

## Appendix 1

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### Remuneration Policy for Directors and the CEO in terms of Chapter 12 of the Capital Markets Rules of the MFSA

#### 1. BACKGROUND INFORMATION

##### A. Entry into force

The Remuneration Policy (the “**Policy**”) for members of the board of directors (“**Board of Directors**” or “**Board**”) and the chief executive officer (“**CEO**”) of APS Bank plc (the “**Company**”) has been drawn up in terms of the provisions of Chapter 12 of the Capital Markets Rules (“**Chapter 12**”) of the Malta Financial Services Authority (the “**MFSA**”) which transposes Directive (EU) 2017/828 of the European Parliament and of the Council of 17 May 2017 amending Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement (often referred to as the “Shareholders’ Rights Directive” or “SRDII”).

The Company’s nominations and remuneration committee (the “**Nominations and Remuneration Committee**”) has drawn up this Policy. The Policy was considered and approved by the Board of Directors and is being submitted to the Company’s members for their consideration and approval at the annual general meeting being held on 16 May 2023 (“**AGM**”). Subject to AGM approval, the Policy will become effective as from 16 May 2023.

Upon approval, the Policy, will be published on the Company’s website on <https://www.apsbank.com.mt/investor-relations/>. The Policy shall remain available on the Company’s website as long as it is applicable.

##### B. Scope

The aim of this Policy is to contribute to the business strategy, long-term interests, and sustainability of the Company by ensuring that the Company is able to attract and retain sufficiently qualified directors and a CEO who are crucial for the formulation and proper implementation of the Company’s strategic vision.

The Policy applies to ‘directors’ as such term is defined in Chapter 12 and therefore in the case of the Company it applies to any member of the Board of Directors (the “**Directors**”) and to the CEO. The Policy is in addition to the remuneration policy of APS group (the “**APS Group**”), reference to which is made in the Company’s Annual Report (“**Group Remuneration Policy**”).

As at the date of entry into force of the Policy, all Directors are non-executive directors. Should the Company’s Board

of Directors be at any point in time also composed of executive directors, the Policy will be amended as necessary to address the remuneration of executive directors. In this Policy, the term “director” is therefore referring to a non-executive director unless otherwise stated. On the other hand, the CEO is an employee of the Company but is not a Director.

##### C. Remuneration Report

With effect from financial year 2022, in so far as the Directors and the CEO are concerned the remuneration report published by the Company in its annual report shall be in line with this Policy, Appendix 12.1 of the Capital Markets Rules and other rules and regulations applicable to the Company. The remuneration report shall be subject to an advisory vote at the relative general meeting.

##### D. Managing potential conflicts of interest

The Board of Directors is of the opinion that any risk of a conflict of interest arising as a result of the Nominations and Remuneration Committee drawing up this Policy is significantly mitigated by the fact that the Policy will be submitted to the AGM for members’ consideration and approval. This risk is further mitigated by the fact that, at the AGM, members will also be asked to approve the maximum annual aggregate emoluments of the Board of Directors, as well as any increase of such emoluments.

Moreover, in order to avoid any conflict of interest, the Company’s remuneration is managed through well-defined processes ensuring no individual is involved in the decision-making process related to their own remuneration. In line with best practice, non-executive Directors’ remuneration is reviewed on an annual basis by the Nominations and Remuneration Committee, which in turn makes any recommendations for consideration by the Board. The remuneration of the CEO, including any variable remuneration is approved by the Board of Directors, upon a recommendation of the Nominations and Remuneration Committee. In their recommendation to the Board, the Nominations and Remuneration Committee shall be guided exclusively by the best interests of the Company.

##### E. Revision of Policy and validity

In terms of Chapter 12, the Company shall submit the Policy to a vote by the general meeting at every material change and, in any case, at least every four years. The Nominations and Remuneration Committee is tasked with keeping the Policy under review. Any amendments to the Policy are to be recommended by the Nominations and Remuneration Committee to the Board for

## Appendix 1 (continued)

its consideration and approval: provided that any material amendments to the Policy shall be submitted to a vote at the annual general meeting before adoption.

The Policy shall therefore remain in effect for a period of four years, that is until the annual general meeting in 2027, unless in the case of material changes it is taken earlier to the general meeting for the approval of shareholders.

The Board of Directors shall ensure that any remuneration paid to Directors and the CEO is only made in accordance with the Policy as approved at the AGM.

### 2. REMUNERATION

#### A. Non-Executive Director Remuneration

The successful implementation of the Policy will contribute to the proper functioning of the Board of Directors by ensuring that the Company can attract, motivate and retain Directors who possess the necessary experience, qualities and attributes to enable them to discharge their duties with integrity and the highest professional standards as well as a diverse Board of Directors.

The remuneration of the Board of Directors takes into consideration Directors' required competencies, skills, effort and scope of the Board's work, including the number of Board and committee meetings as well as the overall responsibilities of the Directors. Due consideration is also given to market realities, practices and demands for similar positions within regulated entities, the size of the Company and its importance to the local economy.

The total package payable to Directors consists of a fixed fee. Each of the Directors receive the same amount in terms of fixed fees for his or her respective duties as Directors other than:

- The chairman of the Board (the "Chairman") who is entitled to a different fee commensurate with the added responsibilities of the role of Chairman; and
- Directors may receive, when applicable, additional fees payable with respect to additional responsibilities by way of any memberships and/or chairmanships of different board committees or where a Director is appointed to sit on the board of directors of a subsidiary company or any other company forming part of the same group of the Company ("Group Companies").

In this respect, the Company's articles of association (the "Articles") provide that if any Director, being willing, shall be called upon to sit on any committee or working group of the

Company or to perform other services related to the operations of the Company but which fall outside the scope of the ordinary duties of a Director, the Company may remunerate such Director, as may be determined by the Board, in addition to or in substitution of the remuneration as Director, provided such payments fall within the limit of aggregate emoluments of Directors established by the general meeting and subject to all applicable laws and/or regulations.

In addition, in terms of the Articles and subject to all applicable laws and/or regulations, the maximum amount of aggregate emoluments of all Directors in any one (1) financial year, as well as any increase of such emoluments, shall be determined pursuant to an ordinary resolution passed by the Company at a general meeting for which notice of the proposed aggregate emoluments, or any increase thereto, has been duly given to Members.

The maximum aggregate remuneration as well as the amount payable to the Chairman and to each director individually as well as the fees in relation to chairmanship or membership of committees, or the appointments on the boards of Group Companies (as applicable), shall be reviewed on a yearly basis by the Nominations and Remuneration Committee, which shall make any recommendations for consideration by the Board. The amount received by each of the Directors by way of directors' fees in any financial year shall be reported in the Remuneration Report.

The remuneration of the Directors does not include any variable component, such as bonuses, incentives or other benefits in whatever form nor are they awarded any share-based remuneration or any share options, neither do they receive any retirement or pension benefits. Directors are in fact not eligible to participate in the Company's annual bonus plan, the Executive Share Incentive Plan 2022 – 2026 (the "ESIP"), pension arrangements or the APS Group's life assurance scheme. Directors do not receive any sign-on payment upon their appointment nor do they receive any benefit or payment related to their resignation or removal from office. As stated below, following their resignation from office they continue to benefit from certain discounts on products and services offered by the Company.

In line also with the Articles, the Directors are entitled to be reimbursed all travelling, hotel and other expenses properly incurred by them in attending and returning from meetings of the Board or any committee of the Board or general meetings of the Company or in connection with the business of the Company. Such expenses shall, subject always to all applicable laws and/or

regulations, not be deemed to form part of the Directors' emoluments.

As at the date of this Policy, Directors are entitled to avail themselves of the health insurance scheme offered by the Company and to certain discounts on products and services of the Company. This health insurance benefit if availed of continues to apply for the rest of the year after Directors' resignation from office and for the two calendar years that follow.

#### Other provisions contained in the Articles in relation to Directors' remuneration

As stated above, the Board is currently composed entirely of non-executive directors. For all intents and purposes, the Articles as at the date hereof state that:

- Subject to all applicable laws and/or regulations, the Directors may hold such other office with the Company apart from the office of director, and be remunerated for that office, as the Board may from time to time determine.
- Any remuneration paid to any Director by virtue of holding a salaried office with the Company (whether permanent, temporary, direct or on secondment) shall not be deemed to form part of such Director's emoluments, provided that such remuneration shall always be paid in accordance with all applicable laws and/or regulations.

#### Duration of Appointment

Directors may either be (i) appointed to the Board by a Qualifying Shareholder (as the term is defined in the Articles), pursuant to Article 103 of the Articles, or (ii) elected to the Board by the members in general meeting pursuant to Article 106 of the Articles.

Unless appointed or elected for a longer or shorter period, or unless they resign or are removed, Directors appointed pursuant to Article 103 of the Articles and those elected pursuant to Article 106 shall hold office for one (1) year, from the end of one annual general meeting until the end of the next. No Director may be appointed or elected for a period exceeding three (3) years. A Director shall however be eligible for re-appointment or re-election on retirement.

The appointment of Directors pursuant to Article 103 of the Articles is governed by a letter of appointment that sets out the terms of the appointment. This appointment is, however, not a contract of employment and is subject to all the terms and conditions of the Articles. Similarly, the election of any Director pursuant to Article 106 is subject to all the terms and conditions of the Articles.

Pursuant to Article 117 of the Articles, the Company may, by ordinary resolution taken at a general meeting, remove a Director at any time prior to the expiration of his term of office; provided that any Director appointed by notice in writing to the Company pursuant to Article 103 may also be removed by simple notice in writing to the Company by the same Member/s who appointed the Director.

## **B. The Chief Executive Officer's Remuneration**

The remuneration of the CEO takes into account the Company's need to attract, retain and motivate an individual who possesses the necessary experience, qualities and attributes for this key executive role within the Company by offering terms of employment which are competitive within the market. The remuneration package offered to the CEO also considers the size and scope of the role, the experience of the individual, market realities, practices or standards for similar positions within regulated entities, group financial performance, salary levels and increases.

In setting the CEO's remuneration, the Nominations and Remuneration Committee is guided by the remuneration framework and reward policies and practices applicable to the rest of the Company's employees. These policies and practices are relevant to today's labour market and reflect the added value of each position in line with expertise that supports the Company's goals and which attracts and retains highly talented individuals in possession of the right skill sets, aptitude and knowledge to carry out complex and challenging roles. On this basis, the CEO's remuneration is determined by taking in consideration salary and reward framework and the employment conditions and benefits applicable for employees of the Company.

It is the Company's policy to engage the CEO on a definite contract of employment and consequently any notice periods shall be governed by legal provisions applicable to the termination of such contracts.

The remuneration of the CEO, as a salaried employee on a definite term contract of employment is aligned to the Group's Remuneration Policy and comprises of three key elements:

- Fixed Pay;
- Variable Pay; and
- Other Benefits

The CEO's remuneration and the terms of employment are agreed by the Board of Directors, upon the recommendation of the Company's Nominations and Remuneration Committee.

In any given year, the variable remuneration and/or awarded to the CEO shall not exceed 25% of CEO's fixed remuneration.

### **Fixed Pay**

The fixed (base) salary awarded to the CEO provides a predictable base level of income reflecting level of responsibility, capabilities, skills, experience and market conditions. The CEO's base salary is determined by the terms of the relevant employment contract.

Fixed pay includes an occupational pension scheme through a fixed percentage contribution of the base salary.

### **Variable Pay**

Variable pay is clearly connected to the work and performance of the CEO, with objectives based on factors that support the Group's long-term strategy and business objectives. The variable component of the CEO's remuneration takes the form of (i) an annual performance bonus and (ii) share awards in terms of the ESIP (described below).

The annual performance bonus is contingent on a performance assessment carried out by the Nominations and Remuneration Committee and approved by the Board of Directors. The assessment evaluates the extent to which the CEO would have reached pre-set objectives and behaviours set by the Board of Directors, including business growth in line with the Company's strategic plan, engagement with other key stakeholders and regulators, corporate social responsibility, ESG objectives and ensuring adherence to risk management and compliance measures. All of these objectives, which form the basis of the Board's assessment of the CEO's entitlement to an annual performance bonus, are aligned with the Company's business strategy and long-term interests, and therefore ensure that the CEO's performance, and remuneration, is linked to the Company's long-term success and sustainability. Clawback provisions will apply in line with the Group Remuneration Policy.

### **Executive Share Incentive Plan**

During the annual general meeting held on 28 April 2022, the shareholders approved the establishment of an executive share incentive plan for the period 2022 – 2026 (ESIP). By virtue of the ESIP, the Board of Directors may grant shares to the CEO, and other eligible employees, subject to the rules of the ESIP. The purpose of the ESIP is to ensure that the Company can continue to properly incentivise its key employees with a view to aligning their interests to those of the Company's shareholders. The implementation of the rules governing the ESIP was delegated by the Board of Directors to the Nominations and Remuneration Committee. An eligible

employee (including the CEO) will therefore be awarded share awards pursuant to the ESIP, subject to the attainment of stipulated performance criteria in a particular year. The ESIP contemplates loss of benefits to varying degrees depending on the circumstances, including to those eligible employees who do not remain in the employ of the Group. Share awards have a vesting period of three years.

### **Retirement and Termination payments or benefits**

The CEO is not entitled to any form of payment on resignation or termination of employment apart from the entitlement at law governed by legal provisions applicable to the termination of definite employment contracts. Entitlement to a retirement gratuity is based on number of years' service, as is the case of all employees, and is equivalent to one time of the terminal monthly salary.

### **Other Benefits**

It is the policy of the Company that the CEO is entitled to benefits enjoyed by all employees of the Company including health insurance, group life insurance, personal accident insurance, discounts on products or services and a mobile phone allowance. The CEO is also entitled to the use of a fuelled licenced insured and maintained company car and meeting expenses in respect of professional and club memberships, subscriptions and similar up to a maximum of Euro 4,000 per annum.