LGB BANK

بنك لبنان والخليج ش.م.ل.

ANNUAL REPORT 2016

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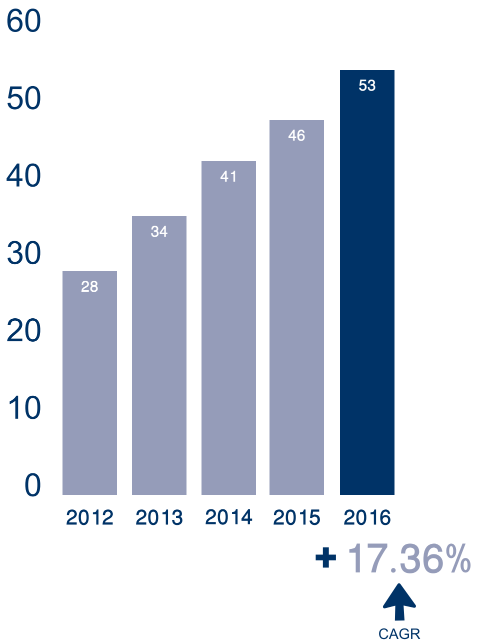
FINANCIAL HIGHLIGHTS

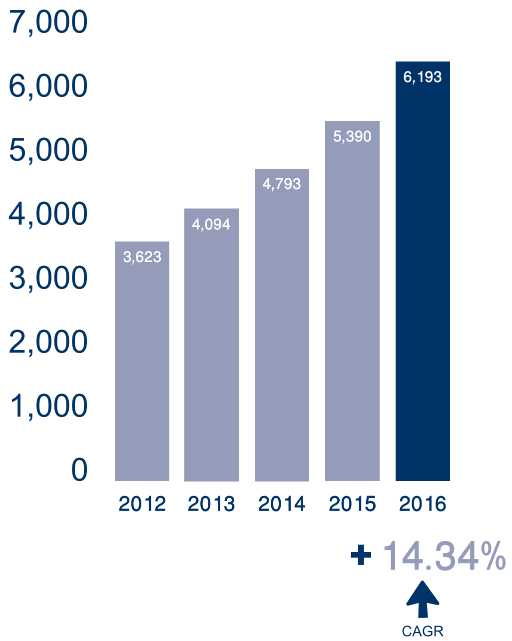
In millions of LBP				As at December 31
	2016	2015	2014	2013	2012

	2016	2015	2014	2013	2012
Balance Sheet					
Total Assets	6,192,588	5,389,716	4,793,244	4,093,660	3,622,979
Customers' Deposits	5,367,228	4,684,857	4,225,906	3,564,320	3,242,413
Loans & Advances	2,171,898	2,086,028	1,923,909	1,596,134	1,371,187
Equity	527,923	482,585	412,122	368,647	286,102
Financial Results					
Net Operating Income	114,968	102,105	95,284	81,274	67,874
Net Interest Income	77,222	73,918	67,380	63,766	44,751
Net Non-interest Income	48,306	35,882	33,265	31,383	27,758
Net Income	53,425	46,218	40,849	34,125	28,158

Net Income
In billions of LBP

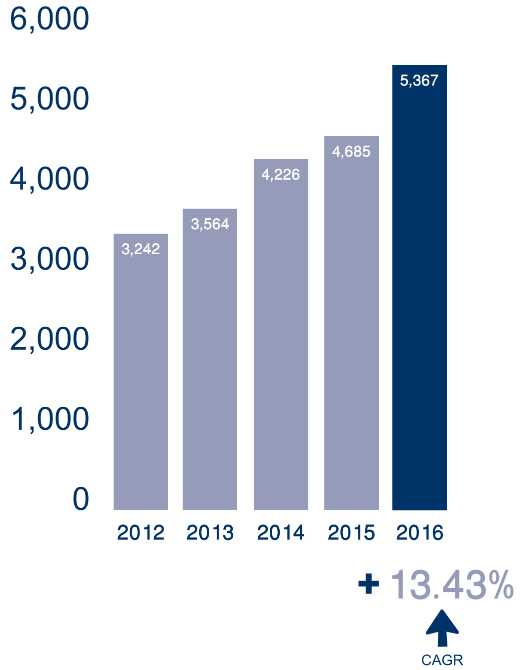


Total Assets
In billions of LBP

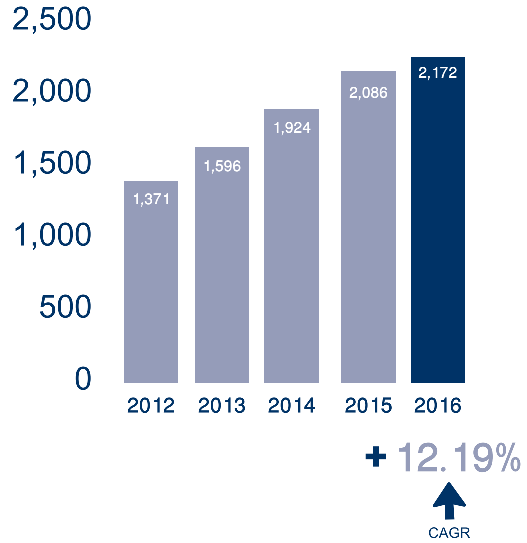


CAGR: Compounded Annual Growth Rate

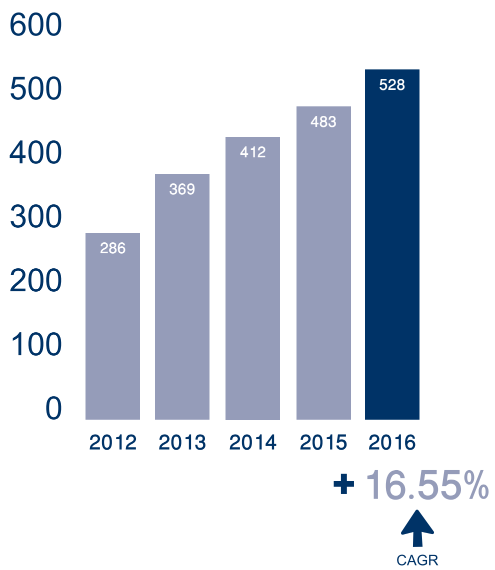
Total Customers' Deposits
In billions of LBP



Total Loans & Advances
In billions of LBP



Total Equity
In billions of LBP



CHAIRMAN AND VICE CHAIRMAN'S LETTER

Dear Valued Stakeholders,

2016 was a remarkable year for LGB BANK on all major fronts. The Bank achieved the second largest percentage growth in deposits among competing alpha banks, attracting a diverse group of new depositors both locally and regionally. LGB BANK achieved this target through adopting a successful expansion policy and a well-defined strategic approach. Despite the challenging economic environment, LGB BANK's dedicated team of professionals exerted every effort to achieve the targeted objectives, further embarking on a new milestone in the success of the Bank's growth strategy.

In terms of financial highlights, the Bank's sound performance during 2016 was reflected through its strong financial results. The Bank's profitability increased by 15.6% reaching LBP 53 Billion in 2016, up from LBP 46 Billion in 2015. Furthermore Total Assets increased to LBP 6,192 Billion, which is equivalent to a 14.9% growth rate. This enhancement in Total Assets was mainly due to a significant 14.6% growth in customer deposits which reached 5,367 Billion in 2016. Lending activity improved, as the loan portfolio reached LBP 2,172 Billion, which corresponds to a growth of 4.1%. Additionally, and in accordance with its strategy of enhancing equity, LGB BANK retained all earnings resulting in an increase in shareholder's equity to LBP 528 Billion, a growth of 9.3% from 2015.

In terms of capitalization, LGB BANK ensures that its capital position remains well-above regulatory requirements at all times, whereby the Bank's regulatory capital reached LBP 460 Billion, leading to a capital adequacy ratio of 14.28% as of 31st, December 2016.

As for our competitive position, LGB BANK strives, through its expansion strategy, to enhance its competitive advantage within the Lebanese banking sector through offering both "Out of the box" and "Tailored" banking products to a wide range of diverse customer base. Pricing of banking products is conducted through a thorough analysis, and on the basis of optimal mix between the Bank's cost structure as well as customer affordability.

LGB BANK's sound financial standing and remarkable performance was attained while maintaining a conservative risk approach. The Bank is fully aware that an appropriate balance is required to be maintained at all times between risk and reward. This implies that an effective and holistic risk management function remains to be one of the Bank's strategic priorities. The Bank's high level of liquidity, strong capitalization, and adequate loan loss coverage ratio provide the required evidence that LGB BANK views a sound risk profile of central importance. High asset quality also remains as a top management priority, whereby a range of strict lending standards are adopted in building the Bank's credit portfolio. With the prospective implementation of IFRS 9 as at beginning 2018, LGB BANK is proactively preparing for any additional provisioning requirements in this regard.

In efforts to further protect the best interests of all LGB BANK stakeholders, the Bank is further committed to implement the best corporate governance practices, and to continue enforcing Compliance and Anti-Money Laundering requirements. The Bank strives to comply with both international and local laws and regulations in this aspect.

The expansion strategy adopted by the Bank has resulted in a network of 18 branches across Lebanon, 1 Branch in Larnaca and 1 Representative office in Dubai, whereby the Bank also aims to enhance its position in the region and remains keen on identifying expansion opportunities in new lucrative markets, especially in the GCC region. The Bank is also aware that a sound expansion policy requires a solid relationship and partnership with correspondent banks operating both regionally and internationally.

In conformity with providing an exceptional customer experience, LGB BANK is furthermore enhancing its IT security infrastructure through implementing different layering from next generation firewalls to protect the Bank against external and internal threats, and attack techniques targeting its systems including online and mobile banking.

With the aim of providing customers with a complete range of banking solutions, LGB BANK established during 2016 a dedicated Private Banking Department, through offering tailored financial products and solutions to high net worth customers that caters to their business needs.

In 2016, LGB BANK also attracted recognition from major renowned institutions. Most importantly, the Bank was awarded the "Retail Bank of the Year" by MEFTECH, the "Best Financial Transformation" at the Banker Middle East–CPI Financial Industry Award 2016 and "Best Credit Card" and "Best Co-Branded Credit Card" for the publication's Product Awards 2016.

Corporate Social Responsibility remains in the core of LGB BANK's fundamentals, whereby the Bank puts every effort to support its community. Throughout 2016, the Bank was involved in supporting several civil societies and empowerment projects.

Looking forward, LGB BANK is both confident and enthusiastic that the Bank's future is even more promising as long as well-defined growth and innovation strategies are implemented. This pursuit is only attainable with the full support and trust of our dedicated team of professionals, loyal customers, and Board of Directors, while the final word carries our sincerest appreciation and gratitude, for they have secured LGB BANK's greatest accomplishment throughout the years.

Abdul Hafiz M. Itani
Chairman-General Manager

Samer A.H Itani
Vice Chairman- Chief Executive Officer

OUR BANK

■ Historical Foundation

With more than 50 years of banking tradition, trust and excellence in customer service, LGB BANK stands today as one of Lebanon's deeply rooted banks.

Established in 1963 under the name of Banque de Credit Agricole s.a.l., LGB BANK adopted its current name and shareholders form in 1980 when a group of businessmen (led by the current Chairman) acquired the majority of its shares. The Bank currently operates from its head office which is located in Beirut Central District, and is backed by a powerful network of 18 branches spread across the country, along with a branch in Cyprus since 1986, and a Representative Office in Dubai, UAE.

As one of the most evolving and vibrant institutions in the country today, LGB BANK is committed to a regular systematic expansion strategy. By early 2012, the Bank had embarked on a new branding effort which, aligned with its business strategy, promised to propel it to new heights. In 2013, this strategy has transformed into an enhancement of LGB BANK's operational and information technology infrastructure, a substantial growth in profits and deposits, and most importantly into a concentrated modernization and development of the human capital. 2014 also marked major changes in the Bank's new identity which aimed at reflecting its core values and attributes in terms of quality and professionalism. The latter has affected LGB BANK's corporate image, achievements and premises, amongst others. The Bank's expansion strategy runs simultaneously in Lebanon and the Middle East, as LGB BANK is continuously tapping into potential prospective markets.

With its dedication and clear vision, LGB BANK continues to build strong relationships with its clients through a personalized approach coupled with sophisticated services and innovative products that match the customers' financial aspirations. Accordingly, in 2015 and 2016, LGB BANK received numerous awards and recognitions from prestigious international institutions to include Excellence in E-banking and Mobile Banking award, Retail Bank of the Year, Best Financial Transformation, as well as Best Credit Card and Best Co-Branded Credit Card.

■ Vision

Based on its ongoing pursuit of excellence and optimized customer satisfaction, LGB BANK aims to become the bank of choice for Lebanese and regional customers. Through a consolidated and growing network of branches and affiliates, we aim to establish lasting relationships with our customers and continuously improve our performance to gradually become a cornerstone in the banking industry.

■ Mission

At LGB BANK, we thrive to provide our customers with best in line products and services that meet their evolving short and long term needs. Our mission is to establish trustful and personalized relations with each and every one of our clients; while giving them access to a team of reliable professionals, who are committed to a high quality financial performance. We value excellence over quantity and settle for nothing less than outstanding results that surpass our clients' expectations.

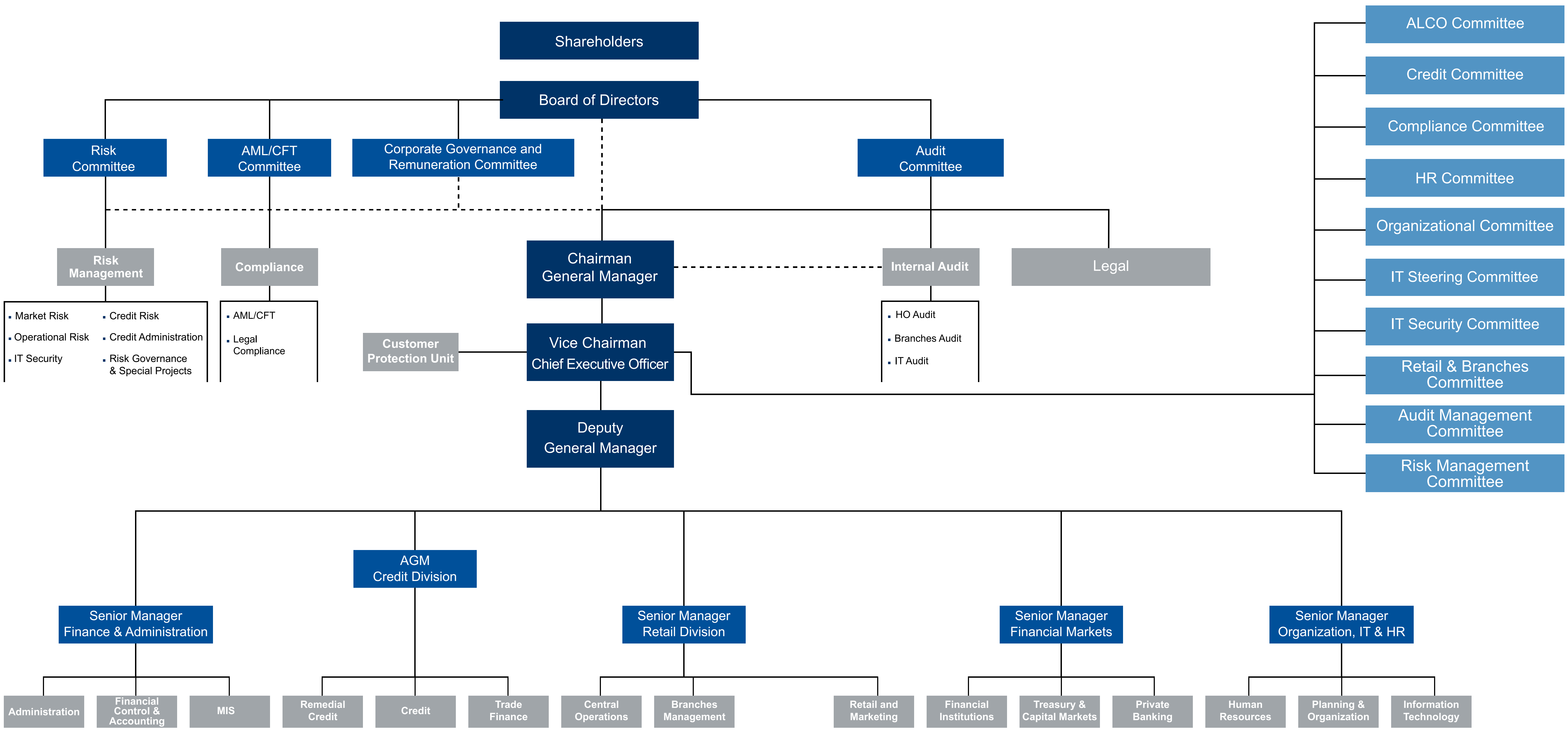
■ Values

Legacy
From one generation to another, the Bank has cumulated a valuable experience thus, building a successful and proven track record. LGB BANK firmly believes in the consistency and continuity that a valuable banking legacy can offer.

Integrity
At LGB BANK we put our customers' best interests at the forefront of our operations. We believe that delivering genuinely good services will undoubtedly lead us to achieve success. This is why we adopt a widely transparent strategy while dealing with our clients.

Quality
LGB BANK has a long and proven track record in the Lebanese market; one that is marked by the delivery of high quality products and services. Indeed, premium quality remains at the heart of our business strategy which aims at preserving high levels of customer satisfaction by offering impeccable services.

Accountability
LGB BANK is a reliable banking partner for Lebanese customers. We provide them with a diversified portfolio of offerings, based on thorough analysis of the market and the local customers' needs. We also put at the disposition of our clients the expertise of a pool of industry experts who offer professional advice and reliable solutions.


Shareholders
Board of Directors
Risk Committee
AML/CFT Committee
Corporate Governance and Remuneration Committee
Audit Committee
Risk Management
Compliance
Chairman General Manager
Internal Audit
Legal
Market Risk
Credit Risk
Operational Risk
Credit Administration
IT Security
Risk Governance & Special Projects
AML/CFT
Legal Compliance
HO Audit
Branches Audit
IT Audit
Customer Protection Unit
Vice Chairman Chief Executive Officer
Deputy General Manager
ALCO Committee
Credit Committee
Compliance Committee
HR Committee
Organizational Committee
IT Steering Committee
IT Security Committee
Retail & Branches Committee
Audit Management Committee
Risk Management Committee
AGM Credit Division
Senior Manager Finance & Administration
Senior Manager Retail Division
Senior Manager Financial Markets
Senior Manager Organization, IT & HR
Administration
Financial Control & Accounting
MIS
Remedial Credit
Credit
Trade Finance
Central Operations
Branches Management
Retail and Marketing
Financial Institutions
Treasury & Capital Markets
Private Banking
Human Resources
Planning & Organization
Information Technology

CORPORATE GOVERNANCE

■ GOVERNANCE

LGB BANK is keen on ensuring complete compliance with local and international governance practices. Armed with the core values of integrity, transparency, and accountability, the Bank's governance culture has been progressively evolving to encompass robust risk management and control practices that direct it in sustaining business performance and delivering long term value to stakeholders.

The Board's key governance responsibilities are to set the Bank's strategic objectives while relying on Management's relevant and timely controls to facilitate complex decision making. The board also sets the Bank's internal controls and risk appetite through a well defined policy supported by proper oversight to ensure the accurate and comprehensive implementation of these controls.

LGB BANK recognizes its responsibility towards its stakeholders in ensuring safe, sound, and ethical financial operations. It is essential therefore; that our risk culture supports our risk profile and our adopted risk management practices.

LGB BANK acknowledges that long term success is achieved by having the right leaders in place. Thus, talent development and strategic succession planning are critical components of sustainable success at the Board and Executive Management levels.

CORPORATE GOVERNANCE FRAMEWORK

The Bank's Corporate Governance Policies, including the Code of Corporate Governance, Board Charter, Code of Conduct and Code of Ethics, lay a solid foundation for transparent and accountable decision making. The Bank's Corporate Governance Framework is specifically designed to guide the Board in achieving the Bank's aims, led by the highest ethical standards and interests of its stakeholders. As part of our continuous commitment to sound Corporate Governance, Succession Planning remains one of the Bank's key focuses this year, along with enhancing our Succession Plan, mainly focusing on the Bank's key managerial and functional positions for talent and leadership development. In addition, the Bank also fortified its Disclosure Policy to ensure that all required regulatory disclosures are done effectively and efficiently, taking into account due disclosure of conflict of interests.

BOARD SELECTION AND ELECTION

Board members are appointed on merit, based on the required diversity for effective decision making. Board members' selection relies on integrity, character, range of skills, professional experiences and background, and finally, willingness to commit adequate time and effort to the Bank in addition to putting forth value added material to the Board.

BOARD RESPONSIBILITIES

The Board sets strategic objectives and policies that are focused on delivering long-term value providing overall strategic direction within a framework of risk appetite and controls. It aims at ensuring that executive management is balanced between promoting long term growth and delivering short-term objectives. The Board is also responsible for ensuring that Management maintains a system of internal control which provides assurance of effective and efficient operations, internal financial controls and compliance with laws and regulations. In addition, the Board is responsible for guaranteeing that management maintains an effective Risk Management and oversight process at the highest level. In carrying out its responsibilities, the Board upholds the Bank's reputation and manages the materiality of financial risks and other threats inherent in the business thus, reaps the benefits of implementing specific controls.

■ BOARD COMMITTEES

AUDIT COMMITTEE

The Audit Committee's mission resides in assessing the integrity of the Bank's financial reporting, the effectiveness of internal controls in addition to the performance of the Bank's Internal Audit Unit and External Auditors with respect to the suitability and relevance of the submitted reports. The Audit Committee supports the Board in protecting the interests of shareholders and other stakeholders by acting with the right level of diligence to assure that appropriate and prudent judgments have been made with respect to financial reporting given that the financial statements provide a realistic view of the Bank's financial position and that the auditor's independent analysis on behalf of shareholders is both objective and effective.

RISK COMMITTEE

The Risk Committee reviews and recommends the Bank's Risk Policies and Risk Appetite directly to the Board.
It is also responsible for identifying and monitoring the Bank's risk profile for all types of risks and ensuring that the overall risk profile and risk appetite remain appropriate, in addition to recognizing and assessing future potential risks. The Committee oversees the Risk Management Framework, assesses its effectiveness, and supervises the proper implementation of Risk Management policy in order to adapt to local needs and regulations.

CORPORATE GOVERNANCE AND REMUNERATION COMMITTEE

The general purpose of the Corporate Governance and Remuneration Committee of LGB BANK is to develop and recommend sound Corporate Governance principles; including corporate governance guide and follow up on their implementation in accordance with the guidelines issued by the Basel Committee and Supervisory Authorities.

The committee is also responsible for developing the Remuneration policy and the Remuneration System at the Bank, presenting them to the Board of Directors and overseeing their implementation. The Bank's remuneration structure comes to support sound corporate governance through assisting Board members in identifying potential nominees to the Board and senior management. It oversees their remuneration, evaluates their performance and ensures that staff salaries and incentives are in line with the Bank's culture, objectives and strategy.

AML/CFT COMMITTEE

The AML/CFT Board Committee was established to assist the Board of Directors in its functions and supervisory role with respect to Fighting Money Laundering and Terrorist Financing, understanding the related risks, along with providing assistance for sound decision makings in this regard. The role of the AML/CFT Board Committee also includes reviewing, from a risk-averse point of view, the reports submitted by the AML Compliance Unit and the Internal Audit Unit. It also reviews all the adopted procedures in terms of unusual operations and high-risk accounts and recommends suitable decision in this context.

Mr. Abdul Hafiz M. Itani

Chairman – General Manager

Mr. Abdul Hafiz Itani has been the Chairman - General Manager since 1980 upon acquiring the majority of the Bank's shares along with a group of local and Gulf investors.
With more than 65 years of experience in the banking and finance industry, Mr. Itani's professional career, crowned with his successful management of a long-lasting established family business, impelled him to lead LGB BANK through affluent and challenging times to be one of the leading banks in Lebanon.
During his career timeline, Mr. Itani has occupied several key positions in the Lebanese banking sector.

Mr. Samer A.H. Itani

Vice Chairman – CEO

Mr. Samer Itani started his Banking career at LGB BANK by occupying several managerial positions in different divisions at the Bank, prior to being selected in 1995 as a member of the Board of Directors.
Mr. Itani was appointed to his current position in 2007 and is currently responsible for leading the restructuring and expansion strategies of the Bank, thus positioning it as one of the best performing Lebanese banks.
Mr. Itani holds a degree in Finance and International Management from Georgetown University in Washington DC. He attended advanced management programs at both INSEAD and London Business School.

Mr. Joseph M. Hakim

Deputy General Manager - Board Member

Mr. Hakim joined LGB BANK in 1980 and assumed several key positions before being appointed as Deputy General Manager and Head of the International Banking Division.

Mr. Hakim has more than 50 years of solid banking experience as he formerly worked in different local commercial banks and holding several managerial positions. Mr. Hakim holds a degree in General Commerce from the American University of Beirut.

Me. Antoine J. Chader

Board Member

With over 45 years of experience in law, banking, government and financial institutions, Me. Chader's professional career is marked with key positions, appointed Chairman and General Manager of many local banks and the President of Association of Banks in Lebanon. He was also elected as a Member of the Lebanese Parliament. Me. Chader is a prominent Lebanese lawyer holding a Law Degree from the Saint Joseph University's Law School.

H.E. Abdul Kareem H. Arkobi

Board Member

H.E. Arkobi is an independent member on the Board of Directors. H.E. Arkobi enjoys over 20 years of banking experience and firms management in the MENA Region. His Excellency is now the Chief Executive Officer and Owner of Gold Inspiration Company for Trade, Al Safir al Mout'lek Contracting Company and Shaybah Holding. His career was marked with key positions being General Manager, Advisor and Deputy Minister in the Saudi Royal Court for the past fifteen years.

Mr. Mounib M. Hammoud

Board Member

Mr. Hammoud is an independent member on the Board of LGB BANK.

Mr. Hammoud has over 35 years of experience in banking, institutional finance, city making, land development, real estate development, retail and tourism projects development, strategic planning, corporate finance and financial architecture, as well as sales and marketing of real estate projects, in the Middle East, North Africa and Europe. He holds a Masters degree in Business Administration from the American University of Beirut.

Me. Said M. Mirza

Board Member

Me. Mirza is an independent member on the Board of Directors and a prominent judge with over 50 years of experience in law, government, banking and financial institutions. He joined the Ministry of Justice as a judge in 1971. He headed the judicial efforts on important national scales and participated in the documentation efforts of high value legal texts and legal provisions.

Dr. Mohammed A.H. Cheaib

Board Member

With over 50 years of experience in the Lebanese banking sector, Dr. Cheaib is an independent member on the Board of Directors. He is now Chairman and General Manager of INTRA Investment, and an independent member of board at a local commercial bank, Casino Du Liban as well as a member of the International Association of Arab Bankers. With several studies published in Lebanese media outlets, Dr. Cheaib holds a Ph.D. in Finance and Banking from Marseille University in France.

Mr. Rabih A.K. El-Noueiri

Board Member

Mr. Noueiri has been an independent member on the Board of Directors since 2009.
Mr. Noueiri has more than 35 years of American, European, and local banking experience. He was the Executive Manager at American Express Bank in London, Member of the Executive Management at Union Bancaire Privée in London, Senior Vice President at Chase Manhattan Bank in addition to several key positions in local commercial banks.
Mr. Noueiri holds a Business and Commerce Masters degree from Beirut Arab University.

Mr. Philippe A. Saleh

Board Member

Mr. Saleh is an independent member on the board of LGB BANK, with over 35 years of experience as a veteran banking professional. After having started his career in the Corporate Banking Division, Mr. Saleh has held several managerial positions at a local commercial bank, the latest of which was Chief Risk Officer (CRO) – AGM, Head of Group Risk Management Division. He demonstrated expertise in developing an integrated risk management framework for all aspects of risk across the organization, and implementing a set of risk metrics and Basel II and Basel III compliant reporting and spreading a strong risk culture.
Mr. Saleh holds a Masters degree in Business Administration from Paris IX Dauphine University, a Masters in Science from the Faculty of Lyon as well as the "Citibank Management Training" Certificate.

Mr. Fouad N. Touma

Board Member

Mr. Touma is an independent member on the Board of Directors of LGB BANK.
Mr. Touma has more than 55 years of local banking experience where he handled great responsibilities and managed major directorates such as the Secretariat of the Board. He is currently giving banking courses at the Higher Institute of Banking Studies (ISEB) of Saint Joseph University, also Holder of the Belgian Insignia of Officer of the Order of Leopold II, Treasurer of the Belgian Business Council of Lebanon (BBCL), Treasurer of the Alumni Association of Jamhour College, and Member of the Alumni Executive Committee of the Faculty of Law of Saint Joseph University. Mr. Touma holds a Master's degree in Law and Banking from Saint Joseph University and has participated in several banking seminars in France and Belgium.

OUR BUSINESS

CORPORATE & COMMERCIAL BANKING

LGB BANK maintains a well-established position in the commercial lending field, with a concentration on corporate banking services through a distinctive approach for quality planning and trustworthy financial consultancy. After years of success in the local financial market, and with the unwavering reliability of its clientele, the Bank has been acknowledged as a highly reliable business partner rather than just an ordinary financing service provider.

With the support of its skilled personnel and solid financial and logistical resources, LGB BANK is able to keep a close eye on its customers' businesses and projects. Consequently, the Bank enables its clients to achieve all their goals by granting them financial counseling and proper orientation.

The customer portfolio at LGB BANK is composed of small, medium and large scaled enterprises, all of which benefit from a variety of products and services tailored to meet their specific financial needs. Our offerings include traditional overdraft facilities, project financing, loan syndication, structured business solutions, and various trade finance products such as Letters of Credit (LCs) and Letters of Guarantee (LGs).

LGB BANK constantly aims to expand its corporate and commercial client-base while maintaining adequate collateralized debt obligations and while remaining in full compliance with the regulations of the Central Bank of Lebanon.

INVESTMENT & PRIVATE BANKING

Backed by a solid track record and a proven know- how in customer handling and servicing, LGB BANK has established a robust private banking practice to provide customers with a premium range of financial advisory, brokerage and capital markets' services.

For this purpose, the Bank has taken steps to constitute a specialized cell of professionals trained in private banking, whose objective is to offer the Bank's clients with reliable consultancy and personalized solutions with access to a broad spectrum of markets.

PRODUCTS AND SERVICES

The Bank offers its clients access to an array of personalized products engineered to meet their modern banking needs.
These offerings include:
- Equities, fixed income and foreign exchange
- Money markets
- Multi-asset class funds
- Alternative investment and hedge funds
- Structured products with various underlying instruments
- Capital protected products
- Brokerage services
- Safekeeping of all types of financial instruments

PRIVATE BANKING

In a highly competitive market, LGB BANK has managed to accustom a niche segment of high net worth customers by offering them impeccable services. To maintain such strong bonds, the Bank's Private Banking teams have been able to provide their customers with investment products based on a clear understanding of their financial objectives. Backed by a high sense of resourcefulness, in-depth business knowledge and solid commitment towards the Bank, the teams' performance has been commendable from all angles.

In parallel, the Bank's private banking services include investment consultancy in both domestic and international markets in equities, fixed income, mutual funds and foreign exchange. Skilled team members provide the Bank's clients with informed advices and an eclectic range of investment products, including stocks, bonds, funds and structured products.

TREASURY

The Treasury Department at LGB BANK is the clients' key to access World Money and Capital Markets as well as Foreign Exchange. Whether the client's interest lies in investment banking, equities, fixed income or foreign exchange, LGB BANK has the global network and industry expertise to meet his expectations.

The Treasury Department also plays a strategic role in the management of the Bank's assets & liabilities.
It has the responsibility of recommending the financial engineering solutions that would secure optimum returns on investment and boost the Bank's profitability.

RETAIL BANKING

LGB BANK has, at all times, based its product development policy around the client's ever-changing needs, and kept up with the evolving requirements of the markets. In parallel, the Bank was always keen to continuously improve the customer's banking experience, by providing a totally modern and transparent service based on trust and knowledge of the client's aspirations whilst capitalizing on the role of new technologies.

During the last few years, the bank has kept on developing its portfolio of targeted products and services, aligning its actions with its broad product strategy and succeeding in widening its clientele base, while remaining faithful to its quality standards.

INNOVATIVE SERVICES

In light of its wider corporate strategy, LGB BANK has been a leader in the field of retail banking.
It is to be remembered that the Bank was the first to introduce the SMS alert service. The "Banking by Night" service is another one of the Bank's pioneering initiatives which provides customers with flexible banking hours, making the Bank one of the very few financial institutions in Lebanon to open its doors for a second shift from 7:00 PM to 10:00 PM. The LGB BANK mobile payment platform, a ground-breaking service at LGB BANK, is a highly safe payment solution linked to a credit card. This service enables customers to make secure and reliable purchases within the application.

PAYMENT CARDS

Responding to evolving banking needs and modern lifestyles, LGB BANK proposes an extended line-up of MasterCard and VISA to choose from, including Debit, Credit and Prepaid cards.

With an objective to introduce innovative payment solutions that offer value added benefits to cardholders, LGB BANK, in collaboration with MasterCard, launched the First UAE Dirham Credit Card that has been specifically designed for UAE visitors and residents, offering its holders exclusive benefits and rewards while sparing inconvenient change rates.

A real pioneer in this field, LGB BANK was one of the first banks to issue MasterCard in Lebanon, back in 1992. Today the Bank offers a wide range of payment cards from Titanium, Platinum, and Black under both MasterCard and Visa brands, with many currencies such as USD, LBP, Euro, Sterling, UAE Dirham, Turkish Lira, and Riyal Saudi. LGB cards are developed with appealing payment facilities and flexible use limits which are constantly revised to meet the customers' increasing demand for cash.

In addition to the regular payment cards that come handy anytime and anywhere, the Bank also offers a Debit MasterCard with an exclusive Pin Trigger, a feature through which customers can activate their cards via the Bank's ATMs or any other ATM related to CSC Bank s.a.l so as to avoid fraudulent attempts.

Topping this range of retail offerings is the LGB Black Card. Considered as an exclusive "MasterCard World Card", a global access to a group of internationals has now been exclusively offered to the most valued customers, as Black Card holders can take advantage of the generous services, exclusive offers and luxurious experiences presented to the very few. Moreover, the Bank launched a high end co-branded credit card for Porsche Club members, offering lots of benefits and privileges under the motto "Adding Privilege to Power".

Further in line with its customer centric strategy, the Bank initiated its LGB Miles Program under "More Miles, More Destinations". This Loyalty concept allows LGB Credit Card holders to earn 1.5 Miles for each USD 1 spent, or equivalent in other currency, on any LGB Card, in addition to free access to more than 500 airport lounges in more than 300 cities around the world with no previous registration needed. Cardholders will also benefit from special travel offers to visit more than 55 touristic destinations on most of the international airlines. In this sense, LGB BANK reconfirms its intent to provide an unmatched banking experience by rewarding its customers for their loyalty as well as their frequent use of its payment cards.

The Loyalty and Miles Program rewarding experience also offers a unique shopping experience, where cardholders can redeem their earned points from over 4,000 carefully selected gifts and vouchers, or even simply cash back the points earned anytime.

CONSUMER LOANS

With a rising demand on loan products, LGB BANK has developed services that aim to improve its customers' quality of life, whether from a personal or a professional standpoint.

In addition to the usual common loans such as the Home, Personal and Car loans, the Bank has launched the Public Sector Personal Loan which allows public employees to obtain a competent credit facility against an attractive rate and within favorable conditions. Along with the private offer for salary domiciliation which allows private sector employees to benefit from a wide range of free services.

BANCASSURANCE SERVICES

Bancassurance is a byproduct that has also been witnessing significant growth since the beginning of this decade. In collaboration with Allianz SNA Insurance, the leading insurance partner, LGB BANK has been able to provide its customers with highly beneficial insurance programs covering personal accidents, health, fire, car and other matters. The Bank has designed even more customized programs for its customers, including "Education Plan" and "Retirement Plan", an educational saving plan and a retirement saving plan, both coupled with life insurance. In 2010, the Bank introduced the Income Compensation Plan providing customers, with a cost-effective plan B that allows them to sustain their income in case of accidents.

THE e-LGB BANK PLATFORM

Over the past few years, the world has witnessed a real electronic revolution, pushing most businesses to leverage their operations through an online system. In this line, LGB BANK has launched a modern and upbeat version of its corporate website, www.lgbbank.com, with user friendly functions including both corporate and retail banking products and services, thus creating a comprehensive interface to browse and explore.

Digital specialists have implemented the Online Banking platform, "LGB Online Banking", allowing the Bank's customers to benefit from a number of products and services from the comfort of their homes or offices. LGB Mobile Banking platform was made also available on Apple store and Google play. The online banking platform is currently being renovated in order to provide customers with the newest and most up-to-date technology.

LGB BANK is also present on all digital platforms such as Facebook and Twitter, among other social media platforms, and is committed to keeping its customers up-to-date at all times with news, product launches, services, as well as the opening of all branches.

■ INTERNATIONAL & FINANCIAL INSTITUTIONS

The Financial Institutions department is responsible for establishing, developing and consolidating LGB BANK's vast network of correspondents. The FI department continuously strives to provide LGB BANK's clients with global solutions to optimize and enhance global trade and operations through the close relationships built with our numerous correspondent banking partners. This allows LGB BANK to ensure a comprehensive coverage of all our client's cross-border transaction needs.

The Financial Institutions department continues to enhance these relationships by identifying new advantageous opportunities, developing its teams' capabilities, and focusing on adherence to international and local standards in regards to AML/CFT, compliance, economic & trade sanctions, and tax transparency.

The Financial Institutions department operates under three functioning units:
1. Relationship management unit: Securing, initiating and maintaining relationships with banks/FIs.
2. Analytics unit: Assessing correspondent bank/FI creditworthiness for allocation of credit lines.
3. Support unit: Updating correspondent/FI files and statistical reporting.

As a result of the strong worldwide network of mutually beneficial correspondent banking relationships built over the years, the FI department has been instrumental in ensuring the smooth and satisfactory completion of various trade, operation, and treasury transactions for LGB BANK's clients.

■ MARKETING & COMMUNICATION

With its dedication and clear vision, LGB BANK continues to build strong relationships with its clients through a personalized approach coupled with sophisticated services and "out of the box products" that meet the customers' changing financial needs.

While being recognized as a banking institution striving for excellence and ambitious growth, LGB BANK was able to win several international industry awards that confirm its standing and business philosophy including:

• Excellence in E-banking and Mobile Banking from the World Union of Arab Bankers
• Retail Bank of the Year by MEFTECH
• Best Co-branded Credit Card, Best Credit Card and Best Financial Transformation by Banker Middle East–CPI Financial

These awards are yet another testimony for the Bank's insistence on innovation and singularity, and providing the best for its customers. LGB BANK also believes that the awards will serve yet as an additional incentive that pushes to achieve more accomplishments and better services.

Further leveraging its efforts to meet the latest banking trends and provide an optimised experience to its customers, the Bank continues to improve its excellence practices, striving to provide a world class experience to its customers in its 18 various branches across Lebanon, in addition to a branch in Cyprus and a representative office in Dubai.

Today, the Bank's main communication priority remains to highlight its customer centric strategy using a mix of conventional and out-of-the-box tools. Lately, LGB BANK has redesigned its corporate website to meet contemporary users' expectations. As a result, LGB BANK has been able to make an impact on the Lebanese banking scene, gaining in communication penetration and market share.

A key element of LGB BANK's campaigns is to factually convey its corporate values. LGB BANK does not build its reputation on commercial promotions, but rather on actual servicing. This strategy has supported the Bank to further enhance its Brand Awareness over the years, from adapting its new corporate identity, to keeping customers and the Lebanese market up-to-date by launching successful marketing campaigns such as the LGB Miles Campaign. This is how the Bank is managing to retain and sustain its customers' trust with a rightfully communicated and reliable performance.

Furthermore, the Bank has adopted an "open door" communication policy whether towards the customers or between employees, aiming at safeguarding its image from all possible angles: well thought internal communication activities that enhance the synergy between the employees and promote teamwork; corporate social responsibility communication that supports community initiatives including the constant endorsement of Lebanese non profitable associations; and campaigns that highlight the competitive edge of the Bank's products and services.

LGB BANK sponsors and supports various social and community initiatives, based on the Bank's commitment and mandate to supporting community organizations and institutions addressing various humanitarian and social issues in Lebanon.

■ HUMAN RESOURCES

LGB BANK strategy revolves around the constant enhancement and strengthening of its three main assets: the financial capital, the technological capital, and most importantly, the human capital. The Bank's human capital management strategy consists of developing, maintaining and managing the workforce through effective systems, policies, procedures and methodologies, which are consistent with the Bank's corporate and business objectives, as well as business conduct.

At LGB BANK we strive to motivate our employees through the adoption of a two-pronged approach consisting, on the one hand, in providing training to individuals who need a skill update, as well as developing those who show potential, and, on the other, in offering a pecuniary reward to employees who accomplish their assigned objectives and show dedication at work, while being fully committed to the Bank's values. In fact, we believe that investing in human capital is a major component of our customer-centric strategy, aimed at delivering unmatched and highly personalized services.

In line with this perspective, a harmonious and growing team of experts from various professional backgrounds is constantly mustered. The team reflects the values and ethical principles of the Bank and strives to achieve its strategy and objectives.

On the other hand, with LGB BANK's determination to uncover fresh talents, the Human Resources team always seeks to attend job fairs. Many of the new hires at LGB BANK are initiated to its culture through internships. Such trainings allow them to obtain an overview of the Bank as well as at its products and services while getting acquainted with its code of conduct. This document was designed to offer guidelines and rules for all to follow, stressing the need to conduct business in an ethically, socially, environmentally, and professionally responsible manner, while building upon and maintaining the Bank's corporate management philosophy. The code defines five main areas, namely employee behavior, client relations, employee relations, dealing with other banks, and reporting unacceptable behavior.

At LGB BANK, we perceive human capital as our most valuable of asset, and we offer every staff member an inspiring work environment to encourage their growth and prosperity. LGB BANK also seeks to retain its high potential employees who were identified by the Human Resources Department as ready to assume higher positions in the short and medium term. The constant observation of this population will continue in 2016, allowing the Human Resources Department to ascertain the potential of the selected employees prior to furthering their training, to enhance their existing capabilities, and constantly monitor their career development.

■ INFORMATION TECHNOLOGY

A technically advanced business platform provides an optimized customer experience, regardless of the line of business. In the banking sector, technology is enabling financial institutions with a competitive edge to reduce error margins, save time and speed up business procedures to ensure the highest levels of customer satisfaction.

To keep up with the fast changing business trends, banks need to integrate cutting edge technologies that guarantee more flexibility and practicality to their clients. Consequently, LGB BANK has embraced the technological revolution to ride the wave of sustainable growth in a challenging world economy. In line with this, the Bank is enhancing the functionality of its core banking system and implementing new modules, coupled with a comprehensive reengineering, enhancement and improvement of its human and technological resources and processes.

A real pioneer in this field, LGB BANK was one of the very first banks in Lebanon to adopt such technological updates in the industry. In fact, the technological reform stipulated the upgrade of the infrastructure to introduce better risk and security controls and improve productivity. A new security system was also implemented in order to avoid hacking and fraudulent actions.

The IT interface deployed by LGB BANK allows great flexibility in terms of work flow and transactions' processing; in addition to allowing employees to share information internally, creating a solid synergy between departments. All units are linked together by a robust IT system and supported by highly qualified and skilled engineers who are ready to assist with any request.

Furthermore, the Bank adopted a new software known as "Trade Innovation Plus", which comes to replace the already existing IT software and displays highly flexible functions, delivering an optimized performance in quality and speed, as it facilitates transactions related to Transfers and Treasury.

Yet, integrating new technologies in its internal processes is not the only policy LGB BANK implemented to become a modern financial institution. The Bank has actually worked on developing innovative electronic banking solutions to deliver even higher performance, by providing employees with special online tools that could facilitate their daily chores; and by allowing customers to access a set of online services that simplify their banking transactions. The Bank has also boosted its IT platform by increasing the number of ATMs across the Lebanese territory getting strategically closer to the Lebanese customers.

Recently, and in line with its commitment to remain among the most advanced banks in Lebanon, LGB BANK has entirely redesigned and launched its corporate website to offer a comprehensive online experience to its clients. Thoroughly planned and executed, the new website offers an active and user friendly platform for customers wherever they are. This will enable the Bank to remain at the forefront of banking technology and support its business development strategy.

Today, the Bank is conducting a series of new projects to exploit technological advances and make sure that the latest solutions are being implemented.

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

BASIS OF PRESENTATION

The following part which covers the Management Discussion and Analysis section (MD&A) enables readers to assess the performance of LGB BANK– referred to as "The Bank" - for the year ended December 31, 2016 as compared to its previous year ended December 31, 2015.
MD&A should be taken in conjunction with our Financial Statements and Related Notes for the year ended December 31, 2016. Amounts are primarily derived from the Bank's Annual Financial Statements prepared in accordance with International Financial Accounting Standards (IFRS).

ECONOMIC ENVIRONMENT

The Lebanese economy continued its weak performance reflected by the high level of political and geopolitical risks which is weighing on overall Lebanese economy performance. Confidence in the country was reignited with the appointment of a new president during October 2016. Growth remained stable at real GDP of 2% (estimated) in 2016.

According to the Ministry of Finance, fiscal deficit widened by 25.09% (y-o-y) to reach USD 4.9 billion by the end of 2016. This was attributed to the 9% yearly increase in government expenditures outpacing the 3.63% increase in fiscal revenues.

Moreover, gross public debt increased by 6.5% to reach USD 74.9 billion. Debt in local currency stood at USD 46.8 billion at end of December 2016, accounting for 62.5% of the gross public debt. Debt in foreign currency amounted to USD 28.1 billion in the mentioned period; constituting 37.5% of the total gross public debt. Gross debt to GDP marginally grew to a ratio of 135% in 2016 against 130% at end of 2015.

The trade deficit widened by 4.04% (year on year) by the end of December 2016, to register USD 15.7 billion due to a 3.52% increase in total imports outpacing the 0.85% increase in total exports.

Balance of Payments deficit narrowed and even turned positive from a deficit of USD 3.4 billion in 2015 to a surplus of USD 1.2 billion in 2016. This improvement resulted from the debt swap transactions conducted by BDL during 2016. As a result of these swaps, the Central Bank's Gross Foreign Currency Reserves also increased by 11% during 2016 to stand at USD 34 Billion.

As for the monetary situation, the Lebanese banking sector proved its strong stability, even in difficult times. The money aggregate M3 increased by 7.4% to reach an all time high of USD 133 billion.

Major Economic Indicators in Lebanon

USD Billion	As at December 31		
	2016	2015	% Growth
Nominal GDP	55.5	54.4	2.0%
Real GDP growth	~2.0%	2.0%	0.0%
Imports	18.7	18.1	3.52%
Exports	2.98	2.95	0.85%
Trade deficit	-15.7	-15.1	- 4.04%
Balance of payments	1.24	-3.4	-
Gross Public Debt	74.9	70.3	6.48%
Gross Public Debt/GDP	135%	130%	3.85%
Fiscal Deficit	4.9	3.9	25.09%
Gross Foreign Currency Reserves	34.0	30.6	11.06%

Source: BDL, Ministry of Finance, IMF, ABL, IIF

LEBANESE BANKING ENVIRONMENT

Despite the limited economical growth and political instability, the regulators of the financial sector in Lebanon always tend to maintain a sound banking environment, which was reflected by a positive growth of the banking activities in 2016.

BDL's debt swap operations, which took place between May and November 2016, led to higher deposits growth, particularly from non-resident USD deposits. The program succeeded in reinforcing the BDL's foreign assets to around USD 39.6 billion by December 2016 from around USD 35.1 billion in April 2016 and helped Lebanese banks to constitute necessary reserves for IFRS9 implementation (targeted by BDL at an average of 2% of risk weighted assets).

Total consolidated assets of commercial banks operating in Lebanon amounted to USD 204.3 billion at the end of December 2016, thus increasing by 9.85% from end of December 2015.

Lebanese banks depend on deposits as a primary source of funds (constituting 79.5% of total assets); an expansion of 7.2% in total deposits was noted in the year 2016 with an equivalent of USD 162.5 billion up from USD 151.6 billion in year 2015.

Loans to customers showed a growth of 5.5% to reach USD 57.2 billion. Loans to deposits ratio slightly decreased to stand at 35.2% at end of December 2016 down from 35.8% in 2015.

The dollarization ratio of deposits increased in 2016 to reach 65.8% compared to 64.9% in 2015. The dollarization of loans, on the other hand, witnessed a drop in 2016 reaching 72.6% down from 74.8% in 2015.

USD Billion	As at December 31		
	2016	2015	% Growth
Total assets	204.3	186.0	9.9%
Total deposits	162.5	151.6	7.2%
o/w in LBP	55.5	53.2	4.3%
o/w in FC	107.0	98.3	8.8%
Total loans	57.2	54.2	5.5%
o/w in LBP	15.7	13.6	15.4%
o/w in FC	41.5	40.6	2.3%
Equity	18.3	16.7	9.5%
Dollarization of deposits (%)	65.8%	64.9%	+ 9 BPS
Dollarization of loans (%)	72.6%	74.8%	- 22 BPS
Loans/Deposit Ratio (%)	35.2%	35.8%	- 6 BPS
Deposits/Assets (%)	79.5%	81.5%	- 20 BPS
Equity/Assets Ratio (%)	8.93%	8.96%	- 3 BPS

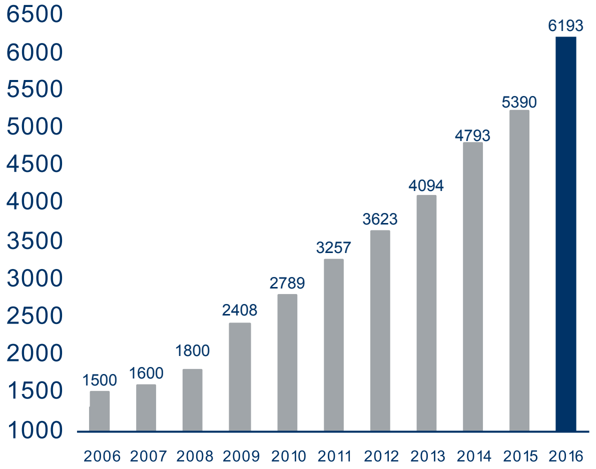
Source: BDL, ABL

THE BANK'S GROWTH

Between 2006 and 2016, LGB BANK managed to achieve a steady and continuous growth in all main financial indicators.

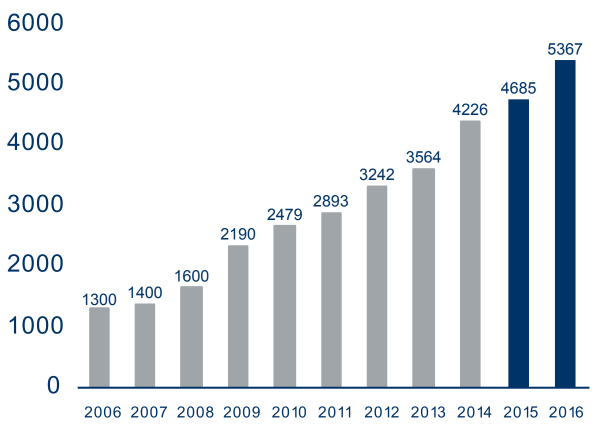
TOTAL ASSETS IN BILLIONS OF LBP

During the period of 2006-2016, the total assets of the Bank increased from LBP 1,500 billion (USD 995 million) as of December 2006 to LBP 6,193 billion (USD 4,108 million) as of December 2016, reflecting a remarkable growth of 313%.



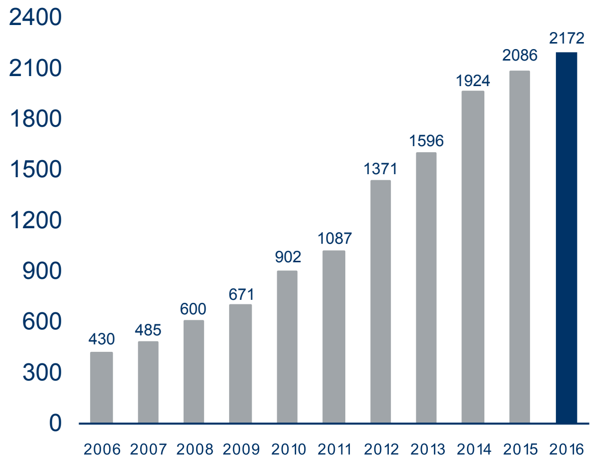
CUSTOMERS' DEPOSITS IN BILLIONS OF LBP

The growth in the Bank's assets during the period of 2006-2016 reflected a similar growth in Customers' Deposits which increased by 313% from LBP 1,300 billion (USD 862 million) as of December 2006 to LBP 5,367 billion (USD 3,560 million) as of December 2016.



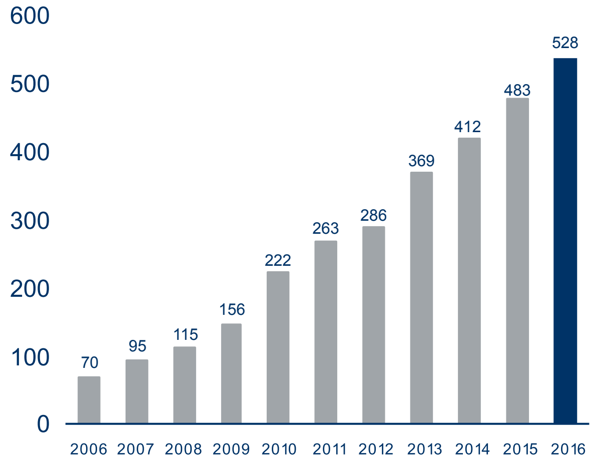
LOANS & ADVANCES IN BILLIONS OF LBP

The Bank successfully grew its commercial and retail lending portfolio. Accordingly, Loans & Advances to customers increased from LBP 430 billion in 2006 (USD 285 million) to reach LBP 2,172 billion (USD 1,441 million) as of December 2016, reflecting a growth of 405%.



EQUITY IN BILLIONS OF LBP

The increase in Equity from LBP 70 billion in 2006 (USD 46 million) to LBP 528 billion in 2016 (USD 350 million) reflected a growth of 654%.



THE BANK'S PERFORMANCE

Despite the difficult aftermath of the recent turmoil, 2016 was another successful year for LGB BANK. The Bank maintained a strong performance where total assets increased by 14.9% to reach LBP 6,193 billion and customers' deposits rose by 14.6% to stand at LBP 5,367 billion.

The Bank's loan portfolio increased by 4.1% to reach LBP 2,172 billion in 2016. Moreover, shareholders' equity rose by 9.3% to stand at LBP 528 billion. Net income witnessed an increase of 15.2% to reach LBP 53 billion with a stable ratio for Return on Average Assets (ROAA) accounting for 1% in 2015 & 2016, as well as a steady ratio for Return on Average Equity (ROAE) declared at 10.6% in 2015 & 2016.

1. PROFITABILITY

Profitability for the period ending on December 31st, 2015 and 2016 was as follows:

In millions of LBP			As at December 31	
			Growth	
	2016	2015	Amount	%
Net Income	53,425	46,218	7,207	15.6
Net Interest Income	77,222	73,918	3,304	4.5
Net Fees and Commission Income	14,167	15,053	-886	-5.9
Total Net Non-Interest Income	48,306	35,882	12,424	34.6
Net Operating Income	114,968	102,105	12,863	12.6
Total Operating Expenses	50,880	46,229	4,651	10.1

1.1 NET INTEREST INCOME

The increase in net interest income in 2016 of LBP 3.3 billion, or 4.5% to LBP 77.2 billion compared to LBP 73.9 billion in 2015, was primarily driven by higher interest income on investment securities, mainly driven by strong client activity and increased client balances. Also, contributing to the increase were favorable increase in interest income by 13.0% and an unfortunate increase in interest expenses by 16.1% in 2016.

BREAKDOWN OF INTEREST AND SIMILAR INCOME

In millions of LBP	As at December 31	
	2016	2015
Interest received from investments securities	158,929	132,354
Interest received from loans and advances	129,014	122,990
Interest received from banks and financial institutions	26,040	22,484
Interest received from related parties	167	79
TOTAL	314,150	277,907

BREAKDOWN OF INTEREST AND SIMILAR EXPENSE

In millions of LBP	As at December 31	
	2016	2015
Interest paid on deposits from customers	230,515	199,309
Interest paid on banks and financial institutions	2,595	2,260
Interest paid to banks under repurchase agreements	3,011	1,863
Interest paid on related parties' deposits	807	557
TOTAL	236,928	203,989

1.2 NET FEES AND COMMISSIONS INCOME

A decrease in loan services and trade finance business in 2016 resulted in a 5.9% decrease in net fees and commissions income, compared to a 20.9% decrease in 2015.

In millions of LBP	As at December 31	
	2016	2015
Fee and commission received		
Credit related fees and commissions	6,643	7,258
Trade Finance	4,657	5,293
General banking transactions	2,717	2,039
Electronic banking	765	773
Other services	49	69
	14,831	15,432
Fee and commission expense		
Correspondents' accounts	(664)	(379)
NET FEE AND COMMISSION INCOME	14,167	15,053

1.3 TOTAL NET NON INTEREST INCOME

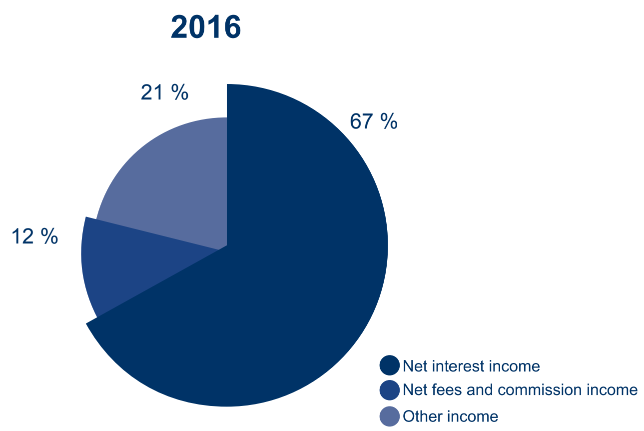
Non-interest income increased by 34.6% from LBP 35.9 billion in 2015, up to LBP 48.3 billion in 2016.This is mainly due to the increase in net gain on financial investments by 208.7% in 2016 from LBP 5.9 billion in 2015 to LBP 18.3 billion in 2016, in addition to the increase in net trading income by 36.9% in 2016 from LBP 10 billion in 2015 to LBP 13.6 billion in 2016.

In millions of LBP	As at December 31	
	2016	2015
Net fees and commissions	14,167	15,053
Net trading income	13,638	9,965
Net gain on financial investments	18,259	5,915
Other operating incomes	2,242	4,949
TOTAL	48,306	35,882

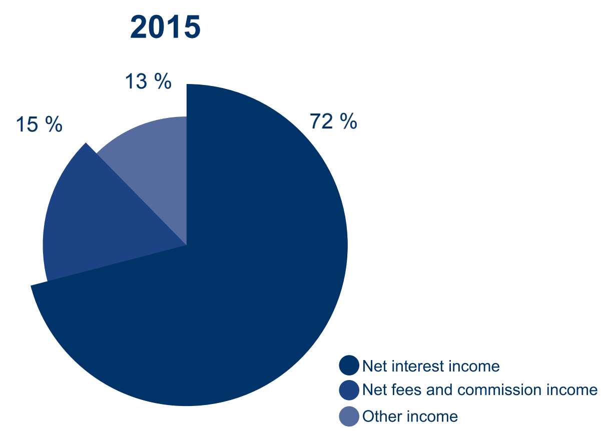
1.4 NET OPERATING INCOME

Net Operating Income registered an increase of 12.6% from LBP 102.1 billion in 2015, to LBP 115 billion in 2016, where the total Operating expenses registered an increase of 10.1%, going up from LBP 46.2 billion in 2015, to LBP 50.9 billion in 2016.

BREAKDOWN OF TOTAL NET OPERATING INCOME



BREAKDOWN OF TOTAL NET OPERATING INCOME



BREAKDOWN OF TOTAL OPERATING EXPENSES

In millions of LBP	As at December 31	
	2016	2015
Personnel expenses	29,745	27,490
Depreciation of property and equipment	3,504	3,751
Other operating expenses	17,631	14,988
TOTAL	50,880	46,229

2. SOURCES AND USES OF FUNDS

In millions of LBP	As at December 31			
	2016	2015	Amount	Growth %
Total assets	6,192,588	5,389,716	802,872	14.9
Customers' Deposits	5,367,228	4,684,857	682,371	14.6
Loans and advances to customers (net)	2,171,898	2,086,028	85,870	4.1
Security portfolio	2,305,632	2,008,850	296,782	14.8
Total equity	527,923	482,585	45,338	9.4
Net Income for the year	53,425	46,218	7,207	15.6
Dollarization of deposits	61.6%	63.7%	-	-2.1%
Dollarization of loans	72.5%	78.8%	-	-6.3%

2.1 SOURCES OF FUNDS

Similar to all Lebanese banks, LGB BANK's main source of funds is Customers' Deposits, which accounted for 86.7% of its overall funding sources in 2016 compared to 86.9% in 2015. Shareholders' Equity accounted for 8.5% in 2016 compared to 9.0% in 2015.

BREAKDOWN OF FUNDING SOURCES

In millions of LBP — As at December 31

	2016	%	2015	%	Growth Amount	Growth %
Customers' Deposits	5,367,228	86.7	4,684,857	86.9	682,371	14.6
Shareholders' Equity	527,923	8.5	482,585	9.0	45,338	9.4
Banks Under Repo agreements	90,973	1.5	90,922	1.7	51	0.1
Banks and Financial Institutions	58,518	0.9	49,910	0.9	8,608	17.2
Other Liabilities	109,443	1.8	46,187	0.8	63,256	137.0
Due to Central Banks	38,503	0.6	35,255	0.7	3,248	9.2
TOTAL	**6,192,588**	**100**	**5,389,716**	**100**	**802,872**	**14.9**

2.1.1 CUSTOMERS' DEPOSITS

Constituting the main funding source, Customers' Deposits recorded a continuous growth over the years, reaching LBP 5,367 billion as of December 31, 2016 and representing an increase of 14.6% in comparison to LBP 4,685 billion on December 31, 2015.

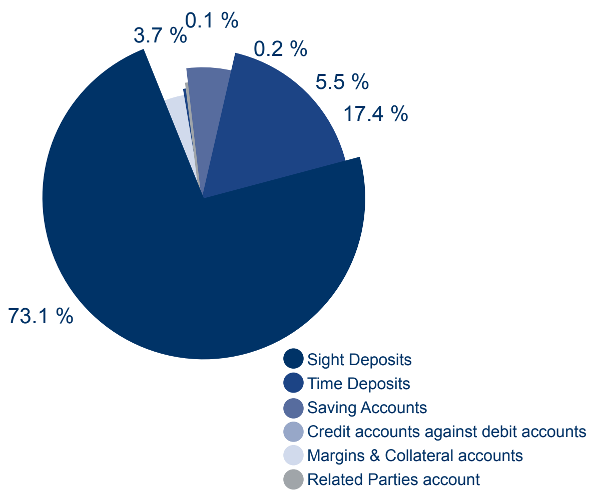
DEPOSIT DISTRIBUTION BY TYPE

In millions of LBP — As at December 31

	2016	%	2015	%	Growth Amount	Growth %
Sight Deposits	292,647	5.5	320,232	6.8	-27,585	-8.6
Time Deposits	935,178	17.4	740,682	15.8	194,496	26.3
Saving Accounts	3,922,815	73.1	3,423,609	73.1	499,206	14.6
Credit accounts against debit accounts	200,717	3.7	182,241	3.9	18,476	10.1
Margins & collateral accounts	6,757	0.1	6,101	0.1	656	10.8
Related parties account	9,114	0.2	11,992	0.3	-2,878	-24.0
TOTAL	**5,367,228**	**100**	**4,684,857**	**100**	**682,371**	**14.6**

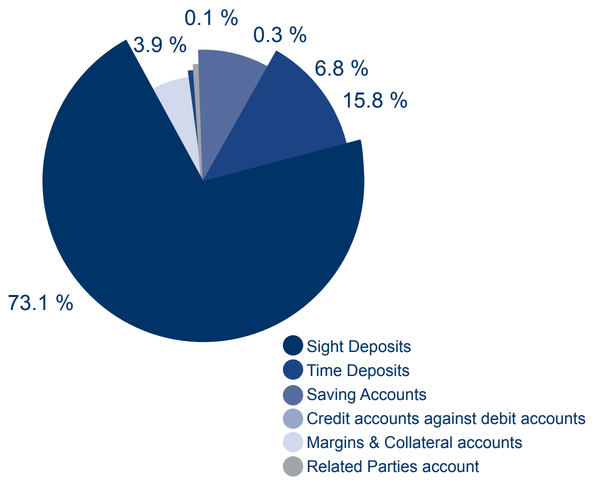
DEPOSITS DISTRIBUTION

2016



DEPOSITS DISTRIBUTION

2015



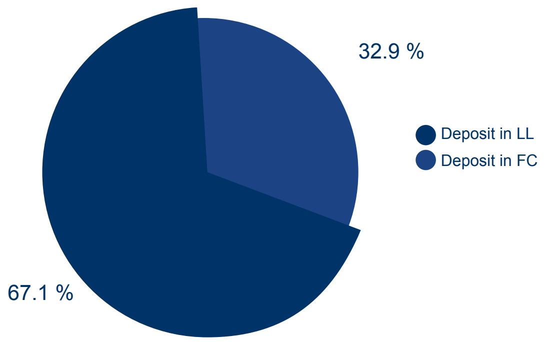
DEPOSIT DISTRIBUTION BY CURRENCY

The breakdown of deposits' growth indicates that deposits denominated in LBP grew by 20.7% in 2016 compared to those denominated in foreign currencies which increased by 11.8%.

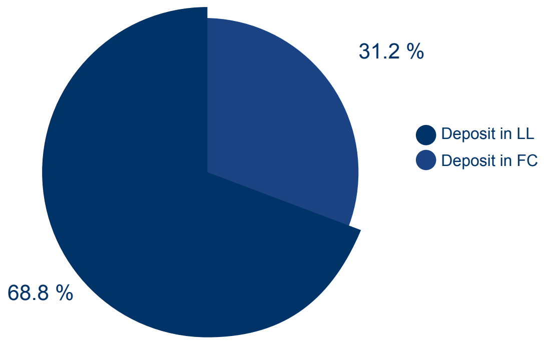
The "Deposit Dollarization Rate" (measured as deposits denominated in foreign currencies to total deposits) slightly decreased from 68.8% as of December 31st, 2015 compared to 67.1% as of December 31st, 2016. This has led to a fall in dollarization by approximately 1.7%.

DEPOSIT DISTRIBUTION BY CURRENCY FOR THE YEARS 2015 AND 2016 WAS AS FOLLOWS:

2016



2015



2.1.2 SHAREHOLDERS' EQUITY

The Bank's current equity profile is mainly composed of supportive, core shareholders, maintaining the Bank's policy of fully retaining earnings. These earnings have served to reinforce the capital base over the previous years. Total shareholders' equity increased by 9.4% year on year to reach USD 350.2 million as at end 2016 from USD 320.1 million as at end 2015, contributing to nearly 8.5% out of total assets in 2016.

The increase in the equity for year 2016 is driven by the retention of profits, after dividend distribution on the Bank's preferred shares, amounting to USD 30.1 million. This measure falls in line with the Bank's strategy of growing organically and at a steady pace.

2.2 USES OF FUNDS

Maintaining high asset quality and adequate liquidity remains one of the Bank's fundamental priorities.

Loans and Advances to customers accounted for 35.1% from total assets in 2016 in comparison to 38.7% in 2015, while Loans to Deposit ratio decreased from 44.5% in 2015 to 40.5% in 2016, as per the Bank's lending policy.

The share of cash and balances with the Central Bank recorded a slight increase from 15.1% in 2015 to 16.8% in 2016.

The shares of Security Portfolio maintained the same ratio 37.2% in 2016 & 2015. Moreover the Bank's total exposure to the Lebanese Government slightly decreased from 28.9% in 2015 to 20.6% in 2016.

In millions of LBP — As at December 31

	2016	%	2015	%	Growth Amount	Growth %
Cash and Balances with Central Bank	1,039,759	16.8	816,950	15.1	222,809	27.3
Banks and Financial Institutions	526,177	8.5	349,904	6.5	176,273	50.4
Loans to banks and financial institutions	4,964	0.1	14,979	0.3	-10,015	-66.9
Security Portfolio	2,305,632	37.2	2,008,850	37.3	296,782	14.8
Loans and Advances to Customers	2,171,898	35.1	2,086,028	38.7	85,870	4.1
Other Assets	144,158	2.3	113,005	2.1	31,153	27.6
TOTAL	**6,192,588**	**100**	**5,389,716**	**100**	**802,872**	**14.9**

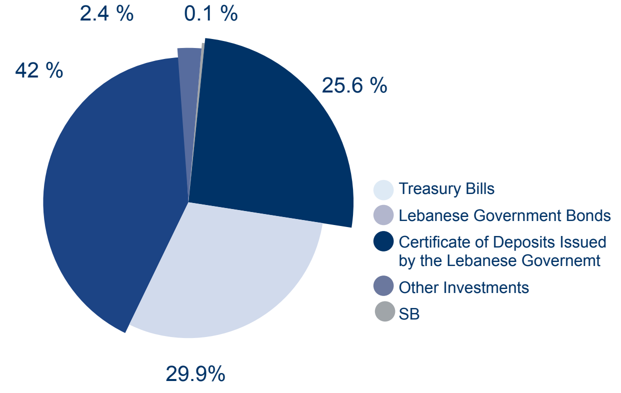
2.2.1 SECURITY PORTFOLIO

In millions of LBP — As at December 31

	2016	%	2015	%	Growth Amount	Growth %
Treasury Bills	589,224	25.6	741,160	36.9	-151,936	-20.5
Lebanese Government Bonds	689,624	29.9	742,744	37.0	-53,120	-7.2
Certificate of Deposits issued by the Lebanese Government	967,451	42.0	448,275	22.3	519,176	115.8
Subordinated Bonds	3,027	0.1	3,028	0.1	-1	0.0
Other Investments	56,306	2.4	73,643	3.7	-17,337	-23.5
TOTAL	**2,305,632**	**100**	**2,008,850**	**100**	**296,782**	**14.8**

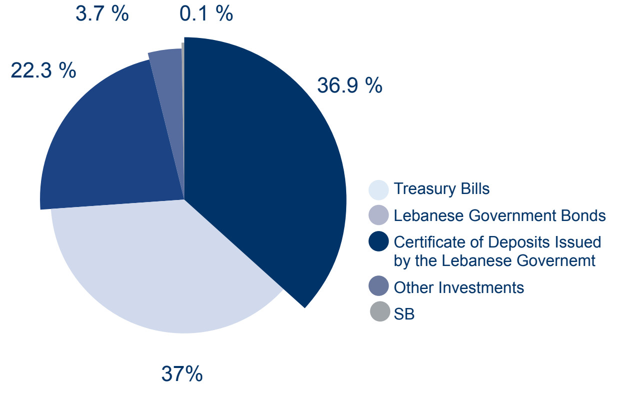
DISTRIBUTION BY TYPE

2016



DISTRIBUTION BY TYPE

2015



DISTRIBUTION BY CLASSIFICATION

In millions of LBP — As at December 31

2016	FVTPL	%	FVTOCI	%	Amortized Cost	%	Total	%
Treasury Bills	-	-	-	-	589,224	26.2	589,224	25.6
Lebanese Government Bonds	-	-	-	-	689,624	30.7	689,624	29.9
Certificate of Deposits issued by the Lebanese Government	-	-	-	-	967,451	43.0	967,451	42.0
Subordinated Bonds	-	-	-	-	3,027	0.1	3,027	0.1
Others	49,986	100	6,320	100	-	-	56,306	2.4
TOTAL	**49,986**	**100**	**6,320**	**100**	**2,249,326**	**100**	**2,305,632**	**100**
Per Cent to Total		**2.2**		**0.3**		**97.5**		**100**

In millions of LBP — As at December 31

2015	FVTPL	%	FVTOCI	%	Amortized Cost	%	Total	%
Treasury Bills	-	-	-	-	741,160	38.3	741,160	36.9
Lebanese Government Bonds	-	-	-	-	742,744	38.4	742,744	37.0
Certificate of Deposits issued by the Lebanese Government	-	-	-	-	448,275	23.2	448,275	22.3
Subordinated Bonds	-	-	-	-	3,028	0.1	3,028	0.1
Others	67,323	100	6,320	100	-	-	73,643	3.7
TOTAL	**67,323**	**100**	**6,320**	**100**	**1,935,207**	**100**	**2,008,850**	**100**
Per Cent to Total		**3.4**		**0.3**		**96.3**		**100**

2.2.2 NET LOANS AND ADVANCES TO CUSTOMERS

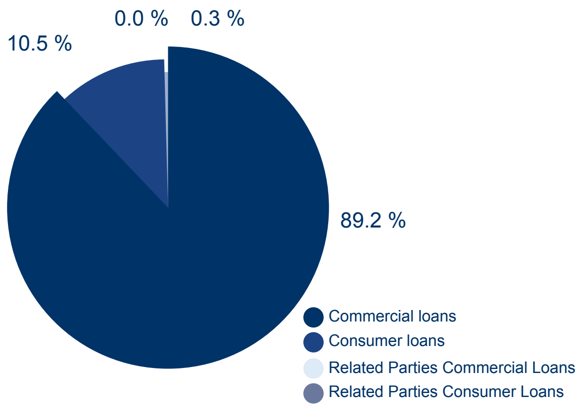
The “Loans and Advances to Customers” portfolio witnessed an increase of 4.1% in 2016, reaching LBP 2,172 billion compared to LBP 2,086 billion in 2015.

Following the Bank’s lending policy, the Bank slightly decreased its “Loan to Deposit Ratio”, which stood at 40.5% at the end of 2016 compared to 44.5% at the end of 2015.

In millions of LBP					As at December 31	
						Growth
	2016	%	2015	%	Amount	%
Net loans and advances to customers	**2,165,502**	**99.7**	**2,080,863**	**99.8**	**84,639**	**4.1**
Commercial loans	1,937,702	89.2	1,865,613	89.5	72,089	3.9
Consumer loans	227,800	10.5	215,250	10.3	12,550	5.8
Loans & advances to related parties	**6,396**	**0.3**	**5,165**	**0.2**	**1,231**	**23.8**
Commercial loans	688	-	10	-	678	6,780
Consumer loans	5,708	0.3	5,155	0.2	553	10.7
TOTAL	**2,171,898**	**100**	**2,086,028**	**100**	**85,870**	**4.1**

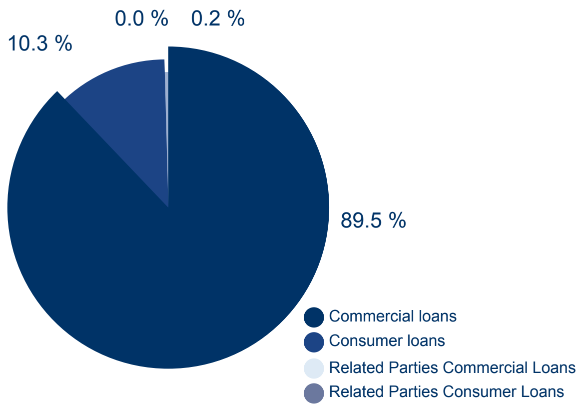
LOANS & ADVANCES DISTRIBUTION

2016



LOANS & ADVANCES DISTRIBUTION

2015



3. RISK MANAGEMENT

LGB BANK’s Risk Management framework provides a robust and consistent approach to Risk Management across the Bank and is a core component of the Bank’s Internal Governance framework. Throughout 2016, the integrated governance, risk, and control frameworks were further embedded while continuing the use of a consistent approach to risk appetite, delegated authorities and governance committee structures.

The Bank’s Risk Management framework is subject to constant evaluation to ensure that it meets the challenges and requirements of the global markets in which the Bank operates, including regulatory standards and industry best practices. It consists of three key elements: Risk Governance, Risk Appetite, and Risk Management Techniques.

The Bank has a well-established risk governance structure, with an active and engaged Board of Directors supported by an experienced senior management team and a centralized Risk Management function that is independent of business lines.

The Board of Directors, either directly or through related committees, ensures that decision-making is aligned with the Bank’s strategies and risk appetite. The Board receives regular updates on key risks of the Bank – including periodic comprehensive summary of the Bank’s risk profile and performance of the portfolio against defined goals, which is also presented to the Board Risk Committee – and approves key risk policies, limits, strategies, and risk appetite.

The Chief Risk Officer (CRO) is responsible for Risk Management under the oversight of the Board Risk committee. The CRO, who oversees the Risk Management division of the Bank, has direct access to the Board Risk Committee.

CREDIT RISK

The Board of Directors reviews and approves the Bank’s credit risk strategy and policy. The objective of the credit risk strategy is to ensure that target markets and products’ offerings are well defined and the risk parameters for the portfolios are clearly specified.

Risk Management develops the credit risk management framework and policies that detail the delegation of authority for granting credit, the credit risk rating architecture and associated parameter estimates, and the calculation of the allowance for credit losses.

Credit Risk Management regularly reviews the various segments of the credit portfolio on an enterprise-wide basis to assess the impact of economic trends or specific events on the performance of the portfolio and to determine whether corrective action is required. The results of these reviews are reported to the Risk Committee and, when significant, to the Board.

Stress testing is conducted regularly as a supplementary tool to assess resilience to adverse market conditions and to act upon if mitigating actions are deemed necessary. Stress testing framework helps ensure our portfolio is not overly exposed to extreme market events. Stress tests and their results are reviewed by the Board Risk Committee and potential Management actions are proposed if necessary.

MARKET RISK

The Board of Directors reviews and approves market risk policies and limits annually. The Bank’s Asset and Liability Committee (ALCO) and Market Risk Management oversee the application of the framework set by the Board, and monitor the Bank’s market risk exposures and activities.

Risk Management provides independent oversight of all significant market risks, supporting the ALCO with thorough analysis, quantification and recommendation regarding new investments and products.

The applied market risk measurement methodologies support risk quantification, scenario analysis and stress testing, for the range of different types of market risks exposed by the Bank. Various scenarios are performed to take into account changes in the operating environment in Lebanon and the region.

LIQUIDITY RISK

The Bank supports a strong liquidity risk management culture and ensures association to the Bank’s strategic objectives while taking into consideration all supervisory circulars and Basel guidelines. The Risk Management division is responsible for the oversight and validation of the Bank’s liquidity risk framework, limits, reporting and funding related issues.

Stress testing and scenario analysis play a central role in the Bank’s liquidity Risk Management framework and is considered as part of its liquidity monitoring, a continuous update of its Contingency Funding Plan, which incorporates an assessment of asset liquidity under various stress scenarios.

OPERATIONAL RISK

Operational Risk Management is at the core of the Bank’s operations - integrating Risk Management practices into processes, systems and cultures. As a pro-active partner to senior management, the value of Risk Management lies in supporting and challenging the later to align the business control environment with the Bank’s strategy.

The three lines of defense model help to ensure proper accountability and clearly define the roles and responsibilities for Operational Risk Management. The first line of defense is the business unit, who owns the risks in their businesses and operations. The second line of defense is led by an Operational Risk department within the Risk Management division, with support from control functions across the Bank. The third line of defense is the Internal Audit.

LGB BANK has implemented an operational risk umbrella that encompasses all aspects of potential risks - bank protection, fraud prevention, key risk indicators, capture of operational loss data, business line risk oversight and new products and initiatives for data security.

INFORMATION SECURITY

LGB BANK has implemented an information security Management System following best practices and ISO standards.

The Information Security department, responsible for enhancing the information Security program, manages the development, implementation, and enforcement of information systems’ security polices and related recommended guidelines, operating procedures and technical standards, as well as ensures appropriate risk mitigation and control process for security incidents which are operated as required.

The department also provides direction and guidance on safeguarding the confidentiality, integrity and availability of LGB BANK’s information and computing assets, thus conducting security awareness sessions and training to LGB BANK’s staff.

In addition, the Information Security department continuously enhances the risk management program that ensures the identification of vulnerabilities and threats to the information resources, while putting into practice countermeasures in order to reduce risk to an acceptable level, based on the value of the information resource to the organization.

OTHER RISKS

A good reputation and a positive public image is an invaluable asset to our Bank. Risk Management monitors all business activities, policies and procedures, to guarantee their compliance with legal requirements.

Reputational Risk is managed and controlled throughout the Bank by codes of conduct, governance practices and Risk Management programs, policies, procedures and training. Many relevant checks and balances are undertaken by Risk Management procedures, particularly operational risk, where reference is made to the Bank's well-established compliance program. All directors, officers and employees have a responsibility to conduct their activities in accordance with the LGB BANK Guidelines for Business Conduct.

CAPITAL FUNDS AS PER BASEL III

The Bank conducts an annual strategic planning process, which lays out the development of its future strategic direction for its business areas. The adequacy of capital is actively managed and monitored where the primary objective of the Bank's capital management is to ensure that the Bank maintains a sufficient level of capital to exceed all regulatory requirements and to achieve a strong credit rating, while optimizing shareholders' value.

This is done through a greater focus on the Bank's own estimates of capital demand and targeted earnings through a more formalized assessment of key risks, risk bearing capacity and the use of enterprise stress testing to assess impact of capital demand, capital supply and liquidity, as a complement to economic and regulatory capital.

The targets are monitored on an ongoing basis in ALCO and Risk Committee meetings. Any projected shortfall from limits and targets is discussed together with potential mitigating strategies seeking to ensure that we remain on track. Amendments to the strategic and capital plan must be approved by the Board.

The Bank is fully compliant with Basel III Capital Guidelines and with the BDL circular no.44 and its intermediate circular no.436, dated September 2016. The current Bank's adequate capital ratios are the result of its internal capital generation, management of the balance sheet and periodic cash injection by existing shareholders and issuance of preferred shares. Those ratios are calculated in accordance with the Standardized Approach for Credit Risk and Market Risk, the Basic Indicator Approach for Operational Risk.

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

The ICAAP is becoming more and more of a corner stone in setting the Bank's strategy, which includes ongoing assessment of risks and updates of measurement techniques and controls set by the Bank for all its risks to reach the best mitigation and assessment of overall required capital to cover any unanticipated losses.

The Board and senior management are liable for incorporating capital planning and capital management into the Bank's overall management culture and approach. They ensure that the reliability of the Capital Planning Process is communicated, implemented and supported by sufficient authority and resources. The Board's main concern is to ensure that the Bank maintains an adequate level of near and longer term capital needs and capital expenditures required for the foreseeable future to exceed all regulatory requirements.

■ 4. INTERNAL AUDIT

The IAU is responsible for strengthening LGB BANK business risk/control environment, by providing comprehensive and independent professional audit and consulting services to all divisions/departments operating within the Bank. The IAU also supports the management in maintaining proper control over the Bank's assets, thus adding value to the overall business performance.

The IAU provides assurance to the Board through the Audit Committee that the deployed internal controls are adequate to mitigate risks, Governance processes are effective and efficient and that organizational goals and objectives are met.

The Internal Audit Unit's main objectives are:
- Conducting independent and objective audit reviews and evaluations.
- Addressing risky activities and processes by providing tailored recommendations and implementing best practices.
- Adding value to the business risk control environments.
- Ensuring the adequate implementation of risk management procedures and methodologies, and the efficient functioning of the internal control framework.
- Providing consultancy services regarding organizing and enhancing the risk control framework.

The IAU follows a risk-based approach when auditing business units. . Based on this risk approach, emphasis and priority are placed on the business areas where the highest risks are considered.
The IAU is composed of specialized audit sections as follows: Branch Audit, Head Office Audit (including AML/CFT & Compliance), and IT Audit.

All branches are risk rated according to the level of internal control exercised by branch management, and, the operational risks inherent to their activities. Based on the assigned risk rating, corrective measures are taken to enhance the branches' risk profiles, and to address the observations and deficiencies raised in the audit reports. The Internal Audit reports contribute to the issuance of new procedural notes and policies that improve the internal control framework and enhance management oversight of branch operations.

Head Office Audit section covers all centralized divisions/departments as scheduled in the year plan of 2016, and conducts on-site missions among the different business divisions/departments and support functions including AML/CFT & Compliance Units.

In addition, several audit IT assignments were performed on the IT functions, covering various applications and processes applied at the Bank level. IT general control reviews were also conducted to enhance physical and logical security of IT environment.

■ 5. COMPLIANCE MANAGEMENT

The Compliance Function is an independent function that identifies, evaluates, advises on, monitors and reports on Bank's compliance risk, that is, the risk of legal or regulatory sanctions, financial loss or loss of reputation the Bank may suffer as a result of its failure to comply with all or any of the applicable laws, regulations, codes of conduct for employees and senior management and standards of sound practices issued by regulators.

COMPLIANCE WITH AML/CFT

LGB BANK has implemented a set of rules that apply to all Bank's activities to ensure compliance with Lebanese AML/CFT laws and regulations as well as International standards.

The Bank has in place policies and procedures for the better knowledge of the customers and their expected use of Bank's products and services. This includes the following:
- Verifying any customer's identity
- Gathering information about the scope and purpose of the customer relationship
- Paying attention to atypical transactions and identifying suspicious ones
- Informing the FIU about any suspicious case that was not resolved

COMPLIANCE WITH INTERNATIONAL SANCTIONS

The Central Bank of Lebanon has issued regulations asking Lebanese banks to comply with rules and regulations of the countries of correspondent banks with whom a Lebanese bank has a banking relationship. Having, the above legal framework in mind, LGB BANK pays specific attention to sanctions imposed by the UN, US and EU.

LGB BANK, through the use of technology and third parties, has various processes in place to ensure compliance with international financial sanctions, including restrictions related to payments that involve certain countries, individuals, entities, vessels and products.

COMPLIANCE WITH TAX EVASION INITIATIVES

LGB BANK fully understands and adheres to International efforts to fight tax evasion. The Bank has in place policies and procedures to execute what is required under the FATCA Law and the CRS initiative by the OECD.

COMPLIANCE WITH LOCAL LAWS AND REGULATIONS

The Compliance Department has compiled a full database of Lebanese regulations issued by the Central Bank and other Lebanese regulatory authorities, and in close coordination with the Legal Department, the Compliance Department implements the monitoring of new, updated as well as prospective Laws and Regulations applicable to the Bank.

The above mentioned monitoring comprises of: Receiving, Analyzing, Assuring Compliance with Laws and Regulations then Testing and Reporting Bank's Compliance to Management.

■ 6. TRANSPARENCY AND DISCLOSURES

In an endeavor to further strengthen its corporate governance standards and enhance transparency and disclosure in its financial reports, the Bank has adopted one of the strongest global standards of transparency in financial reporting, the International Financial Reporting Standards (IFRS) as certified by the International Accounting Standards Board.

The Board directs the process of disclosure and communication with stakeholders, to ensure that they are fair, transparent, comprehensive and timely. These disclosures include the Bank's profile, statements of its vision and mission, strategy and objectives as well as its financial statements.

The appropriate financial and practical information is disclosed through our main shareholders, annual report, website, brochures, newsletters as well as regular announcements in the media.

■ 7. SOCIAL RESPONSIBILITY PROGRAMS

LGB BANK plays a dynamic role in supporting and sponsoring various local social and community initiatives and programs that are aligned with the Bank's business and corporate social responsibility communication strategy. LGB BANK is committed to support and endorse Lebanese non-profit associations and community institutions that addresses different humanitarian and social issues in Lebanon.

AUDITORS' REPORT

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Independent auditors' report

To the shareholders of
LEBANON & GULF BANK S.A.L.

Qualified Opinion

We have audited the separate financial statements of Lebanon & Gulf Bank S.A.L. (the "Bank"), which comprise the separate statements of financial position as at 31 December 2016, and the separate statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the separate financial statements, including significant accounting policies and other explanatory information.

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

Basis for Qualified Opinion

As disclosed in note 16 to the separate financial statements, during 2016, the Bank did not recognize in the separate income statement an amount of LL 32,292 million in gains realized from certain transactions on financial instruments with the Central Bank of Lebanon. The Bank 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 17 to the separate financial statements, the Bank recorded excess provisions amounting to LL 20,000 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 Bank's accounting for the above-mentioned transactions departs from the requirements of International Financial Reporting Standards (IFRSs). Had the Bank properly accounted for these transactions, events and conditions, in accordance with International Financial Reporting Standards, the effects on the separate financial statements would have been as follows:

- Net income for the year ended 31 December 2016 would have increased by LL 52,292 million through an increase in "Net gain from sale of financial assets at amortized cost" by LL 37,991 million, a decrease in "Provisions for risks and charges" by LL 20,000 million and an increase in "Income tax expense" by LL 5,699 million;
- Total liabilities as at 31 December 2016 would have decreased by LL 52,292 million, through a decrease in "Deferred revenues" (reflected under "Other liabilities") by LL 32,292 million and a decrease in "Provisions for risks and charges" by LL 20,000 million; and
- Equity as at 31 December 2016 would have increased, through an increase in net income, by LL 52,292 million.

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Basis for Qualified Opinion (continued)

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 Separate Financial Statements* section of our report. We are independent of the Bank 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 separate financial statements in Lebanon, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Other information

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

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

In connection with our audit of the separate 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 separate 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 Bank did not recognize certain gains and recorded excess provisions for risks and charges in the separate 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 separate financial statements of the year ended 31 December 2016. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Basis for Qualified Opinion section we have determined the matters described below to be the key audit matters to be communicated in our report.

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Key Audit Matters (continued)

Impairment of loans and advances to customers

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.

- for retail loans:
  - testing the accuracy of key inputs into the models;
  - for a selection of models, assessing the appropriateness of the impairment calculation methodology; and
  - re-performing certain calculations; and
- assessing whether disclosures in the financial statements appropriately reflect the Bank's exposure to credit risk.

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 Bank'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 Separate Financial Statements

Management is responsible for the preparation and fair presentation of the separate financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free form material misstatement, whether due to fraud or error.

In preparing the separate financial statements, management is responsible for assessing the Bank'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 Bank or to cease operations, or have no realistic alternative but to do so.

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

Auditors' responsibilities for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 separate 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 separate 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.
- 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 Bank'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 Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate 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 auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

Auditors' responsibilities for the Audit of the Separate Financial Statements (continued)

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

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 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 separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter 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 engagement partners on the audit resulting in this independent auditor's report are Mr. Wissam Safwan for KPMG and Mr. Nehmé Semaan for BDO, Semaan, Gholam & Co.

BDO, Semaan, Gholam & Co.

BDO, Semaan, Gholam & Co.

KPMG

KPMG

25 May 2017
Beirut, Lebanon

FINANCIAL STATEMENTS

Separate statement of Financial Position

In millions of LBP as at 31 December

	Notes	2016	2015
ASSETS			
Cash and balances with Central Banks	3	1,039,759	816,950
Due from Banks and Financial Institutions	4	526,177	349,904
Financial assets at fair value through profit or loss	5	49,986	67,323
Loans to banks and financial institutions		4,964	14,979
Loans and advances to customers at amortized cost	6	2,165,502	2,080,863
Loans and advances to related parties at amortized cost	7	6,396	5,165
Debtors by acceptances		30,098	29,881
Financial assets at amortized cost	8	2,249,326	1,935,207
Investment in subsidiary	9	6,320	6,320
Property and equipment	10	51,473	50,788
Assets obtained in settlement of debt	11	52,360	26,053
Other assets	12	10,227	6,283
TOTAL ASSETS		**6,192,588**	**5,389,716**
LIABILITIES AND EQUITY			
Liabilities			
Due to central bank	13	38,503	35,255
Due to Banks and Financial Institutions	14	58,518	49,910
Due to Banks under repurchase agreements	14	90,973	90,922
Deposits from customers	15	5,358,114	4,672,865
Deposits from related parties	7	9,114	11,992
Engagements by acceptances		30,098	29,881
Other liabilities	16	51,497	9,124
Provisions for risks and charges	17	27,848	7,182
TOTAL LIABILITIES		**5,664,665**	**4,907,131**
Equity			
Share capital - common shares	18	194,068	194,068
Share capital - preferred shares	18	18,879	18,879
Share premium - preferred shares	18	121,482	121,482
Non distributable reserves	19	88,560	66,669
Retained earnings	20	51,509	35,269
Net results of the financial period – Profit	20	53,425	46,218
TOTAL EQUITY		527,923	482,585
TOTAL LIABILITIES AND EQUITY		**6,192,588**	**5,389,716**

The attached notes 10 to 78 are an integral part of these separate financial statements.

Separate statement of profit or loss and other Comprehensive Income

In millions of LBP For the year ended 31 December

	Notes	2016	2015
Interest and similar income	21	314,150	277,907
Interest and similar expense	21	(236,928)	(203,989)
NET INTEREST AND SIMILAR INCOME		**77,222**	**73,918**
Fee and commission income	22	14,831	15,432
Fee and commission expense	22	(664)	(379)
NET FEE AND COMMISSION INCOME		**14,167**	**15,053**
Net gain from financial assets at fair value through profit or loss	23	13,638	9,965
Net gain from financial assets at amortized cost	24	18,259	5,915
Other operating income	25	2,242	4,949
TOTAL OPERATING INCOME		**125,528**	**109,800**
Net impairment loss	26	(10,560)	(7,695)
NET OPERATING INCOME		**114,968**	**102,105**
Personnel expenses	27	(29,745)	(27,490)
Depreciation of property and equipment	10	(3,504)	(3,751)
Other operating expenses	28	(17,631)	(14,988)
TOTAL OPERATING EXPENSES		**(50,880)**	**(46,229)**
Net loss on disposal of property and equipment		(165)	(165)
PROFIT BEFORE TAX		**63,923**	**55,711**
Income tax expense	29	(10,498)	(9,493)
PROFIT FOR THE YEAR		53,425	46,218
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		53,425	46,218

The attached notes 10 to 78 are an integral part of these separate financial statements.

Separate statement of Cash Flows

In millions of LBP	Notes	2016	2015
OPERATING ACTIVITIES			
Profit for the period before tax		63,923	55,711
Adjustments for:			
Depreciation of property and equipment	10	3,504	3,751
Provision for employees' end of service benefits	17	675	608
Net impairment loss	26	10,560	7,695
Net gain on disposal of assets obtained in settlement of debts	25	(154)	(2,996)
Net Loss on disposal of property and equipment		165	165
Net gain from financial assets at amortized cost	24	(18,259)	(5,915)
Net unrealized gain on financial assets at fair value through profit or loss	23	(4,189)	(6,991)
Realized gain on financial assets at fair value through profit or loss	23	(5,570)	(12)
Provisions for structural exchange position	17	87	59
Operating profit before working capital changes		**50,742**	**52,075**
Changes in operating assets and liabilities:			
Cash and balances with central banks		(233,887)	(67,095)
Due from banks and financial institutions		(4,898)	(5,886)
Financial assets at fair value through profit or loss		25,777	(3,129)
Loans and advances to customers at amortized cost		(95,199)	(167,820)
Loans and advances to related parties at amortized cost		(1,231)	(1,994)
Assets obtained in settlement of debt		(29,306)	(2,253)
Proceeds from disposal of assets obtained in settlement of debt		3,153	6,199
Other assets		(3,944)	(333)
Due to Banks and Financial Institutions		27,847	2,192
Deposits from customers		685,249	458,500
Deposits from related parties		(2,878)	451
Other liabilities		40,551	(1,809)
Provisions for risks and charges		20,000	-
Cash from operations		**481,976**	**269,098**
Taxation paid		(8,676)	(9,054)
Retirement benefits paid	17	(96)	(169)
Net cash from operating activities		**473,204**	**259,875**

For the year ended 31 December

The attached notes 10 to 78 are an integral part of these separate financial statements.

Separate statement of Cash Flows (continued)

In millions of LBP	Notes	2016	2015
INVESTING ACTIVITIES			
Financial assets classified at amortized cost		(295,860)	(341,881)
Loans to Banks and Financial Institutions		953	1,064
Net acquisition of property and equipment	10	(4,689)	(5,506)
Proceeds from sale of property and equipment		330	289
Dividends received	23	1,319	263
Net cash used in investing activities		**(297,947)**	**(345,771)**
FINANCING ACTIVITIES			
Issue of preferred shares (2015 issue)	18	-	30,150
Dividends paid	30	(8,087)	(5,905)
Due to banks under repurchase agreements		51	90,922
Due to central bank		3,248	3,542
Net cash (used in) from financing activities		**(4,788)**	**118,709**
Net effect of foreign exchange		**5**	**20**
INCREASE IN CASH AND CASH EQUIVALENTS		**170,474**	**32,833**
Cash and cash equivalents at 1 January		409,941	377,108
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	31	**580,415**	**409,941**

For the year ended 31 December

The attached notes 10 to 78 are an integral part of these separate financial statements.

Separate statement of Changes in Equity

In millions of LBP

	Note	Share capital-common shares	Share capital-preferred shares	Share premium-preferred shares	Non distributable reserves	Retained earnings	Net Results of the financial period- Profit	Total equity
Balance at 1 January 2016		**194,068**	**18,879**	**121,482**	**66,669**	**35,269**	**46,218**	**482,585**
Transactions with owners of the bank								
Contributions and distributions								
Appropriation of 2015 profits	20	-	-	-	21,891	24,327	(46,218)	-
Dividends distributions	30	-	-	-	-	(8,087)	-	(8,087)
Total contributions and distributions		-	-	-	21,891	16,240	(46,218)	(8,087)
Total comprehensive income								
Profit for the year		-	-	-	-	-	53,425	53,425
Total comprehensive income		-	-	-	-	-	53,425	53,425
Balance at 31 December 2016		**194,068**	**18,879**	**121,482**	**88,560**	**51,509**	**53,425**	**527,923**
Balance at 1 January 2015		**194,068**	**14,819**	**95,392**	**49,324**	**17,670**	**40,849**	**412,122**
Transactions with owners of the bank								
Contributions and distributions								
Appropriation of 2014 profits	20	-	-	-	17,345	23,504	(40,849)	-
Dividends distributions	30	-	-	-	-	(5,905)	-	(5,905)
Issue of preferred shares (2015 issue)	18	-	4,060	26,090	-	-	-	30,150
Total contributions and distributions		-	4,060	26,090	17,345	17,599	(40,849)	24,245
Total comprehensive income								
Profit for the year		-	-	-	-	-	46,218	46,218
Total comprehensive income		-	-	-	-	-	46,218	46,218
Balance at 31 December 2015		**194,068**	**18,879**	**121,482**	**66,669**	**35,269**	**46,218**	**482,585**

The attached notes 10 to 78 are an integral part of these separate financial statements.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

1.1 REPORTING ENTITY

Lebanon & Gulf Bank SAL (the "Bank") is a Lebanese joint stock company incorporated in 1963 under the name of Agricultural Credit Bank. The name of the Bank was changed to Lebanon & Gulf Bank SAL in year 1980. The Bank is registered under No 43171 in the Beirut Register of Commerce and under No 94 on the banks' list published by the Central Bank of Lebanon.

The Bank provides a full range of commercial banking activities through its headquarter located in Beirut Central District, Allenby street, Beirut, Lebanon, and its branches in Lebanon and a foreign branch in Larnaca (Cyprus).

On 14 March 2013, the Central Bank of the United Arab Emirates licensed the Bank to open a representative office in Dubai. This license is valid for 5 years. The representative office conducted its business starting from the above date.

1.2 BASIS OF ACCOUNTING

The separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Presentation of separate financial statements
The shareholders of the Bank have elected to present separate financial statements and the Bank did not produce consolidated financial statements.

The Bank presents its separate statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the separate statement of financial position date (current) and more than 12 months after the separate statement of financial position date (non-current) is presented in the notes.

Financial assets and financial liabilities are offset and the net amount reported in the separate statement of financial position only 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. Income and expense are not offset in the income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Bank.

1.3 FUNCTIONAL AND PRESENTATION CURRENCY

The separate financial statements are presented in Lebanese Pound (LBP) which is the functional and presentation currency of the Bank and all amounts are rounded to the nearest million (LBP million) except when otherwise indicated.

1.4 USE OF JUDGEMENTS AND ESTIMATES

The preparation of the Bank's separate financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Judgements
Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the separate financial statements are included below:

Going concern
The Bank's management has made an informal assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank 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 Bank's ability to continue as a going concern. Therefore, the separate 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 Bank 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.
In determining whether its business model for managing financial assets is to hold assets in order to collect contractual cash flows the Bank 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 assets that are sold are held for an extended period of time relative to their contractual maturity.

Contractual cash flows of financial assets
The Bank 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 amortized cost measurement. In making the assessment the Bank 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.

Assumptions and estimation uncertainties
Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 December 2016 is set out below in relation to the impairment of financial instruments and in the following notes in relation to other areas:
Note 33 - determination of the fair value of financial instruments with significant unobservable inputs.
Note 17 and 32 - recognition and measurement of provisions and contingencies: Key assumptions about the likelihood and magnitude of an outflow of resources.

Fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded on the separate 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 is 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. The valuation of financial instruments is described in more details in the notes.

Impairment losses on loans and advances
The Bank 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 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 Bank 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 data (including levels of unemployment, real estate price indices, country risk and the performance of different individual groups).

2. ACCOUNTING POLICIES

2.1 BASIS OF MEASUREMENT

The separate financial statements have been prepared on a historical cost basis except for the measurement at fair value of financial assets at fair value through profit or loss.

2.2 CHANGES IN ACCOUNTING POLICIES

Except for the changes below, the Bank has consistently applied the accounting policies as set out in note 2.3 to all years presented in these separate financial statements.
These improvements, effective from 1 January 2016 did not have a material impact on the Bank. They include:

Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)
The amendments to IAS 38 Intangible Assets introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. This presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue. While this is not an outright ban, it creates a high hurdle for when revenue-based methods of amortisation may be used for intangible assets.

The phrase 'highly correlated' is a new term that is not used in other IFRSs. It was introduced to limit the use of revenue-based amortisation, because revenue is affected by other inputs and processes, selling activities and changes in sales volumes and prices, which are not directly linked to the consumption of the economic benefits embodied in the intangible asset. As a result, an entity will need to demonstrate that there is more than just some element of relationship between revenue generation and the consumption of benefits.

The amendments to IAS 16 Property, Plant and Equipment explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. This is because such methods reflect factors other than the consumption of economic benefits embodied in the asset.

Equity Method in Separate Financial Statements (Amendments to IAS 27)

In order to facilitate the convergence of IFRS with local GAAP for separate financial statements in those countries, countries where local regulations require entities to present separate financial statements using the equity method to account for investments in subsidiaries, associates and joint ventures, the Board issued Equity Method in Separate Financial Statements (Amendments to IAS 27) on 12 August 2014.

The amendments allow the use of the equity method in separate financial statements, and apply to the accounting not only for associates and joint ventures, but also for subsidiaries.

Annual Improvements to IFRSs 2012-2014 Cycle

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

IFRS 5 is amended to clarify that:

- If an entity changes the method of disposal of an asset (or disposal group) – i.e. reclassifies an asset (or disposal group) from held-for-distribution to owners to held-for-sale (or vice versa) without any time lag – then the change in classification is considered a continuation of the original plan of disposal and the entity continues to apply held-for-distribution or held-for-sale accounting. At the time of the change in method, the entity measures the carrying amount of the asset (or disposal group) and recognises any write-down (impairment loss) or subsequent increase in the fair value less costs to sell/distribute of the asset (or disposal group); and

- If an entity determines that an asset (or disposal group) no longer meets the criteria to be classified as held-for-distribution, then it ceases held-for-distribution accounting in the same way as it would cease held-for-sale accounting.

Any change in method of disposal or distribution does not, in itself, extend the period in which a sale has to be completed.

IFRS 7 Financial Instruments: Disclosures

IFRS 7 is amended to clarify when servicing arrangements are in the scope of its disclosure requirements on continuing involvement in transferred financial assets in cases when they are derecognised in their entirety. A servicer is deemed to have continuing involvement if it has an interest in the future performance of the transferred asset – e.g. if the servicing fee is dependent on the amount or timing of the cash flows collected from the transferred financial asset; however, the collection and remittance of cash flows from the transferred financial asset to the transferee is not, in itself, sufficient to be considered 'continuing involvement.

IAS 19 Employee Benefits

The IASB has amended IAS 19 to clarify that high-quality corporate bonds or government bonds used in determining the discount rate should be issued in the same currency in which the benefits are to be paid. Consequently, the depth of the market for high-quality corporate bonds should be assessed at the currency level and not at the country level.

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

New requirements for investment entities to use fair value accounting came into effect in early 2014, but early adoption had already highlighted a series of application issues.

In response, on 18 December 2014 the IASB issued Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28), which addresses three separate issues.

- Intermediate investment entities
- Intermediate parents owned by investment entities
- Interests in investment entities

Disclosure Initiative (Amendments to IAS 1)

The amendments do not require any significant change to current practice. Only by keeping the bigger picture in mind, and avoiding a boilerplate, checklist approach to financial statement disclosures, can preparers achieve the improved reporting sought by these clarifications.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Except for the changes explained in note (2.2), the Bank has consistently applied the following accounting policies to all years presented in these separate financial statements.

(a) Foreign currency

(I) Foreign currency transaction

Transactions in foreign currencies are translated into the respective functional currencies at the exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange at the date of the statement of financial position. All differences are taken to "Net gain from financial assets at fair value through profit or loss" in the 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 translation 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 profit or loss and in other comprehensive income or profit or loss is also recognized in other comprehensive income or profit or loss respectively).

(II) Translation of foreign operations

As at the reporting date, the assets and liabilities of overseas branches are translated into the Bank's presentation currency at the rate of exchange as at the statement of financial position 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 branch, the deferred cumulative amount recognized in equity relating to that particular foreign branch is recognized in the income statement.

(b) Financial assets and financial liabilities

(I) Recognition

All financial assets and liabilities are initially recognised on the trade date, i.e. the date that the Bank 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.

(II) Classification

i. 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 amortized cost or at 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 recognizing the gains and losses on them on different basis. An entity is required to disclose such financial assets separately from those mandatorily measured at fair value.

Financial assets at amortized cost

Financial assets that meet both of the following conditions are subsequently measured at amortized cost less any impairment loss (except for financial assets that are designated at fair value through profit or loss upon initial recognition):

- 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 recognised 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, 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 income statement. The losses arising from impairment are recognised in the income statement in "Net impairment loss".

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 amortized cost are reflected under "Net gain from financial assets at amortized cost" in the income statement.

Balances with central banks, due from banks and financial institutions, loans to banks and financial institutions and net 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 "Net loans and advances to customers and related parties" are subsequently measured at amortized cost using the Effective Interest Rate (EIR) method, 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 EIR. The amortization is included in 'Interest and similar income' in the income statement. The losses arising from impairment are recognised in the income statement in "Net impairment loss".

Financial assets at fair value through profit or loss
Included in this category are those debt instruments that do not meet the conditions in "Financial assets 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.

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

Equity instruments at fair value through profit or loss
Investments in equity instruments are classified at fair value through profit or loss, unless the Bank 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 statement of financial position at fair value. Changes in fair value and dividend income are recorded under "Net gain from financial assets at fair value through profit or loss" in the income statement. Gains and losses arising from de-recognition of equity instruments at fair value through profit or loss are also reflected under "Net gain from financial assets at fair value through profit or loss" in the income statement.

ii. 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 amortized cost or fair value.

The Bank classifies all financial liabilities as subsequently measured at amortized cost using the effective interest method.

Financial liabilities measured at amortized cost consist of due to central bank, due to banks and financial institutions, customers' and related parties' deposits.

"Due to central bank, due to banks and financial institutions, due to banks under repurchase agreements, customers' and related parties' deposits"

After initial measurement, due to central bank, due to banks and financial institutions, due to banks under repurchase agreements, customers' and related parties' deposits are measured at amortized cost less amounts repaid using the effective interest rate method. Amortized 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.

(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 Bank immediately recognizes the difference between the transaction price and fair value (a "Day 1" profit or loss) in the 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 recognised in the income statement when the inputs become observable, or when the instrument is derecognised.

(IV) Reclassification

The Bank 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 Bank's senior management as a result of external or internal changes when significant to the Bank's operations and demonstrable to external parties.

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 amortized cost, its fair value at the reclassification date becomes its new carrying amount.

(V) Derecognition
(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 derecognised when:

- The rights to receive cash flows from the asset have expired;
- The Bank 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:
  (a) The Bank has transferred substantially all the risks and rewards of the asset, or
  (b) The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank 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 recognised to the extent of the Bank's continuing involvement in the asset. In that case, the Bank also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects rights and obligations that the Bank 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 Bank could be required to repay.

(ii) Financial liabilities
A financial liability is derecognised 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 recognised in the income statement.

(VI) Fair value measurement
The Bank measures financial instruments designated at fair value through profit or loss at fair value at each statement of financial position date. Also, fair values of financial instruments measured at amortized 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 to which the Bank has access at that date.

The principal or the most advantageous market must be accessible by the Bank. 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.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank 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 separate 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 (i.e., as prices) or indirectly (i.e., derived from prices) observable.
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable and has a significant effect on the instrument's valuation.

The objective of valuation techniques is to arrive at a fair value measurement that reflects 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 best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e., the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

For assets and liabilities that are recognised in the separate financial statements on a recurring basis, the Bank 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 Bank's management determines the policies and procedures for recurring fair value measurement, such as unquoted financial assets.

At each reporting date, management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Bank's accounting policies. For this analysis, 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 Bank 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.

(VII) Impairment of financial assets

The Bank assesses at each statement of financial position 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 amortized cost

For financial assets carried at amortized cost, the Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank 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 recognised in the 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 realized or has been transferred to the Bank. 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 recognised 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 impairment loss" in the 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.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank'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 Bank. 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 Bank 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 Bank 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. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

(iii) Collateral valuation

The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, other non-financial assets and credit enhancements such as netting agreements. The fair value of collateral is generally assessed, at a minimum, at inception and periodically updated based on the Bank's policies and type of collateral.

To the extent possible, the Bank uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties, such as independent accredited experts and other independent sources.

(c) Leases

The determination of whether an arrangement is a lease or 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.

Bank as a lessee

Leases which do not transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(d) Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank 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 effective interest rate (EIR) method, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period), to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses. The calculation of the effective interest rate includes transaction costs and fees paid or received that are an integral part of the effective rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

The carrying amount of the financial asset or financial liability is adjusted if the Bank 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 or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest income and expense presented in the statement of profit or loss and OCI include interest or financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis.

Interest income and expense on the trading assets are considered to be incidental to the Bank's trading operations and are presented with other changes in the fair value of trading assets in :"Net gain from financial assets at fair value through profit or loss".

(ii) Fee and commission

The Bank 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 recognised as an adjustment to the effective interest rate on the loan.

Fee income from providing transaction services

Fees 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, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Other fees and commission expense relate mainly to transaction and service fees which are expensed as the services are received.

(iii) Dividend income

Dividend income is recognised when the right to receive the income is established. Usually, this is the ex-dividend date for quoted equity securities. Dividends are presented in "Net gain from financial assets at fair value through profit or loss".

(iv) Net gain from financial assets at fair value through profit or loss

Results arising from financial assets at fair value through profit or loss, include all gains and losses from changes in fair value and related income or expenses, dividends for financial assets at fair value through profit or loss, foreign exchange differences and all realized and unrealized fair value changes.

(e) Cash and cash equivalents

Cash and cash equivalents as referred to in the cash flow statement comprise cash on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of a period of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments including: cash and balances with central banks, due from banks and financial institutions and due to banks and financial institutions.

Cash and cash equivalents are carried at amortized cost in the separate statement of financial position.

(f) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment losses.

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

If significant parts of an item of property and equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment. Any gain or loss on disposal of an item of property and equipment is recognised within other income in profit or loss. 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 recognised in "Net loss on disposal of property and equipment" in the year the asset is derecognised.

(ii) Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Bank. Ongoing repairs and maintenance are expensed as incurred.

(iii) Depreciation

Depreciation is calculated using the straight line method to write off the cost of items of property and equipment to their residual values over their estimated useful lives and is generally recognised in profit or loss. Land is not depreciated.

The estimated useful lives are as follows:

• Freehold land and buildings	50 years
• Vehicles	10 years
• Office installations	16.66 years
• Furniture	12.5 years
• Computer equipment	5 years

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

(g) Intangible assets

An intangible asset is recognised 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 Bank. The Bank's intangible assets include the value of computer software.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite of indefinite. Intangible assets with finite lives are amortized over the useful economic life. The recognised period and the recognised method for an intangible asset with a finite useful life are reviewed at least at each financial year-end.

The estimated useful life of software for the current and comparative periods is 5 years.

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 recognised period or method, as appropriate, and treated as changes in accounting estimates. The recognised expense on intangible assets with finite lives is recognised in the income statement.

Amortization is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives.

(h) Assets obtained in settlement of debt

The Bank occasionally acquires assets in settlement of certain loans and advances that are in default. Repossessed properties are measured at the lower of carrying amount and fair value less costs to sell and reported within "Assets obtained in settlement of debt" which is in accordance with the Central Bank of Lebanon main circular 78 and the Banking Control Commission circulars 173 and 267.

Upon sale of repossessed assets, any gain or loss realized is recognised in the income statement under "Other operating income" or "Other operating expenses". Gains resulting from the sale of repossessed assets are transferred to "Reserves for assets in settlement of debts disposed off" in the following financial year. These reserves cannot be distributed as dividends.

(i) 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 Bank 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 the 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 or other available fair value indicators.

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 assumptions 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 recognised in the income statement.

(j) Financial guarantees and loan commitments

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument.

Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of this amortised amount, and the amount of loss allowance.

Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Liabilities arising from financial guarantees and loan commitment are included within provisions.

(k) Provisions for risks and charges

Provisions are recognised when the Bank 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. Provisions are determined based on management best estimates. The expense relating to any provision is presented in the income statement net of any reimbursement.

(l) Employees' end-of-service benefits

The Bank is subscribed to the compulsory defined benefit plan of the National Social Security Fund.

For the Bank and its branches operating in Lebanon, end-of-service benefit subscriptions paid and due to the National Social Security Fund (NSSF) are calculated on the basis of 8.5% of the staff salaries. The final end-of-service benefits due to employees after completing 20 years of service, at the retirement age, or if the employee permanently leaves employment, are calculated based on the last salary multiplied by the number of years of service. The Bank is liable to pay to the NSSF the difference between the subscriptions paid and the final end-of-service benefits due to employees. The Bank provides for end-of-service benefits on that basis.

End-of-service benefits for employees at foreign branches are accrued for in accordance with the laws and regulations of the respective countries in which the branches are located.

(m) Income tax

Income tax expense comprises current tax. It is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in profit or loss and other comprehensive income.

Taxes are provided for in accordance with regulations and laws that are effective in the countries where the Bank and its branches operate.

Current tax for the current and prior years is measured at the amount expected to be 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 statement of financial position date. Current tax also includes any tax arising from dividends.

The Bank's profits from operations in Lebanon are subject to a tax rate of 15% after deducting the 5% tax on interest received according to Law no. 497/2003 dated 30 January 2003.

Dividends are subject to a flat 10% tax, reducible to 5% provided that the entity is listed on a regulated stock exchange.

(n) Assets held in custody and under administration

The Bank 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 Bank and accordingly are recorded as off financial position items.

(o) Dividends on ordinary shares

Dividends on ordinary shares are recognised 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.

(p) Customers' acceptances

Customers' acceptances represent term documentary credits which the Bank 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.

2.4 STANDARDS ISSUED BY NOT YET EFFECTIVE

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2016 and earlier application is permitted; however, the Bank has not early adopted the following new or amended standards in preparing these separate financial statements. The new standards and amendments listed below are those that could potentially have an impact on the Bank's performance, financial position or disclosures.

Disclosure Initiative (Amendments to IAS 7)
The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.
The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted.

IFRS 9 *Financial Instruments*
IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. The Banks are currently required to apply phase I of IFRS 9 issued in November 2009 which only addressed the classification and measurement of financial assets. The complete version issued in 2014 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. (It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39). IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

Given the nature of the Bank's operations, this standard is expected to have a pervasive impact on the Bank's financial statements. In particular, calculation of impairment of financial instruments on an expected credit loss basis is expected to result in an increase in the overall level of impairment allowances.

IFRS 15 *Revenue from Contracts with Customers*
IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*.
IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.
The Bank is assessing the potential impact on its separate financial statements resulting from the application of IFRS 15.

IFRS 16 *Leases*
IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use (ROU) asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard –i.e. lessors continue to classify leases as finance or operating leases.
IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions involving the Legal form of a Lease.*
The standard is effective for annual periods beginning on or after 1 January 2019.
The Bank is assessing the potential impact on its separate financial statements resulting from the application of IFRS 16 but is not expected to have a significant effect.
The Bank has not early adopted any standard, interpretation, or amendment that has been issued but is not yet effective.

3. CASH AND BALANCES WITH CENTRAL BANKS

In millions of Lebanese Pound

	2016	2015
Cash on hand	20,769	21,691
Current accounts with Central Bank	181,128	161,664
Deposits with the Central Banks	837,862	633,595
	1,039,759	816,950

Cash and balances with the Central Banks include balances with the Central Bank in coverage of the obligatory reserve requirements for all banks operating in Lebanon on deposits in Lebanese Pound as required by the Lebanese banking rules and regulations.

This obligatory reserve is calculated on the basis of 25% of the weekly average of current accounts denominated in Lebanese Pounds and 15% of the weekly average of term deposits. Accordingly, the obligatory reserve amounted to LBP 142,020 million at 31 December 2016 (2015: LBP 101,882 million).

In addition to the above, all banks operating in Lebanon are required to deposit with the Central Bank of Lebanon placements equivalents to 15% of total deposits in foreign currencies regardless of their nature. These placements amounted to US$ 358,069 thousands (equivalent to LBP 539,789 million) as at 31 December 2016 (2015: US$ 319,053 thousands equivalent to LBP 480,974 million).

Foreign branches are also subject to obligatory reserve requirements with varying percentages, according to the banking rules and regulations of the countries in which they are located.

The obligatory reserve at Cyprus branch at 31 December 2016 amounted to € 50,919 equivalent to LBP 81,281 million (2015: € 35,994 equivalent to LBP 59 million).

4. DUE FROM BANKS AND FINANCIAL INSTITUTIONS

In millions of Lebanese Pound

	2016	2015
Current accounts	363,953	179,298
Checks for collection	23,762	28,671
Blocked accounts	10,797	5,899
Term accounts	127,665	136,036
	526,177	349,904

5. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

In millions of Lebanese Pound

	2016	2015
Equity instruments	49,986	67,323

In millions of Lebanese Pound

	2016	2015
Detailed as follows:		
CSC Bank SAL	44,173	59,081
Other equity instruments	5,813	8,242
	49,986	67,323

During 2016, the Bank sold 500,000 shares owned by the Bank which represent 12.5% of the shares of CSC Bank SAL, thus decreasing the ownership of the Bank from 39% to 26.5%.

6. LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST

In millions of Lebanese Pound

	2016	2015
Corporate loans	2,013,198	1,945,017
Retail consumer loans	228,562	215,250
	2,241,760	2,160,267
Less:		
Allowance for impairment losses (a)	(69,991)	(74,218)
Allowance for unrealised interest on impaired loans (b)	(6,267)	(5,186)
	2,165,502	2,080,863

Impairment allowance for loans and advances to customers at amortized cost

(a) The movement of the allowance for impairment losses for loans and advances to customers at amortized cost during the year was as follows:

In millions of Lebanese Pound

	Note	2016	2015
Balance at 1 January		74,218	73,940
Add:			
Charge for the year *	26	11,828	7,372
Foreign exchange difference		(109)	(291)
		85,937	81,021
Less:			
Provisions transferred to off financial position		–	(1,016)
Provisions related to loans written-off		(14,680)	(5,325)
Write-back of provisions	26	(1,266)	(462)
Balance at 31 December		69,991	74,218
Individual impairment		55,350	60,676
Collective impairment		14,641	13,542
		69,991	74,218
Gross amount of loans individually determined to be impaired		74,647	86,787
Gross amount of loans classified as substandard		74,677	12,979

* The charge for the year is detailed as follows:

In millions of Lebanese Pound

	2016	2015
Individual impairment	10,727	4,553
Collective impairment	1,101	2,819
	11,828	7,372

(b) The movement of allowance for unrealized interest on impaired loans during the year was as follows:

In millions of Lebanese Pound

	2016	2015
Balance at 1 January	5,186	5,763
Add:		
Unrealized interest for the year	3,055	1,426
Foreign exchange difference	-	(202)
	8,241	6,987
Less:		
Recoveries of unrealized interest	(227)	(1)
Unrealized interest related to written-off	(1,747)	(1,800)
	(1,974)	(1,801)
Balance at 31 December	6,267	5,186

In millions of Lebanese Pound

	2016	2015
Unrealized interest on substandard loans	2,192	1,761
Unrealized interest on doubtful loans	2,133	2,504
Unrealized interest on bad loans	1,942	921
	6,267	5,186

■ 7. RELATED PARTIES BALANCES AND TRANSACTIONS

Related parties of the Bank include Key Management Personnel of the Bank, close family members of Key Management Personnel and entities controlled or jointly controlled by Key Management Personnel or their close family members.

Key Management Personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly, including the Directors of the Bank.

Entities under common directorships are defined as those entities for which members of the Bank's board or Key Management Personnel also serve as directors.

Terms and conditions of transactions with related parties

The Bank enters into transactions with major related parties in the ordinary course of business at normal commercial interest and commission rates.

The following table provides the total amount of transactions and the amount of outstanding balances (including commitments) with related parties for the relevant financial year.

In millions of Lebanese Pound

	2016		2015	
	Outstanding balance	Income (expense)	Outstanding balance	Income (expense)
Key Management Personnel				
Loand and advances	5,708	140	5,155	71
Deposits	9,114	(807)	11,992	(557)
Guarantees taken	103	–	358	–
Entities under common directorships				
Loand and advances	688	27	10	7

Compensation of the Key Management Personnel of the Bank

In millions of Lebanese Pound

	2016	2015
Short-term benefits*	1,531	1,486

*Short-term benefits comprise salaries, bonuses, attendance fees and other short-term benefits to Key Management Personnel.

- During the year ended 31 December 2016, the Bank paid attendance fees to the members of the board of directors amounting to LBP 756 million (2015: LBP 706 million);
- During the year ended 31 December 2016, the Bank received dividends amounting to LBP 1,110 million (2015: LBP 646 million) from CSC Bank S.A.L.

■ 8. FINANCIAL ASSETS AT AMORTIZED COST

In millions of Lebanese Pound

	2016	2015
Quoted investment securities		
Governmental debt securities	686,624	742,744
Unquoted investments securities		
Central Bank's certificates of deposits	967,451	448,275
Governmental debt securities	589,224	741,160
Subordinated bonds	3,027	3,028
	1,559,702	1,192,463
	2,249,326	1,935,207

9. INVESTMENT IN SUBSIDIARY

In millions of Lebanese Pound

Company	Country of incorporation	% of ownership 2016	% of ownership 2015	2016	2015
L & Gulf Company Limited	U.A.E	100	100	6,320	6,320

During 2014, the Bank acquired 100% of shares of L & Gulf Company Limited a newly incorporated entity in UAE. The principal activity of the offshore company is to purchase and own an office in Dubai for Lebanon & Gulf Bank Rep Office.

10. PROPERTY AND EQUIPMENT

In millions of Lebanese Pound

	Freehold land and buildings	Vehicles	Furniture, office installations and computer equipment	Advances on fixed assets	Total
Cost :					
At 1 January 2016	38,720	2,595	45,451	–	**86,766**
Additions	–	432	4,257	–	**4,689**
Disposals	–	(688)	(22)	–	**(710)**
Write offs	–	(8)	(105)	–	**(113)**
Translation difference	(4)	(1)	(20)	–	**(25)**
At 31 December 2016	**38,716**	**2,330**	**49,561**	**–**	**90,607**
Accumulated Depreciation:					
At 1 January 2016	5,657	679	29,642	–	**35,978**
Depreciation for the year	652	236	2,616	–	**3,504**
Disposals	–	(201)	(17)	–	**(218)**
Write offs	–	(5)	(105)	–	**(110)**
Translation difference	(4)	(1)	(15)	–	**(20)**
At 31 December 2016	**6,305**	**708**	**32,121**	**–**	**39,134**
Carrying amount:					
At 31 December 2016	**32,411**	**1,622**	**17,440**	**–**	**51,473**

In millions of Lebanese Pound

	Freehold land and buildings	Vehicles	Furniture, office installations and computer equipment	Advances on fixed assets	Total
Cost :					
At 1 January 2015	37,317	1,857	41,323	1,420	**81,917**
Additions	–	1,313	4,044	149	**5,506**
Disposals	–	(549)	–	–	**(549)**
Transfers	1,418	–	151	(1,569)	**–**
Write offs	–	(21)	–	–	**(21)**
Translation difference	(15)	(5)	(67)	–	**(87)**
At 31 December 2015	**38,720**	**2,595**	**45,451**	**–**	**86,766**
Accumulated Depreciation:					
At 1 January 2015	5,042	571	26,797	–	**32,410**
Depreciation for the year	625	229	2,897	–	**3,751**
Disposals	–	(105)	–	–	**(105)**
Write offs	–	(11)	–	–	**(11)**
Translation difference	(10)	(5)	(52)	–	**(67)**
At 31 December 2015	**5,657**	**679**	**29,642**	**–**	**35,978**
Carrying amount:					
At 31 December 2015	**33,063**	**1,916**	**15,809**	**–**	**50,788**

11. ASSETS OBTAINED IN SETTLEMENT OF DEBT

In millions of Lebanese Pound

	2016	2015
Net carrying amount:		
At 1 January	26,053	27,003
Acquisitions	28,130	–
Rehabilitation and formality fees	1,176	1,133
Disposals	(2,999)	(2,083)
At 31 December	52,360	26,053

These assets represent properties acquired in settlement of defaulting client's facilities. As stipulated by the code of money and credit, banks have two years from the date of acquisition to liquidate those assets, otherwise banks are required to constitute reserves (through appropriation from retained earnings) against these assets, prior to distribution of dividends.

12. OTHER ASSETS

In millions of Lebanese Pound

	2016	2015
Prepayments	**4,560**	5,097
Due from National Social Security Fund	**1,077**	626
Deposits for auctions against assets to be obtained in settlement of debt	**2,379**	207
Other Assets	**2,211**	353
	10,227	6,283

13. DUE TO THE CENTRAL BANK

Following the Central Bank of Lebanon basic decision no. 6116 related to basic circular no. 23 and intermediate circular no. 367 issued on 11 August 2014, the Central Bank of Lebanon offered the commercial banks facilities that are subject to an interest rate of 1% per annum payable on a yearly basis. These facilities were given subject to granting mainly housing loans back to clients at an average interest rate of 5.44%.

14. DUE TO BANKS AND FINANCIAL INSTITUTIONS

In millions of Lebanese Pound

	2016	2015
Time deposits	53,505	44,131
Current accounts	5,009	3,683
Margin accounts	4	2,096
	58,518	49,910

Due to banks under repurchase agreements

During 2015, the Bank entered into repurchase agreements, for an aggregate amount of USD 60 million (c/v LBP 90,450 million) of which USD 30 million having a fixed rate and USD 30 million with a floating rate renewable over 180 days against quoted investment securities held at amortized cost having a nominal value of USD 100 million (c/v LBP 150,750 million).

The blocked account against these repurchase agreements amounted to USD 2.69 million (c/v LBP 4,055 million) at 31 December 2016 (31 December 2015: USD 2.69 million c/v LBP 4,055 million) (Note 4).

15. CUSTOMERS' DEPOSITS AT AMORTIZED COST

In millions of Lebanese Pound

	2016	2015
Saving accounts	**3,922,815**	3,423,609
Time deposits	**935,178**	740,682
Sight deposits	**292,647**	320,232
Credit accounts and deposits against debit accounts	**200,717**	182,241
Margins on letters of credit	**6,757**	6,101
	5,358,114	4,672,865

Customers' deposits include coded deposit accounts amounting to LBP 10,862 million as of 31 December 2016 (2015: LBP 16,173 million). These accounts were opened under the provisions of article 3 of the banking secrecy law dated 3 September 1956 governing banks in Lebanon. As per the terms of this article, the Bank is not permitted to disclose the identities of the coded deposit accounts to third parties including its auditors.

16. OTHER LIABILITIES

In millions of Lebanese Pound

	2016	2015
Deferred revenues**	**32,292**	-
Current tax liability	**14,521**	4,338
Other taxes	**3,946**	3,078
Due to National Social Security Fund	**345**	332
Accrued expenses and other regularization accounts	**324**	255
Sundry creditors	**-**	978
Other liabilities	**69**	143
	51,497	9,124

** 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 17) 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 Bank did not recognize in its separate income statement LL 32,292 million (net of tax) in gains realized from certain financial transactions with the Central Bank of Lebanon. The related taxes amounting to LL 5,699 million were recorded directly in current tax liability. The amount recorded as deferred revenues qualifies for inclusion within regulatory Tier 2 Capital in accordance with the provisions of the circular.

17. PROVISIONS FOR RISKS AND CHARGES

In millions of Lebanese Pound

	2016	2015
Other provisions**	20,000	–
Provision for employees' end of service benefits*	7,556	6,977
Structural exchange position	217	130
Net trading foreign exchange position	75	75
	27,848	7,182

* The movement in the provision for employees' end of service benefits during the year is as follows:

In millions of Lebanese Pound

	Note	2016	2015
Balance at 1 January		6,977	6,538
Charge for the year	27	675	608
Benefits paid		(96)	(169)
Balance at 31 December		7,556	6,977

The provision for employees' end of service benefits amount recognised in the separate financial statements is not materially different from what could be required as per IAS 19 Employee Benefits.

** 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 20,000 million in excess of the provisioning requirements of IAS 39 (2015: nil). These provisions were directly transferred from "Deferred revenues" within "Other liabilities" to "Provisions for risks and charges". The related taxes amounting to LL 3,530 million were recorded directly in "Current tax liability" within "Other liabilities" (note 16).

18. SHARE CAPITAL AND SHARE PREMIUM

In millions of Lebanese Pound

	2016		2015	
	Share capital	Share premium	Share capital	Share premium
Common shares – Authorized, issued and fully paid				
9,560,000 nominal shares at LBP 20,300 each (2014: 9,560,000 nominal shares at LBP 20,300 each)	194,068	–	194,068	–
Preferred shares – Authorized, issued and fully paid				
300,000 (2010 issue) of LBP 20,300 each (2014: LBP 20,300 each)	6,090	39,245	6,090	39,245
230,000 (2013 issue) of LBP 20,300 each (2014: LBP 20,300 each)	4,669	30,057	4,669	30,057
200,000 (2014 issue) of LBP 20,300 each (2014: LBP 20,300 each)	4,060	26,090	4,060	26,090
200,000 (2015 issue) of LBP 20,300 each	4,060	26,090	–	–
	18,879	121,482	18,879	121,482

The table below summarizes all preferred shares series issued by the Bank and outstanding at 31 December 2016:

	2010 issue	2013 issue	2014 issue	2015 issue
Date of Extraordinary General Assembly Resolution	1 September 2010	26 October 2013	19 September 2014	27 July 2015
Date of Central Bank of Lebanon approval	20 October 2010	20 November 2013	5 November 2014	30 September 2015
Number of shares	300,000	230,000	200,000	200,000
Issue price	100 USD	100 USD	100 USD	100 USD
Par value of issued shares (LBP 20,300 per share)	LBP 6,090 million	LBP 4,669 million	LBP 4,060 million	LBP 4,060 million
Premium calculated in USD as the difference between the issue price and the counter value of the nominal value per share based on the exchange rate at the subscription dates	(USD 26,033 thousands) LBP 39,245 million	(USD 19,938 thousands) LBP 30,057 million	(USD 17,307 thousands) LBP 26,090 million	(USD 17,307 thousands) LBP 26,090 million
Distributions (non-cumulative, subject to the approval of the general assembly and the availability of distributable income) calculated on a pro rata basis in the year of issuance	7.5%	7%	7%	7%
Call option redeemable, pursuant to the exercise of that option, 60 days after the annual general assembly dealing with the accounts for the years	2015 and any of the following years	2018 and any of the following years	2019 and any of the following years	2020 and any of the following years
Redemption price per share (no entitlement to dividend in the year of redemption)	104 USD	103.50 USD	103.50 USD	103.50 USD

In the event of any liquidation, dissolution or winding-up of the Bank, the holders of any series of preferred shares shall be entitled to be paid out of the assets of the Bank available for distribution to its shareholders on a pro rata basis, before any payment shall be made to common shareholders.

Refer to note 30 for information about dividends declared and paid during the year.

19. NON DISTRIBUTABLE RESERVES

In millions of Lebanese Pound

	Reserve for general banking risks	Other reserves	Legal reserve	Reserve for assets in settlement of debts	Reserve for redemption of preferred shares	Total
At 1 January 2015	31,891	1,904	3,412	7,428	4,689	49,324
Appropriation of 2014 profits	6,099	–	4,085	4,445	2,716	17,345
At 31 December 2015	37,990	1,904	7,497	11,873	7,405	66,669
Appropriation of 2015 profits	10,393	–	4,622	3,137	3,739	21,891
At 31 December 2016	48,383	1,904	12,119	15,010	11,144	88,560

Reserves for general banking risks
According to the Central Bank of Lebanon's regulations, BDL circular 50, banks are required to appropriate from their annual net profit a minimum of 0.2 percent and a maximum of 0.3 percent of total risk weighted assets and off statement of financial position accounts 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 percent of these risks by the year 2007 and 2 percent by the year 2017 as per BCC memo number 13/2015. This reserve is part of the Bank's equity and cannot be distributed as dividends.

Legal reserve
According to the Lebanese Code of Commerce and to the Money and Credit Act, banks operating in Lebanon have to transfer 10% of their annual net profit to legal reserve. This reserve cannot be distributed as dividends.

Reserve for assets in settlement of debts
In compliance with the Central Bank of Lebanon circular 78, banks are required to deduct from annual profits an amount of 20% or 5% of the carrying value of its properties within 2 years from the date of acquisition. The required reserves are established through appropriation of retained earnings. This reserve is not considered as part of the Bank's tier capital nor is available for distribution.

Reserve for redemption of preferred shares
In accordance with the resolutions of the Ordinary General Assembly of Shareholders of the Bank, held on 15 April 2016 (2015: 29 May 2015), an amount of LBP 3,739 million (2015: LBP 2,716 million) has been appropriated to the reserve for the redemption of preferred shares (issue 2010 and 2014).

20.RETAINED EARNINGS

In accordance with the resolutions of the Ordinary General Assembly of Shareholders held on 15 April 2016 (2015: 29 May 2015), the profits of the Bank were appropriated and distributed as follows:

In millions of Lebanese Pound

	2016	2015
Prior year retained earnings	35,269	17,670
Prior year profit	46,218	40,849
Dividends declared (note 30)	(8,087)	(5,905)
Appropriations:		
- to legal reserve	(4,622)	(4,085)
- to reserve for general banking risks	(10,393)	(6,099)
- to reserve for assets in settlement of debts	(3,137)	(4,445)
- to reserve for redemption of preferred shares	(3,739)	(2,716)
	(21,891)	(17,345)
At 31 December*	51,509	35,269

* of which: Restricted retained earnings amounted to LBP 6,375 million as at 31 December 2016 (2015: 939 million).

21. NET INTEREST AND SIMILAR INCOME

Interest and similar income

In millions of Lebanese Pound

	2016	2015
Financial assets at amortized cost	158,929	132,354
Loans to bank and financial institutions	26,040	22,484
Loans and advances to customers at amorized cost	129,014	122,990
Loans and advances to related parties at amorized cost	167	79
	314,150	277,907

Interest and similar expense

In millions of Lebanese Pound

	2016	2015
Due to banks and financial institutions	2,595	2,260
Due to banks under repurchase agreements	3,011	1,863
Deposit from customers	230,515	199,309
Deposits from related parties	807	557
	236,928	203,989

22. NET FEE AND COMMISSION INCOME

In millions of Lebanese Pound

	2016	2015
Fee and commission income		
Credit related fees and commissions	6,643	7,258
Trade finance	4,657	5,293
General banking transactions	2,717	2,039
Electronic banking	765	773
Other services	49	69
	14,831	15,432
Fee and commission expense		
Correspondents' accounts	(664)	(379)
Net fee and commission income	**14,167**	**15,053**

23. NET GAIN FROM FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

In millions of Lebanese Pound

	2016	2015
Net gain from debt instruments at fair value through profit or loss		
Governmental debt securities	–	3
Realized gain on sale of governmental debts securities	23	12
Net gain from debt instruments at fair value through profit or loss	23	15
Net gain from equity instruments at fair value through profit or loss		
-Unrealized gain from revaluation	4,230	7,021
-Unrealized loss from revaluation	(41)	(30)
-Dividend income	1,319	263
-Realized gain on sale of equity securities	5,547	–
Net gain from equity instruments at fair value through profit or loss	11,055	7,254
Foreign exchange income	2,560	2,696
	13,638	9,965

24. NET GAIN FROM FINANCIAL ASSETS AT AMORTIZED COST

Derecognition of financial assets at amortized cost were made during the year due to liquidity gap and yield management, in addition to the exchange transaction with the Lebanese Central Bank.

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

In millions of Lebanese Pound

	Notes	2016 Gains (losses)	2015 Gains
Lebanese sovereign and Central Bank of Lebanon:			
Central Bank's certificates of deposits		309	522
Treasury bills	17	18,138	5,138
Eurobonds		(188)	255
		18,259	5,915

During 2016, the Central Bank of Lebanon bought from the Bank 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 recognized in the separate statement of income amounted to LL 12,664 million from the Lebanese treasury bills portfolio and LL 269 million from the Certificates of Deposit portfolio.

25. OTHER OPERATING INCOME

In millions of Lebanese Pound

	2016	2015
Net gain from disposal of assets obtained in settlement of debt	154	2,996
Other income	2,088	1,953
	2,242	4,949

26. NET IMPAIRMENT LOSS

In millions of Lebanese Pound

	Note	2016	2015
Charges for the year:			
Provision for doubtful loans and advances	6	(11,828)	(7,372)
Bad debts directly written-off to income statement		(225)	(786)
Recoveries during the year:			
Write-back of provisions for loans and advances	6	1,266	462
Unrealized interest on loans and advances to customers	6	227	1
		(10,560)	(7,695)

27. PERSONNEL EXPENSES

In millions of Lebanese Pound

	Note	2016	2015
Salaries and related charges		21,390	19,624
Social security contributions		2,938	2,734
Provision for end of service indemnity	17	675	608
Additional allowances paid		4,742	4,524
		29,745	27,490

28. OTHER OPERATING EXPENSES

In millions of Lebanese Pound

	2016	2015
Maintenance and repairs	2,181	1,856
Fees for guarantee of deposits	2,016	1,816
Marketing and advertising	1,678	842
Professional fees	1,295	1,171
Subscriptions and fees	1,075	728
Rent and related charges	1,006	693
Travel expenses	905	895
Postage and telecommunications	886	744
Board of directors' attendance fees	756	706
Electricity and fuel	650	624
Donations	609	738
Stationery and printing	500	507
Insurance premiums	333	349
Taxes and fees	291	228
Other Expenses	3,450	3,091
	17,631	14,988

29. INCOME TAX EXPENSE

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

In millions of Lebanese Pound

	2016	2015
Lebanon branches	9,290	8,831
Cyprus branch	1	2
Tax related to previous years	1,207	660
	10,498	9,493

The Bank's books and records were reviewed by the Department of Income Tax for the years 2009 to 2012.

The books and records of the Bank remain subject to review by the Department of Income Tax for the years 2013 to 2016 .

A reconciliation between the tax expense and the accounting profit for the years ended 31 December 2016 and 2015 is as follows:

In millions of Lebanese Pound

	2016	2015
Accounting profit before income tax – Lebanon branches	63,968	55,707
Add:		
Non deductible collective provision	1,101	2,794
	65,069	58,501
Less:		
Share of profit on financial assets under equity method	(4,230)	(7,107)
Dividends received and previously subject to income tax	(1,319)	(263)
Taxable profit	59,520	51,131
Effective income tax rate	15.00%	15.00%
Income tax due	8,928	7,670

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

In millions of Lebanese Pound

	2016	2015
5% tax paid on interest revenue during the year	5,488	4,156
Income tax on profit for the year	3,293	4,339
5% tax on interest calculated in previous period	509	336
	9,290	8,831

30. DIVIDENDS DECLARED AND PAID

According to the Ordinary General Assembly of Shareholders held on 15 April 2016 (2015: 29 May 2015), dividends amounting to LBP 8,087 million were declared and paid to the preferred shareholders (2015: LBP 5,905 million).

31. CASH AND CASH EQUIVALENTS

In millions of Lebanese Pound

	2016	2015
Cash and balances with central banks	70,045	81,123
Due from banks and financial institutions	515,380	344,005
Loans to banks and financial institutions	-	9,062
Due to banks and financial institutions	(5,010)	(24,249)
	580,415	409,941

32. CONTINGENT LIABILITIES AND COMMITMENTS

Credit-related commitments and contingent liabilities

To meet the financial needs of customers, the Bank enters into various commitments, guarantees and other contingent liabilities, which are mainly credit-related instruments including both financial and non-financial guarantees and commitments to extend credit. Even though these obligations may not be recognized on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Bank. 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 any clients default.

As a significant portion of guarantees and commitments is expected to expire without being withdrawn, the aggregate amount of the nominal principal is not indicative of future liquidity requirements.

The Bank has the following credit related commitments:

In millions of Lebanese Pound

	2016	2015
Commitments issued to financial institutions	34,931	25,290
Commitments issued to customers	45,897	61,132
Guarantees issued to financial institutions	5,186	5,186
Guarantees issued to customers	127,801	142,980
Acceptances	30,098	29,881
Undrawn credit lines	51,975	38,385
Balance at 31 December	295,888	302,854

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

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 are contracts that have similar features to the financial guarantees contracts. These include mainly performance and tender guarantees.

Undrawn credit lines and other commitments
Undrawn credit lines and other commitments to lend are agreements to lend a customer in the future, subject to certain conditions. Such commitments are either made for a fixed period, or have no specific maturity but are cancellable by the lender subject to notice requirements.

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

Lease arrangements
The Bank does not have material capital expenditures and operating lease payments that were not provided for as of the separate statement of financial position date.

Other contingencies
The Bank's books for the year 2013 to 2016 are still subject to review by the tax authorities. The ultimate outcome of such review cannot be presently determined.

The Bank's books in Lebanon have not been reviewed by the National Social Security Fund (NSSF) since 1 November 2006. The ultimate outcome of any review by the NSSF on the Bank's books in Lebanon cannot be presently determined.

33. FAIR VALUE OF THE FINANCIAL INSTRUMENTS

The fair values in this note are stated at the dates specified in the tables and may be different from the amounts which will actually be paid on the maturity or settlement dates of the instruments. 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 Bank as a going concern.
The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy for financial instruments measured at fair value. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

In millions of Lebanese Pound — 31 December 2016

	Fair Value Valuation techniques				Carrying Amount
	Quoted market price Level 1	Observ-able inputs Level 2	Unobserv-able inputs Level 3	Total	
Financial assets measured at fair value :					
Financial assets at fair value through profit or loss:	166	-	49,820	49,986	49,986
Quoted equity securities	166	-	-	166	166
Unquoted equity instruments	–	-	48,820	49,820	49,820
Financial assets not measured at fair value:					
Cash and balances with central banks	20,769	1,018,990	–	1,039,759	1,039,759
Due from banks and financial institutions	–	526,177	–	526,177	526,177
Loans to banks and financial institutions	–	4,964	–	4,964	4,964
Loans and advances to customers at amortized cost	–	2,165,502	–	2,165,502	2,165,502
Loans and advances to related parties at amortized cost	–	6,396	–	6,396	6,396
Financial assets at amortized cost	663,640	1,594,882	3,027	2,261,549	2,249,326
Governmental debt securities	663,640	615,518	–	1,279,158	1,278,848
Certificates of deposit - Central Bank of Lebanon	–	979,364	–	979,364	967,451
Subordinated bonds	–	-	3,027	3,027	3,027
Financial liabilities not measured at fair value:					
Due to central bank	–	38,503	–	38,503	38,503
Due to banks and financial institutions	–	58,518	–	58,518	58,518
Due to banks under repurchase agree-ments	–	90,973	–	90,973	90,973
Deposits from customers	–	5,358,114	–	5,358,114	5,358,114
Deposits from related parties	–	9,114	–	9,114	9,114

In millions of Lebanese Pound — 31 December 2015

	Fair Value Valuation techniques				Carrying Amount
	Quoted market price Level 1	Observable inputs Level 2	Unobservable inputs Level 3	Total	
Financial assets measured at fair value :					
Financial assets at fair value through profit or loss:					
Unquoted equity instruments	–	2,985	64,338	67,323	67,323
Financial assets not measured at fair value:					
Cash and balances with central banks	21,691	795,259	–	816,950	816,950
Due from banks and financial institutions	–	349,904	–	349,904	349,904
Loans to banks and financial institutions	–	14,979	–	14,979	14,979
Loans and advances to customers at amortized cost	–	2,080,863	–	2,080,863	2,080,863
Loans and advances to related parties at amortized cost	–	5,165	–	5,165	5,165
Financial assets at amortized cost	734,856	1,237,677	3,028	1,975,561	1,935,207
Governmental debt securities	734,856	784,072	–	1,518,928	1,483,904
Certificates of deposit - Central Bank of Lebanon	–	453,605	–	453,605	448,275
Subordinated bonds	–	-	3,028	-	3,028
Financial liabilities not measured at fair value:					
Due to central bank	–	35,255	–	35,255	35,255
Due to banks and financial institutions	–	49,910	–	49,910	49,910
Due to banks under repurchase agreements	–	90,922	–	90,922	90,922
Deposits from customers	–	4,672,865	–	4,672,865	4,672,865
Deposits from related parties	–	11,992	–	11,992	11,992

The fair value of financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. 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.

This category includes cash on hand and liquid governmental bonds actively traded through an exchange or clearing house.

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.

This category includes liquid governmental bonds and certificates of deposit, balances with central bank, due from banks and financial institutions, loans and advances to customers and related parties, loans to banks and financial institutions, due to central bank, due to banks and financial institutions, customers and related parties' deposits.

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. An input is deemed significant if it is shown to contribute more than 10% to the valuation of a financial instrument.

Unobservable input levels are generally determined based on observable inputs of a similar nature, historical observations or other analytical techniques.

This category includes unquoted equity securities and subordinated bonds.

Assets and liabilities measured at fair value using a valuation technique with significant observable inputs – Level 2

Derivatives

The Bank uses foreign exchange contracts to manage some of its transactions exposures. These contracts are not designated as cash flow hedges and are entered into for periods consistent with foreign currency exposure of the underlying transactions, generally from one to 24 months. 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.

Governmental bonds, certificates of deposits and other debt securities

The Bank 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 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.

Governmental bonds, certificates of deposits and other debt securities

The Bank 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 rate 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 and market rates.

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 remaining maturities.

34. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

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

The maturity profile of the Bank's assets and liabilities as at 31 December 2015 is as follows:

In millions of Lebanese Pound — **31 December 2016**

	Amounts without contractual maturity	Less than one year	More than one year	Total
ASSETS				
Cash and balances with central banks	20,769	589,090	429,900	**1,039,759**
Due from banks and financial institutions	521,630	–	4,547	**526,177**
Financial assets at fair value through profit or loss	49,986	–	–	**49,986**
Loans to banks and financial institutions	–	–	4,964	**4,964**
Loans and advances to customers at amortized cost	–	1,457,394	708,108	**2,165,502**
Loans and advances to related parties at amortized cost	–	3,957	2,439	**6,396**
Debtors by acceptances	–	30,098	–	**30,098**
Financial assets at amortized cost	–	113,976	2,135,350	**2,249,326**
Investment in a subsidiary	6,320	–	–	**6,320**
Property and equipment	51,473	–	–	**51,473**
Assets obtained in settlement of debt	–	–	52,360	**52,360**
Other assets	10,227	–	–	**10,227**
TOTAL ASSETS	660,405	2,194,515	3,337,668	**6,192,588**
LIABILITIES				
Due to central bank	–	3,043	35,460	**38,503**
Due to banks and financial institutions	–	58,518	–	**58,518**
Due to banks under repurchase agreements	–	–	90,973	**90,973**
Deposits from customers	–	5,358,114	–	**5,358,114**
Deposits from related parties	–	9,114	–	**9,114**
Engagement by acceptances	–	30,098	–	**30,098**
Other liabilities	–	51,497	–	**51,497**
Provisions for risks and charges	27,848	–	–	**27,848**
TOTAL LIABILITIES	27,848	5,510,384	126,433	**5,664,665**
NET	632,557	(3,315,869)	3,211,235	**527,923**

The maturity profile of the Bank's assets and liabilities as at 31 December 2015 is as follows:

In millions of Lebanese Pound — **31 December 2015**

	Amounts without contractual maturity	Less than one year	More than one year	Total
ASSETS				
Cash and balances with central banks	21,691	161,664	633,595	**816,950**
Due from banks and financial institutions	–	349,904	–	**349,904**
Financial assets at fair value through profit or loss	67,323	–	–	**67,323**
Loans to banks and financial institutions	–	9,062	5,917	**14,979**
Loans and advances to customers at amortized cost	–	1,413,436	667,427	**2,080,863**
Loans and advances to related parties at amortized cost	–	2,869	2,296	**5,165**
Debtors by acceptances	–	29,881	–	**29,881**
Financial assets at amortized cost	–	123,252	1,811,955	**1,935,207**
Investment in a subsidiary	6,320	–	–	**6,320**
Property and equipment	50,788	–	–	**50,788**
Assets obtained in settlement of debt	–	–	26,053	**26,053**
Other assets	6,283	–	–	**6,283**
TOTAL ASSETS	152,405	2,090,068	3,147,243	**5,389,716**
LIABILITIES				
Due to central bank	–	2,584	32,671	**35,255**
Due to banks and financial institutions	–	47,817	2,093	**49,910**
Due to banks under repurchase agreements	–	–	90,922	**90,922**
Deposits from customers	–	4,672,865	–	**4,672,865**
Deposits from related parties	–	11,992	–	**11,992**
Engagements by acceptances	–	29,881	–	**29,881**
Other liabilities	–	9,124	–	**9,124**
Provisions for risks and charges	7,182	–	–	**7,182**
TOTAL LIABILITIES	7,182	4,774,263	125,686	**4,907,131**
NET	145,223	(2,684,195)	3,021,557	**482,585**

■ 35. FINANCIAL RISK MANAGEMENT

The Bank manages its business activities within risk management guidelines as set by the Bank's "Risk Management Policy" approved by the board of directors (the "Board"). The Bank recognizes the role of the Board and executive management in the risk management process as set out in the Banking Control Commission circular 242. In particular, it is recognised that ultimate responsibility for establishment of effective risk management practices and culture lies with the Board as does the setting up of Bank's risk appetite and tolerance levels. The Board delegates through its risk management committee the day–to–day responsibility for establishment and monitoring of risk management process across the Bank to the Chief Risk Officer, who is directly appointed by the Board, in coordination with executive management at the Bank.

The Bank is exposed mainly to credit risk, liquidity risk, market risk and operational risk.

The Board's risk management committee has the mission to periodically (1) review and assess the Bank's charter risks, (2) review the adequacy of the Bank's capital and its allocation within the Bank, and (3) review risk limits and reports and make recommendations to the Board.

The Chief Risk Officer undertakes his responsibilities through the "Risk Management Division" overseeing and monitoring risk management activities throughout the Bank. The Risk Manager is responsible for establishing the function of Risk Management and its employees across the Bank.

Lebanon & Gulf Bank's risk management division aids executive management in controlling and actively managing the Bank's overall risk. The division mainly ensures that:

- Risk policies and methodologies are consistent with the Bank's risk appetite.
- Limits and risk across banking activities are monitored throughout the Bank.

Through a comprehensive risk management framework, transactions and outstanding risk exposures are quantified and compared against authorized limits, whereas non-quantifiable risks are monitored against policy guidelines as set by the Bank's "Risk Management Policy". Discrepancies, breaches or deviations are escalated to executive senior management in a timely manner for appropriate action.

The major objective of risk management is the implementation of sound risk management practices and the Basel framework as well as all related regulatory requirements within the Bank. Pillar I capital adequacy calculations have been generated since December 2004, while preparations for moving on to the more advanced approaches of pillar I have been initiated. Risk Management is progressively complying with the requirements of pillars II and III of the Basel framework.

Excessive risk concentration

Concentrations arise when the Bank has significant exposure to one borrower or a group of related borrowers or to a number of counterparties engaging in similar business activities or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance developments affecting a particular industry or geographic location.

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. Selective hedging is used within the Bank to manage risk concentrations at both the relationship and industry levels.

35.1 Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Bank's loans and advances to customers and other banks, and investment debt securities.

The Bank manages credit risk in line with the regulatory guidelines. The Bank has set a credit risk policy which lays down norms for credit risk governance, methodologies and procedures for credit risk management and measurement. It consists of the following:

- The permissible activities, segments, programs and services that the Bank intends to deliver and the acceptable limits;
- The mechanism of the approval on credit-facilities;
- The mechanism for managing and following up credit-facilities; and
- The required actions for analyzing and organizing credit files.

Credit initiation and approval

Credit granting comprises the identification of suitable business to include in the portfolio and the best approaches to capture it. The process begins at the Board level by developing the Bank strategy. Once the strategy is approved, the Senior Management executes it. The Board does not interfere with the execution process, but observes and monitors the execution of the strategy to ensure its proper implementation, as per its guidelines.

The Bank is essentially split into two parts: (1) the one that generates the business, and (2) the one that monitors and ensures that this business is in line with the strategy of the Bank. And accordingly, the credit processing stage is governed by three major steps, namely:

a) Business Origination Unit: This centralized Unit is the generator of the business and includes all the relationship officers and analysts that liaise with clients. The main function of this Unit is to identify, analyze and recommend potential clients and the suitable facilities to these clients.

In essence, the Business Origination Unit is the engine of the Bank that creates the requisite business and manages it in a manner to ensure that sufficient profitability is attained to compensate the Bank for the operating expenses and risks taken. The Business Origination Unit benefits directly from risk adjusted profits generated from clients, as such, has a vested interest in ensuring that credits are passed and processed quickly.

For internal fraud avoidance, the Client Relationship and the Transaction Processing sides of the Business Origination Unit are managed and controlled separately with sufficient Chinese walls to allow the Business Origination Unit head to function efficiently.

b) Credit Control and Review Unit: For each recommended credit, a separate independent Unit within the Risk Management Division called the Control and Review Unit will examine it to ensure that the analysis and recommendations are in line with the Bank's Policies and Procedures Guidelines. This Unit acts on behalf of the Credit Committee to guarantee the sanctity of the credit granting process.

c) Credit Committee: The credit is finally passed on to the Credit Committee, which approves or disapproves the credit based on various parameters. Should the credit be approved, the Credit Administration Unit, which acts as a separate clerical control function and custodian of the credit requisite documentation and limits, enters the credit's characteristics and features into the Bank's core system.

Any amendments to the granted credits, renewals, or any excess to the approved limit need a special approval based on a predefined credit grid. The grid assigns approval levels based primarily on the riskiness of the credit, nature of credit and the credit's risk exposure. The delegation of authority involves the allocation of such limits to designated credit functionaries within the Bank. Such functionaries hold independent positions, but caution is exercised to ensure that a functionary cannot recommend, approve and/or process credits singularly.

Loans follow up and monitoring

The Bank's Risk Management is designed to identify and set appropriate risk limits and to monitor the risk adherence to these limits. Actual exposures against the limits are monitored daily, monthly and periodically. Bank Risk Management is responsible for monitoring the risk profile of the Bank's loan portfolio by producing internal reports highlighting any exposure of concern in commercial and consumer lending. The Bank examines the level of concentration whether by credit quality, client groupings or economic sector and collateral coverage. Further, the Bank monitors non-performing loans and takes the required provisions for these loans.

The Bank in the ordinary course of lending activities holds collaterals and guarantees as securities to mitigate credit risk from the loans and advances. These collaterals mostly include cash collateral, quoted shares and debt securities, real estate mortgages, personal guarantees and others. In addition, the recovery unit in the Bank dynamically manages and takes remedial actions for non-performing loans.

In compliance with credit best practices, and within the framework of the supervisory directives with regards to Basel implementation and more specifically the Central Bank of Lebanon Intermediary Circular 256 dated 27 April 2011, the Bank uses an Internal Risk Rating System to grade the credit risk of obligors in the Corporate and Middle market business.

For this purpose, and for the time being, the Bank will use two classification schemes; the first will be an internal rating system (that will be referred to as "The Internal Loan Grading System") purchased from Moody's and divided into ten grades, and the second will be a more subjective loan classification system (that will be referred to as

"Supervisory Classification System"), divided into six grades, of which three grades relate to the performing portfolio (regular credit facilities: risk ratings "OA" and special mention – watch list: risk rating "B1" and "B2"), one grade relates to substandard loans (risk rating "OC") and two grades relate to non-performing loans (risk ratings "OD" and "OE").

Credit cards, personal loans, car loans and housing loans are classified in compliance with Banking Control Commission Circular 280 dated 2 January 2015. Each individual borrower is classified based on an internally developed scoring model that evaluates risk based on financial and qualitative inputs. These scores are reviewed on an annual basis. In addition to that, the bank works in full compliance with the new supervisory circulars.

Non-performing loans are managed proactively by a dedicated collection unit. These loans are closely monitored and well provisioned, with appropriate corrective actions taken.

Impairment allowance
For accounting purposes, the Bank uses an incurred loss model for the recognition of losses on impaired financial assets.
The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue or whether there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances, in compliance with Banking Control Commission Circular 280 dated 2 January 2015.

Individually assessed allowances
The Bank determines the allowances appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected payout should bankruptcy ensue, the availability of other financial support, the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances
Allowances are assessed collectively for losses on loans and advances. They are also assessed individually as per BCC 280 for significant loans and advances that have been assessed individually and found to be impaired.
The Bank generally bases its analyses on historical experience. However, when there are significant market developments, regional and/or global, the Bank would include macroeconomic factors within its assessments. These factors include, depending on the characteristics of the individual or collective assessment: unemployment rates, current levels of bad debts, changes in laws, changes in regulations, bankruptcy trends, and other consumer data. The Bank may use the aforementioned factors as appropriate to adjust the impairment allowances.

Allowances are evaluated separately on yearly basis with each portfolio. The collective assessment is made for groups of assets with similar risk characteristics, in order to determine whether any provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident in the individual loans assessments. The collective assessment takes account of data from the loan portfolio (such as historical losses on the portfolio, levels of arrears, credit utilization, loan to collateral ratios and expected receipts and recoveries once impaired) or economic data (such as current economic conditions, unemployment levels and local or industry-specific problems). This approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance is also taken into consideration. Local management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Bank's overall policy.

Analysis to 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 loans collateralized against financial and non-financial assets and the net exposure to credit risk.

In millions of Lebanese Pound — **31 December 2016**

		Amounts collateralized against:				
	Maximum exposure	Cash	Securities	Letters of credit / guaran-tees	Real estate	Net credit exposure
Balances with Central Banks	1,018,990	–	–	–	–	1,018,990
Due from banks and financial institutions	526,177	–	–	–	–	526,177
Loans to banks and financial institutions	4,964	–	–	–	–	4,964
Loans and advances to customers at amortized cost:	2,165,502	228,889	11,182	3,361	1,380,909	541,161
Corporate loans	1,937,702	196,845	11,182	3,361	1,187,582	538,732
Retail consumer loans	227,800	32,044	–	–	193,327	2,429
Loans and advances to related parties at amortized cost	6,396	–	–	–	–	6,396
Debtors by acceptances	30,098	–	–	–	–	30,098
Financial assets at amortized cost	2,249,326	–	–	–	–	2,249,326
	6,001,453	228,889	11,182	3,361	1,380,909	4,377,112
Guarantees	132,987	29,682	–	–	–	103,305
Documentary credits	34,931	3,882	–	–	–	31,049
Undrawn credit lines	51,975	–	–	–	–	51,975
	6,221,346	262,453	11,182	3,361	1,380,909	4,563,441

In millions of Lebanese Pound — **31 December 2015**

	Maximum exposure	Amounts collateralized against: Cash	Securities	Letters of credit / guaran-tees	Real estate	Net credit exposure
Balances with Central Banks	795,259	–	–	–	–	**795,259**
Due from banks and financial institutions	349,904	–	–	–	–	**349,904**
Loans to banks and financial institutions	14,979	–	–	–	–	**14,979**
Loans and advances to customers at amortized cost:	2,080,863	308,190	13,882	3,715	1,208,359	**546,717**
Corporate loans	1,865,613	277,371	13,882	3,715	1,087,523	**483,122**
Retail consumer loans	215,250	30,819	–	–	120,836	**63,595**
Loans and advances to related parties at amortized cost	5,165	–	–	–	–	**5,165**
Debtors by acceptances	29,881	–	–	–	–	**29,881**
Financial assets at amortized cost	1,935,207	–	–	–	–	**1,935,207**
	5,211,258	308,190	13,882	3,715	1,208,359	**3,677,112**
Guarantees	148,166	31,791	–	–	–	**116,372**
Documentary credits	25,290	2,929	–	–	–	**22,361**
Undrawn credit lines	38,385	–	–	–	–	**38,385**
	5,423,099	342,910	13,882	3,715	1,208,359	**3,854,233**

Collateral and other credit enhancements:
The amount, type and valuation of collateral are based on guidelines specified in the risk management framework. The main types of collateral obtained include real estate, bonds and shares, cash collateral and bank guarantees.

Management monitors the market value of collateral, 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 Bank 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 Bank.

Real estate (commercial and residential):
The Bank 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 up to the related mortgaged amount.

Other:
In addition to the above, the Bank also obtains guarantees from parent companies for loans to their subsidiaries, personal guarantees for loans to companies owned by individuals and assignments of insurance proceeds and revenues, which are not reflected in the above table.

Credit quality by class of financial assets

The credit quality of financial assets is managed by the Bank using internal and external credit ratings. The table below shows the credit quality of asset for all financial assets exposed to credit risk, based on the Bank's internal credit rating system and the relationship with external credit rating. The amounts presented are gross of impairment allowances.

In millions of Lebanese Pound — **31 December 2016**

	Neither past due nor impaired: High grade	Standard grade	Past due but not impaired	Individually impaired Non performing	Total
Balances with Central Banks	1,018,990	–	–	–	**1,018,990**
Due from banks and financial institutions	526,177	–	–	–	**526,177**
Loans to banks and financial institutions	4,964	–	–	–	**4,964**
Loans and advances to customers at amortized cost	1,395,326	673,757	23,253	149,424	**2,241,760**
Loans and advances to related parties at amortized cost	6,396	–	–	–	**6,396**
Debtors by acceptances	30,098	–	–	–	**30,098**
Financial assets at amortized cost	2,249,326	–	–	–	**2,249,326**
Total	5,231,277	673,757	23,253	149,424	**6,077,711**

In millions of Lebanese Pound — **31 December 2015**

	Neither past due nor impaired: High grade	Standard grade	Past due but not impaired	Individually impaired Non performing	Total
Balances with Central Banks	795,259	–	–	–	**795,259**
Due from banks and financial institutions	349,904	–	–	–	**349,904**
Loans to banks and financial institutions	14,979	–	–	–	**14,979**
Loans and advances to customers at amortized cost	1,320,772	723,767	15,962	99,766	**2,160,267**
Loans and advances to related parties at amortized cost	5,165	–	–	–	**5,165**
Debtors by acceptances	29,881	–	–	–	**29,881**
Financial assets at amortized cost	1,935,207	–	–	–	**1,935,207**
Total	4,451,167	723,767	15,962	99,766	**5,290,662**

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

In millions of Lebanese Pound	31 December 2016			
	Less than 90 days	91 to 180 days	More than 181 days	Total
Loans and advances to customers at amortized cost:				
- Corporate loans	10,318	7,060	5,765	23,143
- Retail consumer loans	79	9	22	110
	10,397	7,069	5,787	23,253

In millions of Lebanese Pound	31 December 2015			
	Less than 90 days	91 to 180 days	More than 181 days	Total
Loans and advances to customers at amortized cost:				
- Corporate loans	6,783	1,936	6,979	15,698
- Retail consumer loans	209	26	29	264
	6,992	1,962	7,008	15,962

The classification of loans and advances to customers and related parties at amortized cost by grade according to Central Bank of Lebanon circular 58 are as follows:

In millions of Lebanese Pound	31 December 2016			
	Gross Balance	Unrealised interest	Impairment allowances	Net balance
Regular	1,449,180	–	–	1,449,180
Follow up	565,013	–	–	565,013
Follow up and regularization	78,243	–	–	78,243
Substandard	74,677	(2,192)	–	72,485
Doubtful	67,427	(2,133)	(50,129)	15,165
Bad	7,220	(1,942)	(5,221)	57
	2,241,760	(6,267)	(55,350)	2,180,143
Collective impairment	–	–	(14,641)	(14,641)
	2,241,760	(6,267)	(69,991)	2,165,502

In millions of Lebanese Pound	31 December 2015			
	Gross Balance	Unrealised interest	Impairment allowances	Net balance
Regular	1,309,138	–	–	1,309,138
Follow up	670,476	–	–	670,476
Follow up and regularization	80,887	–	–	80,887
Substandard	12,979	(1,761)	–	11,218
Doubtful	77,502	(2,504)	(52,365)	22,633
Bad	9,285	(921)	(8,311)	53
	2,160,267	(5,186)	(60,676)	2,094,405
Collective impairment	–	–	(13,542)	(13,542)
	2,160,267	(5,186)	(74,218)	2,080,863

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. As of 31 December 2016, renegotiated loans amounted to LBP 12,296 million (2015: LBP 9,526 million).

Analysis of risk concentration
The Bank's concentrations of risk are managed on a client or counterparty basis, by geographical region and by industry sector.
The Bank's exposure to the highest concentration at 31 December 2016 amounted to LBP 59,683 million (2015: LBP 76,023 million) before taking account of collateral or other credit enhancements and LBP 51,388 million (2015: LBP 20,575 million) net of such protection.
The following tables show the maximum exposure to credit risk for the components of the separate statement of financial position by geography of counterparty and by industry before the effect of mitigation through the use of netting and collateral agreements.

Industry analysis

An industry sector analysis of the Bank's financial assets, before taking into account any collateral held or other credit enhancements, is as follows:

In millions of Lebanese Pound **31 December 2016**

	Commercial	Industrial	Agriculture	Services	Banks and other financial institutions	Construction	Retail	Governmental	Other	Total
Balances with central bank	–	–	–	–	–	–	–	1,018,990	–	**1,018,990**
Due from banks and financial institutions	–	–	–	–	526,177	–	–	–	–	**526,177**
Loans to banks and financial institutions	–	–	–	–	4,964	–	–	–	–	**4,964**
Loans and advances to customers at amortized cost	837,981	164,345	12,874	112,098	–	686,878	301,434	–	49,892	**2,165,502**
Corporate loans	836,012	164,047	12,833	111,207	–	685,731	81,674	–	46,198	**1,937,702**
Retail consumer loans	1,969	298	41	891	–	1,147	219,760	–	3,694	**227,800**
Loans and advances to related parties at amortized cost	–	–	–	–	–	–	6,396	–	–	**6,396**
Corporate loans	–	–	–	–	–	–	688	–	–	**688**
Retail consumer loans	–	–	–	–	–	–	5,708	–	–	**5,708**
Debtors by acceptances	26,801	3,297	–	–	–	-	–	–	–	**30,098**
Financial assets at amortized cost	–	–	–	–	3,027	–	–	2,246,299	–	**2,249,326**
Lebanese governmental bonds	–	–	–	–	–	–	–	1,278,848	–	**1,278,848**
Certificates of deposit issued by the Central Bank of Lebanon	–	–	–	–	–	–	–	967451	–	**967,451**
Subordinated bonds	–	–	–	–	3,027	–	–	–	–	**3,027**
	864,782	167,642	12,874	112,098	534,168	686,878	307,830	3,265,289	49,892	**6,001,453**

In millions of Lebanese Pound **31 December 2015**

	Commercial	Industrial	Agriculture	Services	Banks and other financial institutions	Construction	Retail	Governmental	Other	Total
Balances with central bank	–	–	–	–	–	–	–	795,259	–	**795,259**
Due from banks and financial institutions	–	–	–	–	349,904	–	–	–	–	**349,904**
Loans to banks and financial institutions	–	–	–	–	14,979	–	–	–	–	**14,979**
Loans and advances to customers at amortized cost	938,580	172,447	15,417	132,404	–	623,344	155,586	–	43,085	**2,080,863**
Corporate loans	878,790	164,473	14,927	108,210	–	609,757	69,478	–	19,978	**1,865,613**
Retail consumer loans	59,790	7,974	490	24,194	–	13,587	86,108	–	23,107	**215,250**
Loans and advances to related parties at amortized cost	–	–	–	–	–	–	5,165	–	–	**5,165**
Corporate loans	–	–	–	–	–	–	10	–	–	**10**
Retail consumer loans	–	–	–	–	–	–	5,155	–	–	**5,155**
Debtors by acceptances	25,751	4,037	–	–	–	93	–	–	–	**29,881**
Financial assets at amortized cost	–	–	–	–	3,028	–	–	1,932,179	–	**1,935,207**
Lebanese governmental bonds	–	–	–	–	–	–	–	1,483,904	–	**1,483,904**
Certificates of deposit issued by the Central Bank of Lebanon	–	–	–	–	–	–	–	448,275	–	**448,275**
Subordinated bonds	–	–	–	–	3,028	–	–	–	–	**3,028**
	964,331	176,484	15,417	132,404	367,911	623,437	160,751	2,727,438	43,085	**5,211,258**

Geographic analysis

The following table shows the maximum exposure to credit risk for the components of the separate statement of financial position by geography of counterparty before the effect of mitigation through the use of master netting agreements. Where financial instruments are recorded at fair value, the amounts shown represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

In millions of Lebanese Pound	31 December 2016		
	Domestic	Others	Total
Financial assets			
Balances with central banks	1,018,905	85	1,018,990
Due from banks and financial institutions	184,412	341,765	526,177
Current accounts	82,973	304,742	387,715
Time deposits	101,439	37,023	138,462
Loans to banks and financial institutions	4,964	–	4,964
Loans and advances to customers at amortized cost:	2,000,922	164,580	2,165,502
Corporate loans	1,773,122	164,580	1,937,702
Retail consumer loans	227,800	–	227,800
Loans and advances to related parties at amortized cost	6,396	–	6,396
Corporate loans	688	–	688
Retail consumer loans	5,708	–	5,708
Debtors by acceptances	29,382	716	30,098
Financial assets at amortized cost	2,249,326	–	2,249,326
Lebanese governmental bonds	1,278,848	–	1,278,848
Certificates of deposit issued by the Central Bank of Lebanon	967,451	–	967,451
Subordinated bonds	3,027	–	3,027
Total credit exposure	5,494,307	507,146	6,001,453

In millions of Lebanese Pound	31 December 2015		
	Domestic	Others	Total
Financial assets			
Balances with central banks	795,179	80	795,259
Due from banks and financial institutions	155,054	194,850	349,904
Current accounts	67,046	140,923	207,969
Time deposits	88,008	53,927	141,935
Loans to banks and financial institutions	8,937	6,042	14,979
Loans and advances to customers at amortized cost:	1,888,104	192,759	2,080,863
Corporate loans	1,672,854	192,759	1,865,613
Retail consumer loans	215,250	–	215,250
Loans and advances to related parties at amortized cost	5,165	–	5,165
Corporate loans	10	–	10
Retail consumer loans	5,155	–	5,155
Debtors by acceptances	29,596	285	29,881
Financial assets at amortized cost	1,935,207	–	1,935,207
Lebanese governmental bonds	1,483,904	–	1,483,904
Certificates of deposit issued by the Central Bank of Lebanon	448,275	–	448,275
Subordinated bonds	3,028	–	3,028
Total credit exposure	4,817,242	394,016	5,211,258

35.2 Liquidity risk

Liquidity risk is defined as the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Bank might be unable to meet its payment obligations when they fall due under both normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind and of monitoring future cash flows and liquidity on a daily basis. The Bank has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. In addition, the Bank maintains statutory deposits with Central Banks. As per Lebanese banking regulations, the Bank must retain obligatory reserves with the Central Bank of Lebanon calculated on the basis of 25% of the sight deposits and 15% of term deposits denominated in Lebanese Pounds, in addition to interest bearing placements equivalent to 15% of all deposits in foreign currencies regardless of their nature.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank. The Bank maintains a solid ratio of highly liquid net assets in foreign currencies to deposits and commitments in foreign currencies taking market conditions into consideration.

Regulatory ratios and limits

In accordance with the Central Bank of Lebanon circulars, the ratio of net liquid assets to deposits in foreign currencies should not be less than 10%. The net liquid assets consist of cash and all balances with the Central Bank of Lebanon (excluding reserve requirements), certificates of deposit issued by the Central Bank of Lebanon irrespective of their maturities and deposits due from other banks that mature within one year, less deposits due to the Central Bank of Lebanon and deposits due to banks that mature within one year. Deposits are composed of total customer deposits (excluding blocked accounts) and due from financial institutions irrespective of their maturities and all certificates of deposits and acceptances and other debt instruments issued by the Bank and loans from the public sector that mature within one year.

The Bank stresses the importance of customer deposits as source of funds to finance its lending activities. This is monitored by using the advances to deposits ratio, which compares loans and advances to customers and related parties as a percentage of client's deposits.

	Loans to deposits	
	2016	2015
	%	%
Year-end	40.47	45.53

35.2.1 Analysis of financial assets and liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the undiscounted cash flows of the Bank's financial assets and liabilities as of 31 December based on their contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were being given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay.

The table below does not reflect the expected cash flows indicated by the Bank's deposit retention history.

In millions of Lebanese Pound — 31 December 2016

	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Financial assets					
Cash and balances with central banks	587,498	22,361	171,514	258,386	1,039,759
Due from banks and financial institutions	521,630	–	4,547	–	526,177
Loans to banks and financial institutions	–	–	755	4,209	4,964
Loans and advances to customers at amortized cost	656,446	800,948	545,852	162,256	2,165,502
Loans and advances to related parties at amortized cost	3,957	–	–	2,439	6,396
Debtors by acceptances	23,162	6,936	–	–	30,098
Financial assets at amortized cost	59,895	54,081	296,404	1,838,946	2,249,326
Total undiscounted financial assets	1,852,588	884,326	1,019,072	2,266,236	6,022,222
Financial liabilities					
Due to central bank	1,011	2,032	12,273	23,187	38,503
Due to banks and financial institutions	50,318	8,200	–	–	58,518
Due to banks under repurchase agreements	–	–	90,973	–	90,973
Deposits from customers	3,487,387	1,870,727	–	–	5,358,114
Deposits from related parties	8,951	163	–	–	9,114
Engagements by acceptances	23,162	6,936	–	–	30,098
Total undiscounted financial liabilities	3,570,829	1,888,058	103,246	23,187	5,585,320
Net undiscounted financial assets / (liabilities)	(1,718,241)	(1,003,732)	915,826	2,243,049	436,902

In millions of Lebanese Pound — 31 December 2015

	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Financial assets					
Cash and balances with central banks	183,355	–	489,193	144,402	816,950
Due from banks and financial institutions	344,005	–	5,899	–	349,904
Loans to banks and financial institutions	9,062	–	1,007	4,910	14,979
Loans and advances to customers at amortized cost	678,265	735,171	491,602	175,825	2,080,863
Loans and advances to related parties at amortized cost	2,869	–	–	2,296	5,165
Debtors by acceptances	23,498	6,383	–	–	29,881
Financial assets at amortized cost	3,065	120,187	282,256	1,529,699	1,935,207
Total undiscounted financial assets	1,244,119	861,741	1,269,957	1,857,132	5,232,949
Financial liabilities					
Due to central bank	1,018	1,566	17,317	15,354	35,255
Due to banks and financial institutions	41,691	6,126	2,093	–	49,910
Due to banks under repurchase agreements	–	–	90,922	–	90,922
Deposits from customers	3,280,227	1,392,638	–	–	4,672,865
Deposits from related parties	11,809	183	–	–	11,992
Engagements by acceptances	23,498	6,383	–	–	29,881
Total undiscounted financial liabilities	3,358,243	1,406,896	110,332	15,354	4,890,825
Net undiscounted financial assets / (liabilities)	(2,114,124)	(545,155)	1,159,625	1,841,778	342,124

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

In millions of Lebanese Pound — 31 December 2016

	Less than 3 months	3 to 12 months	1 to 5 years	Total
Financial guarantees	61,021	55,894	16,072	132,987
Documentary credits	21,002	13,929	–	34,931
Undrawn credit lines	12,320	24,186	15,469	51,975
	94,343	94,009	31,541	219,893

In millions of Lebanese Pound	Less than 3 months	3 to 12 months	1 to 5 years	Total
31 December 2015				
Financial guarantees	72,334	64,605	11,227	148,166
Documentary credits	15,622	9,668	–	25,290
Undrawn credit lines	2,449	24,222	11,714	38,385
	90,405	98,495	22,941	211,841

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

35.3 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market prices. Market risks arise from open positions in interest rate and currency rate, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates and foreign exchange rates.

Risk Management is responsible for generating internal reports quantifying the Bank's earnings at risk due to extreme movements in interest rates, while daily monitoring the sensitivity of the Bank's trading portfolio of fixed income securities to changes in market prices and / or market parameters. Interest rate sensitivity gaps are reported to executive management on a monthly basis. The Bank's Asset and Liability Management policy assigns authority for its formulation, revision and administration to the Asset / Liability Management Committee (ALCO) of the Bank. Risk Management is responsible for monitoring compliance with all limits set in the policy ranging from core foreign currency liquidity to liquidity mismatch limits to interest sensitivity gap limits.

35.3.1 Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches of interest rate repricing of assets and liabilities and off-financial position items that mature or reprice in a given period. The Bank manages this risk by matching the repricing of assets and liabilities through risk management strategies.

Interest rate sensitivity

The following table analyses the sensitivity to a reasonably possible change in interest rates, with all other variables held constant of the Bank's profit or loss and other comprehensive income.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at the year end, including the effect of hedging instruments.

In millions of Lebanese Pound Currency	31 December 2016 Increase in basis points	 Sensitivity of net interest income
Lebanese Pound	200	(18,396)
United States Dollar	100	(10,759)
Euro	50	(281)

In millions of Lebanese Pound Currency	31 December 2015 Increase in basis points	 Sensitivity of net interest income
Lebanese Pound	200	(15,459)
United States Dollar	100	(9,429)
Euro	50	(146)

A decrease in basis points will have an opposite effect on net interest income.

Interest sensitivity gap

The table below analyses the Bank's interest rate risk exposure on financial assets and liabilities. The Bank's assets and liabilities are included at carrying amount and categorized by the earlier of contractual re-pricing or maturity dates.

In millions of Lebanese Pound — **31 December 2016**

	Up to 1 month	1 to 3 months	3 months to 1 year	(1-2) years	(2-5) years	More than 5 years	Non-interest sensitive	Total
ASSETS								
Cash and balances with central banks	106,730	278,090	22,348	–	171,228	253,075	208,288	**1,039,759**
Due from banks and financial institutions	117,780	16,049	–	4,547	–	–	387,801	**526,177**
Loans to banks and financial institutions	–	–	–	–	750	4,200	14	**4,964**
Financial assets at fair value through profit or loss	–	–	–	–	–	–	49,986	**49,986**
Loans and advances to customers at amortized cost	456,923	403,507	937,321	164,550	111,445	4,048	87,708	**2,165,502**
Loans and advances to related parties at amortized cost	6,396	–	–	–	–	–	–	**6,396**
Debtors by acceptances	11,994	11,168	6,936	–	–	–	–	**30,098**
Financial assets at amortized cost	5	58,380	53,814	123,542	168,252	1,809,604	35,729	**2,249,326**
Total	699,828	767,194	1,020,419	292,639	451,675	2,070,927	769,526	**6,072,208**
LIABILITIES								
Due to central bank	337	674	2,032	2,875	9,398	23,187	–	**38,503**
Due to banks and financial institutions	16,457	28,376	8,017	–	–	–	5,668	**58,518**
Due to banks under repurchase agreements	–	22,613	22,613	45,225	–	–	522	**90,973**
Deposits from customers	3,215,430	1,017,982	865,962	5,492	–	–	253,248	**5,358,114**
Deposits from related parties	9,114	–	–	–	–	–	–	**9,114**
Engagements by acceptances	11,994	11,168	6,936	–	–	–	–	**30,098**
TOTAL	3,253,332	1,080,813	905,560	53,592	9,398	23,187	259,438	**5,585,320**
Total interest rate sensitivity gap	(2,553,504)	(313,619)	114,859	239,047	442,277	2,047,740	510,088	**486,888**

In millions of Lebanese Pound — **31 December 2015**

	Up to 1 month	1 to 3 months	3 months to 1 year	(1-2) years	(2-5) years	More than 5 years	Non-interest sensitive	Total
ASSETS								
Cash and balances with central banks	–	–	–	113,063	375,368	140,075	188,444	**816,950**
Due from banks and financial institutions	52,867	82,912	–	5,898	–	–	208,227	**349,904**
Loans to banks and financial institutions	3,015	6,030	–	–	1,000	4,900	34	**14,979**
Financial assets at fair value through profit or loss	–	–	–	–	–	–	67,323	**67,323**
Loans and advances to customers at amortized cost	652,262	547,769	662,930	149,309	31,084	3,606	33,903	**2,080,863**
Loans and advances to related parties at amortized cost	5,165	–	–	–	–	–	–	**5,165**
Debtors by acceptances	7,416	16,082	6,383	–	–	–	–	**29,881**
Financial assets at amortized cost	–	3,000	119,255	113,302	164,613	1,508,745	26,292	**1,935,207**
Total	720,725	655,793	788,568	381,572	572,065	1,657,326	524,223	**5,300,272**
LIABILITIES								
Due to central bank	648	370	1,566	4,648	12,669	15,354	–	**35,255**
Due to banks and financial institutions	20,460	17,164	6,061	2,092	–	–	4,133	**49,910**
Due to banks under repurchase agreements	–	22,612	22,612	–	45,225	–	473	**90,922**
Deposits from customers	2,770,501	922,613	667,605	122	–	–	312,024	**4,672,865**
Deposits from related parties	8,919	2,890	183	–	–	–	–	**11,992**
Engagements by acceptances	7,416	16,082	6,383	–	–	–	–	**29,881**
TOTAL	2,807,944	981,731	704,410	6,862	57,894	15,354	316,630	**4,890,825**
Total interest rate sensitivity gap	(2,087,219)	(325,938)	84,158	374,710	514,171	1,641,972	207,593	**409,447**

35.3.2 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rate.

The Bank is allowed to maintain a net trading position not to exceed 1 percent of its net Tier 1 equity, as long as the global foreign position does not exceed, at the same time, 40 percent of net Tier 1 equity. This is subject to the Bank's commitment to comply in a timely and consistent manner with the required capital adequacy ratio.

In millions of Lebanese Pound **31 December 2016**

		Foreign currencies in Lebanese Pounds				
	Lebanese Pound	US Dollars in LBP	Euro in LBP	Other foreign currencies in LBP	Total foreign currencies in LBP	Total
ASSETS						
Cash and balances with central banks	426,786	573,452	37,825	1,696	612,973	1,039,759
Due from banks and financial institutions	6,255	349,239	134,470	36,213	519,922	526,177
Financial assets at fair value through profit or loss	45,947	4,039	–	–	4,039	49,986
Loans to banks and financial institutions	4,964	–	–	–	–	4,964
Loans and advances to customers at amortized cost	484,332	1,570,743	89,962	20,465	1,681,170	2,165,502
Loans and advances to related parties at amortized cost	2,845	3,490	36	25	3,551	6,396
Debtors by acceptances	–	26,674	3,424	–	30,098	30,098
Financial assets at amortized cost	1,098,167	1,133,844	17,315	–	1,151,159	2,249,326
Investment in a subsidiary	–	–	–	6,320	6,320	6,320
Property and equipment	51,376	–	97	–	97	51,473
Assets obtained in settlement of debt	36	52,324	–	–	52,324	52,360
Other assets	5,745	4,438	44	–	4,482	10,227
TOTAL ASSETS	2,126,453	3,718,243	283,173	64,719	4,066,135	6,192,588
FINANCIAL LIABILITIES						
Due to central bank	38,503	–	–	–	–	38,503
Due to banks and financial institutions	9,688	31,352	17,459	19	48,830	58,518
Due to banks under repurchase agreements	–	90,973	–	–	90,973	90,973
Deposits from customers	1,761,224	3,300,287	261,824	34,779	3,596,890	5,358,114
Deposits from related parties	4,670	4,153	251	40	4,444	9,114
Engagements by acceptances	–	26,674	3,424	–	30,098	30,098
Other liabilities	49,631	1,812	54	–	1,866	51,497
Provisions for risks and charges	27,848	–	–	–	–	27,848
Total liabilities	1,891,564	3,455,251	283,012	34,838	3,773,101	5,664,665
NET EXPOSURE	234,889	262,992	161	29,881	293,034	527,923

The table below indicates the seperate statement of financial position detailed in Lebanese Pound (LBP) and foreign currencies, translated into LBP.

In millions of Lebanese Pound **31 December 2015**

		Foreign currencies in Lebanese Pounds				
	Lebanese Pound	US Dollars in LBP	Euro in LBP	Other foreign currencies in LBP	Total foreign currencies in LBP	Total
ASSETS						
Cash and balances with central banks	243,624	567,215	5,543	568	573,326	816,950
Due from banks and financial institutions	5,094	201,141	115,910	27,759	344,810	349,904
Financial assets at fair value through profit or loss	60,814	6,509	–	–	6,509	67,323
Loans to banks and financial institutions	5,917	9,062	–	–	9,062	14,979
Loans and advances to customers at amortized cost	368,203	1,641,269	59,967	11,424	1,712,660	2,080,863
Loans and advances to related parties at amortized cost	2,785	2,349	23	8	2,380	5,165
Debtors by acceptances	–	23,455	6,426	–	29,881	29,881
Financial assets at amortized cost	1,015,618	901,743	17,846	–	919,589	1,935,207
Investment in a subsidiary	–	–	–	6,320	6,320	6,320
Property and equipment	50,650	–	138	–	138	50,788
Assets obtained in settlement of debt	495	25,558	–	–	25,558	26,053
Other assets	5,091	1,087	47	58	1,192	6,283
TOTAL ASSETS	1,758,291	3,379,388	205,900	46,137	3,631,425	5,389,716
FINANCIAL LIABILITIES						
Due to central bank	35,255	–	–	–	–	35,255
Due to banks and financial institutions	16,589	31,554	1,750	17	33,321	49,910
Due to banks under repurchase agreements	–	90,922	–	–	90,922	90,922
Deposits from customers	1,456,888	2,981,216	198,299	36,462	3,215,977	4,672,865
Deposits from related parties	6,302	5,072	595	23	5,690	11,992
Engagements by acceptances	–	23,455	6,426	–	29,881	29,881
Other liabilities	7,602	1,494	28	–	1,522	9,124
Provisions for risks and charges	7,182	–	–	–	–	7,182
Total liabilities	1,529,818	3,133,713	207,098	36,502	3,377,313	4,907,131
NET EXPOSURE	228,473	245,675	(1,198)	9,635	254,112	482,585

Bank's sensitivity to currency exchange rates

The table below shows the currencies to which the Bank has significant exposure at 31 December 2016 and 2015 on its monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Lebanese Pound, 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). A negative amount reflects a potential net reduction in income while a positive amount reflects a net potential increase.

In millions of Lebanese Pound

		2016	2015
Currency	**Change in currency rate %**	**Effect on profit before tax**	Effect on profit before tax
US Dollar	5	**+/-10,402**	+/-10,573
Euro	5	**+/-4**	+/-68
Other currencies	5	**+/-1,178**	+/-163

Prepayment risk

Prepayment risk is the risk that the Bank incurs a financial loss because its customers and counterparties repay or request repayment earlier than expected, such as fixed rate housing loans when interest rates fall. The fixed rate financial assets of the Bank are not significant compared to the total assets. Moreover, other market conditions causing prepayment are not significant in the markets in which the Bank operates. Therefore, the Bank considers the effect of prepayment on net interest income as not material after taking into account the effect of any prepayment penalties.

35.4 Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff awareness and assessment of processes, including the use of internal audit.

■ 36. CAPITAL MANAGEMENT

By maintaining an actively managed capital base, the Bank'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 Bank's capital is monitored using, among other measures, the rules and ratios established by the Central Bank of Lebanon of Basic Circular No 44 and related amendments (latest in March 2014). These ratios measure capital adequacy by comparing the Bank's eligible capital with its statement of financial position assets and off-financial position commitments at a weighted amount to reflect their relative risk. To satisfy Basel III capital requirements, the Central Bank of Lebanon requires maintaining the below capital adequacy requirements for 2016, 2017, and 2018.

The bank must achieve a total regulatory capital to risk-weighted assets at or above 14% in 2016, 14.5% in 2017, and 15% in 2018.

Common Equity tier 1 Ratio should increase to 8.5% in 2016, 9% in 2017, and 10% in 2018.
Tier 1 Ratio should increase to 11% in 2016, 12% in 2017, and 13% in 2018.

In millions of Lebanese Pound

	2016	2015
Risk weighted assets:		
Credit risk	**3,430,821**	3,210,060
Market risk	**94,945**	91,134
Operational risk	**184,081**	170,722
Total risk weighted assets	**3,709,847**	3,471,916

The capital base as per Basel III requirements as of 31 December is as follows:

In millions of Lebanese Pound

	Excluding net income for the year		Including net income for the year less proposed dividends	
	2016	**2015**	**2016**	**2015**
Tier 1 Capital	**452,001**	396,962	**495,386**	435,094
Tier 2 Capital	**34,196**	1,904	**34,196**	1,904
Total Capital	**486,197**	398,866	**529,582**	436,997

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities.

The capital adequacy ratio as of 31 December is as follows:

In millions of Lebanese Pound

	Excluding net income for the year		Including net income for the year less proposed dividends	
	2016	**2015**	**2016**	**2015**
Capital adequacy – Tier 1	**12.18%**	11.43%	**13.35%**	12.53%
Capital adequacy – Total Capital	**13.11%**	11.49%	**14.28%**	12.59%

LIST OF MAJOR CORRESPONDENTS

NORTH AMERICA

Canada
. Bank of Montreal

United States of America
. The Bank of New York Mellon
. Standard Chartered Bank

SOUTH AMERICA

Brazil
. Banco Safra SA

EUROPE

Austria
. Unicredit Bank Austria AG

Belgium
. KBC Bank N.V

Cyprus
. National Bank of Greece (Cyprus) Ltd

Denmark
. Danske Bank A/S
. Saxo Bank A/S

Finland
. Danske Bank PLC
. Skandinaviska Enskilda Banken AB (Publ)

France
. Natixis
. Banque Fédérative du Crédit Mutuel - CIC

Germany
. Commerzbank AG
. Deutsche Bank AG
. The Bank of New York Mellon

Greece
. National Bank of Greece SA
. Piraeus Bank SA

Italy
. Intesa Sanpaolo SPA
. Unicredit SpA
. Banca UBAE SPA

Poland
. Bank Polska Kasa Opieki SA
. Powszechna Kasa Oszczednosci Bank Polski SA

Spain
. Banco de Sabadell S.A.

Sweden
. Skandinaviska Enskilda Banken AB

Switzerland
. Banque de Commerce et de Placements SA

Turkey
. Turkiye Is Bankasi AS
. A&T Bank
. Turkiye Garanti Bankasi AS
. Yapi Ve Kredi
. Turkiye Finans Katilim Bankasi

United Kingdom
. Standard Chartered Bank

AUSTRALIA

Australia
. Westpac Banking Corporation
. Bank of Sydney

ASIA

China
. Bank of China ltd
. Industrial and Commercial Bank of China LTD

Hong Kong
. Standard Chartered Bank (Hong Kong) Limited
. The Bank of New York Mellon

India
. Indian Overseas Bank
. Mashreqbank PSC
. Canara Bank

Indonesia
. Deutsche Bank AG

Japan
. Sumitomo Mitsui Banking Corporation

Korea
. KEB Hana Bank

Malaysia
. Malayan Banking Berhad

Pakistan
. Habib Bank limited

Philippines
. Philippines National Bank

Sri Lanka
. Bank of Ceylon

Taiwan
. The Bank of New York Mellon

Thailand
. Export-Import Bank of Thailand

Veitnam
. Asia Commercial Joint Stock Bank
. Veitnam Export Import Commercial Joint Stock Bank

MIDDLE EAST & NORTH AFRICA

Bahrain
. Mashreqbank PSC
. Ahli United Bank BSC
. The Housing Bank for Trade & Finance

Egypt
. Mashreqbank PSC

Jordan
. The Housing Bank for Trade & Finance

Kuwait
. Burgan Bank SAK
. The Gulf Bank K.S.C.

Morocco
. Banque Marocaine du Commerce Exterieur SA
. Attijariwafa

Qatar
. Doha Bank
. Qatar National Bank SAQ

Saudi Arabia
. The National Commercial Bank

Tunisia
. Banque de Tunisie SA
. Banque Internationale Arabe de Tunisie SA

U.A.E.
. Mashreqbank PSC
. Emirates NBD
. Al Khaliji France SA
. National Bank of Abu Dhabi

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- Société Financière du Liban S.A.L
- Banque de L'Habitat S.A.L
- Société de Garantie des Prêts aux Petites et Moyennes Entreprises S.A.L

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