2017 ANNUAL REPORT

Aresbank

www.aresbank.es

Annual Report 2017

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CHAIRMAN’S LETTER

Aresbank

Dear shareholders,

By mean of the present letter and on behalf of the Board of Directors of Aresbank, I am pleased to introduce the Annual Report of the fiscal year 2017, closed on December the 31st. Let me take this opportunity, in the following words, to point out what seems to us relevant both in the national and international economic activity, as well as in the one developed by our entity throughout the recently past year, and the business outlook for the next years.

The world economy has intensified its economic activity, reaching in 2017 a 3.1% growth rate in terms of world GDP, on inter-annual basis. This means more business opportunities, when you know how to take advantage from. Besides, the indicators tell us that a large part of emerging countries and others in way of development have been able to grow above that rate, while the most advanced economies in the world have shown a remarkable strength, growing above 2%. This has allowed generating an important growth of the global demand of goods, services and productive factors.

Similarly, we cannot hide certain concern about the level of international volatility, fed to a certain extent by the most protectionist and isolationists speeches and proposals. The truth is that in 2017 we have witnessed a very stable evolution of the raw materials prices, including energy, which has timed very well to that growth of the international demand. Undoubtedly, this is a stability factor for the raw materials export economies, which has seen in recent years how they entered in a recessive spiral caused by low prices and a very stagnant international demand.

On the other hand, it is very positive the growth observed in the international trade of goods and services, which is likely to have closed the year with a growth of the same magnitude as the world GDP growth. Nor have they pressed upwards currencies such as US dollar, which in that extent have helped to this stability on international prices.

In the Spanish context, sustainability in economic growth should be highlighted, with a year-on-year growth rate of 3.1%, very similar to the previous year. 17 consecutive quarters of positive growth are chained together with it. Besides, these results cannot be separated from a more intense growth in the entire Euro Zone. In the most concrete, this growth has been mainly sustained by the domestic demand, although the external sector continues adding 5 tenths at that growth rate, which serves to maintain our share in international markets and reduce our level of external debt in relation to the GDP.

These good results of the Spanish economy have been perfectly reflected in the labour market. In 2017, net employment grew at an inter-annual rate of 2.65% and the unemployment rate stood at 16.55% at the end of the year. That means 471,100 fewer people in the unemployment queues. An important note to this recovery of employment and the activity in the Spanish economy is the positive evolution of unit labour costs, especially in their differences with the other EU countries.

No less remarkable has been the price stability of the Spanish economy in 2017, with an inflation rate of 1.11% and a very stable underlying inflation, around 0.8%. It cannot be denied that, in the Spanish case, a definition of environmental stability of 2% would be much better for the external debt as well as for market and intervention interest rates.

The positive conditions in which the economic activity has been developed in 2017 are evident in this national and international review. However, it is mandatory to reiterate the same kind of reflection as in the previous year. That is to say, the difficult times in which the banking activity is going through in general and the Spanish one in particular, with increasingly requirements on provisions, and interest rates which are limiting the possibilities of generating reasonable financial and commercial margins.

Despite that, Aresbank has been able to generate more business volume in 2017, being very active especially in those financial products that are core to its own business, but also in the opening of new markets that tune with the most traditional of its banking activity. With the same willingness to perform a feasible business and to present to its shareholders a results profile and a balance sheet more than acceptable, Aresbank has succeeded to contain its costs in this ended year with a high level of efficiency achieving its budgetary and strategic objectives.

In the most concrete, Aresbank has closed with a remarkable efficiency ratio of 55.57%. This improvement in the efficiency ratio in relation to 2016 was underlined by the Bank of Spain in its supervisory tasks. In its development, this ratio has profit from a strict control of the operating expenses of the entity, as well as an improvement in its margins, and a very prudent but efficient provisions management. This improvement has been confirmed by a ROA of 0.55 and a ROE of 2.04. In any case, improving those reported in January 2017.

Aresbank can demonstrate a high degree of liquidity, with a coverage ratio of 325.40%, maintaining a very low rate of non performing loans (less than 1%), which demonstrates a risk appetite culture based on solid granting criteria and in the extensive experience we have achieved in our business. Likewise, at the end of 2017, Aresbank has a Tier 1 solvency ratio (CET1) of 53.35, lower than 2016, but well above the minimum requirements of the regulatory authorities. All this clearly demonstrates the financial soundness, security and confidence in the administration of the resources available.

Regarding the results of the year, from the point of view of the activity, the net operating margin has increased by 5.2 Million Euro, derived mainly from a notable increase in the commissions, with an increase of 3.4 Million Euro and the interest margin, with an increase of 0.8 Million Euro. This means that the bank has been able to generate a net profit of 6,934 Thousand Euros. This benefit will be assigned for the dividend's payment. However, the final amount to be paid-off will amount to 9,130 Thousand Euro, once decided to apply all the net profit and make use of the positive adjustment on Country Risk provisions coming from the first time application of the new Circular 4/2017 of the Bank of Spain. In any case, these figures show, once again, a fairly stable profit generating model, in line with the international recommendations made to the sector.

Once seen the results of our activity, as in previous years, I would like to underline the constant support to Aresbank's activity that involves the close collaboration with the *Libyan Foreign Bank* and the *Crédit Populaire d'Algérie*, both of its organizations and its shareholders.

It is also appreciated the consideration that we believe Aresbank has for public regulators, especially for the Bank of Spain, in its valuations and periodic supervisory examinations undertaken along 2017. Aresbank has been diligent facing the two considerations of relevance raised by Bank of Spain. On one side, it has restructured the Audit and Risk Committee, as requested by the financial authority. On the other hand, all efforts that are been developed to perform improvements to the recurring incomes generation of the entity for 2018. In the same way, it has been incorporated the adaptation in depth of the *Procedure for the evaluation of the suitability of the members of the administrative body and of the key titles on key functions*, as required by Circular 2/2016 from the Bank of Spain, developing the Royal Decree-Law 84/2015, which in turn adapts the regulation of the Law 10/2014 at these regards, and culminates in the EBA Guidelines of November 22nd , 2012 such as the Directive 2013/36/EU and the EU Regulation nº 575/2013.

It is important to point out that Aresbank has a portfolio of trustworthy clients, which helps the entity to improve in all its performances, while generating synergies when it comes to search for financial solutions to its demands, with an innovative component, which in no way tarnishes the principle of prudence and financial stability that guides our daily activity.

Finally, and no less important, to reiterate another year more that the fact of achieving good results in the business management, in a very competitive environment, can only be explained from a workforce, management and administration, highly qualified and committed; therefore, my thanks and congratulations.

A. Ragib

Mr. Ahmed Ragib
Chairman to the Board of Directors

SHAREHOLDERS

SHAREHOLDERS	2017	2016
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 (***)	Vice Chairman
Mr. Jamal R. Elbenghazi (*)	
Mr. Serajiddin A. Khalil	
Mr. Omar Boudieb	Credit Populaire d'Algérie
Mr. Moamar M. Eldabar (**)	
Mr. Wail J. Belgasem (**)	

Independents Direrectors

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

Secretary

Mr. Antonio Díaz de Liaño

(*) Appointed on 3rd of October 2017
(**) Resigned on 3rd of October 2017
(***) Appointed as Vice Chairman on 28th of March 2017

AUDIT, COMMITTEE (Established on 3rd of October 2017)

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

Secretary

Mr. Antonio Díaz de Liaño

(*) Appointed on 11th of December 2017

RISK & COMPLIANCE COMMITTEE (Established on 3rd of October 2017)

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

Secretary

Mr. Antonio Díaz de Liaño

(*) Appointed on 11th of December 2017

NOMINATIONS AND REMUNERATIONS COMMITTEE

D. Miguel Cuerdo Mir	Chairman of the Nominations and Remunerations Committee and Member of the Board of Directors
D. Abdulfatah A. Mutat (*)	Member of the Board of Directors
D. Serajiddin A. Khalil (*)	Member of the Board of Directors
D. Moamar M. Eldabar (**)	Member of the Board of Directors
D. Wail J. Belgasem (**)	Member of the Board of Directors

Secretary

Mr. Antonio Díaz de Liaño

(*) Appointed on 11th of December 2017
(**) Resigned on 3rd of October 2017

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

We have closed the year 2017 with a global economic growth of 3.7% year-on-year. This means an acceleration of half a point in relation to the global growth of 2016, always according to the data published by the IMF. This intensification of the increase dynamics in international economic activity has occurred, among others, thanks to a better and, in some way surprising, growth recovery in Europe and Asia. Further into it, the forecasts that are managed from the UN could not be more optimistic, as are stating that the increase in world GDP can reach 3.9% in 2018 and 2019.

At a more disaggregated level and always according to IMF data, it is observed that the emerging and developing economies are boosting their activity at rates of increase of almost 5%, while China and India have maintained growth rates above 6.5% year-on-year. To this is added that the developed world has grown to 2.2% year-on-year. Exactly, the same rate as the first world economy, the United States, did.

Besides, there is also a more intense economic growth in Central Asia, with rates in general above 3%. Among these countries, Iran aims for a growth of 3.5%. Something similar happens in Africa, although with a more dispersion, even with some countries in negative rates, due to internal conflicts, as in the cases of the Republic of Congo or the Republic of South Sudan. In the other side, the negative trend of Equatorial Guinea (-7.4%) must be highlighted.

In case of South America, the dispersion in growth is also characteristic on 2017, with growing and more stabilized economies, such as Argentina, Chile or Colombia, and with others that remain virtually stagnant, such as Ecuador or Brazil.

For its part, world trade in goods and services has grown at rates of 3.6% per year. This means to leave behind the bad results of recent years, which were always well below the global economic growth. The upturn in the growth of international trade, with figures still partial for 2017, is well widespread according to the WTO. In this sense, it is observed how the change of trend at the beginning of 2016 has been consolidated for the main economies of the world without exception, with higher trade growth rates, both in the second half of that year and in the first quarter of 2017. To this has helped the increase in the price of oil in 2017, which has fuelled the growth in the value of international transactions, which in turn has been favoured by a clear increase in international demand. By region, according to the WTO, it has been the European region that has performed the best in commercial terms, both from the exports and from imports sides.

To the situation described above is contributing to a more controlled level of risk and, in any case, downwards, especially from the medium-term perspective. It should be emphasized that the growth outlook for the current year is based on certain inertia of the forces that sustain international activity, particularly in some regions, such as Europe, with higher capacity for international demand. We have to keep in mind that 2017 was presented in Europe with some important political elections in some of the largest countries. That phase has culminated with quite comforting results. In this sense, a recent sample button is the renewal of the grand coalition agreement in Germany.

In the same way, the new fiscal program announced for this year and the next, by the US Government, also points to an intensification of the demand for goods and services. Along with this, it does not seem that international tension is going to increase in the coming quarters, nor that the most protectionist and unilateral policies that were predicted in 2017 will advance extraordinarily.

The fact that a more balanced international economic scenario is observed does not mean that important risks have disappeared and, also, that others do not emerge with greater force for the coming years. Thus, everything seems to indicate that the stage of risk deflation, never confirmed, has been completely closed. However, protectionist initiatives rebound and break the positive but unconsolidated growth trend of international trade

On the contrary, a certain risk of an inflationary upturn appears on the horizon, taking into account both the greater pressure of international demand and certain doubts in the monetary authorities when leaving their monetary stimulus policies and, among others, the consequent and positive reduction of their balance sheets. This more restrictive monetary policy would undoubtedly raise the downward pressures on asset prices and foster the possible increase in interest rates. Closed related with it, there may be changes in the exchange among the major currencies, due to the divergence of the monetary policies that are being developed, with the consequent effect on the uncertainty in transactions, both real and financial.

In short, the coming quarters are likely to be characterized by a phase of calm transition towards greater monetary control, an increase in the average rate of inflation and, consequently, an increase in nominal interest rates. However, one cannot rule out growing risks in the process, with more international financial uncertainty, if the rhythms or the intensity of the measures are not correct. The same way, a protectionist activism cannot be ruled out from harming the general trend. In any case, as already pointed out, global economic growth intensifies in 2017 and the prospects for 2018 do not seem to worsen it.

The Spanish economy

Spain closed 2017 with a chain of 17 consecutive quarters of GDP growth. The year-on-year growth rate has closed at 3.1%, above the expectations that were established a year earlier. This intense growth of Spanish GDP continues to lead the growth of the major economies of the EU and continues to lead the Eurozone (2.1%) and the European Union (2.3%).

This growth has contributed to an intense growth of the internal final demand of 2.6% and a positive contribution of the external sector of 0.5 points to the GDP growth of the year. In the case of the contribution of the net external balance of goods and services, Spain shows in 2017 a much more positive profile than, for example, the Euro Area as a whole, for which the foreign sector only contributed 0.2 points to the growth of its GDP.

By sectors of activity and with the data closed for the third quarter of 2017, it can be said that services contribute with just over 2.7% growth. It can be seen that the industry maintains a growth rate of around 3.5% and the construction sector is approaching year-on-year rates of 5%.

These positive results also show some rigidities in this last expansive stage, which should be improved. Thus, according to the Competitiveness Trend Index, in 2017, the Spanish economy lost 0.5 points against the Euro Zone, 0.8 points against the EU and 1.5 points against the OECD. Although it must be pointed out that the euro's appreciation in international transactions has played in favour of this trend, with the consequent damage to our competitive advantages via pricing; this element is obviously partially eliminated when compared to the Euro Zone itself.

Regarding employment, it should be noted that there are 18,998,400 employees in Spain at the close of 2017. This means an inter-annual variation rate of 2.65% and a net creation of full-time employment in the year for 490,300 people. While it moves away from the previous trend, it is striking that the employment of the service sector has grown at a rate of 2.6%, and that even the financial and insurance sector present a positive rate of 1.8% in that fourth quarter of 2017.

In this way, we have managed to keep the unemployment rate falling at an annual rate of 11.12%. This means 471,100 fewer people in the unemployment queues. That said, the unemployment rate is still at the end of the year at 16.55%, although it is 2.09 points less than a year before.

To these employment data we must add that the labour force, that is, the active population, is located at 58.80%, accounting for an increase of more than 19,100 people in the last year. This is a magnitude that worries, insofar as it does not show a clear growth and, on the contrary, the continued growth of the activity, despite the productivity gains that are being incorporated, forces a greater availability of labour force for the markets.

This possible gap between supply and demand is likely to be met with wage increases that, if things do not change, cannot be neutralized, in terms of competitiveness, by sufficient increases in productivity. Indeed, the data for 2017 gives us an apparent work productivity that grows only to 0.3%. However, this magnitude, in terms of effective working hours, has increased by 1.4%.

The foregoing must be qualified, to the extent that the unit labor costs in Spain, in relation to the European Union and measured through the Harmonized Index, do not evolve worse than the previous year; that is, they continue with a decrease of 0.1% in 2017, according to INE data. However, it should be noted that this Index applied to financial activities increased by 1.2%.

From the perspective of prices, Spanish inflation closed 2017 at a rate of 1.112% year-on-year, which means a significant reduction in relation to the end of 2016. This figure is adjusted to the average inflation of the Euro Zone and below the average inflation of the advanced economies (1.5%). In addition, the underlying inflation remains very stable around 0.8% year-on-year. This environment of price stability is considered that can be maintained with a high probability, although with an annual upturn towards 1.5% - 2%, in line with the rest of the economies of the Euro Zone.

We must underline here, as it was done the previous year, that this foreseeable variation of prices has two relevant effects. On the one hand, it reduces the real value of the debt; this fact has to be taken into account in an economy as externally indebted as the Spanish one. On the other, it points to higher nominal interest rates, which cannot hide an opportunity to return to positive nominal and real interest rates and, with this, to a higher margin of intermediation for financial institutions.

Finally, the Spanish public sector has presented a joint public deficit (Central Administration, Autonomous Communities and Local Administrations) of 2.06% up to December 2017 (pending to account the last month, for which data is not yet available). This means being below the 3.38% deficit presented by public accounts exactly one year before. This reduction in the deficit makes it possible to obtain a primary surplus (discounting the interest on the public debt from the deficit) and, thereby, to approach the constitutional mandate of the structural public balance.

On the other hand, the public debt stands at 98.70% of GDP, at the close of the third quarter of 2017. This is a figure somewhat lower than the one registered in 2016, which closed with 99% of public debt with respect to the GDP. The news of the reduction of public debt with respect to GDP favours the release of financial resources for the private sector, which facilitates access to a larger amount of available credit, both for families and for businesses.

The external sector of the Spanish economy

With the provisional data published by the Bank of Spain until November 2017, the foreign sector of the Spanish economy has continued to provide growth and employment for another year more. In 2017 -with the provisional figure to November-, the Spanish economy is close to generating a financial or savings capacity compared to the rest of the world of approximately 2% of its GDP, very similar to 2016 and 2015. This financial capacity has contributed positively to both the current account, mainly, and to some extent the capital account.

The goods and services account has presented a surplus that will be close to 31,000 Million Euro, which represents a fall of almost 3,000 Million Euro with respect to 2016. This is motivated by the relative worsening of the trade balance, although the balance of services has returned to register another record in its surplus that, in part, relieves the deficit of goods. Neither has the income balance helped, which maintains its level of deficit in figures very similar to those of 2016. In any case, it should be stressed that the level of coverage of trade in goods stands at 91.8% when 2016 had reached 93.9%, that is, 2 points have been lost in 2017.

In terms of the Spanish external debt, the percentage of the same with respect to the GDP has been reduced, in net terms, to 86% (data until November 2017) from the 92.5% that presented a year before. Finally, the outlook for external opening, maintains the trend of previous years, showing a very stable external opening index, which clearly positions the Spanish economy as one of the most open economies in the world, in relation to its size and in the group of developed countries.

The Spanish banking sector

In 2017 things have not improved for the Spanish banking sector in general. As the spokesperson for the AEB, Mr. José Luis Martínez Campuzano, recently pointed out, "it is difficult to find in history a period in which medium and long-term interest rates are not positively correlated with the nominal growth of the economy." But it is not strange in an environment in which the economy of the Euro Zone grows around 2% and the Central Bank continues to buy public debt and assets worth 30,000 Million Euro every month, which are injected into the system keeping those interest rates extraordinarily low. However, as indicated by the AEB, despite all the yield curve – interest rates - is taking some slope and the banking sector, after all the regulatory gale, seems better prepared to undertake with firmness of resources and ready to continue representing 70% of the financing of the European economy, although it has not yet been reflected in the balance sheets.

Indeed, with figures closed for the aggregate of Spanish banks on November 30th, 2017, it can be said that, from the equity point of view, the sector has assets of just under 1.42 Trillion Euro, which means to stay in relation to 2016, when it suffered a loss of 3%. This level of assets is not achieved on the basis of an increase in credit transactions, which in the heading of loans and receivables has reduced the volume by more than 40,000 Million Euro, which is a loss of 4.5 points in volume of transactions.

On the other hand, the own resources of the sector are reinforced with an increase of 9% with respect to 2016. In this equity aggregate, the evolution of other reserves that increase by 10,000 Million Euro stands out for 2017. However, loans to customers present a balance slightly higher than 705,000 Million Euro, which shows a stagnation of this item in inter-annual rate. At the same time, the balance of credit transactions among banking entities is reduced. Similarly, there is an important drop in customer deposits of more than 7% in 2017.

Using the same source of information for the same period, the position of Aresbank can be compared with the rest of Spanish banks through these balance figures. In first place, the weight that Aresbank has in the value of its own resources remains at around of 8% of the total equity and remains very similar to the corresponding to the figures of Spanish banks. Obviously, customer deposits are the ones that make a clear difference since, if in Aresbank represent for 2017 something more than 3.2% of the total, in Spanish banking this figure exceeds 45% of total equity.

On a separate issue, the differences are also notable in the deposits of other credit institutions, which in the case of Aresbank amount to more than 95% of the total liabilities, while in Spanish banks represent around 15%. In the same way, among the assets, deposits in other credit institutions for Aresbank account for almost 60% of their assets, while in Spanish banks this only represents 8% of total assets. Finally, if in Spanish banks we find that almost 60% of the assets are dedicated to customer loans, in Aresbank this figure is only 16%.

In short, in terms of balance sheet, Aresbank has been presented in 2017, once again, as an entity perfectly differentiated from the rest, with a clear orientation towards short-term financial operations based on foreign trade financing - mainly guarantees and documentary credits - and not so much in credit, as well as the maintenance of strong doses of movements in the interbank money market in relation to equity, configured in terms of instruments, liquidity and solvency in a different way to the dominant in Spanish banking.

The behaviour of the main Aresbank markets

The year 2017 in the economies of the Middle East and North Africa has closed with an average provisional growth of 2.2%, clearly lower than the previous year, dragged by the poor results of economies such as Iraq, Yemen or the important stalemate of Saudi Arabia. The more than positive evolution of Libya seems very remarkable, with a growth of the GDP, according to the IMF, of 55.1%.

The economies of the MENA area, in most cases, have grown in 2017 at positive rates; even though with a high degree of dispersion among them. For example, Egypt has grown to 4.1%, according to the IMF, when Algeria has only done so at 1.5% or Tunisia at 2.3%; meanwhile countries like Yemen or Iraq have shown negative rates, given their conflict situations. In any case, one more year the area has behaved worse than the average of the emerging countries. In this sense, it cannot be ignored that the traditional markets of Aresbank are still affected by a remarkable climate of insecurity, which hinders the growth of the business.

From the point of view of the raw materials markets, especially of energy products, it should be noted that 2017, together with international expansion, there has been an upturn in prices, which leads to an increase in domestic demand for the oil and gas exporting countries, in relation to 2016.

With regard to the foreign trade of Spain with the region, according to the Ministry of Economy and Competitiveness, the year 2017 has increased by 2% the level of Spanish exports to the Middle East, despite the reduction of more than 2 % of exports to Saudi Arabia. It is also worth mentioning the continuous loss of weight in Spanish exports destined to the Middle East (when in 2016 was 3.3% of the total and in 2015 they accounted for 4% of the total).

As for North Africa, Spanish exports for the continent as a whole have increased by 10% in 2017. In addition, with our main trading partner in the area, Morocco, exports have grown by 16.4%, reaching to represent almost 3% of total national exports. On the other hand, one more year the exports of goods to Turkey have increased by 10% and also represent already more than 2% of the total Spanish exports.

Regarding imports, growth has been spectacular in relation to some countries in the MENA area. For example, imports from the Middle East have grown by 24.8% and another 20% from North Africa. Obviously, these sharp increases are due to two phenomena in parallel: on the one hand, the increase in economic activity in Spain, always dependent on gas and oil and, on the other hand, the increase in the prices of these raw materials.

In summary, trade relations with partners in the MENA region represent strategic trade for Spain; the more the economic growth helps, the more intensification of trade between both areas.

2. RISK MANAGEMENT

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

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

3. CORPORATE GOVERNANCE AND COMPLIANCE

The Bank has continued throughout 2017 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

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

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

5. EVENTS SUBSEQUENTS TO DECEMBER 31, 2017

The Annual Accounts of the year 2017 have been formulated by the Aresbank's Board of Directors in the meeting held on March 20th, 2018.

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 2017.

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 2017 and 2016, 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, 2017, both in terms of immediate liquidity (one month ahead) with a liquidity ratio of 325.40%, and in terms of solvency, with a high quality capital ratio of 53.35%.

FINANCIAL STATEMENTS AND EXTERNAL AUDIT REPORT

(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

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

To the Shareholders of Aresbank, S.A.

commissioned by its Board of Directors:

REPORT ON THE ANNUAL ACCOUNTS

Opinion

We have audited the annual accounts of Aresbank, S.A. (the "Company"), which comprise the balance sheet at 31 December 2017, and the income statement, statement of changes in equity and statement of cash flows for the year then ended, and notes.

In our opinion, the accompanying annual accounts give a true and fair view, in all material respects, of the equity and financial position of the Company at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with the applicable financial reporting framework (specified in note 3 to the accompanying annual accounts) and, in particular, with the accounting principles and criteria set forth therein.

Basis for Opinion

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

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

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

Key Audit Matters

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

Impairment of the loan portfolio and receivables and provisions for commitments and guarantees extended

The estimation of the impairment of the loan portfolio and receivables and provisions for commitments and guarantees extended, requires a high degree of judgement and technical difficulty.

We have considered that there is a significant inherent risk associated with the process of estimating the impairment of the loan portfolio and receivables and provisions for commitments and guarantees extended.

Our response

Our audit approach included, evaluating the policies and procedures manuals associated with the process of estimating the impairment of the loan portfolio and receivables and provisions for commitments and guarantees extended, as well as performing substantive procedures on this estimate.

Our procedures related to the evaluation of the policies and procedures manuals were focused on the following areas:

-Accounting policies: we assessed whether they comply with the applicable accounting legislation.

-Concession process: procedures set out by the Company to assess the adequacy of approvals in the concession of new transactions.

-Transaction monitoring process: tests on available information to monitor outstanding transactions, as well as their review periods.

-Guarantees: assessment of the relevant management and measurement controls (procedures, timeliness of measurements, frequency of measurements, quality of measurements, write down factors by type of asset, among others).

Our substantive procedures on the estimation of impairment mainly consisted of the following:

-Validation of the adequate functioning of the calculation engine: this validation basically consists of the review of the dates of non-payment as defined in the applicable schedule, the classification of the transaction and the guarantee discount applied. A review of the functional and technical documentation was also performed.

-Assessment of the integrity of the opening balances uploaded into the calculation engine and third party confirmation of these opening balances.

Other Information: Directors' Report

Other information solely comprises the 2017 directors' report, the preparation of which is the responsibility of the Company's Directors and which does not form an integral part of the annual accounts.

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

Based on the work carried out, as described in the preceding paragraph, the information contained in the directors' report is consistent with that disclosed in the annual accounts for 2017 and the content and presentation of the report are in accordance with applicable legislation.

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

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

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

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

Auditor's Responsibilities for the Audit of the Annual Accounts

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

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

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

- Identify and assess the risks of material misstatement of the annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, and not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors[2].
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves a true and fair view.

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

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Additional Report to the Audit Committee

The opinion expressed in this report is consistent with our additional report to the Company's audit committee dated *20 March 2018*.

Contract Period

We were appointed as auditor by the shareholders at the ordinary general meeting on 25 March 2015 for a period of three years, from the year ended 31 December 2015.

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

(Signed on the original in Spanish)

Julio Álvaro Esteban
On the Spanish Official Register of Auditors ("ROAC") with No. 1661

20 March 2018

BALANCE SHEET FOR THE YEARS ENDED DECEMBER 31st, 2017 AND 2016
(EXPRESSED IN THOUSAND OF EURO)

ASSETS	2017	2016
Cash, balances with Central Banks and demand deposits (Note 7)	**149,905**	**218,211**
Assets at fair value through profit or loss (Note 8)	**14,904**	**-**
Investment fund	14,904	-
Available for Sale Assets (Note 9)	**49,027**	**56,162**
Debt securities	49,027	56,162
Loans and receivables (Note 10)	**1,011,420**	**1,035,754**
Loans and advances to customers	1.011.420	1.035.754
Financial entities	870.020	882.920
Clients	141.400	152.834
Investments in jointly controlled entities and associates (Note 11)	**-**	**100**
Tangible Assets (Note 12)	**32,688**	**32,929**
For own use	16,458	23,357
Investment property	16,230	9,572
Intangible Assets (Note 13)	**108**	**150**
Other intangible assets	108	150
Tax Assets (Note 14)	**9,830**	**4,812**
Current tax assets	1,606	1,953
Deferred tax assets	8,224	2,859
Other Assets (Note 15)	**100**	**146**
TOTAL ASSETS	**1,267,982**	**1,348,264**

OFF BALANCE SHEET ITEMS (Note 23)

Granted Guarantees	**387,367**	**234,895**
Granted Contingent Commitments	**110,000**	**102,442**

These financial statements and the accompanying Notes 1 to 36 are an integral part of the Annual Accounts as of December 31st, 2017. 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, 2017 AND 2016
(EXPRESSED IN THOUSAND OF EURO)

LIABILITIES	2017	2016
Financial liabilities at amortized cost (Note 16)	**908,452**	**988,828**
Deposits	907,909	988,210
Deposits from central banks	118	30
Deposits from credit institutions	862,138	955,010
Deposits from other creditors	45,653	33,170
Other financial liabilities	543	618
Derivatives – hedging accounting (liability) (Note 17)	**-**	**180**
Provisions (Note 18)	**10,419**	**4,593**
Taxes and other legal contingencies	32	32
Contingent exposure and commitments	10,347	4,561
Rest of provisions	40	-
Other provisions	40	-
Tax Liabilities (Note 14)	**230**	**276**
Liabilities from current tax	230	276
Other Liabilities (Note 15)	**2,933**	**3,401**
TOTAL LIABILITIES	**922,034**	**997,278**
SHAREHOLDERS EQUITY		
Equity (Note 19)	**346,584**	**352,385**
Share capital (Note 20)	300,001	300,001
Retained earnings (Note 21)	39,649	38,234
Profit or (loss) for the period	6,934	14,150
Other accumulated global income (Note 22)	**(636)**	**(1.399)**
Elements that can be reclassified to profit and loss	(636)	(1.399)
TOTAL SHAREHOLDERS EQUITY	**345,948**	**350,986**
TOTAL LIABILITIES AND EQUITY	**1,267,982**	**1,348,264**

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INCOME STATEMENT FOR THE YEARS ENDED DECEMBER 31st, 2017 AND 2016
(EXPRESSED IN THOUSAND OF EURO)

	2017	2016
Interest income (Note 25)	17,714	10,310
Interest expenses (Note 26)	(11,053)	(4,450)
INTEREST MARGIN	**6,661**	**5,860**
Commissions income (Note 27)	9,223	5,708
Commissions expenses (Note 28)	(324)	(164)
Gains and losses on financial assets and liabilities not at fair value through profit and loss (Net)	(358)	484
Gains and losses on financial assets and liabilities available for sale (Net)	331	-
Exchange differences (Net)	339	(765)
Gains and losses on non financial assets and investments (Net)	(8)	-
Other operating income (Note 29)	1,177	926
Other operating expense	(126)	(311)
OPERATING RESULT (NET)	**16,915**	**11,738**
Administrative Expenses	(9,355)	(10,891)
Personnel expenses (Note 30)	(7,065)	(7,071)
Other administrative expenses (Note 31)	(2,290)	(3,820)
Amortization (Note 33)	(492)	(666)
Provisions expense (Net) (Note 18)	(5,912)	(1,868)
Impairment losses or release on assets in financial assets not at fair value through profit and loss (Note 34)	1,081	(1,552)
Impairment losses or release on investments in jointly controlled entities and associates	-	1,228
Gains or Losses coming from non-current assets and disposable groups available for sale (Note 35)	-	14,910
PROFIT OR (LOSS) BEFORE TAXES	**2,237**	**12,899**
Expenses or revenues on corporate income tax (Note 24)	4,697	1,251
PROFIT OR (LOSS) FROM ORDINARY ACTIVITY	**6,934**	**14,150**
PROFIT OR (LOSS) AFTER TAXES	**6,934**	**14,150**

These financial statements and the accompanying Notes 1 to 36 are an integral part of the Annual Accounts as of December 31st, 2017. 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.

STATEMENT OF CHANGES IN EQUITY FOR THE YEARS ENDED ON DECEMBER 31st, 2017 AND 2016

(EXPRESSED IN THOUSAND OF EURO)

a) STATEMENT OF RECOGNIZED INCOME AND EXPENSE

	2017	2016
Profit or (loss) for the period	**6,934**	**14,150**
Other accumulated global income	**(636)**	**(1,399)**
Available for sale assets	(908)	(1,998)
Tax effect	272	599
TOTAL RECOGNIZED INCOME AND EXPENSE	**6,298**	**12,751**

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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 31/12/16	**300,001**	**38,234**				**14,150**			**(1,399)**	**350,986**
a) Adjustments due to accounting policy change										
b) Error adjustments										
2. Adjusted balance sheet (1+a+b)	**300,001**	**38,234**				**14,150**			**(1,399)**	**350,986**
3. Total recognized income and expense						**6,934**				**6,934**
4.Other changes in equity (c+d+e+f)		**1,415**				**(14,150)**			**763**	**(11,972)**
d) Dividend distribution						(12,735)				(12,735)
e) Transfers between items (Note 17)		1,415				(1,415)				
f) Other Issuances (reduction) for equity instruments									763	763
5. Balance Sheet as of 31/12/17 (2+3+4)	**300,001**	**39,649**				**6,934**			**(636)**	**345,948**

These financial statements and the accompanying Notes 1 to 36 are an integral part of the Annual Accounts as of December 31st, 2017. 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.

	EQUITY							VALUATION ADJUSTMENTS	TOTAL EQUITY
	Issued capital	Retained earnings	Accumulated Reserves (losses)	Other equity instruments	Less: Own shares	Profit / Loss of the period	Less: dividends payments		
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)		**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) Issuance (reduction) of 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**

These financial statements and the accompanying Notes 1 to 36 are an integral part of the Annual Accounts as of December 31st, 2017. 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, 2017 AND 2016

(EXPRESSED IN THOUSAND OF EURO)

	2017	2016
A) CASH-FLOW FROM OPERATING ACTIVITIES	**68,452**	**(9,754)**
Profit or (loss) for the period	**6,934**	**14,150**
Adjustments for obtaining operating cash flow	**5,621**	**(395)**
Amortization	492	666
Other adjustments	5,129	(1,061)
Net increase or (decrease) in operating assets	**(141,664)**	**567,996**
Assets at fair value through profit or loss	14,904	-
Available for sale assets	(7,135)	58,442
Loans and receivables	(150,175)	508,315
Other operating assets	742	1,239
Net increase or (decrease) in operating liabilities	**(81,070)**	**545,738**
Financial liabilities at amortized cost	(80,301)	543,759
Other operating liabilities	(769)	1,979
Inflows / Outflows for Corporate Income tax	**(4,697)**	**(1,251)**
B) CASH-FLOW FROM INVESTING ACTIVITIES	**389**	**24,338**
Outflows	**214**	**49**
Tangible and Intangible assets	214	49
Inflows	**603**	**24,387**
Tangible and Intangible assets	5	16
Intercompany	98	4,371
Other inflows related to investment activities	500	20,000
C) CASH-FLOW FROM FINANCING ACTIVITIES	**(12,735)**	**(3,000)**
Dividends payment	12,735	3,000
D) EFFECT OF THE EXCHANGE RATE FLUCTUATIONS	**339**	**-**
E) NET INCREASE OR DECREASE IN CASH AND CASH EQUIVALENTS (A+B+C+D)	**56,445**	**11,584**
F) CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**42,945**	**31,361**
G) CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**99,390**	**42,945**

These financial statements and the accompanying Notes 1 to 36 are an integral part of the Annual Accounts as of December 31st, 2017. The financial statements are originally issued in Spanish and prepared in accordance with the Circular 4/2004, Circular 6/2008 and Circular 5/2011, of the Bank of Spain and subsequent amendments. Consequently, certain accounting practices applied by the Company may not conform to generally accepted principles in other countries. In the event of a discrepancy, the Spanish-language version prevails.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017

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, 2017 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 2017 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, 2017 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 2017 have been formulated by the Board of Directors of the Bank in the meeting held on March 20th, 2018 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 Board of the Bank presents, for each of the captions detailed in the accompanying annual accounts, both the figures for 2017 and those corresponding to the previous year.

At 31 December 2017, 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.

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.

3.5 Changes in accounting principles

There have not been changes in accounting principles applied by the Bank during 2017.

3.6 External Auditors

The Annual Accounts of Aresbank, S.A. as of December 31st, 2017 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 2017 amounted to 50 Thousand Euro (50 Thousand Euro in 2016), neither other invoicing nor other services were rendered by entities affiliated to KPMG International in 2017.

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 2017 and 2016, 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 2017, which was submitted to the Bank's Board of Directors at its meeting held on January 30th, 2018.

This report stated that the Customer Services Department of Aresbank, S.A. received one claim along 2017, which was resolved in favour of the client, and none during 2016.

3.10 Solvency

<u>Spanish regulations</u>

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 19th, 2017, 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 12.16%, 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, 2017, 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 2017	Thousand Euro 2016
Total Equity (computable)	340,050	338,543
CET 1	**339,033**	**337,246**
Paid-in capital	300,001	300,001
Retained Earnings	23,790	23,790
Reserves	15,859	14,444
Intangible Assets (-)	(108)	(150)
Other transitory adjustments (-)	(509)	(839)
Tier 2	**1,017**	**1,297**
Credit risk adjustments (Standard approach)	1,017	1,297
Common Equity Tier 1 Ratio	53.35%	52.61%
Surplus (+) / Deficit (-) on CET 1 Ratio	310,436	308,402
Solvency Ratio	53.51%	52.82%
Surplus (+) / Deficit (-) on Solvency Ratio	289,210	287,264

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 in 2017 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 2017 amounted to 108 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 2017 amounted to 3 Thousand Euros.

3.13 Subsequent Events to December 31, 2017

As of January 1st, 2018, entered into force the new Circular 04/2017, from November 27th, of the Bank of Spain, to credit institutions, on rules of public and reserved financial information, and models of financial statements, in order to adapt the accounting standards for credit institutions to International Financial Reporting Standards (IFRS) - more specifically to IFRS 15 and IFRS 9 – modifying the accounting criteria for ordinary incomes and financial instruments respectively, having the latter ones special transcendence for credit institutions. Derived from the above, a set of positive adjustments have been risen to the net equity of the entity, with effect on the entry into force of the aforementioned Circular, due to the first time application of the same, mainly derived from the recalibration of generic and country risk provisions, amounting to a total net amount of 2,196 Thousand Euros (Note 4) once the corresponding tax effects have been deducted.

The Annual Accounts of the year 2017 have been formulated by Aresbank's Board of Directors in the meeting held on March 20th, 2018. Likewise, the Board will propose to the Shareholder's Assembly a dividend pay-out for an amount of 9,130 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 entity proposes its shareholders the distribution of the result for the year 2017, as well as the positive effect on the net equity of the first time application adjustment coming from the entry into force of the new Circular.

The proposed distribution of 2017 result and the one previously approved for 2016 are as follows:

	2017	2016
Net profit / (loss) for the year	**6.934**	**14.150**
Retained earnings (net)	-	1.415
Subtotal	6.934	12.735
First Time Application (Circular 04/2017) (Note 3.13) (Net release for country risk and generic provisions)	2.196	-
Dividends (Note 3.13)	9.130	12.735

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 instruments for which it has been 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) Assets at fair value through profit or loss correspond to equity instruments the Bank maintains on its portfolio for trading purposes (Note 8).

c) Available for sale assets correspond to equity instruments that the Bank has in its portfolio, mainly to comply with the liquidity coverage requirements based on building a highly liquid assets portfolio, in order to be covered by any type of tension in the short term (Note 9)

d) 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, with exceptions of solvency problems imputable to the debtor. 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 10).

e) Investments in jointly controlled entities and associates include investments in equities that are initially recognized and are valued at cost, deducting, where appropriate, the impairment of value or (-) reversal of the impairment of said investments. At the end of the year, when there is objective evidence that the carrying amount of the investment is not recoverable, the necessary valuation adjustments are made. The amount of the price correction corresponds to the difference between the book value of the investment and the recoverable amount, the latter being the greater amount between its fair value less costs to sell and the present value of future cash flows derived from the investment. The impairment or (-) reversal of impairment is recorded as an expense or income for the year in the profit and loss account (Note 10).

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, 2017 amounts, respectively, to 787,709 and 785,458 Thousand Euro (877,821 and 864,886 Thousand Euro, respectively, as of December 31st, 2016).

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, 2017 or 2016.
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, 2017 and 2016, 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, 2017 and 2016, 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 2017 amounted to 151 Thousand Euro. In 2016, it amounted to 155 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 3,250 Thousand Euro as of December 2017 and 3,095 Thousand Euro as of December 2016.

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 capitalized tax credits along 2017 derived from its negative taxable bases pending to be offset (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 2017 and 2016.

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

6.1 Credit Risk

The credit risk makes up the largest part of Aresbank's risk exposures. The total credit risk weighted assets under Pillar I, using standard approach, is 608,408 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, 2017 to 1,067,352 Thousand Euro, in comparison with 1,217,527 Thousand Euro in 2016. The key component of the total lending was "Loans and Advances to Credit Institutions", for an

amount of 923,060 Thousand Euro, from which 803,178 Thousand Euro are placed within the Interbank market. Contingent exposures have increased from the previous year to a total amount of 387,367 Thousand Euro.

(EUR '000)

OVERALL CREDIT RISK EXPOSURE	2017	2016
Balance Sheet exposures (Gross)	1,067,352	1,217,527
Granted guarantees	387,367	234,895
Unused portion of credit lines (Drawable by third parties)	110,000	102,442
Total credit risk exposure	**1,564,719**	**1,554,864**

RISK CONCENTRATION BY ACTIVITY AND GEOGRAPHICAL AREA

The breakdown corresponding to 2017 is the following:

	Total	Spain	Rest of E.U.	America	Rest of the world
Credit institutions	**1,231,758**	**818,599**	**252,140**	**3,705**	**157,314**
Public Sector	**32,824**	**14,691**	**18,133**	**-**	**-**
Other financial entities	**15,125**	**-**	**-**	**-**	**15,125**
Non-financial Corporations and Individuals	**332,298**	**197,331**	**42,321**	**-**	**92,646**
Corporate	*307,842*	*172,875*	*42,321*	-	*92,646*
Small business and individuals	*24,456*	*24,456*	-	-	-
Other households (other purposes)	**459**	**459**	**-**	**-**	**-**
TOTAL	**1,612,464**	**1,031,080**	**312,594**	**3,705**	**265,085**

The breakdown corresponding to 2016 is the following:

	Total	Spain	Rest of E.U.	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 purposes)	**712**	**485**	**-**	**-**	**227**
TOTAL	**1,544,919**	**769,551**	**289,769**	**3,195**	**482,404**

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 2017 and 2016. Aresbank does not experience a significant interest rate gap which focuses on the mismatches between the interest reset periods of on-balance-sheet assets and liabilities and of off-balance-sheet items.

- **Foreign currency risk**

Due to the foreign currency exposure, the Bank registered a material exposure to exchange risk rate that requires a capital need of 2,250 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.

- **Liquidity**

The analysis of the liquidity of the bank as of December 31st, 2017 shows that the Bank has sufficient liquidity to meet its near term liabilities:

Time Buckets	Assets	Liabilities	Gap	Cumulative Gap
Up to 1 Month	692,637	600,772	91,865	91,865
1 Month to 3 Months	310,332	259,781	50,551	142,416
3 Months to 6 Months	27,337	40,871	(13,534)	128,882
6 Months to 12 Months	25,387	208	25,179	154,061
1 Year to 5 Years	113,940	966	112,974	267,035
More than 5 Years	48,046	4,631	43,415	310,450

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, 2,167 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, 2017 and 2016 is as follows:

	2017	2016
Cash	159	203
Bank of Spain - Nostro Account	99,231	42,742
Demand deposits	50,515	175,266
	149,905	**218,211**

8. ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The breakdown of this caption as of December 31st, 2017 and 2016 is as follows:

	2017	2016
Nature:		
Investment funds	14,904	-

9. AVAILABLE FOR SALE ASSETS

The breakdown of this caption as of December 31st, 2017 and 2016 is as follows:

	2017	2016
Nature:		
Public Debt (Spain)	17,702	20,533
Public Debt (EU countries)	18,133	22,701
Fixed Income (Spain)	13,218	12,955
Generic Impairments	(26)	(27)
	49,027	**56,162**
Currency:		
Euro	49,027	56,162
	49,027	**56,162**

	2016	2015	2016	2015
Rating:				
AAA	3,695	-	7.54%	-
AA+	-	5,007	-	8.91%
AA	7,886	4,957	16.08%	8.83%
A-	3,102	12,736	6.33%	22.68%
BBB+	34,344	27,055	70.05%	48.17%
BBB	-	6,407	-	11.41%
	49,027	**56,162**	**100%**	**100%**

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

10. LOANS AND RECEIVABLES

The detail of this caption as of December 31st, 2017 and 2016 is as follows:

	2017	2016
Loans and advances to credit institutions (gross)	872,735	883,401
Loans and advances to other debtors	144,500	159,332
	1,017,235	**1,042,733**
Impairment adjustments		
Loans and advances to credit institutions	(2,715)	(481)
Loans and advances to other debtors	(3,100)	(6,498)
	1,011,420	**1,035,754**

The breakdown by currency, residual maturity and sectors of the caption "**Loans and Receivables**" as of December 31st, 2017 and 2016 is as follows:

	2017	2016
By currency		
Euro	230,934	161,871
Other currencies	780,486	873,883
	1,011,420	**1,035,754**
By residual maturity		
Up to 3 months	862,526	842,257
Over 3 months to 1 year	61,629	96,421
Over 1 year to 5 years	74,377	96,700
Over 5 years	12,888	376
	1,011,420	**1,035,754**
By sector		
Residents	734,174	606,072
Non residents	277,246	429,682
	1,011,420	**1,035,754**

The detail by nature of "**Loans and Advances to Credit Institutions**" as of December 31st, 2017 and 2016 is as follows:

	2017	2016
Time deposits	871,932	882,547
Non Performing Assets	30	-
Interest accrued	1,007	861
Commissions	-	-
Purchase premium/discounts	(234)	(7)
	872,735	**883,401**
Impairment Adjustments	(2,715)	(481)
	870,020	**882,920**

The breakdown by type of the "**Loans and Advances to Other Debtors**" as of December 31st, 2017 and 2016 is as follows:

	2017	2016
By type		
Other term receivables	140,602	153,980
Receivable on demand and other	910	1,110
Non Performing Assets	5,001	4,709
Other Financial Assets	208	439
Commissions	(2,276)	(990)
Premiums / Discount	(70)	(56)
Interest Accrued	125	140
	144,500	**159,332**
Impairment Adjustments	(3,100)	(6,498)
	141,400	**152,834**

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

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

	2017	**2016**
Economic Activity		
Financial intermediation	87.40%	85.26%
Oil refinery	3.96%	5.68%
Other manufacturing Industry	1.86%	1.92%
Real Estate	1.00%	2.00%
Construction	2.21%	3.29%
Metallurgy	-	1.14%
Retail / Wholesale	2.50%	-
Other sectors with lesser participation	1.07%	0.71%
	100.00%	**100.00%**

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

	2017	**2016**
Geographic Area		
Spain	72.09%	58.34%
European Union	12.49%	26.50%
Other European countries	2.18%	3.81%
Arab countries (Asia)	8.90%	7.63%
Central America	-	0.93%
Arab countries (Africa)	4.34%	2.79%
	100.00%	**100.00%**

The movements in 2017 and 2016 of the balance of "**Impairment adjustments**" per type of coverage of the caption "Loans and Receivables" and "Available for Sale" are as follows:

	Specific Allowance	**General Allowance**	**Country Allowance**	**Total**
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)	(6,110)
Transfer to write-off				
Other				
Balance as of 31/12/2016	**2,390**	**845**	**3,771**	**7,006**
Additions (see Note 34)	204	242	6,694	7,140
Disposals (see Note 34)	(236)	(762)	(7,223)	(8,221)
Other	(22)	-	(24)	(46)
Balance as of 31/12/2017	**2,336**	**325**	**3,218**	**5,879**

The caption "Other" as of December 31st 2017 includes adjustments due to foreign exchange and reclassifications.

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, 2017:

	2017	2016
Holding (intercompanies)	-	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. The company lacked any activity and entered in wind up process, being completed along 2017.

12. TANGIBLE ASSETS

a) Movement

The movements of the caption "**Tangible Assets**" of the Balance Sheets as of December 31st, 2017 and 2016 are as follows:

	For own Use	Investment Property	Total (*)
Cost			
Balance as of January 1st, 2016	**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**
Additions	116	-	116
Disposals	(20)	-	(20)
Relocations	(7,888)	7,888	-
Balance as of December 31st, 2017	**18,579**	**19,018**	**37,597**

(*) 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, 2016	**(2,762)**	**(1,487)**	**(4,249)**
Allowance	(279)	(72)	(351)
Disposals	28	-	28
Relocations	-	-	-
Balance as of December 31st, 2016	**(3,013)**	**(1,559)**	**(4,572)**
Allowance (Note 33)	(259)	(92)	(351)
Disposals	14	-	14
Relocations	137	(1.137)	-
Balance as of December 31st, 2017	**(3,121)**	**(2,788)**	**(4,909)**
Net Tangible Assets			
Balance as of 31/12/16	**23,357**	**9,572**	**32,929**
Balance as of 31/12/17	**16,458**	**16,230**	**32,688**

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, 2017 and 2016, is as follows:

	Lands & Buildings	Furniture	Installations	Computer Equipment	Others	Total
Cost						
Balance as of 1/1/16	**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**
Additions	-	1	84	31	-	116
Relocations	(7,888)	-	-	-	-	(7,888)
Disposals	-	(20)	-	-	-	(20)
Balance as of 31/12/17	**16,777**	**656**	**870**	**123**	**153**	**18,579**
Accumulated Amortization						
Balance as of 1/1/16	**(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)**
Allowance	(109)	(67)	(70)	(11)	(2)	(259)
Disposals	-	14	-	-	-	14
Relocations	1,137	-	-	-	-	1,137
Balance as of 31/12/17	**(1,098)**	**(425)**	**(495)**	**(77)**	**(26)**	**(2,121)**
Net Tangible Assets						
Balance as of 31/12/16	**22,539**	**303**	**361**	**26**	**129**	**23,357**
Balance as of 31/12/17	**15,679**	**231**	**375**	**46**	**127**	**16,458**

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 July 1st, 2017 to June 30th, 2020, 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 2,881 thousand Euros until June 2027 (last contract maturity date), and the breakdown is the following:

	2017	2016
Up to one year	1.102	461
From 1 year to 5 years	3.373	1,898
Over 5 years	1.084	1,129
	5.559	**3,908**

During 2017 and 2016, income from these operating leases coming from investment properties amounted to 824 and 583 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 130 and 120 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 this caption as of December 31st, 2017 are as follows:

	2017	2016
Cost		
Balance as of January 1st	**979**	**961**
Additions	100	18
Disposals	-	-
Balance as of December 31st	**1,079**	**979**
Accumulated Amortization		
Balance as of January 1st	**(830)**	**(515)**
Allowance (Note 33)	(141)	(315)
Disposals	-	-
Balance as of December 31st	**(971)**	**(830)**
Net Intangible Assets		
Balance at the beginning of the period	**150**	**446**
Balance at the end of the period	**108**	**150**

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, 2017 and 2016 is as follows:

TAX ASSETS	**2017**	**2016**
Corporate Income tax (Note 24)	533	1,199
Corporate Income tax (previous years)	986	464
Other taxes	8,224	2,859
Value Added Tax	87	206
Double taxation to be compensated	-	84
	9,830	**4,812**
TAX LIABILITIES		
Social Security	13	13
Income tax payable	216	262
Others	1	1
	230	**276**

The Bank has recorded deferred tax assets at December 31st, 2017 amounting to 8,224 Thousand Euro (2,859 Thousand Euro for 2016).

15. OTHER ASSETS AND OTHER LIABILITIES

The detail of these two captions is as follows:

	Assets		Liabilities	
	2017	**2016**	**2017**	**2016**
Prepaid expenses	100	146	-	-
Financial guarantees	-	-	138	70
Accrued expenses	-	-	2,795	3,331
	100	**146**	**2,933**	**3,401**

The caption "Accrued expenses" includes mainly overheads accruals. The caption "For financial guarantees" includes at December 31, 2017 commissions from guarantees granted to clients, which are accrued over the expected life of the guarantee.

16. FINANCIAL LIABILITIES AT AMORTIZED COST

The breakdown of this caption of the Balance Sheets as of December 31st, 2017 and 2016 is as follows:

	2017	**2016**
Deposits from central banks	118	30
Deposits from credit institutions	862,138	955,010
Deposits from other creditors	45,653	33,170
Other financial liabilities	543	618
	908,452	**988,828**

The detail by currency and residual maturity of "**Financial Liabilities at Amortized Cost**" of the Balance Sheets as of December 31st, 2017 and 2016 is as follows:

	2017	**2016**
By currency		
Euro	123,443	124,505
Other currencies	785,009	864,323
	908,452	**988,828**

By residual maturity		
Up to 3 months	861,538	928,059
Over 3 months to 1 year	41,165	49,036
Over 1 year to 5 years	1,017	1,477
Over 5 years	4,732	10,256
	908,452	**988,828**

The detail of "**Deposits from Credit Institutions**" of the Balance Sheet as of December 31st, 2017 and 2016 is as follows:

	2017	2016
Time deposits	796,858	880,056
Other accounts	64,372	74,232
Valuation adjustments	908	722
	862,138	**955,010**

As of December 31st, 2017, the Libyan Foreign Bank holds deposits amounting to 29.3 Million Euro, 812.5 Million US$ and 18 Million GBP (29.3 Million Euro, 807.5 Million US$ and 6 Million GBP in 2016), 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:

	2017	2016
Public sector		
Spanish Government	38	172
Other resident sectors		
Demand deposits:		
Current accounts	28,734	15,921
Other	-	2,772
Time deposits		
Fixed term deposits	5,802	2,752
Other non- resident sectors		
Demand deposits:		
Current accounts	11,054	10,631
Other	-	638
Time deposits		
Fixed term deposits	25	284
Valuation adjustments		
	45,653	**33,170**

Details of "**Other financial liabilities**" of the Balance Sheets as of December 31st, 2017 and 2016 grouped by financial instrument are as follows:

	2017	2016
Other accounts	162	531
Rental deposits	152	86
Special accounts	229	1
	543	**618**

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 €)

	31/12/2017		31/12/2016	
CONCEPTS	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, 2017 and 2016 is as follows:

	2017	2016
Provisions for taxes	32	32
Provisions for contingent exposures and commitments	10,347	4,561
Other provisions	40	-
	10,419	**4,593**

The movements of the caption "**Provisions**" in 2017 and 2016 are as follows:

	Provision for taxes	Contingent Exposures and Commitments	Other Provisions	Total
Balance as of January1st, 2016	**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**
Net P/L allowances	-	7,945	40	7,985
Allowances released	-	(2,073)	-	(2,073)
Other	-	(86)	-	(86)
Balance as of December 31st , 2017	**32**	**10,347**	**40**	**10,419**

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:

	2017	**2016**
Specific provision	1,747	395
Generic provision	691	451
Country risk provision	7,909	3,715
	10,347	**4,561**

"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 346,584 Thousand Euro at December 31st, 2017 (352,385 Thousand Euro at December 31st, 2016). The Bank shows at the end of the year 2017 a capital solvency ratio of 53.51% (53.35% in terms of high quality CET1) that highly exceeds the 12.16% minimum required by the Regulator. The movement of this heading for the years 2017 and 2016 is shown in the Statement of Changes in Equity.

20. SHARE CAPITAL

The share capital of Aresbank, S.A. as of December 31st, 2017 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, 2017 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, 2017 and 2016 is as follows:

	2017	2016
Legal reserve	15,859	14,444
Undistributed results	23,790	23,790
	39,649	**38,234**

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.

	2017	2016
Public Debt (Spain)	(84)	(281)
Public Debt (UE countries)	(224)	(561)
Fixed Income (Spain)	(195)	(557)
Fixed Income (UE countries)	(133)	-
Valuation Adjustments	**(636)**	**(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, 2017 and 2016 is as follows:

	2017	2016
Financial guarantees		
Irrevocable issued documentary credits	77,940	-
Irrevocable confirmed documentary credits	194,158	131,843
Other Bank guarantees and indemnities	115,269	103,052
	387,367	**234,895**
Memorandum item: Doubtful contingent exposure	**395**	**412**

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

Geographic Area	2017	2016	2017	2016
Spain	39,931	672	14.68%	0.51%
EU Countries	158,480	53,096	58.24%	40.27%
Other European countries	1,247	110	0.46%	0.08%
Arab countries				
Libya	57,488	40,791	21.13%	30.94%
Algeria	8,032	13,743	2.95%	10.42%
Other Arab countries	6,920	23,431	2.54%	17.78%
	272,098	**131,843**	**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	2017	2016	2017	2016
Spain	94,742	85,155	82.19%	82.63%
EU Countries	1,022	1,354	0.89%	1.31%
Other European countries	11,934	16,270	10.35%	15.79%
Arab countries				
Libya	7,571	6	6.57%	0.01%
Algeria	-	226	-	0.22%
Other Arab countries	-	41	-	0.04%
	115,269	**103,052**	**100.00%**	**100.00%**

b) Granted contingent commitments

Its breakdown is as follows:

	2017	2016
Drawable by third parties		
By financial institutions	50,000	50,000
By other resident sectors	60,000	52,442
Non-residents	-	-
	110,000	**102,442**

24. TAX MATTERS

Profits, adjusted in accordance with fiscal regulations, are taxed at 30% rate for 2017 and 2016. 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 2014 onwards, except for the Corporate Income Tax, which is subject to inspection from 2013 onwards.

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

	2017	2016
Accounting profit for the year before tax	2.236	12,899
Permanent differences	6	16
Temporary differences		
Positives		
- Provisions	12.033	4,788

Negatives		
- Provisions	(6.778)	(6,519)
- Double taxation	-	(2,719)
Total	7.497	8,465

Offset of prior year negative taxable bases	(5.248)	(5,079)
Taxable profit	2.249	3,386
Tax liabilities	675	1,016
Deductions	-	(13)
Withholding tax	(128)	(86)
Advanced payment on Corporate Tax	(1.080)	(2,116)
Corporate income tax payable / (receivable) (Note 14)	(533)	(1,199)

Figures from 2016 have been reported to Tax Authorities as of July 2017. 2017 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 56,435 Thousand Euro, whose detail at the source corresponds with the following:

2009	**2010**
15,430	41,005

The entity has fully amortized the tax credit capitalized in the previous year amounting to 7,532 Thousand Euro. Likewise, the entity has registered another tax credit amounting to 21,248 Thousand Euro, which is expected to be amortized along the next three years.

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

The RDL 3/2016 has added a new additional provision fifteen to the Corporate Tax Law whose first paragraph establishes new limits to the right to offset negative tax bases for those taxpayers whose net turnover is, at least, 20 Million 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, 2017 and 2016 is as follows:

	2017	**2016**
Loans and receivables to credit institutions	12.538	6.139
Loans and receivables to other debtors	4.442	3.644
Available for sale	676	527
Others	58	-
	17,714	**10,310**

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, 2017 and 2016 is as follows:

	2017	**2016**
Deposits at Central Banks	24	18
Deposits from credit institutions	11,021	4,422
Deposits from other creditors	3	10
Other liabilities	5	-
	11,053	**4,450**

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, 2017 and 2016 is as follows:

	2017	2016
Arising from risks and contingent exposures	7,020	4,149
Arising from maintenance, collections and payment services	1,308	957
Arising from Loans and other commissions	895	602
	9,223	**5,708**

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, 2017 and 2016 is as follows:

	2017	2016
Fees and commissions assigned to other entities and correspondents	36	21
Other fees and commissions	288	143
	324	**164**

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, 2017 and 2016 is follows:

	2017	2016
Operating income from investment properties (Note 12.c)	824	583
Other	353	343
	1,177	**926**

30. PERSONNEL EXPENSES

The personnel of the Bank as of December 31st, 2017 and 2016 are as follows:

	December 31, 2017			December 31, 2016		
	Women	Men	Year Average	Women	Men	Year Average
General Management	-	2	2	-	2	2
Head of Department	1	10	11	1	10	11
Rest	13	34	47	14	34	48
	14	**46**	**60**	**15**	**46**	**61**

The breakdown of Personnel expenses caption as of December 31st, 2017 and 2016 is as follows:

	2017	2016
Wages and salaries	5,190	5,123
Social Security expenses	789	778
Transfers to defined contribution plans (Note 5.13)	151	155
Severance payments	335	407
Other expenses	600	608
	7,065	**7,071**

The caption "Wages and salaries" includes 1,400 Thousand Euros regarding provision for bonus.

31. OTHER ADMINISTRATIVE EXPENSES

The breakdown of this caption as of December 31st, 2017 and 2016 is as follows:

	2017	2016
Premises Expenses	380	566
Travelling and transportation	53	52
Communications	196	191
Legal and professional fees	661	419
Governing and control bodies	613	688
Withholding and sales taxes	336	284
Insurances	19	19
Commercial Offices and delegations	10	22
Business development	67	69
Subscriptions, contributions and others	73	144
Extraordinary expenses (IHC holding selling process)	(118)	1,366
	2.290	**3,820**

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 2017 is as follows:

2017	Number of members	Remuneration	Allowance	Total
Chairman and Vice-Chairman	2	129	70	199
Board Members	6	307	95	402
	8	**436**	**165**	**601**

The remuneration and other compensations accrued by the Board of Directors in 2016 are as follows:

2016	Number of members	Remuneration	Allowance	Total
Chairman and Vice-Chairman	2	125	58	183
Board Members	6	352	112	464
	8	**477**	**170**	**647**

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, 2017 nor as of December 31st, 2016, 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 2017 and 2016 is as follows:

2017	Number of members	Remuneration	Allowance	Total
General Manager	1	498	12	510
Deputy General Manager	1	498	108	606
	2	**996**	**120**	**1.116**

2016	Number of members	Remuneration	Allowance	Total
General Manager	1	432	3	435
Deputy General Manager	1	443	126	569
	2	**875**	**129**	**1.004**

The amounts debited for pension funds and insurances in the Income Statement of the Bank in 2017 and 2016 amounted to 14 Thousand Euro and 12 Thousand Euro, respectively. The Bank holds no direct risks with the General Management as of December 31st, 2017.

33. AMORTIZATION

The detail of this caption as of December 31st, 2017 and 2016 is as follows:

	2017	2016
Tangible assets:		
Investment Property (Note 12)	259	72
For own use (Note 12.b)	92	279
Intangible assets:		
Software (Note 13)	141	315
	492	**666**

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

The detail of this caption is as follows:

	2017	2016
Investments (Note 10)		
Allowances	(7,140)	(7,662)
Releases	8,221	6,110
	1,081	**(1,552)**

As of December 31st, 2017 and 2016 the allowances for impairment are mainly due to provisions allocated for Country Risk, specific and generic risks.

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

Breakdown of this chapter as follows:

	2017	2016
Fixed assets no longer in use	-	(16)
Profit coming from IHC holding (selling process) (Note 11)	-	14,926
	-	**14,910**

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, 2017 and 2016 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, 2017 is the following:

	Fair value hierarchy			Changes on fair value before taxes		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets at fair value through profit or loss	**14,904**	**-**	**-**	**151**	**-**	**-**
Equity instruments	14,904	-	-	151	-	-
Available for sale assets	**49,027**	**-**	**-**	**(908)**	**-**	**-**
Debt securities	49,027	-	-	(908)	-	-

The breakdown as of December 31, 2016 is the following:

	Fair value hierarchy			Changes on fair value before taxes		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Available for sale assets	**58,160**	**-**	**-**	**(1,998)**	**-**	**-**
Debt securities	58,160	-	-	(1,998)	-	-
Hedging accounting	**(180)**	**-**	**-**	**0**	**-**	**-**
Fair value hedging	(180)	-	-	0	-	-

b) Most significant balances with related companies.

The most important balances with related companies as of December 31st, 2017 and 2016 are as follows:

	2017	2016
ASSETS		
Holdings (see Note 11)		
ARESCO	-	100
LIABILITIES		
Deposits from credit institutions		
Libyan Foreign Bank	727,103	802,401
Current Accounts		
Libyan Foreign Bank	4,694	1,341
Aresol Cabos, S.A. de C.V.	-	5
Inversiones Hoteleras Los Cabos, S.A.	-	4
ARESCO	-	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 9,675 Thousand Euro in 2017 and 4,145 Thousand Euro in 2016.

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.

	2017	2016
	Days	Days
Average payment period (Commercial Suppliers)	7	7
Paid Transactions Ratio	7	7
Pending Transactions Ratio	14	1
	In Thousand Euros	In Thousand Euros
Total payments made	2,090	850
Total pending payments	37	5

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.

ADDITIONAL INFORMATION

PROPOSAL OF PROFIT DISTRIBUTION

	(Thousand Euro)
BASIS FOR DISTRIBUTION	**2017**
PROFIT/(LOSS) BEFORE TAXES	2,237
CORPORATE INCOME TAX ESTIMATION	4,697
NET PROFIT / (LOSS)	6,934
RETAINED EARNINGS	2,889 (*)
TOTAL	**9,823**
DISTRIBUTION	
LEGAL RESERVE	693
DIVIDEND PAYOFF	9,130
TOTAL	**9,823**

(*) This amount is equivalent to the first time application adjustment on Circular 4/2017, which has been allocated to reserves with effect of January 1st, 2018, amounting to 2,196 Thousand Euro, plus the amount to be allocated to legal reserves amounting 693 Thousand Euro.

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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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