For the General Meeting of Shareholders of AB Šiaulių bankas **2025-03-07**

Change of Remuneration policy

AB Šiaulių bankas (hereinafter referred to as the Bank), legal entity code 112025254, address Tilžės g. 149, Šiauliai, Lithuania, and the Bank's subsidiaries (hereinafter referred to as the "Group companies") are guided by the Remuneration Policy, which was approved on 29 March 2024. The Bank has prepared and is proposing an updated version of the Policy for approval by the 2025 General Meeting of Shareholders.

Reasons for updating the Policy:

- The Bank aims to introduce and apply long-term incentive programme for its employees;
- The Bank's long-term incentive programme requires a variable/fixed remuneration ratio of more than 100%;
- The Bank aims to allow for the future payment of variable remuneration in shares of the Bank also to other employees of the Bank and the Bank Group who are not considered to be Nominated Employees;
- The policy must be reviewed regularly, but at least once a year;
- The policy is subject to review to assess compliance with the existing legal framework and good practice.

The main proposed changes to the Policy are:

- The possibility of long-term incentive programme for the Bank's employees. The policy sets out the principles of long-term incentive programme:
    - The long-term incentive programme shall only be applied by decision of the Bank's Supervisory Council, i.e. after the Bank's Supervisory Council has drawn up and approved a long-term incentive programme, which shall be consistent with and not contradict the provisions of the Remuneration Policy;
    - Long-term incentive programmes are for a period of 3 years or more;
    - the Long-Term Incentive programme shall apply to Nominated Employees (as defined in paragraph 4.7 of the Policy) whose professional activities have the most significant impact on the Bank's risk profile, with the Bank's Supervisory Council having the right and responsibility to decide which Nominated Employees to include in the long-term incentive programmes;
    - Bank employees enrolled in the Long-Term Incentive Programme may be subject to a variable/fixed remuneration ratio of more than 100% but not more than 200%;
    - Under the Long-Term Incentive Programme, employees would receive variable remuneration in 100% Bank shares, with 5-year deferral and 1-year retention periods;
    - the vesting of the variable remuneration granted under the long-term incentive programmes would be subject to the fulfilment of future performance conditions over a period of 3 years or more (in the event that the future performance conditions are not fulfilled, the variable remuneration granted would be reduced proportionately with the possibility of a reduction to zero);
    - Long-term incentive programmes may set interim annual targets, which could result in the Nominated Employee receiving a portion of the variable remuneration, even if the overall targets of 3 years or more are not met, or the Nominated Employee withdrawing from the long-term incentive programmes without fault before the end of the long-term incentive programme.
- It is envisaged that variable remuneration in the form of bonuses for non-Nominated Employees may also be paid in Bank shares.
- The policy sets out the principles that the remuneration of those carrying out internal control functions should be largely fixed to reflect the nature of their responsibilities, and that the ratio of variable to fixed remuneration should be lower compared to the ratio of variable to fixed remuneration for employees in the business units under their control.
- It is envisaged that the Council will decide on severance pay for Nominated Employees that exceeds the amounts set by law, however, the Council may delegate this authority to the Management Board.

The proposed draft Policy complies with the requirements of the legislation applicable to the remuneration policies of major credit institutions and public limited liability companies whose shares are admitted to trading on a regulated market.

In accordance with the Law on Companies of the Republic of Lithuania (Article 37(3)(5)), when the Policy is amended, all management reports containing information on remuneration approved by since the last General Meeting of Shareholders' vote on the remuneration policy must be submitted to the Bank's General Meeting of Shareholders. Given that the Remuneration Policy has been updated with its approval on 29 March 2024. The Remuneration Report for 2023 is included in the 2023 Annual Report of AB Šiaulių bankas and the Bank Group (pages 182-187), which is available on the Bank's website (link), and the Remuneration Report for 2023 is included in the 2024 Annual Report of AB Šiaulių bankas and the Bank Group, which is available on 31.03.2025. Agenda item 1 for the Ordinary General Meeting of the Bank

Application of a variable/fixed remuneration ratio of more than 100%

Paragraph 14 of the Description of Minimum Requirements of the Remuneration Policy (hereinafter referred to as the Description) approved by the Resolution of the Board of the Bank of Lithuania No 03-82 of 8 May 2015 provides for the possibility for the Bank's General Meeting of Shareholders to increase the maximum ratio of variable and fixed remuneration by up to 200%, provided that the following conditions are met:

- a detailed recommendation to shareholders is provided, justifying the reasons and scope of the proposal, including the number and functions of employees, as well as the likely impact on the requirement to enrich a strong capital base;
- the supervisory authority is informed in advance of a recommendation to shareholders to increase the maximum ratio of fixed to variable remuneration;
- the decision to increase the maximum fixed/variable remuneration ratio shall be taken by a qualified majority of at least 2/3;
- the supervisory authority shall be informed without delay of the shareholders' decision to increase the fixed/variable remuneration ratio and of the approved maximum fixed/variable remuneration ratio;
- Employees who could be directly affected by higher levels of maximum variable remuneration must not be allowed to exercise any voting rights directly or indirectly.

The draft Policy proposes that the General Meeting of Shareholders should determine that for Nominated Employees enrolled in the Long-Term Incentive Programmes, for whom variable remuneration is applied in accordance with paragraph 4.14.1.1 of the draft Policy, the following conditions shall apply 14.14.1. of the Draft Policy (members of the Bank's Management Board (who also perform internal control functions), the Chief Executive Officer, the Deputy Chief Executive Officers, Heads of Departments (other than Heads of Departments performing internal control functions)), a ratio of up to 200% of the fixed remuneration to the variable remuneration may be applied (p. 4.30 of the Draft Policy). The General Meeting of Shareholders has the exclusive right to revoke this decision at any time (page 49 of the European Banking Authority's Guidelines of 2 July 2021 on sound remuneration policies under Directive 2013/36/EU (EBA/GL/2021/04)).

In accordance with the provisions of the Draft Policy, a fixed/variable remuneration ratio of up to 200% will be applicable to the above Nominated Employees without the need for an additional general meeting of shareholders, under the following conditions:

- The number of Nominated Employees must not exceed 10 (p. 4.31 of the draft Policy);
- The Chief Risk Officer shall carry out an assessment that the application of a ratio of more than 100% does not adversely affect the requirement to have a sound capital base;
- The Chief Risk Officer shall carry out an assessment that the application of a ratio higher than 100% does not prejudice the Bank's obligations under the Directive, 2013/36/EU and Regulation (EU) No 575/2013, in particular when assessing the Bank's own funds liabilities;
- The General Meeting of Shareholders has not withdrawn the decision to allow a variable/fixed remuneration ratio of more than 100%;
- The Bank's Supervisory Council shall, before approving long-term incentive programmes providing for the application of a ratio of more than 100% of the annual variable remuneration to fixed remuneration, obtain and assess the Chief Risk Officer's assessment of the impact of the application of a ratio of more than 100% on the capital base and the fulfilment of the Bank's obligations in accordance with the Directive, the EU 2013/36/EU and the Regulation (EU) No 575/2013;
- Nominated Employees who are subject to a variable/fixed remuneration ratio of more than 100% shall not be allowed to exercise, directly or indirectly, any voting rights in the Bank's shares.

If any of the above conditions are not met, a ratio of no more than 100% fixed to variable remuneration would be applied to the Nominated Employees for the purposes of the Long-Term Incentive Programmes for the award of variable remuneration (Policy 4.9).

Long-term incentive programmes would apply to those Nominated Employees identified by the Bank's Supervisory Council whose professional activities have the most significant impact on the Bank's risk profile and whose significant contribution is important for the continued growth of the Bank's business. Long-term incentive programmes and a variable/fixed remuneration ratio of more than 100% would aim to strengthen the commitment of these employees to the Bank and to encourage them to ensure the Bank's sustainable and trustworthy performance.

The Bank currently has 34 Nominated Employees. The number of Nominated Employees to whom variable remuneration is applied according to the method set out in paragraph 4.14.1.1 of the Draft Policy (i.e. variable remuneration allocated 100% in shares of the Bank with a deferral period of 5 years) currently stands at 8. The number of Nominated Employees varies depending on the Bank's organisational structure and the requirements set out in the law. It is therefore proposed that the Policy should provide that a fixed/variable remuneration ratio of more than 100% may be applied to up to 10 Nominated Employees for whom variable remuneration is applied in accordance with the method set out in paragraph 4.14.1.1 of the Draft Policy (paragraph 4.31 of the Draft Policy). The Bank's Supervisory Council, when approving long-term incentive programmes, would decide which Nominated Employees to include in the long-term incentive programmes and which Nominated Employees would be subject to a fixed/variable remuneration ratio of more than 100%.

Increasing the ratio of fixed to variable remuneration to 200% would have a relatively small impact on the capital base. According to the end of 2024 data, the maximum annual variable remuneration ("AVR") pool for Nominated Employees who are subject to variable remuneration under the approach set out in paragraph 4.14.1.1 of the Draft Policy after the increase of the fixed to variable ratio to 200% would be 7.6 million shares of Risk Weighted Assets ("RWA"). Given that 100% of the RWA is paid out in shares, which are credited to equity after the payout, i.e. there is no negative impact on equity after the payout, the impact of the RWA pool on equity amounts to 0.3% of the RWA. Taking into account the safeguards in the draft Policy that the allocation and disbursement of the AVR shall be subject to an assessment of the sustainability of the Bank's capital and liquidity position, it is concluded that the increase of the ratio of fixed to variable remuneration for a part of the Nominated Employees up to 200% will not have a material impact on the capital base.

Taking into account that the proposed amendment would increase the AVR pool to 0.3% of RWA, as well as the existing procedural safeguards regarding the award and payment of AVR only in the context of a sustainable capital base, and the capital buffers actually applied by the institution, it is concluded that the increase of the ratio of the fixed to the variable remuneration up to 200% for up to 10 Nominated Employees should not be in contravention of the Bank's obligations in accordance with Directive 2013/36/EU and Regulation (EU) No 575/2013, particularly in the context of the assessment of the Bank's own funds obligations.

The Policy, which provides for a fixed/variable remuneration ratio of up to 200%, must be approved by the General Meeting of Shareholders by a qualified majority of 2/3.

After the draft Policy has been submitted to the General Meeting of Shareholders for approval, the Bank will inform the Bank of Lithuania of the recommendation made to the shareholders to apply a fixed/variable remuneration ratio of up to 200% to a portion of the Nominated Employees, as required by paragraph 14.2 of the Regulations.

The Bank's Supervisory Council on 6 March 2025 approved the Long-Term Incentive Programme 2025-2027 (the "Programme"), which would only come into force subject to the approval of the proposed draft Policy by the General Meeting of Shareholders.

For employees who do not perform internal control functions, 4 targets would be set: ROE, RAS (Risk Appetite Statement), change in the Bank's P/Bv ratio and ESG (sustainability) indicator. For employees performing internal control functions, control-focused targets would be set in addition to the four objectives already listed.

A final evaluation of the achievement of 2025-2027 targets shall be conducted after the end of the Programme but no later than before the end of March 2028. The results of the final evaluation of the performance of the Employee throughout 2025-2027 shall serve as the basis for the calculation of the proposed AVR.

The information is provided by
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