

**Annual Accounts**  
31 December 2015 and 2014

**Directors' Report**  
2015

(With Auditors' Report Thereon)

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



**EBN Banco de Negocios, S.A.**

## **Draft Auditors' Report on the Annual Accounts**



**EBN Banco de Negocios, S.A.**



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

## Independent Auditor's Report on the Annual Accounts

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

To the Shareholders of  
EBN Banco de Negocios, S.A.:

### **Report on the Annual Accounts**

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

#### *Directors' Responsibility for the Annual Accounts*

The Directors of the Bank 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 EBN Banco de Negocios, S.A. in accordance with International Financial Reporting Standards as adopted by the European Union and other provisions of the financial reporting framework applicable to the Bank in Spain, specified in note 2 to the accompanying annual accounts, and for such internal control that they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

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

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

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

*Opinion*

In our opinion, the accompanying annual accounts give a true and fair view, in all material respects, of the equity and financial position of EBN Banco de Negocios, S.A. at 31 December 2015 and of their financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union and other provisions of the financial reporting framework applicable in Spain.

**Report on Other Legal and Regulatory Requirements**

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

KPMG Auditores, S.L.

*(Signed on original in Spanish)*

Julio Álvaro Esteban

1 April 2016

## **Balance Sheets at 31 December 2015 and 2014**



**EBN Banco de Negocios, S.A.**

**EBN Banco de Negocios, S.A.**  
**Balance Sheets at 31 December 2015 and 2014**  
**(Expressed in thousands of Euros)**

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

<u>ASSETS</u>	<u>31/12/2015</u>	<u>31/12/2014</u>
Cash and balances with central banks (note 5)	<b>5,567</b>	<b>11,401</b>
Financial assets held for trading (note 6)		
Debt securities	203,525	100,038
Equity instruments	378	511
Trading derivatives	154	1,324
<i>Memorandum item: Loaned or pledged</i>	<u>190,980</u>	<u>99,869</u>
	<b>204,057</b>	<b>101,873</b>
Available-for-sale financial assets (note 7)		
Debt securities	602,052	31,019
Equity instruments	9,851	11,148
<i>Memorandum item: Loaned or pledged</i>	<u>600,084</u>	<u>31,019</u>
	<b>611,903</b>	<b>42,167</b>
Loans and receivables (note 8)		
Loans and advances to credit institutions	9,264	80,757
Loans and advances to other debtors	15,064	6,295
<i>Memorandum item: Loaned or pledged</i>	<u>6,374</u>	<u>69,145</u>
	<b>24,328</b>	<b>87,052</b>
Held-to-maturity investments (note 9)	629,692	701,055
<i>Memorandum item: Loaned or pledged</i>	<u>590,057</u>	<u>651,146</u>
	<b>629,692</b>	<b>701,055</b>
Non-current assets held for sale (note 10)	<b>1,267</b>	<b>1,303</b>
Equity investments (note 11)		
Group companies	<u>1,011</u>	<u>1,011</u>
	<b>1,011</b>	<b>1,011</b>
Tangible assets (note 12)		
Fixed assets		
For own use	<u>41,512</u>	<u>42,044</u>
	<b>41,512</b>	<b>42,044</b>
Tax assets (note 13)		
Current	2,103	1,040
Deferred	<u>20,229</u>	<u>21,046</u>
	<b>22,332</b>	<b>22,086</b>
Other assets (note 14)	<u>303</u>	<u>544</u>
<b>TOTAL ASSETS</b>	<b><u>1,541,972</u></b>	<b><u>1,010,536</u></b>

The accompanying notes form an integral part of the annual accounts for 2015.

**EBN Banco de Negocios, S.A.**  
**Balance Sheets at 31 December 2015 and 2014**  
**(Expressed in thousands of Euros)**

<b>LIABILITIES</b>	<b>31/12/2015</b>	<b>31/12/2014</b>
Financial liabilities held for trading (note 15)		
Trading derivatives	5,328	5,440
Short positions	2,342	31,129
	<b>7,670</b>	<b>36,569</b>
Financial liabilities at amortised cost (note 16)		
Deposits from central banks	9,200	74,377
Deposits from credit institutions	1,127,474	569,598
Deposits from other creditors	326,217	261,853
Other financial liabilities	243	354
	<b>1,463,134</b>	<b>906,182</b>
Provisions (note 17)		
Provisions for pensions and similar obligations	30	1,235
Provisions for contingent exposures and commitments	152	204
Other provisions	5,830	3,964
	<b>6,012</b>	<b>5,403</b>
Tax liabilities (note 13)		
Current	417	898
Deferred	446	675
	<b>863</b>	<b>1,573</b>
Other liabilities (note 14)	<b>1,596</b>	<b>2,355</b>
<b>TOTAL LIABILITIES</b>	<b>1,479,275</b>	<b>952,082</b>

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**EBN Banco de Negocios, S.A.**  
**Balance Sheets at 31 December 2015 and 2014**  
**(Expressed in thousands of Euros)**

<u>EQUITY</u>	<u>31/12/2015</u>	<u>31/12/2014</u>
Shareholders' equity (note 18)	<u>62,874</u>	<u>57,326</u>
Share capital or assigned capital		
Registered	50,281	50,281
Share premium	10,955	10,955
Reserves	(3,910)	(11,336)
Profit for the year	5,548	7,426
Valuation adjustments		
Available-for-sale financial assets (note 19)	<u>(177)</u>	<u>1,128</u>
<b>TOTAL EQUITY</b>	<u><b>62,697</b></u>	<u><b>58,454</b></u>
<b>TOTAL LIABILITIES AND EQUITY</b>	<u><b>1,541,972</b></u>	<u><b>1,010,536</b></u>
Memorandum item		
Contingent exposures (note 20)	4,584	5,647
Contingent commitments (note 20)	289	1,236



**Income Statements  
for the years ended 31 December 2015 and 2014**



**EBN Banco de Negocios, S.A.**

**EBN Banco de Negocios, S.A.**  
**Income Statements at 31 December 2015 and 2014**  
**(Expressed in thousands of Euros)**

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

	<u>2015</u>	<u>2014</u>
Interest and similar income (note 22)	13,799	17,642
Interest expense and similar charges (note 22)	<u>(1,191)</u>	<u>(3,022)</u>
<b>Interest margin</b>	<b>12,608</b>	<b>14,620</b>
Dividend income	618	939
Fee and commission income (note 23)	405	975
Fee and commission expense (note 23)	(437)	(407)
Gains/(losses) on financial assets and financial liabilities (net) (note 24)		
Trading portfolio	(2,369)	(1,680)
Financial instruments not carried at fair value through profit or loss	<u>961</u>	<u>8,732</u>
	(1,408)	7,052
Exchange differences (net) (note 25)	2	14
Other operating income	1,120	327
Other operating expenses	<u>(538)</u>	<u>(206)</u>
<b>Gross margin</b>	<b>12,370</b>	<b>23,314</b>
Administrative expenses		
Personnel expenses (note 26)	(3,847)	(4,201)
Other administrative expenses (note 27)	(2,087)	(3,487)
Amortisation and depreciation (note 12)	(542)	(563)
Provisioning expense (net) (note 17)	(187)	(1,662)
Impairment losses on financial assets (net)		
Loans and receivables (note 8)	(77)	1,521
Other financial instruments not carried at fair value through profit or loss (notes 7 and 9)	<u>199</u>	<u>(5,489)</u>
	122	(3,968)
<b>Results from operating activities</b>	<b>5,829</b>	<b>9,433</b>
Gains on disposal of assets not classified as current assets held for sale (note 11)	-	1,258
Losses on non-current assets held for sale not classified as discontinued operations (note 10)	(36)	(71)
<b>Profit before income tax</b>	<b>5,793</b>	<b>10,620</b>
Income tax (note 34)	<u>(245)</u>	<u>(3,194)</u>
<b>Profit from continuing operations</b>	<b>5,548</b>	<b>7,426</b>
<b>Profit for the year</b>	<b>5,548</b>	<b>7,426</b>

The accompanying notes form an integral part of the annual accounts for 2015.

## Statements of Changes in Equity

- **A) Statements of Recognised Income and Expense for the years ended 31 December 2015 and 2014**
- **B) Confidential Statement of Total Changes in Equity for the year ended 31 December 2015**



**EBN Banco de Negocios, S.A.**

**EBN Banco de Negocios, S.A.**  
**Statements of Changes in Equity**

**A) Statements of Recognised Income and Expense for the years  
ended 31 December 2015 and 2014**

**(Expressed in thousands of Euros)**

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

	<u>2015</u>	<u>2014</u>
<b>A) PROFIT FOR THE YEAR</b>	<b>5,548</b>	<b>7,426</b>
<b>B) OTHER RECOGNISED INCOME/(EXPENSE)</b>	<b>(1,305)</b>	<b>(7,494)</b>
Available-for-sale financial assets:		
a) Revaluation gains/(losses)	(1,864)	(10,705)
b) Amounts transferred to the income statement	(1,243)	(4,326)
	(621)	(6,379)
Income tax	559	3,211
<b>TOTAL RECOGNISED INCOME/(EXPENSE) (A + B)</b>	<b>4,243</b>	<b>(68)</b>

The accompanying notes form an integral part of the annual accounts for 2015.

**EBN Banco de Negocios, S.A.**  
**Statements of Changes in Equity**  
**B) Confidential Statement of Total Changes in Equity**  
**for the year ended 31 December 2015**

**(Expressed in thousands of Euros)**

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

Statement for the year ended 31 December 2015	Share capital	Share premium	Reserves	Equity Profit for the year	Total sharehol- ders' equity	Valuation adjustment s	Total equity
Opening balance at 31 December 2014	50,281	10,955	(11,336)	7,426	57,326	1,128	58,454
Adjusted opening balance	50,281	10,955	(11,336)	7,426	57,326	1,128	58,454
Total recognised income/(expense)	-	-	-	5,548	5,548	(1,305)	4,243
Other changes in equity	-	-	7,426	(7,426)	-	-	-
Transfers between equity items							
<b>Closing balance at 31 December 2015</b>	<b>50,281</b>	<b>10,955</b>	<b>(3,910)</b>	<b>5,548</b>	<b>62,874</b>	<b>(177)</b>	<b>62,697</b>

The accompanying notes form an integral part of the annual accounts for 2015.

**EBN Banco de Negocios, S.A.**  
**Statements of Changes in Equity**  
**B) Confidential Statement of Total Changes in Equity**  
**for the year ended 31 December 2014**  
**(Expressed in thousands of Euros)**

Statement for the year ended 31 December 2014	Equity						Total equity
	Share capital	Share premium	Reserves	Profit for the year	Total shareholders' equity	Valuation adjustments	
Opening balance at 31 December 2013	50,281	10,955	(11,774)	438	49,900	8,622	58,522
Adjusted opening balance	50,281	10,955	(11,774)	438	49,900	8,622	58,522
Total recognised income/(expense)	-	-	-	7,426	7,426	(7,494)	(68)
Other changes in equity							
Transfers between equity items	-	-	438	(438)	-	-	-
<b>Closing balance at 31 December 2014</b>	<b>50,281</b>	<b>10,955</b>	<b>(11,336)</b>	<b>7,426</b>	<b>57,326</b>	<b>1,128</b>	<b>58,454</b>

The accompanying notes form an integral part of the annual accounts for 2015.

**Cash Flow Statements for the years  
ended 31 December 2015 and 2014**



**EBN Banco de Negocios, S.A.**

**EBN Banco de Negocios, S.A.**  
**Cash Flow Statements for the years**  
**ended 31 December 2015 and 2014**

**(Expressed in thousands of Euros)**

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

	<b>2015</b>	<b>2014</b>
Cash flows from operating activities (1)		
Profit for the year	5,548	7,426
Adjustments to obtain cash flows from operating activities:		
Depreciation and amortisation	542	563
Other adjustments	383	11,051
Net increase/decrease in operating assets		
Financial assets held for trading	(102,185)	64,971
Available-for-sale financial assets	(571,639)	(10,453)
Loans and receivables	62,810	72,602
Other operating assets	142	178
Net increase/decrease in operating liabilities		
Financial liabilities held for trading	(28,899)	15,984
Financial liabilities at amortised cost	557,153	(173,052)
Other operating liabilities	(474)	66
Income tax received/paid	(570)	(557)
Cash flows from investing activities (2)		
Payments		
Tangible assets	(10)	(65)
Collections		
Equity investments	-	2,990
Held-to-maturity investments	71,600	18,550
<b>NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS</b> <b>(1+2+3)</b>	<b>(5,599)</b>	<b>10,254</b>
Cash and cash equivalents at beginning of the period	11,800	1,546
Cash and cash equivalents at end of the period	6,201	11,800
Cash and cash equivalent components at end of period:		
Cash	24	15
Cash equivalents in central banks	5,543	11,386
Other financial assets	634	399
Total cash and cash equivalents at end of the period	6,201	11,800

The accompanying notes form an integral part of the annual accounts for 2015.



**Notes to the Annual Accounts  
31 December 2015 and 2014**



**EBN Banco de Negocios, S.A.**

EBN Banco de Negocios, S.A.

Notes to the Annual Accounts for the year ended 31 December 2015

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EBN Banco de Negocios, S.A.

Notes to the Annual Accounts  
at 31 December 2015

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

## **(1) Nature and Principal Activities**

EBN Banco de Negocios, S.A. (EBN BANCO) (hereinafter the Bank or the Entity) was incorporated under the name Ibérica de Descuento, S.A. (DESCONTIBER, S.A.) on 30 April 1982 as a discount house, in accordance with the Ministry of Economy and Finance orders dated 12 and 30 December 1980.

On 10 September 1991 the Bank changed its name to BANCAJA, S.A. and adapted its by-laws to conform with requirements for banking activities. On 25 October 1991 the Bank was entered in Banco de España's Registry of Banks and Bankers with the number 211.

At a general meeting held on 4 February 1992 the shareholders resolved to change the Bank's name to Sociedad Española de Banca de Negocios, S.A. (abbreviated to EBN BANCO). This agreement was executed in public deed on 18 February 1992.

At the general meeting held on 16 May 2001 the shareholders agreed to change the Bank's name to Sociedad Española de Banca de Negocios Probanca, S.A., maintaining the same abbreviation of EBN BANCO. This agreement was executed in a public deed on 25 October 2001.

At the general meeting held on 16 May 2001 the shareholders agreed to the absorption of Probanca Servicios Financieros, S.A. (absorbed company or Probanca) by Sociedad Española de Banca de Negocios, S.A. (absorbing company) with effect as of 1 January 2000. This agreement was executed in a public deed on 25 October 2001.

At the general meeting held on 28 April 2004 the shareholders agreed to change the Bank's name to EBN Banco de Negocios, S.A., maintaining the same abbreviation of EBN BANCO. This agreement was executed in a public deed on 25 May 2004.

The Bank's statutory activity is to conduct banking operations of all types and provide related services.

On 3 August 2009 the Bank relocated its registered office to Paseo de Recoletos 29, in Madrid.

EBN Banco de Negocios, S.A.

Notes to the Annual Accounts  
at 31 December 2015

On 15 January 2014 EBN BANCO and one of its shareholders at that date, Banco Sabadell, S.A., entered into a private sale and purchase agreement whereby Banco Sabadell, S.A. sold 1,307,190 of the shares it held, representing 15.624% of the share capital of EBN BANCO, to the Bank to hold as own shares (see note 18).

In accordance with the requirements of Article 146 of the Spanish Companies Act:

- (i) the acquisition of these shares was authorised by the shareholders of EBN BANCO at their general meeting;
- (ii) the acquisition did not reduce the equity of EBN BANCO to less than its share capital plus non-distributable legal and statutory reserves; and
- (iii) the par value of the shares acquired did not exceed 20% of the total share capital of EBN BANCO.

At its meeting on 7 March 2014 the executive committee of Banco de España agreed, as is within its powers, not to object to this operation. The share sale and purchase agreement between EBN BANCO and Banco Sabadell, S.A was executed in public deed on 24 March 2014.

On 11 April 2014 EBN BANCO and the other four entities that were shareholders of the bank at that time signed a second novation of the framework agreement that had been signed on 18 December 2013 and then subsequently novated on 30 December 2013 to restructure the balance sheet of EBN BANCO through the transfer of certain assets and contractual positions of the Bank to these entities and the sale of other assets directly on the market.

Through the second novation, the four shareholders acquired equal parts of the assets that would have pertained to Banco Sabadell, S.A. (approximately 15.624% of the assets identified within the scope of the framework agreement that had not yet been transferred).

## EBN Banco de Negocios, S.A.

Notes to the Annual Accounts  
at 31 December 2015

Pursuant to this asset sale and purchase agreement dated 11 April 2014, EBN BANCO unconditionally and irrevocably transferred the following to the four entities that are shareholders:

- (i) A portfolio of loans and receivables that, as in the sale and purchase agreement of 30 December 2013, comprised all of the loans and receivables of EBN BANCO except write-offs, guarantees, current account credit balances and bilateral loans to individuals. This share in the loans and receivables transferred corresponded to the 15.624% held by Banco Sabadell, S.A., as set forth in the framework agreement of 18 December 2013, which all the buyers assumed and acquired in equal proportion.
- (ii) A variable-income securities portfolio belonging to EBN BANCO comprising the same shares and interests as in the 30 December 2013 sale and purchase agreement. Each buyer became the full owner of the shares or equity investments attributed to them as a result of the distribution, in approximately equal proportion, of the securities in the variable-income securities portfolio.

Pursuant to the asset sale and purchase agreement, the effective date of the sale and purchase transaction for financial purposes was 28 February 2014. The total price set for all the items transferred was Euros 19,750 thousand, which was divided among the buyers in equal parts, i.e. Euros 4,938 thousand each. This price was equal to the carrying amount in the accounts of EBN BANCO at 28 February 2014, except for some investees that were transferred at the value they would have had, had they been accounted for as available-for-sale assets.

The net amount payable by the buyers was the resultant amount after various adjustments:

- (i) Euros 6 thousand payable to EBN BANCO for the cost of financing loans from 28 February 2014 until 11 April 2014, the effective date of the asset sale and purchase agreement.
- (ii) Euros 387 thousand payable to the buyers (shareholders) for collections of principal, interest, dividends and other items.

## EBN Banco de Negocios, S.A.

Notes to the Annual Accounts  
at 31 December 2015

Consequently, the total net amount payable by the shareholders was therefore Euros 19,369 thousand. Details of the net amount paid by the shareholders are as follows:

Details of the assets being sold	Thousands of Euros
Loans and receivables in normal situation (note 8.a)	12,591
Doubtful loans and receivables (note 8.c)	3,257
Equity investments (note 11)	2,991
Equity instruments, available-for-sale financial assets (note 7)	524
Financing costs payable to EBN BANCO	6
Total amount payable by the shareholders	<u>19,369</u>

On 11 April 2014, EBN BANCO and the four shareholders at that date signed an agreement for the transfer of the economic rights and obligations derived from a portfolio of IRSs subscribed with several counterparties (customers of EBN BANCO for loans and receivables transferred to the shareholders via the aforementioned sale and purchase agreements), pursuant to the framework agreement signed on 18 December 2013 and novated on 30 December 2013.

Pursuant to this agreement, EBN BANCO transferred all the credits and debits arising from the economic rights and obligations pertaining to customer IRSs (accrued balances payable and amounts collected at the agreement date or accruable in the future) to the shareholders, who acquired and assumed these balances. The consideration for the rights and obligations assumed amounted to Euros 19,400 thousand, which was divided among the buyers in equal parts, i.e. Euros 4,850 thousand each. This price was equal to the fair value of the IRS portfolio at the 4 April 2014 close (see note 6 (c)) net of unpaid settlements at that date of Euros 34 thousand and the corresponding adjustment for impairment of Euros 25 thousand (see note 8).

The consideration was settled by offsetting market IRS positions, which EBN BANCO contracted to hedge the swaps arranged with customers which the shareholders assumed in equal proportions at that date. To the extent that the economic rights and obligations of customers transferred were not equivalent to the contractual positions in market IRSs, any positions not offset were settled in cash.

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On 29 September 2015, the sale and purchase agreement entered into on 27 November 2014 by the four shareholding entities of EBN Banco until that date was finally completed, after complying with the condition precedent of the evaluation and non-opposition of the agreement by the European Central Bank, in accordance with article 18 of Law 10/2014, of 26 June 2014, on the organisation, supervision and solvency of financial institutions and article 25 of Royal Decree 84/2015, of 13 February 2015, which implemented that Law.

Through this sale and purchase agreement, Mr José Gracia Barba and Mr Santiago Fernández Valbuena and his wife acquired 84.376% of the shares, which represented 100% of the effective voting rights as the remaining 15.624% of the capital formed part of the own shares portfolio.

The management and use of external financing obtained by the Bank, as well as other aspects of its economic-financial activity, are subject to certain legislation which regulates, inter alia, the following matters:

- Maintenance of a minimum percentage of assets on deposit at a national central bank of a country participating in the single currency (Euro) to cover the minimum reserve ratio, which was 1% of eligible liabilities at 31 December 2015 and 2014.
- The obligation to transfer 10% of the profits for the year to a legal reserve until such reserve reaches an amount equal to 20% of the share capital (see note 18 (c)).
- Minimum capital requirement. The standard basically establishes the obligation to maintain sufficient capital to cover risks assumed (see note 18 (d)).
- Annual contribution to the Deposit Guarantee Fund, in addition to the guarantee provided to creditors through the Bank's own capital.

The Bank contributes to the Credit Institution Deposit Guarantee Fund regulated by Royal Decree-Law 16/2011 of 14 October 2011. Article 2 of the aforementioned Royal Decree-Law, dissolved the Savings Bank Deposit Guarantee Fund, the Banking Establishment Deposit Guarantee Fund and the Credit Cooperative Deposit Guarantee Fund, the assets of which were integrated into the Credit Institution Deposit Guarantee Fund, which assumed all the rights and obligations of the previous Funds.

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On 2 December 2011, Royal Decree-Law 19/2011 of 2 December 2011 entered into force. It amended Royal Decree-Law 16/2011, establishing that the annual contribution made by each entity to the Credit Institution Deposit Guarantee Fund shall be for an amount of up to 2 per mil of deposits guaranteed by them, maintaining in force Royal Decree 2606/1996 of 20 December 1996 which develops the legal regime governing deposit guarantee funds. The aforementioned Royal Decree applies to contributions made from the time of its entry into force.

Annual contributions to the Deposit Guarantee Fund are made in accordance with the provisions of Royal Decree 2606/1996 of 20 December 1996 on Deposit Guarantee Funds, pursuant to the wording of Royal Decree 948/2001 of 3 August 2001, Circular 4/2001 of 24 September 2001 and Royal Decree 1642/2008 of 10 October 2008. The contribution to this fund is recognised in profit or loss on an accrual basis.

Additionally, Banco de España Circular 3/2011 of 30 June 2011 stipulates the necessary standards to enable application of the amendments introduced by Royal Decree 771/2011 of 3 June 2011, which amends Royal Decree-Law 216/2008 of 15 February 2008 with respect to the requirements for additional contributions to the Credit Institution Deposit Guarantee Fund (CIDGF) for member institutions that arrange time deposits or settle demand deposits with remuneration exceeding certain interest rates, based on the term of the deposit or the nature of the demand account.

In order to restore the capital adequacy of the CIDGF in accordance with article 6.2 of Royal Decree-Law 16/2011 of 14 October 2011, at its meeting held on 30 July 2012 the CIDGF Management Committee agreed that the fund's member institutions should make an extraordinary contribution, payable in 10 equal annual instalments, according to the basis of calculation of the contributions of each entity at 31 December 2011. This extraordinary contribution will be paid by each entity, together with their ordinary contributions, between 2013 and 2022. The instalment to be deposited by each institution on each date may be deducted from the ordinary annual contribution paid by the institution on that date, up to the amount of the ordinary contribution.



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As a result of such agreement and in accordance with the above-mentioned basis of calculating the contributions, the extraordinary contribution assigned to the Bank amounted to Euros 320 thousand, payable in 10 instalments of Euros 32 thousand each. As a result of assuming the aforementioned commitment, the Bank has recognised a financial liability equivalent to the present value of the total commitments assumed and payable on future dates and, simultaneously, an asset account for the same amount to recognise accruals thereof in profit or loss over the settlement period.

At 31 December 2015 the Bank has recognised Euros 219 thousand payable into the Deposit Guarantee Fund (Euros 247 thousand at 31 December 2014) (see note 14).

Royal Decree-Law 21/2012 of 13 July 2012, on public authority and financial sector liquidity measures, introduced by Article 2 of Royal Decree-Law 6/2013 of 22 March 2013, on the protection of holders of certain savings and investment products and other financial measures, foresaw an exceptional contribution of 3 per mil of the deposits held by the fund's member institutions at 31 December 2012. This contribution was made in two stages. An initial contribution of 40%, for which the Fund agreed a number of deductions based on the size of the entities, its contributions to the SAREB (management company for assets arising from bank restructuring) or the receipt of government subsidies, which was made within the first 20 working days of 2014. A second contribution comprising the remaining 60%, payable from 2014 onwards and within a maximum of 7 years, for which the payment schedule was established by the Credit Institution Deposit Guarantee Fund Management Committee at its meeting on 17 December 2014 through two equal payments, on 30 June 2015 and 30 June 2016. The Bank has recognised Euros 64 thousand payable into the Deposit Guarantee Fund (Euros 124 thousand at 31 December 2014) (see note 14).

Finally, on 7 November 2015, Royal Decree-Law 1012/2015 of 6 November 2015 entered into force, which implemented Law 11/2015, of 18 June 2015 on the recovery and resolution of credit institutions and investment service firms, which amended Royal Decree 2606/1996 of 20 December 1996 on credit institution deposit guarantee funds. Among other matters, this law amends the basis for calculating the contributions to the different compartments of the CIDGF, limiting the deposits covered by the fund (to less than Euros 100 thousand). Consequently, the expense for contributions to the CIDGF accrued during 2015 was calculated based on the new methodology.

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At 31 December 2015, the Bank has recognised Euros 32 thousand as the ordinary annual contribution for 2015 (see note 14).

#### *Single Resolution Fund*

As part of the process to create a single internal banking services market in the European Union, Directive (EU) 2014/59 established a centralised supervisory framework. The first step of this framework was the creation of the Single Supervisory Mechanism (the SSM), introduced by Regulation (EU) no. 1024/2013 of the European Council. The objectives of the SSM are to ensure the European Union's policy with regards to the prudential supervision of credit institutions is implemented in a coherent and effective manner, that the single rulebook for financial services is applied in the same manner to credit institutions in the euro area Member States and those non-euro area Member States who choose to participate in the SSM and that those credit institutions are subject to supervision of the highest quality.

Within this integration of the supervision and resolution of credit institutions, Regulation (EU) no. 806/2014 of the European Parliament and of the Council establishes a uniform procedure for the resolution of credit institutions and certain investment firms within the Single Resolution Mechanism (SRM) framework that strengthens the image of solvency of this type of entities at European level.

Regulation (EU) no. 806/2014 introduced a Single Resolution Fund (SRF) as a fundamental instrument for the SRM to function correctly. This Fund was initially set up using the ex-ante contributions from the entities included in the supervisory framework of the SSM, collected annually.

The Delegated Regulation (EU) 2015/63 implements a standard methodology for the calculation of the SRF contributions. The contributions are made annually and the amount payable by each entity is determined by the competent resolution authority in each Member State based on the entity's size and risk profile.

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All this European-level legislation was transposed to Spanish legislation by Law 11/2015, of 18 June 2015, on the recovery and resolution of credit institutions and investment service firms. Among other matters, this Law designates the Fund for Orderly Bank Restructuring (FROB) as the competent resolution authority in Spain. Therefore the FROB is responsible for calculating and collecting contributions to the SRF from Spanish credit institutions and from certain investment services firms to which the aforementioned law applies.

The Bank's ex-ante contributions to the Single Resolution Fund for 2015 amounted to Euros 324 thousand, which was taken to other operating expenses in the accompanying consolidated income statement.

## **(2) Basis of Presentation**

### **(a) Basis of presentation of the annual accounts**

The Bank's annual accounts have been prepared by the directors to give a true and fair view of the equity and financial position of the Bank at 31 December 2015, the results of its operations and changes in equity and cash flows for the year then ended, as well as the proposed distribution of profit for the year.

The annual accounts have been prepared on a going concern basis in accordance with the accounting criteria and models set forth in Banco de España Circular 4/2004 of 22 December 2004 and subsequent amendments.

In accordance with prevailing Spanish legislation, these annual accounts for 2015 also include, for each individual caption in the balance sheet, income statement, cash flow statement, statement of total changes in equity, statement of recognised income and expense and the notes thereto, comparative figures for the previous year, which were approved by the shareholders at their annual general meeting held on 23 June 2015.

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In certain cases the directors have opted to omit those items for which there was no data at 31 December 2015 or 31 December 2014.

The directors consider that the annual accounts for 2015, which were authorised for issue on 31 March 2016, will be approved by the shareholders with no significant changes.

**(b) Significant accounting principles**

The generally accepted accounting principles and measurement criteria described in the note on significant accounting principles were applied in the preparation of the annual accounts. There are no mandatory accounting principles which have not been applied that would have a significant effect on the preparation of the annual accounts.

**(c) Judgements and estimates used**

The judgements and estimates used by the Bank in 2015 and 2014 are the same as in prior years.

**(3) Distribution of Profit**

The directors will propose to the shareholders at their annual general meeting that the Bank's profits for the year ended 31 December 2015 be distributed as follows:

	Euros
Profit before tax	5,792,306.81
Income tax	(244,638.59)
Net profit for the year	<u>5,547,668.22</u>
Legal reserve	554,766.82
Prior years' losses	<u>4,992,901.40</u>
	<u>5,547,668.22</u>

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The distribution of the Bank's profit for the year ended 31 December 2014, approved by the shareholders at their general meeting on 23 June 2015, was as follows:

	<u>Euros</u>
Profit before tax	10,619,378.43
Income tax	<u>(3,193,594.13)</u>
Net profit for the year	<u>7,425,784.30</u>
Prior years' losses	<u>7,425,784.30</u>
	<u>7,425,784.30</u>

#### (4) Significant Accounting Principles

The accompanying annual accounts have been prepared in accordance with the accounting principles set forth in Banco de España Circular 4/2004 of 22 December 2004 and subsequent amendments. The most significant accounting principles applied are as follows:

##### (a) Accruals principle

Income and expenses are recognised on an accruals basis and not at the date of collection or payment, except for interest on loans and receivables and other off-balance sheet items considered impaired, which is recorded when collected.

Accrued interest payable and receivable on transactions is calculated using the effective interest method.

Transactions in foreign currency markets and secondary markets for debt securities are recognised at the settlement date, while operations in the equity instrument market are recorded at the trade date. Finance income and expenses are calculated based on the settlement date or the value date.

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**(b) Foreign currency transactions and balances**

Balances and transactions in foreign currency have been translated to Euros using the following conversion rules:

- Monetary assets and liabilities have been translated into Euros using the average spot exchange rate in the foreign currency market at year end.
- Non-monetary items measured at historical cost have been translated into Euros using the exchange rate prevailing at the date of acquisition.
- Non-monetary items measured at fair value have been translated using the exchange rate at the date when fair value was determined.
- Income and expenses have been translated using the exchange rate at the transaction date. Depreciation and amortisation charges have been translated into Euros at the exchange rate applied to the related asset.

Exchange differences have been recognised in the income statement, except for those differences arising on non-monetary items measured at fair value, which are adjusted against equity.

**(c) Recognition, classification and measurement of financial instruments**

Financial assets and liabilities are recognised when the Bank becomes party to a contract, in accordance with the terms of that contract.

Debt instruments are recognised from the time that a legal right to receive or pay cash arises and derivatives are recognised from the trade date. In general the Bank derecognises financial instruments on the date from which the rewards, risks, rights and obligations or the control thereof are transferred to the purchaser.

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Financial instruments are presented and measured, depending on their classification, based on the following criteria:

- Financial assets at fair value through profit or loss:
  - Financial assets held for trading include assets held for the purpose of selling in the market in the near term and derivatives not designated as hedging instruments. These are recognised at fair value, and net differences compared with the acquisition price are recorded in the income statement.
- Held-to-maturity investments are debt securities with fixed or determinable payments and fixed maturity traded on an active market and that the Bank has the positive intention and ability to hold to maturity.
- Loans and receivables include financial assets that have fixed or determinable cash flows through which the Bank will recover its initial investment, except in cases of customer insolvency. These assets are initially recognised at the fair value of the consideration given and are subsequently carried at amortised cost using the effective interest rate.
- Available-for-sale financial assets include those securities not classified in any of the preceding portfolios. Available-for-sale financial assets are initially recognised at fair value, with net differences with the transaction price recorded in equity until the asset is derecognised, with the profit or loss on disposal taken to the income statement.

When there is objective evidence that the decrease in fair value of quoted equity instruments is due to impairment, such as a 40% fall in their quotation over a period of a year and a half, unrealised losses recognised directly in equity as valuation adjustments are taken to the income statement. If all or part of the impairment losses are subsequently recovered, the amount is recognised directly in the related valuation adjustments in equity.

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- Financial liabilities at fair value through profit or loss:
  - Financial liabilities held for trading include financial liabilities which have been issued with an intention to repurchase them in the near term, are short positions, form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking or are derivatives other than hedging instruments. These are measured at fair value, recognising net differences with the transaction price in the income statement.
- Financial liabilities at amortised cost include financial liabilities not classified in the above portfolio. They are initially recognised at the fair value of the consideration received and subsequently carried at amortised cost, recognising net differences with the acquisition price in the income statement.

The carrying amounts of financial instruments are adjusted with a charge to the income statement when there is objective evidence that an impairment loss has occurred.

Financial instruments are only reclassified between portfolios in the following cases:

- a) Items classified as financial instruments at fair value through profit or loss can only be reclassified into or out of this financial instrument category after they are acquired, issued or assumed in the event of the exceptional circumstances described in section d) of this note.
- b) If a financial asset ceases to be classified as held to maturity due to a change in intention or financial ability, it is reclassified to available-for-sale financial assets. In this case, all financial assets classified as held to maturity are treated similarly, except where reclassification falls within one of the scenarios permitted by applicable legislation (sales close to maturity or when practically the entire principal of the financial asset has been collected, etc.).



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In 2015 and 2014 no sales have been made that are not permitted under prevailing legislation applicable to financial assets classified as held-to-maturity investments.

- c) Debt instruments classified as available-for-sale financial assets can be reclassified as held-to-maturity investments in the event of a change in intention or financial ability of the Bank, or upon expiry of the two-year penalty period established under prevailing legislation for the sale of financial assets classified as held-to-maturity investments. In this case, the fair value of these instruments at the transfer date is considered as the new amortised cost and the difference between this amount and the recoverable amount is recognised in the consolidated income statement over the residual life of the instrument using the effective interest method.

In 2015 and 2014 no items have been reclassified as described in the preceding paragraph.

- d) Financial assets that are not derivative financial instruments can be reclassified from held for trading if they are no longer held for the purpose of being sold or repurchased in the near term, provided that one of the following circumstances arise:
1. In rare and exceptional circumstances, except in the case of assets eligible for classification as loans and receivables. Rare and exceptional circumstances are those arising from a particular event which is unusual, and which is highly unlikely to reoccur in the foreseeable future.
  2. When the entity has the intention and financial ability to hold the financial asset in the foreseeable future or to maturity, provided that it meets the definition of loans and receivables on initial recognition.

Should these circumstances arise, the asset is reclassified at its fair value at the reclassification date, with no reversal of results, considering this value as the asset's amortised cost. Assets reclassified in this way may not be further reclassified as held for trading.

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(d) **Equity investments**

This caption includes equity investments in subsidiaries, jointly controlled entities and associates, which are carried at cost of acquisition less any impairment losses.

The carrying amounts of financial instruments are adjusted with a charge to the income statement when there is objective evidence that an impairment loss has occurred.

- **Subsidiaries**

Subsidiaries are investees that form a decision-making unit with the parent, and which are controlled by the parent either directly, or indirectly through other investees. Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting rights in the subsidiary. Control is the power to govern the financial and operating policies of an investee so as to obtain benefits from its activities and could be exercised even though the parent owns less than half of the voting rights.

- **Jointly controlled entities**

Jointly controlled entities are entities other than subsidiaries, which are jointly controlled through a contractual arrangement by two or more entities, whether individually or in coordination with the remaining group entities.

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- Associates

Associates are entities in which the investor has significant influence either individually or with the other group companies. Associates are neither subsidiaries nor jointly controlled entities of the investor. The existence of significant influence is usually evidenced in representation on the board of directors or equivalent governing body of the investee, participation in policy-making processes, including those relating to dividends and other distributions, material transactions between the investor and the investee, interchange of managerial personnel, or the provision of essential technical information, amongst other aspects. Analysis of significant influence over an entity also takes into account the importance of the investment in the investee, the period of representation in the governing body of the investee, and the existence of potential voting rights that could be converted or exercised at the reporting date.

(e) Fees and commissions

When calculating the effective interest rate, the Bank defers loan arrangement fees, except where these offset related direct costs, and recognises them in the income statement as an adjustment to the cost or the effective return on the operation over the life of the transaction.

Fees and commissions accrued on financial instruments carried at fair value through profit or loss are recorded directly in the income statement.

Non-financial fees and commissions arising from a service provided over a period of time are recognised in the income statement over the period of the service.

Non-financial fees and commissions from a service rendered in a single act are recognised in the income statement when the single act is carried out.

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**(f) Doubtful assets**

Loans and receivables, fixed-income securities and other receivables, including accrued interest, are recorded as doubtful assets under loans and advances to other debtors and debt securities when repayment is considered problematic. Amounts that are not sufficiently secured or which are receivable from debtors who have declared bankruptcy or whose financial situation has significantly deteriorated and balances overdue by more than four years are derecognised and recorded as off-balance sheet items.

Assets are considered doubtful when the parties are involved in litigation, the debtor has filed for insolvency, when legal action has been taken to recover balances, or when ninety days have passed since the due date.

Balances are written off the balance sheet when the possibility of their recovery is considered remote, without prejudice to any initiatives of the Bank to recover such amounts before the collection right expires due to the collection period elapsing, pardoning of the receivable or for other reasons.

**(g) Allowances and provisions for credit risk**

Allowances and provisions for credit risk are based on the Bank's best estimate of impairment of the portfolio of debt instruments and other contingent exposures and commitments due to the credit risk to which the Bank is exposed, applying the methods stipulated in Annex IX of Banco de España Circular 4/2004 and subsequent amendments.

Valuation adjustments for instruments not carried at fair value through profit or loss which are classified as doubtful due to customer arrears have been calculated specifically based on ageing, guarantees or collateral provided and the expected recovery of these balances. This provision includes the amendments introduced by Circular 6/2012, which stipulates the valuation adjustment requirements associated with real estate activity, including Royal Decree-Laws 2/2012 and 18/2012 enacted to redress the financial sector.

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A general provision has been made to cover the losses inherent in the rest of the debt instruments not measured at fair value through profit or loss, as well as contingent exposures classified as standard.

**(h) Transfer of financial assets**

Financial asset transfers are measured as follows:

- When substantially all the risks and rewards are transferred, the financial asset is derecognised and any right or obligation retained or created on the transfer is recognised separately.
- When substantially all the risks and rewards are retained, the financial asset is not derecognised and a financial liability is recognised for an amount equal to the consideration received, which is subsequently measured at amortised cost.
- When substantially all risks and rewards are neither transferred nor retained and the Entity does not retain control, the financial asset is derecognised and any right or obligation retained or created through the transfer is recognised. Where the Bank retains control, the financial asset is not derecognised but remains on the balance sheet.

**(i) Securities lending**

Initial recognition

Securities loaned and pledged are initially recognised in the balance sheet when the Bank becomes party to the related contract and in accordance with the terms thereof. Securities loaned or pledged are recognised in off-balance sheet items – Loaned or pledged at the fair value of all securities received, and subsequently adjusted to reflect the increase or decrease in the value of the portfolio received and recognised.

On the sale of financial assets loaned or pledged to it, the Bank recognises a financial liability under short positions at the fair value of its obligation to return these assets to the transferor, and immediately records the changes in value in the income statement.

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When the borrower is required to provide a monetary guarantee, the amount of this guarantee is recognised as an asset at amortised cost under reverse repos. Any loan arrangement fees payable are taken to profit and loss at the amount of the accrued expense payable.

Recognition of dividends

Dividends received on securities loaned or pledged are recognised when the shareholder's right to receive such dividends is declared, irrespective of any delay in payment. Interest or dividends receivable accrued prior to the date of acquisition of the instrument do not form part of the cost of acquisition and are not recognised as income. If the dividend distribution is paid out of profit generated prior to the acquisition date, it is not recognised as income, unless the date it was generated cannot be reliably and non-arbitrarily identified.

Derecognition of securities loaned or pledged

Securities loaned or pledged are derecognised from the balance sheet when the contractual rights to the cash flows from the asset expire or when the financial asset is transferred and the risks and rewards associated therewith are substantially transferred, or where such risks and rewards are neither substantially transferred nor retained, control over the financial asset is transferred.

On derecognition of the asset, the associated off-balance sheet items are eliminated and the guarantee deposit cancelled, and interest on the deposit and transaction fees are settled.

**(j) Tangible assets**

Tangible assets for own use are carried at cost, which is equivalent to the fair value of the consideration given plus all monetary expenditure incurred or committed, less:

- Accumulated depreciation, and
- Any estimated losses resulting from comparing the carrying amount of each item with its recoverable amount. Fair value estimates obtained through independent expert appraisals do not constitute any proof of impairment unless they differ significantly from the carrying amount.

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Tangible assets are depreciated on a straight-line basis, calculated based on the cost of acquisition of the assets less their residual value. The land on which the buildings and other structures stand is deemed to have an indefinite life and is therefore not depreciated.

Depreciation for the year is recognised under depreciation and amortisation in the income statement and is calculated using the following rates (based on the estimated years of useful life of the various assets):

	<u>Annual percentage</u>	<u>Years of useful life</u>
Buildings	2%	50
Furniture, fixtures and installations	10%	10
IT equipment	20%	5
Other tangible assets	10%	10

Depreciation methods and useful lives of each tangible asset item are reviewed at least at the end of each year.

The cost of maintenance and repairs of tangible assets which do not improve the related assets or lengthen their useful lives are charged to the income statement when incurred.

The purchase price of tangible assets which require over one year to be in working condition includes finance expenses accrued prior to their entering service and which relate to loans or any other type of external financing directly attributable to acquisition, manufacture or construction. The capitalisation of finance expenses is suspended during the years in which development of the asset is discontinued and ceases when all activities required to prepare the asset for its expected use or purpose are substantially completed.

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**(k) Non-current assets held for sale**

Non-current assets held for sale reflect the carrying amount of an asset or a group of assets (disposal group), the sale of which is highly probable, in its current condition, within a year from the reporting date.

Non-current assets held for sale also include equity investments in group companies, associates or joint ventures which meet the requirements described in the preceding paragraph.

Therefore, the carrying amount of these financial or non-financial assets is expected to be recovered through their disposal rather than through continued use.

In particular, property and other non-current assets received by the Bank in full or partial settlement of payment obligations of debtors are considered as non-current assets held for sale, unless the Bank has earmarked them for continued use.

In general, non-current assets held for sale are measured, irrespective of the legal form, at the lower of the carrying amount of the financial assets applied, i.e. at amortised cost, taking into account impairment estimated as per Banco de España Circular 4/2004, which should be no less than 10%, and the market appraisal value of the asset received in its current state less estimated costs to sell, which should in no case be less than 10% of the appraisal value in its current state. The net amount of these two items is the initial cost of the asset received.

Except in rare circumstances supported by clear evidence, assets received in payment of debt do not give rise to the recognition of gains or, where applicable, the release of provisions for the financial assets applied when these have previously been classified as doubtful assets.



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All legal expenses are immediately recognised in the income statement for the period in which the asset is foreclosed. Registration fees and taxes paid could be added to the initial value of the asset, provided that the resulting amount does not exceed the appraisal value less estimated costs to sell. All costs incurred from the date of foreclosure to the date of sale to maintain and protect the asset, such as insurance, security services, etc., are expensed when incurred.

Depreciable tangible assets are not depreciated while they remain in this category.

Fair value is usually calculated based on an appraisal by an independent expert entered into Banco de España's Official Registry.

Foreclosed assets that remain in the balance sheet for a longer period than initially envisaged for their sale are tested on an individual basis and any impairment losses coming to light after acquisition are recognised. Besides the reasonable offers received during the period in relation to the price offered, impairment testing also takes into consideration difficulties to locate a buyer and, in the case of tangible assets, any physical impairment leading to a decline in value.

At the date of the financial statements, the Bank evaluates any internal or external signs of impairment of assets, such as a significant drop in the market value, evidence of obsolescence or an increase in interest rates that could have a material effect on the recoverable amount of an asset. Where such signs exist, the Bank estimates the recoverable amount.

Where the carrying amount of the assets exceeds their fair value less costs to sell, the Bank reduces the carrying amount by the amount of the excess, with a balancing entry in impairment losses on other assets (net) - other assets in the income statement. In the event of subsequent increases in the fair value of the assets, the Bank reverses the previously recognised loss by increasing the carrying amount of the assets up to the amount recorded prior to impairment, with a balancing entry in impairment losses on other assets (net) - other assets in the income statement.

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In any event, in application of Banco de España Circular 2/2012 the Bank calculates the minimum impairment loss on these assets, which takes into account the ageing of assets foreclosed or received in payment of debt.

**(l) Personnel expenses: Termination benefits**

In accordance with prevailing legislation, the Bank pays compensation to those employees whose services are discontinued without just cause. Termination benefits are recognised as a provision for pensions and similar obligations and as a personnel expense when the decision to terminate employment is taken.

**(m) Other provisions and contingencies**

The Bank makes provisions for the estimated amount required to settle present obligations arising from past events, the nature of which is clearly specified but the amount or settlement date of which is uncertain, and which are expected to be settled through an outflow of resources embodying economic benefits.

**(n) Income tax**

The income tax expense for each year is calculated on the basis of pre-tax profits. Deferred tax assets or liabilities arising from temporary differences, as well as tax credits for tax losses for the year, are recognised under deferred tax assets or deferred tax liabilities, as applicable, in the balance sheet.

**(ñ) Statement of cash flows**

The Bank reports its cash flows using the indirect method, using the following expressions and classification criteria:

- Cash flows: inflows and outflows of cash and cash equivalents, the latter being short-term, highly liquid investments subject to a low risk of changes in value.

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- Operating activities: typical activities of credit institutions and other activities that cannot be classified as investing or financing.
- Investing activities: the acquisition, sale or disposal by other means of long-term assets and other investments not included in cash and cash equivalents.
- Financing activities: activities that result in changes in the size and composition of equity and of liabilities that do not form part of operating activities.

(o) **Statement of changes in equity**

The statement of changes in equity included in the accompanying annual accounts shows all changes in equity during the period. This information is disclosed in two separate statements: the statement of recognised income and expense and the statement of total changes in equity. The main characteristics of the information contained in these statements are as follows:

**Statement of recognised income and expense**

This part of the statement of changes in equity includes income and expenses generated or incurred by the Entity during the year in the ordinary course of business, distinguishing between those recognised in the income statement for the year and those recognised directly in equity, in accordance with prevailing legislation.

This statement therefore comprises the following:

- Profit for the year
- Net income and expenses recognised temporarily as valuation adjustments in equity.
- Net income and expenses recognised permanently in equity.

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- Income tax payable in respect of the amounts mentioned in the two preceding points.
- Total recognised income and expense calculated as the sum of the preceding points.

Changes in income and expenses recognised in equity during the year, such as valuation adjustments, are disclosed as follows:

- Revaluation gains/(losses) reflect income, net of expenses incurred during the year, recognised directly in equity. Amounts recognised in this caption during the year continue to be carried at the initial value of other assets or liabilities, even when they are transferred to the income statement in the same year, or they are reclassified to another caption.
- Amounts transferred to the income statement reflect revaluation gains or losses previously recognised in equity, even in the same year, which are accounted for in the income statement.
- Amounts transferred to the initial value of hedged items comprise valuation gains or losses previously recognised in equity, even in the same year, which are accounted for at the initial value of assets or liabilities as a result of cash flow hedges.
- Other reclassifications reflect transfers between valuation adjustments during the year in accordance with criteria established under prevailing legislation.

Amounts disclosed in these captions are gross and the associated tax effect is recognised in income tax, except in the case of valuation adjustments of entities accounted for using the equity method, as mentioned previously.

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### **Statement of total changes in equity**

This part of the statement of changes in equity presents all changes, including those arising from changes in accounting principles and corrections of errors. This statement therefore shows a reconciliation of the opening and closing carrying amounts of all items comprising equity, grouping movements according to their nature, as follows:

- Adjustments due to changes in accounting policy and to correct errors reflect changes in equity due to the retrospective restatement of balances in the financial statements as a result of changes in accounting principles or corrections of errors.
- Income and expenses recognised during the year comprise the aggregate amount of the aforementioned items recognised in the statement of recognised income and expense.
- Other changes in equity comprise the remaining items recognised in equity, such as increases or decreases in assigned capital, distribution of profit or application of losses, transactions with own equity instruments, equity-settled payments, transfers between equity items and any other increases or decreases in equity.

### **(5) Cash and Balances with Central Banks**

Details at 31 December 2015 and 2014 are as follows:

	Thousands of Euros	
	31/12/2015	31/12/2014
Cash	24	15
Central banks	5,543	11,386
	<u>5,567</u>	<u>11,401</u>

All assets under this caption are denominated in Euros at 31 December 2015 and 2014.

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Demand deposits with central banks amount to Euros 5,543 thousand at 31 December 2015 (Euros 11,386 thousand in 2014). The average annual cost is 0.20% in 2015 (0.05% in 2014).

#### (6) Financial Assets Held for Trading

Details at 31 December 2015 and 2014, by type of instrument, counterparty and geographical location of risk, are as follows:

	Thousands of Euros	
	31/12/2015	31/12/2014
<u>Type of instrument</u>		
Debt securities	203,525	100,038
Equity instruments	378	511
Trading derivatives	154	1,324
	<u>204,057</u>	<u>101,873</u>
In Euros	204,057	101,873
Foreign currency	-	-
	<u>204,057</u>	<u>101,873</u>
<u>Counterparty</u>		
Credit institutions	187	1,204
Spanish general government	202,970	100,038
Other resident private sectors	610	446
Other non-resident private sectors	290	185
	<u>204,057</u>	<u>101,873</u>
<u>Geographical location of risk</u>		
Spain	203,640	100,793
Other EMU countries	417	895
Other countries	-	185
	<u>204,057</u>	<u>101,873</u>

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The maximum risk exposure of all assets in the above table is equivalent to their carrying amount. Credit derivatives or similar instruments have not been used to reduce the risk exposure.

The Bank measures these financial instruments as follows:

- using prices in active markets (debt securities, equity instruments, futures and options in official markets); 99.93% in 2015 (98.70% in 2014).
- valuation techniques in which all significant inputs are based on observable market data (discounted future cash flows: interest rate swaps); 0.07% in 2015 (1.30% in 2014).

Details of the effect on the income statements for 2015 and 2014 of changes in the fair value of financial assets and financial liabilities held for trading, based on the different valuation techniques used (see note 15), are as follows:

Pricing model	Thousands of Euros	
	2015	2014
Quoted price in an active market	693	2,256
Valuation techniques based on observable market data	<u>(3,062)</u>	<u>(3,936)</u>
	<u>(2,369)</u>	<u>(1,680)</u>
	(note 24)	(note 24)

In 2015 net gains or losses on financial transactions with trading derivatives include a loss of Euros 5 thousand relating to futures traded on official markets (a loss of Euros 43 thousand in 2014).

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Effective interest rates by type of financial asset held for trading at 31 December 2015 and 2014 are as follows:

	Percentages	
	31/12/2015	31/12/2014
Debt securities	(0.22%) – 2.27%	0.24% - 1.22%

(a) **Debt securities**

Details are as follows:

	Thousands of Euros	
	31/12/2015	31/12/2014
General government	202,970	99,869
Other securities	555	169
	<u>203,525</u>	<u>100,038</u>

All assets under this caption are denominated in Euros at 31 December 2015 and 2014.

Interest and returns on debt securities recognised in the income statement for 2015 amount to Euros 35 thousand (Euros 240 thousand in 2014). An amount of Euros 104 thousand was recognised under other interest expense and similar charges in the income statement in 2015 (see note 22).

Assets loaned and pledged at 31 December 2015 amounted to Euros 190,980 thousand and Euros 190,994 thousand, respectively (Euros 99,869 thousand and Euros 99,820 thousand, respectively, in 2014).



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**(b) Equity instruments**

Details are as follows:

	Thousands of Euros	
	<u>31/12/2015</u>	<u>31/12/2014</u>
Credit institutions	34	-
Other resident sectors	<u>344</u>	<u>511</u>
	<u>378</u>	<u>511</u>
In Euros	378	511
Foreign currency	<u>-</u>	<u>-</u>
	<u>378</u>	<u>511</u>

**(c) Trading derivatives**

Details of trading derivative assets and liabilities are as follows (see note 15):

	Thousands of Euros			
	Assets		Liabilities	
	<u>31/12/2015</u>	<u>31/12/2014</u>	<u>31/12/2015</u>	<u>31/12/2014</u>
Swaps	<u>154</u>	<u>1,324</u>	<u>5,328</u>	<u>5,440</u>
	<u>154</u>	<u>1,324</u>	<u>5,328</u>	<u>5,440</u>
In Euros	154	1,324	5,328	5,440
Foreign currency	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>154</u>	<u>1,324</u>	<u>5,328</u>	<u>5,440</u>

As a result of the agreement described in note 1 whereby EBN BANCO transferred certain assets to the shareholders at that time, in 2014 the Bank derecognised its portfolio of swaps arranged with customers (see note 21).

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Details of notional values based on maturity and fair value at 31 December 2015 and 2014, by type of instrument, are shown below:

- At 31 December 2015

	Thousands of Euros					
	Less than one year	One to five years	More than five years	Total	Fair value	
					Positive	Negative
<i>Interest rate derivatives</i>						
Over-the-counter markets (OTC) Swaps	160,000	531,000	-	691,000	154	5,328
	<u>160,000</u>	<u>531,000</u>	<u>-</u>	<u>691,000</u>	<u>154</u>	<u>5,328</u>
				(note 21)		(note 15)

- At 31 December 2014

	Thousands of Euros					
	Less than one year	One to five years	More than five years	Total	Fair value	
					Positive	Negative
<i>Interest rate derivatives</i>						
Official markets Futures Sold	-	20,000	-	20,000	-	-
Over-the-counter markets (OTC) Swaps	1,326,800	556,000	-	1,882,800	1,324	5,440
	<u>1,326,800</u>	<u>576,000</u>	<u>-</u>	<u>1,902,800</u>	<u>1,324</u>	<u>5,440</u>
				(note 21)		(note 15)

Details of residual maturity and the interest rate repricing matrix for the items comprising the balances in these headings in the balance sheet are provided under Risk Management (see note 36).

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Notes to the Annual Accounts  
at 31 December 2015**(7) Available-for-sale Financial Assets**

Details at 31 December 2015 and 2014, by type of instrument, counterparty and geographical location of risk, are as follows:

	Thousands of Euros	
	31/12/2015	31/12/2014
<u>Type of instrument</u>		
Debt securities	602,090	31,019
Equity instruments	9,851	11,148
Impairment allowances	(38)	-
	<u>611,903</u>	<u>42,167</u>
In Euros	611,903	42,167
Foreign currency	-	-
	<u>611,903</u>	<u>42,167</u>
<u>Counterparty</u>		
Credit institutions	907	878
Spanish general government	602,090	31,019
Other resident sectors	8,819	10,085
Other non-resident sectors	125	185
Impairment allowances	(38)	-
	<u>611,903</u>	<u>42,167</u>
<u>Geographical location of risk</u>		
Spain	611,816	41,982
Other EMU countries	125	185
Impairment allowances	(38)	-
	<u>611,903</u>	<u>42,167</u>

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The maximum risk exposure of all assets in the above table is equivalent to their unimpaired carrying amount. Credit derivatives or similar instruments have not been used to reduce the risk exposure.

Details of the criteria applied by the Bank to measure these assets, and the percentage of the portfolio the assets represent, are as follows:

- using prices in active markets; 99.13% in 2015 (86.11% in 2014).
- using valuation techniques in which a certain significant input is not based on observable market data (recent market transactions and the value obtained from the carrying amount adjusted to take into account possible unrecognised gains or losses): 0.87% in 2015 (13.89% in 2014).

Accumulated gains and losses, net of taxes (valuation adjustments) recognised in equity at 31 December 2015 amount to Euros 1,041 thousand and Euros 1,218 thousand, respectively (Euros 1,576 thousand and Euros 448 thousand at 31 December 2014) (see note 19). Euros 621 thousand was reclassified from equity to gains/(losses) on financial assets and liabilities (net) in the income statement in 2015 (Euros 11,526 thousand to gains/(losses) on financial assets and liabilities (net) and Euros 5,147 thousand to impairment losses in 2014) (see note 24).

At 31 December 2015 and 2014 the Bank has no doubtful assets and has made no specific provisions.

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at 31 December 2015

Movement in impairment allowances recorded to cover credit risk (determined collectively) is as follows:

	Thousands of Euros
Balance at 31/12/2013	-
Charges	-
Recoveries	-
Balance at 31/12/2014	-
Charges	38
Recoveries	-
Balance at 31/12/2015	38

Details of impairment allowances recorded to cover credit risk, by type of instrument, counterparty, and geographical location of risk, are as follows:

	Thousands of Euros		
	Generic		
Instrument	2015	2014	2013
Debt securities	38	-	-
	38	-	-
Counterparty			
General government	38	-	-
	38	-	-
Geographical location of risk			
Spain	38	-	-
	38	-	-

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at 31 December 2015

At 31 December 2015 and 2014 the Bank has not derecognised any impaired available-for-sale financial assets.

At 31 December 2015 and 2014 no assets have been pledged to secure the financing received from Banco de España.

Assets loaned and pledged at 31 December 2015 amounted to Euros 600,084 thousand and Euros 600,065 thousand, respectively (Euros 31,019 thousand and Euros 31,047 thousand, respectively, at 31 December 2014).

Effective interest rates by type of available-for-sale financial asset at 31 December 2015 and 2014 are as follows:

	Percentages	
	31/12/2015	31/12/2014
Debt securities	(0.11%) - 1.27%	0.85%

Interest and returns on debt securities recognised in the income statement for 2015 amount to Euros 94 thousand (Euros 273 thousand in 2014). An amount of Euros 46 thousand was recognised under other interest expense and similar charges in the income statement in 2015 (see note 22).

As a result of the asset sale and purchase transaction with its shareholders at the time, detailed in note 1, EBN BANCO derecognised Euros 595 thousand from equity instruments and reclassified a net loss of Euros 71 thousand from valuation adjustments – available-for-sale financial assets to gains or losses on financial assets and financial liabilities (net) - financial instruments not carried at fair value through profit or loss in the income statement.

Details of residual maturity and the interest rate repricing matrix for the items comprising the balances in these headings in the balance sheet are provided under Risk Management (see note 36).

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Notes to the Annual Accounts  
at 31 December 2015**(8) Loans and Receivables****(a) Balances and maximum credit risk**

Details of loans and receivables at 31 December 2015 and 2014 by type of instrument, counterparty and geographical location of risk are as follows:

<u>Type of instrument</u>	Thousands of Euros	
	<u>31/12/2015</u>	<u>31/12/2014</u>
<u>Loans and advances to credit institutions</u>		
Reverse repurchase agreements	72	71,157
Other accounts	9,192	9,594
Doubtful assets	-	12
Impairment allowances	-	(6)
	<u>9,264</u>	<u>80,757</u>
<u>Loans and advances to other debtors</u>		
Secured receivables	906	1,443
With mortgage guarantee	906	1,443
Other term receivables	511	175
Reverse repurchase agreements	6,374	-
Receivable on demand and other	6,898	4,617
Other financial assets	503	194
Doubtful assets	37	-
Impairment allowances	(165)	(132)
Other valuation adjustments		
Accrued interest	2	1
Financial fees and commissions	(2)	(3)
	<u>15,064</u>	<u>6,295</u>
	<u>15,064</u>	<u>87,052</u>
In Euros	15,064	87,052
Foreign currency	-	-
	<u>15,064</u>	<u>87,052</u>

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Notes to the Annual Accounts  
at 31 December 2015

	Thousands of Euros	
	31/12/2015	31/12/2014
<u>Counterparty</u>		
Credit institutions	9,264	80,763
Other resident sectors	8,921	2,400
Other non-resident sectors	6,308	4,029
Impairment allowances	(165)	(138)
Other valuation adjustments		
Accrued interest	2	1
Financial fees and commissions	(2)	(3)
	<u>24,328</u>	<u>87,052</u>
<u>Geographical location</u>		
Spain	17,344	81,427
EMU countries	841	1,736
Rest of world	6,308	4,029
Impairment allowances	(165)	(138)
Other valuation adjustments		
Accrued interest	2	1
Financial fees and commissions	(2)	(3)
	<u>24,328</u>	<u>87,052</u>

The maximum risk exposure of all assets in the above table is equivalent to their unimpaired carrying amount. Credit derivatives or similar instruments have not been used to reduce the risk exposure.

Assets loaned and pledged at 31 December 2015 amounted to Euros 6,374 thousand and Euros 4,049 thousand, respectively (Euros 69,145 thousand and Euros 69,117 thousand, respectively, at 31 December 2014).

At 31 December 2015 and 2014 no assets had been pledged to secure the financing received from Banco de España.



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As a result of the asset sale and purchase transaction carried out on 11 April 2014 with its shareholders up until that date, described in note 1, in 2014 EBN BANCO derecognised loans and receivables totalling Euros 12,625 thousand as follows:

	Thousands of Euros
Secured receivables	
With mortgage guarantee	6,186
With other security	573
Other term receivables	5,989
Receivable on demand and other	4
Impairment allowances	(75)
Other valuation adjustments	
Accrued interest	45
Financial fees and commissions	(97)
	<hr/> 12,625
Less interest and similar income received	<hr/> (34)
	<hr/> <hr/> 12,591

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Notes to the Annual Accounts  
at 31 December 2015**(b) Past-due unimpaired assets**

The arrears brackets for past-due unimpaired assets and related collateral are as follows:

	Thousands of Euros							
	Past-due unimpaired							
	Less than 1 month		1 to 2 months		2 to 3 months		Total	
2015	2014	2015	2014	2015	2014	2015	2014	
<u>Geographical area</u>								
Spain	2	41	-	-	-	-	2	41
	<u>2</u>	<u>41</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2</u>	<u>41</u>
<u>Counterparty</u>								
Other resident sectors	2	41	-	-	-	-	2	41
	<u>2</u>	<u>41</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2</u>	<u>41</u>
<u>Secured/unsecured</u>								
Unsecured	2	39	-	-	-	-	2	39
With mortgage security	-	2	-	-	-	-	-	2
	<u>2</u>	<u>41</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2</u>	<u>41</u>

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Notes to the Annual Accounts  
at 31 December 2015**(c) Past-due and outstanding impaired assets**

The arrears brackets for past-due impaired assets and for outstanding impaired assets, and related collateral, are as follows:

	Thousands of Euros											
	Past-due impaired assets						Impaired assets					
	Up to 6 months		6 to 12 months		12 to 24 months		More than 24 months		Outstanding		Total	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
<u>Geographical area</u>												
Spain	-	12	-	-	37	-	-	-	-	-	37	12
	-	12	-	-	-	-	-	-	-	-	37	12
<u>Counterparty</u>												
Credit institutions	-	12	-	-	-	-	-	-	-	-	-	12
Other resident sectors	-	-	-	-	37	-	-	-	-	-	37	-
	-	12	-	-	37	-	-	-	-	-	37	12
<u>Secured/unsecured</u>												
Unsecured	-	12	-	-	37	-	-	-	-	-	37	12
	-	12	-	-	37	-	-	-	-	-	37	12

At 31 December 2015 and 2014 the assets classified as doubtful assets are not secured.

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As a result of the asset sale and purchase transaction with its shareholders until that date, described in note 1, in 2014 EBN BANCO derecognised doubtful assets under loans and receivables totalling Euros 3,258 thousand as follows:

	Thousands of Euros
Doubtful assets	6,125
Impairment allowances	(2,867)
	<u>3,258</u>
Less interest and similar income received	<u>(1)</u>
	<u><u>3,257</u></u>

As a result of the transfer of the portfolio of swaps arranged with customers detailed in note 1, in 2014 the Bank derecognised doubtful assets under loans and receivables, totalling Euros 34 thousand in respect of unpaid IRS settlements with their corresponding impairment of Euros 25 thousand.

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Notes to the Annual Accounts  
at 31 December 2015

Movement in impairment allowances recorded to cover specific credit risk (determined individually) or general credit risk (determined collectively) in 2015 and 2014 is as follows:

	Thousands of Euros		
	Specific	Generic	Total
Balance at 31/12/2013	3,440	25	3,465
Additions	812	25	837
Recoveries	(36)	-	(36)
Applications	(4,108)	(20)	(4,128)
Balance at 31/12/2014	108	30	138
Additions	90	3	93
Recoveries	(6)	(8)	(14)
Applications	(52)	-	(52)
Balance at 31/12/2015	140	25	165

Amounts used reflect the reclassification of Euros 52 thousand from doubtful assets to write-offs in 2015 (Euros 769 thousand in 2014, as well as the use of a provision of Euros 392 thousand on the sale of loans to third parties and the use of a provision of Euros 2,967 thousand for the asset sale and purchase detailed in note 1).

In 2015 the Group recovered defaulted assets valued at Euros 2 thousand, which have been recognised under impairment losses on financial assets – loans and receivables in the income statement (Euros 2,322 thousand in 2014).

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Details of impairment allowances recorded to cover credit risk, by type of instrument, counterparty and geographical location of risk, are as follows:

Instrument	Thousands of Euros					
	Specific			Generic		
	2015	2014	2013	2015	2014	2013
Credit institutions	-	6	-	-	-	-
Loans and advances to other debtors	140	102	3,440	25	30	25
	<u>140</u>	<u>108</u>	<u>3,440</u>	<u>25</u>	<u>30</u>	<u>25</u>
<b>Counterparty</b>						
Credit institutions	-	6	-	-	-	-
Other resident private sectors	140	102	3,405	25	30	23
Other non-resident private sectors	-	-	35	-	-	2
	<u>140</u>	<u>108</u>	<u>3,440</u>	<u>25</u>	<u>30</u>	<u>25</u>
<b>Geographical location of risk</b>						
Spain	140	108	3,405	25	30	23
Other countries	-	-	35	-	-	2
	<u>140</u>	<u>108</u>	<u>3,440</u>	<u>25</u>	<u>30</u>	<u>25</u>

## EBN Banco de Negocios, S.A.

Notes to the Annual Accounts  
at 31 December 2015

Movement in derecognised loans and receivables in 2015 and 2014 is as follows:

	Thousands of Euros	
	2015	2014
Opening balance	599	73,894
Additions:		
Unlikely recovery, charged to impairment allowances	52	769
Past-due receivables	90	253
Disposals:		
Cash collection	(2)	(2,322)
Other items	-	(71,995)
Closing balance	739	599
	(note 21)	(note 21)

Disposals of other items in 2014 reflect the sale of recovered write-off assets arranged during 2014. At 31 December 2014 the Bank recognised the liability assumed on this transaction as contingent commitments (see note 20).

Effective interest rates by type of loan or receivable are as follows:

	Percentages	
	31/12/2015	31/12/2014
Loans and advances to credit institutions	0.00% - 0.01%	0.00% - 0.01%
Loans and advances to other debtors	0.51% - 2.79%	0.76% -2.93%

The effective interest rate of loans and advances to other debtors does not include that applicable to fees for financial guarantees.

## EBN Banco de Negocios, S.A.

Notes to the Annual Accounts  
at 31 December 2015

Details of interest by type of loan and receivable recognised in the income statements for 2015 and 2014 are as follows (see note 22):

	Thousands of Euros	
	2015	2014
Loans and advances to credit institutions	2	103
Loans and advances to other debtors	44	89
Doubtful assets	-	80
Other financial assets	-	25
	<u>46</u>	<u>297</u>

Other interest expense and similar charges in the income statement for 2015 include Euros 21 thousand for interest costs accrued on reverse repurchase agreements (see note 22).

The fair value of loans and receivables by type of instrument is provided under financial and non-financial assets and liabilities not carried at fair value (see note 35).

Details of residual maturity and the interest rate repricing matrix for the items comprising the most significant balances in these headings in the balance sheet are provided under Risk Management (see note 36).



EBN Banco de Negocios, S.A.

Notes to the Annual Accounts  
at 31 December 2015**(9) Held-to-Maturity Investments**

Details at 31 December 2015 and 2014, by type of instrument, counterparty and geographical location of risk, are as follows:

	Thousands of Euros	
	31/12/2015	31/12/2014
<u>Type of instrument</u>		
Debt securities	630,706	702,306
Impairment allowances	(1,014)	(1,251)
	629,692	701,055
<u>Counterparty</u>		
Credit institutions	3,190	13,691
Spanish general government	623,523	683,806
Other resident sectors	3,993	4,809
Impairment allowances	(1,014)	(1,251)
	629,692	701,055
<u>Geographical location of risk</u>		
Spain	630,706	702,306
Impairment allowances	(1,014)	(1,251)
	629,692	701,055

All balances in this caption are denominated in Euros at 31 December 2015 and 2014.

The maximum risk exposure of all assets in the above table is equivalent to their unimpaired carrying amount. Credit derivatives or similar instruments have not been used to reduce the risk exposure.

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Assets loaned and pledged at 31 December 2015 amounted to Euros 578,613 thousand and Euros 587,445 thousand, respectively (Euros 576,459 thousand and Euros 589,278 thousand, respectively, at 31 December 2014).

Assets pledged to secure financing extended by Banco de España totalled Euros 11,444 thousand at 31 December 2015 (Euros 74,687 thousand at 31 December 2014).

Movement in impairment allowances recorded to cover specific credit risk (determined individually) or general credit risk (determined collectively) is as follows:

	Thousands of Euros		
	Specific	Generic	Total
Balance at 31/12/2013	-	58	58
Charges	880	347	1,227
Recoveries	-	(34)	(34)
Balance at 31/12/2014	<u>880</u>	<u>371</u>	<u>1,251</u>
Charges	-	141	141
Recoveries	(129)	(249)	(378)
Balance at 31/12/2015	<u>751</u>	<u>263</u>	<u>1,014</u>

## EBN Banco de Negocios, S.A.

Notes to the Annual Accounts  
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Details of impairment allowances recorded to cover credit risk, by type of instrument, counterparty, and geographical location of risk, are as follows:

Instrument	Thousands of Euros					
	Specific			Generic		
	2015	2014	2013	2015	2014	20123
Debt securities	751	880	-	263	371	58
	<u>751</u>	<u>880</u>	<u>-</u>	<u>263</u>	<u>371</u>	<u>58</u>
<b>Counterparty</b>						
Credit institutions	-	-	-	72	273	24
Spanish general government	-	-	-	191	90	4
Other resident private sectors	751	880	-	-	8	30
	<u>751</u>	<u>880</u>	<u>-</u>	<u>263</u>	<u>371</u>	<u>58</u>
<b>Geographical location of risk</b>						
Spain	751	880	-	263	371	58
	<u>751</u>	<u>880</u>	<u>-</u>	<u>263</u>	<u>371</u>	<u>58</u>

At 31 December 2015 and 2014 the Bank has not written off any instruments in the held-to-maturity portfolio.

## EBN Banco de Negocios, S.A.

Notes to the Annual Accounts  
at 31 December 2015

Movement in derecognised held-to-maturity investments in 2015 and 2014 is as follows:

	<u>Thousands of Euros</u>
2014 opening balance	11,836
Disposals:	
Cash recovery of principal	(851)
Other items	<u>(10,985)</u>
	(11,836)
2014 closing balance (note 21)	<u>-</u>
Disposals:	
Cash recovery of principal	-
Other items	<u>-</u>
2015 closing balance (note 21)	<u><u>-</u></u>

Disposals of other items in 2014 reflect the sale of recovered write-off assets arranged in that year.

Effective interest rates by type of held-to-maturity investment at 31 December 2015 and 2014 are as follows:

	<u>Percentages</u>	
	<u>31/12/2015</u>	<u>31/12/2014</u>
Debt securities	0.12% - 3.01%	0.32% - 4.46%

## EBN Banco de Negocios, S.A.

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Details of interest and net gains or losses on financial assets by type of held-to-maturity investment recognised in the income statements for 2015 and 2014 are as follows:

	Thousands of Euros			
	Interest		Gains/(losses) on financial assets and liabilities (net)	
	2015	2014	2015	2014
Debt securities				
Quoted	<u>13,080</u>	<u>16,831</u>	<u>340</u>	<u>(2,794)</u>
	<u>13,080</u>	<u>16,831</u>	<u>340</u>	<u>(2,794)</u>
	(note 22)	(note 22)	(note 24)	(note 24)

The fair value of held-to-maturity investments by type of instrument is provided under Financial and Non-financial Assets and Liabilities Not Carried at Fair Value (see note 35).

Details of residual maturity and the interest rate repricing matrix for the items comprising the balances in these captions in the balance sheet are provided under Risk Management (see note 36).

EBN Banco de Negocios, S.A.

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at 31 December 2015

### (10) Non-current Assets Held for Sale

Details and movement at 31 December 2015 and 2014 are as follows:

	Thousands of Euros				
	31/12/2013	Additions	31/12/2014	Additions	31/12/2015
<u>Cost</u>					
Foreclosed assets	1,832	-	1,832	-	1,832
	<u>1,832</u>	<u>-</u>	<u>1,832</u>	<u>-</u>	<u>1,832</u>
<u>Impairment</u>					
Asset impairment	(458)	(71)	(529)	(36)	(565)
Net balance	<u>1,374</u>	<u>(71)</u>	<u>1,303</u>	<u>(36)</u>	<u>1,267</u>

All balances in this caption are denominated in Euros at 31 December 2015 and 2014.

At 31 December 2015 and 2014 non-current assets held for sale comprise two assets foreclosed following the execution of the guarantees provided due to non-payment by the borrowers. These are an industrial bay for which the Bank, together with the other owner banks, arranged a lease contract with a third party in 2013 with a term of five years, and a land plot for the construction of a hotel, the sale of which is being managed by the Bank together with the other owner banks.

In 2015 the Bank has recognised Euros 36 thousand in impairment losses on non-current assets held for sale (Euros 71 thousand in 2014), thereby respecting the minimum impairment required for these assets based on their ageing. At 31 December 2015 and 2014, the industrial bay had been on the balance sheet for over 24 months. At 31 December 2015 the hotel building under construction recognised as a non-current asset held for sale had also been on the balance sheet for more than 24 months (12-24 months at 31 December 2014).

The Bank has no gains on sales with financing to the buyer pending recognition in the income statement at 31 December 2015 and 2014.

EBN Banco de Negocios, S.A.

Notes to the Annual Accounts  
at 31 December 2015

The Bank has not recognised any liabilities associated with non-current assets held for sale at 31 December 2015 and 2014.

The fair value of non-current real estate assets held for sale is provided under Financial and Non-financial Assets and Liabilities Not Carried at Fair Value (see note 35).

### (11) Equity investments

Details are as follows:

	Thousands of Euros	
	31/12/2015	31/12/2014
<u>Cost</u>		
Associates	-	-
Jointly controlled entities	-	-
Group companies	1,011	1,011
	<u>1,011</u>	<u>1,011</u>
<u>Impairment allowances</u>		
Associates	-	-
Jointly controlled entities	-	-
Group companies	-	-
	<u>-</u>	<u>-</u>
Carrying amount	<u>1,011</u>	<u>1,011</u>

All assets under this caption are denominated in Euros at 31 December 2015 and 2014.

Details of Group companies by type of equity investment in 2015 and 2014 are provided in Appendix II.

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As a result of the asset sale and purchase transaction with its then shareholders, detailed in note 1, EBN BANCO derecognised Euros 1,733 thousand from equity investments at 31 December 2014, which break down as follows:

	Thousands of Euros
Equity investments	3,061
Impairment allowances	(1,328)
	<u>1,733</u>
Gains on disposal of assets not classified as non-current assets held for sale	<u>1,258</u>
	<u><u>2,991</u></u>

At 31 December 2015 and 2014 none of these equity investments are quoted on official markets.

Details of valuation adjustments by type of equity investment and movement during the year are as follows:

	Thousands of Euros			Total
	Associates	Jointly controlled entities	Group entities	
Balance at 31/12/2013	169	1,159	-	1,328
Applications	<u>(169)</u>	<u>(1,159)</u>	-	<u>(1,328)</u>
Balance at 31/12/2014	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Applications	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance at 31/12/2015	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>



## EBN Banco de Negocios, S.A.

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at 31 December 2015

In 2014 provisions of Euros 1,328 thousand were used in respect of investments in associates and jointly controlled entities as a result of the transfer of assets in the sale and purchase transaction with the shareholders at that date detailed in note 1.

**(12) Tangible Assets. Fixed Assets for Own Use**

Details and movement in 2015 and 2014 are as follows:

	Thousands of Euros				
	31/12/20 13	Additions	31/12/20 14	Additions	31/12/20 15
<u>Cost</u>					
IT equipment and installations	901	61	962	8	970
Furniture, vehicles and other installations	1,760	-	1,760	1	1,761
Buildings	44,025	-	44,025		44,025
Other	452	4	456	1	457
	47,138	65	47,203	10	47,213
<u>Accumulated depreciation</u>					
IT equipment and installations	(864)	(29)	(893)	(22)	(915)
Furniture, vehicles and other installations	(1,501)	(60)	(1,561)	(46)	(1,607)
Buildings	(1,944)	(449)	(2,393)	(449)	(2,842)
Other	(287)	(25)	(312)	(25)	(337)
	(4,596)	(563)	(5,159)	(542)	(5,701)
Net balance	42,542	(498)	42,044	(532)	41,512

At 31 December 2015 the cost of fully depreciated tangible assets for own use that are in use totals Euros 2,452 thousand (Euros 2,272 thousand at 31 December 2014).

On 28 February 2008, the Bank acquired the building in which its registered office is currently located for Euros 34,999 thousand.

EBN Banco de Negocios, S.A.

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at 31 December 2015

The Bank financed the purchase through a Euros 27,999 thousand syndicated mortgage loan extended by all of its shareholders up to the date of the corporate transaction described in note 1 of these notes (see note 16 (b) and Appendix I on balances and transactions with related parties).

In 2015 and 2014 no compensation or indemnities have been received or are expected to be received from third parties for the impairment or decline in value of tangible assets for own use.

All of the Bank's tangible assets for own use are denominated in Euros at 31 December 2015 and 2014.

The fair value of tangible assets for own use is provided under Financial and Non-financial Assets and Liabilities Not Carried at Fair Value (see note 35).

## EBN Banco de Negocios, S.A.

Notes to the Annual Accounts  
at 31 December 2015**(13) Tax Assets and Liabilities**

Details at 31 December 2015 and 2014 are as follows:

	Thousands of Euros			
	Current		Deferred	
	31/12/2015	31/12/2014	31/12/2015	31/12/2014
<u>Tax assets</u>				
<u>Current</u>				
Withholdings and payments on account of income tax (note 34)	1,648	979	-	-
Income tax deductions (note 34)	406	-	-	-
Other	49	61	-	-
<u>Deferred</u>				
Deferred tax for depreciation of non-current assets	-	-	91	101
Tax deferral for loyalty funds	-	-	441	370
Deferred tax for provision for loan losses	-	-	134	2,033
Deferred tax for specific funds	-	-	409	319
Deferred tax convertible under RDL 14/2013	-	-	4,649	3,580
Deferred tax for loss carryforwards	-	-	13,696	13,279
Deferred tax for deductions	-	-	-	858
Deferred tax for measurement of equity instruments	-	-	498	192
Deferred tax for measurement of debt instruments	-	-	24	-
Deferred tax for impairment of debt instruments	-	-	220	247
Deferred tax for impairment of equity instruments	-	-	67	67
	<u>2,103</u>	<u>1,040</u>	<u>20,229</u>	<u>21,046</u>
<u>Tax liabilities</u>				
<u>Current</u>				
Output VAT	11	14	-	-
Income tax	402	836	-	-
Income tax of other tax group companies	4	48	-	-
<u>Deferred</u>				
Deferred tax for measurement of equity instruments	-	-	434	583
Deferred tax for measurement of debt instruments	-	-	12	92
	<u>417</u>	<u>898</u>	<u>446</u>	<u>675</u>

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Withholdings and payments on account of income tax comprise Euros 979 *thousand?* for prior years.

Euros 4,649 thousand (Euros 3,580 thousand at 31 December 2014) of the total deferred tax assets of Euros 20,229 thousand (Euros 21,046 thousand at 31 December 2014) can be monetised, as can an additional Euros 134 thousand (Euros 2,033 thousand at 31 December 2014) of temporary differences derived from provisions for bad debts recognised, in accordance with RD 14/2013 of 29 November 2013 which permits the conversion of deferred tax assets into a credit receivable from the taxation authorities in any of the following circumstances:

- a) The taxpayer recognises accounting losses in its approved audited annual accounts.

In such cases, the amount of deferred tax assets to be converted is determined by multiplying their total amount by accounting losses for the year as a percentage of the institution's total capital and reserves.

- b) The entity is in liquidation or has been legally declared insolvent.

At 31 December 2015 the consolidated tax group has unused deductions for double taxation of dividends and internal double taxation amounting to Euros 1,844 thousand (Euros 2,249 thousand at 31 December 2014) that have not been recognised as deferred tax assets.

## EBN Banco de Negocios, S.A.

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at 31 December 2015

Movement in deferred tax assets and liabilities in 2015 and 2014 are as follows:

	Deferred tax	
	Assets	Liabilities
Balance at 31/12/2013	23,572	4,008
Additions		92
Derecognitions	(155)	(3,404)
Adjustments against the income statement	<u>(2,371)</u>	<u>(21)</u>
Balance at 31/12/2014	<u>21,046</u>	<u>675</u>
Additions	1,178	-
Derecognitions	(890)	(229)
Adjustments against the income statement	<u>(1,105)</u>	<u>-</u>
Balance at 31/12/2015	<u>20,229</u>	<u>446</u>

	Thousands of Euros			
	31/12/2015		31/12/2014	
In Euros	20,229	446	21,046	675
Foreign currency	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>20,229</u>	<u>446</u>	<u>21,046</u>	<u>675</u>

Movement in deferred tax assets and liabilities (additions and derecognitions) at 31 December 2015 and 2014 mainly reflects tax deferrals for the provision for loan losses, other non-deductible provisions, commissions for financial guarantees, measurement of available-for-sale financial assets and equity investment impairment allowances.

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Additions of deferred taxes include Euros 865 thousand (derecognition of Euros 8 thousand at 31 December 2014) reflecting adjustments due to differences between the provision for income tax for 2014 and 2013 and the definitive settlement. At 31 December 2015, related party transactions include Euros 17 thousand in debt owed by EBN Capital to EBN BANCO in 2015 for the use of tax credits deriving from the application of the special consolidated tax regime (Euros 473 thousand at 31 December 2014).

**(14) Other Assets and Liabilities**

Details are as follows:

	Thousands of Euros	
	31/12/2015	31/12/2014
<u>Assets</u>		
Fees and commissions for guarantees	44	86
Prepaid expenses	49	50
Other	210	408
	<u>303</u>	<u>544</u>
<u>Liabilities</u>		
Fees and commissions for guarantees	40	81
Other accruals	1,555	2,188
Other	1	86
	<u>1,596</u>	<u>2,355</u>

All the assets and liabilities in this caption are denominated in Euros at 31 December 2015 and 2014.

Fees and commissions for guarantees include the discounted value of future cash flows from fees and commissions receivable for guarantees, in accordance with the accounting treatment prescribed in Circular 4/2004.

EBN Banco de Negocios, S.A.

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Other accruals include deferred income from unaccrued lending agency fees, amounting to Euros 94 thousand at 31 December 2015 (Euros 141 thousand at 31 December 2014), and a provision for administrative expenses totalling Euros 1,146 thousand (Euros 1,615 thousand at 31 December 2014) which includes the variable remuneration payable to employees in the first months of the subsequent year. At 31 December 2015, other accruals also include contributions of Euros 314 thousand payable to the Deposit Guarantee Fund (Euros 423 thousand at 31 December 2014) (see note 1).

Other assets and liabilities mainly comprise accounts receivable and payable in the first days of the following year.

#### **(15) Financial Liabilities Held for Trading**

Details at 31 December 2015 and 2014 are as follows:

	Thousands of Euros	
	31/12/2015	31/12/2014
Trading derivatives	5,328	5,440
Short positions	2,342	31,129
	<u>7,670</u>	<u>36,569</u>
In Euros	7,670	36,569
Foreign currency	-	-
	<u>7,670</u>	<u>36,569</u>

As a result of the share and purchase transaction described in note 1 above, the portfolio of swaps contracted with customers was transferred in 2014 together with the related hedging market positions.

EBN Banco de Negocios, S.A.

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at 31 December 2015

The Bank measures financial liabilities held for trading as follows:

- using prices in active markets (short positions); 30.53% at 31 December 2015 (85.12% at 31 December 2014).
- valuation techniques in which all significant inputs are based on observable market data (discounted future cash flows: interest rate swaps); 69.47% at 31 December 2015 (14.88% at 31 December 2014).

Details of the effect on the income statements for 2015 and 2014 of changes in the fair value of financial assets and financial liabilities held for trading, based on the different valuation techniques used, are provided in note 6.

#### **(16) Financial Liabilities at Amortised Cost**

Details at 31 December 2015 and 2014 are as follows:

	Thousands of Euros	
	31/12/2015	31/12/2014
Deposits from central banks	9,200	74,377
Deposits from credit institutions	1,127,474	569,598
Deposits from other creditors	326,217	261,853
Other financial liabilities	243	354
	<u>1,463,134</u>	<u>906,182</u>
In Euros	1,463,134	906,182
Foreign currency	-	-
	<u>1,463,134</u>	<u>906,182</u>

Financial liabilities at amortised cost are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method.



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Valuation adjustments to financial liabilities at amortised cost at 31 December 2015 and 2014 are as follows:

	Thousands of Euros	
	31/12/2015	31/12/2014
Accrued interest	(46)	830
Transaction costs	(205)	(234)
	<u>(251)</u>	<u>596</u>

Effective interest rates by type of financial liability at amortised cost are as follows:

	Percentages	
	31/12/2015	31/12/2014
Deposits from central banks	0.05%	0.05%
Deposits from credit institutions	(0.15%) - 0.7%	0.05% - 0.5%
Deposits from other creditors	0% - 1.99%	0% - 1.99%

Interest expense and similar charges by type of financial liability at amortised cost recognised in the income statement amount to Euros 1,000 thousand in 2015 (Euros 2,969 thousand in 2014). Other interest and similar income in the income statement for 2015 include Euros 526 thousand for interest and returns accrued on repurchase agreements (see note 22).

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(a) **Deposits from central banks**

Details are as follows:

	<u>Thousands of Euros</u>	
	<u>31/12/2015</u>	<u>31/12/2014</u>
Time deposits	9,200	73,700
Valuation adjustments		
Accrued interest	-	677
	<u>9,200</u>	<u>74,377</u>

All liabilities in this caption are denominated in Euros at 31 December 2015 and 2014.

At 31 December 2015 time deposits include amounts drawn down on a credit facility secured by quoted debt securities, of which Euros 9,200 thousand matures within one week (Euros 27,200 thousand in one month and Euros 46,500 thousand in one to three months at 31 December 2014).

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**(b) Deposits from credit institutions**

Details are as follows:

	Thousands of Euros	
	31/12/2015	31/12/2014
Time deposits	14,377	31,244
Repurchase agreements	1,113,389	538,528
Valuation adjustments		
Accrued interest	(87)	60
Transaction costs	(205)	(234)
	<u>1,127,474</u>	<u>569,598</u>
In Euros	1,127,474	569,598
Foreign currency	<u>-</u>	<u>-</u>
	<u>1,127,474</u>	<u>569,598</u>

Time deposits include a mortgage loan for the purchase of the building (see note 12) with a principal of Euros 13,377 thousand outstanding at 31 December 2015 (Euros 15,244 thousand at 31 December 2014).

EBN Banco de Negocios, S.A.

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at 31 December 2015

(c) **Deposits from other creditors**

Details are as follows:

	Thousands of Euros	
	31/12/2015	31/12/2014
<u>Type of instrument</u>		
Current accounts	47,171	42,114
Other demand deposits	15	15
Time deposits	9,826	26
Repurchase agreements	269,164	219,605
Valuation adjustments: Accrued interest	41	93
	<u>326,217</u>	<u>261,853</u>
In Euros	326,217	261,853
Foreign currency	-	-
	<u>326,217</u>	<u>261,853</u>
<u>Counterparty</u>		
Spanish general government	2	562
Other resident sectors	326,034	261,073
Other non-resident sectors	140	125
Valuation adjustments Accrued interest	41	93
	<u>326,217</u>	<u>261,853</u>
<u>Geographical location</u>		
Spain	326,036	261,635
Other EMU countries	82	76
Other countries	58	49
Valuation adjustments Accrued interest	41	93
	<u>326,217</u>	<u>261,853</u>

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**(d) Other financial liabilities**

Details are as follows:

	Thousands of Euros	
	<u>31/12/2015</u>	<u>31/12/2014</u>
Payment obligations		
Trade payables	54	48
Tax collection accounts		
Withholding tax on salaries	94	97
Withholding tax on capital income	6	2
Social Security contributions payable	53	57
Fees and commissions for financial guarantees	36	150
	<u>243</u>	<u>354</u>

All balances in this caption are stated in Euros at 31 December 2015 and 2014.

Fees and commissions for financial guarantees include the present value of future fees and commissions on financial guarantees, which are pending recognition on an accruals basis, as established in Circular 4/2004.

The fair value of each type of financial liability at amortised cost and the valuation method used are provided under financial and non-financial assets and liabilities not carried at fair value (see note 35).

Details of residual maturity and the interest rate repricing matrix for the items comprising the balances in these captions in the balance sheet are provided under Risk Management (see note 36).

## EBN Banco de Negocios, S.A.

Notes to the Annual Accounts  
at 31 December 2015**(17) Provisions**

Details at 31 December 2015 and 2014 are as follows:

	Thousands of Euros	
	31/12/2015	31/12/2014
Provisions for pensions and similar obligations	30	1,235
Provisions for contingent exposures and commitments	152	204
Other provisions	5,830	3,964
	<u>6,012</u>	<u>5,403</u>

Movement during 2015 and 2014 by type of provision is as follows:

	Thousands of Euros			
	Provisions for pensions and similar obligations	Provisions for contingencies and commitments	Other provisions	Total
Balance at 31/12/2013	996	576	2,258	3,830
Additions	239	113	2,034	2,386
Derecognitions	-	(485)	-	(485)
Applications	-	-	(328)	(328)
Balance at 31/12/2014	<u>1,235</u>	<u>204</u>	<u>3,964</u>	<u>5,403</u>
Additions	30	97	240	367
Derecognitions	-	(150)	-	(150)
Other movements	(1,235)	-	1,644	409
Applications	-	-	(17)	(17)
Balance at 31/12/2015	<u>30</u>	<u>151</u>	<u>5,831</u>	<u>6,012</u>
	(note 21)			

Additions to provisions for pensions and similar obligations at 31 December 2015 and 2014 are charged to administrative expenses - personnel expenses (see note 26) in the income statement.

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(a) **Provisions for pensions and similar obligations**

At 31 December 2015 provisions for pensions and similar obligations include Euros 30 thousand provisioned in 2015 for employees' pensions as established in the collective bargaining agreement.

At 31 December 2014 this caption comprised a provision of Euros 1,235 thousand for the loyalty bonus, which in 2015 was recognised under other provisions.

ASSETS (b) **Provisions for contingent exposures and commitments**

At 31 December 2015 provisions for contingent exposures and commitments comprise Euros 32 thousand reflecting the generic provision calculated in accordance with Annex IX of Circular 4/2004 (Euros 64 thousand at 31 December 2014).

A specific provision of Euros 119 thousand has been made at 31 December 2015 (Euros 140 thousand at 31 December 2014).

(c) **Other provisions**

At 31 December 2015 other provisions include Euros 1,475 thousand for a loyalty bonus.

At 31 December 2014 this bonus was recognised under the provision for pensions and similar obligations and amounted to Euros 1,235 thousand. This provision for the loyalty bonus is accrued for one employee entitled to receive a cash payment for remaining with the Bank after November 2009. In 2015 the Bank has increased this provision by a further Euros 240 thousand (Euros 239 thousand in 2014).

At 31 December 2015 and 2014 this caption also includes provisions for possible contingencies deriving from a matter under litigation.

EBN Banco de Negocios, S.A.

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## (18) Shareholders' Equity

Details of the Bank's equity and movement in 2015 and 2014 are shown in the statement of total changes in equity.

### (a) Share capital or assigned capital

At 31 December 2015 and 2014 the share capital of EBN Banco de Negocios, S.A. is represented by 8,366,234 registered unquoted shares of Euros 6.01 par value each, subscribed and fully paid. All shares have the same voting and profit sharing rights.

Details of shareholders that hold at least a 10% interest in the share capital of the Bank at 31 December 2015 and 2014 are as follows:

	Thousands of Euros		% interest	
	31/12/2015	31/12/2014	31/12/2015	31/12/2014
Mr. José Gracia Barba	14,000.2	-	27.84	-
Mr. Santiago Fernández Valbuena as common marital property with Mrs M <sup>a</sup> Isabel de la Rosa Barrera	14,000.2	-	27.84	-
Co-ownership on 50%/50% basis. One part owned by Mr Gracia and the other part common marital ownership by Mr Santiago Fernández Valbuena and his wife Mrs M <sup>a</sup> Isabel de la Rosa	14,424.4	-	28.69	-
Unicaja Banco, S.A.	-	10,606.2	-	21.094
Ibercaja Banco, S.A.U.	-	10,606.2	-	21.094
Banco Mare Nostrum, S.A.	-	10,606.2	-	21.094
Banco de Caja España de Inversiones Salamanca y Soria, S.A.U.	-	10,606.2	-	21.094
Own shares	7,856.2	7,856.2	15.624	15.624
	<u>50,281</u>	<u>50,281</u>	<u>100.00</u>	<u>100.00</u>

EBN BANCO and one of its shareholders at that time, Banco Sabadell, S.A., entered into a sale and purchase agreement, whereby Banco Sabadell, S.A. sold 1,307,190 shares it held, representing 15.624% of the share capital of EBN BANCO, to the latter to hold as own shares. This agreement was raised to public deed on 24 March 2014. The amount of the transaction was Euro 1 and therefore had no impact on equity at 31 December 2015 and 2014.



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On 29 September 2015, the sale and purchase agreement entered into on 27 November 2014 by the four shareholding entities of EBN Banco until that date was finally completed, after complying with the condition precedent of the evaluation and non-opposition of the agreement by the European Central Bank, in accordance with article 18 of Law 10/2014, of 26 June 2014, on the organisation, supervision and solvency of financial institutions and article 25 of Royal Decree 84/2015, of 13 February 2015, which implemented that Law.

**(b) Share premium**

At 31 December 2015 and 2014 the share premium is subject to the same restrictions and may be used for the same purposes as the voluntary reserves of the Bank, including conversion into share capital.

**(c) Reserves**

Details at 31 December 2015 and 2014 are as follows:

	<u>Thousands of Euros</u>	
	<u>31/12/2015</u>	<u>31/12/2014</u>
Accumulated reserves		
Legal reserve	5,603	5,603
Voluntary reserves	(14,664)	(22,090)
First-time application reserves	<u>5,151</u>	<u>5,151</u>
	<u>(3,910)</u>	<u>(11,336)</u>

- **Legal reserve**

Companies are obliged to transfer 10% of the profits for the year to a legal reserve until such reserve reaches an amount equal to 20% of the share capital. This reserve is not distributable to shareholders and may only be used to offset losses if no other reserves are available. Under certain conditions it may be used to increase share capital provided that the balance left on the reserve is at least equal to 10% of the nominal value of the total share capital after the increase.

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- Voluntary reserves

Voluntary reserves are freely distributable.

- First-time application reserves

This reserve reflects the adjustments made to the opening balance sheet at 1 January 2004 deriving from the application of the new accounting standards in 2005.

**(d) Capital adequacy**

On 27 June 2013 the new regulation on minimum capital requirements (called CRD-IV) was published in the Official Gazette of the European Union, applicable as of 1 January 2014 and comprising the following:

- Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/ and
- Regulation (EU) No. 575/2013 (hereinafter CRR), of 26 June 2013, of the European Parliament and of the Council, on prudential requirements for credit institutions and investment firms, amending Regulation (EU) No. 648/2012.

The directives have to be transposed into Spanish law while the EU regulations are of immediate application as of their entry into force.

In Spain, Royal Decree 14/2013 of 29 November 2013 on urgent measures to adapt Spanish law to European Union legislation on the supervision and solvency of financial institutions (hereinafter the RDL), made a partial transposition into Spanish law of the Directive 2013/36/EU and authorised Banco de España, in its final provision five, to make use of the options attributed to competent national authorities in the Regulation (EU) No. 575/2013.

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Therefore, all the provisions of Banco de España Circular 3/2008 that go against the aforementioned European regulation have been revoked as of 1 January 2014. Banco de España Circular 2/2014 of 31 January 2014 was also published on 5 February 2014, whereby, in accordance with the powers conferred to the competent national authorities by Regulation (EU) No. 575/2013, Banco de España made use of certain permanent regulatory powers foreseen in this regulation.

Law 10/2014, of 26 June 2014 on the organisation, supervision and solvency of credit institutions, has also continued with the transposition of CRD-IV into Spanish legislation.

All of the above constitute the prevailing legislation which regulates the minimum capital requirements of Spanish credit institutions (on an individual and consolidated group basis), how such capital should be determined, the different capital self-assessment processes to be implemented by the institutions and the public information these entities should submit to the market.

The minimum capital requirements are calculated based on the Bank's exposure to credit and dilution risk, counterparty, position and settlement risk relating to items held for trading, currency risk, and operational risk. The Bank is also required to comply with the risk concentration limits set out in the legislation and with internal corporate governance.

At 31 December 2015 details of the Bank's solvency ratio according to Regulation (EU) No. 575/2013 on risk-weighted assets are as follows:

Common equity tier 1 capital ratio	43.93%
Surplus common equity tier 1 capital	50,165
Tier 1 capital ratio	43.93%
Surplus tier 1 capital	48,257
Total capital ratio	43.93%
Total surplus capital	45,712

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As for capital management, the Bank:

- Has developed risk management and control procedures that are considered adequate to its risk profile.
- Has included capital management efficiency in the analysis associated with decision-making, alongside other variables.
- Performs 3-year capital planning, which takes into account the Bank's forecasts and the effect of adverse macro-economic conditions on these forecasts. The assumptions used for the planning are reassessed as least once a year. The Bank clearly meets its capital requirements for that projected period.
- The Bank performs the capital planning and the analysis of compliance with Banco de España capital regulations.

The instrument used to perform the aforementioned assessment and planning is the Capital Self-assessment Report (IAC), which is approved by the Bank's Board of Directors and sets a solvency target that is expressed in a minimum capital and enables the entity to adequately cover any potential additional capital requirements due to risks not considered in the mandatory minimum capital requirements, even in particularly adverse market conditions.

### (19) Valuation Adjustments (Equity)

Details of valuation adjustments at 31 December 2015 and 2014 are as follows:

	Thousands of Euros	
	<u>31/12/2015</u>	<u>31/12/2014</u>
Valuation Adjustments – Assets available for sale	<u>(177)</u>	<u>1,128</u>

Details of movement in valuation adjustments in 2015 and 2014 are shown in the statement of total changes in equity.

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Details of valuation adjustments to available-for-sale financial assets are as follows:

	Thousands of Euros	
	<u>31/12/2015</u>	<u>31/12/2014</u>
Debt securities	(30)	216
Equity instruments	<u>(147)</u>	<u>912</u>
	<u>(177)</u>	<u>1,128</u>

At 31 December 2015 and 2014 this entire balance reflects the unrealised gains (losses) on variable-income and fixed-income securities in the portfolio since the date of acquisition.

During 2014, after the sale of debt instruments reclassified as held-to-maturity investments in 2008, the Bank transferred all the unamortised losses recognised in valuation adjustments to available-for-sale financial assets to gains or losses on financial assets and liabilities in the income statement. The amount of Euros 168 thousand was transferred to the income statement.

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## (20) Contingent Exposures and Commitments

Details at 31 December 2015 and 2014 are as follows:

	Thousands of Euros	
	31/12/2015	31/12/2014
Contingent exposures		
Financial guarantees	1,189	1,710
Other bank guarantees and securities provided	3,395	3,937
	<u>4,584</u>	<u>5,647</u>
Contingent commitments		
Drawable by third parties		
By other resident sectors	289	402
Other commitments	-	834
	<u>289</u>	<u>1,236</u>

At 31 December 2015 and 2014 contingent exposures include doubtful contingent exposures of Euros 900 thousand and Euros 388 thousand, respectively.

At 31 December 2015 and 2014 contingent commitments drawable by third parties comprise immediately available credit facilities. Other commitments at 31 December 2014 included commitments assumed on the sale of an equity investment (see note 11) in 2014, of Euros 715 thousand, and one of Euros 119 thousand on the sale of derecognised doubtful assets (see note 8), to cover potential contingencies or hidden defects in the transferred assets.

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## (21) Off-Balance Sheet Items

At 31 December 2015 and 2014 the Bank has the following off-balance sheet items:

	Thousands of Euros	
	31/12/2015	31/12/2014
Financial derivatives (notes 6 (c) and 15)		
Interest rate risk	691,000	1,902,800
Commitments and risk arising from pensions and similar obligations (note 17)		
Other commitments	30	1,235
Transactions on behalf of third parties	250,395	202,804
Other off-balance-sheet items	1,469,368	843,514
	<u>2,410,793</u>	<u>2,950,353</u>

Financial derivatives arranged to hedge interest rate risk at 31 December 2015 and 2014 comprise futures quoted on official markets and swaps traded in over-the-counter markets, as follows:

	Thousands of Euros	
	31/12/2015	31/12/2014
Futures and options quoted in official markets	-	20,000
Interest rate swaps		
Credit institutions	205,000	1,506,800
Other non-resident sectors	486,000	376,000
	<u>691,000</u>	<u>1,902,800</u>

At 31 December 2015 and 2014 financial derivatives arranged to hedge interest rate risk comprise the following:

- Constant maturity swaps (CMS) considered as speculative for accounting purposes.

As a result of the share and purchase transaction described in note 1 above, the portfolio of swaps contracted with customers was transferred in 2014 together with the related hedging market positions.

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Details of transactions on behalf of third parties are as follows:

	Thousands of Euros	
	31/12/2015	31/12/2014
Financial instruments entrusted by third parties	230,142	175,702
Conditional bills and other securities received for collection	-	157
Securities loaned - equity instruments	68	-
Off-balance sheet customer funds - Managed by the Group	<u>20,185</u>	<u>26,945</u>
	<u>250,395</u>	<u>202,804</u>

At 31 December 2015 and 2014 financial instruments entrusted by third parties mainly comprise assets transferred to customers registered in the Iberclear Central Registry.

At 31 December 2015 and 2014 off-balance sheet customer funds include the net assets of the following venture capital funds managed by the EBN Group:

	Thousands of Euros	
	31/12/2015	31/12/2014
EBM Alisma, F.C.R.	12,268	19,032
EBN Vaccaria, F.C.R.	<u>7,917</u>	<u>7,913</u>
	<u>20,185</u>	<u>26,945</u>

At 31 December 2015 and 2014, the Bank held no interests in the funds due to the sale and purchase transaction entered into with its shareholders at that time described in note 1 above.



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Details of other off-balance sheet items are as follows:

	Thousands of Euros	
	31/12/2015	31/12/2014
Available to the Bank	24,863	3,608
At Banco de España	863	3,608
At credit institutions	24,000	-
Financial guarantees received	2,375	-
Write-off assets (notes 8 and 9)	739	599
Debt securities and equity instruments owned by the Bank and held by other entities	1,441,391	839,307
	<u>1,469,368</u>	<u>843,514</u>

**(22) Interest and Similar Income/Interest Expense and Similar Charges**

Details in 2015 and 2014, based on the nature of operations, are as follows:

Interest and similar income	Thousands of Euros	
	2015	2014
Cash and balances with Banco de España	-	1
Loans and advances to credit institutions (note 8)	2	103
Loans and advances to other debtors (note 8)	44	89
Debt securities	13,209	17,344
Financial assets held for trading (note 6 (a))	35	240
Available-for-sale (note 7)	94	273
Held-to-maturity (note 9)	13,080	16,831
Doubtful assets (note 8)	-	80
Other interest	544	25
	<u>13,799</u>	<u>17,642</u>
Interest expense and similar charges		
Deposits from central banks (note 16)	24	143
Deposits from credit institutions (note 16)	244	1,315
Deposits from other creditors (note 16)	732	1,511
Debt certificates including bonds	20	53
Other interest (notes 6(a), 7 and 8)	171	-
	<u>1,191</u>	<u>3,022</u>

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Other interest and similar income in the income statement at 31 December 2015 include Euros 526 thousand for deposits at amortised cost, repurchase agreements (see note 16).

Other interest expense and similar charges on the income statement include Euros 150 thousand at 31 December 2015 for the costs of debt instruments, Euros 104 thousand of which relate to the trading portfolio (see note 6 (a)) and Euros 46 thousand to the available-for-sale portfolio (see note 7). It also includes Euros 21 thousand for interest costs accrued on reverse repurchase agreements (see note 8).

### **(23) Fee and Commission Income and Expense**

Details in 2015 and 2014 are as follows:

	Thousands of Euros	
	2015	2014
<u>Fee and commission income</u>		
Arising from contingent exposures	54	62
Arising from collection and payment service	19	24
Other fees and commissions	332	889
	<u>405</u>	<u>975</u>
<u>Fee and commission expense</u>		
Fees and commissions assigned to other entities and correspondents	34	4
Fee and commission expense on securities transactions	305	260
Other fees and commissions	98	143
	<u>437</u>	<u>407</u>

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Other fee and commission income in 2015 and 2014 comprises the following:

Other fees and commissions	Thousands of Euros	
	2015	2014
Loan management fee	-	280
Loan agency fee	271	468
Advisory fee on one-off transactions	59	139
Other fees and commissions	2	2
	<u>332</u>	<u>889</u>

**(24) Gains or Losses on Financial Assets and Financial Liabilities (Net)**

Details in 2015 and 2014 are as follows:

	Thousands of Euros					
	2015			2014		
	Gains	Losses	Net total	Gains	Losses	Net total
Financial assets and liabilities held for trading (notes 6 and 15)						
Quoted debt instruments	512	(108)	404	2,687	(214)	2,473
Quoted equity instruments	831	(592)	239	535	(410)	125
Derivatives	3,853	(6,920)	(3,067)	5,899	(9,878)	(3,979)
Short positions	234	(183)	51	277	(599)	(322)
Securities lending	48	(44)	4	41	(18)	23
	<u>5,478</u>	<u>(7,847)</u>	<u>(2,369)</u>	<u>9,439</u>	<u>(11,119)</u>	<u>(1,680)</u>
Available-for-sale financial assets (note 7)						
Quoted debt instruments	568	-	568	829	(19)	810
Quoted equity instruments	486	(742)	(256)	570	(24)	546
Unquoted equity instruments	309	-	309	10,247	(77)	10,170
	<u>1,363</u>	<u>(742)</u>	<u>621</u>	<u>11,646</u>	<u>(120)</u>	<u>11,526</u>
Held-to-maturity investments (note 9)						
Quoted debt instruments	340	-	340	103	(2,897)	(2,794)
	<u>340</u>	<u>-</u>	<u>340</u>	<u>103</u>	<u>(2,897)</u>	<u>(2,794)</u>

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### (25) Exchange Differences (Net)

Exchange differences mainly comprise gains and losses on currency dealing and the differences that arise when monetary items in foreign currency are translated into Euros, excluding those differences relating to financial assets and liabilities at fair value through profit or loss, which are recorded under gains/(losses) on financial assets and liabilities (net).

### (26) Administrative Expenses – Personnel Expenses

Details for 2015 and 2014 are as follows:

	Thousands of Euros	
	2015	2014
Salaries and bonuses of serving personnel	3,108	3,203
Social Security contributions	515	560
Transfers to defined benefit plans (note 17)	30	239
Training expenses	35	40
Other personnel expenses	159	159
	<u>3,847</u>	<u>4,201</u>

The Bank grants interest-free advances on salaries upon request from employees that meet certain requirements. Advances are limited to a specific number of salary payments. The outstanding principal on advances amounts to Euros 47 thousand at 31 December 2015 (Euros 36 thousand at 31 December 2014).

The average headcount in 2015 and 2014 is as follows:

	31/12/2015			31/12/2014		
	Female	Male	Total	Female	Male	Total
Technicians	5	21	26	5	21	26
Administrative staff	10	8	18	10	11	21
General services	-	1	1	-	1	1
	<u>15</u>	<u>30</u>	<u>45</u>	<u>15</u>	<u>33</u>	<u>48</u>

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### (27) Administrative Expenses - Other Administrative Expenses

Details for 2015 and 2014 are as follows:

	Thousands of Euros	
	2015	2014
Property, fixtures and materials	469	458
Information technology	216	216
Communications	375	346
Legal and lawyer expenses	25	203
Technical reports	205	1,490
Surveillance and security carriage services	214	210
Insurance and self-insurance premiums	27	21
Governing and control bodies	145	169
Entertainment and staff travel expenses	51	57
Outsourced administrative services	45	45
Association membership fees	79	72
Contributions and taxes	217	182
Other	19	18
	<u>2,087</u>	<u>3,487</u>

### (28) Portfolio Reclassifications

The Bank did not make any reclassifications in 2015 and 2014.

At 31 December 2015 and 2014 the carrying amount and fair value of securities in the portfolio of financial assets and liabilities held for trading are as follows:

Portfolio	Carrying amount		Fair value	
	31/12/2015	31/12/2014	31/12/2015	31/12/2014
			5	4
Held-to-maturity investments	<u>2,640</u>	<u>2,954</u>	<u>2,637</u>	<u>2,855</u>

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### (29) Balances and Transactions with Related Parties

Details of balances and transactions with Group entities and other related entities and individuals at 31 December 2015 and 2014 are provided in Appendix I.

### (30) Remuneration of and Balances with Members of the Board of Directors

Details of the gross short-term remuneration received by members of the board of directors of the Bank in 2015 and 2014 are as follows:

	Thousands of Euros	
	2015	2014
<i><u>Directors on the board at 31 December 2015</u></i>		
Mr. José Gracia Barba	6	-
Mr. Santiago Javier Fernández Valbuena	6	-
Mr. Jorge Gost Gijón	6	-
Mr. Julián García Vargas	6	-
Mr. Rafael Gómez Perezagua	6	-
Mr. José Luis Alonso Iglesias	6	-
<i><u>Directors who left the Board in 2015</u></i>		
Mr. Arturo Jiménez Fernández	12	18
Mr. Ángel Rodríguez de Gracia	13	20
Mr. Oscar Fernández Huerga	-	8
Mr. Ignacio Ezquiaga Domínguez	12	14
Mr. Francisco García Beato	15	23
Mr. Antonio Avilés Mayorga	15	23
Mr. Luis Enrique Arrufat Guerra	12	19
Mr. Joaquín M <sup>a</sup> Rodríguez de Almeida Pérez-Surio	17	25
Mr. Francisco Serrano Gill de Albornoz (non-executive secretary)	13	19
	145	169

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Remuneration of steering committee personnel during 2015 and 2014 is summarised as follows:

Year	Number of members	Salaries			Other remuneration	Total
		Fixed	Variable	Total		
2015	4	795	-	795	-	795
2014	4	791	-	791	-	791

In 2015 Euros 240 thousand has been taken to the income statement in respect of the provision for loyalty bonuses (Euros 239 thousand in 2014) (see note 17).

At 31 December 2015 and 2014 the Bank has not extended any loans to members of the board of directors.

- **Conflicts of interest concerning the members of the board of directors**

The directors of the Bank and their related parties have had no conflicts of interest requiring disclosure in accordance with article 229 of the Revised Spanish Companies Act.

### **(31) Environmental Issues**

The directors consider that the environmental risks deriving from the Bank's activity are minimal and adequately covered and that no additional liabilities will arise therefrom. The Bank has not incurred any expenses or received any environment-related grants during the years ended 31 December 2015 and 2014.

### **(32) Customer Service Department**

Article 17 of Ministry of Economy Order ECO/734/2004 of 11 March 2004, regarding customer service departments and the financial institution ombudsman, requires financial institutions to report the customer services and ombudsman activities carried out during the year and to include this information in the notes to the annual accounts.

In 2015 and 2014 the customer service department ("SAC") of EBN BANCO did not receive any customer complaints or claims of the kind foreseen in the Order.

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### (33) Audit Fees

KPMG Auditores, S.L., auditor of the Bank's individual annual accounts and the Group's consolidated annual accounts, has accrued fees and expenses for professional services during the years ended 31 December 2015 and 2014 as follows:

	Thousands of Euros	
	2015	2014
Audit services	90	90

The amounts detailed in the above table include the total fees for the 2015 and 2014 audits, irrespective of the invoice date.

Other entities affiliated to KPMG International have invoiced the Bank Euros 4 thousand in fees for other services in 2015 and 2014.

### (34) Taxation

Since the 2012 tax period the Bank has filed income tax under the special consolidated tax regime. Under this special regime, the taxable income of the tax group is the aggregate amount of the individual taxable income of each of the entities comprising the group after the consolidation adjustments.

The tax group comprises the Bank, as the parent, and EBN Capital, S.G.E.C.R., S.A. as the subsidiary.

Profits, determined in accordance with tax legislation, are subject to tax at a rate of 30%, which may be reduced by certain credits.



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A reconciliation of the accounting profit for 2015 and 2014 with the tax profit the Bank expects to declare after approval of the annual accounts is as follows:

	Thousands of Euros	
	2015	2014
Accounting profit for the year before tax	5,793	10,620
Temporary differences	(2,346)	(5,045)
Permanent differences	(758)	-
Offset of tax loss carryforwards	(1,338)	(2,788)
Taxable income	<u>1,351</u>	<u>2,787</u>
Tax at 30%	<u>406</u>	<u>836</u>
Deductions	(406)	-
Withholdings and payments on account (note 13)	<u>(669)</u>	<u>(979)</u>
Income tax payable/(recoverable)	<u>(669)</u>	<u>(143)</u>

The income tax expense for 2015 and 2014 is calculated as follows:

	Thousands of Euros	
	2015	2014
Tax at 30%	406	836
Deductions	(406)	-
Temporary differences	703	1,514
Offset of tax loss carryforwards	401	836
Tax adjustments from prior years	<u>(859)</u>	<u>8</u>
	<u>245</u>	<u>3,194</u>

At 31 December 2015 the Bank has recognised Euros 4 thousand in income tax payable by EBN Capital as a result of the limit in the offsetting of loss carryforwards.

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In 2012, although the Bank's projections allowed for recognition of deferred tax assets in respect of loss carryforwards, the directors decided not to recognise these in the balance sheet, but rather to adjust losses for 2012 by Euros 4,586 thousand, of which Euros 2,857 thousand reflected tax income for that year.

Tax adjustments from prior years reflect the difference between the tax provision and the actual tax paid in 2014 and 2013. In 2015, to avoid the expiry of unused deductions, the Entity chose to offset all these deductions (part of which had been recognised in the balance sheet) in the income tax return for the 2014 tax period, rather than offsetting the tax loss carryforwards based on the accounting estimate as had occurred at 31 December 2014, which totalled Euros 836 thousand.

In accordance with current legislation, taxes cannot be considered definitive until they have been inspected and agreed by the taxation authorities or before the inspection period of four years has elapsed. At 31 December 2015 the Bank has open to inspection by the taxation authorities all the main applicable taxes since 2012. The directors do not expect that any significant additional liabilities would arise in the event of an inspection.

In accordance with articles 12 and 14 of the Revised Income Tax Law and article 13 of the prevailing Income Tax Law 27/2014, of 27 November 2014, respectively, in 2015 and 2014 the Bank calculated the limits applicable to tax deductions for accounting impairment on equity investments, irrespective of whether these securities are listed.

In application of the aforementioned articles 12.3 and 14.1 of the Revised Income Tax Law and article 13.2.b) of the Income Tax Law, the Bank has not deducted any amount from income tax for 2015 (estimated) or 2014 for impairment losses on equity investments in Group companies, jointly controlled entities and associates.

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The amount included in the taxable amount for 2014 in this respect was Euros 453 thousand. Subsequent to the filing of the 2014 income tax return no amount was pending.

In accordance with Spanish tax legislation, losses declared may be carried forward for offset against profits in subsequent accounting periods for an unlimited period of time and may be distributed as considered appropriate provided they do not exceed any limits in place at any particular time. Losses are offset when the tax declarations are filed, without prejudice to the taxation authorities' power of inspection.

At 31 December 2015 the consolidated tax group has the following tax loss carryforwards to be offset against future tax profits in application of RDL 14/2013:

<u>Year of origin</u>	<u>Thousands of Euros</u>
2009	7,163
2010	17,015
2011	27,390
2012	11,201
2013	3,758

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**(35) Financial and Non-Financial Assets and Liabilities Not Carried at Fair Value**

A comparison of the carrying amount of financial and non-financial assets not carried at fair value, and their corresponding fair value at year end, is as follows:

ASSETS	Thousands of Euros			
	31/12/2015		31/12/2014	
	Amount recognised	Fair value	Amount recognised	Fair value
Cash and balances with central banks	5,567	5,567	11,401	11,401
Loans and receivables:				
Loans and advances to credit institutions	9,264	9,264	80,757	80,757
Loans and advances to other debtors	15,064	15,064	6,295	6,295
Held-to-maturity investments	629,692	641,874	701,055	717,384
Tangible assets For own use (*)	41,512	36,406	42,044	33,488
Non-current assets held for sale	1,267	2,794	1,303	2,794
	<u>702,366</u>	<u>710,969</u>	<u>842,855</u>	<u>852,119</u>

(\*) *The recoverable amount of tangible assets derived from their value in use is greater than the amount recognised, therefore no valuation adjustments were necessary at 31 December 2015 and 2014.*

Financial liabilities at amortised cost

The directors consider that the carrying amount of financial liabilities at amortised cost does not differ from their fair value, given that all interest rates applied are in line with market rates for liabilities with similar risk exposure and maturity.

EBN Banco de Negocios, S.A.

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### **(36) Risk Management**

The board of directors, through supervision of the different internal committees under the authority of the Bank's chief executive, the general manager, establishes and supervises the policies for managing risk deriving from the Bank's activity.

The objective is to adequately manage risk through strategies tailored to the estimated size and significance of each individual exposure, for which the board of directors:

1. Defines the risk tolerance framework based on the Bank's exposure to the main risk indicators affecting it.
2. Regularly approves and reviews significant credit risks
3. Establishes and updates the operating limits of Treasury and Capital Markets.

At executive level there is a segregation of duties between the business units where risk is originated and the units responsible for monitoring and controlling this risk.

In order to ensure ongoing improvement of the risk management system, certain controls are established to guarantee that the management models operate correctly. In this respect, and subject to the changes in corporate governance established under prevailing legislation, the remit of the audit and regulatory compliance committee, within the board of directors, includes the following:

- Supervise internal audit services
- Know the process for preparing financial information and the internal control systems
- Liaise with the external auditors to receive information on issues which could jeopardise their independence and any other matters related to the audit of the accounts
- Ensure the Bank's compliance with internal and external regulations (regulatory compliance)
- Inform the shareholders on matters under its supervision that are raised at general meetings

The Bank has also created an internal control and communications body to oversee money laundering prevention measures.

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EBN Banco de Negocios, S.A. places special emphasis on identifying, measuring, controlling and monitoring the following risks:

1. Structural liquidity risk
2. Structural interest rate risk
3. Credit and counterparty risk
4. Market risk

#### 1. **Structural liquidity risk**

##### Organisation of the structural liquidity risk function

The board of directors establishes overall indicators and limits, but it is the market committee that adopts the most appropriate investment strategies at any given time and the hedges to mitigate the risk.

Liquidity risk is managed by management control, the treasury area and capital markets. The latter is the area that operates on the markets following the guidelines set.

##### Management of structural liquidity risk

The Bank has a preventive approach to liquidity management. It therefore manages its balance sheet assets and liabilities in a coordinated manner to maintain an adequate level of liquid assets according to a prudent policy, which enables it to meet its payment commitments associated with the settlement of its liabilities, as well as any possible outflows in scenarios of market pressure.

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The main assets and liabilities held by the Bank that are relevant to liquidity risk are:

- On the asset side, the Bank's investments in fixed-income securities, mostly Spanish sovereign debt. These are high quality liquid assets that qualify as collateral for credit facilities from Banco de España and can be transferred to customers and other counterparties, enabling the Bank to be self-financing.
- On the liabilities side, the following are of note:
  - a) Asset repurchase agreements: financing guaranteed by securities, specifically Spanish sovereign debt fixed-income instruments, predominantly with banking counterparties (market transactions that at 31 December 2015 represent 81% of all these transactions) and with other creditors (above all institutional investors). The financing from the European Central Bank (a credit facility guaranteed by securities) should also be mentioned in this section.
  - b) Financing from customers through traditional products (current accounts, time deposits, etc.) with a relatively important component of the balance originating from their link to credit transactions managed by EBN.

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Details of assets and liabilities by contractual maturity or expected realisation or settlement terms at 31 December 2015 and 2014 are as follows:

- At 31 December 2015:

	Thousands of Euros						Total
	Less than one month	More than one month to three months	More than three months to one year	More than one year to five years	More than five years	No fixed maturity	
<u>Assets</u>							
Cash and balances with central banks	5,567	-	-	-	-	-	5,567
Financial assets held for trading	149,996	50,169	-	3,059	455	378	204,057
Available-for-sale financial assets	-	-	600,085	-	2,005	9,851	611,941
Loans and receivables	13,770	845	1,053	7,530	792	-	23,990
Held-to-maturity investments	41,168	-	123,845	437,298	28,395	-	630,706
Other assets	-	-	-	-	-	65,711	65,711
<b>Total assets</b>	<b>210,501</b>	<b>51,014</b>	<b>724,983</b>	<b>447,887</b>	<b>31,647</b>	<b>75,940</b>	<b>1,541,972</b>
<u>Liabilities</u>							
Financial liabilities held for trading	2,548	107	579	4,436	-	-	7,670
Financial liabilities at amortised cost	735,367	434,549	280,714	8,467	4,043	-	1,463,140
Other liabilities	-	-	-	-	-	71,162	71,162
<b>Total liabilities</b>	<b>737,915</b>	<b>434,656</b>	<b>281,293</b>	<b>12,903</b>	<b>4,043</b>	<b>71,162</b>	<b>1,541,972</b>
Liquidity gap	(527,414)	(383,642)	443,690	434,984	27,604	4,778	-
Accumulated liquidity gap	(527,414)	(911,056)	(467,366)	(32,382)	(4,778)	-	-



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at 31 December 2015- At 31 December 2014

	Thousands of Euros						Total
	Less than one month	More than one month to three months	More than three months to one year	More than one year to five years	More than five years	No fixed maturity	
<u>Assets</u>							
Cash and balances with central banks	11,401	-	-	-	-	-	11,401
Financial assets held for trading	234	139	100,664	325	-	511	101,873
Available-for-sale financial assets					31,019	11,148	42,167
Loans and receivables	85,079	14	148	962	983	-	87,186
Held-to-maturity investments	-	103,722	175,290	418,351	4,943	-	702,306
Other assets	-	-	-	-	-	65,603	65,603
<b>Total assets</b>	<b>96,714</b>	<b>103,875</b>	<b>276,102</b>	<b>419,638</b>	<b>36,945</b>	<b>77,262</b>	<b>1,010,536</b>
<u>Liabilities</u>							
Financial liabilities held for trading	31,204	321	2,001	3,043	-	-	36,569
Financial liabilities at amortised cost	823,507	52,888	15,460	7,466	5,911	-	905,232
Other liabilities	-	-	-	-	-	68,735	68,735
<b>Total liabilities</b>	<b>854,711</b>	<b>53,209</b>	<b>17,461</b>	<b>10,509</b>	<b>5,911</b>	<b>68,735</b>	<b>1,010,536</b>
Liquidity gap	(757,997)	50,666	258,641	409,129	31,034	8,527	-
Accumulated liquidity gap	(757,997)	(707,331)	(448,690)	(39,561)	(8,527)	-	-

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Every month EBN BANCO analyses its short-term liquidity requirements and calculates its short-term liquidity coverage ratio (LCR) using stress metrics, in some cases stricter metrics than those set by Regulation (EU) 575/2013, so that it can forecast possible liquidity shortfalls and ensure it will have sufficient capacity to manage these.

The Bank also holds other assets that, while not fulfilling the requirements to be considered liquid assets under prevailing regulation, would serve as a buffer for any possible deficits.

At 31 December 2015, EBN BANCO presents a 30-day liquidity ratio of 92% according to the methodology set forth in Regulation (EU) 575/2013, thus complying with the 60% target set by this legislation.

## **2. Structural interest rate risk**

### Organisation of the structural interest rate risk function

The board of directors establishes overall indicators and limits, but it is the market committee that adopts the most appropriate investment strategies at any given time and the hedges to mitigate the risk.

Interest rate risk is managed by management control, the treasury area and capital markets. The latter is the area that operates on the markets following the guidelines given.

### Structural interest rate risk

Structural interest rate risk is defined as the Bank's exposure to fluctuations in market interest rates deriving from the different timing structure of maturities and repricings of assets and liabilities in the balance sheet which are sensitive to fluctuations in interest rates.

The aim of the Bank's interest rate risk control policy is to manage the impact of interest rate fluctuations on its economic value and the interest margin for a one-year horizon.

The main assets and liabilities held by the Bank that are relevant to interest rate risk management and the generation of the interest margin are:

## EBN Banco de Negocios, S.A.

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- On the asset side, investments in fixed-income securities, above all Spanish sovereign debt, all pegged to fixed rates. The average residual maturity period (and therefore the average interest rate repricing period) of the investments in the held-to-maturity portfolio, the main generator of the Bank's interest margin in 2015, is 30 months.
- On the liabilities side, the following:
  - a) Short-term asset repurchase agreements. At 31 December 2015, 50% of transactions repriced within one month, with 58% of these repricing in less than a week. The other transactions repriced in less than six months.
  - b) Financing received from customers through traditional products (current accounts, time deposits, etc.), 63% of which are tied to variable rates, thus the repricing period is less than 12 months.

The Bank arranges interest rate derivatives (swaps, specifically call money swaps) to correct existing mismatches and minimise the existing gap between the above-mentioned assets and liabilities. The Bank therefore performs a hedging operation, in which by paying a fixed rate and receiving a variable rate it can extend and align the repricing periods of its financing with those of the investments made, trying to guarantee in this manner an interest margin on each investment made.

The following are analysed monthly as part of the integral control and monitoring of interest rate risk:

- The mismatch in interest rate maturities through the interest rate GAP. To provide information on the Bank's exposure to interest rate risk, the amounts of the assets and liabilities affected by this risk are divided into various tranches and structured in a grid according to interest rate repricing terms.
- Impact on the 12-month interest margin of a variation in interest rates, maintaining constant the net balance sheet structure to interest rate risk.
- Impact on economic value (long-term equity value) of a variation in interest rates.

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at 31 December 2015

The interest rate risk matrix at 31 December 2015 and 2014 is as follows:

- At 31 December 2015

	Thousands of Euros						Total
	Up to one month	More than one month to three months	More than three months to one year	More than one year to five years	More than five years	No fixed maturity	
<u>Assets</u>							
Central banks	5,543	-	-	-	-	-	5,543
Financial assets held for trading	203,525	-	-	-	-	-	203,525
Available-for sale financial assets	-	-	600,124	-	2,008	-	602,132
Loans and receivables	14,800	184	1,103	-	-	-	16,087
Held-to-maturity investments	43,156	3,964	123,845	434,259	25,482	-	630,706
<b>Total financial assets</b>	<b>267,024</b>	<b>4,148</b>	<b>725,072</b>	<b>434,259</b>	<b>27,490</b>	<b>-</b>	<b>1,457,993</b>
<u>Liabilities</u>							
Financial liabilities held for trading	2,342	-	-	-	-	-	2,342
Financial liabilities at amortised cost	690,401	447,460	307,050	18,229	-	-	1,463,140
<b>Total financial liabilities</b>	<b>692,743</b>	<b>447,460</b>	<b>307,050</b>	<b>18,229</b>	<b>-</b>	<b>-</b>	<b>1,465,482</b>
Interest rate gap	(425,719)	(443,312)	418,022	416,030	27,490	-	(7,489)
Call money adjustment	501,000	-	(100,000)	(401,000)	-	-	-
Accumulated interest rate gap	75,281	(368,031)	(50,009)	(34,979)	(7,489)	-	-

## EBN Banco de Negocios, S.A.

Notes to the Annual Accounts  
at 31 December 2015- At 31 December 2014

	Thousands of Euros						Total
	Up to one month	More than one month to three months	More than three months to one year	More than one year to five years	More than five years	No fixed maturity	
<u>Assets</u>							
Central banks	11,386	-	-	-	-	-	11,386
Financial assets held for trading	100,038	-	-	-	-	-	100,038
Available-for-sale financial assets	-	-	-	-	31,019	-	31,019
Loans and receivables	77,985	244	1,248	-	-	-	79,477
Held-to-maturity investments	2,068	108,403	175,299	413,303	3,233	-	702,306
<b>Total financial assets</b>	<b>191,477</b>	<b>108,647</b>	<b>176,547</b>	<b>413,303</b>	<b>34,252</b>	<b>-</b>	<b>924,226</b>
<u>Liabilities</u>							
Financial liabilities held for trading	31,129	-	-	-	-	-	31,129
Financial liabilities at amortised cost	813,398	32,961	43,222	15,651	-	-	905,232
<b>Total financial liabilities</b>	<b>844,527</b>	<b>32,961</b>	<b>43,222</b>	<b>15,651</b>	<b>-</b>	<b>-</b>	<b>936,361</b>
Interest rate gap	(653,050)	75,686	133,325	397,652	34,252	-	(12,135)
Call money adjustment	584,800	(97,800)	(29,000)	(128,000)	(330,000)	-	-
Accumulated interest rate gap	(68,250)	(90,364)	13,961	283,613	(12,135)	-	-

*Loans and receivables are shown in the balance sheet without doubtful assets or valuation adjustments and do not take into account financial assets for guarantees, given that these do not entail cash settlements.*

*Unrealised gains and losses are not taken into account for available-for-sale financial assets, as the gains or losses are offset against taxes and equity. In other words, they are presented at amortised cost.*

*Valuation adjustments are not made to liabilities at amortised cost.*

*Call money adjustment represents the impact of the policy to contract call money swaps on the interest rate gap.*

### **3. Credit and counterparty risk**

Credit risk represents the exposure to loss assumed by the Bank in the event of a customer or counterparty breaching their contractual obligations. This risk is therefore inherent to the Bank's traditional banking products (loans, credit facilities, financial guarantees extended, etc.), as well as to other types of financial assets in which the Bank predominantly invests (fixed-income securities, derivatives, etc.).

#### **Organisation of the credit risk function**

- EBN BANCO's risk strategy is determined by the board of directors, which also establishes the limits of the general manager's (the Bank's chief executive) powers and authorises operations where the risk exceeds the authorisation limits of the general manager.
- The general manager appoints and oversees the members of the risk committee and approves the committee's powers and functions. The risk committee examines, approves or amends asset operations (both those which entail a credit risk and those which entail off-balance sheet exposure), and approves operations involving the acquisition or disposal of shares in unquoted companies or businesses or quoted companies or businesses in which the Bank intends to maintain a stable interest. The committee also approves the presentation of all operations that are subject to review by higher-level governing bodies within the Bank.
- EBN BANCO's loan portfolio is overseen by departments specialised in different sectors, and does not have to conform to a previously defined range of products. Rather, products are individually designed to suit customer needs. The risk committee approves all operations, which guarantees consistency of criteria and ensures higher credit quality.
- The commission on non-performing risks regularly reviews and manages risks perceived as non-performing or which require special monitoring.

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Control and monitoring of risk

The Bank performs credit risk studies throughout the life of its operations, continually incorporating new financial information and experience when developing the banking relationship.

Concentration risk

The Bank continually monitors the degree of concentration of credit risk in the following categories:

- Customer groups: the Bank is subject to Regulation (EU) No. 575/2013 concerning large exposures, which are defined as those exceeding 10% of eligible capital. Exposure on behalf of a single individual or another economic group should not exceed 25% of its eligible capital, or 100% of its eligible capital if the customer group comprises a financial institution and 25% of its eligible capital is less than Euros 150 million.
- Economic sectors: the Bank diversifies its presence in various sectors.
- Geographical area: this is not a specifically relevant concern for the Bank, given that it operates mainly in Spain.

The Bank is mostly affected by individual concentration risk, as it tends towards a high concentration ratio because of the limited number of investments made.

## EBN Banco de Negocios, S.A.

Notes to the Annual Accounts  
at 31 December 2015Total exposure to credit risk

Details of financing extended to other debtors at 31 December 2015 by geographical area and activity segment are as follows:

	Thousands of Euros				
	Total	Spain	Rest of EU	USA	Rest of world
Credit institutions	13,674	12,706	968	-	-
General government	1,428,583	1,428,583	-	-	-
<i>Central government</i>	<i>1,413,992</i>	<i>1,413,992</i>	-	-	-
<i>Other</i>	<i>14,591</i>	<i>14,591</i>	-	-	-
Other financial institutions	19,024	12,716	-	-	6,308
Non-financial corporations and sole proprietors	13,231	12,816	415	-	-
<i>Construction and real estate development</i>	-	-	-	-	-
<i>Public works</i>	-	-	-	-	-
<i>Other purposes</i>	<i>13,231</i>	<i>12,816</i>	<i>415</i>	-	-
<i>Major companies</i>	<i>13,231</i>	<i>12,816</i>	<i>415</i>	-	-
<i>SMEs and sole proprietors</i>	-	-	-	-	-
Other household loans and non-profit institutions serving households	1,389	1,389	-	-	-
<i>Housing</i>	<i>924</i>	<i>924</i>	-	-	-
<i>Consumer loans</i>	<i>16</i>	<i>16</i>	-	-	-
<i>Other purposes</i>	<i>449</i>	<i>449</i>	-	-	-
<b>Total</b>	<b>1,475,901</b>	<b>1,468,210</b>	<b>1,383</b>	<b>-</b>	<b>6,308</b>



## EBN Banco de Negocios, S.A.

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Details of financing extended to other debtors in Spain at 31 December 2015 by geographical area and activity segment are as follows. Geographical areas which do not represent more than 10% of the total (excluding the balance in central government) are presented in aggregate:

	Thousands of Euros			
	Total	Murcia	Madrid	Other autonomous regions
Credit institutions	12,706	-	10,492	2,214
General government	1,428,583	2,221	3,177	9,193
<i>Central government (*)</i>	<i>1,413,992</i>	-	-	-
Other	<i>14,591</i>	<i>2,221</i>	<i>3,177</i>	<i>9,193</i>
Other financial institutions	12,716	-	7,979	4,737
Non-financial corporations and sole proprietors	12,816	4,196	4,738	3,882
<i>Construction and real estate development</i>	-	-	-	-
<i>Public works</i>	-	-	-	-
<i>Other purposes</i>	<i>12,816</i>	<i>4,196</i>	<i>4,738</i>	<i>3,882</i>
<i>Major companies</i>	<i>12,816</i>	<i>4,196</i>	<i>4,738</i>	<i>3,882</i>
<i>SMEs and sole proprietors</i>	-	-	-	-
Other household loans and non-profit institutions serving households	1,389	-	1,389	-
<i>Housing</i>	<i>924</i>	-	<i>924</i>	-
<i>Consumer loans</i>	<i>16</i>	-	<i>16</i>	-
<i>Other purposes</i>	<i>449</i>	-	<i>449</i>	-
Total ( <i>except central government</i> )	<u>1,468,210</u>	<u>6,417</u>	<u>27,775</u>	<u>20,026</u>

(\*) *Balances with central government are not assigned to any particular autonomous region*

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Details of financing extended to other debtors at 31 December 2015, by counterparty, purpose and tranche, based on the carrying amount of the financing as a percentage of the latest appraisal value or the value of available collateral (loan to value) are as follows:

	Thousands of Euros							
	Total	Of which: with mortgage security	Of which: with other security	Secured loans				Loan to value over 100%
Less than or equal to 40%				Over 40% and up to 60%	Over 60% and up to 80%	Over 80% and up to 100%		
General government								
Other financial institutions	13,629	-	-	-	-	-	-	-
Non-financial corporations and sole proprietors	97	-	-	-	-	-	-	-
Construction and real estate								
development	-	-	-	-	-	-	-	-
Public works	-	-	-	-	-	-	-	-
Other purposes	97	-	-	-	-	-	-	-
Major companies	97	-	-	-	-	-	-	-
SMEs and sole proprietorships	-	-	-	-	-	-	-	-
Other household loans and non- profit institutions serving households	1,363	906	-	194	537	175	-	-
Housing	924	906	-	194	537	175	-	-
Consumer loans	16	-	-	-	-	-	-	-
Other purposes	423	-	-	-	-	-	-	-
<b>Total</b>	<b>15,089</b>	<b>906</b>	<b>-</b>	<b>194</b>	<b>537</b>	<b>175</b>	<b>-</b>	<b>-</b>
<i>Memorandum items:</i>								
<i>Refinancing, refinanced and     restructured operations</i>	274	-	-	-	-	-	-	-

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A breakdown of the gross amount of refinancing, refinanced and restructured operations at 31 December 2015, by counterparty and purpose, including details of their classification and the associated provisions for credit risk, is as follows:

	Restructured operations classified as substandard (in thousands of Euros)						
	Fully secured by real estate mortgage		With other security		Unsecured		Specific provision
	Number of operations	Gross amount	Number of operations	Gross amount	Number of operations	Gross amount	
General government	-	-	-	-	-	-	-
Other legal entities and sole proprietorships	-	-	-	-	-	-	-
<i>Of which: Financing for construction and real estate development</i>	-	-	-	-	-	-	-
Other individuals	-	-	-	-	1	377	103
Total	-	-	-	-	1	377	103

In 2015 financial assets totalling Euros 37 thousand of the loans and receivables portfolio were in arrears.

EBN Banco de Negocios, S.A.

Notes to the Annual Accounts  
at 31 December 2015

**(4) Market risk**

Market risk management in two areas:

- Positions derived from trading activity to benefit from short-term price variations.
- Balance sheet, portfolio or financial instrument positions used for the Bank's overall and structural risk management (structural fixed-income positions and interest margin generators for the Bank) analysed in sections 1 and 2 above.

Organisation of the market risk function

The board of directors establishes overall indicators and limits, which are included in the Bank's risk tolerance framework. These limits are reviewed as necessary and supplemented with additional instructions regarding authorised markets, sectors, diversification, and stop-loss regulations.

The markets committee determines the guidelines and operations based on the current market situation and forecast trends while the treasury and capital markets areas operate on the markets adhering to these guidelines.

All available financial instruments are used to this end, including interest rate derivatives, exchange rate derivatives and equity price risk derivatives.

Traded financial instruments should be sufficiently liquid and hedging instruments should be in place where necessary.

Sensitivity of fixed-income portfolios

Sensitivity of fixed-income portfolios classified as held for trading or available for sale to a one-point variation in the internal rate of return at 31 December 2015 amounts to Euros 5,490 thousand (Euros 2,008 thousand at 31 December 2014).

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**(37) Late Payments to Suppliers. “Reporting Requirement”, Third Additional Provision of Law 15/2010 of 5 July 2010**

On 5 July 2010 Law 15/2010, amending Law 3/2004 of 29 December 2004, was published, which provides measures to combat late payments in commercial transactions.

Among other matters, this legislation eliminates the possibility of the "agreement between the parties", which permitted the extension of the supplier payment period. It comes in response to the financial repercussions of the economic crisis in all sectors, which has led to an increase in bad debts, delays and deferrals in the settlement of invoices, with an especially severe impact for small and medium companies due to their major dependence on short-term credit and the cash restrictions in the current economic climate. To combat these difficulties the Law established a general maximum deferral of payment between companies of 60 calendar days from the delivery date of the merchandise or the rendering of the services, which came into force on 1 January 2013.

Additional provision three of this Law indicates that companies must expressly disclose supplier payment terms in the notes to their individual and consolidated annual accounts. The disclosures required regarding the average supplier payment period in 2015 are as follows:

	<u>Days</u>
Average supplier payment period	17
Transactions paid ratio	17
Transactions payable ratio	2
	<b>Amount</b> <b>(Thousands of</b> <b>Euros)</b>
	<u>          </u>
Total payments made	1,923
Total payments outstanding	54

EBN Banco de Negocios, S.A.

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at 31 December 2015

### **(38) Reporting Transparency Requirements**

Pursuant to the reporting transparency guidelines issued by Banco de España for the real estate market, consolidated groups of credit institutions are required to disclose certain quantitative and qualitative information on the following:

- Financing extended for construction and real estate development, and home purchase loans
- Foreclosed assets
- Asset management policies and strategies with respect to this sector
- Market financing requirements and short, medium and long-term strategies

The required information is disclosed in the consolidated annual accounts of EBN Banco de Negocios, S.A. and subsidiaries, which is the consolidated group of credit institutions to which the Entity belongs.

### **(39) Events after the Reporting Period**

On 1 March 2016 a significant amount of certain general government debt securities were sold from the held-to-maturity portfolio. Consequently, a gain of Euros 11,182 thousand was recognised and the remaining debt instruments that were recognised in this held-to-maturity portfolio were reclassified to the available-for-sale portfolio.

On 3 March 2016 the public deed of the Bank's capital reduction of Euros 7,856,211.90 was filed with the Mercantile Registry. The reduction was carried out through the redemption of 1,307,190 own shares, agreed at the general shareholders meeting held on 27 November 2015 and approved by the Banco de España in its resolution dated 29 January 2016. As a result the Bank's share capital is Euros 42,424,854.44 and is represented by 7,059,044 registered shares, with a par value of Euros 6.01 each.

This capital reduction resulted in the redemption of the own shares previously held by the Bank, appropriating a redeemed capital reserve with a charge to freely distributable reserves for the Euros 7,856,211.90 of the redeemed shares. Pursuant to article 335c) of the Spanish Companies Act the requirements for the use of this reserve are the same as for the capital reduction.

## APPENDICES

**EBN Banco de Negocios, S.A.**  
**Balances and Transactions with Related Parties in 2015**

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

## Appendix I

	ASSETS (c)				LIABILITIES (c)		
	Debt		Equity instruments	Equity investments	Deposits (d)	Provisions	Capital (e)
	Loans and advances (d)	securities					
Consolidable entities (a)							
• Deposit institutions	-	-	-	-	-	-	50,281
• Other entities	507	-	-	1,011	2,373	-	-
Non-consolidable entities (b)							
Other related entities	-	-	-	-	-	-	-
Related individuals	-	-	-	-	851	1,475	-

  

	EXPENSES		INCOME	
	Interest and other similar expenses	Provisions made	Interest and other similar income	Other operating income
Consolidable entities (a)				
• Other entities	35	-	-	165
Non-consolidable entities (b)				
• Other entities	-	-	-	-
Other related entities	-	-	-	-
Related individuals	9	240	-	-

(a) "Consolidable entities" are entities forming part of a consolidable group of credit institutions as defined in article 8.1 of Law 13/1985 and other implementing regulations.

(b) "Non-consolidable entities" are entities in the same economic group as the reporting entity but which do not form part of the Spanish consolidable group of credit institutions.

(c) Assets and liabilities are recorded at their carrying amount, excluding valuation adjustments.

(d) Amounts of loans and advances granted to, or deposits received from, credit institutions and other entities.

(e) Par value of the reporting entity





**EBN Banco de Negocios, S.A.**  
**Details of Equity Investments in Group Companies at 31 December 2015**

**(Expressed in thousands of Euros)**

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

**Appendix II**

		Thousands of Euros															
		31/12/2015															
Type of ownership	Registered office	% ownership		No of shares	Euros		Valuation				Underlying		Gains/ (losses)	Impairment	Balance (note 11)		
		Direct	Total		Par value	Share capital	Share premium	Reserves	Profit/(loss)	Valuation adjustments	Carrying amount (*)	Acquisition cost				carrying amount	
EBN Capital, SGECR, S.A. (1)	Subsidiary	Pº Recoletos, 29 (Madrid)	100%	100%	1,000	601.01	601	-	1,282	41	-	1,924	1,011	1,924	913	-	1,011

(\*) Financial data adapted to Banco de España Circular 4/2004

(1) Data at 31 December 2015

Appendix II forms an integral part of note 11 to the annual accounts for 2015, in conjunction with which it should be read.

**EBN Banco de Negocios, S.A.**  
**Details of Equity Investments in Group Companies at 31 December 2014**  
**(Expressed in thousands of Euros)**

## Appendix II

		Thousands of Euros															
		31/12/2014															
Type of ownership	Registered office	% ownership		No. of Shares	Euros				Profit/(loss)	Valuation adjustments	Carrying amount (*)	Acquisition cost	Underlying carrying amount	Gains/(losses)	Impairment	Balance (note 11)	
		Direct	Total		Par value	Share capital	Share premium	Reserves									
EBN Capital, SGECR, S.A. (1)	Subsidiary	Pº Recoletos, 29 (Madrid)	100%	100%	1,000	601.01	601	-	1,059	223	-	1883	1,011	1,883	872	-	1,011

(\*) (\*) *Financial data adapted to Banco de España Circular 4/2004*

(1) *Data at 31 December 2014*

Appendix II forms an integral part of note 11 to the annual accounts for 2015, in conjunction with which it should be read.

## Directors' Report



**EBN Banco de Negocios, S.A.**

EBN Banco de Negocios, S.A.

Directors' Report

31 December 2015

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

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EBN Banco de Negocios, S.A.

Directors' Report at 31 December 2015

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

**I. - THE ECONOMY IN 2015**

Considerable disparity between markets was evident in 2015, emphasising the weak foundations of growth, which has been sustained once again by central banks' initiatives. On the one hand, weak growth in the USA in the first half and that of emerging countries, led by China, recognised in the second half, delayed the rise in interest rates in the US economy until the end of the year. On the other hand, the QE of the ECB, started in the first quarter, did not mitigate the risks related to Greece, which signed its third bail-out in August. Furthermore, the announcement in December of the extension of the programme did not have the planned effect.

Looking towards the emerging countries, the situation remained difficult. As a result of the steep drop in raw material prices, especially oil, these economies became a cause for concern, with China at the forefront, with regard to 2016. Not only did the Asian giant devalue its currency three times in 2015, it also reduced its interest rates on five occasions. And we should not forget the situation in Brazil or the global geopolitical risks.

In the final stretch of 2015 there was a resurgence in global instability, in developed and emerging countries. Interest rates were raised in the USA in December, supported by the good unemployment figures (+5%) and the positive course of underlying inflation (+2% in November).

In the eurozone, the extension of the quantitative easing programme (from September 2016 until March 2017) and the cut in deposit rates (from -0.20% to -0.30%) brought to light the ECB's concerns about weak inflation in the eurozone. In the UK, however, underlying inflation seemed to buck the trend (1.2% in November) although Brexit will take centre stage. Finally in Japan, where growth has stagnated, weak internal demand left its mark on its delicate situation.

Emerging markets showed signs of the hard times affecting the economic situation, with China and Brazil the main causes for concern. China's yuan was included in the IMF's basket of reserve currencies. And Brazil will have to watch its financial flows carefully in light of its economic performance.

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Finally, the fall in raw material prices, particularly crude oil, started the last quarter conceding considerable ground, ending the year at around USD37. This drop could be in response to geopolitical tensions as well as the slump in demand in China, also seen in the vast majority of the emerging countries.

In 2016, the market will monitor the outcome of the US elections and possible Federal Reserve decisions regarding further interest rate hikes.

In 2016 Europe's risks will come from two major challenges: immigration and the banking union. As well as the referendum on the United Kingdom's exit from the European Union. Inflation will continue to affect central banks' policies.

US monetary policy and financial flows could aggravate the situation of emerging countries, first and foremost China, and also Brazil's fragile situation. The divergence between industrial economies and service economies is increasingly evident. The situation of oil and raw materials, combined with the geopolitical tensions (mainly between the Middle East and the West) will be the most salient risks affecting world growth in 2016.

Finally in Spain, all eyes will be on the possible replay of the general elections in light of the difficulties to form a Spanish government.

The results of the general election held last 20 December could have a negative impact on Spain's growth and job creation given the uncertainty they are causing in international markets and in consumer and investor confidence.

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## **II. THE EBN GROUP IN 2015**

### **1. SHAREHOLDER STRUCTURE**

As mentioned in note 1 to these annual accounts, on 27 November 2014, the shareholders of EBN BANCO up to that date (Ibercaja Banco, S.A., Unicaja Banco, S.A., Banco Mare Nostrum, S.A. and Banco de Caja España de Inversiones, Salamanca y Soria, S.A.) sold all their respective interests in the Bank's share capital, i.e. 84.376% of shares (representing 100% of the effective voting rights as the remaining 15.624% of share capital was held as own shares) to Mr. José Gracia Barba and Mr. Santiago Fernández Valbuena and his wife.

This sale and purchase transaction and the resulting share transfer were subject to compliance with the condition precedent that the European Central Bank (BCE), evaluate and not oppose the transaction, in accordance with article 18 of Law 10/2014 of 26 June 2014 on the organisation, supervision and solvency of financial institutions and article 25 of Royal Decree 84/2015, of 13 February 2015 that implemented this Law.

Therefore on 29 September 2015, after the ECB had evaluated the transaction and issued its resolution not opposing the share transfer and all the other conditions precedent had been fulfilled, the share transfer was completed.

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As a result of the foregoing, the shareholder structure of EBN Banco de Negocios, S.A. at 31 December 2015 was as follows:

Shareholder	No. of shares	% capital
Own shares	1,307,190	15.624%
Mr. José Gracia Barba	2,329,484	27.843%
Mr. Santiago Fernández Valbuena and his wife Mrs M <sup>a</sup> Isabel de la Rosa Barrera, as common marital property.	2,329,484	27.843%
50% held by Mr. José Gracia Barba and 50% held as pro-indiviso common marital property by Mr. and Mrs. Fernández.	2,400,076	28.689%
<b>Total</b>	<b>8,366,234</b>	<b>100.000%</b>

During March 2016 the public deed of the Bank's capital reduction of Euros 7,856,211.90 was filed with the Mercantile Registry. The reduction was carried out through the redemption of 1,307,190 own shares, agreed at the general shareholders meeting held on 27 November 2015 and approved by the Banco de España in its resolution dated 29 January 2016. As a result the Bank's share capital is Euros 42,424,854.44 and is represented by 7,059,044 registered shares, each with a Euros 6.01 par value each.

As a result of the above, the share capital is distributed as follows:

Shareholder	No. of shares	% capital
Mr. José Gracia Barba	2,329,484	33.00%
Mr. Santiago Fernández Valbuena and his wife Mrs M <sup>a</sup> Isabel de la Rosa Barrera, as common marital property.	2,329,484	33.00%
50% held by Mr. José Gracia Barba and 50% held as pro-indiviso common marital property by Mr. and Mrs. Fernández.	2,400,076	34.00%
<b>Total</b>	<b>7,059,044</b>	<b>100.000%</b>



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## **2. STRUCTURE OF THE EBN GROUP**

EBN BANCO's profile is that of an investment bank which, since its incorporation and due to its limited size, has focused on activities in specialised financial segments.

The EBN Group's financial activity pertains mainly to the sectors of banking, venture capital, securitisation, capital investment and financial services for third parties.

The EBN Group comprises EBN BANCO, which is the parent of the Group, and EBN CAPITAL Sociedad Gestora de Entidades de Capital Riesgo, S.A.

In the last quarter of 2015 and the first quarter of 2016, EBN BANCO has actively sought to undertake new activities that are expected to be highly important in the near future.

## **3. EBN GROUP ACTIVITY**

EBN BANCO has traditionally carried out the Group's banking activity and also, as the Parent, has fostered and shared other activities, projects and financial business activities, having created and developed subsidiaries or vehicles with the participation of other financial institutions. As an investment bank, its lending activity has traditionally been focused on financing, specifically syndicated financing. However, in recent years, the Bank's main activity has been fixed-income investment and brokerage (mainly Spanish government debt), which has also been the main generator of the interest margin in the income statement.

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Consequently, the Bank ended the year with a fixed-income held-to-maturity portfolio of Euros 629,692 thousand and a fixed-income available-for-sale portfolio of Euros 602,052 thousand.

The interest margin, above all due to net returns on these government debt portfolios, declined in relative terms, sliding from Euros 14,620 thousand in 2014 to Euros 12,608 thousand in 2015.

Gross margin was considerably down on 2014, especially taking into account the major divestment of an equity interest in 2015 that generated a gain of Euros 10,231 thousand.

Gross margin in 2015 was Euros 12,370 thousand compared to Euros 23,314 thousand the previous year.

Operating profit in 2015 was Euros 5,829 thousand compared to Euros 9,433 thousand in 2014.

Despite all the above and the complexities of the financial markets, which naturally have affected the Bank, EBN BANCO recorded profit before tax (PBT) of Euros 5,793 thousand in 2015.

Profit after tax stood at Euros 5,548 thousand.

At 31 December 2015 the Bank presented the following ratios, which bear witness to its good financial health:

- A solvency ratio of 43.93% at individual level (44.17% at consolidated level).
- An efficiency ratio of 52.35%.
- A 30-day liquidity coverage ratio (LCR) of 92%.

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The Bank's branches of activity are divided into the following areas:

### **1. Loans and receivables**

The loans and receivables area comprises the following activities:

#### a) Financing and origination

This activity mainly encompasses syndicated corporate financing, project financing, the financing of acquisitions and alternative financing (MARF- the Spanish fixed-income market).

#### b) Restructurings

Including debt restructuring and refinancing, restructuring of companies in pre-insolvency and solvency proceedings, investment vehicles in restructured financial assets.

The Bank's activity in this area in 2015 focused primarily on the management and restructuring of syndicated financing operations in which it was the agent bank.

Furthermore, in 2015 the Bank expanded its services in the loans and receivables area to include third party financial restructuring and corporate financing services through private fixed-income securities (bonds, promissory notes and other instruments) traded on organised or over-the-counter markets or other trading platforms.

To this end, the Bank recently became a certified advisor for the Spanish fixed-income market (MARF) and is a full member of this market.

Finally, as a result of the work carried out in the last year, on 26 January 2016 the Bank entered into an agreement with PLUTA Abogados y Administradores Concursales to provide services to companies suffering cash restraints, in pre-insolvency or solvency proceedings that require a complete restructuring to enable them to be sustainable over time. This agreement included the incorporation of a joint company called EBN & Pluta Restructuring, S.L.

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## 2. Investees and venture capital

The investee area comprises the following activities:

### a) Capital investment through shared special purpose vehicles

The Bank manages Cartera Perseidas, S.L., which holds a significant investment in the share capital of Grupo Isolux Corsán, S.A., one of the leading Spanish groups in applied engineering, construction and services.

### b) Direct interests in unlisted companies

As mentioned previously, after the intensive divestment process carried out by the Bank, at 2015 year end its most significant interests in unlisted companies were as follows:

#### - Titulización de Activos SGFT, S.A. (TDA)

TDA was incorporated in 1992 with the sole statutory activity of managing and legally representing asset and mortgage securitisation funds.

In 2015, EBN BANCO transferred 2.86% of the share capital to a group of private investors (who have acquired in total 90% of this company's share capital), while EBN BANCO has reserved the right to sell the remaining 10% to the same buyers under certain conditions within established deadlines.

#### - J. García Carrión, S.A.

In February 2005 EBN BANCO acquired 1.10% of this company, the leading Spanish company in the table wine and fruit juice markets.

#### - Edar Cádiz-San Fernando, AIE

The Bank holds 3.7% of the share capital of this economic interest grouping, which was incorporated in 1997 and manages and operates the Cadiz and San Fernando joint wastewater treatment plant.

This treatment plant is fully operational.

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c) Direct interests in listed companies

The investee area also manages the Bank's long-term investments in listed companies.

d) Venture capital

The EBN Group carries out this activity (which, in functional terms, comes under the investment area) through its subsidiary EBN Capital, Sociedad Gestora de Entidades de Capital Riesgo, S.A. (EBN Capital).

EBN Capital's sole statutory activity is the administration of venture capital funds. This firm has share capital of Euros 601 thousand and its sole shareholder is EBN BANCO.

In 2015, EBN Capital continued to manage two venture capital funds (EBM Alisma, FCRRS and EBN Vaccaria, FCRRS), both of which are simplified funds, for the sole purpose of divesting them.

### **3. Financial services**

The financial services area is a natural growth area for the Bank.

### **4. Treasury and markets area**

The treasury and markets area combines the Bank's liquidity and financing management with the activities inherent to capital markets (distribution of fixed income, own investments in fixed income, listed variable-income securities and derivatives).

In 2015 this area reported most of the Bank's revenue and net interest margin, generated by its acquisitions of matured public debt for subsequent sale with a repurchase agreement.

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In March 2016 EBN BANCO sold a significant amount of its held-to-maturity portfolio. Consequently, it recognised a gain of Euros 11,182 thousand and the remaining debt instruments that were recognised in this held-to-maturity portfolio were reclassified to the available-for-sale portfolio.

### **III. MEETINGS OF THE GOVERNING BODIES IN 2015 AND 2016**

The governing bodies of the Bank have held the following meetings since the beginning of 2015:

<b>SHAREHOLDERS' GENERAL MEETING</b>	<b>BOARD OF DIRECTORS MEETING</b>	<b>EXECUTIVE COMMITTEE</b>	<b>AUDIT AND REGULATORY COMPLIANCE COMMITTEE MEETING</b>
23-06-2015	15-01-2015	28-07-2015	24-03-2015
29-09-2015	22-01-2015		23-06-2015
27-11-2015	24-02-2015		28-01-2016
	24-03-2015		31-03-2016
	29-04-2015		
	26-05-2015		
	23-06-2015		
	28-07-2015		
	29-09-2015 (1 <sup>st</sup> )		
	29-09-2015 (2 <sup>nd</sup> )		
	29-09-2015 (3 <sup>rd</sup> )		
	27-10-2015		
	27-11-2015 (1 <sup>st</sup> )		
	27-11-2015 (2 <sup>nd</sup> )		
	18-12-2015		
	28-01-2016		
	25-02-2016 (1 <sup>st</sup> )		
	25-02-2016 (2 <sup>nd</sup> )		
	31-03-2016		

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#### **IV. TRANSACTIONS WITH OWN SHARES IN 2015**

As mentioned in note 1 to these annual accounts, on 15 January 2014, Banco de Sabadell, S.A. sold all of its shares to the Bank (1,307,190 registered shares of the Entity) to be held by the latter as own shares. This purchase was subject to compliance with the condition precedent that Banco de España state expressly or implicitly its non-opposition to the acquisition of these shares by EBN BANCO, in accordance with articles 57 and 58 of the then prevailing Law 26/1988 of 29 July 1988 on discipline and intervention in credit institutions.

On 7 March 2014 Banco de España notified the Bank of its decision not to oppose the agreed share transfer, thereby fulfilling the condition precedent. The transaction was executed in a public deed on 24 March 2014. As a result, at 2014 year end the Bank held 1,307,190 own shares, which represented 15.624% of its share capital.

During 2015 no transactions with own shares were carried out, therefore at 31 December 2015 the Bank held the same number of own shares as at 2014 year end.

Nevertheless, as previously indicated, on 3 March 2016 the Bank's capital was reduced by Euros 7,856,211.90 through the redemption of all its own shares. As a result the Bank's share capital stands at Euros 42,424,854.44 and is represented by 7,059,044 registered shares.

This capital reduction resulted in the redemption of the own shares previously held by the Bank, appropriating a redeemed capital reserve with a charge to freely distributable reserves for the Euros 7,856,211.90 of the redeemed shares. Pursuant to article 335c) of the Spanish Companies Act the requirements for the use of this reserve are the same as for the capital reduction.

- V. Given the Bank's activity it has no environmental risks.
- VI. Given the Bank's activity it does not carry out any significant research and development activities.

**BOARD OF DIRECTORS' APPROVAL OF THE  
AUTHORISATION FOR ISSUE OF THE INDIVIDUAL  
ANNUAL ACCOUNTS AND DIRECTORS' REPORT**



**EBN Banco de Negocios, S.A.**





CLASE 8.ª



OM7060920

**APROBACIÓN DEL CONSEJO DE ADMINISTRACIÓN DE LA FORMULACIÓN DE LAS CUENTAS ANUALES INDIVIDUALES E INFORME DE GESTIÓN**

La formulación de las presentes **CUENTAS ANUALES INDIVIDUALES** y del **INFORME DE GESTIÓN**, ha sido aprobada por el Consejo de Administración de EBN Banco de Negocios, S.A. en su reunión del **31 de Marzo de 2016** para su revisión por los Auditores de la Sociedad y posterior aprobación por la Junta General de Accionistas. Dichas Cuentas Anuales Individuales, el Informe de Gestión, y la presente diligencia de aprobación están compuestas por **139** páginas (de la **1** a la **139** ambas inclusive) e impresas en Folios de "Timbre del Estado" con la siguiente numeración:

De la OM7060851 a la OM7060920, ambas inclusive.

 D. JOSÉ GRACIA PARBA Presidente	 D. SANTIAGO JAVIER FERNÁNDEZ VALBUENA Vicepresidente	 D. JOSÉ GOST GLIÓN Vicepresidente
D. JULIÁN GARCÍA VARGAS Vocal	D. RAFAEL GÓMEZ PEREZAGUA Vocal	D. JOSE LUIS ALONSO IGLESIAS Secretario del Consejo de Administración No Consejero

**FIRMAS EN DOCUMENTO NO DIGITALIZADO**