# BYBLOS BANK SAL

**CONSOLIDATED FINANCIAL STATEMENTS**

**31 DECEMBER 2016**

EY
Building a better working world

Ernst & Young p.c.c.
Starco Building
South Block B - 9th Floor
Mina El Hosn, Omar Daouk Street
P.O. Box: 11-1639, Riad El Solh
Beirut - 1107 2090, Lebanon
Tel: +961 1 760 800
Fax: +961 1 760 822/3
beirut@lb.ey.com
ey.com/mena
C.R. 61

BDO
SEMAAN, GHOLAM & CO.

BDO, Semaan, Gholam & Co.
Gholam Building - Sioufi Street
Beirut
P.O.Box: 11-0558, Riad El Solh
Beirut - 1107 2050, Lebanon
Tel: (01) 323676
Fax: (01) 204142
siman@inco.com.lb
C.R. 570

# INDEPENDENT AUDITORS' REPORT
# TO THE SHAREHOLDERS OF BYBLOS BANK SAL

## Qualified Opinion

We have audited the consolidated financial statements of Byblos Bank SAL (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the "*Basis for Qualified Opinion*" section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

## Basis for Qualified Opinion

As disclosed in note 36 to the consolidated financial statements, during 2016, the Group did not recognize in the consolidated income statement an amount of LL 126,682 million in gains realized from certain transactions on financial instruments with the Central Bank of Lebanon. The Group recognized this amount under "Deferred revenues" within "Other liabilities" in compliance with Central Bank of Lebanon's Intermediate Circular number 446 dated 30 December 2016. Furthermore, as disclosed in note 37 to the consolidated financial statements, the Group recorded excess provisions amounting to LL 102,480 million under "Provisions for risks and charges" in order to comply with the provisioning requirements of Central Bank of Lebanon's Intermediate Circular number 439 dated 8 November 2016. The Group's accounting for the above-mentioned transactions departs from the requirements of International Financial Reporting Standards (IFRSs). Had the Group properly accounted for these transactions, events and conditions, in accordance with International Financial Reporting Standards, the effects on the consolidated financial statements would have been as follows:

- Net income for the year ended 31 December 2016 would have increased by LL 229,162 million through an increase in "Net gain from financial instruments at fair value through profit or loss" by LL 108,392 million, an increase in "Net gain from sale of financial assets at amortized cost" by LL 40,692 million, a decrease in "Provisions for risks and charges" by LL 102,480 million and an increase in "Income tax expense" by LL 22,402 million;

- Total liabilities as at 31 December 2016 would have decreased by LL 229,162 million, through a decrease in "Deferred revenues" (reflected under "Other liabilities") by LL 126,682 million and a decrease in "Provisions for risks and charges" by LL 102,480 million; and

- Equity as at 31 December 2016 would have increased, through an increase in net income, by LL 229,162 million.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "*Auditors' Responsibilities for the Audit of the Consolidated Financial Statements*" section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Lebanon, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

**Other Information Included in the Group's 2016 Annual Report**

Other information consists of the information included in the Group's 2016 Annual Report other than the consolidated financial statements and our auditors' report thereon. Management is responsible for the other information. The Group's 2016 Annual Report is expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the audit committee and we will exercise professional judgement to determine whether we need to take appropriate action to seek to have the uncorrected misstatement appropriately brought to the attention of users for whom the auditors' report is prepared.

As described in the *"Basis for Qualified Opinion"* section above, the Group did not recognize certain gains and recorded excess provisions for risks and charges in the consolidated income statement. When we read the Annual Report, we will consider whether the other information included in the Annual Report is also materially misstated for these matters. If we conclude that there is a material misstatement therein, we are required to communicate the matter to the audit committee and we will exercise professional judgement to determine whether we need to take appropriate action to seek to have the uncorrected misstatement appropriately brought to the attention of users for whom the auditors' report is prepared.

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the year ended 31 December 2016. In addition to the matter described in the *"Basis for Qualified Opinion"* section of our report, we have determined the matters described below to be the key audit matters to be communicated in our report. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *"Auditors' Responsibilities for the Audit of the Consolidated Financial Statements"* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our qualified audit opinion on the accompanying consolidated financial statements.

*Impairment of Loans and Advances*

Due to the inherently judgemental nature of the computation of impairment provisions for loans and advances, there is a risk that the amount of impairment may be misstated. The impairment of loans and advances is estimated by management through the application of judgement and the use of subjective assumptions. Due to the significance of loans and advances and related estimation uncertainty, this is considered a key audit risk. The corporate loan portfolio generally comprises larger loans that are monitored individually by management. The assessment of loan loss impairment is therefore based on management's knowledge of each individual borrower. This includes the analysis of the financial performance of the borrower, historic experience when assessing the likelihood of incurred losses in the portfolios and the adequacy of collateral for secure lending. However, consumer loans generally comprise much smaller value loans to a much greater number of customers. Provisions are not calculated on an individual basis, but are determined by grouping by product into homogeneous portfolios. The portfolios are then monitored through delinquency statistics, which drive the assessment of loan loss provision.

**Key Audit Matters (continued)**

*Impairment of Loans and Advances (continued)*
The risks outlined above were addressed by us as follows:

- For corporate customers, we tested the key controls over the credit grading process, to assess if the risk grades allocated to the counterparties were appropriate. We then performed detailed credit assessment of all loans in excess of a defined threshold and loans in excess of a lower threshold in the watch list category and impaired category together with a selection of other loans.

- Where impairment allowance was calculated on a collective basis for performing corporate loans, we tested the completeness and accuracy of the underlying loan information used in the impairment model by agreeing details to the Group's source systems as well as re-performing the calculation of the modelled impairment allowances. For the key assumptions in the model, we assessed whether those assumptions were appropriate in the circumstances.

- For consumer loans, specific and collective impairment allowances are calculated using a simple model, which are based on a percentage of repayments due but not yet paid. We understood and critically assessed the model used and checked that no undue changes had been made in model parameters and assumptions. We tested the completeness and accuracy of data from underlying systems that is used in this model. We also re-performed the calculation of the modelled impairment allowance.

**Responsibilities of Management and the Audit Committee for the Consolidated Financial Statements**
Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The audit committee is responsible for overseeing the Group's financial reporting process.

**Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

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

EY
Building a better working world

BDO
Semaan, Gholam & Co.

**Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)**

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partners in charge of the audit resulting in this independent auditors' report are Nazih Borghol for Ernst & Young and Antoine Gholam for BDO, Semaan, Gholam & Co.

Ernst & Young

Ernst & Young

31 March 2017
Beirut, Lebanon

BDO, Semaan, Gholam & Co.

# CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2016

| | Notes | 2016 LL million | 2015 LL million |
|---|---|---|---|
| Interest and similar income | 8 | **1,545,922** | 1,489,087 |
| Interest and similar expense | 9 | **(1,176,124)** | (1,102,771) |
| **NET INTEREST INCOME** | | **369,798** | 386,316 |
| Fee and commission income | 10 | **134,122** | 134,515 |
| Fee and commission expense | 10 | **(12,515)** | (12,564) |
| **NET FEE AND COMMISSION INCOME** | 10 | **121,607** | 121,951 |
| Net gain from financial instruments at fair value through profit or loss | 11 | **79,970** | 67,443 |
| Net gain from sale of financial assets at amortized cost | 12 | **417,699** | 86,939 |
| Dividend income from financial assets at fair value through other comprehensive income | 27 | **4,413** | 4,383 |
| Other operating income | 13 | **27,803** | 20,935 |
| **TOTAL OPERATING INCOME** | | **1,021,290** | 687,967 |
| Net credit gains (losses) | 14 | **8,925** | (47,908) |
| Impairment losses on financial investments | 2 | **(49,676)** | - |
| **NET OPERATING INCOME** | | **980,539** | 640,059 |
| Personnel expenses | 15 | **(195,787)** | (180,792) |
| Other operating expenses | 16 | **(145,474)** | (139,187) |
| Depreciation of property and equipment | 28 | **(22,425)** | (23,466) |
| Amortisation of intangibles assets | 29 | **(113)** | (159) |
| Impairment of goodwill | 5 | **(12,427)** | - |
| **TOTAL OPERATING EXPENSES** | | **(376,226)** | (343,604) |
| **OPERATING PROFIT** | | **604,313** | 296,455 |
| Provisions for risks and charges | 37 | **(102,480)** | - |
| Foreign currency translation losses on deconsolidation of subsidiaries | 2 | **(137,890)** | - |
| Net gain on disposal of property and equipment | | **11** | 65 |
| **PROFIT BEFORE TAX** | | **363,954** | 296,520 |
| Income tax expense | 17 | **(114,719)** | (53,083) |
| **PROFIT FOR THE YEAR** | | **249,235** | 243,437 |
| Attributable to: | | | |
| Equity holders of the parent | | **232,672** | 228,185 |
| Non-controlling interests | | **16,563** | 15,252 |
| | | **249,235** | 243,437 |
| **Earnings per share** | | ***LL*** | *LL* |
| Equity shareholders of the parent: | | | |
| Basic earnings per share | 18 | **327.22** | 319.18 |
| Diluted earnings per share | 18 | **310.18** | 303.21 |

The attached notes 1 to 54 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

| | Notes | *2016* *LL million* | *2015* *LL million* |
|---|---|---|---|
| **PROFIT FOR THE YEAR** | | **249,235** | 243,437 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | | |
| ***Items to be reclassified to the income statement in subsequent periods:*** | | | |
| Exchange difference on translation of foreign operations | | **(68,161)** | (41,114) |
| **Net other comprehensive loss to be reclassified to the income statement in subsequent periods** | | **(68,161)** | (41,114) |
| ***Items not to be reclassified to the income statement in subsequent periods:*** | | | |
| Net unrealized loss from financial assets at fair value through other comprehensive income | 44 | **(1,306)** | (503) |
| Income tax effect | 44 | **194** | 75 |
| | | **(1,112)** | (428) |
| Re-measurement (losses) gains on defined benefit plans | 37 (a) | **(99)** | 474 |
| **Net other comprehensive (loss) income not to be reclassified to the income statement in subsequent periods** | | **(1,211)** | 46 |
| **OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX** | | **(69,372)** | (41,068) |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX** | | **179,863** | 202,369 |
| Attributable to: | | | |
| Equity holders of the parent | | **190,591** | 198,746 |
| Non-controlling interests | | **(10,728)** | 3,623 |
| | | **179,863** | 202,369 |

The attached notes 1 to 54 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

| | Notes | 2016 LL million | 2015 LL million |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances with central banks | 19 | **8,783,092** | 7,236,237 |
| Due from banks and financial institutions | 20 | **2,657,429** | 2,518,365 |
| Loans to banks and financial institutions and reverse repurchase agreements | 21 | **964,066** | 1,197,047 |
| Financial assets given as collateral | 22 | **224,044** | 1,405 |
| Derivative financial instruments | 23 | **4,420** | 1,844 |
| Financial assets at fair value through profit or loss | 24 | **789,172** | 295,845 |
| Net loans and advances to customers at amortized cost | 25 | **7,787,275** | 7,399,641 |
| Net loans and advances to related parties at amortized cost | 46 | **20,714** | 35,275 |
| Debtors by acceptances | | **223,883** | 244,705 |
| Financial assets at amortized cost | 26 | **9,416,979** | 10,516,514 |
| Financial assets at fair value through other comprehensive income | 27 | **101,305** | 101,907 |
| Property and equipment | 28 | **247,095** | 255,125 |
| Intangible assets | 29 | **380** | 493 |
| Assets obtained in settlement of debt | 30 | **43,299** | 42,006 |
| Other assets | 31 | **110,438** | 108,001 |
| **TOTAL ASSETS** | | **31,373,591** | 29,954,410 |
| **LIABILITIES AND EQUITY** | | | |
| **Liabilities** | | | |
| Due to central banks | 32 | **332,971** | 117,412 |
| Due to banks and financial institutions | 33 | **774,095** | 744,554 |
| Derivative financial instruments | 23 | **2,106** | 2,445 |
| Customers' deposits at amortized cost | 34 | **25,415,634** | 24,654,398 |
| Deposits from related parties at amortized cost | 46 | **366,027** | 425,749 |
| Debt issued and other borrowed funds | 35 | **444,072** | 445,199 |
| Engagements by acceptances | | **223,883** | 244,705 |
| Other liabilities | 36 | **399,813** | 147,567 |
| Provisions for risks and charges | 37 | **275,390** | 171,538 |
| Subordinated debt | 38 | **420,165** | 417,400 |
| **TOTAL LIABILITIES** | | **28,654,156** | 27,370,967 |
| **EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT** | | | |
| Share capital – common shares | 39 | **684,273** | 684,273 |
| Share capital – preferred shares | 39 | **4,840** | 4,840 |
| Share premium – common shares | 39 | **229,014** | 229,014 |
| Share premium – preferred shares | 39 | **591,083** | 591,083 |
| Non distributable reserves | 40 | **843,320** | 815,884 |
| Distributable reserves | 41 | **103,246** | 99,211 |
| Treasury shares | 42 | **(5,161)** | (6,807) |
| Retained earnings | | **67,518** | 61,832 |
| Revaluation reserve of real estate | 43 | **5,689** | 5,689 |
| Change in fair value of financial assets at fair value through other comprehensive income | 44 | **(9,081)** | (7,961) |
| Net results of the financial period – profit | | **232,672** | 228,185 |
| Foreign currency translation reserve | | **(65,341)** | (193,842) |
| | | **2,682,072** | 2,511,401 |
| **NON-CONTROLLING INTERESTS** | | **37,363** | 72,042 |
| **TOTAL EQUITY** | | **2,719,435** | 2,583,443 |
| **TOTAL LIABILITIES AND EQUITY** | | **31,373,591** | 29,954,410 |

The consolidated financial statements were authorized for issue in accordance with the resolution of the Board of Directors on 31 March 2017 by:

Semaan Bassil
Chairman and General Manager

Ziad El Zoghbi
Head of Finance and Administration

The attached notes 1 to 54 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

| | Attributable to equity holders of the parent | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Common shares | Preferred shares | Share premium - common shares | Share premium - preferred shares | Non-distributable reserves | Distributable reserves | Treasury shares | Retained earnings | Revaluation reserve of real estate | Change in fair value of financial assets at fair value through other comprehensive income | Net results of the financial period - profit | Foreign currency translation reserve | Total | Non-controlling interests | Total |
| | LL million | LL million | LL million | LL million | LL million | LL million | LL million | LL million | LL million | LL million | LL million | LL million | LL million | LL million | LL million |
| Balance at 1 January 2016 | 684,273 | 4,840 | 229,014 | 591,083 | 815,884 | 99,211 | (6,807) | 61,832 | 5,689 | (7,961) | 228,185 | (193,842) | 2,511,401 | 72,042 | 2,583,443 |
| Profit for the year | - | - | - | - | - | - | - | - | - | - | 232,672 | - | 232,672 | 16,563 | 249,235 |
| Other comprehensive loss | - | - | - | - | - | - | - | (99) | - | (1,112) | - | (40,870) | (42,081) | (27,291) | (69,372) |
| Total comprehensive income (loss) | - | - | - | - | - | - | - | (99) | - | (1,112) | 232,672 | (40,870) | 190,591 | (10,728) | 179,863 |
| Transfer to retained earnings | - | - | - | - | - | - | - | 228,185 | - | - | (228,185) | - | - | - | - |
| Transfer to retained earnings due to deconsolidation | - | - | - | - | (8,450) | (1,123) | - | 9,573 | - | - | - | - | - | - | - |
| Appropriations from retained earnings | - | - | - | - | 61,822 | 5,629 | - | (67,451) | - | - | - | - | - | - | - |
| Dividends paid to non-controlling interests | - | - | - | - | - | - | - | - | - | - | - | - | - | (3,153) | (3,153) |
| Equity dividends paid (note 53) | - | - | - | - | - | - | - | (161,060) | - | - | - | - | (161,060) | - | (161,060) |
| Translation difference | - | - | - | - | (25,818) | (3,273) | - | (3,462) | - | (8) | - | 31,481 | (1,080) | - | (1,080) |
| Treasury shares | - | - | - | - | (118) | - | 1,646 | - | - | - | - | - | 1,528 | - | 1,528 |
| Reversal of put options on non-controlling interests due to deconsolidation | - | - | - | - | - | 4,663 | - | - | - | - | - | - | 4,663 | 13,600 | 18,263 |
| Deconsolidation of subsidiaries (note 2) | - | - | - | - | - | - | - | - | - | - | - | 137,890 | 137,890 | (34,398) | 103,492 |
| Acquisition of additional non-controlling interests (note 5) | - | - | - | - | - | (1,861) | - | - | - | - | - | - | (1,861) | - | (1,861) |
| **Balance at 31 December 2016** | **684,273** | **4,840** | **229,014** | **591,083** | **843,320** | **103,246** | **(5,161)** | **67,518** | **5,689** | **(9,081)** | **232,672** | **(65,341)** | **2,682,072** | **37,363** | **2,719,435** |

| | Attributable to equity holders of the parent | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Common shares | Preferred shares | Share premium - common shares | Share premium - preferred shares | Non-distributable reserves | Distributable reserves | Treasury shares | Retained earnings | Revaluation reserve of real estate | Change in fair value of financial assets at fair value through other comprehensive income | Net results of the financial period - profit | Foreign currency translation reserve | Total | Non-controlling interests | Total |
| | LL million | LL million | LL million | LL million | LL million | LL million | LL million | LL million | LL million | LL million | LL million | LL million | LL million | LL million | LL million |
| Balance at 1 January 2015 | 684,273 | 4,840 | 229,014 | 591,083 | 748,879 | 95,943 | (6,425) | 39,899 | 5,689 | (7,533) | 252,792 | (164,357) | 2,474,097 | 69,855 | 2,543,952 |
| Profit for the year | - | - | - | - | - | - | - | - | - | - | 228,185 | - | 228,185 | 15,252 | 243,437 |
| Other comprehensive income (loss) | - | - | - | - | - | - | - | 474 | - | (428) | - | (29,485) | (29,439) | (11,629) | (41,068) |
| Total comprehensive income (loss) | - | - | - | - | - | - | - | 474 | - | (428) | 228,185 | (29,485) | 198,746 | 3,623 | 202,369 |
| Transfer to retained earnings | - | - | - | - | - | - | - | 252,792 | - | - | (252,792) | - | - | - | - |
| Appropriations from retained earnings | - | - | - | - | 67,037 | 3,178 | - | (70,215) | - | - | - | - | - | - | - |
| Dividends paid to non-controlling interests | - | - | - | - | - | - | - | - | - | - | - | - | - | (5,508) | (5,508) |
| Equity dividends paid (note 53) | - | - | - | - | - | - | - | (161,103) | - | - | - | - | (161,103) | - | (161,103) |
| Translation difference | - | - | - | - | (20) | - | - | (15) | - | - | - | - | (35) | - | (35) |
| Treasury shares | - | - | - | - | (12) | - | (382) | - | - | - | - | - | (394) | - | (394) |
| Fair value adjustment for put options on non-controlling interests | - | - | - | - | - | 90 | - | - | - | - | - | - | 90 | 4,072 | 4,162 |
| Balance at 31 December 2015 | 684,273 | 4,840 | 229,014 | 591,083 | 815,884 | 99,211 | (6,807) | 61,832 | 5,689 | (7,961) | 228,185 | (193,842) | 2,511,401 | 72,042 | 2,583,443 |

The attached notes 1 to 54 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

| | Notes | 2016 LL million | 2015 LL million |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Profit before tax | | 363,954 | 296,520 |
| Adjustments to reconcile profit before tax to net cash flows: | | | |
| Depreciation and amortisation | 28 & 29 | 22,538 | 23,625 |
| (Write-back of provision) provision for loans and advances and direct write offs, net | 14 | (7,347) | 13,859 |
| (Write-back of provision) provision for balances with central banks, net | 14 | (1,578) | 35,620 |
| Write-back of provision for financial assets at amortized cost, net | 14 | - | (1,571) |
| Gain on disposal of property and equipment | | (11) | (65) |
| Gain on disposal of assets obtained in settlement of debt | 13 | (4,093) | (856) |
| Provisions for risks and charges, net | | 129,710 | 29,066 |
| Unrealized fair value losses on financial instruments at fair value through profit or loss | | 3,727 | 5,200 |
| Realized gains from financial assets | | (397,821) | (86,688) |
| Derivative financial instruments | | (2,953) | 1,889 |
| Impairment losses on financial investments | 2 | 49,676 | - |
| Impairment of goodwill | 5 | 12,427 | - |
| Foreign currency translation losses on deconsolidation of subsidiaries | 2 | 137,890 | - |
| Operating profit before working capital changes | | 306,119 | 316,599 |
| Changes in operating assets and liabilities | | | |
| Due from central banks | | (1,563,261) | (508,137) |
| Due to central banks | | 226,518 | 42,483 |
| Due from banks and financial institutions | | (2,832) | 6,866 |
| Financial assets given as collateral | | (222,639) | 5,600 |
| Financial assets at fair value through profit or loss | | (516,138) | (145,714) |
| Due to banks and financial institutions | | 61,285 | (37,252) |
| Net loans and advances to customers and related parties | | (316,469) | (321,579) |
| Assets obtained in settlement of debt | 30 | (2,836) | (5,784) |
| Proceeds from sale of assets obtained in settlement of debt | | 5,679 | 1,311 |
| Other assets | | (17,397) | (4,898) |
| Customers' and related parties' deposits | | 516,361 | 1,389,545 |
| Other liabilities | | 234,869 | 417 |
| Cash (used in) from operations | | (1,290,741) | 739,457 |
| Provision for risks and charges paid | 37 | (3,487) | (3,325) |
| Taxation paid | | (54,374) | (65,042) |
| **Net cash (used in) from operating activities** | | (1,348,602) | 671,090 |
| **INVESTING ACTIVITIES** | | | |
| Financial assets at amortized cost | | 1,721,849 | (167,885) |
| Financial assets at fair value through other comprehensive income | | (1,096) | (3,715) |
| Loans to banks and financial institutions and reverse repurchase agreements | | 420,841 | (386,418) |
| Purchase of property and equipment | 28 | (35,011) | (45,972) |
| Proceeds from sale of property and equipment | | 377 | 233 |
| Net cash outflow from deconsolidation of subsidiaries | 2 | (132,565) | - |
| Acquisition of a subsidiary, net of cash acquired | 5 | (83,599) | - |
| **Net cash from (used in) investing activities** | | 1,890,796 | (603,757) |
| **FINANCING ACTIVITIES** | | | |
| Debts issued and other borrowed funds | | (1,127) | (188) |
| Subordinated debt | | 2,765 | 2,820 |
| Treasury shares | | 1,528 | (394) |
| Dividends paid to equity holders of the parent | 53 | (161,060) | (161,103) |
| Dividends paid to non-controlling interests | | (3,153) | (5,508) |
| Acquisition of additional non-controlling interests | 5 | (1,861) | - |
| **Net cash used in financing activities** | | (162,908) | (164,373) |
| **INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | | 379,286 | (97,040) |
| Net effect of foreign exchange | | (58,374) | (33,572) |
| Cash and cash equivalents at 1 January | | 4,766,200 | 4,896,812 |
| **CASH AND CASH EQUIVALENTS AT 31 DECEMBER** | 45 | 5,087,112 | 4,766,200 |
| **Operational cash flows from interest and dividends** | | | |
| Interest paid | | (1,168,296) | (1,102,999) |
| Interest received | | 1,566,523 | 1,474,227 |
| Dividend received | | 5,049 | 4,956 |

The attached notes 1 to 54 form part of these consolidated financial statements.

## 1 CORPORATE INFORMATION

Byblos Bank SAL (the "Bank"), a Lebanese joint stock company, was incorporated in 1961 and registered under No 14150 at the commercial registry of Beirut and under No 39 on the banks' list published by the Central Bank of Lebanon. The Bank's head office is located in Ashrafieh, Elias Sarkis Street, Beirut, Lebanon. The Bank's shares are listed on the Beirut Stock Exchange and London SEAQ.

The Bank, together with its affiliated banks and subsidiaries (collectively the "Group"), provides a wide range of banking and insurance services, through its headquarters and branches in Lebanon and 9 locations abroad (Cyprus, Belgium, United Kingdom, France, Syria, Sudan, Iraq, Democratic Republic of Congo and Armenia). Further information on the Group's structure is provided in note 4.

Effective 31 December 2016, the Group deconsolidated Byblos Bank Syria S.A. and Byblos Bank Africa since it no longer meets the accounting criteria for consolidation.

## 2 ACCOUNTING POLICIES

### 2.1 Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis except for: a) the restatement of certain tangible real estate properties in Lebanon according to the provisions of law No 282 dated 30 December 1993, and b) the measurement at fair value of derivative financial instruments, financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income.

The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and otherwise carried at amortised cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

The consolidated financial statements are presented in Lebanese Lira (LL) and all values are rounded to the nearest LL million except when otherwise indicated.

**Statement of compliance**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and the regulations of the Central Bank of Lebanon and the Banking Control Commission ("BCC").

**Presentation of financial statements**

The Group presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within one year after the statement of financial position date (current) and more than one year after the statement of financial position date (non-current) is presented in the notes.

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position only in the ordinary course of business, in the event of default, in the event of insolvency or bankruptcy of the Group and/or its counterparties or when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously without being contingent on a future event. Only gross settlement mechanisms with features that eliminate or result in insignificant credit and liquidity risk and that process receivables and payables in a single settlement process or cycle would be, in effect, equivalent to net settlement. This is not generally the case with master netting agreements, therefore the related assets and liabilities are presented gross in the consolidated statement of financial position. Income and expense will not be offset in the consolidated income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Group.

## 2 ACCOUNTING POLICIES (continued)

### 2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2016. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee),
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. However, under individual circumstances, the Group may still exercise control with less than 50% shareholding or may not be able to exercise control even with ownership over 50% of an entity's shares. When assessing whether it has power over an investee and therefore controls the variability of its returns, the Group considers all relevant facts and circumstances, including:

- The purpose and design of the investee,
- The relevant activities and how decisions about those activities are made and whether the Group can direct those activities,
- Contractual arrangements such as call rights, put rights and liquidation rights, and
- Whether the Group is exposed, or has rights, to variable returns from its involvement with the investee, and has the power to affect the variability of such returns

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

**Non-controlling interests**

Non-controlling interest represent the portion of profit or loss and net assets of subsidiaries not owned by the Group. The Group has elected to measure the non-controlling interests in acquirees at the proportionate share of each acquiree's identifiable net assets. Interests in the equity of subsidiaries not attributable to the Group are reported in consolidated equity as non-controlling interests. Profits or losses attributable to non-controlling interests are reported in the consolidated income statement as profit or loss attributable to non-controlling interests. Losses applicable to the non-controlling interest in a subsidiary are allocated to the non-controlling interest even if doing so causes the non-controlling interest to have a deficit balance

The Group treats transactions with non-controlling interests as transactions with equity holders of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Put options granted to non-controlling interests give rise to a financial liability for the present value of the redemption amount. Non-controlling interest continues to be recognised within equity, with changes in the carrying amounting arising from: a) an allocation of the profit or loss for the year; b) a share of changes in appropriate reserves; and c) dividends declared before the end of the reporting period. At the end of each reporting period, the non-controlling interest is then derecognised as if it was acquired at that date. The liability is recognised at the end of the reporting period at its fair value, and any difference between the amount of non-controlling interest derecognised and this liability is accounted for within equity.

## 2 ACCOUNTING POLICIES (continued)

### 2.2 Basis of consolidation (continued)

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value at the date of loss of control.

**Deconsolidation of the subsidiary Byblos Bank Syria**

The subsidiary Byblos Bank Syria, which is 59.87% owned by the Group, is engaged in commercial banking activities, mainly deposits taking and loan granting, in Syria. Starting March 2011, Syria has witnessed an extremely violent and crippling civil war between the regime and various opposition groups in different parts of the country. The war has turned into a humanitarian disaster resulting in Syria being ranked number one on the list of the most dangerous countries in the world. In addition, this has led several international bodies and countries (e.g. EU and USA) to set and implement several sanctions and restrictions on dealing with Syria.

The Syrian pound has lost at least 90% of its value against the US Dollar since 2011. The Syrian government has maintained currency controls and has created exchange mechanisms, which have become extremely illiquid over time, resulting in an other-than-temporary lack of exchangeability between the Syrian Pound and US Dollar. The supply of foreign currencies in the market remains structurally well below demand and there are no obvious limits as to how low the Syrian currency can fall.

Sanctions and the war, combined with the lack of exchangeability between the Syrian Pound and US Dollar, have significantly affected Syria's financial system. Banks are largely isolated from the international banking market, being shut-off from the international payment and settlement systems, as well as the credit markets. There was a major flight of deposits as Syrians have reallocated to safer assets. Syria's economy has contracted considerably in real terms since 2011, which has significantly affected the demand for credit facilities and the investment opportunities available for banks inside Syria. Banks are unable to repatriate funds outside the country and end up placing their funds in non-income generating assets, with the Central Bank of Syria and other local commercial or state-owned banks. The negative evolution of the macroeconomic situation limited the Group's ability to effectively manage the subsidiary. In addition, regulatory restrictions, such as foreign exchange controls, import authorization control, interest rates controls, and foreign currency credit facilities controls, have added to the limitations already existing on the significant activities of banks, preventing further the Group from developing and implementing decisions on the relevant activities of the subsidiary. Recently issued regulations requiring board meetings to be held in the Syrian territory and attended by the board members in person have also significantly impacted the Group's ability to attend the meetings and make and execute key operational and financial decisions regarding its Syrian operations.

As a result of these factors, which are expected to continue for the foreseeable future, effective 31 December 2016, the Group concluded that it no longer met the accounting criteria for consolidation of its Syrian subsidiary due to a loss of control, and therefore it deconsolidated its Syrian subsidiary effective as of 31 December 2016. The Group has determined the fair value of its investment in its Syrian subsidiary to be insignificant based on its expectations of dividend payments in future periods.

The deconsolidation of the subsidiary resulted in the recognition of a negative impact on the consolidated income statement for the year 2016, in the amount of LL 144,504 million, which includes:

- negative impact of LL 107,282 million deriving from losses from the translation into Lebanese Lira of the financial statements of the subsidiary previously recognized under equity and reclassified to the consolidated income statement; and
- negative impact of LL 37,222 million due to the full-write off of the net assets of the subsidiary.

Cash and cash equivalents of the subsidiary Byblos Bank Syria upon deconsolidation amounted to LL 95,783 million.

As a consequence of the deconsolidation, effective 1 January 2017, the Group shall no longer include the results of the Syrian subsidiary in its consolidated financial statements. Further, dividends and inter-bank interest will be recorded as income and expense upon receipt or payment. The Group will monitor the extent of its ability to control its Syrian operations as its current situation in Syria may change over time and lead to consolidation at a future date.

## 2 ACCOUNTING POLICIES (continued)

### 2.2 Basis of consolidation (continued)

**Deconsolidation of the subsidiary Byblos Bank Africa**
The subsidiary Byblos Bank Africa, which is 56.86% owned by the Group, is engaged in commercial banking activities, mainly deposits taking and loan granting, in Sudan. Sudan, one of the largest and most geographically diverse states in Africa, gained independence on the first of January 1956. Since then, the country has experienced alternating forms of democratic and authoritarian governments. Cross-border violence, political instability, poor infrastructure, weak property rights, and corruption has led several international bodies and countries (e.g. EU and USA) to set and implement several sanctions and restrictions on dealing with Sudan. In addition, the business environment of the country has been trapped by business regulations that inhibit registration and a rigid labor market that discourages formal hiring and Sudan was ranked as a repressed economy by Heritage Foundation.

The Sudanese Pound has lost at least 84% of its value against the US Dollar since 2011, when South Sudan seceded, taking with it three-quarters of the country's oil output, the main source of foreign currency used to support the Sudanese pound and to pay for food and other imports. Low foreign exchange reserves resulted in illiquid foreign currency markets and other-than-temporary lack of exchangeability between the Sudanese Pound and US Dollar. The official exchange rate was 100% below the parallel black market rate.

As a result of these factors, which are expected to continue for the foreseeable future, effective 31 December 2016, the Group concluded that it no longer met the accounting criteria for consolidation of its Sudanese subsidiary due to a loss of control, and therefore it deconsolidated its Sudanese subsidiary effective as of 31 December 2016. The Group has determined the fair value of its investment in its Sudanese subsidiary to be insignificant based on its expectations of dividend payments in future periods.

The deconsolidation of the subsidiary resulted in the recognition of a negative impact on the consolidated income statement for the year 2016, in the amount of LL 43,062 million, which includes:

- negative impact of LL 30,608 million deriving from losses from the translation into Lebanese Lira of the financial statements of the subsidiary previously recognized under equity and reclassified to the consolidated income statement; and
- negative impact of LL 12,454 million due to the full-write off of the net assets of the subsidiary.

Cash and cash equivalents of the subsidiary Byblos Bank Africa upon deconsolidation amounted to LL 36,782 million.

As a consequence of the deconsolidation, effective 1 January 2017, the Group shall no longer include the results of the Sudanese subsidiary in its consolidated financial statements. Further, dividends and inter-bank interest will be recorded as income and expense upon receipt or payment. The Group will monitor the extent of its ability to control its Sudanese operations as its current situation in Sudan may change over time and lead to consolidation at a future date.

### 2.3 Changes in accounting policies and disclosures

**New and amended standards and interpretations**
The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2016.

**IFRS 14 Regulatory Deferral Accounts**
IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and OCI. The standard requires disclosure of the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Group is an existing IFRS preparer and is not involved in any rate-regulated activities, this standard does not apply.

**2 ACCOUNTING POLICIES (continued)**

**2.3 Changes in accounting policies and disclosures (continued)**

**Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests**
The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 Business Combinations principles for business combination accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation if joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments do not have any impact on the Group as there has been no interest acquired in a joint operation during the year.

**Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation**
The amendments clarify the principle in IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments do not have any impact to the Group given that the Group has not used a revenue-based method to depreciate its noncurrent assets.

**Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants**
The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41 *Agriculture*. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* will apply. The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments do not have any impact to the Group as the Group does not have any bearer plants.

**Amendments to IAS 27: Equity Method in Separate Financial Statements**
The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements will have to apply that change retrospectively. First-time adopters of IFRS electing to use the equity method in their separate financial statements will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments do not have any impact on the Group's consolidated financial statements.

**Annual Improvements 2012-2014 Cycle**
These improvements are effective for annual periods beginning on or after 1 January 2016. They include:

**IFRS 5 Non-current Assets Held for Sale and Discontinued Operations**
Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively. These amendments do not have any impact on the Group.

**2 ACCOUNTING POLICIES (continued)**

**2.3 Changes in accounting policies and disclosures (continued)**

**IFRS 7 Financial Instruments: Disclosures**

(i) Servicing contracts:

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements:

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

These amendments do not have any impact on the Group.

**IAS 19 Employee Benefits**

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively. These amendments do not have any impact on the Group.

**IAS 34 Interim Financial Reporting**

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively. These amendments do not have any impact on the Group.

**Amendments to IAS 1 Disclosure Initiative**

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

• The materiality requirements in IAS 1

• That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated

• That entities have flexibility as to the order in which they present the notes to financial statements

• That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments do not have any impact on the Group.

**Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception**

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10 *Consolidated Financial Statements*. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 *Investments in Associates and Joint Ventures* allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments do not have any impact on the Group as the Group does not apply the consolidation exception.

## 2 ACCOUNTING POLICIES (continued)

### 2.4 Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

***IFRS 9 Financial Instruments***
In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. In prior years the Group has early adopted IFRS 9 (2011) which includes the requirements for the classification and measurement. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. The adoption of IFRS 9 will have an effect on measuring impairment allowances and on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities. The Group is currently assessing the impact of IFRS 9 and plans to adopt the new standard on the required effective date.

***IFRS 15 Revenue from Contracts with Customers***
IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

***IFRS 16 Leases***
The IASB issued the new standard for accounting for leases in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right-of-use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the consolidated statement of profit or loss. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2019 with early adoption permitted. The Group is currently assessing the impact of IFRS 16 and plans to adopt the new standard on the required effective date.

***IAS 12 Income Taxes***
The amendments clarify the following recognition of a deferred tax asset if the loss is unrealized is allowed, if certain conditions are met, and that the bottom line of the tax return is not the 'future taxable profit' for the recognition test. The IASB amendments clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. The current approach of using the expected bottom line on the tax return – i.e. future taxable income less tax-deductible expenses, will no longer be appropriate instead the taxable income before the deduction will be used, to avoid double counting. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Group is currently assessing the impact of IAS 12 and plans to adopt the new standard on the required effective date.

## 2 ACCOUNTING POLICIES (continued)

### 2.4 Standards issued but not yet effective (continued)

***IAS 7 Statement of Cash Flows***
The amendments issued introduce additional disclosure requirements intended to address investors' concerns as currently they are not able to understand the management of an entity's financing activities, require disclosure of information enabling users to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes, do not prescribe a specific format for disclosures but indicates that we can fulfil the requirement by providing a reconciliation between opening and closing balances for liabilities arising from financing activities, and are also applicable to financial assets that hedge liabilities arising from financing activities. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Group is currently assessing the impact of IAS 7 and plans to adopt the new standard on the required effective date.

### 2.5 Summary of significant accounting policies

**Foreign currency translation**
The consolidated financial statements are presented in Lebanese Lira which is the Bank's presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation.

***(i) Transactions and balances***
Transactions in foreign currencies are initially recorded by the Group's entities at the functional currency spot rate of exchange ruling at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the date of the statement of financial position. All differences are taken to "Net gain (loss) from financial instruments at fair value through profit or loss" in the consolidated income statement.

Non–monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non–monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognized in other comprehensive income or profit or loss is also recognized in other comprehensive income or profit or loss respectively).

***(ii) Group companies***
On consolidation, the assets and liabilities of subsidiaries and overseas branches are translated into the Bank's presentation currency at the rate of exchange as at the reporting date, and their income statements are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is reclassified to the consolidated income statement.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

**Financial instruments –classification and measurement**

***(i) Date of recognition***
All financial assets and liabilities are initially recognized on the trade date, i.e. the date that the Group becomes a party to the contractual provisions of the instrument. This includes "regular way trades": purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

**2 ACCOUNTING POLICIES (continued)**

**2.5 Summary of significant accounting policies (continued)**

**Financial instruments –classification and measurement (continued)**

***(ii) Classification and measurement of financial instruments***

***a. Financial assets***

The classification of financial assets depends on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Assets are initially measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, particular transaction costs. Assets are subsequently measured at amortised cost or fair value.

An entity may, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. An entity is required to disclose such financial assets separately from those mandatorily measured at fair value.

***Financial assets at amortized cost***

Debt instruments are subsequently measured at amortized cost less any impairment loss (except for debt instruments that are designated at fair value through profit or loss upon initial recognition) if they meet the following two conditions:

- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- The contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These financial assets are initially recognized at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributed to the acquisition are also included in the cost of investment. After initial measurement, these financial assets are measured at amortized cost using the effective interest rate method (EIR), less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortization is included in "Interest and similar income" in the consolidated income statement. The losses arising from impairment are recognised in the consolidated income statement in "Net credit losses".

Although the objective of an entity's business model may be to hold financial assets in order to collect contractual cash flows, the entity need not hold all of those instruments until maturity. Thus an entity's business model can be to hold financial assets to collect contractual cash flows even when sales of financial assets occur. However, if more than an infrequent number of sales are made out of a portfolio, the entity needs to assess whether and how such sales are consistent with an objective of collecting contractual cash flows. If the objective of the entity's business model for managing those financial assets changes, the entity is required to reclassify financial assets.

Gains and losses arising from the derecognition of financial assets measured at amortised cost are reflected under "Net gain (loss) from sale of financial assets at amortized cost" in the consolidated income statement.

*Balances with central banks, due from banks and financial institutions, loans to banks and financial institutions and loans and advances to customers and related parties – at amortized cost*

After initial measurement, "Balances with central banks", "Due from banks and financial institutions", "Loans to banks and financial institutions" and "Loans and advances to customers and related parties" are subsequently measured at amortised cost using the EIR, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'Interest and similar income' in the consolidated income statement. The losses arising from impairment are recognised in the consolidated income statement in "Net credit losses".

**2 ACCOUNTING POLICIES (continued)**

**2.5 Summary of significant accounting policies (continued)**

**Financial instruments –classification and measurement (continued)**

***(ii) Classification and measurement of financial instruments (continued)***

***a. Financial assets (continued)***

***Financial assets at fair value through profit or loss***
Included in this category are those debt instruments that do not meet the conditions in "*at amortized cost*" above, debt instruments designated at fair value through profit or loss upon initial recognition and equity instruments at fair value through profit or loss.

*i. Debt instruments at fair value through profit or loss*
These financial assets are recorded in the consolidated statement of financial position at fair value. Changes in fair value and interest income are recorded under "Net gain (loss) from financial instruments at fair value through profit or loss" in the consolidated income statement showing separately, those related to financial assets designated at fair value upon initial recognition from those mandatorily measured at fair value.

Gains and losses arising from the derecognition of debt instruments at fair value through profit or loss are also reflected under "Net gain (loss) from financial instruments at fair value through profit or loss" in the consolidated income statement showing separately, those related to financial assets designated at fair value upon initial recognition from those mandatorily measured at fair value.

*ii. Equity instruments at fair value through profit or loss*
Investments in equity instruments are classified at fair value through profit or loss, unless the Group designates at initial recognition an investment that is not held for trading as at fair value through other comprehensive income.

These financial assets are recorded in the consolidated statement of financial position at fair value. Changes in fair value and dividend income are recorded under "Net gain (loss) from financial instruments at fair value through profit or loss" in the consolidated income statement.

Gains and losses arising from the derecognition of equity instruments at fair value through profit or loss are also reflected under "Net gain (loss) from financial instruments at fair value through profit or loss" in the consolidated income statement.

***Financial assets at fair value through other comprehensive income***
Investments in equity instruments designated at initial recognition as not held for trading are classified at fair value through other comprehensive income.

These financial assets are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated under equity. The cumulative gain or loss will not be reclassified to the consolidated income statement on disposal of the investments.

Dividends on these investments are recognized under "Revenues from financial assets at fair value through other comprehensive income" in the consolidated income statement when the entity's right to receive payment of dividend is established in accordance with IAS 18: "Revenue", unless the dividends clearly represent a recovery of part of the cost of the investment.

**2 ACCOUNTING POLICIES (continued)**

**2.5 Summary of significant accounting policies (continued)**

**Financial instruments –classification and measurement (continued)**

***(ii) Classification and measurement of financial instruments (continued)***

***b. Financial liabilities***

Liabilities are initially measured at fair value plus, in the case of a financial liability not at fair value through profit or loss, particular transaction costs. Liabilities are subsequently measured at amortised cost or fair value.

The Group classifies all financial liabilities as subsequently measured at amortised cost using the effective interest method, except for:

- financial liabilities at fair value through profit or loss (including derivatives);
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.
- financial guarantee contracts and commitments to provide a loan at a below-market interest rate which after initial recognition are subsequently measured at the higher of the amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 Revenue.

*Fair value option*

An entity may, at initial recognition, irrevocably designate a financial liability as measured at fair value through profit or loss when:

- doing so results in more relevant information, because it either eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel.

The amount of changes in fair value of a financial liability designated at fair value through profit or loss at initial recognition that is attributable to changes in credit risk of that liability is recognized in other comprehensive income, unless such recognition would create an accounting mismatch in the consolidated income statement. Changes in fair value attributable to changes in credit risk are not reclassified to consolidated income statement.

*Debt issued and other borrowed funds and subordinated debt*

Financial instruments issued by the Group, which are not designated at fair value through profit or loss, are classified as liabilities under "Debt issued and other borrowed funds", where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, debt issued and other borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate method.

**2 ACCOUNTING POLICIES (continued)**

**2.5 Summary of significant accounting policies (continued)**

**Financial instruments –classification and measurement (continued)**

***(ii) Classification and measurement of financial instruments (continued)***

***b. Financial liabilities (continued)***

*Debt issued and other borrowed funds and subordinated debt (continued)*
A compound financial instrument which contains both a liability and an equity component is separated at the issue date. A portion of the net proceeds of the instrument is allocated to the debt component on the date of issue based on its fair value (which is generally determined based on the quoted market prices for similar debt instruments). The equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the debt component. The value of any derivative features (such as a call option) embedded in the compound financial instrument other than the equity component is included in the debt component.

*Due to central banks, due to banks and financial institutions, customers' deposits and related parties deposits*
After initial measurement, due to central banks, due to banks and financial institutions, customers' and related parties' deposits are measured at amortised cost less amounts repaid using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate method.

***c. Derivatives recorded at fair value through profit or loss***
The Group uses derivatives such as interest rate swaps and futures, credit default swaps, cross currency swaps, forward foreign exchange contracts and options on interest rates, foreign currencies and equities.

Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are recognised in "Net gain (loss) from financial instruments at fair value through profit or loss" in the consolidated income statement.

An embedded derivative is separated from the host and accounted for as a derivative if, and only if:

(a) the hybrid contract contains a host that is not an asset within the scope of IFRS 9
(b) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host
(c) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
(d) the hybrid contract is not measured at fair value with changes in fair value recognised in profit or loss

***(iii) Day 1 profit or loss***
When the transaction price differs from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Group immediately recognizes the difference between the transaction price and fair value (a "Day 1" profit or loss) in the consolidated income statement. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated income statement when the inputs become observable, or when the instrument is derecognized.

***(iv) Reclassification of financial assets***
The Group reclassifies financial assets if the objective of the business model for managing those financial assets changes. Such changes are expected to be very infrequent. Such changes are determined by the Group's senior management as a result of external or internal changes when significant to the Group's operations and demonstrable to external parties.

**2 ACCOUNTING POLICIES (continued)**

**2.5 Summary of significant accounting policies (continued)**

**Financial instruments –classification and measurement (continued)**

***(iv) Reclassification of financial assets (continued)***
If financial assets are reclassified, the reclassification is applied prospectively from the reclassification date, which is the first day of the first reporting period following the change in business model that results in the reclassification of financial assets. Any previously recognised gains, losses or interest are not restated.

If a financial asset is reclassified so that it is measured at fair value, its fair value is determined at the reclassification date. Any gain or loss arising from a difference between the previous carrying amount and fair value is recognised in profit or loss. If a financial asset is reclassified so that it is measured at amortised cost, its fair value at the reclassification date becomes its new carrying amount.

**Derecognition of financial assets and financial liabilities**

***(i) Financial assets***
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired.
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either:
  - The Group has transferred substantially all the risks and rewards of the asset, or
  - The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

***(ii) Financial liabilities***
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognized in the consolidated income statement.

**Repurchase and reverse repurchase agreements**
Securities sold under agreements to repurchase at a specified future date are not derecognised from the consolidated statement of financial position as the Group retains substantially all the risks and rewards of ownership. The corresponding cash received is recognised in the consolidated statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within "Due to banks and financial institutions", reflecting the transaction's economic substances as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the EIR. When the counterparty has the right to sell or repledge the securities, the Group reclassifies those securities in its statement of financial position to "Financial assets at fair value through profit or loss pledged as collateral" as appropriate.

**2 ACCOUNTING POLICIES (continued)**

**2.5 Summary of significant accounting policies (continued)**

**Repurchase and reverse repurchase agreements (continued)**
Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the consolidated statement of financial position. The consideration paid, including accrued interest is recorded in the consolidated statement of financial position within "Due from banks and financial institutions and reverse repurchase agreements", reflecting the transaction's economic substance as a loan by the Group. The difference between the purchase and resale prices is recorded in "Net interest income" and is accrued over the life of the agreement using the EIR.

If securities purchased under agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within "Financial liabilities at fair value through profit or loss" and measured at fair value with any gains or losses included in "Net gain (loss) from financial instruments at fair value through profit or loss" in the consolidated income statement.

**Fair value measurement**
The Group measures financial instruments, such as, derivatives, and financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in the notes.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:
- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Group's management determines the policies and procedures for both recurring fair value measurement, such as unquoted financial assets, and for non-recurring measurement, such as assets held for distribution in discontinued operation.

**2 ACCOUNTING POLICIES (continued)**

**2.5 Summary of significant accounting policies (continued)**

**Fair value measurement (continued)**

At each reporting date, the management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

**Impairment of financial assets**

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganization default or delinquency in interest or principal payments, and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

*(i) Financial assets carried at amortised cost*

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated income statement.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised; the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the "Net credit losses" in the consolidated income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs of obtaining and selling the collateral, whether or not the foreclosure is probable.

## 2 ACCOUNTING POLICIES (continued)

### 2.5 Summary of significant accounting policies (continued)

**Impairment of financial assets (continued)**

*(i) Financial assets carried at amortised cost (continued)*
For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

*(ii) Renegotiated loans*
Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

*(iii) Collateral repossessed*
The Group occasionally acquires properties in settlement of loans and advances. Upon initial recognition, those assets are measured at fair value as approved by the regulatory authorities. Subsequently these properties are measured at the lower of carrying value or net realisable value.

Upon sale of repossessed assets, any gain or loss realized is recognized in the consolidated income statement under "Other operating income" or "Other operating expenses". Gains resulting from the sale of repossessed assets are transferred to "Reserves for capital increase" in the following financial year.

**Hedge accounting**
The Group makes use of derivative instruments to manage exposures to interest rate, foreign currency and credit risks, including exposures arising from forecast transactions and firm commitments. In order to manage particular risks, the Group applies hedge accounting for transactions which meet the specified criteria.

At inception of the hedge relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis and demonstrate that it was effective (retrospective effectiveness) for the designated period in order to qualify for hedge accounting. A formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item, both at inception and at each quarter end on an ongoing basis. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125% and are expected to achieve such offset in future periods. Hedge ineffectiveness is recognized in the consolidated income statement in "Net gain (loss) from financial instruments at fair value through profit or loss". For situations where that hedged item is a forecast transaction, the Group also assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the consolidated income statement.

**2 ACCOUNTING POLICIES (continued)**

**2.5 Summary of significant accounting policies (continued)**

**Hedge accounting (continued)**

*(i) Fair value hedges*
For designated and qualifying fair value hedges, the cumulative change in the fair value of a hedging derivative is recognised in the consolidated income statement in "Net gain (loss) from financial instruments at fair value through profit or loss". Meanwhile, the cumulative change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item in the consolidated statement of financial position and is also recognised in "Net gain (loss) from financial instruments at fair value through profit or loss" in the consolidated income statement.

If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is discontinued prospectively. For hedged items recorded at amortised cost, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge using the recalculated effective interest rate (EIR) method. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated income statement.

*(ii) Cash flow hedges*
For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is initially recognised directly in equity in the "Cash flow hedge" reserve. The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in the consolidated income statement.

When the hedged cash flow affects the consolidated income statement, the gain or loss on the hedging instrument is recorded in the corresponding income or expense line of the consolidated income statement. When the forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognized in other comprehensive income are removed from the reserve and included in the initial cost of the asset or liability.

When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time remains in other comprehensive income and is recognised when the hedged forecast transaction is ultimately recognised in the consolidated income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the consolidated income statement.

*(iii) Hedge of a net investment*
Hedges of net investments in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised directly in other comprehensive income while any gains or losses relating to the ineffective portion are recognised in the consolidated income statement. On disposal of the foreign operation, the cumulative value of any such gains or losses recognised directly in other comprehensive statement is transferred to the consolidated income statement.

**Leasing**
The determination of whether an arrangement is a lease or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

*Group as a lessee*
Leases which do not transfer to the Group substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the consolidated income statement on a straight line basis over the lease term. Contingent rental payable are recognised as an expense in the period in which they are incurred.

**2 ACCOUNTING POLICIES (continued)**

**2.5 Summary of significant accounting policies (continued)**

**Leasing (continued)**

*Group as a lessor*
Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

**Recognition of income and expenses**
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

***(i) Interest and similar income and expense***
For all financial instruments measured at amortized cost, interest income or expense is recorded using the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in the carrying amount is recorded as "Interest and similar income" for financial assets and "Interest and similar expense" for financial liabilities.

Once the recorded value of a financial asset on a group of similar financial assets has been reduced due to an impairment loss, interest income continue to be recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

***(ii) Fee and commission income***
The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

*Fee income earned from services that are provided over a certain period of time*
Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the EIR on the loan. When it is unlikely that a loan be drawn down, the loan commitment fees are recognized as revenues on expiry.

*Fee income from providing transaction services*
Fee arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognized on completion of the underlying transaction. Fee or components of fee that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

*Fee and commission income from providing insurance services*
Insurance and investment contract policyholders are charged for policy administration services, investment management services, surrenders and other contract fees. These fees are recognized as revenue over the period in which the related services are performed. If the fees are for services provided in future periods, then they are deferred and recognized over those future periods.

## 2 ACCOUNTING POLICIES (continued)

### 2.5 Summary of significant accounting policies (continued)

**Recognition of income and expenses (continued)**

***(iii) Dividend income***
Dividend income is recognised when the right to receive the payment is established.

***(iv) Net gain (loss) from financial instruments at fair value through profit or loss***
Results arising from financial instruments at fair value through profit or loss, include all gains and losses from changes in fair value and related income or expense and dividends for financial assets at fair value through profit or loss. This includes any ineffectiveness recorded in hedging transactions.

***(vi) Insurance revenue***
For the insurance subsidiaries, net premiums and accessories (gross premiums) are taken to income over the terms of the policies to which they relate using the prorate temporise method for non-marine business and 25% of gross premiums for marine business. Unearned premiums reserve represents the portion of the gross premiums written relating to the unexpired period of coverage.

If the unearned premiums reserve is not considered adequate to cover future claims arising on these premiums a premium deficiency reserve is created.

**Cash and cash equivalents**
Cash and cash equivalents as referred to in the cash flow statement comprise balances with original maturities of a period of three months or less including: cash and balances with the central banks, deposits with banks and financial institutions, and deposits due to banks and financial institutions.

**Property and equipment**
Property and equipment is stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of the property and equipment if the recognition criteria are met. When significant parts of property and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the consolidated income statement as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Changes in the expected useful life are accounted for by changing the depreciation period or method, as appropriate and treated as changes in accounting estimates.

Depreciation is calculated using the straight line method to write down the cost of property and equipment to their residual values over their estimated useful lives. Land is not depreciated. The estimated useful lives are as follows:

| | |
|---|---|
| Buildings | 50 years |
| Office equipment and furniture | 6.66 – 12.5 years |
| Computer equipment and software | 3.33 – 5 years |
| General installations | 5 years |
| Vehicles | 4 years |

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in "Net gain (loss) on disposal of fixed assets" in the year the asset is derecognized.

The asset's residual lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively if applicable.

## 2 ACCOUNTING POLICIES (continued)

### 2.5 Summary of significant accounting policies (continued)

**Business combinations and goodwill**
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non- controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group makes an acquisition meeting the definition of a business under IFRS 3, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest in the acquiree is remeasured at fair value at the acquisition date through the consolidated income statement. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then_the gain is recognised in profit or loss.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units (CGUs) or group of CGUs, which are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes, and is not larger than an operating segment in accordance with IFRS 8 *"Operating Segments"*.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

**Intangible assets**
An intangible asset is recognized only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

## 2 ACCOUNTING POLICIES (continued)

### 2.5 Summary of significant accounting policies (continued)

**Intangible assets (continued)**
The useful lives of intangible assets are assessed to be either finite of indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated income statement.

Amortisation is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

- Key money 10-15 years

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

The Group does not have intangible assets with indefinite economic life.

**Impairment of non-financial assets**
The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognized in the consolidated income statement.

Impairment losses relating to goodwill cannot be reversed in future periods.

## 2 ACCOUNTING POLICIES (continued)

### 2.5 Summary of significant accounting policies (continued)

**Financial guarantees**
In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements (within "Other liabilities") at fair value, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognized less, when appropriate, cumulative amortization recognized in the consolidated income statement, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recorded in the consolidated income statement in "Net credit losses". The premium received is recognised in the consolidated income statement on a straight line basis over the life of the guarantee in "Net fee and commission income".

**Pensions and other post-employment benefits**
The Group operates defined benefit pension plans, which requires contributions to be made to separately administered funds. The cost of providing benefits under the defined benefit plans is determined using the projected unit credit method which involves making actuarial assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Those assumptions are unbiased and mutually compatible.

Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding net interest and the return on plan assets (excluding net interest), are recognized immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment, and
- The date that the Group recognises restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under "Personnel expenses" in consolidated statement of income:

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- Net interest expense or income

**Provisions for risks and charges**
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the consolidated income statement net of any reimbursement.

**Taxes**
Taxes are provided for in accordance with regulations and laws that are effective in the countries where the Group operates.

*(i) Current tax*
Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

**2 ACCOUNTING POLICIES (continued)**

**2.5 Summary of significant accounting policies (continued)**

**Taxes (continued)**

*(ii) Deferred tax*
Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognized deferred tax assets are reassessed at each statement of financial position date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

Current tax and deferred tax relating to items recognized directly in other comprehensive income are also recognised in other comprehensive income and not in the consolidated income statement.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

**Treasury shares**
Own equity instruments of the Group which are acquired by it or by any of its subsidiaries (treasury shares) are deducted from equity and accounted for at weighted average cost. Consideration paid or received on the purchase sale, issue or cancellation of the Group's own equity instruments is recognized directly in equity. No gain or loss is recognized in the consolidated income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments.

When the Group holds own equity instruments on behalf of its clients, those holdings are not included in the Group's consolidated statement of financial position.

## 2 ACCOUNTING POLICIES (continued)

### 2.5 Summary of significant accounting policies (continued)

**Treasury shares (continued)**
Contracts on own shares that require physical settlement of a fixed number of own shares for a fixed consideration are classified as equity and added to or deducted from equity. Contracts on own shares that require net cash settlement or provide a choice of settlement are classified as trading instruments and changes in the fair value are reported in the consolidated income statement.

**Assets held in custody and under administration**
The Group provides custody and administration services that result in the holding or investing of assets on behalf of its clients. Assets held in custody or under administration, are not treated as assets of the Group and accordingly are recorded as off financial position items.

**Dividends on ordinary shares**
Dividends on ordinary shares are recognized as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank.

Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

**Customers' acceptances**
Customers' acceptances represent term documentary credits which the Group has committed to settle on behalf of its clients against commitments by those clients (acceptances). The commitments resulting from these acceptances are stated as a liability in the statement of financial position for the same amount.

**Segment reporting**
The Group's segmental reporting is based on the following operating segments: consumer banking, corporate banking, and treasury and capital markets.

## 3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

**Judgements**
In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect in the amounts recognised in the financial statements:

*Going concern*
The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

*Business model*
In making an assessment whether a business model's objective is to hold assets in order to collect contractual cash flows, the Group considers at which level of its business activities such assessment should be made. Generally, a business model is a matter of fact which can be evidenced by the way business is managed and the information provided to management. However, in some circumstances it may not be clear whether a particular activity involves one business model with some infrequent asset sales or whether the anticipated sales indicate that there are two different business models.

**3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)**

**Judgements (continued)**

*Business model (continued)*
In determining whether its business model for managing financial assets is to hold assets in order to collect contractual cash flows the Group considers:
- management's stated policies and objectives for the portfolio and the operation of those policies in practice;
- how management evaluates the performance of the portfolio;
- whether management's strategy focuses on earning contractual interest revenues;
- the degree of frequency of any expected asset sales;
- the reason for any asset sales; and
- whether sold assets are held for an extended period of time relative to their contractual maturity.

*Contractual cash flows of financial assets*
The Group exercises judgement in determining whether the contractual terms of financial assets it originates or acquires give rise on specific dates to cash flows that are solely payments of principal and interest on the principal outstanding and so may qualify for amortised cost measurement. In making the assessment the Group considers all contractual terms, including any prepayment terms or provisions to extend the maturity of the assets, terms that change the amount and timing of cash flows and whether the contractual terms contain leverage.

*Deconsolidation of Byblos Bank Syria and Byblos Bank Africa as at 31 December 2016*
The Group proceeded with the deconsolidation of the subsidiaries Byblos Bank Syria and Byblos Bank Africa, effective as of 31 December 2016. The decision to proceed with the deconsolidation was mainly due to the loss of control over the subsidiaries and the Group's inability to direct the relevant activities of the subsidiaries. The violent and crippling civil war, the international sanctions, the lack of exchangeability between the Syrian and Sudanese Pounds from one side and the US Dollar from the other, combined with other restrictive regulations, have limited the Group's ability to effectively manage the subsidiaries. Given this scenario, which is expected to endure for the foreseeable future, it was considered that the requisite conditions of IFRS 10 have not been met in order for an accounting control to be carried out on the subsidiaries. Therefore, the deconsolidation of the subsidiaries was proceeded with. Given the complexity of the Syrian and Sudanese scenarios, the previously summarised considerations and assumptions inevitably relied on complex and subjective assessments and estimates based on historical experience, and are considered reasonable and realistic in the circumstances. These assessments and assumptions resulted in significant overall effects on the consolidated financial statements of the Group. Please refer to note 2, "Deconsolidation of the subsidiary Byblos Bank Syria" and "Deconsolidation of the subsidiary Byblos Bank Africa" for more details on these effects.

**Estimates and assumptions**
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

*Fair value of financial instruments*
Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgement is required to establish fair values. The judgements include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

## 3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

**Estimates and assumptions (continued)**

*Impairment losses on loans and advances*
The Group reviews its individually significant loans and advances at each statement of financial position date to assess whether an impairment loss should be recorded in the consolidated income statement. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Group makes judgements about the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.
Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as credit quality, levels of arrears, credit utilization, loan to collateral ratios etc.), concentrations of risks and economic date (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

*Deferred tax assets*
Deferred tax assets are recognized in respect to tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

*Pensions obligation*
The cost of the defined benefit pension plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

## 4 GROUP INFORMATION

The consolidated financial statements of the Group comprise the financial statements of Byblos Bank SAL and the following subsidiaries:

| *Subsidiary* | *Percentage of ownership* 2016 % | 2015 % | *Principal activity* | *Country of incorporation* |
|---|---|---|---|---|
| Byblos Bank Europe SA | **99.95** | 99.95 | Banking activities through its head office in Brussels (Belgium) and two branches in London and Paris | Belgium |
| Adonis Insurance and Reinsurance Co. (ADIR) SAL | **64.00** | 64.00 | Insurance | Lebanon |
| Adonis Brokerage House SAL | **100.00** | 100.00 | Insurance brokerage | Lebanon |
| Byblos Invest Bank SAL | **99.99** | 99.99 | Investment banking | Lebanon |
| Byblos Bank Africa (*) | **56.86** | 56.86 | Commercial Banking | Sudan |
| Byblos Bank Syria S.A. (*) | **59.87** | 59.87 | Commercial Banking | Syria |
| Byblos Bank Armenia CJSC | **100.00** | 65.00 | Commercial Banking | Armenia |
| Adonis Insurance and Reinsurance (ADIR) Syria | **76.00** | 76.00 | Insurance | Syria |
| Byblos Bank RDC SARL | **66.67** | 66.67 | Banking activities | Democratic Republic of Congo |

(*) Effective 31 December 2016, the Group deconsolidated Byblos Bank Syria S.A. and Byblos Bank Africa since it no longer meets the accounting criteria for consolidation.

## 5 BUSINESS COMBINATIONS

***Acquisition of ownership interest in Banque Pharaon & Chiha SAL***

During 2016, the Group acquired 100% of the voting shares of Banque Pharaon & Chiha SAL, an unlisted bank operating in Lebanon, for a total consideration of LL 148,732 million. Banque Pharaon & Chiha SAL was engaged in providing a wide range of banking services to its customers through its Head Office and branches located in Lebanon. The acquisition was accounted for under the acquisition method. The consolidated financial statements include the results of Banque Pharaon & Chiha SAL for the six-month period from 30 April 2016, the acquisition date, until 31 October 2016 when the assets and liabilities of Banque Pharaon & Chiha SAL were merged with the assets and liabilities of Byblos Bank SAL. From 30 April 2016, the date of acquisition, till 31 October 2016, Banque Pharaon & Chiha SAL contributed LL 2,524 million to the consolidated net profit of the Group. If the acquisition had taken place at the beginning of the year 2016, consolidated net income for the year would have increased by LL 2,491 million.

The fair value of the identifiable assets and liabilities acquired arising as at 30 April 2016, the date of acquisition, was:

| | *Fair value recognised on acquisition LL million* |
|---|---|
| **Assets** | |
| Cash and balances with central bank | **90,604** |
| Due from banks and financial institutions | **27,139** |
| Financial assets at fair value through profit or loss | **794** |
| Net loans and advances to customers at amortized cost | **135,165** |
| Debtors by acceptances | **1,228** |
| Financial assets at amortized cost | **206,564** |
| Property and equipment | **520** |
| Assets obtained in settlement of debt | **47** |
| Other assets | **2,030** |
| | **464,091** |
| **Liabilities** | |
| Deposits from customers at amortized cost | **(307,863)** |
| Deposits from related parties at amortized cost | **(37,899)** |
| Engagements by acceptances | **(1,228)** |
| Other liabilities | **(7,734)** |
| Provisions for risks and charges | **(2,138)** |
| | **(356,862)** |
| **Total identifiable net assets** | **107,229** |

| | *LL million* |
|---|---|
| Acquisition percentage | **100%** |
| Fair value of net assets acquired | **(107,229)** |
| Consideration paid | **148,732** |
| Excess fair value of soft loan (*) | **(73,159)** |
| Additional expenses to be incurred upon acquisition (note 36) | **44,083** |
| **Goodwill arising on acquisition** | **12,427** |

**5 BUSINESS COMBINATIONS (continued)**

***Acquisition of ownership interest in Banque Pharaon & Chiha SAL (continued)***

(*) On 20 October 2016, the Central Bank of Lebanon approved the merger of the assets and liabilities of Banque Pharaon & Chiha SAL and, in this respect, granted the Group two loans with favourable terms compared to the market. In accordance with the Central Bank of Lebanon's approval, the difference between the fair value of the loans and the proceeds received amounting to LL 73,159 million should be allocated by the Group to cover the expected costs that will be incurred as a result of the merger. As at 31 December 2016, the Group allocated the excess received against the below costs:

| | *LL million* |
|---|---|
| Impairment of goodwill | **29,076** |
| Credit losses | **27,094** |
| Employees indemnities | **16,989** |
| **Total** | **73,159** |

During 2016, the Group wrote-off the remaining carrying amount of goodwill amounting to LL 12,427 million in the consolidated statement of income.

Out of the total consideration paid, an amount of LL 11,005 million was deposited in an escrow account, the purpose of which is to indemnify the Group from losses incurred by Banque Pharaon & Chiha SAL as a result of unrecorded or undisclosed liabilities, shortfall of provisions for loans and advances to customers and court cases brought against Banque Pharaon & Chiha SAL before the closing date of 30 April 2016. As at 31 December 2016, the unrecorded losses incurred by Banque Pharaon & Chiha SAL as a result of the above amounted to LL 5,247 million and were paid from the escrow account. The remaining balance of the escrow account amounting to LL 5,758 million (note 36) will be released to the sellers during the year 2017 unless additional unforeseen liabilities relating to the period before the closing date are incurred by Banque Pharaon & Chiha SAL.

Transaction costs of LL 1,610 million were expensed and included in "Other operating expenses" in the consolidated statement of income.

| | *LL million* |
|---|---|
| Cash paid | **(148,732)** |
| Net cash acquired with the subsidiary | **65,133** |
| **Net cash outflow** | **(83,599)** |

***Capital increase in Byblos Bank Armenia CJSC***

On 8 April 2016, the Extraordinary General Assembly meeting of Byblos Bank Armenia CJSC resolved to increase Byblos Bank Armenia CJSC's capital by an amount of LL 49,629 million in which the Group fully participated. As a result of this capital increase, the Group's ownership interest increased from 65.00% to 88.06%.

***Acquisition of EBRD share in Byblos Bank Armenia CJSC***

Effective 24 June 2016, European Bank for Reconstruction and Development (EBRD), holders of 8.53% non-controlling interests of the subsidiary Byblos Bank Armenia CJSC, exercised the put option granted by Byblos Bank SAL which resulted in the Group acquiring an additional 8.53% interest in the voting shares of Byblos Bank Armenia CJSC, increasing its ownership interest to 96.59%. A cash consideration of LL 6,130 million was paid to the non-controlling interest shareholders. The carrying value of the additional interest acquired was LL 4,800 million. As the Group accounts for such put options through partial recognition of non-controlling interests, this transaction did not have an impact on non-controlling interests in equity. The difference between the cash consideration paid to non-controlling shareholders and the carrying value of additional interest acquired amounting to LL 1,330 million is recognized within equity.

## 5 BUSINESS COMBINATIONS (continued)

***Acquisition of OFID share in Byblos Bank Armenia CJSC***

Effective 20 July 2016, Opec Fund for International Development (OFID), holders of the remaining 3.41% non-controlling interests of the subsidiary Byblos Bank Armenia CJSC, exercised the put option granted by Byblos Bank SAL which resulted in the Group acquiring an additional 3.41% interest in the voting shares of Byblos Bank Armenia CJSC, increasing its ownership interest to 100%. A cash consideration of LL 2,452 million was paid to the non-controlling interest shareholders. The carrying value of the additional interest acquired was LL 1,921 million. As the Group accounts for such put options through partial recognition of non-controlling interests, this transaction did not have an impact on non-controlling interests in equity. The difference between the cash consideration paid to non-controlling shareholders and the carrying value of additional interest acquired amounting to LL 531 million is recognized within equity.

## 6 MATERIAL PARTLY-OWNED SUBSIDIARIES

Financial information of subsidiaries that have material non-controlling interests are provided below:

**Proportion of equity interests held by non-controlling interests:**

| | *2016* | *2015* |
|---|---|---|
| | *%* | *%* |
| **Name** | | |
| Byblos Bank Africa (*) | **43.14** | 43.14 |
| Adonis Insurance and Reinsurance Co. (ADIR) SAL | **36.00** | 36.00 |
| Byblos Bank Armenia CJSC | **-** | 35.00 |
| Byblos Bank Syria S.A. (*) | **40.13** | 40.13 |

(*) Effective 31 December 2016, the Group deconsolidated Byblos Bank Syria S.A. and Byblos Bank Africa since it no longer meets the accounting criteria for consolidation.

The summarized financial information of these subsidiaries are provided below. This information is based on amounts before inter-company eliminations:

**Summarized income statement for 2016:**

| | *Byblos Bank Africa LL million* | *Adonis Insurance and Reinsurance Co. (ADIR) SAL LL million* | *Byblos Bank Armenia CJSC LL million* | *Byblos Bank Syria S.A. LL million* |
|---|---|---|---|---|
| Net interest income | **4,807** | **10,613** | **4,385** | **1,989** |
| Net fee and commission income | **877** | **3,084** | **168** | **939** |
| Net gain from financial instruments at fair value through profit or loss | **213** | **143** | **238** | **30,937** |
| Other operating income | **128** | **19,415** | **13** | **90** |
| Net credit (losses) gains | **1,010** | **-** | **(2,135)** | **4,044** |
| Total operating expenses | **(2,988)** | **(11,651)** | **(3,160)** | **(16,926)** |
| Income tax expense | **(897)** | **(1,737)** | **-** | **(996)** |
| Profit (loss) for the year | **3,150** | **19,867** | **(491)** | **20,077** |
| Attributable to non-controlling interests | **1,359** | **7,152** | **-** | **8,057** |
| Dividends paid to non-controlling interests | **-** | **3,148** | **-** | **-** |

## 6 MATERIAL PARTLY-OWNED SUBSIDIARIES (continued)

Summarized income statement for 2015:

| | *Byblos Bank Africa LL million* | *Adonis Insurance and Reinsurance Co. (ADIR) SAL LL million* | *Byblos Bank Armenia CJSC LL million* | *Byblos Bank Syria S.A. LL million* |
|---|---|---|---|---|
| Net interest income | 9,824 | 9,749 | 1,637 | 3,626 |
| Net fee and commission income | 1,220 | 2,997 | 155 | 2,165 |
| Net gain from financial instruments at fair value through profit or loss | 509 | - | 215 | 36,783 |
| Other operating income | 339 | 17,999 | 42 | 109 |
| Net credit (losses) gains | (5,351) | - | (4,220) | 6,116 |
| Total operating expenses | (7,279) | (12,253) | (4,545) | (18,821) |
| Income tax expense | (1,111) | (967) | (81) | (824) |
| Profit (loss) for the year | (1,849) | 17,525 | (6,797) | 29,154 |
| Attributable to non-controlling interests | (797) | 6,309 | (2,379) | 11,700 |
| Dividends paid to non-controlling interests | 2,710 | 2,704 | - | - |

**Summarized statement of financial position as at 31 December 2016:**

| | ***Adonis Insurance and Reinsurance Co. (ADIR) SAL LL million*** | ***Byblos Bank Armenia CJSC LL million*** |
|---|---|---|
| Cash and balances with central banks | **6** | **43,097** |
| Due from banks and financial institutions | **27,179** | **12,220** |
| Balances with Parent and Group entities | **153,055** | **1,290** |
| Financial assets at fair value through profit or loss | **37,085** | **-** |
| Net loans and advances at amortized cost | **4,875** | **69,125** |
| Financial assets at amortized cost | **156,694** | **64,470** |
| Property and equipment | **2,612** | **2,917** |
| Other assets | **56,297** | **4,491** |
| Due to banks | **-** | **(8,637)** |
| Deposits at amortized cost | **(234,383)** | **(91,544)** |
| Other liabilities | **(121,614)** | **(31,834)** |
| Total equity | **81,806** | **65,595** |
| Attributable to non-controlling interests | **29,491** | **-** |

## 6 MATERIAL PARTLY-OWNED SUBSIDIARIES (continued)

Summarized statement of financial position as at 31 December 2015:

| | *Byblos Bank Africa LL million* | *Byblos Bank Syria S.A. LL million* | *Adonis Insurance and Reinsurance Co. (ADIR) SAL LL million* | *Byblos Bank Armenia CJSC LL million* |
|---|---|---|---|---|
| Cash and balances with central banks | 74,367 | 54,791 | 9 | 29,801 |
| Due from banks and financial institutions | 4,963 | 87,712 | 31,485 | 16,493 |
| Balances with Parent and Group entities | 44,690 | 80,058 | 130,399 | 834 |
| Financial assets at fair value through profit or loss | - | - | 25,537 | - |
| Net loans and advances at amortized cost | 82,049 | 74,582 | 4,583 | 56,019 |
| Financial assets at amortized cost | 18,469 | 7,704 | 140,732 | 13,034 |
| Property and equipment | 15,127 | 4,858 | 2,985 | 3,165 |
| Other assets | 1,882 | 19,810 | 51,879 | 4,862 |
| Due to banks | (34,991) | (40,047) | - | (9,559) |
| Due to Parent and Group entities | (41,021) | (60,618) | - | - |
| Deposits at amortized cost | (106,718) | (148,611) | (203,354) | (89,145) |
| Other liabilities | (12,544) | (15,529) | (113,543) | (8,405) |
| Total equity | 46,273 | 64,710 | 70,712 | 17,099 |
| Attributable to non-controlling interests | 11,864 | 25,968 | 25,492 | - |

**Summarized cash flow information for the year ended 31 December 2016:**

| | ***Byblos Bank Africa LL million*** | ***Adonis Insurance and Reinsurance Co. (ADIR) SAL LL million*** | ***Byblos Bank Armenia CJSC LL million*** | ***Byblos Bank Syria S.A. LL million*** |
|---|---|---|---|---|
| Operating | **3,611** | **14,274** | **(61,534)** | **1,223** |
| Investing | **(11,123)** | **(8,502)** | **(21)** | **4,406** |
| Financing | **(6,420)** | **(5,161)** | **72,351** | **-** |
| Net increase (decrease) in cash and cash equivalents | **(13,932)** | **611** | **10,796** | **5,629** |

Summarized cash flow information for the year ended 31 December 2015:

| | *Byblos Bank Africa LL million* | *Adonis Insurance and Reinsurance Co. (ADIR) SAL LL million* | *Byblos Bank Armenia CJSC LL million* | *Byblos Bank Syria S.A. LL million* |
|---|---|---|---|---|
| Operating | (4,977) | 27,526 | 12,863 | (47,718) |
| Investing | 16,415 | (34,676) | (76) | 6,910 |
| Financing | (23,672) | (3,450) | 7,432 | - |
| Net increase (decrease) in cash and cash equivalents | (12,234) | (10,600) | 20,219 | (40,808) |

## 7 SEGMENT INFORMATION

For management purposes, the Group is organized into three operating segments based on products and services as follows:

**Retail banking** provides a diversified range of products and services to meet the personal banking and consumer finance needs of individuals. The range includes deposits, housing loans, consumer loans, credit cards, funds transfers, foreign exchange and other branch related services.

**Corporate banking** provides a comprehensive product and service offering to corporate and institutional customers, including loans and other credit facilities, deposits and current accounts, trade finance and foreign exchange operations.

**Treasury and capital markets** is mostly responsible for the liquidity management and market risk of the Group as well as managing the Group's own portfolio of stocks, bonds and other financial instruments. In addition, this segment provides treasury and investment products and services to investors and other institutional customers.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects is measured differently from operating profit or loss in the financial statements. Income taxes are managed on a group basis and are not allocated to operating segments.

Interest income is reported net as management primarily relies on net interest revenue as performance measure, not the gross income and expense amounts.

Transfer prices between operating segments are on an arms' length basis in a manner similar to transactions with third parties.

The following table presents net operating income, profit and total assets and liabilities information in respect of the Group's operating segments:

*Profit for the year information*

| | | | *2016* | | |
|---|---|---|---|---|---|
| | *Retail banking LL million* | *Corporate banking LL million* | *Treasury and capital markets LL million* | *Other[1] LL million* | *Total LL million* |
| Net interest income (expense) | 193,029 | 123,550 | 54,034 | (815) | 369,798 |
| Net fee and commission income | 58,370 | 57,368 | 574 | 5,295 | 121,607 |
| Net gain from financial instruments at fair value through profit or loss | - | - | 79,970 | - | 79,970 |
| Net gain from sale of financial assets at amortized cost | - | - | 417,699 | - | 417,699 |
| Dividend income from financial assets at fair value through other comprehensive income | - | - | 4,413 | - | 4,413 |
| Other operating income | - | - | - | 27,803 | 27,803 |
| Net credit (losses) gains | (12,143) | 19,490 | 1,578 | - | 8,925 |
| Impairment losses on financial investments | - | - | - | (49,676) | (49,676) |
| **Net operating income** | 239,256 | 200,408 | 558,268 | (17,393) | 980,539 |

| | | | *2015* | | |
|---|---|---|---|---|---|
| | *Retail banking LL million* | *Corporate banking LL million* | *Treasury and capital markets LL million* | *Other[1] LL million* | *Total LL million* |
| Net interest income | 173,501 | 115,851 | 94,241 | 2,723 | 386,316 |
| Net fee and commission income | 57,376 | 59,139 | 497 | 4,939 | 121,951 |
| Net gain from financial instruments at fair value through profit or loss | - | - | 67,443 | - | 67,443 |
| Net gain from sale of financial assets at amortized cost | - | - | 86,939 | - | 86,939 |
| Dividend income from financial assets at fair value through other comprehensive income | - | - | 4,383 | - | 4,383 |
| Other operating income | - | - | - | 20,935 | 20,935 |
| Net credit (losses) gains | (14,061) | 202 | (34,049) | - | (47,908) |
| Net operating income | 216,816 | 175,192 | 219,454 | 28,597 | 640,059 |

## 7 SEGMENT INFORMATION (continued)

*Financial position information*

| | | | 2016 | | |
|---|---|---|---|---|---|
| | Retail banking LL million | Corporate banking LL million | Treasury and capital markets LL million | Other[1] LL million | Total LL million |
| **Total assets** | **2,712,947** | **5,318,924** | **22,940,507** | **401,213** | **31,373,591** |
| **Total liabilities** | **24,303,619** | **1,478,042** | **1,973,408** | **899,087** | **28,654,156** |

| | | | 2015 | | |
|---|---|---|---|---|---|
| | Retail banking LL million | Corporate banking LL million | Treasury and capital markets LL million | Other[1] LL million | Total LL million |
| Total assets | 2,497,287 | 5,182,334 | 21,869,165 | 405,624 | 29,954,410 |
| Total liabilities | 23,711,127 | 1,369,021 | 1,727,010 | 563,809 | 27,370,967 |

[1] *Other includes all non-banking activities.*

**Geographic information**

The Group operates in three geographical segments, Lebanon, Europe and other countries. The following table shows the distribution of the Group's net operating income and non-current assets.

| | | 2016 | | |
|---|---|---|---|---|
| | Lebanon LL million | Europe LL million | Other LL million | Total LL million |
| Total operating income | 916,303 | 37,899 | 67,088 | 1,021,290 |
| Net credit gains (losses) | 7,302 | (3,345) | 4,968 | 8,925 |
| Impairment losses on financial investments | (49,676) | - | - | (49,676) |
| **Net operating income[2]** | **873,929** | **34,554** | **72,056** | **980,539** |
| **Non-current assets[3]** | **261,783** | **9,614** | **19,377** | **290,774** |

| | | 2015 | | |
|---|---|---|---|---|
| | Lebanon LL million | Europe LL million | Other LL million | Total LL million |
| Total operating income | 565,601 | 36,438 | 85,928 | 687,967 |
| Net credit losses | (37,849) | (6,273) | (3,786) | (47,908) |
| Net operating income[2] | 527,752 | 30,165 | 82,142 | 640,059 |
| Non-current assets[3] | 245,234 | 10,360 | 42,030 | 297,624 |

[2] *Net operating income is attributed to the geographical segment on the basis of the location of the branch / subsidiary responsible for reporting the results or advancing the funds.*

[3] *Non-current assets consist of property and equipment, intangible assets, and certain other assets (other than financial instruments and deferred taxes) expected to be recovered in more than twelve months after the reporting date.*

## 8 INTEREST AND SIMILAR INCOME

| | *2016* *LL million* | *2015* *LL million* |
|---|---|---|
| Balances with central banks | **326,669** | 263,832 |
| Due from banks and financial institutions | **16,243** | 9,053 |
| Loans to banks and financial institutions and reverse repurchase agreements | **26,181** | 36,220 |
| Financial assets given as collateral | **2,329** | 191 |
| Loans and advances to customers at amortized cost | **514,775** | 493,597 |
| Loans and advances to related parties at amortized cost | **1,628** | 1,869 |
| Financial assets at amortized cost | **658,097** | 684,325 |
| | **1,545,922** | 1,489,087 |

## 9 INTEREST AND SIMILAR EXPENSE

| | *2016* *LL million* | *2015* *LL million* |
|---|---|---|
| Due to central banks | **3,167** | 2,152 |
| Due to banks and financial institutions | **26,136** | 21,902 |
| Customers' deposits at amortized cost | **1,066,168** | 1,000,647 |
| Deposits from related parties at amortized cost | **18,104** | 15,715 |
| Debt issued and other borrowed funds | **31,069** | 31,124 |
| Subordinated debt | **31,480** | 31,231 |
| | **1,176,124** | 1,102,771 |

## 10 NET FEE AND COMMISSION INCOME

| | *2016* *LL million* | *2015* *LL million* |
|---|---|---|
| **Fee and commission income** | | |
| Loans and advances | **24,873** | 23,513 |
| Letters of guarantee | **13,584** | 15,857 |
| Acceptances | **5,094** | 5,996 |
| Letters of credit | **14,634** | 16,517 |
| Credit cards | **17,933** | 15,571 |
| Domiciled bills | **2,524** | 2,503 |
| Checks for collection | **3,081** | 2,904 |
| Maintenance of accounts | **13,829** | 13,048 |
| Transfers | **8,621** | 8,973 |
| Safe rental | **1,210** | 1,168 |
| Portfolio commission | **2,989** | 2,934 |
| Commission on insurance related activities | **9,474** | 9,124 |
| Refund of banking services | **12,958** | 12,206 |
| Other commissions | **3,318** | 4,201 |
| | **134,122** | 134,515 |
| **Fee and commission expense** | **(12,515)** | (12,564) |
| **Net fee and commission income** | **121,607** | 121,951 |

## 11 NET GAIN FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | *2016* *LL million* | *2015* *LL million* |
|---|---|---|
| *Interest and similar income from debt instruments* | | |
| - Lebanese treasury bills | **27,125** | 11,350 |
| - Certificates of deposit issued by the Central Bank of Lebanon | **27,991** | 1,479 |
| - Foreign governmental debt securities | **26** | 4 |
| - Other debt securities | **18** | 79 |
| | **55,160** | 12,912 |
| *(Loss) gain from sale of debt instruments* | | |
| - Lebanese treasury bills | **(2,722)** | 1,821 |
| - Certificates of deposit issued by the Central Bank of Lebanon | **(17,519)** | 274 |
| - Foreign governmental debt securities | **120** | (35) |
| - Other debt securities | **39** | 160 |
| | **(20,082)** | 2,220 |
| *Unrealized (loss) gain from revaluation of debt instruments* | | |
| - Lebanese treasury bills | **1,061** | (6,145) |
| - Certificates of deposit issued by the Central Bank of Lebanon | **(6,809)** | (175) |
| - Foreign governmental debt securities | **-** | 38 |
| - Other debt securities | **214** | 127 |
| | **(5,534)** | (6,155) |
| **Net gain from debt instruments** | **29,544** | 8,977 |
| *Equity instruments* | | |
| - Gain (loss) from sale | **204** | (2,471) |
| - Unrealized gain from revaluation | **1,807** | 955 |
| - Dividend income | **636** | 573 |
| **Net gain (loss) from equity instruments** | **2,647** | (943) |
| Unrealized gain from revaluation of structural position of a subsidiary | **30,662** | 35,547 |
| Foreign exchange | **21,908** | 23,862 |
| Fair value of put options on non-controlling interests | **(4,791)** | - |
| | **79,970** | 67,443 |

Foreign exchange income includes gains and losses from spot and forward contracts, other currency derivatives and the revaluation of the daily open trading position.

## 12 NET GAIN FROM SALE OF FINANCIAL ASSETS AT AMORTIZED COST

The Group derecognises some debt instruments classified at amortised cost due to the following reasons:

- Deterioration of the credit rating below the ceiling allowed in the Group's investment policy;
- Liquidity gap and yield management;
- Exchange of certificates of deposit by the Lebanese Central Bank;
- Currency risk management as a result of change in the currency base of deposits; or
- Liquidity for capital expenditures.

The schedule below details the gains and losses arising from the derecognition of these financial assets:

| | | *2016* | |
|---|---|---|---|
| | ***Gains*** | ***Losses*** | ***Net*** |
| | ***LL million*** | ***LL million*** | ***LL million*** |
| Lebanese treasury bills | **286,220** | **(6,757)** | **279,463** |
| Certificates of deposit issued by the Central Bank of Lebanon | **136,003** | **-** | **136,003** |
| Foreign governmental debt securities | **828** | **-** | **828** |
| Other debt securities | **1,493** | **(88)** | **1,405** |
| | **424,544** | **(6,845)** | **417,699** |

| | | *2015* | |
|---|---|---|---|
| | *Gains* | *Losses* | *Net* |
| | *LL million* | *LL million* | *LL million* |
| Lebanese treasury bills | 22,311 | (1) | 22,310 |
| Certificates of deposit issued by the Central Bank of Lebanon | 58,551 | - | 58,551 |
| Foreign governmental debt securities | 19 | - | 19 |
| Other debt securities | 6,059 | - | 6,059 |
| | 86,940 | (1) | 86,939 |

During 2016, the Central Bank of Lebanon bought from the Group long-term treasury bills and certificates of deposit denominated in Lebanese Lira at prices significantly exceeding their fair values. These transactions were available to banks provided that they are able to reinvest an amount equivalent to the nominal value of the sold instruments in Eurobonds issued by the Lebanese Republic or Certificates of Deposit issued by the Central Bank of Lebanon denominated in US Dollars and purchased at their fair values. The gains arising from such trades amounted to LL 271,699 million from the Lebanese treasury bills portfolio and LL 130,539 million from the Certificates of Deposit portfolio.

## 13 OTHER OPERATING INCOME

| | ***2016*** | *2015* |
|---|---|---|
| | ***LL million*** | *LL million* |
| Net gain from sale of assets obtained in settlement of debt | **4,093** | 856 |
| Rental income from assets obtained in settlement of debt | **963** | 1,118 |
| Write back of provisions for risks and charges (note 37 (b)) | **3,073** | - |
| Other operating income from insurance related activities | **16,901** | 15,141 |
| Others | **2,773** | 3,820 |
| | **27,803** | 20,935 |

## 14 NET CREDIT GAINS (LOSSES)

| | 2016 LL million | 2015 LL million |
|---|---|---|
| *Charge for the year:* | | |
| Loans and advances to customers at amortized cost (note 25) | **(29,736)** | (36,363) |
| Balances with central banks (note 19) | **-** | (35,620) |
| Bad debts written off | **(53)** | (137) |
| | **(29,789)** | (72,120) |
| *Recoveries during the year:* | | |
| Loans and advances to customers (note 25) | **33,466** | 17,730 |
| Balances with central banks (note 19) | **1,578** | - |
| Unrealized interest on loans and advances to customers (note 25) | **3,670** | 4,911 |
| Financial assets at amortized cost | **-** | 1,571 |
| | **38,714** | 24,212 |
| | **8,925** | (47,908) |

## 15 PERSONNEL EXPENSES

| | 2016 LL million | 2015 LL million |
|---|---|---|
| Salaries and related charges | **152,816** | 144,703 |
| Social security contributions | **20,635** | 17,853 |
| Bonuses | **15,051** | 14,831 |
| Provision for end of service benefits (note 37 (a)) | **7,285** | 3,405 |
| | **195,787** | 180,792 |

## 16 OTHER OPERATING EXPENSES

| | 2016 LL million | 2015 LL million |
|---|---|---|
| Taxes on interest | **3,299** | 3,384 |
| Taxes and duties | **6,790** | 8,568 |
| Contribution to deposits guarantee fund | **12,601** | 11,913 |
| Rent and related charges | **6,898** | 6,433 |
| Professional fees | **15,209** | 11,237 |
| Telecommunications and postage expenses | **7,457** | 7,639 |
| Board of Directors' attendance fees | **956** | 1,020 |
| Maintenance and repairs | **16,673** | 15,532 |
| Electricity and fuel | **5,839** | 5,878 |
| Travel and entertainment | **3,452** | 3,750 |
| Publicity and advertising | **14,948** | 12,828 |
| Subscriptions | **5,665** | 3,837 |
| Legal expenses | **4,342** | 3,997 |
| Insurance | **1,691** | 1,699 |
| Guarding fees | **2,366** | 2,175 |
| Printings and stationery | **3,293** | 3,111 |
| Donations | **2,460** | 3,370 |
| Provisions for risks and charges (note 37 (b)) | **20,733** | 21,394 |
| Others | **10,802** | 11,422 |
| | **145,474** | 139,187 |

## 17 INCOME TAX EXPENSE

The components of income tax expense for the years ended 31 December 2016 and 2015 are as follows:

| | *2016* *LL million* | *2015* *LL million* |
|---|---|---|
| Current income tax expense | **103,846** | 48,041 |
| Deferred tax related to origination and reversal of temporary differences | **956** | 536 |
| Other taxes | **9,917** | 4,506 |
| | **114,719** | 53,083 |

The tax rates applicable to the parent and subsidiaries vary from 0% to 40% in accordance with the income tax laws of the countries where the Group operates. For the purpose of determining the taxable results of the subsidiaries for the year, the accounting results have been adjusted for tax purposes. Such adjustments include items relating to both income and expense and are based on the current understanding of the existing tax laws and regulations and tax practices.

The components of operating profit before tax, and the differences between income tax expense reflected in the financial statements and the amounts calculated at the Lebanese tax rate, are shown in the table below:

| | *2016* *LL million* | *2015* *LL million* |
|---|---|---|
| Profit before tax | **363,954** | 296,520 |
| Income tax at Lebanese tax rate of 15% | **54,593** | 44,478 |
| ***Impact of increase resulting from:*** | | |
| Different tax rates | **5,156** | 3,915 |
| Non-deductible expenses | **51,485** | 6,820 |
| | **56,641** | 10,735 |
| ***Impact of decrease resulting from:*** | | |
| Revenues previously subject to tax | **(2,789)** | (1,838) |
| Unrealized gain from revaluation of structural position of a subsidiary | **(4,599)** | (5,334) |
| | **(7,388)** | (7,172) |
| **Income tax** | **103,846** | 48,041 |
| **Effective income tax rate** | **28.53%** | 16.20% |

**17 INCOME TAX EXPENSE (continued)**

The movement of current tax liabilities during the year is as follows:

| | *2016 LL million* | *2015 LL million* |
|---|---|---|
| Balance at 1 January | **37,724** | 50,219 |
| Charge for the year | **113,763** | 52,547 |
| Deferred taxes related to deferred revenues (note 36) | **22,402** | - |
| Acquisition of a subsidiary | **2,783** | - |
| Deconsolidation of subsidiaries | **(1,368)** | - |
| | **175,304** | 102,766 |
| *Less taxes paid:* | | |
| Current year tax liability * | **(29,498)** | (26,384) |
| Prior years tax liabilities | **(24,876)** | (38,658) |
| | **(54,374)** | (65,042) |
| Balance at 31 December (note 36 (a)) | **120,930** | 37,724 |

(*) Represents taxes paid on interest received from treasury bills and central banks' certificates of deposits.

Deferred taxes recorded in the consolidated statement of financial position result from the following items:

| | *2016* | |
|---|---|---|
| | ***Deferred tax assets LL million*** | ***Deferred tax liabilities LL million*** |
| Fair value of financial instruments | **593** | **4,323** |

| | *2015* | |
|---|---|---|
| | *Deferred tax assets LL million* | *Deferred tax liabilities LL million* |
| Fair value of financial instruments | - | 3,273 |
| Carried forward taxable losses of a subsidiary | 3,906 | - |
| | 3,906 | 3,273 |

## 18 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary equity holders of the Group by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is calculated by dividing the net profit attributable to ordinary equity holders of the Group (after adjusting for interest on the convertible instruments net of tax) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would have been issued on the conversion of all the dilutive potential shares into ordinary shares.

The following table shows the income and share data used in the basic earnings per share calculation:

| | *2016* | *2015* |
|---|---|---|
| Weighted average number of common shares outstanding during the year (*) | **562,891,539** | 563,022,405 |

| | *2016*<br>*LL million* | *2015*<br>*LL million* |
|---|---|---|
| Net profit attributable to equity holders of the parent | **232,672** | 228,185 |
| (Less): proposed dividends to preferred shares | **(48,480)** | (48,480) |
| Net profit attributable to equity holders of the parent | **184,192** | 179,705 |
| Basic earnings per share in LL | **327.22** | 319.18 |

(*) The weighted average number of ordinary shares adopted for the computation of basic earnings per share takes into account the weighted average number of treasury shares.

**Diluted earnings per share**
The following table shows the income and share data used in the diluted earnings per share calculation:

| | *2016* | *2015* |
|---|---|---|
| Weighted average number of ordinary shares for basic earnings per share | **562,891,539** | 563,022,405 |
| Effect of dilution: | | |
| Convertible subordinated debt | **117,200,000** | 117,200,000 |
| Weighted average number of ordinary shares adjusted for the effect of dilution | **680,091,539** | 680,222,405 |

| | *2016*<br>*LL million* | *2015*<br>*LL million* |
|---|---|---|
| Net profit attributable to equity holders of the parent | **184,192** | 179,705 |
| Interest on convertible debt | **31,480** | 31,231 |
| Less: income tax | **(4,722)** | (4,685) |
| Net profit attributable to equity holders of the parent adjusted for the effect of convertible debt | **210,950** | 206,251 |
| Diluted earnings per share in LL | **310.18** | 303.21 |

There were no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of the completion of these consolidated financial statements which would require the restatement of earnings per share.

## 19 CASH AND BALANCES WITH CENTRAL BANKS

| | *2016* *LL million* | *2015* *LL million* |
|---|---|---|
| Cash on hand | **249,425** | 260,252 |
| Balances with the Central Bank of Lebanon: | | |
| - Current accounts | **511,787** | 706,950 |
| - Time deposits | **7,707,705** | 5,965,933 |
| | **8,219,492** | 6,672,883 |
| Balances with Central Banks in other countries: | | |
| - Current accounts | **221,651** | 273,834 |
| - Time deposits | **38,845** | 15,482 |
| - Provision for balances with Central Banks in other countries (a) | **(31,561)** | (35,445) |
| | **228,935** | 253,871 |
| Accrued interest receivable | **85,240** | 49,231 |
| | **8,783,092** | 7,236,237 |

*(a) Provision for balances with Central Banks in other countries*

Movement in the provision for balances with Central Banks in other countries during the year was as follows:

| | *2016* *LL million* | *2015* *LL million* |
|---|---|---|
| At 1 January | **35,445** | - |
| Charge for the year (note 14) | **-** | 35,620 |
| Write-back during the year (note 14) | **(1,578)** | - |
| Foreign exchange | **(2,306)** | (175) |
| At 31 December | **31,561** | 35,445 |

Provision for balances with Central Banks in other countries represents provision amounting to LL 31,561 million as at 31 December 2016 (2015: LL 31,546 million) against balances held with the Central Bank of Iraq – Kurdistan.

*(b) Obligatory reserves:*

- In accordance with the Central Bank of Lebanon's rules and regulations, banks operating in Lebanon are required to deposit with the Central Bank of Lebanon an obligatory reserve calculated on the basis of 25% of sight commitments and 15% of term commitments denominated in Lebanese Lira. This is not applicable for investment banks which are exempt from obligatory reserve requirements on commitments denominated in Lebanese Lira. Additionally, all banks operating in Lebanon are required to deposit with the Central Bank of Lebanon interest-bearing placements representing 15% of total deposits in foreign currencies regardless of nature. Obligatory reserve requirements for banks operating in Lebanon and the related covering time deposits and current accounts with the Central Bank of Lebanon amounted to LL 2,650,875 million and LL 2,661,708 million respectively as at 31 December 2016 (2015: LL 2,610,080 million and LL 2,823,076 million respectively).
- Subsidiary banks and branches operating in foreign countries are also subject to obligatory reserve requirements determined based on the banking rules and regulations of the countries in which they operate. As of 31 December 2016, obligatory reserve requirements for banks operating in foreign countries and the related covering time deposits, current accounts and cash on hand amounted to LL 47,240 million (2015: LL 106,711 million).

## 20 DUE FROM BANKS AND FINANCIAL INSTITUTIONS

| | 2016 LL million | 2015 LL million |
|---|---|---|
| Banks: | | |
| - Current accounts | 784,522 | 767,301 |
| - Time deposits | 1,868,039 | 1,739,756 |
| - Accrued interest receivable | 1,442 | 1,013 |
| - Doubtful bank accounts | 1,718 | 1,766 |
| - Provision for doubtful bank accounts | (1,718) | (1,766) |
| | 2,654,003 | 2,508,070 |
| Financial institutions: | | |
| - Current accounts | 2,312 | 2,305 |

| | 2016 LL million | 2015 LL million |
|---|---|---|
| Registered exchange companies: | | |
| - Current accounts | 243 | 6,740 |
| - Doubtful exchange companies accounts | 2,306 | 1,922 |
| - Provision for doubtful exchange companies accounts | (2,306) | (1,922) |
| | 243 | 6,740 |
| Brokerage companies: | | |
| - Current accounts | 871 | 1,250 |
| | 2,657,429 | 2,518,365 |

*Doubtful banks and registered exchange companies*

Following is the movement in the provisions for doubtful banks and registered exchange companies during the year:

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Banks LL million | Registered exchange companies LL million | Total LL million | Banks LL million | Registered exchange companies LL million | Total LL million |
| Balance at 1 January | 1,766 | 1,922 | 3,688 | 2,038 | 1,922 | 3,960 |
| Acquisition of a subsidiary | - | 384 | 384 | - | - | - |
| Exchange difference | (48) | - | (48) | (272) | - | (272) |
| Balance at 31 December | 1,718 | 2,306 | 4,024 | 1,766 | 1,922 | 3,688 |

## 21 LOANS TO BANKS AND FINANCIAL INSTITUTIONS AND REVERSE REPURCHASE AGREEMENTS

| | *2016* *LL million* | *2015* *LL million* |
|---|---|---|
| Loans to banks and financial institutions | **94,191** | 167,932 |
| Accrued interest receivable | **781** | 805 |
| | **94,972** | 168,737 |
| Discounted acceptances | **108,915** | 91,738 |
| Interest received in advance | **(533)** | (304) |
| | **108,382** | 91,434 |
| Reverse repurchase agreements | **760,411** | 932,500 |
| Accrued interest receivable | **301** | 4,376 |
| | **760,712** | 936,876 |
| | **964,066** | 1,197,047 |

Reverse repurchase agreements held by the Group as at 31 December 2016 and 2015 comprise of the following:

| **31 December 2016** | *Balance (000)* | *Balance LL million* | *Average interest rate %* | *Collateral type* | *Collateral value LL million* |
|---|---|---|---|---|---|
| **LL** | **300,636,000** | **300,636** | **3.24** | **BDL CDs** | **285,000** |
| **US$** | **301,060** | **453,847** | **1.43** | **BDL CDs** | **452,250** |
| **AMD** | **1,899,980** | **5,928** | **5.75** | **Armenian TBs** | **6,180** |

| 31 December 2015 | *Balance (000)* | *Balance LL million* | *Average interest rate %* | *Collateral type* | *Collateral value LL million* |
|---|---|---|---|---|---|
| US$ | 618,574 | 932,500 | 2.61 | BDL CDs | 934,650 |

The Group has a programme to purchase securities under agreements to resell (reverse repos). The Group has an obligation to return the securities and the counterparty retains substantially all the risks and rewards of ownership. Consequently, the securities are not recognized by the Group, which instead record a separate asset under reverse repurchase agreement reflecting the transaction's economic substance as a loan by the Group.

As of 31 December 2016, the Group had Certificates of Deposit issued by the Central Bank of Lebanon with a total nominal amount of US$ 300 million and LL 285,000 million and Armenian Treasury Bills issued by the Armenian government with a total nominal amount of AMD (000) 1,980,896 bought from financial institutions under the agreement to resell them during the first half of 2017 (2015: Certificates of Deposit issued by the Central Bank of Lebanon with a total nominal amount of US$ 620 million bought from a financial institution under the agreement to resell them during the first half of 2016).

Net interest income on the reverse repurchase agreements amounted to LL 18,208 million for the year ended 31 December 2016 (31 December 2015: LL 22,573 million).

## 22 FINANCIAL ASSETS GIVEN AS COLLATERAL

| | *2016* *LL million* | *2015* *LL million* |
|---|---|---|
| Treasury bills mortgaged in favour of the Central Bank of Lebanon, at amortized cost | 222,387 | 1,387 |
| Accrued interest receivable | 1,657 | 18 |
| | 224,044 | 1,405 |

The balance represents treasury bills pledged as collateral for loans obtained from the Central Bank of Lebanon (note 32).

## 23 DERIVATIVE FINANCIAL INSTRUMENTS

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are neither indicative of the market risk nor the credit risk.

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive market value of instruments that are favorable to the Group.

| | *2016* | | | *2015* | | |
|---|---|---|---|---|---|---|
| | *Assets* *LL million* | *Liabilities* *LL million* | *Notional amount* *LL million* | *Assets* *LL million* | *Liabilities* *LL million* | *Notional amount* *LL million* |
| *Held for trading* | | | | | | |
| Currency swaps | 1,958 | 938 | 194,933 | 314 | 392 | 170,982 |
| Forward foreign exchange contracts | 2,462 | 1,168 | 115,601 | 1,530 | 2,053 | 236,326 |
| | 4,420 | 2,106 | 310,534 | 1,844 | 2,445 | 407,308 |

### Forwards
Forwards are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over–the–counter market.

### Swaps
Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate or equity index.

In a currency swap, the Group pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross–settled.

### Derivative financial instruments held or issued for trading purposes
Most of the Group's derivative trading activities relate to deals with customers that are normally offset by transactions with other counterparties. Also included under this classification are any derivatives entered into for risk management purposes that do not meet the hedge accounting criteria.

## 24 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 2016<br>LL million | 2015<br>LL million |
|---|---|---|
| ***Quoted*** | | |
| Lebanese treasury bills – Eurobonds | **24,032** | 216,656 |
| Debt securities issued by banks and financial institutions | **2,513** | 2,440 |
| Equity securities | **40,065** | 35,669 |
| | **66,610** | 254,765 |
| ***Unquoted*** | | |
| Lebanese treasury bills – denominated in LL | **293,990** | 10,348 |
| Certificates of deposit issued by the Central Bank of Lebanon – denominated in LL | **428,572** | 27,714 |
| Corporate bonds | **-** | 3,018 |
| | **722,562** | 41,080 |
| | **789,172** | 295,845 |

## 25 NET LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST

| | 2016<br>LL million | 2015<br>LL million |
|---|---|---|
| Commercial loans | **5,253,773** | 5,197,877 |
| Consumer loans | **2,824,387** | 2,597,621 |
| | **8,078,160** | 7,795,498 |
| Less: | | |
| - Individual impairment allowances | **(158,278)** | (183,738) |
| - Collective impairment allowances | **(78,643)** | (131,448) |
| - Unrealized interest | **(53,964)** | (80,671) |
| | **7,787,275** | 7,399,641 |

Bad loans and related provisions and unrealized interest which fulfill certain requirements have been transferred to off financial position accounts. The gross balance of these loans amounted to LL 167,558 million as of 31 December 2016 (2015: LL 118,539 million).

Movement of unrealized interest on substandard, doubtful, and bad loans during the year was as follows:

| | 2016 | | |
|---|---|---|---|
| | Commercial loans<br>LL million | Consumer loans<br>LL million | Total<br>LL million |
| Balance at 1 January | 79,172 | 1,499 | 80,671 |
| Add (less): | | | |
| - Unrealized interest for the year | 24,122 | 2,033 | 26,155 |
| - Transfer from off financial position | 206 | 1 | 207 |
| - Transfer to off financial position | (30,552) | - | (30,552) |
| - Recoveries (note 14) | (3,160) | (510) | (3,670) |
| - Amounts written off | (7,222) | (41) | (7,263) |
| - Acquisition of a subsidiary | 12,612 | - | 12,612 |
| - Deconsolidation of subsidiaries | (17,713) | (85) | (17,798) |
| - Difference of exchange | (6,376) | (22) | (6,398) |
| Balance at 31 December | 51,089 | 2,875 | 53,964 |

## 25 NET LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST (continued)

| | *2015* | | |
|---|---|---|---|
| | *Commercial loans LL million* | *Consumer loans LL million* | *Total LL million* |
| Balance at 1 January | 97,217 | 245 | 97,462 |
| Add (less): | | | |
| - Unrealized interest for the year | 23,207 | 1,623 | 24,830 |
| - Transfer from off financial position | 661 | - | 661 |
| - Transfer to off financial position | (23,165) | - | (23,165) |
| - Recoveries (note 14) | (4,751) | (160) | (4,911) |
| - Amounts written off | (4,003) | (35) | (4,038) |
| - Difference of exchange | (9,994) | (174) | (10,168) |
| Balance at 31 December | 79,172 | 1,499 | 80,671 |

Movement of the individual impairment allowances during the year was as follows:

| | ***2016*** | | |
|---|---|---|---|
| | ***Commercial loans LL million*** | ***Consumer loans LL million*** | ***Total LL million*** |
| Balance at 1 January | **97,435** | **86,303** | **183,738** |
| Add (less): | | | |
| - Charge for the year (note 14) | **5,717** | **18,768** | **24,485** |
| - Amounts written off | **(2,530)** | **(380)** | **(2,910)** |
| - Recoveries (note 14) | **(6,622)** | **(7,184)** | **(13,806)** |
| - Transfer to off financial position | **(14,524)** | **-** | **(14,524)** |
| - Transfer to collective impairment allowances | **(1,432)** | **(8)** | **(1,440)** |
| - Acquisition of a subsidiary | **9,224** | **-** | **9,224** |
| - Deconsolidation of subsidiaries | **(19,336)** | **(600)** | **(19,936)** |
| - Difference of exchange | **(6,306)** | **(247)** | **(6,553)** |
| Balance at 31 December | **61,626** | **96,652** | **158,278** |
| Gross amount of loans individually determined to be impaired | **225,317** | **145,169** | **370,486** |

| | *2015* | | |
|---|---|---|---|
| | *Commercial loans LL million* | *Consumer loans LL million* | *Total LL million* |
| Balance at 1 January | 149,293 | 73,387 | 222,680 |
| Add (less): | | | |
| - Charge for the year (note 14) | 11,450 | 21,463 | 32,913 |
| - Transfer from commercial to consumer | (64) | 64 | - |
| - Amounts written off | (4,378) | (443) | (4,821) |
| - Recoveries (note 14) | (10,639) | (7,091) | (17,730) |
| - Transfer to off financial position | (40,978) | - | (40,978) |
| - Transfer from collective impairment allowances | 6,704 | 493 | 7,197 |
| - Difference of exchange | (13,953) | (1,570) | (15,523) |
| Balance at 31 December | 97,435 | 86,303 | 183,738 |
| Gross amount of loans individually determined to be impaired | 233,616 | 132,748 | 366,364 |

## 25 NET LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST (continued)

Movement of the collective impairment allowances during the year was as follows:

| | 2016 | | |
|---|---|---|---|
| | *Commercial loans LL million* | *Consumer loans LL million* | *Total LL million* |
| Balance at 1 January | **120,551** | **10,897** | **131,448** |
| Add (less): | | | |
| - Charge for the year (note 14) | **4,235** | **1,016** | **5,251** |
| - Recoveries (note 14) | **(19,660)** | **-** | **(19,660)** |
| - Transfer from individual impairment allowances | **1,432** | **8** | **1,440** |
| - Transfer from provisions for risks and charges (note 37) | **1,532** | **-** | **1,532** |
| - Acquisition of a subsidiary | **798** | **19** | **817** |
| - Deconsolidation of subsidiaries | **(21,430)** | **(26)** | **(21,456)** |
| - Difference of exchange | **(20,728)** | **(1)** | **(20,729)** |
| Balance at 31 December | **66,730** | **11,913** | **78,643** |

| | 2015 | | |
|---|---|---|---|
| | *Commercial loans LL million* | *Consumer loans LL million* | *Total LL million* |
| Balance at 1 January | 137,278 | 10,857 | 148,135 |
| Add (less): | | | |
| - Charge for the year (note 14) | 3,450 | - | 3,450 |
| - Transfer from commercial to consumer | (588) | 588 | - |
| - Transfer to individual impairment allowances | (6,704) | (493) | (7,197) |
| - Difference of exchange | (12,885) | (55) | (12,940) |
| Balance at 31 December | 120,551 | 10,897 | 131,448 |

## 26 FINANCIAL ASSETS AT AMORTIZED COST

| | *2016 LL million* | *2015 LL million* |
|---|---|---|
| ***Quoted*** | | |
| Lebanese treasury bills – Eurobonds | **2,099,538** | 2,038,651 |
| Foreign governmental debt securities | **138,113** | 125,272 |
| Debt securities issued by banks and financial institutions | **5,477** | 225,215 |
| Corporate bonds | **635** | 5,788 |
| | **2,243,763** | 2,394,926 |
| ***Unquoted*** | | |
| Lebanese treasury bills – denominated in LL | **2,657,946** | 3,813,756 |
| Certificates of deposit issued by the Central Bank of Lebanon – denominated in LL | **2,525,812** | 3,503,859 |
| Certificates of deposit issued by the Central Bank of Lebanon – EuroCDs | **1,956,230** | 770,570 |
| Corporate bonds | **-** | 216 |
| Certificates of deposit issued by banks and financial institutions | **33,228** | 33,187 |
| | **7,173,216** | 8,121,588 |
| | **9,416,979** | 10,516,514 |

## 27 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

| | *2016* *LL million* | *2015* *LL million* |
|---|---|---|
| Quoted shares | **44,388** | 48,241 |
| Unquoted shares | **56,917** | 53,666 |
| | **101,305** | 101,907 |

The table below details the financial assets at fair value through other comprehensive income as at 31 December:

| | *2016* | | | *2015* | | |
|---|---|---|---|---|---|---|
| | *Carrying amount LL million* | *Cumulative fair value changes LL million* | *Dividend income LL million* | *Carrying amount LL million* | *Cumulative fair value changes LL million* | *Dividend income LL million* |
| Unquoted shares: | | | | | | |
| Banque de l'Habitat SAL | **29,213** | **24,025** | **548** | 26,647 | 21,459 | 462 |
| Intra Investment Company SAL | **17,591** | **4,567** | **-** | 17,591 | 4,567 | - |
| Interbank Payment Network (IPN) SAL | **1,363** | **360** | **-** | 1,360 | 357 | 51 |
| Arab Trade Financing Program | **2,118** | **626** | **-** | 2,118 | 626 | - |
| Impact Fund | **2,237** | **-** | **-** | 1,569 | - | - |
| Others | **4,395** | **333** | **-** | 4,381 | 355 | - |
| Quoted shares: | | | | | | |
| Jordan Ahli Bank | **44,388** | **(36,026)** | **3,865** | 48,241 | (32,173) | 3,870 |
| | **101,305** | **(6,115)** | **4,413** | 101,907 | (4,809) | 4,383 |

Dividend income amounted to LL 4,413 million for the year ended 31 December 2016 (2015: LL 4,383 million) and resulted from equity instruments held at year end (2015: the same).

## 28 PROPERTY AND EQUIPMENT

| | *Buildings LL million* | *Motor vehicles LL million* | *Furniture and equipment LL million* | *Deposits LL million* | *Advance payments LL million* | *Total LL million* |
|---|---|---|---|---|---|---|
| Cost: | | | | | | |
| At 1 January 2016 | 265,139 | 3,135 | 236,161 | 687 | 4,131 | 509,253 |
| Additions | 7,083 | 227 | 18,091 | 68 | 9,542 | 35,011 |
| Transfers | - | - | 1,009 | (59) | (950) | - |
| Disposals | - | (76) | (949) | - | - | (1,025) |
| Foreign exchange difference | (13,649) | (285) | (5,548) | (8) | - | (19,490) |
| Deconsolidation of subsidiaries | (10,557) | (213) | (5,148) | - | (119) | (16,037) |
| At 31 December 2016 | **248,016** | **2,788** | **243,616** | **688** | **12,604** | **507,712** |
| Depreciation: | | | | | | |
| At 1 January 2016 | 59,894 | 2,270 | 191,964 | - | - | 254,128 |
| Depreciation during the year | 6,438 | 297 | 15,690 | - | - | 22,425 |
| Related to disposals | - | (76) | (583) | - | - | (659) |
| Foreign exchange difference | (3,287) | (304) | (5,032) | - | - | (8,623) |
| Deconsolidation of subsidiaries | (2,458) | (140) | (4,056) | - | - | (6,654) |
| At 31 December 2016 | **60,587** | **2,047** | **197,983** | **-** | **-** | **260,617** |
| **Net carrying value:** | | | | | | |
| **At 31 December 2016** | **187,429** | **741** | **45,633** | **688** | **12,604** | **247,095** |

## 28 PROPERTY AND EQUIPMENT (continued)

| | *Buildings LL million* | *Motor vehicles LL million* | *Furniture and equipment LL million* | *Deposits LL million* | *Advance payments LL million* | *Total LL million* |
|---|---|---|---|---|---|---|
| Cost: | | | | | | |
| At 1 January 2015 | 243,194 | 2,689 | 223,789 | 703 | 1,546 | 471,921 |
| Additions | 25,661 | 636 | 16,770 | - | 2,905 | 45,972 |
| Transfers | - | - | 313 | - | (313) | - |
| Disposals | - | (165) | (969) | - | - | (1,134) |
| Foreign exchange difference | (3,716) | (25) | (3,742) | (16) | (7) | (7,506) |
| At 31 December 2015 | 265,139 | 3,135 | 236,161 | 687 | 4,131 | 509,253 |
| Depreciation: | | | | | | |
| At 1 January 2015 | 54,569 | 2,390 | 178,583 | - | - | 235,542 |
| Depreciation during the year | 5,872 | 178 | 17,416 | - | - | 23,466 |
| Related to disposals | - | (165) | (801) | - | - | (966) |
| Foreign exchange difference | (547) | (133) | (3,234) | - | - | (3,914) |
| At 31 December 2015 | 59,894 | 2,270 | 191,964 | - | - | 254,128 |
| Net carrying value: | | | | | | |
| At 31 December 2015 | 205,245 | 865 | 44,197 | 687 | 4,131 | 255,125 |

The cost of buildings at 31 December 2016 and 2015 include the revaluation differences of properties valued during prior years in accordance with law 282 dated 30 December 1993, and approved by the Central Committee of the Bank of Lebanon.

Revaluation differences on property and equipment reflected as revaluation reserve of real estate in equity amounted to LL 5,689 million as at 31 December 2016 (2015: the same) (note 43).

## 29 INTANGIBLE ASSETS

| | ***2016 LL million*** | *2015 LL million* |
|---|---|---|
| Cost: | | |
| At 1 January and 31 December | **2,303** | 2,303 |
| Accumulated amortization: | | |
| At 1 January | **1,810** | 1,651 |
| Amortization expense for the year | **113** | 159 |
| At 31 December | **1,923** | 1,810 |
| Net carrying value: | | |
| At 31 December | **380** | 493 |

## 30 ASSETS OBTAINED IN SETTLEMENT OF DEBT

| | *2016* *LL million* | *2015* *LL million* |
|---|---|---|
| Cost: | | |
| At 1 January | **47,165** | 41,836 |
| Additions | **2,836** | 5,784 |
| Disposals | **(1,543)** | (455) |
| At 31 December | **48,458** | 47,165 |
| Impairment: | | |
| At 1 January and 31 December | **(5,159)** | (5,159) |
| Net carrying value: | | |
| At 31 December | **43,299** | 42,006 |

Advance payments received in connection with future sale transactions for the above assets amounted to LL 373 million as of 31 December 2016 (2015: LL 3,442 million) (note 36).

## 31 OTHER ASSETS

| | | *2016* *LL million* | *2015* *LL million* |
|---|---|---|---|
| Obligatory deposits | a | **2,250** | 15,365 |
| Other assets | b | **107,595** | 88,730 |
| Deferred tax assets (note 17) | | **593** | 3,906 |
| | | **110,438** | 108,001 |

a) Obligatory deposits consist of deposits at a percentage of the share capital of subsidiary banks that were blocked at incorporation as a guarantee with the authorities. These deposits shall be returned to the subsidiary banks without any interest upon liquidation of their activities.

b) Other assets comprise of the following:

| | *2016* *LL million* | *2015* *LL million* |
|---|---|---|
| Prepaid rent | **3,140** | 3,270 |
| Printings and stationery | **3,415** | 3,279 |
| Credit card balances due from customers | **27,307** | 17,611 |
| Insurance premiums receivable | **4,365** | 3,301 |
| Reinsurers' share of technical reserves of subsidiary insurance companies | **41,025** | 37,025 |
| Receivables from the National Social Security Fund | **12,361** | 11,487 |
| Other debit balances | **15,982** | 12,757 |
| | **107,595** | 88,730 |

## 32 DUE TO CENTRAL BANKS

| | 2016 LL million | 2015 LL million |
|---|---|---|
| Current accounts | 2,163 | 5,297 |
| Time deposits | - | 6,245 |
| Loans due to the Central Bank of Lebanon | 326,754 | 103,515 |
| Loan due to the Central Bank of Armenia | 2,150 | 1,997 |
| Accrued interest payable | 1,904 | 358 |
| | 332,971 | 117,412 |

*Loans due to the Central Bank of Lebanon:*

- The Group signed a credit agreement with the Central Bank of Lebanon based on the provisions of Decision no. 6116 dated 7 March 1996 relating to the facilities which can be granted by the Central Bank of Lebanon to banks. The balance amounted to LL 176,622 million as of 31 December 2016 (2015: LL 102,128 million). The Bank pledged as collateral against this balance certificates of representation signed by the Bank's customers.
- During 2010, the Group obtained 3 loans from the Central Bank of Lebanon to finance customers affected by July 2006 war. These loans were originally granted in the amount of LL 8,810 million, out of which LL 1,895 million matured during 2013 and LL 5,528 million matured during 2015. These loans are secured by the pledge of Lebanese treasury bills amounting to LL 1,387 million included under financial assets given as collateral as of 31 December 2016 (2015: the same) (note 22).
- During 2016, the Group obtained 2 loans from the Central Bank of Lebanon to finance the merger of the assets and liabilities of Banque Pharaon & Chiha SAL. These loans were originally granted in the amount of LL 221,000 million netted by a discount of LL 72,255 million as at 31 December 2016 (2015: nil) and are secured by the pledge of Lebanese treasury bills amounting to LL 221,000 million included under financial assets given as collateral as of 31 December 2016 (note 22).

## 33 DUE TO BANKS AND FINANCIAL INSTITUTIONS

| | 2016 LL million | 2015 LL million |
|---|---|---|
| *Banks:* | | |
| - Current accounts | 111,924 | 81,537 |
| - Term loans | 164,177 | 165,484 |
| - Time deposits | 168,332 | 223,777 |
| - Cash margins | 153,710 | 82,810 |
| - Accrued interest payable | 2,001 | 3,131 |
| | 600,144 | 556,739 |
| *Financial institutions:* | | |
| - Current accounts | 7,118 | 3,644 |
| - Term loans | 121,786 | 149,286 |
| - Time deposits | 38,473 | 21,750 |
| - Accrued interest payable | 1,449 | 1,518 |
| | 168,826 | 176,198 |
| *Registered exchange companies:* | | |
| - Current accounts | 462 | 2,975 |
| - Time deposits | 4,558 | 7,024 |
| - Accrued interest payable | 15 | 19 |
| | 5,035 | 10,018 |

## 33 DUE TO BANKS AND FINANCIAL INSTITUTIONS (continued)

| | *2016 LL million* | *2015 LL million* |
|---|---|---|
| *Brokerage institutions:* | | |
| - Current accounts | **90** | 102 |
| - Time deposits | **-** | 1,488 |
| - Accrued interest payable | **-** | 9 |
| | **90** | 1,599 |
| | **774,095** | 744,554 |

## 34 CUSTOMERS' DEPOSITS AT AMORTIZED COST

| | *2016 LL million* | *2015 LL million* |
|---|---|---|
| Current accounts | **3,244,752** | 3,241,519 |
| Term deposits | **20,891,474** | 20,176,288 |
| Cash margins | **1,151,475** | 1,114,643 |
| Accrued interest payable | **127,933** | 121,948 |
| | **25,415,634** | 24,654,398 |

## 35 DEBT ISSUED AND OTHER BORROWED FUNDS

| | *Maturity* | *Interest rate %* | *2016 LL million* | *2015 LL million* |
|---|---|---|---|---|
| **Bonds** | | | | |
| Issue 2011 | **24/06/2021** | **7.00** | **443,456** | 444,583 |
| Accrued interest payable | | | **616** | 616 |
| | | | **444,072** | 445,199 |

The Bank has undertaken not to use any of the proceeds of the issue in Sudan, Syria or Democratic Republic of Congo. The Bank shall pay interest on the bonds without deduction or withholding for taxes. The bonds are redeemable, in whole or in part, at the option of the Bank at any time after the first anniversary of the issue date, in the event of changes in the Lebanese tax law that will result in taxes on interest on the bonds in excess of the current applicable tax rate.

## 36 OTHER LIABILITIES

| | 2016 LL million | 2015 LL million |
|---|---|---|
| Accrued expenses | **31,216** | 29,015 |
| Fixed assets suppliers | **624** | 607 |
| Unearned commission and interest | **5,903** | 5,274 |
| Cash margins related to companies under establishment | **1,663** | 2,220 |
| Insurance premiums received in advance | **3,841** | 3,222 |
| Payables to the National Social Security Fund | **2,065** | 1,851 |
| Advance payments linked to assets obtained in settlement of debt (note 30) | **373** | 3,442 |
| Current tax liability (a) | **133,493** | 50,771 |
| Deferred tax liability (note 17) | **4,323** | 3,273 |
| Put options on non-controlling interests | **4,791** | 18,263 |
| Amounts to be incurred upon acquisition (note 5) | **44,083** | - |
| Escrow account (note 5) | **5,758** | - |
| Deferred revenues (b) | **126,682** | - |
| Other creditors | **34,998** | 29,629 |
| | **399,813** | 147,567 |

*(a) Current tax liability*

| | 2016 LL million | 2015 LL million |
|---|---|---|
| Income tax due (note 17) | **120,930** | 37,724 |
| Withholding tax on salaries | **2,210** | 3,095 |
| Withholding tax on interest earned by customers | **6,913** | 6,717 |
| Value added tax | **527** | 396 |
| Other taxes | **2,913** | 2,839 |
| | **133,493** | 50,771 |

*(b) Deferred revenues*

During 2016, the Central Bank of Lebanon issued Intermediate Circular number 446 dated 30 December 2016 relating to the gain realized by banks from certain financial transactions with the Central Bank of Lebanon, consisting of the sale of financial instruments denominated in Lebanese Lira and the purchase of financial instruments denominated in US Dollars. In accordance with the provisions of this circular, banks should recognize in the income statement, only part of the gain net of tax, caped to the extent of the losses recorded to comply with recent regulatory provisioning requirements (refer to note 37), the impairment losses on subsidiaries and goodwill recorded in accordance with IAS 36 and IFRS 3 respectively and the shortage needed to comply with the capital adequacy requirements. Lebanese banks may further recognize up to 70% of the remaining balance of the gain realized net of tax in the income statement as non-distributable profits to be appropriated to reserves for capital increase, qualifying for inclusion within regulatory Common Equity Tier One.

The Group did not recognise in its consolidated income statement LL 126,682 million (net of tax) in gains realized from certain financial transactions with the Central Bank of Lebanon.The related taxes amounting to LL 22,402 million were recorded directly in current tax liability (refer to note 17). The amount recorded as deferred revenues qualifies for inclusion within regulatory Tier 2 Capital in accordance with the provisions of the circular.

## 37 PROVISIONS FOR RISKS AND CHARGES

| | *2016* *LL million* | *2015* *LL million* |
|---|---|---|
| Technical reserves of insurance subsidiaries | **99,914** | 94,341 |
| Employees' end of service benefits (a) | **49,189** | 45,754 |
| Other provisions (b) | **126,287** | 31,443 |
| | **275,390** | 171,538 |

*(a) Employees' end of service benefits*

The Bank has two defined benefit plans covering substantially all of its employees. The first requires contributions to be made to the National Social Security Fund. The entitlement to and level of these end of service benefits provided depends on the employees' length of service, the employees' salaries, contributions paid to the National Social Security Fund and other requirements outlined in the Lebanese Labor Law. Under the second plan, no contributions are required to be made, however a fixed end of service lump sum amount should be paid for long service employees. The entitlement to and level of these end of service benefits provided depends on the employees' length of service, the employees' salaries and other requirements outlined in the Workers' Collective Agreement. End-of-service benefits for employees at foreign branches and subsidiaries are accrued for in accordance with the laws and regulations of the respective countries in which the branches and subsidiaries are located.

Movement in the provision for employees' end of service benefits during the year was as follows:

| | *2016* *LL million* | *2015* *LL million* |
|---|---|---|
| Balance at 1 January | **45,754** | 46,320 |
| *Costs charged to the income statement (note 15):* | | |
| Service costs | **4,360** | 4,442 |
| Past service costs | **-** | (4,522) |
| Net interest | **2,925** | 3,485 |
| | **7,285** | 3,405 |
| *Re-measurement losses (gains) in other comprehensive income:* | | |
| Experience adjustments | **99** | (474) |
| | **99** | (474) |
| Acquisition of a subsidiary | **1,349** | - |
| Deconsolidation of subsidiaries | **(753)** | - |
| End of service benefits paid during the year | **(3,487)** | (3,325) |
| Foreign exchange | **(1,058)** | (172) |
| Balance at 31 December | **49,189** | 45,754 |

## 37 PROVISIONS FOR RISKS AND CHARGES (continued)

*(a) Employees' end of service benefits (continued)*

Defined benefit plans in Lebanon constitute more than 85% of the Group's retirement obligation. The principal assumptions used in determining the end of service benefit obligations of these plans are shown below:

| | *2016* | *2015* |
|---|---|---|
| **Economic assumptions** | | |
| Discount rate | **8.5%** | 8.5% |
| Future salary increase | **5.5%** | 5.5% |
| Future expected return on contributions | **5.0%** | 5.0% |
| Bonus | **Last 2-years average as a % of basic** | Last 2-years average as a % of basic |
| **Demographic assumptions** | | |
| Retirement age | **Earliest of 64 or completion of 20 contribution years** | Earliest of 64 or completion of 20 contribution years |
| Mortality rate | **None** | None |
| Turnover rate | **2.0%** | 2.0% |

A quantitative sensitivity analysis as a result of an increase/decrease of 50 basis points in the significant assumptions as at 31 December 2016 and 2015 is shown as below:

| | *Discount rate* | | *Future salary increase* | | *Future expected return on contributions* | |
|---|---|---|---|---|---|---|
| | *Increase LL million* | *decrease LL million* | *Increase LL million* | *decrease LL million* | *Increase LL million* | *decrease LL million* |
| **Impact on net defined benefit obligations** | | | | | | |
| **2016** | **(1,397)** | **1,501** | **2,984** | **(2,830)** | **(1,425)** | **1,377** |
| 2015 | (1,246) | 1,338 | 2,647 | (2,509) | (1,276) | 1,236 |

The sensitivity analyses above have been determined based on a method that extrapolates the impact on net defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

*(b) Other provisions*

| | *2016 LL million* | *2015 LL million* |
|---|---|---|
| Excess provisions (note 36) (*) | **102,480** | - |
| Provisions for contingencies | **9,661** | 15,720 |
| Provisions for legal claims | **4,523** | 10,254 |
| Other | **9,623** | 5,469 |
| | **126,287** | 31,443 |

## 37 PROVISIONS FOR RISKS AND CHARGES (continued)

(*) During November 2016, the Central Bank of Lebanon issued Intermediate Circular number 439 which required banks operating in Lebanon to constitute collective provisions equivalent to 2% of consolidated risk weighted loans and advances to customers. As such, provisions for risks and charges as at 31 December 2016 include an amount of LL 102,480 million in excess of the provisioning requirements of IAS 39 (2015: nil).

Movement in other provisions during the year was as follows:

| | *2016* *LL million* | *2015* *LL million* |
|---|---|---|
| At 1 January | **31,443** | 9,035 |
| Charge for the year | **123,213** | 21,394 |
| Acquisition of a subsidiary | **1,410** | - |
| Write back during the year (note 13) | **(3,073)** | - |
| Transfer to collective provisions on loans and advances (note 25) | **(1,532)** | - |
| Deconsolidation of subsidiaries | **(23,848)** | - |
| Foreign exchange | **(1,326)** | 1,014 |
| At 31 December | **126,287** | 31,443 |

## 38 SUBORDINATED DEBT

| | *2016* *LL million* | *2015* *LL million* |
|---|---|---|
| Nominal value | **441,692** | 441,692 |
| Unamortized discount | **(21,690)** | (24,455) |
| Accrued interest payable | **163** | 163 |
| | **420,165** | 417,400 |

On 21 December 2012, the Bank signed a US$ 300 million subordinated loan agreement with an international financial institution, whereby the latter acted as an issuer of US$ 300 million subordinated notes convertible into Byblos Bank SAL shares or GDR's according to the following terms:

| | |
|---|---|
| Number of notes: | 30,000 |
| Note's issue price: | US$ 10,000 |
| Note's nominal value: | US$ 10,000 |
| Date of issue: | 21 December 2012 |
| Maturity: | 21 December 2022, subject to the earlier conversion of these notes, in whole or in part, into Byblos Bank SAL shares or GDR's at a price of US$ 2.5 per share or US$ 125 per GDR |
| Interest rate: | Contractual interest rate of 6.5% payable semi-annually. |
| Rights of holders: | The noteholder has the right to convert all or portion of the subordinated notes into Byblos Bank SAL shares or GDR's at a conversion price of US$ 2.5 per share or US$ 125 per GDR. |

The convertible subordinated loan (net of subordinated notes held by a consolidated subsidiary) were recorded at issuance as follows:

| | *LL million* |
|---|---|
| Nominal value of convertible bonds | **441,692** |
| Equity component | **(31,618)** |
| Liability component | **410,074** |

The equity component of the convertible subordinated loan is recorded in equity under "non-distributable reserves" (note 40).

## 39 SHARE CAPITAL

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | *No of shares* | *Share capital LL million* | *Share premium LL million* | *No of shares* | *Share capital LL million* | *Share premium LL million* |
| Common shares | **565,515,040** | **684,273** | **229,014** | 565,515,040 | 684,273 | 229,014 |
| | **565,515,040** | **684,273** | **229,014** | 565,515,040 | 684,273 | 229,014 |
| *Preferred shares* | | | | | | |
| - Series 2008 | **2,000,000** | **2,420** | **295,154** | 2,000,000 | 2,420 | 295,154 |
| - Series 2009 | **2,000,000** | **2,420** | **295,929** | 2,000,000 | 2,420 | 295,929 |
| | **4,000,000** | **4,840** | **591,083** | 4,000,000 | 4,840 | 591,083 |

The capital of the Bank is divided into 569,515,040 shares of LL 1,210 each fully paid (2015: the same).

***Preferred shares***

*i) Series 2008 Preferred Shares*

On 15 August 2008, and based on the decision of the extraordinary general assembly held on 18 July 2008, the Bank issued Series 2008 preferred shares, according to the following terms:

| | |
|---|---|
| Number of shares: | 2,000,000 |
| Share's issue price: | US$ 100 |
| Share's nominal value: | LL 1,200 |
| Issue premium : | US$ (000) 195,790 (equivalent to LL 295,154 million) calculated in US$ as the difference between the total issue of US$ (000) 200,000 and the total par value of the issue amounting to LL 2,400 million and after deducting issuance commission for the issue amounting to US$ (000) 2,618. |
| Benefits: | Non-cumulative annual dividends of US$ 8.00 per share, subject to the availability of non-consolidated distributable net profits. |
| Repurchase right: | Redeemable (at a date subsequent to the approval of 2013 accounts by the general assembly) at the Bank's option at the issue price plus any declared but unpaid distributions for all the years preceding the year of the call, with the condition that at least 25% of the original number of the preferred shares are called each time. |

In 2009, the par value of series 2008 preferred shares was increased from LL 1,200 to LL 1,210.

*ii) Series 2009 Preferred Shares*

On 4 September 2009, and based on the decision of the extraordinary general assembly held on 1 August 2009, the Bank issued Series 2009 preferred shares according to the following terms:

| | |
|---|---|
| Number of shares: | 2,000,000 |
| Share's issue price: | US$ 96 |
| Share's nominal value: | LL 1,210 |
| Issue premium : | US$ (000) 188,313 (equivalent to LL 283,881 million) calculated in US$ as the difference between the total issue of US$ (000) 192,000 and the total par value of the issue amounting to LL 2,420 million and after deducting issuance commissions of US$ (000) 2,082. |
| Benefits: | Non-cumulative annual dividends of US$ 8.00 per share, subject to the availability of non-consolidated distributable net profits. |
| Repurchase right: | Redeemable (at a date subsequent to the approval of 2014 accounts by the general assembly) at the Bank's option at US$ 100 plus any declared but unpaid distributions for all the years preceding the year of the call, with the condition that at least 25% of the original number of the preferred shares are called each time. |

## 39 SHARE CAPITAL (continued)

***Listing of shares***

As of 31 December the Bank's shares were listed as follows:

| | *Stock exchange* | *2016 No of shares* | *2015 No of shares* |
|---|---|---|---|
| Ordinary shares | Beirut | **502,135,490** | 502,605,340 |
| Global depository receipts (*) | London SEAQ and Beirut | **1,267,591** | 1,258,194 |
| Preferred shares | Beirut | **4,000,000** | 4,000,000 |

(*) Global Depository Receipts (GDR's) can be issued at a ratio of 50 Common Shares per one GDR.

## 40 NON DISTRIBUTABLE RESERVES

| | *Legal reserve LL million* | *Reserves for capital increase LL million* | *Equity component of convertible subordinated debt LL million* | *Reserve for general banking risks LL million* | *Other reserves LL million* | *Total LL million* |
|---|---|---|---|---|---|---|
| Balance at 1 January 2016 | **271,877** | **65,105** | **31,618** | **271,570** | **175,714** | **815,884** |
| Appropriation from retained earnings | **23,158** | **3,433** | - | **27,982** | **7,249** | **61,822** |
| Transfer to retained earnings | **(1,881)** | - | - | - | **(6,569)** | **(8,450)** |
| Net loss on sale of treasury shares | - | **(118)** | - | - | - | **(118)** |
| Translation difference | **(10,504)** | - | - | **(969)** | **(14,345)** | **(25,818)** |
| **Balance at 31 December 2016** | **282,650** | **68,420** | **31,618** | **298,583** | **162,049** | **843,320** |
| Balance at 1 January 2015 | 247,366 | 61,790 | 31,618 | 244,125 | 163,980 | 748,879 |
| Appropriation from retained earnings | 24,511 | 3,327 | - | 28,596 | 11,734 | 68,168 |
| Reclassification to distributable reserve | - | - | - | (1,131) | - | (1,131) |
| Net loss on sale of treasury shares | - | (12) | - | - | - | (12) |
| Translation difference | - | - | - | (20) | - | (20) |
| Balance at 31 December 2015 | 271,877 | 65,105 | 31,618 | 271,570 | 175,714 | 815,884 |

*Legal reserve*

According to the Lebanese Code of Commerce and to the Code of Money and Credit, the Bank is required to transfer 10% of their annual net profit to a legal reserve. In addition, subsidiaries and branches are also subject to legal reserve requirements based on the rules and regulations of the countries in which they operate. This reserve cannot be distributed as dividends.

During 2016, the Group appropriated LL 23,158 million from 2015 profits to the legal reserve (2015: LL 24,511 million).

## 40 NON DISTRIBUTABLE RESERVES (continued)

*Reserves for capital increase*

This represents regulatory reserves constituted in accordance with circulars issued by the Central Bank of Lebanon and the Banking Control Commission. These reserves cannot be distributed as dividends and comprise the following:

| | *2016* *LL million* | *2015* *LL million* |
|---|---|---|
| Reserve equivalent to gain on sale of assets acquired in settlement of debt | **32,339** | 30,676 |
| Reserve equivalent to provisions recovered | **9,737** | 9,737 |
| Reserve against assets obtained in settlement of debt | **16,849** | 15,079 |
| Reserve against realized gain from liquidation of fixed position | **8,870** | 8,870 |
| Others | **625** | 743 |
| | **68,420** | 65,105 |

Reserve for general banking risks

According to the Central Bank of Lebanon regulations, banks are required to appropriate from their annual net profit a minimum of 0.2% and a maximum of 0.3% of total risk weighted assets and off statement of financial position items based on rates specified by the Central Bank of Lebanon to cover general banking risks. The consolidated ratio should not be less than 1.25% of these risks at the end of year ten (2017) and 2% at the end of year twenty (2027). This reserve cannot be distributed as dividends.

The appropriation in 2016 from the profits of the year 2015 amounted to LL 27,982 million (2015: LL 28,596 million).

Other reserves

Other reserves consist of the following:

- During 2013, the Group transferred an amount of LL 31,077 million from retained earnings to other reserves related to the subordinated debt.

- Non-distributable reserves of subsidiaries appropriated from retained earnings as required by the laws applicable in the countries in which they operate. During 2016, the Group transferred an amount of LL 4,781 million from retained earnings to other reserves in this respect (2015: LL 9,039 million).

- According to BCC Circular no 280 dated 2 January 2015, banks are required to appropriate from their annual profit 0.5% of performing retail loans up to 30 days past due (with certain exemptions) as at 31 December 2014 with effect the year 2015. Additionally, the Bank will appropriate an additional 0.5% every year until 2020. During 2016, the General Assembly Meeting of the Bank allocated an amount of LL 2,468 million as a reserve for retail loans (2015: LL 2,695 million).

- As of 31 December 2016, "Other reserves" include reserves of LL 89,368 million maintained by the subsidiary Byblos Bank Europe to meet several legal limits and requirements (2015: LL 87,451 million).

## 41 DISTRIBUTABLE RESERVES

| | **2016** *LL million* | 2015 *LL million* |
|---|---|---|
| General reserves | **102,220** | 93,789 |
| Other capital reserves | **1,026** | 5,422 |
| | **103,246** | 99,211 |

## 41 DISTRIBUTABLE RESERVES (continued)

*General reserves*

The Group appropriates general reserves from its retained earnings to strengthen its equity. The movement in general reserves during the year was as follows:

| | *2016* *LL million* | *2015* *LL million* |
|---|---|---|
| At 1 January | **93,789** | 90,521 |
| Appropriation from retained earnings | **5,629** | 2,047 |
| Acquisition of additional non-controlling interests | **(1,861)** | - |
| Reversal of put options on non-controlling interests | **4,663** | - |
| Impact from derecognition of non-controlling interests | - | 90 |
| Reclassification from non-distributable reserves | - | 1,131 |
| At 31 December | **102,220** | 93,789 |

*Other capital reserves*

| | *2016* *LL million* | *2015* *LL million* |
|---|---|---|
| Premium on capital increase of Byblos Bank Armenia CJSC | **1,026** | 1,026 |
| Premium on capital increase of Byblos Bank Africa | - | 4,396 |
| | **1,026** | 5,422 |

## 42 TREASURY SHARES

Movement of treasury shares recognized in the statement of financial position for the years 2016 and 2015 was as follows:

***Year ended 31 December 2016***

| | *Common shares* | | *Global Depository Receipts* | |
|---|---|---|---|---|
| | *No. of shares* | *Amount US$(000)* | *No. of shares* | *Amount US$(000)* |
| At 1 January 2016 | **2,151,237** | **3,797** | **8,690** | **718** |
| Acquisitions of treasury shares | **296,757** | **494** | **251** | **20** |
| Sales of treasury shares | **(915,812)** | **(1,605)** | - | - |
| At 31 December 2016 | **1,532,182** | **2,686** | **8,941** | **738** |
| Total treasury shares in LL million | | | | **5,161** |

*Year ended 31 December 2015*

| | *Common shares* | | *Global Depository Receipts* | |
|---|---|---|---|---|
| | *No. of shares* | *Amount US$(000)* | *No. of shares* | *Amount US$(000)* |
| At 1 January 2015 | 2,047,426 | 3,652 | 7,273 | 610 |
| Acquisitions of treasury shares | 205,495 | 329 | 1,417 | 108 |
| Sales of treasury shares | (101,684) | (184) | - | - |
| At 31 December 2015 | 2,151,237 | 3,797 | 8,690 | 718 |
| Total treasury shares in LL million | | | | 6,807 |

## 43 REVALUATION RESERVE OF REAL ESTATE

| | 2016<br>LL million | 2015<br>LL million |
|---|---|---|
| Revaluation reserve accepted in Tier II capital | **1,978** | 1,978 |
| Revaluation reserve not accepted in Tier II capital | **3,711** | 3,711 |
| | **5,689** | 5,689 |

## 44 CHANGE IN FAIR VALUE OF FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Movement of the change in fair value of financial assets at fair value through other comprehensive income during the year was as follows:

| | 2016<br>LL million | 2015<br>LL million |
|---|---|---|
| At 1 January | **(7,961)** | (7,533) |
| Net changes in fair values during the year | **(1,306)** | (503) |
| Net changes in deferred taxes | **194** | 75 |
| Difference on exchange | **(8)** | - |
| Balance at 31 December | **(9,081)** | (7,961) |

## 45 CASH AND CASH EQUIVALENTS

| | 2016<br>LL million | 2015<br>LL million |
|---|---|---|
| Cash and balances with central banks | **2,087,238** | 2,129,121 |
| Due from banks and financial institutions | **2,568,339** | 2,410,574 |
| Loans to banks and financial institutions and reverse repurchase agreements | **850,346** | 662,486 |
| | **5,505,923** | 5,202,181 |
| Less: Due to central banks | **(5,657)** | (13,723) |
| Less: Due to banks and financial institutions | **(413,154)** | (422,258) |
| Cash and cash equivalents at 31 December | **5,087,112** | 4,766,200 |

## 46 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operation decisions, or one other party controls both. The definition includes subsidiaries, key management personnel and their close family members, as well as entities controlled or jointly controlled by them.

A list of the Group's principal subsidiaries is shown in note 4. Transactions between the Bank and its subsidiaries meet the definition of related party transactions. However, where these are eliminated on consolidation, they are not disclosed in the Group's financial statements.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including the Directors and the Officers of the Group.

## 46 RELATED PARTY TRANSACTIONS (continued)

Loans to related parties, (a) were made in the ordinary course of business, (b) were made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with others and (c) did not involve more than a normal risk of collectability or present other unfavorable features.

Related party balances included in the Group's consolidated statement of financial position are as follows as of 31 December:

| | *31 December 2016* | | | *31 December 2015* | | |
|---|---|---|---|---|---|---|
| | *Key management personnel LL million* | *Other LL million* | *Total LL million* | *Key management personnel LL million* | *Other LL million* | *Total LL million* |
| Due from banks and financial institutions | - | 31,227 | 31,227 | - | 1,803 | 1,803 |
| Loans and advances | 6,577 | 14,137 | 20,714 | 5,948 | 29,327 | 35,275 |
| Due to banks and financial institutions | - | 93,383 | 93,383 | - | 44,489 | 44,489 |
| Deposits | 104,431 | 261,596 | 366,027 | 142,183 | 283,566 | 425,749 |
| Debt issued and other borrowed funds | 977 | 977 | 1,954 | 985 | 985 | 1,970 |
| Subordinated debt | 368 | 17,756 | 18,124 | 377 | 18,165 | 18,542 |
| Guarantees received | 6,796 | 5,276 | 12,072 | 6,062 | 12,910 | 18,972 |
| Guarantees given | 80 | 423 | 503 | 80 | 28 | 108 |
| Commitments (including acceptances) | 1,835 | 2,199 | 4,034 | 1,403 | 6,451 | 7,854 |

Related party transactions included in the Group's consolidated income statement are as follows for the year ended 31 December:

| | *31 December 2016* | | | *31 December 2015* | | |
|---|---|---|---|---|---|---|
| | *Key management personnel LL million* | *Other LL million* | *Total LL million* | *Key management personnel LL million* | *Other LL million* | *Total LL million* |
| Interest income on due from banks and financial institutions | - | 429 | 429 | - | - | - |
| Interest income on loans and advances | 342 | 1,286 | 1,628 | 319 | 1,550 | 1,869 |
| Interest expense on deposits | 6,781 | 11,323 | 18,104 | 8,677 | 7,038 | 15,715 |
| Interest expense on due to banks and financial institutions | - | 1,459 | 1,459 | - | 1,580 | 1,580 |
| Interest expense on debt issued and other borrowed funds | 68 | 68 | 136 | 69 | 69 | 138 |
| Interest expense on subordinated debt | 24 | 1,141 | 1,165 | 25 | 1,167 | 1,192 |
| Rent expense | - | 544 | 544 | - | 544 | 544 |

In addition to the above, the Group entered into an agreement with the International Finance Corporation (IFC) whereby the latter makes available a non-committed trade finance guarantee facility to the Group up to US$ 50 million. As at 31 December 2016, guarantees issued by IFC amounted to LL 27,677 million (2015: LL 1,639 million).

**Compensation of the Key Management Personnel of the Group**

| | *2016 LL million* | *2015 LL million* |
|---|---|---|
| Short-term benefits[1] | 12,774 | 11,984 |

[1] *Short-term benefits comprise of salaries, bonuses, profit-sharing, attendance fees and other short-term benefits to key management personnel.*

## 47 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS

**Credit-related commitments and contingent liabilities**

To meet the financial needs of customers, the Group enters into various commitments, guarantees and other contingent liabilities, which are mainly credit-related instruments including financial and other guarantees and commitments to extend credit. Even though these obligations may not be recognised on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Group. The table below discloses the nominal principal amounts of credit-related commitments and contingent liabilities. Nominal principal amounts represent the amount at risk should the contracts be fully drawn upon and clients default. As a significant portion of guarantees and commitments is expected to expire without being withdrawn, the total of the nominal principal amount is not indicative of future liquidity requirements.

| | | *2016* | |
|---|---|---|---|
| | ***Banks*** | ***Customers*** | ***Total*** |
| | ***LL million*** | ***LL million*** | ***LL million*** |
| **Guarantees and contingent liabilities** | | | |
| Financial guarantees | **-** | **217,934** | **217,934** |
| Other guarantees | **176,854** | **819,799** | **996,653** |
| | **176,854** | **1,037,733** | **1,214,587** |
| **Commitments** | | | |
| Documentary credits | **159,909** | **185,773** | **345,682** |
| Loan commitments | **-** | **2,979,622** | **2,979,622** |
| | **159,909** | **3,165,395** | **3,325,304** |

| | | *2015* | |
|---|---|---|---|
| | *Banks* | *Customers* | *Total* |
| | *LL million* | *LL million* | *LL million* |
| Guarantees and contingent liabilities | | | |
| Financial guarantees | - | 205,966 | 205,966 |
| Other guarantees | 276,315 | 885,162 | 1,161,477 |
| | 276,315 | 1,091,128 | 1,367,443 |
| Commitments | | | |
| Documentary credits | 238,008 | 150,647 | 388,655 |
| Loan commitments | - | 2,355,807 | 2,355,807 |
| | 238,008 | 2,506,454 | 2,744,462 |

*Guarantees*

Guarantees are given as security to support the performance of a customer to third parties. The main types of guarantees provided are:

- Financial guarantees given to banks and financial institutions on behalf of customers to secure loans, overdrafts, and other banking facilities; and
- Other guarantees provided include mainly performance guarantees, advance payment guarantees and tender guarantees.

*Documentary credits*

Documentary credits commit the Group to make payments to third parties, on production of documents, which are usually reimbursed immediately by customers.

*Loan commitments*

Loan commitments are defined amounts (unutilized credit lines or undrawn portions of credit lines) against which clients can borrow money under defined terms and conditions.

## 47 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS (continued)

**Investment commitments**

During 2016 and 2015, the Group invested in funds pursuant to the provisions of Decision no. 6116 dated 7 March 1996. In accordance with this resolution, the Group can benefit from facilities granted by the Central Bank of Lebanon to be invested in startup companies, incubators and accelerators whose objects are restricted to supporting the development, success and growth of startup companies in Lebanon or companies whose objects are restricted to investing venture capital in startup companies in Lebanon. These investments have resulted in future commitments on the Group of LL 3,952 million as of 31 December 2016 (2015: LL 6,057 million).

**Legal claims**

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Group has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss has been reasonably estimated, the Group makes adjustments to account for any adverse effects which the claims may have on its financial standing. At year end, the Group had several unresolved legal claims. Based on advice from legal counsel, management believes that legal claims will not result in any financial loss to the Group.

**Lease arrangements**

*Operating leases – Group as lessee*

The Group has entered into commercial leases on premises. These leases have an average life of between five and ten years. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum lease payments under non-cancellable operating leases as at 31 December are as follows:

| | ***2016*** | *2015* |
|---|---|---|
| | ***LL million*** | *LL million* |
| Within one year | **3,546** | 3,217 |
| After one year but not more than five years | **9,333** | 10,581 |
| More than five years | **9,977** | 11,491 |
| | **22,856** | 25,289 |

**Other contingencies**

Certain areas of the Lebanese tax legislation are subject to different interpretations in respect of the taxability of certain types of financial transactions and activities. Fiscal years from 2012 to 2015 are currently being reviewed by the Department of Income Tax, the outcome of which cannot be presently determined. Fiscal year 2016 remains open to review by the tax authorities. Management believes that the effect of any such review will not have a material effect on the consolidated financial statements.

## 48 ASSETS HELD IN CUSTODY AND UNDER ADMINISTRATION

| | ***2016*** | *2015* |
|---|---|---|
| | ***LL million*** | *LL million* |
| Assets held in custody and under administration | **3,068,782** | 3,120,838 |

**Assets held in custody and under administration**

Custody is the safekeeping and servicing of securities and other financial assets on behalf of clients. Administration includes the provision of various support functions activities including the valuation of portfolios of securities and other financial assets on behalf of clients, which complements the custody business.

## 49 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values in this note are stated at a specific date and may be different from the amounts which will actually be paid on the maturity or settlement dates of the instrument. In many cases, it would not be possible to realize immediately the estimated fair values given the size of the portfolios measured. Accordingly, these fair values do not represent the value of these instruments to the Group as a going concern.

Financial assets and liabilities are classified according to a hierarchy that reflects the significance of observable market inputs. The three levels of the fair value hierarchy are defined below.

**Quoted market prices – Level 1**
Financial instruments are classified as Level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions on an arm's length basis. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

**Valuation technique using observable inputs – Level 2**
Financial instruments classified as Level 2 have been valued using models whose most significant inputs are observable in an active market. Such valuation techniques and models incorporate assumptions about factors observable in an active market that other market participants would use in their valuations, including interest rate yield curve, exchange rates, volatilities, and prepayment and defaults rates.

**Valuation technique using significant unobservable inputs – Level 3**
Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). A valuation input is considered observable if it can be directly observed from transactions in an active market, or if there is compelling external evidence demonstrating an executable exit price. Unobservable input levels are generally determined based on observable inputs of a similar nature, historical observations or other analytical techniques.

**Fair value measurement hierarchy of the Group's financial assets and liabilities carried at fair value:**

| | 2016 | | | |
|---|---|---|---|---|
| | | *Valuation techniques* | | |
| | *Quoted market price Level 1 LL million* | *Observable inputs Level 2 LL million* | *Unobservable inputs Level 3 LL million* | *Total LL million* |
| **Assets:** | | | | |
| Derivative financial instruments: | | | | |
| Currency swaps | - | 1,958 | - | 1,958 |
| Forward foreign exchange contracts | - | 2,462 | - | 2,462 |
| Financial assets at fair value through profit or loss: | | | | |
| Lebanese treasury bills | 24,032 | 293,990 | - | 318,022 |
| Certificates of deposit issued by the Central Bank of Lebanon | - | 428,572 | - | 428,572 |
| Debt securities issued by banks and financial institutions | 2,513 | - | - | 2,513 |
| Equity securities | 40,065 | - | - | 40,065 |
| Financial assets at fair value through other comprehensive income | 44,388 | - | 56,917 | 101,305 |
| **Liabilities:** | | | | |
| Derivative financial instruments: | | | | |
| Currency swaps | - | 938 | - | 938 |
| Forward foreign exchange contracts | - | 1,168 | - | 1,168 |

## 49 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

**Fair value measurement hierarchy of the Group's financial assets and liabilities carried at fair value (continued):**

| | *2015* | | | |
|---|---|---|---|---|
| | | *Valuation techniques* | | |
| | *Quoted market price Level 1 LL million* | *Observable inputs Level 2 LL million* | *Unobservable inputs Level 3 LL million* | *Total LL million* |
| Assets: | | | | |
| Derivative financial instruments: | | | | |
| Currency swaps | - | 314 | - | 314 |
| Forward foreign exchange contracts | - | 1,530 | - | 1,530 |
| Financial assets at fair value through profit or loss: | | | | |
| Lebanese treasury bills | 216,656 | 10,348 | - | 227,004 |
| Certificates of deposit issued by the Central Bank of Lebanon | - | 27,714 | - | 27,714 |
| Debt securities issued by banks and financial institutions | 2,440 | - | - | 2,440 |
| Corporate bonds | - | 3,018 | - | 3,018 |
| Equity securities | 35,669 | - | - | 35,669 |
| Financial assets at fair value through other comprehensive income | 48,241 | - | 53,666 | 101,907 |
| Liabilities: | | | | |
| Derivative financial instruments: | | | | |
| Currency swaps | - | 392 | - | 392 |
| Forward foreign exchange contracts | - | 2,053 | - | 2,053 |

There were no transfers between levels during 2016 (2015: the same).

**Assets and liabilities carried at fair value using a valuation technique with significant observable inputs (Level 2)**

***Derivatives***

Derivative products are valued using a valuation technique with market observable inputs. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

***Government bonds, certificates of deposits and other debt securities***

The Group values these unquoted debt securities using discounted cash flow valuation models where the lowest level input that is significant to the entire measurement is observable in an active market. These inputs include assumptions regarding current rates of interest, implied volatilities, credit spreads and broker statements.

**Assets and liabilities carried at fair value using a valuation technique with significant unobservable inputs (Level 3)**

***Equity shares of non-listed entities***

The Group's strategic investments are generally classified at fair value through other comprehensive income and are not traded in active markets. These are investments in private companies, for which there is no or only limited sufficient recent information to determine fair value. The Group determined that cost adjusted to reflect the investee's financial position and results since initial recognition represents the best estimate of fair value.

## 49 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

**Reconciliation of fair value measurement of financial assets in unquoted equity shares:**

| | *2016* *LL million* | *2015* *LL million* |
|---|---|---|
| Balance at 1 January | **53,666** | 47,732 |
| Additions | **2,133** | 3,715 |
| Deconsolidation of subsidiaries | **(578)** | - |
| Re-measurement recognized in other comprehensive income | **1,696** | 2,219 |
| | **56,917** | 53,666 |

**Comparison of carrying and fair values for financial assets and liabilities not held at fair value:**
The fair values included in the table below were calculated for disclosure purposes only. The fair valuation techniques and assumptions described below relate only to the fair value of the Group's financial instruments not measured at fair value. Other institutions may use different methods and assumptions for their fair value estimations, and therefore such fair value disclosures cannot necessarily be compared from one institution to another.

| | *2016* | | *2015* | |
|---|---|---|---|---|
| | *Fair value* *LL million* | *Carrying value* *LL million* | *Fair value* *LL million* | *Carrying value* *LL million* |
| **FINANCIAL ASSETS** | | | | |
| Cash and balances with central banks | **8,783,092** | **8,783,092** | 7,236,237 | 7,236,237 |
| Due from banks and financial institutions | **2,657,429** | **2,657,429** | 2,518,365 | 2,518,365 |
| Loans to banks and financial institutions and reverse repurchase agreement | **963,963** | **964,066** | 1,197,149 | 1,197,047 |
| Financial assets given as collateral | **225,168** | **224,044** | 1,399 | 1,405 |
| Net loans and advances to customers at amortized cost | **7,787,138** | **7,787,275** | 7,397,801 | 7,399,641 |
| Net loans and advances to related parties at amortized cost | **20,714** | **20,714** | 35,275 | 35,275 |
| *Financial assets at amortized cost* | | | | |
| Lebanese treasury bills | **4,733,450** | **4,757,484** | 5,861,920 | 5,852,407 |
| Certificates of deposit issued by the Central Bank of Lebanon | **4,535,221** | **4,482,042** | 4,350,572 | 4,274,429 |
| Foreign governmental debt securities | **142,680** | **138,113** | 130,537 | 125,272 |
| Debt securities issued by banks and financial institutions | **5,336** | **5,477** | 225,708 | 225,215 |
| Corporate bonds | **635** | **635** | 6,065 | 6,004 |
| Certificates of deposit issued by banks and financial institutions | **33,267** | **33,228** | 33,096 | 33,187 |
| **FINANCIAL LIABILITIES** | | | | |
| Due to central banks | **332,971** | **332,971** | 117,412 | 117,412 |
| Due to banks and financial institutions | **774,095** | **774,095** | 744,554 | 744,554 |
| Customers' deposits at amortized cost | **25,488,342** | **25,415,634** | 24,718,163 | 24,654,398 |
| Deposits from related parties at amortized cost | **372,577** | **366,027** | 430,493 | 425,749 |
| Debt issued and other borrowed funds | **442,941** | **444,072** | 447,460 | 445,199 |
| Subordinated debt | **409,989** | **420,165** | 417,400 | 417,400 |

**Assets and liabilities for which fair value is disclosed using a valuation technique with significant observable inputs (Level 2) and / or significant unobservable inputs (Level 3)**

***Deposits with banks and loans and advances to banks***
For the purpose of this disclosure there is minimal difference between fair value and carrying amount of these financial assets as they are short-term in nature or have interest rates that re-price frequently. The fair value of deposits with longer maturities are estimated using discounted cash flows applying market rates for counterparties with similar credit quality.

## 49 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

***Government bonds, certificates of deposits and other debt securities***

The Group values these unquoted debt securities using discounted cash flow valuation models where the lowest level input that is significant to the entire measurement is observable in an active market. These inputs include assumptions regarding current rates of interest, implied volatilities, credit spreads and broker statements.

***Loans and advances to customers***

For the purpose of this disclosure, in many cases, the fair value disclosed approximates carrying value because these advances are short-term in nature or have interest rates that re-price frequently. The fair value of loans and advances to customers with long-term maturities is estimated using discounted cash flows by applying current rates for new loans granted during 2016 with similar characteristics.

***Deposits from banks and customers***

In many cases, the fair value disclosed approximates carrying value because these financial liabilities are short-term in nature or have interest rates that re-price frequently. The fair value for deposits with long-term maturities, such as time deposits, are estimated using discounted cash flows, applying either market rates or current rates for deposits of similar characteristics.

***Debt issued and other borrowed funds and subordinated debt***

Fair values are determined using discounted cash flows valuation models where the inputs used are estimated by comparison with quoted prices in an active market for similar instruments.

| | *2016* | | | |
|---|---|---|---|---|
| | | *Valuation techniques* | | |
| | *Quoted market price Level 1 LL million* | *Observable inputs Level 2 LL million* | *Unobservable inputs Level 3 LL million* | *Total LL million* |
| **Assets for which fair values are disclosed:** | | | | |
| Cash and balances with central banks | 249,425 | 8,533,667 | - | 8,783,092 |
| Due from banks and financial institutions | - | 2,657,429 | - | 2,657,429 |
| Loans to banks and financial institutions and reverse repurchase agreement | - | 963,963 | - | 963,963 |
| Financial assets given as collateral | - | 225,168 | - | 225,168 |
| Net loans and advances to customers at amortized cost | - | - | 7,787,138 | 7,787,138 |
| Net loans and advances to related parties at amortized cost | - | - | 20,714 | 20,714 |
| Financial assets at amortized cost: | | | | |
| Lebanese treasury bills | 2,045,535 | 2,687,915 | - | 4,733,450 |
| Certificates of deposit issued by the Central Bank of Lebanon | - | 4,535,221 | - | 4,535,221 |
| Foreign governmental debt securities | 142,680 | - | - | 142,680 |
| Debt securities issued by banks and financial institutions | 5,336 | - | - | 5,336 |
| Corporate bonds | 419 | 216 | - | 635 |
| Certificates of deposit issued by banks and financial institutions | - | 33,267 | - | 33,267 |
| **Liabilities for which fair values are disclosed:** | | | | |
| Due to central banks | - | 332,971 | - | 332,971 |
| Due to banks and financial institutions | - | 774,095 | - | 774,095 |
| Customers' deposits at amortized cost | - | 25,488,342 | - | 25,488,342 |
| Deposits from related parties at amortized cost | - | 372,577 | - | 372,577 |
| Debt issued and other borrowed funds | - | 442,941 | - | 442,941 |
| Subordinated debt | - | 409,989 | - | 409,989 |

**49 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**

| | 2015 | | | |
|---|---|---|---|---|
| | | *Valuation techniques* | | |
| | *Quoted market price Level 1 LL million* | *Observable inputs Level 2 LL million* | *Unobservable inputs Level 3 LL million* | *Total LL million* |
| Assets for which fair values are disclosed: | | | | |
| Cash and balances with central banks | 260,252 | 6,975,985 | - | 7,236,237 |
| Due from banks and financial institutions | - | 2,518,365 | - | 2,518,365 |
| Loans to banks and financial institutions and reverse repurchase agreement | - | 1,197,149 | - | 1,197,149 |
| Financial assets given as collateral | - | 1,399 | - | 1,399 |
| Net loans and advances to customers at amortized cost | - | - | 7,397,801 | 7,397,801 |
| Net loans and advances to related parties at amortized cost | - | - | 35,275 | 35,275 |
| Financial assets at amortized cost: | | | | |
| Lebanese treasury bills | 2,010,050 | 3,851,870 | - | 5,861,920 |
| Certificates of deposit issued by the Central Bank of Lebanon | - | 4,350,572 | - | 4,350,572 |
| Foreign governmental debt securities | 130,537 | - | - | 130,537 |
| Debt securities issued by banks and financial institutions | 225,708 | - | - | 225,708 |
| Corporate bonds | 5,849 | 216 | - | 6,065 |
| Certificates of deposit issued by banks and financial institutions | - | 33,096 | - | 33,096 |
| Liabilities for which fair values are disclosed: | | | | |
| Due to central banks | - | 117,412 | - | 117,412 |
| Due to banks and financial institutions | - | 744,554 | - | 744,554 |
| Customers' deposits at amortized cost | - | 24,718,163 | - | 24,718,163 |
| Deposits from related parties at amortized cost | - | 430,493 | - | 430,493 |
| Debt issued and other borrowed funds | - | 447,460 | - | 447,460 |
| Subordinated debt | - | 417,400 | - | 417,400 |

## 50 RISK MANAGEMENT

### 50.1 INTRODUCTION

Risk is inherent in the Group's activities, yet it is managed through a process of on-going identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, interest rate risk, liquidity risk and market risk. It is also subject to various operational risks.

The Group's risk management process involves identification, measurement, monitoring and controlling risks to ensure that:

- Individuals who take or manage risks clearly understand it;
- The organization's risk exposure is within the limits established by the Board of Directors (Board);
- Risk taking decisions are in line with the business strategy and objectives set by the Board of Directors;
- The expected payoffs compensate for the risks taken;
- Risk taking decisions are explicit and clear; and
- Sufficient capital is available to act as a buffer for risks taken.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. The Group's policy is to monitor those business risks through the bank's strategic planning process.

**50 RISK MANAGEMENT (continued)**

**50.1 INTRODUCTION (continued)**

**Group risk management structure**
The Board of Directors is primarily responsible for establishing / approving the Group's strategic direction and approving the nature and levels of risk the Group is willing to take. The Board has established three committees to assist in carrying out its responsibilities:

*Risk, Anti-Money Laundering and Compliance Committee (BRC):* It is primarily responsible to formulate the risk appetite statement for the Bank through establishing a comprehensive set of internal risk limits and other qualitative risk statements that clearly defines the amount of risks the Board is willing to take and those risks the Board wishes to avoid, and monitors compliance to the risk appetite statement. BRC provides oversight of Senior Management's activities in managing capital adequacy, credit, market, liquidity, operational, Anti-Money Laundering, compliance, reputational and other risks of the Group. The BRC also oversees ICAAP and approves risk policies.

*Audit Committee:* monitors the Group's accounting practices and external reporting, and reviews the audit reports covering the Group's operations and takes appropriate actions / decisions.

*Remuneration, Nomination and Corporate Governance Committee*: ensures that the Group has coherent remuneration policies and practices, and that proper succession plans for board members and senior managers are in place. It is also responsible to make sure that corporate governance principles and the code of conduct are well established at the Group to warrant the confidence of shareholders, investors and stakeholders.

The above Board Committees are composed of mostly independent / non-executive members satisfying the applicable best practice requirements. In addition, the Board delegates its day-to-day risk management activities to the Senior Management, through the following diverse committees that have been established:

*Executive Committee:* acts under the supervision of the Chairman to ensure execution of all strategic directives stipulated by the Board and to propose new strategic projects and plans to the Board. Membership is assigned to the Chairman/General Manager, the Head of the Group Consumer Banking Division, the Head of Group Financial Markets and Financial Institutions Division, the Head of Group Commercial Banking Division, the Head of Group Risk Management Division and the Head of Foreign Banking Unit.

*Central Credit Committee (CCC):* is the highest credit authority in the Group after the Board. Its mission is to review and approve high-value amount credit proposals. The internal lending limit is set at 10% of capital, which requires the joint approval of the Chairman and the CCC. Credit proposals exceeding the internal lending limit are referred to the Board (or any delegated committee) for approval. The CCC delegates approval authority for lower amount credit proposals to various sub-committees.

*Assets and Liabilities Committee (ALCO):* which mission is to manage the statement of financial position in compliance with the main objectives of the Group, in terms of growth, liquidity and interest income. Its role encompasses the review, approval and implementation of the Group's strategies regarding liquidity and interest rate, FX and trading activities through decisions on size and duration of mismatched positions and on pricing.

*Risk Committee:* whose task is to formulate and enforce guidelines and standards with regard to capital adequacy and risk measurement and management. It also reviews reports and findings identified by the Group Risk Management and issues related to the implementation of Basel II/ Basel III projects. The Committee discusses and approves the risk policies, the risk measurement tools such as rating and scoring, and risk-based processes including stress testing, economic capital, and risk-based profitability. It oversees the risk reports prepared and ICAAP framework before submission to the Board.

The Group also established two other committees concerned with the risk management and compliance, being: *The Operational Risk Management Committee* and the *Compliance and Anti-Money Laundering Committee*. The Operational Risk Committee's mission is to provide oversight for the Group's operational risk function, the processes and the systems developed to assess, monitor and mitigate operational risks. The mission of the Compliance and Anti-Money Laundering Committee is to ensure that the Group is in compliance with anti-money laundering laws and internationally administered sanction laws; and to oversee implementation of the Group's KYC and sanction policies.

**50 RISK MANAGEMENT (continued)**

**50.1 INTRODUCTION (continued)**

**Group risk management structure (continued)**

*Group Internal Audit Division*
The Group Internal Audit Division (GIA) is responsible for providing an independent, objective assurance and consulting activity designed to add value and improve the Group's operations. It helps the Group accomplish its objectives by bringing a systematic disciplined and risk based approach to evaluate and improve the effectiveness of risk management, control, and governance processes. Its role within the Group is to ensure that adequate internal controls are maintained and where weaknesses are identified, they are reported to Senior Management and the Audit Committee along with recommendations for improvement. The GIA assesses all new products and procedures and changes in systems and reports its recommendations accordingly.

The GIA also ensures that the Group is in compliance with the rules and regulations in different jurisdictions where the Group is operating, the Central Banks and Banking Control Commission requirements, Board of Directors and management directives and implemented policies and procedures.

**Risk Management**
The Group's risk management function follows the prudential rules and regulations set forth by the Basel Committee in the Core Principles for Effective Banking Supervision document (September 2012) and Basel Capital Accord texts (Basel II/ III) to measure and assess the risks identified under the pillars I and II, i.e., the credit, operational, and market risks, as well as, the interest rate risk in the banking book, the liquidity risk, and credit concentration.

With regard to Basel recommendations relating to best practices in risk management and its objective of capital measurement and capital adequacy, the Group adopts a phased approach to take more sophisticated steps towards credit risk and make use of internal ratings based methodology - or 'IRB Approach'- to calculate expected credit loss and ultimately capital requirements for credit risk. In addition to the market risk capital charge, an explicit capital charge for operational risk is being accounted for.

As for addressing the capital management issue in the context of Basel II, the Group develops annually a comprehensive Internal Capital Adequacy Assessment Process (ICAAP) document, disclosing the risk appetite statement and covering all risks to which the Group is or may be exposed, as well as risk factors emanating from the environment in which it operates. Mild and severe stress scenarios and sensitivity analysis are undertaken within ICAAP to assess the sufficiency of capital and liquidity in sustaining the Group's operations and business plans on the medium term.

The overall responsibility for the monitoring and the analytical management of the risk is effectively assigned to the Group Risk Management division (GRM). The GRM reports to the Chairman and General Manager through the head of the GRM division. Risk issues and reports are submitted to the Board regularly through the Board Risk, Anti-Money Laundering & Compliance Committee.

The GRM has a dedicated team, *Financial and Operational Risk Management department*, that fulfils the analytical part of risk management and is thereby in direct charge of identifying, measuring, monitoring and controlling Pillar 1 and 2 risks faced by the Group. The department is split into three main functions:

*Risk Policies and Analytics* that is responsible for the preparation and reporting of Basel II regulatory CAR report, the development of stress testing scenarios, the write-up of risk reports and ICAAP documents. It handles as well the measurement of PD (probability of default), LGD (loss given default), ECL (expected credit loss) and UL (unexpected loss). The units develop and support risk-based profitability measurements, risk measurement tools (retail scoring and commercial rating), and risk related policies.

*Asset-Liability and Market Risk Management* sets the firm-wide framework necessary for identification, measurement and management of market risk across the Group, including developing policies, procedures, and risk measurement methodologies. Market Risk is also in charge of monitoring the Group's limits regarding liquidity, interest rate risk, foreign exchange and securities investment positions, stress test and report on breaches to Senior Management and the Board of Directors.

**50 RISK MANAGEMENT (continued)**

**50.1 INTRODUCTION (continued)**

**Risk Management (continued)**

*Operational Risk Management* is responsible for establishing the necessary framework for identifying, measuring and managing operational risk across the Group. ORM Unit has established the necessary tools enabling to derive the risk profile of the Group, starting with spreading the risk culture through regular training, supporting operational risk events reporting and loss database, conducting operational risk scenarios with the business owners to focus on the high risk areas and the exposure to capital in a way to supplement the assessment of the regulatory capital charge, and developing a KRI program to establish KRIs that monitor the Group's exposure to key risks. ORM Unit facilitates the risk and control assessment (RCA) for the main Group processes and new products/activities.

**Risk Management Framework**
The Risk Management Framework is based on a set of principles adopted by the Board through the Risk Charter. These principles are being reviewed annually or upon need in order to be aligned with the changes related to the internal and external environment of the Group. The set of basic principles that governs the risk management framework of the Group are developed based on the following:

*Business Line Accountability:* Business lines are accountable for managing the risks associated with their activities and establish tolerances for risk taking. The accountability exists notwithstanding the presence of any support functions dedicated to risk management activities.

*Strategic Level Risk Management*, encompasses the risk management functions performed by Senior Management and the Board. It includes defining the Group's risk appetite, formulating strategy and policies for managing risks and establishing adequate systems and controls to ensure that the Group's aggregate risk profile is within acceptable tolerance levels.

*Analytical Level Risk Management*, encompasses the risk management, within the authority delegated by the Strategic Level to identify, measure, monitor and report the risks taken by the Group in a consistent manner across all business lines and operational units.

*Tactical Level Risk Management*, encompasses risk management activities performed by individuals who take risk on the Group's behalf such as the front office and loan origination functions.

The Risk Charter is complemented by risk specific policies and procedures enabling the unification of the risk culture and practice. Risk management is applied through the implementation of these risk policies / limits approved by the Board and that are put in place by the risk management function in cooperation with the business lines. Monitoring of individual risks is handled upon the initiation and renewal of the risk through a clear decision making process documented in a written procedure.

**50.2 CREDIT RISK**

Credit risk is the risk that the Group will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual borrowers and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

**Credit initiation**
Target markets and customers and products' strategy are identified in the yearly business plan deriving from the medium term plan. They are submitted to and discussed with management and the Board by different business lines. The process of initiating and approving credit proposals is governed by the Group's Credit Policies and Procedures Manual (CPPM). CPPM consolidates the principles for the credit origination and follow-up process based on early warning signals, and includes the credit committee approval authorities, the roles and responsibilities of credit personnel, the credit administration function, and the structuring of credit packages.

*Commercial lending* is handled by the Commercial Division which oversees the business origination related to corporate customers, middle market and international lending. The assessment of a credit request requires an evaluation of the borrower's creditworthiness through an in-depth analysis of series of financial, management, business and market criteria translated into an overall credit risk rating. This assessment process is applicable to both new and existing client.

**50 RISK MANAGEMENT (continued)**

**50.2 CREDIT RISK (continued)**

**Credit initiation (continued)**

The *Consumer Banking* division is responsible to design and implement the strategy and document the program for consumer loans, housing loans, revolving credit cards, small business loans and Kafalat-guaranteed loans.

The *Financial Institution* department (FI) is a separate business line that sets the strategy for banks limits and manages the relationship with banks. The function is determined by liquidity targets and by profit generation through a dynamic yet diversified trade finance business.

**Credit approval**

The review of credit proposals is assigned to the credit risk analysis team within the GRM division, acting independently from the origination units. Every non-retail lending transaction is subject to a thorough risk assessment by the credit risk analysis team prior to being submitted to the appropriate approving authority.

The credit risk analysis team is organized into five departments, servicing each a different business segment (corporate, international, middle market, financial institutions and retail). In the case of retail lending, risk assessment occurs first at the level of the product design and is followed-on with a post-approval review on a sampling basis. The primary function of the risk analysis team is to ensure that the extension of credit is consistent with the Group's risk acceptance criteria and CPPM.

**Loan follow up and monitoring**

Each business line manager who originated the loan remains vested with the responsibility of monitoring the exposure and reviewing the file on an annual basis or more frequently if needed. Annual reviews consist of a full update of the credit package and follow the same process as the initiation of the loan.

Outstanding loans are subject as well to a constant monitoring by the GRM division based on a series of reports. The aim of such monitoring is to ensure problem recognition, and to follow-up on the prompt and remedial management of spotted deteriorations in borrowers' financial positions, value of collateral and related sector / industry. Early warning signals are derived from a set of system generated reports.

**Impairment assessment**

For accounting purposes, the Group uses an incurred loss model for the recognition of losses on impaired financial assets. This means that losses can only be recognised when objective evidence of a specific loss event has been observed. Triggering events include the following:

- Significant financial difficulty of the customer.
- A breach of contract such as a default of payment.
- Where the Group grants the customer a concession due to the customer experiencing financial difficulty.
- It becomes probable that the customer will enter bankruptcy or other financial reorganisation.
- Observable data that suggests that there is a decrease in the estimated future cash flows related to the loans.

The Group has an established policy to measure and allocate provision against the incurred and the expected credit loss (ECL) that are inherent to the portfolio. The framework covers the impaired and non-impaired credit portfolio. A specific provision is allocated against impaired credits based on the net present value of estimated future cash flows while abiding by a minimum provision rate based on days in arrears to ensure that impaired loans are sufficiently covered at all time regardless of collateral. A collective provision is allocated against the non-impaired loans following the use of credit risk rating and scoring systems along the measurement of credit components: PD (probability of default), LGD (loss given default), and EAD (exposure at default) leading to measure ECL against the non-impaired loans. The Group has put in place an action plan to enhance its credit analytics' setup to meet the new IFRS 9 impairment standard. Concurrently to its internal credit risk measurement and provision allocation framework, the Group is in full compliance with BDL circular 81 and BCCL circular 280 regarding the allocation of specific and collective provisions and general reserves against loans.

**50 RISK MANAGEMENT (continued)**

**50.2 CREDIT RISK (continued)**

Credit related commitments and financial guarantees are assessed and provisions are made in a similar manner as for loans.

*Derivative financial instruments*
Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded on the statement of financial position.

With gross–settled derivatives, the Group is also exposed to a settlement risk, being the risk that the Group honors its obligation but the counterparty fails to deliver the counter–value.

*Credit–related commitments and financial guarantee risks*
The Group makes available to its customers guarantees which may require that the Group makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Such commitments expose the Group to similar risks to loans and are mitigated by the same control processes and policies.

**50 RISK MANAGEMENT (continued)**

**50.2 CREDIT RISK (continued)**

**Analysis of maximum exposure to credit risk and collateral and other credit enhancements**

The following table shows the maximum exposure to credit risk by class of financial asset. It further shows the total fair value of collateral, capped to the maximum exposure to which it relates and the net exposure to credit risk.

| | 2016 | | | | | |
|---|---|---|---|---|---|---|
| | *Maximum exposure LL million* | *Cash LL million* | *Securities LL million* | *Letters of credit / guarantees LL million* | *Real estate LL million* | *Net credit exposure LL million* |
| Balances with central banks | 8,533,667 | - | - | - | - | 8,533,667 |
| Due from banks and financial institutions | 2,657,429 | (585) | - | - | - | 2,656,844 |
| Loans to banks and financial institutions and reverse repurchase agreements | 964,066 | (23,475) | - | - | - | 940,591 |
| Financial assets given as collateral | 224,044 | - | - | - | - | 224,044 |
| Derivative financial instruments | 4,420 | - | - | - | - | 4,420 |
| Financial assets at fair value through profit or loss | 749,107 | - | - | - | - | 749,107 |
| Net loans and advances to customers at amortized cost: | | | | | | |
| Commercial loans | 5,074,328 | (551,117) | (171,283) | (21,708) | (1,032,087) | 3,298,133 |
| Consumer loans | 2,712,947 | (317,054) | - | (326) | (1,470,178) | 925,389 |
| Net loans and advances to related parties at amortized cost | 20,714 | (5,286) | - | - | (3,356) | 12,072 |
| Financial assets at amortized cost | 9,416,979 | - | - | - | - | 9,416,979 |
| | 30,357,701 | (897,517) | (171,283) | (22,034) | (2,505,621) | 26,761,246 |
| Financial guarantees | 217,934 | (28,698) | - | - | - | 189,236 |
| Documentary credits (including acceptances) | 569,565 | (31,307) | - | - | - | 538,258 |
| | 31,145,200 | (957,522) | (171,283) | (22,034) | (2,505,621) | 27,488,740 |
| Utilized collateral | | (957,522) | (171,283) | (22,034) | (2,505,621) | |
| Surplus of collateral before undrawn credit lines | | (349,543) | (553,438) | (57,220) | (1,976,340) | |
| **Guarantees received from banks, financial institutions and customers** | | (1,307,065) | (724,721) | (79,254) | (4,481,961) | |

The surplus of collateral mentioned above is presented before offsetting additional credit commitments given to customers amounting to LL 2,979,622 million as at 31 December 2016.

**50 RISK MANAGEMENT (continued)**

**50.2 CREDIT RISK (continued)**

**Analysis of maximum exposure to credit risk and collateral and other credit enhancements (continued)**

| | 2015 | | | | | |
|---|---|---|---|---|---|---|
| | *Maximum exposure LL million* | *Cash LL million* | *Securities LL million* | *Letters of credit / guarantees LL million* | *Real estate LL million* | *Net credit exposure LL million* |
| Balances with central banks | 6,975,985 | - | - | - | - | 6,975,985 |
| Due from banks and financial institutions | 2,518,365 | (562) | - | - | - | 2,517,803 |
| Loans to banks and financial institutions and reverse repurchase agreements | 1,197,047 | (23,669) | - | - | - | 1,173,378 |
| Financial assets given as collateral | 1,405 | - | - | - | - | 1,405 |
| Derivative financial instruments | 1,844 | - | - | - | - | 1,844 |
| Financial assets at fair value through profit or loss | 260,176 | - | - | - | - | 260,176 |
| Net loans and advances to customers at amortized cost: | | | | | | |
| Commercial loans | 4,900,719 | (505,415) | (211,463) | (33,927) | (810,712) | 3,339,202 |
| Consumer loans | 2,498,922 | (276,694) | - | - | (1,124,460) | 1,097,768 |
| Net loans and advances to related parties at amortized cost | 35,275 | (12,574) | - | (796) | (2,774) | 19,131 |
| Financial assets at amortized cost | 10,516,514 | - | - | - | - | 10,516,514 |
| | 28,906,252 | (818,914) | (211,463) | (34,723) | (1,937,946) | 25,903,206 |
| Financial guarantees | 205,966 | (26,968) | - | - | - | 178,998 |
| Documentary credits (including acceptances) | 633,360 | (44,485) | - | - | (1,517) | 587,358 |
| | 29,745,578 | (890,367) | (211,463) | (34,723) | (1,939,463) | 26,669,562 |
| Utilized collateral | | (890,367) | (211,463) | (34,723) | (1,939,463) | |
| Surplus of collateral before undrawn credit lines | | (316,126) | (398,624) | (70,137) | (2,077,197) | |
| Guarantees received from banks, financial institutions and customers | | (1,206,493) | (610,087) | (104,860) | (4,016,660) | |

The surplus of collateral mentioned above is presented before offsetting additional credit commitments given to customers amounting to LL 2,355,807 million as at 31 December 2015.

## 50 RISK MANAGEMENT (continued)

### 50.2 CREDIT RISK (continued)

**Collateral and other credit enhancements**

The amount and type of collateral required depends on an assessment of the credit risk of the borrower. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. Management requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses. The main types of collateral obtained are as follows:

*Securities:*

The balances shown above represent the fair value of the securities.

*Letters of credit / guarantees:*

The Group holds in some cases guarantees, letters of credit and similar instruments from banks and financial institutions which enable it to claim settlement in the event of default on the part of the counterparty. The balances shown represent the notional amount of these types of guarantees held by the Group.

*Real estate (commercial and residential):*

The Group holds in some cases a first degree mortgage over residential property (for housing loans) and commercial property (for commercial loans). The value shown above reflects the fair value of the property limited to the related mortgaged amount.

*Other:*

In addition to the above, the Group also obtains from its clients proxy to mortgage a residential or commercial property, guarantees from parent companies for loans to their subsidiaries, personal guarantees for loans to companies owned by individuals and assignments of proceeds and revenues, which are not reflected in the above table.

**Credit quality per class of financial assets**

The table below shows the credit quality by class of asset for all financial assets exposed to credit risk, based on the Group's internal credit rating system. The amounts presented are gross of impairment allowances.

| | *2016* | | | | |
|---|---|---|---|---|---|
| | *Neither past due nor impaired* | | | | |
| | *High grade LL million* | *Standard grade LL million* | *Past due but not impaired LL million* | *Individually impaired LL million* | *Total LL million* |
| Balances with central banks | 8,372,200 | 161,987 | - | 31,041 | 8,565,228 |
| Due from banks and financial institutions | 2,195,741 | 461,688 | - | 4,024 | 2,661,453 |
| Loans to banks and financial institutions and reverse repurchase agreements | 799,221 | 164,845 | - | - | 964,066 |
| Financial assets given as collateral | 224,044 | - | - | - | 224,044 |
| Derivative financial instruments | 4,420 | - | - | - | 4,420 |
| *Financial assets at fair value through profit or loss:* | | | | | |
| Lebanese treasury bills | 318,022 | - | - | - | 318,022 |
| Certificates of deposit issued by the Central Bank of Lebanon | 428,572 | - | - | - | 428,572 |
| Debt securities issued by banks and financial institutions | 2,513 | - | - | - | 2,513 |
| *Net loans and advances to customers at amortized cost:* | | | | | |
| Commercial loans | 4,831,212 | 129,872 | 67,372 | 225,317 | 5,253,773 |
| Consumer loans | 2,460,500 | 18,815 | 199,903 | 145,169 | 2,824,387 |
| Net loans and advances to related parties at amortized cost | 20,714 | - | - | - | 20,714 |
| Debtors by acceptances | 193,801 | 30,082 | - | - | 223,883 |
| *Financial assets at amortized cost:* | | | | | |
| Lebanese treasury bills | 4,757,484 | - | - | - | 4,757,484 |
| Certificates of deposit issued by the Central Bank of Lebanon | 4,482,042 | - | - | - | 4,482,042 |
| Foreign governmental debt securities | 65,684 | 72,429 | - | - | 138,113 |
| Debt securities issued by banks and financial institutions | 5,477 | - | - | - | 5,477 |
| Corporate bonds | 635 | - | - | - | 635 |
| Certificates of deposit issued by banks and financial institutions | 3,033 | 30,195 | - | - | 33,228 |
| | 29,165,315 | 1,069,913 | 267,275 | 405,551 | 30,908,054 |

## 50 RISK MANAGEMENT (continued)

### 50.2 CREDIT RISK (continued)

**Credit quality per class of financial assets (continued)**

| | 2015 | | | | |
|---|---|---|---|---|---|
| | *Neither past due nor impaired* | | | | |
| | *High grade LL million* | *Standard grade LL million* | *Past due but not impaired LL million* | *Individually impaired LL million* | *Total LL million* |
| Balances with central banks | 6,769,921 | 209,928 | - | 31,581 | 7,011,430 |
| Due from banks and financial institutions | 1,751,637 | 766,728 | - | 3,688 | 2,522,053 |
| Loans to banks and financial institutions and reverse repurchase agreements | 992,966 | 204,081 | - | - | 1,197,047 |
| Financial assets given as collateral | 1,405 | - | - | - | 1,405 |
| Derivative financial instruments | 1,844 | - | - | - | 1,844 |
| *Financial assets at fair value through profit or loss:* | | | | | |
| Lebanese treasury bills | 227,004 | - | - | - | 227,004 |
| Certificates of deposit issued by the Central Bank of Lebanon | 27,714 | - | - | - | 27,714 |
| Debt securities issued by banks and financial institutions | 2,440 | - | - | - | 2,440 |
| Corporate bonds | - | 3,018 | - | - | 3,018 |
| *Net loans and advances to customers at amortized cost:* | | | | | |
| Commercial loans | 4,671,211 | 208,095 | 84,955 | 233,616 | 5,197,877 |
| Consumer loans | 2,265,098 | 23,647 | 176,128 | 132,748 | 2,597,621 |
| Net loans and advances to related parties at amortized cost | 35,275 | - | - | - | 35,275 |
| Debtors by acceptances | 234,953 | 9,752 | - | - | 244,705 |
| *Financial assets at amortized cost:* | | | | | |
| Lebanese treasury bills | 5,852,407 | - | - | - | 5,852,407 |
| Certificates of deposit issued by the Central Bank of Lebanon | 4,274,429 | - | - | - | 4,274,429 |
| Foreign governmental debt securities | 31,712 | 93,560 | - | - | 125,272 |
| Debt securities issued by banks and financial institutions | 174,448 | 50,767 | - | - | 225,215 |
| Corporate bonds | 5,033 | 971 | - | - | 6,004 |
| Certificates of deposit issued by banks and financial institutions | - | 33,187 | - | - | 33,187 |
| | 27,319,497 | 1,603,734 | 261,083 | 401,633 | 29,585,947 |

Aging analysis of past due but not impaired loans per class of financial assets:

| | 2016 | | | |
|---|---|---|---|---|
| | ***Less than 90 days LL million*** | ***91 to 180 days LL million*** | ***More than 181 days LL million*** | ***Total LL million*** |
| Loans and advances to customers at amortized cost: | | | | |
| - Commercial loans | **27,474** | **22,486** | **17,412** | **67,372** |
| - Consumer loans | **194,922** | **1,897** | **3,084** | **199,903** |
| | **222,396** | **24,383** | **20,496** | **267,275** |

| | 2015 | | | |
|---|---|---|---|---|
| | *Less than 90 days LL million* | *91 to 180 days LL million* | *More than 181 days LL million* | *Total LL million* |
| Loans and advances to customers at amortized cost: | | | | |
| - Commercial loans | 28,143 | 36,229 | 20,583 | 84,955 |
| - Consumer loans | 171,735 | 1,879 | 2,514 | 176,128 |
| | 199,878 | 38,108 | 23,097 | 261,083 |

## 50 RISK MANAGEMENT (continued)

### 50.2 CREDIT RISK (continued)

**Mapping to external credit rating**

| | *Financial assets* | *Loans and advances to customers* | |
|---|---|---|---|
| | *External credit rating* | *Supervisory rating* | *Characteristics* |
| *High grade* | Lebanese Sovereign AAA to A- | Regular | Regular and timely payment of dues. Adequacy of cash flows. Timely financial statements. Sufficient collateral / guarantee (if required). |
| | | Follow up | Lack of documentation related to borrower's activity. |
| *Standard grade* | BBB+ and below unrated | Follow up and regularization | Credit worthy borrower showing weaknesses; insufficient / inadequate cash flows; highly leveraged; deterioration in economic sector or country where the facility is used; conflict between partners or other lawsuits; loan rescheduling since initiation; excess utilization above limit. |
| *Individually impaired* | Impaired | Substandard | Signals of incapacity to repay from identified cash flows; full repayments supposes the liquidation of assets / collateral; recurrent late payments; late interests; losses incurred for over 3 years. |
| | | Doubtful | Full repayment is questioned even after asset liquidation; account stagnation and inability to repay restructured loans. |
| | | Bad | No or little expected inflows from business or assets; borrower is unreachable; insolvency status. |

The classification of loans and advances to customers and related parties at amortised cost in accordance with the ratings of Central Bank of Lebanon Circular 58 are as follows:

| | *2016* | | | |
|---|---|---|---|---|
| | *Gross balance LL million* | *Unrealised interest LL million* | *Impairment allowances LL million* | *Net balance LL million* |
| Regular | **6,970,892** | **-** | **-** | **6,970,892** |
| Follow up | **539,426** | **-** | **-** | **539,426** |
| Follow up and regularization | **197,356** | **-** | **-** | **197,356** |
| Substandard | **69,985** | **(5,757)** | **-** | **64,228** |
| Doubtful | **199,812** | **(24,801)** | **(80,995)** | **94,016** |
| Bad | **100,689** | **(23,406)** | **(77,283)** | **-** |
| | **8,078,160** | **(53,964)** | **(158,278)** | **7,865,918** |
| Collective impairment | **(78,643)** | **-** | **-** | **(78,643)** |
| | **7,999,517** | **(53,964)** | **(158,278)** | **7,787,275** |

| | *2015* | | | |
|---|---|---|---|---|
| | *Gross balance LL million* | *Unrealised interest LL million* | *Impairment allowances LL million* | *Net balance LL million* |
| Regular | 6,589,000 | - | - | 6,589,000 |
| Follow up | 534,207 | - | - | 534,207 |
| Follow up and regularization | 305,928 | - | - | 305,928 |
| Substandard | 6,380 | (840) | - | 5,540 |
| Doubtful | 181,388 | (13,226) | (71,748) | 96,414 |
| Bad | 178,595 | (66,605) | (111,990) | - |
| | 7,795,498 | (80,671) | (183,738) | 7,531,089 |
| Collective impairment | (131,448) | - | - | (131,448) |
| | 7,664,050 | (80,671) | (183,738) | 7,399,641 |

**50 RISK MANAGEMENT (continued)**

**50.2 CREDIT RISK (continued)**

**Renegotiated loans**

Restructuring activity aims to manage customer relationships, maximize collection opportunities and, if possible, avoid foreclosure or repossession. Such activities include extended payment arrangements, deferring foreclosure, modification, loan rewrites and/or deferral of payments pending a change in circumstances.

Restructuring policies and practices are based on indicators or criteria which, in the judgement of local management, indicate that repayment will probably continue. The application of these policies varies according to the nature of the market and the type of the facility.

| | ***2016*** *LL million* | *2015* *LL million* |
|---|---|---|
| Commercial loans | **31,517** | 78,445 |

**Analysis of risk concentration**

The Group's concentrations of risk are managed by client/counterparty, by geographical region and by industry sector. The maximum credit exposure to any client or counterparty as of 31 December 2016 was LL 121,630 million (2015: LL 128,850 million) before taking account of collateral or other credit enhancements and nil (2015: nil) net of such protection.

The following tables show the maximum exposure to credit risk for the components of the statement of financial position, including derivatives, by geography of counterparty before the effect of mitigation through the use of netting and collateral agreements.

*Geographic analysis*

| | ***2016*** | | | |
|---|---|---|---|---|
| | ***Lebanon*** ***LL million*** | ***Europe*** ***LL million*** | ***Others*** ***LL million*** | ***Total*** ***LL million*** |
| Balances with central banks | **8,304,723** | **70,120** | **158,824** | **8,533,667** |
| Due from banks and financial institutions | **63,684** | **913,078** | **1,680,667** | **2,657,429** |
| Loans to banks and financial institutions and reverse repurchase agreements | **780,495** | **48,103** | **135,468** | **964,066** |
| Financial assets given as collateral | **224,044** | **-** | **-** | **224,044** |
| Derivative financial instruments | **1,935** | **920** | **1,565** | **4,420** |
| *Financial assets at fair value through profit or loss:* | | | | |
| Lebanese treasury bills | **318,022** | **-** | **-** | **318,022** |
| Certificates of deposit issued by the Central Bank of Lebanon | **428,572** | **-** | **-** | **428,572** |
| Debt securities issued by banks and financial institutions | **-** | **787** | **1,726** | **2,513** |
| *Net loans and advances to customers at amortized cost* | | | | |
| Commercial loans | **4,339,119** | **184,356** | **550,852** | **5,074,327** |
| Consumer loans | **2,576,999** | **42,708** | **93,241** | **2,712,948** |
| Net loans and advances to related parties at amortized cost | **19,554** | **577** | **583** | **20,714** |
| Debtors by acceptances | **193,664** | **2,312** | **27,907** | **223,883** |
| *Financial assets at amortized cost:* | | | | |
| Lebanese treasury bills | **4,757,484** | **-** | **-** | **4,757,484** |
| Certificates of deposit issued by the Central Bank of Lebanon | **4,482,042** | **-** | **-** | **4,482,042** |
| Foreign governmental debt securities | **-** | **138,113** | **-** | **138,113** |
| Debt securities issued by banks and financial institutions | **-** | **5,477** | **-** | **5,477** |
| Corporate bonds | **-** | **635** | **-** | **635** |
| Certificates of deposit issued by banks and financial institutions | **33,228** | **-** | **-** | **33,228** |
| | **26,523,565** | **1,407,186** | **2,650,833** | **30,581,584** |

## 50 RISK MANAGEMENT (continued)

### 50.2 CREDIT RISK (continued)

**Analysis of risk concentration (continued)**

*Geographic analysis (continued)*

| | 2015 | | | |
|---|---|---|---|---|
| | *Lebanon LL million* | *Europe LL million* | *Others LL million* | *Total LL million* |
| Balances with central banks | 6,722,113 | 50,150 | 203,722 | 6,975,985 |
| Due from banks and financial institutions | 112,437 | 1,083,743 | 1,322,185 | 2,518,365 |
| Loans to banks and financial institutions and reverse repurchase agreements | 942,430 | 35,001 | 219,616 | 1,197,047 |
| Financial assets given as collateral | 1,405 | - | - | 1,405 |
| Derivative financial instruments | 1,140 | 342 | 362 | 1,844 |
| *Financial assets at fair value through profit or loss:* | | | | |
| Lebanese treasury bills | 227,004 | - | - | 227,004 |
| Certificates of deposit issued by the Central Bank of Lebanon | 27,714 | - | - | 27,714 |
| Debt securities issued by banks and financial institutions | - | 757 | 1,683 | 2,440 |
| Corporate bonds | - | - | 3,018 | 3,018 |
| *Net loans and advances to customers at amortized cost* | | | | |
| Commercial loans | 4,020,708 | 134,142 | 745,869 | 4,900,719 |
| Consumer loans | 2,361,369 | 42,842 | 94,711 | 2,498,922 |
| Net loans and advances to related parties at amortized cost | 33,981 | 291 | 1,003 | 35,275 |
| Debtors by acceptances | 203,734 | 9,944 | 31,027 | 244,705 |
| *Financial assets at amortized cost:* | | | | |
| Lebanese treasury bills | 5,852,407 | - | - | 5,852,407 |
| Certificates of deposit issued by the Central Bank of Lebanon | 4,274,429 | - | - | 4,274,429 |
| Foreign governmental debt securities | - | 92,581 | 32,691 | 125,272 |
| Debt securities issued by banks and financial institutions | - | 73,096 | 152,119 | 225,215 |
| Corporate bonds | - | 907 | 5,097 | 6,004 |
| Certificates of deposit issued by banks and financial institutions | 33,187 | - | - | 33,187 |
| | 24,814,058 | 1,523,796 | 2,813,103 | 29,150,957 |

### 50.3 LIQUIDITY RISK AND FUNDING MANAGEMENT

Liquidity risk is the risk that the Group, though solvent, either does not have sufficient financial resources available to enable it to meet its obligations when they fall due, or can secure them only at an excessive cost. The Group's policy with regards to the liquidity risk management is centered on a conservative approach, whereby the liquidity is managed strongly in normal times and adequate liquidity buffers are maintained, in a way that enables the Group to withstand a prolonged period of liquidity stress.

Net immediate cash and near cash in foreign currencies are held at sight in prime international banks to keep the Net Immediate Liquidity above the defined tolerance level by the Board of Directors, at all times.

In September 2015, the Group has updated its Liquidity Risk Policy to include Liquidity Standards such as the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR), based on Basel III and own conservative assumptions. The LCR is kept well above the established internal minimum, ensuring that the Group maintains High Quality Liquid Assets (HQLAs), both in local and foreign currencies, which allow the Group to cover more than 100% of a potentially stressed net outflow in a liquidity crisis based on severe internal estimates and haircuts. The NSFR is designed to ensure that long term assets are funded with at least a minimum amount of stable resources in relation to their liquidity characteristics.

Moreover, the policy defined a set of Early Warning Indicators (EWIs) along with other liquidity ratios and monitoring tools that are continuously screened by Senior Management and the Board of Directors.

## 50 RISK MANAGEMENT (continued)

### 50.3 LIQUIDITY RISK AND FUNDING MANAGEMENT (continued)

The Group stresses the importance of customer deposits as source of funds to finance its lending activities. This is monitored by using the loans to deposits ratio, which compare loans and advances to customers as a percentage of deposits from customers.

**Loans to deposits**

| | *2016* | *2015* |
|---|---|---|
| Year-end | **30.29%** | 29.64% |
| Maximum | **30.29%** | 29.92% |
| Minimum | **29.19%** | 29.26% |
| Average | **29.69%** | 29.52% |

*Analysis of financial assets and liabilities by remaining contractual maturities*

The table below summarizes the maturity profile of the Group's financial assets and liabilities at 31 December 2016 and 2015 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay. The table does not reflect the expected cash flows that are in line with the Group's deposit retention history.

| | *2016* | | | | | |
|---|---|---|---|---|---|---|
| | *Up to 1 month LL million* | *1 to 3 months LL million* | *3 months to 1 year LL million* | *1 to 5 years LL million* | *Over 5 years LL million* | *Total LL million* |
| **Financial assets** | | | | | | |
| Cash and balances with central banks | 1,551,462 | 544,930 | 1,173,883 | 3,702,866 | 4,954,806 | 11,927,947 |
| Due from banks and financial institutions | 2,048,400 | 521,382 | 80,257 | 9,596 | 203 | 2,659,838 |
| Loans to banks and financial institutions and reverse repurchase agreements | 796,338 | 54,350 | 97,578 | 17,995 | - | 966,261 |
| Financial assets given as collateral | - | - | 17,392 | 64,161 | 236,652 | 318,205 |
| Derivative financial instruments | 2,859 | 369 | 1,192 | - | - | 4,420 |
| Financial assets at fair value through profit or loss | 74,447 | 178,433 | 215,023 | 306,310 | 54,253 | 828,466 |
| Net loans and advances to customers at amortized cost | 3,223,783 | 456,343 | 1,154,824 | 2,156,188 | 1,744,180 | 8,735,318 |
| Net loans and advances to related parties at amortized cost | 11,534 | 627 | 923 | 1,530 | 7,368 | 21,982 |
| Debtors by acceptances | 60,943 | 87,316 | 63,108 | 12,516 | - | 223,883 |
| Financial assets at amortized cost | 123,661 | 560,066 | 1,162,488 | 5,197,240 | 5,196,700 | 12,240,155 |
| Financial assets at fair value through other comprehensive income | - | - | - | - | 101,305 | 101,305 |
| **Total undiscounted financial assets** | 7,893,427 | 2,403,816 | 3,966,668 | 11,468,402 | 12,295,467 | 38,027,780 |
| **Financial liabilities** | | | | | | |
| Due to central banks | 4,173 | 2,817 | 17,343 | 110,460 | 245,631 | 380,424 |
| Due to banks and financial institutions | 341,787 | 76,087 | 181,465 | 139,956 | 72,775 | 812,070 |
| Derivative financial instruments | 1,606 | 69 | 431 | - | - | 2,106 |
| Customers' deposits at amortized cost | 13,976,802 | 3,232,429 | 5,188,030 | 3,251,312 | 454,281 | 26,102,854 |
| Deposits from related parties at amortized cost | 138,818 | 6,347 | 216,932 | 32,589 | 8,416 | 403,102 |
| Debt issued and other borrowed funds | - | - | 31,658 | 554,257 | - | 585,915 |
| Engagements by acceptances | 60,943 | 87,316 | 63,108 | 12,516 | - | 223,883 |
| Subordinated debt | - | 7,257 | 21,371 | 115,003 | 447,308 | 590,939 |
| **Total undiscounted financial liabilities** | 14,524,129 | 3,412,322 | 5,720,338 | 4,216,093 | 1,228,411 | 29,101,293 |
| **Net undiscounted financial assets / (liabilities)** | (6,630,702) | (1,008,506) | (1,753,670) | 7,252,309 | 11,067,056 | 8,926,487 |

## 50 RISK MANAGEMENT (continued)

### 50.3 LIQUIDITY RISK AND FUNDING MANAGEMENT (continued)

*Analysis of financial assets and liabilities by remaining contractual maturities (continued)*

| | 2015 | | | | | |
|---|---|---|---|---|---|---|
| | *Up to 1 month LL million* | *1 to 3 months LL million* | *3 months to 1 year LL million* | *1 to 5 years LL million* | *Over 5 years LL million* | *Total LL million* |
| Financial assets | | | | | | |
| Cash and balances with central banks | 1,817,126 | 305,626 | 1,018,598 | 2,638,117 | 3,364,411 | 9,143,878 |
| Due from banks and financial institutions | 2,212,285 | 198,783 | 99,400 | 8,247 | 203 | 2,518,918 |
| Loans to banks and financial institutions and reverse repurchase agreements | 569,080 | 94,147 | 531,673 | 11,240 | - | 1,206,140 |
| Financial assets given as collateral | - | - | 18 | 1,387 | - | 1,405 |
| Derivative financial instruments | 771 | 937 | 136 | - | - | 1,844 |
| Financial assets at fair value through profit or loss | 1,021 | 3,054 | 13,125 | 126,457 | 302,812 | 446,469 |
| Net loans and advances to customers at amortized cost | 3,195,437 | 496,741 | 1,225,752 | 1,871,122 | 1,369,959 | 8,159,011 |
| Net loans and advances to related parties at amortized cost | 19,682 | 1,403 | 6,370 | 1,678 | 7,418 | 36,551 |
| Debtors by acceptances | 94,542 | 74,217 | 75,946 | - | - | 244,705 |
| Financial assets at amortized cost | 178,996 | 217,533 | 1,443,336 | 6,561,231 | 5,267,321 | 13,668,417 |
| Financial assets at fair value through other comprehensive income | - | - | - | - | 101,907 | 101,907 |
| Total undiscounted financial assets | 8,088,940 | 1,392,441 | 4,414,354 | 11,219,479 | 10,414,031 | 35,529,245 |
| Financial liabilities | | | | | | |
| Due to central banks | 12,301 | 1,422 | 10,212 | 59,798 | 38,307 | 122,040 |
| Due to banks and financial institutions | 357,936 | 67,758 | 103,357 | 162,494 | 96,352 | 787,897 |
| Derivative financial instruments | 1,220 | 1,143 | 82 | - | - | 2,445 |
| Customers' deposits at amortized cost | 14,040,264 | 3,075,092 | 4,831,504 | 3,023,720 | 292,080 | 25,262,660 |
| Deposits from related parties at amortized cost | 288,210 | 19,208 | 100,932 | 42,224 | 5,152 | 455,726 |
| Debt issued and other borrowed funds | - | - | 31,658 | 126,630 | 460,412 | 618,700 |
| Engagements by acceptances | 94,542 | 74,217 | 75,946 | - | - | 244,705 |
| Subordinated debt | - | 7,421 | 21,453 | 114,921 | 498,395 | 642,190 |
| Total undiscounted financial liabilities | 14,794,473 | 3,246,261 | 5,175,144 | 3,529,787 | 1,390,698 | 28,136,363 |
| Net undiscounted financial assets / (liabilities) | (6,705,533) | (1,853,820) | (760,790) | 7,689,692 | 9,023,333 | 7,392,882 |

The table below shows the contractual expiry by maturity of the Group's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down.

| | 2016 | | | | | |
|---|---|---|---|---|---|---|
| | ***Less than 1 month LL million*** | ***1 to 3 months LL million*** | ***3 to 12 months LL million*** | ***1 to 5 years LL million*** | ***More than 5 years LL million*** | ***Total LL million*** |
| Financial guarantees | - | **68** | **114,711** | **103,093** | **62** | **217,934** |
| Documentary credits | **20,212** | **166,831** | **145,585** | **13,054** | - | **345,682** |
| Commitments to lend | **2,979,622** | - | - | - | - | **2,979,622** |
| | **2,999,834** | **166,899** | **260,296** | **116,147** | **62** | **3,543,238** |

| | 2015 | | | | | |
|---|---|---|---|---|---|---|
| | *Less than 1 month LL million* | *1 to 3 months LL million* | *3 to 12 months LL million* | *1 to 5 years LL million* | *More than 5 years LL million* | *Total LL million* |
| Financial guarantees | 824 | - | 109,205 | 95,874 | 63 | 205,966 |
| Documentary credits | 11,827 | 190,458 | 163,336 | 23,034 | - | 388,655 |
| Commitments to lend | 2,355,807 | - | - | - | - | 2,355,807 |
| | 2,368,458 | 190,458 | 272,541 | 118,908 | 63 | 2,950,428 |

The Group expects that not all of the contingent liabilities or commitments will be demanded before maturity.

**50 RISK MANAGEMENT (continued)**

**50.4 MARKET RISK**

Market risk is defined as the potential loss in both on balance sheet and off-balance sheet positions resulting from movements in market variables such as interest rates, foreign exchange rates and equity prices.

The market risk governance has been defined in the Security Investment Policy, which defines the roles and responsibilities of the key stakeholders of market risk management, including the Board, the ALCO committee, the business lines and risk functions.

It is the responsibility of the ALCO to manage the Group's investment portfolio under the terms of the Security Investment Policy. While striving to maximize portfolio performance, the ALCO shall keep the management of the portfolio within the bounds of good banking practices, satisfy the Group's liquidity needs, and ensure compliance with both regulatory and internally set limits and requirements.

The Group Risk Management division sets the framework necessary for identification, measurement and management of market risk.

**Interest rate risk**
Interest rate risk arises from the possibility that changes in interest rates will affect the fair values of the financial instruments. The Group is exposed to interest rate risk as a result of mismatches of interest rate re-pricing of assets and liabilities. The Group manages the risk by matching the re-pricing of assets and liabilities through risk management strategies. Positions are monitored on a daily basis by management and, whenever possible, hedging strategies are used to ensure positions are maintained within established limits. The Group measures interest rate risk through applying varying scenarios of increase and decrease of market interest rates and assessing their impact on net interest income (Earnings' perspective) and capital (Economic Value perspective). In 2015, the Bank has revised the interest rate risk policy to set new internal gap limits for local currency and foreign currencies. The Group has prudentially set an internal Pillar 2 capital charge against interest rate risk.

*Interest rate sensitivity*
The following table shows the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's income statement.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the profit or loss for a year, based on the floating rate financial assets and financial liabilities and to the reinvestment or refunding of fixed rated financial assets and liabilities at the assumed rates. The change in interest income is calculated over a 1-year period. The impact also incorporates the fact that some monetary items do not immediately respond to changes in interest rates and are not passed through in full, reflecting sticky interest rate behaviour. The pass-through rate and lag in response time are estimated based on historical statistical analysis and are reflected in the outcome.

| | | ***2016*** | *2015* |
|---|---|---|---|
| *Currency* | *Increase in basis points* | ***Effect on net interest income LL million*** | *Effect on net interest income LL million* |
| LBP | 50 basis point | **(20,705)** | (22,793) |
| US Dollar | 50 basis point | **1,165** | 1,326 |
| Euro | 50 basis point | **(1,170)** | (516) |

## 50 RISK MANAGEMENT (continued)

### 50.4 MARKET RISK (continued)

**Interest rate risk (continued)**

*Interest rate sensitivity (continued)*

The Group's interest sensitivity position based on the contractual re-pricing date at 31 December was as follows:

| | 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | *Up to 1 month LL million* | *1 to 3 months LL million* | *3 months to 1 year LL million* | *1 to 5 years LL million* | *Over 5 years LL million* | *Non interest bearing items LL million* | *Total LL million* |
| **ASSETS** | | | | | | | |
| Cash and balances with central banks | 538,665 | 527,625 | 829,125 | 2,304,412 | 3,546,722 | 1,036,543 | 8,783,092 |
| Due from banks and financial institutions | 1,258,325 | 519,850 | 79,746 | 9,915 | 203 | 789,390 | 2,657,429 |
| Loans to banks and financial institutions and reverse repurchase agreements | 795,622 | 54,237 | 95,962 | 17,696 | - | 549 | 964,066 |
| Financial assets given as collateral | - | - | - | 1,387 | 221,000 | 1,657 | 224,044 |
| Derivative financial instruments | - | - | - | - | - | 4,420 | 4,420 |
| Financial assets at fair value through profit or loss | - | - | - | - | - | 789,172 | 789,172 |
| Net loans and advances to customers at amortized cost | 3,212,058 | 694,235 | 2,277,152 | 1,174,183 | 246,275 | 183,372 | 7,787,275 |
| Net loans and advances to related parties at amortized cost | 11,807 | 1,277 | 2,378 | 361 | 4,891 | - | 20,714 |
| Debtors by acceptances | - | - | - | - | - | 223,883 | 223,883 |
| Financial assets at amortized cost | 79,781 | 412,023 | 741,296 | 3,539,152 | 4,509,203 | 135,524 | 9,416,979 |
| Financial assets at fair value through other comprehensive income | - | - | - | - | - | 101,305 | 101,305 |
| Total | 5,896,258 | 2,209,247 | 4,025,659 | 7,047,106 | 8,528,294 | 3,265,815 | 30,972,379 |
| **LIABILITIES** | | | | | | | |
| Due to central banks | 681 | 2,816 | 12,626 | 86,148 | 226,633 | 4,067 | 332,971 |
| Due to banks and financial institutions | 258,830 | 73,379 | 132,771 | 119,584 | 66,472 | 123,059 | 774,095 |
| Derivative financial instruments | - | - | - | - | - | 2,106 | 2,106 |
| Customers' deposits at amortized cost | 11,262,765 | 3,136,856 | 4,808,987 | 3,158,236 | 376,972 | 2,671,818 | 25,415,634 |
| Deposits from related parties at amortized cost | 104,927 | 8,582 | 217,435 | 13,712 | 1,018 | 20,353 | 366,027 |
| Debt issued and other borrowed funds | - | - | - | 443,456 | - | 616 | 444,072 |
| Engagements by acceptances | - | - | - | - | - | 223,883 | 223,883 |
| Subordinated debt | - | - | - | - | 420,001 | 164 | 420,165 |
| Total | 11,627,203 | 3,221,633 | 5,171,819 | 3,821,136 | 1,091,096 | 3,046,066 | 27,978,953 |
| Total interest sensitivity gap | (5,730,945) | (1,012,386) | (1,146,160) | 3,225,970 | 7,437,198 | 219,749 | 2,993,426 |

**50 RISK MANAGEMENT (continued)**

**50.4 MARKET RISK (continued)**

**Interest rate risk (continued)**

*Interest rate sensitivity (continued)*

| | 2015 | | | | | | |
|---|---|---|---|---|---|---|---|
| | *Up to 1 month LL million* | *1 to 3 months LL million* | *3 months to 1 year LL million* | *1 to 5 years LL million* | *Over 5 years LL million* | *Non interest bearing items LL million* | *Total LL million* |
| ASSETS | | | | | | | |
| Cash and balances with central banks | 593,939 | 278,888 | 759,431 | 1,732,125 | 2,607,941 | 1,263,913 | 7,236,237 |
| Due from banks and financial institutions | 1,426,515 | 198,624 | 98,799 | 8,247 | 203 | 785,977 | 2,518,365 |
| Loans to banks and financial institutions and reverse repurchase agreements | 564,883 | 93,613 | 523,453 | 10,221 | - | 4,877 | 1,197,047 |
| Financial assets given as collateral | - | - | 1,387 | - | - | 18 | 1,405 |
| Derivative financial instruments | - | - | - | - | - | 1,844 | 1,844 |
| Financial assets at fair value through profit or loss | - | - | - | - | - | 295,845 | 295,845 |
| Net loans and advances to customers at amortized cost | 3,209,766 | 714,202 | 2,230,013 | 1,001,021 | 193,876 | 50,763 | 7,399,641 |
| Net loans and advances to related parties at amortized cost | 19,660 | 1,346 | 6,088 | 1,272 | 6,801 | 108 | 35,275 |
| Debtors by acceptances | - | - | - | - | - | 244,705 | 244,705 |
| Financial assets at amortized cost | 134,494 | 134,765 | 996,733 | 4,740,067 | 4,352,685 | 157,770 | 10,516,514 |
| Financial assets at fair value through other comprehensive income | - | - | - | - | - | 101,907 | 101,907 |
| Total | 5,949,257 | 1,421,438 | 4,615,904 | 7,492,953 | 7,161,506 | 2,907,727 | 29,548,785 |
| LIABILITIES | | | | | | | |
| Due to central banks | 481 | 1,422 | 9,115 | 57,048 | 37,446 | 11,900 | 117,412 |
| Due to banks and financial institutions | 221,929 | 66,264 | 111,731 | 138,667 | 88,243 | 117,720 | 744,554 |
| Derivative financial instruments | - | - | - | - | - | 2,445 | 2,445 |
| Customers' deposits at amortized cost | 11,167,392 | 2,997,348 | 4,651,259 | 2,696,558 | 248,893 | 2,892,948 | 24,654,398 |
| Deposits from related parties at amortized cost | 257,194 | 17,623 | 93,725 | 25,548 | 890 | 30,769 | 425,749 |
| Debt issued and other borrowed funds | - | - | - | - | 444,583 | 616 | 445,199 |
| Engagements by acceptances | - | - | - | - | - | 244,705 | 244,705 |
| Subordinated debt | - | - | - | - | 417,237 | 163 | 417,400 |
| Total | 11,646,996 | 3,082,657 | 4,865,830 | 2,917,821 | 1,237,292 | 3,301,266 | 27,051,862 |
| Total interest sensitivity gap | (5,697,739) | (1,661,219) | (249,926) | 4,575,132 | 5,924,214 | (393,539) | 2,496,923 |

**Currency risk**

Foreign exchange (or currency) risk is the risk that the value of a portfolio will fall as a result of changes in foreign exchange rates. The major sources of this type of market risk are imperfect correlations in the movements of currency prices and fluctuations in interest rates. Therefore, exchange rates and relevant interest rates are acknowledged as distinct risk factors.

In addition to regulatory limits, the Board has set limits on positions by currency. These positions are monitored constantly to ensure they are maintained within established limits.

**50 RISK MANAGEMENT (continued)**

**50.4 MARKET RISK (continued)**

**Currency risk (continued)**

Following is the consolidated statement of financial position as of 31 December 2016 detailed in Lebanese Lira (LL) and foreign currencies, translated into LL.

| | 2016 | | |
|---|---|---|---|
| | *LL million* | *Foreign currencies in LL million* | *Total LL million* |
| **ASSETS** | | | |
| Cash and balances with central banks | 2,621,537 | 6,161,555 | 8,783,092 |
| Due from banks and financial institutions | 33,547 | 2,623,882 | 2,657,429 |
| Loans to banks and financial institutions and reverse repurchase agreements | 301,530 | 662,536 | 964,066 |
| Financial assets given as collateral | 224,044 | - | 224,044 |
| Derivative financial instruments | 3,943 | 477 | 4,420 |
| Financial assets at fair value through profit or loss | 722,562 | 66,610 | 789,172 |
| Net loans and advances to customers at amortized cost | 2,071,913 | 5,715,362 | 7,787,275 |
| Net loans and advances to related parties at amortized cost | 2,189 | 18,525 | 20,714 |
| Debtors by acceptances | - | 223,883 | 223,883 |
| Financial assets at amortized cost | 5,183,758 | 4,233,221 | 9,416,979 |
| Financial assets at fair value through other comprehensive income | 31,470 | 69,835 | 101,305 |
| Property and equipment | 222,156 | 24,939 | 247,095 |
| Intangible assets | 380 | - | 380 |
| Assets obtained in settlement of debt | (8,393) | 51,692 | 43,299 |
| Other assets | 80,906 | 29,532 | 110,438 |
| **TOTAL ASSETS** | 11,491,542 | 19,882,049 | 31,373,591 |
| **LIABILITIES AND EQUITY** | | | |
| Due to central banks | 330,552 | 2,419 | 332,971 |
| Due to banks and financial institutions | 29,369 | 744,726 | 774,095 |
| Derivative financial instruments | 1,561 | 545 | 2,106 |
| Customers' deposits at amortized cost | 9,491,880 | 15,923,754 | 25,415,634 |
| Deposits from related parties at amortized cost | 72,248 | 293,779 | 366,027 |
| Debt issued and other borrowed funds | - | 444,072 | 444,072 |
| Engagement by acceptances | - | 223,883 | 223,883 |
| Other liabilities | 268,525 | 131,288 | 399,813 |
| Provisions for risks and charges | 262,139 | 13,251 | 275,390 |
| Subordinated debt | - | 420,165 | 420,165 |
| **TOTAL LIABILITIES** | 10,456,274 | 18,197,882 | 28,654,156 |
| **EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT** | | | |
| Share capital – common shares | 684,273 | - | 684,273 |
| Share capital – preferred shares | 4,840 | - | 4,840 |
| Share premium – common shares | - | 229,014 | 229,014 |
| Share premium – preferred shares | - | 591,083 | 591,083 |
| Non distributable reserves | 451,800 | 391,520 | 843,320 |
| Distributable reserves | 84,175 | 19,071 | 103,246 |
| Treasury shares | - | (5,161) | (5,161) |
| Retained earnings | 68,067 | (549) | 67,518 |
| Revaluation reserve of real estate | 5,689 | - | 5,689 |
| Change in fair value of financial assets at fair value through other comprehensive income | 21,027 | (30,108) | (9,081) |
| Net results of the financial period - profit | 42,408 | 190,264 | 232,672 |
| Foreign currency translation reserves | (65,341) | - | (65,341) |
| **NON-CONTROLLING INTERESTS** | 29,497 | 7,866 | 37,363 |
| **TOTAL EQUITY** | 1,326,435 | 1,393,000 | 2,719,435 |
| **TOTAL LIABILITIES AND EQUITY** | 11,782,709 | 19,590,882 | 31,373,591 |

**50 RISK MANAGEMENT (continued)**

**50.4 MARKET RISK (continued)**

**Currency risk (continued)**

Following is the consolidated statement of financial position as of 31 December 2015 detailed in Lebanese Lira (LL) and foreign currencies, translated into LL.

| | *2015* | | |
|---|---|---|---|
| | *LL million* | *Foreign currencies in LL million* | *Total LL million* |
| ASSETS | | | |
| Cash and balances with central banks | 1,606,601 | 5,629,636 | 7,236,237 |
| Due from banks and financial institutions | 39,443 | 2,478,922 | 2,518,365 |
| Loans to banks and financial institutions and reverse repurchase agreements | 2,333 | 1,194,714 | 1,197,047 |
| Financial assets given as collateral | 1,405 | - | 1,405 |
| Derivative financial instruments | 1,520 | 324 | 1,844 |
| Financial assets at fair value through profit or loss | 38,062 | 257,783 | 295,845 |
| Net loans and advances to customers at amortized cost | 1,815,180 | 5,584,461 | 7,399,641 |
| Net loans and advances to related parties at amortized cost | 2,220 | 33,055 | 35,275 |
| Debtors by acceptances | 100 | 244,605 | 244,705 |
| Financial assets at amortized cost | 7,317,616 | 3,198,898 | 10,516,514 |
| Financial assets at fair value through other comprehensive income | 28,891 | 73,016 | 101,907 |
| Property and equipment | 207,071 | 48,054 | 255,125 |
| Intangible assets | 493 | - | 493 |
| Assets obtained in settlement of debt | (9,248) | 51,254 | 42,006 |
| Other assets | 69,713 | 38,288 | 108,001 |
| TOTAL ASSETS | 11,121,400 | 18,833,010 | 29,954,410 |
| LIABILITIES AND EQUITY | | | |
| Due to central banks | 106,130 | 11,282 | 117,412 |
| Due to banks and financial institutions | 18,460 | 726,094 | 744,554 |
| Derivative financial instruments | 1,897 | 548 | 2,445 |
| Customers' deposits at amortized cost | 9,616,252 | 15,038,146 | 24,654,398 |
| Deposits from related parties at amortized cost | 101,929 | 323,820 | 425,749 |
| Debt issued and other borrowed funds | - | 445,199 | 445,199 |
| Engagement by acceptances | 100 | 244,605 | 244,705 |
| Other liabilities | 87,711 | 59,856 | 147,567 |
| Provisions for risks and charges | 144,945 | 26,593 | 171,538 |
| Subordinated debt | - | 417,400 | 417,400 |
| TOTAL LIABILITIES | 10,077,424 | 17,293,543 | 27,370,967 |
| EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT | | | |
| Share capital – common shares | 684,273 | - | 684,273 |
| Share capital – preferred shares | 4,840 | - | 4,840 |
| Share premium – common shares | - | 229,014 | 229,014 |
| Share premium – preferred shares | - | 591,083 | 591,083 |
| Non distributable reserves | 606,908 | 208,976 | 815,884 |
| Distributable reserves | 78,547 | 20,664 | 99,211 |
| Treasury shares | - | (6,807) | (6,807) |
| Retained earnings | 48,590 | 13,242 | 61,832 |
| Revaluation reserve of real estate | 5,689 | - | 5,689 |
| Change in fair value of financial assets at fair value through other comprehensive income | 18,863 | (26,824) | (7,961) |
| Net results of the financial period - profit | 210,125 | 18,060 | 228,185 |
| Foreign currency translation reserves | (193,842) | - | (193,842) |
| NON-CONTROLLING INTERESTS | 25,497 | 46,545 | 72,042 |
| TOTAL EQUITY | 1,489,490 | 1,093,953 | 2,583,443 |
| TOTAL LIABILITIES AND EQUITY | 11,566,914 | 18,387,496 | 29,954,410 |

**50 RISK MANAGEMENT (continued)**

**50.4 MARKET RISK (continued)**

**Currency risk (continued)**

*Group's sensitivity to currency exchange rates*
The table below shows the currencies to which the Group had significant exposure at 31 December on its monetary assets and liabilities and its forecasted cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Lebanese Lira, with all other variables held constant, on the income statement (due to the potential change in fair value of currency sensitive monetary assets and liabilities) and equity (due to the impact of currency translation gains/losses of consolidated subsidiaries). A negative amount reflects a potential net reduction in income while a positive amount reflects a net potential increase.

| | 2016 | | | 2015 | |
|---|---|---|---|---|---|
| *Currency* | *Change in currency rate %* | *Effect on profit before tax LL million* | *Effect on equity LL million* | *Effect on profit before tax LL million* | *Effect on equity LL million* |
| US Dollar | +1 | **191** | **-** | 671 | - |
| Euro | +1 | **(2)** | **1,261** | 37 | 1,285 |

**Equity price risk**
Equity price risk is the risk that the fair value of equities decreases as a result of changes in the level of equity indices and individual stocks. Equity price risk exposure arises from equity securities classified at fair value through profit or loss and at fair value through other comprehensive income. A 5 per cent increase in the value of the Group's equities at 31 December 2016 would have increased other comprehensive income by LL 2,219 million and net income by LL 2,003 million (2015: LL 2,412 million and LL 1,783 million respectively). An equivalent decrease would have resulted in an equivalent but opposite impact.

**Prepayment risk**
Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall.

Market risks that lead to prepayments are not material with respect to the markets where the Group operates. Accordingly, the Group considers prepayment risk on net profits as not material after considering any penalties arising from prepayments.

**50.5 OPERATIONAL RISK**

Operational risk is the risk of loss arising from inadequate or failed internal processes, people, systems, or from external events (including legal risks). When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial losses.

To reduce operational risk, the Group has developed an Operational Risk Management framework with the objective of ensuring that operational risks within the component of the framework is a set of core operational risk risk policies designed to ensure that operational risk has proper governance, and that it is maintained at an acceptable level with a controlled and sound operating environment. The operational risk publications and guidelines were placed on the Bank's intranet site for quick access and referrals. The critical operational risk issues were handled by a separate Operational Risk Committee which meetings are attended by business lines Senior Managers including the Chief Risk Officer and the General Manager.

## 50 RISK MANAGEMENT (continued)

### 50.5 OPERATIONAL RISK (continued)

The framework for managing and controlling operational risks encompass various tools including Risk and Control Assessment (RCA), operational risk event reporting and loss database management and key risk indicators (KRIs). The RCA is performed by each business and support unit to identify key operational risks and assess the degree of effectiveness of internal controls. Inadequate controls are subject to action plans that will help track and timely resolve deficiencies. This tool is subject to a proactive approach to minimize operational risk loss. This is reflected in the operational risk assessment of new products/activities/systems, protective information security and Business Continuity Planning, granular risk analysis for its operating/existing activities, and continuous awareness sessions.

Operational risk events are classified in accordance with Basel standards and include significant incidents that may impact the Group's profits and reputations for further mitigation and avoidance. As to key risk indicators, they are being established to facilitate the operational risk monitoring in a forward looking manner with pre-defined escalation triggers. The Group gives particular attention to preventive measures when it comes to operational risk management and has established continuing training and awareness programs to fulfill them.

The Group's operational risk mitigation program involves both business continuity management and insurance management program, whereby the former is set to oversee the business continuity of essential business service during unforeseen events mainly business disruption and system failures events - with enterprise wide impact – along with natural disasters and terrorism/ vandalism events. As to the latter the Group purchases group wide insurance policies to mitigate significant losses. These policies cover fraud, property damage and general liability, and Director's and officers' liability.

## 51 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

| | 2016 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | *Less than 12 months* | | | | *Over 12 months* | | | |
| *(Amounts in LL million)* | *Up to 1 month* | *1 to 3 months* | *3 months to 1 year* | *Total* | *1 to 5 years* | *Over 5 years* | *Total* | *Total* |
| **ASSETS** | | | | | | | | |
| Cash and balances with central banks | 1,547,936 | 539,302 | 876,281 | 2,963,519 | 2,304,412 | 3,515,161 | 5,819,573 | 8,783,092 |
| Due from banks and financial institutions | 2,047,873 | 520,466 | 79,291 | 2,647,630 | 9,596 | 203 | 9,799 | 2,657,429 |
| Loans to banks and financial institutions and reverse repurchase agreements | 796,152 | 54,194 | 96,024 | 946,370 | 17,696 | - | 17,696 | 964,066 |
| Financial assets given as collateral | - | - | 1,652 | 1,652 | 1,387 | 221,005 | 222,392 | 224,044 |
| Derivative financial instruments | 2,859 | 369 | 1,192 | 4,420 | - | - | - | 4,420 |
| Financial assets at fair value through profit or loss | 73,403 | 165,524 | 197,599 | 436,526 | 298,952 | 53,694 | 352,646 | 789,172 |
| Net loans and advances to customers at amortized cost | 3,200,519 | 411,629 | 993,245 | 4,605,393 | 1,714,221 | 1,467,661 | 3,181,882 | 7,787,275 |
| Net loans and advances to related parties at amortized cost | 11,530 | 602 | 811 | 12,943 | 1,054 | 6,717 | 7,771 | 20,714 |
| Debtors by acceptances | 60,943 | 87,316 | 63,108 | 211,367 | 12,516 | - | 12,516 | 223,883 |
| Financial assets at amortized cost | 95,255 | 458,038 | 735,323 | 1,288,616 | 3,603,202 | 4,525,161 | 8,128,363 | 9,416,979 |
| Financial assets at fair value through other comprehensive income | - | - | - | - | - | 101,305 | 101,305 | 101,305 |
| Property and equipment | - | - | - | - | - | 247,095 | 247,095 | 247,095 |
| Intangible assets | - | - | - | - | - | 380 | 380 | 380 |
| Assets obtained in settlement of debt | - | - | - | - | - | 43,299 | 43,299 | 43,299 |
| Other assets | 8,336 | - | 81,041 | 89,377 | - | 21,061 | 21,061 | 110,438 |
| **TOTAL ASSETS** | 7,844,806 | 2,237,440 | 3,125,567 | 13,207,813 | 7,963,036 | 10,202,74 | 18,165,77 | 31,373,59 |
| **LIABILITIES** | | | | | | | | |
| Due to central banks | 2,836 | 2,821 | 13,212 | 18,869 | 87,469 | 226,633 | 314,102 | 332,971 |
| Due to banks and financial institutions | 339,376 | 73,778 | 174,885 | 588,039 | 119,584 | 66,472 | 186,056 | 774,095 |
| Derivative financial instruments | 1,606 | 69 | 431 | 2,106 | - | - | - | 2,106 |
| Customers' deposits at amortized cost | 13,746,913 | 3,170,698 | 4,961,442 | 21,879,053 | 3,159,608 | 376,973 | 3,536,581 | 25,415,63 |
| Deposits from related parties at amortized cost | 138,461 | 5,031 | 207,806 | 351,298 | 13,712 | 1,017 | 14,729 | 366,027 |
| Debt issued and other borrowed funds | - | - | 616 | 616 | 443,456 | - | 443,456 | 444,072 |
| Engagements by acceptances | 60,943 | 87,316 | 63,108 | 211,367 | 12,516 | - | 12,516 | 223,883 |
| Other liabilities | 52,146 | 18,579 | 165,601 | 236,326 | 126,682 | 36,805 | 163,487 | 399,813 |
| Provisions for risks and charges | - | - | - | - | - | 275,390 | 275,390 | 275,390 |
| Subordinated debt | - | 163 | 408 | 571 | - | 419,594 | 419,594 | 420,165 |
| **TOTAL LIABILITIES** | 14,342,281 | 3,358,455 | 5,587,509 | 23,288,245 | 3,963,027 | 1,402,884 | 5,365,911 | 28,654,15 |
| Net | (6,497,475 | (1,121,015 | (2,461,942 | (10,080,432 | 4,000,009 | 8,799,858 | 12,799,86 | 2,719,435 |

## 51 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

| | 2015 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | *Less than 12 months* | | | | *Over 12 months* | | | |
| *(Amounts in LL million)* | *Up to 1 month* | *1 to 3 months* | *3 months to 1 year* | *Total* | *1 to 5 years* | *Over 5 years* | *Total* | *Total* |
| ASSETS | | | | | | | | |
| Cash and balances with central banks | 1,807,726 | 289,849 | 789,491 | 2,887,066 | 1,733,644 | 2,615,527 | 4,349,171 | 7,236,237 |
| Due from banks and financial institutions | 2,211,881 | 198,693 | 99,341 | 2,509,915 | 8,247 | 203 | 8,450 | 2,518,365 |
| Loans to banks and financial institutions and reverse repurchase agreements | 568,681 | 93,805 | 524,340 | 1,186,826 | 10,221 | - | 10,221 | 1,197,047 |
| Financial assets given as collateral | - | - | 18 | 18 | 1,387 | - | 1,387 | 1,405 |
| Derivative financial instruments | 771 | 937 | 136 | 1,844 | - | - | - | 1,844 |
| Financial assets at fair value through profit or loss | 903 | 2,092 | 1,519 | 4,514 | 63,174 | 228,157 | 291,331 | 295,845 |
| Net loans and advances to customers at amortized cost | 3,180,288 | 458,245 | 1,095,302 | 4,733,835 | 1,519,227 | 1,146,579 | 2,665,806 | 7,399,641 |
| Net loans and advances to related parties at amortized cost | 19,662 | 1,365 | 6,174 | 27,201 | 1,273 | 6,801 | 8,074 | 35,275 |
| Debtors by acceptances | 94,542 | 74,217 | 75,946 | 244,705 | - | - | - | 244,705 |
| Financial assets at amortized cost | 175,409 | 186,507 | 978,340 | 1,340,256 | 4,805,040 | 4,371,218 | 9,176,258 | 10,516,51 |
| Financial assets at fair value through other comprehensive income | - | - | - | - | - | 101,907 | 101,907 | 101,907 |
| Property and equipment | - | - | - | - | - | 255,125 | 255,125 | 255,125 |
| Intangible assets | - | - | - | - | - | 493 | 493 | 493 |
| Assets obtained in settlement of debt | - | - | - | - | - | 42,006 | 42,006 | 42,006 |
| Other assets | 23,164 | 176 | 65,663 | 89,003 | 11 | 18,987 | 18,998 | 108,001 |
| TOTAL ASSETS | 8,083,027 | 1,305,886 | 3,636,270 | 13,025,183 | 8,142,224 | 8,787,003 | 16,929,22 | 29,954,41 |
| LIABILITIES | | | | | | | | |
| Due to central banks | 12,300 | 1,422 | 9,195 | 22,917 | 57,048 | 37,447 | 94,495 | 117,412 |
| Due to banks and financial institutions | 337,011 | 67,118 | 113,515 | 517,644 | 138,667 | 88,243 | 226,910 | 744,554 |
| Derivative financial instruments | 1,220 | 1,143 | 82 | 2,445 | - | - | - | 2,445 |
| Customers' deposits at amortized cost | 14,011,945 | 3,022,276 | 4,655,746 | 21,689,967 | 2,714,026 | 250,405 | 2,964,431 | 24,654,39 |
| Deposits from related parties at amortized cost | 287,590 | 17,707 | 93,939 | 399,236 | 25,613 | 900 | 26,513 | 425,749 |
| Debt issued and other borrowed funds | - | - | 615 | 615 | - | 444,584 | 444,584 | 445,199 |
| Engagements by acceptances | 94,542 | 74,217 | 75,946 | 244,705 | - | - | - | 244,705 |
| Other liabilities | 57,155 | 1,479 | 66,136 | 124,770 | 18,263 | 4,534 | 22,797 | 147,567 |
| Provisions for risks and charges | - | - | - | - | - | 171,538 | 171,538 | 171,538 |
| Subordinated debt | - | 163 | - | 163 | - | 417,237 | 417,237 | 417,400 |
| TOTAL LIABILITIES | 14,801,763 | 3,185,525 | 5,015,174 | 23,002,462 | 2,953,617 | 1,414,888 | 4,368,505 | 27,370,96 |
| Net | (6,718,736 | (1,879,639 | (1,378,904 | (9,977,279 | 5,188,607 | 7,372,115 | 12,560,72 | 2,583,443 |

## 52 CAPITAL

By maintaining an actively managed capital base, the Group's objectives are to cover risks inherent in the business, to retain sufficient financial strength and flexibility to support new business growth, and to meet national and international regulatory capital requirements at all times. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Central Bank of Lebanon according to the provisions of Basic Circular No 44. These ratios measure capital adequacy by comparing the Group's eligible capital with its statement of financial position assets and off-balance sheet commitments at a weighted amount to reflect their relative risk.

During 2016, the Central Bank of Lebanon issued intermediary circular no. 436 by which it amended Basic Circular 44 related to the minimum Capital Adequacy Ratios (CAR). These ratios are set to increase gradually between December 2016 and December 2018 to reach 10.0%, 13.0% and 15.0% for Common Equity Tier 1 (CET1), Tier 1 and Total CAR respectively in 2018, including a capital conservation buffer of 4.5% in 2018. The following table shows the applicable regulatory capital ratios from end of 2015 to end of 2018:

| | **Common Tier 1 capital ratio** | **Tier 1 capital ratio** | **Total capital ratio** |
|---|---|---|---|
| Year ended 31 December 2015 (*) | 8.0% | 10.0% | 12.0% |
| Year ended 31 December 2016 (*) | 8.5% | 11.0% | 14.0% |
| Year ended 31 December 2017 (*) | 9.0% | 12.0% | 14.5% |
| Year ended 31 December 2018 (*) | 10.0% | 13.0% | 15.0% |

(*) Include Capital Conservation Buffer (CCB). This CCB, which will reach 4.5% of risk-weighted assets by end of 2018, must be met through Common Equity Tier 1 capital.

**52 CAPITAL (continued)**

**Risk weighted assets**

As of 31 December 2016 and 2015, risk weighted assets are as follows:

| | *2016* | *2015* |
|---|---|---|
| | *LL million* | *LL million* |
| **Risk weighted assets** | **16,269,178** | 15,522,429 |

**Regulatory capital**

At 31 December 2016 and 2015, regulatory capital consists of the following:

| | *Excluding profit for the year* | | *Including profit for the year less proposed dividends* | |
|---|---|---|---|---|
| | *2016* | *2015* | *2016* | *2015* |
| | *LL million* | *LL million* | *LL million* | *LL million* |
| Common Equity Tier 1 capital | **1,775,378** | 1,627,304 | **1,846,499** | 1,693,938 |
| Additional Tier 1 capital | **596,516** | 599,978 | **596,516** | 599,978 |
| Tier 2 capital | **615,089** | 465,603 | **615,089** | 465,603 |
| **Total capital** | **2,986,983** | 2,692,885 | **3,058,104** | 2,759,519 |

**Capital adequacy ratio**

As of 31 December 2016 and 2015, capital adequacy ratio is as follows:

| | *Excluding profit for the year* | | *Including profit for the year less proposed dividends* | |
|---|---|---|---|---|
| | *2016* | *2015* | *2016* | *2015* |
| Common Equity Tier 1 capital ratio | **10.91%** | 10.48% | **11.35%** | 10.91% |
| Total Tier 1 capital ratio | **14.58%** | 14.35% | **15.02%** | 14.78% |
| Total capital ratio | **18.36%** | 17.35% | **18.80%** | 17.78% |

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years, however, they are under constant scrutiny of the Board.

## 53 DIVIDENDS PAID AND PROPOSED

| | *2016* *LL million* | *2015* *LL million* |
|---|---|---|
| *Dividends paid during the year* | | |
| Equity dividends on ordinary shares LL 200 per share | **113,103** | 113,103 |
| Distributions to preferred shares – 2008 series US$ 8.00 per share | **24,224** | 24,224 |
| Distributions to preferred shares – 2009 series: US$ 8.00 per share | **24,224** | 24,224 |
| | **161,551** | 161,551 |
| Less: dividends on treasury shares | **(491)** | (448) |
| | **161,060** | 161,103 |
| *Proposed for approval at Annual General Assembly (not recognized as a liability as at 31 December)* | | |
| Equity dividends on ordinary shares LL 200 per share | **113,103** | 113,103 |
| Distributions to preferred shares – 2008 series US$ 8.00 per share | **24,224** | 24,224 |
| Distributions to preferred shares – 2009 series: US$ 8.00 per share | **24,224** | 24,224 |
| | **161,551** | 161,551 |

## 54 COMPARATIVE INFORMATION

Certain deposits to related parties have been reclassified from "Customers' deposits at amortized cost" to "Deposits from related parties at amortized cost" in the consolidated statement of financial position. Comparative amounts of LL 4,033 million have been reclassified accordingly.