



Aresbank

**Prudential
Relevance Report**

2023

www.aresbank.es



Aresbank

Prudential Relevance Report

December 2023

ACRONYMS

ALCO	Assets and Liabilities Committee	IRRBB	Interest Rate Risk in the Banking Book
RWAs	Risk-weighted assets	CSRBB	Credit Spread Risk in the Banking Book
CET1	Common Equity Tier 1	IT	Information Technology
CNMV	National Securities Market Commission	LCR	Liquidity Coverage Ratio
CRCO	Chief Risk and Compliance Officer	RAF	Risk Appetite Framework
EBA	European Banking Authority	MENA	Middle East and North Africa
ECB	European Central Bank	NSFR	Net Stable Funding Ratio
HQLAs	High Quality Liquid Assets	AML-FT Unit	Anti-Money Laundering and Financing of Terrorism Unit
eHQLA	Eligible HQLA	TSCR	Total SREP capital requirements
IACL	Capital and Liquidity Self-Assessment Report	AT2	Subordinated debt
PAC	Capital Self-Assessment Procedure	OCR	Overall capital requirement
SREP	Supervisory Review and Evaluation Process	AML	Prevention of Money Laundering and Terrorist Financing
SEPBLAC	Executive Service of the Commission for the Prevention of Money Laundering and Monetary Offenses	TFEU	Treaty on the Functioning of the European Union

ARES BANK PRUDENTIAL RELEVANCE REPORT

(December 31, 2023)

INDEX

ACRONYMS.....	2
1. GENERAL INFORMATION REQUIREMENTS	5
1.1. INTRODUCTION.....	5
1.2. THE ENTITY	5
1.3. BUSINESS MODEL & STRATEGY	6
1.4. MAIN BUSINESS LINES	6
1.5. MAIN MARKETS.....	7
2. GOVERNANCE, MANAGEMENT AND CONTROL OF RISKS FRAMEWORK	8
2.1. RISK APPETITE STATEMENT	9
2.2. STRUCTURE AND ORGANIZATION OF THE RISK MANAGEMENT FUNCTION	10
Board of Directors	10
Risk, Compliance & IT Committee	11
Audit Committee	12
Management Committee.....	13
General Management and Specialized Committees	14
Global Risk Control.....	17
2.3. GLOBAL RISK PROFILE	18
2.3.1. CREDIT RISK	19
2.3.2. CONCENTRATION RISK.....	20
2.3.3. MARKET RISK.....	21
2.3.4. STRUCTURAL BALANCE SHEET RISK.....	21
2.3.5. LIQUIDITY RISK.....	21
Liquidity Policy	22
□ Funding Structure	23
2.3.6. OPERATIONAL RISK	25
3. CAPITAL	26
4. CAPITAL REQUIREMENTS	27
4.1. MINIMUM CREDIT RISK REQUIREMENTS	28
4.2. CONCENTRATION RISK REQUIREMENTS	29
Individual Concentration Risk	29
Sectorial Concentration Risk	29
4.3. CAPITAL REQUIREMENTS FOR OPERATIONAL RISK	30
4.4. MREL.....	31
5. CREDIT RISK AND DILUTION	31
5.1. IDENTIFICATION OF THE EXTERNAL RATING AGENCIES USED	33
5.2. DESCRIPTION OF THE PROCESS FOR ASSIGNING CREDIT RATINGS OF PUBLIC SECURITIES ISSUES TO COMPARABLE ASSETS	33
5.3. EFFECT OF THE APPLICATION OF RISK MITIGATION TECHNIQUES ON CREDIT RISK EXPOSURES.	34
5.4. CHANGES IN IMPAIRMENT LOSSES AND PROVISIONS IN 2023	36
6. SECURITIZATION TRANSACTIONS	36
7. INFORMATION ON THE MARKET RISK OF THE TRADING BOOK.....	36

8. INFORMATION ON FINANCIAL INSTRUMENTS NOT INCLUDED IN THE TRADING BOOK.....	37
9. INTEREST RATE RISK ON POSITIONS NOT INCLUDED IN THE TRADING BOOK .	37
9.1. IRRBB Risk.....	38
10. REMUNERATION INFORMATION	40
10.1. GENERAL PRINCIPLES OF ARESBANK´S REMUNERATION POLICY	40
10.2. NOMINATION AND REMUNERATION COMMITTEE	42
10.3. REMUNERATION OF MEMBERS OF THE BOARD OF DIRECTORS	42
10.4. REMUNERATION TO THE MEMBERS OF THE IDENTIFIED GROUP	43
10.4.1. REMUNERATION OF MEMBERS OF THE GENERAL MANAGEMENT.....	43
10.4.2. REMUNERATION TO OTHER MEMBERS OF THE IDENTIFIED GROUP	43
10.5. STAFF REMUNERATION	44
10.6. COMMENTS ON THE VARIABLE REMUNERATION POLICY	46
10.7. REMUNERATION AND OTHER BENEFITS TO THE BOARD OF DIRECTORS AND GENERAL MANAGEMENT.....	47
11. LEVERAGE RATIO	49
12. ENCUMBRANCE ASSETS	49

1. GENERAL INFORMATION REQUIREMENTS

1.1. Introduction

The objective of this report is to comply with the information requirements established in Part Eight of Regulation (EU) No. 575/2013 of 26 June 2013 and its subsequent amendments; Article 85 of Law 10/2014 of 26 June 2014 on the regulation, supervision and solvency of credit institutions; in Article 93 of Royal Decree 84/2015, of February 13, 2015, which implements the aforementioned Law; and in Rule 59 of Circular 2/2016, of 2 February, of the Bank of Spain, to credit institutions, on supervision and solvency, which completes the adaptation of Directive 2013/36/EU and its subsequent amendments to the Spanish legal system. This regulation requires credit institutions to make public, at least annually and duly integrated in a single document called the "Prudential Relevance Report", specific information on those data on financial position and activity that may be relevant to the market and other interested parties, in order to assess the risks they face, its market strategy, its risk control, its internal organisation and its financial situation in order to comply with the minimum capital requirements provided for in the solvency regulations.

In accordance with the "EBA/GL/2016/11" Guide, the information contained in this document responds to the principles of clarity, significance, consistency over time and comparability between entities, describing the main activities of the Entity and their significant risks and providing quantitative and qualitative information on the processes and procedures that the entity uses to identify, measure and manage those risks. The Prudential Relevance Report has been verified prior to its publication by Internal Audit and approved by the Board of Directors on May 24, 2024.

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

1.2. The Entity

The information presented in this report pertains to the entity Aresbank, S.A. (hereinafter, "Aresbank" or "the Entity"), which was established by public deed dated April 1, 1975. The Entity is registered in the Mercantile Registry of Madrid page nº 28,537, folio 18, inscription 1 of Volume 3,740 General of Companies. Aresbank has been registered in the Special Register of Banks and Bankers of the Bank of Spain under supervisory code 0136 since 2 April 1975. Its tax identification number is A28386191 and LEI 95980020140005658381.

Aresbank is a joint stock company whose corporate purpose is set out in Article 3 of its bylaws:

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

The share capital of Aresbank, S.A. as of December 31, 2023 amounts to 300,000,960.00 Euros and is composed of 104,167 registered shares with a nominal value of 2,880.00 Euros each.

The Bank's registered address is Paseo de la Castellana nº 257, Madrid, where its Head Office is located.

1.3. Business Model & Strategy

Aresbank S.A., is a Spanish bank with registered office in Madrid, which was founded in 1975 as Banco Árabe Español, S.A. by Arab and Spanish entities, including the Libyan Arab Foreign Bank and Kuwait Foreign Trading Contracting & Investment Co on the Arab side and the Instituto de Crédito Oficial (ICO). The National Institute of Industry (INI), Banco Bilbao, Banco Popular, Banco Central and Banco Atlántico, among others, on the Spanish side. Since 2008, the Entity has been 99.86% owned by the Libyan Foreign Bank (LFB) and 0.14% by Credit Populaire d'Algerie.

According to Aresbank's statutes, its mission is as follows:

- Increase economic cooperation between Spain and the MENA zone, financing foreign trade operations, promoting investments and raising funds in international markets.
- Identify and evaluate investment opportunities in new projects.
- Offer its experience and technical capacity to carry out economic development programs in the MENA area, helping to strengthen business relationships in the region.
- Collaborate with Spanish financial institutions and other institutions in the task of channeling financial resources from the MENA region.

Aresbank has total assets as of December 31, 2023 of €1,015,587 thousand, equity of €333,454 thousand (CET1 €331,652 thousand) and off-balance sheet exposure of €279,896 thousand.

1.4. Main business lines

Aresbank's main lines of business are as follows:

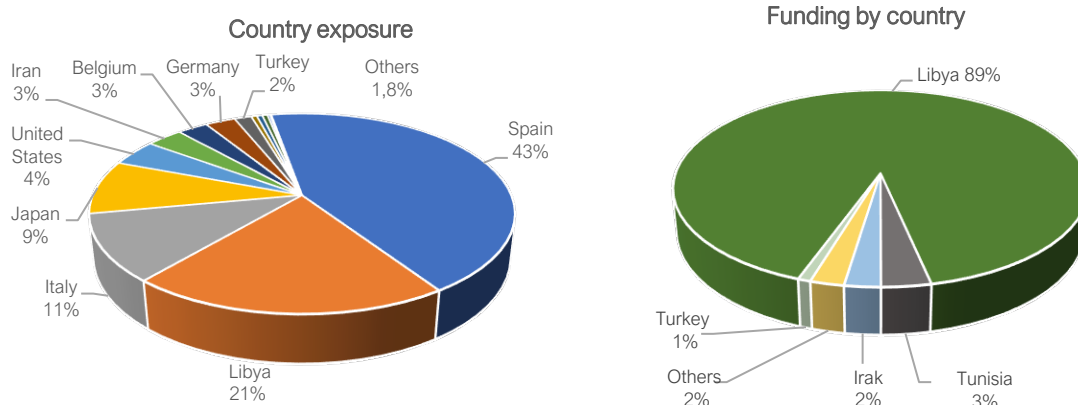
Business lines	Sublines
Foreign trade	Issuance, notification and confirmation of documentary credits
	Import and export charges
	Trade finance
	Issuance of guarantees
Financing	Bilateral loans and credits to companies and banks

	Syndicated loans
Treasury & Capital Markets	Corporate current accounts
	Interbank market transactions
	Fixed income operative

- **Foreign Trade:** Aresbank channels, through several banking products, international commercial transactions, mainly those related to the MENA area. The main products included in this line of activity are letter of credits, documentary remittances, payment orders, etc.
- **Financing:** Aresbank offers financing to its customers, and it does so through two different channels. On the one hand, it offers advances, pre-financing or post-financing associated with the foreign trade products mentioned in the previous point. On the other hand, it provides direct corporate financing to companies and financial entities.
- **Treasury and capital markets:** Aresbank carries out intermediation activity between entities in the MENA area and Europe, as well as investment in fixed income products.

1.5. Main markets

At the end of 2023, 73.8% of Aresbank's exposure to credit risk was concentrated in Europe, the United States and Japan, while financing came mainly from financial institutions and companies in the MENA area:



2. GOVERNANCE, MANAGEMENT AND CONTROL OF RISKS FRAMEWORK

Aresbank's Internal Governance Policy, approved by the Board of Directors on March 17, 2023, is based on the Internal Governance Guidelines issued by the European Banking Authority ("EBA") with reference EBA/GL/2021/05 and adopted as its own by the Bank of Spain with an application date of December 31, 2021. These guidelines specify the internal governance systems, procedures and mechanisms that credit institutions should implement to ensure effective and prudent management, in accordance with Article 74(1) of Directive 2013/36/EU. For the implementation of these guidelines, Aresbank has considered the principle of proportionality set out in Article 74 of Directive 2013/36/EU.

The organisational and operational structure of the Entity includes:

- Board of Directors and its committees
- Management Committee
- Specialized Committees
- Internal control functions
- Corporate management areas

Aresbank has established a structure based on three lines of defence to ensure that corporate areas act as the first line of defence, the Global Risk Control Department, which brings together the Risk Control and Compliance functions, is the second line of defence and the Internal Audit Department constitutes the third line of defence. Likewise, the Board of Directors and the Management Committee are aware of the legal, organisational, and operational structure of the Entity, and ensure that it is aligned with the business strategy and that there is effective independence from the internal control functions. This structure is aimed at complying with the principles established in the Risk Appetite Framework, avoiding possible conflicts of interest arising from the Entity's activity.

The Board of Directors annually approves the Risk Appetite Framework (RAF), which reflects and defines the target risk profile, based on the requirements and recommendations made by supervisors and based on the best market practices. Aresbank's Risk Appetite Framework was approved by the Board of Directors on March 17, 2023 and is reviewed annually in accordance with current regulations.

Aresbank relies on the involvement of the Board of Directors in all areas related to the Risk Appetite Framework, since the Bank's risk culture is based on this body and it is the Board of Directors that ultimately ensures compliance with the risk appetite, transmitting the risk policy in the organisation. Any significant modification due to changes in the business or the current economic and financial situation, previously assessed by the Risk, Compliance and IT Committee, must be approved by the Board of Directors. Therefore, ultimately, the Board of Directors is responsible for establishing Aresbank's risk appetite, monitoring the risk profile and consistency between the two. It will also control the transmission of risk appetite to all business units and departments of the Entity and

allocate sufficient resources for the management and control of such risks and their adaptation to the Risk Appetite Framework.

2.1. Risk Appetite Statement

Aresbank's Risk Appetite Framework includes the following concepts:

- **Risk Appetite:** establishing, for each type of risk considered, the level of objective risk that Aresbank is willing to assume in the execution of its business strategy.
- **Risk tolerance:** additional margin to risk appetite, which the Entity considers acceptable and assumable in the achievement of its objectives.
- **Risk Capacity:** is the maximum risk that the Entity can assume, taking into account the current level of resources, without compromising its capital, liquidity and operational capacity needs.

Aresbank, in its objective of guaranteeing efficient management of its assets, in addition to achieving recurring and stable results over time, aims to maintain a medium to low level of overall risk. To this end, it basically focuses on the management of financial resources and liquidity to make the investments foreseen in its Capital and Funding Plan. The revision of the Risk Appetite Framework (RAF) includes both the risks identified in the capital and liquidity assessment processes (IACL) and the risks considered relevant for management purposes to which the Entity is exposed in the exercise of its activity:

Identified risks	
Credit risk	Business Risk
Concentration risk	Liquidity risk
Operational risk	Structural Balance Sheet Risks
Technology risk	

In order to establish the Entity's risk appetite, it is necessary to define indicators that make it possible to measure and set the levels of risk that can be assumed. In this regard, Aresbank has selected a series of indicators based on its business model and the EBA/GL/2015/02 and EBA/GL/2021/11 guides, which are integrated into its management. To measure most of the risks (credit, concentration, liquidity, and balance sheet structures) there are quantitative indicators that respond to the needs raised. However, there are other types of risks (technological, operational or reputational) that, by their nature, are difficult to quantitatively measure, and for which a qualitative assessment must be made.

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

2.2. Structure and organization of the risk management function

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

In this way, the structure of the Entity does not compromise the ability of the Board of Directors to effectively supervise and manage the risks faced by the Entity, or the capacity of the competent supervisory authority.

Board of Directors

The governing bodies of the Entity, in accordance with the provisions of the Articles of Association, are the General Meeting of Shareholders and the Board of Directors, whose activities are regulated in its own Regulations.

The specific responsibilities of the Board of Directors in relation to internal governance include the approval of all policies covering the general administration of the Entity, the risk management inherent to the activity carried out by Aresbank and the establishment, approval and supervision of the general business strategy and its financing. In addition, it carries out, through the various committees, a periodic follow-up of the aforementioned strategies and policies, addressing the deficiencies identified. The members of these committees are appointed based on their suitability, considering their knowledge, skills, experience and the duties of each committee.

Specifically, in relation to the 2023 financial year, Aresbank's Board of Directors has carried out the following activities related to risk control:

Activities	Date
Review of the Risk Report sent by the Global Risk Control Department	At each meeting of the Board of Directors
Review of the Risk Appetite Framework indicators	At each meeting of the Board of Directors
Review of the Anti-Money Laundering Report	At each meeting of the Board of Directors
Know the 2022 Annual Report on the Prevention of Money Laundering	03/16/2023 (presented to the Risk, Compliance & IT Committee)
Approve the update of the Risk Appetite Framework	17/03/2023 (approved by the Board of Directors)
Approve the Risk Self-Assessment Report on the Prevention of Money Laundering	17/03/2023 (approved by the Board of Directors)
Approve the Liquidity Management Optimization Plan	26/05/2023 (approved by the Board of Directors)
Approve the creation of the Management Committee	19/09/2023 (approved by the Board of Directors)
Approve the 2022 Recovery Plan	19/09/2023 (approved by the Board of Directors)

Modification of the Whistleblowing Channel Procedure	19/09/2023 (approved by the Board of Directors)
Approve the update the Remuneration Policy	19/09/2023 (approved by the Board of Directors)
Approve the annual review of the Suitability Policy for members of the Board of Directors and key function holders	15/12/2023 (approved by the Board of Directors)
Approve the updates to the following documents: <ul style="list-style-type: none"> • Credit Risk Management Framework • Internal Governance Policy 	27/01/2023 17/03/2023
<ul style="list-style-type: none"> • Outsourcing Policy • Operational Risk Policy • Liquidity Risk Policy • Reputational Risk Policy • Business Continuity Plan • ICT Policy • Anti-Money Laundering Policy 	15/12/2023

Risk, Compliance & IT Committee

In accordance with the Regulations of the Board of Directors, the Risk, Compliance and IT Committee has been set up, which is a non-executive Committee that reviews the Entity's risk and IT strategy, as well as compliance with current regulations.

As of December 31, 2023, the Committee was composed of four members, all of whom were non-executives, with the Chairman being an independent director and responsible for AML-FT.

The functions are structured in three main blocks:

- **Risk Functions:**
 - Oversee the Risk Control function and ensure its independence and effectiveness.
 - Participate in the selection and propose the appointment, re-election or change of the head of the Global Risk Control department, which must be approved by the Board of Directors with the report of the Appointments and Remuneration Committee.
 - Supervise and coordinate the activities carried out by the Global Risk Control function and receive periodic information on its activities.
 - Analysis and decision-making in response to the identification, by the Global Risk Control function, of the internal risks associated to all areas of the Entity.
 - Assess staffing needs for the Global Risk Control function to enable the implementation of approved risk policies.
 - Propose to the Board of Directors any changes to improve risk policies.
 - Inform the Board of any problems arising from the different risks assumed.
- **Compliance Functions:**
 - Oversee the Compliance function and ensure its independence and effectiveness.

- Supervise the activities of the Internal Control Body and the suspicious transactions declared to SEPBLAC.
- Receive periodic information about their activities.
- Supervise the Anti-Money Laundering Policy, compliance manuals and, in general, the Entity's governance rules.
 - o **IT Functions:**
- Assist the Board of Directors in defining the technology strategy, as well as overseeing its execution and implementation, taking into account technological risks, to ensure a balance between regulatory impact, operational efficiency and business activity.
- Review technology policies, proposing them for approval to the Board of Directors.
- Support the Board of Directors on IT to facilitate the monitoring and regular evaluation of the internal governance framework from a technology perspective.
- Ensure that the technology strategy is in line with the strategic objectives defined by the Board of Directors, taking into account the Bank's vision of technological innovation.
- Supervise and control the identification, measurement, evaluation, and monitoring of IT operational risks inherent to products, activities, processes, and material systems.
- Review the strategy against cybersecurity threats and supervise the corresponding action plans.

Audit Committee

In accordance with the Regulations of the Board of Directors, an Audit Committee has been set up, which is a non-executive Committee that reviews the Entity's audit strategy. The Audit Committee has the primary responsibility for overseeing the process of preparing and presenting the required financial information and ensuring that the financial information made available to the Board of Directors is accurate, complete and represents the true image of the Entity.

As of December 31, 2023, the Audit Committee was composed of three directors, all of whom were non-executives. The Chairman of the Committee is an independent director with knowledge and experience in accounting and auditing techniques and principles.

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

- o **Internal Control:**
- Review financial information periodically, before it is issued, ensuring that it is prepared according to the same principles and practices that are applied in the annual accounts.
- Supervise the process of preparing the Entity's financial and accounting information, reviewing compliance and the correct application of accounting criteria, in accordance with current regulations.

- Oversee the mechanism that allows employees to report confidentially and, if deemed appropriate, anonymously, potentially significant wrongdoing. In particular, any financial and accounting irregularities of which they are aware within the Entity.
- o **Internal Audit:**
 - The Internal Audit Department will respond to requests for information received from the Audit Committee as part of the performance of its obligations.
 - Supervise the Internal Audit Department and ensure its independence and effectiveness.
 - Approve the selection, appointment and re-election or change of the person responsible for the Internal Audit Department.
 - Receive regular information about your activities.
 - Verify that the Entity's Management takes into consideration the conclusions and recommendations included in its reports.

Management Committee

The main purpose of the Management Committee is to ensure centralized management of the most relevant aspects of the entity's operations, being responsible for the execution of strategies and matters established by the Board of Directors, which the latter, in accordance with the legislation in force, the Bylaws or the Regulations of the Board of Directors, may agree to delegate to it.

The Management Committee has an internal regulation that contains its composition, the convening and attendance of the Committee's meetings, the adoption of agreements and the powers conferred.

The Management Committee may agree to the constitution of specific committees or auxiliary committees, on a permanent or temporary basis, to which it may delegate any of the functions entrusted to it, as well as the decision-making on any matter within its competence. These committees shall act in the manner and under the conditions established for this purpose by the Management Committee.

The following are the different functions of the Management Committee:

Management Committee	
<i>Members</i>	<ul style="list-style-type: none"> • General Manager • Deputy General Manager • Chief Risk and Compliance Officer (CRCO) • Business Development Manager • Accounting Manager • Systems and Information Technology Manager • Legal Counsel Manager
<i>Responsibilities</i>	<ul style="list-style-type: none"> • In terms of strategy, budgets, policies and compliance, administration and purchasing, business development and marketing of new products, systems and information technology, monitoring and control functions, among others.

General Management and Specialized Committees

○ General Management

Article 35 of the Regulations of the Board of Directors specifies that the Board of Directors, through the Appointments and Remuneration Committee, may appoint one or more Managing Directors.

In general terms, Aresbank's General Management is the management body that ensures compliance with the policies, procedures and decisions adopted by the Board of Directors. The General Management is composed of the General Manager and the Deputy General Manager.

General Management	
<i>Members</i>	<ul style="list-style-type: none"> • General Manager • Deputy General Manager
<i>Responsibilities</i>	<ul style="list-style-type: none"> • Implementation of the strategies, policies and procedures approved by the Board of Directors and analysis of the implementation and adequacy of such strategies • Analyze the proposals, explanations and information received from the different specialized committees, and report to the Board of Directors on those issues that exceed the established levels of delegation
<i>Functioning</i>	<ul style="list-style-type: none"> • The decision-making of the General Management is carried out jointly and pooled by its members, therefore requiring unanimity of both • In case of disagreement, the decision will be submitted to the Management Committee

In the event of incapacity or vacancy caused by the dismissal, revocation or suspension of any of the members of the General Management for the performance of their duties, whether temporarily or permanently, these will be assumed by the Management Committee for the duration of such circumstance.

All of the Bank's departments report hierarchically to the General Management, with the exception of the internal control functions which, in order to ensure their independence, report hierarchically to the Audit Committee in the case of the Internal Audit department and to the Risk, Compliance and IT Committee for the Global Risk Control department.

○ Specialized Committees

In addition to the committees of the Board of Directors and the Management Committee, Aresbank also has committees specialised in different areas to facilitate the management of the Bank.

The functions performed by each Committee, its composition and its functioning, are described in the Internal Governance Policy, without prejudice to the possibility that certain exceptional committees may be created in specific circumstances. The resolutions of the different committees will be adopted by an absolute majority, with the exception of the Credit, Investment and Risk Committee, in which unanimity of the members with the right to vote is required. In the event of a tie, the chairman of the committee has a qualified vote.

o **ALCO:**

The committee for the monitoring and control of liquidity and financing is the Assets and Liabilities Committee (ALCO). The composition and functions of the Committee are as follows:

Assets and Liabilities Committee (ALCO)	
<i>Members</i>	<ul style="list-style-type: none"> • General Manager, who chairs the Committee • Deputy General Manager • Chief Risk and Compliance Officer (CRCO) • Business Development Manager • Accounting Manager • Head of Treasury and Capital Markets
<i>Responsibilities</i>	<ul style="list-style-type: none"> • Implement the strategy defined by the Board of Directors with respect to liquidity risk management. • Review capital management and monitor credit risk, verifying that the risk management structure is appropriate to the Bank's risk profile. • Manage the available sources of liquidity and the use made of them in accordance with the Entity's strategic forecasts (asset allocation). • Monitor market risk, highlighting risks associated with interest rates and exchange rates. • Monitor the Entity's liquidity plan, analyzing the financing needs arising from the growth of lending with respect to the resources available for financing and the pricing policies associated with assets and liabilities. • Supervise, measure and control exposure to liquidity risk by means of stress tests, proposing the corrective measures that may be always necessary to maintain the parameters set out in the Risk Appetite Framework. • Review the liquidity policy and submit it to the Board of Directors for approval. • Responsible for the formal implementation of the Liquidity Contingency Plan in the event that it is approved by the Board of Directors.

The management of liquidity and funding is carried out through an organisational structure with a clear segregation of the roles and responsibilities of each of the lines of defence, with the aim of avoiding conflicts of interest and applying risk management that allows compliance with the risk appetite approved by the Board of Directors, as shown below:

o **Credit, Investment and Risks Committee**

The objective of the Credit, Investment and Risks Committee is to analyse credit and investment operations in accordance with the delegations established in the Credit Risk Management Framework for this body. At the same time, it is responsible for monitoring the loan portfolio, ensuring that the situation of borrowers remains within the parameters existing at the time of the initial granting of the risk, and reviews and manages that other risks are aligned with the strategy and the Risk Appetite Framework of the Entity.

The Credit, Investment and Risk Committee is composed of four members:

- General Manager
- Deputy General Manager
- Chief Risk and Compliance Officer (CRCO)
- Business Development Manager

The Credit Risk Management Framework is far-reaching within the Bank, as it affects the admission, monitoring and management of credit risk. This policy is aligned with the Risk Appetite Framework (RAF) authorised by the Board of Directors, with the aim of granting financing to borrowers who are able to meet their economic and financial obligations in accordance with the terms and conditions of the contract.

- o **Internal Control Body**

In compliance with the provisions of Article 26 ter of Law 10/2010 of 28 April 2010 and Article 35 of Law 304/2014, Aresbank has an Internal Control Body responsible for the application of procedures for the prevention of money laundering and terrorist financing. The Internal Control Body is a collegiate body chaired by the Representative to SEPBLAC, who is appointed by the Board of Directors of Aresbank. The rest of the members are appointed according to their role and their relationship to the fulfilment of the obligations related to the AML:

- General Manager, Aresbank's representative to SEPBLAC, who chairs the Internal Control Body
- Deputy General Manager
- Head of Anti-Money Laundering and Countering the Financing of Terrorism
- Director of Legal Counsel
- Chief Risk and Compliance Officer (CRCO)
- Director of Business Development
- Director de Back Office
- Director of Systems and IT

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

- In compliance with the provisions of Article 25 of RD 304/2014 on the special examination of transactions, the Internal Control Body will be the body in charge of deciding on the reporting of suspicious transactions to SEPBLAC
- Propose improvements in control measures to ensure AML in the Entity.
- Review and, where appropriate, approve the documentation related to AML, including, among others, the AML Manual, the Money Laundering and Terrorist Financing Risk Self-Assessment report, the Annual Report and Plan of Activities, the Annual Report of the External Expert, etc.
- Schedule in-house orientation and training courses or activities on AML.
- Monitor the compliance of the Entity's employees with AML obligations.
- Delegate to other bodies as many functions as it deems appropriate in the area of the prevention of money laundering and terrorist financing, keeping records of the documents and reports that are sent to other senior management bodies. This task is delegated by the Internal Control Body to the AML-FT Unit.

In compliance with Article 26.1 of Law 10/2010, the Board of Directors of Aresbank approves the policies on due diligence, information, document retention, internal control, risk assessment and management, ensuring compliance with the relevant provisions and communication, with the main objective of preventing and impeding operations related to money laundering and terrorist financing. being mandatory for all employees of the Entity.

Global Risk Control

The European Banking Authority (EBA), through the guide EBA/GL/2021/05, establishes the need to carry out comprehensive risk management that encompasses the entire organization, taking the form of a three-line structure of defense and a Risk Appetite Framework.

The main functions of Global Risk Control, which constitutes the second line of defense, within the scope of **risk control** are as follows:

- Be actively involved in the development of the Entity's risk strategy and the implementation of effective procedures for the management and mitigation of all risks, including the approval of new products and significant changes in existing products, processes and systems.
- Monitoring and mitigation of all risks affecting the Entity's risk profile.
- Advising the Board of Directors on the measures to be adopted to ensure compliance with financial laws and regulations, as well as assessing their impact.
- Assess the strategies and risk appetite of the business units, including the objectives proposed by the business units, and engage before the Board of Directors makes a decision on such strategies and risk appetite.
- According to paragraph 188 of the Internal Governance Guidelines EBA/GL/2021/05, the involvement of the risk management function in decision-making should ensure that risk-

related aspects are duly taken into account. However, responsibility for the decisions taken will continue to rest with the business units, executive committees and, ultimately, the Management Committee.

The main functions within the scope of **compliance** are as follows:

- Directing and promoting activities for the prevention of money laundering and terrorist financing within the Entity, as well as verifying compliance with applicable international financial sanctions.
- Coordinate and supervise compliance with current regulations on the Protection of Personal Data. Ensure the rights of individuals to control their personal information and to ensure the confidentiality, integrity and availability of their personal information.
- Execution of the functions of Aresbank's Customer Service. Attend to and resolve complaints and claims submitted by the Entity's customers, exercise a control function as an area aware of the sources of customer dissatisfaction and guarantee the application of current regulations on consumer protection.
- Corporate Compliance: organización, prevención, gestión y control de riesgos penales de la Entidad. Promover el respeto a los principios y valores éticos de la organización, así como gestionar el sistema de control implantado para la efectiva prevención y mitigación de eventuales riesgos penales.

2.3. Global Risk Profile

In order to identify material risks, Aresbank has developed a methodology that allows it to assess the risks to which it is exposed and calculate its materiality. In addition to this analysis, an assessment of each material risk has been carried out in accordance with the criteria set out in EBA/GL/2022/03 - Guidelines on common procedures and methodologies for supervisory review and evaluation process (SREP) and supervisory stress tests under Directive 2013/36/EU. For the assessment of each risk, the overall management of the Entity has been considered, as well as the risk management and control mechanisms evaluated in accordance with the SREP methodology.

To assess the materiality of each of the risks, quantitative criteria are considered, and additionally, the Entity assesses the risk according to expert criteria that complement the information on the risk (inherent risk profile), provided that such risks are material. All material risks are integrated into management through the metrics contemplated in the Risk Appetite Framework and capital allocation.

In order to ensure prudent risk management, in addition to achieving recurring and stable results over time, Aresbank aims to maintain a medium-low overall risk level.

As of December 31, 2023, Aresbank presented the following capital indicators, calculated in accordance with current regulations:

Indicators	31/12/2021	31/12/2022	31/12/2023
Total Capital Ratio	58,2%	54,5%	70,8%
CET1 Ratio	58,2%	54,5%	70,8%
Leverage Ratio	22,0%	23,8%	28,8%

2.3.1. Credit Risk

It is the possibility of loss arising from a debtor's failure to comply with its contractual obligations. As of December 31, 2023, Aresbank's total exposure to credit risk amounted to €1,300,268, corresponding to credit risk-weighted assets of €426,244 thousand.

The distribution of the exposure by sector is as follows:

Exposure Category	Exposure
Administrations and Central Banks	269.574
Public sector	15.000
Institutions	587.714
Enterprises	325.861
Retailers	18.113
Exposures Secured by Real Estate Mortgages	31.882
Exposures in default situations	4
Collective Investment Funds	-
Other	52.120
Total	1.300.268

As can be seen, the Bank maintains an adequate quality of exposure to credit risk, as it does not have non-performing loans.

From the information shown, the following can be concluded:

- The nature and composition of credit risk exposure implies low risk.
 - Exposure to complex operations and products is low.
 - The level of restructured or refinanced and doubtful exposures is very low.
 - The credit risk of normal exposures is low.
 - Coverage of doubtful assets is high.
- **Processes, methods and systems for measuring and assessing risks**

The Credit Risk Management Framework sets out the set of credit risk monitoring and control procedures that enable the Entity to manage its exposures to credit risk in accordance with its appetite and strategy. These procedures are supported by a robust data infrastructure, with the aim

of ensuring that information regarding credit risk exposures, borrowers and guarantees is adequate and kept up-to-date. Such data are integrated into risk management, and in turn, comply with the authorities' requirements for the regular submission of prudential and statistical information, as well as being used for the performance of stress tests.

2.3.2. Concentration Risk

Concentration risk represents the potential for losses due to significant exposures that are interrelated, and the likelihood of default is subject to common risk factors, such as sector of activity or geographic location, among others.

Aresbank sets concentration limits based on three criteria:

- Individual concentration
- Geographical concentration
- Sectoral concentration

The individual concentration ceilings are determined based on what is defined in Article 395 of Regulation 876/2019 ("CRR 2").

Aresbank manages its geographical concentration according to two criteria:

1. First, a concentration limit is set for exposures in each country, depending on the credit quality of that country.
2. Second, countries are grouped into homogeneous risk groups, for which concentration limits are set.

Finally, Aresbank has adopted a creditworthiness-based approach to setting concentration limits. This approach is embodied through the credit rating granted by the three main rating agencies (Fitch, S&P and Moody's), which are generally accepted in the financial markets. Thus, the concentration limits in each country are established as a percentage of the Bank's CET1, which varies depending on the country's rating.

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

- They derive from the Entity's strategic mission, which consists of increasing economic cooperation between Spain and the MENA zone, financing foreign trade operations, promoting investments and raising funds in international markets.
- The high credit quality of counterparties mitigates the risk assumed.
- Adequate management procedures (limit structure, monitoring and reporting) are in place to control this risk, including the Risk Appetite Framework and the periodic risk report.
- The concentration of sectors of activity remains at acceptable levels.

However, the individual concentration, in accordance with the provisions of the guide issued by the Bank of Spain, indicates that the Entity maintains a significant diversification in terms of the economic sectors of its borrowers, distributed mainly in the sectors of non-basic or discretionary consumption, fossil energies and processing and manufacturing industries.

2.3.3. Market Risk

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

In order to mitigate market risk, Aresbank takes the following actions:

- Track positions according to the defined strategy, including trading volume.
- Periodically report to the ALCO and the Risk, Compliance and IT Committee on positions affected by market movements, as part of the Entity's risk management process.
- Positions are tracked against generally accepted sources of information (Bloomberg or Reuters). Likewise, liquidity and possible risk hedging are evaluated.

The Treasury and Capital Markets department is responsible for ensuring compliance with the rules and procedures established in the Market Risk Policy. The Global Risk Control department is responsible for monitoring the market risk of the trading book in order to identify trends, concentrations and other relevant risks, monitoring the market value of financial assets and, finally, supervising the correct application of the Entity's policies. The trading book strategy is approved by the Board of Directors and its implementation will be reviewed periodically by the ALCO.

2.3.4. Structural Balance Sheet Risk

The main balance sheet structure risk is interest rate risk, which is defined as the current or future risk to both recurring margin and the economic value of an institution, arising from interest rate fluctuations on sensitive instruments.

Aresbank monitors the Balance Sheet Structural Interest Rate (IRRBB) risk on a regular basis. As a result of Aresbank's business model, the Bank has a balance sheet structure in which most of the maturities are very short-term, which implies that the repricing of assets and liabilities in the face of rate variations is very short-term, thus mitigating the structural risk of the balance sheet.

2.3.5. Liquidity Risk

Liquidity risk can be expressed as the probability of an institution incurring losses arising from the inability or inability to have sufficient liquid resources available to meet its committed payment obligations over a given time horizon (core liquidity). Liquidity risk is also considered to be an institution's ability to meet its growth plan; In this case, the risk stems from the inability to find financing to leverage asset growth strategies (structural liquidity).

The treatment of liquidity risk is set out in European Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (known as CRD IV).

In addition, Regulation No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms, Part Six: Definitions and liquidity coverage requirements, defines the liquidity coverage and stable funding requirements, indicators introduced by Basel III.

Aresbank has a Liquidity Risk Policy approved by the Board of Directors, aimed at meeting the objectives defined in the Risk Appetite Framework in terms of risk indicators. It seeks to establish governance of liquidity risk management in a way that incorporates best practices and risk management principles, especially with regard to the best practices of the Basel Committee on Banking Supervision (BCBS).

Aresbank uses the following indicators as benchmarks for the management of the Bank's liquidity and funding:

- Liquidity Coverage Ratio (LCR)
- Net Stable Funding Ratio (NSFR)
- Interbank loans to deposits (LtD)
- Survival Horizon

Liquidity Policy

One of the fundamental pillars for good liquidity risk management is the establishment of a solid and effective internal governance framework, which allows for the proper identification, evaluation, control, monitoring and reporting of such risk. To achieve this objective, the policy is based on three basic pillars:

- Policies, principles and procedures, in order to guide the management, measurement and monitoring of liquidity risk.
- Risk identification and assessment, to provide a recurring process for identifying, classifying, and evaluating events likely to cause liquidity risk.
- Risk control and reporting, to inform the Assets and Liabilities Committee (ALCO) and the Board of Directors of a possible change in the Entity's risk profile.

In turn, it provides the following guidelines:

- It establishes the roles and responsibilities of the different departments that are directly involved in the management and control of liquidity and funding risk.
- It defines the general criteria for identifying, quantifying, monitoring, reporting and managing liquidity risk in order to ensure consistency between business activities, traceability and consistency of methodologies and risk management.

- Define the liquidity risk management indicators used by the Entity, in addition to the ratios established by regulation.

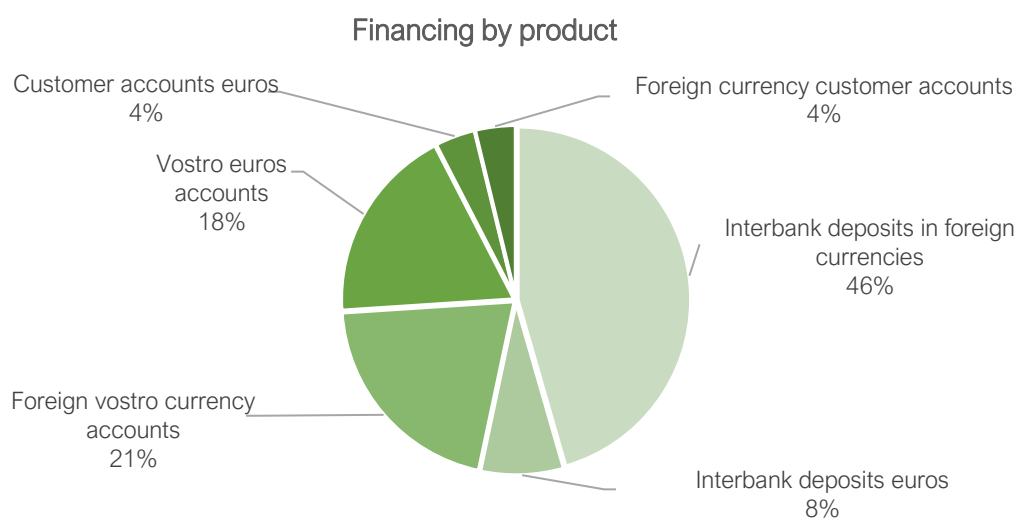
- **Funding Structure**

At the end of the 2023 financial year, Aresbank had a deposit volume of 676,491 thousand euros. Liabilities at amortized cost are mostly denominated in foreign currency (with USD being the predominant currency), with euros accounting for 31.4%.

En cuanto al tipo de instrumento de pasivo, Aresbank cuenta con la siguiente estructura de financiación a cierre del ejercicio:

Funding source	Total Stock
Central Bank Deposits	28.206
Deposits from financial institutions	595.707
Customer deposits	52.578
Other financial liabilities	1.399
Total funding	677.890

Aresbank's financing is distributed as follows:



- **Maturity Gap**

The maturity gap refers to the difference between the inflows and outflows of funds in the Entity in the different maturities contemplated.

Aresbank's business operations make it easier for it to maintain a maturity structure that allows it to have sufficient resources to deal with liquidity outflows in the existing maturities for the different maturities:

Maturity gap analysis	< 1 month	Between 1 and 2 months	Between 2 and 3 months	Between 3 and 4 months	Between 4 and 5 months	> 5 months
Financing maturities	443.623	140.911	51.458	4.578	-	37.320
% Inflows	65,4%	20,8%	7,6%	0,7%	0,0%	5,5%
Active maturities	653.563	96.642	67.688	7.405	100	143.007
% Outflows	67,5%	10,0%	7,0%	0,8%	0,0%	14,8%
Diff: Inputs – Outputs	209.940	-44.269	16.230	2.827	100	105.687
Cumulative GAP	209.940	165.671	181.901	184.728	184.828	290.515

As can be seen, Aresbank has a maturity structure focused on the short term in both its assets and liabilities, maintaining positive gaps accumulated in all periods. This allows it significant adaptability to variations in market circumstances.

- Key Liquidity Indicators

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

Indicators	31/12/2023
Liquidity Coverage Ratio (LCR)	243,7%
Net Stable Funding Ratio (NSFR)	136,2%
Survival horizon	>12 meses
Interbank Ltd	114,5%

To reach the target level of the survival horizon, Aresbank carries out prudent cash flow management, ensuring that expected cash outflows are covered by new inflows. In this way, it is intended that the gap accumulated over the different time horizons is positive. At the end of 2023, the Entity's survival horizon is more than 1 year.

- Intraday Liquidity Risk Management

Aresbank is exposed to intraday liquidity risk because of potential operational mismatches in its expected liquidity inflows. In the event of an unexpected mismatch, Aresbank has sufficient liquid assets available to cover it, given the excess of liquid assets over Liquidity Coverage Ratio requirements.

To manage intraday liquidity, the following process has been implemented:

- Early identification of relevant gaps or concentrations of relevant outflows, as well as the timing at which they may occur.
- Management of the temporality of inflows and outflows to minimize gaps that may occur throughout the day.

- Identification of significant concentrations in the expected inflows and outflows, to anticipate possible actions in the event of possible mismatches between them.

- Liquidity Contingency Plan

Aresbank has developed a Liquidity Contingency Plan to have a procedure that specifies the strategies to be adopted in the event of a liquidity deficit in stressful situations.

The Liquidity Contingency Plan will be activated in the event of non-compliance with the liquidity metrics of the Risk Appetite Framework, other internal management indicators or in the event of any exceptional situation related to the evolution of the business or the financial markets that suggests a material risk in the liquidity and funding position.

The Assets and Liabilities Committee (ALCO) is the body in charge of analysing current or potential events that may put the Entity at risk, detecting deviations from the target level of any of the indicators.

If these deviations reach the levels established in the Liquidity Contingency Plan, an escalation process must be initiated until they reach the Board of Directors.

2.3.6. Operational Risk

The Basel Committee on Banking Supervision defines Operational Risk as "the risk of suffering losses due to inadequacy or failures of processes, personnel and systems, or due to external events". This definition includes legal risk but excludes strategic and reputational risk.

Aresbank's operational risk management and control objective focuses on identifying, measuring, evaluating, controlling, mitigating and reporting operational risk. Therefore, the priority is to identify and minimize operational risk events, regardless of whether they entail an economic loss for the Entity. Measurement also contributes to the prioritization of operational risk management.

The Operational Risk Policy developed by Aresbank is fully integrated into the Bank's overall risk management processes. The first line of defense is properly reviewed by the second line of defense, and both are independently audited by the third line of defense.

The operational risk appetite is set by the Board of Directors through the Risk Appetite Framework. In addition to the RAF, for the management of Operational Risk, there are tools that range from those dedicated to providing a culture of support, to the use of analytical data.

- Operational risk functions organization

Aresbank has established 3 lines of defense for effective management and control of operational risk.

The three independent lines of defense are:

- First line of defense: these are all the corporate areas of the Entity that are related to business acquisition, operations management and those that provide functional support to the performance of the activity.
- Second line of defence: Global Risk Control comprises this second line of defence, independent of the first, which will help to establish the necessary controls and analyse the operational risk situation to which the Entity is exposed.
- Third line of defense: Internal Audit reviews the effectiveness of operational risk management and control by the first and second lines of defense.

3. CAPITAL

The current legislation on own funds and supervision of Spanish credit institutions is constituted by, among others, the Community Directive 2013/36/EU of the European Parliament and of the Council on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, Regulation 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms, and its subsequent amendments, Law 10/2014 on the regulation, supervision and solvency of credit institutions, Royal Decree 84/2015 implementing it and Bank of Spain Circulars 2/2014, 3/2014, 2/2016 and 3/2019.

In accordance with the eighth part of Title I of EU Regulation 575/2013 and Article 85 of Law 10/2014, institutions must publish, at least annually, information relevant to the proper understanding of their business profile, their risk management policies and objectives, as well as a detail of their exposure to the different risks and the composition of their capital base.

Pursuant to Article 68.2.a) of Law 10/2014, the Bank of Spain requires Aresbank, S.A. to maintain a total capital ratio of the SREP of 14.99% at the individual level of the total amount of exposure at risk, which includes:

- The minimum total capital ratio of 8% required in Article 92(1)(c) of Regulation (EU) No 575/2013, which the institution must maintain at all times
- An equity requirement of 6.99% to be maintained in excess of the minimum (P2R), in accordance with Article 69.1 of Law 10/2014, which the entity must maintain at all times, 56.25% of which must be met with ordinary tier 1 capital (CET1) and 75% with tier 1 capital (CET1), as a minimum, in accordance with section 6 of Article 94.6 of Royal Decree 84/2015.

Finally, it also requires a Pillar 2 guidance of 2.75%, above the OCR level, met with CET1 eligible own funds, with total capital requirements being 17.74%.

As of December 31, 2023, Aresbank maintained a CET1 capital ratio of 70.8%, comfortably complying with this requirement:

Indicators	31/12/2021	31/12/2022	31/12/2023
Total Capital			
Common Equity Tier 1 (CET1)	342.619	331.962	331.652
Tier 2	-	-	-
Total APRs	588.323	609.469	468.282
CET1 Ratio	58,2%	54,5%	70,8%
Total Capital Ratio	58,2%	54,5%	70,8%

Regarding the SREP letter received in December 2022 on the capital levels to be held as of January 1, 2023, Aresbank complies with all the requirements made by the Bank of Spain.

Aresbank's eligible equity was as follows (figures in thousands of euros):

CET1	2023
Capital	300.001
Legal Reserve	20.354
Accrued Earnings	13.159
Other cumulative comprehensive income	- 691
Other intangible assets	-1.156
Other Transient Adjustments	-15
Allowable results	-
Total	331.652

4. CAPITAL REQUIREMENTS

As of December 31, 2023, Aresbank's capital requirements were as follows:

Type of risk	Risk subtypology	Material	Approach	Capital Regulatorio 2023 (Pilar I)	Domestic Capital 2023 (Pillar I + Pillar II)
Credit Risk	Credit Risk	✓	Pillar I	34.100	34.100
	Foreign Currency Risk	✗	Loans vs Total		-
	Country Risk	✓	Var. 10% Ratio CET1		-
Credit Concentration Risk	Individual Conc.	✓	BdE Approach	-	36.447
	Sectorial Conc.	✓	BdE Approach	-	409
Market Risk	Market Risk	✗	Pillar I	-	-
	Exchange Rate Risk	✗	FX vs RRPP		-
Structural Balance Sheet Risks		✗		-	324
Operational Risk	Operational Risk	✓	Pilar 1	3.363	3.363

	Legal Risk	✘		-	673
	Technology risk	✘			
	Reputational risk	✘			
Business Risk		✓	Observed Historical Deviation	-	7.224
TOTAL				37.463	82.539
				Pilar I	Pilar II
Total Allocated Capital				37.463	45.077

The total value of CET1 instruments and the Entity's Total Capital is €331,652 thousand. Thus, comparing these figures with the capital requirements, the Entity has room to meet its regulatory and internal capital requirements:

	Capital Requirements	Total Aresbank Capital*	Capital Buffer
Regulatory Capital (Pillar I)	37.463	331.652	294.189
Internal Capital (Pillar I + Pillar II)	82.539		249.113

*As of 31/12/2023, Aresbank's total capital is categorized as CET1.

4.1. Minimum Credit Risk Requirements

Aresbank has followed the standard method methodology to assess Pillar I capital requirements associated with credit risk. In this regard, 8% of regulatory capital consumption has been allocated on the total RWA, according to the standard method described in Title II, Part Three of the CRR (EU Regulation 575/2013 as amended by EU Regulation 876/2019).

The following table shows the capital requirements for credit risk as of December 31, 2023, broken down by exposure category:

Exhibition Category	Exposition	APRs	Capital (8%)
Administrations and Central Banks	269.574	26.261	2.101
Public sector	15.000	3.750	300
Institutions	587.714	115.420	9.234
Enterprises	325.861	226.046	18.084
Retailers	18.113	11.971	958
Exposures Secured by Real Estate Mortgages	31.882	9.950	796
Exposures in default situations	4	2	0
Collective Investment Funds	0	0	0
Other	52.120	32.844	2.628
Total	1.300.268	426.244	34.100

4.2. Concentration Risk Requirements

The assessment of capital needs due to credit concentration risk has been carried out by calculating the sectoral and individual concentration indices using the simplified option proposed by the Bank of Spain.

As indicated in the Bank of Spain's CAP guide, the Bank's direct risk in the EU has been considered for the calculation of the concentration ratios. Risks with general government, depository institutions, securitised assets and the risk of derivative products have not been included.

Individual Concentration Risk

Evaluated Appearance	Definition
Definition	It is defined as the possibility of material losses, due to the concentration of risk in each borrower or in a group of borrowers linked to each other.
Regulatory Reference	Guidelines on common procedures and methodologies for SREP; Regulation (EU) 575/2013.
Materiality criterion	To determine the materiality of this risk, the Individual Concentration Index defined by the Bank of Spain in the CAP Guide has been chosen.
Materiality threshold	According to the methodology proposed by the Bank of Spain, the Individual Concentration Index must be less than or equal to 0.10%.
Magnitude	Individual Concentration Index: 12.26
Materiality	Aresbank considers the risk of individual concentration as material

Aresbank's individual concentration ratio is 12.26, implying additional capital requirements for this risk of 36.447 thousand euros. The comparison with previous years is as follows:

ICI	2021	2022	2023
	13,35	10,90	12,26

Sectorial Concentration Risk

Evaluated Appearance	Definition
Definition	It is defined as the possibility of material losses arising from the concentration of risk in a group of borrowers whose main source of income is the same sector.
Regulatory Reference	Guidelines on common procedures and methodologies for SREP; Regulation (EU) 575/2013.
Materiality criterion	To determine the materiality of this risk, the Sectoral Concentration Index defined by the CAP guide has been chosen.
Materiality threshold	According to the methodology proposed by the guide, when the Sectoral Concentration Index is less than or equal to 18%, it would not imply any capital surcharge.
Magnitude	Ectorial Centricity Index: 22.19
Materiality	Aresbank considers the risk of sectoral concentration as material

Aresbank's sector concentration index is 22.19, which implies additional capital requirements for this risk of 409.1 thousand euros. The following table shows the distribution of exposure by sector:

Sector	Exposure
BRC. Real Estate	37.763
MAT. Raw Material	-
IND. Processing & Manufacturing Industries	44.983
CNB. Non-core or discretionary consumption	120.479
CIT. Telecommunications and ICT services	-
SCP. Professional & Business Services	22.721
PPN. Commodities	4.095
SAL. Health & Care	-
SUP. Public Utility Supplies	-
ENE. Fossil Energy	54.786
TRL. Transport & Logistics	35.331
FNB. Non-Banking Finance	-
Total	320.157

Aresbank's exposure is mainly concentrated in the consumer non-core or discretionary sector, which accounts for 37.6% of the total. The remaining exposure is more evenly distributed across the rest of the sectors.

4.3. Capital Requirements for Operational Risk

Aresbank has followed the Core Indicator Method to assess capital needs by Pillar I associated with operational risk. Thus, it is established that the capital requirement is 15% of the average for three years of the indicator defined in Article 316 of Regulation 575/2013.

As a result, capital requirements for operational risk at the end of the 2023 financial year amounted to €3,363 thousand.

Due to prudential principles, Aresbank, for the purposes of Pillar II, has decided to allocate an additional amount reflecting its potential exposure to operational risk subtypes, such as ICT systems or reputational risk, despite having been considered non-material.

To this end, it has applied 3% of the capital requirements per Pillar I, distributed as follows:

Operational risk subtype	Distribution	2023 Capital
Legal Risk	25%	168
Reputational risk	45%	303
Technology risk	30%	202
Total	100%	673

- Residual Operational Risk:

Evaluated Appearance	Definition
Definition	Residual operational risk corresponds to events not included in any of the other secondary operational risks analyzed (conduct, reputation, ICT model and systems). It includes events related to external fraud, legal fraud, and losses on tangible assets.
Regulatory Reference	Guidelines on common procedures and methodologies for SREP; Regulation (EU) 575/2013

Guidelines	Losses incurred due to operational risk events not considered in the above categories
Materiality criterion	The materiality of this risk will be assessed by the impact on CET1 of losses caused by residual operational events.
Materiality threshold	Capital destruction of more than 10 basis points of the CET1 Ratio due to events related to operational risk.
Materiality	Material

Losses in the last 5 years due to these types of operational risk (reputation, ICT systems and residual) do not exceed the materiality threshold. Given the idiosyncrasies of the risk, characterized by numerous low-loss events or events with a low probability of extraordinary losses, in addition to its recognition among the risks of Pillar I of the European solvency regulations, this risk is considered as material. Given the low occurrence of operational risk events and the existing control over the risk factors that could cause operational risk losses, it can be concluded that there is a low prudential impact risk, considering the current level of risk and the system of controls.

4.4. MREL

In 2021, pursuant to Article 44(1) of Law 11/2015, the Bank of Spain required Aresbank to maintain a requirement for own funds and eligible liabilities (MREL) of not less than 13.21% of the total amount of risk exposure and not less than 3% of the exposure to the leverage ratio, which, in accordance with the third transitional provision of Royal Decree 1012/2015, will be satisfied no later than 1 January 2024. An update of this requirement was received in 2023, increasing the equity requirement to 14.17% and maintaining the leverage ratio at 3%. Aresbank complies with the CET1 requirement of 14.17%, with the CET1 ratio standing at 70.8%. In the case of the leverage ratio, it is 28.8%, a figure higher than the aforementioned requirement.

5. CREDIT RISK AND DILUTION

The annual accounts set out the principles, accounting policies and valuation criteria applied in accordance with current regulations, describing the approaches and methods used to determine the impairment of financial assets.

Aresbank establishes a classification of transactions pursuant to Section II of Annex IX of Circular 4/2017 of the Bank of Spain, "Classification of transactions according to credit risk due to insolvency". Aresbank has methodologies for the estimation of coverages subject to individualized estimation and uses alternative solutions for the estimation of collective coverage.

These methodologies are approved by the Board of Directors, ensuring that they are adequate, integrated into the Entity's credit risk management system and form part of the processes, in particular those of pricing and granting operations.

1) Clasification of operations

Aresbank defines the following risk categories:

- Stage 1: Normal.
- Stage 2: Normal in special surveillance.
- Stage 3: Doubtful. This category distinguishes between non-performing transactions due to late payment (defaults of more than 90 days) and non-performing transactions due to non-performing loans.

Automatic risk reclassification criteria

As an automatic criterion for reclassifying risks, the age of the defaulters will be considered. In this way, a transaction with an unpaid amount of capital, interest or expenses contractually agreed more than 30 days old will be reclassified as normal risk under special surveillance and if the unpaid is more than 90 days old, it will be classified as doubtful. In addition, when a client has a transaction classified as doubtful due to unpaid debts of more than 90 days, and this transaction represents more than 20% of the client's total risks with the Entity, the carry-over effect will be applied, which consists of considering all of this client's transactions as doubtful.

Subjective risk classification criteria

On the other hand, in addition to the automatic reclassification criteria mentioned above, Aresbank applies a review criterion of significant increase in risk for those customers subject to individualized analysis. To this end, the following aspects are assessed:

- Normal Risk in Special Surveillance

Aresbank considers that a customer has suffered a significant increase in risk since initial recognition when it is observed that any of the indicators analysed shows impairment above the established thresholds. In this case, the Entity must analyse on a case-by-case basis the advisability of reclassification to this category.

- Non-performing risk for reasons other than non-performing loans

In line with the alert system defined by the Bank of Spain and the criteria set out in Annex IX of Circular 4/2017 of the Bank of Spain, criteria have been established that would lead to the reclassification of a transaction or customer as a doubtful risk, after carrying out an individualised analysis.

Refinanced and restructured operations

A refinanced operation is one granted to a holder to replace one or more previously granted operations, due to difficulties in complying in due time and form with the conditions of the initial operations. A restructured operation is one in which a reduction is made or goods are received to reduce the debt, or in which its conditions are modified to lengthen its maturity, vary the amortization schedule, establish grace periods, etc., with the purpose of reducing the financial obligations of the operation and enable the client to meet them in a context of financial difficulties.

Doubtful Risk

Non-performing loans will be considered as bad debts when they have been in the category for more than 4 years or when 100% credit risk coverage has been maintained for more than 2 years. Additionally, the transactions of holders that are declared in insolvency proceedings for which it is recorded that the liquidation phase has been declared or is about to be declared shall be considered as failed. Classification in this category for the aforementioned cases does not imply that the Entity will interrupt the negotiations or take the appropriate legal actions to recover the amount.

2) Provisions for insolvencies

In line with the provisions of Annex IX of BdE Circular 4/2017, Aresbank has two methodologies for calculating the provision for insolvency, the collective method and the individualised analysis.

Collective Method

It is used to calculate provisions for insolvencies of operations at normal, normal under special surveillance and doubtful risk, provided that they have not been considered as individually significant. Aresbank has adopted the alternative solutions provided in the amendment of Circular 6/2021, of December 22, 2021, of the Bank of Spain, amending Circular 4/2017, for the calculation of provisions using the collective method.

Individualized analysis

Those risks classified as normal risk under special surveillance or doubtful that exceed the significance threshold will be subject to individualized analysis for the calculation of credit loss allowances. The amount of the coverage of a transaction by individualized analysis shall be calculated as the difference between the gross carrying amount of the transaction and the present value of the estimated cash flows expected to be received, discounted using the effective interest rate. In addition, the estimated recoverable amount of effective collateral received is considered.

5.1. Identification of the external rating agencies used

In the 2023 financial year, the Entity has used for credit ratings, the external rating agencies that hold the status of eligible as ECAI, under 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 with the rated counterparties, following the specifications set out in Article 138 of Regulation (EU) No. 575/2013.

5.2. Description of the process for assigning credit ratings of public securities issues to comparable assets

As of December 31st, 2023, the Entity has not assigned credit ratings for public securities issues to comparable assets.

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

Below is a breakdown of credit risk exposures as of December 31st, 2023, broken down by credit quality grades (measured by the percentage applied for the purpose of calculating the risk-weighted exposure value) and by risk categories, before applying risk mitigation techniques:

Risk Category	Breakdown of total exposures by risk weights							
	0%	20%	35%	50%	75%	100%	Otras	Totales
Central governments or central banks	199.836	20.000	-	-	-	47.725	-	267.561
Regional administrations or local authorities	-	-	-	15.000	-	-	-	15.000
International organizations	2.013	-	-	-	-	-	-	2.013
Financial institutions	-	553.112	-	8.442	-	26.160	-	587.714
Corporates	-	8.188	-	116.994	-	200.679	-	325.861
Retailers	-	-	-	-	18.113	-	-	18.113
Exposures with real estate secured	-	-	31.882	-	-	-	-	31.882
Defaulted exposures	-	-	-	-	-	4	-	4
Other exposures	19.276	-	-	-	-	32.844	-	52.120
Total	221.125	581.300	31.882	140.436	18.113	307.412	-	1.300.268

- Counterparty and geographical distribution of impaired exposures

The breakdown of NPEs by type of instrument and counterparty sector is as follows:

Debt Instruments	Doubtful debt instruments	Provision
Debt securities	-	-
Loans & Advances	4	-2
Central Banks	-	-
Public Administrations	-	-
Credit institutions	-	-
Other financial companies	-	-
Non-financial corporations	-	-
Of which: SMEs	-	-
Households	-	-
Total	4	-2

Thousands of euros

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

Off-Balance Sheet Exposures	Doubtful off-balance sheet exposures	Provision
Central Banks	-	-
Public Administrations	-	-
Credit institutions	1.352	-270
Other financial companies	-	-
Non-financial companies	-	-
Households	-	-
Total	1.352	-270

Thousands of euros

The detail of doubtful debt instruments by geographic area is as follows:

	Spain		Rest of the EU		Rest	
	Non-performing debt instruments	Provision	Doubtful debt instruments	Provisión	Doubtful debt instruments	Provision
Debt securities	-	-	-	-	-	-
Loans & Advances	4	-2	-	-	-	-
Total Debt Instruments	4	-2	-	-	-	-

Thousand euros

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

	Spain		Rest of EU		Rest	
	Doubtful exposures	Provision	Doubtful exposures	Provision	Doubtful exposures	Provision
Loan commitments granted	-	-	-	-	-	-
Financial guarantees granted	-	-	-	-	-	-

Other commitments granted	-	-	-	-	1.352	-270
Total Off-Balance Sheet Exposures	-	-	-	-	1.352	-270

Thousand euros

In addition, as of December 31, 2023, Aresbank had country risk provisions of € 687 thousand for balance sheet exposures and € 898 thousand for off-balance sheet exposures.

5.4. Changes in impairment losses and provisions in 2023

The following is the movement in impairment losses recorded to hedge the credit risk of financial assets:

	Coverage of Doubtful risk	Normal risk coverage and special vigilance	Country-risk Coverage	Total
Balance as of December 31, 2022	1.249	2.678	570	4.497
Endowments	349	4.432	26.039	30.820
Recoveries	-	-4.973	-25	-4.998
Others	-1.596	-55	-25.897	-27.548
Balance as of December 31, 2023	2	2.082	687	2.771

6. SECURITIZATION TRANSACTIONS

The Entity has not carried out asset-securitisation transactions and therefore does not have outstanding balances of securitisation transactions.

7. INFORMATION ON THE MARKET RISK OF THE TRADING BOOK

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

At the end of 2023, Aresbank did not have a trading book.

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

The Entity holds units of financial instruments not included in the trading book that are classified within the available-for-sale assets portfolio and the amortized cost portfolio, the details of which as of December 31, 2023 are as follows:

Nature	2023	2022
Spanish public debt	3.840	-
Foreign Public Debt (EU)	2.030	-
Other foreign public debt	4.477	-
Spanish Private Fixed Income	23.097	13.264
Foreign Private Fixed Income (EU)	9.048	-
Value adjustments for impairment	-183	-116
Currency:		
<i>Euro</i>	42.309	13.148
Total	42.309	13.148

Thousand euros

The breakdown by rating of financial assets designated at fair value through changes in other comprehensive income is as follows:

Rating	2023	%	2022	%
AA+	2.030	13,7%	-	-
A-	3.840	25,8%	-	-
BBB-	9.001	60,5%	8.060	61,3%
TOTAL	14.871	100%	8.060	100%

Thousand euros

9. INTEREST RATE RISK ON POSITIONS NOT INCLUDED IN THE TRADING BOOK

On 24 April 2023, the Bank of Spain adopted, by agreement of the Executive Committee, the EBA/GL/2022/14 guidelines, which specify "the criteria for the identification, assessment, management and mitigation of risks arising from possible variations in interest rates and for the assessment and monitoring of credit spread risk of activities outside the banks' trading books". With the adoption of these guidelines, the Bank of Spain has introduced a series of amendments to the Guide to the Capital Self-Assessment Processes (CAP) and Liquidity Self-Assessment Processes (PAL), in order to ensure the consistency and alignment of the supervisory expectations included in the aforementioned Guide with the EBA/GL/2022/14 guidelines themselves and with Directive (EU) 2019/878.

Among the modifications that are proposed is the incorporation of the need to explicitly assess the materiality of CSRBB risk (credit spread risk in the banking book), and to include in the IACL information on the way in which it is quantified, valued and, where appropriate, allocated internal capital. It is proposed that banks, when they exceed the alert defined by the sensitivity of the results (earnings, a concept that includes interest margins and changes in the market value of instruments

at fair value), in addition to indicating the measures to correct the situation, should assess the need to allocate additional capital. They must also take this risk into account in the IACL stress tests.

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

9.1. IRRBB Risk

On a quarterly basis, Aresbank calculates the impact of interest rate shocks on its EVE (economic value of equity), applying 6 scenarios:

- upward parallel motion
- downward parallel movement
- positivization (short-term rates down and long-term rates up)
- flattening (rise in short-term rates and fall in long-term rates)
- rise in short-term rates
- fall in short-term rates

The results of this analysis are reported annually through the IACL. If the EVE is higher than 15% of the Entity's Tier 1 capital in any of the six scenarios, Aresbank shall inform the competent authority.

Evaluated Appearance	Definition
Definition	The current or future risk to both the recurring margin and the economic value of an entity arising from adverse interest rate fluctuations affecting interest rate sensitive instruments.
Regulatory Reference	EBA/GL/2022/14 Guidelines of the European Banking Authority on Interest Rate Risk Management (IRRBB) and Credit Spread Risk Assessment and Monitoring (CSRBB) for non-trading activities.
Guidelines	Variation of economic value due to fluctuations in interest rates and sensitivity of the net interest margin to changes in interest rates in different scenarios.
Material criterion	It is taken from the scenario with the greatest deterioration of the EVE and the comparison of this decrease in economic value with the materiality threshold.
Material threshold	This threshold is set by regulation at the lower of 15% of CET1 or the sum of the recurring margin of the last three years
Magnitude	Threshold of 15% of CET1 (49.€748 thousand) and the sum of the recurring income of the last three years (€30,441 thousand). Impact on EVE 3,244 thousand euros in the worst-case scenario
Materiality	Non-material

The result for the year shows that the Entity is exposed to interest rate variations, although the impact is not material. This is mainly due to the balance sheet structure and business model, which reduces the impact of both the maturity gap and the base gap. This conclusion is based on the following results, obtained in the EVE impact measurement exercise for each scenario:

Date of the exercise	31/12/2023
<i>Thousands euros</i>	Δ EVE
Parallel Upward Movement	3.571
Parallel Downward Movement	-3.244
Positivization	763
Flattening	376
Rising short-term rates	1.847
Lowering short-term rates	-3.235
Maximum deterioration	-3.244
15% CET1 threshold	49.748
Threshold adds recurring margin 3 years	30.441

Considering the results obtained for the different scenarios, the comparison of the most adverse scenario with the significance threshold proposed by the regulations is made. In this regard, it can be observed that the maximum deterioration of the EVE occurs in the scenario of a parallel movement of lower interest rates, estimated at 3,244 thousand euros.

Finally, this impairment does not exceed 50% of the recurring margin forecast for the 2024 financial year:

IRRBB Risk Materiality Analysis (recurring margin)	2024
Gross margin	32.843
Administrative costs	-4.772
Personnel costs	-8.605
Amortizations	-673
Recurring Margin	18.793
50% of recurring margin	9.397
Variation in Economic Value	3.244

As a result of Aresbank's business model, the bank has a balance sheet structure concentrated in the short term: 67.5% of asset maturities and 65.4% of liabilities have a maturity of less than one month, so movements in yield curves can be mitigated because the repricing gap between assets and liabilities is very short.

On the other hand, the new PAC guide aligns the simplified capital rule by IRRBB with the current definition of the supervisory outlier test (SOT) of Directive (EU) 2019/878, where the sensitivity threshold of the FSC used in said rule becomes 15% of Tier 1 capital instead of 20% of total own funds. In addition, the sensitivity values of FSC are considered in the six type scenarios defined in the Directive. Given that the impact on EVE is less than 15% of Tier 1 capital, this does not apply in the case of Aresbank.

10. REMUNERATION INFORMATION

10.1. General principles of Aresbank's remuneration policy

In accordance with Article 74 of Directive 2013/36/EU, credit institutions are required to have a remuneration policy for all staff. This remuneration policy must comply with the principles and requirements laid down in Articles 92 to 96 of that directive.

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

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

1. Principle of proportionality

In accordance with current regulations, article 32.1 of Law 10/2014 establishes that entities, when setting and applying the global remuneration policy, shall comply with the general principles listed in the Law, in a manner and to an extent consistent with their size, internal organisation and the nature, scope and complexity of the activities carried out by the Entity.

In this way, it is intended to make Aresbank's Remuneration Policy compatible with its risk profile, its risk appetite and its strategic plan, whose special characteristics could allow the application of the principle of proportionality of certain requirements relating to the variable remuneration of employees, when it is considered that the cost of applying such requirements is greater than the prudential advantage they represent. Specifically about payment in financial instruments, deferral of payment and discretionary benefits.

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

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

Based on this principle, the assessment of the performance-based component of remuneration will focus on long-term results and will consider the current and future risks associated with them, so that there is alignment with the Risk Appetite Framework.

3. Independence of internal control functions

The staff exercising internal control functions within the Entity shall be independent of the business units they supervise, shall have the necessary authority to carry out their duties and shall be remunerated according to the achievement of the objectives related to their functions, regardless of the results of the business areas they control.

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

4. Oversight and Effectiveness

Aresbank's Remuneration Policy, as well as the amounts to be received as remuneration, will be supervised and approved by the Entity's Appointments and Remuneration Committee, ensuring that the Entity's Remuneration Policy and practices are subject to a central and independent internal review at least once a year.

The Board of Directors of the Entity shall adopt and periodically review the General Principles of the Remuneration Policy and shall be responsible for supervising their application.

5. Clear distinction between the Criteria for establishing fixed and variable remuneration

This Policy makes a clear distinction between the criteria for the establishment of fixed and variable remuneration. On the one hand, the fixed component will mainly reflect relevant professional experience, and responsibility in the organization as stipulated in the job description as part of the working conditions.

On the other hand, the variable component shall reflect a sustainable and risk-adjusted return, as well as a performance more than that required to comply with the job description as part of the working conditions.

6. Transparency and simplicity

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

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

7. Gender Equality

The remuneration conditions applicable to the Entity's employees will be determined by the content of the position held, without distinguishing by the gender of the person occupying it, and without discriminatory elements being admissible for this reason.

10.2. Nomination and Remuneration Committee

The Nomination and Remuneration Committee is a non-executive body that is composed of five non-executive directors, of which two are independent directors. The Chairman of the Committee is an independent director.

The Nomination and Remuneration Committee is responsible for overseeing the selection processes and assessing the suitability of key role holders and submitting its findings to the Board of Directors for ratification. To this end, Aresbank has an internal procedure for assessing the suitability of key function holders, which specifies the evaluation criteria and reviews potential conflicts of interest. Among other aspects, it evaluates the capacity, knowledge and experience of the members of the Board of Directors, both individually and as a whole. Likewise, with respect to other key role holders, it defines the roles and skills required of candidates for each vacancy and decides on the time and dedication required to enable them to fulfil their commitments properly. The Committee also monitors the adequacy and effectiveness of the internal governance and control framework, ensuring that the internal control functions have sufficient authority, rank and resources to carry out their tasks properly.

The Appointments and Remuneration Committee draws up contingency and succession plans for key management positions, in particular by organising the appropriate succession of the General Management and, where appropriate, making recommendations to the Board of Directors so that the transfer of powers is carried out in an orderly and planned manner.

Finally, it supervises the compliance with the regulations of the Remuneration policy of the holders of key functions and submits its conclusions to the Board of Directors for ratification.

10.3. Remuneration of Members of the Board of Directors

The remuneration system for Directors shall distinguish between the remuneration system applicable to Directors in their capacity as such (Non-Executive Directors) and that of Executive Directors, as regulated in Article 27 of the Company's Articles of Association.

In accordance with the provisions of Article 27 of the Articles of Association, the maximum amount of remuneration of the members of the Board of Directors is approved each year by the General Shareholders' Meeting, and will remain in force as long as it is not modified by this body.

The following remuneration system will apply in the same way to both Proprietary Directors and Independent Directors, for their functions as members of the Board of Directors. This remuneration system will consist of the following elements:

- a. A fixed remuneration, determined for each year by the General Shareholders' Meeting, in accordance with the provisions of article 27 of Aresbank's Articles of Association. Unless

otherwise determined by the General Meeting, the Board of Directors shall decide on the distribution of remuneration among each of its members, as well as on the functions performed and attendance at meetings of the Board and its Committees.

- b. Attendance allowances for meetings, to cover travel, accommodation and subsistence expenses, for each non-resident Director attending Board meetings, and meeting attendance allowances for resident Directors, as well as those corresponding for the chairmanship and attendance at each of the Council's delegated Committees.

10.4. Remuneration to the members of the identified group

Without prejudice to the specificities of the remuneration system for the rest of the members of the Identified Staff, the principles established in the general framework of the Remuneration Policy applicable to the Identified Staff will be considered in all cases. Some of the members of the identified Group listed below will be part of this remuneration system and, in particular, staff holding key positions that may affect the Entity's risk profile.

10.4.1. Remuneration of members of the General Management

The remuneration system of Aresbank's General Management will consist of the following elements:

- a. Fixed remuneration.
- b. Variable remuneration or "Extraordinary Gratuity", 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, which must be set by the Board of Directors, depending on the performance carried out by the member of the General Management, throughout the previous year or subject to the established multi-annual objectives, taking into account, in any case, the quantitative and qualitative criteria established.

10.4.2. Remuneration to other members of the Identified Group

This group includes the people who exercise Internal Control Functions, and the rest of the staff of the Identified Group who hold key positions that may affect the risk profile of the Entity.

With respect to those responsible for internal control functions, they maintain an appropriate hierarchical level that provides them with the appropriate authority and rank to carry out their responsibilities, being independent of the lines of business or units they control. To this end, those responsible for the risk management, compliance and internal audit functions report and report directly to the various committees of the Board of Directors, which evaluate their performance. Regarding the remuneration of staff in internal control functions, it is not linked to circumstances that may compromise their objectivity.

Thus, the remuneration system or salary composition is the same as the rest of the groups, although the monitoring and evaluation method varies to achieve the established objectives, but always

maintaining the principles always established in the Banking Collective Bargaining Agreement in force.

- a. Fixed remuneration.
- b. Variable remuneration: It is defined based on the Annual Performance Evaluation and the company's results, through which this group of employees will be evaluated for the performance of their activity duly stipulated for each year, as well as for annual or multi-year personal objectives set.

The annual evaluation of this group will depend on the Appointments and Remuneration Committee, following a report from the General Management or the Committees of the Board, in the case of internal control functions, who will propose the annual evaluation of this group of employees to the aforementioned Committee, with the intention that it has all the necessary information for the evaluation and can carry out its evaluation in the most objective way possible.

The assessment 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 and shall not provide incentives for risk-taking that exceed the level tolerated by the institution.
- It will be compatible with the strategy set by the entity, the objectives, values and long-term interests of the entity, including measures that avoid conflict of interest.
- The Multi-Annual Remuneration Plans will be based on evaluating the achievement of certain objectives in a multi-annual framework and their payment may be staggered over a period of time in accordance with the objectives set.
- When the Bank decides to implement remuneration on the basis of a multi-year plan, the conditions for its accrual, collection, recognition, calculation and communication must be set out in an internal regulation approved for this purpose.

10.5. Staff remuneration

In accordance with Article 74 of Directive 2013/36/EU, credit institutions are required to 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 relationship of requirements set out in Articles 74 and 92 to 96 of the EU Directive.

In this regard, Aresbank has a Remuneration Policy, based on the principles set out in the provisions indicated in the previous paragraph of Directive 2013/36/EU, and on the criteria of impartiality in terms of gender; i.e. the staff of the Entity, regardless of their gender, shall receive equal remuneration for equal work or work of equal value, in accordance with point 65 of Article 3(1) of Directive 2013/36/EU and Article 157 of the Treaty on the Functioning of the European Union (TFEU).

The policy applies to all Aresbank staff and, in particular, to the members who are part of the so-called "Identified Collective" of the Entity, understood as those made up of members of the management body, senior managers or employees whose professional activities have a significant impact on the risk profile of the Entity. including, at least, those that meet both the qualitative and quantitative criteria established in Regulation 604/20146, as well as the 2021 Delegated Regulation.

Aresbank pays its employees an annual remuneration in accordance with the provisions of the Banking Collective Bargaining Agreement in force at any given time, which follows the aforementioned criteria of internal pay equity and gender equality.

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

1. Fixed remuneration: It is made up of the employee's gross annual salary and will be determined in accordance with the provisions of the Banking Agreement.
 - a. Variable remuneration: It consists of a variable amount depending on the Annual Performance Evaluation of each employee and the company's results, whose objectives are defined at the beginning of the year, analyzed at the end of each year and applied in a single payment in the following year. Alternatively, Aresbank may approve Multi-Year Remuneration Plans that combine the achievement of objectives within a certain period of time with the payment of variable remuneration in a staggered manner over a period of time.

Within the principle of internal equity and in compliance with the provisions of Law 10/2014 of 26 June 2014 on the regulation, supervision and solvency of credit institutions, Aresbank's staff, without prejudice to the group indicated in section 6.2 above, are divided into two main profiles:

- i. Administrative and / or technical staff

Their salary consists of:

- ✓ Fixed gross salary, in accordance with the principles established in the Banking Collective Bargaining Agreement in force at any given time.
 - ✓ Variable remuneration defined based on the Annual Performance Evaluation and the results of the Entity. Each employee is valued for the performance of their daily activities and the functions corresponding to their position, as well as for annual or multi-year personal goals.
- ii. Commercial Staff

Their salary consists of:

- ✓ Fixed gross salary, in accordance with the principles established in the Banking Collective Bargaining Agreement in force at any given time.
- ✓ Variable remuneration defined based on the Annual Performance Evaluation and the company's results, through which this group of employees will be evaluated for the

performance of their commercial activity duly stipulated for each year, as well as for annual or multi-year personal objectives set.

On an annual basis and in accordance with the Commercial Plan approved at the beginning of the financial year, Aresbank's sales staff will have set quantitative and qualitative objectives in order to comply with the Commercial Plan established for the year, which will be monitored by the Business Development Director.

10.6. Comments on the variable remuneration Policy

The variable remuneration policy, despite its low amount in relation to the Entity's share capital, will follow the recommendations issued by the European Central Bank on 13 December 2016 (ECB/2016/44) regarding compliance with minimum capital requirements, as well as comply with any other specific requirement required by the Bank of Spain with the aim of ensuring that it does not represent any risk at the capitalisation level. solvency or liquidity of the Entity.

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

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

1. Payment with financial instruments: The remuneration policy must be appropriate to the size, internal organization and the nature, scope and complexity of the entity's activities.
2. Therefore, Aresbank, based on its shareholding structure, its prudent risk-taking strategy and its moderate remuneration policy, does not establish variable remuneration mechanisms in the form of capital instruments, following the principle of proportionality.
3. Deferral Clause: When the Entity so determines, and in any case, if the total variable remuneration figures are greater than 1% of the share capital, the deferral mechanisms will be established, together with the approval proposal, in compliance with the requirements established by current regulations.
4. Malus Clause (Remuneration reduction clause): the deferred variable remuneration that is pending payment will be subject to reduction by Aresbank, when any of the following circumstances occur until it is consolidated:
 - i. A restatement of annual accounts that do not result from a regulatory change and provided that the new amount to be settled is lower than the amount initially accrued.
 - ii. A fraudulent conduct of the employee or that the employee has caused serious damage to the Entity, through fault or negligence
 - iii. Disciplinary dismissal.

5. Clawback Clause (Remuneration recovery clause): the variable remuneration already paid will be subject to total or partial recovery by Aresbank when, during the 3 years immediately following its payment, it becomes clear that the payment has been made in whole or in part on the basis of information whose falsity or serious inaccuracy is demonstrated, A posteriori, risks assumed during the conditional period manifestly or surface.
6. Maximum limit of variable remuneration: The variable component shall not exceed 100 per cent of the fixed component of each individual's total remuneration. However, the General Meeting of Shareholders of Aresbank S.A. may approve a higher level than that generally foreseen, provided that it does not exceed 200% of the fixed component and does not affect, as indicated, the level of solvency of the Entity.

10.7. Remuneration and other benefits to the Board of Directors and General Management

a) Board of Directors

The following is a breakdown of the total remuneration and attendance allowances received (in gross amount and figures in thousands of euros) by the directors who have been members of the Bank's Board of Directors throughout the 2023 financial year:

Financial year 2023	Remuneration	Other benefits	Total
Counselor 1	187	46	233
Counselor 2	186	54	240
Counselor 3	114	-	114
Counselor 4	117	31	148
Counselor 5	109	20	129
Counselor 6	150	-	150
Counselor 7*	30	15	45
Counselor 8**	98	-	98
TOTAL	991	166	1.157

* Until 21/03/2023

** From 19/04/2023

The breakdown of the total remuneration and attendance allowances received (in gross amount and figures in thousands of euros) by the directors who have been members of the Bank's Board of Directors throughout the 2022 financial year is as follows:

Financial year 2022	Remuneration	Other benefits	Total
Counselor 1	180	46	226
Counselor 2	185	53	238
Counselor 3	108	5	113
Counselor 4*	93	38	131

Counselor 5**	89	8	97
Counselor 6	134	-	134
Counselor 7	116	46	162
Counselor 8***	126	-	126
TOTAL	1.031	196	1.227

* From 15/03/2022

** From 01/02/2022

*** Until 11/11/2022

Aresbank, S.A. has no other obligations in relation to pensions and life insurance with any of the members of the Board of Directors. The Entity does not have direct risks with directors of the Entity as of December 31, 2023. In compliance with the requirements of article 229 of the Capital Companies Act (LSC), the directors have communicated that they do not have situations of conflict of interest with the Entity.

b) Management General

The breakdown of the remuneration to the Entity's General Management during the financial years 2023 and 2022 is broken down below (figures in thousands of euros):

Financial year 2023	Remuneration	Other benefits	Total
General Manager*	226	10	236
Deputy General Manager**	279	15	294
Acting General Manager ***	119	3	122
TOTAL	624	28	652

* From 03/04/2023

** From 10/04/2023

*** Until 02/06/2023

During the year, compensation was paid to a former Deputy General Manager in the amount of €410 thousand.

The breakdown of the remuneration to the Bank's General Management during the 2022 financial year is as follows:

Financial year 2022	Retribution	Other benefits	Total
General Manager*	588	13	601
Deputy General Manager**	328	94	422
Acting General Manager ***	10	-	10
TOTAL	926	107	1.033

* Until 19/12/2022

** Until 06/07/2022

*** From 20/12/2022

The amounts due to the Entity's income statement for contributions to pension plans and insurance in 2023 amounted to 3 thousand euros (8 thousand euros in 2022).

11. LEVERAGE RATIO

As set out in Article 429 of Regulation 575/2013 (CRR), as amended, inter alia, by Delegated Regulation (EU) 2015/62, institutions shall calculate the leverage ratio as the institution's capital divided by the institution's total exposure. The Entity's CET 1 will be taken as a measure of capital. Exposure shall be considered as the sum of the exposure values of all off-balance sheet assets and items as defined in the regulations.

As of December 31, 2023, the Bank's leverage ratio was 28.8%, as follows:

	Phase-in	Fully-loaded
Exposure Value: Total exposure corresponding to the leverage ratio	1.152.219	1.152.219
Capital: Tier 1 Capital	331.652	331.652
Leverage Ratio	28,8%	28,8%

Thousands of euros

Leverage risk control is incorporated into the regular monitoring of risk indicators. There is a limit defined in the Bank's Risk Appetite Framework, which is monitored and reported to the Risk, Compliance and IT Committee, ensuring that the ratio comfortably exceeds the minimum regulatory threshold, which is considered as a reference value (3%).

12. ENCUMBRANCE ASSETS

The concept of assets with encumbrance refers to the assets of the Entity, as well as the collateral received, that are committed as a result of their use in secured financing transactions.

Below is Aresbank's total balance sheet as of December 31st, 2023, distinguishing the assets and collateral received with and without charges by type of asset or collateral, respectively, as well as the liabilities associated with them:

	Carrying amount of assets with encumbrances	Fair Value of Encumbered Assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets of the Entity			1.015.587	
Loans at sight			203.021	
Debt securities			42.309	
Loans and advances other than loans at sight			718.781	
<i>of which: Loans secured by real estate properties</i>			24.975	
Other Assets			51.476	

Security Interests Received			25.358	
Loans at sight				
Debt securities				
Loans and advances other than loans at sight			25.358	

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