Aresbank

Annual Report

2019

Aresbank, S.A.
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Aresbank

Annual Report 2019

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CHAIRMAN'S LETTER

To Our Shareholders,

I am pleased to refer to you the Annual Report for 2019, on behalf of Aresbank' Board of Directors. Let me also take this opportunity to convey to you our highlights, 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, so much national as international, in which this convulse 2020 is taking place.

In relation to the international context, the global economy grew by 2.9% year-on-year rate in 2019, according to the International Monetary Fund; that is, eight tenths less than previous year. However, the most challenging at this moment is not look to the rear-view mirror (*"how it was"*) as the uptick that was expected for 2020, according to the forecasts few months ago, has certainly been truncated by the impact of COVID-19 throughout the world: forecasts of more than 1.5% year-on-year growth in developed economies by 2020, and almost 4.5% in emerging countries seems now like from long time ago. Indeed, according to the latest forecasts, the coronavirus pandemic will leave the world with a fall in global GDP of about 3% year-on-year, which will be just over 6% in the developed world, while the fall in emerging and developing countries will be limited to 1%. If we focus on MENA countries' markets, it pointed to a very uneven situation between countries, evidenced by the presence of violent conflicts in some of them. In the current situation, it is very likely that there will also be a drop in its output in 2020, certainly uneven, but there is also some hope in a stabilization in the price of oil that would significantly reduce uncertainty in the area.

On the other hand, we cannot be oblivious to a more complex foreseeable context around the international financial markets, which had already become more restrictive in 2019, and which all points to the fact that it can be more for 2020 if international public and private debt rises too much.

In terms of the Spanish economy, 2019 has continued to accumulate growth quarters, up to 25 since the previous recession. 2019 registered a 2% year-on-year increase in its output. However, a reflexive reading from 2019 indicates that the Spanish economy was increasingly exhausted, and these quarterly growth rates were being reduced as the year progressed. Despite that, it is also true that economic growth in Spain remained stronger than in the EU (increase 1.2%). Although this cannot hide the new reality of 2020, in which the Spanish economy is expected to reduce its GDP by in the range of 9% to 15%, while the Eurozone is expected to do so by just over 7%. In this context, only changes in productivity levels could relieve this gap. These changes would obviously have to come hand in hand with important structural measures that improve the functioning and efficiency of factor and goods markets, but it is noted that this is not the will of a Spanish government stunned by the pandemic and without a clear program of reforms in this sense, rather the opposite.

From a monetary and financial perspective, 2019 was a very stable year from the point of view of prices level. Although with an inflation rate, 0.8%, far away from the ECB's targets (close to 2%) this fact is not good for a country as externally indebted as Spain, nor for an improvement in financial margins that could contribute significantly to a stronger recovery of the financial sector. In this regard, we have returned to a negative EURIBOR in 2019 and the maintenance of macroprudential burdens that require a significant effort in relation to coverage, with the consequent limitation in the release of own resources. That said, 2020 outlook is an increased and corrected version of 2019, for the reasons set out above (pandemic, monetary policy, inflation, lack of reforms, etc.).

From the most particular point of view of our financial institution, Aresbank has closed 2019 with a new growth of its commercial and financial activity, although this business health is not reflected neatly in its results, especially when compared to those of 2018. The reason is not convoluted, but simple: in 2018, in accordance with current legislation, a significant amount of resources in the form of provisions were released; this fact has obviously not been repeated in 2019.

In any case, after being reviewed the accounts by our external auditors, without further comments of interest, we have significantly increased our assets by just over 35%, reaching EUR 13.2 million profits before tax. Results for the financial year have reached EUR 8.6 million euros after corporate income tax.

The good results of 2019 are based on a sustained figure of the net interest margin in relation to previous year, where the increase in business is reflected in a gross interests growth of more than 5%, despite the financial situation of the year in terms of market interest rates. On the other hand, there has also been an improvement in the other commercial revenues, which, as a whole, has led to an increase in the net operating margin of 6.7% and a figure of EUR 24.9 million. Achieving this expansion of activity and margins has been possible with a TIER 1 ratio of 44.88%, and as in previous years, well above what the national and European regulator considers as acceptable.

Once seen the results of our activity, as in previous years, I would like to underline the constant support that the close collaboration with *Libyan Foreign Bank* and *Crédit Populaire d'Algérie* is giving to Aresbank' activity, both its organizations and shareholders. Likewise, Aresbank has maintained its good reputation towards public regulators, especially with Bank of Spain, for the general valuations received in the regular supervisory and evaluation review during 2019.

Finally, Aresbank' activity and results cannot be separated from its trusted clients portfolio, always willing, even if indirectly, to improve our management and generating synergies, especially in giving answer to commercial and financial demands raised, without ever jeopardizing our banking approach based on prudence and in a very balanced sense when integrating any new solution into management.

I cannot finish without congratulating ourselves; the achievement of these good results is being undertaken in a very complex and competitive environment. So, one more year, it must be recognized that Aresbank has a very committed, qualified and increasingly experienced staff.

Mr. Ahmed Ragib
Chairman to the Board of Directors

SHAREHOLDERS

	2019	2018
Libyan Foreign Bank	99.86%	99.86%
Crédit Populaire D´Algérie	0.14%	0.14%

BOARDOFDIRECTORS

Mr. Ahmed Ragib	Chairman
Mr. Abdulfatah A. Mutat (*)	Vice Chairman
Mr. Fekri Sinan (**)	Vice Chairman
Mr. Jamal R. Elbenghazi (***)	
Mr. Serajiddin A. Khalil	
Mr. Mohamed Alrahebi (****)	
Mr. Mustafa Elmanea (*****)	
Mr. Mohammed Dahmani	Credit Populaire d'Algérie

Independent Directors

Mr. Javier Iglesias de Ussel y Ordis

Mr. Miguel Cuerdo Mir

Secretary

Mr. Antonio Díaz de Liaño

(*) Membership ended on 26th of March 2019.
(**) Appointed on 1st of July 2019.
(***) Membership ended on 7th of March 2019.
(****) Appointed on 1st of July 2019.
(*****) Appointed on 1st of October 2019.

AUDIT COMMITTEE

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

Secretary

Mr. Antonio Díaz de Liaño

(*) Membership ended on 26th of March 2019.
(**) Appointed on 1st of July 2019.

RISK AND COMPLIANCE COMMITTEE

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

Secretary

Mr. Antonio Díaz de Liaño

(*) *Membership ended on 7th of March 2019.*

(**) Appointed on 1st of July 2019.

NOMINATIONS AND REMUNERATIONS COMMITTEE

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

Secretary

Mr. Antonio Díaz de Liaño

(*) Membership ended on 26th of March 2019.

(**) Appointed on 1st of July 2019.

MANAGEMENT TEAM

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

RESPONSIBILITY FOR THE INFORMATION CONTAINED IN THIS ANNUAL REPORT

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

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

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

DIRECTORS' REPORT

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

DIRECTORS´ REPORT

1. ECONOMIC AND FINANCIAL SITUATION

1.1. The international economy

Global economic growth in 2019 was 2.9%, according to the latest IMF estimates. Growth is a seven-tenths fall in relation to global economic growth in 2018, which in turn had led to some slowdown from 2017. However, these same estimates indicate an uptick in global economic activity growth to 3.3% by 2020. If this change in trend were confirmed, global economic growth would be rather in the stabilization phase, thanks mainly to lower risks of deterioration in world trade, which could be allocated to new trading conditions between China and United States, less harmful to trade. Also, the security of a Brexit closure in a negotiated manner. Now, these improved conditions could be neutralized by other elements of slowing to global growth, basically "increasing geopolitical risks and the heightened social tension, could reverse favorable conditions of funding, exposing financial vulnerabilities and seriously disrupting growth." Not counting on the negative level that the damage to activity and trade of the outbreak of the so-called Wuhan coronavirus in China can be controlled and compensated for its effects.

Looking at the aggregate figures of activity, it is clear that 2019 is a year in which growth has been less intense than in 2018. While there may be a change in trend by 2020, according to the forecasts of international agencies. The slowdown in growth in 2019 has brought global real GDP below a 3% growth rate, due to a nearly 8-tenth reduction in growth in emerging and developing economies and a 5-tenth decline in the developed world. It should also be noted that the new forecasts point to some stabilization around a rate of 1.6% growth in advanced economies and an increase in growth in emerging economies of up to 4.4%. Although we also have to expect a different evolution depending on the countries and areas. Thus, for the United States, the uptick can reach up to a 2% rate of output growth by 2020, while the Eurozone may not exceed 1.3%. That is, in the European case, only one tenth more than estimated for 2019. This lack of European thrust is swept away by the recessionary situation of the German industrial sector, the lack of growth in the Italian economy and a more pronounced slowdown in the case of the Spanish economy.

More so from emerging countries is expected in 2020 than growth of 3.7% in 2019. This improvement will come from Asian economies that are expected to reach 5.8% increases, sustained by new forecasts for India's economy, with growth of 5.8% in 2020 compared to 4.8% seen in 2019, partly due to Indian fiscal stimulus in 2019 and a moderation in oil prices. From China it can be said that its growth of 6.1% in 2019 will continue in 2020. In any case, these prospects are at these levels as long as there is a step backwards in the protectionist measures promoted in 2019 and that the effect of coronavirus does not have a greater economic repercussion than expected.

More problematic seems the situation in Latin America, which has seen a serious stagnation of its real GDP in 2019, even if there are some prospects for improvement by 2020, based on the continuity in the improvement of the great Brazilian economy. Although Mexico's evolution and Chilean stagnation, which is more threatened by unresolved social tension, are of great concern.

The area that seems to attract growth in these years is sub-Saharan Africa, which managed to increase its real output by 3.3% in 2019 and still intensify it to 3.5% by 2020, despite the instability that some of its larger economies are going through, like South Africa.

For the Middle East and Central Asia, the forecast for 2020 is of a very unequal growth, exactly as it occurred in 2019. Geopolitical tensions are holding back the Iranian economy and more violent conflicts are reversing activity in Syria, Yemen or Libya, while social tensions are growing in Lebanon or Iraq and do not seem the best scenario for stabilizing economic activity and for guiding it to growth and improving the well-being of the population in the long term. Nor does it seem that the situation in the region is favoring the recovery of Saudi Arabia, which kept its real GDP virtually stagnant in 2019.

It is always bad news that international trade does not grow as much as international productive activity, but what happened in 2019 is a clear sign of the kind of policies that cannot be further developed. The results of tariff-related measures and geopolitical tensioning have led to global trade growing in 2019 around 1% (almost 2 points less than productive activity), when it had increased to 3.7% in 2018 (one-tenth more than the productive activity). To the more deterioration in trade conditions, we may add a near-absolute stagnation in international trade in emerging and developing economies (0.4% year-on-year increase). This negative development in terms of value has been affected by a significant fall in commodity prices, especially oil prices by more than 11%, which detracts strength from world trade.

Given the evidence of an unequal situation in the evolution of economic activity throughout the world in 2019, there is a rather widespread fact that -experts say- is helping to break the fall in global growth in 2019. This is, a greater generalization of monetary policies (more accommodative than those of 2017 and 2018) which are serving, at least in their most apparent effects, to promote a drop of the interest rates and a strengthening of financial activity in emerging countries, with the consequent recovery in the growth figures of previous years. Indeed, the IMF recently noted that there has been a strengthening of "portfolio flows to emerging economies". This is extended to the world's largest economy, the United States. Although it is not for the Eurozone, where accommodative policies that favor negative interest rates that limit a further recovery of their financial system, while slowing down further recovery. Likewise, these accommodative policies can be transferred to prices and destabilize the evolution of economic activity, both internally and externally. Indeed, it is observed that in the face of the relative price stability of the developed world (around 1.4% increase), the price level in emerging and developing countries has already increased in 2019 by more than 5% in their price levels.

1.2. The Spanish economy

The Spanish economy has grown by 2% in 2019. However, year-on-year real GDP growth in the last quarter of the year was 1.8%. In other words, there is a continuation of the slowdown in activity growth, where the rate has been falling almost continuously since the last quarter of 2017. Although, still with an increase rate capable of sustaining net job creation. It is already 25 quarters of continuous growth in Spain, always above the growth achieved by the Euro Zone as a whole, which closes 2019 with a likely growth estimate of 1.2%. These numbers also show that, despite the slowdown, the growth gap in Spain opens up when figures are compared with those obtained for 2018 and 2017.

From the year-on-year growth of 1.8% in the fourth quarter of 2019, an increase of 1.2% to domestic demand and 0.6% to external demand must be attributed. From the domestic demand a more tenuous growing increase in final consumption should be highlighted. This time with a 1.4% year-on-year increase, which is still lower (1.2%) if the final consumption are Spanish households. Only the growth of consumer spending in the Public Administrations (2.2%) is above the increase in GDP, with a drop to negative in fixed capital investment (-0.3%), which has been dragged by significant year-on-year falls in construction and other tangible fixed assets.

In the case of the contribution of the external net balance of goods and services, 2019 has presented a growing strength of the export sector, able to close at a year-on-year growth rate in the fourth quarter of the year of 3.7% and with more limited growth in imports (2.1%) year-on-year rate. However, it appears that the progressive slowdown in Spanish economic growth is leading to rather prudent behaviors by Spanish households, as reflected in consumption growth rates or in the moderation in the growth of imports. More worrying seems the figures in the investment effort, affected by expectations and recent developments.

From a product perspective, the supply of services seems to be more in keeping a path of stability, with a year-on-year growth rate of 2.5% at the end of 2019. The same cannot be said of the primary sector, showing drops in its actual output of 6% in year-on-year rate in the last quarter of the year. The industry however appears to be on a stronger growth path since the second quarter of the year and has closed the fourth quarter with a 1.6% year-on-year increase. Worst aspect has presented the construction, that, from a growth of 6.3% at the end of 2018 has fallen (-0.7%) at the close of 2019.

The above does not preclude us to find in 2019 a new improvement in the international competitiveness of the Spanish economy, moving to the 23rd place in the world ranking according to the World Competitiveness Index of the World Economic Forum. Year in which significant competitiveness losses have been observed for Germany or Britain and clearly insufficient gains in relation to global developments in our neighboring countries such as Portugal, France or Italy. All of which augurs a positive contribution of our foreign sector to welfare gains and growth in activity and employment by 2020, if no major mistakes are made by national policymakers.

As far as the labor market is concerned, the number of employed people has been 19,966,900 at the end of 2019. This means 402,300 more jobs in the last year and a year-on-year variation rate of 2.06%, which has been significantly reduced compared to 2018 (2.98%). By far, job growth has been due to the private sector of activity, which has grown by more than 360,000 people. This increase means both a full-time increase in jobs (more than 352,000 net jobs) and an increase in part-time jobs. As befits to an economy as tertiary as the Spanish one, the services sector contributes to the vast majority of the jobs created, with more than 374,000 new jobs, to which is added an increase in the industrial sector of more than 55,000 people, which breaks with the poor data from the previous year. There is also a growing imbalance in job creation from a geographical point of view, as the Autonomous Community of Madrid has been able to generate almost 140,000 net jobs, moving away from the next region in job creation, which has been the Autonomous Community of Catalonia with 87,000 net growth jobs.

The counterpoint to employment in the labor market is unemployment, which has been reduced in 2019 by 112,000 people. Being positive this reduction in the unemployment rate, up to 13.78%, it cannot be hidden that the reduction implies a drop rate slowdown of 67 hundredths, when a year earlier the unemployment rate had fallen by almost two points.

According to the INE (National Statistical Institute) and the National Accounting in the last quarter of 2019, the variation in productivity per full-time equivalent job has been reduced by 0.1%, while productivity per hour effectively worked has increased by 0.4%. One more year, it can be noted that the Spanish economy, with a natural rate of high unemployment, poor results in terms of labor productivity coupled with a reduction in the unemployment rate, are highlighting increasing pressures on wage costs. On the one hand, the distribution of GDP at current prices in 2019 shows that wage incomes are growing above output and unit labor costs are growing above 2% in 2019, when the GDP deflator is growing at 1.7%. In other words, a new increase in the labor factor that is not answered in 2019 with improved productivity and which may jeopardize the continued growth of net employment, especially in this context of slowdown.

On the other hand, public debt in relation to GDP reduced the historical record for the third quarter of 2018 and ends up 2019 at 97.72% of GDP, according to provisional data from the Spanish Public Administration. In this sense, the analysis cannot fail to underline that the significant public indebtedness in relation to the volume of Spanish economic activity continues to be maintained despite the 25 quarters of continued growth, accompanied by remarkable growth of government revenues, which, despite their high elasticity in relation to income, are never sufficient to reduce the cumulative level of indebtedness of public administrations.

Finally, the prices have followed the path of stability in recent years. Inflation in Spain has been at a year-on-year growth rate of 0.8% in 2019. So, four tenths less than the previous year. This implies that, one more year, the inflation rate of the Spanish economy is five tenths below the inflation rate of the Eurozone (1.3%) but set aside by two tenths more than a year ago. However, it should be emphasized that underlying inflation remains very stable around the 1% in 2019, and rebounds by a tenth from the previous year. This price stability environment closes the year with some uptick in the year-on-year rate, which has occurred since October 2019, but far from the 1.5% it reached in April 2019, and much further from the relative-high of recent years, achieved in October 2018.

All seems to indicate that the slowdown in growth may continue in 2020 and that contribute to prices remaining at growth rates as low as current ones. Similarly, using the so-called Euro Zone Harmonized Consumer Price Index, the slight price rebound in recent months, as in Spain, does not appear to jeopardize the medium-term basic inflation targets. The ECB's new president, Christine Lagarde, does not seem that will change the monetary policy that has been followed, at least in the near future so far. That is, the maintenance of the assets purchase program amounting to about 20 billion per month and the maintenance of the intervention-interest rates at zero or close to zero. What it also seems to be holding on over time is the penalization of the excess of liquidity in the Eurozone’s banking system. Actually, 2020 is likely to continue to pursue 2019 market interest rates, punishing bank intermediation margins again. While a possible change in the ECB's strategy based on setting the inflation target at 2% appears on the horizon, compared to the current target of a rate below but close to 2%, which, if confirmed, could encourage some tenth more of expected inflation. However, the new design, according to the ECB's announcement, will not be ready until the end of 2020.

1.2.1. The external sector of the Spanish economy

2019 has meant another year of surplus in the current account of the Spanish economy. This surplus is close to 0.7% of GDP and accounted for until the third quarter of the year. Being positive is lower than the previous two years. Similarly, financial capacity has remained positive and continues to generate net savings compared to the rest of the world, in a very similar proportion to what its current account represents. This means a further cut in external debt, reducing it below 80% of GDP, when in 2015 it had reached 94% of GDP.

The current trade balance shows red numbers, as always, but it is worth noting the increase in exports of goods by 1.4% compared to 2018, and until November 2019. While imports also grew in the same period, but at a lower rate (1%). This means that the negative trade balance has been reduced by 2.3% in the year and the trade coverage rate is raised to 90%. To this has contributed significantly to the reduction of the energy deficit (-7.2%) and also an increase in exports of some very prominent groups of goods, such as capital goods, which account for one-fifth of exports of Spanish goods and have increased their sales abroad by 5%. Similar to the sector of food, beverage and tobacco, which has had an export increase of 5.6% in year-on-year rates. The flip side of the coin has been shown by the automotive sector, which has reduced its exports by 1.6% year-on-year rate.

In essence, foreign trade in services has continued to provide significant resources to the Spanish economy, especially through tourism activity, which in 2019 has captured more than 92 billion euros, with an increase of 2.8% compared to the previous year and a record in the reception of tourists up to almost 84 million people. On the other hand, trade in goods and services remains EU-oriented, absorbing almost 66% of total exports of goods and showing an increase of 1.7% year-on-year in 2019. This also means that Spain increases the surplus with the area to just over 11 billion euros. However, the other non-EU destinations of our exports have had lower growth (0.8% year-on-year). In summary of the foreign trade situation, it should be noted that there has been an improvement of the Synthetic Indicator of Export Activity (ISAE), which has to do with more favorable external demand, given the lower climate of uncertainty in trade international organization in recent months. This environment is accompanying an improvement in the export capacity of Spanish companies, especially the improvement seen in the so-called "quality competition", as well as an improvement in human resources available to the export sector.

All this is consistent with the data provided by the Competitiveness Trend Index, until November 2019, which shows a continuous improvement in competitiveness, not only against our EU partner countries but also against the OECD as a whole. Official sources have pointed to the obvious moderation of domestic prices, which has offset a relative appreciation of the euro in recent months. Similarly, in relative terms, a positive spread for Spain in relation to the EU regarding unit labor costs, which while tainting in recent quarters, still remains positive.

1.2.2. The Spanish banking sector

According to the data provided by the AEB at the end of September 2019, for the individual accounts and balance sheets of Spanish banks and foreign branches operating in Spain, the assets of Spanish banks have grown by just over 3.9%. The most important item is represented by the "Financial assets at amortized cost" which has increased by almost 2.7%. Within it, assets with "Clients" (representing 84% of the total account) have risen by 1.7%. Alongside to this, there has also been a 27.1% increase in "Financial assets held for trading", although this account is not as important as assets at amortized cost.

Within the sector's liabilities, deposits have increased by 0.9%, although customer deposits have increased by 4%. Own resources have practically remained at 2018 balance sheet level, with a slight increase of 0.2% and almost the same increase in equity, i.e. 0.2%.

From a profit and loss account perspective, interest income has grown by 5.3%, but not the interest margin, which has only increased by 0.8%. On the other hand, commission revenues have remained at the same level, up to 6.9 billion euros. With all this, pre-tax profits were 5,458 million euros, that implies a deterioration of the same compared to the previous year.

The explanation must be found in a significant deterioration in gross margin, which has fallen by 1.3% year-on-year. The evolution of these figures must be found in an insufficient increase in margins, both the interest margin and the gross margin of the entities. Added to this is a significant increase in some expenditure items, such as staff costs that have increased by 3.4%, provisions that have increased by 11.9% and amortizations that have resulted in 57% growth.

1.2.3. The behaviour of the main Aresbank markets

According to IMF data, updated to January 2020, the forecast is that growth in the Middle East and the Central Asian region will rise to 2.8% this year, a somewhat more pessimistic expectation than that given by this agency in October 2019. However, the expectation is of a more pronounced growth by 2021, being able this area to exceed the 3% year-on-year. The reasons why expectations are not as optimistic as those of a few months ago rely in the deterioration in expectations for Saudi Arabia, which directly relate to OPEC's strategy for cuts in oil extraction and sales without having clear that this will lead to an increase in future revenues, given the current conditions of international markets. In fact, as international growth slowed in 2019, the prospects for global oil demand growth were set at an annual increase of only 1%. This means that from an average price in 2019 of about $60 a barrel we move to about $58 by 2020.

On the other hand, the expectations generated by other countries in the area, in the vortex of today's geopolitical turbulence, do not seem very flattering. Social and political tensions are rising and create a lot of instability in economic exchange decisions and markets.

Despite all this, the World Bank has pointed to an increase in per capita income of less than 1% for the MENA area in 2019, while maintaining a prospect increase around the 2% in the long-term per capita welfare. This means greater and better business opportunities in the area, once conflicts are eliminated and the economy stabilizes. Similarly, the World Bank points to the concerning development of productivity in commodity exporting countries, as the trend pushes them towards zero growth, which is critical to the improvement of the welfare in the present and in the future.

With regard to Spanish foreign trade in the area, it should be noted that exports and imports with Africa, which account for 6% of Spain's trade, remained stagnant in 2019, while in the Middle East we dropped 0.3% in exports and 0.7% in imports, accounting for 2.6% of Spanish foreign trade as a whole. By country, in the export it is worth noting the falls in trade with Turkey (-0.2%), Saudi Arabia (-0.2%), Algeria (-0.1%), Libya (-0.1%) or Iran (-0.1%). Also noting a reduction in the imports side with Saudi Arabia (-0.2%), Algeria (-0.3%) or Iran (-0.7%). However, imports from Libya increased in 2019 by 0.1%, while Morocco's imports increased by 0.1% and Turkey's by 0.2%.

2. RISK MANAGEMENT

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

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

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

3. CORPORATE GOVERNANCE AND COMPLIANCE

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

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

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

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

4. ARESBANK FOCUS IN THE COMING YEAR

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

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

5. SUBSEQUENT EVENTS TO DECEMBER 31st, 2019

The Annual Accounts of the year 2019 have been formulated by Aresbank' Board of Directors in the resolution dated on March 19th, 2020.

6. ACQUISITION OF OWN SHARES

As in previous years and due to its equity capital structure, Aresbank has not acquired, held or performed operations with its own shares during 2019 and 2018.

7. RESEARCH & DEVELOPMENT EXPENSES

The Bank did not invest in projects related to R&D during 2019 and 2018.

8. ENVIRONMENTAL INFORMATION

The overall operations of Aresbank are subject to environmental protection legislation. The Bank has adopted appropriate measures with respect to environmental protection and enhancement and to the minimization, where appropriate, of the environment impacts, in compliance with the relevant current regulations. The Bank did not make environmental investments in 2019 and 2018, nor did it consider it necessary to record any provision for environmental risks and charges and does not consider that there are significant contingencies relating to environmental protection and enhancement.

9. OTHER INFORMATION OF INTEREST

Aresbank holds excellent regulatory coverage ratios at December 31st, 2019, both in terms of immediate liquidity (one month ahead) with a liquidity ratio of 436.06% (294.17% in 2018), and besides, with a high-quality capital ratio of 44.88% in terms of solvency (49.56% in 2018).

FINANCIAL STATEMENTS AND EXTERNAL AUDIT REPORT

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

Audit Report on Aresbank, S.A.

(Together with the annual accounts and directors' report of Aresbank, S.A. for the year ended 31 December 2019)

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

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

Independent Auditor's Report on the Annual Accounts

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

To the Shareholders of Aresbank, S.A. commissioned by its Board of Directors:

REPORT ON THE ANNUAL ACCOUNTS

Opinion

We have audited the annual accounts of Aresbank, S.A. (the "Company"), which comprise the balance sheet at 31 December 2019, and the income statement, statement of changes in equity and statement of cash flows for the year then ended, and notes.

In our opinion, the accompanying annual accounts give a true and fair view, in all material respects, of the equity and financial position of the Company at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with the applicable financial reporting framework (specified in note 3 to the accompanying annual accounts) and, in particular, with the accounting principles and criteria set forth therein.

Basis for Opinion

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

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

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

Key Audit Matters

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

Classification and measurement of financial instruments See notes 5, 8, 9 and 14 to the annual accounts	
Key audit matter	*How the matter was addressed in our audit*
The classification and measurement of financial instruments may require a high level of judgement and complex estimates and determines the criteria to be applied in their subsequent measurement. The following is a list of the main financial assets and liabilities at 31 December 2019 as detailed in the notes described earlier in the annual accounts: – Debt securities (Assets) – Loans and advances to credit institutions and other creditors (Assets) – Deposits from other debtors and credit institutions (Liabilities)	To evaluate the classification and measurement of financial instruments, we carried out procedures on the assessment of the conceptual definitions, criteria and defined methodologies, and we performed tests of control and detail on the Company's analysis. Our procedures relating to the assessment of relevant controls linked to the classification and measurement of financial instruments were focused on identifying the risk management framework and controls associated with operating in the financial markets in which the Company is present, evaluating the application of the Company's policies and procedures for recognising and classifying the instruments based on existing business models and their contractual features, and examining the key controls associated with the process of measuring financial instruments and with analysing the integrity, accuracy, quality and recency of the data used and of the control and management process in place for the existing databases. With regard to the tests of detail performed, we selected a sample of financial instruments for which we assessed the appropriateness of their classification, the suitability of the measurement criteria applied and the accuracy of such measurement. Lastly, we analysed whether the information disclosed in the notes to the annual accounts has been prepared in accordance with the criteria set out in the financial reporting framework applicable to the Company.

Impairment of the loans and advances to other debtors portfolio See notes 5.3 and 9 to the annual accounts	
Key audit matter	*How the matter was addressed in our audit*
The process of estimating the impairment of the loans and advances to other debtors portfolio due to credit risk entails a significant and complex estimate, especially with regard to the identification and classification of exposures through loans that are under special monitoring or impaired, portfolio segmentation, and the use of significant assumptions such as the realisable value of the collateral associated with credit transactions. These estimates are based on the alternative solutions provided for in the Banco de España Circular 4/2017.	To evaluate the impairment of financial assets, we carried out procedures on the assessment of the conceptual definitions, criteria and defined methodologies, and we performed tests of control and detail on the Company's analysis of the credit risk classification of financial instruments and on the estimated allowances and provisions for impairment. Our audit approach included assessing the relevant controls linked to the processes of estimating impairment of the loans and advances to other debtors portfolio and performing different tests of detail thereon. Our procedures relating to the control environment were focused on the following key areas: governance, accounting policies, refinancing and restructuring, monitoring of loans outstanding, the process of estimating allowances and provisions and assessment of the integrity, accuracy, quality and recency of the data and of the control and management process in place. Our tests of detail on the estimates of impairment of the loans and advances to other debtors portfolio basically encompassed the following: – Impairment of individually significant transactions: we selected a sample of the population of significant risks for which there was objective evidence of impairment and assessed the adequacy of the allowances and provisions recognized. – Validation of the adequate functioning of the calculation engine: this validation basically consists of the review of the dates of non-payment as defined in the applicable schedule, the classification of the transaction and the guarantee discount applied. A review of the functional and technical documentation was also performed. – Assessment of the integrity of the opening balances uploaded into the calculation engine and third party confirmation of these opening balances. Lastly, we evaluated whether the information disclosed in the notes to the annual accounts is appropriate, in accordance with the criteria set out in the financial reporting framework applicable to the Company.

Provisions for commitments and guarantees extended See notes 5.12 and 15 to the annual accounts	
Key audit matter	*How the matter was addressed in our audit*
Estimating provisions for commitments and guarantees extended and particularly the provision for country risk, involves a high degree of judgement and technical difficulty, as a result of the exposure of the Company in other countries. We consider that a significant inherent risk exists in relation to the process of estimating provisions for commitments and guarantees extended.	Our audit approach included assessing the policies and procedures manuals associated with the processes of estimating provisions for commitments and guarantees extended, and also performing substantive procedures on that estimate. Our procedures for evaluating the policies and procedures manuals were focused on the following areas: – Accounting policies: assessment of their alignment with applicable accounting regulations by Banco de España. Our substantive procedures in relation to the estimate of provisions mainly consisted of the analysis of Company exposures in countries with different risks classed from 1 to 5 by Banco de España as well as in the recalculation of the related provisions.

Emphasis of Matter

We draw attention to note 3.13 to the accompanying annual accounts, in which the Directors mention the event after the reporting date in relation to the health emergency triggered by the spread of Coronavirus disease 2019 (COVID-19) and the assessment of its consequences at the date of the authorization to issue these annual accounts, considering the measures adopted by the Spanish government in Royal Decrees 463/2020 of 14 March 2020 and 8/2020 of 17 March 2020, as well as the difficulties of estimating the possible impacts that this situation could have. Our opinion is not modified in respect of this matter.

Other Information: Directors' Report

Other information solely comprises the 2019 directors' report, the preparation of which is the responsibility of the Company's Directors and which does not form an integral part of the annual accounts.

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

Based on the work carried out, as described in the preceding paragraph, the information contained in the directors' report is consistent with that disclosed in the annual accounts for 2019 and the content and presentation of the report are in accordance with applicable legislation.

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

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

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

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

Auditor's Responsibilities for the Audit of the Annual Accounts

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

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

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

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

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

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

– Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

– Evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves a true and fair view.

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

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Additional Report to the Audit Committee

The opinion expressed in this report is consistent with our additional report to the Company's audit committee dated 1 April 2020.

Contract Period

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

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

(Signed on the original in Spanish)

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

1 April 2020

BALANCE SHEET FOR THE YEARS ENDED DECEMBER 31st, 2019 AND 2018

(EXPRESSED IN THOUSANDS OF EURO)

ASSETS	2019	2018
Cash, balances with Central Banks and demand deposits (Note 7)	**663,780**	**284,636**
Financial assets at fair value through other comprehensive income (Note 8)	**20,766**	**37,377**
Debt securities	20,766	37,377
Financial assets at amortized cost (Note 9)	**1,227,323**	**1,078,825**
Debt securities	15,339	-
Loans and advances to customers	1,211,984	1,078,825
Financial entities	1,007,390	803,739
Clients	204,594	275,086
Tangible assets (Note 10)	**32,173**	**32,475**
For own use	13,164	13,363
Investment property	19,009	19,112
Intangible assets (Note 11)	**196**	**213**
Other intangible assets	196	213
Tax assets (Note 12)	**5,280**	**7,100**
Current tax assets	3,626	3,629
Deferred tax assets	1,654	3,471
Other assets (Note 13)	**91**	**77**
TOTAL ASSETS	**1,949,609**	**1,440,703**

OFF BALANCE SHEET ITEMS (Note 20)

Other commitments granted	**356,475**	**368,488**
Lending commitments granted	**143,724**	**89,904**

These financial statements and the accompanying Notes 1 to 32 are an integral part of the Annual Accounts as of December 31st, 2019. The financial statements are originally issued in Spanish and prepared in accordance with the Circular 4/2017 and 5/2014, of the Bank of Spain and subsequent amendments. Consequently, certain accounting practices applied by the Company may not conform to generally accepted principles in other countries. In the event of a discrepancy, the Spanish-language version prevails.

BALANCE SHEET FOR THE YEARS ENDED DECEMBER 31st, 2019 AND 2018

(EXPRESSED IN THOUSANDS OF EURO)

LIABILITIES	2019	2018
Financial liabilities at amortized cost (Note 14)	**1,593,682**	**1,083,769**
Deposits	1,592,916	1,081,715
Deposits from central banks	45,730	-
Deposits from credit institutions	1,492,677	1,045,707
Deposits from other creditors	54,509	36,008
Other financial liabilities	766	2,054
Provisions (Note 15)	**3,317**	**3,249**
Taxes and other legal contingencies	590	32
Contingent exposure and commitments	2,607	3,177
Rest of provisions	120	40
Tax Liabilities (Note 12)	**1,289**	**1,105**
Liabilities from current tax	301	308
Liabilities from deferred tax	988	797
Other Liabilities (Note 13)	**1,857**	**2,276**
TOTAL LIABILITIES	**1,600,145**	**1,090,399**
SHAREHOLDERS EQUITY		
Equity (Note 16)	**349,606**	**350,965**
Share capital / Paid up capital (Note 17)	300,001	300,001
Retained earnings (Note 18)	40,964	39,649
Profit (or loss) for the period	8,641	11,315
Other comprehensive income (Note 19)	**(142)**	**(661)**
Elements that can be reclassified to profit (or loss)	(142)	(661)
TOTAL SHAREHOLDERS EQUITY	**349,464**	**350,304**
TOTAL LIABILITIES AND EQUITY	**1,949,609**	**1,440,703**

These financial statements and the accompanying Notes 1 to 32 are an integral part of the Annual Accounts as of December 31st, 2019. The financial statements are originally issued in Spanish and prepared in accordance with the Circular 4/2017 and Circular 5/2014, of the Bank of Spain and subsequent amendments. Consequently, certain accounting practices applied by the Company may not conform to generally accepted principles in other countries. In the event of a discrepancy, the Spanish-language version prevails.

INCOME STATEMENT FOR THE YEARS ENDED DECEMBER 31st, 2019 AND 2018
(EXPRESSED IN THOUSANDS OF EURO)

	2019	2018
Interest income (Note 22)	23,125	22,062
Interest expenses (Note 23)	(14,634)	(13,686)
INTEREST MARGIN	**8,491**	**8,376**
Commissions income (Note 24)	13,469	14,615
Commissions expense (Note 25)	(414)	(750)
Gains and losses on financial assets and liabilities not at fair value through profit (or loss), net	1,232	(117)
Gains and losses on financial assets and liabilities at fair value through profit (or loss), net	-	(143)
Exchange differences, net	662	268
Gains and losses on non-financial assets, net	-	-
Other operating income (Note 26)	1,797	1,505
Other operating expense	(353)	(420)
OPERATING RESULT (NET)	**24,884**	**23,334**
Administrative Expenses	(11,141)	(10,150)
Personnel expenses (Note 27)	(8,450)	(7,562)
Other administrative expenses (Note 28)	(2,691)	(2,588)
Amortization (Note 30)	(532)	(474)
Provisions expense, net	(61)	4,290
Impairment losses or release on financial assets not at fair value through profit (or loss) (Note 31)	31	70
Gains or Losses coming from non-financial assets derecognition, net	1	(11)
PROFIT (OR LOSS) BEFORE TAXES	**13,182**	**17,059**
Expenses or revenues on corporate income tax (Note 21)	(4,541)	(5,744)
PROFIT (OR LOSS) FROM ORDINARY ACTIVITY	**8,641**	**11,315**
PROFIT (OR LOSS) AFTER TAXES	**8,641**	**11,315**

These financial statements and the accompanying Notes 1 to 32 are an integral part of the Annual Accounts as of December 31st, 2019. The financial statements are originally issued in Spanish and prepared in accordance with the Circular 4/2017 and Circular 5/2014, of the Bank of Spain and subsequent amendments. Consequently, certain accounting practices applied by the Company may not conform to generally accepted principles in other countries. In the event of a discrepancy, the Spanish-language version prevails.

STATEMENT OF CHANGES IN EQUITY FOR THE YEARS ENDED ON DECEMBER 31st, 2019 AND 2018

(EXPRESSED IN THOUSANDS OF EURO)

a) STATEMENT OF RECOGNIZED INCOME AND EXPENSE

	2019	2018
Profit (or loss) for the period	**8,641**	**11,315**
Other comprehensive income	**(142)**	**(661)**
Debt instruments at fair value through other comprehensive income	(203)	(944)
Tax effect	61	283
TOTAL RECOGNIZED INCOME AND EXPENSE	**8,499**	**10,654**

These financial statements and the accompanying Notes 1 to 32 are an integral part of the Annual Accounts as of December 31st, 2019. The financial statements are originally issued in Spanish and prepared in accordance with the Circular 4/2017 and Circular 5/2014, of the Bank of Spain and subsequent amendments. Consequently, certain accounting practices applied by the Company may not conform to generally accepted principles in other countries. In the event of a discrepancy, the Spanish-language version prevails.

b) CHANGES IN EQUITY IN THE PERIOD

(EXPRESSED IN THOUSANDS OF EURO)

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

These financial statements and the accompanying Notes 1 to 32 are an integral part of the Annual Accounts as of December 31st, 2019. The financial statements are originally issued in Spanish and prepared in accordance with the Circular 4/2017 and Circular 5/2014, of the Bank of Spain and subsequent amendments. Consequently, certain accounting practices applied by the Company may not conform to generally accepted principles in other countries. In the event of a discrepancy, the Spanish-language version prevails.

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

These financial statements and the accompanying Notes 1 to 32 are an integral part of the Annual Accounts as of December 31st, 2019. The financial statements are originally issued in Spanish and prepared in accordance with the Circular 4/2004 and Circular 5/2014, of the Bank of Spain and subsequent amendments. Consequently, certain accounting practices applied by the Company may not conform to generally accepted principles in other countries. In the event of a discrepancy, the Spanish-language version prevails.

CASH-FLOW STATEMENT FOR THE YEARS ENDED ON DECEMBER 31st, 2019 AND 2018
(EXPRESSED IN THOUSANDS OF EURO)

	2019	2018
A) CASH-FLOW FROM OPERATING ACTIVITIES	**301,726**	**145,367**
Profit (or loss) for the period	**8,641**	**11,315**
Adjustments for obtaining operating cash flow	**3,347**	**3,829**
Amortization	532	474
Other adjustments	2,816	3,355
Net increase or (decrease) in operating assets	**216,807**	**41,211**
Assets at fair value through profit (or loss)	-	(14,904)
Assets at fair value through other comprehensive	(1,201)	(11,605)
Financial assets at amortized cost	220,011	67,720
Other operating assets	(2,003)	-
Net increase or (decrease) in operating liabilities	**509,679**	**175,535**
Financial liabilities at amortized cost	511,201	173,806
Other operating liabilities	(1,522)	1,729
Inflows / Outflows for Corporate Income tax	**(3,134)**	**(4,101)**
B) CASH-FLOW FROM INVESTING ACTIVITIES	**(210)**	**(368)**
Outflows	**211**	**380**
Tangible assets	87	171
Intangible assets	124	209
Inflows	**1**	**12**
Tangible assets	1	12
C) CASH-FLOW FROM FINANCING ACTIVITIES	**(10,000)**	**(9,130)**
Dividends payment	10,000	9,130
D) EFFECT OF THE EXCHANGE RATE FLUCTUATIONS	**662**	**268**
E) NET INCREASE OR DECREASE IN CASH AND CASH EQUIVALENTS (A+B+C+D)	**292,178**	**136,137**
F) CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**235,527**	**99,390**
G) CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**527,705**	**235,527**

These financial statements and the accompanying Notes 1 to 32 are an integral part of the Annual Accounts as of December 31st, 2019. The financial statements are originally issued in Spanish and prepared in accordance with the Circular 4/2017 and Circular 5/2014, of the Bank of Spain and subsequent amendments. Consequently, certain accounting practices applied by the Company may not conform to generally accepted principles in other countries. In the event of a discrepancy, the Spanish-language version prevails.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019

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, 2019 amounts to 300,000,960.00 euros and it is formed of 104,167 registered shares with a nominal value of 2,880.00 euros each. The Bank's registered address is Paseo de la Castellana 257, Madrid, where its Head Office is located. The Bank is part of a Group of companies headed by Libyan Foreign Bank with head offices in Dat El Imad, Administrative Complex - Tower II - Tripoli – Libya.

2. GENERAL OBJECTIVES

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

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

3. BASIS OF PRESENTATION OF THE ANNUAL ACCOUNTS

3.1 Basis of presentation

The accompanying financial statements of the year 2019 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, 2019 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 2019 have been formulated by the Board of Directors of the Bank in the resolution dated on March 19th, 2020 and they will be presented to the General Shareholders' Assembly for approval, which is expected to adopt them without any significant changes. Except as otherwise indicated, these Annual Accounts are presented in thousands of euro.

3.2 Accounting principles

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

3.3 Comparison of information

For comparative purposes the Governing Board of the Bank presents, for each of the captions detailed in the accompanying Annual Accounts, both the figures for 2019 and those corresponding to the previous years. All captions that present no balance as of 31.12.18 and 31.12.19 have been removed.

3.4 Accounting estimates and errors

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

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

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

3.5 Changes in accounting principles

There have not been changes in accounting principles applied by the Bank during 2019.

3.6 External auditors

The Annual Accounts of Aresbank, S.A. as of December 31st, 2019 have been audited by KPMG Auditores, S.L., same as the ones from the year before.

In accordance with the additional provision 14th of the "Ley *44/2002 de Medidas de Reforma del Sistema Financiero*" (Spanish law on amendment measures on the financial market), dated November 22nd, auditing fees for the Annual Accounts of the year 2019 amounted to 51 thousand euros (50 thousand euros in 2018), neither other invoicing nor other services were rendered by entities affiliated to KPMG International in 2019.

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 2019 and 2018, nor did it consider it necessary to record any provision for environmental risks and charges and does not consider that there are significant contingencies relating to environmental protection and enhancement.

3.9 Customer Services Unit activity

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

In accordance with this legal requirement, the department in charge of the Customer Services prepared the report on its activities in 2019, which was submitted to the Bank's Board of Directors at its meeting held on February 18th, 2020.

Aresbank' Customer Service reports that a claim was received in 2019, which was successfully resolved and closed on the parties. No claim was received along 2018.

3.10 Solvency

<u>Spanish regulations</u>

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

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

- Definition of the elements of computable own funds and minimum requirements. Three levels of own funds are set: ordinary capital of level 1, with a minimum capital ratio required of 4.5%, tier 1 capital, with a minimum ratio of required capital of 6% and capital of level 2 with a minimum ratio of required capital of 8%.
- Definition of prudential filters and deductions of elements in each of the levels of capital. In this regard, the regulation incorporates new deductions with respect to Basel II (net tax assets, pension funds...) and modifies existing deductions. However, it establishes a gradual timetable for their full implementation between 5 and 10 years.
- Limitation on the computation of minority interests.
- Requirement that financial institutions calculate a leverage ratio, defined as the capital of level I of the Bank divided by the total exposure.

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

Based on the communication received by the General Directorate of Supervision of the Bank of Spain, dated on November 27th, 2019, and under Article 68.2.a) of Law 10/2014, the Bank has been required to maintain not less than 13.21% as its total capital ratio at the individual level, as defined in the Regulation (EU) No. 575/2013 of the European Parliament and the Council, that includes: (i) the minimum capital ratio required by the Article 92.1) of the Regulation (EU) No 575/2013, that the Bank has to maintain at any time; (ii) the additionally capital required on the minimum ratio, in accordance with Article 69.1 of Law 10/2014, which the Bank has to maintain at any time; (iii) the capital conservation buffer required as defined in Article 44 of Law 10/2014, under the transitional regime established by the Eighth Transitional Provision with, and the Article 59 of Royal Decree 84/2015, of February 13th, by which the 2014 Act is developed.

At December 31st, 2019 and 2018, the Bank complies with the regulatory capital requirements mentioned in the previous paragraph, and presents the following detail in comparison with the previous year:

	Thousands of Euro 2019	Thousands of Euro 2018
Total Equity (computable)	340,748	338,776
CET 1	340,748	338,776
Paid-in capital	300,001	300,001
Retained Earnings	23,280	23,096
Reserves	17,684	16,553
Intangible Assets (-)	(196)	(213)
Other transitory adjustments (-)	(21)	(661)
Tier 2	-	-
Credit risk adjustments (Standard approach)	-	-
Common Equity Tier 1 Ratio	44.88%	49.56%
Surplus (+) / Deficit (-) on CET 1 Ratio	306,583	308,014
Solvency Ratio	44.88%	49.56%
Surplus (+) / Deficit (-) on Solvency Ratio	280,010	284,087

3.11 Deposit Guarantee Fund

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

On July 31st, 2012, the Management Committee of FGD in order to restore the financial position of that Fund, agreed an additional settlement among the entities attached thereto, for an amount of 2,346 million euros, payable among its members in ten equal annual instalments, according to the calculation basis of contributions as of December 31st, 2011 of each entity. Such amount should be liquidated by each entity along with its regular contributions between 2013 and 2022.

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

Finally, dated on November 7th, 2015, entered in force the Royal Decree 1012/2015, from November 6th, by which the Law 11/2015, of June 18th for recovery and resolution of credit institutions and investment service companies is developed, that amends the Royal Decree 2606/1996, from December 20th, on deposit guarantee funds of credit institutions. Among other issues, this rule amends the calculation basis for contributions, limiting to the covered deposits by the fund (less than 100 thousand euros). Consequently, the expense for the contributions to FGD in 2019 has been calculated according to the new methodology.

3.12 Bank Restructuring and Single Resolution Fund

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

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

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

In addition, the calculation must be submitted accompanied by an auditor's certification or, alternatively, a statement from the Board of Directors of the entity certifying the accuracy of the data included therein. The contribution made during the year 2019 amounted to 334 thousand euros.

On the other hand, the Article 53.4 of the Law 11/2015 establishes a fee to cover the operating costs of the fund, by means of the Additional Provision Sixteenth, on the institutions under Article 1.2.a) of the Act. The fee paid during the year 2019 amounted to 8 thousand euros.

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

This ECB annual supervisory fee, that amounted 17 thousand euros for 2019, is determined in accordance with Article 4 of Regulation (EU) No 1163/2014 of the European Central Bank (ECB/2014/41) and is calculated following the methodology laid down in Article 10 of Regulation (EU) No 1163/2014 (ECB/2014/41), taking into account the following elements:

- The classification of Aresbank as less significant entity for the year 2019

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

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

3.13 Subsequent Events to December 31, 2019

The Annual Accounts of the year 2019 have been formulated by Aresbank' Board of Directors in the resolution dated on March 19th, 2020. Likewise, the Board will propose to the Shareholder's Assembly a dividend payout for an amount of 7,777 thousand euros (Note 4).

On 11 March 2020, the World Health Organisation declared the outbreak of Coronavirus disease 2019 (COVID-19) to be a pandemic, due to its rapid spread across the globe, having affected over 150 countries. The majority of governments are taking restrictive measures to contain the spread, including: isolation, confinement, quarantine and restrictions on the free movement of people, the closure of public and private premises (except for basic necessities and health services), border closures and a drastic reduction in air, sea, rail and land transport. In Spain, the government enacted Royal Decree 463/2020 of 14 March 2020, declaring a state of emergency to manage the health crisis triggered by COVID-19, which, a priori, will remain in force for 15 calendar days.

This situation is having a significant impact on the global economy due to the interruption or slowdown of supply chains and the substantial increase in economic uncertainty, evidenced by greater volatility in asset prices and exchange rates, and a drop in long-term interest rates. To mitigate the economic impacts of this crisis, on Wednesday 18 March, Royal Decree-law 8/2020 of 17 March 2020 on extraordinary urgent measures to address the economic and social impact of COVID-19 was published in Spain. The consequences derived from COVID-19 are considered an event after the reporting period that does not require an adjustment in the annual accounts for 2019 but must be disclosed in the annual accounts for 2020.

Although no consequences have arisen at the date the annual accounts were authorised for issue, the Entity expects significant events to arise in the future, which cannot be reliably estimated. During 2020, the Entity will assess the impact of the abovementioned events on the equity and financial position at 31 December 2020 and on the results of operations and cash flows for the year then ended.

4. PROFIT (OR LOSS) DISTRIBUTION

The proposed distribution of 2019 result and the one previously approved for 2018 are as follows:

	2019	2018
Net profit (or loss) for the year	**8,641**	**11,315**
To retained earnings (legal reserve)	(864)	(1,315)
Dividends (Note 3.13)	7,777	10,000

5. ACCOUNTING PRINCIPLES AND VALUATION METHODS APPLIED

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

5.1 Going concern principle

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

5.2 Accrual basis of accounting

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

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

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

5.3 Financial Assets

Classification

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

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

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

1) The financial asset is kept within the framework of a business model whose objective is to maintain financial assets in order to obtain contractual cash flows; and

2) The contractual conditions of the financial asset give rise to cash flows that are sole payments of principal and interest, understanding the same as the compensation for the time value of the money and the credit risk of the debtor.

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

1) The financial asset is maintained within the framework of a business model whose purpose combines collection of the contractual cash flows and sale of the assets, and

2) The contractual conditions of the financial asset give rise, on specified dates, to cash flows that are only principal and interest payments on the outstanding amounts.

Valuation of financial assets

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

Excluding all trading derivatives not considered as accounting or economic hedges, all the changes in the fair value of the financial instruments arising from the accrual of interest and similar items are recognized under the headings "Interest income" or "Interest expenses", as appropriate, in the accompanying income statement in which period the change occurred.

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

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

Financial assets are registered under the heading "Financial assets held for trading" if the objective of the business model is to generate gains by buying and selling these financial instruments or generate short-term results. The financial assets registered in the heading "Non-trading financial assets mandatorily at fair value through profit (or loss)" are assigned to a business model which objective is to obtain the contractual cash flows and /

or to sell those instruments, but its contractual cash flows do not comply with the requirements of the SPPI test.

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

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

” Financial assets at fair value through other comprehensive income”

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

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

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

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

“Financial assets at amortized cost”

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

5.4 Non-current assets held for sale

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

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

5.5 Financial Liabilities

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

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

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

"Financial liabilities at amortized cost"

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

5.6 Impairment of value of financial assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

5.7 Transactions and balances in foreign currency

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

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

The counter value in Euro of the assets and liabilities denominated in foreign currency (US dollars mainly) as of December 31st, 2019 amounts, respectively, to 978,190 and 969,791 thousand euros (844,643 and 838,864 thousand euros, respectively, as of December 31st, 2018).

5.8 Tangible assets

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

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

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

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

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

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

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

5.9 Intangible Assets

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

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

5.10 Leases

Lease contracts are presented on the bases of the economic substance of the transaction regardless of their legal form and are classified from the outset as finance or operating leases. The Bank has not carried out any financial lease agreement as of December 31st, 2019 and 2018.

In the operating leases contracts, when the Bank is the lessor, the acquisition cost of the assets leased is recorded under the "Tangible Assets" caption. These assets are depreciated in accordance with the policies applied for similar tangible assets. Income from lease contracts is recognized in the Income Statement using a straight-line method.

5.11 Contingent Assets

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

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

5.12 Provisions and contingent liabilities

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

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

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

Provisions are classified according to the obligations covered (Note 15).

As of December 31st, 2019, and 2018, there were still pending some legal proceedings and claims brought against the Bank arising from the habitual performance of its activities. The legal advisors and the Directors of the Bank consider that the outcome of these legal proceedings and claims will not have any significant negative effect additional to that included as a provision in the annual accounts of the years in which they are concluded.

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

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

5.13 Pension commitments

As of December 31st, 2019, and 2018, 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 2019 amounted to 150 thousand euros. In 2018, it amounted to 132 thousand euros (Note 27).

Aresbank' outstanding balance related to the employees' contributions with the pension fund management company (BanSabadell Pensiones) amounts to a total of 3,195 thousand euros as of December 2019 and 2,970 thousand euros as of December 2018.

5.14 Corporate Income tax

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

The Rule 42 of the Circular 4/2017 establishes that the quantification of the assets and liabilities for deferred taxes is done by applying the tax rate that it is expected to be recovered or settled to the timing differences or tax credit (Note 12). The Bank has amortized tax credits along 2019 derived from its negative taxable bases pending to be offset (Note 21).

5.15 Severance payments

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

5.16 Financial Guarantees

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

5.17 Off- Balance Sheet items

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

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

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

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

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

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

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

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

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

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

5.18 Cash-Flow Statement

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

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

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

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

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

5.19 Related Parties

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

See Note 32.b for the detail of the related party transactions during 2019 and 2018.

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

5.20 Offsetting balances

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

5.21 Hedge accounting and risk mitigation

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

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

6. RISK MANAGEMENT

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

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

6.1 Credit Risk

The credit risk makes up the largest part of Aresbank' risk exposures. The total credit risk weighted assets under Pillar I, using standard approach, is 709,551 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, 2019 to 1,353,187 thousand euros, in comparison with 1,133,176 thousand euros in 2018. The key component of the total lending was "Loans and Advances to Credit Institutions", for an amount of 1,145,647 thousand euros, from which 960,097 thousand euros are placed within the Interbank market. Contingent exposures have decreased from the previous year to a total amount of 356,475 thousand euros.

CREDIT INVESTMENT EXPOSURES	2019	2018
Balance sheet exposures (Gross)	1,353,187	1,133,176
Granted guarantees	356,475	368,488
Drawable balances	143,724	89,964
	1,853,386	**1,591,568**

RISK CONCENTRATION BY ACTIVITY AND GEOGRAPHICAL AREA

The breakdown corresponding to 2019 is the following:

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

The breakdown corresponding to 2018 is the following:

	Total	Spain	Rest of E.U.	America	Rest of the world
Credit institutions	**1,327,600**	**928,397**	**142,765**	**2,950**	**253,488**
Central Banks	*235,325*	*235,325*	*-*	*-*	*-*
Rest	*1,092,275*	*693,072*	*142,765*	*2,950*	*253,488*
Public Sector	**23,560**	**10,638**	**12,922**	**-**	**-**
Other financial entities	**99,920**	**-**	**-**	**-**	**99,920**
Non-financial Corporations and Individuals	**317,556**	**95,367**	**92,901**	**-**	**129,288**
Corporate	*310,266*	*89,367*	*91,611*	*-*	*129,288*
Small business and individuals	*7,290*	*6,000*	*1,290*	*-*	*-*
Other households (other purposes)	**488**	**488**	**-**	**-**	**-**
TOTAL	**1,769,124**	**1,034,890**	**248,588**	**2,950**	**482,696**

6.2 Market Risk

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

- **Interest Rate Risk**

Interest rate risk is the possibility that fluctuations in interest rates might have an adverse effect on the value of a financial instrument. Aresbank holds loans and deposits as of December 2019 and 2018. 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, 2019 amounts to 8,400 thousand euros, exceeding the 2% of the entity's own funds. Capital requirements regarding this concept amounts to 672 thousand euros. The Bank does not have a material trading book in the sense that there is no risk pertaining to interest rate related instruments, equities and commodities in the trading book.

- **Liquidity**

The analysis of the liquidity of the bank as of December 31st, 2019 shows that the Bank has sufficient liquidity to meet its near-term liabilities:

Time Buckets	Assets	Liabilities	Gap	Cumulative Gap
Up to 1 Month	1,656,332	1,485,301	171,031	171,031
1 Month to 3 Months	77,687	47	77,640	248,671
3 Months to 6 Months	12,363	50,016	(37,653)	211,018
6 Months to 12 Months	32,003	51,076	(19,073)	191,945
1 Year to 5 Years	36,261	0	36,261	228,206
More than 5 Years	104,852	6,545	98,307	326,513

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 3,302 thousand euros, is based on the average of positive gross income of the previous three years multiplied by 15%.

7. CASH, BALANCES WITH CENTRAL BANKS AND DEMAND DEPOSITS

This caption on the Balance Sheet reflects available cash as well as deposits maintained in the Bank of Spain in accordance with the compulsory reserves ratio. The caption breakdown as of December 31st, 2019 and 2018 is as follows:

	2019	2018
Cash	142	202
Bank of Spain - Nostro Account	527,563	235,325
Demand deposits	136,075	49,109
	663,780	**284,636**

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The breakdown of this caption as of December 31st, 2019 and 2018 is as follows:

	2019	2018
Nature:		
Public Debt (Spain)	-	10,638
Public Debt (EU countries)	19,725	12,922
Fixed Income (Spain)	1,050	12,888
Promissory Notes (Spain)	-	1,000
Generic Impairments	(9)	(71)
	20,766	**37,377**
Currency:		
Euro	20,766	37,377
	20,766	**37,377**

	2019	2018	2019	2018
Rating:				
AAA	-	3,616	-	9.67%
AA+	-	-	-	-
AA	-	7,807	-	20.89%

A-	1,041	3,048	5.01%	8.16%
BBB+	-	18,099	-	48.42%
BBB	19,725	4,807	94.99%	12.86%
	20,766	**37,377**	**100.00%**	**100.00%**

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

9. FINANCIAL ASSETS AT AMORTIZED COST

The detail of this caption as of December 31st, 2019 and 2018 is as follows:

	2019	**2018**
Debt securities	15,472	-
Loans and advances to:		
Credit institutions	1,009,569	805,471
Clients	207,890	278,893
TOTAL Financial assets at amortized cost, gross	**1,232,931**	**1,084,364**
Impairment adjustments to:		
Debt securities	(133)	-
Credit institutions	(2,179)	(1,732)
Clients	(3,296)	(3,807)
TOTAL Financial assets at amortized cost, net	**1,227,323**	**1,078,825**

The breakdown by currency, residual maturity and sectors of the caption "**Financial assets at amortized cost**" as of December 31st, 2019 and 2018 is as follows:

	2019	**2018**
By currency		
Euro	253,129	238,135
Other currencies	974,194	841,431
TOTAL Financial assets at amortized cost, net	**1,227,323**	**1,078,825**

By residual maturity		
Up to 3 months	1,065,905	901,349
Over 3 months to 1 year	38,375	69,732
Over 1 year to 5 years	32,328	13,957
Over 5 years	90,715	93,787
TOTAL Financial assets at amortized cost, net	**1,227,323**	**1,078,825**

By sector		
Residents	725,145	711,874
Non- residents	502,178	366,951
TOTAL Financial assets at amortized cost, net	**1,227,323**	**1,078,825**

The detail by nature of "**Debt securities**" as of December 31st, 2019 and 2018 is as follows:

	2019	**2018**
Promissory notes	15,472	-
Debt securities, gross	**15,472**	**-**
Impairment adjustments	(133)	-
Debt securities, net	**15,339**	**-**

The detail by nature of "**Loans and advances to credit institutions**" as of December 31st, 2019 and 2018 is as follows:

	2019	**2018**
Time deposits	1,008,689	803,926
Non-Performing Assets	78	54
Interest accrued	898	1,585
Commissions	(91)	-
Purchase premium/discounts	(5)	(94)
Loans and advances to credit institutions, gross	**1,009,569**	**805,471**
Impairment adjustments	(2,179)	(1,732)
Loans and advances to credit institutions, net	**1,007,390**	**803,739**

The breakdown by type of the "**Loans and advances to other debtors**" as of December 31st, 2019 and 2018 is as follows:

	2019	2018
By type		
Other term receivables	200,633	235,197
Receivable on demand and other	6,136	41,674
Non-Performing Assets	3,581	5,013
Other Financial Assets	349	329
Commissions	(3,173)	(3,663)
Premiums / Discount	(192)	(261)
Interest Accrued	556	604
Loans and advances to other debtors, gross	**207,890**	**278,893**
Impairment adjustments	(3,296)	(3,807)
Loans and advances to other debtors, net	**204,594**	**275,086**

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

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

	2019	2018
Economic Activity		
Financial intermediation	89.38%	83.57%
Oil refinery	2.31%	10.74%
Other manufacturing Industry	3.96%	-
Real Estate	-	0.85%
Construction	0.49%	0.69%
Metallurgy	-	3.04%
Retail / Wholesale	0.91%	0.79%
Transport and storage	0.81%	-
Hostelry	1.19%	-
Other sectors with lesser participation	0.95%	0.32%
	100.00%	**100.00%**

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

	2019	2018
Geographic Area		
Spain	59.24%	65.66%
European Union	27.14%	6.20%

Other European countries	2.97%	5.95%
Arab countries (Asia)	8.30%	10.02%
Arab countries (Africa)	2.35%	12.17%
	100.00%	**100.00%**

The movements in 2019 and 2018 of the balance of "**Impairment adjustments**" per type of coverage of the caption "Financial assets at amortized cost" and "Financial assets at fair value through other comprehensive income" are as follows:

	Specific Allowance	**General Allowance**	**Country Allowance**	**Total**
Balance as of 31/12/2017	**2,336**	**325**	**3,218**	**5,879**
Additions (see Note 31)	766	1,760	7,962	10,488
Disposals (see Note 31)	(620)	(1,647)	(8,291)	(10,558)
Transfer to write-off	-	-	-	-
Other	10	701	(876)	(165)
Balance as of 31/12/2018	**2,492**	**1,139**	**2,013**	**5,644**
Additions (see Note 31)	618	1,920	10,328	12,866
Disposals (see Note 31)	(882)	(2,071)	(9,944)	(12,897)
Other	5	4	(2)	7
Balance as of 31/12/2019	**2,233**	**992**	**2,395**	**5,620**

The caption "Other" as of December 31st, 2019 and 2018 includes adjustments due to foreign exchange and reclassifications.

10. TANGIBLE ASSETS

a) Movement

The movements of the caption "**Tangible Assets**" of the Balance Sheets as of December 31st, 2019 and 2018 are as follows:

	For own Use	**Investment Property**	**Total (*)**
Cost			
Balance as of January 1st, 2017	**18,579**	**19,018**	**37,597**
Additions	171	-	171
Disposals	(48)	-	(48)
Relocations	(2,748)	2,748	-

Balance as of December 31st, 2018	**15,954**	**21,766**	**37,720**
Additions	87	-	87
Disposals	(34)	-	(34)
Relocations	-	-	-
Balance as of December 31st, 2019	**16,007**	**21,766**	**37,773**

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

Accumulated Amortization

Balance as of January 1st, 2017	**(2,121)**	**(2,788)**	**(4,909)**
Allowance (Note 30)	(269)	(103)	(372)
Disposals	36	-	36
Relocations	(237)	237	-
Balance as of December 31st, 2018	**(2.591)**	**(2,654)**	**(5,245)**
Allowance (Note 30)	(287)	(103)	(390)
Disposals	35	-	35
Relocations	-	-	-
Balance as of December 31st, 2019	**(2,843)**	**(2,757)**	**(5,600)**

Net Tangible Assets

Balance as of 31/12/18	**13,363**	**19,112**	**32,475**
Balance as of 31/12/19	**13,164**	**19,009**	**32,173**

The relocations are due to the effective use of the assets for own and renting properties. The breakdown of fully amortized tangible assets is as follows:

	Furniture	**Installations**	**Computer Equipment and transport**	**Total**
Balance as of 31/12/19	39	109	58	206

b) Tangible Assets for Own Use

The detail by nature of the items, which comprises the balance of the caption "**Tangible Assets for Own Use**" of the Balance Sheets as of December 31st, 2019 and 2018, is as follows:

	Lands & Building	Furniture	Installations	Computer Equipment and transport	Other	Total
Cost						
Balance as of 1/1/18	**16,777**	**656**	**870**	**123**	**153**	**18,579**
Additions	-	11	35	95	30	171
Relocations	(2,748)	-	-	-	-	(2,748)
Disposals	-	(48)	-	-	-	(48)
Balance as of 31/12/18	**14,029**	**619**	**905**	**218**	**183**	**15,954**
Additions	-	7	21	59	-	87
Relocations	-	-	-	-	-	-
Disposals	-	-	(2)	(11)	(21)	(34)
Balance as of 31/12/19	**14,029**	**626**	**924**	**266**	**162**	**16,007**
Accumulated Amortization						
Balance as of 1/1/18	**(1,098)**	**(425)**	**(495)**	**(77)**	**(26)**	**(2,121)**
Allowance (Note 30)	(98)	(62)	(80)	(26)	(3)	(269)
Disposals	-	36	-	-	-	36
Relocations	(237)	-	-	-	-	(237)
Balance as of 31/12/18	**(1,433)**	**(451)**	**(575)**	**(103)**	**(29)**	**(2,591)**
Allowance (Note 30)	(98)	(59)	(77)	(47)	(6)	(287)
Disposals	-	-	3	11	21	35
Relocations	-	-	-	-	-	-
Balance as of 31/12/19	**(1,531)**	**(510)**	**(649)**	**(139)**	**(14)**	**(2,843)**
Net Tangible Assets						
Balance as of 31/12/18	**12,596**	**168**	**330**	**115**	**154**	**13,363**
Balance as of 31/12/19	**12,498**	**116**	**275**	**127**	**148**	**13,164**

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

c) Investment property

The Bank is the lessor of certain offices within the building placed at Paseo de la Castellana, 257 in Madrid, and a trade premise at Calle León y Castillo, Las Palmas de Gran Canaria. These operating lease contracts can be cancelled with penalty, from a range from January 1st, 2019 till September 23rd, 2021, depending on the contract, with a prior notice agreed between 3 and 4 months. The total expected earnings from these operating leases, until the maturity of the contracts, amounting to 5,066 thousand euros until June 2027 (last contract maturity date), and the breakdown is the following:

	2019	2018
Up to one year	1,267	1,287
From 1 year to 5 years	3,034	3,604
Over 5 years	765	1,042
	5,066	**5,933**

During 2019 and 2018, income from these operating leases coming from investment properties amounted to 1,382 and 1,145 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 212 and 202 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, 2019 and 2018 are as follows:

	2019	2018
Cost		
Balance as of January 1st	**1,287**	**1,079**
Additions	124	208
Disposals	-	-
Balance as of December 31st	**1,411**	**1,287**
Accumulated Amortization		
Balance as of January 1st	**(1,073)**	**(971)**
Allowance (Note 30)	(142)	(102)
Disposals	-	-
Balance as of December 31st	**(1,215)**	**(1,073)**

Net Intangible Assets		
Balance at the beginning of the period	**213**	**108**
Balance at the end of the period	**196**	**213**

The amount of intangible assets fully amortized as of December 31st, 2019 amounts to 1,146 thousand euros (1,041 thousand euros in 2018)

12. TAX ASSETS AND TAX LIABILITIES

It includes the amount of all assets of a tax nature. The detail of these items as of December 31st, 2019 and 2018 is as follows:

TAX ASSETS	2019	2018
Corporate Income tax (Note 21)	1,204	2,986
Corporate Income tax (previous years)	2,422	643
Other tax assets	1,654	3,471
	5,280	**7,100**

TAX LIABILITIES	2019	2018
Social Security	32	57
Income tax payable	237	237
Deferred tax	988	797
Others	32	14
	1,289	**1,105**

13. OTHER ASSETS AND OTHER LIABILITIES

The detail of these two captions is as follows:

	Assets		Liabilities	
	2019	2018	2019	2018
Prepaid expenses	91	77	-	-
Financial guarantees	-	-	61	72
Accrued expenses	-	-	1,796	2,204
	91	**77**	**1,857**	**2,276**

The caption "Accrued expenses" includes mainly overheads accruals. The caption "For financial guarantees" includes, at December 31st, 2019 and 2018, commissions from guarantees granted to clients, which are accrued over the expected life of the guarantee.

14. FINANCIAL LIABILITIES AT AMORTIZED COST

The breakdown of this caption of the Balance Sheets as of December 31st, 2019 and 2018 is as follows:

	2019	2018
Deposits:		
from central banks	45,730	-
from credit institutions	1,492,677	1,045,707
from other creditors	54,509	36,008
TOTAL Deposits	**1,592,916**	**1,081,715**
Other financial liabilities	766	2,054
TOTAL Financial liabilities at amortized cost	**1,593,682**	**1,083,769**

The detail by currency and residual maturity of "**Financial liabilities at amortized cost**" of the Balance Sheets as of December 31st, 2019 and 2018 is as follows:

	2019	2018
By currency		
Euro	624,122	245,342
Other currencies	969,560	838,427
TOTAL Financial liabilities at amortized cost	**1,593,682**	**1,083,769**
By residual maturity		
Up to 3 months	1,486,045	1,071,878
Over 3 months to 1 year	101,092	881
Over 1 year to 5 years	-	75
Over 5 years	6,545	10,935
TOTAL Financial liabilities at amortized cost	**1,593,682**	**1,083,769**

The detail of "**Deposits from credit institutions**" of the Balance Sheet as of December 31st, 2019 and 2018 is as follows:

	2019	2018
Time deposits	895,907	763,573
Other accounts	596,073	280,775
Valuation adjustments	697	1,359
Deposits from credit institutions	**1,492,677**	**1,045,707**

As of December 31st, 2019, the Libyan Foreign Bank holds deposits amounting, 880 million dollars and 100 million euros (778 million dollars and 8 million sterling pounds in 2018), recorded in the caption "Deposits from Credit Institutions".

The detail of the caption "**Deposits from other creditors**" of the Balance Sheet as of December 31st, 2019 and 2018 is as follows:

	2019	2018
Public sector		
Spanish Government	30	50
Other resident sectors		
Demand deposits:		
Current accounts	39,037	24,162
Time deposits		
Fixed term deposits	1,609	1,128
Other non- resident sectors		
Demand deposits:		
Current accounts	13,833	10,668
Time deposits		
Fixed term deposits	-	-
Deposits from other creditors	**54,509**	**36,008**

Details of "**Other financial liabilities**" of the Balance Sheets as of December 31st, 2019 and 2018 grouped by financial instrument are as follows:

	2019	2018
Other accounts	147	223
Rental deposits	186	180
Special accounts	433	1,651
Other financial liabilities	**766**	**2,054**

15. PROVISIONS

The breakdown of this caption of the Balance Sheets as of December 31st, 2019 and 2018 is as follows:

	2019	2018
Legal and tax	590	32
Contingent exposures and commitments	2,607	3,177
Other provisions	120	40
	3,317	**3,249**

The movements of the caption "**Provisions**" in 2019 and 2018 are as follows:

	Provision for taxes	Contingent exposures and commitments	Other provisions	Total
Balance as of January 1st, 2018	**32**	**10,347**	**40**	**10,419**
Net P/L allowances	-	2,119	-	2,119
Allowances released	-	(6,409)	-	(6,409)
Other	-	(2,880)	-	(2,880)
Balance as of December 31st, 2018	**32**	**3,177**	**40**	**3,249**
Net P/L allowances	558	773	80	1,411
Allowances released	-	(1,351)	-	(1,351)
Other	-	8	-	8
Balance as of December 31st, 2019	**590**	**2,607**	**120**	**3,317**

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

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

	2019	2018
Specific provision	1,352	1,749
Generic provision	754	928
Country risk provision	501	500
	2,607	**3,177**

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

16. SHAREHOLDERS' EQUITY

The Bank's equity amounted to 349,464 thousand euros at December 31st, 2019 (350,304 thousand euros at December 31st, 2018). The Bank shows at the end of the year 2019 a capital solvency ratio of 44.88% in terms of CET1 that highly exceeds the 13.21% minimum required by the Regulator for the year 2020. The movement of this heading for the years 2019 and 2018 is shown in the Statement of Changes in Equity.

17. SHARE CAPITAL

The share capital of Aresbank, S.A. as of December 31st, 2019 amounts to 300,000,960.00 euros, and it is formed of 104,167 registered shares, fully disbursed, with a nominal value of 2,880.00 euros each.

The composition of the shareholders as of December 31st, 2019 is as follows:

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

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

18. RETAINED EARNINGS

The breakdown of the reserves as of December 31st, 2019 and 2018 is as follows:

	2019	2018
Legal reserve	17,684	16,553
Undistributed results	23,280	23,096
	40,964	**39,649**

LEGAL RESERVE

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

19. OTHER COMPREHENSIVE INCOME

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

	2019	2018
Public Debt (Spain)	-	10
Public Debt (UE countries)	(142)	(194)
Fixed Income (Spain)	-	(280)
Fixed Income (UE countries)	-	(197)
Valuation Adjustments	**(142)**	**(661)**

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

20. OFF-BALANCE SHEET ITEMS

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

a) Other commitments granted

"Contingent exposures" comprises the amounts which the Bank will have to pay on behalf of third parties if the original obligors do not do so, as a result of the commitments undertaken by the Bank in the course of its habitual activity. The breakdown as of December 31st, 2019 and 2018 is as follows:

	2019	2018
Financial guarantees		
Irrevocable issued documentary credits	70,390	95,041
Irrevocable confirmed documentary credits	248,509	226,798
Other Bank guarantees and indemnities	37,576	46,649
	356,475	**368,488**
Memorandum item: Doubtful contingent exposure	**-**	**398**

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

Geographic Area	**2019**	**2018**	**2019**	**2018**
Spain	2,620	13,245	0.82%	4.12%
EU Countries	108,570	139,562	34.05%	43.36%
Other European countries	3,166	-	0.99%	-
Arab countries				
Libya	186,670	152,903	58.54%	47.51%
Algeria	3,794	14,124	1.19%	4.39%
Other Arab countries	14,079	2,005	4.41%	0.62%
	318,899	**321,839**	**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:

Geographic Area	**2019**	**2018**	**2019**	**2018**
Spain	22,966	31,722	61.12%	68.00%
EU Countries	1,022	1,022	2.72%	2.19%
Other European countries	9,333	9,740	24.84%	20.88%
Arab countries				
Libya	4,165	4,165	11.08%	8.93%
Algeria	-	-	-	-
Other Arab countries	90	-	0.24%	-
	37,576	**46,649**	**100.00%**	**100.00%**

b) Lending commitments granted

Its breakdown is as follows:

	2019	**2018**
Drawable by third parties		
By financial institutions	1,064	-
By other resident sectors	102,594	48,938
Non-residents	40,066	40,966
	143,724	**89,904**

21. TAX MATTERS

Profits, adjusted in accordance with fiscal regulations, are taxed at 30% rate for 2019 and 2018. The resulting quota can be reduced applying certain legal deductions. Tax declarations cannot be considered definitive until either the Tax Authorities have inspected them or until the inspection period has legally expired. At present, this is a four-year period to be counted from the end of the tax declaration period. The years that Aresbank, S.A. is subject to Tax Inspection are 2016 onwards, except for the Corporate Income Tax, which is subject to inspection from 2015 onwards.

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

	2019	2018
Accounting profit (or loss) for the year before tax	13,182	17,059
Permanent differences	304	306
Temporary differences	-	-
Positives		
- Provisions	2,763	1,585
Negatives		
- Provisions	(1,614)	(6,962)
- Double taxation	-	-
Total	14,635	11,988
Offset of prior year negative taxable bases	(7,318)	(5,994)
Taxable profit	7,318	5,994
Tax liabilities	2,195	1,798
Deductions	(4)	-
Withholding tax	(262)	(217)
Advanced payment on Corporate Tax	(3,134)	(4,002)
Corporate income tax payable / (receivable) (Note 12)	(1,204)	(2,421)

Figures from 2018 have been reported to Tax Authorities as of July 2019. 2019 figures are draft figures, so this calculation is intended to be our best estimation, no significant changes are expected in the final report to Spanish Tax Authorities.

	2019	2018
Current tax	3,292	3,626
Deferred tax	(345)	(1,069)
Tax credit amortisation	1,594	3,187

Expenses or revenues on corporate income tax	4,541	5,744

The Bank has negative taxable bases (carry-forward losses) for an amount of 43,972 thousand euros, whose detail at the source corresponds with the following:

2009	2010
2,967	41,005

The entity has amortized the half of the tax credit pending, amounting to 1,594 thousand euros.

By means of the recent Royal Decree-Law 27/2018, some changes have been made to the Corporate Income Tax, with effects for taxable periods starting from January 1st, 2018. In this sense, the Thirty-Ninth Transitory Provision is established to regulate the fiscal treatment of the transition to Circular 4/2017, which provides for the integration of the debits and credits into reserves derived from the first-time application of the Circular 4/2017, which have fiscal effects, in each of the first three tax periods starting from January 1st, 2018, undertaking this income integration, in principle, by thirds. The amount integrated for 2019 is 294 thousand euros.

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

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

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

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

22. INTEREST INCOME

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

The breakdown of this caption as of December 31st, 2019 and 2018 is as follows:

	2019	2018
Loans and receivables to credit institutions	15,164	14,631
Loans and receivables to other debtors	7,478	6,808
Debt securities	346	620
Others	137	3
	23,125	**22,062**

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, 2019 and 2018 is as follows:

	2019	2018
Deposits at Central Banks	651	149
Deposits from credit institutions	13,982	13,528
Deposits from other creditors	1	4
Other liabilities	-	5
	14,634	**13,686**

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 than form an integral part of the effective interest rate on financial instruments that are included in the "Interests and Similar Income".

The detail of this chapter of the Income Statement as of December 31st, 2019 and 2018 is as follows:

	2019	2018
Arising from risks and contingent exposures	10,697	10,747
Arising from maintenance, collections and payment services	1,937	2,643
Arising from Loans and other commissions	835	1,225
	13,469	**14,615**

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, 2019 and 2018 is as follows:

	2019	2018
Fees and commissions assigned to other entities and correspondents	15	13
Other fees and commissions	399	737
	414	**750**

26. OTHER OPERATING INCOME

It includes the income from other operating activities of credit institutions not included in other captions. The detail of this chapter of the Income Statement as of December 31st, 2019 and 2018 is follows:

	2019	2018
Operating income from investment properties (Note 10.c)	1,382	1,145
Other	415	360
	1,797	**1,505**

27. PERSONNEL EXPENSES

The personnel of the Bank as of December 31st, 2019 and 2018 are as follows:

	December 31, 2019			December 31, 2018		
	Women	Men	Total	Women	Men	Total
General Management	-	2	2	-	2	2
Managers	1	6	7	1	9	10
Rest	26	40	66	23	41	64
	27	**48**	**75**	**24**	**52**	**76**

The average staff has been 76 employees in 2019 (67 employees in 2018).

The breakdown of Personnel expenses captions as of December 31st, 2019 and 2018 is as follows:

	2019	2018
Wages and salaries	6,220	5,738
Social Security expenses	1,027	841
Transfers to defined contribution plans (Note 5.13)	159	137
Severance payments	216	8
Other expenses	828	838
	8,450	**7,562**

The caption "Wages and salaries" includes 1,400 thousand euros regarding provision for extraordinary gratifications, that will be proposed and submitted for approval.

28. OTHER ADMINISTRATIVE EXPENSES

The breakdown of this caption as of December 31st, 2019 and 2018 is as follows:

	2019	2018
Premises Expenses	613	458
Travelling and transportation	116	81
Communications	311	261
Legal and professional fees	552	570
Governing and control bodies	648	633
Withholding and sales taxes	345	350
Insurances	20	59
Commercial Offices and delegations	26	16
Business development	17	63
Subscriptions, contributions and others	43	97
	2,691	**2,588**

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

a) Board of Directors

The detail of the total gross remuneration and compensations received by the Bank's Directors in 2019 is as follows:

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

Along 2019, there have been three new appointments and two leaves to the Board of Directors.

The gross remunerations and other compensations received by the Board of Directors in 2018 are as follows:

2018	Members	Remuneration	Allowance	Total
Chairman & Vice-Chairman	2	329	70	399
Rest of Board Members	7	730	102	832
	9	**1,059**	**172**	**1,231**

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 holds direct risks for 46 thousand euros as of December 31st, 2019, don't having any in 2018. In compliance with the requirements of article 229 of the Spanish Companies Act (LSC), administrators have reported no conflict with the interests of the Bank.

b) General Management

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

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

The breakdown of the retribution received by the General Management in 2018 is as follows:

2018	Members	Remuneration	Other benefits	Total
General Management	2	1,039	178	1,217

The amounts debited for pension funds and insurances in the Income Statement of the Bank in 2019 amounts to 12 thousand euros, no debiting in 2018. The Bank holds direct risks with the General Management amounting 26 thousand euros as of December 31st, 2019, under the applicable conditions of the collective agreement.

30. AMORTIZATION

The detail of this caption as of December 31st, 2019 and 2018 is as follows:

	2019	**2018**
Tangible assets:		
Investment Property (Note 10)	103	103
For own use (Note 10.b)	287	269
Intangible assets:		
Software (Note 11)	142	102
	532	**474**

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

The detail of this caption is as follows:

	2019	**2018**
Financial assets at amortized cost (Note 9)		
Allowances	(12,866)	(10,488)
Releases	12,897	10,558
	31	**70**

As of December 31st, 2019, and 2018 the allowances for impairment are mainly due to provisions allocated for Country Risk, specific and generic risks.

32. ADDITIONAL INFORMATION

a) Fair value of assets and liabilities

The following charts present the fair value of the financial instruments of the Bank at December 31, 2019 and 2018 with the breakdown by classes of financial assets and liabilities and on the following levels:

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

The breakdown as of December 31, 2019 is the following:

	Fair value hierarchy			Changes on fair value before taxes		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets at fair value through profit (or loss)	-	-	-	-	-	-
Equity instruments	-	-	-	-	-	-
Assets at fair value through other comprehensive income	**20,766**	-	-	**(203)**	-	-
Debt securities	20,766	-	-	(203)	-	-

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

	Fair value hierarchy			Changes on fair value before taxes		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets at fair value through profit (or loss)	-	-	-	**(143)**	-	-
Equity instruments	-	-	-	(143)	-	-

Assets at fair value through other comprehensive income	**37,377**	**-**	**-**	**(945)**	**-**	**-**
Debt securities	37,377	-	-	(945)	-	-

b) Most significant balances with related companies.

The most important balances with related companies as of December 31st, 2019 and 2018 are as follows:

	2019	2018
LIABILITIES		
Deposits from credit institutions		
Libyan Foreign Bank	883,336	688,189
Current Accounts		
Libyan Foreign Bank	381,926	148,503

c) Transactions with related companies

The interest and commissions paid to Aresbank' shareholders for the deposits and accounts held in the Bank amounted to 12,812 thousand euros in 2019 and 12,208 thousand euros in 2018.

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

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

	2019	2018
	Days	Days
Average payment period (Commercial Suppliers)	7	7
Paid Transactions Ratio	7	6
Pending Transactions Ratio	17	11
	Thousands of Euro	Thousands of Euro
Total payments made	3,594	3,760
Total pending payments	18	15

e) Mortgage market

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

ADDITIONAL INFORMATION

PROPOSAL OF PROFIT DISTRIBUTION

	(Thousands of Euro)
BASIS FOR DISTRIBUTION	**2019**
PROFIT (OR LOSS) BEFORE TAXES	13,182
CORPORATE INCOME TAX ESTIMATION	(4,541)
NET PROFIT / (NET LOSS)	**8,641**
DISTRIBUTION	
RETAINED EARNINGS (LEGAL RESERVE)	864
DIVIDEND PAYOUT	7,777
TOTAL	**8,641**

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