Aresbank

Annual Report

2015

Aresbank

Annual Report 2015

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CHAIRMAN'S STATEMENT

Dear shareholders,

On behalf of the Board of Directors, I now submit to you Aresbank's annual report for the fiscal year closed on 31 December 2015. I would like to take this opportunity to review the report's major points and to paint a picture for you of what we see our business doing in the next few years.

The events of 2015 took place in an especially complex environment. Among other things, the growth of international trade slowed down. In addition, the US dollar displayed considerable appreciation, raw materials (especially oil) fell sharply, and geopolitical unrest ran high.

In Spain, GDP growth was 3.2 % in 2015, which was more than double the figure registered in 2014, widening the differential between Spain and the EU in terms of average growth. This increase in activity made for considerable job growth, at a rate of over 3 % per year, and reduced the unemployment rate to 20.9 %. Spanish growth continues to be firmly anchored in growing contributions from the external sector of the Spanish economy, which enabled the year to close with an external financing capacity of 2 % of GDP.

Together with these figures, inflation was observed in Spain; 2015 closed at a year-on-year rate of 0.0 %, far from the 2 % concept of price stability defined by the European Central Bank for the euro zone. This situation complicates the development of monetary policy, among other reasons, because it cannot provide a good footing for expectations of future price increases at the desired level. These circumstances are hindering the recovery of confidence in the economy, which stands in great need of fresh financing to support the forward movement observed in the real economy.

In this complicated domestic and international environment, Aresbank has remained in line with Spanish financial institutions in terms of the size of its capital in relationship with total equity. It closed 2015 with a solvency ratio of 65.68 %. In addition, it reported an attributed profit for 2015 of 5.7 million euros. These results were made possible by control over administrative costs, which were reduced by 23 %, and the bank's gross margin, which was up 3 % after discounting extraordinary income from interest on transactions with Iceland in 2014.

The specific results of 2015 notwithstanding, Aresbank continues to advance toward a more consistent, efficient internal organizational structure, with a new design that includes a department in charge of organization and methods. Aresbank is also devoting the appropriate human and technical resources to its continuous adaptation to the changes happening in the industry's regulations, in accordance with ECB and Bank of Spain guidelines, and to activities involving the prevention of money laundering and terrorist financing. In addition, the bank has conducted a revision and updating of its strategic plan for the next three years, which is sure to facilitate management and the sound growth of our bank in the immediate future.

This is a good time to give our sincere thanks for the ongoing support Aresbank has felt as a human organization and as an institution from its shareholders, the Libyan Foreign Bank and Crédit Populaire d'Algérie, and for the sound, respectful treatment the bank has received from Spanish regulators and agencies. Similarly, Aresbank could not have attained such a fine scope of business and results without its clients, who have shown that they trust the efficiency and efficacy of the solutions Aresbank offers to their financial demands. Last but not least, none of these achievements would have been possible without our highly qualified teams, management and executives, who are so deeply committed to what our bank does.

A. Ragib

Mr. Ahmed Ragib

Chairman of the Board of Directors

SHAREHOLDERS

SHAREHOLDERS	2015	2014
Libyan Foreign Bank	99.86%	99.86%
Crédit Populaire D´Algérie	0.14%	0.14%

BOARD OF DIRECTORS

From January 1st to March 25th, 2015:

Mr. Ahmed Ragib	Chairman
Mr. Abdulfatah A. Mutat	
Mr. Serajiddin Khalil	
Mr. Moamar Eldabar	
Mr. Wail J. Belgasem	
Mr. Achour Abboud	Credit Populaire d'Algérie

Independent Directors

Mr. Francisco Javier de la Cruz
Mr. Teodoro León

Secretary

Mr. Antonio Díaz de Liaño

From March 25th, 2015 to June 5th, 2015:

Mr. Ahmed Ragib	Chairman
Mr. Abdulfatah A. Mutat	
Mr. Serajiddin Khalil	
Mr. Moamar Eldabar	
Mr. Wail J. Belgasem	
Mr. Achour Abboud	Credit Populaire d'Algérie

Independent Directors

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

Secretary

Mr. Antonio Díaz de Liaño

From June 5th, 2015 onwards :

Mr. Ahmed Ragib	Chairman
Mr. Abdulfatah A. Mutat	
Mr. Serajiddin Khalil	
Mr. Moamar Eldabar	
Mr. Wail J. Belgasem	
Mr. Omar Boudieb	Credit Populaire d'Algérie

Independent Directors

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

Secretary

Mr. Antonio Díaz de Liaño

AUDIT, RISK & COMPLIANCE COMMITTEE

Mr. Javier Iglesias de Ussel y Ordis	Chairman of the Audit , Risk & Compliance Committee and Member of the Board of Directors
Mr. Abdulfatah A. Mutat	Member of the Board of Directors
Mr. Serajiddin Khalil	Member of the Board of Directors

Secretary
Mr. Antonio Díaz de Liaño

NOMINATIONS AND REMUNERATIONS COMMITTEE

Mr. Miguel Cuerdo Mir	Chairman of the Nominations and Remunerations Committee and Member of the Board of Directors
Mr. Moamar Eldabar	Member of the Board of Directors
Mr. Wail J. Belgasem	Member of the Board of Directors

Secretary
Mr. Antonio Díaz de Liaño

MANAGEMENT TEAM

Mr. Luis Casado	General Manager
Mr. Fekri Sinan	Deputy General Manager
Mr. Manuel Grijota	Manager of Commercial Division
Mr. Martin Ruijmgaart	Manager of Operations Division
Mr. Anwar Elgrabli	Treasury & Capital Markets Department
Mr. Abdel Aziz Mohamed	Manager of Systems Department
Mr. Julio Tudela	Manager of Accounting Department
Ms. Begoña Bracamonte	Manager of HR & Administration Department
Mr. Antonio Díaz de Liaño	Manager of Legal and Compliance Department
Mr. Augusto García de las Heras	Manager of Risk Management Department
Mr. Jorge Martí	Manager of Internal Audit Department
Mr. Manuel Poza	Manager of Methods and Organization department
Mr. Salvador Planas	Manager of Barcelona Branch

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

(THIS DIRECTORS' REPORT IS FREE TRANSLATION OF THE ORIGINAL ISSUED IN SPANISH COUNTERSIGNED BY ALL THE MEMBERS OF THE BOARD)

DIRECTORS´ REPORT

1. ECONOMIC AND FINANCIAL SITUATION

The year 2015 has closed with four major global concerns and a new general keyword. The concerns are the slowing growth of international trade, the evolution of the dollar and the price of raw materials, including and very significantly, the price of oil, rising geopolitical tensions and, finally, the lack of clarity in the type reform and national and international policies that could better help the strengthening of the international economic growth. Regarding the new keyword proclaimed from international organizations: to provide to the economies and to the international economic relations of a greater resilience in the short term.

With respect to economic growth, it is true that developed economies have managed to overcome the stalemate and have placed themselves in 2015 near the 2% growth, keeping the outlook for 2016 and 2017, with a growth expectation for these two years of 2.1%. Among these economies highlights the strength of the US and the strengthening of the economies of the Euro zone that are starting to enjoy a more favourable financial environment, besides to prices, especially in energetic, that have encouraged consumption in 2015.

The same cannot be said about the so-called emerging economies, since the economic growth in 2015 has been reviewed to leave it in the 4%, which represents a significant slowdown compared to previous years. The worst is that growth prospects for 2016 and 2017 are not much better, with increases of 4.3% and 4.7%, respectively (with examples above this average, such as India or other Asian countries, and clear examples of contraction in Latin America and the Caribbean and, of course, the uncertainty of China, pointing to a sharper slowdown than anticipated in 2015).

In the case of the economies of the Middle East, North Africa, 2015 has closed with an averaged growth of 2.5% and is expected that in 2016 and 2017 the growth would go to the 3.6%, according to forecasts provided by the IMF.

In summary, it seems that is difficult to keep the global economic growth of other years and, in fact, it have been reviewed downward the forecasts for global economic growth for 2016 and 2017 by the IMF, with an estimate of 3.4% and 3.7%, respectively.

The second concern has to do with the appreciation of the US dollar and its negative effects on the international funding, as the dominant currency in trade and finance, especially in those countries and economic agents with high exposure to dollar, which creates problems in corporate balance sheets, in terms of trade and leading to greater difficulty for financing the growth and improving the economies.

This challenge to the main international currency, along with the steep and not well anticipated slowdown in the emerging economies, has caused a sharp drop in the price of raw materials, especially in oil. This makes extraordinarily complicated that net-exporting economies of these raw materials, generally developing economies, can maintain its growth path, generating instability inside and some distance from the benefits of the growth of the output and the international trade. This is especially true in a large number of countries in the Middle East and North Africa.

With regard to geopolitical tensions, in addition to destabilize the normal institutional functioning of many countries, represent a generalized global increase in the risk aversion, which, among other things, results in a greater difficulty in the access to products and financial markets and a brake on the growth of international trade, very sensitive to the level of international distrust. In this sense, the situation in Syria, the growing tensions between Russia and the United States or Russia and the European Union, alongside the policies derived from other countries such as North Korea, are introducing more uncertainty in the scenario. Moreover, it has been very well received in 2015 the restoration of international relations with Iran, eliminating the international sanctions and restoring the conditions for trade with this great Asian country.

The Spanish economy

The Spanish economy closed 2015 with a growth in GDP of 3.2% year-on-year, compared with the 1.4% growth in 2014. This remarkable intensification of growth in Spain ranks as the growth leader within Euro zone and alongside other economies in the European Union and Britain. It is an increasingly growth focused in the so-called domestic demand, that is, in final consumption and investment. While the contribution of the external sector continues to consolidate and having more weight in explaining the new growth phase that began in 2014.

Undoubtedly, to this enhancement in growth is contributing, increasingly, the improvement in financial conditions, which in the case of households has allowed the housing credit to increase 2.3% in 2015 and 5.8 % in consumer credit. Nevertheless, the outstanding balance of financing in 2015 still shows a negative rate variation, although very close to zero.

Similarly, growth in activity has been accompanied by significant job growth. In 2015 employment grew at a rate slightly above 3% year-on-year growth, in parallel with the affiliations to the Social Security of 3.2%. On the other hand, unemployment has been reduced to a rate of over 8% year-on-year in 2015 - the fourth quarter of 2015 closed, however, with a rate of 20.9%, the second highest in the EU after Greece -.

By sector, it seems to start to rebound the construction and maintains positive growth rates, while the fundamental growth in absolute terms is provided by the service sector. As for the contracts, temporary contractual relationships dominate this stage of growth, while the increase in full-time contracts is becoming much more intense than the one coming from part-time contracts.

The black point in the evolution of employment in Spain is focused, in addition to the strong temporary employment generated, to the fall of the workforce in 2015 by 0.1%, accompanied by a drop in the activity rate, resulting among other things, a greater reduction in the unemployment rate, but also a workforce available in relation to the decreasing total population and, to that extent, introduces a certain rigidity in the labour market, beyond the institutional rigidities that the Spanish labour market itself entails.

The strength that is acquiring the labour market begins to be reflected in collective bargaining that, according to provisional data provided by the Bank of Spain, are pointing to wage increases between 1% and 2% by 2016. Despite these increases, there has to be noted that the unit labour costs in Spain evolve favourably in relation to the European Union, with increases slightly higher in 2015 to 0.1% in Spain, while in the EU, increases have been around 0.7% . This means some improvement in the competitive position by the way of prices that aids to the trade balance and to improve the highly indebted position of the Spanish economy with the rest of the world in 2015.

In the chapter of prices, the Spanish economy ended the year with a rate of variation in the CPI of 0.0%. Even though, the underlying inflation closed at 0.9% increase year-on-year in 2015. This means that even though price stability by the European Central Bank is set to a rate of inflation of 2% inter-annual, the Spanish economy is far from that goal, which does not help for the improvement in levels of consumption or investment, always conditioned by expectations of future prices, nor helps a favourable price developments and financial margins, narrowing considerably when the inflation rate is at zero or negative. Precisely this circumstance may be affecting the evolution of the financial aspects of the Spanish economy, referring to credit evolution, the consolidation of domestic financial institutions and strengthening their role in the new phase of growth.

Finally, the Spanish public sector in 2015 continues to present significant imbalances in their accounts. On the one hand, public debt in December closed at a figure close to currents 1.1 billion Euros, which means about to be above the value of the Spanish GDP 2015 at current prices. This inability to reduce public debt is reflected in the budgetary imbalance of the year that has been closed, which has added more than a 4% of GDP deficit for the year ended. However, it seems that the level of public debt is stabilized and the strength of private economic activity is enabling a significant increase in public revenues, with higher tax elasticity in the upper 5%. Additionally, a very favourable debt conditions to the Administration, interest rates and the privileged channels to access to the benefits of a clearly expansionary monetary policy of the ECB.

The external sector of the Spanish economy

The external contribution to macroeconomic rebalancing in Spain in 2015 has been remarkable. Starting with an aggregate data, it should be noted that in 2015 the Spanish economy has generated a financial or savings capacity against the rest of the world above the 2% of its GDP. This capability has been given by a current account balance upper the environment of that 2% and a capital account that has yet contributed in 110 million Euros more over that positive balance.

This surplus against the rest of the world comes from a surplus in the account of goods and services also by an amount upper than two billion Euros, generated in the positive balance of tourism, as could not be otherwise. In any case, it should be noted that the balance of goods and services other than tourism has very positive figures, even though with deficits in their final part. Among the highlights is the increase in exports of goods and services - up to near the 350,000 Million Euros - in more than 5%, compared to an increase of imports of goods and services of more than 6% inter-annual.

In terms of external openness index, there is a notable increase of the same in 2015 and shows that, clearly, the Spanish economy is postulated as one of the most open economies in the world, in the developed countries, and relies strongly on outsider markets for its growth. Surely this also means increased business opportunities for Spanish companies and better connections with the foreign markets.

By countries, it is to be highlighted the increased trade with the EU, with increases around the 10%. Besides with OECD countries, with 8% increases; however, due to the prices of raw materials, a marked deterioration in trade with OPEC countries is observed, with falls of over 20% and with American countries other than the US, with falls of trade higher than the 10%, for the sake of stagnation in some major countries in this area.
Despite the good data from the external sector, we must emphasize the remarkable position of indebtedness of the Spanish economy with the rest of the world. According to the Bank of Spain, in gross terms, this debt would be around 1.8 Billion Euros at the end of 2015, ie almost 175% of the Spanish GDP for that year. By institutions, the principal debtor is the Public Administration with over 500,000 Million Euros, followed by the Spanish Monetary Financial Institutions with over 400,000 Million and the private sector, mainly companies, with more than current 300,000 Million Euros.

The Spanish banking sector

We cannot deny that the Spanish banking sector is better at the end of 2015 than at the beginning of the crisis, at least in terms of balance. As revealed recently the President of the Spanish Banking Association, the solvency level is much higher in 2015 than in 2007. Among other things, the net worth of the banking sector has increased three times compared with the beginning of the international crisis, while equity has increased by 50%, doubling the so-called CETI, that is, the highest quality ones..

Moreover, the Spanish banks have been able as a whole to overcome all the tests imposed from national and international regulators, on the basis of a restructuring that can be said that has ended in its fundamentals and that has allowed to move from 42 to 15 national entities, with a deep adjustment on balances and resizing of networks, in addition to accumulating to the end of 2015 a significant level of liquidity. In any case, a sharp rise in business concentration as a result of the whole process.

In more concrete figures - closed for the aggregate of the Spanish banking dated November the 30th, 2015 - the sector has assets of 1.47 Billion Euros, representing an inter-annual increase of 1.5%. In this equity aggregate is highlighted the evolution of cash assets and reserves at the Central Bank, which have accumulated at the end of 2015 to 28,1 Billion Euros, representing an increase of 65.9% compared to the same date the previous year. In parallel, a significant increase in bank deposits in other credit institutions, amounting to almost 135,000 Million Euros, with an inter-annual increase of 13.2% is observed. However, customer loans have a balance of almost 707,000 Million Euros, which underlines a drop in loans of 3.3% inter-annual. Also remarkable is the value of the financial assets with debt securities amounting to almost 149,000 Million Euros, an increase of 2.7% in the year.

Completing these data and according to information from the Bank of Spain, the amount of financing to resident non-financial corporations in Spain represents a fall of more than 2%

compared with the same date in 2014. It could be said that the deleverage process is continuing in the Spanish economy.

As regards to loans from resident credit institutions and securitized loans to non-financial corporations, this figure is 5% lower than the existing amount in December 2014. Notwithstanding the foregoing, the number of loans from other financial institutions from the rest of the world has increased, reaching the 3% more than in December 2014.

Interestingly, financing through issuance of securities other than shares reached more than 84,000 Million Euros, representing an increase of 2.5% in this line of business financing, other than the banking one. In any case, a very low total figure relative to total loans, underscoring the high degree of banking of corporate finance in Spain. On the contrary, and in the case of public administrations, more than the Billion Euros required, only about 170,000 have been made through credit, with a drop of almost 10% compared to 2014.

In the liabilities, it is highlighted the fall in customer deposits to more than 675,000 Million Euros, representing a fall of 2% over the previous year; meanwhile, increasing deposits from other lenders, to 204,500 Million Euros, and an increase of 6% inter-annual. It is also remarkable the null variation of the amount of provisions in balance. On the other hand, a significant increase in equity is observed, to just over 138,000 Million Euros, that is, 6% more than the previous year, basically due to an improvement in the issuance premium higher than the 10%.

Using the same source of information for the same period, it can be compared the position of Aresbank with respect to the rest of the Spanish banking sector through these balance figures. First, the weight that has in Aresbank the value of the own resources, at around the 8% of total assets, is very similar to the correspondent figures of the Spanish banking industry..

In conclusion, in terms of balance sheet, Aresbank was presented in 2015 as a perfectly distinct entity from the rest, with an orientation towards short-term financial transactions based on foreign trade financing - mainly guarantees and letters of credits – rather than in credit, as well as maintaining strong doses of movements in the interbank market in relation to its equity and assets, taking shape in terms of instruments, liquidity and solvency in a very positive way

The behaviour of the main Aresbank markets

The MENA region appears in the international economic, political and military scenario as one that has presented more uncertainties and challenges in 2015. That is, the traditional markets of Aresbank are experiencing more significant difficulties that make financial transactions more complex, and the consolidation and growth of the business entity. To the prevailing climate of insecurity we have to add the detraction of the foreign direct investment and lower trade flows, expressed among other data through a notable drop in international tourism in the area, as was recently stressed by the Governor of the Bank of Algeria, the honourable Mr. Laksaci, at the IMF in October 2015.

However, the lifting of international sanctions in 2015 to a large country like Iran favours notably the trade growth around the world with the area. Similarly, the hopeful agreement of December 17th, 2015 in Morocco, backed by the UN, for the national unification of the government in Libya, is a milestone that can make a stabilization path in the battered context of the economy and Libyan society throughout 2016.

Overall, the economies of the MENA area in most cases continue to grow, although it is noted that in 2015 this growth has been lower than the average of the emerging markets, while uneven among them. Although the prospects for 2016 are better - according to the IMF growth for 2016 in the region of 3.6% is likely - however, according to the latest available data, growth in 2015 will have been 2.5%. This implies that some of these countries will come into fiscal deficit situations and even external deficit. In this sense, it increasingly appears stronger, especially following the sharp falls in the price of oil, the need for major structural reforms in the countries of the region, especially those aimed to relevant changes in income and public expenditures.

With regard to foreign trade of Spain with the region, according to the Ministry of Economy and Competitiveness, 2015 closed with an increase in Spanish exports to the Middle East of 17%, mainly due to an increase in aircraft and equipment exports to Saudi Arabia. It is noteworthy that the Middle East accounts for 4% of total Spanish exports. As for North Africa, Spanish exports for the whole continent have grown in 2015 by 11.7%. Among the most important contributions is Morocco with an export flows that contributes in 0.7% of this increase or Libya that contributes with an increase of 0.2%. As regards to imports, it must be stressed that although the Spanish imports have grown by 3.7% in 2015, the MENA region has brought negative rates with Spain – a decrease of 17% for the Middle East and 14 % for the part of Africa - mainly due to the evolution of the imports of oil and gas from the area. To conclude, trade relations with partners in the MENA region pose to Spain not only a constant source of exchange, but an increasing trend despite the environment of uncertainty and slowing growth that exists in the area.

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

3. CORPORATE GOVERNANCE AND COMPLIANCE

The Bank has continued throughout 2015 developing its corporate governance system by adapting to the different regulatory developments produced both at a local and European level. For these purposes, the Bank has updated and implemented certain internal procedures and policies, which are basic tools to develop its corporate governance policy.

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

- Identification and assessment of the customer's risk, as well as its financial and economic activities.

- The existence of internal controls and active communication between departments.

- Written procedures established internally.

- The development of a culture of prevention among all Bank employees through specific training activities.

- Reports to the competent authorities according to established procedures.

In addition to compliance with the laws and regulations in force, during 2015 the Bank has adapted the Financial Ownership File which comes into force on May 6th, 2016, under the supervision of SEPBLAC, for what has been a special relevance the updating of the Customer's Files of the entity.

4. ARESBANK FOCUS IN THE COMING YEAR

As in previous years, the target of Aresbank is to increase our market share regarding foreign trade transactions between Spain and the MENA area, offering all banking products (issuance and confirmation of letters of credit, issuance of commercial guarantees and financing import and export transactions) necessary for the development of such trade. The Bank will continue to participate in syndicated loans and bilateral loans to its customers.

The lifting of the European Union sanctions on Iran in January 2016, will allow a significant increase in the bank's activity in foreign trade transactions related to that country, taking advantage of the excellent positioning of Aresbank within the Iranian banking system.

Additionally, the bank's commercial activity would also be increased in the expectation of a recovery in the oil barrel prices and improvements in the economies of Libya, Algeria and other countries in the region.

5. EVENTS SUBSEQUENTS TO DECEMBER 31, 2015

The Annual Accounts of the year 2015 have been formulated by the Aresbank's Board of Directors in the meeting held on March 31, 2016.

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 2015.

7. RESEARCH & DEVELOPMENT EXPENSES

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

8. ENVIRONMENTAL INFORMATION

The overall operations of Aresbank are subject to environmental protection legislation. The Bank has adopted appropriate measures with respect to environmental protection and enhancement and to the minimization, where appropriate, of the environment impacts, in compliance with the relevant current regulations. The Bank did not make environmental investments in 2015 and 2014, 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 31, 2015, both in terms of immediate liquidity (one month ahead) with a liquidity ratio of 130.93%, and in terms of solvency, with a high quality capital ratio of 65.31%.

FINANCIAL STATEMENTS

(A FREE TRANSLATION FROM THE ORIGINAL IN SPANISH SIGNED BY ALL MEMBERS OF THE BOARD OF DIRECTORS)

KPMG Auditores S.L.
Edificio Torre Europa
Paseo de la Castellana, 95
28046 Madrid

Independent Auditor's Report on the Annual Accounts

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

To the Shareholders of
Aresbank, S.A.

Report on the annual accounts

We have audited the accompanying annual accounts of Aresbank, S.A. (the " Bank"), which comprise the balance sheet at 31 December 2015, the income statement, statement of changes in equity and statement of cash flows for the year then ended, and notes for the year then ended.

Directors' 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 Aresbank, S.A., in accordance with the financial reporting framework applicable to the entity in Spain, specified in note 3 to the accompanying annual accounts, and for such internal control that they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the accompanying annual accounts based on our audit. We conducted our audit in accordance with prevailing legislation regulating the audit of accounts in Spain. This legislation requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the annual accounts taken as a whole.

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

Opinion

In our opinion, the accompanying annual accounts give a true and fair view, in all material respects, of the equity and financial position of Aresbank, S.A. at 31 December 2015, its financial performance and its cash flows for the year then ended in accordance with the applicable financial reporting framework and, in particular, with the accounting principles and criteria set forth therein.

Report on Other Legal and Regulatory Requirements

The accompanying directors' report for the year ended 31 December 2015 contains such explanations as the Directors consider relevant to the situation of the Bank, its business performance and other matters, and is not an integral part of the annual accounts. We have verified that the accounting information contained therein is consistent with that disclosed in the annual accounts for the year ended 31 December 2015. Our work as auditors is limited to the verification of the directors' report within the scope described in this paragraph and does not include a review of information other than that obtained from the accounting records of the Bank.

KPMG Auditores, S.L.

Luis M. Martin

Luis Martín Riaño

31 March 2016

Auditores
INSTITUTO DE CENSORES JURADOS DE CUENTAS DE ESPAÑA

KPMG AUDITORES, S.L.

Año 2016 Nº 01/16/01578
COPIA GRATUITA

Informe sujeto a la normativa reguladora de la actividad de auditoría de cuentas en España

BALANCE SHEET FOR THE YEARS ENDED DECEMBER 31st, 2015 AND 2014
(EXPRESSED IN THOUSAND OF EURO)

ASSETS	2015	2014
Cash and balances with Central Banks (Note 7)	**31,361**	**23,925**
Loans and receivables (Note 8)	**704,140**	**809,066**
Loans and advances to credit institutions	549,423	681,636
Loans and advances to other debtors	154,717	127,430
Held To Maturity Investments (Note 9)	**20,000**	**-**
Other Investments (Note 10)	**3,243**	**3,243**
Tangible Assets (Note 11)	**33,266**	**33,677**
For own use	23,623	23,922
Investment property	9,643	9,755
Intangible Assets (Note 12)	**446**	**750**
Tax Assets (Note 13)	**867**	**536**
Other Assets (Note 14)	**683**	**171**
TOTAL ASSETS	**794,006**	**871,368**
OFF BALANCE SHEET ITEMS (Note 22)		
Contingent Exposures	**182,175**	**197,450**
Irrevocable documentary credits	68,037	82,660
Other bank guarantees and indemnities	114,138	114,790
Contingent Commitments	**116,718**	**95,897**
Drawable by third parties	116,718	95,897

These financial statements and the accompanying Notes 1 to 35 are an integral part of the Annual Accounts as of December 31st, 2015. The financial statements are originally issued in Spanish and prepared in accordance with the Circular 4/2004, Circular 6/2008 and Circular 5/2011, 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, 2015 AND 2014

(EXPRESSED IN THOUSAND OF EURO)

LIABILITIES	2015	2014
Deposits from Central Banks (Note 15)	**-**	**115**
Financial liabilities at amortized cost (Note 16)	**444,859**	**520,439**
Deposits from credit institutions	410,368	493,577
Deposits from other creditors	34,083	26,486
Other financial liabilities	408	376
Hedging Derivatives (Note 17)	**-**	**185**
Provisions (Note 18)	**5,824**	**7,521**
Provisions for taxes and other legal contingencies	32	22
Provisions for contingent exposure and commitments	2,142	2,318
Other provisions	3,650	5,181
Tax Liabilities (Note 13)	**249**	**285**
Other Liabilities (Note 14)	**1,839**	**1,978**
TOTAL LIABILITIES	**452,771**	**530,523**
SHAREHOLDERS EQUITY		
Total Equity (Note 19)	**341,235**	**340,845**
Capital (Note 20)	300,001	300,001
Reserves (Note 21)	13,905	11,420
Retained earnings	21,939	4,580
Profit or (loss) for the period	5,390	24,844
TOTAL SHAREHOLDERS EQUITY	**341,235**	**340,845**
TOTAL LIABILITIES AND EQUITY	**794,006**	**871,368**

These financial statements and the accompanying Notes 1 to 35 are an integral part of the Annual Accounts as of December 31st, 2015. The financial statements are originally issued in Spanish and prepared in accordance with the Circular 4/2004, Circular 6/2008 and Circular 5/2011, 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, 2015 AND 2014

(EXPRESSED IN THOUSAND OF EURO)

	2015	2014
Interest and similar income (Note 24)	6,797	17,780
Interest expenses and similar charges (Note 25)	(1,126)	(777)
A) NET INTEREST INCOME	**5,671**	**17,003**
Fees and commissions income (Note 26)	6,443	7,437
Fees and commissions expenses (Note 27)	(176)	(223)
Gains and losses on financial assets and liabilities (Net)	185	(176)
Exchange differences (Net)	1,438	674
Other operating income (Note 28)	684	896
Other operating expenses	(65)	(300)
B) GROSS MARGIN	**14,180**	**25,311**
Administrative Expenses	(9,666)	(12,484)
Personnel expenses (Note 29)	(7,267)	(7,266)
Other administrative expenses (Note 30)	(2,399)	(5,218)
Depreciation and amortization (Note 32)	(680)	(576)
Provisions expenses (Net) (Note 18)	1,802	(770)
Impairment losses (Net) (Note 33)	117	13,381
Loans and receivables	117	13,381
C) OPERATING INCOME	**5,753**	**24,862**
Other gains / (Losses) in the disposal of assets non classified as Non-current assets held for sale (Note 34)	(14)	(18)
D) PROFIT OR (LOSS) BEFORE TAXES	**5,739**	**24,844**
Income Tax (Note 23)	(349)	-
E) PROFIT OR (LOSS) FROM ORDINARY ACTIVITY	**5,390**	**24,844**
F) PROFIT OR (LOSS) FOR THE PERIOD	**5,390**	**24,844**

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STATEMENT OF CHANGES IN EQUITY FOR THE YEARS ENDED ON DECEMBER 31st, 2015 AND 2014

(EXPRESSED IN THOUSAND OF EURO)

a) STATEMENT OF RECOGNIZED INCOME AND EXPENSE

	2015	2014
Profit or (loss) for the period	**5,390**	**24,844**
Profit or (loss) published	5,390	24,844
TOTAL RECOGNIZED INCOME AND EXPENSE	**5,390**	**24,844**

These financial statements and the accompanying Notes 1 to 35 are an integral part of the Annual Accounts as of December 31st, 2015. The financial statements are originally issued in Spanish and prepared in accordance with the Circular 4/2004, Circular 6/2008 and Circular 5/2011, 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 THOUSAND OF EURO)

	EQUITY									
	Issued capital	**Legal Reserve**	**Retained earnings**	**Accumulated Reserves (losses)**	**Other equity instruments**	**Less: Own shares**	**Profit / Loss of the period**	**Less: dividends payments**	**VALUATION ADJUSTMENTS**	**TOTAL EQUITY**
1.Balance Sheet as of 31/12/14	**300,001**	**11,420**	**4,580**				**24,844**			**340,845**
a) Adjustments due to accounting policy change										
b) Error adjustments										
2. Adjusted balance sheet (1+a+b)	**300,001**	**11,420**	**4,580**				**24,844**			**340,845**
3. Total recognized income and expense							**5,390**			**5,390**
4.Other changes in equity (c+d+e)		**2,485**	**17,359**				**(24,844)**			**(5,000)**
c) Increase/ (decrease) of capital										
d) Dividend distribution							(5,000)			(5,000)
e) Transfers between items (Note 17)		2,485	17,359				(19,844)			
f) Issuance (reduction) of equity instruments										
5. Balance Sheet as of 31/12/15 (2+3+4)	**300,001**	**13,905**	**21,939**				**5,390**			**341,235**

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	EQUITY							VALUATION ADJUSTMENTS	TOTAL EQUITY
	Issued capital	Legal Reserves	Accumulated Reserves (losses)	Retained earnings	Less: Own shares	Profit / Loss of the period	Less: dividends payments		
1.Balance Sheet as of 31/12/13	**292,918**		**(89,973)**			**114,201**			**317,146**
a) Adjustments due to accounting policy change									
b) Error adjustments									
2. Adjusted balance sheet (1+a+b)	**292,918**		**(89,973)**			**114,201**			**317,146**
3. Total recognized income and expense						**24,844**			**24,844**
4.Other changes in equity (c+d+e)	**7,083**	**11,420**	**89,973**	**4,580**		**(114,201)**			**(1,145)**
c) Increase/ (decrease) of capital (Note 18)									
d) Dividend distribution						(1,145)			(1,145)
e) Transfers between items (Note 17)	7,083	11,420	89,973	4,580		(113,056)			-
f) Issuance (reduction) of equity instruments									
5. Balance Sheet as of 31/12/14 (2+3+4)	**300,001**	**11,420**		**4,580**		**24,844**			**340,845**

These financial statements and the accompanying Notes 1 to 35 are an integral part of the Annual Accounts as of December 31st, 2015. The financial statements are originally issued in Spanish and prepared in accordance with the Circular 4/2004, Circular 6/2008 and Circular 5/2011, 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, 2015 AND 2014
(EXPRESSED IN THOUSAND OF EURO)

	2015	2014
A) CASH-FLOW FROM OPERATING ACTIVITIES	**32,470**	**23,110**
Profit or (loss) for the period	**5,390**	**24,844**
Adjustments:	**(1,000)**	**6,098**
Amortization	680	576
Impairment losses (net)	(117)	3.,52
Provisioning expense (net)	(1,802)	769
Other adjustments	(110)	1,601
Corporate Income Tax	349	0
Adjusted Profit or loss	**4,390**	**30,942**
Net increase or (decrease) in operating assets	**(104,135)**	**175,193**
Loans and receivables	(105,149)	176,356
Other operating assets	1,014	(1,163)
Net increase or (decrease) in operating liabilities	**76,055**	**167,361**
Financial liabilities at amortized cost	75,727	167,382
Other operating liabilities	328	(21)
B) CASH-FLOW FROM INVESTING ACTIVITIES	**(20,034)**	**(1,022)**
Investments (Held To Maturity)	(20,000)	-
Tangible assets	(26)	(69)
Intangible assets	(8)	(953)
C) CASH-FLOW FROM FINANCING ACTIVITIES	**(5,000)**	**(1,145)**
Payment of dividends	(5,000)	(1,145)
D) EFFECT OF THE EXCHANGE RATE FLUCTUATIONS	**-**	**498**
E) NET INCREASE OR DECREASE IN CASH AND CASH EQUIVALENTS (A+B+C+D)	**7,436**	**21,441**
F) CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**23,925**	**2,484**
G) CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**31,361**	**23,925**

These financial statements and the accompanying Notes 1 to 35 are an integral part of the Annual Accounts as of December 31st, 2015. The financial statements are originally issued in Spanish and prepared in accordance with the Circular 4/2004, Circular 6/2008 and Circular 5/2011, 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, 2015

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 idBank 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, 2015 amounts to Euro 300,000,960.00 and it is formed of 104,167 registered shares with a nominal value of Euro 2,880.00 each.
The Bank's registered address is Paseo de la Castellana 257, Madrid, where its Head Office is located.
The Bank is part of a Group of companies headed by Libyan Foreign Bank with head offices in Dat El Imad, Administrative Complex - Tower II - Tripoli – Libya.

2. GENERAL OBJECTIVES

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

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

3. BASIS OF PRESENTATION OF THE ANNUAL ACCOUNTS

3.1 Basis of presentation

The accompanying financial statements of the year 2015 were prepared from the accounting records of the Bank in conformity with the accounting criteria of the Circular 4/2004 and its subsequent amendments, issued by the Bank of Spain, and in accordance with the Commercial Law, Royal Decree 1/2010, of July 2nd, and other Spanish regulation applicable, and accordingly give a true and fair view of the Bank net worth and financial position as at December 31st, 2015 and of the results of its operations and of the cash flows for the years then ended.
The information in these Annual Accounts is the responsibility of the Directors of Aresbank. The Annual Accounts of the year 2015 have been formulated by the Board of Directors of the Bank in the meeting held on March 31, 2016 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 Thousand 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 4/2004 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 2015 and those corresponding to the previous year. Some items for the year 2014 have been reclassified regarding the cash flow statement in order to be comparable with the year 2015.

3.4 Accounting estimates and errors

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

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

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

In these annual accounts there have been no corrections of errors or changes in accounting estimates.

3.5 Changes in accounting principles

There have not been changes in accounting principles applied by the Bank during 2015.

3.6 External Auditors

The Annual Accounts of Aresbank, S.A. as of December 31st, 2015 have been audited by KPMG Auditores, S.L., whilst in 2014 these were audited by Ernst & Young, S.L.
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 2015 amounted to 50 Thousand Euro (51 Thousand Euro in 2014) and 35 Thousand Euro were invoiced by other entities affiliated to KPMG International for other rendered services in 2015.

3.7 Risk control

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

3.8 Environmental information

The overall operations of Aresbank are subject to environmental protection legislation. The Bank has adopted appropriate measures with respect to environmental protection and enhancement and to the minimization, where appropriate, of the environment impact, in compliance with the relevant current regulations. The Bank did not make environmental investments in 2015 and 2014, 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

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 2015, which was submitted to the Bank's Board of Directors at its meeting held on January 29, 2016.

This report stated that the Customer Services Department of Aresbank, S.A. had not received any claim during 2015, neither during 2014.

3.10 Solvency

Spanish regulations

On June 26, 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 1, 2019.
Regulation Nº575/2013 entered into force on January 1, 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 29, 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 31, on regulations regarding public and reserved financial information and models of financial statements, Law 10/2014 of June 26, 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 a new buffets of additional capital, which are in part common to all European financial institutions and in part set by the supervisor for each Bank individually. The non fulfillment of such capital buffets imposes limitations on discretionary distributions of results.
Based on the communication received by the General Directorate of Supervision of the Bank of Spain, dated December 23, 2015, and under Article 68.2.a) of Law 10/2014, the Bank has been required to maintain a CET 1 ratio, at the individual level, not less than 10.60%, 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 13 February, by which the 2014 Act is developed.

At December 31, 2015, the Bank complies with the regulatory capital requirements mentioned in the previous paragraph, and presents the following detail in comparison with the previous year:

	Thousand Euro 2015	Thousand Euro 2014
Total Equity	337,344	316,965
CET 1	**335,399**	**315,048**
Paid-in capital	300,001	300,001
Retained Earnings	21,939	4,580
Reserves	13,905	11,420
Intangible Assets (-)	(446)	(953)
Tier 2		
General credit risk adjustments (standardised approach)	1,945	1,917
Additional deductions of the Tier II capital in accordance with Article 3 of CRR	-	-
Common Equity Tier 1 Ratio	65.31%	60.58%
Surplus (+) / Deficit (-) on CET 1 Ratio	312,288	291,646
Solvency Ratio	65.68%	60.95%
Surplus (+) / Deficit (-) on Solvency Ratio	296,257	275,362

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 F.G.D. 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 the 30th, 2015 and June the 30th, 2016.

Finally, dated on November 7th, 2015, entered in force the Royal Decree 1012/2015, from November the 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 the 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 F.G.D. on 2015 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 2015 amounted to 69 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 2015 amounted to 2 Thousand Euros.

3.13 Subsequent Events to December 31, 2015

The Annual Accounts of the year 2015 have been formulated by Aresbank's Board of Directors in the meeting held on March 31st, 2016. Likewise, the Board will propose to the Shareholder's Assembly a dividend pay-out for an amount of 3,000 Thousands Euros (Note 4). From the end of the year to the date of the formulation of these Annual Accounts, there is no other significant event that has taken place or that has to be mentioned.

4. PROFIT / LOSS DISTRIBUTION

The proposed distribution of 2015 result and the one previously approved for 2014 are as follows:

	2015	2014
Net profit / (loss) of the Year	**5,390**	**24,844**
Distribution		
Reserves: Compensation of losses of previous years	-	-
Legal Reserves	539	2,485
Dividends (Note 3.13)	3,000	5,000
Retained earnings	1,851	17,359

5. ACCOUNTING PRINCIPLES AND VALUATION METHODS APPLIED

The significant accounting principles and standards and valuation methods applied in preparing the accompanying Annual Accounts are described below. These principles are aligned with those set forth in the Bank of Spain Circular 4/2004 and its subsequent amendments.

5.1 Going concern principle

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

5.2 Accrual basis of accounting

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

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

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

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

5.3 Financial Assets

Financial Assets are classified in the Balance Sheet with the following criteria:

a) Cash and Balances with Central Banks relating to the Cash balances and the balances held at the Bank of Spain and other Central Banks (Note 7).

b) Loans and Receivables, which includes financial assets that are not traded in an active market and are not required to be valued at fair value, which cash flows are of a determined or determinable amount, and in which all the disbursement made by the Bank will be recovered, absent reasons imputable to the debtor's solvency. This category includes both the lending arising from the typical credit activity and the amounts of cash drawn and pending repayment by the customers as loans or the deposits placed with other companies, however legally instrumented, financial guarantees, unlisted debt securities, and the debts of purchasers of goods or users of services that form part of the Bank's business (Note 8).

c) Held-to-maturity investments, which includes debt securities with fixed maturity and cash flow of determined amount that the Bank has decided to hold until redemption, basically because it has the financial capability to do so or has related financing. (Note 9)

d) Non-current assets held for sale, corresponding to the book value of those items, whether individually or integrated in a disposal group or being part of a group of units that will be disposed of together (discontinued operations), whose sale is highly probable, given the current conditions of these assets, within one year from the reporting date of the Annual Accounts. Moreover, investments in jointly controlled entities and associates will be considered as "Non-current assets held for sale" when they meet the requirements above mentioned. Therefore, the recovery of the book value of these items will foreseeably occur through the price obtained in disposal of them.

Financial assets are generally initially recorded at cost. Subsequent valuations at each accounting close are made as follows:

i) Financial assets are valued at fair value, except for Loans and Receivables, the Held-to-maturity Investments portfolio, Equity Instruments whose fair value cannot be reliably determined, Investments in Associates, Jointly Controlled Entities, Group Entities and the financial derivatives whose underlying asset are such equity instrument and are settled by delivery thereof.
ii) Loans and Receivables and Held-to-maturity Investments portfolio are valued at their amortized cost, using for determining this cost the effective interest rate method. Amortized cost is the cost of acquisition of a financial asset adjusted by the repayments of principal and the portion allocated to the income statement, using the effective interest method, of the difference between the initial cost and the related repayment value at maturity, minus any reduction of value for impairment directly recognized as a decrease in the amount of the asset or through a value adjustment account.

iii) The investments in the capital of other entities, whose fair value cannot be determined with sufficient objectivity, are maintained at their cost, adjusted, if appropriate, by the losses for impairment that may have occurred.

The variations in the book value of financial assets are generally recorded with a contra-item in the Income Statement, separating those arising from the accrual of interest and similar items which are recorded under the "Interest and similar income" caption, from those arising for other causes, which are recorded at the net amount in the "Gains and Losses of Financial Assets and Liabilities" caption in the Income Statement.
However, the variations in the book value of the items included under the "Non-Current Assets held for sale" caption that met certain conditions are recorded with a contra-item under the "Equity Valuation Adjustments" caption. Impairment losses are recognized in the Income Statement as well as any subsequent increase in value up to the amount of any impairment losses previously recognized.

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

Financial Liabilities are recognized in the Balance Sheet as "Financial Liabilities at Amortized Cost". These financial liabilities are not included in any of the other captions of the Balance Sheet, which relate to typical fund-raising activities, regardless of how instrumented and of their maturity (Note 16).

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 (credit and securities representing debt), if after their initial recognition an event occurs or the combined effect arises of several events with a negative impact on their future cash flows.

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

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

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

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

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

The portfolios of debt instruments, contingent exposures and contingent commitments, regardless of by whom they are owned, of how instrumented or how guaranteed, are analysed to determine the Bank's credit risk exposure and to estimate the coverage requirement for impairment of value. For preparation of the financial statements, the Bank classifies its operations based on its credit risk, 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 analysed exclusively on an individual basis in order to determine whether it is impaired and, if appropriate, to estimate the loss for impairment.

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

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

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

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

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

the guarantors. This estimate is generally based on arrears schedules based, in turn, on the experience of the Bank and the information it has of the sector.
Similarly, debt instruments not valued at fair value through profit or loss and contingent exposures, regardless of who the customer may be, are analysed to determine their credit risk attributable to country risk. Country risk is deemed to arise with customer resident in a given country because of circumstances other than habitual commercial risk.
Bank of Spain Circular 4/2004 and Circular 6/2008 bring in the obligation to make a provision for inherent losses incurred, determined individually or collectively, that are those held by all the risk transactions assumed by the Bank since the moment it grants the risk. It also sets forth maximum and minimum limits that shall be, at all times, between 10% and 125%, and a mechanism for the annual allowance of this provision that provide the risk variation in the year, and the specific allocations taken during the year for specific doubtful risks.

5.7 Transactions and balances in foreign currency

The Bank's functional currency is the Euro and, therefore, all balances and transactions denominated in currencies other than the Euro are deemed to be denominated in foreign currency.
Monetary assets and liabilities denominated in foreign currency are translated into Euro at the year-end average spot exchange rate on the date of the financial statements, as published by the European Central Bank. The exchange differences arising in the translation are recorded, generally, for their net amount in the caption "Exchange Differences" of the Income Statement.
The counter value in Euro of the assets and liabilities denominated in foreign currency (US dollars mainly) as of December 31st, 2015 amounts, respectively, to 357,294 and 329,956 Thousand Euro (408,880 and 375,269 Thousand Euro, respectively, as of December 31st, 2014).

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, 2015 or 2014.
In the operating leases contracts, when the Bank is the lessor, the acquisition cost of the assets leased is recorded under the "Tangible Assets" caption. These assets are depreciated in accordance with the policies applied for similar tangible assets. Income from lease contracts is recognized in the Income Statement using a straight-line method. On the other hand, when the Bank is the lessee, the lease expenses, including incentives, if any, granted by the lessor, are recorded on a straight-line basis in the Income Statement.

5.11 Contingent Assets

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

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

5.12 Provisions and contingent liabilities

Provisions are present obligations of the Bank arising from past events whose nature at the balance sheet date is clearly specified but whose amount or settlement date is uncertain and that the Bank expects to settle on maturity through an outflow of resources embodying economic benefits.
The Bank recognises in the Balance Sheet all the significant provisions when it forecasts that it is more likely that the obligation might have to be settled.
Provisions are measured taking into account the best available information on the consequences of the event that gives rise to the obligation, and are reviewed at each closing date and adjusted in the Balance Sheet. They are used to meet the specific obligation for which they were originally recognized, and are fully or partially released when these obligations cease to exist or decrease.
Provisions are classified according to the obligations covered (Note 18).
As of December 31st, 2015 and 2014, 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, 2015 and 2014, Aresbank's pension commitments with the serving employees were externalised by means of defined contribution pension plan and an insurance contract with Allianz Seguros.

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 2015 amounted to 153 Thousand Euro. In 2014, it amounted to 171 Thousand Euro (Note 29).
Aresbank's outstanding balance related to the employees' contributions with the pension fund management company (BanSabadell Pensiones) amounts to a total of 3,263 Thousand Euro as of December 2015 and 3,284 Thousand Euro as of December 2014.

5.14 Income tax

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

The Rule 42 of the Circular 4/2004 establishes that the quantification of the assets and liabilities for deferred taxes is done by applying the tax rate that it is expected to be recovered or settled to the timing differences or tax credit.

In accordance with the prudent criteria, the Bank has not recognized any tax assets derived from the negative taxable bases pending to be offset for the years ending December 31st, 2015 and 2014 (Note 23).

5.15 Severance payments

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

5.16 Financial Guarantees

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

5.17 Off- Balance Sheet items

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

The category **"Contingent Exposures"** 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 non compliance 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 "**Contingent Commitments**" 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 35.b for the detail of the related party transactions during 2015 and 2014.

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

5.20 Offsetting balances

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

5.21 Hedging accounting and risk mitigation

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

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

6. RISK MANAGEMENT

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

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

6.1 Credit Risk

The credit risk makes up the largest part of Aresbank's risk exposures. The total credit risk weighted assets under Pillar I, using standard approach, is 455,469 Thousand Euro. 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, 2015 to 709,594 Thousand Euro, in comparison with 814,572 Thousand Euro in 2014. The key component of the total lending was "Loans and Advances to Credit Institutions", for an amount of 551,204 Thousand Euro, from which 360,279 Thousand Euro are placed in Interbank market. Contingent exposures slightly decreased from the previous year to a total amount of 182,175 Thousand

(EUR '000)

OVERALL CREDIT RISK EXPOSURE	2015	2014
Total Loans and Receivables (Gross)	709,594	814,572
Contingent exposures	182,175	197,450
Unused portion of credit lines (Drawable by third parties)	116,718	95,897
Total credit risk exposure	**1,008,487**	**1,107,919**

RISK CONCENTRATION BY ACTIVITY AND GEOGRAPHICAL AREA

The breakdown corresponding to 2015 is the following:

	Total	Spain	Rest of U.E.	America	Rest of the world
Credit institutions	**645,556**	**211,817**	**213,549**	**6,415**	**213,775**
Public Sector	**20,257**	**20,257**	**-**	**-**	**-**
Non-financial Corporations and Individuals	**244,549**	**113,173**	**-**	**3,143**	**128,233**
Construction and Real-estate promotion	*51*	*51*	-	-	-
Construction, civil engineering works	*26*	*26*	-	-	-

Corporate	*205,814*	*100,421*	*-*	*-*	*105,393*
Small business and individuals	*38,658*	*12,675*	*-*	*3,143*	*22,840*
Other households (other purpose)	**631**	**404**	**1**	**-**	**226**
SUBTOTAL	**910,993**	**345,651**	**213,550**	**9,558**	**342,234**
(-) Impairment adjustments not assigned to specific transactions	**(1,435)**				
TOTAL	**909,558**				

The breakdown corresponding to 2014 is the following:

	Total	Spain	Rest of U.E.	America	Rest of the world
Credit institutions	**681,645**	**289,101**	**105,415**	**2,186**	**284,943**
Non-financial Corporations and Individuals	**328,975**	**113,135**	**2,622**	**3,143**	**210,075**
Construction and Real-estate promotion	*51*	*51*	-	-	-
Construction, civil engineering works	*4,631*	*4,577*	-	-	*54*
Corporate	***29,.576***	***9,.192***	**2,622**	**-**	***199,762***
Small business and individuals	***24,717***	***11,315***	**-**	***3,143***	***10,259***
Other households (other purpose)	463	463	-	-	-
SUBTOTAL	1,011,083	402,699	108,037	5,329	495,018
(-) Impairment adjustments not assigned to specific transactions	**(1,324)**				
TOTAL	**1,009,759**				

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 2015 and 2014.

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.

- **Liquidity**

The analysis of the liquidity of the bank as of December 31st, 2015 shows that the Bank has sufficient liquidity to meet its near term liabilities:

Time Buckets	Assets	Liabilities	Gap	Cumulative Gap
Up to 1 Month	396,440	335,055	61,385	61,385
1 Month to 3 Months	146,043	106,717	39,326	100,711
3 Months to 6 Months	17,827	24	17,803	118,514
6 Months to 12 Months	50,212	101	50,111	168,625
1 Year to 5 Years	146,624	139	146,485	315,110
Greater than 5 Years	309	2,184	(1,875)	313,235

- **Foreign currency risk**

Due to the foreign currency exposure, the Bank registered a material exposure to exchange risk rate that requires a capital need of 1,970 Thousand Euro.
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.

6.3 Operational Risk

The operational Risk relates to the risk of loss resulting from inadequate or failed internal processes, human resources or systems or from external events. Unlike other risks, this is generally a risk that is not associated with products or businesses, but is found in processes and/or assets and is generated internally (people, systems, processes) or as a result of external risks, such as natural disasters. For the purpose of calculating regulatory capital for operational risk, Aresbank opts for the basic indicator approach. As a result, the Operational Risk Capital charge, 2,679 Thousand Euro, is based on the average of positive gross income of the previous three years multiplied by 15%.

7. CASH AND BALANCES WITH CENTRAL BANKS

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, 2015 and 2014 is as follows:

	2015	2014
Cash	166	151
Bank of Spain - Nostro Account	31,195	23,774
	31,361	**23,925**

8. LOANS AND RECEIVABLES

The detail of this caption as of December 31st, 2015 and 2014 is as follows:

	2015	2014
Loans and advances to credit institutions (gross)	551,204	683,316
Loans and advances to other debtors	158,390	131,045
	709,594	**814,572**
Impairment adjustments		
Loans and advances to credit institutions	(1,781)	(1,680)
Loans and advances to other debtors	(3,673)	(3,826)
	704,140	**809,066**

The breakdown by currency, residual maturity and sectors of the caption "**Loans and Receivables**" as of December 31st, 2015 and 2014 is as follows:

	2015	2014
By currency		
Euro	350,065	403,357
Other currencies	354,075	405,709
	704,140	**809,066**
By residual maturity		
Up to 3 months	508,367	592,930
Over 3 months to 1 year	66,603	127,259
Over 1 year to 5 years	128,861	83,543
Over 5 years	309	5,334
	704,140	**809,066**
By sector		
Residents	245,561	315,778
Non residents	458,579	493,288
	704,140	**809,066**

The detail by nature of "**Loans and Advances to Credit Institutions**" as of December 31st, 2015 and 2014 is as follows:

	2015	2014
On demand	94,100	23,749
Time deposits	456,698	659,854
Non Performing Assets	136	165
Interest accrued	328	214
Commissions	(43)	(192)
Purchase premium/discounts	(15)	(474)
	551,204	**683,316**
Impairment Adjustments	(1,781)	(1,680)
	549,423	**681,636**

Aresbank commenced legal proceedings in February 2009 to recover the Money market deposits placed in the three Icelandic Banks, Landsbanki, Glitnir and Kaupthing ("Old Icelandic's Banks"). The ruling of the Icelandic Supreme Court in Aresbank's legal proceedings in Iceland was applied by the Icelandic courts in determining that Money

Market Deposits made by financial undertakings constitute "deposits" under Icelandic law and afford creditors such as Aresbank priority status in the winding-up procedures of the Old Icelandic's Banks, which in principle entitles those creditors to full recovery of their claims. The Supreme Court confirmed this priority position in its decisions in respect of each of the three Old Icelandic's Banks and each of them accordingly confirmed that Aresbank was afforded that priority creditor status. Each of the Old Banks adopted a different payment schedule and approach, as well as using different baskets of currencies.

Aresbank has recovered all its Doubtful Money Market Deposits with the Icelandic Banks, together with additional sums for delay interest in each case. The total amount received during 2014 reached 27,832 Thousand Euro. The accounting application of such amount has been the release of the provision allocated (Note 33) and the allocation of the delay interest income (Note 24).

The breakdown by type of the "**Loans and Advances to Other Debtors**" as of December 31st, 2015 and 2014, is as follows:

	2015	2014
By type		
Other term receivables	150,495	132,328
Receivable on demand and other	4,419	75
Non Performing Assets	4,474	1
Other Financial Assets	382	211
Commissions	(1,415)	(1,472)
Premiums / Discount	(68)	(13)
Interest Accrued	103	126
	158,390	**131,256**
Impairment Adjustments	(3,673)	(3,826)
	154,717	**127,430**

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

The detail of the Economic Activities of "**Loans and Receivables**" is as follows:

	2015	2014
Economic Activity		
Financial intermediation	75.59%	84.38%
Oil refinery	14.42%	10.19%
Other manufacturing Industry	3.28%	2.53%
Real Estate	2.21%	1.61%
Construction	1.72%	-
Metallurgy	1.62%	0.85%
Other sectors with lesser participation	1.16%	0.44%
	100.00%	**100.00%**

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

	2015	2014
Geographic Area		
Spain	40.02%	40.08%
European Union	20.50%	12.35%
Other European countries	2.20%	1.61%
Arab countries (Asia)	29.45%	36.24%
Arab countries (Africa)	7.83%	9.72%
	100.00%	**100.00%**

The movements in 2015 and 2014 of the balance of "**Impairment adjustments**" per type of coverage of the caption "Loans and Receivables" are as follows:

	Specific Allowance	**General Allowance**	**Country Allowance**	**Total**
Balance as of 31/12/2013	**16,295**	**1,302**	**1,648**	**19,245**
Additions (see Note 33)	2,501	877	1,532	4,910
Disposals (see Note 33)	(16,328)	(927)	(1,662)	(18,917)
Transfer to write-off	-	-	-	-
Other	199	72	(3)	268
Balance as of 31/12/2014	**2,667**	**1,324**	**1,515**	**5,506**
Additions (see Note 33)	2,273	612	5,310	8,195
Disposals (see Note 33)	(2,586)	(546)	(5,180)	(8,312)
Other	21	45	-	66
Balance as of 31/12/2015	**2,375**	**1,435**	**1,645**	**5,455**

The caption "Other" as of December 31st 2015 includes adjustments due to foreign exchange and reclassifications.

9. HELD TO MATURITY INVESTMENTS

The breakdown is as follows:

	2015	2014
Spanish Treasury Bond (maturing 2020)	20,000	-
	20,000	**-**

10. OTHER INVESTMENTS

There have been no movements during 2015 and 2014 of the items included in "Investments" and all of them are related to group entities.

The investments are shown in the following chart, as well as any other information of interest, according to the last available Financial Statements as of December 31st, 2015:

Company	External Auditors	Location	Business	Direct Stoke	Initial Cost	Net Investment
Inversiones Hoteleras Los Cabos	KPMG	Panama	Hotel	31.49%	4,421	3,143
ARESCO	n/a	Madrid	Foreign Trade	100%	100	100
						3,243

The total equity for the "Inversiones Hoteleras Los Cabos" as of December 2014 and December 2014 were US$ 18,149,588 and US$ 18,163,200 respectively.

INVERSIONES HOTELERAS LOS CABOS, S.A. (IHC) was established in Panama, for an unlimited period, on June 17th 1987. IHC's sole activity is to hold 100% of the shares of Aresol Cabos, S.A. de C.V. which was established in Mexico in 1987. The sole activity of Aresol Cabos is to build and to operate a hotel named Meliá Cabo Real in Baja California, Mexico.

On December 21, 2009, ARES ASSOCIATED COMPANY, S.A. UNIPERSONAL (ARESCO) was established fully owned by Aresbank, with equity of 100 Thousand Euro and registered address in Paseo de la Castellana 257, Madrid. The company's main objective is to increase the economic cooperation between Spain and the Arab countries. The social objective is the foreign trade of all kind of items, commodities, goods, rights and services, including the "know-how" and transfer of technology between Spain and other countries, specially Arab countries, through all kind of activities related to this object, including consulting or intermediary services as an agent or distributor. ARESCO is still under development to initiate its commercial activity and it had no activity during this year.

11. TANGIBLE ASSETS

a) Movement

The movements of the caption "**Tangible Assets**" of the Balance Sheets as of December 31st, 2015 and 2014 are as follows:

	For own Use	Investment Property	Total (*)
Cost			
Balance as of January 1st, 2014	**21,585**	**16,050**	**37,635**
Additions	69	-	69
Disposals	(4)	-	(4)
Relocations	4,876	(4,876)	-
Balance as of December 31st, 2014	**26,526**	**11,174**	**37,700**
Additions	26	-	26
Disposals	(211)	-	(211)
Relocations	44	(44)	-
Balance as of December 31st, 2015	**26,385**	**11,130**	**37,515**

(*) The historical value of the land amounts to 25,749 Thousand Euro.

	For own Use	Investment Property	Total (*)
Accumulated Amortization			
Balance as of January 1st, 2014	**(1,948)**	**(1,707)**	**(3,655)**
Allowance	(308)	(62)	(370)
Disposals	2	-	2
Relocations	(350)	350	-
Balance as of December 31st, 2014	**(2,604)**	**(1,419)**	**(4,023)**
Allowance (Note 31)	(306)	(62)	(369)
Disposals	142	-	143
Relocations	6	(6)	-
Balance as of December 31st, 2015	**(2,762)**	**(1,487)**	**(4,249)**
Net Tangible Assets			
Balance as of 31/12/14	**23,922**	**9,755**	**33,677**
Balance as of 31/12/15	**23,623**	**9,643**	**33,266**

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

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, 2015 and 2014, is as follows:

	Lands & Buildings	Furniture	Installations	Computer Equipment	Others	Total
Cost						
Balance as of 1/1/14	**19,745**	**771**	**866**	**58**	**145**	**21,585**
Additions	-	34	30	5	-	69
Relocations	4,876	-	-	-	-	4,876
Disposals	-	(4)	-	-	-	(4)
Balance as of 31/12/14	**24,621**	**801**	**896**	**63**	**145**	**26.526**
Additions	-	4	8	6	8	26
Relocations	44	-	-	-	-	44
Disposals	-	(93)	(118)	-	-	(211)
Balance as of 31/12/15	**24,665**	**712**	**786**	**69**	**153**	**26,385**
Accumulated Amortization						
Balance as of 1/1/14	**(1,375)**	**(239)**	**(276)**	**(39)**	**(19)**	**(1,948)**
Allowance	(139)	(78)	(77)	(12)	(2)	(308)
Disposals	-	2	-	-	-	2
Relocations	(350)	-	-	-	-	(350)
Balance as of 31/12/14	**(1,864)**	**(315)**	**(353)**	**(51)**	**(21)**	**(2,604)**
Allowance	(139)	(78)	(79)	(9)	(1)	(306)
Disposals	-	64	78	-	-	142
Relocations	6	-	-	-	-	6
Balance as of 31/12/15	**(1,997)**	**(329)**	**(354)**	**(60)**	**(22)**	**(2,762)**
Net Tangible Assets						
Balance as of 31/12/14	**22,757**	**486**	**543**	**12**	**124**	**23,922**
Balance as of 31/12/15	**22,668**	**383**	**432**	**9**	**131**	**23,623**

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 257 Castellana Street in Madrid, a trade premise at León y Castillo Street, Las Palmas de Gran Canaria and a flat in Princesa Éboli street in Madrid. These operating lease contracts can be cancelled with penalty, from a range since December 31, 2015 to June 30, 2017, depending on the contract, with a prior notice agreed from 2 to 6 months. The total expected earnings from these operating leases, until the maturity of the contracts, amounting to 3,908 thousand Euros until June 2027 (last contract maturity date), and the breakdown is the following:

(Thousand of €)	2015	2014
Up to one year	450	417
Over 1 year to 5 years	2,074	1,122
Over 5 years	1,384	1,138
	3,908	**2,677**

During 2015 and 2014, income from these operating leases coming from investment properties amounted to 412 and 685 Thousand Euro, respectively. They are entered in the item "Other Operating Income" of the Income Statement (Note 28). The operating expenses related to said investment properties amounted to 66 and 125 Thousand Euro respectively, and are entered in the caption "Other Administrative Expenses" (Note 30). These expenses are passed on to the tenants and are recorded in "Other" under "Other operating income" (Note 28).

12. INTANGIBLE ASSETS

The movements of the caption "Intangible Assets" of the Balance Sheet as of December 31st, 2015 are as follows:

	2015	**2014**
Cost		
Balance as of January 1st, 2014	**953**	**-**
Additions	8	953
Disposals	-	-
Balance as of December 31st, 2014	**961**	**953**
Accumulated Amortization		
Balance as of January 1, 2015	**(203)**	**-**

Allowance	(311)	(203)
Disposals	-	-
Balance as of December 31st, 2015	**(515)**	**(203)**
Net Intangible Assets		
Balance as of 31/12/14	**750**	**-**
Balance as of 31/12/15	**446**	**750**

13. TAX ASSETS AND TAX LIABILITIES

It includes the amount of all assets of a tax nature. The detail of these items as of December 31st, 2015 and 2014 is as follows:

TAX ASSETS	2015	2014
Corporate Income tax (Note 23)	469	142
Other taxes	141	194
Value Added Tax	187	93
Double taxation to be compensated	70	107
	867	**536**

TAX LIABILITIES		
Social Security	13	-
Income tax payable	236	-
Others	-	285
	249	**285**

14. OTHER ASSETS AND OTHER LIABILITIES

The detail of these two captions is as follows:

	Assets		Liabilities	
	2015	2014	2015	2014
Prepaid expenses	682	170	-	-
For financial guarantees	-	-	100	77
Accrued expenses	-	-	1,739	1,901
Other	1	1	-	-
	683	**171**	**1,839**	**1,978**

The caption "Accrued expenses" includes mainly overheads accruals.
The caption "For financial guarantees" includes at December 31, 2015 commissions from guarantees granted to clients, which are accrued over the expected life of the guarantee.

15. DEPOSITS FROM CENTRAL BANKS

This caption includes current accounts with the Central Banks.

	2015	2014
Other Central Banks	-	115
	-	**115**

16. FINANCIAL LIABILITIES AT AMORTIZED COST

The breakdown of this caption of the Balance Sheets as of December 31st, 2015 and 2014 is as follows:

	2015	2014
Deposits from credit institutions	410,368	493,577
Deposits from other creditors	34,083	26,486
Other financial liabilities	408	376
	444,859	**520,439**

The detail by currency and residual maturity of "**Financial Liabilities at Amortized Cost**" of the Balance Sheets as of December 31st, 2015 and 2014 is as follows:

	2015	2014
By currency		
Euro	116,701	146,621
Other currencies	328,158	373,818
	444,859	**520,439**
By residual maturity		
Up to 3 months	442,411	511,944
Over 3 months to 1 year	125	1,678
Over 1 year to 5 years	139	-
Over 5 years	2,184	6,817
	444,859	**520,439**

The detail of “**Deposits from Credit Institutions**” of the Balance Sheet as of December 31st, 2015 and 2014 is as follows:

	2015	2014
Time deposits	346,887	444,352
Other accounts	63,250	49,184
Valuation adjustments	231	41
	410,368	**493,577**

As of December 31st, 2015, the Libyan Foreign Bank holds deposits amounting to 29.3 Million Euro and 260 Million US$ (79.3 Million Euro and 433 Million US$ in 2014), 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, 2015 and 2014 is as follows:

	2015	2014
Public sector		
Spanish Government	45	-
Other resident sectors		
Demand deposits:		
Current accounts	16,637	13,471
Other	501	408
Time deposits		
Fixed term deposits	3,204	2,624
Other non- resident sectors		
Demand deposits:		
Current accounts	13,406	9,668
Other	6	31
Time deposits		
Fixed term deposits	284	284
Valuation adjustments	-	-
	34,083	**26,486**

Details of "**Other financial liabilities**" of the Balance Sheets as of December 31st, 2015 and 2014 grouped by financial instrument are as follows:

	2015	2014
Other accounts	302	202
Rental deposits	86	149
Special accounts	20	25
	408	**376**

17. HEDGING DERIVATIVES

This chapter reflects the value of the hedging derivative that was used as coverage of the exposure to the foreign exchange rate risks due to a financing granted in sterling pounds.

(Thousand of €)

	31/12/2015		31/12/2014	
CONCEPTS	Debit Balance	Credit Balance	Debit Balance	Credit Balance
Fair Value Hedging transactions	-	-	-	185
Total	**-**	**-**	**-**	**185**

18. PROVISIONS

The breakdown of this caption of the Balance Sheets as of December 31st, 2015 and 2014 is as follows:

	2015	2014
Provisions for taxes	32	22
Provisions for contingent exposures and commitments	2,142	2,318
Other provisions	3,650	5,181
	5,824	**7,521**

Due to the currently restrictions in respect of transnational movement of capital out of Iceland the Bank, following a prudent criteria, has allocated a provision for an amount of 3,000 Thousand Euro, registered in "Other Provisions", to cover any contingency on this issue, having in mind that the Bank revaluates the foreign exchange on a daily basis.

The movements of the caption "**Provisions**" in 2015 and 2014 are as follows:

	Provision for taxes	Contingent Exposures and Commitments	Other Provisions	Total
Balance as of January1st, 2014	**56**	**2,164**	**4,435**	**6,655**
Net P/L allowances	-	68	746	814
Allowances released	(34)	(11)	-	(45)
Other	-	97	-	97
Balance as of December 31st , 2014	**22**	**2,318**	**5,181**	**7,521**
Net P/L allowances	10	21	1,444	1,475
Allowances released	-	(362)	(2,914)	(3,276)
Other	-	165	(61)	104
Balance as of December 31st , 2015	**32**	**2,142**	**3,650**	**5,824**

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:

	2015	2014
Specific provision	1,632	1,722
Generic provision	510	592
Country risk provision	-	4
	2,142	**2,318**

"Provisions for Contingent Exposures and Commitments" is considered as a remote risk due to their evolution.

19. TOTAL EQUITY

The Bank's equity amounted to 341,235 Thousand Euro at December 31st, 2015 (340,845 Thousand Euro at December 31st, 2014). The Bank shows at the end of the year 2015 a capital solvency ratio of 65.68% (65.31% in terms of high quality CET1) that highly exceeds the 10.60% minimum required by the Regulator.

20. SHARE CAPITAL

The share capital of Aresbank, S.A. as of December 31st, 2015 amounts to Euro 300,000,960.00, and it is formed of 104,167 registered shares, with a nominal value of Euro 2,880.00 each.

The composition of the shareholders as of December 31st, 2015 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.

21. RESERVES

The breakdown of the reserves as of December 31st, 2015 and 2014 is as follows:

	2015	2014
Legal reserve	13,905	11,420
Results from previous years	-	-
Other negative reserves	-	-
Retained earnings	21,939	4,580
	35,844	**16,000**

LEGAL RESERVE

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

22. 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) Contingent exposures

"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, 2015 and 2014 is as follows:

	2015	2014
Financial guarantees		
Irrevocable issued documentary credits	-	4,654
Irrevocable confirmed documentary credits	68,037	78,006
Other Bank guarantees and indemnities	114,138	114,790
Other contingent risks	-	-
	182,175	**197,450**
Memorandum item: Doubtful contingent exposure	**463**	**460**

The detail by geographic area of "**Irrevocable documentary credits issued and confirmed**" is as follows:

Geographic Area	2015	2014	2015	2014
Spain	-	-	-	-
EU Countries	1,714	1,949	2.52%	2.36%
Other European countries	3,370	615	4.95%	0.74%
Arab countries				
Libya	35,430	45,038	52.07%	54.49%
Algeria	18,697	30,689	27.48%	37.13%
Other Arab countries	8,826	4,091	12.98%	4.95%
Other countries	-	278	-	0.34%
	68,037	**82,660**	**100.00%**	**100.00%**

The income obtained from these guarantee transactions is recognized in the Income Statement as "Fee and Commission Income" (Note 26).

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

Geographic Area	2015	2014	2015	2014
Spain	79,979	85,549	70.07%	74.53%
EU Countries	673	673	0.59%	0.59%
Other European countries	25,220	20,516	22.10%	17.87%
Arab countries				
Libya	8,000	7,771	7.01%	6.77%
Algeria	226	246	0.20%	0.21%
Other Arab countries	40	35	0.03%	0.03%
	114,138	**114,790**	**100.00%**	**100.00%**

b) Contingent commitments

Its breakdown is as follows:

	2015	2014
Drawable by third parties		
By financial institutions	50,000	50,000
By other resident sectors	65,624	45,897
Non-residents	1,094	-
	116,718	**95,897**

23. TAX MATTERS

Profits, adjusted in accordance with fiscal regulations, are taxed at 30% rate for 2015 and 2014. 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 2012 onwards, except for the Corporate Income Tax, which is subject to inspection from 2011 onwards.

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

	2015	2014
Accounting profit for the year	5,739	24,845
Timing differences		

Positives		
- Provisions	5,979	4,206
- 30% Amortization expenses	204	173
Negatives		
- Provision from previous years	(9,000)	-
Total	2,921	29,224

Offset of prior year negative taxable bases	(1,461)	(29,224)
Taxable profit	1,460	-
Tax liability	438	-
Deductions	(90)	-
Withholding tax	(102)	(142)
Fractioned payments of the tax	(715)	-
Corporate income tax payable / (receivable) (Note 13)	(469)	(142)

Figures from 2014 have been reported to Tax Authorities as of July 2015. 2015 figures are draft figures, so this calculation is intended to be our best estimation, no significant changes are expected in the final report to Spanish Tax Authorities.

The Bank has negative taxable bases (carry-forward losses) for an amount of 67,894 Thousand Euro which its breakdown over the years is as follows:

2009	2010
26,889	41,005

The Law 27/2014, from November the 27th, establishes in its transitional provision thirty-fourth some temporary measures that apply for the tax period 2015. In this regard, the compensation of tax losses from prior years for taxpayers whose turnover (calculated in accordance with the Article 121 of the Law 34/1992, from December the 28th, of the Value Added Tax) exceeded the amount of 6,010,121.04 Euros during the previous 12 months from the date on which 2015 tax period begins, will be subject to certain limits. As this was the case, the Bank is limited in the offsetting of negative tax losses (for this fiscal year 2015) to an amount equal to the 50% of its results, as its turnover stood above 20 Million Euros not exceeding 60 Million Euros.

The Corporate Income tax law in its article 26 does not set temporal limitation to the use of the carry forward losses pending to be compensated in the exercise initiated at the moment that entry into force of the regulation, on January 1, 2015.

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.

24. INTEREST AND SIMILAR 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, 2015 and 2014 is as follows:

	2015	2014
Cash balances with central banks	-	5
Loans and advances to credit institutions	2,273	3,623
Loans and advances to other debtors	4,376	2,594
Public Debt	148	-
Other interest	-	11,558
	6,797	**17,780**

In the caption "Other interest", referring 2014 corresponds to the delay interest received from the recovery of the Icelandic Money Market deposits (Note 8).

25. INTEREST EXPENSE AND SIMILAR CHARGES

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, 2015 and 2014 is as follows:

	2015	2014
Deposits from credit institutions	1,123	762
Deposits from other creditors	3	15
	1,126	**777**

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

26. FEES AND COMMISSIONS INCOME

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

The detail of this chapter of the Income Statement as of December 31st, 2015 and 2014 is as follows:

	2015	2014
Arising from risks and contingent exposures	4,861	5,163
Arising from maintenance, collections and payment services	641	932
Arising from Loans and other commissions	941	1,342
	6,443	**7,437**

27. FEES AND 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, 2015 and 2014 is as follows:

	2015	2014
Fees and commissions assigned to other entities and correspondents	77	115
Other fees and commissions	99	108
	176	**223**

28. 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, 2015 and 2014 is follows:

	2015	2014
Operating income from investment properties (Note 11.c)	412	685
Other	272	211
	684	**896**

29. PERSONNEL EXPENSES

The personnel of the Bank as of December 31st, 2015 and 2014 are as follows:

	December 31, 2015			December 31, 2014		
	Women	**Men**	**Year Average**	**Women**	**Men**	**Year Average**
General Management	-	2	2	-	2	2
Head of Department	1	10	11	1	9	10
Rest	13	34	47	12	37	49
	14	**46**	**60**	**13**	**48**	**61**

The breakdown of Personnel expenses caption as of December 31st, 2015 and 2014 is as follows:

	2015	2014
Wages and salaries	5,055	4,817
Social Security expenses	768	773
Transfers to defined contribution plans (Note 5.13)	153	171
Severance payments	614	778
Other expenses	677	727
	7,267	**7,266**

The caption “Wages and salaries” includes 800 Thousand Euros regarding provision for bonus.

30. OTHER ADMINISTRATIVE EXPENSES

The breakdown of this caption as of December 31st, 2015 and 2014 is as follows:

	2015	2014
Premises Expenses	507	485
Travelling and transportation	89	108
Communications	206	191
Legal and professional fees	408	2,891
Governing and control bodies	639	1,045
Withholding and sales taxes	300	261
Insurances	18	15
Commercial Offices and delegations	36	24
Business development	57	46
Subscriptions and others	139	152
	2,399	**5,218**

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

a) Board of Directors

The detail of the gross remuneration and other compensations accrued by the Bank's Directors in 2015 is as follows:

	Remuneration	**Allowance**	**TOTAL 2015**
Mr. Ahmed Ragib	65	29	94
Mr. Abdulfatah A. Mutat	65	29	94
Mr. Serajiddin Khalil	62	29	91
Mr. Moamar Eldabar	57	29	86
Mr. Wail J. Belgasem	60	29	89
Mr. Achour Abboud (*)	25	8	33
Mr. Omar Boudieb (**)	25	17	42
Mr. Francisco Javier de la Cruz (***)	15	-	15
Mr. Teodoro León (***)	21	-	21
Mr. Javier Iglesias de Ussel y Ordis (****)	46	-	46
Mr. Miguel Cuerdo Mir (****)	46	-	46
	487	**170**	**657**

(*) Resigned on June the 5th, 2015
(**) Appointed on June the 5th, 2015
(***) Resigned on March the 25th, 2015
(****) Appointed on March the 25th, 2015

The detail of the remuneration and other compensations accrued by the Bank's Directors in 2014 is as follows:

	Remuneration	**Allowance**	**TOTAL 2014**
Mr. Ahmed Ragib (*)	45	25	70
Mr. Serajiddin Khalil (*)	22	24	46
Mr. Moamar Eldabar (*)	22	24	46
Mr. Wail J. Belgasem	40	29	69
Mr. Abdulfatah A. Mutat	40	29	69
Mr. Achour Abboud	30	25	55
Mr. Francisco Javier de la Cruz	55	-	55
Mr. Teodoro León	30	-	30
Mr. Ibrahim M. Zletni (**)	15	11	26
Mr. Regeb A. Misellati (**)	8	5	13
	307	**172**	**479**

(*) Appointed on March the 26th, 2014
(**) Resigned on March the 26th, 2014

Aresbank, S.A. has no other obligations derived from pensions or life insurance premiums with any of the members of the Board of Directors. Neither as of December 31st, 2015 nor as of December 31st, 2014, has the Bank held any direct risks with any Director.
In compliance with the requirements of article 229 of the Spanish Companies Act (LSC), administrators have reported no conflict with the interests of the Bank.

b) General Management

The breakdown of the retribution received by the General Management of the Bank in the years 2015 and 2014 is as follows:

Year	Number of Managers	Salary	Other remuneration	Total
2015	2	807.2	42.4	849.6
2014	2	722.8	45.4	768.2

The amounts debited for pension funds in the Income Statement of the Bank in 2015 and 2014 amounted to 10 Thousand Euro and 10 Thousand Euro, respectively.
The Bank holds no direct risks with the General Management as of December 31st, 2015.

32. DEPRECIATION AND AMORTIZATION

The detail of this caption as of December 31st, 2015 and 2014 is as follows:

	2015	2014
Tangible assets:		
Investment Property (Note 11.c)	63	65
For own use (Note 11.b)	306	308
Intangible assets:		
Software (Note 12)	311	203
	680	**576**

33. IMPAIRMENT LOSSES (NET)

The detail of this caption is as follows:

	2015	2014
Investments		
Allowances (Note 8)	(8,195)	(4,910)
Recoveries from written-off debts (Note 8)	8,312	174
Other recoveries	-	18,917
Non-current Assets held for sale	-	-
Participations (Note 9)	-	(800)
	117	**13,381**

As of December 31st, 2015 and 2014 the allowances for impairment are mainly due to provisions allocated for Country Risk, specific and generic risks.

34. OTHER GAINS AND LOSSES IN THE DISPOSAL OF ASSETS NON CLASSIFIED AS NON-CURRENT ASSETS HELD FOR SALE

Losses coming from 2015 and 2014 on this caption correspond to disposal of fixed assets no longer in use.

35. 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, 2015 and 2014 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, 2015 is the following:

			Fair value hierarchy		
	Total Balance	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
ASSETS	**755,501**	**755,501**	**-**	**-**	**755,501**
Cash and balances with Central Banks	31,361	31,361	-	-	31,361
Loans and Receivables	704,140	704,140	-	-	704,140
Investments Held to Maturity	20,000	20,000	-	-	20,000
LIABILITES	**444,859**	**444,859**	**-**	**-**	**444,859**
Financial liabilities at amortized cost	444,859	444,859	-	-	444,859
Hedging derivatives	-	-	-	-	-

The breakdown as of December 31, 2014 is the following:

			Fair value hierarchy		
	Total Balance	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
ASSETS	**832,991**	**832,991**	**-**	**-**	**832,991**
Cash and balances with Central Banks	23,925	23,925	-	-	23,925
Loans and Receivables	809,066	809,066	-	-	809,066
LIABILITES	**520,739**	**520,739**	**-**	**-**	**520,739**
Financial liabilities at amortized cost	520,554	520,554	-	-	520,554
Hedging derivatives	185	185	-	-	185

The most significant balance sheet captions which are not recorded at fair value are "Loans and receivables" and "Financial liabilities at amortized cost". However, bearing in mind that these are operations involving the renewal of interest rates in less than one year in all cases, we consider that the fair value of these items does not differ substantially from their carrying value, taking into account potential interest rate fluctuations.

b) Most significant balances with related companies.

The most important balances with related companies as of December 31st, 2015 and 2014 are as follows:

	2015	2014
ASSETS		
Investments (see Note 9)		
Inversiones Hoteleras Los Cabos, S.A.	3,143	3,143
ARESCO	100	100
LIABILITIES		
Deposits from credit institutions		
Libyan Foreign Bank	268,154	435,980
Current Accounts		
Libyan Foreign Bank	6,156	638
Aresol Cabos, S.A. de C.V.	16	46
Inversiones Hoteleras Los Cabos, S.A.	55	60
ARESCO	98	98

c) Transactions with related companies

The interest and commissions paid to Aresbank's shareholders for the deposits and accounts held in the Bank amounted to 1,053 Thousand Euro in 2015 and 735 Thousand Euro in 2014.

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

	2015
	Days
Average payment period (Commercial Suppliers)	6
Paid Transactions Ratio	6
Pending Transactions Ratio	1

	In Thousand Euros
Total payments made	1.646
Total pending payments	16

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 7, that it modified thoroughly the Law 2/1981, of March 25, 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.

36. ADDITIONAL NOTE FOR ENGLISH TRANSLATION

These financial statements are presented on the basis of accounting principles generally accepted in Spain. Consequently, certain accounting practices applied by the Company may not conform to generally accepted principles in other countries.

ADDITIONAL INFORMATION

(A FREE TRANSLATION FROM THE ORIGINAL IN SPANISH SIGNED BY ALL MEMBERS OF THE BOARD OF DIRECTORS)

PROPOSAL OF PROFIT DISTRIBUTION

	(Thousand Euro)
	2015
PROFIT/(LOSS) BEFORE TAXES	5,739
CORPORATE TAX ESTIMATION	(349)
NET PROFIT / (LOSS)	**5,390**
DISTRIBUTION	
LEGAL RESERVE	539
DIVIDEND'S PAY-OUT	3,000
RETAINED EARNINGS	1,851
TOTAL	**5,390**

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

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