Aresbank

ANNUAL REPORT

2020

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Aresbank

Annual Report 2020

CONTENTS

CHAIRMAN’S LETTER

To Our Shareholders,

I am pleased hereby and on behalf of Aresbank Board of Directors, to introduce the Annual Report for fiscal year 2020, closed as of December 31st. I also take this opportunity to convey to you what is remarkable to us, not only in relation to the financial and commercial activity that our entity has been carrying out over the past year, but also with regard to the economic and financial scenarios, national and international, in which this convulsive 2021 is developing.

First and in relation to the international context, in our management report and according to IMF available data, the global economy reduced its income by 3.5% year-on-year in 2020. A major break with the global growth path of previous years, as a result of an already long pandemic, caused by COVID-19 and already leaving 2.5 million dead in the world. In developed economies GDP has fallen in real terms by -4.9% year-on-year.

If we focus on the markets of MENA countries, the setback has been very remarkable, with GDP falling by more than 5% at constant prices in 2020. In the current situation, the World Bank's forecasts point to a growth in the area of 2.1% in 2021, which will not serve to recover the previous income level, but which will be accompanied by an increase in international trade and a moderate increase in commodity prices, especially oil prices, which will support this recovery, if the population's vaccination process against COVID-19, in a high proportion, is a tangible reality in the second half of this year 2021 and, why not say, whether accommodative policies until the recovery are assumed, both in tax and monetary matters.

Notwithstanding the above, the year 2021 for business is presented under an optimistic sign that pushes the appearance and application of multiple effective vaccines against COVID-19, as well as a relatively more stable geopolitical environment, at least if we look at a year ago. Once the issue of Brexit in the EU has been resolved, with a new administration in the US in principle with more multilateral vocation and a world, generally in recovery, everything points to a global growth target of 4% and predictable growth in world trade that could reach 8%. The clear improvement in figures is likely to be seen in the second half of the year and, until then, an international effort is required to maintain a high degree of cooperation and coordination to keep the international financial system stable, a vault key at the moment for an effective global economic recovery.

As for the Spanish economy, 2020 was the year in which a succession of 25 quarters of continued real GDP growth broke down due to the pandemic. In fact, GDP contracted by 11% in terms of volume in 2020. Much steeper than the Euro Zone or EU average. Disaggregating the fall in the Spanish GDP, it is noted that most of the collapse in activity corresponds to domestic demand, with reductions in final household consumption and gross capital generation in the second quarter of 2020 above 25% and, in any event, at negative rates in the four quarters of the year. Logically, this has led to a significant decrease in the occupation in Spain, with more than 600,000 jobs lost and a difficult overall valuation, since we are witnessing a set of measures to support companies and jobs, such as so-called ERTE (temporary lay-offs), that make a final estimate of the most peremptory effects very complicated.

From a monetary and financial perspective, 2020 has evolved towards negative inflation rates, especially in the second half of the year, although there is some uptick at the start of 2021, which can be very positive for finance and confidence recovery. This new situation, uncertain in the monetary aspects, does not seem to change the ECB's plans and objectives. In this sense, it will most likely continue with the unconventional policies and the asset purchase program at the secondary market. In the case of Spain, positive inflation, given its international financial position, is not particularly negative, especially if it is able to keep the balance of its external current account positive, as in 2020, and achieves an early recovery of its foreign sector, both goods and services.

That said, it cannot be hidden that we have gone again throughout an interbank market with negative EURIBOR rates in 2020, while more pressure is received to the banking sector for allowances and regulatory burdens.

From the point of view of our financial institution, despite the negative context in which bankingactivity has been developed, Aresbank has reduced the amount of net interest margin to 7.2 million euros but has increased the commission margin to 16.4 million euros. This has resulted ina 4.4% profitability on equity in the net operating margin. Similarly, achieving this improvementin activity and margins has been possible with a CET1 capital of 59.91%, and as in previous years,well above what the national and European regulator considers acceptable.

After the review of the accounts by our external auditors, Aresbank has closed the year 2020 witha new growth in its gross business margins, reaching the figure of 26 million euros, which is an increase of just over 100% in this margin compared to that obtained in 2016 and, in any case, higher than any of the previous years. In addition, it has been able to reduce its personnel expenses and overheads by 600,000 euros, so net business margin in such a difficult year has risenfrom 2019 by almost 1.4 million euros, making a profit after tax of 11.01 million euros; this is, an increase in after-tax profits by almost 2.4 million euros compared to 2019. However, the distribution of this 2020 results after tax will be subject to the conditions and regulations imposedby the ECB and the Bank of Spain.

Given the results of our activity, as in previous years, I would like to underline the continued support for Aresbank' activity of the close collaboration with *Libyan Foreign Bank* and *Crédit Populaire d'Algérie*, both of its organizations and shareholders. Likewise, one more year Aresbankhas a good reputation for public regulators, especially for the Bank of Spain, due to its general assessments in periodic supervisory reviews and evaluations during 2020.

Finally, Aresbank' activity and results cannot be separated from a portfolio of trusted clients, always willing, even indirectly, to improve our management and generate synergies, especially in the appropriate responses to the commercial and financial demands posed, without ever compromising banking uses based on prudence and in a very balanced sense when integrating any new solution into management.

I cannot end this letter without highlighting, and expressing my thanks and congratulations, forthe achievement of these good results, that continues to occur in a complex and very competitiveenvironment. So, one more year, it must be recognized that Aresbank has a committed, qualified,and increasingly experienced staff.

A. Ragab

Mr. Ahmed Ragib

Chairman to the Board of Directors

SHAREHOLDERS

SHAREHOLDERS	2020	2019
Libyan Foreign Bank	99,89%	99,86%
Credit Populaire D'Algérie	0,14%	0,14%

BOARD OF DIRECTORS

Mr. Ahmed Ragib	Chairman
Mr. Fekri Sinan	Vice Chairman
Mr. Mohamed Alrahebi	
Mr. Mustafa Elmanea	
Mr. Serajiddin A. Khalil (*)	
D. Mohammed Dahmani	Credit Populaire D'Algérie

Independent Directors

Mr. Javier Iglesias de Ussel y Ordis
Mr. Miguel Cuerdo Mir

Secretary

Ms. Isabel Trasobares

(*) Membership ended on 11th of June 2020

AUDIT COMMITTEE

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

Secretary

Ms. Isabel Trasobares Gracia

RISK AND COMPLIANCE COMMITTEE

Mr. Javier Iglesias de Ussel y Ordis	Chairman of the Risk & Compliance Committee and Member of the Board of Directors
Mr. Fekri Sinan	Member of the Board of Directors
Mr. Serajiddin A. Khalil (*)	Member of the Board of Directors

Secretaría
Dª Isabel Trasobares Gracia

NOMINATIONS AND REMUNERATIONS COMMITTEE

D. Miguel Cuerdo Mir	Chairman of the Nominations and Remunerations Committee and Member of the Board of Directors
D. Mohamed Alrahebi	Member of the Board of Directors
D. Serajiddin A. Khalil (*)	Member of the Board of Directors

Secretary
Ms. Isabel Trasobares Gracia

(*) Membership ended on 11th of June 2020

MANAGEMENT TEAM

General Manager	Mr. Luis Casado Saéz
Deputy General Manager	Mr. Akram Grew
Manager of Commercial Department	Mr. Manuel Grijota Párraga
Manager of Operations Department	Mr. Juan Manuel Arranz Ruiz
Manager of Systems Department	Mr. Mariano Gómez Bellido
Manager of Accounting Department	Mr. Julio Tudela Hernández
Manager of HR & Administration Department	Ms. Begoña Bracamonte Agra
Manager of Risk Manager Department	Mr. Julio Bello Canedo
Manager of Methods and Organization Department	Mr. Manuel Grijota Párraga
Manager of Barcelona Branch	Mr. Salvador Planas Bacardit

RESPONSIBILITY FOR THE INFORMATION CONTAINED IN THIS ANNUAL REPORT

The information obtained in the 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 the 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 SPANISH COUNTERSIGNED BY ALL THE MEMBERS OF THE BOARD)

DIRECTORS´ REPORT

1. ECONOMIC AND FINANCIAL SITUATION

1.1. The international economy

COVID-19 pandemic has led to a 3.5% year-on-year fall in global economic activity in 2020, according to IMF data. This decline is a major break with the global growth trajectory of previous years, as well as a significant change in the 2020 forecasts made a year ago (IMF expected a global economic growth of 3.3%). Indeed, our 2019 Annual Report already noted that the forecasts would make some sense if "the harm to the activity and trade, derived from the outbreak of the so-called Wuhan coronavirus in China can be controlled and compensated for its effects", which has obviously not been done.

Thus, a fairly pronounced variability of results by country and areas has been observed in 2020. In fact, countries such as China, COVID-19 initial focus, have closed the year rounding 2% growth. While the advanced economy bloc has had a very noticeable setback of -4.9%. Within developed countries there is also a significant dispersion in results. Countries such as United States have reduced their annual economic activity by 3.4%. Japan's reduction has reached up to 5.1%. However, in the Eurozone the impact has been a fall in annual income of more than 7% year-on-year, with countries such as France or Italy with losses of 9% and others, such as Spain, with falls of more than 11% in year-on-year rate.

Beyond the numbers, with a pandemic already leaving 2.5 million dead in the world –and still raising the number day by day– a more optimistic horizon is seen, even in the short term, as a significant number of vaccines, proven effective, immunize a growing part of humanity in the coming months, although with very variable timeframes and efficiency levels depending on the area of the world in which you live. To which should be added a scenario that favors a more pronounced international cooperation and, predictably, a better performance of international trade in the coming months. Just as the latest data point to growing international demand for raw materials, and thus, at a sustained price or moderate growth in commodities such as oil.

If the World Bank expects the world economy to grow to 4% in 2021, in emerging countries the activity is expected to pick up by 2021 to just over 6.3% growth; given that the effect of COVID-19 has resulted in a decrease in annual income of 2.4%. Similarly, the situation in Latin America, with significant declines in GDP in 2020 in countries such as Brazil (-4.5%) or Mexico (-8.5%), it appears that it can go to positive growth of more than 4% in 2021, especially since the second half of the year. The African area to the South of the Sahara has had a contraction below the global average, but notable, given the growth trajectory it has been showing in recent years. In this case, a fall of just over 2% in GDP in 2020 seems to be more than just compensating for growth in 2021 of just over 3%. Something similar can be said for the Middle East and Central Asia, with a fall in 2020 of more than 3% in its income and a predictable recovery of 3% throughout 2021.

As in previous situations of international crisis, a clear loser of the global situation in 2020 by the pandemic has been international trade. The World Trade Organization has estimated a nearly 10% loss in world trade in goods and services throughout 2020. However, the progressive recovery in activity level in 2021 predicts growth of more than 8% year-on-year. However, this forecast and part of the potential global economic recovery will be confirmed to the extent that trade tensions in recent years are reduced, as well as greater geopolitical stability, to which reasonable commodity prices and sustained growth in global activity can contribute, especially since the second half of 2021, once the worst of today's pandemic has passed.

1.2. The Spanish economy

Spain has been a country where COVID-19 has caused a greater negative impact on economic activity. In fact, GDP has contracted by 11% in terms of volume in 2020, according to INE data. If the figures are observed from a quarterly perspective, it can be said that, in year-on-year rate, the four quarters have closed negatively. It is very striking the abrupt rupture caused by the pandemic in a country that had 25 quarters of continuous product growth, always above the growth of the Euro Zone as a whole.

Breaking down the fall in GDP during 2020, it should be noted that most of it has been originated in the domestic demand, with reductions in final household consumption in the second quarter above 25%, and in the last two quarters of the year more than 10% and 8%, respectively. The worse the investment has behaved, which has under shown a very unfavorable evolution throughout the year, with more than notable falls in the second quarter, close to 25% in year-on-year, and a fourth quarter that augurs not good at closing, with a year-on-year drop of more than 14%.

In the case of the contribution of the net external balance of goods and services, 2020 has collapsed the Spanish exports, resulting in a fall in the second quarter 2020 of more than 37% and closing the last quarter with a year-on-year decline of more than 20%. However, a significant decline in imports must also be underlined throughout 2020, which has led to a negative external sector contribution of more than 2.7% at the end of the year; in any case, much lower than the negative contribution of the domestic demand, as explained in the previous paragraph.

From a product perspective, the supply of products from the primary sector is the sole that has had a positive evolution, more than 8% growth throughout 2020. However, it should be emphasized that significant falls in services, almost on average with the economy as a whole, while construction recedes more than 18% in the last quarter compared to a year earlier; manufacturing has had a much smoother decline in activity than services and construction, closing last quarter 2020 with a 4.3% drop in year-on-year rate.

Despite this scenario of extreme uncertainty, the rest of the world's confidence in the Spanish economy and, above all, the expectations placed in its post-pandemic recovery do not seem entirely pessimistic. For example, the International Confidence Index in Foreign Direct Investment, developed annually by AT Karney, says that Spain remains 11th in the world ranking, retaining the same place in the ranking as the year before. It should be noted that remains as the fourth more attractive country in Europe for foreign investment, after Germany, United Kingdom and France, according to the classic index provided by EY in its *'European Attractiveness Survey'* for 2020. However, other indicators from the World Economic Forum suggest that the immediate future of the Spanish economy is the implementation of a set of transformative priorities for the economy (up to 10 items related to the strength of public institutions, the creation of human capital, the strengthening of new markets, etc.), from the competitiveness analysis of this international forum, which show that Spain's progress in these challenges, linked to the fourth industrial revolution under way, is far from achieved, especially when compared to the level of implementation of these challenges in other countries.

With regard to the labor market, it is difficult to make a full assessment of its evolution in Spain in 2020, due to the extension of teleworking, the change of schedules, the existence of temporary lay-offs (ERTES) and situations of partial unemployment for economic or technical reasons. In any case, the number of occupied when closing 2020 has been 19,344,300 people employed in Spain. This means 604,600 fewer jobs in the last year and a year-on-year variation rate of -3.12%. By far, the fall in employment has focused on the private sector, which has lost more than 740,000 jobs. On the other hand, all sectors of activity lose jobs, concentrating the biggest drop to the services sector with the loss of more than 530,000 jobs.

The counterpoint of employment in the labor market is unemployment, which has increased in 2020 in almost 527,000 people, raising the unemployment rate from 13.78% in 2019 to 16.54% in 2020. In terms of working population, the activity rate stands at 58.19%, with an annual reduction of almost 95,000 people.

According to INE and National Accounting information in the last quarter of 2020, the variation of unproductivity per full-time equivalent job has been reduced by 3.8%, while the productivity per hour actually worked has also been reduced by 2.9%. Unlike previous years, assuming that the natural unemployment rate could be at the same levels of previous years, the reducing of the labor productivity levels and the increasing in the unemployment rate forecast some stability in the level of wage costs, at least in the short term, although just because of the evolution of the variables indicated, Spanish companies have to face a unit labor cost that has grown by just over 6% in year-on-year rate at the end of the fourth quarter of 2020.

From a public activity perspective, the Spanish public sector has presented a joint public deficit (Central Administration, Autonomous Communities and Local Authorities) to more than 11% (last month’s missing, of which no data are yet available), in a figure of approximately 125 billion euros. Public revenues decreased by 2020 in most relevant tax figures, highlighting the fall of just over 35% in corporate tax collection and more than 12%, of falling in VAT. Should it be noted that the behavior in the Personal Income Tax, as of November 2020, has a favorable evolution, managing to grow about 1% in the total collected. In any case, the collapse of the activity and a more or less improvised management of public expenditure due to the economic effects of COVID-19 points to almost 40 billion euros of overspending to finance unemployment of business, workers and self-employed activities, following administrative confinement measures.

Despite years of economic expansion, between 2013 and 2019, the current deficit has been the only result in each year's public accounts. This has led us to confront the COVID-19 pandemic from a starting point of public debt related to GDP of about 100%. Noting the 2020 public deficit to be financed (125 billion euros) and setting reasonable expectations for a slowed economic activity, at least in the first half of 2021, public debt began 2021 with a record of just over 117% of GDP, which has not been known in Spain since the Cuba War back in the late XIX century. In this sense, the lack of a policy of greater contention and balance in public accounts cannot be forgotten when, as has been pointed out already, the Spanish economy has been growing for 25 quarters, in which the high elasticity of the public income in relation to the product were never enough to reduce the degree of accrued indebtedness of public administrations.

As for the price level of the Spanish economy, it can be said that the year closed with a negative inflation of 0.5% year-on-year. This variation in negative has remained since March 2020, undoubtedly caused by COVID-19, although it cannot be overlooked that we already came from a long period of inflation rates in Spain very close to zero. This negative price variation puts the Spanish economy below the Euro Zone inflation rate (-0.3%). In terms of underlying inflation, the first half of 2020 remained positive, albeit close to zero and, in the second half of the year, has gone negative, but also very close to zero. In fact, three tenths above the headline inflation rate for the year.

The inflation rate in Spain by 2021 is a matter of importance, also for the financial sector. It should be noted that, not without controversy, some economists point to a low-intensity inflationary uptick, promoted by a progressive recovery in normal economic activity and an international context with upward commodity prices. It may be added that the development of a more dynamic CPI in terms of the specific weights of certain items will bring up the price level, as food and non-alcoholic beverages earn more weight in 2021 shopping basket, and it should be remembered that it has been the demand for these products that has grown the most from the perspective of household spending, and prices have also increased over the year. On the other hand, it seems that Mrs. Lagarde, at the head of the ECB, is not going to change much the monetary policy so far, confirming the maintenance of the purchase of assets of about 20 billion per month. This, in the new context of demand and price index, could somewhat raise the inflation rate itself throughout 2021. A first step to abandoning an interbank market with negative interest rates.

1.2.1. The external sector of the Spanish economy

The pandemic has significantly affected foreign trade in 2020. However, the results of the Spanish economy are not negative, as could be inferred from the general situation. With the balance-of-payments data known until September 2020 and probably not changing much at the end of the year, the current account balance of the Spanish economy has remained in surplus, with a level of 0.96% compared to GDP, according to data provided by Bank of Spain. Although it is also true that, in previous years, more expansive in activity and trade, this external current account was around 2% of GDP. Similarly, financial capacity has remained positive and continues to generate net savings compared to the rest of the world, close to 1.32% of GDP. Moreover, the good news is that, one more year and despite the pandemic, the Spanish economy cuts again its external debt, reducing it below 78% of GDP, when in 2015 it had approached 100% of GDP.

The trading balance shows red numbers, as always, with a deficit of 1.7% in relation to GDP. Behind this balance there is a behavior of Spanish exports (-10.9%) less bearish than imports (-15.7%) This means that trade balance has been corrected by almost 60% and trade hedging rate has raised to 94.8%, data up to November 2020, with even a surplus of non-energy goods. Indeed, the energy product deficit in our trade imbalance with China explains the substance of the deficit, because if we consider the data with the EU on foreign trade, our surplus has increased to just over 15 billion euros (when in 2019 this surplus amounted to just over 8 billion euros). Moreover, trade in goods and services remains EU-oriented, absorbing just over 60% of total exports of goods. All this in a context where the surplus of tourist services has represented about 1.4% of GDP, when in previous years it approached to 4% of GDP repeatedly.

To summarize the situation of foreign trade, it should be noted that there has been an improvement in the Synthetic Indicator of Export Activity (ISAE), which has to do with more favorable external demand for our products, despite the pandemic. In this sense, in the fourth quarter of 2020, this indicator reached a score of 12, while in that same quarter of 2019 this was 4, although the two far from the 25 points reached in the period 2014-2017.

1.2.2. The Spanish banking sector

According to the data provided by the AEB at the end of September 2020, for the individual accounts and balance sheets of Spanish banks without a group, including Aresbank, plus foreign branches operating in Spain, the assets of Spanish banks have grown by just over 1.8%. The most important item is represented by the "Financial assets at amortized cost" which has decreased by just over 1.3%. Within it, Assets with the "Customer" (representing 84% of the total of this account) have also fallen by 1.3%.

Among the liabilities of the Spanish non-group banking sector, deposits have increased by 6.8%, although customer deposits have increased by 4%. Own resources have been reduced by 2.3%, with a significant drop in the total net equity of the sector, with a decline of just over 13% in 2020.

From a profit and loss account perspective, average total assets have grown significantly to about 20%. However, interest income has fallen by 6.1%, while interest margin has fallen by 6.4%. On the other hand, commission revenue has also fallen by almost 5%. With all this, earnings before taxes have barely exceeded 53 million euros for these Spanish banks without a group, which represents a drop in their profits of almost 65% compared to 2019.

1.2.3. The behaviour of the main Aresbank markets

The MENA area has suffered very considerably the effects of the pandemic, with a GDP fall by more than 5% at constant prices in 2020. The World Bank estimates that the population in the area with an income of less than $5.5 per day will increase by 2021 by 10 million people. Even oil exporting countries in the MENA area have seen their output cut by 5.7% year-on-year by 2020. On the other hand, according to IMF data, updated to January 2021, forecast says that growth in the Middle East and Central Asian markets will intensify over the next 24 months. Thus, the income may grow to 3,0% this year, which is an expectation that modifies the hit of 2020, with a drop in the activity of the area of 3.2%. Further growth is still expected in 2022, with a forecast of 4.2% increase in product growth.

More optimistic scenarios, both for the Middle East and Central Asian and for the MENA area, will be possible to the extent that post-pandemic recovery is rapid, effective, and relatively synchronous. In a sense, because, if the growth forecast for the MENA area for 2021 speaks of a 2.1% increase, this economic growth needs high-proportion population vaccination to be a tangible reality throughout 2021, and that, if these overall health actions are prolonged, an accommodative policy should take place until the recovery arrives, both in fiscal and monetary matters. This in turn will require a fairly stable international financial environment and a containment of geopolitical tensions in the area. Besides to maintaining of a growing or at least stabilized commodity price, in order to reduce uncertainty and profit from the current strengths of these economies.

In any case, it is clear that on the nearest time horizon, any recovery will require a great deal of international funding for all countries, but especially for emerging countries. The financial element is going to be the key piece once the pandemic situation has been overcome. It should be thought that, according to IMF data, the number of "fallen angels" (with BBB-rating and negative outlook) has been able to triple in the world over the past year. This will require a very accurate financial system in determining short-term liquidity and financing problems for the recovery of solvency problems. Given that, to this day, banks, national or international, have not been part of the problem.

Within the MENA area, oil exporting countries will be able to reach 1.8% growth in their product in 2021, according to World Bank forecasts, provided that the "*scheduled easing of the OPEC+ production cuts*" launched in 2019 are followed.

In relation to Spanish foreign trade held in the area, it should be noted that Spanish imports to Africa account for 6% of Spain's trade, while Spanish exports to the Middle East account for 2.5% of the total. On the import side, products arriving from Africa represent 7% of the total imported, and from the Middle East this share stands at 1.8%. From a dynamic point of view, 2020 has led to a drop in the contribution of Spanish trade with these geographical areas, highlighting the decline in terms of exports, which in the case of Africa has resulted in 17.2% and in the case of the Middle East a loss of 11.9%. Finally, imports from Libya have been reduced by 1%. In short, a weakening of Spain's foreign trade with the MENA area which, however, points to a recovery, according to the forecasts indicated, in the second half of this year 2021.

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 Bank's organizational structure guarantees the independence of the risk management function in its tasks.

3. CORPORATE GOVERNANCE AND COMPLIANCE

The Bank has fully adapted its corporate governance system to the various regulatory developments issued at both national and European level, following the European Banking Authority Guidelines on Internal Governance (EBA/GL/2017/11). In this regard, Aresbank has updated its internal governance policy in order to collect in a single document all governance systems and functions developed by its organizational structure, from which policies and procedures are established in this regard.

Compliance is one of the main pillars on which the Bank relies on the exercise of its activity, always following the highest ethical standards and preservation of the integrity and reputation of the entity. In this regard, it focuses its role on the development of policies and procedures, on the training and awareness of its staff, as well as on the assessment and mitigation of potential risks that could be affecting in all these issues. Within this global compliance environment, the role of *preventing money laundering and terrorist financing* is of particular importance; its fundamental target is preventing products and services provided by the Bank to be used for criminal purposes.

In this way, the Bank has a comprehensive policy to ensure strict compliance with current regulations, as well as the recommendations proposed by both the *Financial Action Task Force (FATF),* as well as by the Spanish and European supervisory bodies for the prevention of money laundering.

In addition, the Bank has developed a risk management system for the prevention of money laundering and terrorist financing that remains constantly evolving and updating. This allows the Bank to establish specific mitigation controls and measures, which contribute to the robustness of its risk mitigation model.

4. ARESBANK FOCUS IN THE COMING YEAR

The prospects for next year are of a great uncertainty as the duration and extent of the economic crisis generated by COVID-19 is still unknown. The level of business insolvencies could increase, directly influencing an unemployment rise, and a fall in GDP at the end. Our objective is to follow our continuous analysis and monitoring of the most vulnerable sectors to the effects of the pandemic, while strengthening the self-assessment analysis of the adequacy of our internal capital.

Aresbank will continue to develop its financial and commercial activity with its clients in order to collaborate in overcoming the problems that occurred during this period, and their return to normal as the markets recover.

5. SUBSEQUENT EVENTS TO DECEMBER 31st, 2020

The Annual Accounts of the year 2020 have been formulated by Aresbank' Board of Directors in the resolution dated on March 23rd, 2021.

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 2020 and 2019.

7. RESEARCH & DEVELOPMENT EXPENSES

The Bank did not invest in projects related to R&D during 2020 and 2019.

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 2020 and 2019, 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, 2020, both in terms of immediate liquidity (one month ahead) with a liquidity ratio of 349.78% (436.06% in 2019), and besides, with a high-quality capital ratio of 59.91% in terms of solvency (44.88% in 2019).

FINANCIAL STATEMENTS AND EXTERNAL AUDIT REPORT

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

KPMG

Audit Report on Aresbank, S.A.

(Together with the annual accounts and directors' report of Aresbank, S.A. for the year ended 31 December 2020)

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

KPMG Auditores, S.L.
Pº. 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" or the "Bank"), which comprise the balance sheet at 31 December 2020, 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 2020, 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

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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 and measurement of financial instruments See notes 5, 8, 9 and 14 to the annual accounts	
Key audit matter	*How the matter was addressed in our audit*
The classification and 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. The following is a list of the main financial assets and liabilities at 31 December 2020 as detailed in the notes described earlier in the annual accounts: – Debt securities (Assets) – Loans and advances to credit institutions and other creditors (Assets) – Deposits from other debtors and credit institutions (Liabilities)	To evaluate 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 5.3 and 9 to the annual accounts

Key audit matter	How the matter was addressed in our audit
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. These estimates are based on the alternative solutions provided for in the Banco de España Circular 4/2017. The COVID-19 pandemic is negatively affecting the economy and business activities, leading to a downturn in the macroeconomic situation. To mitigate the impacts of COVID-19, the Spanish government and the different sectoral associations has launched initiatives to support the most affected sectors and customers through various measures such as the provision of State-backed credit facilities, the deferral of payments without penalties (moratoriums) and flexible financing and liquidity facilities. All these aspects have an impact on the parameters considered by the Bank at 31 December 2020 to quantify the expected losses on financial assets (macroeconomic variables, customer net revenues, probability of default, etc.), thus increasing the uncertainty associated with their estimation. The Bank has therefore recognised the adverse effects of COVID-19 on the impairment of financial assets in its income statement at 31 December 2020 by supplementing the expected losses estimated based on historical credit loss data, with certain additional temporary adjustments deemed necessary to reflect the particular characteristics of borrowers, sectors or portfolios. The consideration of this aspect as a key audit matter is based both on the significance for the Bank of the loans and advances to customers portfolio, and thus the significance of the corresponding allowances and provisions recognised, and on the relevance, subjectivity and complexity of the process for classifying these financial assets for the purpose of estimating impairment thereon and of the calculation of that impairment, while taking into consideration the additional situation generated by the COVID-19 pandemic.	To evaluate the 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 recognized. – 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. – We also assessed and recalculated the estimate recognised at 31 December 2020 of the additional adjustments to the expected losses calculated using historical credit loss data.

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Impairment of the loans and advances to other debtors portfolio
See notes 5.3 and 9 to the annual accounts

Key audit matter	*How the matter was addressed in our audit*
	In carrying out our audit procedures, we have taken into consideration the impacts of COVID-19 and the government aid on the calculation of expected losses. We analysed whether the disclosures in the notes to the annual accounts are appropriate, in accordance with the criteria set out in the financial reporting framework applicable to the Bank.

Provisions for commitments and guarantees extended
See notes 5.12 and 15 to the annual accounts

Key audit matter	*How the matter was addressed in our audit*
Estimating provisions for commitments and guarantees extended and particularly the provision for country risk, 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. Our substantive procedures in relation to the estimate of provisions mainly consisted of the analysis of Bank exposures in countries with different risks classed by Banco de España as well as in the recalculation of the related provisions.

Other Information: Directors' Report

Other information solely comprises the 2020 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 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 2020 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.

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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.

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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 23 March 2021.

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 Álvaro Esteban
On the Spanish Official Register of Auditors ("ROAC") with No. 01661

23 March 2021

BALANCE SHEET FOR THE YEARS ENDED DECEMBER 31st, 2020 AND 2019
(EXPRESSED IN THOUSANDS OF EURO)

ASSETS	2020	2019
Cash, balances with Central Banks and demand deposits (Note 7)	**244,461**	**663,780**
Financial assets at fair value through other comprehensive income (Note 8)	**15,683**	**20,766**
Debt securities	15,683	20,766
Financial assets at amortized cost (Note 9)	**777,281**	**1,227,323**
Debt securities	-	15,339
Loans and advances to customers	777,281	1,211,984
Financial entities	523,008	1,007,390
Clients	254,273	204,594
Tangible assets (Note 10)	**31,909**	**32,173**
For own use	13,003	13,164
Investment property	18,906	19,009
Intangible assets (Note 11)	**149**	**196**
Other intangible assets	149	196
Tax assets (Note 12)	**2,736**	**5,280**
Current tax assets	1,068	3,626
Deferred tax assets	1,668	1,654
Other assets (Note 13)	**75**	**91**
TOTAL ASSETS	**1,072,294**	**1,949,609**
OFF BALANCE SHEET ITEMS (Note 20)		
Other commitments granted	**125,355**	**356,475**
Lending commitments granted	**111,049**	**143,724**

These financial statements and the accompanying Notes 1 to 32 are an integral part of the Annual Accounts as of December 31st, 2020. 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, 2020 AND 2019
(EXPRESSED IN THOUSANDS OF EURO)

LIABILITIES	2020	2019
Financial liabilities at amortized cost (Note 14)	**713,259**	**1,593,682**
Deposits	704,871	1,592,916
Deposits from central banks	19,348	45,730
Deposits from credit institutions	616,394	1,492,677
Deposits from other creditors	69,129	54,509
Other financial liabilities	8,388	766
Provisions (Note 15)	**4,836**	**3,317**
Taxes and other legal contingencies	32	590
Contingent exposure and commitments	1,304	2,607
Rest of provisions	3,500	120
Tax Liabilities (Note 12)	**273**	**1,289**
Liabilities from current tax	273	301
Liabilities from deferred tax	-	988
Other Liabilities (Note 13)	**1,342**	**1,857**
TOTAL LIABILITIES	**719,710**	**1,600,145**
SHAREHOLDERS' NET EQUITY		
Own funds	**352,841**	**349,606**
Share capital / Paid up capital (Note 17)	300,001	300,001
Retained earnings (Note 18)	41,828	40,964
Profit (or loss) for the period	11,012	8,641
Other comprehensive income (Note 19)	**(257)**	**(142)**
Elements that can be reclassified to profit (or loss)	(257)	(142)
TOTAL NET EQUITY (Note 16)	**352,584**	**349,464**
TOTAL LIABILITIES AND NET EQUITY	**1,072,294**	**1,949,609**

These financial statements and the accompanying Notes 1 to 32 are an integral part of the Annual Accounts as of December 31st, 2020. 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, 2020 AND 2019

(EXPRESSED IN THOUSANDS OF EURO)

	2020	2019
Interest income (Note 22)	11,847	23,125
Interest expenses (Note 23)	(4,655)	(14,634)
INTEREST MARGIN	**7,192**	**8,491**
Commissions income (Note 24)	16,690	13,469
Commissions expense (Note 25)	(267)	(414)
Gains and losses on financial assets and liabilities not at fair value through profit (or loss), net	451	1,232
Gains and losses on financial assets and liabilities at fair value through profit (or loss), net	-	-
Exchange differences, net	17	662
Gains and losses on non-financial assets, net	117	-
Other operating income (Note 26)	1,912	1,797
Other operating expense	(471)	(353)
OPERATING RESULT (NET)	**25,641**	**24,884**
Administrative Expenses	(10,539)	(11,141)
Personnel expenses (Note 27)	(8,359)	(8,450)
Other administrative expenses (Note 28)	(2,180)	(2,691)
Amortization (Note 30)	(534)	(532)
Provisions expense, net	(170)	(61)
Impairment losses or release on financial assets not at fair value through profit (or loss) (Note 31)	(2,076)	31
Gains or Losses coming from non-financial assets derecognition, net	-	1
PROFIT (OR LOSS) BEFORE TAXES	**12,322**	**13,182**
Expenses or revenues on corporate income tax (Note 21)	(1,310)	(4,541)
PROFIT (OR LOSS) FROM ORDINARY ACTIVITY	**11,012**	**8,641**
PROFIT (OR LOSS) AFTER TAXES	**11,012**	**8,641**

These financial statements and the accompanying Notes 1 to 32 are an integral part of the Annual Accounts as of December 31st, 2020. 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, 2020 AND 2019

(EXPRESSED IN THOUSANDS OF EURO)

a) STATEMENT OF RECOGNIZED INCOME AND EXPENSE

	2020	2019
Profit (or loss) for the period	**11,012**	**8,641**
Other comprehensive income	**(257)**	**(142)**
Debt instruments at fair value through other comprehensive income	(368)	(203)
Tax effect	111	61
TOTAL RECOGNIZED INCOME AND EXPENSE	**10,755**	**8,499**

These financial statements and the accompanying Notes 1 to 32 are an integral part of the Annual Accounts as of December 31st, 2020. 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.

b) CHANGES IN EQUITY IN THE PERIOD

	EQUITY							REVALUATION ADJUSTMENTS	TOTAL
	Issued capital	Retained earnings	Revaluation reserves	Other reserves	Less: Own shares	Result for the period	Less: Advance paid dividends		
1.Balance Sheet as of 31/12/19	**300,001**	**40,964**	**-**	**-**	**-**	**8,641**	**-**	**(142)**	**349,464**
a) Error adjustments	-	-	-	-	-	-	-	-	-
b) Adjustments due to accounting policy change	-	-	-	-	-	-	-	-	-
2. Adjusted balance sheet (1+a+b)	**300,001**	**40,964**	**-**	**-**	**-**	**8,641**	**-**	**(142)**	**349,464**
3. Total recognized income and expense	**-**	**-**	**-**	**-**	**-**	**11,012**	**-**	**(257)**	**10,755**
4.Other changes in equity (c+d+e)	**-**	**864**	**-**	**-**	**-**	**(8,641)**	**-**	**142**	**(7,635)**
c) Dividend distribution	-	-	-	-	-	(7,777)	-	-	(7,777)
d) Transfers between items	-	864	-	-	-	(864)	-	-	-
e) Other Issuances (reduction) for equity instruments	-	-	-	-	-	-	-	142	142
5. Balance Sheet as of 31/12/20 (2+3+4)	**300,001**	**41,828**	**-**	**-**	**-**	**11,012**	**-**	**(257)**	**352,584**

These financial statements and the accompanying Notes 1 to 32 are an integral part of the Annual Accounts as of December 31st, 2020. 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							REVALUATION ADJUSTMENTS	TOTAL EQUITY
	Issued capital	Retained earnings	Revaluation reserves	Other reserves	Less: Own shares	Result for the period	Less: Advance paid dividends		
1.Balance Sheet as of 31/12/18	**300,001**	**39,649**	-	-	-	**11,315**	-	**(661)**	**350,304**
a) Error adjustments	-	-	-	-	-	-	-	-	-
b) Adjustments due to accounting policy change	-	-	-	-	-	-	-	-	-
2. Adjusted balance sheet (1+a+b)	**300,001**	**39,649**	-	-	-	**11,315**	-	**(661)**	**350,304**
3. Total recognized income and expense	-	-	-	-	-	**8,641**	-	**(142)**	**8,499**
4.Other changes in equity (c+d+e+f)	-	**1,315**	-	-	-	**(11,315)**	-	**661**	**(9,339)**
c) Adjustments due to accounting policy change	-	-	-	-	-	(10,000)	-	-	(10,000)
d) Dividend distribution	-	1,315	-	-	-	(1,315)	-	-	-
f) Other Issuances (reduction) for equity instruments	-	-	-	-	-	-	-	661	661
5. Balance Sheet as of 31/12/19 (2+3+4)	**300,001**	**40,964**	-	-	-	**8,641**	-	**(142)**	**349,464**

These financial statements and the accompanying Notes 1 to 32 are an integral part of the Annual Accounts as of December 31st, 2020. 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, 2020 AND 2019
(EXPRESSED IN THOUSANDS OF EURO)

	2020	2019
A) CASH-FLOW FROM OPERATING ACTIVITIES	**(337,462)**	**301,726**
(+) Profit (or loss) for the period	**11,012**	**8,641**
(+) Adjustments to reach the operating cash flow	**3,636**	**3,347**
Amortization	534	532
Other adjustments	3,102	2,816
(-) Net increase or (decrease) in operating assets	**(539,848)**	**216,807**
Assets at fair value through profit or loss	-	-
Assets at fair value through other comprehensive income	(20,438)	(1,201)
Financial assets at amortized cost	(516,957)	220,011
Other operating assets	(2,453)	(2,003)
(+) Net increase or (decrease) in operating liabilities	**(888,743)**	**509,679**
Financial liabilities at amortized cost	(888,045)	511,201
Other operating liabilities	(698)	(1,522)
(+) Inflows or (outflows) from Corporate Income Tax	**(3,215)**	**(3,134)**
B) CASH-FLOW FROM INVESTING ACTIVITIES	**(225)**	**(210)**
(-) Outflows	**225**	**211**
Tangible assets	121	87
Intangible assets	104	124
(+) Inflows	**-**	**1**
Tangible assets	-	1
C) CASH-FLOW FROM FINANCING ACTIVITIES	**-**	**(10,000)**
(-) Dividend payment	-	10,000
D) EFFECT OF THE EXCHANGE RATE FLUCTUATIONS	**17**	**662**
E) NET INCREASE OR (DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C+D)	**(337,670)**	**292,178**
F) CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**527,705**	**235,527**
G) CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**190,035**	**527,705**

These financial statements and the accompanying Notes 1 to 32 are an integral part of the Annual Accounts as of December 31st, 2020. 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, 2020

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, 2020 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 channeling 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 2020 were prepared from the accounting records of the Bank in conformity with the accounting criteria of the Circular 4/2017 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, 2020 and of the results of its operations and of the cash flows for the years then ended.

The information in these Annual Accounts is responsibility of the Directors of Aresbank. The Annual Accounts of the year 2020 have been formulated by the Board of Directors of the Bank in the resolution dated on March 23rd, 2021 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

For comparative purposes the Governing Board of the Bank presents, for each of the captions detailed in the accompanying Annual Accounts, both the figures for 2020 and those corresponding to the previous years. All captions that present no balance as of December 31st, 2020 and 2019, have been removed.

3.4 Accounting estimates and errors

On March 11th, 2020, COVID-19 was declared a global pandemic by the World Health Organization. The increased uncertainty associated with the unprecedented nature of this pandemic implies greater complexity in developing reliable estimates and applying judgment.

Therefore, estimates have been made on the best available information as of December 31st, 2020 on the facts analyzed. However, events that may take place in the future may force such estimates to change (up or down), which would be done, in accordance with applicable law, prospectively recognizing the effects of the change in estimate on the corresponding profit and loss account.

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 recognizing 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 2020.

3.6 External auditors

The Annual Accounts of Aresbank, S.A. as of December 31st, 2020 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 2020 amounted to 51 thousand euros (51 thousand euros in 2019), neither other invoicing nor other services were rendered by entities affiliated to KPMG International in 2020.

3.7 Risk management

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 2020 and 2019, 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 Order 734/2004 of March 11th from the Ministry of Economy stated 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 2020, which was submitted to the Bank's Board of Directors at its meeting held on February 23rd, 2021.

Aresbank' Customer Service reports that two claims were received along 2020, which were resolved as follows: one in favor of the claimant, and the other unfavorable, as it had no legal basis. A claim was received along 2019, that was successfully resolved and closed among the parties

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 on December 18th, 2020, and under Article 68.2.a) of Law 10/2014, the Bank has been required to maintain not less than 13.21% as its total capital ratio at the individual level, 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, 2020 and 2019, 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 euros 2020	Thousands of euros 2019
Total Equity (computable)	341,407	340,606
CET 1	**341,407**	**340,606**
Paid-in capital	300,001	300,001
Retained Earnings	23,280	23,280
Reserves	18,548	17,684
Other comprehensive income	(257)	(142)
Intangible Assets (-)	(149)	(196)
Other transitory adjustments (-)	(16)	(21)
Tier 2	-	-
Credit risk adjustments (Standard approach)	-	-
Common Equity Tier 1 Ratio	59.91%	44.86%
Surplus (+) / Deficit (-) on CET 1 Ratio	315,762	306,441
Solvency Ratio	59.91%	44.86%
Surplus (+) / Deficit (-) on Solvency Ratio	295,817	279,868

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 2020 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 2020 amounted to 456 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 2020 amounted to 11 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 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 2020

- 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).

On January 1st, 2020, the latest amendments to the ECB's Supervisory Fee Regulation enter into force. Its enforceability is determined on the basis of actual expenditure '*ex post*', the ECB will charge the rates for the calendar year in the second quarter of the following year. Therefore, fees for 2020 will be charged in the second quarter of 2021.

3.13 Subsequent Events to December 31st, 2020

The Annual Accounts of the year 2020 have been formulated by Aresbank' Board of Directors in the resolution dated on March 23rd, 2021. Likewise, the Board will propose to the Shareholder's Assembly a dividend payout for an amount of 9,911 thousand euros (Note 4). There have been no other significant subsequent events than those mentioned in this report.

3.14 General considerations on the main regulatory changes arising from COVID-19

Along 2020, a number of amendments to Circular 4/2017 have entered into force with the aim of responding to aspects related to the uncertainty generated by the COVID-19 pandemic in the classification of refinanced transactions, as well as to reflect some of the changes that were necessary to address, like the accounting effects caused by the uncertainty in the run up to the replacement of the Ibor benchmarks. In addition, this has been modified with minor changes to achieve greater alignment with international IFRS regulations.

Circular 3/2020 aims to enable entities to make a greater use of the flexibility incorporated by international standards in relation to the classification of refinancing or restructuring, in order to estimate their credit risk allowances. Thus, refinancing may be classified as level 1 at the refinancing date, provided that the entity can justify that there has been no significant increase in credit risk since its initial recognition. In addition, refinancings previously classified as level 2 may be reclassified to level 1 if the significant increase in risk has reversed, without having to wait for the 2-year cure period. In any case, they will continue to be identified as refinanced transactions over a period of 2 years.

Circular 2/2020 adds minor changes to Circular 4/2017 in order to achieve a greater alignment with international regulations by adopting the new business definition introduced in IFRS 3 and clarifying that, when control over an investee is lost, the gain or loss for applying its fair value will be recognized through the income statement.

Circular 5/2020 introduces an amendment to Circular 4/2017 to simplify the retrospective analysis of the effectiveness of hedging relationships directly affected by the reform of the benchmark interest rate indexes. In particular, it details that the result of the hedging instrument will not be required to range from 80% to 125% from the outcome of the hedged item, provided that the remainder of the conditions for applying the hedging accounting criteria are met. Moreover, it also includes a number of other amendments to Circular 4/2017 which will enter into force in January 2021, which aim to maintain their alignment with the European accounting framework and the European Central Bank's guide to credit institutions on non-performing loans, to expressly regulate on uncovered issues, and to introducing clarifications to facilitate their understanding.

4. PROFIT (OR LOSS) DISTRIBUTION

The proposed distribution of 2020 result and the one previously approved for 2019 are as follows:

	2020	2019
Net profit (or loss) for the year	**11.012**	**8,641**
To retained earnings (legal reserve)	(1.101)	(864)
Dividends (Note 3.13)	9.911	7,777

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. 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.

Any variation in the value of non-monetary items that come from exchange differences are transiently recorded under the heading "Other comprehensive income - Items that can be reclassified into results - Currency conversion" of the balance sheet.

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

Financial assets shall be valued at fair value with changes in results unless it is valued at amortized cost or at fair value through other comprehensive income.

"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" 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 with the estimation of the expected credit losses.

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 expected losses for impairment is equal to the negative difference between their book value and the present value of their estimated future cash flows discounted. 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 analyzed 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, analyzing 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 (default event) 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 analyzed 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 Bank of Spain 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 analyzed 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 expected 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, 2020 amounts, respectively, to 592,413 and 587,387 thousand euros (978,190 and 969,791 thousand euros, respectively, as of December 31st, 2019).

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, 2020 and 2019.

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.

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 recognizes 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 15).

As of December 31st, 2020, and 2019, 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, 2020, and 2019, Aresbank' pension commitments with the serving employees were externalized 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 2020 amounted to 159 thousand euros. In 2019, it amounted to 150 thousand euros (Note 27).

Aresbank' outstanding balance related to the employees' contributions with the pension fund management company (BanSabadell Pensiones) amounts to a total of 3,312 thousand euros as of December 2020 and 3,195 thousand euros as of December 2019.

5.14 Corporate Income tax

The Bank recognizes as expenses the Corporate 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 income 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 4/2017 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 12). The Bank has amortized tax credits along 2020 derived from its negative taxable bases pending to be offset (Note 21).

5.15 Severance payments

In accordance with the Labor 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 32.b for the detail of the related party transactions during 2020 and 2019.

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 recognized.

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 Hedge 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 an identified risk in particular and provided that affect the profit (or loss) account. The differences in the covered elements and in their coverages are recognized 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' risk exposures. The total credit risk weighted assets under Pillar I, using standard approach, is 523,016 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, 2020 to 836,231 thousand euros, in comparison with 1,353,187 thousand euros in 2019. The key component of the total lending was "Loans and Advances to Credit Institutions", for an amount of 579,182 thousand euros, from which 485,145 thousand euros are placed within the Interbank market.

Contingent exposures have decreased from the previous year to a total amount of 125,355 thousand euros.

CREDIT INVESTMENT EXPOSURES	**2020**	**2019**
Balance sheet exposures (Gross)	836,231	1,353,187
Granted guarantees	125,355	356,475
Drawable balances	111,049	143,724
	1,072,635	**1,853,386**

RISK CONCENTRATION BY ACTIVITY AND GEOGRAPHICAL AREA

The breakdown corresponding to 2020 is the following:

	Total	Spain	Rest of E.U.	America	Rest of the world
Credit institutions	**866,013**	**675,672**	**29,178**	**6,725**	**154,438**
Central Banks	*232,031*	*189,894*	-	-	*42,137*
Rest	*633,982*	*485,778*	*29,178*	*6,725*	*112,301*
Public Sector	**-**	**-**	**-**	**-**	**-**
Other financial entities	**75,017**	**-**	**-**	**-**	**75,017**
Non-financial Corporates and Individuals	**221,115**	**120,307**	**4,932**	**-**	**95,876**
Corporates	*200,828*	*100,167*	*4,804*	-	*95,857*
SME and individuals	*20,287*	*20,140*	*128*	-	*19*
Other households (others)	**496**	**496**	**-**	**-**	**-**
TOTAL	**1,162,641**	**796,475**	**34,110**	**6,725**	**325,331**

The breakdown corresponding to 2019 is the following:

	Total	Spain	Rest of EU	America	Rest of the world
Credit institutions	**1,932,009**	**1,265,991**	**351,599**	**3,819**	**310,600**
Central Banks	*642,552*	*527,563*	-	-	*114,989*
Rest	*1,289,457*	*738,428*	*351,599*	*3,819*	*195,611*
Public Sector	**19,725**	**-**	**19,725**	**-**	**-**
Other financial entities	**89,241**	**-**	**-**	**-**	**89,241**
Non-financial Corporates and Individuals	**226,746**	**75,895**	**107,397**	**-**	**43,454**
Corporates	*192,262*	*49,476*	*107,372*	-	*35,414*
SME and individuals	*34,484*	*26,419*	*25*	-	*8,040*
Other households (others)	**481**	**481**	**-**	**-**	**-**
TOTAL	**2,268,202**	**1,342,367**	**439,504**	**3,819**	**482,512**

6.2 Market Risk

The measurement, control and monitoring of the Aresbank' 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 2020 and 2019. 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, 2020 amounts to 5,026 thousand euros, not exceeding the 2% of the entity's own funds; thus, no capital requirement is applicable. 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 shows that the Bank has sufficient liquidity to meet its near-term liabilities.

As of December 31st, 2020, in thousand euro:

Time Buckets	Assets	Liabilities	Gap	Cumulative Gap
Up to 1 Month	770,558	703,722	66,836	66,836
1 Month to 3 Months	76,045	-	76,045	142,881
3 Months to 6 Months	45,723	1	45,722	188,603
6 Months to 12 Months	22,208	815	21,393	209,996
1 Year to 5 Years	56,298	108	56,190	266,186
More than 5 Years	74,022	179	73,843	340,029

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 burden, amounting 3,749 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, 2020 and 2019 is as follows:

	2020	2019
Cash	141	142
Bank of Spain - Nostro Account	189,894	527,563
Demand deposits	54,426	136,075
	244,461	**663,780**

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The breakdown of this caption as of December 31st, 2020 and 2019 is as follows:

	2020	2019
Nature:		
Public debt (EU countries)	-	19,725
Fixed income (Spain)	15,809	1,050
Generic impairments	(126)	(9)
	15,683	**20,766**
Currency:		
Euro	15,683	20,766
	15,683	**20,766**

	2020	2019	2020	2019
Rating:				
A-	6,130	1,041	39.09%	5.01%
BBB	-	19,725	-	94.99%
BBB-	9,553	-	60.91%	-
	15,683	**20,766**	**100.00%**	**100.00%**

The detail of the valuation adjustments made through equity it is shown in Note 19, with regard to debt securities.

9. FINANCIAL ASSETS AT AMORTIZED COST

The detail of this caption as of December 31st, 2020 and 2019 is as follows:

	2020	2019
Debt securities	-	15,472
Loans and advances to:		
Credit institutions	524,745	1,009,569
Clients	257,574	207,890
TOTAL Financial assets at amortized cost, gross	**782,319**	**1,232,931**
Impairment adjustments to:		
Debt securities	-	(133)
Credit institutions	(1,737)	(2,179)
Clients	(3,301)	(3,296)
TOTAL Financial assets at amortized cost, net	**777,281**	**1,227,323**

The breakdown by currency, residual maturity and sectors of the caption "**Financial assets at amortized cost**" as of December 31st, 2020 and 2019 is as follows:

	2020	2019
By currency		
Euro	192,810	253,129
Other currencies	584,471	974,194
TOTAL Financial assets at amortized cost, net	**777,281**	**1,227,323**
By residual maturity		
Up to 3 months	601,628	1,065,905
Over 3 months to 1 year	64,457	38,375

	2020	2019
Over 1 year to 5 years	43,580	32,328
Over 5 years	67,616	90,715
TOTAL Financial assets at amortized cost, net	**777,281**	**1,227,323**

	2020	2019
By sector		
Residents	569,806	725,145
Non- residents	207,475	502,178
TOTAL Financial assets at amortized cost, net	**777,281**	**1,227,323**

The detail by nature of "**Debt securities**" as of December 31st, 2020 and 2019 is as follows:

	2020	2019
Promissory notes	-	15,472
Debt securities, gross	**-**	**15,472**
Impairment adjustments	-	(133)
Debt securities, net	**-**	**15,339**

The detail by nature of "**Loans and advances to credit institutions**" as of December 31st, 2020 and 2019 is as follows:

	2020	2019
Time deposits	524,571	1,008,689
Non-Performing Assets	102	78
Interest accrued	134	898
Commissions	(52)	(91)
Purchase premium/discounts	(10)	(5)
Loans and advances to credit institutions, gross	**524,745**	**1,009,569**
Impairment adjustments	(1,737)	(2,179)
Loans and advances to credit institutions, net	**523,008**	**1,007,390**

The breakdown by type of the "**Loans and advances to other debtors**" as of December 31st, 2020 and 2019 is as follows:

	2020	2019
By type		
Other term receivables	257,984	200,633
Receivable on demand and other	89	6,136
Non-Performing Assets	1,374	3,581
Other Financial Assets	525	349
Commissions	(2,755)	(3,173)
Premiums / Discount	(236)	(192)
Interest Accrued	593	556
Loans and advances to other debtors, gross	**257,574**	**207,890**
Impairment adjustments	(3,301)	(3,296)
Loans and advances to other debtors, net	**254,273**	**204,594**

The line "**Other financial assets**" includes mainly bails and advance payments to suppliers.

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

	2020	2019
Economic Activity		
Financial intermediation	81.91%	89.38%
Oil refinery	10.01%	2.31%
Other manufacturing Industry	1.13%	3.96%
Construction	0.47%	0.49%
Professional activities	1.30%	-
Retail / Wholesale	4.16%	0.91%
Transport and storage	-	0.81%
Hostelry	0.62%	1.19%
Other sectors with lesser participation	0.40%	0.95%
	100.00%	**100.00%**

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

	2020	2019
Geographic Area		
Spain	73.31%	59.24%
European Union	0.62%	27.14%
Other European countries	4.72%	2.97%

Arab countries (Asia)	10.53%	8.30%
Arab countries (Africa)	10.83%	2.35%
	100.00%	**100.00%**

The movements in 2020 and 2019 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	Generic Allowance	Country risk Allowance	TOTAL
Balance as of 31 December 2018	**2,492**	**1,139**	**2,013**	**5,644**
Additions (see Note 31)	618	1,920	10,328	12,866
Disposals (see Note 31)	(882)	(2,071)	(9,944)	(12,897)
Other	5	4	(2)	7
Balance as of 31 December 2019	**2,233**	**992**	**2,395**	**5,620**
Additions (see Note 31)	210	1,596	1,876	3,682
Disposals (see Note 31)	1,320	(1,266)	(1,660)	(1,606)
Other	(2,457)	(46)	(18)	(2,521)
Balance as of 31 December 2020	**1,306**	**1,276**	**2,593**	**5,175**

The caption "Other" as of December 31st, 2020 and 2019 includes adjustments due to foreign exchange and reclassifications.

10. TANGIBLE ASSETS

a) Movement

The movements of the caption "**Tangible Assets**" of the Balance Sheets as of December 31st, 2020 and 2019 are as follows:

	For own Use	Investment Property	TOTAL (*)
Cost			
Balance as of 31 December 2018	**15,954**	**21,766**	**37,720**
Additions	87	-	87
Disposals	(34)	-	(34)

Balance as of 31 December 2019	**16,007**	**21,766**	**37,773**
Additions	121	-	121
Disposals	(4)	-	(4)
Balance as of 31 December 2020	**16,124**	**21,766**	**37,890**

(*) From which 25,749 thousand euros corresponds to the historical value of the land.

Accumulated Amortization			
Balance as of 31 December 2018	**(2.591)**	**(2,654)**	**(5,245)**
Allowance (Note 30)	(287)	(103)	(390)
Disposals	35	-	35
Balance as of 31 December 2019	**(2,843)**	**(2,757)**	**(5,600)**
Allowance (Note 30)	(280)	(103)	(383)
Disposals	2	-	2
Balance as of 31 December 2020	**(3,121)**	**(2,860)**	**(5,981)**
Net Tangible Assets			
Balance as of 31 December 2019	**13,164**	**19,009**	**32,173**
Balance as of 31 December 2020	**13,003**	**18,906**	**31,909**

The breakdown of fully amortized tangible assets is as follows:

	Furniture	**Installations**	**Computer equipment and transport**	**TOTAL**
Balance as of 31 December 2019	**39**	**109**	**58**	**206**
Balance as of 31 December 2020	**126**	**257**	**82**	**465**

b) Tangible Assets for Own Use

The detail by nature of the items which comprises the balance of this caption as of December 31st, 2020 and 2019, is as follows:

	Land & Building	Furniture	Installations	Computer Equipment and transport	Other	TOTAL
Cost						
Balance as of 31 December 2018	**14,029**	**619**	**905**	**218**	**183**	**15,954**
Additions	-	7	21	59	-	87
Disposals	-	-	(2)	(11)	(21)	(34)
Balance as of 31 December 2019	**14,029**	**626**	**924**	**266**	**162**	**16,007**
Additions	1	5	36	79	-	121
Disposals	-	-	-	(4)	-	(4)
Balance as of 31 December 2020	**14,030**	**631**	**960**	**341**	**162**	**16,124**
Accumulated Amortization						
Balance as of 31 December 2018	**(1,433)**	**(451)**	**(575)**	**(103)**	**(29)**	**(2,591)**
Allowance (Note 30)	(98)	(59)	(77)	(47)	(6)	(287)
Disposals	-	-	3	11	21	35
Balance as of 31 December 2019	**(1,531)**	**(510)**	**(649)**	**(139)**	**(14)**	**(2,843)**
Allowance (Note 30)	(98)	(55)	(63)	(58)	(6)	(280)
Disposals	-	-	-	2	-	2
Balance as of 31 December 2020	**(1,629)**	**(565)**	**(712)**	**(195)**	**(20)**	**(3,121)**
Net Tangible Assets						
Balance as of 31 December 2019	**12,498**	**116**	**275**	**127**	**148**	**13,164**
Balance as of 31 December 2020	**12,401**	**66**	**248**	**146**	**142**	**13,003**

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 January 1st, 2020 till September 23rd, 2021, depending on the contract, with a prior notice agreed between 3 and 4 months. The total expected earnings from these operating leases, until the maturity of the contracts, amounting to 4,995 thousand euros until June 2027 (last contract maturity date), and the breakdown is the following:

	2020	2019
Up to one year	1,433	1,267
From 1 year to 5 years	3,210	3,034
Over 5 years	352	765
	4,995	**5,066**

During 2020 and 2019, income from these operating leases coming from investment properties amounted to 1,424 and 1,382 thousand euros, respectively. They are entered in the item "Other Operating Income" of the Income Statement (Note 26). The operating expenses related to said investment properties amounted to 208 and 212 thousand euros respectively and are entered in the caption "Other Administrative Expenses" (Note 28) as premises expenses. Those are passed on to the tenants and are recorded in "Other" under "Other operating income" (Note 26).

11. INTANGIBLE ASSETS

The movements of this caption as of December 31st, 2020 and 2019 are as follows:

	2020	2019
Cost		
Balance as of January 1st	**1,411**	**1,287**
Additions	104	124
Disposals	-	-
Balance as of December 31st	**1,515**	**1,411**
Accumulated Amortization		
Balance as of January 1st	**(1,215)**	**(1,073)**
Allowance (Note 30)	(151)	(142)
Disposals	-	-
Balance as of December 31st	**(1,366)**	**(1,215)**

Net Intangible Assets		
Balance at the beginning of the period	**196**	**213**
Balance at the end of the period	**149**	**196**

The amount of intangible assets fully amortized as of December 31st, 2020 amounts to 1,261 thousand euros (1,146 thousand euros in 2019)

12. TAX ASSETS AND TAX LIABILITIES

This chapter includes the amount of all assets of a tax nature. The detail of these items as of December 31st, 2020 and 2019 is as follows:

	2020	2019
TAX ASSETS		
Corporate income tax (Note 21)	1,012	1,204
Corporate income tax (previous years)	-	2,422
VAT pending to offset	56	-
Other tax assets	1,668	1,654
	2,736	**5,280**

TAX LIABILITIES	2020	2019
Social Security	31	32
Income tax payable	241	237
Deferred tax	-	988
Others	1	32
	273	**1,289**

13. OTHER ASSETS AND OTHER LIABILITIES

The detail of these two captions is as follows:

	Assets		Liabilities	
	2020	2019	2020	2019
Prepaid expenses	75	91	-	-
Financial guarantees	-	-	68	61
Accrued expenses	-	-	1,274	1,796
	75	**91**	**1,342**	**1,857**

The caption "Accrued expenses" includes mainly overheads accruals. The caption "For financial guarantees" includes, at December 31st, 2020 and 2019, commissions from guarantees granted to clients, which are accrued over the expected life of the guarantee at the effective interest rate.

14. FINANCIAL LIABILITIES AT AMORTIZED COST

The breakdown of this caption of the Balance Sheets as of December 31st, 2020 and 2019 is as follows:

	2020	2019
Deposits:		
from central banks	19,348	45,730
from credit institutions	616,394	1,492,677
from other creditors	69,129	54,509
TOTAL Deposits	**704,871**	**1,592,916**
Other financial liabilities	8,388	766
TOTAL Financial liabilities at amortized cost	**713,259**	**1,593,682**

The detail by currency and residual maturity of "**Financial liabilities at amortized cost**" of the Balance Sheets as of December 31st, 2020 and 2019 is as follows:

	2020	2019
By currency		
Euro	125,920	624,122
Other currencies	587,339	969,560
TOTAL Financial liabilities at amortized cost	**713,259**	**1,593,682**
By residual maturity		
Up to 3 months	712,156	1,486,045
Over 3 months to 1 year	816	101,092
Over 1 year to 5 years	108	-
Over 5 years	179	6,545
TOTAL Financial liabilities at amortized cost	**713,259**	**1,593,682**

The detail of "**Deposits from credit institutions**" of the Balance Sheet as of December 31st, 2020 and 2019 is as follows:

	2020	2019
Time deposits	436,947	895,907
Other accounts	179,401	596,073

	2020	2019
Valuation adjustments	46	697
Deposits from credit institutions	**616,394**	**1,492,677**

As of December 31st, 2020, the Libyan Foreign Bank holds deposits amounting, 497 million dollars and 25 million euros (880 million dollars and 100 million euros in 2019), 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, 2020 and 2019 is as follows:

	2020	2019
Public sector		
Spanish Government	30	30
Other resident sectors		
Demand deposits:		
Current accounts	21,483	39,037
Time deposits		
Fixed term deposits	159	1,609
Other non- resident sectors		
Demand deposits:		
Current accounts	47,329	13,833
Time deposits		
Fixed term deposits	128	-
Deposits from other creditors	**69.129**	**54,509**

Details of "**Other financial liabilities**" of the Balance Sheets as of December 31st, 2020 and 2019 grouped by financial instrument are as follows:

	2020	2019
Dividends	7,777	-
Other accounts	260	147
Rental deposits	186	186
Special accounts	165	433
Other financial liabilities	**8,388**	**766**

15. PROVISIONS

The breakdown of this caption of the Balance Sheets as of December 31st, 2020 and 2019 is as follows:

	2020	2019
Legal and tax	32	590

Contingent exposures and commitments	1,304	2,607
Other contingencies	3,500	120
	4,836	**3,317**

The movements of the caption "**Provisions**" in 2020 and 2019 are as follows:

	Provision for taxes	**Contingent exposures and commitments**	**Other contingencies**	**TOTAL**
Balance as of 31 December 2018	**32**	**3,177**	**40**	**3,249**
Net P/L allowances	558	773	80	1,411
Allowances released	-	(1,351)	-	(1,351)
Other	-	8	-	8
Balance as of 31 December 2019	**590**	**2,607**	**120**	**3,317**
Net P/L allowances	-	949	3,460	4,409
Allowances released	(558)	(2,328)	-	(2,886)
Other	-	76	(80)	(4)
Balance as of 31 December 2020	**32**	**1,304**	**3,500**	**4,836**

Derived from the current economic context and based on the perspectives that are managed by the main international economic bodies with regards to the evolution of the COVID-19 pandemic, as well as the potential effects that may arise on our activity; the Bank has considered to strengthen the coverage of its contingent risks in this regard with its best estimate to date. The objective of this measure is to adapt the Bank's prudential line to the general context of uncertainty, both at local and international level, which will be managed based on how the overall economic context evolves, and its impacts on the Bank's particular activity.

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:

	2020	**2019**
Specific provision	-	1,352
Generic provision	409	754
Country risk provision	895	501
	1,304	**2,607**

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

16. SHAREHOLDERS' EQUITY

The Bank's equity amounted to 352,584 thousand euros at December 31st, 2020 (349,464 thousand euros at December 31st, 2019). The Bank shows at the end of the year 2020 a capital solvency ratio of 59.91% in terms of CET1 that highly exceeds the 13.21% minimum required by the Regulator for the year 2021. The movement of this heading for the years 2020 and 2019 is shown in the Statement of Changes in Equity.

17. SHARE CAPITAL

The share capital of Aresbank, S.A. as of December 31st, 2020 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, 2020 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.

18. RETAINED EARNINGS

The breakdown of the reserves as of December 31st, 2020 and 2019 is as follows:

	2020	**2019**
Legal reserve	18,548	17,684
Undistributed results	23,280	23,280
	41,828	**40,964**

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 to this end.

In any case, the Bank is subject to minimum regulatory capital requirements (Note 3.10).

19. OTHER COMPREHENSIVE INCOME

The balances in this chapter include the adjustments made to changes in the fair value of debt instruments with changes in other comprehensive income, that are temporarily recorded in equity. These are expressed net from tax effect.

	2020	2019
Public Debt (UE countries)	-	(142)
Fixed Income (Spain)	(257)	-
Valuation Adjustments	**(257)**	**(142)**

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

20. 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

It corresponds to transactions for which an entity guarantees obligations of a third party, arising as a result of financial guarantees granted by the entity or by other types of contracts. The entity must pay on behalf third parties in the event of non-payment by those who are originally obliged to pay, in response to the commitments made in the course of its usual activity.

The breakdown as of December 31st, 2020 and 2019 is as follows:

	2020	2019
Financial guarantees		
Irrevocable issued documentary credits	6,228	70,390
Irrevocable confirmed documentary credits	92,716	248,509
Other Bank guarantees and indemnities	26,411	37,576
	125,355	**356,475**
Memo item: Doubtful contingent exposure	**-**	**-**

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

	2020	2019	2020	2019
Geographic Area				
Spain	6,039	2,620	6.10%	0.82%
EU Countries	28,495	108,570	28.80%	34.05%
Other European countries	2,090	3,166	2.11%	0.99%
Arab countries				
Libya	56,748	186,670	57.36%	58.54%
Algeria	5,543	3,794	5.60%	1.19%
Other Arab countries	29	14,079	0.03%	4.41%
	98,944	**318,899**	**100,00%**	**100.00%**

The income obtained from these guarantee transactions is recognized in the Income Statement as "Fee and Commission Income" (Note 24).

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

	2020	2019	2020	2019
Geographic Area				
Spain	18,051	22,966	68.35%	61.12%
EU Countries	801	1,022	3.03%	2.72%
Other European countries	3,394	9,333	12.85%	24.84%
Arab countries				
Libya	4,165	4,165	15.77%	11.08%
Algeria	-	-	-	-
Other Arab countries	-	90	-	0.24%
	26,411	**37,576**	**100,00%**	**100.00%**

b) Lending commitments granted

Breakdown is as follows:

	2020	2019
Drawable by third parties		
By financial institutions	-	1,064
By other resident sectors	69,739	102,594
Non-residents	41,310	40,066
	111,049	**143,724**

21. TAX MATTERS

According to tax legislation, positive accounting results are taxed at a tax rate of 30% in 2020 and 2019. The resulting tax payable may be reduced by applying certain deductions. However, tax settlements cannot be considered as definite until either Tax Authorities have checked 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 fiscal years open to inspection are 2017 onwards, except for the Corporate Income Tax, which is subject to inspection from 2016 onwards.

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

	2020	2019
Accounting profit (or loss) for the year before tax	12,322	13,182
Permanent differences	350	304
Temporary differences		
Positives	5,190	1,347
Negatives	(1,376)	(1,613)
Total	16,486	13,220
Offset of prior year negative taxable bases	(8,243)	(6,610)
Taxable profit	8,243	6,610
Tax liabilities	2,473	1,983
Deductions	-	(4)
Withholding tax	(270)	(262)
Advanced payment on Corporate Tax	(3,215)	(3,134)
Corporate income tax payable / (receivable) (Note 12)	(1,012)	(1,417)

The figures for 2019 correspond to those declared in July 2020 before the Spanish Tax Authorities. Those for 2020 are estimates, no significant changes are expected to the final statement.

	2020	2019
Current tax	2,261	3,292
Deferred tax	(2,545)	(345)
Tax credit amortisation	1,594	1,594
Expenses or revenues on corporate income tax	**1,310**	**4,541**

The line "Deferred Tax" contains 1,304 thousand euros for regularization of deferred asset balances.

The Bank has negative taxable bases (carry-forward losses) for an amount of 44,680 thousand euros, whose detail at the source corresponds with the following:

2009	2010
3,675	41,005

The entity has amortized the remaining part of the tax credit that was capitalized, amounting to 1,594 thousand euros. Therefore, there is no tax credit pending to be amortized as of December 31st, 2020.

By means of the 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 2020 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 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: 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, on deductions for internal and international double taxation, so much those generated in the tax period itself as those pending for application, which are tax credits that are applied to the tax payable.

The RDL 3/2016 has added a new additional provision fifteen to the Corporate Tax Law whose paragraph 1 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.

Due to the different interpretations that may be given to certain legal rules and the results of future inspections, there may be tax liabilities that are not capable of objectively being assessed. However, the Bank's Directors, based on the opinion of their tax advisors, are of the view that these potential tax liabilities would not significantly affect these Annual Accounts.

22. INTEREST INCOME

This chapter of the Profit and Loss Account covers interest accrued in the financial year for all financial assets, and the return of which is obtained from applying the effective interest rate method. Interest is recorded for their gross amount, without deducting, where appropriate, withholding tax made at source.

The breakdown of this caption as of December 31st, 2020 and 2019 is as follows:

	2020	2019
Loans and receivables to central banks	6	-
Loans and receivables to credit institutions	4,729	15,164
Loans and receivables to other debtors	6,753	7,478
Debt securities	358	346
Others	1	137
	11,847	**23,125**

23. 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, 2020 and 2019 is as follows:

	2020	2019
Deposits at Central Banks	1,162	651
Deposits from credit institutions	3,491	13,982
Deposits from other creditors	2	1
	4,655	**14,634**

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

24. COMMISSIONS INCOME

It comprises the amount of all fees and commissions accrued in favor of the Bank in the accounting year, except those are 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, 2020 and 2019 is as follows:

	2020	2019
Risks and contingent exposures	14,540	10,697
Maintenance, collections and payment services	1,178	1,937
Loans and other commissions	972	835
	16,690	**13,469**

25. 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, 2020 and 2019 is as follows:

	2020	2019
Fees and commissions assigned to other entities and correspondents	16	15
Other fees and commissions	251	399
	267	**414**

26. 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, 2020 and 2019 is follows:

	2020	2019
Operating income from investment properties (Note 10.c)	1,424	1,382
Other	488	415
	1,912	**1,797**

27. PERSONNEL EXPENSES

The personnel of the Bank as of December 31st, 2020 and 2019 are as follows:

	December 31, 2020			December 31, 2019		
	Women	**Men**	**Total**	**Women**	**Men**	**Total**
General Management	0	2	2	-	2	2
Managers	1	4	5	1	6	7
Rest	25	40	65	26	40	66
	26	**46**	**72**	**27**	**48**	**75**

The average staff has been 74 employees in 2020 (76 employees in 2019).

The breakdown of Personnel expenses captions as of December 31st, 2020 and 2019 is as follows:

	2020	**2019**
Wages and salaries	6,066	6,220
Social Security expenses	1,035	1,027
Transfers to defined contribution plans (Note 5.13)	169	159
Severance payments	14	216
Other expenses	1,075	828
	8,359	**8,450**

The caption "Wages and salaries" includes 900 thousand euros (1,400 thousand euros in 2019) regarding provision for extraordinary gratifications, that have been proposed and submitted for approval.

28. OTHER ADMINISTRATIVE EXPENSES

The breakdown of this caption as of December 31st, 2020 and 2019 is as follows:

	2020	**2019**
Premises Expenses	477	613
Travelling and transportation	42	116
Communications	262	311
Legal and professional fees	309	552
Governing and control bodies	702	648
Withholding and sales taxes	250	345
Insurances	57	20
Commercial Offices and delegations	19	26
Business development	17	17
Subscriptions, contributions and others	45	43
	2,180	**2,691**

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

a) Board of Directors

The detail of the total gross remuneration and compensations received by the Bank's Directors in 2020 is as follows:

2020	Members	Remuneration	Allowance	Total
Chairman & Vice-Chairman	2	436	30	466
Rest of Board Members	8	721	33	754
	10	**1,157**	**63**	**1,220**

Along 2020, there have been no new appointments and one leave within the Board of Directors.

The gross remunerations and other compensations received by the Board of Directors in 2019 are as follows:

2019	Members	Remuneration	Allowance	Total
Chairman & Vice-Chairman	3	454	65	519
Rest of Board Members	8	799	94	893
	11	**1,253**	**159**	**1,412**

Aresbank, S.A. has no other obligations derived from pensions or life insurance premiums with any of the members of the Board of Directors. The Bank does not hold direct risks with Board members as of December 31st, 2020, 46 thousand euros as of December 31st, 2019. 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 in 2020 is as follows:

2020	Members	Remuneration	Other benefits	Total
General Management	2	1,254	201	1,455

The breakdown of the retribution received by the General Management in 2019 is as follows

2019	Members	Remuneration	Other benefits	Total
General Management	2	1,360	150	1,510

The amounts debited for pension funds and insurances in the Income Statement of the Bank in 2020 amounts to 12 thousand euros, 12 thousand euros in 2019. The Bank holds direct risks with the General Management amounting 138 thousand euros as of December 31st, 2020, under the applicable conditions of the collective agreement.

30. AMORTIZATION

The detail of this caption as of December 31st, 2020 and 2019 is as follows:

	2020	2019
Tangible assets:		
Investment Property (Note 10)	103	103
For own use (Note 10.b)	280	287
Intangible assets:		
Software (Note 11)	151	142
	534	**532**

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

The detail of this caption is as follows:

	2020	2019
Financial assets at amortized cost (Note 9)		
Allowances	(3,682)	(12,866)
Releases	1,606	12,897
	(2,076)	**31**

As of December 31st, 2020, and 2019 the allowances for impairment are mainly due to provisions allocated for Country Risk, specific and generic risks.

32. 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, 2020 and 2019 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, 2020 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)	-	-	-	-	-	-
Assets at fair value through other comprehensive income	**15,683**	-	-	**(368)**	-	-
Debt securities	15,683	-	-	(368)	-	-

The breakdown as of December 31, 2019 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)	-	-	-	-	-	-
Assets at fair value through other comprehensive income	**20,766**	-	-	**(203)**	-	-
Debt securities	20,766	-	-	(203)	-	-

b) Most significant balances with related companies.

The most important balances with related companies as of December 31st, 2020 and 2019 are as follows:

	2020	2019
LIABILITIES		
Deposits from credit institutions		
Libyan Foreign Bank	430,020	883,336
Current Accounts		
Libyan Foreign Bank	121,400	381,926

c) Transactions with related companies

The interest and commissions paid to Aresbank' shareholders for the deposits and accounts held in the Bank amounted to 3,399 thousand euros in 2020 and 12,812 thousand euros in 2019.

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.

	2020	2019
	Days	Days
Average payment period (suppliers)	4	7
Paid transactions ratio	5	7
Pending transactions ratio	6	17
	Amount (thousands of euros)	Amount (thousands of euros)
Total payments made	3,551	3,594
Total pending payments	7	18

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

BASIS FOR DISTRIBUTION	(Thousands of Euro) **2020**
PROFIT (OR LOSS) BEFORE TAXES	12,322
CORPORATE INCOME TAX ESTIMATION	(1,310)
NET PROFIT / (NET LOSS)	**11,012**
DISTRIBUTION	
RETAINED EARNINGS (LEGAL RESERVE)	1,101
DIVIDEND PAYOUT	9,911
TOTAL	**11,012**

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