Aresbank

Annual Report 2018

Aresbank

Annual Report 2018

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CHAIRMAN'S LETTER

Dear shareholders,

With the present letter and on behalf of the Board of Directors of Aresbank, I am pleased to introduce Aresbank Annual Report 2018, closed as of 31st December. Let me also take this opportunity to convey what we find remarkable not only in relation to the financial and commercial activity that our entity has been doing over the past year, but also with regard to the economic and financial contexts, national and international, in which it has been developed and in which will be expected to be developed in 2019.

First and in relation to the international context, according to available data from the IMF, the world economy has grown to 3.7% in the interannual rate at 2018, the same rate as in 2017. However, still with provisional data, everything points to the fact that we are going through a phase of a certain slowdown since the second half of last year. Although forecasts also point to growth above 3% in 2019, there are already indications that some of the national economies or regions of the world, such as China, Japan or the European Union, have closed the year below their forecasts and it does not seem that they can improve, with the information available, in the coming quarters. Similarly, it does not seem that the growth of trade that was until the first half of last year can be sustained.

Secondly, we are going through a complex time in which the multilateral achievements of decades in terms of trade and tariffs seem to be weakened at times. The world is observing certain bias to bilateralism, which is accompanied by a somewhat protectionist reaction that cloud the prospects and business opportunities of a changing world, but in growth. There is concern about the balances of the international capital movements, which might be targeting emerging and developing economies with greater uncertainty. Just as international financial markets have become more restrictive on the basis of a hard-to-assume growth in public and private international debt; besides to some also worrying processes, such as the so-called Brexit or the drift of the Turkish economy, so relevant to the immediate future of the MENA area and its economic agents.

Regarding the Spanish economy, 2018 has continued to accumulate growth quarters of its activity, more than 20 at the end of the year. Although this increase in activity, in one of the EU's five major economies, has been higher than its EU partners and sustained employment growth (about 3% in the interannual rate) has been very good news, there are also some shadows on the horizon to which we have to pay attention to. On the one hand, it is observed that external demand is subtracting some tenths of growth, when in the previous years of the current expansive phase, this contribution had always been positive and had contributed to better the international financial position of the Spanish economy, so deteriorated at the time of the Great Recession. Together with this, there are several public bodies and private institutions that underline the bad behavior of productivity in Spain. More worrying about an scenario of weakened governments and with not very positive prospects in relation to those structural reforms that would allow to improve this rubric of the Spanish economy.

Equally must be stated that the price stability in which the Spanish economy has moved is very remarkable, with an interannual inflation rate in December 2018 of 1.2%, very similar to that of the previous year. In turn, prospects for 2019 are also based on price stability, indeed, heeding the latest news and decisions taken by the ECB. This price stability, always positive for the decision making of the economic agents, clashes with two relevant financial problems facing our sector. On the one hand, market interest rates remain low, making very difficult to achieve a net interest margin that ensures the proper viability of the banking business. On the other hand, price stability and low interest rates do not allow reducing the burdens to be endured under a higher demand for coverage in the assets side, and a greater proportion of own resources free from any financial commitment that prevent their retribution, with the resulting stress on business profitability rates.

However, 2018 has been for Aresbank a good year from the point of view of the growth of its commercial and financial activity and the results that have been derived therefrom. The accounts, after been checked by our external auditors with no major comments, shows an increase in assets by almost 14%, with a 7% increase in our credit assets, finally, to reach 11.3 million euros profits after tax, which represents an increase of more than 63% on the previous year. Before taxes the positive results of this year have been improved 662%. These results will be distributed as dividends, after attending with local applicable requirements.

The improvement in our results is based on three pillars. On the one hand, an increase of more than 25% in the net interest income. On the other hand, a positive variation of slightly more than 58% in gross income coming from commissions. Finally, the significant increase in interest and commissions has been made with a very controlled increase in operating costs of slightly more than 8%.

These figures represent one of the top results in the history of Aresbank and have been achieved with a prudent risk management, once again, with solid granting grounds and a great experience in the main lines that express the very best of our business. In fact, the achievement of our expansion has been possible with CET1 fully loaded at 49.56%, jointly with a liquidity coverage ratio of 294.17%, both well above of what is considered as acceptable by our Spanish and European regulators.

Once seen the results of our activity, as in previous years, I want to underline the constant support to Aresbank's activity that involves the close collaboration with the Libyan Foreign Bank and the Crédit Populaire D'Algérie, both from its organizations and shareholders. In the same way, Aresbank counts with a good reputation among our local regulators, especially for Bank of Spain, due to the general conclusions coming from its periodic supervisory reviews and evaluations during 2018. To this has undoubtedly contributed the celerity and implementation in 2018 of the new regulation on the prevention of money laundering or public regulations of Anti-Money laundering, through Royal Decree-Law 11/2018.

Finally, the activity and results of Aresbank cannot be separated from our trusted-clients portfolio, always willing, albeit indirectly, to improve our management and generate synergies, especially in the appropriate responses to all commercial and financial demands raised, never jeopardizing our banking usages, based on the prudence and in a very balanced sense when integrating any new solution in management. Let me conclude this letter highlighting, by way of congratulation and gratitude, that the achievement of these good results, in a complex and very competitive environment, can only be achieved with a staff, both in management and administration, perfectly qualified and experienced, and at the same time, fully committed.

A. Ragib

Mr. Ahmed Ragib

Chairman to the Board of Directors

SHAREHOLDERS

SHAREHOLDERS	2018	2017
Libyan Foreign Bank	99.86%	99.86%
Crédit Populaire D´Algérie	0.14%	0.14%

BOARD OF DIRECTORS

Mr. Ahmed Ragib	Chairman
Mr. Abdulfatah A. Mutat	Vice Chairman
Mr. Jamal R. Elbenghazi	
Mr. Serajiddin A. Khalil	
Mr. Omar Boudieb (*)	Credit Populaire d'Algérie
Mr. Mohammed Dahmani (**)	Credit Populaire d'Algérie
Mr. Elmabruk A. Alrogbani(***)	

Independent Directors

Mr. Javier Iglesias de Ussel y Ordis

Mr. Miguel Cuerdo Mir

Secretary

Mr. Antonio Díaz de Liaño

(*) Membership ended on 18th of July 2018.
(**) Appointed on 18th of July 2018.
(***) Board of Directors membership from 18th of July 2018 to 17th of October 2018.

AUDIT COMMITTEE

Mr. Javier Iglesias de Ussel y Ordis	Chairman of the Audit Committee and Member of the Board of Directors
Mr. Abdulfatah A. Mutat	Member of the Board of Directors
Mr. . Miguel Cuerdo Mir	Member of the Board of Directors

Secretary

Mr. Antonio Díaz de Liaño

RISK & COMPLIANCE COMMITTEE

Mr. Javier Iglesias de Ussel y Ordis	Chairman of the Risk & Compliance Committee and Member of the Board of Directors
Mr. Serajiddin A. Khalil	Member of the Board of Directors
Mr. Jamal R. Elbenghazi	Member of the Board of Directors
Mr. Elmabruk A. Alrogbani (*)	Member of the Board of Directors

Secretary

Mr. Antonio Díaz de Liaño

(*) Risk & Compliance Commitee membership from 18th of July 2018 to 17th of October 2018.

NOMINATIONS AND REMUNERATIONS COMMITTEE

Mr. Miguel Cuerdo Mir	Chairman of the Nominations and Remunerations Committee and Member of the Board of Directors
Mr. Abdulfatah A. Mutat	Member of the Board of Directors
Mr. Serajiddin A. Khalil	Member of the Board of Directors

Secretary
Mr. Antonio Díaz de Liaño

MANAGEMENT TEAM

General Manager	Mr. Luis Casado
Deputy General Manager	Mr. Akram Grew
Manager of Commercial Division	Mr. Manuel Grijota
Manager of Operations Division	Mr. Juan Manuel Arranz
Manager of Treasury & Capital Markets Department	Mr. Anwar Elgrabli
Manager of Systems Department	Mr. Mariano Gómez
Manager of Accounting Department	Mr. Julio Tudela
Manager of HR & Administration Department	Ms. Begoña Bracamonte
Manager of Legal and Compliance Department	Mr. Antonio Díaz de Liaño
Manager of Risk Management Department	Mr. Augusto García de las Heras
Manager of Internal Audit	Mr. Jorge Martí Herrero
Manager of Methods and Organization Department	Mr. Manuel Grijota
Manager of Barcelona Branch	Mr. Salvador Planas

RESPONSIBILITY FOR THE INFORMATION CONTAINED IN THIS ANNUAL REPORT

The information contained in this annual report, including the annual accounts and the Directors' report as well as any additional data deemed necessary, has been drawn up by the members of the Board of Directors of Aresbank, S.A., in accordance with its accounting records.

The members of the Board of Directors are responsible for establishing not only the accounting policies but for designing, implementing and maintaining the internal control systems to ensure a proper preparation of the annual accounts, the safeguarding of assets, and the reliability of the accounting records in compliance with the legal requirements, and specifically, with the regulations established by the Bank of Spain.

Our external auditors KPMG Auditores, S.L. examine the annual accounts of Aresbank, S.A. It is their responsibility to express a professional opinion on said accounts, by carrying out their work in accordance with generally accepted auditing principles, based on the evidence which they deemed necessary and to which they were given free access.

DIRECTORS' REPORT

(FREE TRANSLATION FROM THE ORIGINAL ISSUED IN SPANISH COUNTERSIGNED BY ALL THE MEMBERS OF THE BOARD)

DIRECTORS´ REPORT

1. ECONOMIC AND FINANCIAL SITUATION

1.1. The international economy

Global economic growth in 2018 has been 3.7%, according to IMF estimates. This figure brings some slowdown in relation to the figures and expectations of a year earlier. Moreover, this slowdown does not seem to be stopped, because, according to the World Bank, in 2019 "the prospects for the world economy have darkened". It does not mean that global economic activity does not continue to expand, without exception in the various international geographic areas, but shows a less optimistic outlook for 2019 in a large part of them.

The point is that a decisive contribution to this loss of intensity in global economic growth has come mainly from the large Asian economies, China and Japan, above all, but also from the most important economies in the Eurozone. At a more disaggregated level and according to the same estimates, it is observed that the emerging and developing economies of Asia are growing at rates of 6.5%, with a Chinese economy growing at 6.6%, away from that 7% of the forecast consensus of a year ago, and with growth prospects for 2019 each time closer to 6% in the interannual rate. The developed world also loses bellows in its growth, reducing its interannual rate to 2.3% from 2.4% achieved in 2017. Something similar happen with Latin America and the Caribbean, which reduce their growth by 2018 to a poor 1.1% year-on. On the contrary, there are other broad geographical areas, such as sub-Saharan Africa, India or the MENA area, which intensify their growth, up to 2.9% the first, up to 7.3% the second, and at about 2.4% the third.

To this loss of momentum in global growth has contributed, undoubtedly, the worst results of world trade in goods and services, which has gone from a 5.3% growth rate for 2017 to a 4% rate in 2018. This assumes that in emerging and developing economies trade growth has declined from 7.1% in 2017 to 5.4% in 2018, and that in developed countries this same rate has been reduced by more than one point in just one year. In this respect, it must be pointed out the loss of importance that had the EU in 2017, regarding the growth of the trade, and which had significantly boosted global figures. On the other hand, this weakness in the growth of world trade is reflected in a greater volatility in oil prices, which has not finished consolidating the increase in price, making less reliable its maintaining above 55 US$ per barrel along 2019 and 2020.

There is obviously neither single reason to explain this weakening of global economic growth in 2018, nor in the prospects for a continued slowdown in 2019. Although it should be noted that the negative effects of the increasing tensions between China and the United States are being evident, and that a temporary suspension on new protectionist measures is not much at all if these are finally applied. On the other hand, it is not a good omen that the second half of 2018 has been closed with international capital movements resulting in net capital outflows from the emerging countries. In the same way that worse numbers are expected for the US economy, once the effect on demand for fiscal measures of past exercises has been exhausted. Nor do they help to improve the expectations all the demand problems seen in some of the EU's large economies. To all this is added a weakening of the international financial markets, more restrictive than a year ago, partly because they cannot be oblivious to the problems of contraction in Turkey or to the uncertainties that do not cease from the Brexit. In this context, it returns to gain presence, while introducing uncertainty, the phantom of the excessive level of public and private debt in circulation.

On other matters, it seems that the threat of the inflationary upturn that existed a year ago has been removed from the international economic scene. This means that the monetary authorities of the large developed economies will most likely not force significant increases in interest rates. On the one hand, Japan again faces a problem of growth in demand with the horizon of an increase in taxes on consumption in 2019 that will force to an accommodative monetary policy. In the case of the Federal Reserve, the objective of 2.5% in interest rates means that, given the current level and the foreseeable evolution of the real activity, there will not led to very significant increases. About the European Central Bank, although the end of its asset purchase program was confirmed last December, it has opted for an accommodative monetary policy, which, among other things, implies the possibility of reinvesting those that are going to be matured into new titles, even in a context of rising interest rates. This monetary policy foreshadows that there will be no rises of rates at least until the second half of 2019, and perhaps not then, given the bad macroeconomic data with which Germany, Italy or France have closed the year.

In short, if 2018 has been closed with a lower growth in world trade activity and a resurgence of old international tensions, 2019 appears as a year in which world economy growth will remain, but with a slower cadence, within an increasing uncertainty environment, which, in any case, does not have to affect all regions equally, although it will come for many countries depending on the final path that world trade takes, and the very evolution of *commodities*.

1.2. The Spanish economy

Spain has closed the year 2018 with a chain of 21 consecutive quarters of GDP growth. The last quarter of national accounting has given an interannual growth rate of 2.4%, below the expectations that there was a year earlier. Nonetheless, this Spanish economic growth is still leading the EU's large economies and is still ahead of the Eurozone (1.2% interim interannual rate in 2018).

To this growth has contributed the increase in the internal final demand of 2.7%. However, unlike previous years, there is a negative contribution from the external sector of -0.3 points to GDP growth of the year. Along with this loss of weight from the external sector, it should be emphasized that, from the demand side, both the final consumption growth rate (four tenths less) and the investment growth rate (six tenths less) are weakened in comparison to 2018. In the case of the contribution of the net external balance of goods and services, 2018 has meant a significant increase of more than 15% of the imports of services, which would sow some doubts about the evolution of the external competitiveness of our economy in the last year. In any case, some indexes seem to contradict themselves, at least partially, since the Competitiveness Index of the Spanish economy for 2018, carried out by the World Economic Forum, shows an improvement in our position, from the 34th to the 26th place at the world level, whilst the Competitiveness Trend index, published by the Government of Spain, shows (January to December 2018) a loss of competitiveness against the EU-28 of 0.1 points, 2 points loss against the OECD, and more than 4 points against the BRICS.

From the supply side, the most intense growth has been observed in the construction sector (6.3%), while services have maintained their good tone, growing at an interannual rate of

2.9% at the year close. However, it is observed that the industry has lost growth pulse and its activity has closed the year with a four-quarter fall of 2018 of 1.1%.

About employment, it should be noted that there are 19,564,600 people employed in Spain at the end of 2018. This means an interannual variation rate of 2.98% in the last twelve months and a full-time net job creation for 566,200 people in the year. Intensification in job creation is likely to be due to the sharp increase in public employment throughout 2018, with higher rates of private employment growth and far above GDP growth in all the quarters. This rise some doubts about the sustainability of this growth, considering that this public employment revolves against public spending. On the other hand, and once again, the services sector is contributing to most of the employment created and, as with the activity, the employment regresses in 2018 in this industry (3,000 jobs less), but even the financial and insurance sectors have a positive rate of 1.8% in that fourth quarter of 2017.

Logically, this important net increase in the employment has also resulted in a new interannual fall in the unemployment rate, that stands in 14.45% at the end of 2018, two points less than a year ago, and it represents that 462,400 people have emerged from this situation. On the other hand, it is also good news that the employment rate has grown in Spain in more than 1 point, but it is not so much that the workforce, even increasing to almost 23 million people, in terms of activity rate has fallen another year, although the fall has been very slight.

The lack of growth in the rate of activity can cause problems that, in part, are solved with increases in productivity. However, according to the National Institute for Statistics (INE) and the national accounting in the last quarter of 2018, the variation in the productivity per full time equivalent job has been reduced by 0.2%, whilst the productivity per worked hour has also been reduced by 0.6% (unlike 2017 that grew by 1.4%). This means that in an economy like the Spanish one, in which it is very possible that the natural rate of unemployment (frictional plus structural) is close to the two digits, a fall of unemployment and productivity imply an important pressure on labor costs. Its reflection shall rely on the increase of the unit labor costs, which are growing at 1.6% at the end of the year, when the GDP deflator is growing at 0.8%. This is to say, an increase in the work factor which, if it is not answered with an improvement in productivity in 2019, can jeopardize the continuity of the net employment growth, at least at current rates.

From the price perspective, Spanish inflation has closed 2018 with an interannual growth rate of 1.2%. Therefore, a very similar increase to the previous year. This means that, once again, the inflation rate of the Spanish economy is below the inflation rate of the Eurozone (1.6%). On the other hand, the underlying inflation remains very stable at 0.9% interannual-rate-based. This price stability context is considered that can be maintained with a high probability, being more improbable its recovery in the coming months, given the evolution of the activity that is envisaged. This evolution of prices, especially the general at the Eurozone, in line with what has been said for the international framework and monetary policies, prevents to anticipate significant changes in the current nominal interest rate levels. Indeed, this expectation departs again the hope of returning to nominal and real positive interest rates and thus to a higher intermediation margin for financial institutions.

Finally, the Spanish public sector has published a global public deficit (Central Administration, Autonomous Communities and Local Administrations) of 2.06% to December (the latter month is pending to be accounted, for which we have no data yet). This means to be 3.38% below the deficit of the public accounts for last year. This deficit reduction allows to obtain a primary surplus (discounting the interest of the public debt) and thus to approach the constitutional mandate for structural public balance.

On the other hand, the public debt reached a historical record in the third quarter of 2018, close to 1.2 trillion euros, this is, 98.30% of the Spanish GDP of that third quarter. Although we may think that we have reduced the weight of the public debt in relation to GDP, if we compare it to the figures of 2016 (99%), one cannot deny that this important public indebtedness has scarcely been reduced despite the considerable recovery of the private activity and the notable increase in public revenues in these more than five years of economic expansion.

1.2.1. The external sector of the Spanish economy

With the provisional data published by the Bank of Spain, it can be said that the external sector of the Spanish economy has returned to provide funding in 2018. However, there is a deterioration by current account, since in 2016 and 2017 its financial or savings capacity compared to the rest of the world was approximately at 2% of its GDP, whilst it is very likely that for 2018 might end nearly 1% of GDP.

The assets account accrued until the third quarter of 2018 already pointed to a deficit that exceeded that of the whole year 2017 (it is estimated that it can reach 3% of the GDP), while the services account stays very far from the more than 55 billion euros surplus from 2017. Nor does it seem that much is being helped from the financial account, as there is a deterioration in the direct investment in Spain in relation to the previous year. Even though ‘Other investments’ and ‘Portfolio investment’ could offset the loss of strength of capital inflows into direct investment. In any case, it is probable that the Spanish economy capacity to generate net savings against the rest of the world is maintained, but it is very possible that its trade balance would not be able to maintain a coverage index higher than 90% as in previous years.

Another of the imbalances of the Spanish economy, the external debt, does not seem to evolve properly, since in the third quarter of 2018 reached the almost psychological level of the 2 trillion euros in gross terms, this is, 167% of the interannual Spanish GDP. Increases in the Spanish gross foreign debt started from the end of 2013, this is, that are increases that match with the current expansive phase but produces some vertigo to reaching this referred dimension. However, it should be noted that, in net terms, the Spanish foreign debt stands at 84.1% of GDP and this means a considerable reduction, thinking that in 2015 reached 93.9%.

1.2.2. The Spanish banking sector

In 2018, November on November of the previous year, according to data from the Spanish Banking Association (AEB), the assets of the Spanish banks grew by 1.1%, whilst credits did it hardly, with a drop of the deposits of almost 5%, although those from clients increased by 0.5%. The aggregated balance sheet presented a consolidated figure of 2.5 trillion euros, this is, twice the Spanish GDP of 2018. In the meantime, equity have reached 200 billion euros, this is, an interannual increase of 3%.

Banking activity has allowed the sector to generate 11% increase in net profits in the first nine months of the year, largely due to a 15% reduction in provisions for defaults and the effort to contain costs, with a reduction of more than 1%.

A positive indicator of the evolution of the sector is the improvement in the return on assets, which becomes 0.69%, compared to 0.64% of last year, while the default positions fall to 6.18% in September 2018, from 8.32% in September 2017. However, along with these figures, gross margin fell by 3.4%, and efficiency ratio stood below 50% for the whole sector. The equity growth (standing in more than 8% of the total resources), the reduction of the levels of default, jointly with some more sound balances, especially due to the sales of non-current assets, have allowed the aggregated levels of solvency to grow and reach 11.7% measured by CET1 *fully loaded* and according to the information provided by the AEB.

Using the same source of information for the same period, the position of Aresbank with respect to the rest of the Spanish banking can be compared throughout these balance figures.

Firstly, its excellent level of solvency is worth to be highlighted (49.56% in terms of CET1 *fully loaded*) that is widely exceeding the average of the Spanish banking sector, as well as its cost to income ratio, again, better than the average of the banking sector in Spain, which gives an idea about the sound management the entity is developing with its resources and within its activity framework. There are also other points that could be compared with its peers, although our business specialization (both in products and area of influence) makes this comparison to be incomplete, and therefore, its reading would be biased. A clear example are the deposits from clients, in which there is a notorious difference, since if at Aresbank represent more than 3% of the total in 2018, this figure exceeds the 40% of the total equity in the Spanish banking.

On another level, differences are also notable regarding deposits from other credit institutions, which in the case of Aresbank amounts to more than 69% of its liabilities, whilst in the Spanish banking represent around 12% in 2018. Likewise, and among the assets, deposits in other credit institutions for Aresbank accounts for almost 63% of its assets, while in Spanish banking this represents only 6% of total assets. Finally, if in the Spanish banking we find that almost 50% of the assets are focused to loans to clients, in Aresbank this figure barely reaches 20%.

In short, in terms of balance sheet and as in previous years, Aresbank has introduce itself in 2018 as a banking entity perfectly differentiated from the rest, short-term financial operations-oriented, and based on foreign trade financing – mainly guarantees and documentary credits - and not so much in the credit, as well as the maintenance of strong doses of movements in the money market in relation to its equity, set in terms of instruments, liquidity and solvency in a different way from the regular and dominant all over the Spanish banking.

1.2.3. The behaviour of the main Aresbank markets

The economies of the Middle East and North Africa, as it has already been pointed out, have presented an economic growth of 2.4% in the interannual rate for 2018; this is, there has been an intensification although not very pronounced of its growth in 2017 (2.2%). This growth has not been as intense in the Middle East countries (1.3%) than in North Africa countries (4.3%).

Although these differences can be established, the truth is that variations between countries may be more pronounced, giving an idea of clear diversity among national economies. Thus, while the major economies of the Persian Gulf have grown by about 2% (2.2% Saudi Arabia or 2.9% in Emirates), there is a lower growth in Iraq (in the range of 1.5%) and negative growths in economies like the Iranian (-1.5%) or the Yemeni (-2.6%). On the contrary, the economies of North Africa are going through a much more intense phase of economic growth, from 2.5% of Algeria or 3.2% of Morocco to more than 10% of Libya, to 5.2% of Egypt.

From the point of view of Aresbank's financial activity in the MENA area, in general, the environment would be positive in order to develop more business and be able to provide financial support to the external sectors of all these economies. However, this positive image has been tarnished by the economic situation that Turkey is going through, which has significantly reduced its economic growth, from more than 7% in 2017 to just over 3% in 2018. With this we want to highlight one more year that we cannot avoid a brief overview about the uncertainties that some of Aresbank traditional markets are facing, which hinders the growth of the business. Even though the thrust and dynamism that North Africa is showing in the last two years is optimistically observed.

As regards to the foreign trade transactions of Spain with the region, according to data from the Ministry of Industry, Trade and Tourism, in the year 2018 exports to the Middle East have been reduced by 3.2% in the interannual rate, despite having increased by 3% these exports to one of the strongest economies in the area, Saudi Arabia. By contrast, imports into the Middle East have grown 24.3%, undoubtedly due to the new purchase prices of oil and gas products in the area.

As for North Africa, in tune with the strong growth of the area, Spanish exports for the whole continent have increased by 5.1% in 2018. Besides, with our main trading partner in the area, Morocco, exports have grown 2.4%, representing almost 3% of total domestic exports. As far as imports are concerned, the increase with these MENA countries has also been very notorious. According to the official data mentioned above, imports with Africa have increased by more than 15%, while only imports coming from Morocco grow at a rate close to 6% in the interannual rate, highlighting the intensification of the business relations between the two countries and underlining the strategic importance for Spain of trading with these countries.

Lastly, very likely as a consequence of the rapid weakening of its growth, there has been a very significant fall in exports of goods to Turkey, estimated at 13.9%, reducing to 1.7% the weight they have on the Spanish total exporter, when they represented more than 2% just a year ago.

2. RISK MANAGEMENT

The following key principles underpin the risk and capital management at Aresbank:

- The Board of Directors provides overall risk and capital management supervision for the Bank.
- Both the Risk & Compliance Committee and the Audit Committee inform to the Board of Directors about the outstanding risks and operational performance.
- The ongoing management of risk is supported by control procedures to ensure compliance with the specified limits, the defined responsibilities, and the monitoring of indicators.
- The main goal is the management of the credit, market, liquidity, operational, business and reputational risks as well as the capital in a coordinated manner at all relevant levels within the organization.
- The risk management function is made independent from other departments.

3. CORPORATE GOVERNANCE AND COMPLIANCE

The Bank has continued developing its corporate governance system by adapting to the different regulatory developments produced both at a local and European level. Aresbank has adapted its internal manuals and procedures to the new Spanish regulation on money laundering prevention in force in 2018 as per result of Royal Decree-Law 11/2018 of August 31st, which modifies Law 10/2010 of April 28th on Prevention of Money Laundering in order to transpose the Fourth European Directive into Spanish legislation.

Aresbank has a global policy to ensure strict compliance with current legislation, as well as with the recommendations proposed by both the "Financial Action Task Force on Money Laundering (FATF)", as per Spanish and European Regulatory Bodies for the Prevention of the Money Laundering in Spain. The main objective of Aresbank's policy in this area is to avoid, through preventive measures, the use of our organization for criminal activities such as money laundering or terrorist financing activities, based on the following points:

- Identification and assessment of the customer's risk, as well as its financial and economic activities.
- The existence of internal controls and active communication between departments.
- Written procedures established internally.
- The development of a culture of prevention among all Bank employees through specific training activities.
- Reports to the competent authorities according to established procedures.

In addition to compliance with the laws and regulations in force, the Bank is adapted to the Financial Ownership File, under the supervision of SEPBLAC, for what has been a special relevance the updating of the Customer's Files of the entity.

4. ARESBANK FOCUS IN THE COMING YEAR

Aresbank is firmly committed on its commercial development, increasing and reinforcing its influence and positioning in the foreign trade market between Spain and the MENA region, offering specialized banking products, issuance and confirmation of documentary credits, commercial guarantees, export and import financing, as well as the development of Buyer Credit transactions with the different countries of the area. Likewise, the Bank continues to actively participate in the granting of credit facilities to companies through syndicated operations with various local banks.

In this way Aresbank wants to intensify its efforts to go along with and to favour the trade exchange between Spanish and the MENA region, exploring expansion paths for the commercial activity, being present and in the forefront before any improvement expectation in the economies of the region, as well as to the recovery of the oil prices, in short, highly committed to thriving the development of Spain's economic activity at an international level and the benefits that derive from it.

5. SUBSEQUENT EVENTS TO DECEMBER 31st, 2018

The Annual Accounts of the year 2018 have been formulated by the Aresbank' Board of Directors in the meeting held on March 26th, 2019.

6. ACQUISITION OF OWN SHARES

As in previous years and due to its equity capital structure, Aresbank has not acquired, held or performed operations with its own shares during 2018.

7. RESEARCH & DEVELOPMENT EXPENSES

The Bank did not invest in projects related to R&D.

8. ENVIRONMENTAL INFORMATION

The overall operations of Aresbank are subject to environmental protection legislation. The Bank has adopted appropriate measures with respect to environmental protection and enhancement and to the minimization, where appropriate, of the environment impacts, in compliance with the relevant current regulations. The Bank did not make environmental investments in 2018 and 2017, nor did it consider it necessary to record any provision for environmental risks and charges and does not consider that there are significant contingencies relating to environmental protection and enhancement.

9. OTHER INFORMATION OF INTEREST

Aresbank holds excellent regulatory coverage ratios at December 31st, 2018, both in terms of immediate liquidity (one month ahead) with a liquidity ratio of 294.17%, and in terms of solvency, with a high-quality capital ratio of 49.56%.

FINANCIAL STATEMENTS AND EXTERNAL AUDIT REPORT

(FREE TRANSLATION FROM THE ORIGINAL ISSUED IN SPANISH COUNTERSIGNED BY ALL THE MEMBERS OF THE BOARD)

KPMG

Aresbank, S.A.

Annual Accounts

31 December 2018

Directors' Report

2018

(With Independent Auditor's Report Thereon)

(Free translation from the originals in Spanish. In the event of discrepancy, the Spanish-language versions prevail.)

KPMG Auditores, S.L.

Paseo de la Castellana, 259 C
28046 Madrid

Independent Auditor's Report on the Annual Accounts

(Translation from the originals in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

To the Shareholders of Aresbank, S.A.

commissioned by its Board of Directors:

REPORT ON THE ANNUAL ACCOUNTS

Opinion

We have audited the annual accounts of Aresbank, S.A. (the "Company"), which comprise the balance sheet at 31 December 2018, and the income statement, statement of changes in equity and statement of cash flows for the year then ended, and notes.

In our opinion, the accompanying annual accounts give a true and fair view, in all material respects, of the equity and financial position of the Company at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with the applicable financial reporting framework (specified in note 3 to the accompanying annual accounts) and, in particular, with the accounting principles and criteria set forth therein.

Basis for Opinion

We conducted our audit in accordance with prevailing legislation regulating the audit of accounts in Spain. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Annual Accounts* section of our report.

We are independent of the Company in accordance with the ethical requirements, including those regarding independence, that are relevant to our audit of the annual accounts in Spain pursuant to the legislation regulating the audit of accounts. We have not provided any non-audit services, nor have any situations or circumstances arisen which, under the aforementioned regulations, have affected the required independence such that this has been compromised.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KPMG Auditores S.L., sociedad española de responsabilidad limitada y firma miembro de la red KPMG de firmas independientes afiliadas a KPMG International Cooperative ("KPMG International"), sociedad suiza
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Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the annual accounts of the current period. These matters were addressed in the context of our audit of the annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Classification of financial instruments See notes 5.3 and 10 to the annual accounts	
Key audit matter	*How the matter was addressed in our audit*
As of 1 January 2018 the Company has applied Banco de España Circular 4/2017, which includes relevant amendments in relation to the classification and measurement of financial instruments. Consequently, at that date, the Company estimated the effects of the first-time application of this legislation (see note 3.3 to the annual accounts). The classification and initial measurement of financial instruments may require a high level of judgement and complex estimates, and determines the criteria to be applied in their subsequent measurement.	In relation to the Company's implementation of Circular 4/2017 with regard to the classification and measurement of financial instruments, we carried out procedures on the assessment of the conceptual definitions, criteria and defined methodologies, and we performed tests of control and detail on the Company's analysis. Our procedures relating to the assessment of relevant controls linked to the classification and measurement of financial instruments were focused on identifying the risk management framework and controls associated with operating in the financial markets in which the Company is present, evaluating the application of the Company's policies and procedures for recognising and classifying the instruments based on existing business models and their contractual features, and examining the key controls associated with the process of measuring financial instruments and with analysing the integrity, accuracy, quality and recency of the data used and of the control and management process in place for the existing databases. With regard to the tests of detail performed, we selected a sample of financial instruments for which we assessed the appropriateness of their classification, the suitability of the measurement criteria applied and the accuracy of such measurement. Lastly, we analysed whether the information disclosed in the notes to the annual accounts has been prepared in accordance with the criteria set out in the financial reporting framework applicable to the Company.

Impairment of the loans and advances to other debtors portfolio
See notes 5.6 and 10 to the annual accounts

Key audit matter	*How the matter was addressed in our audit*
To estimate the impairment of financial assets, as of 1 January 2018 the Company has applied Banco de España Circular 4/2017, which includes relevant amendments in this respect. For this reason, on that date the Company estimated the effects of the first-time application of this legislation. The process of estimating the impairment of the loans and advances to other debtors portfolio due to credit risk entails a significant and complex estimate, especially with regard to the identification and classification of exposures through loans that are under special monitoring or impaired, portfolio segmentation, and the use of significant assumptions such as the realisable value of the collateral associated with credit transactions.	In relation to the Company's implementation of Circular 4/2017 with regard to impairment of financial assets, we carried out procedures on the assessment of the conceptual definitions, criteria and defined methodologies, and we performed tests of control and detail on the Company's analysis of the credit risk classification of financial instruments and on the estimated allowances and provisions for impairment. Our audit approach included assessing the relevant controls linked to the processes of estimating impairment of the loans and advances to other debtors portfolio and performing different tests of detail thereon. Our procedures relating to the control environment were focused on the following key areas: governance, accounting policies, refinancing and restructuring, monitoring of loans outstanding, the process of estimating allowances and provisions and assessment of the integrity, accuracy, quality and recency of the data and of the control and management process in place. Our tests of detail on the estimates of impairment of the loans and advances to other debtors portfolio basically encompassed the following: • Impairment of individually significant transactions: we selected a sample of the population of significant risks for which there was objective evidence of impairment and assessed the adequacy of the allowances and provisions recognised. • Validation of the adequate functioning of the calculation engine: this validation basically consists of the review of the dates of non-payment as defined in the applicable schedule, the classification of the transaction and the guarantee discount applied. A review of the functional and technical documentation was also performed. • Assessment of the integrity of the opening balances uploaded into the calculation engine and third party confirmation of these opening balances. Lastly, we evaluated whether the information disclosed in the notes to the annual accounts is appropriate, in accordance with the criteria set out in the financial reporting framework applicable to the Company.

Provisions for commitments and guarantees extended

See notes 5.12 and 16 to the annual accounts

Key audit matter	*How the matter was addressed in our audit*
Estimating provisions for commitments and guarantees extended involves a high degree of judgement and technical difficulty, as a result of the exposure of the Company in other countries. We consider that a significant inherent risk exists in relation to the process of estimating provisions for commitments and guarantees extended.	Our audit approach included assessing the policies and procedures manuals associated with the processes of estimating provisions for commitments and guarantees extended, and also performing substantive procedures on that estimate. Our procedures for evaluating the policies and procedures manuals were focused on the following areas: - Accounting policies: assessment of their alignment with applicable accounting regulations by Banco de España. - Guarantees: assessment of the relevant controls over the management and valuation (procedures, regularity of valuations, frequency of valuations, quality of valuations, valuation allowance factors by type of asset, etc.). Our substantive procedures in relation to the estimate of provisions mainly consisted of the analysis of Company exposures in countries with different risks classed from 1 to 5 by Banco de España.

Other Information: Directors' Report

Other information solely comprises the 2018 directors' report, the preparation of which is the responsibility of the Company's Directors and which does not form an integral part of the annual accounts.

Our audit opinion on the annual accounts does not encompass the directors' report. Our responsibility for the directors' report, in accordance with the requirements of prevailing legislation regulating the audit of accounts, consists of assessing and reporting on the consistency of the directors' report with the annual accounts, based on knowledge of the entity obtained during the audit of the aforementioned accounts and without including any information other than that obtained as evidence during the audit. It is also our responsibility to assess and report on whether the content and presentation of the directors' report are in accordance with applicable legislation. If, based on the work we have performed, we conclude that there are material misstatements, we are required to report them.

Based on the work carried out, as described in the preceding paragraph, the information contained in the directors' report is consistent with that disclosed in the annual accounts for 2018 and the content and presentation of the report are in accordance with applicable legislation.

Directors' and Audit Committee's Responsibility for the Annual Accounts

The Directors are responsible for the preparation of the accompanying annual accounts in such a way that they give a true and fair view of the equity, financial position and financial performance of the Company in accordance with the financial reporting framework applicable to the entity in Spain, and for such internal control as they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The audit committee is responsible for overseeing the preparation and presentation of the annual accounts.

Auditor's Responsibilities for the Audit of the Annual Accounts

Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with prevailing legislation regulating the audit of accounts in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence economic decisions of users taken on the basis of these annual accounts.

As part of an audit in accordance with prevailing legislation regulating the audit of accounts in Spain, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, and not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves a true and fair view.

We communicate with the audit committee of the Aresbank, S.A. regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the entity's audit committee with a statement that we have complied with the applicable ethical requirements, including those regarding independence, and to communicate with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the audit committee of the entity, we determine those that were of most significance in the audit of the annual accounts of the current period and which are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Additional Report to the Audit Committee

The opinion expressed in this report is consistent with our additional report to the Company's audit committee dated ***25 March 2019***.

Contract Period

We were appointed as auditor by the shareholders at the ordinary general meeting on 20 March 2018 for a period of three years, from the year initiated 1 January 2018.

KPMG Auditores, S.L.
On the Spanish Official Register of
Auditors ("ROAC") with No. S0702

(Signed on the original in Spanish)

Julio Alvaro

On the Spanish Official Register of Auditors ("ROAC") with Nª 1.661

26 March 2019

BALANCE SHEET FOR THE YEARS ENDED DECEMBER 31st, 2018 AND 2017

(EXPRESSED IN THOUSANDS OF EURO)

ASSETS	2018	2017
Cash, balances with Central Banks and demand deposits (Note 7)	**284,636**	**149,905**
Financial assets at fair value through profit (or loss) (Note 8)	**-**	**14,904**
Investment fund	-	14,904
Financial assets at fair value through other comprehensive income (Note 9)	**37,377**	**49,027**
Debt securities	37,377	49,027
Financial assets at amortized cost (Note 10)	**1,078,825**	**1,011,420**
Loans and advances to customers	1,078,825	1,011,420
Financial entities	803,739	870,020
Clients	275,086	141,400
Tangible assets (Note 11)	**32,475**	**32,688**
For own use	13,363	16,458
Investment property	19,112	16,230
Intangible assets (Note 12)	**213**	**108**
Other intangible assets	213	108
Tax assets (Note 13)	**7,100**	**9,830**
Current tax assets	3,629	1,606
Deferred tax assets	3,471	8,224
Other assets (Note 14)	**77**	**100**
TOTAL ASSETS	**1,440,703**	**1,267,982**

OFF BALANCE SHEET ITEMS (Note 21)

Other commitments granted	**368,488**	**387,367**
Lending commitments granted	**89,904**	**110,000**

These financial statements and the accompanying Notes 1 to 33 are an integral part of the Annual Accounts as of December 31st, 2018. The financial statements are originally issued in Spanish and prepared in accordance with the Circular 4/2017 and 5/2014, of the Bank of Spain and subsequent amendments. Consequently, certain accounting practices applied by the Company may not conform to generally accepted principles in other countries. In the event of a discrepancy, the Spanish-language version prevails.

BALANCE SHEET FOR THE YEARS ENDED DECEMBER 31st, 2018 AND 2017

(EXPRESSED IN THOUSANDS OF EURO)

LIABILITIES	2018	2017
Financial liabilities at amortized cost (Note 15)	**1,083,769**	**908,452**
Deposits	1,081,715	907,909
Deposits from central banks	-	118
Deposits from credit institutions	1,045,707	862,138
Deposits from other creditors	36,008	45,653
Other financial liabilities	2,054	543
Provisions (Note 16)	**3,249**	**10,419**
Taxes and other legal contingencies	32	32
Contingent exposure and commitments	3,177	10,347
Rest of provisions	40	40
Tax Liabilities (Note 13)	**1,105**	**230**
Liabilities from current tax	308	230
Liabilities from deferred tax	797	-
Other Liabilities (Note 14)	**2,276**	**2,933**
TOTAL LIABILITIES	**1,090,399**	**922,034**
SHAREHOLDERS EQUITY		
Equity (Note 17)	**350,965**	**346,584**
Share capital / Paid up capital (Note 18)	300,001	300,001
Retained earnings (Note 19)	39,649	39,649
Profit (or loss) for the period	11,315	6,934
Other comprehensive income (Note 20)	**(661)**	**(636)**
Elements that can be reclassified to profit (or loss)	(661)	(636)
TOTAL SHAREHOLDERS EQUITY	**350,304**	**345,948**
TOTAL LIABILITIES AND EQUITY	**1,440,703**	**1,267,982**

These financial statements and the accompanying Notes 1 to 33 are an integral part of the Annual Accounts as of December 31st, 2018. The financial statements are originally issued in Spanish and prepared in accordance with the Circular 4/2017 and Circular 5/2014, of the Bank of Spain and subsequent amendments. Consequently, certain accounting practices applied by the Company may not conform to generally accepted principles in other countries. In the event of a discrepancy, the Spanish-language version prevails.

INCOME STATEMENT FOR THE YEARS ENDED DECEMBER 31st, 2018 AND 2017

(EXPRESSED IN THOUSANDS OF EURO)

	2018	2017
Interest income (Note 23)	22,062	17,714
Interest expenses (Note 24)	(13,686)	(11,053)
INTEREST MARGIN	**8,376**	**6,661**
Commissions income (Note 25)	14,615	9,223
Commissions expense (Note 26)	(750)	(324)
Gains and losses on financial assets and liabilities not at fair value through profit (or loss), net	(117)	358
Gains and losses on financial assets and liabilities at fair value through profit (or loss), net	(143)	331
Exchange differences, net	268	339
Gains and losses on non-financial assets, net	-	(8)
Other operating income (Note 27)	1,505	1,177
Other operating expense	(420)	(126)
OPERATING RESULT (NET)	**23,334**	**16,915**
Administrative Expenses	(10,150)	(9,355)
Personnel expenses (Note 28)	(7,562)	(7,065)
Other administrative expenses (Note 29)	(2,588)	(2,290)
Amortization (Note 31)	(474)	(492)
Provisions expense, net (Note 16)	4,290	(5,912)
Impairment losses or release on financial assets not at fair value through profit (or loss) (Note 32)	70	1,081
Gains or Losses coming from non-financial assets derecognition, net	(11)	-
PROFIT (OR LOSS) BEFORE TAXES	**17,059**	**2,237**
Expenses or revenues on corporate income tax (Note 22)	(5,744)	4,697
PROFIT (OR LOSS) FROM ORDINARY ACTIVITY	**11,315**	**6,934**
PROFIT (OR LOSS) AFTER TAXES	**11,315**	**6,934**

These financial statements and the accompanying Notes 1 to 33 are an integral part of the Annual Accounts as of December 31st, 2018. The financial statements are originally issued in Spanish and prepared in accordance with the Circular 4/2017 and Circular 5/2014, of the Bank of Spain and subsequent amendments. Consequently, certain accounting practices applied by the Company may not conform to generally accepted principles in other countries. In the event of a discrepancy, the Spanish-language version prevails.

STATEMENT OF CHANGES IN EQUITY FOR THE YEARS ENDED ON DECEMBER 31st, 2018 AND 2017

(EXPRESSED IN THOUSANDS OF EURO)

a) STATEMENT OF RECOGNIZED INCOME AND EXPENSE

	2018	2017
Profit (or loss) for the period	**11,315**	**6,934**
Other comprehensive income	**(661)**	**(636)**
Debt instruments at fair value through other comprehensive income	(944)	(908)
Tax effect	283	272
TOTAL RECOGNIZED INCOME AND EXPENSE	**10,654**	**6,298**

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b) CHANGES IN EQUITY IN THE PERIOD

(EXPRESSED IN THOUSANDS OF EURO)

	EQUITY								
	Issued capital	Retained earnings	Revaluation reserves	Other reserves	Less: Own shares	Result for the period	Less: Advance paid dividends	VALUATION ADJUSTMENTS	TOTAL EQUITY
1.Balance Sheet as of 31/12/17	**300,001**	**39,649**				**6,934**		**(636)**	**345,948**
a) Adjustments due to accounting policy change									
b) Error adjustments									
2. Adjusted balance sheet (1+a+b)	**300,001**	**39,649**				**6,934**		**(636)**	**345,948**
3. Total recognized income and expense						**11,315**		**(661)**	**10,654**
4.Other changes in equity (c+d+e+f)						**(6,934)**		**636**	**(6,298)**
c) Adjustments due to accounting policy change		2,196							2,196
d) Dividend distribution		(2,196)				(6,934)			(9,130)
e) Transfers between items									
f) Other Issuances (reduction) for equity instruments								636	636
5. Balance Sheet as of 31/12/18 (2+3+4)	**300,001**	**39,649**				**11,315**		**(661)**	**350,304**

These financial statements and the accompanying Notes 1 to 33 are an integral part of the Annual Accounts as of December 31st, 2018. The financial statements are originally issued in Spanish and prepared in accordance with the Circular 4/2017 and Circular 5/2014, of the Bank of Spain and subsequent amendments. Consequently, certain accounting practices applied by the Company may not conform to generally accepted principles in other countries. In the event of a discrepancy, the Spanish-language version prevails.

	EQUITY								
	Issued capital	Retained earnings	Revaluation reserves	Other reserves	Less: Own shares	Result for the period	Less: Advance paid dividends	VALUATION ADJUSTMENTS	TOTAL EQUITY
1.Balance Sheet as of 31/12/16	**300,001**	**38,234**				**14,150**		**(1,399)**	**350,986**
a) Adjustments due to accounting policy change									
b) Error adjustments									
2. Adjusted balance sheet (1+a+b)	**300,001**	**38,234**				**14,150**		**(1,399)**	**350,986**
3. Total recognized income and expense						**6,934**			**6,934**
4.Other changes in equity (c+d+e)		**1,415**				**(14,150)**		**763**	**(11,972)**
d) Dividend distribution						(12,735)			(12,735)
e) Transfers between items (Note 17)		1,415				(1,415)			
f) Issuance (reduction) of equity instruments								763	763
5. Balance Sheet as of 31/12/17 (2+3+4)	**300,001**	**39,649**				**6,934**		**(636)**	**345,948**

These financial statements and the accompanying Notes 1 to 33 are an integral part of the Annual Accounts as of December 31st, 2018. The financial statements are originally issued in Spanish and prepared in accordance with the Circular 4/2004 and Circular 5/2014, of the Bank of Spain and subsequent amendments. Consequently, certain accounting practices applied by the Company may not conform to generally accepted principles in other countries. In the event of a discrepancy, the Spanish-language version prevails.

CASH-FLOW STATEMENT FOR THE YEARS ENDED ON DECEMBER 31st, 2018 AND 2017

(EXPRESSED IN THOUSANDS OF EURO)

	2018	2017
A) CASH-FLOW FROM OPERATING ACTIVITIES	**145,367**	**68,452**
Profit (or loss) for the period	**11,315**	**6,934**
Adjustments for obtaining operating cash flow	**3,829**	**5,621**
Amortization	474	492
Other adjustments	3,355	5,129
Net increase or (decrease) in operating assets	**41,211**	**(141,664)**
Assets at fair value through profit (or loss)	(14,904)	14,904
Assets at fair value through other comprehensive	(11,605)	(7,135)
Financial assets at amortized cost	67,720	(150,175)
Other operating assets	-	742
Net increase or (decrease) in operating liabilities	**175,535**	**(81,070)**
Financial liabilities at amortized cost	173,806	(80,301)
Other operating liabilities	1,729	(769)
Inflows / Outflows for Corporate Income tax	**(4,101)**	**(4,697)**
B) CASH-FLOW FROM INVESTING ACTIVITIES	**(368)**	**389**
Outflows	**380**	**214**
Tangible assets	171	115
Intangible assets	209	99
Inflows	**12**	**603**
Tangible assets	12	5
Intercompany	-	98
Other inflows related to investment activities	-	500
C) CASH-FLOW FROM FINANCING ACTIVITIES	**(9,130)**	**(12,735)**
Dividends payment	9,130	12,735
D) EFFECT OF THE EXCHANGE RATE FLUCTUATIONS	**268**	**339**
E) NET INCREASE OR DECREASE IN CASH AND CASH EQUIVALENTS (A+B+C+D)	**136,137**	**56,445**
F) CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**99,390**	**42,945**
G) CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**235,527**	**99,390**

These financial statements and the accompanying Notes 1 to 33 are an integral part of the Annual Accounts as of December 31st, 2018. The financial statements are originally issued in Spanish and prepared in accordance with the Circular 4/2017 and Circular 5/2014, of the Bank of Spain and subsequent amendments. Consequently, certain accounting practices applied by the Company may not conform to generally accepted principles in other countries. In the event of a discrepancy, the Spanish-language version prevails.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

1. GENERAL INFORMATION

Aresbank, S.A. (hereinafter, "Aresbank" or the "Bank") was established by public deed dated April 1st, 1975. The Bank is registered in the Mercantile Registry of Madrid, on page nº 28,537, sheet 18, 1st inscription of General Companies Volume 3,740. Since April 2nd, 1975, Aresbank is registered at the Bank of Spain's Special Registry for Banks and Bankers under number 0136. Its fiscal ID Bank number is A28386191.

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

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

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

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

The share capital of Aresbank, S.A. as of December 31st, 2018 amounts to 300,000,960.00 euros and it is formed 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 257, Madrid, where its Head Office is located. The Bank is part of a Group of companies headed by Libyan Foreign Bank with head offices in Dat El Imad, Administrative Complex - Tower II - Tripoli – Libya.

2. GENERAL OBJECTIVES

The Bank's general objectives can be summarized as follows:

- To increase the economic cooperation between Spain and the Arab countries by financing foreign trade and other investments and trying to increase its resources through the fundraising of deposits from Arab and international financial markets.
- To identify and evaluate investment opportunities and new projects.
- To offer Spanish technical experience and know-how for the implementation of economic and industrial projects in the Arab world.
- To cooperate with Spanish Banks and other institutions channelling financial resources coming from international or Arab monetary markets.

- To strengthen relations and cooperation between Arab and Spanish businesses.

3. BASIS OF PRESENTATION OF THE ANNUAL ACCOUNTS

3.1 Basis of presentation

The accompanying financial statements of the year 2018 were prepared from the accounting records of the Bank in conformity with the accounting criteria of the Circular 4/2004 and its subsequent amendments, issued by the Bank of Spain, and in accordance with the Commercial Law, Royal Decree 1/2010, of July 2nd, and other Spanish regulation applicable, and accordingly give a true and fair view of the Bank net worth and financial position as at December 31st, 2018 and of the results of its operations and of the cash flows for the years then ended.

Since January 1st, 2018, Circular 4/2017 from Bank of Spain has entered into force for credit institutions, on public and reserved financial information standards, and financial statement models. The purpose of this Circular is to adapt the accounting regime of Spanish credit institutions to changes in the European accounting regulation resulting from the adoption of two new International Financial Reporting Standards (IFRS), specifically "IFRS 15 - Revenue from contracts with customers "and" IFRS 9 - Financial instruments".

The information in these Annual Accounts is responsibility of the Directors of Aresbank. The Annual Accounts of the year 2018 have been formulated by the Board of Directors of the Bank in the meeting held on March 26th, 2019 and they will be presented to the General Shareholders' Assembly for approval, which is expected to adopt them without any significant changes. Except as otherwise indicated, these Annual Accounts are presented in thousands of euro.

3.2 Accounting principles

The Bank's Annual Accounts were prepared on the basis of the accounting criteria established by the Bank of Spain in its Circular 4/2017 and its amendments, as set forth in Note 5.

3.3 Comparison of information

The information included in the accompanying financial statements relating to the year ended December 31st, 2017 in accordance to the applicable regulation, is presented for the purpose of comparison with the information for December 31st, 2018.

As of January 1st, 2018, Circular 4/2017 is introduced and includes changes in the requirements for the classification and measurement of financial assets and financial liabilities, the impairment of financial assets and hedge accounting. The impact of the first-time application of Circular 4/2017 is presented in the coming lines.

Transition to Circular 4/2017

As mentioned before in Notes 3.1 and 3.2, Circular 4/2017 entered into force as from January 1st, 2018 replacing Circular 4/2004 regarding the classification and measurement of financial assets and liabilities, the impairment of financial assets and the hedge accounting. The disclosures related to the financial year 2017 which are presented for comparability purposes, are based on the accounting policies and valuation criteria applicable under Circular 4/2004.

For this end, the following lines reflect the impact of the entry into force of this new standard, taking 2017 close as a basis:

COMPARATIVE BALANCE SHEET AS OF DECEMBER 31ST, 2017

Under Circular 4/2016 and Circular 4/2017

(EXPRESSED IN THOUSANDS OF EURO)

ASSETS	31/12/2017 under Circular 4/2016	31/12/2017 under Circular 4/2017
Cash, balances with Central Banks and demand deposits	**149,905**	**149,905**
Financial assets at fair value through profit (or loss)	**14,904**	**14,904**
Financial assets at fair value through other comprehensive income	**49,027**	**48,988**
Debt Securities	49,027	48,988
Financial assets at amortized cost	**1,011,420**	**1,011,643**
Loans and advances to customers	1,011,420	1,011,643
Tangible assets	**32,688**	**32,688**
Intangible assets	**108**	**108**
Tax assets	**9,830**	**8,889**
Other assets	**100**	**100**
TOTAL ASSETS	**1,267,982**	**1,267,225**
OFF BALANCE SHEET ITEMS		
Other commitments granted	**387,367**	**387,367**
Lending commitments granted	**110,000**	**110,000**

COMPARATIVE BALANCE SHEET AS OF DECEMBER 31ST, 2017
Under Circular 4/2016 and Circular 4/2017
(EXPRESSED IN THOUSANDS OF EURO)

LIABILITIES	31/12/2017 under Circular 4/2016	31/12/2017 under Circular 4/2017
Financial liabilities at amortized cost	**908,452**	**908,452**
Provisions	**10,419**	**7,466**
Taxes and Other legal contingencies	32	32
Contingent exposures and commitments	10,347	7,394
Rest of provisions	40	40
Tax liabilities	**230**	**230**
Other liabilities	**2,933**	**2,933**
TOTAL LIABILITIES	**922,034**	**919,081**
SHAREHOLDERS EQUITY		
Equity	**346,584**	**348,780**
Share capital / Paid up capital	300,001	300,001
Retained earnings	39,649	41,845
Profit (or loss) for the period	6,934	6,934
Other comprehensive income	**(636)**	**(636)**
Elements that can be reclassified to profit (or loss)	(636)	(636)
TOTAL SHAREHOLDERS EQUITY	**345,948**	**348,144**
TOTAL LIABILITIES AND EQUITY	**1,267,982**	**1,267,225**

3.4 Accounting estimates and errors

The information included in the accompanying annual accounts is as mentioned, the responsibility of the Directors of Aresbank. In these annual accounts strictly where appropriate the use of estimates in valuing certain assets, liabilities, incomes, expenses and commitments has been made by the senior management of the Bank and ratified by the Directors. These estimates are related to:

- The losses for impairment of certain assets.
- The useful life adopted for tangible and intangible assets.

These estimates were made in accordance with the best available information about the items concerned and it is possible that future events may make it necessary to modify them in some ways in the forthcoming years. Any such modification will in any case be made prospectively recognising the effects of that change on the related profit (or loss) account.

3.5 Changes in accounting principles

There have not been changes in accounting principles applied by the Bank during 2018.

3.6 External Auditors

The Annual Accounts of Aresbank, S.A. as of December 31st, 2018 have been audited by KPMG Auditores, S.L., same as the ones from the year before.

In accordance with the additional provision 14th of the "Ley *44/2002 de Medidas de Reforma del Sistema Financiero*" (Spanish law on amendment measures on the financial market), dated November 22nd, auditing fees for the Annual Accounts of the year 2018 amounted to 50 thousand euros (50 thousand euros in 2017), neither other invoicing nor other services were rendered by entities affiliated to KPMG International in 2018.

3.7 Risk control

According to the European Commission recommendations on the publication of information regarding financial instruments (risk management); Aresbank has included in the Note 6 and in the Directors' Report the most significant data.

3.8 Environmental information

The overall operations of Aresbank are subject to environmental protection legislation. The Bank has adopted appropriate measures with respect to environmental protection and enhancement and to the minimization, where appropriate, of the environment impact, in compliance with the relevant current regulations. The Bank did not make environmental investments in 2018 and 2017, nor did it consider it necessary to record any provision for environmental risks and charges and does not consider that there are significant contingencies relating to environmental protection and enhancement.

3.9 Customer Services Unit activity

The Ministry of Economy Order 734/2004 of March 11th laid down the obligation for the Customer Services Departments to prepare a report on the conduct of their functions during the preceding year.

In accordance with this legal requirement, the department in charge of the Customer Services prepared the report on its activities in 2018, which was submitted to the Bank's Board of Directors at its meeting held on January 29th, 2019.

This report stated that the Customer Services Department of Aresbank, S.A. received no claim along 2018, and one in 2017, that was resolved in favour of the client.

3.10 Solvency

Spanish regulations

On June 26th, 2013, the European Parliament and the Council of the European Union approved Regulation No. 575/2013 on prudential requirements for credit institutions and investment firms, and the Directive 2013/36/EU of access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms. The entry into force of these regulations, will result in the repeal of all current regulation of Bank of Spain regarding own funds (Circular 3/2008 and Circular 7/2012) that are incompatible with the new regulation and it will involve the implementation of Basel III with a gradual timetable to achieve its full implementation scheduled for January 1st, 2019. Regulation Nº575/2013 entered into force on January 1st, 2014 and it was applicable directly and immediately to the European financial institutions, although certain regulatory options must be set by the national supervisor. The Directive 2013/36/EU was added to the Spanish Law through the publication of the Royal Decree-Law 14/2013, of November 29th, on urgent measures for the adaptation of the Spanish law to the rules of the European Union in the field of supervision and solvency of financial institutions. During 2014, Circular 2/2014, of January 31st, on regulations regarding public and reserved financial information and models of financial statements, Law 10/2014 of June 26th, on the organization, supervision and solvency of credit institutions came into force.

Among other aspects, the Regulation No. 575/2013 included:

- Definition of the elements of computable own funds and minimum requirements. Three levels of own funds are set: ordinary capital of level 1, with a minimum capital ratio required of 4.5%, tier 1 capital, with a minimum ratio of required capital of 6% and capital of level 2 with a minimum ratio of required capital of 8%.

- Definition of prudential filters and deductions of elements in each of the levels of capital. In this regard, the regulation incorporates new deductions with respect to Basel II (net tax assets, pension funds...) and modifies existing deductions. However, it establishes a gradual timetable for their full implementation between 5 and 10 years.

- Limitation on the computation of minority interests.

- Requirement that financial institutions calculate a leverage ratio, defined as the capital of level I of the Bank divided by the total exposure.

Likewise, 2013/36/EU directive set new buffers of additional capital, which are in part common to all European financial institutions and in part set by the supervisor for each Bank individually. The non-fulfillment of such capital buffets imposes limitations on discretionary distributions of results.

Based on the communication received by the General Directorate of Supervision of the Bank of Spain, dated December 21st, 2018, and under Article 68.2.a) of Law 10/2014, the Bank has been required to maintain a CET 1 ratio, at the individual level, not less than 12.51%, as defined in the Regulation (EU) No. 575/2013 of the European Parliament and the Council, that includes: (i) the minimum capital ratio required by the Article 92.1) of the Regulation (EU) No 575/2013, that the Bank has to maintain at any time; (ii) the additionally capital required on the minimum ratio, in accordance with Article 69.1 of Law 10/2014, which the Bank has to maintain at any time; (iii) the capital conservation buffer required as defined in Article 44 of Law 10/2014, under the transitional regime established by the Eighth Transitional Provision with, and the Article 59 of Royal Decree 84/2015, of February 13th, by which the 2014 Act is developed.

At December 31st, 2018, the Bank complies with the regulatory capital requirements mentioned in the previous paragraph, and presents the following detail in comparison with the previous year:

	Thousands of Euro 2018	Thousands of Euro 2017
Total Equity (computable)	338,776	340,050
CET 1	**338,776**	**339,033**
Paid-in capital	300,001	300,001
Retained Earnings	23,096	23,790
Reserves	16,553	15,859
Intangible Assets (-)	(213)	(108)
Other transitory adjustments (-)	(661)	(509)
Tier 2	**-**	**1,017**
Credit risk adjustments (Standard approach)	-	1,017
Common Equity Tier 1 Ratio	49.56%	53.35%
Surplus (+) / Deficit (-) on CET 1 Ratio	308,014	310,436
Solvency Ratio	49.56%	53.51%
Surplus (+) / Deficit (-) on Solvency Ratio	284,087	289,210

3.11 Deposit Guarantee Fund

Annual contributions to the Deposit Guarantee Fund (FGD) are carried out in accordance with the provisions of Royal Decree 2606/1996, of December 20th, on Deposit Guarantee Funds, as amended by Royal Decree 948 / 2001 of August 3rd and Circular 4/2001 of September 24th and Royal Decree 1642/2008, of October 10th. The contribution to this fund is charged to the income statement as it accrues.

On July 31st, 2012, the Management Committee of FGD in order to restore the financial position of that Fund, agreed an additional settlement among the entities attached thereto, for an amount of 2,346 million euros, payable among its members in ten equal annual instalments, according to the calculation basis of contributions as of December

31st, 2011 of each entity. Such amount should be liquidated by each entity along with its regular contributions between 2013 and 2022.

Also, on March 23rd, 2013, entered into force the Royal Decree Law 6/2013 of protection to holders of certain savings and investment products and other financial measures, by which, among others, is regulated one additional annual contribution of the 3 per thousand of the calculation basis. This contribution was divided into two phases. A first one for the 40%, and a second tranche, comprising the remaining 60%, to be met from 2014 and within a maximum period of 7 years, according to the payment schedule set by the Management Committee of the Fund Deposit Guarantee for Credit Institutions, calendar which was finally fixed in two payments, to be made on June 30th, 2015 and June 30th, 2016.

Finally, dated on November 7th, 2015, entered in force the Royal Decree 1012/2015, from November 6th, by which the Law 11/2015, of June 18th for recovery and resolution of credit institutions and investment service companies is developed, that amends the Royal Decree 2606/1996, from December 20th, on deposit guarantee funds of credit institutions. Among other issues, this rule amends the calculation basis for contributions, limiting to the covered deposits by the fund (less than 100 thousand euros). Consequently, the expense for the contributions to FGD in 2018 has been calculated according to the new methodology.

3.12 Bank Restructuring and Single Resolution Fund

The Law 11/2015 from June 18th, along with the regulatory development through Royal Decree 1012/2015, from November 6th, undertakes the transposition into the Spanish law of the Directive 2014/59/EU, from May 15th. In this regulation a new framework for the resolution of credit institutions and companies providing investment services is established, which is in turn one of the standards that contributes to the establishment of the Single Resolution Mechanism, built by the Regulation (EU) No 806/2014 of the European Parliament and the Council, from July 15th, by which it establishes certain uniform standards and procedures for the resolution of credit institutions in the framework of a Single resolution Mechanism and the Single Resolution Fund, conceived the latter as a funding instrument with which the resolution authorities could effectively undertake the various measures established to the resolution.

On January 1st, 2016 started to work this fund, being managed by the Single Resolution Board, competent in the calculation of the contributions that must be performed by the entities. In this regard, the Board applies the method set out in the Delegate (EU) Regulation 2015/63, as required by the Article 70, paragraph 6 of the Regulation (EU) No. 806/2014 and in the Regulation (EU) No. 2015/81, to calculate the annual contribution.

In this regard, the calculation of the contributions is based on: a) annual contribution base, in proportion to the amount of liabilities of the entity, excluding its own funds and hedge deposits, of all entities authorized in the territory of the participating Member States; b) an adjusted contribution to risk, which will be based on the criteria established in Article 103 paragraph 7 of the Directive 2014/59/EU, taking into account the principle of proportionality, without creating distortions among structures in the banking sector of the Member states.

In addition, the calculation must be submitted accompanied by an auditor's certification or, alternatively, a statement from the Board of Directors of the entity certifying the accuracy of the data included therein. The contribution made during the year 2018 amounted to 389 thousand euros.

On the other hand, the Article 53.4 of the Law 11/2015 establishes a fee to cover the operating costs of the fund, by means of the Additional Provision Sixteenth, on the institutions under Article 1.2.a) of the Act. The fee paid during the year 2018 amounted to 10 thousand euros.

In accordance with Article 30(1) of Council Regulation (EU) No 1024/2013 the ECB levies an annual supervisory fee on credit institutions established in the participating Member States and branches established in a participating Member State by a credit institution established in a non-participating Member State.

This ECB annual supervisory fee, that amounted 13 thousand euros for 2018, is determined in accordance with Article 4 of Regulation (EU) No 1163/2014 of the European Central Bank (ECB/2014/41) and is calculated following the methodology laid down in Article 10 of Regulation (EU) No 1163/2014 (ECB/2014/41), taking into account the following elements:

- The classification of Aresbank as less significant entity for the year 2018

- The total amount of annual supervisory fees, as set out in Decision (EU) 2018/667 of the European Central Bank (ECB/2018/12) and published on the ECB Banking Supervision website.

- Total assets and total risk exposure, as determined in accordance with Decision (EU) 2015/530 of the European Central Bank (ECB/2015/7).

3.13 Subsequent Events to December 31, 2018

The Annual Accounts of the year 2018 have been formulated by Aresbank's Board of Directors in the meeting held on March 26th, 2019. Likewise, the Board will propose to the Shareholder's Assembly a dividend pay-out for an amount of 10,000 thousand euros (Note 4). From the end of the year to the date of the formulation of these Annual Accounts, there is no other significant event that has taken place or that has to be mentioned.

4. PROFIT (OR LOSS) DISTRIBUTION

The entity proposes its shareholders the distribution of the result for the year 2018, as well as the positive effect on the net equity of the first-time application adjustment coming from the entry into force of the new Circular.

The proposed distribution of 2018 result and the one previously approved for 2017 are as follows:

	2018	2017
Net profit (or loss) for the year	**11,315**	**6,934**
To retained earnings (net)	1,315	-
Subtotal	10,000	6,934
First Time Application (Circular 04/2017) (Note 3.13) (Net release for country risk and generic provisions)	-	2,196
Dividends (Note 3.13)	10,000	9,130

5. ACCOUNTING PRINCIPLES AND VALUATION METHODS APPLIED

This Annual Accounts have been prepared applying the Spanish regulations (Circular 4/2017 from Bank of Spain), as well as its successive amendments, and other provisions of the financial information regulatory framework applicable to the bank.

5.1 Going concern principle

The Annual Accounts have been formulated considering that Aresbank will continue to operate for a limitless period. Consequently, the application of accounting standards is not intended to determine the value of the net worth in the event of liquidation.

5.2 Accrual basis of accounting

Interest income and expenses are recognized on accrual basis using the effective interest rate method. In accordance with standard banking practices, transactions are recorded on the date they take place, which may differ from their value date, which is the basis for computing interest income and expenses. However, following the Bank of Spain regulations, accrued interests related to doubtful debts, including those from country risk transactions, are recorded as income when collected.

All debts instruments individually classified as impaired, as well as, those instruments for which it has been calculated collectively impairment losses due to be older than three months, have interrupted their interest accrual.

Income from financial commissions related to the opening of documentary credits or granting of loans that do not correspond to expenses directly incurred in the execution of the transactions are apportioned over the life of the transaction, as another component of the effective profitability of the documentary credit or loan.

Income from dividend is recognized when the shareholder's right to receive the payment is established.

5.3 Financial Assets

Classification

Circular 4/2017 contains three main categories for financial assets classification: measured at amortized cost, measured at fair value with changes in other accumulated comprehensive income, and measured at fair value through profit or loss.

The classification of financial instruments measured at amortized cost or fair value must be carried out on the basis of two tests: the entity's business model and the assessment of the contractual cash flow, commonly known as the "solely payments of principle and interest" criterion (hereinafter, the SPPI).

A debt instrument will be classified in the amortized cost portfolio if the two following conditions are fulfilled:

1) The financial asset is kept within the framework of a business model whose objective is to maintain financial assets in order to obtain contractual cash flows; and
2) The contractual conditions of the financial asset give rise to cash flows that are sole payments of principal and interest, understanding the same as the compensation for the time value of the money and the credit risk of the debtor.

A debt instrument will be classified in the portfolio of financial assets at fair value with changes in other comprehensive income if the two following conditions are fulfilled:

1) The financial asset is maintained within the framework of a business model whose purpose combines collection of the contractual cash flows and sale of the assets, and
2) The contractual conditions of the financial asset give rise, on specified dates, to cash flows that are only principal and interest payments on the outstanding amounts.

Valuation of financial assets

All financial instruments are initially recognized at fair value plus, in the case of a financial asset or financial liability not at fair value through profit (or loss), transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability, Unless there is evidence to the contrary, the best evidence of the fair value of a financial instrument at initial recognition shall be the transaction price.

Excluding all trading derivatives not considered as accounting or economic hedges, all the changes in the fair value of the financial instruments arising from the accrual of interest and similar items are recognized under the headings "Interest income" or

"Interest expenses", as appropriate, in the accompanying income statement in which period the change occurred.

The changes in fair value after the initial recognition, for reasons other than those mentioned in the preceding paragraph, are treated as described below, according to the categories of financial assets and liabilities.

"Financial assets held for trading", "Non-trading financial assets mandatorily at fair value through profit (or loss)" and "Financial assets designated at fair value through profit (or loss)"

Financial assets are registered under the heading "Financial assets held for trading" if the objective of the business model is to generate gains by buying and selling these financial instruments or generate short-term results. The financial assets registered in the heading "Non-trading financial assets mandatorily at fair value through profit (or loss)" are assigned to a business model which objective is to obtain the contractual cash flows and / or to sell those instruments, but its contractual cash flows do not comply with the requirements of the SPPI test.

In "Financial assets designated at fair value through profit (or loss)" the Bank classifies financial assets only if it eliminates or significantly reduces a measurement or recognition inconsistency (an 'accounting mismatch') that would otherwise arise from measuring financial assets or financial liabilities or recognizing gains or losses on them, on different bases.

The assets recognized under these headings of the balance sheets are measured upon acquisition at fair value and changes in the fair value (gains or losses) are recognized as their net value under the heading "Gains (losses) on financial assets and liabilities, net" in the accompanying income statements. Interests from derivatives designated as economic hedges on interest rate are recognized in "Interest income" or "Interest expenses", depending on the result of the hedging instrument. However, changes in fair value resulting from variations in foreign exchange rates are recognized under the heading "Gains (losses) on financial assets and liabilities, net" in the accompanying income statements).

" Financial assets at fair value through other comprehensive income"

Assets recognized under this heading in the balance sheet are measured at their fair value. Subsequent changes in fair value (gains or losses) are recognized temporarily net of tax effect, under the heading "Accumulated other comprehensive income- Items that may be reclassified to profit or loss - Fair value changes of debt instruments measured at fair value through other comprehensive income" in the balance sheet

The amounts recognized under the headings "Accumulated other comprehensive income- Items that may be reclassified to profit or loss - Fair value changes of financial assets measured at fair value through other comprehensive income" and "Accumulated other comprehensive income- Items that may be reclassified to profit or loss - Exchange differences" continue to form part of the Bank's equity until the corresponding asset is derecognized from the balance sheet or until an impairment loss is recognized on the corresponding financial instrument. If these assets are sold, these amounts are derecognized and included under the headings "Gains (losses) on financial assets and liabilities, net" or "Exchange differences, net", as appropriate, in the income statement for the year in which they are derecognized.

The net impairment losses in "Financial assets at fair value through other comprehensive income" over the year are recognized under the heading "Impairment losses on financial assets, net – Financial assets at fair value through other comprehensive income" in the income statements for that period.

Changes in foreign exchange rates resulting from monetary items are recognized under the heading "Exchange differences, net" in the accompanying income statement

"Financial assets at amortized cost"

A financial asset is classified as subsequently measured at amortized cost if it is held within a business model whose objective is to hold financial assets in order to collect and Meets the SPPI Criterion. The assets under this category are subsequently measured at amortized cost, using the effective interest rate method. Net impairment losses of assets recognized under these headings arising in each period are recognized under the heading "Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss – financial assets measured at cost" (see Note 42) in the income statement for that period.

5.4 Non-current assets held for sale

Property assets or other non-current foreclosed assets by the Bank in full or partial fulfilment of the payment obligations of its debtors will be considered "Non-current assets held for sale", except those that the Bank decides to hold for continuing use.

"Non-current assets held for sale" are generally measured at the lower of their fair value less the costs of their sale and their book value calculated at the date of their classification as held for sale. "Non-current assets held for sale" shall not be depreciated or amortized during the time they remain in this category.

5.5 Financial Liabilities

The standard does not require so much the business model and SPPI tests to be carried out for the classification of financial liabilities as in the case of financial assets.

"Financial liabilities held for trading" and "Financial liabilities designated at fair value through profit (or loss) "

The subsequent changes in the fair value (gains or losses) of the liabilities recognized under these headings of the balance sheets are recognized as their net value under the heading "Gains (losses) on financial assets and liabilities, net" in the accompanying income statements except for the financial liabilities designated at fair value through profit and loss under the fair value option for which the amount of change in the fair value that is attributable to changes in the own credit risk which is presented in other comprehensive income (for the measurement of changes in credit risk). Interests from derivatives designated as economic hedges on interest rate are recognized in "Interest income" or "Interest expenses", depending on the result of the hedging instrument.

However, changes in fair value resulting from variations in foreign exchange rates are recognized under the heading "Gains (losses) on financial assets and liabilities, net" in the accompanying income statements.

"Financial liabilities at amortized cost"

The liabilities under this category are subsequently measured at amortized cost, using the effective interest rate method.

5.6 Impairment of value of financial assets

The book value of financial assets is adjusted with a charge to the Income Statement when there is objective evidence that a loss has arisen by impairment, which occurs:

i) In case of debt instruments (financial assets at amortized cost), if after their initial recognition an event occurs, or the combined effect arises of several events with a negative impact on their future cash flows.

ii) In case of equity instruments, if after their initial recognition an event occurs, or the combined effect arises of several events signifying that it will not be possible to recover their book value.

As a general rule, the adjustment of the book value of financial instruments for impairment is charged to the Income Statement of the period in which such impairment is disclosed, and the recovery of the previously recorded losses for impairment, if it arises, is recognized in the Income Statement of the period in which the impairment is eliminated or reduced. If the recovery of any recorded amount for impairment is considered remote, it is eliminated from the Balance Sheet. Nonetheless the Bank may take the necessary action to attempt to achieve collection until the statute of limitations of its rights has definitively expired, they are forgiven or for other reasons.

In the case of debt instruments valued at amortized cost, the amount of the losses incurred for impairment is equal to the negative difference between their book value and the present value of their estimated future cash flows. In the case of listed debt instruments, instead of the present value of future cash flows, their market value is used, provided that it is sufficiently reliable to be considered representative of the value, which the Bank might recover.

The estimated cash flows of a debt instrument are all the amounts of principal and interest that the Bank estimates it will obtain during the life of the instrument. Consideration is given in this estimate to all relevant information available at the date of preparation of the Annual Accounts, which provides data about the possibility of future collection of the contractual cash flows. Also, in estimating the future cash flows of secured instruments, regarding the flows that would be obtained from realization thereof, less the amount of the cost necessary to obtain and subsequently sell them, regardless of the probability of execution of the guarantee.

In calculating the present value of the estimated future cash flows, the discount rate used is the original effective interest rate of the instrument, if the contractual rate is fixed. If the contractual rate is floating, the discount rate used is the effective interest rate at the date of the financial statements determined in accordance with the contract conditions.

The portfolios of debt instruments, contingent exposures and contingent commitments, regardless of by whom they are owned, of how instrumented or how guaranteed, are analysed to determine the Bank's credit risk exposure and to estimate the coverage requirement for impairment of value. For preparation of the financial statements, the Bank classifies its operations based on its credit risk, analysing separately the risk of insolvency attributable to the customer and the country risk, if any, to which the operations are exposed.

Objective evidence of impairment is individually determined for all significant debt instruments and individually or collectively for groups of debts instruments, which are not individually significant. If a specific instrument cannot be included in any group of assets with similar risk characteristics, it is analysed exclusively on an individual basis in order to determine whether it is impaired and, if appropriate, to estimate the loss for impairment.

The collective evaluation of a group of financial assets to estimate their losses for impairment is performed as follows:

i) Debt instruments are included in groups which have similar credit risk characteristics, indicating the capability of the debtors to pay all the amounts of principal and interest in accordance with the contract conditions. The credit risk characteristics considered for grouping the assets include the type of instrument, the debtor's activity sector, the geographical area of the activity, the type of guarantee, the age of the past due amounts and any other relevant factor for estimating the future cash flows.

ii) The future cash flows of each group of debt instruments are estimated on the basis of past experience of losses in the sector as calculated by the Bank of Spain for instruments with credit risk characteristics similar to those of the group concerned, after making the necessary adjustments to adapt the historical data to current market conditions.

iii) The loss for impairment of each group is the difference between the book value of all the debt instruments in the group and the present value of their estimated future cash flows.

Debt instruments not valued at fair value through profit (or loss), contingent exposures and contingent commitments are classified on the basis of the risk of insolvency attributable to the customer or to the transaction in the following categories: standard risk, substandard risk, doubtful risk due to customer arrears, doubtful risk for reasons other than customer arrears and write-off risk. In the case of debt instruments not classified as standard risk, an estimate is made, based on the experience of the Bank and of the sector, of the specific coverage required for impairment, taking into account the age of the unpaid amounts, the guarantees provided and the economic situation of the customer and, if appropriate, of the guarantors. This estimate is generally based on arrears schedules based, in turn, on the experience of the Bank and the information it has of the sector.

Similarly, debt instruments not valued at fair value through profit (or loss) and contingent exposures, regardless of who the customer may be, are analysed to determine their credit risk attributable to country risk. Country risk is deemed to arise with customer resident in a given country because of circumstances other than habitual commercial risk.

Bank of Spain Circular 4/2004 and Circular 6/2008 bring in the obligation to make a provision for inherent losses incurred, determined individually or collectively, that are those held by all the risk transactions assumed by the Bank since the moment it grants the risk. It also sets forth maximum and minimum limits that shall be, at all times, between 10% and 125%, and a mechanism for the annual allowance of this provision that provide the risk variation in the year, and the specific allocations taken during the year for specific doubtful risks.

5.7 Transactions and balances in foreign currency

The Bank's functional currency is the Euro and, therefore, all balances and transactions denominated in currencies other than the Euro are deemed to be denominated in foreign currency.

Monetary assets and liabilities denominated in foreign currency are translated into Euro at the year-end average spot exchange rate on the date of the financial statements, as published by the European Central Bank. The exchange differences arising in the translation are recorded, generally, for their net amount in the caption "Exchange Differences" of the Income Statement.

The counter value in Euro of the assets and liabilities denominated in foreign currency (US dollars mainly) as of December 31st, 2018 amounts, respectively, to 844,643 and 838,864 thousand euros (787,709 and 785,458 thousand euros, respectively, as of December 31st, 2017).

5.8 Tangible assets

"Tangible Assets for Own Use" are the property items of which the Bank considers it will make ongoing use of, and the property items acquired for finance lease purposes. These assets are valued at cost minus accumulated depreciation and, if appropriate, minus any loss for impairment disclosed by comparing the net value of each item with its recoverable amount.

Depreciation is calculated systematically by the straight-line method, applying the years of estimated useful life of the items to the acquisition cost of the assets minus their residual value. In the case of the land on which the buildings and other structures are located, the land is deemed to have an indefinite life and therefore, it is not depreciated. The annual provisions for depreciation of tangible assets are charged to the Income Statement and are calculated on the basis of the following averaged years of estimated useful life of the various groups of items.

All assets are depreciated according to the Royal Decree 537/1997 of April 14th. The annual depreciation coefficients used are the following:

	Coefficient
Property	2%
Furniture and installations	8% to 12%
Office and EDP equipment	12% to 25%

The cost of upkeep and maintenance of the "Tangible Assets for Own Use" are recognized as an expense of the period in which they are incurred.

The investment property included in the caption "Tangible Assets" comprises the net values of the land, buildings and other structures which the Bank holds for rental or for obtaining a capital gain on their sale as a result of future increases in their respective market prices.

The methods applied by the Bank to recognize the cost of assets assigned in operating lease transactions, to determine their depreciation and to estimate their respective useful lives and to record their losses for impairment, are the same as those described for "Tangible Assets for Own Use".

5.9 Intangible Assets

Intangible assets are identifiable non-monetary assets, although without physical appearance, which arise as a result of a legal transaction or have been developed internally by the Bank. The Bank only recognizes intangible assets whose cost can be reasonably and objectively estimated, and the Bank estimates that it is probable to obtain economic benefits from them in the future.

Intangible assets are recorded in the balance sheet at their cost of acquisition or production, net of its accumulated depreciation and any impairment losses that could have suffer.

5.10 Leases

Lease contracts are presented on the bases of the economic substance of the transaction regardless of their legal form and are classified from the outset as finance or operating leases. The Bank has not carried out any financial lease agreement as of December 31st, 2018 or 2017.

In the operating leases contracts, when the Bank is the lessor, the acquisition cost of the assets leased is recorded under the "Tangible Assets" caption. These assets are depreciated in accordance with the policies applied for similar tangible assets. Income from lease contracts is recognized in the Income Statement using a straight-line method. On the other hand, when the Bank is the lessee, the lease expenses, including incentives, if any, granted by the lessor, are recorded on a straight-line basis in the Income Statement.

5.11 Contingent Assets

Contingent assets are possible assets that arise from past events and whose existence is conditional on and will be confirmed only by the occurrence or non-occurrence of events beyond the control of the Bank.

Contingent assets are not recognized in the Balance Sheet or in the Income Statement. The Bank informs of their existence provided that it is probable that these assets will give rise to an increase in resources embodying economic benefits.

5.12 Provisions and contingent liabilities

Provisions are present obligations of the Bank arising from past events whose nature at the balance sheet date is clearly specified but whose amount or settlement date is uncertain and that the Bank expects to settle on maturity through an outflow of resources embodying economic benefits.

The Bank recognises in the Balance Sheet all the significant provisions when it forecasts that it is more likely that the obligation might have to be settled.

Provisions are measured taking into account the best available information on the consequences of the event that gives rise to the obligation and are reviewed at each closing date and adjusted in the Balance Sheet. They are used to meet the specific obligation for which they were originally recognized and are fully or partially released when these obligations cease to exist or decrease.

Provisions are classified according to the obligations covered (Note 16).

As of December 31st, 2018, and 2017, there were still pending some legal proceedings and claims brought against the Bank arising from the habitual performance of its activities. The legal advisors and the Directors of the Bank consider that the outcome of these legal proceedings and claims will not have any significant negative effect additional to that included as a provision in the annual accounts of the years in which they are concluded.

Contingent liabilities are possible obligations of the Bank that arise as a result of past events and whose existence is conditional on the occurrence or non-occurrence of one or more future events beyond the control of the Bank. They include the present obligations of the Bank when it is not probable that an outflow of resources embodying economic benefits will be required to settle them or when, in extremely rare cases, their amount cannot be measured with sufficient reliability.

Information regarding the aforementioned contingent liabilities, if any, is disclosed in the Notes to the Financial Statements.

5.13 Pension commitments

As of December 31st, 2018, and 2017, Aresbank's pension commitments with the serving employees were externalised by means of defined contribution pension plan and an insurance contract.

These pension fund commitments cover the rights derived from:

a) The Collective Agreement.

b) The agreements approved by the Board of Directors in 1991 for the Management and certain employees, extending the latter agreement to all of the employees, without exception, by means of an agreement approved by the Board of Directors on October 18th, 2002.

As a result of these operations, Aresbank has no actuarial or financial risk by reason of the mentioned commitments. The total amount contributed in 2018 amounted to 132 thousand euros. In 2017, it amounted to 151 thousand euros (Note 28).

Aresbank's outstanding balance related to the employees' contributions with the pension fund management company (BanSabadell Pensiones) amounts to a total of 2,970 thousand euros as of December 2018 and 3,250 thousand euros as of December 2017.

5.14 Corporate Income tax

The Bank recognises as expenses the Income Tax that is calculated based on the annual results, taking into account possible timing differences between book profit and taxable income, as well as applicable deductions. The difference between corporate tax payable and the amount actually charged to the Income statement due to timing differences is recorded as either deferred tax assets or liabilities.

The Rule 42 of the Circular 4/2004 establishes that the quantification of the assets and liabilities for deferred taxes is done by applying the tax rate that it is expected to be recovered or settled to the timing differences or tax credit (Note 13). The Bank has amortized tax credits along 2018 derived from its negative taxable bases pending to be offset (Note 22).

5.15 Severance payments

In accordance with the Labour Laws in force, the entities must pay an indemnity to those employees that under certain circumstances must be laid-off. These indemnities will be charged against results as soon as there is a plan that obliges to carry out their payment.

5.16 Financial Guarantees

Financial guarantees are contracts whereby the Bank undertakes to pay certain specific amounts to a third party if the obligor does not do so, regardless of their legal form, which may include, inter alia, that of a bond, guarantee, irrevocable documentary credit issued or confirmed.

5.17 Off- Balance Sheet items

Off-balance sheet items shall include balances representing rights, obligations and other legal situations that in the future may have an impact on net assets, as well as any other balances needed to reflect all transactions entered into by entities although they may not impinge on their net assets.

The category **"Other commitments granted"** shall include all transactions under which the Bank guarantees the obligations of a third party and which result from financial guarantees granted by the Bank or from other types of contract. This category comprises:

a) "Other financial guarantees" not included as Financial Bank guarantees, credit derivatives sold or risk arising from derivatives acquired on behalf of third parties.

b) Irrevocable documentary credits: include the amount of the risk derived from irrevocable commitments to make payment upon delivery of documents. They shall be recorded at the maximum amount that at the balance sheet date the Bank would have committed to third parties.

c) Other bank guarantees and indemnities provided: guarantee contracts and deposits were the Bank is committed to compensate to a beneficiary in case of noncompliance of a specific commitment other than the obligation of payment (such as deposits given to ensure the participation in actions, tenders, irrevocable formal undertakings to provide bank guarantees, letters of guarantee to the extent that they may be legally enforceable and any other type of technical guarantees and import/export guarantees).

d) Other contingent exposures: This shall include the amount of any contingent exposures not included in other items.

The maximum guaranteed amount for the transactions with accrual interest shall include, in addition to the guaranteed principal, the interest due and payable. The guaranteed amounts may only be reduced or removed from off-balance sheet items when there is duly documented evidence that the guaranteed exposures have decreased or ceased or when those amounts are paid to third parties.

The category "**Lending commitments granted**" shall include those irrevocable commitments that could give rise to the recognition of financial assets. This category comprises:

i) Drawable by third parties: balances drawable by third parties at the balance sheet date, within the limit or principal of the credit contracts granted by the Bank, whatever their type, distinguishing the amounts immediately drawable by the holder from those that will only be drawable if certain future events occur.

ii) Other contingent commitments: This shall include the amount of any remaining commitments not included in other items that may result in the recognition of financial assets in the future.

5.18 Cash-Flow Statement

The concepts used in the Cash-Flow Statement have the following definitions:

a) Cash-flows that are inflows and outflows of cash and cash equivalents, the latter being defined as highly liquid short-term investments with low risk of alternation in value.

b) Operating activities that are typical activities and other activities that cannot be classified as lending or funding.

c) Investing activities, relating to the acquisition, sale or disposal by other means of long-term assets and other investments not included in cash and cash equivalents.

d) Financing activities which are activities giving rise to changes in the size and composition of net worth and of liabilities that do not form part of operating activities and long-term financial liabilities.

5.19 Related Parties

The parties related to the Bank include, in addition to its parent company and controlled entities, the Bank's key management personnel (the members of its Board of Directors and the executive vice presidents, together with their close family members) and the entities over which the key management personnel may exercise significant influence or control.

See Note 33.b for the detail of the related party transactions during 2018 and 2017.

Related-party transactions were made on terms equivalent to those that prevail in arm's-length transactions or, when this was not the case, the related compensation in kind was recognised.

5.20 Offsetting balances

It shall be only offset and, therefore, shown in the balance sheet as net debt, the debtor and creditor balances arising for transactions in which contractually, or by legal regulation, allow compensation, and there is an intention to offset them, or to realize the asset and them to settle the liability simultaneously.

5.21 Hedging accounting and risk mitigation

The Bank uses derivative instruments to reduce its exposure to foreign currency exchange rate risks. The Bank designates an operation as of coverage, since the beginning of the transaction or the instrument included in this coverage, properly documenting the hedging transaction. The Bank only records as hedging transactions the ones which are considered highly effective throughout the life of the transaction.

The coverage operations carried out by the Bank are classified as fair value hedging that cover the exposure to changes in the fair value of financial assets and liabilities or commitments still unrecognized, or a portion of such assets, liabilities or commitments attributable to a identified risk in particular and provided that affect the profit (or loss) account. The differences in the covered elements and in their coverages are recognised directly in the profit (or loss) account.

6. RISK MANAGEMENT

The following key principles underpin the risk and capital management at Aresbank:

- The Board of Directors provides overall risk and capital management supervision for the Bank.
- Both the Risk & Compliance Committee and the Audit Committee inform to the Board of Directors about the outstanding risks and operational performance.
- The ongoing management of risk is supported by control procedures to ensure compliance with the specified limits, the defined responsibilities, and the monitoring of indicators.

- The main goal is the management of the credit, market, liquidity, operational, business and reputational risks as well as the capital in a coordinated manner at all relevant levels within the organization.
- The risk management function is made independent of other departments.

6.1 Credit Risk

The credit risk makes up the largest part of Aresbank's risk exposures. The total credit risk weighted assets under Pillar I, using standard approach, is 608,408 thousand euros. Aresbank calculates risk weighted assets as product of the exposure and relevant risk weight determined by its supervisor. Risk weights are determined by the category of the borrower and depend upon external credit assessments by ECAIs (Standard & Poor's, Moody's and Fitch) and also on the type of the banking product.

The Bank currently has a focussed business target market which caters to the trade finance business, primarily between Spain and the Arab world, and interbank market transactions. The total gross lending amounted as of December 31st, 2018 to 1,133,176 thousand euros, in comparison with 1,067,352 thousand euros in 2017. The key component of the total lending was "Loans and Advances to Credit Institutions", for an amount of 854,612 thousand euros, from which 764,786 thousand euros are placed within the Interbank market. Contingent exposures have increased from the previous year to a total amount of 368,488 thousand euros.

(EUR '000)

OVERALL CREDIT RISK EXPOSURE	**2018**	**2017**
Balance Sheet exposures (Gross)	1,133,176	1,067,352
Granted guarantees	368,488	387,367
Unused portion of credit lines (Drawable by third parties)	89,964	110,000
Total credit risk exposure	**1,591,568**	**1,564,719**

RISK CONCENTRATION BY ACTIVITY AND GEOGRAPHICAL AREA

The breakdown corresponding to 2018 is the following:

	Total	Spain	Rest of E.U.	America	Rest of the world
Credit institutions	**1,327,600**	**928,397**	**142,765**	**2,950**	**253,488**
Public Sector	**23,560**	**10,638**	**12,922**	**-**	**-**
Other financial entities	**99,920**	**-**	**-**	**-**	**99,920**
Non-financial Corporations and Individuals	**317,556**	**95,367**	**92,901**	**-**	**129,288**
Corporate	*310,266*	*89,367*	*91,611*	-	*129,288*
Small business and individuals	*7,290*	*6,000*	*1,290*	-	-
Other households (other purposes)	**488**	**488**	**-**	**-**	**-**
TOTAL	**1,769,124**	**1,034,890**	**248,588**	**2,950**	**482,696**

The breakdown corresponding to 2017 is the following:

	Total	Spain	Rest of E.U.	America	Rest of the world
Credit institutions	**1,231,758**	**818,599**	**252,140**	**3,705**	**157,314**
Public Sector	**32,824**	**14,691**	**18,133**	**-**	**-**
Other financial entities	**15,125**	**-**	**-**	**-**	**15,125**
Non-financial Corporations and Individuals	**332,298**	**197,331**	**42,321**	**-**	**92,646**
Corporate	*307,842*	*172,875*	*42,321*	**-**	*92,646*
Small business and individuals	*24,456*	*24,456*	-	-	-
Other households (other purposes)	**459**	**459**	**-**	**-**	**-**
TOTAL	**1,612,464**	**1,031,080**	**312,594**	**3,705**	**265,085**

6.2 Market Risk

The measurement, control and monitoring of the Aresbank's market risk comprises all operations in which net worth risk is assumed as a result of changes in market factors. This risk arises from changes in the risk factors -interest rates, exchange rates, thereof- and from the liquidity risk.

- **Interest Rate Risk**

Interest rate risk is the possibility that fluctuations in interest rates might have an adverse effect on the value of a financial instrument. Aresbank holds loans and deposits as of December 2018 and 2017. Aresbank does not experience a significant interest rate gap which focuses on the mismatches between the interest reset periods of on-balance-sheet assets and liabilities and of off-balance-sheet items.

- **Foreign currency risk**

The global net position in foreign currency of Aresbank as of December 31st, 2018, which amounts to 5,775 thousand euros, does not exceed 2% of the entity's own funds, therefore, the entity does not register capital consumption for this concept. The Bank does not have a material trading book in the sense that there is no risk pertaining to interest rate related instruments, equities and commodities in the trading book.

- **Liquidity**

The analysis of the liquidity of the bank as of December 31st, 2018 shows that the Bank has sufficient liquidity to meet its near-term liabilities:

Time Buckets	Assets	Liabilities	Gap	Cumulative Gap
Up to 1 Month	1,068,169	942,329	125,840	125,840
1 Month to 3 Months	121,245	128,016	(6,771)	119,069
3 Months to 6 Months	9,633	3	9,630	128,699
6 Months to 12 Months	59,652	1,075	58,577	187,276
1 Year to 5 Years	22,724	54	22,670	209,946
More than 5 Years	126,886	10,935	115,951	325,897

6.3 Operational Risk

The operational Risk relates to the risk of loss resulting from inadequate or failed internal processes, human resources or systems or from external events. Unlike other risks, this is generally a risk that is not associated with products or businesses but is found in processes and/or assets and is generated internally (people, systems, processes) or as a result of external risks, such as natural disasters. For the purpose of calculating regulatory capital for operational risk, Aresbank opts for the basic indicator approach. As a result, the Operational Risk Capital charge, 2,643 thousand euros, is based on the average of positive gross income of the previous three years multiplied by 15%.

7. CASH, BALANCES WITH CENTRAL BANKS AND DEMAND DEPOSITS

This caption on the Balance Sheet reflects available cash as well as deposits maintained in the Bank of Spain in accordance with the compulsory reserves ratio. The caption breakdown as of December 31st, 2018 and 2017 is as follows:

	2018	2017
Cash	202	159
Bank of Spain - Nostro Account	235,325	99,231
Demand deposits	49,109	50,515
	284,636	**149,905**

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT (OR LOSS)

The breakdown of this caption as of December 31st, 2018 and 2017 is as follows:

	2018	2017
Nature:		
Investment funds	-	14,904

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The breakdown of this caption as of December 31st, 2018 and 2017 is as follows:

	2018	2017
Nature:		
Public Debt (Spain)	10,638	17,702
Public Debt (EU countries)	12,922	18,133
Fixed Income (Spain)	12,888	13,218
Promissory Notes (Spain)	1,000	-
Generic Impairments	(71)	(26)
	37,377	**49,027**

Currency:

Euro	37,377	49,027
	37,377	**49,027**

	2018	2017	2018	2017
Rating:				
AAA	3,616	3,695	9.67%	7.54%
AA+	-	-	-	-
AA	7,807	7,886	20.89%	16.08%
A-	3,048	3,102	8.16%	6.33%
BBB+	18,099	34,344	48.42%	70.05%
BBB	4,807	-	12.86%	-
	37,377	**49,027**	**100%**	**100%**

The detail of the valuation adjustments made through equity it is shown in Note 20, with regards to the available for sale assets.

10. FINANCIAL ASSETS AT AMORTIZED COST

The detail of this caption as of December 31st, 2018 and 2017 is as follows:

	2018	2017
Loans and advances to:		
Credit institutions	805,471	872,735
Clients	278,893	144,500
TOTAL Financial assets at amortized cost, gross	**1,084,364**	**1,017,235**
Impairment adjustments to:		
Credit institutions	(1,732)	(2,715)
Clients	(3,807)	(3,100)
TOTAL Financial assets at amortized cost, net	**1,078,825**	**1,011,420**

The breakdown by currency, residual maturity and sectors of the caption "**Financial assets at amortized cost**" as of December 31st, 2018 and 2017 is as follows:

	2018	2017
By currency		
Euro	238,135	230,934
Other currencies	841,431	780,486
TOTAL Financial assets at amortized cost, net	**1,078,825**	**1,011,420**
By residual maturity		
Up to 3 months	901,349	862,526
Over 3 months to 1 year	69,732	61,629
Over 1 year to 5 years	13,957	74,377
Over 5 years	93,787	12,888
TOTAL Financial assets at amortized cost, net	**1,078,825**	**1,011,420**
By sector		
Residents	711,874	734,174
Non- residents	366,951	277,246
TOTAL Financial assets at amortized cost, net	**1,078,825**	**1,011,420**

The detail by nature of "**Loans and advances to credit institutions**" as of December 31st, 2018 and 2017 is as follows:

	2018	2017
Time deposits	803,926	871,932
Non-Performing Assets	54	30
Interest accrued	1,585	1,007
Commissions	-	-
Purchase premium/discounts	(94)	(234)
Loans and advances to credit institutions, gross	**805,471**	**872,735**
Impairment adjustments	(1,732)	(2,715)
Loans and advances to credit institutions, net	**803,739**	**870,020**

The breakdown by type of the "**Loans and advances to other debtors**" as of December 31st, 2018 and 2017 is as follows:

	2018	2017
By type		
Other term receivables	235,197	140,602
Receivable on demand and other	41,674	910
Non-Performing Assets	5,013	5,001
Other Financial Assets	329	208
Commissions	(3,663)	(2,276)
Premiums / Discount	(261)	(70)
Interest Accrued	604	125
Loans and advances to other debtors, gross	**278,893**	**144,500**
Impairment adjustments	(3,807)	(3,100)
Loans and advances to other debtors, net	**275,086**	**141,400**

The line "**Other financial assets**" includes mainly bails and accruals.

The detail of the economic activities regarding **"Financial assets at amortized cost"** is as follows:

	2018	2017
Economic Activity		
Financial intermediation	83.57%	87.40%
Oil refinery	10.74%	3.96%
Other manufacturing Industry	-	1.86%
Real Estate	0.85%	1.00%
Construction	0.69%	2.21%
Metallurgy	3.04%	-
Retail / Wholesale	0.79%	2.50%
Other sectors with lesser participation	0.32%	1.07%
	100.00%	**100.00%**

The detail by geographic areas of the above caption in terms of percentage is as follows:

	2018	2017
Geographic Area		
Spain	65.66%	72.09%
European Union	6.20%	12.49%
Other European countries	5.95%	2.18%

Arab countries (Asia)	10.02%	8.90%
Arab countries (Africa)	12.17%	4.34%
	100.00%	**100.00%**

The movements in 2018 and 2017 of the balance of "**Impairment adjustments**" per type of coverage of the caption "Financial assets at amortized cost" and "Financial assets at fair value through other comprehensive income" are as follows:

	Specific Allowance	General Allowance	Country Allowance	Total
Balance as of 31/12/2016	**2,390**	**845**	**3,771**	**7,006**
Additions (see Note 32)	204	242	6,694	7,140
Disposals (see Note 32)	(236)	(762)	(7,223)	(8,221)
Transfer to write-off	-	-	-	-
Other	(22)	-	(24)	(46)
Balance as of 31/12/2017	**2,336**	**325**	**3,218**	**5,879**
Additions (see Note 32)	766	1.760	7,962	10,488
Disposals (see Note 32)	(620)	(1,647)	(8,291)	(10,558)
Other	10	701	(876)	(165)
Balance as of 31/12/2018	**2,492**	**1,139**	**2,013**	**5,644**

The caption "Other" as of December 31st, 2018 includes adjustments due to foreign exchange and reclassifications.

11. TANGIBLE ASSETS

a) Movement

The movements of the caption "**Tangible Assets**" of the Balance Sheets as of December 31st, 2018 and 2017 are as follows:

	For own Use	Investment Property	Total (*)
Cost			
Balance as of January 1st, 2016	**26,371**	**11,130**	**37,501**
Additions	116	-	116
Disposals	(20)	-	(20)
Relocations	(7,888)	7,888	-
Balance as of December 31st, 2017	**18,579**	**19,018**	**37,597**

Additions	171	-	171
Disposals	(48)	-	(48)
Relocations	(2,748)	2,748	-
Balance as of December 31st, 2018	**15,954**	**21,766**	**37,720**

(*) The historical value of the land amounts to 25,749 thousand euros.

Accumulated Amortization

Balance as of January 1st, 2016	**(3,013)**	**(1,559)**	**(4,572)**
Allowance	(259)	(92)	(351)
Disposals	14	-	14
Relocations	1.137	(1.137)	-
Balance as of December 31st, 2017	**(2,121)**	**(2,788)**	**(4,909)**
Allowance (Note 31)	(269)	(103)	(372)
Disposals	36	-	36
Relocations	(237)	237	-
Balance as of December 31st, 2018	**(2.591)**	**(2,654)**	**(5,245)**

Net Tangible Assets

Balance as of 31/12/17	**16,458**	**16,230**	**32,688**
Balance as of 31/12/18	**13,363**	**19,112**	**32,475**

The relocations are due to the effective use of the assets for own and renting properties.

The breakdown of fully amortized tangible assets is as follows:

	Furniture	**Installations**	**Computer Equipment and transport**	**Total**
Balance as of 31/12/18	11	25	85	121

b) Tangible Assets for Own Use

The detail by nature of the items, which comprises the balance of the caption "**Tangible Assets for Own Use**" of the Balance Sheets as of December 31st, 2018 and 2017, is as follows:

	Lands & Buildings	Furniture	Installations	Computer Equipment and transport	Others	Total
Cost						
Balance as of 1/1/17	**24,665**	**675**	**786**	**92**	**153**	**26,371**
Additions	-	1	84	31	-	116
Relocations	(7,888)	-	-	-	-	(7,888)
Disposals	-	(20)	-	-	-	(20)
Balance as of 31/12/17	**16,777**	**656**	**870**	**123**	**153**	**18,579**
Additions	-	11	35	95	30	171
Relocations	(2,748)	-	-	-	-	(2,748)
Disposals	-	(48)	-	-	-	(48)
Balance as of 31/12/18	**14,029**	**619**	**905**	**218**	**183**	**15,954**
Accumulated Amortization						
Balance as of 1/1/17	**(2,126)**	**(372)**	**(425)**	**(66)**	**(24)**	**(3,013)**
Allowance	(109)	(67)	(70)	(11)	(2)	(259)
Disposals	-	14	-	-	-	14
Relocations	1,137	-	-	-	-	1,137
Balance as of 31/12/17	**(1,098)**	**(425)**	**(495)**	**(77)**	**(26)**	**(2,121)**
Allowance	(98)	(62)	(80)	(26)	(3)	(269)
Disposals	-	36	-	-	-	36
Relocations	(237)	-	-	-	-	(237)
Balance as of 31/12/18	**(1,433)**	**(451)**	**(575)**	**(103)**	**(29)**	**(2,591)**
Net Tangible Assets						
Balance as of 31/12/17	**15,679**	**231**	**375**	**46**	**127**	**16,458**
Balance as of 31/12/18	**12,596**	**168**	**330**	**115**	**154**	**13,363**

The Bank did not have any own use asset leased out under operating lease at the date of the Balance Sheet.

c) Investment property

The Bank is the lessor of certain offices within the building placed at Paseo de la Castellana, 257 in Madrid, and a trade premise at Calle León y Castillo, Las Palmas de Gran Canaria. These operating lease contracts can be cancelled with penalty, from a range from September 24th, 2018 till September 23rd, 2021, depending on the contract, with a prior notice agreed of 3 months. The total expected earnings from these operating leases, until the maturity of the contracts, amounting to 5,933 thousand euros until June 2027 (last contract maturity date), and the breakdown is the following:

	2018	**2017**
Up to one year	1,287	1,102
From 1 year to 5 years	3,604	3,373
Over 5 years	1,042	1,084
	5,933	**5,559**

During 2018 and 2017, income from these operating leases coming from investment properties amounted to 1,145 and 824 thousand euros, respectively. They are entered in the item "Other Operating Income" of the Income Statement (Note 27). The operating expenses related to said investment properties amounted to 202 and 130 thousand euros respectively and are entered in the caption "Other Administrative Expenses" (Note 29). These expenses are passed on to the tenants and are recorded in "Other" under "Other operating income" (Note 27).

12. INTANGIBLE ASSETS

The movements of this caption as of December 31st, 2018 are as follows:

	2018	**2017**
Cost		
Balance as of January 1st	**1,079**	**979**
Additions	208	100
Disposals	-	-
Balance as of December 31st	**1,287**	**1,079**

Accumulated Amortization

Balance as of January 1st	**(971)**	**(830)**
Allowance (Note 31)	(102)	(141)
Disposals	-	-
Balance as of December 31st	**(1,073)**	**(971)**

Net Intangible Assets

Balance at the beginning of the period	**108**	**150**
Balance at the end of the period	**213**	**108**

The amount of intangible assets fully amortized as of December 31st, 2018 amounts to 1,041 thousand euros.

13. TAX ASSETS AND TAX LIABILITIES

It includes the amount of all assets of a tax nature. The detail of these items as of December 31st, 2018 and 2017 is as follows:

TAX ASSETS	**2018**	**2017**
Corporate Income tax (Note 22)	2,986	533
Corporate Income tax (previous years)	643	986
Other tax assets	3,471	8,224
Value Added Tax	-	87
	7,100	**9,830**

TAX LIABILITIES		
Social Security	57	13
Income tax payable	237	216
Deferred tax	797	-
Others	14	1
	1,105	**230**

14. OTHER ASSETS AND OTHER LIABILITIES

The detail of these two captions is as follows:

	Assets		Liabilities	
	2018	2017	2018	2017
Prepaid expenses	77	100	-	-
Financial guarantees	-	-	72	138
Accrued expenses	-	-	2,204	2,795
	77	**100**	**2,276**	**2,933**

The caption "Accrued expenses" includes mainly overheads accruals. The caption "For financial guarantees" includes at December 31st, 2018 commissions from guarantees granted to clients, which are accrued over the expected life of the guarantee.

15. FINANCIAL LIABILITIES AT AMORTIZED COST

The breakdown of this caption of the Balance Sheets as of December 31st, 2018 and 2017 is as follows:

	2018	2017
Deposits:		
from central banks	-	118
from credit institutions	1,045,707	862,138
from other creditors	36,008	45,653
TOTAL Deposits	**1,081,715**	**907,909**
Other financial liabilities	2,054	543
TOTAL Financial liabilities at amortized cost	**1,083,769**	**908,452**

The detail by currency and residual maturity of "**Financial liabilities at amortized cost**" of the Balance Sheets as of December 31st, 2018 and 2017 is as follows:

	2018	2017
By currency		
Euro	245,342	123,443
Other currencies	838,427	785,009
TOTAL Financial liabilities at amortized cost	**1,083,769**	**908,452**

By residual maturity		
Up to 3 months	1,071,878	861,538
Over 3 months to 1 year	881	41,165
Over 1 year to 5 years	75	1,017
Over 5 years	10,935	4,732
TOTAL Financial liabilities at amortized cost	**1,083,769**	**908,452**

The detail of "**Deposits from credit institutions**" of the Balance Sheet as of December 31st, 2018 and 2017 is as follows:

	2018	2017
Time deposits	763,573	796,858
Other accounts	280,775	64,372
Valuation adjustments	1,359	908
Deposits from credit institutions	**1,045,707**	**862,138**

As of December 31st, 2018, the Libyan Foreign Bank holds deposits amounting, 778 million dollars and 8 million sterling pounds (29.3 million euros, 812.5 million dollars and 18 million sterling pounds in 2017), recorded in the caption "Deposits from Credit Institutions".

The detail of the caption "**Deposits from other creditors**" of the Balance Sheet as of December 31st, 2018 and 2017 is as follows:

	2018	2017
Public sector		
Spanish Government	50	38
Other resident sectors		
Demand deposits:		
Current accounts	24,162	28,734
Other	-	-
Time deposits		
Fixed term deposits	1,128	5,802
Other non- resident sectors		
Demand deposits:		
Current accounts	10,668	11,054
Other	-	-
Time deposits		
Fixed term deposits	-	25
Valuation adjustments		
Deposits from other creditors	**36,008**	**45,653**

Details of "**Other financial liabilities**" of the Balance Sheets as of December 31st, 2018 and 2017 grouped by financial instrument are as follows:

	2018	2017
Other accounts	223	162
Rental deposits	180	152
Special accounts	1,651	229
Other financial liabilities	**2,054**	**543**

16. PROVISIONS

The breakdown of this caption of the Balance Sheets as of December 31st, 2018 and 2017 is as follows:

	2018	2017
Provisions for taxes	32	32
Provisions for contingent exposures and commitments	3,177	10,347

Other provisions	40	40
	3,249	**10,419**

The movements of the caption "**Provisions**" in 2018 and 2017 are as follows:

	Provision for taxes	**Contingent exposures and commitments**	**Other provisions**	**Total**
Balance as of January 1st, 2017	**32**	**4,561**	**-**	**4,593**
Net P/L allowances	-	7,945	40	7,985
Allowances released	-	(2,073)	-	(2,073)
Other	-	(86)	-	(86)
Balance as of December 31st, 2017	**32**	**10,347**	**40**	**10,419**
Net P/L allowances	-	2,119	-	2,119
Allowances released	-	(6,409)	-	(6,409)
Other	-	(2,880)	-	(2,880)
Balance as of December 31st, 2018	**32**	**3,177**	**40**	**3,249**

The line "Others" includes adjustments due to foreign exchange and reclassifications.

The detail per type of coverage of "**Provisions for Contingent Exposures and Commitments**" is as follows:

	2018	**2017**
Specific provision	1,749	1,747
Generic provision	928	691
Country risk provision	500	7,909
	3,177	**10,347**

"Provisions for contingent exposures and commitments" is considered as a remote risk due to their evolution.

17. SHAREHOLDERS' EQUITY

The Bank's equity amounted to 350,965 thousand euros at December 31st, 2018 (346,584 thousand euros at December 31st, 2017). The Bank shows at the end of the year 2018 a capital solvency ratio of 49.56% (49.56% in terms of high quality CET1) that highly exceeds the 12.51% minimum required by the Regulator. The movement of this heading for the years 2018 and 2017 is shown in the Statement of Changes in Equity.

18. SHARE CAPITAL

The share capital of Aresbank, S.A. as of December 31st, 2018 amounts to 300,000,960.00 euros, and it is formed of 104,167 registered shares, fully disbursed, with a nominal value of 2,880.00 euros each.

The composition of the shareholders as of December 31st, 2018 is as follows:

	Amount (€)	Number of shares	% owned
Libyan Foreign Bank	299,586,240	104,023	99.86%
Crédit Populaire d'Algèrie	414,720	144	0.14%
	300,000,960	**104,167**	**100.00%**

There are no convertible shares or any other securities, which might confer similar rights. Aresbank, S.A. does not hold any of its own shares, either directly or indirectly through subsidiaries.

19. RETAINED EARNINGS

The breakdown of the reserves as of December 31st, 2018 and 2017 is as follows:

	2018	2017
Legal reserve	16,553	15,859
Undistributed results	23,096	23,790
	39,649	**39,649**

LEGAL RESERVE

According to the Companies Act, companies must transfer 10% of annual profits to the legal reserve until it reaches, at least, 20% of capital. The legal reserve can be used to increase capital, provided that the remaining legal reserve balance does not fall below 10% of the final stock capital. Except for this purpose, whilst the legal reserve does not exceed the limit of 20% of capital, it can only be used to compensate losses, if there are no other reserves available. The retained earnings are distributable reserves, subject to the Capital requirements (Note 3.10).

20. OTHER COMPREHENSIVE INCOME

The amounts below are the transitory adjustments made on assets and liabilities, to equity. These are expressed net from tax effect.

	2018	2017
Public Debt (Spain)	10	(84)
Public Debt (UE countries)	(194)	(224)
Fixed Income (Spain)	(280)	(195)
Fixed Income (UE countries)	(197)	(133)
Valuation Adjustments	**(661)**	**(636)**

The bank undertakes a periodic evaluation mark to market on available for sale instruments in order to adjust its book value.

21. OFF-BALANCE SHEET ITEMS

"**Off-balance sheet items**" shall include balances representing rights, obligations and other legal situations that in the future may have an impact on net assets, as well as any other balances needed to reflect all transactions entered into by the Bank although they may not impinge its net assets.

a) Other commitments granted

"Contingent exposures" comprises the amounts which the Bank will have to pay on behalf of third parties if the original obligors do not do so, as a result of the commitments undertaken by the Bank in the course of its habitual activity. The breakdown as of December 31st, 2018 and 2017 is as follows:

	2018	2017
Financial guarantees		
Irrevocable issued documentary credits	95,041	77,940
Irrevocable confirmed documentary credits	226,798	194,158
Other Bank guarantees and indemnities	46,649	115,269
	368,488	**387,367**
Memorandum item: Doubtful contingent exposure	**398**	**395**

Detail by geographic area of "Irrevocable documentary credits issued and confirmed" is as follows:

Geographic Area	**2018**	**2017**	**2018**	**2017**
Spain	13,245	39,931	4.12%	14.68%
EU Countries	139,562	158,480	43.36%	58.24%
Other European countries	-	1,247	-	0.46%
Arab countries				
Libya	152,903	57,488	47.51%	21.13%
Algeria	14,124	8,032	4.39%	2.95%
Other Arab countries	2,005	6,920	0.62%	2.54%
	321,839	**272,098**	**100.00%**	**100.00%**

The income obtained from these guarantee transactions is recognized in the Income Statement as "Fee and Commission Income" (Note 25).

The detail by geographic area of "**Other Bank guarantees & indemnities**" is as follows:

Geographic Area	**2018**	**2017**	**2018**	**2017**
Spain	31,722	94,742	68.00%	82.19%
EU Countries	1,022	1,022	2.19%	0.89%
Other European countries	9,740	11,934	20.88%	10.35%
Arab countries				
Libya	4,165	7,571	8.93%	6.57%
Algeria	-	-	-	-
Other Arab countries	-	-	-	-
	46,649	**115,269**	**100.00%**	**100.00%**

b) Lending commitments granted

Its breakdown is as follows:

	2018	**2017**
Drawable by third parties		
By financial institutions	-	50,000
By other resident sectors	48,938	60,000
Non-residents	40,966	-
	89,904	**110,000**

22. TAX MATTERS

Profits, adjusted in accordance with fiscal regulations, are taxed at 30% rate for 2018 and 2017. The resulting quota can be reduced applying certain legal deductions. Tax declarations cannot be considered definitive until either the Tax Authorities have inspected them or until the inspection period has legally expired. At present, this is a four-year period to be counted from the end of the tax declaration period. The years that Aresbank, S.A. is subject to Tax Inspection are 2015 onwards, except for the Corporate Income Tax, which is subject to inspection from 2014 onwards.

The conciliation between the annual profit and the taxable income of the Corporate Tax is as follows:

	2018	2017
Accounting profit (or loss) for the year before tax	17,059	2,236
Permanent differences	306	6
Temporary differences		
Positives		
- Provisions	3,400	12,033
Negatives		
- Provisions	(6,963)	(6,778)
- Double taxation	-	-
Total	13,802	7,497
Offset of prior year negative taxable bases	(9,661)	(5,248)
Taxable profit	4,142	2,249
Tax liabilities	1,242	675
Deductions	-	-
Withholding tax	(217)	(128)
Advanced payment on Corporate Tax	(4,002)	(1,080)
Corporate income tax payable / (receivable) (Note 13)	(2,977)	(533)

Figures from 2017 have been reported to Tax Authorities as of July 2018. 2018 figures are draft figures, so this calculation is intended to be our best estimation, no significant changes are expected in the final report to Spanish Tax Authorities.

The Bank has negative taxable bases (carry-forward losses) for an amount of 47,623 thousand euros, whose detail at the source corresponds with the following:

2009	2010
6,618	41,005

The entity has amortized the half of the tax credit capitalized in the previous year, amounting to 3,187 thousand euros.

By means of the recent Royal Decree-Law 27/2018, some changes have been made to the Corporate Income Tax, with effects for taxable periods starting from January 1st, 2018. In this sense, the Thirty-Ninth Transitory Provision is established to regulate the fiscal treatment of the transition to Circular 4/2017, which provides for the integration of the debits and credits into reserves derived from the first-time application of the Circular 4/2017, which have fiscal effects, in each of the first three tax periods starting from January 1st, 2018, undertaking this income integration, in principle, by thirds. The amount integrated for 2018 is 294 thousand euros.

The limitations approved in RDL 3/2016 (Royal Decree-Law) at Corporate Income Tax level have effects for tax periods beginning on or after January the 1st, 2016. These are affecting taxpayers with a net turnover of, at least, 20 million euros and with regards to two types of tax credits: (1) on the right to offset negative tax bases and reversals on impairments of certain credits that would have generated deferred tax assets, which are tax credits that are applied to the tax base, and, (2) on deductions for internal and international double taxation, so much those generated in the tax period itself as those pending application, which are tax credits that are applied to the tax liability.

The RDL 3/2016 has added a new additional provision fifteen to the Corporate Tax Law whose first paragraph establishes new limits to the right to offset negative tax bases for those taxpayers whose net turnover is, at least, 20 million euros during the 12 months preceding the date on which the tax period begins. These limitations to the offsetting of negative tax bases are similar to those adopted on a temporary basis in recent years, although RDL 3/2016 does not provide for a time limit for their application, affecting only the percentage limit without modifying the minimum compensation amount, up to 1 million euros.

As a result, it has been established a limit of the 50% of the tax base prior to the application of the capitalization reserve and the offsetting of the negative tax bases for those taxpayers whose net amount of turnover in the twelve months prior to the starting date of the tax period would have been between 20 million and 60 million euros, and, a limit of the 25% of the above-mentioned taxable base if the net turnover had been in excess of 60 million euros. As for taxpayers whose net turnover in the twelve months before the starting date of the tax period had been less than 20 million euros, RDL 3/2016 has modified the wording of the thirty-sixth transitory provision to establish that the 60% percentage limit for the tax periods beginning in 2016 (and 70% for tax periods beginning on or after January 1st, 2017) should continue to apply.

The different interpretations that may be made of the Spanish tax regulations applicable to the Bank operations might give rise to contingent tax liabilities for the open years that cannot be objectively quantified. Nevertheless, the Bank's Directors, based on the opinion of the Tax Advisors, consider that these possible contingent liabilities would not significantly affect these Annual Accounts.

23. INTEREST INCOME

This chapter of the Income Statement comprises the interest accrued in the year on all financial assets with an implicit or explicit return, calculated by applying the effective interest rate method. Interest is recorded Gross, without deducting any withholding tax.

The breakdown of this caption as of December 31st, 2018 and 2017 is as follows:

	2018	2017
Loans and receivables to credit institutions	14,631	12,538
Loans and receivables to other debtors	6,808	4,442
Available for sale	620	676
Others	3	58
	22,062	**17,714**

24. INTEREST EXPENSE

This chapter of the Income Statement records the interest accrued in the period on all financial liabilities with an implicit or explicit return. It is calculated by applying the effective interest rate method. Its breakdown as of December 31st, 2018 and 2017 is as follows:

	2018	2017
Deposits at Central Banks	149	24
Deposits from credit institutions	13,528	11,021
Deposits from other creditors	4	3
Other liabilities	5	5
	13,686	**11,053**

The origin of these interests comes from the "Financial liabilities at amortized cost".

25. COMMISSIONS INCOME

It comprises the amount of all fees and commissions accrued in favour of the Bank in the accounting year, except those than form an integral part of the effective interest rate on financial instruments that are included in the "Interests and Similar Income".

The detail of this chapter of the Income Statement as of December 31st, 2018 and 2017 is as follows:

	2018	2017
Arising from risks and contingent exposures	10,747	7,020
Arising from maintenance, collections and payment services	2,643	1,308
Arising from Loans and other commissions	1,225	895
	14,615	**9,223**

26. COMMISSIONS EXPENSE

It shows the amount of all fees and commissions paid or payable by the Bank in the accounting year, except those that forms an integral part of the effective interest rate on financial instruments that are included in "Interest and Similar Charges".

The detail of this chapter of the Income Statement as of December 31st, 2018 and 2017 is as follows:

	2018	2017
Fees and commissions assigned to other entities and correspondents	13	36
Other fees and commissions	737	288
	750	**324**

27. OTHER OPERATING INCOME

It includes the income from other operating activities of credit institutions not included in other captions. The detail of this chapter of the Income Statement as of December 31st, 2018 and 2017 is follows:

	2018	2017
Operating income from investment properties (Note 11.c)	1,145	824
Other	360	353
	1,505	**1,177**

28. PERSONNEL EXPENSES

The personnel of the Bank as of December 31st, 2018 and 2017 are as follows:

	December 31, 2018			December 31, 2017		
	Women	Men	Year Average	Women	Men	Year Average
General Management	-	2	2	-	2	2
Managers	1	9	10	1	10	11
Rest	23	41	64	13	34	47
	24	**52**	**76**	**14**	**46**	**60**

The breakdown of Personnel expenses captions as of December 31st, 2018 and 2017 is as follows:

	2018	**2017**
Wages and salaries	5,738	5,190
Social Security expenses	841	789
Transfers to defined contribution plans (Note 5.13)	137	151
Severance payments	8	335
Other expenses	838	600
	7,562	**7,065**

The caption "Wages and salaries" includes 1,700 thousand euros regarding provision for bonus.

29. OTHER ADMINISTRATIVE EXPENSES

The breakdown of this caption as of December 31st, 2018 and 2017 is as follows:

	2018	**2017**
Premises Expenses	458	380
Travelling and transportation	81	53
Communications	261	196
Legal and professional fees	570	661
Governing and control bodies	633	613
Withholding and sales taxes	350	336
Insurances	59	19
Commercial Offices and delegations	16	10
Business development	63	67
Subscriptions, contributions and others	97	73
Extraordinary expenses (IHC holding selling process)	-	(118)
	2,588	**2.290**

30. REMUNERATION AND OTHER COMPENSATIONS TO THE BOARD OF DIRECTORS AND GENERAL MANAGEMENT OF THE BANK

a) Board of Directors

The detail of the gross remuneration and compensations accrued by the Bank's Directors in 2018 is as follows:

2018	Number of members	Remuneration	Allowance	Total
Chairman and Vice-Chairman	2	130	70	200
Board Members	7	307	102	409
	9	**437**	**172**	**609**

The remuneration and other compensations accrued by the Board of Directors in 2017 are as follows:

2017	Number of members	Remuneration	Allowance	Total
Chairman and Vice-Chairman	2	129	70	199
Board Members	6	307	95	402
	8	**436**	**165**	**601**

Aresbank, S.A. has no other obligations derived from pensions or life insurance premiums with any of the members of the Board of Directors. Neither as of December 31st, 2018 nor as of December 31st, 2017, has the Bank held any direct risks with any Director. In compliance with the requirements of article 229 of the Spanish Companies Act (LSC), administrators have reported no conflict with the interests of the Bank.

b) General Management

The breakdown of the retribution received by the General Management of the Bank in the years 2018 and 2017 is as follows:

2018	Number of members	Remuneration	Allowance	Total
General Manager	1	477	14	491
Deputy General Manager	1	562	164	726
	2	**1,039**	**178**	**1,217**

The contract for the now Former Deputy General Manager was terminated. During 2018, its emoluments amounted to 640 thousand euros.

2017	Number of members	Remuneration	Allowance	Total
General Manager	1	498	12	510
Deputy General Manager	1	498	108	606
	2	**996**	**120**	**1,116**

No amounts were debited for pension funds and insurances in the Income Statement of the Bank in 2018 (14 thousand euros for 2017). The Bank holds one direct risk with the Deputy General Management amounting 33 thousand euros as of December 31st, 2018, under the applicable conditions of the collective agreement.

31. AMORTIZATION

The detail of this caption as of December 31st, 2018 and 2017 is as follows:

	2018	**2017**
Tangible assets:		
Investment Property (Note 11)	103	259
For own use (Note 11.b)	269	92
Intangible assets:		
Software (Note 12)	102	141
	474	**492**

32. IMPAIRMENT LOSSES OR RELEASE ON FINANCIAL ASSETS NOT AT FAIR VALUE THROUGH PROFIT (OR LOSS)

The detail of this caption is as follows:

	2018	2017
Financial assets at amortized cost (Note 10)		
Allowances	(10,488)	(7,140)
Releases	10,558	8,221
	70	**1,081**

As of December 31st, 2018, and 2017 the allowances for impairment are mainly due to provisions allocated for Country Risk, specific and generic risks.

33. ADDITIONAL INFORMATION

a) Fair value of assets and liabilities

The following charts present the fair value of the financial instruments of the Bank at December 31, 2018 and 2017 with the breakdown by classes of financial assets and liabilities and on the following levels:

- LEVEL 1: financial instruments whose fair value has been determined with their market price, without any modifications.
- LEVEL 2: financial instruments whose fair value has been estimated based on market prices of organized markets for similar instruments or using other valuation techniques in which all significant inputs are based, directly or indirectly, on observable market data.
- LEVEL 3: instruments whose fair value is estimated using valuation techniques in which any significant input is not based on observable market data. An input is considered significant when it is important in the determination of the fair value as a whole.

The breakdown as of December 31, 2018 is the following:

	Fair value hierarchy			Changes on fair value before taxes		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets at fair value through profit (or loss)	-	-	-	(143)	-	-
Equity instruments	-	-	-	(143)	-	-
Assets at fair value through other comprehensive income	37,377	-	-	(945)	-	-
Debt securities	37,377	-	-	(945)	-	-

The breakdown as of December 31, 2017 is the following:

	Fair value hierarchy			Changes on fair value before taxes		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets at fair value through profit (or loss)	14,904	-	-	151	-	-
Equity instruments	14,904	-	-	151	-	-
Assets at fair value through other comprehensive income	49,027	-	-	(908)	-	-
Debt securities	49,027	-	-	(908)	-	-

b) Most significant balances with related companies.

The most important balances with related companies as of December 31st, 2018 and 2017 are as follows:

	2018	2017
LIABILITIES		
Deposits from credit institutions		
Libyan Foreign Bank	688,189	727,103
Current Accounts		
Libyan Foreign Bank	148,503	4,694

There are no significant balances neither in the asset side nor in the profit (or loss) account, registered with related parties.

c) Transactions with related companies

The interest and commissions paid to Aresbank's shareholders for the deposits and accounts held in the Bank amounted to 12,208 thousand euros in 2018 and 9,675 thousand euros in 2017.

d) Information regarding payment to suppliers. (Law 15/2010, from July 5th)

Based on the Resolution dated in January the 29th, 2016, from the ICAC, the following information is incorporated in connection with the average payment period to suppliers in commercial operations.

	2018	2017
	Days	Days
Average payment period (Commercial Suppliers)	7	7
Paid Transactions Ratio	6	7
Pending Transactions Ratio	11	14
	Thousands of Euro	Thousands of Euro
Total payments made	3,760	2,090
Total pending payments	15	37

e) Mortgage market

On November 30th, 2010, the Bank of Spain has issued Circular 7/2010, which develops certain aspects of the mortgage market as a consequence of the approval of the Law 41/2009, of December 7th, that it modified thoroughly the Law 2/1981, of March 25th, regulating the mortgage market, and of the Royal Decree 716/2009, of April 24, that it develops this Law. Due to the type of activity of the bank, the Directors do not consider relevant to include detailed information.

ADDITIONAL INFORMATION

PROPOSAL OF PROFIT DISTRIBUTION

	(Thousands of Euro)
BASIS FOR DISTRIBUTION	**2018**
PROFIT (OR LOSS) BEFORE TAXES	17,059
CORPORATE INCOME TAX ESTIMATION	5,744
NET PROFIT / (NET LOSS)	**11,315**
DISTRIBUTION	
LEGAL RESERVE	1,131
VOLUNTARY RESERVES	184
DIVIDEND PAYOFF	10,000
TOTAL	**11,315**

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