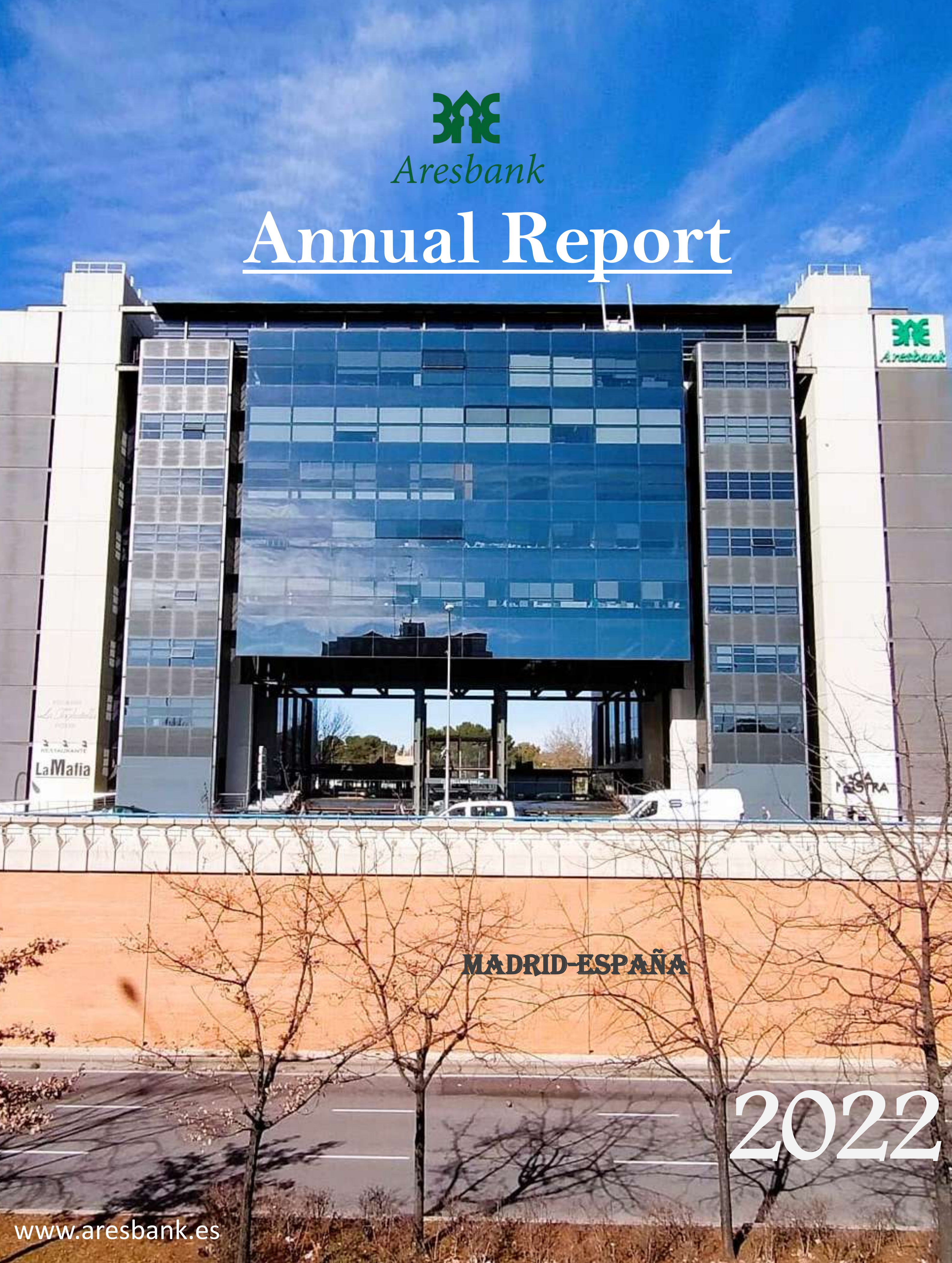
Aresbank

Annual Report



MADRID-ESPAÑA

2022

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Annual Report 2022

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CHAIRMAN'S LETTER

Dear Shareholders,

I am pleased hereby and on behalf of Aresbank Board of Directors, to introduce the Annual Report for fiscal year 2022, 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 2023 is developing.

The past recent years presented significant challenges worldwide, which have had a significant impact on the evolution of the economic situation. The year 2020 began with the outbreak of the COVID pandemic, which partially paralyzed the economy for most of the year. This situation was gradually reversed throughout 2021, although strong restrictions were still in place in an attempt to control the impact of the pandemic. Thus, while the global GDP declined by 3.1% in 2020, a growth of 5.9% was recorded in 2021.

Towards the end of 2021, certain consequences of the economic paralysis brought about by the pandemic began to manifest. These consequences included the collapse of supply and distribution chains, resulting in increased costs and price hikes of various raw materials, most notably, petroleum and natural gas (the price of the barrel of Brent crude oil reached a minimum of USD 19.33 in April 2020 and a maximum of USD 127.98 in August 2022. In the case of natural gas, its minimum was USD 1.48 in June 2020 and its maximum was USD 9.68 in August 2022). This situation was exacerbated by the start of the conflict in Ukraine during the first quarter of 2022, which led to a global positioning by various political blocs. Ultimately, this situation led to a rapid escalation of inflation, which is being countered by central banks through traditional monetary policy mechanisms, leading to rapid interest rate hikes. In December 2022, the ECB and the FED raised their interest rates to 2% and 4.5%, respectively.

The medium-term effects of the rise in interest rates may have a dual effect in financial institutions. On the one hand, moving away from the scenario of negative official interest rates will facilitate the recovery of the interest margin after several years of very tight margins. On the other hand, the increased financial burden could add pressure to sectors and borrowers with more compromised financial situations, resulting in an expected rise of defaults if this situation persists. For this reason, financial institutions should once again apply prudent risk management measures, following the efforts made during the pandemic.

Despite the significant challenges mentioned, Aresbank has managed to maintain a strong financial position during this period, highlighted by capital levels well above the industry average both in Spain and the European Union, with a CET1 ratio of 54.5% and a very low non-performing loans ratio of 1%, thanks to its prudent risk management. Furthermore, the Bank has maintained a solid earnings generation as a result of its commercial efforts, enabling it to achieve a gross margin of 18 million euros while also keeping operating expenses under control.

During the previous fiscal year, the Bank has allocated provisions on a long-standing exposure in Lebanon which was considered unlikely to be recovered due to the country's 4 prevailing situation. This action resulted in a negative net income of 10 million euros for the year, which, as previously stated, did not have a significant impact on the Bank's solvency.

Moments of crisis are also moments of change, and individuals, businesses, and organizations must adapt to the ever-changing environment. Aresbank is not exempt from this principle. Firstly, the Bank is currently renewing some of its key positions. In this regard, it is worth noting the departure of Mr. Miguel Cuerdo as a member of the Board of Directors, and Mr. Luis Casado retired as the General Manager after more than ten years of dedicated service to the Bank. Mr. Manuel Grijota has assumed the position of Acting General Manager in his stead. Aresbank wishes to express sincere gratitude to Mr. Miguel Cuerdo and Mr. Luis Casado for their commitment to the Bank during their tenure.

Secondly, the Entity, aware of the new challenges posed by the increasing demand for digitization in the banking sector, has initiated a system update process to improve its efficiency levels, strengthen its operational resilience, and provide a more satisfying experience to its customers, who already highly appreciate the service provided by the Entity.

Finally, Aresbank is not unaware of the growing global concern, especially within the financial sector, regarding environmental, social and governance risks (ESG). In this regard, Aresbank continuously monitors the various regulatory developments affecting the industry and has started incorporating them into its daily management.

I would like to take this opportunity to express my gratitude for the ongoing trust demonstrated by our clients, mainly in Spain, Libya, and the rest of the MENA region, which are the primary markets of our Bank. Additionally, the commitment and dedication of Aresbank employees has been crucial in maintaining the level of service in the complex and changing environment that we faced in recent years.

A. Ragib

Ahmed Ragib

Chairman to the Board of Directors

SHAREHOLDERS

SHAREHOLDERS	2022	2021
Libyan Foreign Bank	99,86%	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. Ahmed AA Elabbar	
Mr. Ali Kadri	

Independent Directors

Mr. Javier Iglesias de Ussel y Ordis
Mr. Miguel Cuerdo Mir *(*)*

Secretary

Mr. Gabriel Gracia González

(*) Membership ended on 11th of November 2022

AUDIT COMMITTEE

Mr. Miguel Cuerdo Mir	Chairman of the Committee and Member
Mr. Mohamed Alrahebi	Member
Mr. Javier Iglesias de Ussel y Ordis	Member

Secretary

Mr. Gabriel Gracia González

RISK AND COMPLIANCE COMMITTEE

Mr. Javier Iglesias de Ussel y Ordis	Chairman of the Committee and Member
Mr. Ahmed Ragib	Member
Mr. Ahmed AA Elabbar	Member
Mr. Miguel Cuerdo Mir	Member

Secretary
Mr. Gabriel Gracia González

NOMINATIONS AND REMUNERATIONS COMMITTEE

Mr. Miguel Cuerdo Mir	Chairman of the Committee and Member
Mr. Ahmed Ragib	Member
Mr. Fekri Sinan	Member
Mr. Mustafa Elmanea	Member
Mr. Javier Iglesias de Ussel y Ordis	Member

Secretary
Mr. Gabriel Gracia González

MANAGEMENT TEAM

General Manager	Mr. Luis Casado Saéz *(*)*
Acting General Manager	Mr. Manuel Grijota Párraga
Deputy General Manager	
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 Legal Department	Mr. Gabriel Gracia González
Manager of Risk Manager Department	Mr. Julio Bello Canedo
Manager of Barcelona Branch	Mr. Salvador Planas Bacardit

(*) Membership ended on 20th of December 2022

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.

FINANCIAL STATEMENTS AND EXTERNAL AUDIT REPORT

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

Auditor's Report on Aresbank, S.A.

(Together with the annual accounts and directors' report of Aresbank, S.A. for the year ended 31 December 2022)

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

KPMG Auditores, S.L.
Paseo de la Castellana, 259C
28046 Madrid

Independent Auditor's Report on the Annual Accounts

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

To the Shareholders of Aresbank, S.A.

REPORT ON THE ANNUAL ACCOUNTS

Opinion

We have audited the annual accounts of Aresbank, S.A. (the "Bank"), which comprise the balance sheet at 31 December 2022, 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 Bank at 31 December 2022, 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 Bank in accordance with the ethical requirements, including those regarding independence, that are relevant to our audit of the annual accounts pursuant to the legislation regulating the audit of accounts in Spain. 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.

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

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.

Impairment of loans and advances

See notes 6.1, 9 and 31 to the annual accounts

Key audit matter	*How the matter was addressed in our audit*
The Bank's portfolio of loans and advances to financial institutions and clients reflects a net balance of Euros 1,039,849 thousand at 31 December 2022, while allowances and provisions recognised at that date for impairment total Euros 4,386 thousand. The process of estimating impairment of the portfolio of loans and advances due to credit risk, on both an individual and a collective basis, in accordance with Banco de España Circular 4/2017, entails a significant and complex estimate. In the case of the individual analysis, these allowances and provisions for portfolios of impaired loans and advances consider the debtors' forecast business performance and the market value of the collateral provided for credit transactions. For the collective analysis, the Bank applies the alternative solutions presented in Circular 4/2017, and the main aspects considered are 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. The uncertainty caused by the current macroeconomic situation, high levels of inflation and the interest rate trends continue to have a negative effect on the economy and the business activities of the areas in which the Bank operates. The Bank has taken all these aspects into account in the quantification of the impairment of financial assets, increasing the uncertainty associated with their estimation. The consideration of this aspect as a key audit matter is based both on the significance for the Bank of the loans and advances 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 and calculating impairment thereon, while taking into consideration the additional situation generated by the current uncertainty.	Our audit approach in relation to the Bank's estimate of impairment of loans and advances to financial institutions and clients due to credit risk included an assessment of the relevant controls associated with the processes for estimating impairment, as well as different tests of detail on that estimate. Our procedures relating to the control environment were focused on assessing the main controls in 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 updating of the data and of the control and management process in place. Our tests of detail on the estimate of impairment included the following: – Impairment of individually significant transactions: we selected a sample from the population of significant risks and assessed the appropriateness of their classification on the basis of their credit risk, as well as the allowances and provisions recognised. – With respect to the allowances and provisions for impairment estimated collectively, we evaluated the methodology used by the Bank, assessing the integrity of the input balances for the process and validating the correct functioning of the calculation engine. Lastly, we evaluated 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.

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

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 the economic decisions of users taken on the basis of these annual accounts.

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

– Identify and assess the risks of material misstatement of the annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

– Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

– Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Bank's Directors.

– Conclude on the appropriateness of the Bank's 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 Bank'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 Bank 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.

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

We communicate with the Bank's Audit Committee 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 Bank'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 Bank's Audit Committee, we determine those that were of most significance in the audit of the annual accounts of the current period and which are therefore the key audit matters.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Additional Report to the Audit Committee

The opinion expressed in this report is consistent with our additional report to the Bank's Audit Committee dated 17 March 2023.

Contract Period

We were appointed as auditor by the shareholders at the ordinary general meeting on 23 March 2021 for a period of three years, from the year ended 31 December 2021.

Previously, we had been appointed for a period of three years by the shareholders at their ordinary general meeting, and have been auditing the annual accounts since the year ended 31 December 2015.

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

(Signed on original in Spanish)

Salvador Quesada Torrejón
On the Spanish Official Register of Auditors ("ROAC") with No. 18,303

17 March 2023

BALANCE SHEET FOR THE YEARS ENDED DECEMBER 31st, 2022 AND 2021
(EXPRESSED IN THOUSANDS OF EUROS)

ASSETS	2022	2021 (*)
Cash, balances with Central Banks and demand deposits (Note 7)	**188,728**	**283,919**
Financial assets at fair value through other comprehensive income (Note 8)	**8,060**	**9,735**
Debt securities	8,060	9,735
Financial assets at amortized cost (Note 9)	**1,044,937**	**1,052,272**
Debt securities	5,088	6,129
Loans and advances	1,039,849	1,046,143
Financial entities	732,549	856,963
Clients	307,300	189,180
Tangible assets (Note 10)	**31,308**	**31,597**
For own use	12,608	12,794
Investment property	18,700	18,803
Intangible assets (Note 11)	**231**	**166**
Other intangible assets	231	166
Tax assets (Note 12)	**10,428**	**3,826**
Current tax assets	2,620	2,014
Deferred tax assets	7,808	1,812
Other assets (Note 13)	**157**	**241**
Rest of other assets	157	241
TOTAL ASSETS	**1,283,849**	**1,381,756**

OFF BALANCE SHEET ITEMS (Note 20)

Lending commitments granted	**128,411**	**135,473**
Other commitments granted	**98,055**	**214,231**

(*) Presented, solely and exclusively, for comparative purposes (see Note 3.3).
These financial statements and the accompanying Notes 1 to 32 are an integral part of the Annual Accounts as of December 31st, 2022. The financial statements are originally issued in Spanish and prepared in accordance Spanish Banking regulations, issued by Bank of Spain. 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, 2022 AND 2021
(EXPRESSED IN THOUSANDS OF EUROS)

LIABILITIES	2022	2021 (*)
Financial liabilities at amortized cost (Note 14)	**945,564**	**1,027,969**
Deposits	943,490	1,027,101
Deposits from central banks	71,574	20,653
Deposits from credit institutions	835,501	951,613
Deposits from other creditors	36,415	54,835
Other financial liabilities	2,074	868
Provisions (Note 15)	**2,601**	**2,347**
Taxes and other legal contingencies	22	22
Contingent exposure and commitments	2,579	2,325
Tax Liabilities (Note 12)	**382**	**310**
Liabilities from current tax	382	310
Other Liabilities (Note 13)	**3,101**	**1,288**
TOTAL LIABILITIES	**951,648**	**1,031,914**
SHAREHOLDERS' NET EQUITY		
Own funds	**333,514**	**349,978**
Share capital / Paid up capital (Note 17)	300,001	300,001
Retained earnings (Note 18)	43,634	42,930
Profit (or loss) for the period (Note 4)	(10,121)	7,047
Other comprehensive income (Note 19)	**(1,313)**	**(136)**
Elements that can be reclassified to profit (or loss)	(1,313)	(136)
Changes in fair value of debt instruments at fair value through other comprehensive income	(1,313)	(136)
TOTAL NET EQUITY (Note 16)	**332,201**	**349,842**
TOTAL LIABILITIES AND NET EQUITY	**1,283,849**	**1,381,756**

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PROFIT & LOSS ACCOUNT FOR THE YEARS ENDED DECEMBER 31st, 2022 AND 2021

(EXPRESSED IN THOUSANDS OF EURO)

	2022	2021 (*)
Interest income (Note 22)	21,997	7,072
Financial assets at fair value through other comprehensive income	75	75
Financial assets at amortized cost	21,827	6,967
Rest of interest income	95	30
(Interest expenses) (Note 23)	(15,402)	(2,018)
INTEREST MARGIN	**6,595**	**5,054**
Commissions income (Note 24)	9,803	12,425
(Commissions expense) (Note 25)	(484)	(420)
Gains or (losses) on financial assets and liabilities not at fair value through profit (or loss), net	10	8
Rest of assets and liabilities	10	8
Exchange differences, net (Note 5.8)	227	589
Other operating income (Note 26)	1,982	1,817
(Other operating expense) (Note 26)	(345)	(810)
GROSS MARGIN	**17,788**	**18,663**
Administrative Expenses	(11,698)	(11,214)
Personnel expenses (Note 27)	(8,195)	(8,045)
Other administrative expenses (Note 28)	(3,503)	(3,169)
Amortization (Note 30)	(475)	(524)
Provisions or (release of provisions) (Note 15)	(247)	(1,006)
Impairment losses or release on financial assets not at fair value through profit (or loss): assets valued at amortized cost. (Note 31)	(20,830)	2,255
Gains or (losses) on deregistration in non-financial assets, net	85	(4)
PROFIT (OR LOSS) BEFORE TAXES	**(15,377)**	**8,170**
Expenses or revenues on corporate income tax (Note 21)	5,256	(1,123)
PROFIT (OR LOSS) FROM ORDINARY ACTIVITY	**(10,121)**	**7,047**
PROFIT (OR LOSS) AFTER TAXES	**(10,121)**	**7,047**

(*) Presented, solely and exclusively, for comparative purposes (see Note 3.3).

These financial statements and the accompanying Notes 1 to 32 are an integral part of the Annual Accounts as of December 31st, 2022. The financial statements are originally issued in Spanish and prepared in accordance Spanish Banking regulations, issued by Bank of Spain. 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, 2022 AND 2021

(EXPRESSED IN THOUSANDS OF EURO)

a) STATEMENT OF RECOGNIZED INCOME AND EXPENSE

	2022	2021 (*)
PROFIT (OR LOSS) FOR THE PERIOD	**(10,121)**	**7,047**
OTHER COMPREHENSIVE INCOME	**(1,313)**	**(136)**
Items that can be reclassified into results	**(1,313)**	**(136)**
Debt instruments at fair value through other comprehensive income (Note 32)	(1,876)	(194)
Gains or (-) losses through net equity	(1,876)	(194)
Tax effect	563	58
GLOBAL RESULT OF THE YEAR	**(11,434)**	**6,911**

(*) Presented, solely and exclusively, for comparative purposes (see Note 3.3).

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b) CHANGES IN EQUITY IN THE PERIOD

(EXPRESSED IN THOUSANDS OF EURO)

YEAR-END 2022	EQUITY			REVALUATION ADJUSTMENTS	TOTAL
	Issued capital	Retained earnings	Result for the period		
1.Balance Sheet as of 31/12/21	**300,001**	**42,930**	**7,047**	**(136)**	**349,842**
a) Error adjustments	-	-	-	-	-
b) Adjustments due to accounting policy change	-	-	-	-	-
2. Adjusted balance sheet (1+a+b)	**300,001**	**42,930**	**7,047**	**(136)**	**349,842**
3. Total recognized income and expense	-	-	**(10,121)**	**(1,313)**	**(11,434)**
4.Other changes in equity (c+d+e)	-	**704**	**(7,047)**	**136**	**(6,207)**
c) Dividend distribution	-	-	(6,343)	-	(6,343)
d) Transfers between items	-	704	(704)	-	-
e) Other Issuances (reduction) for equity instruments	-	-	-	136	136
5. Balance Sheet as of 31/12/22 (2+3+4)	**300,001**	**43,634**	**(10,121)**	**(1,313)**	**332,201**

These financial statements and the accompanying Notes 1 to 32 are an integral part of the Annual Accounts as of December 31st, 2022. The financial statements are originally issued in Spanish and prepared in accordance Spanish Banking regulations, issued by Bank of Spain. 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.

YEAR-END 2021	EQUITY			REVALUATION ADJUSTMENTS	TOTAL EQUITY
	Issued capital	Retained earnings	Result for the period		
1.Balance Sheet as of 31/12/20 (*)	**300,001**	**41,828**	**11,012**	**(257)**	**352,584**
a) Error adjustments	-	-	-	-	-
b) Adjustments due to accounting policy change	-	-	-	-	-
2. Adjusted balance sheet (1+a+b)	**300,001**	**41,828**	**11,012**	**(257)**	**352,584**
3. Total recognized income and expense	-	-	**7,047**	**(136)**	**6,911**
4.Other changes in equity (c+d+e)	-	**1,102**	**(11,012)**	**257**	**(9,653)**
c) Dividend distribution	-	-	(9,910)	-	(9,910)
d) Transfers between items	-	1,102	(1,102)	-	-
e) Other Issuances (reduction) for equity instruments	-	-	-	257	257
5. Balance Sheet as of 31/12/21 (2+3+4)	**300,001**	**42,930**	**7,047**	**(136)**	**349,842**

(*) Presented, solely and exclusively, for comparative purposes (see Note 3.3).
These financial statements and the accompanying Notes 1 to 32 are an integral part of the Annual Accounts as of December 31st, 2022. The financial statements are originally issued in Spanish and prepared in accordance Spanish Banking regulations, issued by Bank of Spain. 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, 2022 AND 2021

(EXPRESSED IN THOUSANDS OF EURO)

	2022	2021 (*)
A) CASH-FLOW FROM OPERATING ACTIVITIES	**(27,714)**	**111,217**
(+) Profit (or loss) for the period	**(10,121)**	**7,047**
(+) Adjustments to reach the operating cash flow	**(6,293)**	**5**
Amortization	475	524
Other adjustments	(6,768)	(519)
(-) Net increase or (decrease) in operating assets	**(85,385)**	**216,243**
Assets at fair value through other comprehensive income	(1,676)	181
Financial assets at amortized cost	(110,074)	214,940
Other operating assets	26,365	1,122
(+) Net increase or (decrease) in operating liabilities	**(80,520)**	**322,470**
Financial liabilities at amortized cost	(83,611)	322,230
Other operating liabilities	3,091	240
(+) Inflows or (outflows) from Corporate Income Tax	**(1,511)**	**(2,062)**
B) CASH-FLOW FROM INVESTING ACTIVITIES	**(254)**	**(233)**
(-) Outflows	**254**	**233**
Tangible assets (Note 10)	57	71
Intangible assets (Note 11)	197	162
(+) Inflows	**-**	**-**
Tangible assets	-	-
C) CASH-FLOW FROM FINANCING ACTIVITIES	**(6,343)**	**(17,689)**
(-) Dividend's payment (Note 4)	6,343	17,689
D) EFFECT OF THE EXCHANGE RATE FLUCTUATIONS	**227**	**589**
E) NET INCREASE OR (DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C+D)	**(19,430)**	**93,884**
F) CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**208,158**	**190,035**
G) CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**188,728**	**283,919**

CASH COMPONENTS AND EQUIVALENTS AT THE END OF THE PERIOD

Cash (Note 7)	100	108
Cash equivalent balances in Central Banks (Note 7)	173,942	208,050
Other financial assets (Note 7)	14,686	75,761

(*) Presented, solely and exclusively, for comparative purposes (see Note 3.3).

These financial statements and the accompanying Notes 1 to 32 are an integral part of the Annual Accounts as of December 31st, 2022. The financial statements are originally issued in Spanish and prepared in accordance Spanish Banking regulations, issued by Bank of Spain. 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 CLOSED DECEMBER 31st, 2022

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, 2022, 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 (Note 17).

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 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, 2022 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 2022 have been formulated by the Board of Directors of the Bank in the resolution dated on March 17th, 2023, 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.

The information contained in these Financial Statements has been prepared and formulated by the Board of Directors, considering that the management of the Entity will continue in the future, despite the losses recorded in 2022, so that the accounting rules have not been applied with the objective of determining the value of equity for the purposes of its global or partial transfer or for a hypothetical liquidation.

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.

The annual accounts of the Bank for the financial year ended December 31st, 2022 have been drawn up taking into account all the accounting principles and rules and the applicable mandatory valuation criteria in such a way as to show, in all material respects, a true and fair view of the Bank's assets and liabilities as of December 31st, 2022, as well as the results of its operations and cash flows for the year ended on that date, in accordance with the applicable financial reporting regulatory framework referred to above and, in particular, with the accounting principles and criteria contained therein.

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 2022 and those corresponding to the previous years. All captions that present no balance as of December 31st, 2022, and 2021, have been removed. The comparative information for the financial year 2021 broken down in these annual accounts has been subject to certain non-significant modifications in order to improve comparability with the figures for the financial year 2022.

The information contained in these annual accounts referring to the year 2021 is presented, exclusively, for comparative purposes with the information referred to that year and, therefore, does not constitute the annual accounts of the Entity for the year 2021.

3.4 Accounting estimates and errors

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

- The losses for impairment of certain assets (see Notes 8, 9 and 31).
- The useful life adopted for tangible and intangible assets (see Notes 10 and 11).
- The estimate of the need or not to constitute provisions and the amount, if any, of the provisions to be constituted (see Note 15).
- Estimation of income tax expense and deferred assets and liabilities (see Note 21).

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.

During the year 2022 and until the date of preparation of the annual accounts for the year 2022, there has been no error nor change in accounting estimates, which due to its relative importance was necessary to include in the annual accounts authorized for issue by the Board of Directors.

After several years of tensions between Russia and Ukraine, on February 24th, 2022, the military invasion of Ukraine by the Russian Government took place. In response to this military action, important economic sanctions against Russia have been announced by several countries and a growing number of large public and private companies have announced voluntary actions to restrict business activities with Russia. These actions include plans to dispose of assets or disrupt operations in Russia, reduce exports or imports from the country, and suspend the provision of services to the Russian state and companies.

The Ukraine conflict and its effects take place at a time of significant global economic uncertainty and volatility and the effects are likely to interact with and even aggravate the effects of current market conditions. The outbreak of the war brings with it an important list of effects on the economy, such as the increase in the price of energy, the interruption of trade relations, volatility of the stock markets, rupture of the supply chain, etc.

At the time of the preparation of these annual accounts, the Bank has not been affected, nor is it expected to be significantly affected by the impacts of this situation.

3.5 Changes in accounting and regulatory principles

There have not been changes in accounting principles applied by the Bank during 2022.

Bank of Spain has published Circular 6/2021 of December 22nd, amending Circular 4/2017, of November 27th, to credit institutions, on public and reserved financial reporting standards, and financial statement models, and Circular 4/2019, of November 26th, to financial credit institutions, on public and reserved financial reporting standards, and models of financial statements. The modifications that this circular incorporates in Circular 4/2017, of November 27th, include, among others:

- Changes to international financial reporting standards adopted in the European Union (IFRS-EU) made under Commission Regulation (EU) 2021/25. The changes mentioned are the result of phase 2 of the International Accounting Standards Board project to respond to the reform of the benchmark interest rate indices known as IBOR (InterBank Offered Rates). The effect of changes in benchmarks has not been significant within the Bank. These changes complement those introduced in phase 1 by Commission Regulation (EU) 2020/34 of January 15th, 2020.
- The modification of the models and instructions for the preparation of the reserved financial statements known as FINREP, as contained in Commission Implementing Regulation (EU) 2021/451 of December 17th, 2020.
- The EBA Guidelines on the granting and monitoring of loans (EBA/GL/2020/06) with the aim, inter alia, of improving practices, processes and procedures related to the granting of credit operations.
- The modification of Annex 9 of Circular 4/2017, of November 27th, to update the alternative solutions for the collective estimation of the coverage of loss due to credit risk and discounts on the reference value of assets foreclosed or received in payment of debts.

In short, the modifications described in the previous paragraphs preserve the convergence of the Spanish accounting regulations of financial institutions with the framework of IFRS-EU, subject to the provisions of the Spanish Commercial Code, while maintaining alignment and avoiding overlaps with the aforementioned European standards and guidelines. This regulation is applicable from June 2022 and have not had significant impacts in this regard.

3.6 External auditors

The Annual Accounts of Aresbank, S.A. as of December 31st, 2022 have been audited by KPMG Auditores, S.L., same as the ones from the year before.

The fees corresponding to the services provided by the auditing company KPMG Auditores, S.L. of the Bank's Annual Accounts during the year ended December 31st, 2022 and 2021, regardless of the time of their billing, are as follows:

	Thousands of euros	
	2022	**2021**
For audit-related services	57	52
Other services	5	5
Other expenses	3	3
Total Professional Services	**65**	**60**

"Other services" include the fees for the Report on Agreed Procedures relating to the Contribution to the Single Resolution Fund.

During 2022 and 2021, professional services were provided to the Bank by other entities affiliated to KPMG International, as follows:

	Thousands of euros	
	2022	**2021**
Annual Report of the External Expert on the Prevention of Money Laundering and Counterterrorist financing	17	24
Other expenses	1	1
Total Professional Services	**18**	**25**

The services contracted by the Bank with its auditor comply with the independence requirements set out in Law 12/2010, of 30th June, amending Law 19/1988, of 12th July, on Audit of Accounts and do not include the performance of work incompatible with the audit function.

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 2022 and 2021, 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 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 caused the repeal of all current regulation of Bank of Spain regarding own funds (Circular 3/2008 and Circular 7/2012) that were incompatible with the new regulation, involving the implementation of Basel III agreements with a gradual timetable to achieve its full implementation.

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, 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 are set at this stage: level 1 ordinary capital (4.5% as minimum capital ratio required), tier 1 capital (6% as minimum capital ratio required) and level 2 capital (8% as minimum capital ratio required).
- Definition of prudential filters and deductions of elements in each of the levels of capital. 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 from the Directorate-General of Supervision of Bank of Spain, dated on December 21st, 2022, in accordance with Article 68.2.a) from Law 10/2014, the Bank is required to maintain a minimum capital ratio, on an individual basis, not less than 14.99% of its risk exposure total amount. This prudential requirement applies since January 1st, 2023.

On December 31st, 2022, and 2021, the Bank complies with the regulatory capital requirements mentioned in the previous paragraph, and presents the following comparative with the previous year:

	Thousands of euros	
	2022	**2021**
Total Equity (computable)	331,962	342,619
CET 1	**331,962**	**342,619**
Paid-in capital	300,001	300,001
Retained Earnings	23,280	23,280
Reserves	20,354	19,650
Other comprehensive income	(1,313)	(136)
Intangible Assets (-)	(231)	(166)
Other transitory adjustments (-)	(8)	(10)
Profit or (loss) eligible	(10,121)	-
Tier 2	**-**	**-**
Credit risk adjustments (Std approach)	-	-

Common Equity Tier 1 Ratio	54.47%	58.24%
Surplus (+) / Deficit (-) on CET 1 Ratio	304,536	316,144
Solvency Ratio	54.47%	58.24%
Surplus (+) / Deficit (-) on Solvency Ratio	283,204	295,553

3.10 Minimum reserves requirement

As of December 31st, 2022, and 2021, as well as throughout the years 2022 and 2021, the Bank complied with the minimum requirements for this coefficient by the applicable Spanish regulations (see Note 7).

3.11 Deposit Guarantee Fund

On November 24th, 2021, entered into force the Royal Decree 1041/2021, of November 23rd, amending Royal Decree 2606/1996, of December 20th , on deposit guarantee funds of credit institutions; and the Royal Decree 1012/2015, of November 6th, which develops Law 11/2015, of June 18th, on the recovery and resolution of credit institutions and investment services companies, amending Royal Decree 2606/1996, of December 20th, on deposit guarantee funds of credit institutions.

In accordance with the amendment made by this Royal Decree in Articles 4 and 7 of Royal Decree 2606/1996, the Deposit Guarantee Fund will guarantee the coverage of deposits made by credit institutions, by companies and securities agencies and by portfolio management companies and financial advisory companies on behalf of their clients; that is, where these entities hold a deposit in which they act as representatives or agents of third parties and provided that the legal beneficiary has been identified or is identifiable before the circumstances described in Article 8 thereof occur. Likewise, according to the amendment made to Article 9bis.1, credit institutions will have always identified the eligible and guaranteed deposits of each depositor with the level of detail determined by Bank of Spain.

Credit institutions and branches attached to the Deposit Guarantee Fund must consider and comply with the new provisions introduced in Royal Decree 2606/1996, in addition to complying with the obligations established in Circular 8/2015, of December 18th, of Bank of Spain, to the entities and branches attached to the Deposit Guarantee Fund of Credit Institutions, on information to determine the basis for calculating contributions to the Deposit Guarantee Fund for Credit Institutions.

The Managing Committee of the Deposit Guarantee Fund in Credit Institutions (FGD), in its session dated May 4th, 2022, under the provisions of Article 6 of Royal Decree-Law 16/2011, of October 14th, which creates the FGD and article 3 of Royal Decree 2606/1996, of December 20th, on deposit guarantee funds of credit institutions, establishes the annual contributions corresponding to 2022 in the following terms:

i. The total annual contribution of all the entities adhering to the deposit guarantee compartment of the FGD has been set at 1.75 ‰ of the calculation base, constituted by the guaranteed monetary deposits as indicated in section 2.a) of Article 3 of Royal

Decree 2606/1996, existing on December 31st, 2021, calculating the contribution of each institution based on the amount of the guaranteed deposits and its risk profile. The amount of the 2022 contribution that corresponds to Aresbank, calculated in accordance with the provisions of Circular 5/2016, of May 27th, of the Bank of Spain, amounts to 11 thousand euros (Note 26).

ii. the annual contribution of the entities adhering to the securities guarantee compartment of the FGD has been set at 2 ‰ of the calculation base, constituted by 5% of the amount of the guaranteed securities, as indicated in section 2.b) of the Article 3 of Royal Decree 2606/1996, existing on December 31st, 2022.

3.12 Single Resolution Mechanism

The Single Resolution Board (SRB) is the central resolution authority within the European Banking Union. Together with the national resolution authorities of the participating Member States, it constitutes the Single Resolution Mechanism (SRM). Its mission is to ensure the orderly resolution of banks in crisis with the least possible impact on the real economy and public finances of participating EU countries and third parties.

The Fund for Orderly Bank Restructuring (FROB) is the current National Executive Resolution Authority which, as such, forms part of the European Single Resolution Mechanism (SRM), created within the European Banking Union.

Its essential mission is to manage the execution of the resolution processes of credit institutions and/or investment firms undertaken in Spain. In cases where an entity is declared to be failing or likely to fail, there are no private solutions that might remedy this situation and there are reasons of public interest that justify it (instead of winding up said entity through normal insolvency proceedings), FROB will manage the execution of the relevant resolution measures.

It does this fully respecting and observing the resolution objectives (established by Law 11/2015, of 18 June, on the recovery and resolution of credit institutions and investment firms) of maintaining the institution's critical functions and preserving economic and financial stability while protecting customers' covered deposits and assets. It attempts at all times to avoid or minimize the use of public resources.

In order to cover its operating expenses, FROB will charge entities a fee for FROB's activities as resolution authority, which will be governed by the provisions of Law 11/2015 and, failing that, by Law 8/1989, of 13 April, on Public Fees and Prices and by Law 58/2003, of 17 December, on General Taxation.

Its most relevant characteristics for the purposes of its settlement and collection are as follows (sixteenth additional provision of Law 11/2015):

- Accrual. The fee is due on 1 January of each year, except for newly incorporated entities, where the fee is due on the date of incorporation.
- Tax base. The tax base will be the sum that each entity must contribute as an annual ordinary contribution to the National Resolution Fund or, as the case may be, to the Single Resolution Fund.
- Tax fee. The tax fee will be the result of applying a tax rate of 2.5 percent to the tax base.
- FROB will be responsible for the management, settlement and collection of the fee.

The fee paid along 2022 to cover FROB's operating costs amounted 8 thousand euros, in concept of actions carried out as a resolution authority, the exercise of the functions of surveillance, reporting and application of the resolution instruments during their preventive and executive phases.

3.13 Single Resolution Fund

The Single Resolution Fund (SRF) is an emergency fund that can be called upon in times of crisis. It can be used to ensure the efficient application of resolution tools for resolving the failing banks, after other options, such as the bail-in tool, have been exhausted. The SRF ensures that the financial industry as a whole ensures the stabilization of the financial system. All banks across the European Banking Union countries must pay a fee annually by law to the SRF. These fees are called contributions. The fund means that taxpayers are not first in line to pump money into a bank, should extra funding be required, since EU law requires all banks to pay into the fund annually.

The SRF is being built up over a period of 8 years (2016-2023) and will reach at least 1% of the amount of the covered deposits of credit institutions, within the European Banking Union countries.

The individual amount each bank owes is calculated pro-rata to the amount of its liabilities (excluding own funds and covered deposits) in respect of the aggregate liabilities (excluding own funds and covered deposits) of all the credit institutions and certain investment firms of the European Banking Union countries. Amounts banks owe to the fund are adjusted in proportion to the risks taken by each institution.

The contribution to the SRF along 2022 amounted 333 thousand euros (Note 26).

The Single Resolution Board (SRB) is an independent EU agency that it is not publicly funded. Instead, banks operating across the Banking Union must pay an annual levy towards the running costs of the SRB. The determination and raising of Administrative Contributions is based on the Commission Delegated Regulation (EU) 2017/2361 of 14 September 2017 on the final system of contributions to the administrative expenditures of the Single Resolution Board, which came into force on 8 January 2018 and was amended by Commission Delegated Regulation (EU) 2021/517 of 11 February 2021.

Following the entry into force of Commission Delegated Regulation (EU) 2021/517, some changes have been introduced from the 2022 administrative contributions cycle onwards:

- Before, individual annual contributions were calculated and raised in Q1. As of the 2022 cycle, the SRB will calculate and raise individual annual contributions in Q3.

- In order to pre-finance its expenditures for the part of the financial year preceding the point at which the 2022 annual individual contributions are raised, the Board will raise advance instalments on the individual annual contributions in Q1. The advance instalments will be raised only from the institutions under the SRB's direct remit and will be deducted from those institutions' individual annual contributions in Q3.

The annual administrative contribution 2022 to the SRB amounted 1 thousand euros (Note 26).

3.14 ECB supervision

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 annual supervisory fee 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 the Bank as Less Significant Institution (LSI)
- The total amount of annual supervisory fees, as set out in Decision (EU) 2022/514 of the European Central Bank (ECB/2022/7).
- The total assets and risk exposure, as determined in accordance with Decision (EU) 2019/2158 of the European Central Bank (ECB/2019/38).

The fee paid in 2022 amounted 8 thousand euros.

3.15 Subsequent Events to December 31st, 2022

The Annual Accounts of the year 2022 have been formulated by Aresbank' Board of Directors in the resolution dated on March 17th, 2023. Likewise, the Board will propose to the Shareholder's Assembly the application of the results to voluntary reserves. (Note 4).

Regardless of what has been mentioned in this report, between the closing date and the date of formulation of these annual accounts, no other additional fact that significantly affects them and that has not been included in these annual accounts has been revealed.

4. RESULTS APPLICATION / DISTRIBUTION

The proposal that will be submitted to the General Shareholders' Meeting of Aresbank, S.A. for the application of the result of the year 2022, together with the distribution of the profit for the year 2021 approved by the General Shareholders' Meeting dated on May 10th, 2022, is the following:

	Thousands of euros	
	2022	**2021**
Net profit (or loss) for the year	**(10,121)**	**7,047**
To retained earnings (legal reserve)	-	(704)
To retained earnings (voluntary reserve)	10,121	-
Dividends (Note 3.15)	-	6,343

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 Recognition of income and expenses

As a general criterion, income from ordinary activities is recognized as the delivery of goods or the provision of contractually committed services with its customers occurs. The Bank recognizes as income over the life of the contract the amount of the compensation to which it expects to be entitled in exchange for such goods or services. When cash inflows are deferred over time, fair value is determined by discounting future cash flows.

However, when a debt instrument is considered to be impaired on an individual basis or is included in the category of those that suffer impairment because its recovery is considered remote, other than those financial assets purchased or originated with credit impairment, the interest to be recognized in the profit and loss account is the result of applying the effective interest rate on its amortized cost (i.e. adjusted for any value adjustment for impairment losses) recognizing an impairment of the same amount.

For financial assets purchased or originated with credit impairment, interest income is calculated by applying the credit-quality-adjusted effective interest rate to the amortized cost of the financial asset.

Dividends are recognized when the shareholder's right to receive payment is declared. Notwithstanding the foregoing, interest and dividends accrued prior to the date of acquisition of the instrument and outstanding are not part of the acquisition cost nor are they recognized as income.

5.4 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.

5.5 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.

5.6 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.

5.7 Impairment of debt instruments measured at amortized cost or fair value with changes in other comprehensive

The entry into force of Circular 4/2017 has meant a substantial change in the impairment model, replacing the incurred loss approach contained in Circular 4/2004, with an expected loss approach.

The new impairment model applies to debt instruments at amortized cost, debt instruments measured at fair value with changes in other comprehensive income, as well as other exposures involving credit risk, such as loan commitments granted, financial guarantees granted, and other commitments granted.

The criteria for the analysis and classification of transactions in the financial statements according to their credit risk include, on the one hand, the insolvency credit risk and, on the other hand, the country risk to which, if any, they are exposed. Credit exposures in which there are reasons for their rating for insolvency credit risk as for country-risk, are classified in the category corresponding to insolvency risk, unless it corresponds to a worse category by country-risk, without prejudice to the fact that impairment losses due to insolvency risk are calculated by the concept of country-risk when it implies greater demand.

Impairment losses for the period are charged to the profit and loss account as an expense, with consideration for the carrying amount of the asset. Subsequent reversals of previously recognized impairment hedges are recorded as income in the profit and loss account. For instruments measured at fair value with changes in other comprehensive income, the instrument shall subsequently be adjusted to fair value for consideration in "Other accumulated comprehensive income" of equity.

Classification of transactions according to insolvency credit risk

Financial instruments, including off-balance sheet exposures, are classified into the following categories, taking into account whether there has been a significant increase in credit risk since the initial recognition of the transaction, and whether a default event has occurred:

– Stage 1 – Normal risk: The risk of a default event has not increased significantly since the initial recognition of the transaction. The impairment value correction for this type of instrument is equivalent to the expected credit losses in twelve months.

– Stage 2 – Normal risk under special surveillance: the risk of a non-compliance event has increased significantly since the initial recognition of the operation. The impairment value correction for these types of instruments is calculated as the expected credit losses over the estimated life of the transaction.

– Stage 3 – Non-performing risk: a default event has occurred in the operation. The impairment value correction for these types of instruments is calculated as the expected credit losses over the estimated life of the transaction.

– Write-off: operations for which the Bank has no reasonable expectation of recovery. The impairment value correction for this type of instrument is equivalent to its carrying amount and entails its total derecognition of the asset.

For financial instruments classified in “Stage 1 – Normal Risk”, the Bank assesses whether it is still appropriate for expected twelve-month credit losses to continue to be recognized.

In this regard, the Bank carries out an assessment of whether there has been a significant increase in credit risk since its initial recognition. If it has occurred, the financial instrument is transferred to “Stage 2 – Normal Risk under Special Surveillance” and its expected lifetime credit loss is recognized. This assessment is symmetrical, so that the return of the financial instrument to “Stage 1 – Normal Risk” category is allowed.

The Bank's credit risk management systems contain both quantitative and qualitative elements, which in combination or by themselves, could give rise to the consideration that there has been a significant increase in credit risk. Regardless of the valuation based on probabilities of default and indications of debasement of the credit risk of the exposure, for the determination of the significant increase in the credit risk of the operations since their initial recognition, the Bank analyzes the indicators included in Annex 9 of Circular 4/2017.

Notwithstanding the foregoing, for those assets in which the counterparty has low credit risk, the Bank applies the possibility provided for in the standard to consider that its credit risk has not increased significantly. This type of counterparties includes, mainly, central banks, public administrations, deposit guarantee funds and resolution funds, credit institutions, mutual guarantee societies and non-financial corporations that are considered public sectors.

For the purpose of determining default risk, the Bank applies a definition that is consistent with the one it uses for the internal management of credit risk of financial instruments and takes into account quantitative and qualitative indicators.

In this regard, the Bank considers that there is default when some of the following circumstances occur in the credit exposures:

- Default of more than 90 days. Likewise, all operations of a holder are included when the amount of operations with overdue balances more than 90 days exceeds 20% of the amounts pending collection.
- There are reasonable doubts about the full reimbursement of the asset.

A financial instrument is considered to be credit-impaired when one or more events have occurred with a negative impact on its estimated cash flows. Evidence of credit impairment in financial asset includes, but is not limited to, the following:

- Significant financial difficulties of the issuer or borrower.
- Breach of contractual clauses, such as events of default or default.
- Granting by the lender of concessions or advantages for economic or contractual reasons due to economic difficulties of the borrower, which otherwise would not have been granted and which show evidence of deterioration.
- Increasing likelihood that the borrower will go bankrupt or in any other financial reorganization situation.
- Disappearance of an active market for the financial instrument in question caused by the financial difficulties of the issuer.
- Purchase or origination of a financial asset at a significant discount reflecting credit losses suffered.

It is possible that a single specific event can be identified or, on the contrary, the credit impairment is a combined effect of several events.

Methodologies for estimating expected credit losses due to insolvency

To determine expected credit losses due to insolvency, individual and collective estimates are made according to the following criteria:

- Individual estimates are made for the following types of operations:
    - Non-performing transactions: transactions that the Entity considers to be significant due to late payment, transactions classified in this category for reasons other than late payment and transactions that do not belong to a homogeneous risk group.
    - Standard operations under special supervision: transactions that are considered significant by the Institution, transactions classified in this category as a result of an individual analysis other than automatic operations and operations that do not belong to a homogeneous risk group.
- Collective estimates are made for all operations that do not have to be individually estimated.

Individualized loss estimates arise as the negative difference in the present values of expected future cash flows over the remaining life of the financial instruments, discounted at the effective interest rate, and their respective credit exposure values at the date of calculation.

Since the Bank has not developed internal methodologies for collective estimates, it uses the alternative solutions contained in Annex 9 of Circular 4/2017, which consider the type of collateral of the operation, the segment of the credit risk and the age of the overdue amounts.

Credit risk due to country risk

Country risk is considered to be the risk that occurs in counterparties resident in a given country due to circumstances other than usual commercial risk (sovereign risk, transfer risk or risks arising from international financial activity) or insolvency risk. The Bank classifies operations carried out with third parties into different groups according to the economic evolution of the countries, their political situation, regulatory and institutional framework, capacity and experience of payments, assigning to each of them the percentages of provision in accordance with the provisions of current regulations.

Non-performing assets due to the materialization of country risk are those operations with final obligors resident in countries that have prolonged difficulties in servicing their debt, considering the possibility of recovery, as well as off-balance sheet exposures whose recovery is considered remote due to the circumstances attributable to the country.

The Bank maintains significant exposures to credit risk due to country risk, so the levels of provision for this item are significant in relation to the total impairment hedges constituted by the Bank.

5.8 Transactions and balances in foreign currency

The Bank’s functional and presentation 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 (see Note 6.2).

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.

After that time, the following rules apply for the conversion of balances denominated in foreign currency to euros:

- Monetary assets and liabilities are translated into euros using exchange rates at the closing date of each financial year.
- Non-cash items measured at fair value are translated at the exchange rate of the date on which fair value was determined.
- Income and expenses are converted by applying the exchange rate of the date of the transaction.

The exchange differences arising in the translation are recorded, generally, for their net amount in the caption "Exchange Differences" of the Income Statement., whose amount in 2022 and 2021 has been 227 and 589 thousand euros of profit, respectively.

The counter value in euro of the assets and liabilities nominated in foreign currency (US dollars mainly) as of December 31st, 2022 amounts, respectively, to 813,518 and 814,692 thousand euros (920,641 and 920,465 thousand euros, respectively, as of December 31st, 2021).

5.9 Write-off of financial instruments

A financial asset is derecognized from the balance sheet when any of the following circumstances occur:

- Contractual rights to the cash flow they generate have expired; or
- The financial asset is transferred, and the significant risks and rewards of the financial asset are substantially transferred, or even if there is no transfer or substantial retention of these, control of the financial asset is transferred.

On the other hand, a financial liability is derecognized from the balance sheet when the obligations they generate have been extinguished or when they are reacquired by the Bank, either with the intention of relocating them again, or with the intention of canceling them.

5.10 Reclassification among portfolios of financial instruments

Only when a change in the business model for the management of financial assets takes place does the Bank carry out the reclassification of the debt instruments concerned, on the basis that a change in the business model is considered exceptional or rare.

During the period there has been no change in the Bank's business model, so no reclassification of portfolios of debt instruments has been carried out.

5.11 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 27/2014 of November 27th. 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".

5.12 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.

5.13 Leases

On January 1st, 2019, Circular 2/2018 came into force, which includes modifications in the accounting for the lessee. The single ledger accounting model requires that the assets and liabilities of all leases be recognized. The rule provides for two exceptions to the recognition of lease assets and liabilities, which can be applied in the case of short-term contracts and those whose underlying asset is of low value. The Bank has decided to apply both exceptions.

The lessee must recognize in the asset a right of use that represents its right to use the leased asset that is recorded under the heading "Tangible assets – Property, plant and equipment" of the balance sheet (see Note 10), and a lease liability that represents its obligation to make the lease payments recorded under the heading "Financial liabilities at amortized cost – Other financial liabilities" of the balance sheet (see Note 14).

At the lease starting date, the lease liability represents the present value of all outstanding lease payments. Liabilities recorded in this section of the balance sheet are valued after their initial recognition at amortized cost, which is determined in accordance with the "effective interest rate" method.

Rights of use are initially recorded at cost. This cost should include the initial valuation of the lease liability, any payments made before the start date less lease incentives received, all direct upfront expenses incurred, as well as an estimate of expenses to be incurred by the lessee such as expenses related to the removal and dismantling of the underlying asset.

The assets recorded in this balance sheet chapter are valued after their initial recognition at less cost:

- Accumulated depreciation and accumulated impairment, and
- Any revaluation of the corresponding lease liability.

Interest expense on lease liabilities is recognized in the profit and loss account under "Interest expense". Variable payments not included in the initial valuation of lease liabilities are recorded under the heading "Administrative expenses – Other administrative expenses" in the profit and loss account.

Depreciation is calculated, applying the straight-line method on the cost of acquiring the assets, on the life of the lease. Provisions for depreciation of tangible assets are recorded in the "Depreciation" chapter of the profit and loss account.

In the case of opting for one of the two exceptions to not recognized the right of use and the corresponding liability in the balance sheet, payments relating to the corresponding leases are recognized in the profit and loss account, over the contract term or on a straight-line or other basis that best represents the structure of the lease transaction, under the heading "Other operating expenses".

Sublease and operating lease income is recognized in the profit and loss account under "Other operating income".

The lessor's accounting model requires that, from the beginning of the transaction, lease agreements be classified as financial when substantially all the risks and rewards inherent in ownership of the contract asset are transferred. Leases that are not financial are considered operating leases.

In financial leases, where entities act as lessors of an asset, the sum of the present values of the amounts they will receive from the lessee plus the guaranteed residual value, which is usually equivalent to the exercise price of the purchase option by the lessee at the end of the contract, is recorded as financing lent to third parties; so it is included in the chapter "Financial assets at amortized cost" of the balance sheet.

In operating leases, if the entities act as lessors, they present the cost of acquiring the leased assets under the heading "Tangible assets - Property, plant and equipment - Assigned operating lease" of the balance sheet. (see Note 10). These assets are written off in accordance with the policies adopted for similar tangible assets for own use and income and expenses from leases are recognized in the profit and loss account, on a straight-line basis, under the headings "Other operating income" and "Other operating expenses", respectively (see Note 26).

In the case of sales at fair value with subsequent lease, the results generated by the sale, by the part actually transferred, are recorded in the profit and loss account at the time of the sale.

5.14 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.

5.15 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, 2022, and 2021, 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.

5.16 Pension commitments

As of December 31st, 2022, and 2021, 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 2022 amounted to 167 thousand euros, and 159 thousand euros in 2021 (Note 27).

Aresbank' outstanding balance related to the employees' contributions with the pension fund management company (BanSabadell Pensiones) amounts to a total of 3,390 thousand euros as of December 31st, 2022 and 3,588 thousand euros in 2021.

5.17 Corporate Income tax

The Bank recognizes as an expense the tax levied on profits from continuing activities accrued in the year, which is obtained on the basis of the result of the same and taking into account the temporary differences between the accounting result and the tax result (tax base). Existing bonuses and deductions on the tax rate are taken into consideration. The differences between the tax levied on the profits from the continuing activities payable and the expense for such tax caused by the temporary allocation differences are recorded as deferred tax assets or liabilities, as applicable.

By application of Rule 42 of Circular 4/2017, the quantification of deferred tax assets and liabilities is carried out by applying to the temporary difference, or credit that corresponds, the tax rate at which it is expected to recover or settle. As of December 31st, 2022, and 2021, the Bank has fiscal assets (Note 12).

5.18 Staff costs: short-term remuneration

This type of remuneration is valued, without updating, by the amount to be paid for the services received, generally recorded as staff expenses for the year and as a liability accrual account, for the difference between the total expense and the amount already paid.

5.19 Severance payments

In accordance with the labor regulations in force, entities are obliged to pay compensation to employees with whom, under certain conditions, their employment relations are terminated. These indemnities are charged to results as soon as there is a plan that requires payment of the same.

5.20 Financial Guarantees

Financial guarantees are contracts under which the Bank undertakes to pay specific amounts by a third party in the event of not doing so, regardless of their legal form, which may be, among others, that of a collateral, financial or technical guarantee and irrevocable documentary credit issued or confirmed by the Bank.

5.21 Off- Balance Sheet items

Off-balance sheet items shall include balances representing rights, obligations and other legal situations that in the future may have an impact on net assets, as well as any other balances needed to reflect all transactions entered into by entities although they may not impinge on their net assets. Off-balance-sheet items will include the balances representing rights, obligations and other legal situations that may have financial repercussions in the future, as well as those other balances that are necessary to reflect all the operations carried out by the entities, even if they do not compromise their wealth. Off-balance-sheet items shall be grouped into the following categories: guarantees granted, contingent commitments granted, financial derivatives, pension commitments and risks and similar obligations, transactions on behalf of third parties and other off-balance-sheet accounts.

The category "Other commitments granted" shall include all transactions whereby an institution secures obligations of a third party arising as a result of financial guarantees granted by the institution or by other contracts. This category includes:

a) Other financial guarantees: it will collect the amount of any financial guarantee not included as financial guarantee, financial guarantee, credit derivatives sold, derivative risks contracted on behalf of third parties.

b) Irrevocable documentary credits: it will include irrevocable payment commitments made against delivery of documents. They shall be recorded for the maximum amount for which the institution is liable to third parties on the date to which the balance sheet relates.

c) Other guarantees provided: it will include all kinds of guarantees and bonds such as technical guarantees and those for the import and export of goods and services. They shall include irrevocable formalized pledges of guarantee and the guarantee letters as soon as they may be enforceable by law and entrenchments of any kind.

d) Other contingent risks: It shall include the maximum amount of which the entity is liable to third parties for any operation in which the entity assumes a contingent risk not included in other items.

In transactions in which interest is due, the maximum amount guaranteed shall include, in addition to the principal guaranteed, the overdue interest outstanding. The amounts guaranteed may be reduced or deregistered from off-balance-sheet only if it is reliable that the risks guaranteed have been reduced or cancelled or when they are paid against third parties or must be recorded in the liabilities because the beneficiaries have claimed payment.

The category "Loan commitments granted" shall include those irrevocable commitments which could give rise to the recognition of financial assets. This category shall be broken down into the following headings:

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.

5.22 Commissions

The Entity classifies the commissions it charges or pays into the following categories:

Financial fees

These types of fees, which form an integral part of the actual performance or cost of a financial transaction and are charged or paid in advance, are recognized in the profit and loss account generally over the expected life of the financing, net of the related direct costs, as an adjustment to the cost or actual return of the transaction.

Non-financial fees

This commission arises for the provision of services by the Entity and is recorded in the profit and loss account throughout the period of the execution of the service, or, if it is a service that is executed in a singular act, at the time of the performance of the singular act.

5.23 Statement of recognized income and expenses

This statement presents the income and expenses generated by the Bank as a result of its activity during the year, distinguishing those recorded as results in the profit and loss account for the year and the other income and expenses recorded, in accordance with the provisions of current regulations, directly in equity.

Therefore, in this statement it is presented:

a) The result of the exercise.

b) The net amount of income and expenses recognized temporarily during the year as "Other accumulated overall income" in equity.

c) The net amount of income and expenses recognized recorded, where appropriate, during the financial year definitively in equity, as well as other items whose recording is made directly against equity definitively.

d) The tax on profits accrued for the concepts indicated in letters b) and c) above.

e) The total income and expenses recognized, calculated as the sum of the previous sections.

Changes in income and expenses recognized in equity as "Other accumulated comprehensive income" are broken down into:

a) Valuation gains (losses): includes the amount of income, net of expenses incurred in the year, recognized directly in equity. Amounts recognized in the period as Other accumulated comprehensive income are recorded under this heading, even if in the same period they are transferred to the profit and loss account at the initial value of other assets or liabilities or are reclassified to another item.

b) Amounts transferred to the profit and loss account: includes the amount of valuation gains or losses previously recognized in equity, even in the same period, which are recognized in the profit and loss account for the period.

c) Amount transferred to the initial value of hedged items: includes, where applicable, the amount of valuation gains or losses previously recognized in equity, even in the same period, which are recognized at the initial value of assets or liabilities as a result of cash flow hedges.

d) Other reclassifications: includes, where appropriate, the amount of transfers made in the year between items of "Other accumulated global result" in accordance with the criteria established in current regulations.

The amounts of these items are presented by their gross amount, showing their corresponding tax effect in the heading "Income tax" of the state.

5.24 Statement of changes in equity

This statement presents all changes in equity, including those arising from changes in accounting criteria and corrections of errors that, where appropriate, may have occurred. This statement therefore shows a reconciliation of the carrying amount at the beginning and end of the financial year of all the items that make up the Bank's equity, grouping the movements according to their nature into the following items:

- Adjustments for changes in accounting criteria and errors: which includes significant changes in equity that arise, if any, as a result of the retroactive restatement of the balances of the financial statements resulting from changes in accounting criteria or correction of errors.
- Recognized income and expenses: collect, in aggregate, the total of the items recorded in the statement of Income and Expenses recognized above.
- Other changes in equity: includes the rest of the items recorded in equity, such as the distribution of the Bank's results, transfers between equity items as a result of the distribution of the result of the year and any other increase or decrease in equity

5.25 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.

5.26 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.c for the detail of the related party transactions during 2022 and 2021.

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.

5.27 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.

As of December 31st, 2022, and 2021, the Entity has no financial assets and liabilities offset. Likewise, at such dates, the Entity has no rights of set-off associated with financial assets and liabilities subject to enforceable contractual netting agreements that have not been cleared.

5.28 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.
- The Risk & Regulatory Compliance Committee, as well as the Audit Committee, report to the Board of Directors on the risks maintained and the operation of the operation.
- Risk management is based on the monitoring of control procedures to ensure compliance within the established limits, the defined responsibilities, and the monitoring of risk indicators.

- The main objective is the management of credit, market, liquidity, operational, business and reputational risk, as well as the maintenance of a level of capital in a coordinated manner at all levels within our organization.
- The risk management function is 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 569,719 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, 2022, to 1,032,594 thousand euros, in comparison with 1,126,932 thousand euros in 2021. The key component of the total lending was "Loans and Advances to Credit Institutions", for an amount of 721,824 thousand euros, from which 624,414 thousand euros are placed within the Interbank market.

Contingent exposures have decreased from the previous year to a total amount of 98,055 thousand euros.

	Thousands of euros	
CREDIT INVESTMENT EXPOSURES	**2022**	**2021**
Balance sheet exposures (Gross)	1,032,594	1,126,932
Granted guarantees	98,055	214,231
Drawable balances	128,411	135,473
	1,259,060	**1,476,636**

RISK CONCENTRATION BY ACTIVITY AND GEOGRAPHICAL AREA

The breakdown corresponding to December 31st, 2022 and 2021 are as follows:

	Thousands of euros				
2022	**Total**	**Spain**	**Rest of E.U.**	**America**	**Rest of the world**
Credit institutions	**927,234**	**688,644**	**117,925**	**11,085**	**109,580**
Central Banks	*173,942*	*173,942*	-	-	-
Rest	*753,292*	*514,702*	*117,925*	*11,085*	*109,580*
Other financial entities	**53,748**	**-**	**-**	**-**	**53,748**

Non-financial Corporates and Individuals	**274,254**	**201,910**	**16,064**	**-**	**56,280**
Corporates	*263,429*	*191,093*	*16,056*	-	*56,280*
SME and individuals	*10,825*	*10,817*	*8*	-	-
Other households (others)	**407**	**407**	**-**	**-**	**-**
TOTAL	**1,255,643**	**890,961**	**133,989**	**11,085**	**219,608**

	Thousands of euros				
2021	**Total**	**Spain**	**Rest of EU**	**America**	**Rest of the world**
Credit institutions	**1,146,039**	**761,933**	**268,292**	**24,835**	**90,979**
Central Banks	*208,050*	*208,050*	-	-	-
Rest	*937,989*	*553,883*	*268,292*	*24,835*	*90,979*
Other financial entities	**59,453**	**-**	**-**	**-**	**59,453**
Non-financial Corporates and Individuals	**152,307**	**112,749**	**7,926**	**-**	**31,632**
Corporates	*144,720*	*105,180*	*7,908*	-	*31,632*
SME and individuals	*7,587*	*7,569*	*18*	-	-
Other households (others)	**499**	**499**	**-**	**-**	**-**
TOTAL	**1,358,298**	**875,181**	**276,218**	**24,835**	**182,064**

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 2022 and 2021. 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, 2022 amounts to 1,284 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 (see Note 5.4).

- **Liquidity**

Liquidity risk management consists of ensuring that the Bank will at all times have sufficient liquidity to meet its payment commitments associated with the cancellation of its liabilities on their respective maturity dates, without compromising its ability to respond quickly to strategic market opportunities, with the objective of maintaining an optimal level of liquid assets under a prudent policy.

In this context, the keys to solving liquidity problems lie in anticipation and preventive management. Aware of this, the Bank considers both aspects its first lines of defense against the potential adverse effects of an illiquidity situation on its results, reputation and solvency.

In terms of early identification, the Bank continuously monitors its short, medium and long-term liquidity situation and the evolution of the main money and capital markets in which it operates. To this end, it has: (i) assume the responsibility for liquidity management, (ii) analyze the maturities of the assets and liabilities flow in different time horizons and (iii) access the markets to operate products according to authorized limits.

With regard to preventive management, the Assets and Liabilities Committee (ALCO) guides the structural management of liquidity towards (i) the balance between positive and negative financial flows over a broad observation horizon, (ii) diversification of uses and sources of financing, and (iii) protection of the Bank's ability to finance its growth and meet its payment obligations on the date. and contractually established form at a reasonable cost and without affecting your reputation.

Finally, in terms of anticipation, the Entity has a cushion of liquid assets free of charges that allows it to comfortably face situations of severe stress. The quality, relative liquidity and pledge capacity of the assets that make up the buffer are regularly checked and subjected to stress tests to determine their ability to cope with extreme circumstances.

The main metrics currently used for the control of liquidity and its results as of December 31st, 2022 and 2021 are:

- *Daily liquidity control,* through which the Bank permanently monitors its intraday liquidity, the eligibility of securities for appeal to Bank of Spain financing (policy) and the adequacy of its room for manoeuvre (available liquid assets buffer) to deal with short-term cash outflows, among other indicators.

- *Liquidity gap,* which provides information on cash flow movements in order to detect the existence of gaps between collections and payments over time.

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, 2022, and 2021, the liquidity gap was as follows, expressed in their respective currency:

	2022							
	Thousands of euros							
	At sight	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Insensitive	Total
Assets								
Cash, Central Bank cash balances and other demand deposits	177,416	-	-	-	-	-	-	177,416
Loans to credit institutions	-	239	-	-	-	-	-	239
Loans and advances to clients	-	81,320	72,945	55,055	136	115	125	209,696
Fixed income portfolio	-	-	-	-	5,000	10,000	-	15,000
Other assets	-	-	-	-	-	-	-	-
Total Assets	**177,416**	**81,559**	**72,945**	**55,055**	**5.,36**	**10,115**	**125**	**402,351**
Liabilities								
Deposits from central Banks and credit institutions	-	95,056	-	-	-	1,500	-	96,556
Deposits from clients	26,438	-	-	-	29	61	-	26,528
Other liabilities	-	-	-	-	-	-	-	-
Total Liabilities	**26,438**	**95,056**	**-**	**-**	**29**	**1,561**	**-**	**123,084**
Simple Gap	150,978	(13,497)	72,945	55,055	5,107	8,554	125	279,267
Accrued Gap	150,978	137,841	210,426	265,481	270,588	279,142	279.267	279,267

	2022							
	Thousands of dollars (USD)							
	At sight	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Insensitive	Total
Assets								
Cash, Central Bank cash balances and other demand deposits	11,091	-	-	-	-	-	-	11,091
Loans to credit institutions	-	578,359	-	126,570	-	-	-	704,929
Loans and advances to clients	-	-	96,386	-	-	-	-	96,386
Fixed income portfolio	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-
Total Assets	**11,091**	**578,359**	**96,386**	**126,570**	**-**	**-**	**-**	**812,406**
Liabilities								
Deposits from central Banks and credit institutions	147,916	464,092	103,131	84,380	-	1,191	-	800,710
Deposits from clients	9,634	-	-	-	-	-	-	9,634
Other liabilities	-	-	-	-	-	-	-	-
Total Liabilities	**157,550**	**464,092**	**103,131**	**84,380**	**-**	**1,191**	**-**	**810,344**
Simple Gap	(146,459)	114,267	(6,745)	42,190	-	(1,191)	-	2,062
Accrued Gap	(146,459)	(32,192)	(38,937)	3,253	3,253	2,062	2.062	2,062

	2021							
	Thousands of euros							
	At sight	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Insensitive	Total
Assets								
Cash, Central Bank cash balances and other demand deposits	257,745	-	-	-	-	-	-	257,745
Loans to credit institutions	-	3,644	-	-	-	-	-	3,644
Loans and advances to clients	-	50,061	63,663	39,313	219	159	141	153,556
Fixed income portfolio	-	1,000	-	-	5,000	10,000	-	16,000
Other assets	-	-	-	-	-	-	-	-
Total Assets	**257,745**	**54,705**	**63,663**	**39,313**	**5,219**	**10,159**	**141**	**430,945**
Liabilities								
Deposits from central Banks and credit institutions	57,828	-	-	-	-	-	-	57,828
Deposits from client	43,816	5	-	-	29	18	-	43,868
Other liabilities	-	-	-	-	-	-	-	-
Total Liabilities	**101,644**	**5**	**-**	**-**	**29**	**18**	**-**	**101,696**
Simple Gap	156,101	54,700	63,663	39,313	5,190	10,141	141	329,249
Accrued Gap	156,101	210,801	274,464	313,777	318,967	329,108	329,249	329,249

	2021							
	Thousands of dollars (USD)							
	At sight	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Insensitive	Total
Assets								
Cash, Central Bank cash balances and other demand deposits	25,954	-	-	-	-	-	-	25,954
Loans to credit institutions	-	817,594	18,066	18,028	-	-	-	853,688
Loans and advances to clients	-	36,964	4,191	229	-	-	-	41,384
Fixed income portfolio	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-
Total Assets	**25,954**	**854,558**	**22,257**	**18,257**	**-**	**-**	**-**	**921,026**
Liabilities								
Deposits from central Banks and credit institutions	96,218	812,290	-	-	-	-	-	908,508
Deposits from client	10,818	-	-	-	-	-	-	10,818
Other liabilities	-	-	-	-	-	-	-	-
Total Liabilities	**107,036**	**812,290**	**-**	**-**	**-**	**-**	**-**	**919,326**
Simple Gap	(81,082)	42,268	22,257	18,257	-	-	-	1,700
Accrued Gap	(81,082)	(38,814)	(16,557)	1,700	1,700	1,700	1,700	1,700

The Bank has included within its liquidity management the monitoring of the short-term liquidity coverage ratio (LCR) and the net stable funding ratio or NSFR (net stable funding ratio), reporting to the regulator the required information on a monthly and quarterly basis respectively.

The measurement of liquidity based on these metrics is part of the liquidity risk control system established in the Bank:

- Short-term liquidity ratio (LCR): under the stress scenario defined by the Basel III capital agreement, the 30-day liquidity ratio as of December 31st, 2022 amounted to

129.51% (302.19% as of December 31st, 2021), both figures above the regulatory minimum.

- Structural Funding Ratio (NSFR): The Bank maintains a balanced long-term funding structure adjusted to its liquidity profile. As of December 31st, 2022, the structural funding ratio stood at 114.68% (247.97% as of December 31st, 2021), also above the Basel III target.

Additionally, the Bank has established a series of alerts and limits subject to continuous monitoring that allow anticipating possible liquidity tensions and activating in the event of requiring the convening and holding of extraordinary or crisis meetings (depending on the situation) of the ALCO.

The latter is contemplated in the liquidity risk contingency plan, which constitutes a second line of action against the potential adverse effects derived from an illiquidity situation. In essence, it is a practical action plan that optimizes the Bank's response to situations categorized as high or critical exposure in time, cost and form, as well as mitigating possible disturbances and impacts on business continuity during these episodes.

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 3,180 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 (see Note 3.10). The caption breakdown as of December 31st, 2022 and 2021 is as follows:

	Thousands of euros	
	2022	**2021**
Cash	100	108
Bank of Spain - Nostro Account	173,942	208,050
Demand deposits	14,686	75,761
	188,728	**283,919**

The caption "Other demand deposits" is presented net, as it includes 1 thousand euros due to country-risk impairments.

For the purposes of preparing the statement of cash flows, the Bank has considered cash the balance of "Cash, cash balances in central banks and other demand deposits" (see Note 5.25).

Note 6.2 includes information on liquidity risk and on maturities and financial assets included under this heading. Note 32.a includes information on the fair value of these instruments. Note 6.2 includes information on interest rate risk included under this balance sheet heading.

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The breakdown of this caption as of December 31st, 2022 and 2021 is as follows:

	Thousands of euros	
	2022	**2021**
Nature:		
Fixed income (Spain)	8,150	9,826
Generic impairments	(90)	(91)
	8,060	**9,735**
Currency:		
Euro	8,060	9,735
	8,060	**9,735**

	Thousands of euros			
	2022	**2021**	**2022**	**2021**
Rating:				
BBB-	8,060	9,735	100.00%	100.00%
	8,060	**9,735**	**100.00%**	**100.00%**

The interest accrued in 2022 for debt securities amounted to 75 thousand euros (2021: 75 thousand euros) (see Note 22).

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

Note 6.2 includes information on liquidity risk and on maturities and financial assets included under this heading. Note 32.a includes information on the fair value of these instruments. Note 6.2 includes information on interest rate risk included under this balance sheet heading.

9. FINANCIAL ASSETS AT AMORTIZED COST

The detail of this caption as of December 31st, 2022 and 2021 is as follows:

	Thousands of euros	
	2022	2021
Debt securities	5,114	6,164
Loans and advances to:		
Credit institutions	732,954	857,434
Customers	311,275	194,207
TOTAL Financial assets at amortized cost, gross	**1,049,343**	**1,057,805**
Impairment adjustments to:		
Debt securities	(26)	(35)
Credit institutions	(405)	(471)
Customers	(3,975)	(5,027)
TOTAL Financial assets at amortized cost, net	**1,044,937**	**1,052,272**

The breakdown by currency, residual maturity and sectors of the caption "**Financial assets at amortized cost**" as of December 31st, 2022, and 2021, is as follows:

	Thousands of euros	
	2022	2021
By currency		
Euro	242,653	157,767
Other currencies	802,284	894,505
TOTAL Financial assets at amortized cost, net	**1,044,937**	**1,052,272**
By residual maturity		
Up to 3 months	722,747	913,860
Over 3 months to 1 year	203,648	30,456
Over 1 year to 5 years	107,019	99,554
Over 5 years	11,523	8,402
TOTAL Financial assets at amortized cost, net	**1,044,937**	**1,052,272**
By sector		
Residents	698,774	649,335
Non- residents	346,163	402,937
TOTAL Financial assets at amortized cost, net	**1,044,937**	**1,052,272**

Note 6.2 includes information on liquidity risk and on maturities and financial assets included under this heading. Note 32.a includes information on the fair value of these

instruments. Note 6.2 includes information on interest rate risk included under this balance sheet heading.

9.1 – Debt securities

The detail by nature as of December 31st, 2022, and 2021 is as follows:

	Thousands of euros	
	2022	2021
Promissory notes	5,114	6,164
Debt securities, gross	**5,114**	**6,164**
Impairment adjustments	(26)	(35)
Debt securities, net	**5,088**	**6,129**

The interest accrued during the year 2022 of debt securities registered at amortized cost amounted to 145 thousand euros (2021: 195 thousand euros) (see Note 22).

9.2 – Loans and advances to credit institutions

The detail by nature as of December 31st, 2022, and 2021 is as follows:

	Thousands of euros	
	2022	2021
Time deposits	730,985	857,332
Non-Performing Assets	-	-
Interest accrued	1,969	160
Commissions	-	-
Purchase premium/discounts	-	(58)
Loans and advances to credit institutions, gross	**732,954**	**857,434**
Impairment adjustments	(405)	(471)
Loans and advances to credit institutions, net	**732,549**	**856,963**

The interest accrued during the year 2022 on loans and advances to credit institutions registered at amortized cost amounted to 14,977 thousand euros (2021: 2,248 thousand euros) (see Note 22).

9.3 – Loans and advances to customers

The breakdown as of December 31st, 2022, and 2021 is as follows:

	Thousands of euros	
	2022	2021
By type		
Other term receivables	305,957	194,802
Receivable on demand and other	2,313	346
Non-Performing Assets	3,737	561
Other Financial Assets	505	479
Commissions	(2,031)	(2,449)
Premiums / Discount	(318)	(4)
Interest Accrued	1,112	472
Loans and advances to other debtors, gross	**311,275**	**194,207**
Impairment adjustments	(3,975)	(5,027)
Loans and advances to other debtors, net	**307,300**	**189,180**

The line "Other financial assets" includes an approximate amount of 505 thousand euros mainly of bails and advances to suppliers as of December 31st, 2022 (479 thousand euros as of December 31st, 2021).

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

	2022	2021
Economic Activity		
Financial intermediation	78.12%	86.98%
Retail / Wholesale	5.51%	7.37%
Other manufacturing Industry	12.32%	3.30%
Professional activities	0.87%	1.04%
Hostelry	1.54%	0.75%
Other sectors with lesser participation	1.20%	0.31%
Construction	0.38%	0.25%
Oil refinery	-	-
	100.00%	**100.00%**

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

	2022	2021
Geographic Area		
Spain	66.87%	61.83%
Other European Union countries	12.76%	26.10%
Arab countries (Asia)	10.99%	6.77%
Other European countries	0.99%	3.06%
Other countries (Asia)	4.47%	1.69%
Arab countries (Africa)	3.92%	0.55%
	100.00%	**100.00%**

The interest accrued during the year 2022 from loans and advances to customers registered at amortized cost amounted to 6,645 thousand euros (2021: 4,523 thousand euros) (see Note 22).

9.4 – Unimpaired past due financial assets

Below is the breakdown of unimpaired overdue financial assets as of December 31st, 2022 and 2021, classified according to maturity, by nature of the financial instrument and counterparty:

	2022			
	Thousands of euros			
	≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	Total
Debt securities	-	-	-	-
Loans and advances				
Public Administrations	-	-	-	-
Other financial companies	2,188	-	-	2,188
Non-financial companies	-	-	-	-
Households	-	-	-	-
Total	**2,188**	**-**	**-**	**2,188**

	2021			
	Thousands of euros			
	≤ 30 days	**> 30 days ≤ 60 days**	**> 60 days ≤ 90 days**	**Total**
Debt securities	-	-	-	-
Loans and advances				
Public Administrations	-	-	-	-
Other financial companies	-	-	-	-
Non-financial companies	272	-	-	272
Households	-	-	-	-
Total	**272**	**-**	**-**	**272**

9.5 – Non-performing financial assets and impairment adjustments

The following is the detail of the financial assets at amortized cost, by nature of the financial instrument and counterparty, as well as the detail of the value adjustments, differentiating whether it has been determined according to an individualized or collective analysis:

	2022					
	Thousands of euros					
	Gross amount	***Of which: Non-performing***	**Specific value adjustments for financial assets, estimated individually**	**Specific value adjustments for financial assets, collectively estimated**	**Collective value adjustments for losses incurred but not reported**	**Total**
Debt securities	5,114	-	-	(26)	-	5,088
Loans and advances	1,044,229	*3,737*	(2,262)	(2,118)	-	1,039,849
Credit institutions	732,954	-	-	(405)	-	732,549
Other financial companies	54,365	-	-	(617)	-	53,748
Non-financial corporations	256,498	*3,737*	(2,262)	(1,091)	-	253,145
Households	412	-	-	(5)	-	407
Total	**1,049,343**	***3,737***	**(2,262)**	**(2,144)**	**-**	**1,044,937**

	2021					
	Thousands of euros					
	Gross amount	***Of which: Non-performing***	**Specific value adjustments for financial assets, estimated individually**	**Specific value adjustments for financial assets, collectively estimated**	**Collective value adjustments for losses incurred but not reported**	**Total**
Debt securities	6,164	-	-	(35)	-	6,129
Loans and advances	1,051,641	*561*	(561)	(4,937)	-	1,046,143
Credit institutions	857,434	-	-	(471)	-	856,963
Other financial companies	59,453	-	-	(342)	-	59,111
Non-financial corporations	134,264	*561*	(561)	(4,118)	-	129,585
Households	490	-	-	(6)	-	484
Total	**1,057,805**	***561***	**(561)**	**(4,972)**	**-**	**1,052,272**

Impaired assets are regularly analyzed. The main factors considered in assessing the impairment of each asset are as follows:

a) Analysis of the financial statements

b) Evolution and analysis of the income statements and the client's ability to pay

c) Analysis of expected cash flows

d) Customer capitalization movements

e) Changes in debt

f) Evolution and analysis of the cost structure

g) Value of guarantees and their variations

h) Any present or future event that may affect the customer's ability to pay.

The following is the breakdown of the financial assets at amortized cost by nature of the financial instrument and counterparty, and their classification by categories of normal risk (Stage 1), normal risk under special surveillance (Stage 2) and doubtful risk (Stage 3):

	Thousands of euros					
	2022			2021		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Debt securities	5,088	-	-	6,129	-	-
Loans and advances	967,416	69,945	2,488	1,049,643	-	-
Central banks	-	-	-	-	-	-
Public Administrations	-	-	-	-	-	-
Credit institutions	732,549	-	-	856,963	-	-
Other financial companies	8,917	44,831	-	59,111	-	-
Non-financial corporations	225,543	25,114	2,488	133,085	-	-
Households	407	-	-	484	-	-
Total	**972,504**	**69,945**	**2,488**	**1,055,772**	**-**	**-**

During the years 2022 and 2021, the following movements have been made between the different phases of risks:

	Thousands of euros	
	2022	2021
Transfers between Stage 1 and Stage 2		
To Stage 2 from Stage 1	70,958	-
To Stage 1 from Stage 2	-	-
Transfers between Stage 2 and Stage 3		
To Stage 3 from Stage 2	-	-
To Stage 2 from Stage 3	-	-
Transfers between Stage 1 and Stage 3		
To Stage 3 from Stage 1	3,684	561
To Stage 1 from Stage 3	-	-

The movement of impairment losses recorded to cover the credit risk of financial assets included in this category during the years 2022 and 2021 is as follows:

	Thousands of euros			
	Stage 1	Stage 2	Stage 3	Total
Balance as of 31 December 2020	**(3,767)**	**-**	**(1,306)**	**(5,073)**
From which:				
Individually calculated	-	-	*(1,306)*	*(1,306)*
Collectively calculated	*(3,767)*	-	-	*(3,767)*
Increases in origination	(1,194)	-	(126)	(1,320)
Decreases due to write-off	3,466	-	-	3,466
Changes due to changes in credit risk	-	-	-	-
Changes due to modifications without write-off	-	-	-	-

Decrease in the value corrective account for write-off	-	-	871	871
Others	(3,477)	-	-	(3,477)
Balance as of 31 December 2021	**(4,972)**	**-**	**(561)**	**(5,533)**
From which:				
Individually calculated	-	-	*(561)*	*(561)*
Collectively calculated	*(4,972)*	-	-	*(4,972)*
Increases in origination	(22,985)	(963)	(4,495)	(28,443)
Decreases due to write-off	4,166	-	2,882	7,048
Changes due to changes in credit risk	50	(50)	522	522
Changes due to modifications without write-off	-	-	-	-
Decrease in the value corrective account for write-off	21,604	-	403	22,007
Others	(7)	-	-	(7)
Balance as of 31 December 2022	**(2,144)**	**(1,013)**	**(1,249)**	**(4,406)**
From which:				
Individually calculated	-	*(1,013)*	*(1,206)*	*(2,219)*
Collectively calculated	*(2,144)*	-	*(43)*	*(2,187)*

9.6 – Impairment adjustments

The movements in 2022 and 2021 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:

	Thousands of euros			
	Specific Allowance	**Collective Allowance**	**Country risk Allowance**	**TOTAL**
Balance as of 31 December 2020	**1,306**	**1,276**	**2,593**	**5,175**
Additions (see Note 31)	115	1,024	73	1,212
Disposals (see Note 31)	-	(1,363)	(2,104)	(3,467)
Other	(860)	3,547	26	2,713
Balance as of 31 December 2021	**561**	**4,484**	**588**	**5,633**
Additions (see Note 31)	4,495	2,052	21,895	28,442
Disposals (see Note 31)	(3,404)	(3,860)	(306)	(7,570)
Other	(403)	2	(21,607)	(22,008)
Balance as of 31 December 2022	**1,249**	**2,678**	**570**	**4,497**

The caption "Other" as of December 31st, 2022 and 2021 includes adjustments due to foreign exchange and reclassifications.

9.7 – Impaired and write-off financial assets

The following is the movement in fiscal years 2022 and 2021 of the Bank's impaired financial assets that are not recorded in the balance sheet because their recovery is considered remote, although the Bank has not interrupted the actions to obtain the recovery of the amounts due:

	Thousands of euros	
	2022	2021
Starting balance	**1,008**	**-**
Additions	47,831	1,011
Use of the balance of the impairment	22,014	878
Direct write-down in the P&L account	-	-
Contractually payable interest	-	133
Other concepts	25,817	-
Disposals	(328)	(3)
Cash collection of nominals from counterparties	-	-
Cash collection of interest from counterparties	-	-
Debt forgiveness	(328)	-
Other concepts	-	-
Exchange differences	16	(3)
Final balance	**48,527**	**1,008**

10. TANGIBLE ASSETS

a) Movement

The movements of the caption "**Tangible Assets**" of the Balance Sheets as of December 31st, 2022 and 2021 are as follows:

	Thousands of euros		
	For own Use	Investment Property	TOTAL (*)
Cost			
Balance as of 31 December 2020	**16,199**	**21,766**	**37,965**
Additions	71	-	71
Disposals	(23)	-	(23)
Balance as of 31 December 2021	**16,247**	**21,766**	**38,013**
Additions	57	-	57
Disposals	(4)	-	(4)
Balance as of 31 December 2022	**16,300**	**21,766**	**38,066**

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

	For own Use	Investment Property	TOTAL (*)
Accumulated Amortization			
Balance as of 31 December 2020	**(3,196)**	**(2,860)**	**(6,056)**
Allowance (Note 30)	(276)	(103)	(379)
Disposals	19	-	19
Balance as of 31 December 2021	**(3,453)**	**(2,963)**	**(6,416)**
Allowance (Note 30)	(240)	(103)	(343)
Disposals	1	-	1
Balance as of 31 December 2022	**(3,692)**	**(3,066)**	**(6,758)**
Net Tangible Assets			
Balance as of 31 December 2021	**12,794**	**18,803**	**31,597**
Balance as of 31 December 2022	**12,608**	**18,700**	**31,308**

As of December 31st, 2022, and 2021, the Entity had no tangible assets that were temporarily out of service or removed from active use.

As of December 31st, 2022, and 2021, the Entity did not have any commitment to purchase or sell tangible assets for a significant amount.

The breakdown of fully amortized tangible assets is as follows:

	Thousands of euros				
	Furniture	Installations	Office Equipment	Others	TOTAL
Balance as of 31 December 2021	442	279	106	64	891
Balance as of 31 December 2022	566	627	200	64	1,457

b) Tangible Assets for Own Use

The detail by nature of the items which comprises the balance of this caption as of December 31st, 2022 and 2021, is as follows:

	Thousands of euros					
	Land & Building	Furniture	Installations	Office Equipment	Other	TOTAL
Cost						
Balance as of 31 December 2020	**14,030**	**635**	**976**	**341**	**217**	**16,199**
Additions	-	1	36	34	-	71
Disposals	-	-	(19)	(4)	-	(23)
Balance as of 31 December 2021	**14,030**	**636**	**993**	**371**	**217**	**16,247**
Additions	-	4	25	28	-	57
Disposals	-	-	-	(1)	(3)	(4)
Balance as of 31 December 2022	**14,030**	**640**	**1,018**	**398**	**214**	**16,300**
Accumulated Amortization						
Balance as of 31 December 2020	**(1,629)**	**(569)**	**(728)**	**(195)**	**(75)**	**(3,196)**
Allowance (Note 30)	(98)	(35)	(69)	(69)	(5)	(276)
Disposals	-	-	15	4	-	19
Balance as of 31 December 2021	**(1,727)**	**(604)**	**(782)**	**(260)**	**(80)**	**(3,453)**
Allowance (Note 30)	(98)	(8)	(67)	(62)	(5)	(240)
Disposals	-	-	-	1	-	1
Balance as of 31 December 2022	**(1,825)**	**(612)**	**(849)**	**(321)**	**(85)**	**(3,692)**

Net Tangible Assets						
Balance as of 31 December 2021	**12,303**	**32**	**211**	**111**	**137**	**12,794**
Balance as of 31 December 2022	**12,205**	**28**	**169**	**77**	**129**	**12,608**

At the balance sheet date, the Bank did not maintain any tangible fixed assets balance transferred under Leasing.

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 without penalties, with a prior notice agreed between 3 and 4 months, depending on the agreements. The total expected earnings from these operating leases, until the maturity of the contracts, amounting to 3,734 thousand euros until June 2027 (last contract maturity date), and the breakdown is the following:

	Thousands of euros	
	2022	**2021**
Up to one year	1,214	1,133
From 1 year to 5 years	2,520	2,580
Over 5 years	-	270
	3,734	**3,983**

During 2022 and 2021, income from these operating leases coming from investment properties amounted to 1,202 and 1,087 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 403 and 250 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, 2022 and 2021 are as follows:

	Thousands of euros	
	2022	**2021**
Cost		
Balance as of January 1st	**1,677**	**1,515**
Additions	197	162
Disposals	-	-
Balance as of December 31st	**1,874**	**1,677**

Accumulated Amortization		
Balance as of January 1st	**(1,511)**	**(1,366)**
Allowance (Note 30)	(132)	(145)
Disposals	-	-
Balance as of December 31st	**(1,643)**	**(1,511)**
Net Intangible Assets		
Balance at the beginning of the period	**166**	**149**
Balance at the end of the period	**231**	**166**

The amount of intangible assets fully amortized as of December 31st, 2022, amounts to 1,599 thousand euros (1,481 thousand euros in 2021)

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, 2022 and 2021 is as follows:

	Thousands of euros	
	2022	**2021**
TAX ASSETS (Note 21)		
Corporate income tax	1,496	1,060
Corporate income tax (previous years)	1,124	954
Other tax assets	7,808	1,812
	10,428	**3,826**

	Thousands of euros	
	2022	**2021**
TAX LIABILITIES (Note 21)		
Social Security	17	18
Income tax payable	228	277
Others	137	15
	382	**310**

13. OTHER ASSETS AND OTHER LIABILITIES

The detail of these two captions is as follows:

	Thousands of euros			
	Assets		Liabilities	
	2022	**2021**	**2022**	**2021**
Prepaid expenses	157	241	1,797	-

Financial guarantees	-	-	31	73
Accrued expenses	-	-	1,273	1,215
	157	**241**	**3,101**	**1,288**

The caption "Accrued expenses" includes mainly overheads accruals. The caption "For financial guarantees" includes, at December 31st, 2022 and 2021, 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, 2022 and 2021 is as follows:

	Thousands of euros	
	2022	**2021**
Deposits:		
from central banks	71,574	20,653
from credit institutions	835,501	951,613
from other creditors	36,415	54,835
TOTAL Deposits	**943,490**	**1,027,101**
Other financial liabilities	2,074	868
TOTAL Financial liabilities at amortized cost	**945,564**	**1,027,969**

The detail by currency and residual maturity of "**Financial liabilities at amortized cost**" of the Balance Sheets as of December 31st, 2022 and 2021 is as follows:

	Thousands of euros	
	2022	**2021**
<u>By currency</u>		
Euro	132,765	107,700
Other currencies	812,799	920,269
TOTAL Financial liabilities at amortized cost	**945,564**	**1,027,969**
<u>By residual maturity</u>		
Up to 3 months	858,183	1,027,600
Over 3 months to 1 year	84,600	6
Over 1 year to 5 years	2,781	340
Over 5 years	-	23
TOTAL Financial liabilities at amortized cost	**945,564**	**1,027,969**

Note 6.2 includes information on liquidity risk and on maturities and financial assets included under this heading. Note 32.a includes information on the fair value of these instruments. Note 6.2 includes information on interest rate risk included under this balance sheet heading.

14.1 – Central Bank deposits

The breakdown of the "**Central Bank deposits**" balance sheet as of December 31, 2022, and 2021 is as follows:

	Thousands of euros	
	2022	**2021**
Demand deposits:		
Current accounts	71,574	20,653
Valuation adjustments	-	-
Central Bank deposits	**71,574**	**20,653**

During the 2022 financial year, interest expense amounted to 468 thousand euros (2021: 627 thousand euros) (see Note 23).

14.2 – Deposits of credit institutions

The detail of "**Deposits from credit institutions**" of the Balance Sheet as of December 31st, 2022, and 2021 is as follows:

	Thousands of euros	
	2022	**2021**
Time deposits	663,294	812,290
Other accounts	169,834	139,250
Valuation adjustments	2,373	73
Deposits from credit institutions	**835,501**	**951,613**

As of December 31st, 2022, the Libyan Foreign Bank holds deposits amounting, 685 million dollars (900 million dollars in 2021), recorded in the caption "Deposits from Credit Institutions".

The interest accrued during the year 2022 on deposits of credit institutions amounted to 14,933 thousand euros (2021: 1,390 thousand euros) (see Note 23).

14.3 – Customer deposits

The detail of the caption "**Deposits from other creditors**" of the Balance Sheet as of December 31st, 2022, and 2021 is as follows:

	Thousands of euros	
	2022	**2021**
Public sector		
Spanish Government	32	22
Other resident sectors		
Demand deposits:		
Current accounts	13,140	17,083
Time deposits		
Fixed term deposits	82	34
Other non- resident sectors		
Demand deposits:		
Current accounts	23,153	37,678
Time deposits		
Fixed term deposits	8	18
Deposits from other creditors	**36,415**	**54,835**

The interest accrued during the 2022 financial year on customer deposits amounted to 1 thousand euros (2021: 1 thousand euros) (see Note 23).

14.4 – Other financial liabilities

All financial liabilities recorded under this heading of the attached balance sheet are classified in the portfolio of "Financial liabilities at amortized cost" so they are valued at their amortized cost. It includes the amount of obligations payable in the nature of financial liabilities not included in other items.

Details of "**Other financial liabilities**" of the Balance Sheets as of December 31st, 2022 and 2021 grouped by financial instrument are as follows:

	Thousands of euros	
	2022	**2021**
Other accounts	1,753	319
Rental deposits	186	186
Special accounts	135	363
Other financial liabilities	**2,074**	**868**

15. PROVISIONS

The breakdown of this caption of the Balance Sheets as of December 31st, 2022 and 2021 is as follows:

	Thousands of euros	
	2022	2021
Legal and tax	22	22
Contingent exposures and commitments	2,579	2,325
	2,601	**2,347**

The movements of the caption "**Provisions**" in 2022 and 2021 are as follows:

	Thousands of euros			
	Provision for taxes	Contingent exposures and commitments	Other contingencies	TOTAL
Balance as of 31 December 2020	**32**	**1,304**	**3,500**	**4,836**
Net P/L allowances	-	1,394	-	1,394
Allowances released	(10)	(378)	-	(388)
Other	-	5	(3,500)	(3,495)
Balance as of 31 December 2021	**22**	**2,325**	**-**	**2,347**
Net P/L allowances	-	1,644	-	1,644
Allowances released	-	(1,397)	-	(1,397)
Other	-	7	-	7
Balance as of 31 December 2022	**22**	**2,579**	**-**	**2,601**

The provisions recorded by the Entity represent the best estimate of future obligations. The Directors of the Entity consider that there is no significant risk that the materialization of these estimates, taking into account the amount of these provisions, will entail a material adjustment on the carrying value of the assets and liabilities of the Entity in the next accounting year.

The Entity quantifies the provisions taking into account the best available information on the consequences of the event in which they are caused and are re-estimated at each accounting close, to be used to meet the specific obligations for which they were originally recognized; proceeding to its reversal, total or partial, when these obligations cease to exist or decrease.

The provisions relating to "Commitments and guarantees granted" include the amount set for generic and specific provisions of contingent risks, understood as those operations in which the Entity guarantees obligations of a third party, arising as a result of financial guarantees granted or other types of contracts, and contingent commitments, understood as irrevocable commitments that may give rise to the recognition of financial assets.

The chapter on "Other contingencies" includes provisions for processes in which the Entity assesses that it is likely to have to divest itself of resources that incorporate profit. In the same way, it includes the coverage of various risks, for which provisions have been set that cover unresolved aspects of which the Entity estimates a probable disbursement, as well as the coverage of probable disbursements that the Entity will have to face, derived from the usual activity of the same. In 2020, a provision of 3,500 thousand euros for COVID-19 contingencies was included, which was reclassified to impairment losses on financial assets at amortized cost in 2021 (see Note 9.4).

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

	Thousands of euros	
	2022	**2020**
Specific provision	270	270
Generic provision	1,438	707
Country risk provision	871	1,348
	2,579	**2,325**

"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 332,201 thousand euros at December 31st, 2022 (349,842 thousand euros at December 31st, 2021). The Bank shows at the end of the year 2022 a capital solvency ratio of 54.47% (58.24% as of December 31, 2021) in terms of CET1 that highly exceeds the 14.99% minimum required by the Regulator for the year 2023 (see Note 3.9).

The movement of this heading for the years 2022 and 2021 is shown in the Statement of Changes in Equity.

17. SHARE CAPITAL

The share capital of Aresbank, S.A. as of December 31st, 2022, amounts to 300,001 thousand euros, and it is formed of 104,167 registered shares, fully disbursed, with a nominal value of 2,880 euros each.

The composition of the shareholders as of December 31st, 2021 is as follows:

	Thousands of euros		
	Amount (thousand euros)	Number of shares	% owned
Libyan Foreign Bank	299,586	104,023	99.86%
Crédit Populaire d'Algèrie	415	144	0.14%
	300,001	**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, 2022 and 2021 is as follows:

	Thousands of euros	
	2022	2021
Legal reserve	20,354	19,650
Undistributed results	23,280	23,280
	43,634	**42,930**

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 3.9).

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.

	Thousands of euros	
	2022	2021
Fixed Income (Spain)	(1,313)	(136)
Valuation Adjustments	**(1,313)**	**(136)**

The Bank periodically conducts an assessment of the existence of objective evidence that instruments classified in the portfolio of financial assets measured at fair value with changes in other comprehensive income are impaired.

In the "Statement of Recognized Income and Expenses" for the years 2022 and 2021, the movement during these years is presented under this heading.

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, 2022 and 2021 is as follows:

	Thousands of euros	
	2022	2021
Financial guarantees		
Irrevocable issued documentary credits	398	6,932
Irrevocable confirmed documentary credits	82,506	183,107
Other Bank guarantees and indemnities	15,151	24,192
	98,055	**214,231**
Memo item: Doubtful contingent exposure	**1,352**	**-**

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

	Thousands of euros		In percentage	
	2022	2021	2022	2021
Geographic Area				
Spain	-	6,329	-	3.33%
EU Countries	398	26,311	0.48%	13.85%
Other European countries	2,626	3,040	3.17%	1.60%
Arab countries				
Libya	74,975	132,648	90.44%	69.80%
Algeria	13	20,893	0.02%	10.99%
Other Arab countries	351	817	0.41%	0.43%
African countries	4,541	-	5.48%	-
	82,904	**190,039**	**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:

	Thousands of euros		In percentage	
	2022	2021	2022	2021
Geographic Area				
Spain	6,730	15,905	44.42%	65.74%
EU Countries	681	691	4.49%	2.86%
Other European countries	3,578	3,434	23.62%	14.20%
Arab countries				
Libya	4,162	4,162	27.47%	17.20%
	15,151	**24,192**	**100.00%**	**100.00%**

b) Lending commitments granted

Breakdown is as follows:

	Thousands of euros	
	2022	2021
Drawable by third parties		
By other resident sectors	93,890	93,331
Non-residents	34,521	42,142
	128,411	**135,473**

21. TAX MATTERS

The Entity has open to inspection the last four years for the taxes to which its activity is subject. Due to the different interpretations that may be made of the tax rules applicable to the operations carried out by the Entity, there may be, for the years pending inspection, certain tax liabilities of a contingent nature, which are not susceptible of objective quantification. However, in the opinion of the Directors of the Entity, the possibility that in future inspections these contingent liabilities will materialize is remote and, in any case, the tax debt that could arise from them would not significantly affect the attached annual accounts.

According to tax legislation, positive accounting results are taxed at a tax rate of 30% in 2022 and 2021. 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 2019 onwards, except for the Corporate Income Tax, which is subject to inspection from 2018 onwards.

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

	Thousands of euros	
	2022	**2021**
Accounting profit (or loss) for the year before tax	(15,377)	8,170
Permanent differences	-	-
Temporary differences		
Positives	24,151	5,423
Negatives	(5,452)	(5,602)
Total	3,322	7,992
Offset of prior year negative taxable bases	(2,325)	(3,996)
Taxable profit	997	3,996
Tax liabilities	299	1,199
Deductions	-	-
Withholding tax	(284)	(260)
Advanced payment on Corporate Tax	(1,511)	(2,062)
Corporate income tax payable / (receivable) (Note 12)	(1,496)	(1,124)

The figures for 2021 correspond to those declared in July 2022 before the Spanish Tax Authorities. Those for 2022 are estimates, no significant changes are expected to the final statement.

Deferred tax assets relate primarily to provisions constituted as well as impairment losses on financial assets, which the Entity considered to be non-deductible, and to deferred taxes for losses in the portfolio of Financial Assets at fair value with changes in other comprehensive income. Deferred tax liabilities correspond mainly to the deferred tax associated with the revaluation of financial assets at fair value with changes in other comprehensive income.

The movement experienced by the headings of current and deferred tax assets and liabilities during the years 2022 and 2021 is as follows:

	Thousands of euros							
	2022				2021			
	Tax assets		Tax liabilities		Tax assets		Tax liabilities	
	Currents	Deferred	Currents	Deferred	Currents	Deferred	Currents	Deferred
Opening balance	2,014	1,812	310	-	1,068	1,668	273	-
Additions	1,560	10,724	122	-	1,060	949	37	-
Disposals	(954)	(4,728)	(50)	-	(114)	(805)	-	-
Final balance (Note 12)	2,620	7,808	382	-	2,014	1,812	310	-

As of December 31st, 2022, and 2021, the expense (-) or tax revenue on the results of continued activities is as follows:

	Thousands of euros	
	2022	2021
Current tax	(236)	(1,320)
Deferred tax	5,492	196
Expenses or revenues on corporate income tax	**5,256**	**(1,124)**

The Bank has negative taxable bases (carry-forward losses) for an amount of 32,249 thousand euros (36,245 thousand euros as of December 31st, 2021), coming from the tax year 2010.

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 like 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 should continue to apply, and the 70% for tax periods beginning on or after January 1st, 2017.

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, 2022 and 2021 is as follows:

	Thousands of euros	
	2022	**2021**
Loans and receivables to central banks (Note 7)	60	31
Loans and receivables to credit institutions (Note 9.2)	14,977	2,248
Loans and receivables to other debtors (Note 9.3)	6,645	4,523
Debt securities (Note 8 and 9.1)	220	270
Others	95	-
	21,997	**7,072**

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, 2022 and 2021 is as follows:

	Thousands of euros	
	2022	**2021**
Deposits at Central Banks (Note 14.1)	468	627
Deposits from credit institutions (Note 14.2)	14,933	1,390
Deposits from other creditors (Note 14.3)	1	1
	15,402	**2,018**

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, 2022 and 2021 is as follows:

	Thousands of euros	
	2022	2021
Guarantees and contingent commitments granted (Note 20)	7,976	10,336
Maintenance, collections and payment services	1,134	1,330
Loans and other commissions	693	759
	9,803	**12,425**

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, 2022 and 2021 is as follows:

	Thousands of euros	
	2022	2021
Commissions assigned to correspondents	13	12
Other fees and commissions	471	408
	484	**420**

26. OTHER OPERATING INCOME AND EXPENSE

"Other operating income" 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, 2022 and 2021 is follows:

	Thousands of euros	
	2022	2021
Operating income from investment properties (Note 10.c)	1,202	1,087
Other	780	730
	1,982	**1,817**

The breakdown under "Other operating expenses" in the profit and loss account for the years 2022 and 2021 is as follows:

	Thousands of euros	
	2022	2021
Contribution to Deposits Guarantee Fund (Note 3.11)	(11)	(13)
Contribution to the Single Resolution Fund (Note 3.13)	(334)	(797)
	(345)	**(810)**

27. PERSONNEL EXPENSES

The breakdown of Personnel expenses captions as of December 31st, 2022, and 2021 is as follows:

	Thousands of euros	
	2022	2021
Wages and salaries	5,870	5,531
Social Security expenses	1,039	1,100
Transfers to defined contribution plans (Note 5.16)	176	166
Severance payments	55	155
Other expenses	1,055	1,093
	8,195	**8,045**

The personnel of the Bank as of December 31st, 2022 and 2021 are as follows:

	December 31st, 2022			December 31st, 2021		
	Women	Men	Total	Women	Men	Total
General Management	-	1	1	-	2	2
Managers	1	5	6	1	6	7
Rest	25	39	64	27	44	71
	26	**45**	**71**	**28**	**52**	**80**

The average staff has been 75 employees in 2022 (78 employees in 2021). During the year 2022 and 2021, the Bank had one employee with disabilities equal to or greater than 33% (none in 2021).

28. OTHER ADMINISTRATIVE EXPENSES

The breakdown of this caption as of December 31st, 2022 and 2021 is as follows:

	Thousands of euros	
	2022	**2021**
Installations and maintenance	731	1,075
Travelling and transportation	89	43
Communications	332	293
Legal and professional fees	542	441
Governing and control bodies	1,250	923
Withholding and sales taxes	411	261
Insurances	66	62
Commercial Offices and delegations	19	17
Business development	16	21
Subscriptions, contributions and others	47	33
	3,503	**3,169**

The caption "Installations and maintenance" includes 17 thousand euros (580 thousand euros in 2021) regarding the digital project of the Bank.

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

a) Board of Directors

The breakdown of the total remuneration and attendance allowances received (in gross amount) by the Directors who have served on the Bank's Board of Directors throughout 2022 is as follows:

		Thousands of euros		
2022	**Members**	**Remuneration**	**Allowance**	**Total**
Chairman & Vice-Chairman	2	365	99	464
Rest of Board Members	6	666	97	763
	8	**1,031**	**196**	**1,227**

Along 2022, there have been two new appointments and one leave within the Board of Directors. The Bank has 7 Board members as of December 31st, 2022.

The breakdown of the total remuneration and attendance allowances received (in gross amount) by the Directors who have been part of the Board of Directors of the Bank throughout 2021 is as follows:

2021	Members	Remuneration	Allowance	Total
		Thousands of euros		
Chairman & Vice-Chairman	2	340	79	419
Rest of Board Members	5	459	47	506
	7	**799**	**126**	**925**

The Bank had 6 Board members as of December 31st, 2021.

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, 2022, and as of December 31st, 2021. 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 for the General Management in 2022 is as follows:

2022	Members	Remuneration	Other benefits	Total
		Thousands of euros		
General Management	3	926	107	1,033

The breakdown of the retribution for the General Management in 2021 is as follows:

2021	Members	Remuneration	Other benefits	Total
		Thousands of euros		
General Management	2	1,474	201	1,675

The amounts debited for pension funds and insurances in the Income Statement of the Bank in 2022 amounts to 8 thousand euros (13 thousand euros in 2021).

c) Situations of conflict of interest of the Directors of the Entity

In accordance with the provisions of article 229 of the Capital Companies Law, the directors have informed the Bank that, during the 2022 financial year, they or their related persons, as defined in article 231 of the aforementioned Capital Companies Law:

- No transactions have been made with the Entity, without taking into account ordinary operations, made under standard conditions for clients and of little relevance, understood as those whose information is not necessary to express the faithful image of the assets, financial situation and results of the Entity.
- They have not used the name of the Entity or invoked their status as administrators to unduly influence the relationship of private operations.
- They have not made use of the social assets, including the confidential information of the Entity, for private purposes.
- They have not taken advantage of the business opportunities of the Entity.
- They have not obtained advantages or remuneration from third parties other than the Entity and its Group associated with the performance of their position, except in the case of mere courtesy attentions.
- They have not developed activities on their own account or for others that involve effective competition, whether punctual or potential, with the Entity or that, in any other way, place them in a permanent conflict with the interests of the Entity.

30. AMORTIZATION

The detail of this caption as of December 31st, 2022 and 2021 is as follows:

	Thousands of euros	
	2022	**2021**
Tangible assets:		
Investment Property (Note 10.a)	103	103
For own use (Note 10.b)	240	276
Intangible assets:		
Software (Note 11)	132	145
	475	**524**

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

The detail of this caption is as follows:

	Thousands of euros	
	2022	2021
Financial assets at amortized cost (Note 9.6)		
Allowances	(28,450)	(1,212)
Releases	7,620	3,467
	(20,830)	**2,255**

As of December 31st, 2022, and 2021 the allowances for impairment are mainly due to provisions allocated for Country Risk, specific and generic risks.

32. ADDITIONAL INFORMATION

a) Fair value of financial instruments

The following charts present the fair value of the financial instruments of the Bank at December 31, 2022 and 2021 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.

For the purposes of the preceding paragraphs, an input is considered significant when it is material in the determination of fair value as a whole.

The following table summarizes the carrying amount of financial instruments based on the level of fair value determination as at December 31st, 2022 and 2021:

	Thousands of euros				
2022	**Level 1**	**Level 2**	**Level 3**	**Total at fair value**	**Total balance**
ASSETS					
Cash, balances with Central Banks and demand deposits	188,728	-	-	188,728	188,728
Financial assets at fair value through other	8,060	-	-	8,060	8,060

	Level 1	Level 2	Level 3	Total at fair value	Total balance
comprehensive income					
Financial assets at amortized cost					
Debt securities	5,088	-	-	5,088	5,088
Loans and advances to financial entities	-	732,549	-	732,549	732,549
Loans and advances to clients	-	307,300	-	307,300	307,300
LIABILITIES					
Financial liabilities at amortized cost					
Deposits from central banks	-	71,574	-	71,574	71,574
Deposits from credit institutions	-	835,501	-	835,501	835,501
Deposits from other creditors	-	36,415	-	36,415	36,415
Other financial liabilities	-	2,074	-	2,074	2,074

	Thousands of euros				
2021	**Level 1**	**Level 2**	**Level 3**	**Total at fair value**	**Total balance**
ASSETS					
Cash, balances with Central Banks and demand deposits	283,919	-	-	283,919	283,919
Financial assets at fair value through other comprehensive income	9,735	-	-	9,735	9,735
Financial assets at amortized cost					
Debt securities	6,129	-	-	6,129	6,129
Loans and advances to financial entities	-	856,963	-	856,963	856,963
Loans and advances to clients	-	189,180	-	189,180	189,180
LIABILITIES					
Financial liabilities at amortized cost					
Deposits from central banks	-	20,653	-	20,653	20,653
Deposits from credit institutions	-	951,613	-	951,613	951,613
Deposits from other creditors	-	54,835	-	54,835	54,835
Other financial liabilities	-	868	-	868	868

The general valuation criteria followed by the Bank for estimating the fair value of its financial instruments are:

– In the event that an active market publishes quoted prices, and these are deep and observable, these are taken as prices to obtain fair value.

– For instruments with low or non-market markets, at the initial moment, their fair value is determined, in most cases, from their acquisition cost. Subsequently, if a reliable estimate of their fair value cannot be made from the observation of recent transactions of the same instrument or similar instruments or the price of recent transactions, or through the use of a valuation model in which all the variables of the model come exclusively from market-observable data, the fair value presented in the tables above is equal to their cost and is presented as "Level 3".

– In the specific case of financial assets classified as cash, cash balances with central banks and other demand deposits and liabilities classified as amortized in the tables above, given their characteristics of interest rate, maturity dates, counterparties, etc. the Bank's Directors consider that their carrying amount (amortized cost) does not differ materially from their fair value, reason why its amortized cost is presented as a fair value of the same.

During the years 2022 and 2021, no transfers of financial instruments recorded at fair value, which are maintained at the end of those years, between levels 1, 2 and 3, have been carried out.

b) Fair value for tangible assets

As of December 31st, 2022, there are tangible assets registered at a net book value of 31,308 thousand euros (2021: 31,597 thousand euros) whose fair value at that date does not differ significantly from its carrying amount at that date.

c) Most significant balances with related companies

The most important balances with related companies as of December 31st, 2022 and 2021 are as follows:

	Thousands of euros	
	2022	**2021**
LIABILITIES (Note 14)		
Deposits from credit institutions		
Libyan Foreign Bank	642,228	794,632
Current Accounts		
Libyan Foreign Bank	52,929	31,182

d) Transactions with related companies

The interest and commissions paid to Aresbank' shareholders for the deposits and accounts held in the Bank amounted to 14,837 thousand euros in 2022 and 1,382 thousand euros in 2021 (see Notes 23 y 25).

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

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

	2022	**2021**
	Days	Days
Average payment period (suppliers)	12	28
Paid transactions ratio	20	32
Pending transactions ratio	15	3

The information on invoices paid in a period less than the maximum established in the delinquency regulations is as follows:

	2022	2021
Monetary volume paid (in thousands of euros)	4,617	4,001
Percentage of total monetary payments to suppliers	100%	100%
Number of invoices paid	2,238	2,073
Percentage of total number of invoices paid to suppliers	100%	100%

f) 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.

g) Agency Contracts

Neither at the end of the 2022 and 2021 financial years nor at any time during those years, the Bank has maintained in force "agency contracts" in the manner in which these are contemplated in article 22 of Royal Decree 1245/1995, of July 14.

h) Abandoned balances and deposits

As of December 31st, 2022, the Entity has balances immersed in abandonment amounting to 3 thousand dollars (2021: 32 thousand euros, 10 thousand dollars and 49 thousand sterling pounds) as defined in article 18 of Law 33/2003, of November 3rd, on the assets of public administrations.

i) Other commitments

As of December 31, 2022, and 2021, the Entity did not maintain additional commitments to those broken down in the previous Notes.

j) Losses / Earnings per share

During the years 2022 and 2021, Aresbank, S.A. holds 104,167 shares (see Note 17) amounting the losses per share for 2022 to approximately -97.16 euros (earnings per share for 2021 stood at 67.65 euros)

k) Seasonality of operations

The nature of the most significant operations carried out by the Bank corresponds mainly to the typical activities of financial institutions, not being affected by factors of significant seasonality.

l) Other public information required by Circular 4/2017 of the Bank of Spain

The following is another public information required in Circular 4/2017 of the Bank of Spain:

- The Entity did not have "Assets foreclosed or received in payment of debts" as of December 31, 2022, and 2021.
- As of December 31, 2022, and 2021, the Bank had not issued neither bonds and mortgage notes nor public covered bonds.

m) Customer Service

In accordance with art. 17 of Order ECO/734/2004, of March 11th, on customer service departments and services and the customer ombudsman of financial institutions, and art. 29 of the Regulation for the Defense of the Client of the Entity, the information relating to financial years 2022 and 2021 is included below.

The Customer Service report of Aresbank informs that two claims were received during the year 2022, which were resolved in favor of the customer. One claim was received during the year 2021, which was not admitted to processing because the claimant was not duly represented.

In accordance with this legal requirement, the department in charge of the Customer Services prepared the report on its activities in 2022, which was submitted to the Bank's Board of Directors at its meeting held on March 17th, 2023.

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

The year 2022 has been characterized by the confluence of several events that have introduced volatility into the global economic situation. On the one hand, in the second half of 2021, thanks to the increasing vaccination of the population, a reopening of the activity began to be observed in the main countries and a growth in demand for goods and services, a trend that continued throughout 2022.

However, we could mention as the main exception to this trend the case of China, which due to its Zero-COVID policy, it maintained important restrictions until the end of 2022, with the consequent impact on its economy. This reactivation of demand, together with the low level of stocks caused by the production stoppage resulting from the pandemic, the existence of supply chain bottlenecks and the maintenance of restrictions in China, one of the main producers worldwide (as is the case of microchips, which has affected numerous industries), caused a strong inflationary trend, which began through raw materials, but that was progressively extended to the rest of products.

On the other hand, in the first quarter of 2022 the conflict in Ukraine began, which led to fuel supply and demand tensions (oil and gas) and other raw materials, feeding back the inflationary spiral.

In this difficult context, the global economy managed to recover some of the ground lost due to the COVID, registering a growth according to International Monetary Fund forecast of 3.4% for the year 2022. The growth forecast for the next two years, 2023 and 2024, is 2.9% and 3.1% respectively.

Inflation, as a result of the aforementioned tensions, reached quite high levels, as reflected in the 9.2% recorded in the EU (source Eurostat) or the 6.5% in the United States. These data have been one of the main concerns of the monetary authorities in the past year, and they began to use the tools available to try to control it. Thus, they embarked on an upward trend in official interest rates, which in the case of the United States began in March, taking rates from 0.25% to 4.50% in December 2022, while the European Union began in July, going from negative rates (-0.50%) to 2.00% at the end of the year. This trend of interest rates increases is expected to continue throughout 2023, although with a foreseeable slowdown in growth as inflation levels are contained.

According to OECD forecasts, the Chinese economy will grow by 3.3% in 2022 and rebound to 4.6% in 2023. These growth rates are considerably more moderate than those recorded by the country in recent times, which raises uncertainties about the Asian country's economic situation. The evolution of the country's real estate sector has also contributed to this outlook, with many worrying developments over the past year, such as the bankruptcy of Evergrande, the country's second largest developer, the paralysis of numerous real estate projects and the refusal of buyers to continue paying back their loans to finance the purchase of unfinished properties. In this context, the Chinese government has implemented a series of measures aimed at containing the crisis in the sector, including extending maturities for developers, reducing mortgage interest rates and strengthening alternative debt markets. The IMF has assessed these measures positively, although it considers that additional actions are needed to contain the crisis.

According to World Trade Organization (WTO) forecasts, international trade is expected to lose momentum in the second half of 2022 and maintain a low pace in 2023. World merchandise trade volumes will grow by 3.5% in 2022, slightly above the 3% forecast in April. Early estimates for 2023 forecast growth of 1%, a sharp drop on previous estimates (3.4%).

1.2. The Spanish context

The evolution of the Spanish economy has been similar to that of other European countries. Thus, while in 2020, as a result of the COVID crisis, there was a significant contraction in Gross Domestic Product (GDP) of 11.3%, 2021 closed with growth of 5.5%, which remained at the same figure in 2022. Nor did the Spanish economy escape the inflationary trend that affected the countries in our environment during the past year, with a rise in prices of 5.7% in 2022. With respect to this figure, it is worth highlighting the negative trend in core inflation, which reached 7.0%.

The two aforementioned factors, GDP growth and inflation, resulted in a positive evolution of public revenue, which reached 239 billion euros as of November 2022, 15.9% higher than in the same period of the previous year. The main factors behind this improvement are the higher VAT collection resulting from the rise in prices, the increase in salary withholdings, due to the fact that salary increases are correlated with inflation, and finally, the recovery of corporate results.

Despite the growth in revenue, the public accounts maintained a significant deficit in 2022, which reached 3.84% as of September 2022. Contributing to this deficit are, among other aspects, the aid implemented by the Spanish government to support certain economic activities in the face of rising prices and the growing financial burden of public debt as official interest rates have been raised by the European Central Bank. In view of this deficit situation, public debt reached 1,503 billion euros in December 2022, with a growth of 5.3% in year-on-year terms, representing 113.1% of GDP (118.7% in 2021).

1.2.1. The external sector

2022 was a good year for the Spanish export sector, reaching 389,209 million euros, an increase of 23% year-on-year compared to 2021 (316,000 million euros). This growth contributed positively to GDP growth (2.6 percentage points) and job creation. The three main contributing sectors were chemicals, capital goods and food, beverages and tobacco, while the main destinations were France, Belgium, Portugal and Germany.

On the other hand, the good results of exports were overshadowed by imports, which, mainly due to Spain's energy dependence and the rise in oil and gas prices, grew by 33.4% to 457,321 million euros, bringing the trade deficit to 68,112 million euros.

The balance of payments by current and capital accounts reflected a positive balance of 25 billion euros in 2022. The contribution of the tourism sector stands out, with a positive balance of 49.5 billion, offsetting the negative balances of other activities.

1.2.2. The Spanish banking sector

The Spanish banking sector showed a favourable evolution in the first half of 2022 (latest available data at sector level), which is being confirmed with the results presentations of the main institutions. As of June 2022, it can be observed that the group of entities presented an adequate level of solvency, with a CET1 of 12.9%, which implies the existence of significant buffers, despite being below the European average. On the other hand, the doubtful loans ratio continued its downward trend, standing at 3.8%, as did the ratio of operations under special surveillance, which contracted to 7.2%. Finally, the sector's profitability is gradually recovering to reach a ROE of 10%.

In the coming quarters, on the one hand, a growth in net interest income is expected due to the increases in official interest rates applied by the monetary authorities to combat inflation, but which may, however, have an impact of the opposite sign, by putting pressure on the financial burden of economic agents, which could lead to payment difficulties and a consequent increase in delinquency. This could also be contributed to by the progressive completion of the various measures adopted in previous years to combat the effects of the pandemic on the economy. Institutions should pay particular attention to their risk management in this context, and their results could be affected by the need for additional provisions.

1.3. Libya's economic context

The average high prices of oil, the stabilization of the oil production, and the low level of political and social conflicts in Libya in 2022 can be considered as positive factors for its economic development. In that sense, it is expected a GDP growth of 16% for 2022. Besides the country was able to manage the inflationary tensions better than other areas, with a CPI in 2022 of 4.6%.

The banking system of the country reflects the same tendency, as we can observe growing dynamism on lending to individuals, corporates and institutions, that increased a 17% in 2022, what can be considered as an indicator of confidence in the progressive recovery of stability. The banking sector presents a sound financial profile, with adequate capital levels (total capital adequacy ratio 15.7%) and a very strong liquidity position (66.7% of total assets).

2. Situation of the entity. Balance sheet and results evolution.

Entering the evolution of the results in the entity in 2022, the rupture of the existing global geopolitical context ─derived from the war in Ukraine─ which has brought as an effect the inflationary escalation caused by the energy crisis, with the consequences derived from it on interest rates and the notable depreciation that the euro has had against the dollar during the year; all this, as a whole, has marked a very atypical year in our activity.

Among others, because the combined effect of the non-containment of the existing inflationary escalation, on the one hand, together with the strong appreciation of the dollar, has led to a generalized reduction in the amounts handled in our international trade activity.

Additionally, this context of international crisis has also influenced the risk profile of some of our main clients, increasing the changes in risk classification stages towards "Special Surveillance".

On the other hand, there has been an improvement in the granting of loans derived from the imminent upward expectations in the reference rates, which benefit our net interest income, both due to the increase in demand and the rise in them. It is important to consider, in this regard, that the euro has been at "zero rate" and/or negative since more than five years. However, despite this increase in net interest income, we have experienced a significant drop in the commissions margin, as international trade activity has been more expensive due to the appreciation of the USD and inflation itself, therefore, our volumes have been reduced.

In short, at the business level, our net interest income closes well above our initial expectations (+34%) motivated by the increase in the demand and reference rates from the second half of 2022; on the opposite side, the commissions margin (-23%) derived from the fall in Foreign Trade business, which cannot be offset by the increase in the volume of credit to customers. Regarding the risk burden, the changes of certain accredited towards the "Special Surveillance" stage, together with the worsening of the context in certain countries, has led us to set up quite significant country-risk allowance. In fact, we ended 2022 with a negative result of -10 million euros precisely because of this increase in provisions for country risk. On the other hand, our overhead structure has remained in line with our volumes and the size of the Bank throughout the period, given the increase in inflation mentioned above, with an efficiency ratio 183 basis points below budget. Finally, at balance sheet level, the year closed with a notable increase in customer credit (+48%) and a decrease in foreign trade activity, especially in the confirmation of documentary credits (-54%) and guarantees (-38%).

3. Aresbank focus in the coming year

For 2023, we expect balance sheet figures in line with those established at the time in the business plan, with an expanded net interest margin that we estimate could easily end with increases of more than +20% (due to rising interest rates and increased demand) and we expect to recover our pre-crisis foreign trade activity volumes.

At balance sheet level, we estimate a continuity in the asset figures, maintaining the same "mix" that of the end of 2022, between banking and large corporations exposures. This latter, based on our business with high-credit quality rated companies, leaders in their respective markets, following the demanding criteria established in our risk appetite framework.

In addition to the above, and regardless of the specific effects of the crisis, it is necessary to highlight the entity's ability to maintain stable business margins over the time, as well as a very low level of non-performing loans —derived from operating almost exclusively in its main influence area (MENA)— where the unconditional support of our main shareholder provides an additional plus when it comes to accessing these markets, participating in good transactions with very controlled risks.

In short, we expect to continue to maintain fairly stable solvency levels (above 50%) as we believe that our risk appetite will remain unchanged, therefore, a first-class portfolio quality, without significant credit risk degradation.

However, Aresbank will continue with a continuous monitoring of the evolution of its customers in order to collaborate in overcoming possible problems that may arise due to the difficulties that are occurring in the markets. We will continue to strengthen our Core Business in its main lines of action: intermediation and financing of Foreign Trade, within our area of influence (MENA countries) as well as increasing the typical banking activity with companies, both Spanish and European.

4. Corporate Governance

During 2022, the Bank has continued in the process of adapting its governance bodies to the Guidelines on internal governance of the European Banking Authority EBA/GL/2021/05 which repealed the EBA/GL/2017/11 Guidelines of 26 September 2017. Likewise, the Bank has always maintained the principle of proportionality provided for in Article 74(2) of Directive 2013/36/EU, which aims to ensure that internal governance systems are consistent with the individual risk profile and business model of the entity, in order to effectively achieve the objectives of the in force regulatory provisions and requirements.

The Board of Directors of Aresbank is the company's representative body and has the broadest powers for its administration, except for those which, due to the matter in question, are reserved by law to the General Shareholders' Meeting. In order to ensure the best performance of the management and supervisory functions entrusted to it, the Board has Delegated Committees made up of some members of the Board, currently the Nominations and Remunerations Committee, the Audit Committee and the Risk and Compliance Committee.

Aresbank, through the Board of Directors, has carried out an efficient and prudent management of the entity's business activity, and has exercised the management and supervisory functions that correspond to it by law. The Board has assumed at any time, the ultimate and general responsibility of the entity and, particularly, with respect to the approval and supervision of the application of policies, management procedures and decision-making necessary to ensure a faithful compliance with all regulatory requirements and legal provisions in force at national and European level.

The main functions of the Board of Directors include, among others, the general business strategy, the general strategy and risk culture; the internal governance and control framework, compliance with capital and liquidity requirements; remuneration policies, corporate culture and values, conflict of interest policy, integrity of information systems, by taking the necessary measures to ensure the full functioning of the financial and operational control functions; and a suitability assessment policy of both the members of the Bank's Board of Directors and the key functions holders. In this regard, in September 2022, the Bank's Board of Directors approved a new Suitability Assessment Policy as defined in the EBA/GL/2021/06 Guidelines.

Aresbank promotes equality in all areas of work, always bearing in mind the principle of equity as a fundamental pillar of its management. In this regard, the "Aresbank Equality Plan" has been negotiated with the trade union representation ("FINE") and, subsequently, has been registered with the Ministry of Equality. In this negotiation, a planning has been marked that allows us to ensure adequate compliance with the measures implemented to guarantee equal treatment and opportunities for all the people who make up the organization.

Likewise, and for the purposes of staff remuneration, the principle of equity is always taken into account. Therefore, the starting salaries by category are always those marked by the Banking Collective Agreement that is in force. If there would be any gap differences, in no case is at or above 25% in any of the categories.

During the year, the "Action Protocol for the Prevention of Sexual Harassment" has been launched, a measure that ensures the equality and well-being of our staff, as a measure to be completed in 2023.

5. Subsequent events to December 31st, 2022

The Annual Accounts of the year 2022 have been formulated by Aresbank' Board of Directors in the resolution dated on March 17th, 2023.

6. Acquisition or disposal 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 2022 and 2021.

7. Research & Development expenses

The Bank did not invest in projects related to R&D during 2022 and 2021.

8. Environmental information

The entire operative of Aresbank is subject to the legislation of protection and improvement of the environment. The Bank has adopted the appropriate measures in relation to the protection and improvement of the environment and the minimization, where appropriate, of the environmental impact, complying with current regulations in this regard. During the 2022 financial year, no environmental investments have been made and, likewise, it has not been considered to register any provision for risks and burdens of an environmental nature as there are no contingencies related to the protection and improvement of the environment.

ADDITIONAL INFORMATION

PROPOSAL OF APPLICATION OF THE RESULT

BASIS FOR APPLICATION	Thousands of euros 2022
PROFIT (OR LOSS) BEFORE TAXES	(15,377)
CORPORATE INCOME TAX ESTIMATION	5,256
NET PROFIT / (NET LOSS)	**(10,121)**
APPLICATION	
RETAINED EARNINGS (VOLUNTARY RESERVE)	(10,121)
TOTAL	**(10,121)**

CONTACT INFORMATION

HEAD OFFICE

Paseo de la Castellana, 257
28046 - MADRID, ESPAÑA

By phone:	+34 913 14 95 95	(General)
	+34 913 14 96 97	(Treasury)
By fax:	+34 913 14 97 68	(General Management)
	+34 913 14 97 08	(BackOffice Department)
	+34 913 14 97 47	(Accounting Department)
SWIFT Code/ REUTERS:	AREBESMM / AREX	
WEB site:	www.aresbank.es	
E-MAIL:	aresbank@aresbank.es	

BARCELONA BRANCH

Paseo de Gracia, 103 - 1ª
08008 - BARCELONA, ESPAÑA

By phone:	+34 934 67 19 50	(General)
By fax:	+34 934 87 46 87	(General)
SWIFT Code:	AREBESMMBAR	
E-MAIL:	aresbank.barcelona@aresbank.es	

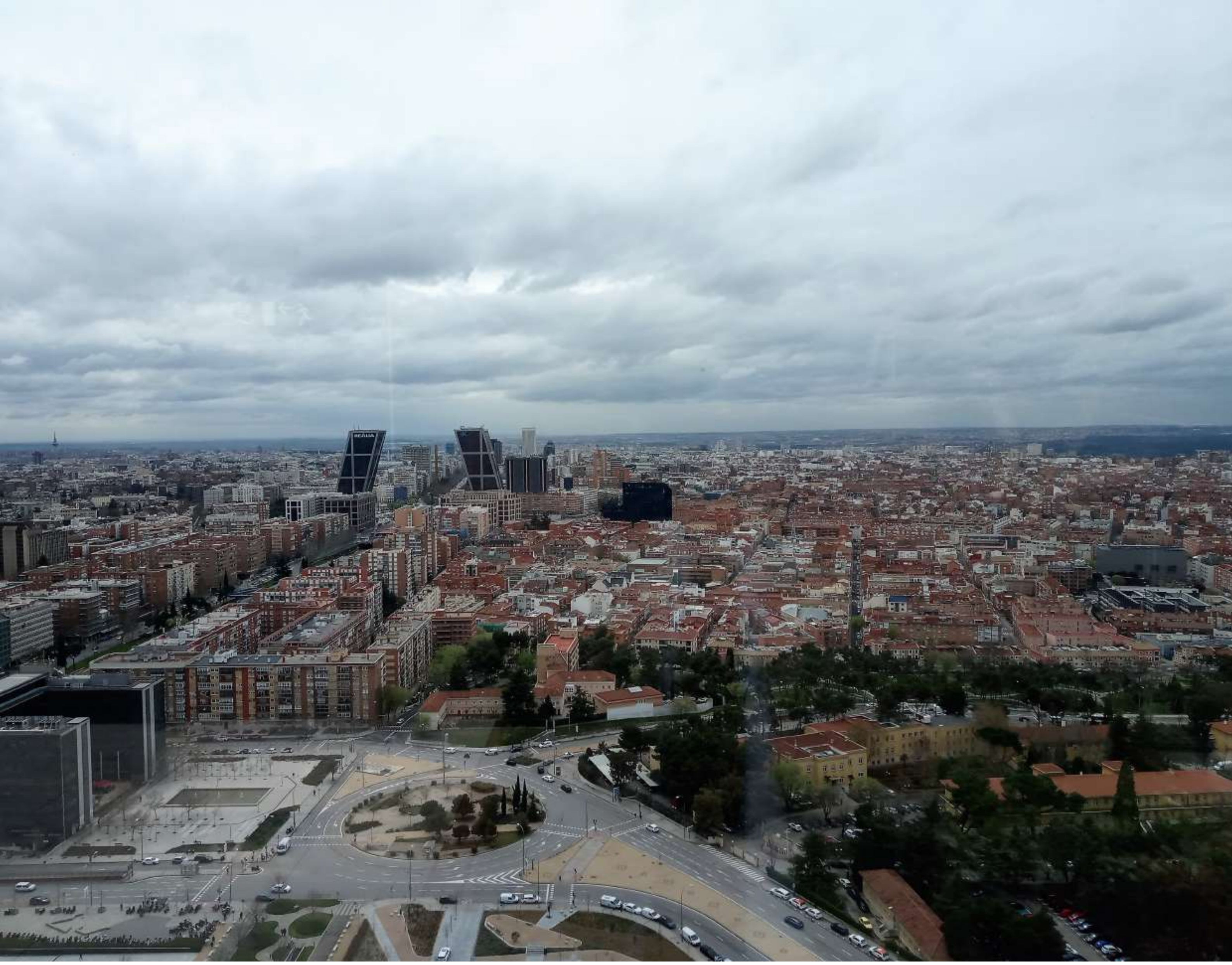
COMMERCIAL OFFICES

C/ Rodriguez Arias Kalea, 23 5ª Planta - Puerta 11 48008 - BILBAO, ESPAÑA

By phone:	+34 944 31 29 55	(General)

Mercantile Registry of Madrid, Volume 6,823, Page 81, Sheet nº M-111.123, Inscription 140, C.I.F. A-28386191

Aresbank



Madrid

Aresbank, S.A. Head office
Paseo de la Castellana, 257
28046 MADRID
Tel: +34 91 314 95 95
Fax: +34 91 314 97 68

Barcelona

Aresbank, S.A. Branch
Paseo de Gracia, 103 - 1ª Planta
08008 BARCELONA
Tel: +34 93 467 19 50
Fax: +34 93 487 46 87

Bilbao

Aresbank, S.A. Commercial Agent
Rodriguez Arias Kalea, 23 5ª Planta - Puerta 11
48011 BILBAO
Tel:+34 944 312 955
Fax: +34 944 104 537

Aresbank

www.aresbank.es