Aresbank

Annual Report

2016

Aresbank

Annual Report 2016

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CHAIRMAN'S LETTER

Aresbank

Dear Shareholders,

On behalf of the Board of Directors of Aresbank, I am pleased to send you the Annual Report for the fiscal year 2016, closed on December the 31st. Let me take advantage in the words that follow, to underline what has been more relevant in the activity developed by our entity over the past year, as well as the business prospects for the years to come.

There is no doubt that these years are being of considerable difficulty for the development of banking activity, both in Spain and in Europe. In this sense, the financial activity developed by Aresbank in 2016 has had to face official negative interest rates, and as consequence, the narrow on financial and commercial margins.

Similarly, Aresbank has not been able to escape important international uncertainties. Even though some changes in the general trends of certain prices and markets compel us to think of a somewhat different horizon. Among others, it seems that in 2016 there has been a rise in commodity prices and, in general, inflation rates, which will have to be confirmed throughout 2017. Similarly, the price of oil has managed to overcome the lows of recent times and, with it, to stabilize in a higher level that allows a little more margin to the exporting economies for its policies of commercial expansion and growth.

The high level of international tension at the geopolitical level, in addition to the strength of the US dollar, continued to weigh in 2016. In this sense, it does not seem that the international scene will relax much more with the recent ads, increasingly prolific, of more restrictive policies to international trade. These announcements only further question the ability of international trade to continue growing at the pace of economic activity. In fact, if world GDP continues to grow at 3.1% and international trade only at 1.9%, as it has in 2016, it will be very difficult to conceive a world with more open and confident exchanges, as the best way to find its genuine international advantages.

However, in this context, the Spanish economy has been able to continue growing in 2016 at a year-on-year rate of 3.2%. This is a sequence of 13 consecutive quarters of positive growth. This expansive evolution has to be put in the Euro Zone context to observe that the Spanish economy is doubling the growth of the monetary area to which it belongs.

Despite the continuity in time and the best expectations that are woven around domestic consumption and investment, the contribution of the foreign sector to Spanish growth continues to be positive and the financial capacity compared with the rest of the world is maintained in 2016. This news is very important since the level of external debt has followed its downward path in relation to the domestic product.

All this has contributed to closing 2016 with an unemployment rate of 18.6%, from the more than 20% that closed 2015, adding to this an employment rate that is growing at over the 2% a year, creating of 400,000 net jobs in the last year.

In terms of prices, the Spanish economy has followed the international trend and has closed the year with a year-on-year inflation rate of 1.6%, with a certain tendency to increase; although the underlying inflation does not finish showing that same tendency. In any case, for an economy with a high external debt, this evolution of prices needs not to be considered as very negative, provided that does not affect ostensibly the evolution of its international competitiveness. On the other hand, the recovery of positive rates of growth in prices may stimulate current activity and profit increases in both real and nominal interest rates. All of which should promote the activity of the financial sector of the economy.

In all this complex internal and external context, Aresbank has managed to close its operating margin practically in balance, after incorporating the important regulatory requirements of rising provisions with regards to country risk exposures on our geographic area of interest and business. Similarly, Aresbank has closed with a remarkable operating efficiency ratio of 66.58%

The bank has strengthened its balance significantly, reaching a figure of 1,348 Millions Euro, representing a 70% growth in its volume of managed assets with respect to the previous year, thanks to the support of Libyan Foreign Bank and its Group, which gives access to different business opportunities across the markets, being part of international operations. Aresbank has a high degree of available liquidity (a 74% increase over 2015) thanks to, among many other aspects, a very low default rate (less than 1%), that is the result of a strong and solid culture for risk appetite and eligibility criteria, and the extensive accrued expertise we have achieved in our business. At the same time, Aresbank has a maximum quality solvency ratio (CET1) of 52.61%, well above the minimum required by the Regulatory Authorities, which shows the strength, reliability and confidence with which the resources allocated to the entity's activity are managed.

As a result for the year, the bank has generated a net profit of 14,150 Thousand Euro which will be distributed to Legal Reserves (1,415 Thousand Euro) and for dividends payout, amounting 12,735 Thousand Euro. In terms of activity, the breakdown of our recurring income generation in our profit and loss statement (in terms of gross margin) is quite balanced; the interest margin (5.9 Million Euro) and the commissions margin (5.5 Million Euro) are distributed very evenly (52% - 48%), which implies that our earnings generation model is quite proportional, in line with the different international recommendations issued to the sector in this regard. Altogether, it has allowed a significant extraordinary profit and a strengthening of the financial resources of the entity, as can be seen both in the profit and loss account and in the balance sheet.

In a more qualitative criterion, we have to underline the completion in 2016 of the Recovery Plan required by the Local Regulatory Authorities, a useful and effective tool that measures Aresbank's ability to afford any relevant contingencies occurring in the future.

Finally, as in previous years, I would like to thank for the remarkable and close support of Aresbank's activity from Libyan Foreign Bank and Crédit Populaire d'Algérie, both from its respective organizations and shareholders. Likewise, to thank for the treatment and consideration our banking activity in Spain has had from the public regulators. And for sure, Aresbank has a client's portfolio, which trust in us and encourages us on a daily basis to continue with our organization and our business, both inside and outside Spain. Also, as in previous years, I would like to underline that these results, in a very demanding environment, would not be possible without a highly qualified and experienced staff, so much directive as administrative, committed to the entity and able to face the daily challenges that are revealed in this business.

A. Rajab

Mr. Ahmed Ragib
Chairman to the Board of Directors

SHAREHOLDERS

	2016	2015
Libyan Foreign Bank	99.86%	99.86%
Crédit Populaire D´Algérie	0.14%	0.14%

BOARD OF DIRECTORS

Mr. Ahmed Ragib	Chairman
Mr. Abdulfatah A. Mutat	
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	Manager of 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

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

DIRECTORS´ REPORT

1. ECONOMIC AND FINANCIAL SITUATION

If we look at the description of the world economy in 2016 by the IMF in one of its first reports of 2017, it must be said that the world economic activity has had a "tarnished result." Although the second part of 2016 is considered to have been better than the first and, in this sense, the risks have tended to fall. In addition, projections are of some rebound in international activity in 2017 and 2018, especially in emerging and developing countries. However, some uncertainties from 2015 remain and others are emphasized, for example, the appreciation of the dollar or geopolitical tensions. It is also important to underline a new and more uncertain international environment since the last elections in the United States, the so-called British Brexit and the chain of general elections of uncertain outcome in some of the great countries of Western Europe, such as France or Germany.

In this sense, the year 2017 opens with an increasing risk of protectionist and nationalist practices, which can not only further weaken the growth of international trade, but may induce a contagion effect that would undoubtedly aggravate the rest of existing risks. At the same time, international efforts to achieve greater resilience of economies in general and of their financial systems in particular, through reforms and economic openness, that would adapting financial stability to low-growth environments such as those experienced in recent years. From the most quantitative point of view, the world economy has grown to 3.1% in 2016, according to IMF data. Within this overall evolution, we have to underline the growth in emerging and developing countries, above 4.2%, which goes up 4% in 2015 and is in the perspective of sustained growth.

In this context, world trade in goods and services has further reduced its growth rate in 2016 (increased by 1.9%, well below world GDP growth and by 2.7% growth in 2015), although the international trade associated with emerging and developing countries is the one that supports the rate at its previous level (for these countries, from 0.3% in 2015 to a growth of 1.9% in 2016). In the specific case of the economies of the Middle East and North Africa, 2016 has closed with a provisional average growth of 3.2%, significantly exceeding the growth of the previous year (2.1%), with a maintenance perspective of this rate for 2017, according to forecasts provided by the IMF.

In summary, global economic growth is sustained in 2016 and its prospects improve in 2017, but new risks appear that will have to be managed internationally in order to confirm these expectations.

Expectations of global growth in 2017 depend largely on maintaining investment in infrastructures and equipment in China and on the United States embarking on its public investment program (the necessary fiscal stimulus stands at around 2.5% of US GDP for the next years), as planned by the new US presidency. If these expectations are confirmed, this will help the growth of trade and commodities in particular, as well as the increase or stability of their prices, which is fundamental to the external equilibrium of many developing countries.

It is very likely that such an environment would imply a rebound in inflation, especially in developed countries, and thus an increase in nominal and real interest rates. In this environment, we can expect oil prices to be maintained or increased, as well as a greater dynamism in the capital markets.

On the other hand, concerns about the revaluation of the US dollar, which has been extended to 2016, continue to be an issue, generating problems in international financing, as a dominant currency in trade and financing, especially for those countries and economic agents with high exposure to dollars and in a position of international financial need. All this is hindering the financing of trade and growth.

It is also true that this evolution, together with the evolution of the price of raw materials, allows oil-exporting countries to improve their deteriorating current account balance.

All of this is combined with the panorama of international geopolitical tensions, which do not seem to be reduced and, consequently, continue to hamper access to products and markets, goods, factors and financials, while being a significant brake to international trade growth. New policies and proposals in different countries are not helping at this regards, and especially in developed countries, based on trade protection and a greater restriction on international factor mobility.

In short, positive global growth prospects can be tarnished by an environment of greater international mistrust, based on policies aimed at strengthening certain sectors of production and domestic demand and not at strengthening competitive advantages, trade and productivity gains which derive from greater international cooperation and trust.

The Spanish economy

The year 2016 has closed in Spain with a chain of 13 consecutive quarters of GDP growth and a record in revenues coming from exports of goods and services. In addition, Spain has improved its competitiveness-price in 2016 compared to the Euro Zone and the OECD as a whole, in accordance with the Competitiveness Trend Index, drawn up by the OECD.

Spanish economic growth in the year stood at 3.2% in 2016, according to data available at the National Statistic Institute (INE), maintaining a fairly stable path throughout the four quarters of the year. It is noteworthy that this rate is above double the average growth of the Euro Zone. In addition, it is a growth in which the domestic demand accounts for the greater part of the same (2.6%), but in which the external demand also contributes positively (0.6%), unlike other previous expansive phases .

By activities, it is the services sector that shows greater stability in growth and contributes with more than 2% to the growth rate of the economy. It is positive to observe how the industry has maintained a remarkable growth throughout 2016 and with the data closed of the third quarter and a projection of its evolution in the fourth quarter, its growth can reach a rate of between the 0.4 and 0.6%, although weighed down to a certain extent by growth in construction, which slows down in growth in the second half of the year.

Employment growth has been one of the hallmarks of the evolution of the Spanish economy in 2016. According to the INE, employment has grown at a rate of 2.3% year-on-year, measured in the equivalent of jobs a day, which represents more than 400,000 new jobs. As a consequence, unemployment has been reduced to a rate of more than 11% year-on-year in 2016, which has reduced the number of unemployed in Spain by more than 500,000 people, leaving the unemployment rate at 18.6%, that is, a reduction of more than 2 points in relation to the one existing at the beginning of that year.

Despite this positive evolution, it is worth noting the fall in the rate of activity of the labour force, which declines to 58.95% and represents a loss of almost 130,000 people. This can be a hindrance to the growth of certain sectors of activity highly dependent on the intensive use of labour.

On the other hand, unit labour costs in Spain are favourable in relation to the European Union, with a decrease of 0.1% in 2016, according to INE data, which makes a difference with the EU, and helps to improve the competitiveness indicators of the Spanish economy. From the perspective of 2017, everything seems to indicate that both the growth of the economy, the rise in prices and the better adjustment in the labour market will push the rise in wages. Although the probability of reaching an agreement of increase between 1.5 and 2.5% is high, taking into account that nominal wages, in nominal terms, grew in Spain by around 1.1%, according to the information available from official bodies, proposals from trade unions and business organizations.

Any evolution of prices and wages depends on competition and productivity, but also on how the general level of prices evolves. In this sense, Spanish inflation closed 2016 at a rate of 1.6% year-on-year, the highest since 2013, in line with what is happening in other Euro zone countries, albeit more markedly. The monetary authorities have pointed out, however, that this evolution has to be contextualized in the general increase of international energy prices and that there does not seem to be a clear upward trend in so-called core inflation. Thus, it is to be expected that this rate of inflation will be reduced, especially from the second half of 2017. This price variation has two relevant effects. On the one hand, it reduces the real value of the debt. This fact is taken into account in an economy as heavily indebted as the Spanish one. On the other hand, it announces, in case of holding, higher nominal interest rates. That is, a higher cost for all new debt. In this sense, it will be of the greatest interest to observe how the deleveraging of the non-financial sectors, companies and households is developed, and how the budgetary imbalance of the public administrations is adjusted. Neither can it be concealed that higher inflation presents an opportunity to return to nominal and real positive interest rates and, therefore, to a greater margin for financial institutions.

Finally, the Spanish public sector has better adjusted its accounts in 2016. However, the public deficit has closed at 4.6% of GDP. Consequently, the public debt increases and stands at a figure somewhat higher than the current value of GDP obtained in 2016. Although it seems that the Spanish Government is managing to follow the path of deficit reduction required by the EU and in the budget stability plan for 2017 the deficit is intended to be reduced to 3.1%, with a reduction in the Central Administration deficit from 2.2% to 1.1% of the GDP in 2017, as well as a reduction of the Social Security deficit to 1.4%, favoured by the expectations of activity and employment of the Spanish economy for this year 2017. The fulfilment of all forecasts, both public expenditure as well as economic growth, would allow Spanish public debt to be reduced to 99% of GDP, which would mean a greater margin for financial markets to favour credit growth for private sectors, companies and households throughout 2017.

The external sector of the Spanish economy

With the provisional data published by the Bank of Spain until November 2016, it can be said that the external sector of the Spanish economy has continued to provide stability to growth and employment. In 2016 the Spanish economy repeats the result of 2015 and generates a financial or savings capacity compared to the rest of the world of approximately 2% of its GDP. To this financial capacity has contributed in positive both the current account, mainly, and to some extent the capital account.

Goods and services account with a very notable surplus in 2016 represents an improvement of almost 20% over the result of 2015, with a record net income in the trade balance and in the services balance, mainly due to the extraordinary positive evolution of tourism in the year that has already ended. In a similar sense, it is important to highlight the evolution of the income balance, which is always deficit for Spain, which shows a greater volume in both revenues and payments compared to 2015. This would reveal an at least apparent greater international mobility of factors, both labour and capital, not only by the greater economic activity but also by the remarkable opening with which the Spanish economy is undertaking this new expansionary phase.

From the perspective of the external opening, the trend of previous years is maintained, showing a very stable index of external openness, which clearly positions the Spanish economy as one of the most open economies in the world, in relation to its size within the group of developed countries.

The Spanish banking sector

Due to the obvious difficulties of living with negative intervention interest rates, 2016 has closed down in the sector with a certain sense of legal uncertainty, following certain judicial decisions, as it was pointed out by the Chairman of the Spanish Banking Association, so that in the long term there is the possibility that both citizens and companies will be harmed in the quality and abundance of the loans and services they can obtain from the bank. To this should be added the legal application of all legislative development derived from both the Basel III Agreements and the new EU Directives and national transpositions on risk, micro and macro prudential buffers.

In more specific figures - closed for the Spanish banking aggregate as of November 30, 2016 - the sector has assets of 1.42 trillion Euros, representing a year-on-year reduction of 3%, although with an increase of almost 5% in own resources. The assets and liabilities of the Central Banks, which have accumulated at the end of 2016 up to € 42.9 billion, represent an increase of more than 50% over the same period of the previous year, that are coming from an increase in the year 2015 of more than 60%. However, loans to customers have a balance somewhat higher than 705,000 million Euros, which shows a stagnation of this item in year-on-year rate. At the same time, the balance of lending operations between banks is reduced.

Using the same source of information for the same period, Aresbank's position with respect to the rest of the Spanish banks can be compared through these balance figures. Firstly, the weight of Aresbank's equity, around 8% of total equity, is very similar to the figures held by the rest of the Spanish banks. Obviously, customer deposits make a clear difference, since if Aresbank accounts for more than 4% of the total, in Spanish banking this figure is close to 50% of total assets.

On the other hand, the differences are also remarkable in the deposits of other credit institutions, which in the case of Aresbank account for more than 95% of the total liabilities, while in Spanish banks they represent around 15%. Likewise, among assets, deposits at other credit institutions account for Aresbank almost 60% of its assets, while in Spanish banks this represents only the 8% of total assets. Finally, if in the Spanish banking sector we find that almost 60% of the assets are dedicated to loans to customers, in Aresbank this figure barely reaches 16%.

As a result, in terms of balance sheet, Aresbank was presented in 2016, once again, as an entity perfectly differentiated from the rest, with a focus on short-term financial operations based on the financing of foreign trade - mainly guarantees and documentary credits - and not so much in the credit side, as well as keeping strong doses of movements at the interbank market in relation to its shareholders' equity, being configured in terms of instruments, liquidity and solvency in a different way to the dominant schema of the Spanish banking.

The behaviour of the main Aresbank markets

It could be said that in the MENA region for 2016, the same constants of geopolitical, political, economic and financial instability have been maintained than in 2015. Aresbank's traditional markets are still affected by a remarkable climate of insecurity that hinders business growth.

Nonetheless, the figures for 2016 generally improve those of 2015, not only in economic growth, but also in the external position. If, as a very positive sign for the area, the lifting of international sanctions against Iran should be noted in 2015, the smooth growth of oil prices should be put into value in 2016, especially after the autumn production agreement of the OPEC.

The MENA area economies have in most cases grown by more than 3% in 2016 and in those cases where this has not happened (Lebanon, Tunisia or Algeria, to name a few), have been very close to this rate. It is true that the area has again behaved somewhat worse than the average of emerging countries. It is also important to underline that the new environment of prices of raw materials, especially gas and oil, allow improving the national results of the area, both in terms of public deficit and external current deficit. This should not be an obstacle to maintaining, there where they are taking place, or there where they have not started, important structural reforms, especially those related to the change in the structures of income and public expenditure (in all countries of the region, there are public deficits above 3%, with the exception of Turkey (-1.6%).

Regarding Spain's foreign trade with the region, according to data from the Ministry of Economy and Competitiveness, 2016 saw a significant drop in Spanish exports to the Middle East, close to 5%, mainly due to a reduction of around 23.4% of the exports to Saudi Arabia. Also notable is the loss of weight in Spanish exports to the Middle East (3.3% of the total, when in 2015 represented the 4% of the total). As for North Africa, Spanish exports to the continent as a whole have also been reduced by 0.4% in 2016. However, the most important contributions include Morocco, with exports accounting for 2.7% of the total and an increase of 13% of the same. Special mention deserves the trade of goods of Spain with Turkey, since it represents the 2% of the Spanish exports

With regard to imports, it should be noted that Spanish imports have fallen by 0.4% in 2016, the MENA area with Spain has contributed to negative rates of change - a decrease of 1.3% for the Middle East and one 16.3% for the African part - mainly due to the evolution of oil and gas imports from the area. On the other side, imports from Morocco have increased by 15.7%, highlighting the increasingly close trade relations with this Maghreb country. In the end, trade relations with MENA partners mean not only a constant source of trade for

Spain, but also a tendency to increase despite the environment of uncertainty and slower growth 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 2016 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, the Bank is adapted to the Financial Ownership File, under the supervision of SEPBLAC, for what has been a special relevance the updating of the Customer's Files of the entity.

4. ARESBANK FOCUS IN THE COMING YEAR

As in previous years, Aresbank continues developing its commercial policy with the aim of increasing and strengthening its influence and market share in foreign trade between Spain and the MENA region, offering all banking products, issuing and confirming documentary credits, issuing commercial guarantees, import and export financing, as well as the development of buyer credit transactions with many countries in the area. On the other hand, we will continue to participate in the granting of credit facilities to Spanish companies through syndicated transactions with various local banks.

Taking into account the lifting of the European Union sanctions on Iran in January 2016, this should allow an increase in the activity of the bank with regards to Foreign Trade transactions with the same, along 2017 and further years.

In addition, the bank's commercial activity is expected to be increased based on the expectations of an additional recovery of oil prices and an improvement in the economies of Libya, Algeria and other countries in the Region.

5. EVENTS SUBSEQUENTS TO DECEMBER 31, 2016

The Annual Accounts of the year 2016 have been formulated by the Aresbank's Board of Directors in the meeting held on March 28, 2017.

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 2016.

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 2016 and 2015, 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, 2016, both in terms of immediate liquidity (one month ahead) with a liquidity ratio of 159.97%, and in terms of solvency, with a high quality capital ratio of 52.61%.

FINANCIAL STATEMENTS

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

KPMG Auditores, S.L.
Paseo de la Castellana, 259 C
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 2016, 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 2016, 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 2016 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 2016. 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 Martín Riaño

28 March 2017

AUDITORES
INSTITUTO DE CENSORES JURADOS DE CUENTAS DE ESPAÑA

KPMG AUDITORES, S.L.

Año 2017 Nº 01/17/23481
COPIA

Informe de auditoría de cuentas sujeto a la normativa de auditoría de cuentas española o internacional

BALANCE SHEET FOR THE YEARS ENDED DECEMBER 31st, 2016 AND 2015

(EXPRESSED IN THOUSAND OF EURO)

ASSETS	2016	2015
Cash, balances with Central Banks and demand deposits (Note 7)	**218,211**	**125,461**
Available for Sale Assets (Note 8)	**56,162**	**-**
Debt securities	56,162	-
Loans and receivables (Note 9)	**1,035,754**	**610,040**
Banking entities	882,920	455,580
Clients	152,834	154,460
Held to maturity investments (Note 10)	**-**	**20,000**
Debt securities	-	20,000
Investments in jointly controlled entities and associates (Note 11)	**100**	**3,243**
Group entities	100	3,243
Tangible Assets (Note 12)	**32,929**	**33,266**
For own use	23,357	23,623
Investment property	9,572	9,643
Intangible Assets (Note 13)	**150**	**446**
Tax Assets (Note 14)	**4,812**	**867**
Current	1,953	867
Deferred	2,859	-
Other Assets (Note 15)	**146**	**683**
TOTAL ASSETS	**1,348,264**	**794,006**

OFF BALANCE SHEET ITEMS (Note 23)

Granted Guarantees	**234,895**	**182,175**
Granted Contingent Commitments	**102,442**	**116,718**

These financial statements and the accompanying Notes 1 to 36 are an integral part of the Annual Accounts as of December 31st, 2016. 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, 2016 AND 2015

(EXPRESSED IN THOUSAND OF EURO)

LIABILITIES	2016	2015
Financial liabilities at amortized cost (Note 16)	**988,828**	**444,859**
Deposits from central banks	30	-
Deposits from credit institutions	955,010	410,368
Deposits from other creditors	33,170	34,083
Other financial liabilities	618	408
Derivatives – hedging accounting (liability) (Note 17)	**180**	**-**
Provisions (Note 18)	**4,593**	**5,824**
Taxes and other legal contingencies	32	32
Contingent exposure and commitments	4,561	2,142
Other provisions	-	3,650
Tax Liabilities (Note 14)	**276**	**249**
Other Liabilities (Note 15)	**3,401**	**1,839**
TOTAL LIABILITIES	**997,278**	**452,771**
SHAREHOLDERS EQUITY		
Equity (Note 19)	**352,385**	**341,235**
Capital (Note 20)	300,001	300,001
Retained earnings (Note 21)	38,234	35,844
Profit or (loss) for the period	14,150	5,390
Other accumulated global income (Note 22)	**(1,399)**	**-**
TOTAL SHAREHOLDERS EQUITY	**350,986**	**341,235**
TOTAL LIABILITIES AND EQUITY	**1,348,264**	**794,006**

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INCOME STATEMENT FOR THE YEARS ENDED DECEMBER 31st, 2016 AND 2015
(EXPRESSED IN THOUSAND OF EURO)

	2016	2015
Interest income (Note 25)	10,310	6,797
Interest expenses (Note 26)	(4,450)	(1,126)
INTEREST MARGIN	**5,860**	**5,671**
Commissions income (Note 27)	5,708	6,443
Commissions expenses (Note 28)	(164)	(176)
Gains and losses on financial assets and liabilities (Net)	484	185
Exchange differences (Net)	(765)	1,438
Other operating income (Note 29)	926	684
Other operating expense	(311)	(65)
OPERATING RESULT (NET)	**11,738**	**14,180**
Administrative Expenses	(10,891)	(9,666)
Personnel expenses (Note 30)	(7,071)	(7,267)
Other administrative expenses (Note 31)	(3,820)	(2,399)
Amortization (Note 33)	(666)	(680)
Provisions expense (Net) (Note 18)	(1,868)	1,802
Impairment losses or release on assets in financial assets not at fair value with changes in results (Note 34)	(1,552)	117
Impairment losses or release on investments in jointly controlled entities and associates (Note 34)	1,228	-
Gains or Losses coming from non-current assets and disposable groups of elements available for sale (Note 35)	14,910	(14)
PROFIT OR (LOSS) BEFORE TAXES	**12,899**	**5,739**
Expenses or revenues for income tax (Note 24)	1,251	(349)
PROFIT OR (LOSS) FROM ORDINARY ACTIVITY	**14,150**	**5,390**
PROFIT OR (LOSS) AFTER TAXES	**14,150**	**5,390**

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STATEMENT OF CHANGES IN EQUITY FOR THE YEARS ENDED ON DECEMBER 31st, 2016 AND 2015

(EXPRESSED IN THOUSAND OF EURO)

a) STATEMENT OF RECOGNIZED INCOME AND EXPENSE

	2016	2015
Profit or (loss) for the period	**14,150**	**5,390**
Valuation adjustments	**(1,399)**	**-**
Available for sale assets	(1,998)	-
Tax effect	599	-
TOTAL RECOGNIZED INCOME AND EXPENSE	**12,751**	**5,390**

These financial statements and the accompanying Notes 1 to 36 are an integral part of the Annual Accounts as of December 31st, 2016. 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	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 31/12/15	**300,001**	**35,844**				**5,390**				**341,235**
a) Adjustments due to accounting policy change										
b) Error adjustments										
2. Adjusted balance sheet (1+a+b)	**300,001**	**35,844**				**5,390**				**341,235**
3. Total recognized income and expense						**14,150**				**14,150**
4.Other changes in equity (c+d+e+f)		**2,390**				**(5,390)**			**(1,399)**	**(4,399)**
d) Dividend distribution						(3,000)				(3,000)
e) Transfers between items (Note 17)		2,390				(2,390)				
f) Other Issuances (reduction) for equity instruments									(1,399)	(1,399)
5. Balance Sheet as of 31/12/16 (2+3+4)	**300,001**	**38,234**				**14,150**			**(1,399)**	**350,986**

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	EQUITY								
	Issued capital	**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**	**16,000**				**24,844**			**340,845**
a) Adjustments due to accounting policy change									
b) Error adjustments									
2. Adjusted balance sheet (1+a+b)	**300,001**	**16,000**				**24,844**			**340,845**
3. Total recognized income and expense						**5,390**			**5,390**
4.Other changes in equity (c+d+e)		**19,844**				**(24,844)**			**(5,000)**
d) Dividend distribution									(5,000)
e) Transfers between items (Note 17)						(5,000)			
f) Issuance (reduction) of equity instruments		19,844				(19,844)			
5. Balance Sheet as of 31/12/15 (2+3+4)	**300,001**	**35,844**				**5,390**			**341,235**

These financial statements and the accompanying Notes 1 to 36 are an integral part of the Annual Accounts as of December 31st, 2016. 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, 2016 AND 2015

(EXPRESSED IN THOUSAND OF EURO)

	2016	2015
A) CASH-FLOW FROM OPERATING ACTIVITIES	**(9,754)**	**32,470**
Profit or (loss) for the period	**14,150**	**5,390**
Adjustments for obtaining operating cash flow	**(395)**	**(651)**
Amortization	666	680
Other adjustments	(1,061)	(1,331)
Net increase or (decrease) in operating assets	**567,996**	**(104,135)**
Available for sale assets	58,442	-
Loans and receivables	508,315	(105,149)
Other operating assets	1,239	1,014
Net increase or (decrease) in operating liabilities	**545,738**	**(76,055)**
Financial liabilities at amortized cost	543,759	(75,727)
Other operating liabilities	1,979	(328)
Inflows / Outflows for Corporate Income tax	**(1,251)**	**(349)**
B) CASH-FLOW FROM INVESTING ACTIVITIES	**24,338**	**(20,034)**
Outflows	**49**	**20,034**
Tangible and Intangible assets	49	34
Held to maturity investments	-	20,000
Inflows	**24,387**	-
Tangible and Intangible assets	16	-
Intercompany	4,371	-
Held to maturity investments	20,000	-
C) CASH-FLOW FROM FINANCING ACTIVITIES	**(3,000)**	**(5,000)**
Dividends payment	3,000	5,000
D) EFFECT OF THE EXCHANGE RATE FLUCTUATIONS	**-**	**-**
E) NET INCREASE OR DECREASE IN CASH AND CASH EQUIVALENTS (A+B+C+D)	**11,584**	**7,436**
F) CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**31,361**	**23,925**
G) CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**42,945**	**31,361**

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

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, 2016 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 2016 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, 2016 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 2016 have been formulated by the Board of Directors of the Bank in the meeting held on March 28, 2017 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 2016 and those corresponding to the previous year. Some items for the year 2015 have been reclassified regarding the cash flow statement in order to be comparable with the year 2016.

At 31 December 2016, the Bank's annual accounts have been prepared in accordance with the presentation models required by Circular 5/2014, from November the 28th, and its subsequent amendments, issued by the Bank of Spain, with the aim of adapting the content of the public financial information for credit institutions to the terminology and formats of the financial statements, established as mandatory, by the European Union regulation for credit institutions.

In order to facilitate its comparability, the comparable financial statements and information referred to 2015 has been reworked in accordance with the new previous model, mentioned in latter paragraph. The presentation of the financial statements related to these new formats does not have a significant impact with respect to the format of the financial statements in the annual accounts for the year ended 31 December 2015. Annex I is attached with the correspondences between the balance sheet and the profit and loss account in accordance with the regulations applied in the annual accounts 2015 and Circular 5/2014 and subsequent amendments of the Bank of Spain applied in these individual financial statements.

Also, as indicated in Note 3.4, during 2016, Cash heading has applied the changes introduced by Circular 4/2016 in a prospective manner, since this is a change in accounting estimates. In this regard, certain breakdowns included in these financial statements do not contain comparative information.

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.

During 2016, the Bank has applied the changes introduced by Bank of Spain in the Circular 4/2016, from April the 27th, which updated former Circular 4/2004 to adapt it to the latest developments in banking regulation and with entry in force on October the 1st, 2016. In accordance with the regulations applicable to the Entity, its application has been made prospectively as a change in accounting estimates. The detail of the nature and amount of the changes in the accounting estimates introduced by the aforementioned Circular are as follows:

- Impairment of financial assets: in general, Circular 4/2016 modifies the categories and criteria for debt instruments and contingent liabilities, modifies the treatment of the guarantees assigned to such instruments, as well as the methodology for estimating credit risk impairment. The impact that these changes have had on the estimate of impairment due to credit risk has resulted in the recognition of net reversals of 1,664 Thousand Euros.

3.5 Changes in accounting principles

There have not been changes in accounting principles applied by the Bank during 2016.

3.6 External Auditors

The Annual Accounts of Aresbank, S.A. as of December 31st, 2016 have been audited by KPMG Auditores, S.L., same as the ones from the year before.

In accordance with the additional provision 14th of the "Ley *44/2002 de Medidas de Reforma del Sistema Financiero*" (Spanish law on amendment measures on the financial market), dated November 22nd, auditing fees for the Annual Accounts of the year 2016 amounted to 50 Thousand Euro (50 Thousand Euro in 2015), neither other invoicing nor other services were rendered by entities affiliated to KPMG International in 2016.

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 2016 and 2015, 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 2016, which was submitted to the Bank's Board of Directors at its meeting held on January 26, 2017.

This report stated that the Customer Services Department of Aresbank, S.A. had not received any claim during 2016, neither during 2015.

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 22, 2016, 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 13.03%, 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, 2016, 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 2016	Thousand Euro 2015
Total Equity (computable)	338,543	337,344
CET 1	337,246	335,399
Paid-in capital	300,001	300,001
Retained Earnings	23,790	21,939
Reserves	14,444	13,905
Intangible Assets (-)	(150)	(446)
Other transitory adjustments (-)	(839)	-
Tier 2	1,297	1,945
Credit risk adjustments (Standard approach)	1,297	1,945
Common Equity Tier 1 Ratio	52.61%	65.31%
Surplus (+) / Deficit (-) on CET 1 Ratio	308,402	312,288
Solvency Ratio	52.82%	65.68%
Surplus (+) / Deficit (-) on Solvency Ratio	287,264	296,257

3.11 Deposit Guarantee Fund

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

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

Also, on March 23rd, 2013, entered into force the Royal Decree Law 6/2013 of protection to holders of certain savings and investment products and other financial measures, by which, among others, is regulated one additional annual contribution of the 3 per thousand of the calculation basis. This contribution was divided into two phases. A first one for the 40%, and a second tranche, comprising the remaining 60%, to be met from

2014 and within a maximum period of 7 years, according to the payment schedule set by the Management Committee of the Fund Deposit Guarantee for Credit Institutions, calendar which was finally fixed in two payments, to be made on June 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 FGD on 2016 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 2016 amounted to 151 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 2016 amounted to 4 Thousand Euros.

3.13 Subsequent Events to December 31, 2016

The Annual Accounts of the year 2016 have been formulated by Aresbank's Board of Directors in the meeting held on March 28th, 2017. Likewise, the Board will propose to the Shareholder's Assembly a dividend pay-out for an amount of 12,735 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 2016 result and the one previously approved for 2015 are as follows:

	2016	2015
Net profit / (loss) of the Year	**14,150**	**5,390**
Distribution		
Retained earnings	1,415	2,390
Dividends (Note 3.13)	12,735	3,000

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) Debt Securities, includes different financial instruments in the Bank's portfolio mainly to comply with the liquidity coverage requirements (through its LCR ratio) based on a High Quality Liquid Assets (HQLA) fund in order to be protected against any stress context in the short term (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 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, 2016 amounts, respectively, to 877,821 and 864,886 Thousand Euro (357,294 and 329,526 Thousand Euro, respectively, as of December 31st, 2015).

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, 2016 or 2015.

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, 2016 and 2015, 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, 2016 and 2015, Aresbank's pension commitments with the serving employees were externalised by means of defined contribution pension plan and an insurance contract.

These pension fund commitments cover the rights derived from:

a) The Collective Agreement.

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

As a result of these operations, Aresbank has no actuarial or financial risk by reason of the mentioned commitments. The total amount contributed in 2016 amounted to 155 Thousand Euro. In 2015, it amounted to 153 Thousand Euro (Note 30).
Aresbank's outstanding balance related to the employees' contributions with the pension fund management company (BanSabadell Pensiones) amounts to a total of 3,095 Thousand Euro as of December 2016 and 3,263 Thousand Euro as of December 2015.

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 (Note 14). The Bank has recognized a tax assets derived from the negative taxable bases pending to be offset for the years ending December 31st, 2016 (Note 24).

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 36.b for the detail of the related party transactions during 2016 and 2015.

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 595,611 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, 2016 to 1,217,527 Thousand Euro, in comparison with 709,594 Thousand Euro in 2015. The key component of the total lending was "Loans and Advances to Credit Institutions", for an amount of 1,058,634 Thousand Euro, from which 843,503 Thousand Euro are placed within the Interbank market. Contingent exposures have increased from the previous year to a total amount of 234,895 Thousand Euro.

(EUR '000)

OVERALL CREDIT RISK EXPOSURE	2016	2015
Balance Sheet exposures (Gross)	1,217,527	709,594
Granted guarantees	234,895	182,175
Unused portion of credit lines (Drawable by third parties)	102,442	116,718
Total credit risk exposure	**1,554,864**	**1,008,487**

RISK CONCENTRATION BY ACTIVITY AND GEOGRAPHICAL AREA

The breakdown corresponding to 2016 is the following:

	Total	Spain	Rest of U.E.	America	Rest of the world
Credit institutions	**1,257,243**	**603,046**	**263,168**	**3,195**	**387,834**
Public Sector	**40,224**	**17,523**	**22,701**	**-**	**-**
Non-financial Corporations and Individuals	**246,740**	**148,497**	**3,900**	**-**	**94,343**
Construction, civil engineering works	*26*	*26*	*-*	*-*	*-*
Corporate	*223,733*	*131,651*	*3,900*	*-*	*88,182*
Small business and individuals	22,981	16,820	-	-	*6,161*
Other households (other purpose)	**712**	**485**	**-**	**-**	**227**
TOTAL	**1,544,919**	**769,551**	**289,769**	**3,195**	**482,404**

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**				

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 2016 and 2015.

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, 2016 shows that the Bank has sufficient liquidity to meet its near term liabilities:

Time Buckets	Assets	Liabilities	Gap	Cumulative Gap
Up to 1 Month	814,329	695,242	119,087	119,087
1 Month to 3 Months	251,885	231,477	20,408	139,495
3 Months to 6 Months	55,456	48,957	6,499	145,994
6 Months to 12 Months	47,062	1,028	46,034	192,028
1 Year to 5 Years	109,114	528	108,586	300,614
Greater than 5 Years	34,630	10,256	24,374	324,988

- **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 1,035 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, 2,595 Thousand Euro, is based on the average of positive gross income of the previous three years multiplied by 15%.

7. CASH, BALANCES WITH CENTRAL BANKS AND DEMAND DEPOSITS

This caption on the Balance Sheet reflects available cash as well as deposits maintained in the Bank of Spain in accordance with the compulsory reserves ratio. The caption breakdown as of December 31st, 2016 and 2015 is as follows:

	2016	**2015**
Cash	203	166
Bank of Spain - Nostro Account	42,742	31,195
Demand deposits	175,266	94,100
	218,211	**125,461**

8. AVAILABLE FOR SALE ASSETS

The breakdown of this caption as of December 31st, 2016 and 2015 is as follows:

	2016	**2015**
Nature:		
Public Debt (Spain)	20,533	-
Public Debt (EU countries)	22,701	-
Fixed Income (Spain)	12,955	-
Generic Impairments	(27)	-
	56,162	**-**
Currency:		
Euro	56,162	-
	56,162	**-**

	2016	2015	2016	2015
Rating:				
AA+	5,007	-	8.91%	-
AA	4,957	-	8.83%	-
A-	12,736	-	22.68%	-
BBB+	27,055	-	48.17%	-
BBB	6,407	-	11.41%	-
	56,162	**-**	**100%**	**-**

The detail of the valuation adjustments made through equity it is shown in Note 22, with regards to the available for sale assets.

9. LOANS AND RECEIVABLES

The detail of this caption as of December 31st, 2016 and 2015 is as follows:

	2016	2015
Loans and advances to credit institutions (gross)	883,401	457,361
Loans and advances to other debtors	159,332	158,133
	1,042,733	**615,494**
Impairment adjustments		
Loans and advances to credit institutions	(481)	(1,781)
Loans and advances to other debtors	(6,498)	(3,673)
	1,035,754	**610,040**

The breakdown by currency, residual maturity and sectors of the caption "**Loans and Receivables**" as of December 31st, 2016 and 2015 is as follows:

	2016	2015
By currency		
Euro	161,871	275,567
Other currencies	873,883	334,473
	1,035,754	**610,040**
By residual maturity		
Up to 3 months	842,257	414,267
Over 3 months to 1 year	96,421	66,603
Over 1 year to 5 years	96,700	128,861
Over 5 years	376	309
	1,035,754	**610,040**

By sector		
Residents	606,072	244,450
Non residents	429,682	365,590
	1,035,754	**610,040**

The detail by nature of "**Loans and Advances to Credit Institutions**" as of December 31st, 2016 and 2015 is as follows:

	2016	**2015**
Time deposits	882,547	456,955
Non Performing Assets	-	136
Interest accrued	861	328
Commissions	-	(43)
Purchase premium/discounts	(7)	(15)
	883,401	**457,361**
Impairment Adjustments	(481)	(1,781)
	882,920	**455,580**

The breakdown by type of the "**Loans and Advances to Other Debtors**" as of December 31st, 2016 and 2015 is as follows:

	2016	**2015**
By type		
Other term receivables	153,980	150,495
Receivable on demand and other	1,110	4,419
Non Performing Assets	4,709	4,474
Other Financial Assets	439	125
Commissions	(990)	(1,415)
Premiums / Discount	(56)	(68)
Interest Accrued	140	103
	159,332	**158,133**
Impairment Adjustments	(6,498)	(3,673)
	152,834	**154,460**

The line "**Other financial assets**" includes mainly bails and accruals.
The detail of the Economic Activities of "**Loans and Receivables**" is as follows:

	2016	2015
Economic Activity		
Financial intermediation	85.26%	75.35%
Oil refinery	5.68%	14.56%
Other manufacturing Industry	1.92%	3.32%
Real Estate	2.00%	2.23%
Construction	3.29%	1.73%
Metallurgy	1.14%	1.64%
Other sectors with lesser participation	0.71%	1.17%
	100.00%	**100.00%**

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

	2016	2015
Geographic Area		
Spain	58.34%	40.41%
European Union	26.50%	19.72%
Other European countries	3.81%	2.23%
Arab countries (Asia)	7.63%	29.74%
Central America	0.93%	-
Arab countries (Africa)	2.79%	7.90%
	100.00%	**100.00%**

The movements in 2016 and 2015 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 31/12/2014	**2,667**	**1,324**	**1,515**	**5,506**
Additions (see Note 34)	2,273	612	5,310	8,195
Disposals (see Note 34)	(2,586)	(546)	(5,180)	(8,312)
Transfer to write-off	-	-	-	-
Other	21	45	-	66
Balance as of 31/12/2015	**2,375**	**1,435**	**1,645**	**5,455**
Additions (see Note 34)	154	1,017	6,491	7,662
Disposals (see Note 34)	(139)	(1,607)	(4,365)	(6,111)
Other	-	-	-	-
Balance as of 31/12/2016	**2,390**	**845**	**3,771**	**7,006**

The caption "Other" as of December 31st 2016 includes adjustments due to foreign exchange and reclassifications.

10. HELD TO MATURITY INVESTMENTS

The breakdown is as follows:

	2016	2015
Nature:		
Public Debt (Spain)	-	20,000
	-	**20,000**

11. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES AND ASSOCIATES

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, 2016:

Company	External Auditors	Location	Business	Direct Stoke	Initial Cost	Net Investment
ARESCO	n/a	Madrid	Foreign Trade	100%	100	100
						100

The Bank has sold on December 9th, 2016 its holding (31.49%) on INVERSIONES HOTELERAS "LOS CABOS", S.A, with a book value of 4,421 Thousand Euros at the time of the sale. 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. This transaction raised a profit of 14,926 Thousand Euros (Note 35).

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.

12. TANGIBLE ASSETS

a) Movement

The movements of the caption "**Tangible Assets**" of the Balance Sheets as of December 31st, 2016 and 2015 are as follows:

	For own Use	Investment Property	Total (*)
Cost			
Balance as of January 1st, 2015	**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**
Additions	30	-	30
Disposals	(44)	-	(44)
Relocations			
Balance as of December 31st, 2016	**26,371**	**11,130**	**37,501**

(*) 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, 2015	**(2,604)**	**(1,419)**	**(4,023)**
Allowance	(306)	(62)	(369)
Disposals	142	-	143
Relocations	6	(6)	-
Balance as of December 31st, 2015	**(2,762)**	**(1,487)**	**(4,249)**
Allowance (Note 33)	(279)	(72)	(351)
Disposals	28	-	28
Relocations	-	-	-
Balance as of December 31st, 2016	**(3,013)**	**(1,559)**	**(4,572)**
Net Tangible Assets			
Balance as of 31/12/15	**23,623**	**9,643**	**33,266**
Balance as of 31/12/16	**23,357**	**9,572**	**32,929**

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, 2016 and 2015, is as follows:

	Lands & Buildings	Furniture	Installations	Computer Equipment	Others	Total
Cost						
Balance as of 1/1/15	**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**
Additions	-	7	-	23	-	30
Relocations	-	-	-	-	-	-
Disposals	-	(44)	-	-	-	(44)
Balance as of 31/12/16	**24,665**	**675**	**786**	**92**	**153**	**26,371**
Accumulated Amortization						
Balance as of 1/1/15	**(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)**
Allowance	(129)	(71)	(71)	(6)	(2)	279
Disposals	-	28	-	-	-	28
Relocations	-	-	-	-	-	-
Balance as of 31/12/16	**(2,126)**	**(372)**	**(425)**	**(66)**	**(24)**	**(3,013)**
Net Tangible Assets						
Balance as of 31/12/15	**22,668**	**383**	**432**	**9**	**131**	**23,623**
Balance as of 31/12/16	**22,539**	**303**	**361**	**26**	**129**	**23,357**

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, 2016 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 3,488 thousand Euros until June 2027 (last contract maturity date), and the breakdown is the following:

(Thousand of €)	2016	2015
Up to one year	461	450
Over 1 year to 5 years	1,898	2,074
Over 5 years	1,129	1,384
	3,488	**3,908**

During 2016 and 2015, income from these operating leases coming from investment properties amounted to 583 and 412 Thousand Euro, respectively. They are entered in the item "Other Operating Income" of the Income Statement (Note 29). The operating expenses related to said investment properties amounted to 120 and 66 Thousand Euro respectively, and are entered in the caption "Other Administrative Expenses" (Note 31). These expenses are passed on to the tenants and are recorded in "Other" under "Other operating income" (Note 29).

13. INTANGIBLE ASSETS

The movements of the caption "Intangible Assets" of the Balance Sheet as of December 31st, 2016 are as follows:

	2016	**2015**
Cost		
Balance as of January 1st	**961**	**953**
Additions	18	8
Disposals		-
Balance as of December 31st	**979**	**961**

Accumulated Amortization

Balance as of January 1st	**(515)**	**(203)**
Allowance (Note 33)	(315)	(311)
Disposals		-
Balance as of December 31st	**(830)**	**(515)**

Net Intangible Assets

Balance at the beginning of the period	**446**	**750**
Balance at the end of the period	**150**	**446**

14. 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, 2016 and 2015 is as follows:

TAX ASSETS	**2016**	**2015**
Corporate Income tax (Note 24)	1,199	469
Corporate Income tax (previous years)	464	141
Other taxes	2,859	-
Value Added Tax	206	187
Double taxation to be compensated	84	70
	4,812	**867**

TAX LIABILITIES		
Social Security	13	13
Income tax payable	262	236
Others	1	-
	276	**249**

The Bank has recorded deferred tax assets at December 31st, 2016 amounting to 2,859 thousand Euros.

15. OTHER ASSETS AND OTHER LIABILITIES

The detail of these two captions is as follows:

	Assets		Liabilities	
	2016	2015	2016	2015
Prepaid expenses	146	683	-	-
For financial guarantees	-	-	70	100
Accrued expenses	-	-	3,331	1,739
	146	**683**	**3,401**	**1,839**

The caption "Accrued expenses" includes mainly overheads accruals. The caption "For financial guarantees" includes at December 31, 2016 commissions from guarantees granted to clients, which are accrued over the expected life of the guarantee. The line "Carried coupon" shows the amounts paid pending to be compensated. As "Others" all the transitory movements pending to be settled are included.

16. FINANCIAL LIABILITIES AT AMORTIZED COST

The breakdown of this caption of the Balance Sheets as of December 31st, 2016 and 2015 is as follows:

	2016	2015
Deposits from central banks	30	-
Deposits from credit institutions	955,010	410,368
Deposits from other creditors	33,170	34,083
Other financial liabilities	618	408
	988,828	**444,859**

The detail by currency and residual maturity of "**Financial Liabilities at Amortized Cost**" of the Balance Sheets as of December 31st, 2016 and 2015 is as follows:

	2016	2015
By currency		
Euro	124,505	116,701
Other currencies	864,323	328,158
	988,828	**444,859**

By residual maturity		
Up to 3 months	928,059	442,411
Over 3 months to 1 year	49,036	125
Over 1 year to 5 years	1,477	139
Over 5 years	10,256	2,184
	988,828	**444,859**

The detail of “**Deposits from Credit Institutions**” of the Balance Sheet as of December 31st, 2016 and 2015 is as follows:

	2016	**2015**
Time deposits	880,056	346,887
Other accounts	74,232	63,250
Valuation adjustments	722	231
	955,010	**410,368**

As of December 31st, 2016, the Libyan Foreign Bank holds deposits amounting to 29.3 Million Euro, 807.5 Million US$ and 6 Million GBP (29.3 Million Euro and 260 Million US$ in 2015), 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, 2016 and 2015 is as follows:

	2016	**2015**
Public sector		
Spanish Government	172	45
Other resident sectors		
Demand deposits:		
Current accounts	15,921	16,637
Other	2,772	501
Time deposits		
Fixed term deposits	2,752	3,204
Other non- resident sectors		
Demand deposits:		
Current accounts	10,631	13,406
Other	638	6
Time deposits		
Fixed term deposits	284	284
Valuation adjustments		-
	33,170	**34,083**

Details of "**Other financial liabilities**" of the Balance Sheets as of December 31st, 2016 and 2015 grouped by financial instrument are as follows:

	2016	2015
Other accounts	531	302
Rental deposits	86	86
Special accounts	1	20
	618	**408**

17. DERIVATIVES – HEDGING ACCOUNTING (LIABILITY)

This chapter reflects the value of the hedging derivative that was used as coverage of the exposure to the foreign exchange rate risks.

(Thousand of €)

CONCEPTS	31/12/2016		31/12/2015	
	Debit Balance	Credit Balance	Debit Balance	Credit Balance
Fair Value Hedging transactions	180	-	-	-
Total	**180**	**-**	**-**	**-**

18. PROVISIONS

The breakdown of this caption of the Balance Sheets as of December 31st, 2016 and 2015 is as follows:

	2016	2015
Provisions for taxes	32	32
Provisions for contingent exposures and commitments	4,561	2,142
Other provisions	-	3,650
	4,593	**5,824**

The Bank has proceeded to release and apply its provisions to cover any contingencies that may arise from the restrictions on capital movements in Iceland ("Other Provisions"), due to the release of such exposures by auction held on June 16th, 2016 by the Central Bank of Iceland.

The movements of the caption "**Provisions**" in 2016 and 2015 are as follows:

	Provision for taxes	Contingent Exposures and Commitments	Other Provisions	Total
Balance as of January1st, 2015	**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**
Net P/L allowances	-	4,379	-	4,379
Allowances released	-	(1,943)	(567)	(2,510)
Other	-	(17)	(3,083)	(3,100)
Balance as of December 31st , 2016	**32**	**4,561**	**-**	**4,593**

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:

	2016	**2015**
Specific provision	395	1,632
Generic provision	451	510
Country risk provision	3,715	-
	4,561	**2,142**

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

19. SHAREHOLDERS' EQUITY

The Bank's equity amounted to 352,385 Thousand Euro at December 31st, 2016 (341,235 Thousand Euro at December 31st, 2015). The Bank shows at the end of the year 2016 a capital solvency ratio of 52.82% (52.61% in terms of high quality CET1) that highly exceeds the 13.03% minimum required by the Regulator.

20. SHARE CAPITAL

The share capital of Aresbank, S.A. as of December 31st, 2016 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, 2016 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. RETAINED EARNINGS

The breakdown of the reserves as of December 31st, 2016 and 2015 is as follows:

	2016	2015
Legal reserve	14,444	13,905
Undistributed results	23,790	21,939
	38,234	**35,844**

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. OTHER ACCUMULATED GLOBAL INCOME

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

	2016	2015
Public Debt (Spain)	(281)	-
Public Debt (UE countries)	(561)	-
Fixed Income (Spain)	(557)	-
Valuation Adjustments	**(1,399)**	**-**

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

23. 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) Granted guarantees

"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, 2016 and 2015 is as follows:

	2016	2015
Financial guarantees		
Irrevocable issued documentary credits	-	-
Irrevocable confirmed documentary credits	131,843	68,037
Other Bank guarantees and indemnities	103,052	114,138
Other contingent risks	-	-
	234,895	**182,175**
Memorandum item: Doubtful contingent exposure	**412**	**463**

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

Geographic Area	**2016**	**2015**	**2016**	**2015**
Spain	672	-	0.51%	-
EU Countries	53,096	1,714	40.27%	2.52%
Other European countries	110	3,370	0.08%	4.95%
Arab countries				
Libya	40,791	35,430	30.94%	52.07%
Algeria	13,743	18,697	10.42%	27.48%
Other Arab countries	23,431	8,826	17.78%	12.98%
	131,843	**68,037**	**100.00%**	**100.00%**

The income obtained from these guarantee transactions is recognized in the Income Statement as "Fee and Commission Income" (Note 27).

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

Geographic Area	**2016**	**2015**	**2016**	**2015**
Spain	85,155	79,979	82.63%	70.07%
EU Countries	1,354	673	1.31%	0.59%
Other European countries	16,270	25,220	15.79%	22.10%
Arab countries				
Libya	6	8,000	0.01%	7.01%
Algeria	226	226	0.22%	0.20%
Other Arab countries	41	40	0.04%	0.03%
	103,052	**114,138**	**100.00%**	**100.00%**

b) Granted contingent commitments

Its breakdown is as follows:

	2016	**2015**
Drawable by third parties		
By financial institutions	50,000	50,000
By other resident sectors	52,442	65,624
Non-residents	-	1,094
	102,442	**116,718**

24. TAX MATTERS

Profits, adjusted in accordance with fiscal regulations, are taxed at 30% rate for 2016 and 2015. 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 2013 onwards, except for the Corporate Income Tax, which is subject to inspection from 2012 onwards.

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

	2016	2015
Accounting profit for the year before tax	12,899	5,739
Permanent differences	16	41
Timing differences		
Positives		
- Provisions	4,788	6,880
Negatives		
- Provisions	(6,519)	(9,828)
- Double taxation	(2,719)	-
Total	8,465	2,832
Offset of prior year negative taxable bases	(5,079)	(1,416)
Taxable profit	3,386	1,416
Tax liabilities	1,016	425
Deductions	(13)	(70)
Withholding tax	(86)	(102)
Advanced payment on Corporate Tax	(2,116)	(715)
Corporate income tax payable / (receivable) (Note 13)	(1,199)	(463)

Figures from 2015 have been reported to Tax Authorities as of July 2016. 2016 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 55,328 Thousand Euro, whose detail at the source corresponds with the following:

2009	2010
14,323	41,005

Likewise, the entity has a tax credit that has been registered in the same year for 7,532 Thousand Euros, which it expects to recover in the coming years.

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

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

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

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

25. INTEREST INCOME

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

The breakdown of this caption as of December 31st, 2016 and 2015 is as follows:

	2016	2015
Loans and advances to credit institutions	6,139	2,273
Loans and advances to other debtors	3,644	4,376
Corporate and Public Debt	527	148
	10,310	**6,797**

26. INTEREST EXPENSE

This chapter of the Income Statement records the interest accrued in the period on all financial liabilities with an implicit or explicit return. It is calculated by applying the effective interest rate method. Its breakdown as of December 31st, 2016 and 2015 is as follows:

	2016	2015
Deposits at Central Banks	18	-
Deposits from credit institutions	4,422	1,123
Deposits from other creditors	10	3
	4,450	**1,126**

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

27. 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, 2016 and 2015 is as follows:

	2016	2015
Arising from risks and contingent exposures	4,149	4,861
Arising from maintenance, collections and payment services	957	641
Arising from Loans and other commissions	602	941
	5,708	**6,443**

28. 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, 2016 and 2015 is as follows:

	2016	2015
Fees and commissions assigned to other entities and correspondents	21	77
Other fees and commissions	143	99
	164	**176**

29. 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, 2016 and 2015 is follows:

	2016	2015
Operating income from investment properties (Note 11.c)	583	412
Other	343	272
	926	**684**

30. PERSONNEL EXPENSES

The personnel of the Bank as of December 31st, 2016 and 2015 are as follows:

	December 31, 2016			December 31, 2015		
	Women	**Men**	**Year Average**	**Women**	**Men**	**Year Average**
General Management	-	2	2	-	2	2
Head of Department	1	10	11	1	10	11
Rest	14	34	48	13	34	47
	15	**46**	**61**	**14**	**46**	**60**

The breakdown of Personnel expenses caption as of December 31st, 2016 and 2015 is as follows:

	2016	2015
Wages and salaries	5,123	5,055
Social Security expenses	778	768
Transfers to defined contribution plans (Note 5.13)	155	153
Severance payments	407	614
Other expenses	608	677
	7,071	**7,267**

The caption "Wages and salaries" includes 1,500 Thousand Euros regarding provision for bonus.

31. OTHER ADMINISTRATIVE EXPENSES

The breakdown of this caption as of December 31st, 2016 and 2015 is as follows:

	2016	2015
Premises Expenses	566	507
Travelling and transportation	52	89
Communications	191	206
Legal and professional fees	419	408
Governing and control bodies	688	639
Withholding and sales taxes	284	300
Insurances	19	18
Commercial Offices and delegations	22	36
Business development	69	57
Subscriptions, contributions and others	144	139
Extraordinary expenses (IHC holding selling process)	1,366	-
	3,820	**2,399**

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

a) Board of Directors

The detail of the gross remuneration and compensations accrued by the Bank's Directors in 2016 is as follows:

	Remuneration	Allowance	TOTAL 2016
D. Ahmed Ragib	65	29	94
D. Abdulfatah A. Mutat	60	29	89
D. Serajiddin Khalil	60	29	89
D. Moamar Eldabar	60	29	89
D. Wail J. Belgasem	60	29	89
D. Omar Boudieb	50	25	75
D. Javier Iglesias de Ussel y Ordis	61	-	61
D. Miguel Cuerdo Mir	61	-	61
	477	**170**	**647**

The detail of the 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	62	29	91
Mr. Serajiddin Khalil	60	29	89
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 (***)	15	-	15
Mr. Javier Iglesias de Ussel y Ordis (****)	46	-	46
Mr. Miguel Cuerdo Mir (****)	46	-	46
	476	**170**	**646**

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

During 2015, the members of the Nominations and Compensation Committee (established in September 2014) received an additional 11 Thousand Euros according to their 2014 accrued emoluments regarding this brand new committee, and more concretely: Mr. Abdulatah A. Mutat (2.5 Thousand Euro), Mr. Serajiddin Khalil (2.5 Thousand Euro) and Mr. Teodoro León (6 Thousand Euro). This information is presented and broken down separately from the chart above for comparability purposes.

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, 2016 nor as of December 31st, 2015, 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 2016 and 2015 is as follows:

Year	Number of Managers	Salary	Other remuneration	Total
2016	2	875.19	128.82	1,004.01
2015	2	807.20	42.39	849.59

The amounts debited for pension funds and insurances in the Income Statement of the Bank in 2016 and 2015 amounted to 12.44 Thousand Euro and 10 Thousand Euro, respectively.
The Bank holds no direct risks with the General Management as of December 31st, 2016.

33. AMORTIZATION

The detail of this caption as of December 31st, 2016 and 2015 is as follows:

	2016	**2015**
Tangible assets:		
Investment Property (Note 12)	72	63
For own use (Note 12.b)	279	306
Intangible assets:		
Software (Note 13)	315	311
	666	**680**

34. IMPAIRMENT LOSSES OR RELEASE IN FINANCIAL ASSETS NOT AT FAIR VALUE WITH CHANGES IN RESULTS

The detail of this caption is as follows:

	2016	2015
Investments (Note 9)		
Allowances	(7,662)	(8,195)
Releases	6,110	8,312
	(1,552)	**117**

As of December 31st, 2016 and 2015 the allowances for impairment are mainly due to provisions allocated for Country Risk, specific and generic risks.

Likewise, the bank has released a provision for the impairment of its holdings, amounting 1,228 thousand Euro, as a result of the sale of its entire interest in INVERSIONES HOTELERAS "LOS CABOS", S.A, (Note 11)

35. GAINS OR LOSSES COMING FROM NON-CURRENT ASSETS AND DISPOSABLE GROUPS OF ELEMENTS AVAILABLE FOR SALE

Breakdown of this chapter as follows:

	2016	2015
Fixed assets no longer in use	(16)	(14)
Profit coming from IHC holding (selling process) (Note 11)	14,926	-
	14,910	**(14)**

36. 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, 2016 and 2015 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, 2016 is the following:

	Total Balance	Fair Value	Fair value hierarchy Level 1	Level 2	Level 3
ASSETS	**1,309,655**	**1,309,655**	**56,162**	**-**	**1,253,493**
Cash and balances with Central Banks	218,211	218,211	-	-	218,211
Loans and Receivables	1,035,754	1,035,754	-	-	1,035,754
AFS Investments	56,162	56,162	56,162	-	-
LIABILITES	**988,978**	**988,978**	**180**	**-**	**988,798**
Financial liabilities at amortized cost	988,798	988,798	-	-	988,798
Hedging derivatives	180	180	180	-	-

The breakdown as of December 31, 2015 is the following:

	Total Balance	Fair Value	Fair value hierarchy Level 1	Level 2	Level 3
ASSETS	**755,501**	**755,501**	**-**	**-**	**755,501**
Cash and balances with Central Banks	125,461	125,461	-	-	125,461
Loans and Receivables	610,040	610,040	-	-	610,040
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 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, 2016 and 2015 are as follows:

	2016	2015
ASSETS		
Holdings (see Note 11)		
ARESCO	100	100
LIABILITIES		
Deposits from credit institutions		
Libyan Foreign Bank	802,401	268,154
Current Accounts		
Libyan Foreign Bank	1,341	6,156
Aresol Cabos, S.A. de C.V.	5	16
Inversiones Hoteleras Los Cabos, S.A.	4	55
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 4,145 Thousand Euro in 2016 and 1,053 Thousand Euro in 2015.

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.

	2016	2015
	Days	Days
Average payment period (Commercial Suppliers)	7	6
Paid Transactions Ratio	7	6
Pending Transactions Ratio	1	1

	In Thousand Euros	In Thousand Euros
Total payments made	850	1,646
Total pending payments	5	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.

BALANCE SHEET

Correspondences between the headings according to the regulations applied in the individual annual accounts corresponding to the 2016 and the Circular 5/2014, from November the 28th, of the Bank of Spain.

Former Headings	New Headings
Cash and balances with Central banks	Cash, balances with Central banks and demand deposits
Trading portfolio (asset)	Financial assets held for trading
Available for sale assets	Available for sale assets
Loans and receivables	Loans and receivables
Held to maturity portfolio	Held to maturity investments
Hedging derivatives (asset)	Derivatives – hedging accounting (asset)
Non-current assets	Non-current assets and disposable groups of elements held to maturity
Holdings	Investments in jointly controlled entities and associates
Pension Insurance Contracts	Other assets – Pension Insurance Contracts
Assets for reinsurance	Assets covered by insurance or reinsurance contracts
Tangible assets	Tangible assets
Intangible assets	Intangible assets
Tax assets	Tax assets
Other assets	Other assets
Trading portfolio (liability)	Financial liabilities held for trading
Financial liabilities at amortized cost	Financial liabilities at amortized cost
Hedging derivatives (liability)	Derivatives – hedging accounting (liability)
Liabilities for insurance contracts	Liabilities covered by insurance or reinsurance contracts
Provisions	Provisions
Tax liabilities	Tax liabilities
Other liabilities	Other liabilities
Shareholders' equity	Shareholders' equity
Valuation adjustments	Other accumulated global income
Minority Interests	Minority Interests
Contingent exposures	Granted Guarantees
Contingent commitments	Granted Contingent commitments

ANNEX I (2 of 2)

PROFIT & LOSS ACCOUNT

Correspondences between the headings according to the regulations applied in the individual annual accounts corresponding to the 2016 and the Circular 5/2014, from November the 28th, of the Bank of Spain.

Former Headings	New Headings
Interests and similar income	Interest income
Interests expense and similar charges	Interest expense
Return on equity instruments	Dividends income
Fees and commissions income	Commissions income
Fees and commissions expenses	Commissions expense
Result on financial transactions (net)	Gains or Losses when derecognising financial assets and liabilities not at fair value through profit or loss, net
	Gains or Losses on financial assets and liabilities held for trading, net.
	Gains or Losses resulting from hedging accounting, net.
Exchange differences (net)	Exchange differences (net)
Other operating income	Other operating income
Other operating expense	Other operating expense
Administrative expenses	Administrative expenses
Depreciation and Amortization	Amortization
Provisions expenses (net)	Provisions expense (net)
Impairment losses on financial assets (net)	Impairment losses or release in financial assets not at fair value with changes in results
Impairment losses on other assets (net)	Impairment losses or release on investments in jointly controlled entities and associates
	Impairment losses or release in non-financial assets
Gains or Losses in non-current assets available for sale not classified as ordinary activity	Gains or Losses when derecognising non-financial assets and holdings, net
Negative differences in business combinations	Goodwill recognized in profit and loss account
Gains or Losses in non-current assets available for sale not classified as ordinary activity	Gains or Losses coming from non-current assets and disposable groups of elements available for sale
Income tax	Expenses or Revenues for income tax
Results from ordinary activity (net)	Profit or Loss after taxes

ADDITIONAL INFORMATION

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

PROPOSAL OF PROFIT DISTRIBUTION

	(Thousand Euro)
	2016
PROFIT/(LOSS) BEFORE TAXES	12,899
CORPORATE TAX ESTIMATION	1,251
NET PROFIT / (LOSS)	**14,150**
DISTRIBUTION	
LEGAL RESERVE	1,415
DIVIDEND'S PAY-OUT	12,735
RETAINED EARNINGS	-
TOTAL	**14,150**

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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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