

REMUNERATION POLICY

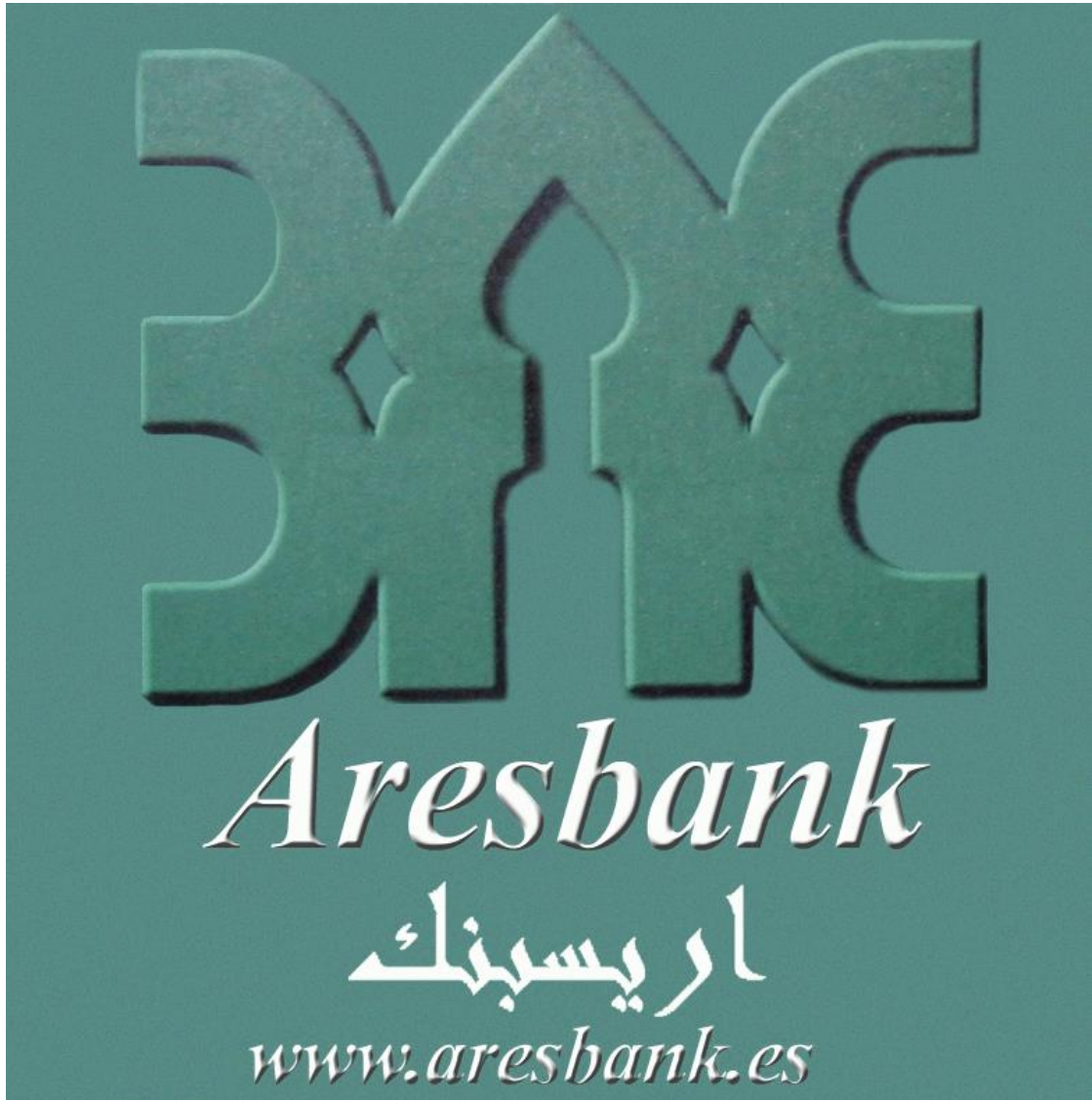


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1 INTRODUCTION

In accordance with Article 74 of Directive 2013/36/EU, credit institutions must have a remuneration policy for all staff. This remuneration policy must comply with the principles set out in Articles 92 and 94 of the Directive, considering the list of requirements set out in Articles 74 and 92 to 96 of this European Directive.

In this regard, Aresbank, S.A. (hereinafter "**Aresbank**" or the "**Entity**") draws up this Remuneration Policy, based on the principles set out in the provisions indicated above of the Directive 2013/36/EU, and on the criteria of gender impartiality, which means the Entity's staff, regardless of their gender, shall receive the same remuneration for the same work or for work of equal value, in accordance with point 65 of the Article 3, sub-paragraph 1 of the Directive 2013/36/EU and Article 157 of the Treaty on the Functioning of the European Union (TFEU).

The Entity's Remuneration Policy is consistent with risk and business strategy objectives, including objectives related to environmental, social and governance (ESG) risks, corporate culture and values, risk culture, as well as measures employed to avoid conflicts of interest and excessive risk-taking. Aresbank also ensures that remuneration practices are commensurate with its overall risk appetite, including reputational risks.

All the information contained in the present Policy complies with the detailed disclosure requirements provided in the Article 450 of Regulation (EU) 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms, amending the Regulation (EU) 648/2012 (CRR, *Capital Requirements Regulation*), and Article 17 of Implementing Regulation (EU) 2021/637.

This document also contains a description of the regulatory framework applicable to credit institutions on remuneration, the general principles governing the Remuneration Policy, the description of the staff remuneration system, as well as the allocation and payment scheme.

1.1 Purpose

This document contains the internal rules on the Remuneration Policy for the members of the Board of Directors, the Identified Staff, as defined hereinafter, and all Aresbank staff (hereinafter, the "**Policy**" or "**Remuneration Policy**"), based on the consideration of a remuneration system as an element that generates value for the Entity and supports sound risk management.

1.2 Legal framework

This Policy has been prepared in compliance with the provisions of the regulations governing the regulation and discipline of credit institutions on remuneration, contained in Law 10/2014, of 26 June, on the regulation, supervision and solvency of credit institutions¹ (hereinafter, "**Law 10/2014**"), which establishes that "*credit institutions must have remuneration policies and practices within their corporate governance system that are compatible with and promote² adequate and effective risk management*"; as well as in its implementing regulations, Royal Decree 84/2015, of 13 February, which implements the above (hereinafter "**RD 84/2015**"), the Bank of Spain Circular 2/2016, of 2 February (hereinafter "**CBE 2/2016**"); and the Bank of Spain Circular 3/2022 of 30 March amending CBE 2/2016, Circular 2/2014 of 31 January and Circular 5/2012 of 27 June (hereinafter "**CBE 3/2022**"). In addition, the provisions of the current mercantile legislation contained in Royal Legislative Decree 1/2010, of 2 July, approving the Spanish Companies Act (hereinafter, "**LSC**") are considered to apply at all times.

The following regulations have also been considered in the development of the Policy:

¹Spanish Act written into the Spanish law of the Directive 2013/36/EU of the European Parliament and of the Council of 26 June of 2013, on the access to the activity of credit institutions, and to the prudential supervision of credit institutions and investment companies amending the Directive 2002/87/EC and repealing the Directives 2006/48/EC and 2006/49/EC.

² Article 29.1 d) of the Spanish Act 10/2014 of 26 June, on the regulation, supervision, and solvency of credit institutions.

- In order to comply with the disclosure requirements, account has been taken of the provisions of the European Union Regulation 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment companies, amending European Union Regulation 648/2012 (hereinafter "**CRR**").
- Concerning the determination of the staff belonging to the Identified Staff, the provisions of EU Delegated Regulation No. 604/2014 of the Commission of 4 March 2014 supplementing Directive 2013/36/EU of the European Parliament and of the Council as regards regulatory technical standards regarding quantitative criteria and appropriate qualitative criteria for determining the categories of staff whose professional activities have a material impact on the risk profile of an Entity (hereinafter "**Regulation 604/2014**") have been taken into consideration.

The European Banking Authority (EBA), in applying the principle of proportionality on remuneration, recommended the amendment of Directive 2013/36/EU, and stressed the importance of ensuring a proportionate application of remuneration requirements.

- As part of the package of proposals for the reform of the banking system, Directive (EU) 2019/878³ of the European Parliament and of the Council of 20 May 2019 amending Directive 2013/36/EU as regards exempt entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures (hereinafter, "**CRD V**") was adopted. The Directive exempted from the application of the principles relating to payment in financial instruments, deferral or deferred payment and discretionary pension benefits⁴ small institutions (with assets of less than EUR 5 billion) or whose members of the Identified Staff receive variable remuneration of less than EUR 50,000⁵.

The CRD V was written into Spanish law through the publication of Royal Decree-Law 7/2021 of 27 April, which, in turn, wrote into Spanish law European Union directives on competition, anti-money laundering, credit institutions, telecommunications, tax measures, prevention and repair of environmental damage, posting of workers in the provision of transnational services and consumer protection.

- In addition, in view of the need of establishing criteria for identifying members of staff other than the members of staff referred to in Article 92(3)(a), (b) and (c) of Directive 2013/36/EU whose professional activities have a material impact on the risk profile of the institution, the European Commission published Delegated Regulation (EU) 2021/923 of 25 March 2021 supplementing the Directive 2013/36/EU of the European Parliament and of the Council as regards regulatory technical standards laying down the criteria for defining the responsibilities of management, control functions, significant business units and significant impact on the risk profile of a significant business unit, and laying down the criteria for determining the members of staff or categories of staff whose professional activities have an impact on the risk profile of the Entity comparable in importance to that of the members of staff or categories of staff referred to in Article 92(3) of the Directive (hereinafter, "**Delegated Regulation 2021**").
- Finally, the EBA Guidelines EBA/GL/2021/04 of 2 July 2021 on sound remuneration policies under the Directive 2013/36/EU (hereinafter, "**EBA Guidelines**") under the Articles 74, sub paragraph 3 and 75, sub paragraph 2 of this Directive and the disclosure of Information under Article 450 of the CRR have been considered.

³ Directive (EU) 2019/878 of the European Parliament and of the Council of 20 May 2019, amending the Directive 2013/36/EU as regards the exempt entities, the financial holding companies, the mixed financial holding companies, the remunerations, the measures and the powers for supervision and capital preservation measures.

⁴ Article 94.1 of the CRD IV, points l), m) and o).

⁵In accordance with the article 94.3 b) of the CRD V: "A member of the staff whose annual variable remuneration does not exceed 50,000 euro and it does not represent more than one third of the total annual remuneration of that member of the staff".

2 SCOPE OF APPLICATION

This Remuneration Policy shall apply to all Aresbank staff and, particularly, to members of the Entity's so called "**Identified Staff**", understood as members of the management body, senior management, or employees whose professional activities have a significant impact on the Entity's risk profile, including, at least, those who meet the qualitative and quantitative criteria established in Regulation 604/2014⁶, as well as in Delegated Regulation 2021⁷.

In line with the document establishing the "*Procedure for the suitability assessment of the members of the Board of Directors, Senior Management and Key Function Holders*", approved by the Board of Directors in September 2022, Aresbank has appropriate internal procedures to determine the composition of the Identified Staff, which will include both internal selection criteria, complementary to those indicated in Regulation 604/2014 and in the Delegated Regulation 2021, and exclusion criteria, based on the identification of activities that are considered not to have a material impact on its risk profile. Possible exclusions from the Identified Collective will be communicated to the supervisory authority for approval, as set out in the Delegated Regulation 2021.

The Identified Staff at Aresbank shall be made up of the following members:

1. Members of the Board of Directors.
2. Members of the General Management.
3. People who exercise "Internal Control Functions":
 - Responsible for the Risk Management function: The Global Risk Control department, with the Chief Risk Officer (CRO) at the helm, is responsible for providing comprehensive and understandable risk information and advice to the management body to enable it to understand the overall risk profile of the Entity.
 - Responsible for the Compliance function: This will correspond to the Compliance area, which is responsible for carrying out the regulatory compliance function of the Entity, including the prevention of money laundering and the financing of terrorism.
 - Responsible for the Internal Audit function: The Internal Audit Department is responsible for providing independent assurance on the quality and effectiveness of the Entity's internal control, risk management and governance systems and processes, assisting the Board of Directors and General Management in safeguarding its organisation.
4. Other persons occupying key positions for the development of the Entity's activity are the Managers of the: i) Business Development Department, ii) Operations Department, iii) Legal Department, iv) Treasury and Capital Markets Department, v) Accounting Department, vi) IT Department, and vii) Administration and Human Resources Department.

The Global Risk Control and Compliance functions, the Legal Department, together with the Administration and Human Resources Department, as well as the Committees of the Board of Directors, shall participate in the process of identifying Aresbank's Identified Staff in accordance with their respective functions and on an ongoing basis, too. Likewise, the Risk, Compliance and IT Committee, as a delegated body of the Board of Directors, shall participate in such process without prejudice to the tasks of the Nominations and Remunerations Committee.

Apart from the employees and members of the Identified Staff, the scope of application of this Policy also includes the rest of the Entity's staff.

⁶ In accordance with the articles 2, 3 and 4 of the Delegated Regulation (EU) number 604/2014.

⁷ In accordance with the articles 5 and 6 of the Delegated Regulations (EU) number 2021/923.

3 GENERAL PRINCIPLES OF THE REMUNERATION POLICY

The main purpose of this Remuneration Policy is to establish the general principles on which the remuneration system for Aresbank's staff is based, to ensure that the remuneration strategy approved by the Board of Directors is implemented in accordance with the Entity's strategy and with current national and European legislation.

The Remuneration Policy shall be 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 Entity:

1. Principle of proportionality

The Article 92(2) of Directive 2013/36/EU and, in the case of the Spanish legislation, the article 32.1 of Law 10/2014 establish that, institutions, when setting and applying the overall remuneration policy, should take into account the general principles and practices of remuneration listed in the Law, so that they are consistent with the individual risk profile, risk appetite and strategy of the institution, so that the objectives of the remuneration requirements are effectively met.

In applying the remuneration requirements and the provisions of the EBA/GL/2021/04 Guidelines in a proportionate manner, Aresbank has considered the combination of several criteria based on its size, its internal organisation and the nature, scope and complexity of their activity.

The aim has at all times been to make Aresbank's Remuneration Policy compatible with its risk profile, risk appetite and business strategy, the special characteristics of which could allow the application of the principle of proportionality of certain requirements relating to the variable remuneration of the Identified Staff, when it is considered that the cost of applying such requirements is greater than the prudential advantage they entail, specifically with regards to payment in financial instruments, deferred payment and discretionary benefits.

2. Principle of prudent and efficient risk management

This Policy should promote and be consistent with appropriate and effective risk management and will not provide incentives to take risks beyond the level tolerated by the Entity.

Likewise, performance should be rewarded by aligning remuneration with the results generated by the employee and the level of risk assumed. Therefore, the Entity must achieve an appropriate balance between the different components of remuneration, considering current and future risks and results, and not encouraging the assumption of risks that exceed the Entity's tolerated level. In this regard, the Remuneration Policy aligns employee remuneration with the Entity's results, the cost and volume of capital necessary to support the risks assumed, the cost and level of liquidity risk assumed in the management of its activity, consistency with the probability and timing of potential future income being incorporated into current profits, the risks assumed by employees and the qualitative criteria established in the performance assessment, as set out in article 5 of Delegated Regulation 2021.

3. Independence of the control functions

Staff exercising control functions within Aresbank shall be independent of the business units they supervise, shall have the necessary authority to perform their duties and shall be remunerated based on the achievement of the objectives related to their functions, irrespective of the performance of the business areas they control.

In this way, the methods used to determine variable remuneration for control functions shall not compromise the objectivity of staff or their independence and shall ensure that no significant conflicts of interest arise for staff in control functions.

4. Supervision and efficiency

Aresbank's Remuneration Policy, as well as the amounts to be received as remuneration, shall be matters

supervised and approved by the Bank's Nominations and Remunerations Committee and proposed for approval by the Board of Directors, ensuring that the Bank's remuneration policy and practices are subject to a central and independent internal review at least once a year.

The proposed decision on the amount of variable remuneration to be received shall be taken by the Entity's General Management. This decision shall subsequently be ratified by the Nominations and Remunerations Committee of the Bank.

The Board of Directors of the Bank shall adopt and periodically review the general principles of the Remuneration Policy and shall be responsible for overseeing its implementation.

5. Transparency of the remuneration system

The rules for the management of remuneration shall be explicit and known to the members of the Identified Staff, and to the rest of the staff, and transparency in terms of remuneration shall always be a priority.

These rules shall be drafted in a clear and concise manner, including a simplified description of the rules and the methods of calculation, as well as the conditions applicable to the granting thereof.

6. Competitive and equitable system

The Remuneration Policy must ensure that the Entity has a remuneration system that maintains criteria of external competitiveness and internal equity; that it can attract and retain the best talent; and that it is aligned with market standards and flexible enough to adapt to changes in its environment and the demands of the sector.

In relation to the implementation of an equitable system, it must also reward career development and responsibility, irrespective of the employee's gender.

7. Gender equality⁸

The Remuneration Policy must be based on equal remuneration for male and female employees for equal work or work of equal value.

Based on this principle, Aresbank's Equality Plan, approved by the Entity, includes the Bank's commitment to carry out an audit of the Bank's remuneration system to detect factors that may lead to a salary pay gap between male and female employees, and to establish the necessary measures to reduce the possible salary gap.

8. Promotion of the corporate and social sustainability

The Entity shall ensure that the Remuneration Policy, in addition to promoting corporate and social sustainability in the medium and long term, is in line with the values of the group, which implies: (i) the alignment of remuneration with the interests of shareholders and with the creation of long-term value; (ii) the promotion of rigorous risk management, avoiding potential conflicts of interest; and (iii) the alignment with the business strategy, objectives, values and long-term interests of the entity.

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

The Remuneration Policy clearly distinguishes between the criteria for the establishment of the fixed and variable remuneration. On the one hand, the fixed component shall primarily reflect relevant professional experience, and responsibility in the organisation, as stipulated in the job description as part of the terms and conditions of employment, according to their professional level; and on the other hand, the variable component shall reflect sustainable and risk-adapted performance as well as performance in excess of that

⁸ According to the CRD V, "The gender equality of the remuneration between male and female employees for the same work or for a work of equal value is set out in the article 157 of the Treaty on the Functioning of the European Union (TFEU). The entities shall apply that principle in a consistent manner. Therefore, they must apply a gender-neutral remuneration policy."

required to fulfil the stipulated in the job description as part of the terms and conditions of employment.

In addition, Aresbank may approve the implementation of Multi-Year Variable Remuneration Plans. Such plans will establish the distribution and deferral of the payment of this type of variable remuneration for the General Management and the rest of the Bank's staff.

4 GENERAL FRAMEWORK OF THE VARIABLE REMUNERATION APPLICABLE TO THE IDENTIFIED STAFF

The Identified Staff, as defined in section 2 of this Remuneration Policy, has been reviewed and its composition updated by Aresbank's Appointments and Remuneration Committee, following the recommendations of the regulatory bodies as to the members that should form part of it, i.e. both members of the General Management and executives responsible for business management; personnel responsible for control functions, as defined in said section 2 of this Remuneration Policy, and other persons holding key positions for the development of the Entity's activity.

The variable component of the remuneration of the Identified Staff shall be marked by the following aspects:

4.1 Balancing fixed and variable components

There shall be a balance between the fixed and variable components of the total remuneration of the members of the Identified Staff, allowing for a certain degree of flexibility in determining the variable component, which may be reduced, where appropriate, to its totality. The proportion between the two components shall be established considering the type of functions performed by each member of the Staff and, consequently, their impact on the Entity's risk profile. Thus, a distinction shall be made between:

- a) Fixed remuneration: It shall primarily reflect experience, performance, training and responsibility within the organisation, in accordance with the job description. In this way, such remuneration shall reflect the level of responsibility of their executive functions and shall in no case be linked to variable parameters or results.

The amount of the fixed remuneration for each employee shall constitute a sufficiently high proportion of his or her total remuneration.

- b) Variable remuneration: It should reflect a sustainable and risk-adapted performance, as well as performance exceeding that required by the job description, aiming to incentivise performance in a way that promotes sound and effective risk management and avoids creating incentives for excessive risk-taking behaviour.

The total variable remuneration will not limit the Entity's ability to reinforce the strength of its capital base and does not represent any risk to the level of capitalisation, solvency or liquidity of the Entity.

4.2 Determination of the variable remuneration

The setting of the variable component of remuneration shall take into account the following aspects:

- The variable remuneration component shall not exceed 100% of the fixed component of each employee's total remuneration. However, the General Shareholders' Meeting of the Entity may approve a higher level, if it does not exceed 200% of the fixed component, in accordance with the procedure provided for in the Article 34.1.g) 2º of Law 10/2014. In this case, the following procedure must be followed:
 - (i) The General Meeting of Shareholders shall take its decision based on a detailed recommendation of the Board of Directors setting out the reasons for and the scope of the decision, including the number of persons affected and their positions, as well as the expected effect on the maintenance by the Entity of a sound capital base.

- (ii) The decision of the General Meeting of Shareholders of the Entity shall be taken by a two-thirds majority, provided that at least half of the shares or equivalent rights with voting rights are present or represented at the vote. If it is not possible to reach the above quorum, the resolution shall be adopted by a majority of at least three quarters of the share capital present or represented and entitled to vote.
 - (iii) The Board of Directors shall give all shareholders sufficient prior notice of the matter to be submitted for approval.
 - (iv) The Board of Directors shall inform the Bank of Spain of the recommendation addressed to the General Shareholders' Meeting, including the highest level of the variable component of the proposed remuneration and its justification, and shall accredit that this level does not affect the Entity's obligations under solvency regulations, particularly in view of the Entity's own funds obligations. Likewise, the Board of Directors shall inform the Bank of Spain of the decision adopted in this respect by the General Shareholders' Meeting, including the highest maximum percentage of the variable component of the approved remuneration.
- When setting the amount of variable remuneration, all types of current and future risks will be considered, as well as the necessary cost of capital and liquidity. In this way, both financial (quantitative criteria) and non-financial (qualitative criteria) criteria will be used, combining the employee's results with those of his or her business unit, and with the overall results of the Entity. They will be calculated based on annual evaluation metrics, according to certain scales for the achievement of objectives, and according to the weighting attributed to each metric.
 - With regards to the payment with financial instruments, as set out in article 34.2 of Law 10/2014, in the case of Aresbank, based on its shareholding structure, its prudent risk-taking strategy and its moderate remuneration policy, it does not establish variable remuneration mechanisms in the form of equity instruments, following the principle of proportionality contained in the EBA Guidelines.

The criteria used for the determination of the variable remunerations will be the following:

Quantitative criteria:

a) Indicators of the Risk Appetite Framework:

- Common Equity Ratio CET-1.
- Short-term liquidity Ratio (LCR).
- Non-performing loans Ratio (defined as 90 days unpaid credits).

The results of those indicators will be compared with the limits established in the Risk Appetite Framework of Aresbank.

b) Indicators related to the business model:

- *Gross business margin*.- It is the main indicator of development of the global business model in terms of operating margin. The result of this indicator will be compared with the average of the margins obtained in the last 5 years, to apply a criterion consistent with the dynamics of

the business, which allows smoothing cyclical trends derived from the business, in an objective manner.

- *Cost-Income ratio*. - The result of this second indicator will be compared with the average for the banking sector in Spain, based on the latest data available to date, published by the Spanish Banking Association.

Quality criteria:

For the evaluation of the quality criteria, the Entity shall consider:

- a) The development of human capital: It will ensure that all employees are properly trained and always updated, through the promotion of active Human Resources policies focused on them, and the promotion of best practices in this area. This commitment will be considered very important to strengthen Aresbank in the development of its business with maximum guarantees at all levels. To this end, the annual training plan must be monitored at a high level, ensuring that it is implemented in accordance with the planned schedule.
- b) The implementation of Internal Audit recommendations: It shall assess the implementation by each area of the recommendations issued by the Internal Audit department, based on an agreed schedule to be established in line with the level of importance of the recommendations issued, and the potential operational impact that may arise around the business.
- c) Operational risk management: Promote and maintain management in accordance with issued internal procedures to reduce the magnitude and impact of any operational risk event. The trigger to be used to assess such management will focus on independent reporting by both the Risk Management function and Internal Audit affecting operational risks.
- d) Digitalisation: It will actively participate in Aresbank's digitalisation project, based on the agreed roadmap and the different milestones set, to ensure that the project is carried out properly, considering the business plans and budgets. This objective will be evaluated through the fulfilment of each of the stages in accordance with the established roadmap.
- e) Corporate Social Responsibility (CSR): The Entity shall promote CSR initiatives to further develop the Entity's commitment to its customers, the environment, sustainability and society in general. To this end, an annual CSR plan shall be drawn up and monitored until its completion to gauge compliance with this objective.

The Nominations and Remunerations Committee shall annually assess the suitability of the criteria established to determine variable remuneration, so that in the event of poor results, the variable remuneration may be reduced to zero. This Committee shall have the power to propose, where appropriate, the modifications it deems relevant to the Board of Directors.

- The performance evaluation shall be embedded in a multi-year framework to ensure that the evaluation process is based on long-term performance, and that the actual payment of performance-based components of remuneration is spread over a period that considers the underlying business cycle of the Credit Institution and its business risks.

4.3 Ex ante risk adjustment mechanism

In order to comply with the requirements of article 450.1 of Regulation (EU) 575/2013, the *ex-ante* risk adjustment mechanism is described below.

The total amount of any variable remuneration element is subject to a possible downward adjustment at the discretion of the Nominations and Remunerations Committee, which may be zero based on the following criteria:

- (i) A variable remuneration adjustment based on the evolution of the risk profile and performance. The

adjustment may be applied to all staff or at the individual level, to reflect different types of risk. This variable remuneration adjustment may reduce the initial pool to zero and shall ensure that the variable remuneration awarded is fully aligned with the risks taken. This adjustment will be related to risk and control factors, such as regulatory and regulatory breaches, breaches of risk limits (solvency, liquidity,) or exceeding the expected loss threshold for operational risk, and internal control indicators or similar elements (e.g., results of internal audit reports).

- (ii) A reduction to zero if the Entity's capital is less than the *Maximum Distributable Amount* (MDA), as provided for in the Article 141 of Directive 2013/36/EU, or as determined by law from time to time.

4.4 *Ex post* risk adjustment mechanism. Remuneration reduction clauses (*malus*). Deferral and claw-back clauses (*clawback*)

The Entity shall have *ex post* risk adjustment mechanisms whereby the Entity itself adjusts the remuneration of a member of the Identified Staff, either by reducing the cash remuneration or by reducing the number or value of instruments granted, or by requiring the recovery of variable remuneration already paid. Up to 100 per cent of the total variable remuneration, regardless of the method of payment, will be subject to these clauses.

The Entity may apply a deferral period to variable remuneration so that a sufficient portion of such remuneration may be adjusted according to risk performance over time, according to a period to be determined from time to time, by adjusting for risk and the nature of Aresbank's business. For these purposes, such deferral shall consider certain elements such as:

- (i) the responsibility assumed by the members of the Board of Directors, General Management and the other members of the Identified Staff;
- (ii) the business cycle and the nature of the Entity's activities; the risk profile of the Entity and its business units;
- (iii) the amount of variable remuneration awarded to each member of the Identified Staff; and
- (iv) the specific regulatory requirements under the local laws and regulations where the member of the Identified Staff provides services.

If a variable remuneration element is of a particularly high amount, the Entity may decide the percentage of the variable remuneration to which the deferral would apply. The deferral period shall commence upon vesting of the non-deferred portion of the variable remuneration.

As for the variable remuneration already paid, whether deferred or not, it shall be subject to recovery, in part or in full, by the Entity when, during the three years immediately following its payment, it becomes clear that the payment has been made in whole or in part on the basis of information that is subsequently proven to be manifestly false or seriously inaccurate, or derives from risks assumed during the conditional period.

Notwithstanding the foregoing, the total variable remuneration payable pending to be paid is always subject to reduction or cancellation clauses, as well as *clawback* and *malus* clauses, in the event of poor financial performance of the Bank as a whole or of a specific division or area or of the exposures generated by the member of the Identified Staff to which they are applicable. For this purpose, the performance assessment made shall be compared with the *ex-post* behaviour of the variables contributing to the achievement of the objectives. Thus, the Board of Directors, in accordance with the Nominations and Remunerations Committee's report, shall adopt such resolution if, during the period until the corresponding payment is made, any of the following circumstances set out below apply:

- (i) A restatement of annual accounts that does not arise from a regulatory change and provided that, in accordance with the said restatement, the new amount of variable remuneration to be paid is lower than that initially accrued.
- (ii) Significant failures in risk management committed by the Entity or by a business or management unit.

- (iii) An increase in the capital needs of the Entity or a business unit that was not foreseen at the time the exposures were generated.
- (iv) Non-compliance by the person belonging to the Identified Staff with the eligibility conditions established for the Identified Staff.
- (v) Fraudulent action by the employee or that has caused serious damage to the Entity, involving fault or negligence.
- (vi) Disciplinary dismissal of an employee. In the case of members of the management body, the dismissal from the position of member of the Board for breach of their duties, fraudulent conduct or actions for which Aresbank may bring a social action for liability against them.
- (vii) Establishment of regulatory sanctions to which the employee's conduct has contributed, or judicial sentences for acts that may be attributable to the unit or the personnel responsible for them. Likewise, non-compliance with Aresbank's internal Code of Conduct.
- (viii) Irregular conduct, whether individual or collective. Particular consideration will be given to the negative effects arising from the marketing of inappropriate products and the responsibilities of the persons or bodies that made such decisions.

4.5 Personal hedging and circumvention strategies

On one hand, Aresbank shall ensure as far as possible that the Identified Staff does not use personal hedging strategies or insurances related to remuneration and liability that undermine the alignment effects with sound risk management that their remuneration system promotes. The requirement of not using personal hedging strategies or insurance that undermine the risk alignment effects of its remuneration arrangements applies to variable remuneration.

Aresbank shall maintain effective mechanisms to ensure that the Identified Staff complies with the requirements on personal hedging strategies. To this end, the Entity's Internal Control functions shall carry out random inspections to verify that the Entity is not carrying out such hedging strategies and shall inform the Administration and Human Resources Department of any non-compliance detected.

Furthermore, the Entity shall ensure that variable remuneration is not paid through instruments or methods that are intended to or lead to non-compliance with the remuneration requirements of the Identified Staff.

The Entity shall ensure that the method for measuring performance has appropriate controls to ensure that the vesting criteria cannot be manipulated. Such controls shall be necessary to verify that variable remuneration is correctly linked to performance and that the Remuneration Policy is applied appropriately, avoiding any infringement of regulatory requirements.

5 REMUNERATION SYSTEM OF THE MEMBERS OF THE BOARD OF DIRECTORS OF ARESBANK

The remuneration system of the members of the Board shall distinguish between the remuneration system applicable to Board members in their capacity as such members (non-executive Board members) and that of executive Board members, as regulated in article 27 of the Articles of Association, which states: "*The office of member of the Board shall be remunerated. Remuneration shall consist of a fixed amount, determined for each year by the General Meeting of Shareholders. The maximum amount of the annual remuneration of all directors must be approved by the General Meeting and shall remain in force until it is changed. Unless the General Meeting determines otherwise, the Board of Directors shall decide on the distribution of remuneration among each of its members, in accordance with the duties performed and attendance at meetings of the Board and its Committees*".

In the case of executive Board members, they "*shall be entitled to remuneration for the provision of executive services, which shall consist of a fixed amount, and where appropriate a bonus, appropriate to the duties*

and responsibilities assumed, in accordance with the management services contract, whatever its legal nature, to be authorised by the General Meeting, pro rata to the number of meetings held".

5.1 Remuneration system of the non-Executive Board members

The Board of Directors of Aresbank, at the date of publication of this Remuneration Policy, is composed of 7 Non-Executive Board members, of which 2 are independent, and without any direct or indirect relationship with the two shareholding entities, and 5 Proprietary Directors, representing the shareholders. The current composition of the Board of Directors is as follows:

Mr. Ahmed A. Omar Ragib	Chairman
Mr. Fekri A A Sinan	Vice Chairman
Mr. Mustafa Mohamed Ali Elmanea	Member
Mr. Ahmed A A Elabbar	Member
Mr. Ali Kadri	Member
Mr. Javier Iglesias de Ussel	Member (Independent)
Mr. Antonio del Campo	Member (Independent)

Pursuant to the article 27 of the Articles of Association, the maximum amount of the remuneration of the members of the Board of Directors is approved each year by the General Meeting of Shareholders and shall remain in force as long as it is not modified by this body.

The following remuneration system shall apply in the same way to both proprietary directors and independent directors for their duties as members of the Board of Directors. This remuneration system shall be composed of the following elements:

- a) A fixed remuneration, determined for each year by the General Meeting of Shareholders, as provided for in article 27 of Aresbank's Articles of Association. Unless the General Meeting determines otherwise, the Board of Directors shall decide on the distribution of remuneration among each of its members, as well as on the duties performed and attendance at meetings of the Board and its Committees.
- b) Attendance fees to cover the travel, board and lodging expenses of each non-resident director attending board meetings, and attendance fees for resident directors, as well as those for chairing and attending each of the Board and of its Committees.

Both items shall be proportional to the annual attendance at Board meetings held during the year and to the activity carried out during the year within the Board and its delegated Committees.

5.2 Remuneration system of the Executive Board members

The remuneration system applicable to Executive Directors is also established in article 27 of Aresbank's Articles of Association, although at the time of publication of this Policy, there are no Executive Board members at the Board of Directors. However, a remuneration system for Executive Board members for the provision of executive services is established below, in accordance with best corporate governance practices in credit institutions, which shall consist of the following elements:

- a) A fixed remuneration.
- b) A variable remuneration or "Extraordinary Bonus", appropriate to the duties and responsibilities assumed, in accordance with the management services contract, whatever its legal nature, to be set by the General Meeting, based on the performance of each of the members of the Board of Directors during the previous year or subject to the multi-year objectives established, taking into account in all cases the quantitative and qualitative criteria established in section 4.2. of this Policy.

6 CHARACTERISTICS OF THE REMUNERATION SYSTEM OF CERTAIN MEMBERS OF THE IDENTIFIED STAFF OF ARESBANK

Without prejudice to the specific features of the remuneration system for the other members of the Identified Staff, the principles set forth in the general framework of the Remuneration Policy applicable to the Identified Staff shall be considered in all cases. This remuneration system will include some of the members of the Identified Staff listed below and, particularly, personnel holding key positions that may affect the Entity's risk profile.

6.1 Remuneration system of the members of the General Management

The remuneration system for the General Management of Aresbank shall consist of the following elements:

- (a) A fixed remuneration.
- b) A variable remuneration or Bonus, appropriate to the functions and responsibilities assumed, in accordance with the employment contract signed with the member of the General Management, whatever its legal nature, to be set by the Board of Directors, based on the performance of the member of the General Management during the previous financial year or subject to the established multi-year objectives, taking into account in all cases the quantitative and qualitative criteria established in section 4.2.

6.2 Remuneration system of other members of the Identified Staff

This section refers to the remuneration system both for persons performing internal control functions and for other Identified Staff holding key positions that may affect the Entity's risk profile.

Thus, the remuneration system or salary composition is the same as the rest of the groups, although the monitoring and evaluation method for achieving the objectives established varies, but always maintaining the principles established in the Banking Collective Bargaining Agreement in force at any given time.

Total remuneration is made up of:

- a) **Fixed gross salary:** It must be compliant with the principles established in the Collective Bargaining Agreement in force at any given time. In addition, like the rest of Aresbank's employees, this group of employees has the following main social benefits: life and accident insurance; medical insurance for the employee, spouse and children under the age of 25; access to training grants for language studies; the possibility of requesting salary advances and loans in accordance with the Collective Banking Agreement and the internal regulations governing this type of product; and participation in the Aresbank, S.A. Pension Plan, in which the Entity, once the employee has a seniority of more than one (1) month in the workforce of the employer⁹, makes an annual contribution on his or her behalf, equivalent to fifteen days of his or her gross annual salary.
- b) **Variable remuneration:** This is defined in accordance with the Annual Performance Evaluation and the company's results, by means of which this group of employees will be assessed based on the performance of their activity duly stipulated for each financial year, as well as the personal annual or multi-annual objectives set.

The annual evaluation of this group of staff will depend on the Nominations and Remunerations Committee, following a report from the General Management and the Human Resources Department, who will submit the annual evaluation of this group of employees to the said Committee, so that the latter has all the information necessary for the evaluation and can carry out its evaluation as objectively as possible.

⁹ Unique article of the Act 12/2022 of 30 June 2022 on the regulation for the promotion of employment pension plans, which amends the consolidated text of the Pension Plans and Funds Regulation Act, approved by the Royal Decree 1/2002 of 29 November 2002, which introduces the article 74, amending the article 5.1.a) 1º of the Act 1/2002.

The maximum amount of variable remuneration achievable by this group of employees shall not exceed 30% of their gross annual salary.

The evaluation of the annual and multi-annual objectives set for the granting of variable remuneration shall follow the following basic principles:

- It shall promote and be compatible with adequate and effective risk management, not offering incentives for the assumption of risks that exceed the level tolerated by the entity.
- It shall be compatible with the strategy set by the institution, the objectives, the values, and long-term interests of the institution, including measures to avoid conflicts of interest.
- The General Management of the entity shall always be evaluated by the Nominations and Remunerations Committee.
- Multi-year Remuneration Plans shall be based on assessing the achievement of certain objectives within a multi-year framework and their payment may be staggered over a period in accordance with the objectives set.
- When the Bank decides to implement remuneration based on a multi-annual plan, the conditions for its accrual, collection, recognition, calculation, and communication shall be set out in an internal regulation approved for this purpose.

In cases where contributions to the Pension Plan are made in the form of variable remuneration, as a component of such remuneration, these shall be considered as discretionary pension benefits. Aresbank shall ensure that when a member of the Identified Staff leaves the Entity or retires, discretionary pension benefits shall not be paid without considering the financial situation of the Entity, or the risks assumed by such member, which may affect the Entity in the long term.

The systems established by the Board of Directors in this regard, with the scope and application to be determined, shall apply to the Identified Staff. This Policy may also include pension commitments to members of the Identified Staff to cover retirement, death and disability contingencies under the terms provided for in the Collective Bargaining Agreement for the banking sector, as well as other individual or collective agreements.

The pension policy will, in all cases, be compatible with the Bank's business strategy, objectives, values and long-term interests.

Finally, Aresbank will ensure that the reduction and clawback clauses provided for in sections 4.3 and 4.4. of this Policy apply equally to discretionary pension benefits as to other elements of variable remuneration.

In addition, it should be noted that Aresbank has no commitments to pay severance payments or loss of wages accrued under a previous contract to the Identified Staff members referred to in this section, nor for the rest of the staff.

7 GENERAL REMUNERATION SYSTEM OF THE STAFF OF ARESBANK

In line with what is set out in the Remuneration section of the last Prudential Relevance Report of the Bank, Aresbank pays their employees annual remuneration in accordance with the Collective Bargaining Agreement in force at any given time, which follows the aforementioned criteria of internal salary equity and gender equality.

The annual remuneration of Aresbank's staff consists of:

- **Fixed Remuneration:** This is made up of the employee's gross annual salary and will be determined in accordance with the provisions of the Banking Agreement.

- **Variable Remuneration:** This is made up of a variable amount based on the Annual Performance Evaluation of each employee and the company's results, the objectives of which are defined at the beginning of the year, analysed at the end of each financial year and applied in a single payment in the following financial year. Alternatively, Aresbank may approve Multi-Year Remuneration Plans that combine the achievement of objectives over a specific period with the payment of variable remuneration staggered over a period.

Within the principle of internal equity and in compliance with the provisions of Law 10/2014 of 26 June on the Regulation, Supervision and Solvency of Credit Institutions, Aresbank's staff, without prejudice to the group indicated in section 6.2 above, is divided into two main profiles: Administrative and/or Technical Staff and Commercial Staff.

i) **Administrative and/or Technical Staff**

Their salary is made up of:

- a) **Fixed gross salary:** This is in accordance with the principles established in the Collective Bargaining Agreement in force at any given time. In addition, like the rest of Aresbank's employees, this group of employees has the following main social benefits: life and accident insurance; medical insurance for the employee, spouse and children under the age of 25; access to training grants for language studies; the possibility of requesting salary advances and loans in accordance with the Collective Banking Agreement and the internal regulations governing this type of product; and participation in the Aresbank, S.A. Pension Plan, in which the Entity, once the employee has a seniority of more than one (1) month in the workforce of the employer, makes an annual contribution on his or her behalf, equivalent to fifteen days of his or her gross annual salary.
- b) **Variable remuneration:** This is determined based on the Annual Performance Evaluation and the results of the Entity, whereby each employee is assessed for the performance of their daily activities and functions determining their position, as well as for annual or multi-annual personal objectives set for each employee.

Throughout each year and depending on the hierarchical cascade, each manager monitors the progress of the objectives set for the people under his or her command, with the aim of ensuring that they are adequately achieved. The final evaluation of the employee is carried out by the immediate superior, with the General Management and the Human Resources Department having the power to rectify this evaluation whenever they deem it appropriate.

The maximum amount of variable remuneration achievable by these employees may not exceed 25% of their gross annual salary.

ii) **Commercial Staff**

Their salary is made up of:

- a) **Fixed gross salary:** This is in accordance with the principles established in the Collective Bargaining Agreement in force at any given time. In addition, like the rest of Aresbank's employees, this group of employees has the following social benefits: life and accident insurance; medical insurance for the employee, spouse and children under the age of 25; access to training grants for language studies; the possibility of requesting salary advances and loans in accordance with the Collective Banking Agreement and the internal regulations governing this type of product; and participation in the Aresbank, S.A. Pension Plan, in which the Entity, once the employee has a seniority of more than one (1) month in the workforce of the employer, makes an annual contribution on his or her behalf, equivalent to fifteen days of his or her gross annual salary.
- b) **Variable remuneration:** This is determined based on the Annual Performance Evaluation and the results of the Entity, whereby each employee of the commercial staff shall be assessed for the performance of their commercial activity and functions determining their position every year, as well as for annual or multi-annual personal objectives set for each employee.

On an annual basis, and in accordance with the Commercial Plan approved at the beginning of the year, Aresbank's commercial staff will have quantitative and qualitative objectives set to comply with the Commercial Plan established for the year, which will be monitored by the Business Development Manager. The performance of this group will be monitored by the Business Development Manager and may be rectified, when deemed appropriate, by the General Management.

The maximum amount of variable remuneration achievable by this group of employees may not exceed 30% of their gross annual salary.

8. GOVERNANCE

8.1. The Nominations and Remunerations Committee

The Remuneration and Nomination Committee is a non-executive committee, which reviews proposals for the appointment of directors and key management positions for the day-to-day conduct of the financial business and control functions, as well as the approval of the Remuneration Policy. The Bank considers that a single Nominations and Remunerations Committee is sufficient and adequate with its business operations. The Committee is composed of five non-executive members of the Board of Directors and its main objectives are as follows:

- To supervise and approve proposals for appointment of members of the Board and key management positions, for subsequent approval by the Board of Directors, as well as to report on the appointments and removals of department directors proposed to the Board by the General Management.
- To supervise and approve the bank's remuneration policies, both fixed and variable, their general principles and their compliance with the law as regards their limits and application, for subsequent approval by the Board; and propose to the Board of Directors the remuneration system for Board members.
- To supervise compliance with the remuneration policies established by the Bank.
- To supervise the selection processes and, on an ongoing basis, the suitability of the members of the Board of Directors and of the key positions in the financial and control activity, assess the balance of capacity, knowledge, and experience of the Board, define the roles and skills required of the candidates to fill each vacancy, and decide the time and dedication necessary for them to perform their duties adequately.
- To draw up contingency and succession plans for the members of the Board of Directors, as established in the Entity's Suitability Assessment Policy, for key management positions, study and organise in an appropriate manner the succession of the General Management, making recommendations to the Board so that the transfer of powers is carried out in a planned and orderly manner.

8.2. Process and lines of responsibility of the Nominations and Remunerations Committee and of the Board of Directors

In accordance with the EBA/GL/2021/04 Guidelines, it is the Board of Directors, in its supervisory role, which is responsible for adopting and maintaining the Remuneration Policy, as well as for monitoring its implementation to ensure its full functioning as intended. It shall also approve any subsequent significant exemptions for individual staff and changes to the remuneration policy, and carefully consider and monitor their effects.

The oversight function performed by the Board of Directors ensures that the remuneration policies and practices of the Entity are properly implemented and are consistent with the Entity's overall corporate governance framework, corporate and risk culture, risk appetite and related governance processes.

The Nominations and Remunerations Committee shall have access to all data and information relating to the decision-making process of the Board of Directors on the definition, implementation, supervision, and review of the Remuneration Policy. The Nominations and Remunerations Committee shall have adequate financial resources and unrestricted access to all information and data of the Internal Control Functions and shall ensure the appropriate involvement of the Internal Control Functions within their respective areas of expertise and, if necessary, seek external advice.

In line with the provisions of the Regulations of the Board of Directors of Aresbank, the Nominations and Remunerations Committee shall supervise and approve the Entity's remuneration policies, and the amounts to be received as remuneration, both fixed and variable, as well as the general principles governing such Policy, and its compliance with the law as regards its limits and application, for subsequent ratification by the Board.

The Nominations and Remunerations Committee may collaborate with other delegated Committees of the Board of Directors whose activities may have an impact on the definition and proper functioning of remuneration policies and practices, namely the Risk, Compliance and IT Committees, and the Audit Committee; and shall provide appropriate information to the Board and, where appropriate, to the General Meeting on the activities carried out. In this regard, the compliance function will analyse how the remuneration policy affects the Entity's compliance with laws, regulations, internal policies, and risk culture, and will report all compliance risks and non-compliance issues identified to the Board of Directors.

The internal audit function shall conduct an independent review of the definition, implementation, and effects of the Remuneration Policy on its risk profile and how these effects are managed in accordance with the guidelines established for its review.

The Nominations and Remunerations Committee shall also be responsible for directly supervising the remuneration of personnel performing Internal Control Functions within the Identified Staff.

8.3. Decision approval structure

The Article 10 of the Regulations of the Board of Directors of Aresbank sets out the functions and powers of the Nominations and Remunerations Committee with regards to the remuneration of all personnel, including the members of the Board of Directors, and it will therefore be this Committee which, within its powers, will propose to the Board of Directors the approval of the Remuneration Policy.

In turn, said Committee shall analyse the principle of Proportionality detailed in section 3 of this Policy, and shall determine, on a case-by-case basis, the application of said principle in the payment of variable remuneration. Such Policy will be submitted to the Board of Directors for its consideration and, where appropriate, approval.

The EBA Guidelines also contemplate the possibility that the approval of the Remuneration Policy as a whole may also fall to the General Shareholders' Meeting, in addition to the approval of the remuneration of the members of the Board of Directors, which is already established in article 27 of the Bylaws of the Entity and, as indicated in section 5 of this Policy. In this regard, the Board of Directors may submit the Remuneration Policy for approval by the General Meeting of Shareholders, in which case, once approved by the Board of Directors, the General Meeting of Shareholders shall ultimately approve the remuneration system also for the Identified Staff. In this case, the vote of the shareholders may be advisory or binding.

8.4. Implications of the Internal Control Functions for the development and review of the Policy

Aresbank's Internal Control Functions will consist of: (i) the Risk Management function; (ii) the Compliance function; and (iii) the Internal Audit function.

In cases where questions arise as to the impact of staff and the degree of business risk on the setting of performance criteria and the awarding of remuneration, the Risk Management and Compliance Functions will provide effective information in their area.

In addition, the Internal Control Functions will participate, where appropriate, in the process of drafting and modifying the Remuneration Policy, as detailed below:

- a) On one hand, the risk global control function will contribute to define the measures that would be adjusted to the risk profile of the Entity and, for those purposes, it will take as reference what established in the Risk Appetite Framework. The Global Risk Management department would be eventually invited to attend the meetings held by Nominations and Remunerations Committee on the matter.
- b) Without prejudice to the related tasks of the Nominations and Remunerations Committee, the Risk, Compliance, and IT Committee will review whether the incentives offered by the Remuneration Policy have taken into consideration the risk, the capital and liquidity of the Entity, as well as the probability of having profits.
- c) On the other hand, the Compliance function will oversee the analysis on how the Remuneration Policy affects to the compliance of the in-force regulations and the risk culture of Aresbank and report all compliance risks and the problems of non-compliance detected by the Board of Directors. The Board of Directors will consider the conclusions of the Compliance function during the process of approval, review and supervision of the Remuneration Policy.
- d) Finally, the Internal Audit will carry out an independent review of the definition, application and effects of the Remuneration Policy of Aresbank on their risk profile and on the way those effects are managed in the review of said Policy.

8.5. Review and control of the Remuneration Policy

The Nominations and Remunerations Committee will ensure that the policy and remuneration practices of the Entity are subject to an internal and independent review at least annually, whereas any amendment whatsoever be approved by the Board of Directors. The review shall include an analysis to determine whether the Remuneration Policy is gender neutral. Likewise, Aresbank will make a follow-up of the evolution of the salary gap for the Identified Staff, the members of the Board of Directors, the General Management and the rest of the staff.

If such review reveals that the Remuneration Policy does not work according to what stated or whenever some amendments have been made, the Nominations and Remunerations Committee will ensure that a corrective measures plan might be proposed, approved, and applied in an appropriate manner. The results of such review and the actions carried out to correct them will be included in the minutes of the respective Committees and will be available to the members of the Committees, of the Board of Directors and of the corporate management units.

In turn, the rest of relevant internal corporate functions, such as Administration and Human Resources, Legal Department, as well as other key Committees under their supervisory and control function (Audit Committee or Risk, Compliance and IT Committee) will participate actively in the review of the Remuneration Policy of the Entity with the aim of ensuring that it is compliant with the framework and risk management strategy of the Entity.

Aresbank, as less significant credit institution, will be able to outsource, either totally or partially, the independent and periodical review of their Remuneration Policy.

This Policy shall be applicable for financial years 2023 and thereafter, unless a different resolution is adopted by the Board of Directors of the Entity, or at the General Shareholders' Meeting, without prejudice to the annual internal review to be carried out by the Entity on an annual basis.

The interpretation of the Policy corresponds to the Board of Directors, adapting it where necessary, at the proposal of the Nominations and Remunerations Committee, to changes in legislation, best practices or requirements received from supervisors.

9. DISCLOSURE OF THE REMUNERATION POLICY

This Remuneration Policy, once it has been approved by the Board of Directors, shall be published on the Entity's corporate website in a complete, clear, understandable, and updated form, and shall be accessible from the Entity's website, www.aresbank.es, in accordance with the provisions of rules 60 and 61 of Bank of Spain Circular 2/2016.