Bank's equity. If this were the case, 8% would be applied on that net foreign currency position to calculate capital requirements.

Currency (EUR th)	31/12/2019	31/12/2020	31/12/2021
USD	-5.191	-1.841	-98
GBP	-3.187	-3.157	-34
CHF	2	2	2
Others	-59	-85	-117
Total	-8.435	-5.081	-247
Net Worth	349.464	352.584	349.841
>2% of Net Worth	Yes	No	No
Recargo de capital	8%	8%	8%
Capital Computable	674.8	-	-

4.5. Assessment of capital needs for operational risk

To calculate the regulatory capital for operational risk, Aresbank has chosen the basic indicator approach method. As a result, the capital requirements for operational risk amounted to EUR 3.535 thousand, based on the average positive gross income of the previous three years, multiplied by 15%.

	2019	2020	2021
Gross income (thousand EUR)	24.884	25.524	19.474

Due to prudential principles, Aresbank for Pillar II purposes has decided to allocate an additional amount reflecting its potential exposure to operational risk subtypes such as conduct, ICT-systems, and reputational risk. To this end, it has applied 3% of the capital requirements per Pillar I distributed as follows:

Operational risk subtype	Implementatio rate	Capital
Legal Risk	25%	177
Technological Risk	30%	212
Reputational Risk	45%	318
Capital Total	**100%**	**707**

Thousand EUR

Considering that, a large part of Aresbank's gross margin comes from foreign trade operations, which is classified in the "negotiation and sales" business line, with a factor of 18% (standard method), the difference between this 18% and the regulatory 15% is the one that has been used to provide additional capital.

4.6. Assessment of capital needs for interest rate risk

To estimate capital needs for structural interest rate risk on the balance sheet, Aresbank regularly calculates, the impact of interest rate shocks on its EVE (Economic Value of Equity), applying 6 scenarios following the standardization methodology described in EBA GL 2018/2 Guidelines and in the Guide published by Basel Committee in April 2016 of IRRBB risk. The result of the exercise shows that the Entity is not strongly exposed to variations in interest rates and, therefore, the structural interest rate risk is not material:

Exercise date	31/12/2021
Euros	**∆ EVE**
Parallel Raise Movement	2.125.725
Parallel Downward Movement	-4.636.800
Positivization	705.470
Flattening	-157.618
Short-term rate hike	826.878
Short-term rate cut	-1.879.142
Maximum deterioration	**-4.636.800**
15% of CET1 Capital threshold	51.401.250
Threshold crossing	X

4.7. Assessment of capital needs for other risks

In the materiality calculation exercise, Aresbank has identified reputational and business risks as material.

Regarding reputational risk, the Bank has not perceived a loss of confidence that could affect its solvency. However, it is aware that, given the market in which it operates, there is a potential reputational risk that could have an impact on Aresbank's business.

In relation to business risk, the Bank considers this material, given that Aresbank's inability to achieve its objectives would be an intrinsic risk of the banking business. The calculation methodology to measure the amount of capital to be allocated for Business Risk is based on assessing the deviations that have occurred in recent years with respect to the projections made in the Business and Financing plan.

In this way, the deviation in absolute values of the computable equity is calculated for each of the last three years.

	Impact estimate					
	2019		2020		2021	
in th €	**Proyected**	**Real**	**Proyected**	**Real**	**Proyected**	**Real**
Computable Own Resources	350.498	347.803	349.954	352.842	345.598	349.978
Desviation	0,77%		0,83%		1,27%	
Average Desviation	**0,95%**					

Finally, the weighted average deviation is applied to the real data on equity for the last year. The result obtained corresponds to the allocation to cover the Entity's business risk.

On the other hand, the small increase in the deviation in financial year 2021 responds to Entity´s prudent criteria with the aim of maintaining a greater amount of equity in a pandemic scenario derived from the Covid-19 crisis.

Last year own resources	349.978
Surcharge application	3.337

4.8. Procedures applied for the evaluation of internal capital adequacy

In accordance with the provisions of section 1 of chapter 2 of Directive 2013/36/EU (CRD IV), the Bank applies a series of risk identification, measurement and aggregation procedures that, in addition to the maintenance of capital minimums, allow it to define and maintain a level of capital according to the risks inherent to its activity, the economic environment in which it operates, the management and control it carries out of these risks, the government systems available to it, its strategic business plan and its real possibilities of obtaining greater capital.

In this sense, Aresbank performs an evaluation of internal capital, both in the current and future, projected according to its planning. In this application, the following procedures related to each one of its risks apply:

- **Evaluation of capital needs for credit risk:** the standard method established in CRR IV has been applied.
- **Evaluation of capital needs for credit concentration risk:** the simplified option has been applied, using the individual and sector concentration indices established for this purpose by the Bank of Spain.
- **Evaluation of the capital needs for market risk:** Capital needs for market risk have been calculated using the Standard Method.
- **Evaluation of the capital needs for operational risk:** the basic indicator method has been applied.
- **Evaluation of the capital needs for structural balance sheet interest rate risk:** it has not been necessary to estimate capital needs since the decrease in economic value is lower than the sum of the recurrent margin of the last three years and 20% of the own funds.
- **Evaluation of capital needs for liquidity risk:** Aresbank does not estimate the capital needs associated with this risk due to the entity's current operations, its balance sheet structure and its surplus of liquidity ratios, which show that It has an adequate liquidity situation.
- **Evaluation of the capital needs for other risks:** All the risks that can impact the business developed by Aresbank have been analysed, determining that the Reputational and Business risks are considered material risks.

The total capital required has been calculated by aggregating the capital needs associated with each risk, obtained by the methods previously indicated.

Aggregation of capital requirements

Capital requirements (EUR th)	2019	2020	2021
Credit Risk	56.764	41.841	43.531
Concentration Risk	29.091	27.464	37.050
Individual	28.976	27.279	36.183
Sectorial	115	185	867
Market Risk	672	-	-
Operational Risk	3.302	3.749	3.535
IRRBB	-	-	-
Liquidity Risk	-	-	-
Operational Risk Pillar II	660	750	707
Other Risk	1.518	2.096	3.337
Total	**92.008**	**75.898**	**88.159**

5. INFORMATION ON CREDIT AND DILUTION RISKS

5.1. Accounting definitions and description of the methods used to determine the corrections for deterioration

For accounting purposes, the Bank considers that an operation (debt instrument or contingent risk) may deteriorate due to credit risk, both due to the risk associated with the client or by the risk associated with the country of the customer (country risk), as these concepts are defined in Annex IX of Circular 4/2004 of the Bank of Spain, and amended on 6 December 2017, by the Circular 4/2017. The objective of this modification was the updating of Circular 4/2004, mainly of its Annex IX, to adapt it to the latest developments in banking regulation, maintaining its compatibility with the accounting framework of IFRS.

The Bank considers that a debt instrument or a contingent risk is doubtful (it is impaired) for reasons associated with the client's risk, both when there are reasons of default, and when there are reasons, other than this, that suggest that there is a risk of not receiving all of the cash flows originally foreseen in accordance with the contractual terms of the transaction, or, in the case of contingent risks, that will incur a loss by not complying with their payment commitments the person or entity to which a guarantee is being provided.

In particular, it is considered that an asset is doubtful because of the non-payment of the client when it has an amount due of principal, interest or contractually agreed expenses, with more than 90 days old and that has not been written-off.

All the operations of a client, except for non-financial guarantees, are also considered doubtful due to the customer's delinquency, when the past due and unexpired balances classified as doubtful due to their delinquency are greater than 20% of the total the monetary risk.

Doubtful risks for other reasons than the client's delinquency are considered, when without the existence of circumstances to consider them doubtful because of their delinquency, there are reasonable doubts about its full reimbursement under contractually agreed terms, as well as those risks and contingent commitments whose payment by the Entity is likely and its recovery is dubious. This category includes transactions, among others, in which customers have incurred in situations that result in a deterioration of their solvency.

The Bank considers a “failed” risk, when after an individualized analysis, its recovery is considered remote and it is removed from the balance sheet, although the actions aimed at its recovery are not interrupted. Additionally, doubtful operations due to delinquency will be considered of remote recovery when they are older than 4 years in the category or before reaching that age, when the 100% hedged credit risk lasts more than two years.

In addition, the Bank considers doubtful (deteriorated) due to country risk, those transactions belonging to clients that, having not been considered as doubtful or failed for reasons attributable to the customer, reside in countries that present protracted difficulties in dealing with the service of its debt, considering the possibility of recovery doubtful, and the contingent risks and commitments whose recovery is considered remote due to circumstances attributable to the country. Assets belonging to countries which, because of their country risk, the recoverability are considered remote should be written-off.

Additionally, to risks that are considered doubtful, the Bank classifies as normal risk under special surveillance, those debt instruments and contingent risks that, without meeting the requirements to be considered as doubtful in accordance with what is established in the preceding paragraphs, have weaknesses that may result in losses greater than impairment hedging in normal situations.

Regarding the coverage of the insolvency risk of the client due to credit risk (recording of losses due to deterioration of assets and provisions on risks and contingent commitments), the Bank applies the following methods and procedures:

- **Default assets and contingent risks:** Transactions of significant amounts or that do not meet the conditions to be included in categories of homogeneous groups are analysed individually to determine the coverage for impairment to be constituted over them, considering in this analysis aspects such as the age of the unpaid amounts, the guarantees provided and the economic situation of the clients and guarantors.

  In addition to the individual analysis of operations, collective provisions are estimated on doubtful operations due to their default, taking into account factors such as the age of unpaid instalments and existing guarantees. As of 31 December 2020, the Bank applies the delinquency schedules established by the Bank of Spain in Circular 4/2017, to estimate said losses, in accordance with the specifications established in Annex IX of said Circular.

- **Assets and doubtful contingent risks for reasons other than their default:** Losses for impairment of debt instruments classified as doubtful for reason other than their default are calculated based on the individual analysis performed for each of the operations.

- **Assets and contingent risks due to country risk:** These operations are subject to the percentages of coverage established in Annex IX of the Circular, with the specifications included therein.

- **Operations classified as normal risk under special surveillance:** These operations are subject to the percentages of coverage established in Annex IX of the Circular.

5.2. Credit risk exposure as of 31 December 2021

The total exposure of Aresbank to credit risk at 31 December 2021 stood at EUR 1.558.626 thousand, comparing with EUR 1.211.775 thousand of previous year, which correspond to risk-weighted assets of EUR 544.135 thousand (EUR 523.016 thousand in 2020).

Credit risk is the most important part of Aresbank's risk exposures. The Bank calculates risk-weighted assets as the product of the risk exposure and the relevant risk weight determined by the supervisor. The risk weights are determined by the category of the borrower and depend on external credit assessments made by rating agencies (Standard & Poor's, Moody's and Fitch) and also on the type of banking product. Currently, the Bank's business focuses on international trade (especially between Spain and the Arab world) and interbank market operations.

Distribution of credit risk at 31/12/2021

Exposure category	Exposure	APRs	Capital (8%)
Central Banks	215.263	7.213	577
Public Sector	-	-	-
Financial Institutions	1.024.094	232.342	18.587
Companies	250.083	250.083	20.007
Retail	27.581	20.686	1.655
Exposures granted by mortgages	4.606	1.612	129
Exposures in default	561	-	-
Mutual Funds	-	-	-
Others	36.438	32.199	2.576
Total	**1.558.626**	**544.135**	**43.531**

5.3. Residual maturity of the exposure

Below is the distribution by maturity of the exposures, without considering the effects of credit risk reduction, as of 31 December 2021.

	Sight	Up to 3 months	>3 months <1year	> 1 year < 5 years	> 5 years	Total
Exposure	284.454	915.016	33.776	101.963	18.228	1.353.437

5.4. Geographical and counterpart distribution of the deteriorated positions

The distribution of defaults by type of instrument and sector of the counterparty is as follows:

Debt exposures	Impaired exposures	Provision
Debt instruments	-	-
Loans and advances	561	-561
Central banks	**-**	**-**
Public institutions	-	-
Banks	-	-
Other financial entities	-	-
Non-financial entities	561	-561
Of which: retails	508	-508
Households		
Total	**561**	**-561**

Thousand EUR

Out balance sheet exposures	Impaired exposures	Provision
Central banks	-	-
Public sector	-	-
Banks	1.352	270
Other financial entities	-	-
Non-financial entities	-	-
Households	-	-
Total	**1.352**	**270**

Thousand EUR

The detail of the impaired exposure by geographical area is as follows:

	Spain		Other EU		Other	
	Impaired exposure	Provision	Impaired exposure	Provision	Impaired exposure	Provision
Debt instruments	-	-	-	-	-	-
Loans and advances	561	-561	-	-	-	-
TOTAL	**561**	**-561**	**-**	**-**	**-**	**-**

Thousand EUR

The detail of the off-balance sheet impaired exposure by geographical area is detailed below:

	Spain		Other EU		Other	
	Impaired exposure	Provision	Impaired exposure	Provision	Impaired exposure	Provision
Credit commitments	-	-	-	-	-	-
Guarantees	-	-	-	-	-	-
Other commitment	-	-	-	-	1.352	270
TOTAL	**-**	**-**	**-**	**-**	**1.352**	**270**

Thousand EUR

The following table shows the provisions by country risk:

Clasification	Total gross exposure	Country risk provision
Country risk (balance sheet exposure)	148.308	588
Country risk (contingent risk)	165.341	1.348

Thousand EUR

5.5. Changes in 2021 in impairment losses and provisions

The changes during the years 2020 and 2021 of the balance of "Corrections for Asset Impairment by type of coverage" under the heading "Loans and receivables" and "available for sale" is as follows:

	Doubtful risk coverage	Normal risk coverage and special surveillance	Country risk coverage	Total
Balance 31/12/2020	**1.306**	**1.276**	**2.593**	**5.175**
Allocations	115	1.024	73	**1.212**
Recoveries	-	(1.363)	(2.104)	**(3.467)**
Other	(860)	3.547	26	**2.713**
Balance 31/12/2021	**561**	**4.484**	**588**	**5.633**

Thousand EUR

6. CREDIT RISK: STANDARD APPROACH

The standard method has been used for the calculation of weighted exposures by credit risk and in particular, each exposure category is characterized by the following information:

6.1. Identification of the rating agencies

In the year 2021, the Bank has used for the 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 granted by the aforementioned agencies are taken into account to determine the risk weight applicable to the exposures contracted with the rated counterparties, following the specifications set forth in Article 138 of Regulation (EU) No. 575/2013.

6.2. Description of the process for assigning credit ratings of issuance of public issuances to comparable assets.

As of 31 December 2021, the Bank has not assigned credit ratings of public issuances to comparable assets.

6.3. Effect to risk exposure of the application of risk reduction techniques

Below is a breakdown of the exposures to the Bank's credit risk as of 31 December 2021, broken down by credit quality level (measured according to the percentage applied for the purpose of calculating the value of risk-weighted exposure) and by risk categories, to which the standard method has been applied for their estimation, before applying the risk reduction techniques:

Type of risk	Exposure by percentage of weight applied according to the credit quality of each exposure							
	0%	20%	35%	50%	75%	100%	Other	Total
Central banks	208.050	-	-	-	-	7.213	-	215.263
Public sector	-	-	-	-	-	-	-	-
Banks	58.083	886.213	-	49.399	-	30.399	-	1.024.094
Corporates	-	-	-	-	-	250.083	-	250.083
Retail	-	-	-	-	27.581	-	-	27.581
Exposures backed by real estate mortgages	-	-	4.606	-	-	-	-	4.606
Default exposures	-	-	-	-	-	561	-	561
Other exposures	4.239	-	-			32.199	-	36.438
TOTAL	270.372	886.213	4.606	49.399	27.581	320.455	-	1.558.626

Thousand EUR

7. SECURITISATION OPERATIONS

The Bank has not carried out asset securitization operations, so it does not maintain outstanding balances from securitization operations.

8. INFORMATION ABOUT THE MARKET RISK ON THE TRADING PORTFOLIO

For the purposes of calculating the capital requirements associated with the trading portfolio, it should be noted that the Bank considers as such those positions in financial instruments and commodities that are held with the intention of trading or that serve as hedges for the elements of said portfolio.

As of 31 December 2021, the Bank did not hold any security within this portfolio, and therefore, in application of the regulations, does not present capital requirements for market risk of the trading portfolio.

9. INFORMATION ABOUT FINANCIAL INTRUMENTS NOT INCLUDED IN THE TRADING PORTFOLIO

The Bank holds participation in financial assets not included in the trading portfolio that are classified within the portfolio of assets available for sale and whose detail as of 31 December 2021 is as follows:

Financial asset	2021	2020
Sovereign debt (Spain)	-	-
Sovereign debt (EU)		
Fixed income (Spain)	15.990	15.809
Promissory notes (Spain)	-	-
Deterioration	(126)	(126)
	15.864	15.683
Currency:		
Euro	15.864	15.683
Total	**15.864**	**15.683**

Thousand EUR

Rating	2021	2020	2021	2020
A-	-	6.130	-	39,09%
BBB-	9.735	9.553	100%	60,91%
	9.735	15.683	100%	100,00%

Thousand EUR

10. INFORMATION ABOUT REMUNERATION

In this section of the Prudential Relevance Report, information is collected on the remuneration policy of the Parent Entity in force during 2021.

10.1. General principles of the remuneration policy of Aresbank

The retribution policy of ARESBANK is based on the following general principles:

- The adoption of a remunerations policy that is coherent with the business strategy and the business's tolerance for risk, its objectives, and interests in the long term.
- Not promoting or incentivizing the assumption of excessive risk as well as compensating despite unfavourable results.
- The remuneration policy must be transparent.
- When part of the remuneration is related to performance, the remuneration shall be based on a combination of individual and group performance, with other factors other than the financial results also being considered.
- There must be a proportional ratio between the basic remuneration and the incentives, with the purposes of not impacting the risk profile of the institution.
- The policies are aligned with an effective risk management in terms of ethical rules and avoiding conflict of interests.

- The parameters used to determine remuneration are additionally based on qualitative criteria which allow the alignment of the interests of the institution /employee with those of the client.
- Aresbank may approve the implementation of Multiyear Variable Remuneration Schemes. Such Schemes will decide the distribution and the deferral of the payment of this variable remuneration type for the members of the General Management, and the staff of the Bank.
- The Bank will comply with any other specific requirements of the Bank of Spain.

The salary policy of Aresbank S.A. follows the Collective Agreement for Banking Institutions that is in force, which the bank is fully compliant with.

10.2. Nominations and Remuneration Committee

The Nominations and Remuneration Committee is a non-executive committee, which reviews the nominations of Directors and key management positions for the daily development of the financial activity and control functions, as well as the approval of the remuneration policy. The Bank considers that a single Nomination and Remuneration Committee is enough and in accordance with the commercial operations it carries out. It consists of 3 non-executive members of the Board of Directors and its main objectives are the following:

- Supervise and approve proposals for appointments of administrators and key management positions for the daily development of the bank's financial activity and control functions, for subsequent ratification by the Board. Report on the appointments and dismissals of the department directors proposed by the General Management to the Board.
- Supervise and approve the bank's remuneration policies, both fixed and variable, its general principles and its adaptation to the Law in terms of its limits and application, for subsequent ratification by the Board; propose to the Board of Directors the remuneration policy for administrators.
- Supervise compliance with the remuneration policies established by the Bank.
- Supervise the selection processes and, permanently, the suitability of the managers and key positions of the financial and control activity, evaluate the capacity, knowledge and experience of the members of the Board, define the required roles and skills to the candidates to cover each vacancy, and decide the time and dedication necessary so that they can fulfil their duties adequately.
- Prepare contingency and succession plans in the key management positions, study and adequately organize the succession of the General Management and the Chief Executive Officer, where appropriate, making recommendations to the Board so that the transfer of powers takes place in a planned and orderly form.

10.3. Retribution of employees

Aresbank pays its employees an annual retribution according to the provisions of the Collective Agreement for Banking Institutions currently in force, which follows the aforementioned internal salary equality criteria.

The annual retribution of the employees of Aresbank S.A. consists of the following:

- ✓ **Fixed Remuneration**: The annual gross salary of the employee as per the stated by the Banking Agreement.
- ✓ **Variable Remuneration**: A variable sum subject to the Year Performance Appraisal of each employee and to the results of the Company, which targets are defined at the beginning of the financial year, assessed at the end of each financial year and applied **in a single payment the following financial year.** Alternatively, Aresbank may approve Multiyear Remuneration Schemes, linking the achievement of long-terms objectives with a **payment** of the variable Remuneration **over a set time period**.

Within the principle of internal equality and in compliance with the provisions of Regulation, Supervision and Solvency (Spanish LOSS) Act 10/2014 of 26th of June 2014, the employees of Aresbank are classified into three main staff profiles:

i) Administrative Staff

ii) Commercial Staff

iii) Employees occupying key job titles that might have an impact on the risk profile of the Entity

<u>i) Administrative Staff:</u>
Their salary consists of:

- ✓ **Annual Fixed Gross Salary**, according to the principles established in the Banking Collective Agreement currently in force.

  Additionally, all employees of Aresbank S.A. have as Social Benefits a Health Insurance for the employee, spouse and children under 25; participation in the Pension Plan of Aresbank S.A. in which the entity, after the employee is more than one year as indefinite employee in the company, makes and annual contribution on behalf of the employee equivalent to fifteen days of their annual gross salary; and the possibility of requesting salary advances and loans according to the Banking Collective Agreement and to the internal regulations governing such products. All employees of Aresbank, S.A. have also a Life and Accidents Insurance.

- ✓ **Annual Variable Retribution**, defined subject to an Annual Performance Appraisal and to the results of the Company, where each employee is assessed on the performance of their daily activities and the determinant tasks of their job titles, as well as on the annual or multiyear personal targets established for each employee. During each financial year and according to each hierarchic level, each supervisor carries out a follow up of the development of the targets established for the employees under their supervision with the purpose of ensuring that these performance targets are successfully met. The final assessment of the employee is carried out by their immediate superior in the hierarchy with General Management and Human Resources Management being entitled to rectify any assessment as they may deem expedient.

  The maximum sum of the variable retribution for these employees shall be 25% of their annual gross salary.

ii) <u>Commercial Staff:</u>

The salary structure applicable to this employee profile is the same as that for administrative staff with variations in the treatment of their annual variable retribution:

Their salary consists of:

- ✓ **Annual Fixed Gross Salary**, according to the principles established in the Banking Collective Agreement currently in force.

  Additionally, all employees of Aresbank S.A. have as Social Benefits a Health Insurance for the employee, spouse and children under 25; participation in the Pension Plan of Aresbank S.A. in which the entity, after the employee is more than one year as indefinite employee in the company, makes an annual contribution on behalf of the employee equivalent to fifteen days of their annual gross salary; and the possibility of requesting salary advances and loans according to the Banking Collective Agreement and to the internal regulations governing such products. All employees of Aresbank, S.A. have also a Life and Accidents Insurance.

- ✓ **Annual Variable Retribution**, defined subject to an Annual Performance Appraisal and to the results of the Company, where this group of employees is assessed on the performance of their commercial activities –which are duly established for each financial year– as well as on the annual or multiyear personal targets established.

  On an annual basis and depending on the Commercial Plan approved at the beginning of the financial year, the commercial staff of Aresbank shall have a number of quantitative and qualitative targets established for complying with the Commercial Plan established for the relevant financial year.

  Follow up of the performance of this group is carried out by the Commercial Division Manager and may be rectified as General Management may deem expedient.

  The maximum sum of the variable retribution for the commercial employees shall be 30% of their annual gross salary.

iii) <u>Employees occupying key job titles that might have an impact on the risk profile of the institution:</u>

In addition to the members of the General Management, belong to this section the employees of Aresbank holding key positions that may have an impact on the risk profile of the institution.

The salary structure applicable is the same as that of the other groups of employees, but with variations in the follow up and performance evaluation method to achieve the set targets.

Their salary consists of:

- ✓ **Annual Fixed Gross Salary**, according to the principles established in the Banking Collective Agreement currently in force.

  Additionally, all employees of Aresbank S.A. have as Social Benefits a Health Insurance for the employee, spouse and children under 25; participation in the Pension Plan of Aresbank S.A. in which the entity, after the employee is more than one year old as indefinite employee in the company, makes and annual contribution on behalf of the employee equivalent to fifteen days of their annual gross salary; and the possibility of requesting salary advances and loans according to the Banking Collective Agreement and to the internal regulations governing such products. All employees of Aresbank, S.A. have also a Life and Accidents Insurance.

- ✓ **Annual Variable Retribution**, defined subject to an Annual Performance Appraisal and to the results of the Company, where this group of employees is assessed on the performance of their activities –which are duly established for each financial year– as well as on the annual or multiyear personal targets established for each employee. Annual assessment of this group of employees shall be the responsibility of the Nominations and Remunerations Committee which is required to previously being reported by General Management and Management of Human Resources, which shall present the annual assessment of this group of employees to the aforementioned Committee with the purpose of providing all the information necessary for the appraisal and for the assessment to be as objective as possible.

The maximum sum of the annual variable retribution for this group of employees shall be 30% of their annual gross salary.

The assessment of the annual and multiyear targets for granting the variable retribution will follow the following basic principles:

- It will promote and be compatible with an adequate and efficient management of the risks, with no incentives being offered on the assumption of risks exceeding the level tolerated by the institution.
- It will be compatible with the strategy established by the institution, its targets, the values, and long-term interests of the institution, including measures leading to prevent conflict of interests.
- The General Management of the institution shall always be assessed by the Nominations and Remunerations Committee.
- The Multiyear Remunerations Scheme will be based on assessing the achievement of specifics objectives in a multiyear framework and the payment may be staged over a period and according to the objectives set.
- At time that the Bank decides to implement a Multiyear Remunerations Scheme, the conditions for its accrual, collection, recognition, calculation, and communication will be developed in an approved internal regulation issued for that purpose.

10.4. Notes to the policy of variable retribution of Aresbank

The variable remuneration policy, even given its small amount in relation to the Bank's equity, will follow the recommendations issued by the European Central Bank of December 13, 2016 (ECB / 2016/44), regarding compliance with minimum capital requirements as well as comply with any other specific requirements requested by the Bank of Spain in order to not represent any risk in the Bank's capitalization, solvency or liquidity level.

The Bank contends that the policy applicable to the annual variable retribution, which generally, is limited to 30% of the fixed retribution, is prudent and in alignment with the medium-term risk of the institution. Any variable retribution exceeding the limit of 30% shall be considered as exceptional and would require specific approval from the Board and the General Meeting of Shareholders subject to the case.

The following requirements will be applied to the variable remuneration:

1. *Delivery of financial instruments*: In compliance with the regulation (Law 10/2014, Art.32), the remuneration policy must be adapted to the size, internal organization and the nature, scope, and complexity of the activities of the entity.

Therefore, Aresbank, based on its shareholding structure, its prudent risk strategy, and its moderate remuneration policy, does not establish variable remuneration mechanisms on deliver financial instruments, following the principle of proportionality contained in the EBA GL guide 2015/22.

2. *Deferral clause (Law 10/2014 - Art. 34, 1. m):* If the Bank so determines and, in any case, when the total variable remuneration exceed 1% of the share capital, together with the proposal for approval, relevant time deferral procedures would be established complying with the established by the regulation in force.

3. *Malus clause (Law 10/2014 - Art. 34, 1. n):* The deferred variable remuneration pending of payment could be reduced by Aresbank when any of the following circumstances exist until its consolidation:

   i. A reformulation of the Annual Accounts not due to a regulatory modification and when the new amount to be settled is lower than the initially accrued.

   ii. A fraudulent act of an employee or that have caused serious damage to the Bank intervening fault or negligence.

   iii. Disciplinary dismissal of an employee. In case of Directors when they must leave his position for breach of their duties, malicious action conduct or actions for which Aresbank may take social action of liability against him.

4. *Clawback clause (Law 10/2014 - Art. 34, 1. n):* The variable remuneration already paid could be totally or partially recovered by Aresbank when during the subsequent 3 years after its payment would be clearly demonstrated that the total or partial amount received was paid in based on false or inaccuracy information or new risk during the conditioned period are raised.

5. *Limit for the variable remuneration: (Law 10/2014 - Art. 34, 1. g) 1º y 2º):* The annual variable remuneration shall not exceed 100% of the annual fixed retribution of the employee. Notwithstanding, the General Meeting of Shareholders of Aresbank S.A. may approve a higher level than the level generally established, provided that this does not exceed 200% of the fixed component and this shall be carried out according to the following procedure:

   i. The General Meeting of Shareholders of the institution shall decide on the basis of a detailed recommendation of the Board of Directors where the reasons and the scope of the decision are explained, including the number of affected people and their job titles, as well as the expected effect on the maintenance of a solid capital base by the institution.

   ii. The General Meeting of Shareholders of the institution shall adopt its decision by a majority of at least two thirds, provided that at least half of the shares or equivalent rights with voting rights are present or represented in the voting. Should the aforementioned quorum not be possible, the agreement shall be adopted by a majority of at least three quarters of the share capital present or represented by shareholders with a right to vote.

   iii. The Board of Directors shall inform all shareholders with enough notice the issue that will be submitted to approval.

   iv. The Board of Directors shall immediately inform the Bank of Spain of the recommendation for the Shareholder's General Meeting, including the maximum level of the variable component of the remuneration proposed and the reason for it, together with evidence of such a level will not be affecting the obligations expected by the institution in terms of solvency regulations and having particularly considered the obligations the institution has to maintain its own resources.

v. The Board of Directors shall immediately inform the Bank of Spain of the decision made by the General Meeting of Shareholders, including the highest percentage of the maximum variable component of the remuneration approved.

vi. If applicable, the members of staff who are directly affected by the application of the highest maximum levels of variable remuneration shall not be entitled to exercise, either directly or indirectly, the rights of vote that they may have as shareholders of the institution and their shares shall be deducted from the share capital for the calculation of the majority of votes that may be necessary in each case for any agreements relating to the application of maximum highest levels of variable remuneration.

10.5. Remuneration and other compensations to the Board of Directors and General Management

a) Board of Directors

Detail of the gross remuneration and compensations accrued by the Bank's Directors in 2021 is as follows:

2021	Number of persons	Remuneration	Other	Total
President and Vice president	2	340	79	**419**
Other Directors	5	459	47	**506**
	7	799	126	925

Thousand EUR

During 2021 there have been no new appointments and there has been a reduction in the board of directors. The Bank has 6 directors as of December 31, 2021.

The detail of the gross remuneration and compensations accrued by the Bank's Directors in 2020 is as follows:

2020	Number of persons	Remuneration	Other	Total
President and Vice president	2	436	30	**466**
Other Directors	8	721	33	**754**
	10	**1.157**	**63**	**1.220**

Thousand EUR

Aresbank, S.A. has no other obligations in terms of pensions and life insurance with any of the members of the Board of Directors. The Entity does not have direct risks with bank directors at December 31, 2021 or at the end of 2020.

In compliance with the requirements of article 229 of the Spanish Companies Act (LSC), administrators have reported no conflict with the interests of the Bank.

b) General Management

The breakdown of the retribution received by the General Management of the Bank in the year 2021 is as follows:

2021	Number of persons	Remuneration	Other	Total
General Management	2	1.474	201	1.675

Thousand EUR

The breakdown of the retribution received by the General Management of the Bank in the year 2020 is as follows:

2020	Number of persons	Remuneration	Other	Total
General Management	2	1.254	201	1.455

Thousand EUR

The amount owed to the Bank's Income Statement for contributions to Pension Plans and Insurance in the 2021 financial year was EUR 13 thousand, EUR 12 thousand in 2020. The entity has direct risks with the General Management for an amount of 67 thousand euros as of December 31, 2021, under the applicable conditions of the Collective Agreement.

11. LEVERAGE RATIO

As stated in Article 429 of Regulation 575/2013 (CRR), which was amended by the Delegated Regulation (EU) 2015/62, the entities will calculate the leverage ratio as the capital of the entity divided by the total exposure of the entity.

As a measure of capital, the level 1 capital of the entity will be taken. As exposure, the sum of the exposure values of all assets and off-balance sheet items not deducted when determining level 1 capital will be considered.

At 31 December 2021, the Bank's leverage ratio was 22%, according to the following breakdown:

	Phase-in	Fully-loaded
Exposure value: Total exposure corresponding to the leverage ratio	1.402.741	1.402.741
Capital: Tier 1 Capital	342.619	342.619
Leverage ratio	22,0%	22,0%

Thousand EUR

The control of the leverage ratio is incorporated into the usual monitoring of the risk parameters. There is a limit defined in the Bank's risk appetite framework, which is monitored by the entity and reported to the Risk Committee, ensuring that the ratio exceeds the minimum threshold that is considered as a reference value (3%).

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