FIRST NATIONAL BANK S.A.L.

# ANNUAL REPORT 2016

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# WELCOME TO OUR YEARLY ANNUAL AND BUSINESS REPORT 2016

2016

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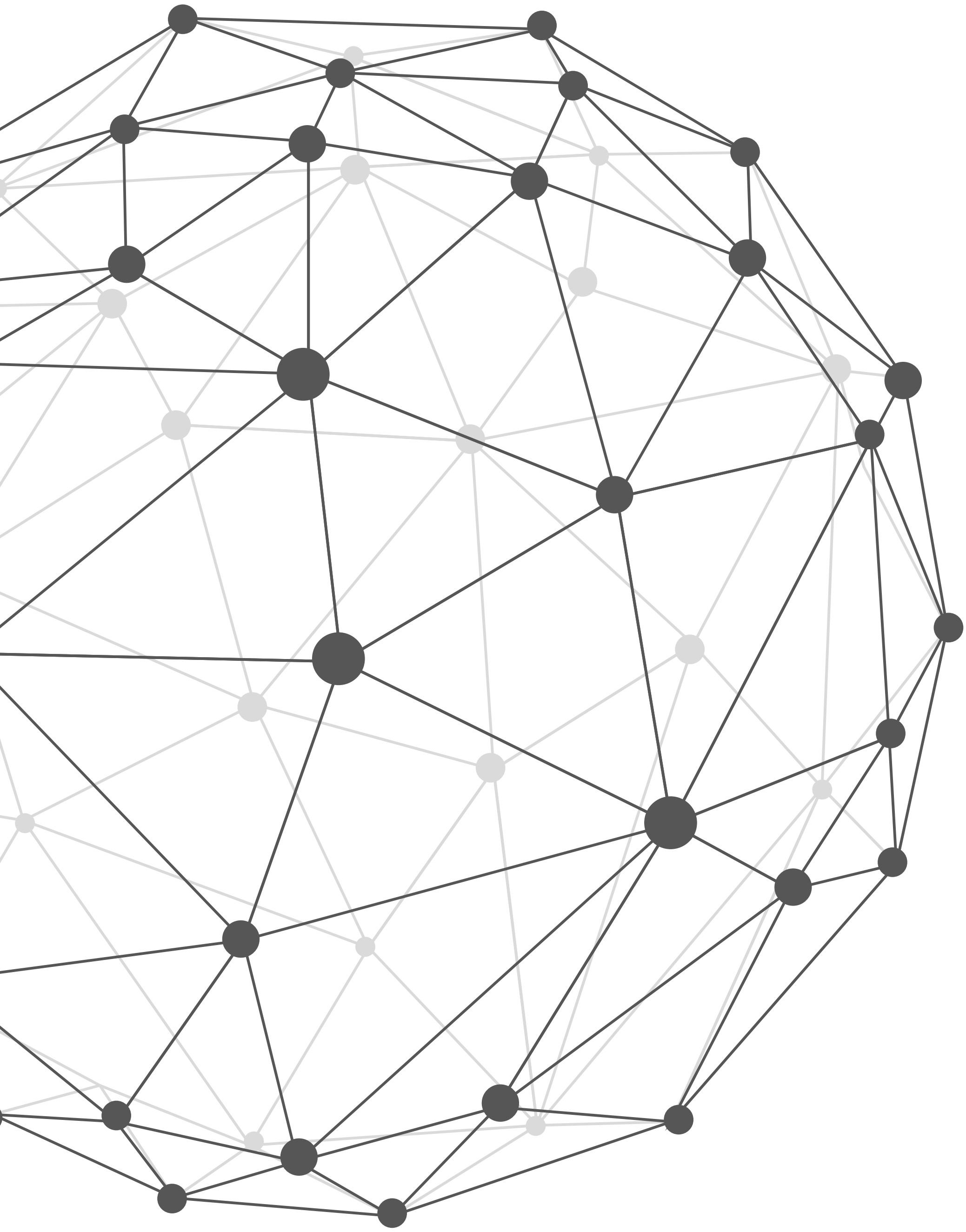


# CHAIRMAN'S LETTER

# CHAIRMAN'S LETTER

Despite the repeated tremors and challenges driving the economy in a state of sluggishness, Lebanon has managed to maintain financial stability and preserve confidence.

Signifying a sigh of relief, the election of the President of the Republic in October 2016, and the subsequent formation of a national unity government have generated hope for the revitalization of the political process in Lebanon after almost two and a half years of a presidential vacancy. Nonetheless, the lingering Syrian conflict is decidedly worsening the country's vulnerabilities and remains an obstacle to any sustainable growth. Similarly, repressed by particularly unstable geopolitics and security conditions, the economic activity remains well below potential as compared to the economic boom years between 2007 and 2010.

In 2016, in spite of challenges, real GDP growth underwent a slight acceleration to reach an estimated 1.8 percent, compared to 0.8 percent in 2015 backed by a robust and well-regulated Lebanese banking sector.

The Lebanese Banking Sector, continuing to demonstrate resilience amidst financial engineering operations by BDL resulting in growing financial inflows towards Lebanon, witnessed a vigorous activity hike driven by strong asset and deposit growth and improved solvency ratio to mitigate elevated risks.

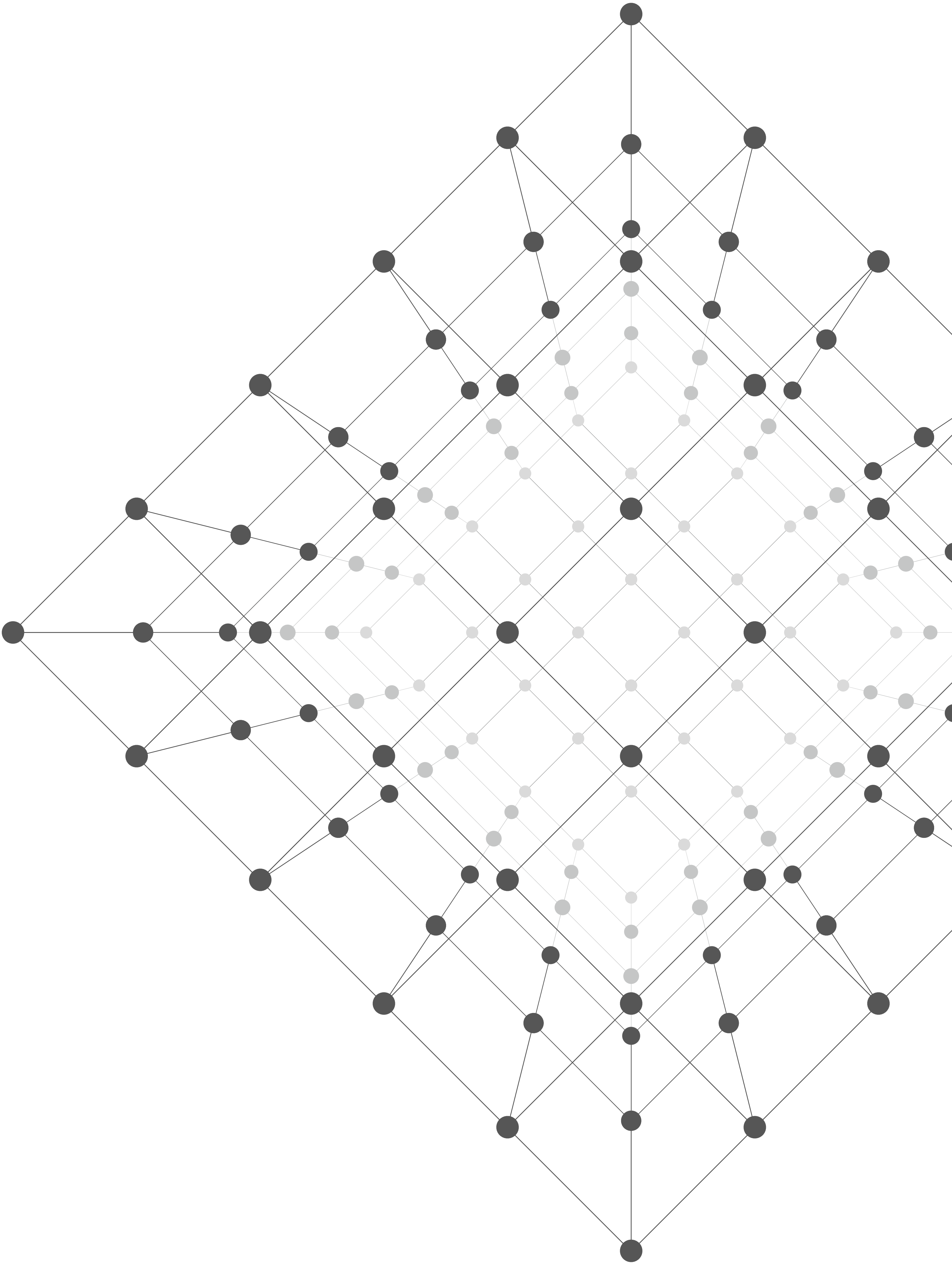
Capitalizing on the distinctive culture of prudent risk management and sound corporate governance, FNB focused on executing a growth strategy reflected in the Bank's robust results. The Bank's Total Assets reached USD 4.5 billion at the end of 2016, recording a 9.2% growth rate, and its Net Profit amounted to USD 40.8 million (of which USD 34 million Group Share) increasing by 16.3% (9.4% Group Share) compared to 2015 in spite of the tremendous challenges and the economic slowdown in Lebanon and the region. The Bank's equity increased to reach around USD 440 million, boosting the solvency ratio to 14.3%, taking into consideration the 2016 retained profits. Customers' Deposits grew at 9.2% to reach USD 3.6 billion, and Loans to Customers exceeded USD 1 billion recording a growth rate of 8.4% as compared to previous year, versus 6.2% for the domestic banking activity. The Compound Annual Growth rate (CAGR) over the last 5 years also recorded promising growth rates of 9.7%, 9.0%, and 19.4% for Assets, Deposits, and Equity outperforming domestic market growth with a CAGR of 7.8%, 6.4% & 10.9% respectively. The CAGR in Net Profits soared to 19.7% caused mainly by a steady and continuous enhancement of the Bank's Non-Interest Income. This improvement was a result of the diversity in the sources of business activities including revenue from launching of two funds in LBP and USD during 2015 by Middle East Capital Group (MECG) and the consolidation of other non-interest revenue Capital Finance House (CFH) which joined our Group in 2014. The latter is specialized in financial advisory services, mergers and acquisitions, debt restructuring, in addition, to other advisory activities, private equity and real estate fund management. Moreover, the profits growth was a result of our continued implementation of policies which geared to controlling increase in expenses.

In 2016, FNB continued to satisfy the evolving needs of its client's base across all of its business lines, and provided distinctive services, catering for both the Corporate Banking portfolio and the Small and Medium Enterprises (SMEs). The Bank successfully increased its Trade Finance activities, while sustaining the growing needs of the Retail Banking unit through new products and services. With respect to investment strategy, the Treasury successfully diversified the Balance Sheet profile, minimizing risks while enhancing profitability.

FNB's investment arms, MECG & CFH, offering a wide range of financial solutions, also remarkably contributed to the Bank's positive performance, while its retail arm CFC successfully expanded the scope of its operations to reach new customers and satisfy their needs. During 2016, FNB expanded its presence by inaugurating a new branch in Sin El Fil in addition to the rehabilitation of two branches in Hazmieh & Jdeideh.

I would like to extend most heartfelt gratitude to our shareholders and customers for their continuing confidence and support, and to every employee at FNB Group for their continuing dedication, hard work and commitment to our vision and values.

**RAMI EL NIMER**



# CORPORATE GOVERNANCE

STATUTORY BODY MANAGEMENT

# **STATUTORY** BODY

The corporate governance guidelines, adopted by First National Bank, provide a framework to regulate the relationships between shareholders, supervisors and management.

A clear separation between the oversight, vision setting, supervision and execution is reflected in the corporate governance structure. The Board makes every effort to balance the interest of its shareholders, customers, employees and suppliers.

Furthermore, the Board ensures effective governance, supervises the management of the bank's business and affairs, and exercises reasonable business judgment on behalf of the bank. In all actions taken by the Board, the members act on a fully informed basis, in good faith and with due diligence, keeping in mind the best interests of the bank. In discharging their obligation, Board members rely, among other things, on the honesty and integrity of the bank's senior management and its outside advisors and external auditors.

## CHAIRMAN

The Chairman and Vice-Chairman of the Board are appointed by the Board of Directors for a maximum period of three years. The Chairman may delegate some or all of his authority to another person who operates under his supervision, but remains responsible for the acts and performance of his delegates.

The general managers, deputy general managers and assistant general managers are endorsed by the Board upon the recommendation of the Chairman. They assist the Chairman in the daily operations of the bank. The Chairman has extensive powers to execute resolutions adopted by the shareholders at the Ordinary or Extraordinary General Assembly and to represent the bank in its different activities.

## BOARD OF DIRECTORS

The Board of Directors consists of ten elected members and is chaired by Mr. Rami El Nimer. The election of the members takes place at the Annual General Assembly of Shareholders for a maximum period of three years and is renewable. Board members need General Assembly authorization to be elected members in other entities with similar business activities. The renewal of this authorization is mandatory at each Annual General Assembly of Shareholders.

The Board of Directors of First National Bank in 2017 is composed of the following 10 members:

**Mr. Rami Refaat El Nimer** is an experienced banker who has many notable achievements in the banking industry. He has served as director and Chairman of the bank since March 2001. Additionally, Mr. El Nimer holds other corporate responsibilities within the business community.

**Mr. Khaled Abdallah Al Sagar** is the Vice-Chairman of the bank. He has been a director of the bank since June 1996. Mr. Al Sagar held the role of Chairman of the Board for a three-year term from April 3, 1998 until March 23, 2001. He is an active member of the Al Sagar Group, a leading merchant and industrial conglomerate in Kuwait.

**Mr. Fawzi Elias Farah** is the Vice-Chairman of the bank. He has been a director of the bank since May 2014. He is the founder and principal partner of the CFH Group. He held various banking positions in New York and Kuwait. He is an international advisor to the Olayan School of Business at the American University of Beirut, a member of the Board of Trustees of the American Community School, and a member of the Board of the International Chamber of Commerce in Lebanon.

**Mr. Abdallah Saoud Al Humaidhi** has been a director of the bank since June 1996. He is also a member of the Board of Directors of the Arab Banking Corporation in Bahrain.
Mr. Al Humaidhi is the chairman and managing director of Commercial Facilities Company K.S.C., and a Board member of the Chamber of Commerce and Industry in Kuwait, in addition to other Kuwaiti organizations.

**Mr. Roland Elias Haraoui** has been an executive member of the Board of Directors since 2001. He is also a Board member of Capital Finance Company S.A.L. and Corporate Finance House Ltd. In addition, Mr. Haraoui has been serving as chairman and general manager for Middle East Capital Group Ltd., MECG Holding S.A.L. and MECG Development S.A.L., since 2006. He is a Lebanese businessman with an exceptional leadership profile.

**Mr. Arfan Khalil Ayass** has been a director of the bank since August 2009. He is a member of the American Institute of Certified Public Accountants and the Lebanese Society of Certified Public Accountants. Mr. Ayass is currently a faculty member of Rafic Hariri University.

**Mr. Moustapha Hadi Bey M. Saoud El Assaad** has been a director of the bank since September 2014. Between 2004 and 2008, Mr. El Assaad was the general manager of Qatar National Bank – Paris, and was also associated with other international banks. He is an international expert and a member of the French Institute of Directors in Paris (IFA); he actually participates in advising and developing several banks.

**Mr. Georges Nassib Awad** has been a director of the bank since May 2017. He is a seasoned banker who has served as an advisor to the Chairman since 2012. Between 2003 and 2012, Mr. Awad occupied the position of deputy general manager of the bank. Throughout his career, he held leadership positions at other banking institutions and currently serves as a member of the Board of Directors of Middle East Capital Group S.A.L. and some other local institutions.

**Promotion des Investissements S.A.L. (Holding)** has been represented on the Board through its representative Me. Sakhr Chahid El Hachem since April 2000. It is a Lebanese holding company that primarily invests its financial and industrial concerns in Lebanon.

**Al Muttahida Lil Istithmar (Lebanon) S.A.L. (Holding)** has been elected, through its representative Mr. Romen Mathieu, as a Board member since 2004. It is a Lebanese holding company that invests its financial and industrial concerns in Lebanon.

# MANAGEMENT

## FNB S.A.L. (FIRST NATIONAL BANK) GENERAL MANAGEMENT

**Mr. Rami R. El Nimer**
Chairman - General Manager

**Mr. Elias S. Baz**
General Manager

**Mr. Najib M. Semaan**
General Manager

**Mr. Ghaithan S. Tayara**
Deputy General Manager

**Mr. Mahmoud G. Francis**
Assistant General Manager

**Mr. Tony W. Dabbaghian**
Assistant General Manager

**Mr. Antoine C. Wakim**
Assistant General Manager

**Mr. John N. Chalouhi**
Assistant General Manager

**Mr. Salim L. Karroum**
Group Chief Compliance Officer

**Mr. Oussama F. Chedid**
Acting Group Chief Audit Executive

## HEAD OFFICE - MANAGERS

**Mr. Assaad K. Saliba**
Foreign Exchange Department

**Ms. Carine N. Jbeily**
Retail Credit Department

**Ms. Carole A. Abi Saad**
Organization & Methods Department

**Ms. Chantal R. Freiji**
Financial Institutions & Correspondent Banking Department

**Mr. Charles W. Skaff**
Administration Department

**Ms. Dima H. El Dairy**
Marketing & Communication Department

**Mr. Elie G. Abou Zeidan**
Legal Department

**Mr. Elie M. Rahal**
Trade Finance Department

**Mr. Gaby L. Tchennozian**
Private Banking Department

**Mr. George K. Boustany**
Information Technology Security Department

**Mr. Houssam Z. Khaywa**
Operations Department

**Mr. Joseph E. Estephan**
Recovery & Restructuring Department

**Mr. Khalil K. Badran**
Administrative Services Department

**Ms. Liza G. Deryeghiayan**
Management Information Systems Department

**Ms. Marie-Therese E. Obeid**
International Corporate Credit Banking Department

**Mr. Marwan B. Khawand**
Information Technology Department

**Mr. Nabil J. Semaan**
Human Resources Department

**Ms. Nada F. El Zein**
Credit Appraisal Department

**Ms. Nadine R. Abou Zeid**
Anti-Money Laundering Unit

**Mr. Naji N. Maalouf**
Corporate Banking Department

**Ms. Nazira G. Khalaf**
Corporate Secretary

**Mr. Philippe A. Abou Azar**
Small & Medium Enterprises Credit Department

**Mr. Rabih M. Abou Mrad**
Facilities Management Department

**Mr. Raymond N. Yazbeck**
Credit Administration Department

**Ms. Raymonda D. Abboud**
Credit Inspection Department

**Ms. Soumaya Y. Haris**
Head of Group Treasury

**Mr. Walid B. Rizk**
Electronic Banking Department & Consumer Protection Unit

**Mr. Wassim M. Daouk**
Chief Risk Officer

## ADVISORS

**Me. Jean Claude M. Chamoun**
Legal Advisor

**Me. Mansour A. Breidi**
Legal Advisor

**Mr. Nabil M. Soubra**
Consultant to Chairman – Foreign Affairs

**Me. Rawi B. Kanaan**
Legal Advisor

**Me. Sakhr C. El Hachem**
Legal Advisor

**Abou Sleiman and Partners**
Legal Advisor

**Saade, Debs and Partners**
Legal Advisor

## AUDITORS

**Deloitte & Touche**
**DFK Fiduciaire Du Moyen-Orient**

## MECG S.A.L. (MIDDLE EAST CAPITAL GROUP) GENERAL MANAGEMNENT

**Mr. Najib M. Semaan**
Chairman - General Manager

**Mr. Antoine E. Kozma**
Chief AML and Compliance Officer

**Mr. Ihab W. Tabet**
Head of Finance Department

## CFC S.A.L. (CAPITAL FINANCE COMPANY) GENERAL MANAGEMENT

**Mr. Tarek I. Kombarji**
Chief Executive Officer

**Mr. Rony M. Khoneisser**
Assistant General Manager

**Ms. Myriam J. Mouaness**
Financial Control Director

## CFH GROUP (CORPORATE FINANCE HOUSE GROUP) GENERAL MANAGEMENT

**Mr. Fawzi E. Farah**
Chief Executive Officer

**Mr. Abdul Karim M.B. Chamseddine**
Chief Operating Officer

# **MANAGEMENT** DISCUSSION AND ANALYSIS

# INTRODUCTION

First National Bank S.A.L. (FNB) is a Lebanese joint stock company founded in 1994. The bank conducts all forms of commercial and investment banking activities under the supervision and regulation of the Central Bank of Lebanon. FNB is recognized as one of the leading banking institutions in Lebanon and its headquarters are located in Beirut Central District.

FNB operates in Lebanon and is classified among the largest Lebanese banks, offering a full array of financial and banking services covering retail banking, corporate banking, private banking, as well as investment banking and financial advisory services. It is through mastered experience and integrity that the bank tailors its diverse services to its wide clientele via a network of 26 branches, 49 ATMs and 662 employees.

Over the years, FNB has managed to widen its network through the acquisition of three financial institutions: Middle East Capital Group Ltd. (MECG) in 2008, Capital Finance Company S.A.L. (CFC) in 2010, and Corporate Finance House Group (CFH) in 2014. Each of these institutions served as a key pillar in developing and expanding the sound and proficient body of financial and banking facilities.

The following section underlines the bank's consolidated performance and financial soundness over the course of 2016. The discussion and analysis is based on the audited consolidated financial statements of the bank for the fiscal years ended 31 December, 2015 and 31 December, 2016. Terms such as "First National Bank", "the bank" or "the Group" refer to First National Bank S.A.L. and its consolidated subsidiaries.

In conformity with regulatory requirements, the bank discloses its accounts in Lebanese Pounds (LBP) and in compliance with the International Financial Reporting Standards (IFRS). The figures presented in the management discussion and analysis are also denominated in LBP, unless otherwise stated. The consolidated financial statements have been jointly audited by Deloitte & Touche and DFK Fiduciaire du Moyen-Orient. It is also worth noting that all references to the Lebanese banking sector denote the 50 Lebanese commercial banks, as designated by the Association of Banks in Lebanon (ABL). Furthermore, all references to peer groups represent the Alpha Group, which is classified by Bankdata Financial Services and composed of 14 banks with customers' deposits of over USD 2 billion.

The discussion and analysis starts with an overview of the economic environment and banking sector, followed by a timeline illustration of the key financial highlights of FNB. Then comes a comparative analysis of the Group's financial performance, mirroring the results between year-end 2016 and year-end 2015. This part is subsequently followed by the developments and achievements of several departments during 2016.

# **ECONOMIC** ENVIRONMENT

The several regional conflicts and political turbulences crippled the economic stability and financial soundness of the MENA region in general, and of Lebanon in particular. The Lebanese economy was not only the victim of its own financial and social loopholes, but also the bearer of major challenges from its neighboring countries, particularly Syria. Since its onset, the Syrian crisis has had a deep impact on Lebanon's economy and infrastructure.

In fact, Lebanon has been the main Arab host of the Syrian refugees, which are currently estimated by the IMF at about one-third of the population. Such unprecedented and disorderly surge in population depleted the country's natural resources and infrastructure, degraded the quality of life, increased poverty and unemployment rates, worsened public services, and exacerbated political uproar. In spite of the prevailing risks, it is expected that a future resolution of the Syrian crisis will boost the Lebanese economy.

Lebanon has long been struggling to break through all of the impasses straining its strength and welfare, and the year 2016 proved to be another challenging phase marked by few economic setbacks. Furthermore, the shy and hesitant market sentiment and the lack of consumer confidence became a natural by-product undermining the overall well-being of the country.

However, on a positive note, the year 2016 was marked by some improvements in terms of growth and stability, with the economy remaining afloat in spite of all the vulnerabilities. The election of a president and the formation of a new government helped relieve the political tension, maintain macroeconomic stability, and offer a positive outlook concerning fiscal reforms and public services. Moreover, the sound policies implemented deftly by the Central Bank preserved financial stability and supported growth.

The BDL coincident indicator for December 2016 reached 291.8, down from 302.3 in December 2015, corresponding to an annual decline of 3.5%. Moreover, the real GDP growth was forecast at 2% in 2016, double the growth registered in 2015. However, this year's growth was stalled by an average of 2.9 percentage points due to the aftermath of the Syrian crisis, as estimated by the World Bank.

As for the balance of payments, a cumulative surplus of USD 1,237.5 million has been recorded at the end of 2016, against a cumulative deficit of USD 3,354.3 million in 2015. Such surplus was largely caused by the surge in the banks' and financial institutions' foreign assets following the Central Bank's financial engineering operations. Furthermore, trade deficit reached USD 15,728.7 million at the end of 2016, a 4.1% increase as compared to USD 15,116.4 million at the end of 2015, which was largely due to imports and exports increasing by 3.5% and 0.8% on an annual basis, respectively.

According to the Ministry of Finance, the gross public debt stood at LBP 112,890 billion at year-end 2016, recording a yearly increase of 6.5% from LBP 106,015 billion at year-end 2015. Net public debt reached LBP 98,622 billion at year-end 2016, registering an annual increase of 6.3%. In this context, gross debt-to-GDP rose from 140% at year-end 2015 to 146% at year-end 2016, both figures being much higher than previous annual records since 2009. As per the Central Administration of Statistics, the Consumer Price Index for Lebanon increased by 3.1% year-on-year (YOY), reflecting an escalating cost of living.

Despite the worsened public finance, the financial sector was reinforced with the Central Bank's financial engineering operations which caused a significant growth in net foreign assets and maintained a strong fiscal position. With respect to the financial markets, the volume of traded shares increased by 112.3% YOY, and the value of traded shares grew by 85.4% YOY between the end of 2016 and the end of 2015. Also, Lebanon 5-year CDS spreads reached 478 basis points at the end of 2016, higher than last year's figure by 57 basis points.

At the real sector level, several indicators reflected the general condition of the country. On the upside, some indicators improved over the year as compared to 2015, with a 4.4% growth in cement deliveries, a 4.9% increase in electricity production, a 2.7% rise in plane traffic paralleled by the 5.1% surge in passenger flow at the Beirut International Airport, and lastly a 6.7% growth in the volume of maritime freight at the Port of Beirut. On the downside, however, some indicators regressed over the year as compared to 2015, with a 0.9% fall in construction permits, a 6.6% decrease in air freight, a 2.2% decline in cleared checks, and a 7.7% drop in new car sales.

# BANKING SECTOR

With regard to the banking sector, the consolidated assets of commercial banks reached LBP 307,999 billion at the end of December 2016, recording a yearly growth of 9.9%. This growth is mainly driven by an annual increase of 5.5% in loans to the private sector, and a yearly rise of 7.2% in deposits by the private sector. Deposits in foreign currency grew by 8.8% on an annual basis, hence causing a higher dollarization rate of 65.82% as compared to 64.88% at the end of 2015. Moreover, the loans-to-deposits ratio stood at 35.19%, a slight drop from the December 2015 ratio of 35.77%. Shareholders' equity grew considerably by 9.4% on a yearly basis, while the capital-to-assets ratio reached 8.93% at the end of 2016, down from last year's ratio of 8.96%.

However, it is worth noting that the massive volume of financial funding and foreign currency deposits is mainly due to the vital role played by the Central Bank of Lebanon in initiating apt financial engineering operations, with the aim of boosting overall banking activity and improving the banks' sovereign exposure. Such unprecedented swap operations resulted in a win-win situation for both the commercial banks and the Central Bank, and have without a doubt helped alleviate the financial distress weighing down on the economy.

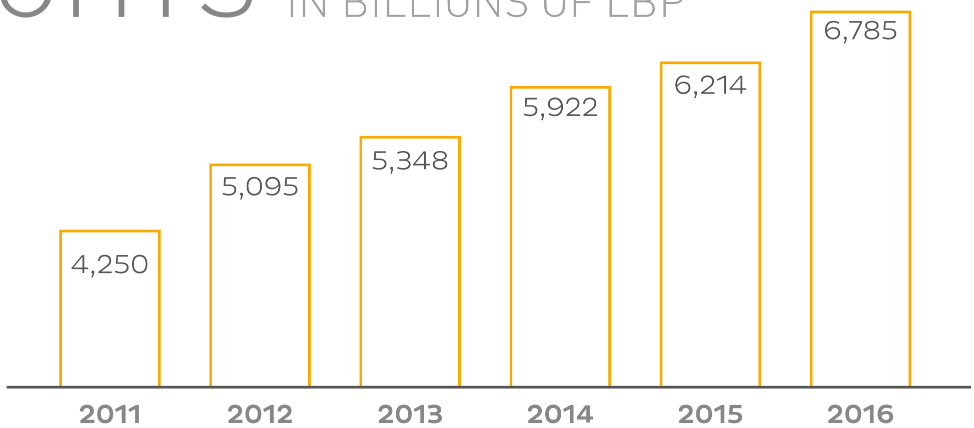
## DISTRIBUTION OF LOANS BY SECTOR IN 2016


Source: BDL Monthly Bulletin, December 2016

## FINANCIAL HIGHLIGHTS IN BILLIONS OF LBP

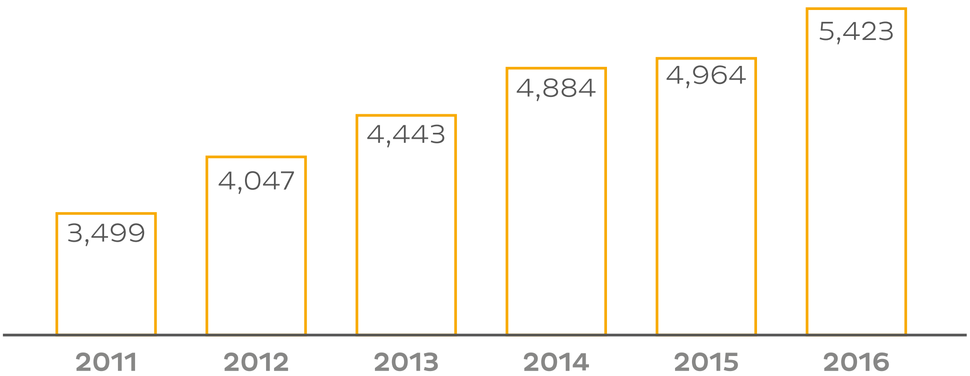
### ASSETS

CAGR
9.89%

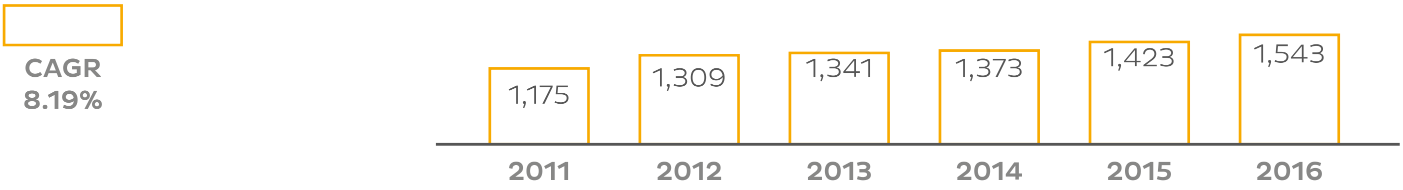



### DOMESTIC DEPOSITS

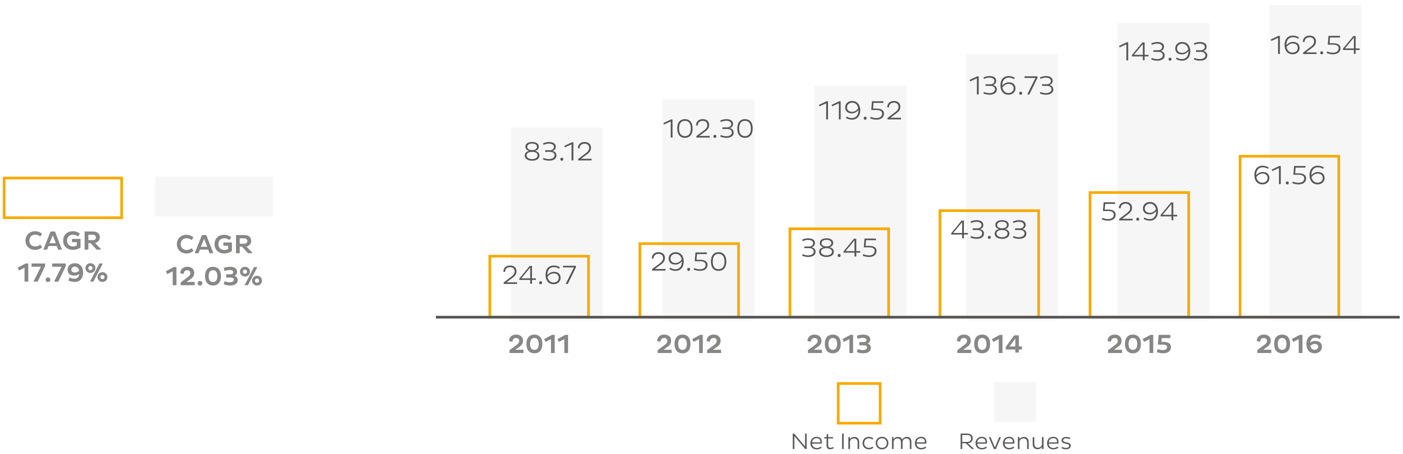
CAGR
9.79%



## LOANS AND ADVANCES TO CUSTOMERS




## NET INCOME & REVENUES




# KEY PERFORMANCE INDICATORS

| | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|---|
| | LBP Million | | | | | |
| Assets | 6,785,239 | 6,214,284 | 5,921,670 | 5,348,427 | 5,095,406 | 4,250,333 |
| Loans and advances to customers | 1,543,131 | 1,423,360 | 1,372,706 | 1,341,289 | 1,309,322 | 1,174,716 |
| Customers' deposits | 5,422,813 | 4,964,010 | 4,883,507 | 4,442,654 | 4,046,670 | 3,499,403 |
| Shareholders' equity | 639,436 | 598,730 | 438,952 | 376,498 | 349,873 | 269,966 |
| Net income | 61,563 | 52,941 | 43,832 | 38,455 | 29,500 | 24,672 |
| **Asset Quality** | | | | | | |
| Loans to deposits | 28.46% | 28.67% | 28.11% | 30.19% | 32.36% | 33.57% |
| Net doubtful loans/Total loans | 1.14% | 0.74% | 0.34% | 0.94% | 1.00% | 1.20% |
| Loan loss provisions/Gross loans | 6.83% | 8.42% | 7.76% | 6.94% | 7.32% | 8.18% |
| Net doubtful loans/Equity | 2.75% | 1.76% | 1.07% | 3.35% | 3.74% | 5.22% |

| | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|---|
| | LBP Million | | | | | |
| **Capital Adequacy** | | | | | | |
| Shareholders' equity to assets | 9.42% | 9.63% | 7.41% | 7.04% | 6.87% | 6.35% |
| Capital adequacy ratio | 13.56% | 12.47% | 11.72% | 11.22% | 8.69% | 7.78% |
| **Profitability** | | | | | | |
| ROAA | 0.95% | 0.87% | 0.78% | 0.74% | 0.63% | 0.61% |
| ROACE | 10.49% | 10.90% | 12.13% | 11.39% | 9.44% | 8.90% |
| Earnings per share LBP | 2,848 | 2,583 | 2,626 | 2,198 | 1,704 | 1,734 |

# SUMMARY OF CONSOLIDATED FINANCIAL POSITION

| | 2016 | 2015 | Growth (%) |
|---|---|---|---|
| | LBP Million | | |
| Liquid assets | 2,009,358 | 1,691,908 | 18.8% |
| Portfolio securities | 2,969,259 | 2,883,509 | 3.0% |
| Loans to customers | 1,543,131 | 1,423,360 | 8.4% |
| Other assets | 146,270 | 125,041 | 17.0% |
| Fixed assets | 117,222 | 90,466 | 29.6% |
| **Total Assets** | **6,785,239** | **6,214,284** | **9.2%** |
| Bank deposits | 469,699 | 519,172 | -9.5% |
| Customers' deposits | 5,422,813 | 4,964,010 | 9.2% |
| Other liabilities | 253,291 | 132,372 | 91.3% |
| Shareholders' equity | 639,436 | 598,730 | 6.8% |
| **Total Liabilities and Shareholders' Equity** | **6,785,239** | **6,214,284** | **9.2%** |
| | | | |
| Number of branches | 26 | 26 | |
| Number of staff | 662 | 649 | |

## BREAKDOWN OF ASSETS

The below charts illustrate the breakdown of assets into four major classes as at the end of December 2016 compared to the end of December 2015.

Consolidated total assets increased significantly by 9.2% to LBP 6,785 billion as at the end of December 2016, from LBP 6,214 billion as at the end of December 2015. The predominant asset classes are portfolio securities, liquid assets, and loans and advances to customers.

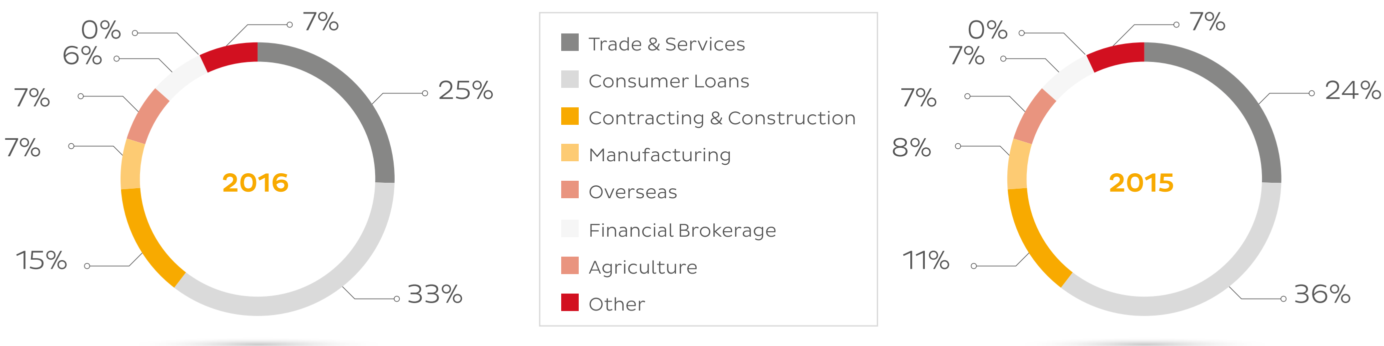
Portfolio securities represent the biggest asset category with 44% of the total consolidated assets at the end of 2016. The portfolio encompasses Lebanese Government bonds, Lebanese Treasury bills, certificates of deposit issued by the Central Bank of Lebanon, Government bonds, and equity securities. This category reached LBP 2,969 billion at the end of December 2016, an increase of 3.0% from the end of December 2015.

Liquid assets account for 29% of the total consolidated assets and include cash, accounts with the Central Bank of Lebanon as well as banks and financial institutions. Liquid assets surged by 18.8% and reached LBP 2,009 billion at the end of 2016.


## LOANS AND ADVANCES TO CUSTOMERS BY ECONOMIC SECTOR

The bank's loan portfolio caters to a diverse base of customers and addresses their investment potential and various individual needs by offering a wide range of industrial, commercial and individual loans.
The charts below divide the loan portfolio according to economic sectors as at the end of December 2016 and the end of December 2015. Consolidated loans and advances to customers reached LBP 1,543 billion at the end of December 2016, an increase of 8.4% from last year's figure of LBP 1,423 billion.

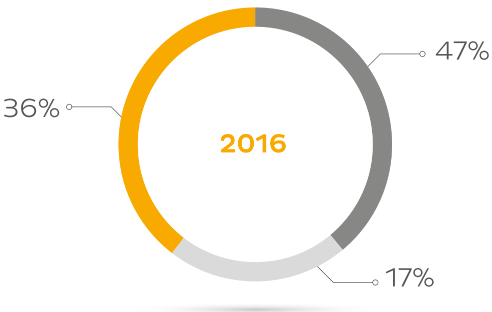
The major concentration of loans at the end of 2016 is in the consumer sector with a share of 33%, down from 36% at the end of 2015, followed by trade and construction sectors with proportions of 25% and 15%, respectively, at the end of 2016, presenting a slight improvement from last year's figures.



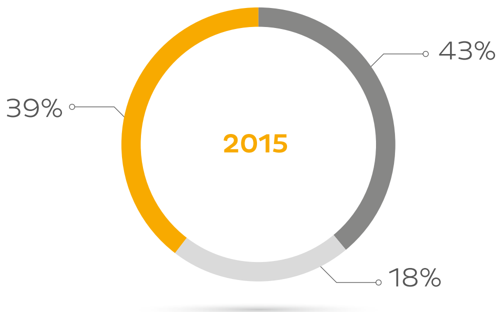
## LOANS AND ADVANCES TO CUSTOMERS BY TYPE OF CUSTOMER

The charts that follow depict the distribution of loans and advances to customers by type of borrower as at the end of December 2016 as compared to the end of December 2015.

The distribution shows a major concentration of corporate loans and retail loans, which account for 47% and 36%, respectively, of the consolidated loan portfolio as at the end of December 2016. As compared to the end of December 2015, corporate loans concentration increased by 4% at the expense of a lesser portion for SME and retail loans.




Corporate
SME
Retail




## CUSTOMERS' DEPOSITS BY TYPE

The bank's customers' deposits reached LBP 5,423 billion as at the end of December 2016, representing a 9.2% growth as compared to LBP 4,964 billion at the end of December 2015. The table below classifies customers' deposits by type as at the end of 2016 and the end of 2015. Customers' deposits are primarily composed of savings and term deposits, with both categories totaling LBP 4,460 billion as at the end of December 2016 and accounting for 82.2% of the total deposits. As compared to the end of 2015, savings and term deposits increased considerably by 9.5%.

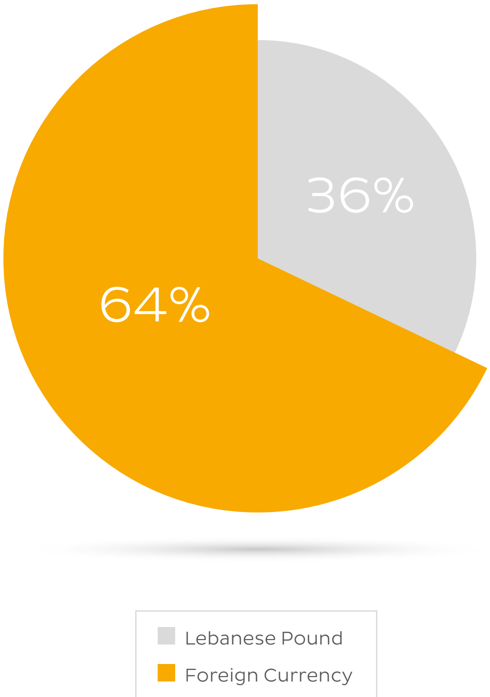
| | Volume | % of Total | Volume | % of Total |
|---|---|---|---|---|
| | 2016 | | 2015 | |
| Current deposits | 367,704,262 | 6.78% | 370,679,876 | 7.47% |
| Term deposits | 797,795,576 | 14.71% | 769,804,641 | 15.51% |
| Savings & fiduciary accounts | 3,661,951,173 | 67.53% | 3,301,942,895 | 66.52% |
| Margin deposits | 56,876,141 | 1.05% | 29,233,378 | 0.59% |
| Collateral accounts | 349,250,542 | 6.44% | 338,608,082 | 6.82% |
| Other deposits | 189,234,963 | 3.49% | 153,741,409 | 3.10% |
| | **5,422,812,657** | **100.00%** | **4,964,010,281** | **100.00%** |

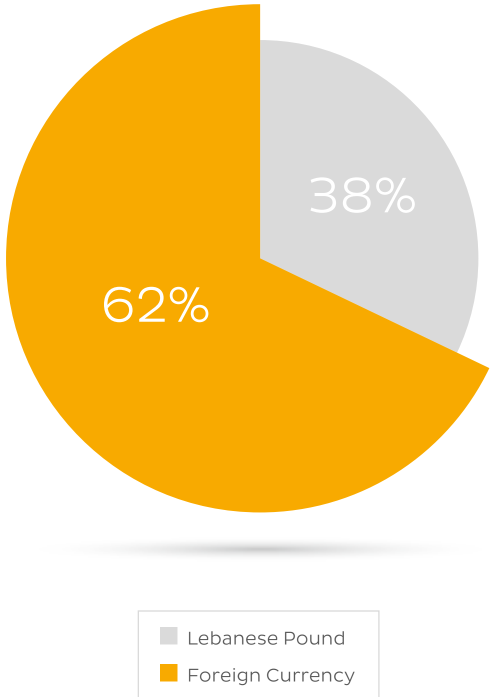
## CUSTOMERS' DEPOSITS BY CURRENCY: DOLLARIZATION

The charts below illustrate the distribution of customers' deposits by currency as at the end of December 2016 and the end of December 2015.

The bank's deposits in foreign currency increased substantially by 12.2%, from LBP 3,087 billion as at the end of December 2015 to LBP 3,464 billion as at the end of December 2016. Hence, the dollarization rate was set at 64% at the end of 2016 as compared to 62% at the end of 2015.

| 2016 | 2015 |
|---|---|




## SHAREHOLDERS' EQUITY

The bank's shareholders' equity increased by 6.8% from LBP 599 billion as at the end of 2015 to LBP 639 billion as at the end of 2016. Furthermore, consolidated shareholders' equity accounted for 9.42% of consolidated total assets as at the end of December 2016 compared to 9.63% as at the end of December 2015.

## CAPITAL ADEQUACY

The below table sets out the Group's capital adequacy ratio as at the end of December 2016 and the end of December 2015 as follows:

| | 2016 | 2015 |
|---|---|---|
| Common equity ratio | 9.07% | 9.73% |
| Tier I ratio | 10.83% | 11.84% |
| Tier I and Tier II capital adequacy ratio | 13.56% | 12.47% |

In conformity with the Lebanese Central Bank's regulations and the minimum requirements regarding the capital adequacy ratio, the bank monitors and measures its capital base and risk-weighted assets on a periodic basis, in order to maintain solvency and continue as a going concern against all risks and challenges lying ahead.

# SUMMARY OF CONSOLIDATED FINANCIAL RESULTS

| | 2016 | 2015 | Growth (%) |
|---|---|---|---|
| | LBP Million | | |
| Net interest income* | 121,109 | 107,771 | 12.4% |
| Non interest income | 41,431 | 36,162 | 14.6% |
| **Total income** | **162,541** | **143,933** | **12.9%** |
| Operating expenses | (89,744) | (79,595) | 12.8% |
| Loan loss provisions | (1,720) | (3,556) | -51.6% |
| Tax | (9,514) | (7,842) | 21.3% |
| **Total Expenses** | **(100,978)** | **(90,993)** | **11.0%** |
| **Net Income** | **61,563** | **52,941** | **16.3%** |

** Includes interest income on financial assets at fair value through profit or loss*

In reference to the table above, consolidated net income increased by 16.3% from LBP 52,941 million as at the end of December 2015 to LBP 61,563 million as at the end of December 2016. The growth in net income is mainly driven by a 28.7% increase in net gain on financial assets at FVTPL and a 39.5% increase in other operating income between the end of 2016 and the end of 2015. Moreover, the 51.6% yearly drop in loan loss provisions prevented total expenses from weighing down on the bottom-line growth.

## NET INTEREST INCOME

Consolidated net interest income, including interest income on financial assets at FVTPL, increased by LBP 13,338 million, an increase of 12.4% to reach LBP 121,109 million as at the end of December 2016. This category represents about 75% of the total income in both years 2016 and 2015.

## NON INTEREST INCOME

The bank's non interest income rose from LBP 36,162 million as at the end of December 2015 to LBP 41,431 million as at the end of December 2016, recording an annual increase of 14.6%. This growth is driven by a significant increase in net gain on financial assets at FVTPL as well as in other income by 28.7% and 39.5%, respectively.

Yet this upsurge is offset by a fall in net fee and commission income by 16.7% between the end of 2016 and the end of 2015.

## GENERAL OPERATING EXPENSES

The bank's general operating expenses increased by LBP 10,148 million, the equivalent of 12.8%, to reach LBP 89,744 million as at the end of December 2016. Staff expenses account for 59.96% of general operating expenses at the end of 2016, down from 60.64% at the end of 2015.

## KEY PERFORMANCE METRICS

As shown in the table below, some of the key performance metrics show the overall financial soundness of the bank as at the end of December 2016 and the end of December 2015. The bank's return on average assets (ROAA) improved by 0.08 percentage points and stood at 0.95% as at the end of 2016, showing a greater increase in net income as compared to average assets. Moreover, the spread ratio improved considerably between the years 2016 and 2015 to reach 1.86%, thus reflecting the impressive growth in net interest income against a slower growth in average assets over the same period.

The return on average equity (ROAE) and return on average common equity (ROACE) retracted to 9.94% and 10.49%, respectively, because of a larger growth in average equity than in net income. However, non interest income improved over the years 2016 and 2015 as shown by the ratios below, in spite of the diminishing structure of net fees and commissions over the same period.

| | 2016 | 2015 |
|---|---|---|
| ROAA | 0.95% | 0.87% |
| Spread | 1.86% | 1.78% |
| ROAE | 9.94% | 10.20% |
| ROACE | 10.49% | 10.90% |
| Non interest income/ Total income | 25.49% | 25.12% |
| Net fees & commissions/Non interest income | 27.81% | 38.26% |

# FINANCIAL AND NON-FINANCIAL DEVELOPMENTS

## AUDIT

The Internal Audit Department is constantly working on improving the effectiveness of FNB Group's operations, risk management, control, and governance processes by providing assurance and attestation services as well as carrying out professional audit assignments built on a systematic risk-based approach.

The staff and management of the Internal Audit Department remain well informed of the constant changes in the audit and control fields through internal and external training sessions pertaining to different banking topics, as well as through registration for the Certified Internal Auditor (CIA) certification with the objective to enhance their knowledge and experience in auditing and banking.

In 2016, all FNB branches were duly audited and risk-rated according to the level of internal control and inherent operational risks, with the solid aim of enhancing the branches' risk profiles. Furthermore, unplanned audit missions and exceptional audit tasks were performed along with the planned centralized departmental audits, in response to internal requirements and/or the enforcement of new regulations.

The Internal Audit Department has worked on increasing the depth of its audits by updating its entire audit programs and manuals to remain in line with all regulatory changes and new banking regulations, with the objective of introducing improvements to the existing controls and audit methodology. Moreover, the software audit tools previously acquired are dynamically used by the audit staff to refine the audit methodology and better manage the activities of the department.

## COMPLIANCE AND REVIEW

The Compliance Department at FNB ensures that FNB Group is in line and conformity with local and international regulations, internal policies and procedures, rules and standards as well as world's best practices.

The Compliance Department at FNB promotes the compliance culture of the bank and its subsidiaries and ensures that the bank's clients act within the laws and regulations in force and do not use the bank as intermediary to undertake illegal activities.

The main function of the compliance Department is to identify the compliance risks that the bank may face and design and implement the necessary controls to protect the bank from these risks.

## CORRESPONDENT BANKING

The Correspondent Banking Department is responsible for initiating, developing and conserving new banking relationships with correspondent banks worldwide.

We are keen to expand our correspondent banking network to include more countries, thus allowing us to conduct further transactions: commercial transfers, trade activities, Money Markets, etc.

All efforts are exerted to enhance communication with our correspondent banks by strengthening and effectively implementing regulatory and supervisory frameworks in line with local and international standards, particularly those relating to AML/CFT.

In view of the current prevailing uncertainties, we believe that the intensified complexities in the correspondent banking business is a challenge, however, it is deemed an opportunity to increase our competitive edge.

## ELECTRONIC BANKING

In 2016, FNB launched the Visa Signature Business Card, a payment solution and expense management tool designed and positioned to meet the needs of small, medium and large-sized enterprises.

Furthermore, we enhanced the features of the existing Internet banking service, including the new friendly user login process and MOF tax payment, and we implemented the ATM cash deposit service, as well as the new and advanced omni-channel solution for the Internet and mobile banking service, which is expected to go live in October 2017.

To make transactions easier and more convenient for cardholders during their purchases, we introduced the contactless technology on the FNB cards. We also implemented the PIN on chip feature on the FNB cards in order for the cardholder to feel more confident when shopping domestically and internationally.

Lastly, we established a Consumer Protection Unit and complied with all the BDL and BCC requirements, and finalized the CRM pre-set recommendations and marketing phase.

Part of the future planned developments and projects in the pipeline are the launching of the Visa Platinum contactless debit card and the implementation of the contactless and PIN on chip features on all the FNB cards.

Moreover, we are introducing the new mobile and Internet banking solution and carrying out a new corporate e-banking solution as well as the ATM check deposit service. Further ATM services, such as utility payment, bill presentment and payment, tuition fee payment, wedding account deposit and credit card PIN change, are being deployed.

Other planned developments and projects include the introduction of the CMO service, the issuance of a virtual prepaid Internet card through the bank's mobile application and website, and launching of the credit and charge card usage campaign to promote the usage of the FNB card portfolio. We also intend to finalize the CRM sales recommendations, marketing campaign management and 360-degree customer view.

## HUMAN RESOURCES

In 2016, the HR Department approved three new policies established by the HR Committee of the bank and the Remuneration Committee of the Board of Directors, namely the recruitment policy, the HR loans policy as well as the time and attendance policy. The department also approved the new grading system instituted by the HR Committee of the bank and the Remuneration Committee of the Board of Directors, and is expected to finalize the implementation process by the end of June 2017.

In addition, HR enrolled the bank in the conversion plan option (CPO) of the Mutual of

Banks' Employees (MBE), which guarantees the continuity of insurability after retirement, and in the ACTIVEHEALTH group medical insurance plan with the MBE.

Furthermore, BDL 103 certification requirements were enforced for all subject staff, mitigating the risks of non-compliance with this regulatory mandate. The completion rate as of end 2016 exceeded 67%. The HR Department completed the annual training program for all branch employees on customer services, communication and selling skills and techniques to enhance their overall ability to better serve customers. Moreover, the online web-based application for time and attendance, which is a user-friendly paperless and efficient solution, was fully implemented.

As for the plans for 2017, the HR Department will pursue the initiatives started in 2016, in addition to finalizing the implementation process of the new People 365 payroll and HR system, training the management team and other critical groups to improve their supervisory and managerial performance and competencies, as well as working closely with the HR Committee and the Remuneration Committee on completing the HR plan for 2017.

## INFORMATION TECHNOLOGY

As digital technology continues to evolve, the heightened speed brings both opportunities and challenges focusing primarily on ways businesses can save time and money, as well as increase productivity and efficiency.
Customers are more tech-savvy and more demanding as to instant, anytime and anywhere access to banking facilities, encouraging the bank to continuously update its delivery channels in order to closely meet the desires and demands of its clients in a safe and confidential environment.
During 2016, the improvements applied towards customer satisfaction can be summarized as follows:

- Deployment of an enhancement to the Internet banking channel to include the joint account management whereby customers can track their individual and joint accounts within the same session.
- Upgrade of the ATM switch system to its latest version, adding security layers and new operational functionalities as well as preparing the platform for the deployment of new ATM services.
- Launching of the FNB Visa Signature Business Card, a payment solution designed and positioned to meet the needs of small, medium and large-sized enterprises, including sole proprietors and self-employed individuals.

The bank initiated the implementation of the cash and check deposit services to its ATMs in 2016. The cash deposit service was accomplished in January 2017 and the check deposit service will be available by the end of the second quarter of 2017. Moreover, the bank initiated the implementation of its omni-channel platform in 2016, including Internet and mobile banking applications to be fully operational by the end of the second quarter of 2017.

The existing applications and systems used to better assess and manage customers' information were also upgraded to the latest version, including the Microsoft CRM Dynamics, and the KYC process flow was modified to ensure real-time monitoring of the clients' data.

"Qlik", a business intelligence solution, was acquired to provide impressive data visualization, flexible chart design and intuitive exploration and discovery, providing FNB customers with a more detailed overview and data visualization insights.

HRMS People 365, a web application, was lately acquired as a seamlessly integrated human resources management solution, ensuring flawless time records and real-time attendance in addition to online leave request approval, time attendance dashboard, and track of employee attendance. The People 365 payroll module, currently under regression testing phase and aiming to be in production at the beginning of the third quarter of 2017, will allow the HR team to fully operate the different payroll information and related transactions while complying with different governmental regulations.

In regard to infrastructure, the bank aimed to transform its information technology services into a customer-centric, service-based organization. To follow this strategy and to complement the massive investment in technology, the bank looked into implementing a systematic approach based on "ITIL" (Information Technology Infrastructure Library) V3 best practices for IT service management. Through assessment exercises and process workshops, we have accomplished a detailed documentation covering major processes in the service design, transition and operation.

In order to enhance the network and communication tools, the IP telephony system was upgraded to the latest version, thus benefiting the bank by fixing bugs and other issues related to previous versions, and transforming call center applications from a client-based application into a web-based one in addition to virtualizing physical servers.

New applications and systems shall be acquired in 2017 to cater for the requirements of various departments, including the Compliance and AML Department and the Risk Management Department, as well as for the needs of senior management.

## MARKETING

Marketing represents a huge business opportunity to capture the attention of customers while building an exceptional brand image.

Through the course of 2016, the impact of social media was growing at an astronomical rate. After the considerable efforts and hard work, FNB reached 100K likes on Facebook and ranked in the first place among all bank accounts on Instagram.

The integration of social responsibility within the core business of First National Bank has been a growing step through the engagement of multiple stakeholders in the economic, social and environmental areas.

The year 2016 was marked by major CSR achievements, including the support of NGOs such as Arcanciel through the sponsorship of “La Brocante des Artistes” event, the funds of which will be entirely invested in sustainable agriculture and environment, youth empowerment, health as well as mobility and social support.

In this same stream, FNB continued to support ULYP by participating in the Beirut Marathon 2016 entitled “Run for Love, Peace and ULYP” and Kunhadi conferences on road safety.

FNB also helped organic apple farmers in Lebanon by distributing organic apples to its customers throughout its branches.

In line with its community involvement policy, the bank sustained its support to a variety of artistic and cultural festivals, including Liban Jazz concerts, Beirut Art Fair 2016, alongside with region and street festivals that showcased exceptional talents from all over Lebanon, such as Ahla Fawda, Family Fun Festival, 62 Events, Dbayeh International Festival, Ehmej Festival and many others.

In the same direction, and in order to show gratitude to FNB clients, we repeated our sponsorship for the International Zouk Festival and invited the bank’s VIP clients to a sunset cocktail reception followed by a live performance by Jihad Akl.

Based on FNB’s beliefs in providing initiatives and opportunities for today’s youth, we supported and participated in a variety of educational endeavors and several job fairs in major Lebanese Universities.

The year 2016 marked FNB’s first participation in BDL Accelerate forum for startups as well as in other business-oriented forums and exhibitions such as Bifex, Project Lebanon, Dialogue and Best Practice International Forum in collaboration with NDU, Euromoney and Levant Region Trade & Export Finance Conference.

In our continuous effort to enhance FNB’s image and emphasize its presence in the market, we ran outdoor, digital and printed press campaigns that promote the bank’s newly released products and support business lines.

In 2016, FNB continued to follow an expansion strategy by opening two new branches in Jal el Dib and Horch Tabet and relocating the Hazmieh branch in order to offer better services to a larger number of customers and facilitate access to our branch network.

## PRIVATE BANKING

FNB’s Private Banking Department was newly established to provide services to high-net-worth individuals through the bank’s network by offering them comprehensive and diversified range of services, with access to major markets worldwide along with global investment products, including investment advisory and trade execution services in all asset classes and structuring.

The main goal of the Private Banking Department is to offer high quality services, enhance relationships and offer a wide variety of products to high-net-worth clients using a 360-degree approach to assess all their banking and wealth management needs. The first step to a successful relationship is to learn more about the customer and understand his investment objectives.

In addition, the Private Banking Department implements and provides appropriate strategies to enhance returns as well as to anticipate and address the client's needs and to help achieve his immediate and long-term wealth goals.

A wide range of customized products and services are offered and others specifically tailored to suit the client's needs, including:

- Stocks
- Bonds
- F/X
- Structured Products
- Funds
- Deposits
- Hedging Strategies
- Private Equity

The main private banking customers are high-net-worth individuals in Lebanon, Europe and the Gulf region, along with the Lebanese diaspora in sub-Saharan Africa.

## RISK MANAGEMENT

The Risk Management Department at FNB operates independently from the business and provides oversight and control on a group level where major duties include monitoring the Group's risk policies in place, following up and reporting risk concerns across risk types and organizational units. The risk management function is headed by the Chief Risk Officer who reports directly to the Chairman of the Board, with access to the Board of Directors through the Board Risk Committee.

During 2016, FNB made notable steps in managing risks in a more robust and holistic manner across the Group, with the main objective of strengthening the risk strategy and governance.
We view risk culture as the foundation upon which a strong, enterprise-wide risk management framework is built upon. Creating and embedding a strong risk culture is the cornerstone of effective risk management for both the Group and our clients.

We further aimed at enhancing our risk management processes by optimizing capital and resources, improving risk management controls, enhancing enterprise-wide risk reporting for more effective risk oversight, and streamlining risk practices for more effectiveness and consistency across the Group.

In 2015, the bank has acquired Moody's RiskAnalyst as its new Credit Risk Rating System. In 2016, FNB started to optimize and capture the probability of default (PD), loss given default (LGD) and exposure at default (EAD) through specific models and scorecards in response to new regulatory requirements, most notably the International Financial Reporting Standards 9 (IFRS 9), therefore facilitating the expected credit loss (ECL) framework/policy application, implementation and calculation.

The Risk Management Department applies different stress-testing techniques on different risk factors to properly assess its capital conservation buffer, as suggested by the Basel Committee and local regulators.

On the other hand, the risk and capital strategy is being monitored annually through the Internal Capital Adequacy Assessment Process (ICAAP) to identify and assess risks, maintain sufficient capital to face these risks and apply appropriate risk-management techniques to ensure adequate capitalization on an ongoing basis. As part of the capital budgeting process of the bank, a capital planning exercise was conducted to assess the capital required for the projected 3-year period considering risks under Pillars 1 and 2, further taking into consideration the sufficiency of the capital conservation buffer in light of the different stress tests results.

During 2016, the Operational Risk Management Unit has progressed with the risk and control self-assessment (RCSA) process, identifying weaknesses and loose controls that required a list of immediate actions for every activity. We aimed at strengthening our operational risk management framework by aggregating all the findings collected from the incident reports in the RCSA and key risk indicator (KRI) tools, and ensuring an additional layer of mitigation against the growing trend of cybercrime activities to improve the handling of security incidents.

FNB Management demonstrated an ongoing commitment to the business continuity management by laying down a proper governance structure (committees, task force, teams).

Risk Management has conducted, in coordination with the Organization & Methods Department, a business impact analysis to identify the bank's critical processes that support its key products and services in time of disaster, their interdependencies and the resources required to operate the processes at a minimally acceptable level and in compliance with the applicable legal, regulatory and other requirements. FNB Management has relocated the bank disaster recovery site premises to newly acquired premises to be the main contingency site, complying with the following criteria: a location outside the Greater Beirut District, the availability of space, the accessibility to the majority of critical personnel and the availability of proper infrastructure. In 2016, a drill was successfully conducted with a smooth and uninterrupted workflow in coordination with, and with the support of, the IT, IT Security, Administration, HR, Organization & Methods, and Internal Audit departments.

## TREASURY

First National Bank has developed its Treasury and Capital Markets Division to offer its clients the best service while being competitive in the financial markets.

One of the primary roles of the Treasury Department is to resolve complex financial challenges such as liquidity risk management, interest rates and foreign exchange exposure, thereby safeguarding the bank's commitments.

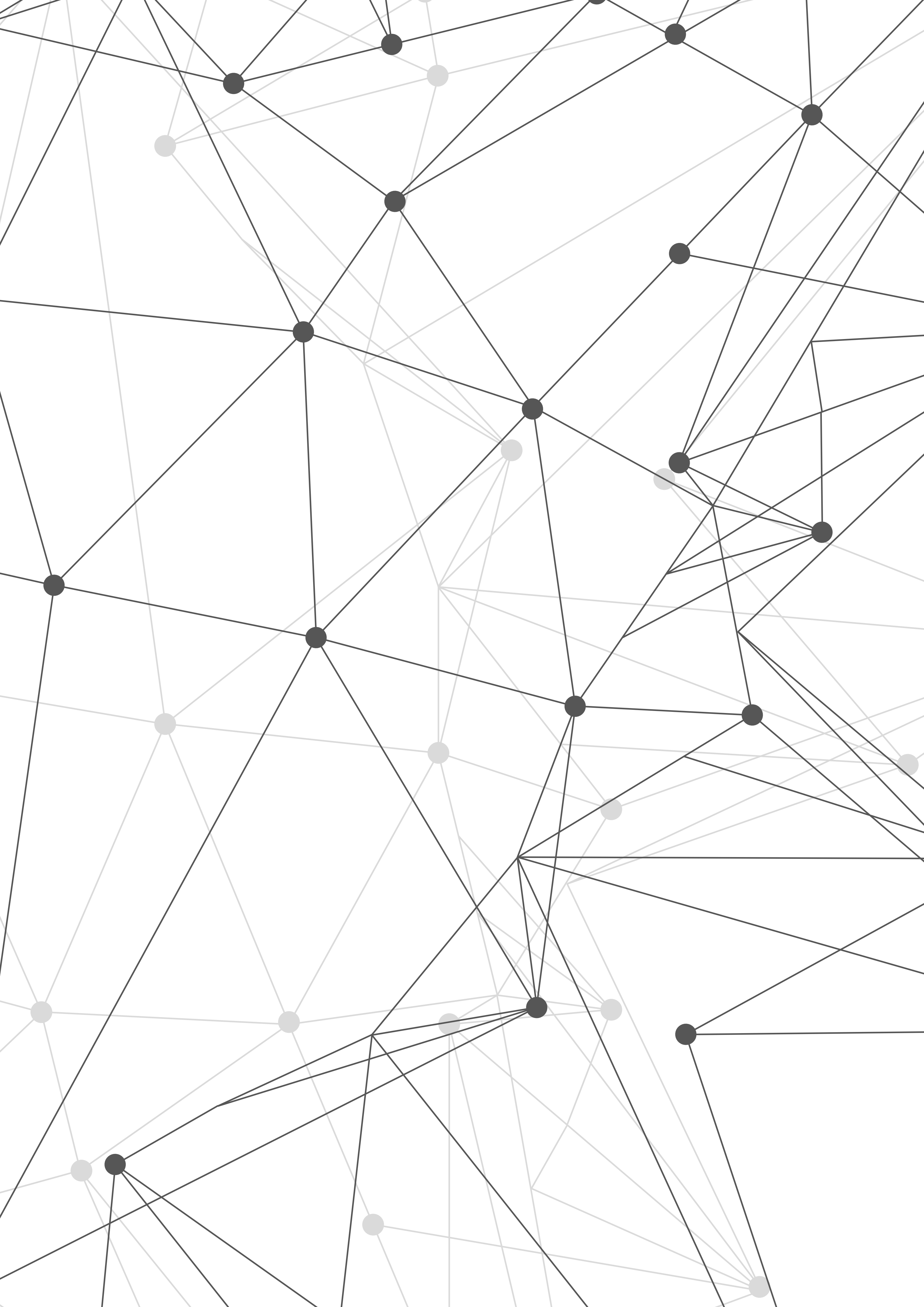
The mission of the Treasury Department is to provide clients with tailored financial products and risk management solutions, granting access to local and international markets and delivering investment solutions.

We offer trading services to retail, corporate and private clients, providing them with the best services, quotes and tailor-made hedging instruments.
Being a team of highly motivated and self-driven individuals, our traders go above and beyond to make themselves reachable during and after bank hours.

Our dealers are members of The Financial Markets Association in Lebanon (ACI). Their timely market information service guarantees clients the reception of the latest industry news and product updates. In addition, they play a key role in ensuring all new regulations are enforced and new standards are properly implemented.

FNB's Treasury Department uses a conservative investment approach while abiding by the central bank's circulars.

Our experienced team of specialists deals with world-class correspondents and is equipped with advanced platforms to assist clients in a safe and timely manner.



# **CONSOLIDATED** FINANCIAL STATEMENTS AND AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT
CONSOLIDATED FINANCIAL STATEMENTS:
- CONSOLIDATED STATEMENT OF FINANCIAL POSITION
- CONSOLIDATED STATEMENT OF PROFIT OR LOSS
- CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
- CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
- CONSOLIDATED STATEMENT OF CASH FLOWS
- NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

# INDEPENDENT AUDITORS' REPORT

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To the Shareholders
First National Bank S.A.L.
Beirut, Lebanon

## OPINION

We have audited the accompanying consolidated financial statements of First National Bank S.A.L. (the "Bank") and its subsidiaries (collectively the "Group"), which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2016, and its consolidated financial performance and its consolidated statement of cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

## BASIS FOR OPINION

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 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 *Code of Ethics of the Lebanese Association of Certified Public Accountants* that are relevant to our audit of the consolidated financial statements, 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 opinion.

## EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention to Note 21 of the consolidated financial statements, concerning the regulatory restricted contribution as at December 31, 2016 amounting to LBP 124.2 billion, originating from surplus derived from sale of treasury bills and Government bonds in Lebanese Pounds against investment in medium and long term certificates of deposit and Government bonds in foreign currency issued by the Central Bank of Lebanon, in compliance with Central Bank of Lebanon Circular number 446 dated December 30, 2016. According to this Circular, the restricted contribution which is regulated in nature shall be appropriated, among other things, after deducting the relevant tax liability, to collective provision for credit risks associated with the loan book at a minimum of 2% of the weighted Credit risks, and that in anticipation of the implementation of IFRS 9 for Impairment, as and when quantified effective on January 1, 2018. By virtue of this Circular, 70% of the remaining residual surplus once recognized over time shall be treated as non-distributable income designated and restricted only for appropriation to capital increase.

## KEY AUDIT MATTERS

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

## KEY AUDIT MATTERS

### Impairment of Loans and advances to customers

Due to the inherently judgmental 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 judgment 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. However, consumer loans generally comprises much smaller value loans to a much greater number of customers. Provisions, other than those that are calculated on an individual basis, are determined by grouping by product into homogeneous portfolios.

The portfolios which give rise to the greatest uncertainty are typically those where impairments are derived from collective models, are unsecured or are subject to potential collateral shortfalls.

### Regulatory Restricted Contribution

During November and December of 2016, the Central Bank of Lebanon issued regulations applicable to all banks operating in Lebanon with respect to the use of the contribution derived from the special and non-conventional securities arrangement deals concluded with the regulator. This is a key audit matter in relation to the use, accounting and taxability of the benefit earned.

## HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTERS?

The risks outlined were addressed by us as follows:

We tested the design and operating effectiveness of the key controls to determine which loans and advances are impaired and provisions against those loans. These included the testing of:

- System-based and manual controls over the timely recognition of impaired loans and advances.
- Controls over the impairment calculation models including data inputs.
- Controls over collateral valuation estimates.

We tested a sample of loans and advances to form our own assessment as to whether impairment events had occurred and to assess whether impairments had been identified in a timely manner.

- For collective impairment allowances substantially covered by the regulatory designated deferred liability set up in anticipation of IFRS 9 as referred to under *Emphasis of a matter* section of our report, we critically assessed the Group's estimates and assumptions, specifically in respect to the inputs to the impairment models and the consistency of judgement applied in the use of economic factors, loss emergence periods and the observation period for historical default rates.

• For non performing customers, we tested and challenged the valuation model used by management where the expected recoverable amount from the liquidation of collateral discounted is compared to the net carrying value of the customer net exposure.

We reviewed the accounting and use of the benefit associated with the regulated restricted contribution derived from the special and non-conventional securities arrangement deals with the regulator, after deducting the relevant tax, in line with the conditions for the designated purpose setup by the regulator.

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

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

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

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

## RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the consolidated financial

statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 consolidated financial statements.

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

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

• Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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

• Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the 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 Group to cease to continue as a going concern.

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our 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.

Beirut, Lebanon
May 11, 2017

DFK Fiduciaire du Moyen-Orient

Deloitte & Touche

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## ASSETS (LBP' 000)

| | Notes | December 31 2016 | December 31 2015 |
|---|---|---|---|
| Cash and deposits with Central Bank of Lebanon | 5 | 1,709,306,461 | 1,161,719,562 |
| Deposits with banks and financial institutions | 6 | 298,543,500 | 500,575,102 |
| Financial assets at fair value through profit or loss | 7 | 653,472,128 | 734,783,548 |
| Loans to banks and financial institutions | 8 | 1,507,869 | 29,613,020 |
| Loans and advances to customers | 9 | 1,543,130,772 | 1,423,360,307 |
| Due from related parties | 10 | 25,388,760 | 4,745,679 |
| Financial assets at fair value through other comprehensive income | 11 | 28,657,066 | 10,827,767 |
| Financial asset at amortized cost | 12 | 2,315,786,399 | 2,148,725,636 |
| Customers' liability under acceptances | 13 | 37,179,377 | 46,638,680 |
| Other assets | 14 | 21,315,526 | 31,890,285 |
| Investment in and loan to an associate | 15 | 241,212 | 241,212 |
| Assets acquired in satisfaction of debts | 16 | 6,801,143 | 4,102,405 |
| Property and equipment | 17 | 116,902,996 | 90,054,688 |
| Goodwill | 18 | 27,006,068 | 27,006,068 |
| **Total Assets** | | **6,785,239,277** | **6,214,283,959** |

## FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

| | | | |
|---|---|---|---|
| Guarantees and standby letters of credit | 35 | 83,534,427 | 112,887,186 |
| Documentary and commercial letters of credit | 35 | 40,067,443 | 14,641,316 |
| Forward exchange contracts | 35 | 174,032,676 | 67,025,021 |

## FIDUCIARY DEPOSITS AND ASSETS UNDER MANAGEMENT

| | | | |
|---|---|---|---|
| | 36 | 721,097,948 | 643,538,598 |

*THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS*

## LIABILITIES (LBP' 000)

| | Notes | December 31 2016 | December 31 2015 |
|---|---|---|---|
| Deposits and borrowings from banks and financial institutions | 19 | 469,699,155 | 519,171,916 |
| Customer deposits at amortized cost | 20 | 5,422,812,657 | 4,964,010,281 |
| Liability under acceptance | 13 | 37,179,377 | 46,638,680 |
| Other liabilities | 21 | 182,117,252 | 52,562,456 |
| Provisions | 22 | 10,829,429 | 10,260,636 |
| Cumulative preferred shares | 23 | 23,165,055 | 22,910,296 |
| **Total liabilities** | | **6,145,802,925** | **5,615,554,265** |

## EQUITY (LBP' 000)

| | | | |
|---|---|---|---|
| Capital | 24 | 162,300,000 | 162,300,000 |
| Additional paid in capital | 24 | 39,921,454 | 39,921,454 |
| Preferred shares | 25 | 75,379,139 | 75,379,139 |
| Reserves | 26 | 78,027,404 | 65,892,588 |
| Cumulative change in fair value of investment securities | 11 | -- | (4,063,916) |
| Retained earnings | | 89,035,067 | 81,660,649 |
| Profit for the year | | 51,274,816 | 46,875,216 |
| **Equity attributable to owners of the Bank** | | **495,937,880** | **467,965,130** |
| Non controlling interest | 27 | 143,498,472 | 130,764,564 |
| **Total equity** | | **639,436,352** | **598,729,694** |
| **Total liabilities and Equity** | | **6,785,239,277** | **6,214,283,959** |

*THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS*

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

## (LBP' 000)

| | Notes | Year Ended December 31 2016 | Year Ended December 31 2015 |
|---|---|---|---|
| Interest income | 28 | 316,058,553 | 287,536,808 |
| Interest expense | 29 | (245,502,617) | (225,648,775) |
| **Net interest income** | | **70,555,936** | **61,888,033** |
| Fee and commission income | 30 | 17,939,025 | 19,938,403 |
| Fee and commission expense | 31 | (6,418,093) | (6,103,496) |
| **Net fee and commission income** | | **11,520,932** | **13,834,907** |
| Net interest and gain or loss on financial assets at fair value through profit or loss | 32 | 65,239,257 | 57,295,948 |
| Other operating income (net) | 33 | 15,224,417 | 10,914,362 |
| **Net financial income** | | **162,540,542** | **143,933,250** |
| Allowance for impairment of loans and advances to customers | 9 | (1,719,738) | (3,555,569) |
| **Net financial revenues after impairment charge** | | **160,820,804** | **140,377,681** |
| Staff costs | | (53,810,697) | (48,262,669) |
| Administrative expenses | | (31,273,735) | (27,098,101) |
| Depreciation and amortization | 34 | (4,659,359) | (4,234,598) |
| **Profit before income tax** | | **71,077,013** | **60,782,313** |
| Income tax expense | 21 | (9,514,083) | (7,841,682) |
| **Profit for the year** | | **61,562,930** | **52,940,631** |

## ATTRIBUTABLE TO:

| | | |
|---|---|---|
| Owners of the Bank | 51,274,816 | 46,875,216 |
| Non-controlling interests | 10,288,114 | 6,065,415 |
| | **61,562,930** | **52,940,631** |

*THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS*

# **CONSOLIDATED** STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| (LBP' 000) | Year Ended December 31 2016 | Year Ended December 31 2015 |
|---|---|---|
| **Profit for the year** | **61,562,930** | **52,940,631** |
| Other comprehensive income: | | |
| *Items that will not be reclassified subsequently to profit or loss:*<br>Change in fair value of financial assets at fair value through other comprehensive income | (2,567,218) | (950,750) |
| Deferred taxes | 385,083 | 142,613 |
| **Other comprehensive income** | **(2,182,135)** | **(808,137)** |
| **Total comprehensive income for the year** | **59,380,795** | **52,132,494** |

| ATTRIBUTABLE TO: | | |
|---|---|---|
| Owners of the Bank | 49,092,681 | 46,067,079 |
| Non controlling interests | 10,288,114 | 6,065,415 |
| | **59,380,795** | **52,132,494** |

*THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| (LBP' 000) | Capital | Additional Paid-in-Capital | Preferred Shares | Treasury Preferred Shares | Legal Reserves | Reserves for General Banking Risks |
|---|---|---|---|---|---|---|
| **Balances at January 1, 2015** | **160,800,000** | **39,921,454** | **60,292,500** | **(22,605,000)** | **15,077,741** | **38,254,689** |
| Increase in capital (Note 24) | 1,500,000 | - | - | - | - | - |
| Redemption of treasury shares | - | - | (22,605,000) | 22,605,000 | - | - |
| Issuance of preferred shares | - | - | 37,691,639 | - | - | - |
| Allocation of 2014 profit | - | - | - | - | 3,768,943 | 7,650,789 |
| Effect of a newly consolidated fund | - | - | - | - | - | - |
| Dividends paid (Note 38) | - | - | - | - | - | - |
| Total comprehensive income for the year 2015 | - | - | - | - | - | - |
| Prior year adjustment | - | - | - | - | - | - |
| **Balances at December 31, 2015** | **162,300,000** | **39,921,454** | **75,379,139** | **-** | **18,846,684** | **45,905,478** |
| Allocation of 2015 profit | - | - | - | - | 3,602,735 | 8,355,429 |
| Dividends paid | - | - | - | - | - | - |
| Net additions in funds' subscriptions | - | - | - | - | - | - |
| Total comprehensive income for the year 2016 | - | - | - | - | - | - |
| Amount reclassified to retained earnings (write-off of financial asset) | - | - | - | - | - | - |
| Prior year adjustment | - | - | - | - | - | - |
| **Balances at December 31, 2016** | **162,300,000** | **39,921,454** | **75,379,139** | **-** | **22,449,419** | **54,260,907** |

*THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS*

| Reserve for Assets Acquired in Satisfaction of Loans | Cumulative Change in Fair Value of Equity Securities | Retained Earnings | Profit for the Year | Equity Attributable to Owners of the Bank | Non-controlling Interests | Total Equity |
|---|---|---|---|---|---|---|
| **1,132,770** | **(3,255,779)** | **67,346,843** | **43,780,440** | **400,745,658** | **518,826** | **401,264,484** |
| - | - | (1,500,000) | - | - | - | - |
| - | - | - | - | - | - | - |
| - | - | - | - | 37,691,639 | - | 37,691,639 |
| 7,656 | - | 32,353,052 | (43,780,440) | - | - | - |
| - | - | - | - | - | 130,210,905 | 130,210,905 |
| - | - | (16,867,028) | - | (16,867,028) | (6,029,884) | (22,896,912) |
| - | (808,137) | - | 46,875,216 | 46,067,079 | 6,065,415 | 52,132,494 |
| - | - | 327,782 | - | 327,782 | (698) | 327,084 |
| **1,140,426** | **(4,063,916)** | **81,660,649** | **46,875,216** | **467,965,130** | **130,764,564** | **598,729,694** |
| 176,652 | - | 34,740,400 | (46,875,216) | - | - | - |
| - | - | (21,117,826) | - | (21,117,826) | (10,142,915) | (31,260,741) |
| - | - | - | - | - | 12,588,709 | 12,588,709 |
| - | (2,182,135) | - | 51,274,816 | 49,092,681 | 10,288,114 | 59,380,795 |
| - | 6,246,051 | (6,246,051) | - | - | - | - |
| - | - | (2,105) | - | (2,105) | - | (2,105) |
| **1,317,078** | **-** | **89,035,067** | **51,274,816** | **495,937,880** | **143,498,472** | **639,436,352** |

# CONSOLIDATED STATEMENT OF CASH FLOWS

**(LBP' 000)**

| | Notes | Year Ended December 31 2016 | Year Ended December 31 2015 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Profit for the year | | 61,562,930 | 52,940,631 |
| **Adjustments for:** | | | |
| Interest income | 28,32 | (364,437,672) | (331,843,943) |
| Interest expense | 29 | 245,502,617 | 225,648,775 |
| Income tax expense | 21 | 9,514,083 | 7,841,682 |
| Amortization of premiums and discounts | 12 | 5,819,694 | 10,820,723 |
| Depreciation and amortization | 34 | 4,659,359 | 4,234,598 |
| Allowance for impairment of loans and advances to customers | 9 | 1,719,738 | 3,555,569 |
| Loss on disposal of equipment | | 56,540 | 76,288 |
| Loss on sale of assets acquired in satisfaction of loans | 33 | 354,278 | 379,134 |
| Net change in fair value of financial asset at fair value through profit or loss | | (10,763,863) | (10,645,524) |
| Difference of exchange on financial assets at amortized cost | 12 | 784,320 | 3,710,435 |
| Prior year adjustments | | (2,105) | 327,084 |
| Net provisions set up during the year | 22 | 977,842 | 946,497 |
| | | **(44,252,239)** | **(31,753,990)** |
| Net increase in term placements with banks and compulsory reserve | | (191,394,416) | (57,503,287) |
| Net decrease(increase) in loans to banks | | 27,957,134 | (12,035,024) |
| Net increase in loans and advances to customers | | (125,351,388) | (57,038,871) |
| Net increase in due from related parties | | (20,643,081) | (1,275,093) |
| Net increase in investment securities at amortized cost and at fair value through profit or loss | | (70,236,732) | (129,575,943) |
| Net increase in financial assets at fair value through other comprehensive income | | (19,294,273) | (2,274,767) |
| Net decrease/(increase) in other assets | | 9,713,734 | (3,461,030) |
| Net (decrease)/increase in deposits from banks and financial institutions | | (49,085,867) | 51,283,861 |
| Net increase in customers' deposits and credit accounts | | 454,580,149 | 77,526,995 |
| Net increase/(decrease) in other liabilities | | 127,841,484 | (2,852,878) |
| Settlement of provisions | 22 | (409,049) | (328,538) |

| | | | |
|---|---|---|---|
| **Net cash generated by/(used in) operations** | | **99,425,456** | **(169,288,565)** |
| Proceeds from disposal of assets acquired in satisfaction of loans | 16 | 704,826 | 980,451 |
| Income tax paid | | (7,800,771) | (6,448,496) |
| Interests received | | 364,560,511 | 327,870,067 |
| Interests paid | | (241,412,525) | (222,896,844) |
| **Net cash generated by/(used in) operating activities** | | **215,477,497** | **(69,783,387)** |
| Cash flows from investing activities: | | | |
| Purchase of property and equipment | 17 | (31,759,149) | (16,384,983) |
| Proceeds from disposal of equipment | | 338,806 | 100,312 |
| **Net cash used in investing activities** | | **(31,420,343)** | **(16,284,671)** |
| Cash flows from financing activities: | | | |
| Dividends paid | 38 | (31,260,741) | (22,896,912) |
| **Net cash used in financing activities** | | **(31,260,741)** | **(22,896,912)** |
| Net increase/(decrease) in cash and cash equivalents | | 152,796,413 | (108,964,970) |
| Cash and cash equivalents - Beginning of year | | 406,646,134 | 515,611,104 |
| **Cash and cash equivalents - End of year** | **39** | **559,442,547** | **406,646,134** |

*THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS*

# NOTES
# TO THE CONSOLIDATED FINANCIAL STATEMENTS

## YEAR ENDED DECEMBER 31, 2016

### 1- GENERAL INFORMATION

First National Bank S.A.L. (the "Bank") is a Lebanese joint stock company established in 1991 and registered in the Commercial Register under the Number 67480 and in the Central Bank of Lebanon list of banks under number 108. The Bank carries out a full range of banking services through a network of twenty six branches in various Lebanese regions. The consolidated financial statements of the Bank as at December 31, 2016 comprise the Bank and its subsidiaries, Middle East Capital Group and its Subsidiaries ("MECG") (2016 and 2015: 98.92%.), Capital Finance Company S.A.L. ("CFC") (2016 and 2015: 100%) and Corporate Finance House ("CFH") (2016 and 2015: 100% acquired by MECG Group) and are hereafter referred to as (the "Group").

The Bank's headquarters are located in Beirut, Lebanon.

## 2- APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

### 2.1- New and revised IFRSs applied with no material effect on the financial statements

The following new and revised IFRSs, which became effective for annual periods beginning on or after January 1, 2016, have been adopted in these financial statements. The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

- IFRS 14 *Regulatory Deferral Accounts*
- Amendments to IAS 1 *Presentation of Financial Statements* relating to Disclosure initiative
- Amendments to IFRS 11 *Joint arrangements* relating to accounting for acquisitions of interests in joint operations.
- Amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* relating to clarification of acceptable methods of depreciation and amortization
- Amendments to IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture:* Bearer Plants
- Amendments to IAS 27 *Separate Financial Statements* relating to accounting investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements
- Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 28 *Investment in Associates and Joint Ventures* relating to applying the consolidation exception for investment entities
- Annual Improvements to IFRSs 2012 – 2014 Cycle covering amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34

### 2.2- New and revised IFRS in issue but not yet effective

The Group has not yet applied the following new and revised IFRSs that have been issued but are not yet effective:

| New and revised IFRSs | Effective for Annual Periods Beginning on or After |
|---|---|
| Annual Improvements to IFRS Standards 2014-2016 Cycle amending IFRS 1, IFRS 12 and IAS 28 | The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after January 1, 2018, the amendment to IFRS 12 for annual periods beginning on or after January 1, 2017 |
| Amendments to IAS 12 *Income Taxes* relating to the recognition of deferred tax assets for unrealized losses | January 1, 2017 |
| Amendments to IAS 7 *Statement of Cash* Flows to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. | January 1, 2017 |
| IFRIC 22 *Foreign Currency Transactions and Advance Consideration*<br>The interpretation addresses foreign currency transactions or parts of transactions where:<br>• there is consideration that is denominated or priced in a foreign currency;<br>• the entity recognizes a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and<br>• the prepayment asset or deferred income liability is non-monetary. | January 1, 2018 |

| | |
|---|---|
| Amendments to IFRS 2 *Share Based Payment* regarding classification and measurement of share based payment transactions | January 1, 2018 |
| Amendments to IFRS 4 *Insurance Contracts*: Relating to the different effective dates of IFRS 9 and the forthcoming new insurance contracts standard. | January 1, 2018 |
| Amendments to IAS 40 *Investment Property:* Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The paragraph has been amended to state that the list of examples therein is non-exhaustive. | January 1, 2018 |
| IFRS 9 *Financial Instruments* (revised versions in 2013 and 2014)<br><br>IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.<br>A finalized version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 *Financial Instruments: Recognition and Measurement*. The standard contains requirements in the following areas:<br>• **Classification and measurement:** Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.<br>• **Impairment:** The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised<br>• **Hedge accounting:** Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.<br>• **Derecognition:** The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39. | January 1, 2018 |
| IFRS 15 *Revenue from Contracts with Customers*<br><br>In May 2014, IFRS 15 was issued which established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations when it becomes effective.<br>The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:<br>• Step 1: Identify the contract(s) with a customer.<br>• Step 2: Identify the performance obligations in the contract.<br>• Step 3: Determine the transaction price.<br>• Step 4: Allocate the transaction price to the performance obligations in the contract.<br>• Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.<br><br>Under IFRS 15, an entity recognizes when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15. | January 1, 2018 |

| | |
|---|---|
| Amendments to IFRS 15 *Revenue from Contracts* with Customers to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts. | January 1, 2018 |
| IFRS 16 *Leases*<br>IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. | January 1, 2019 |
| Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture. | Effective date deferred indefinitely |

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group's financial statements as and when they are applicable. Except for IFRS 9 on the provisioning for impairment, the Directors of the Group do not anticipate that the application of these amendments will have a significant effect on the Group's consolidated financial statements.

## 3- SIGNIFICANT ACCOUNTING POLICIES

**Statement of Compliance**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

**Basis of Preparation**

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments measured at fair value as set out in the accounting policies below.
Assets and liabilities are grouped according to their nature and are presented in an approximate order that reflects their relative liquidity.
The principal accounting policies applied are set out below:

### A- Basis of Consolidation:

The consolidated financial statements of First National Bank S.A.L. incorporate the financial statements of the Bank and enterprises controlled by the Bank (Subsidiaries). Control is achieved when the Group:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of profit or loss and other comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Non-controlling interest represents the portion of profit or loss and net assets of subsidiaries not owned directly or indirectly by the Group. Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interests;
- Derecognizes the cumulative translation differences recorded in equity;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in profit or loss; and
- Reclassifies the parent's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

**The consolidated subsidiaries as at December 31, 2016 comprise:**

| Company Name | Country of Incorporation | Date of Incorporation/ Acquisition | Percentage of Ownership % | Business Activity |
|---|---|---|---|---|
| Capital Finance Company S.A.L. | Lebanon | January 8, 2010 | 100 | Retail loans |
| Middle East Capital Group Limited (MECG Group) | Guernsey | December 8, 1995 | 98.92 | Finance |
| **Subsidiaries of MECG Group:** | | | | |
| Middle East Capital Group Holding S.A.L. | Lebanon | December 1, 1995 | 100 | Holding company |
| Middle East Capital Group S.A.L. | Lebanon | August 3, 1996 | 100 | Finance |
| Middle East Capital Group (Offshore) S.A.L. | Lebanon | July 22, 1996 | 100 | Finance |
| Middle East Capital Asset Management Limited | Guernsey | March 19, 1999 | 100 | Dormant company |
| MECG Development S.A.L. | Lebanon | July 28, 2005 | 99 | Management company |
| Real Estate Management Company S.A.L. | Lebanon | May 24, 2004 | 100 | Management company |
| Corporate Finance House Limited and subsidiaries | Guernsey | January 1, 2014 | 100 | Investment banking |
| National Fixed Income Fund SPC | Cayman Island | January 15, 2015 | - | Mutual Fund |
| First National Dollar Fund SPC | Cayman Island | October 1, 2015 | - | Mutual Fund |

### B- Business Combinations:

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs other than those associated with the issue of debt or equity securities are generally recognized in profit or loss as incurred.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

Any contingent consideration payable is recognized at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognized in profit or loss.

### C- Goodwill:

Goodwill arising on an acquisition of a business is carried at cost. Refer to Note 3B for the measurement of goodwill at initial recognition. Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses, if any.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

### D- Foreign Currencies:

The consolidated financial statements are presented in Lebanese Pounds ("LBP") which is the reporting currency of the Group. The primary currency of the economic environment in which the Group operates (functional currency) is the U.S. Dollar ("USD"). The exchange rate of the USD against the LBP has been constant since many years.

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for exchange differences on transactions entered into in order to hedge certain foreign currency risks, and except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur in the foreseeable future, which are recognized in other comprehensive income, and presented in the translation reserve in equity. These are recognized in profit or loss on disposal of the net investment.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into Lebanese Pound using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate). Such exchange differences are recognized in profit or loss in the period in which the foreign operation is disposed of.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognized in profit or loss.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognized in equity.

### E- Recognition and Derecognition of Financial Assets and Liabilities:

The Group initially recognizes loans and advances, deposits, debt securities issued and subordinated liabilities on the date that they are originated. All other financial assets and liabilities are initially recognized on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

Upon derecognition of a financial asset that is classified as fair value through other comprehensive income, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is reclassified to retained earnings.

Debt securities exchanged against securities with longer maturities with similar risks, and issued by the same issuer, are not derecognized because they do not meet the conditions for derecognition. Premiums and discounts derived from the exchange of said securities are deferred to be amortized as a yield enhancement on a time proportionate basis, over the period of the extended maturities.

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

## F- Classification of Financial Assets:

All recognized financial assets are measured in their entirety at either amortized cost or fair value, depending on their classification.

**Debt Instruments:**
Non-derivative debt instruments that meet the following two conditions are subsequently measured at amortized cost, less impairment loss (except for debt investments that are designated as at fair value through profit or loss on initial recognition):

- They are held within a business model whose objective is to hold the financial assets in order to collect the contractual cash flows, rather than to sell the instrument prior to its contractual maturity to realize its fair value changes, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments which do not meet both of these conditions are measured at fair value through profit or loss (“FVTPL”). In addition, debt instruments that meet the amortized cost criteria but are designated as at FVTPL are measured at FVTPL.

Even if a debt instrument meets the two amortized cost criteria above, it may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.

**Equity Instruments:**
Investments in equity instruments are classified as at FVTPL, unless the Group designates an investment that is not held for trading as at fair value through other comprehensive income (“FVTOCI”) on initial recognition (see below).

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on re-measurement recognized in profit or loss.

On initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at fair value through other comprehensive income (“FVTOCI”). Investments in equity instruments at FVTOCI are measured at fair value. Gains and losses on such equity instruments are recognized in other comprehensive income, accumulated in equity and are never reclassified to profit or loss. Only dividend income is recognized in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment, in which case it is recognized in other comprehensive income. Cumulative gains and losses recognized in other comprehensive income are transferred to retained earnings on disposal of an investment.

Designation at FVTOCI is not permitted if the equity investment is held for trading.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument or a financial guarantee.

**Reclassification:**
Financial assets are reclassified between FVTPL and amortized cost or vice versa, if and only if, the Group’s business model objective for its financial assets changes so its previous model assessment would no longer apply. When reclassification is appropriate, it is done prospectively from the reclassification date being the next reporting period.

Reclassification is not allowed where:

- the ‘other comprehensive income’ option has been exercised for a financial asset, or
- the fair value option has been exercised in any circumstance for a financial instrument.

## G-Financial Liabilities and Equity Instruments:

**Classification as debt or equity:**
Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

**Financial Liabilities at fair value through profit or loss:**
Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:
- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:
- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and the entire combined contract is designated as at FVTPL in accordance with IFRS 9.

Financial liabilities at FVTPL are stated at fair value. Any gains or losses arising on remeasurement of held-for-trading financial liabilities are recognized in profit or loss. Such gains or losses that are recognized in profit or loss incorporate any interest paid on the financial liabilities and are included in the "Net interest and gain and loss on liabilities at FVTPL" in the consolidated statement of profit or loss.

However, for non-held-for-trading financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognized in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognized in other comprehensive income are not subsequently reclassified to profit or loss.

**Financial Liabilities Subsequently Measured at Amortized Cost:**
Financial liabilities that are not held-for-trading and are not designated as at FVTPL are measured at amortized cost at the end of subsequent accounting periods. The carrying amounts of financial liabilities that are subsequently measured at amortized cost are determined based on the effective interest method.

**Financial Guarantee Contract Liabilities:**
Financial guarantees contracts are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. These contracts can have various judicial forms (guarantees, letters of credit, credit-insurance contracts).

Financial guarantee contract liabilities are measured initially at their fair values and, if not designated at FVTPL, are subsequently measured at the higher of:
- the amount of the obligation under the contract, as determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets;* and
- the amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies set out above.

### H- Offsetting:

Financial assets and liabilities are set-off and the net amount is presented in the consolidated statement of financial position when, and only when, the Group has a legal right to set-off the amounts or intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

### I- Fair Value Measurement of Financial Instruments:

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

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

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

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

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

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

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

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

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

### J-Impairment of Financial Assets:

Financial assets carried at amortized cost are assessed for indicators of impairment at the reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the asset, a loss event has occurred which has an impact on the estimated future cash flows of the financial asset.

Objective evidence that an impairment loss related to financial assets has been incurred can include information about the debtors' or issuers' liquidity, solvency and business and financial risk exposures and levels of and trends in delinquencies for similar financial assets, taking into account the fair value of collaterals and guarantees.

The Group considers evidence of impairment for assets measured at amortized cost at both specific asset and collective level.

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial assets and the corresponding estimated recoverable amounts. Losses are recognized in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortized cost would have been, had the impairment not been recognized.

### K- Derivative Financial Instruments:

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

### L- Loans and Advances

Loans and advances are non-derivative financial assets with fixed or determinable payments, other than investment securities, that are not held for trading. Loans and advances are measured at amortized cost net of unearned interest and provision for credit losses where applicable. Bad and doubtful debts are carried on a cash basis because of doubts and the probability of non-collection of principal and/or interest.

## M- Investments in Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate, the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

The entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

## N-Property and Equipment:

Property and equipment are stated at historical cost, less accumulated depreciation and impairment loss, if any.

Depreciation is recognized so as to write off the cost or valuation of property and equipment (other than advance payments on capital expenditures) less their residual values, if any, over their useful lives, using the straight-line method as follows:

| | Rates % |
|---|---|
| Buildings | 2 |
| Office improvements and installations | 15 |
| Furniture, fixtures and equipment | 8-25 |
| Computer equipment | 20 |
| Vehicles | 10 |

The estimated useful lives and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.
The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

## O- Intangible Assets (Other than Goodwill):

Intangible assets are amortized on a straight-line basis over the period of 3 years. Intangible assets are subject to impairment testing.

## P- Assets acquired in satisfaction of loans:

Real estate properties acquired through the enforcement of collateral over loans and advances, in accordance with the Central Bank of Lebanon basic circular 78 and the Banking Control Commission circulars 173 and 267, are initially recognized at their fair value as approved by Banking Control Commission and are subsequently measured at cost less any accumulated impairment losses. The acquisition of such assets is regulated by the local banking authorities that require the liquidation of these assets within 2 years from acquisition. In case of default of liquidation, the regulatory authorities require an appropriation of a special reserve from the yearly profits reflected in equity.

Upon sale of repossessed assets, any gain or loss realized is recognized in the consolidated statement of profit or loss.

## Q- Operating Lease Agreements:

Lease agreements which do not transfer substantially all the risks and benefits incidental to ownership of the leased items are classified as operating leases. Operating lease payments are recorded in the consolidated statement of income on a straight line basis over the lease term.

## R- Impairment of Tangible and Intangible Assets (Other than Goodwill):

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

The fair value of the Group's owned properties and of properties acquired in satisfaction of loans debts, is the estimated market value as determined by real estate appraisers on the basis of market compatibility by comparing with similar transactions in the same geographical area and on the basis of the expected value of a current sale between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale after adjustment of an illiquidity factor and market constraints.

## S- Provision for Employees' End-of-Service Indemnity:

The provision for employees' termination indemnities is based on the liability that would arise if the employment of all the employees were voluntarily terminated at the reporting date. This provision is calculated in accordance with the directives of the Lebanese Social Security Fund and Labor laws based on the number of years of service multiplied by the sum of the last basic salary and the monthly average of the last 12 months' remunerations, less contributions paid to the Lebanese Social Security National Fund.

## T- Provisions:

Provisions are recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

## U- Deferred Restricted Contributions

Restricted contributions derived from special and non-conventional deals arrangement concluded with the regulator are deferred until designated conditions for recognition are met. At the time income is received it is deferred under "regulatory deferred liability" and applied to the designated purpose according to the regulator's requirements.

## V- Revenue and Expense Recognition:

Interest income and expense are recognized on an accrual basis, taking into account the amount of the principal outstanding and the rate applicable, except for non-performing loans and advances for which interest income is only recognized upon realization. Interest income and expense include discount and premium amortization.

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or liability (e.g. commissions and fees earned on loans) are included under interest income and expense.

Other fee and commission income are recognized as the related services are performed.

Interest income and expense presented in the consolidated statement of profit or loss include:

- Interest on financial assets and liabilities at amortized cost.
- Changes in fair value of qualifying derivatives, including hedge ineffectiveness, and related hedged items when interest rate risk is the hedged risk.

Interest income, dividend income, realized and unrealized fair value changes and foreign exchange differences on financial assets at fair value through profit or loss are presented separately in the consolidated statement of profit or loss.

Dividend income is recognized when the right to receive payment is established. Dividends on equity instruments designated as at fair value through other comprehensive income are presented in other revenue, unless the dividend clearly represents a recovery of part of the investment, in which case it is presented in other comprehensive income.

### W- Income Tax:

Income tax expense represents the sum of the tax currently payable and deferred tax. Income tax is recognized in the consolidated income statement except to the extent that it relates to items recognized directly in other comprehensive income, in which case it is recognized in other comprehensive income.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because of the items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Part of debt securities invested in by the Group is subject to withheld tax by the issuer. This tax is deducted at year-end from the corporate tax liability not eligible for deferred tax benefit, and therefore, accounted for as prepayment on corporate income tax and reflected as a part of income tax provision.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the consolidated statement of financial position and the corresponding tax base used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

### X- Fiduciary Accounts:

Fiduciary accounts are held or invested on behalf of individuals and others either on a discretionary or non-discretionary basis and the related risks and rewards belong to the account holders. Accordingly, these deposits are reflected as off-balance sheet accounts.

### Y- Cash and Cash Equivalents:

Cash and cash equivalents comprise balances with maturities of a period of three months including: cash and balances with the Central Bank of Lebanon and deposits with banks and financial institutions.

## 4- CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised or in the future periods if the revision affects both current and future periods.

### A. Critical accounting judgments in applying the Group's accounting policies:

**Classification of Financial Assets:**

Business Model:

The business model test requires the Group to assess whether its business objective for financial assets is to collect the contractual cash flows of the assets rather than realize their fair value change from sale before their contractual maturity. The Group considers at which level of its business activities such assessment should be made. Generally, a business model can be evidenced by the way business is managed and the information provided to management. However the Group's business model can be to hold financial assets to collect contractual cash flows even when there are some sales of financial assets. While IFRS 9 provides some situations where such sales may or may not be consistent with the objective of holding assets to collect contractual cash flows, the assessment requires the use of judgment based on facts and circumstances.

In determining whether its business model for managing financial assets is to hold assets in order to collect contractual cash flows the Group considers:
- The frequency and volume of sales;
- The reasons for any sales;
- How management evaluates the performance of the portfolio;
- The objectives for the portfolio.

Characteristics of the Financial Asset:

Once the Group determines that its business model is to hold the assets to collect the contractual cash flows, it exercises judgment to assess the contractual cash flows characteristics of a financial asset. In making this judgment, the Group considers the contractual terms of the acquired asset to determine that they give rise on specific dates, to cash flows that solely represent principal and principal settlement and accordingly may qualify for amortized cost accounting.

Features considered by the Group that would be consistent with amortized cost measurement include:
- Fixed and / or floating interest rate;
- Caps, floors, collars;
- Prepayment options.

Features considered by the Group that would be inconsistent with amortized cost measurement include:
- Leverage (i.e. options, forwards and swaps);
- Conversion options;
- Inverse floaters;
- Variable rate coupons that reset periodically;
- Triggers that result in a significant reduction of principal, interest or both.

### B. Key Sources of Estimation Uncertainty:

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

**Allowances for Credit Losses - Loans and Advances to Customers:**
Specific impairment for credit losses is determined by assessing each case individually. This method applies to classified loans and advances and the factors taken into consideration when estimating the allowance for credit losses include the counterparty's credit limit, the counterparty's ability to generate cash flows sufficient to settle his advances and the value of collateral and potential repossession. Loans collectively assessed for impairment are determined based on losses incurred by loans portfolios with similar characteristics.

**Determining Fair Values:**
The determination of fair value for financial assets for which there is no observable market price requires the use of valuation techniques as described in Note 3I. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainly of market factors, pricing assumptions and other risks affecting the specific instrument.

Unobservable inputs are used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective should remain the same; that is, an exit price from the perspective of a market participant that holds the asset or owes the liability. Unobservable inputs are developed based on the best information available in the circumstances, which may include the reporting entity's own data.

**Impairment of goodwill:**
The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy under 3C. The recoverable amount is determined based on the fair value of the cash generating unit less cost of disposal, assessed using the market approach (Refer to Note 18 for details).

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

## 5- CASH AND DEPOSITS WITH CENTRAL BANK OF LEBANON

**This caption consists of the following:**

| | December 31 2016 | December 31 2015 |
|---|---|---|
| | LBP' 000 | |
| Cash on hand | 34,195,053 | 31,734,311 |
| Current accounts with Central Bank of Lebanon | 151,404,672 | 179,817,325 |
| Term placements with Central Bank of Lebanon | 1,508,692,450 | 937,439,400 |
| Accrued interest receivable | 15,014,286 | 12,728,526 |
| | **1,709,306,461** | **1,161,719,562** |

Current accounts at Central Bank of Lebanon include non-interest earning cash compulsory reserves in Lebanese Pound in the amount of LBP 127.1 billion (LBP 127.2 billion as of December 31, 2015) computed on the basis of 25% and 15% of the weekly average of demand deposits and term deposits in Lebanese Pound respectively, in accordance with local banking regulations. This compulsory reserve is not available for use in the daily banking activities.

Term placements with Central Bank of Lebanon include the equivalent in foreign currencies of LBP 562 billion (LBP 507 billion in 2015 deposited in accordance with local banking regulations which require banks to maintain interest earning placements in foreign currency to the extent of 15% of customers' deposits in foreign currencies, certificates of deposit and loans acquired from non-resident financial institutions with remaining maturity of less than one year.

**Term placements with Central Bank of Lebanon bear the following maturities:**

| | December 31, 2016 | | | |
|---|---|---|---|---|
| | LBP Base Accounts | | F/Cy Base Accounts | |
| Maturity | Amount | Average Interest Rate | Amount | Average Interest Rate |
| | LBP'000 | % | LBP'000 | % |
| 2017 | 181,000,000 | 0.03 | 472,662,050 | 1.10 |
| 2018 | - | - | 67,837,500 | 1.55 |
| 2019 | - | - | 52,762,500 | 1.93 |
| 2020 | - | - | 28,642,500 | 1.85 |
| 2021 | 132,000,000 | 7.05 | 97,987,500 | 1.85 |
| 2022 | 200,000,000 | 8.51 | - | - |
| 2023 | 25,000,000 | 8.24 | - | - |
| 2024 | - | - | 83,800,400 | 7.26 |
| 2025 and beyond | 167,000,000 | 8.35 | - | - |
| | 705,000,000 | | 803,692,450 | |

| | December 31, 2015 | | | |
|---|---|---|---|---|
| | LBP Base Accounts | | F/Cy Base Accounts | |
| Maturity | Amount | Average Interest Rate | Amount | Average Interest Rate |
| | LBP'000 | % | LBP'000 | % |
| 2016 | 3,015,000 | - | 73,867,500 | 1.22 |
| 2017 | - | - | 327,010,500 | 1.51 |
| 2018 | - | - | 67,837,500 | 1.19 |
| 2019 | - | - | 52,762,500 | 1.62 |
| 2020 | - | - | 28,642,500 | 1.59 |
| 2021 | 75,000,000 | 8.60 | - | - |
| 2022 | 200,000,000 | 8.51 | - | - |
| 2023 | 25,000,000 | 8.24 | - | - |
| 2024 | - | - | 84,303,900 | 7.27 |
| | 303,015,000 | | 634,424,400 | |

## 6-DEPOSITS WITH BANKS AND FINANCIAL INSTITUTIONS

**This caption consists of the following:**

| | December 31 2016 | December 31 2015 |
|---|---|---|
| | LBP' 000 | |
| Checks in course of collection | 2,980,570 | 4,707,254 |
| Current accounts with banks and financial institutions | 85,569,915 | 177,297,463 |
| Term placements with banks and financial institutions | 184,432,247 | 299,452,191 |
| Cash margin against facilities | 24,818,194 | 17,454,328 |
| Accrued interest receivable | 742,574 | 1,663,866 |
| | 298,543,500 | 500,575,102 |

Cash margin against facilities represents cash margin against trade finance and foreign exchange transactions with non-resident banks.

**Term placements bear the following maturities:**

| | December 31, 2016 | | | |
|---|---|---|---|---|
| | LBP Base Accounts | | F/Cy Base Accounts | |
| **Maturity** | **Amount** | **Average Interest Rate** | **Amount** | **Average Interest Rate** |
| | LBP'000 | % | LBP'000 | % |
| 2017 | 55,006,053 | 4.36 | 129,426,194 | 2.14 |
| | **55,006,053** | | **129,426,194** | |

| | December 31, 2015 | | | |
|---|---|---|---|---|
| | LBP Base Accounts | | F/Cy Base Accounts | |
| **Maturity** | **Amount** | **Average Interest Rate** | **Amount** | **Average Interest Rate** |
| | LBP'000 | % | LBP'000 | % |
| 2016 | 11,399,729 | 6.64 | 260,992,837 | 1.92 |
| 2017 | - | - | 27,059,625 | 3.46 |
| | **11,399,729** | | **288,052,462** | |

## 7- FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

**This caption consists of the following:**

| | **December 31 2016** | **December 31 2015** |
|---|---|---|
| | **LBP' 000** | |
| Quoted equity securities | 10,526,270 | 8,678,940 |
| Unquoted equity securities | 34,407,278 | 25,129,676 |
| Lebanese government bonds | 69,744,468 | 59,756,008 |
| Lebanese treasury bills | 181,866,862 | 213,419,787 |
| Certificates of deposit issued by the Central Bank of Lebanon | 342,469,286 | 411,584,947 |
| Corporate bonds | 3,015,000 | 3,015,000 |
| | 642,029,164 | 721,584,358 |
| Accrued interest receivable | 11,442,964 | 13,199,190 |
| | **653,472,128** | **734,783,548** |

The change in fair value gain of the financial assets at fair value through profit or loss amounted to LBP 10.8 billion in 2016 (LBP 10.6 billion in 2015) and is reflected in the consolidated statement of profit or loss under "Net interest and gain or loss on financial assets at fair value through profit or loss" (Note 32).

During 2016, the Group sold and repurchased certificates of deposit issued by the Central Bank of Lebanon classified at fair value through profit or loss in the amount of LBP 20 billion which resulted in a gain of LBP 287 million recognized under "net interest and gain or loss on financial assets at fair value through profit or loss" in the consolidated statement of profit or loss (Note 32).

During 2016, the Group sold and repurchased Lebanese Government bonds issued by the Central Bank of Lebanon classified at fair value through profit or loss in the amount of LBP 13 billion which resulted in a gain of LBP 1.2 million recognized under "net interest and gain or loss on financial assets at fair value through profit or loss" in the consolidated statement of profit or loss (Note 32).

## 8- LOANS TO BANKS AND FINANCIAL INSTITUTIONS

**Loans to banks are reflected at amortized cost and consist of the following:**

| | December 31 2016 | December 31 2015 |
|---|---|---|
| | LBP' 000 | |
| Loans to banks | 1,450,000 | 4,865,000 |
| Discounted documentary letters of credit | 40,078 | 1,903,131 |
| Accrued interest receivable | 17,791 | 165,808 |
| Loans under reverse repurchase agreement | - | 22,679,081 |
| | **1,507,869** | **29,613,020** |

Loans under reverse repurchase agreement as of December 31, 2015 represent short-term loans granted to a resident financial institution and covered by certificates of deposit issued from the Central Bank of Lebanon in the amount of USD 16.5 million (equivalent to LBP 24.8 billion). These loans matured during 2016.

**Loans to banks and loans under reverse repurchase agreement have last maturity dates as follows:**

| | December 31, 2016 | |
|---|---|---|
| | LBP Base Accounts | |
| Maturity | Amount | Average Interest Rate |
| | LBP'000 | % |
| 2019 | 450,000 | 4.35 |
| 2020 | 1,000,000 | 4.35 |
| | **1,450,000** | |

| | December 31, 2015 | | | |
|---|---|---|---|---|
| | LBP Base Accounts | | F/Cy Base Accounts | |
| Maturity | Amount | Average Interest Rate | Amount | Average Interest Rate |
| | LBP'000 | % | LBP'000 | % |
| 2016 | - | - | 25,694,081 | 2.64 |
| 2019 | 600,000 | 4.35 | - | - |
| 2020 | 1,250,000 | 4.35 | - | - |
| | **1,850,000** | | **25,694,081** | |

## 9- LOANS AND ADVANCES TO CUSTOMERS

**This caption consists of the following:**

| | December 31 2016 | December 31 2015 |
|---|---|---|
| | LBP' 000 | |
| Loans and advances to customers | 1,411,601,520 | 1,309,060,570 |
| Loans and advances to related parties | 80,672,491 | 78,874,577 |
| Bills discounted (net) | 4,985,458 | 4,942,924 |
| Creditors accidentally debtors | 8,079,459 | 5,277,952 |
| Substandard loans (net of unearned interest) | 31,291,502 | 25,208,301 |
| Bad and doubtful debts (net of unearned interest) | 46,990,865 | 44,466,898 |
| Less: Allowance for impairment | (27,350,614) | (32,008,403) |
| Allowance for impairment of individually assessed performing retail loans | (2,064,088) | (1,906,893) |
| Allowance for impairment of collectively assessed loans | (11,006,424) | (10,139,235) |
| | 1,543,200,169 | 1,423,776,691 |
| Less: Pledged guarantee funds to cover shortage in provision | (69,397) | (416,384) |
| | 1,543,130,772 | 1,423,360,307 |

**Loans and advances to customers are reflected at amortized cost and consist of the following:**

| | December 31, 2016 | | | |
|---|---|---|---|---|
| | Loan Balance net of Deferred Interest | Unearned Interest | Impairment Allowance | Carrying Value |
| | LBP' 000 | | | |
| **Corporate customers:** | | | | |
| Commercial loans | 383,070,230 | - | - | 383,070,230 |
| Overdrafts | 438,360,882 | - | - | 438,360,882 |
| Other corporate loans | 143,966,723 | - | - | 143,966,723 |
| **Retail customers:** | | | | |
| Car loans | 103,642,771 | - | - | 103,642,771 |
| Credit cards | 16,114,374 | - | - | 16,114,374 |
| Housing loans | 221,645,740 | - | - | 221,645,740 |
| Overdrafts | 70,003,043 | - | - | 70,003,043 |
| Personal loans and other | 124,577,876 | - | - | 124,577,876 |
| | | | | |
| Substandard loans | 34,386,382 | (3,094,880) | - | 31,291,502 |
| Doubtful loans | 116,557,451 | (69,566,586) | (27,350,614) | 19,640,251 |
| Less: Allowance for impairment of individually assessed performing retail loans | - | - | (2,064,088) | (2,064,088) |
| Allowance for collectively assessed loans | - | - | (11,006,424) | (11,006,424) |
| | 1,652,325,472 | (72,661,466) | (40,421,126) | 1,539,242,880 |
| Accrued interest receivable | 3,957,289 | - | - | 3,957,289 |
| | 1,656,282,761 | (72,661,466) | (40,421,126) | 1,543,200,169 |

| | December 31, 2015 | | | |
|---|---|---|---|---|
| | Loan Balance net of Deferred Interest | Unearned Interest | Impairment Allowance | Carrying Value |
| | LBP' 000 | | | |
| **Corporate customers:** | | | | |
| Commercial loans | 354,508,186 | - | - | 354,508,186 |
| Overdrafts | 394,949,133 | - | - | 394,949,133 |
| Other corporate loans | 95,378,394 | - | - | 95,378,394 |
| **Retail customers:** | | | | |
| Car loans | 95,464,618 | - | - | 95,464,618 |
| Credit cards | 16,560,847 | - | - | 16,560,847 |
| Housing loans | 233,659,258 | - | - | 233,659,258 |
| Overdrafts | 81,319,451 | - | - | 81,319,451 |
| Personal loans and other | 122,255,504 | - | - | 122,255,504 |
| | | | | |
| Substandard loans | 29,122,476 | (3,914,175) | - | 25,208,301 |
| Doubtful loans | 126,974,817 | (82,507,920) | (32,008,403) | 12,458,494 |
| Less: Allowance for impairment of individually assessed performing retail loans | - | - | (1,906,893) | (1,906,893) |
| Allowance for collectively assessed loans | - | - | (10,139,234) | (10,139,234) |
| | 1,550,192,684 | (86,422,095) | (44,054,530) | 1,419,716,059 |
| Accrued interest receivable | 4,060,632 | - | - | 4,060,632 |
| | **1,554,253,316** | **(86,422,095)** | **(44,054,530)** | **1,423,776,691** |

**The movement of unearned interest during 2016 and 2015 is summarized as follows:**

| | 2016 | |
|---|---|---|
| | Substandard Loans | Doubtful Loans |
| | LBP' 000 | |
| Balance, January 1 | 3,914,175 | 82,507,920 |
| Additions | 729,098 | 10,365,305 |
| Settlements/recoveries | (7,212) | (19,664,635) |
| Transfer to off-balance sheet | - | (4,385,016) |
| Transfer to litigious debts | (798,169) | - |
| Transfer to doubtful debts | (743,012) | 743,012 |
| **Balance, December 31** | **3,094,880** | **69,566,586** |

| | 2015 | |
|---|---|---|
| | Substandard Loans | Doubtful Loans |
| | LBP' 000 | |
| Balance, January 1 | 2,511,054 | 72,011,818 |
| Additions | 2,168,550 | 12,670,102 |
| Settlements/recoveries | (765,429) | (2,165,574) |
| Transfer to off-balance sheet | - | (5,174) |
| Difference in exchange | - | (3,252) |
| **Balance, December 31** | **3,914,175** | **82,507,920** |

The movement of the allowances for impairment of individually assessed performing retail loans and doubtful debts is summarized as follows:

| | 2016 | 2015 |
|---|---|---|
| | LBP' 000 | |
| Balance, January 1 | 33,915,296 | 28,231,990 |
| Additions | 2,766,453 | 915,096 |
| Transfer to/from allowance for impairment of collectively assessed loans | (247,385) | 5,312,513 |
| Recoveries | (1,666,674) | (485,395) |
| Write-offs | (555,386) | - |
| Transfer to off-balance sheet | (4,788,787) | (51,696) |
| Other adjustments | (8,815) | (7,212) |
| **Balance, December 31** | **29,414,702** | **33,915,296** |

The movement of allowance for impairment of collectively assessed loans is summarized as follows:

| | 2016 | 2015 |
|---|---|---|
| | LBP' 000 | |
| Balance, January 1 | 10,139,234 | 12,325,878 |
| Additions | 619,959 | 3,125,869 |
| Transfer to/from allowance for impairment of individually assessed loans | 247,386 | (5,312,513) |
| Transfer to off-balance sheet | (155) | - |
| | **11,006,424** | **10,139,234** |

Pledged guarantee funds were deposited by the shareholders of the Bank in order to cover any shortfall in the amount of provisions set up for certain classified loans and advances to customers. Major part of the provision was settled/utilized during the year 2016. The movement of pledged guarantee fund during 2016 and 2015 is summarized as follows:

| | 2016 | 2015 |
|---|---|---|
| | LBP' 000 | |
| Balance, January 1 | 416,384 | 416,384 |
| Settlements/transfers | (346,987) | - |
| **Balance, December 31** | **69,397** | **416,384** |

## 10- DUE FROM RELATED PARTIES

This caption consists of the following:

| | December 31 2016 | December 31 2015 |
|---|---|---|
| | LBP' 000 | |
| **Related parties:** | | |
| Middle East Real Estate Opportunities Fund (MEREO I) LP | 207,821 | 198,060 |
| Middle East Real Estate Opportunities Fund (MEREO II) LP | 3,494,418 | 1,825,263 |
| Philadelphia Investment Group | 2,124,609 | 1,945,506 |
| Gustav Immobilien 1 Limited | 501,976 | 353,314 |
| Broadwater BVI | 150,932 | 183 |
| Trio 1 Limited | 619,518 | 137,754 |
| Inkchip | 291,456 | 134,953 |
| Corniche 550 LTD | 118,019 | 86,418 |
| Colmarer Property Investment I Limited | 22,484 | - |
| CFH Luxembourg | 15,998,277 | - |
| Project Treehouse | 1,713,071 | - |
| Others | 146,179 | 64,228 |
| | 25,388,760 | 4,745,679 |

## 11- FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

**Financial assets at fair value through other comprehensive income outstanding at December 31, 2016 and 2015 consist of the following:**

| | | | December 31, 2016 | |
|---|---|---|---|---|
| | | | F/Cy Base Account | |
| | Incorporated in | Ownership | Carrying Value | Fair Value |
| | | % | LBP' 000 | |
| Capital Plaza Holding S.A.L. | Lebanon | 5.45 | 496,363 | 496,363 |
| Middle East Real Estate Opportunities Fund (MEREO I) LP | British Virgin Island | 13.98 | 823,868 | 823,868 |
| Middle East Real Estate Opportunities Fund II (MEREO II) LP | British Virgin Island | 7.44 | 998,410 | 998,410 |
| Philadelphia Investment Group Ltd. | British Virgin Island | 5.29 | 1,813,990 | 1,813,990 |
| Inkchip Holding SAL | Lebanon | 5.00 | 845,854 | 845,854 |
| Gustav Immobilien I Limited (BVI) | Germany | 8.48 | 2,075,375 | 2,075,375 |
| Trio 1 Limited | Germany | 8.44 | 2,218,286 | 2,218,286 |
| Project Treehouse | British Virgin Island | 19.40 | 3,768,750 | 3,768,750 |
| Colmarer Property Investment I Limited | British Virgin Island | 15.00 | 2,713,500 | 2,713,500 |
| CFH Luxembourg | British Virgin Island | 9.52 | 3,015,000 | 3,015,000 |
| CSC Bank S.A.L. | Lebanon | 5.00 | 9,798,750 | 9,798,750 |
| Other shares | Lebanon | - | 88,920 | 88,920 |
| | | | 28,657,066 | 28,657,066 |

| | | | December 31, 2015 | | |
|---|---|---|---|---|---|
| | | | F/Cy Base Account | | Cumulative Change in Fair Value |
| | Incorporated in | Ownership | Carrying Value | Fair Value | |
| | | % | LBP' 000 | | |
| Capital Plaza Holding S.A.L. | Lebanon | 5.45 | 496,362 | 496,362 | - |
| Middle East Real Estate Opportunities Fund (MEREO I) LP | British Virgin Island | 13.98 | 823,868 | 823,868 | - |
| Middle East Real Estate Opportunities Fund II (MEREO II) LP | British Virgin Island | 7.44 | 998,410 | 998,410 | - |
| Philadelphia Investment Group Ltd. | British Virgin Island | 5.29 | 1,813,990 | 1,813,990 | - |
| Inkchip Holding SAL | Lebanon | 5.00 | 845,854 | 845,854 | - |
| Gustav Immobilien I Limited (BVI) | British Virgin Island | 8.48 | 2,075,375 | 2,075,375 | - |
| Trio 1 Limited | British Virgin Island | 8.44 | 2,218,286 | 2,218,286 | - |
| Syria Gulf Bank S.A. | Syria | 5.53 | 6,246,051 | 1,464,974 | (4,781,077) |
| Others | | - | 90,648 | 90,648 | - |
| | | | 15,608,844 | 10,827,767 | (4,781,077) |
| Deferred tax (Note 14) | | | - | - | 717,161 |
| | | | 15,608,844 | 10,827,767 | (4,063,916) |

## 12- FINANCIAL ASSETS AT AMORTIZED COST

**Financial assets at amortized cost outstanding at December 31, 2016 and 2015 consist of the following:**

| | December 31, 2016 | | | | |
|---|---|---|---|---|---|
| | LBP | | F/Cy | | Total |
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value | Amortized Cost |
| | LBP'000 | | | | |
| Lebanese treasury bills | 565,653,492 | 576,249,538 | - | - | 565,653,492 |
| Lebanese government bonds | - | - | 759,791,651 | 743,012,226 | 759,791,651 |
| Certificates of deposit issued by the Central Bank of Lebanon | 204,561,830 | 211,856,782 | 731,232,582 | 765,488,376 | 935,794,412 |
| Corporate bonds | - | - | 11,817,807 | 12,044,925 | 11,817,807 |
| Certificates of deposit issued by local banks | - | - | 9,035,692 | 8,954,550 | 9,035,692 |
| | **770,215,322** | **788,106,320** | **1,511,877,732** | **1,529,500,077** | **2,282,093,054** |
| Accrued interest receivable | 11,901,897 | 11,901,897 | 21,791,448 | 21,791,448 | 33,693,345 |
| | **782,117,219** | **800,008,217** | **1,533,669,180** | **1,551,291,525** | **2,315,786,399** |

| | December 31, 2015 | | | | |
|---|---|---|---|---|---|
| | LBP | | F/Cy | | Total |
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value | Amortized Cost |
| | LBP'000 | | | | |
| Lebanese treasury bills | 550,396,525 | 563,729,701 | - | - | 550,396,525 |
| Lebanese government bonds | - | - | 867,702,427 | 870,311,670 | 867,702,427 |
| Certificates of deposit issued by the Central Bank of Lebanon | 425,026,222 | 441,980,811 | 243,776,714 | 245,378,670 | 668,802,936 |
| Corporate bonds | - | - | 19,624,780 | 19,930,447 | 19,624,780 |
| Certificates of deposit issued by local banks | - | - | 9,025,902 | 8,999,775 | 9,025,902 |
| | **975,422,747** | **1,005,710,512** | **1,140,129,823** | **1,144,620,562** | **2,115,552,570** |
| Accrued interest receivable | 16,380,957 | 16,380,957 | 16,792,109 | 16,792,109 | 33,173,066 |
| | **991,803,704** | **1,022,091,469** | **1,156,921,932** | **1,161,412,671** | **2,148,725,636** |

Financial assets at amortized cost are segregated over their remaining periods to maturity as follows:

| | LBP | | |
|---|---|---|---|
| | Nominal Value | Amortized Cost | Fair Value |
| **Remaining Period to Maturity** | | | |
| **Lebanese treasury bills:** | | | |
| - Up to 1 year | 200,386,458 | 200,533,507 | 202,697,346 |
| - 1 year to 3 years | 163,797,565 | 164,326,505 | 168,303,298 |
| - 3 years to 5 years | 60,500,000 | 60,668,588 | 61,901,439 |
| - 5 years to 10 years | 128,886,790 | 132,124,892 | 135,287,783 |
| - More than 10 years | 8,000,000 | 8,000,000 | 8,059,672 |
| | **561,570,813** | **565,653,492** | **576,249,538** |
| **Lebanese Government bonds:** | | | |
| - Up to 1 year | - | - | - |
| - 1 year to 3 years | - | - | - |
| - 3 years to 5 years | - | - | - |
| - 5 years to 10 years | - | - | - |
| - More than 10 years | - | - | - |
| | **-** | **-** | **-** |
| **Certificates of deposit issued by the Central Bank of Lebanon:** | | | |
| - Up to 1 year | 4,000,000 | 4,009,218 | 4,030,471 |
| - 3 years to 5 years | - | - | - |
| - 5 years to 10 years | 127,000,000 | 128,552,612 | 135,263,184 |
| - More than 10 years | 72,000,000 | 72,000,000 | 72,563,127 |
| | **203,000,000** | **204,561,830** | **211,856,782** |
| **Corporate bonds:** | | | |
| - 1 year to 3 years | - | - | - |
| - 3 years to 5 years | - | - | - |
| - 5 years to 10 years | - | - | - |
| - More than 10 years | - | - | - |
| | **-** | **-** | **-** |
| **Certificates of deposit issued by local banks:** | | | |
| - Up to 1 year | - | - | - |
| | **-** | **-** | **-** |
| | **764,570,813** | **770,215,322** | **788,106,320** |

| December 31, 2016 | | | | |
|---|---|---|---|---|
| | Foreign Currency (C/V LBP) | | | Total Amortized Cost |
| | Nominal Value | Amortized Cost | Fair Value | |
| LBP' 000 | | | | |
| | | | | |
| | | | | |
| | - | - | - | 200,533,507 |
| | - | - | - | 164,326,505 |
| | - | - | - | 60,668,588 |
| | - | - | - | 132,124,892 |
| | - | - | - | 8,000,000 |
| | **-** | **-** | **-** | **565,653,492** |
| | | | | |
| | 101,319,731 | 101,843,964 | 101,317,071 | 101,843,964 |
| | 158,888,230 | 157,966,098 | 154,946,181 | 157,966,098 |
| | 168,291,270 | 174,719,719 | 174,217,301 | 174,719,719 |
| | 130,171,118 | 130,012,249 | 125,320,863 | 130,012,249 |
| | 195,503,153 | 195,249,621 | 187,210,810 | 195,249,621 |
| | **754,173,502** | **759,791,651** | **743,012,226** | **759,791,651** |
| | | | | |
| | - | - | - | 4,009,218 |
| | 22,612,500 | 22,670,314 | 23,662,474 | 22,670,314 |
| | 503,957,250 | 504,028,698 | 531,654,171 | 632,581,310 |
| | 204,266,250 | 204,533,570 | 210,171,731 | 276,533,570 |
| | **730,836,000** | **731,232,582** | **765,488,376** | **935,794,412** |
| | | | | |
| | 4,673,250 | 4,807,932 | 5,035,050 | 4,807,932 |
| | 226,125 | 226,125 | 226,125 | 226,125 |
| | 5,276,250 | 5,276,250 | 5,276,250 | 5,276,250 |
| | 1,507,500 | 1,507,500 | 1,507,500 | 1,507,500 |
| | **11,683,125** | **11,817,807** | **12,044,925** | **11,817,807** |
| | | | | |
| | 9,045,000 | 9,035,692 | 8,954,550 | 9,035,692 |
| | **9,045,000** | **9,035,692** | **8,954,550** | **9,035,692** |
| | **1,505,737,627** | **1,511,877,732** | **1,529,500,077** | **2,282,093,054** |

| | LBP | | |
|---|---|---|---|
| | Nominal Value | Amortized Cost | Fair Value |
| **Remaining Period to Maturity** | | | |
| **Lebanese treasury bills:** | | | |
| - Up to 1 year | 2,745,000 | 2,744,999 | 2,748,360 |
| - 1 year to 3 years | 360,428,747 | 361,799,046 | 369,994,503 |
| - 3 years to 5 years | 52,510,275 | 52,605,333 | 54,701,241 |
| - 5 years to 10 years | 130,078,090 | 133,247,147 | 136,285,597 |
| - More than 10 years | - | - | - |
| | **545,762,112** | **550,396,525** | **563,729,701** |
| **Lebanese Government bonds:** | | | |
| - Up to 1 year | - | - | - |
| - 1 year to 3 years | - | - | - |
| - 3 years to 5 years | - | - | - |
| - 5 years to 10 years | - | - | - |
| - More than 10 years | - | - | - |
| | **-** | **-** | **-** |
| **Certificates of deposit issued by the Central Bank of Lebanon:** | | | |
| - Up to 1 year | 42,000,000 | 42,513,694 | 43,233,121 |
| - 1 year to 3 years | 4,000,000 | 4,053,611 | 4,112,662 |
| - 3 years to 5 years | 15,000,000 | 14,959,991 | 15,516,914 |
| - 5 years to 10 years | 169,000,000 | 170,966,471 | 178,896,640 |
| - More than 10 years | 190,000,000 | 192,532,455 | 200,221,474 |
| | **420,000,000** | **425,026,222** | **441,980,811** |
| **Corporate bonds:** | | | |
| - Up to 1 year | - | | |
| - 1 year to 3 years | - | - | - |
| - 3 years to 5 years | - | - | - |
| - 5 years to 10 years | - | - | - |
| - More than 10 years | - | - | - |
| | **-** | **-** | **-** |
| **Certificates of deposit issued by local banks:** | | | |
| **- 1 year to 3 years** | **-** | **-** | **-** |
| | **965,762,112** | **975,422,747** | **1,005,710,512** |

| December 31, 2015 | | | | |
|---|---|---|---|---|
| | Foreign Currency (C/V LBP) | | | Total Amortized Cost |
| | Nominal Value | Amortized Cost | Fair Value | |
| LBP' 000 | | | | |
| | | | | |
| | | | | |
| | - | - | - | 2,744,999 |
| | - | - | - | 361,799,046 |
| | - | - | - | 52,605,333 |
| | - | - | - | 133,247,147 |
| | - | - | - | - |
| | **-** | **-** | **-** | **550,396,525** |
| | | | | |
| | 102,069,810 | 103,227,193 | 103,980,868 | 103,227,193 |
| | 237,432,015 | 230,700,165 | 234,195,813 | 230,700,165 |
| | 126,074,358 | 111,446,897 | 110,642,172 | 111,446,897 |
| | 227,495,318 | 234,258,375 | 235,457,851 | 234,258,375 |
| | 206,554,635 | 188,069,797 | 186,034,966 | 188,069,797 |
| | **899,626,136** | **867,702,427** | **870,311,670** | **867,702,427** |
| | | | | |
| | - | - | - | 42,513,694 |
| | - | - | - | 4,053,611 |
| | 45,225,000 | 45,325,257 | 46,043,573 | 60,285,248 |
| | 182,859,750 | 183,376,457 | 184,243,514 | 354,342,928 |
| | 15,075,000 | 15,075,000 | 15,091,583 | 207,607,455 |
| | **243,159,750** | **243,776,714** | **245,378,670** | **668,802,936** |
| | | | | |
| | 7,537,500 | 7,533,991 | 7,576,846 | 7,533,991 |
| | 1,658,250 | 1,658,250 | 1,658,250 | 1,658,250 |
| | 3,467,250 | 3,648,789 | 3,911,601 | 3,648,789 |
| | 5,276,250 | 5,276,250 | 5,276,250 | 5,276,250 |
| | 1,507,500 | 1,507,500 | 1,507,500 | 1,507,500 |
| | **19,446,750** | **19,624,780** | **19,930,447** | **19,624,780** |
| | | | | |
| | **9,045,000** | **9,025,902** | **8,999,775** | **9,025,902** |
| | **1,171,277,636** | **1,140,129,823** | **1,144,620,562** | **2,115,552,570** |

The movement of financial assets at amortized cost is as follows:

| | 2016 | | |
|---|---|---|---|
| | LBP | F/Cy | Total |
| | LBP'000 | | |
| Balance at January 1, 2016 | 975,422,747 | 1,140,129,823 | 2,115,552,570 |
| Additions | 91,914,501 | 650,997,764 | 742,912,265 |
| Redemptions | (44,743,900) | (116,354,473) | (161,098,373) |
| Amortization of premiums and discounts | (2,029,588) | (3,790,106) | (5,819,694) |
| Exchanges (Net of premiums and discounts) | (250,348,438) | (149,995,741) | (400,344,179) |
| Sales (Net of premiums and discounts) | - | (8,325,215) | (8,325,215) |
| Difference in exchange | - | (784,320) | (784,320) |
| **Balance at December 31, 2016** | **770,215,322** | **1,511,877,732** | **2,282,093,054** |

| | 2015 | | |
|---|---|---|---|
| | LBP | F/Cy | Total |
| | LBP'000 | | |
| Balance at January 1, 2015 | 914,238,797 | 1,216,151,762 | 2,130,390,559 |
| Additions | 122,532,356 | 221,029,475 | 343,561,831 |
| Redemptions | (59,300,000) | (90,689,775) | (149,989,775) |
| Amortization of premiums and discounts | (2,048,406) | (8,772,317) | (10,820,723) |
| Swaps (Net of premiums and discounts) | - | (33,999,933) | (33,999,933) |
| Sales (Net of premiums and discounts) | - | (159,878,954) | (159,878,954) |
| Difference in exchange | - | (3,710,435) | (3,710,435) |
| **Balance at December 31, 2015** | **975,422,747** | **1,140,129,823** | **2,115,552,570** |

As of December 31, 2016 and 2015, the Group had Lebanese government bonds in the amount of LBP 86 billion (USD 57 million) classified as financial assets at amortized cost and pledged against repurchase agreements with a non-resident bank (Note 19).

As of December 31, 2016 and 2015, the Group had Lebanese treasury bills in the amount of LBP 2.7 billion pledged against a soft loan granted by the Central Bank of Lebanon (Note 19).

During 2016, the Group sold investment securities classified at amortized cost near maturity in the amount of LBP 8.3 billion which resulted in a gain in the amount of LBP 21 million (LBP 160 billion sold during 2015 resulting in a gain in the amount of LBP 292 million) recognized under "Other operating income (net)" in the consolidated statement of profit or loss (Note 33).

During 2016, the Group exchanged Lebanese government bonds in the amount of LBP 30.2 billion maturing in 2016 against Lebanese government bonds with longer maturities and classified at amortized cost. This operation resulted in a net gain of LBP 97 million recognized under "Other operating income (net)" in the consolidated statement of profit or loss (Note 33).

During 2016, the Group exchanged certificates of deposit issued by the Central Bank of Lebanon with long maturities in the amount of LBP 45.3 billion against certificates of deposit issued by the Central Bank of Lebanon with longer maturities and classified at amortized cost. This operation resulted in a net loss of LBP 75 million added to the nominal value of these securities and which will be amortized over maturity.

During 2016, the Group exchanged Lebanese Government bonds with long maturities in the amount of LBP 74.5 billion against Lebanese Government bonds with longer maturities and classified at amortized cost. This operation resulted in a net loss of LBP 311 million added to the nominal value of these securities and which will be amortized over maturity. This operation also resulted in a commission income in the amount of LBP 2.9 billion recognized under "Other operating income (net)" in the consolidated statements of profit or loss (Note 33).

During 2016, the Group entered into other sale transactions of Lebanese Treasury Bills in Lebanese Pounds having a nominal value of LBP 38 billion and certificates of deposit issued by Central Bank of Lebanon in Lebanese Pounds having a nominal value of LBP 210 billion, classified at amortized cost, as well as Lebanese Treasury Bills in Lebanese Pounds having a nominal value of LBP 45 billion and certificates of deposit issued by Central Bank of Lebanon in Lebanese Pounds having a nominal value of LBP 23 billion and classified at fair value through profit or loss. This sale transaction was concluded simultaneously with the acquisition of certificates of deposit issued by Central Bank of Lebanon and Lebanese Government bonds in U.S. Dollar with a nominal value of USD 170 million and USD 40 million respectively, maturing in years ranging from year 2023 to year 2029 that were classified at amortized cost and funded from the Group's treasury in foreign currencies held with correspondent banks.

The resulting surplus of the inter-related transactions indicated above, derived from the special and non-conventional deals arrangement with the regulator, amounted to LBP 106 billion, net of tax in the amount of LBP 19 billion, was credited to "Regulatory deferred liability" under other liabilities in the consolidated statement of financial position. (Note 21).

During 2015, the Group exchanged certificates of deposit and Lebanese Government bonds in the amount of LBP 11.4 billion maturing in 2015 against certificates of deposit and Lebanese Government bonds with longer maturities and classified at fair value through profit or loss. This operation resulted in a net gain of LBP 38 million recognized under "Other operating income (net)" in the consolidated statements of profit or loss (Note 33).

During 2015, the Group exchanged Lebanese treasury bills issued by the Central Bank of Lebanon in the amount of LBP 22.6 billion maturing in 2016 against certificates of deposit issued by the Central Bank of Lebanon with longer maturities, and classified at amortized cost, which resulted in a gain in the amount of LBP 175 million that was recognized in "Other operating income (net)" in the consolidated statement of profit or loss (Note 33).

## 13- CUSTOMERS' LIABILITY UNDER ACCEPTANCES

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

## 14- OTHER ASSETS

This caption consists of the following:

| | December 31 2016 | December 31 2015 |
|---|---|---|
| | LBP'000 | |
| Prepaid expenses | 5,117,586 | 5,443,484 |
| Deferred charges | 717,560 | 745,101 |
| Refundable guarantee deposits | 170,061 | 171,801 |
| Stamps | 97,536 | 80,370 |
| Change in fair value of forward exchange contracts | - | 707,009 |
| Deferred tax assets (Note 11) | - | 717,161 |
| Intangible assets (a) | 319,321 | 411,455 |
| Receivables from financial services contracts (c) | 3,927,410 | 3,496,809 |
| Due from Social Security Fund | 5,167,985 | 4,544,956 |
| Other debit balances (b) | 5,022,943 | 14,739,249 |
| Regulatory blocked fund | 1,500,000 | 1,500,000 |
| Provision for doubtful receivables | (724,876) | (667,110) |
| | 21,315,526 | 31,890,285 |

(a) The movement of intangible assets during 2016 and 2015 was as follows:

| | LBP'000 |
|---|---|
| **Cost:** | |
| Balance, January 1, 2015 | 2,328,488 |
| Additions | 124,660 |
| **Balance, December 31, 2015** | **2,453,148** |
| Additions | 51,731 |
| **Balance, December 31, 2016** | **2,504,879** |
| **Accumulated Amortization:** | |
| Balance, January 1, 2015 | (1,831,927) |
| Additions | (209,767) |
| **Balance, December 31, 2015** | **(2,041,694)** |
| Additions | (143,864) |
| **Balance, December 31, 2016** | **(2,185,558)** |
| **Net Carrying Value:** | |
| **December 31, 2016** | **319,321** |
| **December 31, 2015** | **411,454** |

(b) Other debit balances include an amount of LBP 11.9 billion (USD 7.9 million) as at December 31, 2015 representing the value of a check issued to participate in an auction on plot number 5298 in Mazraa - Beirut for the opening of a new branch and offices for the subsidiary Capital Finance Company S.A.L. in that area. This plot was registered in the name of First National Bank S.A.L during 2016 and was transferred to Property and equipment (Note 17). This plot will be sold subsequently to the subsidiary Capital Finance Company S.A.L.

(c) Receivables from financial services contracts as at December 31, 2016 and 2015 represent an amount due on services rendered by the subsidiary Corporate Finance House Limited.

(d) Regulatory blocked fund represents a non-interest earning compulsory deposit placed with the Lebanese Treasury upon establishment of "First National Bank S.A.L.". This deposit is refundable in case of cease of operations, according to article 132 of the Money and Credit Law.

## 15- INVESTMENT IN AND LOAN TO AN ASSOCIATE

**This caption represents a 12.77% equity stake in Park View Realty Company S.A.L., currently under liquidation, as at December 31, 2016 and 2015:**

| | December 31 2016 | December 31 2015 |
|---|---|---|
| | LBP'000 | |
| Value of the investment | 228,094 | 228,094 |
| Loan | 13,118 | 13,118 |
| | 241,212 | 241,212 |

The investment in Park View Realty S.A.L. is classified as an investment in an associate since the Group is represented on the investee's Board of Directors and significant influence is demonstrated in 2016 and 2015.

## 16- ASSETS ACQUIRED IN SATISFACTION OF LOANS

Assets acquired in satisfaction of loans represent real estate properties and vehicles that have been acquired through enforcement of security over loans and advances to customers.

**The movement of assets acquired in satisfaction of loans during 2016 and 2015 was as follows:**

| | 2016 | 2015 |
|---|---|---|
| | LBP'000 | |
| Balance, January 1 | 4,102,405 | 3,014,977 |
| Additions | 3,757,842 | 2,705,256 |
| Disposals | (1,059,104) | (1,359,585) |
| Reversals | - | (258,243) |
| **Balance, December 31** | 6,801,143 | 4,102,405 |

The acquisition of assets in settlement of loans is regulated by the banking regulatory authorities and these should be liquidated within 2 years. In case of default of liquidation, a regulatory reserve should be appropriated from the yearly net profits after deduction of legal reserves and reserves for general banking risk over a period of 5 years and accumulated under equity. This reserve was reduced to 5% when certain conditions linked to the restructuring of non performing loan's portfolio were met as per local banking regulations. During 2016 and 2015, the Group appropriated a reserve of LBP 176 million and LBP 7.7 million respectively from 2016 and 2015 profits.

During 2016, a subsidiary of the Group sold assets acquired in satisfaction of loans (used cars) for an aggregate consideration of LBP 704 million (LBP 980 million in 2015) resulting in a net loss of LBP 354 million (loss of LBP 379 million in 2015) (Note 33).

## 17- PROPERTY AND EQUIPMENT

The movement of property and equipment during 2016 and 2015 was as follows:

| | Land | Buildings | Furniture, Office and Computer Equipment |
|---|---|---|---|
| **Cost:** | | | |
| Balance, January 1, 2015 | 25,584,210 | 24,169,804 | 29,878,540 |
| Additions and transfers | 753,750 | - | 3,172,977 |
| Disposals | - | - | (641,824) |
| **Balance, December 31, 2015** | **26,337,960** | **24,169,804** | **32,409,693** |
| Additions and transfers | - | 12,345,491 | 4,723,259 |
| Disposals | - | - | (988,928) |
| **Balance, December 31, 2016** | **26,337,960** | **36,515,295** | **36,144,024** |
| **Accumulated Depreciation:** | | | |
| Balance, January 1, 2015 | - | (4,024,116) | (18,850,397) |
| Depreciation expense (Note 34) | - | (530,487) | (2,515,528) |
| Eliminated on disposals | - | - | 465,224 |
| **Balance, December 31, 2015** | **-** | **(4,554,603)** | **(20,900,701)** |
| Depreciation expense (Note 34) | - | (541,263) | (2,638,403) |
| Eliminated on disposals | - | - | 593,582 |
| **Balance, December 31, 2016** | **-** | **(5,095,866)** | **(22,945,522)** |
| **Net Carrying Value:** | | | |
| **December 31, 2016** | **26,337,960** | **31,419,429** | **13,198,502** |
| **December 31, 2015** | **26,337,960** | **19,615,201** | **11,508,992** |

| Vehicles | Improvements and Installations | Advance Payment | Total |
|---|---|---|---|
| LBP'000 | | | |
| | | | |
| 824,338 | 14,637,622 | 13,606,388 | 108,700,902 |
| 3,480 | 4,877,778 | 7,576,998 | 16,384,983 |
| - | - | - | (641,824) |
| **827,818** | **19,515,400** | **21,183,386** | **124,444,061** |
| 105,148 | 4,136,538 | 10,448,713 | 31,759,149 |
| - | - | - | (988,928) |
| **932,966** | **23,651,938** | **31,632,099** | **155,214,282** |
| | | | |
| (243,844) | (7,711,409) | - | (30,829,766) |
| (75,103) | (903,713) | - | (4,024,831) |
| - | - | - | 465,224 |
| **(318,947)** | **(8,615,122)** | **-** | **(34,389,373)** |
| (85,686) | (1,250,143) | - | (4,515,495) |
| - | - | - | 593,582 |
| **(404,633)** | **(9,865,265)** | **-** | **(38,311,286)** |
| | | | |
| **528,333** | **13,786,673** | **31,632,099** | **116,902,996** |
| **508,871** | **10,900,278** | **21,183,386** | **90,054,688** |

Additions to buildings in 2016 represent the value of Plot 5298 in the amount of LBP 11.9 billion situated in Mazraa – Beirut, which was registered during 2016 and transferred from "Other assets" (Note 14). This plot will be sold subsequently to the subsidiary Capital Finance Company S.A.L.

Advance payment represents the cost of the renovation and construction of the Bank branches and new headquarters.

**The movement of these payments on the account during the years 2016 and 2015 are as follows:**

| | Hazmieh Branch | Verdun Branch | Jal El Dib Branch | Mathaf New Head Office | Sin-El-Fil Branch | Sour Branch | Other Branches | Total |
|---|---|---|---|---|---|---|---|---|
| | LBP'000 | | | | | | | |
| Balance, January 1, 2015 | 2,614,613 | 787,002 | 2,956,110 | 3,789,736 | 41,663 | - | 3,417,264 | 13,606,388 |
| Additions | 1,932,161 | 624,596 | 798,161 | 3,687,856 | 1,303,139 | 1,392,274 | 4,303,984 | 14,042,171 |
| Transfers | (3,013) | (1,396,125) | (1,066,017) | (45,973) | - | (37,875) | (3,916,170) | (6,465,173) |
| **Balance, December 31, 2015** | **4,543,761** | **15,473** | **2,688,254** | **7,431,619** | **1,344,802** | **1,354,399** | **3,805,078** | **21,183,386** |
| Additions | 950,635 | 15,473 | 18,239 | 10,011,865 | 963,459 | 733,205 | 4,322,253 | 17,015,129 |
| Transfers | (1,557,590) | (30,946) | (36,478) | - | (2,308,261) | (21) | (2,633,120) | (6,566,416) |
| **Balance, December 31, 2016** | **3,936,806** | **-** | **2,670,015** | **17,443,484** | **-** | **2,087,583** | **5,494,211** | **31,632,099** |

## 18- GOODWILL

**This caption consists of the following:**

| | December 31 2016 | December 31 2015 |
|---|---|---|
| | LBP'000 | |
| Goodwill on acquisition of Société Bancaire du Liban ("SBL") in 2002 | 2,400,000 | 2,400,000 |
| Goodwill on acquisition of Capital Finance Company S.A.L. in 2009 | 17,979,656 | 17,979,656 |
| Goodwill on acquisition of Corporate Finance House Limited in 2014 | 6,626,412 | 6,626,412 |
| | **27,006,068** | **27,006,068** |

The recoverable amounts of the assets acquired in the business combination described above (Cash-generating units) are determined based on the fair value less cost of disposal, which are higher than the assets carrying value using the market comparability approach.

## 19- DEPOSITS AND BORROWINGS FROM BANKS AND FINANCIAL INSTITUTIONS

**Deposits and borrowings from banks and financial institutions are reflected at amortized cost and consist of the following:**

| | December 31 2016 | December 31 2015 |
|---|---|---|
| | LBP'000 | |
| Current deposits of banks and financial institutions | 41,505,681 | 56,415,244 |
| Money market deposits - A | 339,539,766 | 392,393,207 |
| Short term borrowings - B | 20,331,698 | 5,085,008 |
| Borrowings under sale and repurchase agreements - C | 45,225,000 | 45,225,000 |
| Other borrowings - D | 22,131,869 | 18,701,422 |
| Accrued interest payable | 965,141 | 1,352,035 |
| | **469,699,155** | **519,171,916** |

### A. The maturities of money market deposits are as follows:

| | December 31, 2016 | | | |
|---|---|---|---|---|
| | LBP Base Accounts | | F/Cy Base Accounts | |
| Maturity | Amount | Average Interest Rate | Amount | Average Interest Rate |
| | LBP'000 | % | LBP'000 | % |
| 2017 | 21,465,753 | 5.45 | 318,074,013 | 1.47 |
| | **21,465,753** | | **318,074,013** | |

| | December 31, 2015 | | | |
|---|---|---|---|---|
| | LBP Base Accounts | | F/Cy Base Accounts | |
| Maturity | Amount | Average Interest Rate | Amount | Average Interest Rate |
| | LBP'000 | % | LBP'000 | % |
| 2016 | 144,753,516 | 4.49 | 247,639,691 | 1.21 |

### B. Short term borrowings are denominated in foreign currencies, carry interest at rates ranging between 4.25% and 5.35% per annum and mature within one year.

### C. Borrowings under sale and repurchase agreements consist of the following:

| | December 31, 2016 | |
|---|---|---|
| | F/Cy Base Accounts | |
| Maturity | Amount | Average Interest Rate |
| | LBP'000 | |
| 2017 | 45,225,000 | The lower between Semi-Annual USD LIBOR +2.50% or 4.75% |

| Maturity | December 31, 2015 | |
|---|---|---|
| | F/Cy Base Accounts | |
| | Amount | Average Interest Rate |
| | LBP'000 | |
| 2017 | 45,225,000 | The lower between semi-annual USD LIBOR+2.50% or 4.75% |

Sale and repurchase agreements as of December 31, 2016 and 2015 consist of repurchase agreement contracts with a non-resident bank in the amount of LBP 45.23 billion (C/V USD 30 million) against pledged Lebanese government bonds with a nominal value of USD 57 million (C/V LBP 86 billion) as of December 31, 2016 and 2015 classified under "Financial assets at amortized cost" (Note 12).

**D. Other borrowings consist of the following:**

| | December 31 2016 | December 31 2015 |
|---|---|---|
| | LBP'000 | |
| Loan from the European Investment Bank (i) | 421,268 | 518,153 |
| Soft loan from the Central Bank of Lebanon (ii) | 2,745,000 | 2,745,000 |
| BDL incentive loans (iii) | 18,965,601 | 15,438,269 |
| | 22,131,869 | 18,701,422 |

i) Borrowings from the European Investment Bank are managed by the Central Bank of Lebanon and financed by the European Investment Bank upon the agreement signed between the Lebanese Republic and the European Investment Bank on December 14, 1999. The purpose of these loans is to finance projects in the industrial sector. These borrowings mature during 2020.

(ii) During 2011, the Central Bank of Lebanon ("BDL") granted the Group a soft loan in the amount of LBP 2.7 billion in accordance with Decision number 6116 dated March 7, 1996 subject to an annual interest rate of 2.2%. The loan proceeds are invested in Lebanese treasury bills for the same amount classified at amortized cost and maturing in January 2017 (Note 12). The treasury bills are pledged in favor of BDL until full repayment of the loan. The present value of the net investment proceeds were used to finance the write-off of a debtor's exposure under credit facilities used to refinance the construction of property and acquisition of equipment damaged during the July 2006 war.

(iii) The Central Bank of Lebanon granted the Group facilities in the amount of LBP 18.9 billion as at December 31, 2016 (LBP 15.4 billion as at December 31, 2015) in accordance with Basic Decision No. 6116 of March 7, 1996 and its amendment in basic circular 313. The loan proceeds were lent to the Group's customers, pursuant to certain conditions, rules and mechanism. These facilities are subject to an annual interest rate of 1% paid on a monthly basis. These facilities mature as follows:

| | December 31 2016 | December 31 2015 |
|---|---|---|
| | LBP'000 | |
| 5 to 10 years | 4,066,133 | 2,923,448 |
| 10 to 20 years | 6,797,002 | 5,230,788 |
| More than 20 years | 8,102,466 | 7,284,033 |
| | 18,965,601 | 15,438,269 |

## 20- CUSTOMERS' DEPOSITS AND CREDIT ACCOUNTS

**Customers' deposits and credit accounts are stated at amortized cost and are detailed as follows:**

| | December 31 2016 | December 31 2015 |
|---|---|---|
| | LBP'000 | |
| Current and demand deposits | 367,704,262 | 370,679,876 |
| Term deposits | 797,795,576 | 769,804,641 |
| Saving accounts | 3,472,331,041 | 3,160,695,149 |
| Related party deposits | 158,447,851 | 127,176,524 |
| Collateral against loans and advances - Related parties (Note 9) | 71,955,384 | 70,494,101 |
| Collateral against loans and advances – Customers (Note 9) | 277,295,158 | 268,113,981 |
| Fiduciary accounts | 189,620,132 | 141,247,746 |
| Margins | 56,876,141 | 29,233,378 |
| | **5,392,025,545** | **4,937,445,396** |
| Accrued interest payable | 30,787,112 | 26,564,885 |
| | **5,422,812,657** | **4,964,010,281** |

Customers' deposits include coded accounts as at December 31, 2016 and 2015 amounting to LBP 25 billion. These accounts are subject to the provisions of Article 3 of the Banking Secrecy Law dated September 3, 1956. Under the provisions of this article, the Group's management cannot reveal the identities of the depositors to third parties, including its independent auditors.

Customers' deposits include an escrow account deposited by the former shareholders of Société Bancaire du Liban S.A.L. ("SBL") to cover any shortage in the transferred allowance for bad and doubtful debts accounts or for those accounts that needed to be downgraded at the merger date. The balance of this pledged deposit as at December 31, 2015 amounted to USD 207,000 equivalent to LBP 312 million.

During 2016, this amount was transferred to "Other liabilities" (Note 21) after settlement of the facilities pertaining to Société Bancaire du Liban S.A.L. ("SBL"),

**Deposits are allocated by brackets as follows:**

| | December 31, 2016 | | | |
|---|---|---|---|---|
| | Deposits in LBP | | Deposits in F/Cy | |
| | Total Deposits | % to Total Deposits | Total Deposits | % to Total Deposits |
| | LBP'000 | % | LBP'000 | % |
| **Related parties** | **48,898,780** | **3.33** | **181,504,455** | **5.30** |
| **Customers:** | | | | |
| Less than LBP 200 million | 471,886,495 | 23.91 | 494,159,515 | 14.26 |
| Between LBP 200 million and LBP 1.5 billion | 665,853,779 | 33.73 | 977,499,644 | 28.20 |
| More than LBP 1.5 billion | 772,523,799 | 39.14 | 1,810,486,190 | 52.24 |
| | **1,910,264,073** | | **3,282,145,349** | |
| | **1,959,162,853** | **100** | **3,463,649,804** | **100** |

| | December 31, 2015 | | | |
|---|---|---|---|---|
| | Deposits in LBP | | Deposits in F/Cy | |
| | Total Deposits | % to Total Deposits | Total Deposits | % to Total Deposits |
| | LBP'000 | % | LBP'000 | % |
| **Related parties** | 38,729,206 | 2.21 | 158,941,419 | 5.28 |
| **Customers:** | | | | |
| Less than LBP 200 million | 432,341,956 | 22.79 | 472,964,484 | 15.30 |
| Between LBP 200 million and LBP 1.5 billion | 593,192,582 | 31.26 | 947,336,867 | 30.64 |
| More than LBP 1.5 billion | 812,512,418 | 43.74 | 1,507,991,349 | 48.78 |
| | 1,838,046,956 | | 2,928,292,700 | |
| | 1,876,776,162 | 100 | 3,087,234,119 | 100 |

**The average balances of deposits and related cost of funds over the last three years were as follows:**

| Year | Average Balance of Deposits | Allocation of Deposits | | Cost of Funds | Average Interest Rate |
|---|---|---|---|---|---|
| | | LBP | F/Cy | | |
| | LBP'000 | % | % | LBP'000 | % |
| 2016 | 5,209,666,223 | 37 | 63 | 228,437,697 | 4.38 |
| 2015 | 4,837,405,037 | 37 | 63 | 208,458,383 | 4.31 |
| 2014 | 4,677,694,293 | 36 | 64 | 205,549,419 | 4.39 |

## 21- OTHER LIABILITIES

**This caption consists of the following:**

| | December 31 2016 | December 31 2015 |
|---|---|---|
| | LBP'000 | |
| Withheld taxes and other taxes payable | 5,240,208 | 2,655,969 |
| Corporate income tax payable (c) | 2,393,644 | 2,145,699 |
| Due to the National Social Security Fund | 766,054 | 779,964 |
| Checks and incoming payment orders in course of settlement | 16,141,236 | 11,547,363 |
| Accrued expenses | 8,626,523 | 8,408,603 |
| Regulatory deferred liability (a) | 105,574,674 | - |
| Tax on regulatory deferred liability (a) | 18,630,825 | - |
| Deferred income (d) | 8,073,598 | 8,740,412 |
| Due to insurance companies and collectors of bills (b) | 6,634,282 | 7,587,544 |
| Sundry accounts payable | 8,913,866 | 8,432,866 |
| Dividends payable | - | 1,243,439 |
| Accrued interest on preferred shares | 1,122,344 | 1,020,597 |
| | 182,117,254 | 52,562,456 |

(a) In accordance with the Central Bank of Lebanon Intermediary Circular number 446 dated December 30, 2016, banks should record the surplus derived from sale of treasury bills in Lebanese pounds against investment in medium term certificates of deposits in foreign currency issued by the Central Bank of Lebanon under deferred liability which is regulated in nature, and shall be appropriated, among other things, after deducting the relevant tax liability, to collective provision for credit risks associated with the loan book at a minimum of 2% of the weighted Credit risks, and that in anticipation of implementation of IFRS 9 for Impairment, as and when quantified effective on January 1, 2018. By virtue of this Circular, 70% of the remaining residual surplus once recognized over time shall be treated as non-distributable income designated and restricted only for appropriation to capital increase.

During the year 2016, as a result of several transactions derived from the special and non-conventional deals arrangement with the Central Bank of Lebanon, the Group received a surplus of LBP 106 billion, net of tax in the amount of LBP 18 billion, which was credited to "Regulatory deferred liability" under other liabilities and deferred as restricted contribution in anticipation of expected loss provisions that will be deemed to be necessary along with the application of IFRS 9 in accordance with the Central Bank of Lebanon requirements as indicated above (Refer to Note 12).

(b) The maturity of the dues to insurance companies and collectors of bills related to retail loans are allocated based on the maturity of the related outstanding loans.

(c) Income tax expense is reconciled as follows:

| | First National Bank S.A.L. | | Middle East Capital Group S.A.L. | |
|---|---|---|---|---|
| | **December 31, 2016** | **December 31, 2015** | **December 31, 2016** | **December 31, 2015** |
| | LBP'000 | | | |
| Profit for the year before income tax for the bank and its Lebanese subsidiaries subject to corporate income tax | 42,275,707 | 36,605,609 | 5,597,863 | 5,010,046 |
| Non taxable income | (3,401,096) | (3,416,696) | (370,835) | (362,157) |
| **Taxable Income** | **38,874,611** | **33,188,913** | **5,227,028** | **4,647,889** |
| Corporate tax expense (15%) | 5,831,192 | 4,978,337 | 784,054 | 697,183 |
| Income tax expense (higher of 15% of taxable income and 5% tax on interest paid) | 6,981,773 | 5,583,396 | 784,054 | 697,183 |
| Lump sum tax expense | - | - | - | - |
| **Total Income tax expense** | **6,981,773** | **5,583,396** | **784,054** | **697,183** |
| Tax on interest paid (5%) | (6,981,773) | (5,583,396) | (130,308) | (159,527) |
| Tax payable related to prior years | - | - | - | - |
| **Accrued tax payable** | - | - | 653,746 | 537,656 |

The tax returns of the Bank for the years 2013 till 2016 remain subject to examination and final assessment by the tax authorities and any additional tax liability depends on the outcome of such review.

The tax returns for the Bank's subsidiaries are as follows:

- Capital Finance Company S.A.L.: The Company's accounts and tax returns for the years 2011 till 2013 were examined by the tax authorities during the year 2016 and resulted in an additional tax liability of approximately LBP 50 million that was applied against provision for contingencies (Note 22). The tax returns for the years from 2014 till 2016 remain subject to examination and final assessment by the tax authorities and any additional tax liability depends on the outcome of such review.

- Middle East Capital Group S.A.L.: the tax returns since year 2012 remain subject to examination and final assessment by the tax authorities and any additional tax liability depends on the outcome of such review.

- Corporate Finance House S.A.L.: the tax returns since year 2012 remain subject to examination and final assessment by the tax authorities and any additional tax liability depends on the outcome of such review.

The Group's management does not anticipate significant additional tax and social security liabilities with regard to years that are still subject to examination with respect to the Bank and its subsidiaries.

(d) Deferred income includes unearned commission on insurance policies related to outstanding retail loans maturing after year end. These unearned commissions are recognized to income over the term of the related loans. Furthermore, it includes file fees and difference on collection charges that are recognized as yield adjustment over the loan repayment period.

| | Capital Finance Company S.A.L. | | Total | |
|---|---|---|---|---|
| | December 31, 2016 | December 31, 2015 | December 31, 2016 | December 31, 2015 |
| | LBP'000 | | | |
| | 11,092,637 | 10,669,939 | 58,966,207 | 52,285,594 |
| | 522,400 | (438,420) | (3,249,531) | (4,217,273) |
| | **11,615,037** | **10,231,519** | **55,716,676** | **48,068,321** |
| | 1,742,256 | 1,534,728 | 8,357,502 | 7,210,248 |
| | 1,742,256 | 1,534,728 | 9,508,083 | 7,815,307 |
| | - | - | 6,000 | 26,375 |
| | **1,742,256** | **1,534,728** | **9,514,083** | **7,841,682** |
| | (14,689) | (14,257) | (7,126,770) | (5,757,180) |
| | - | - | 6,331 | 61,197 |
| | 1,727,567 | 1,520,471 | 2,393,644 | 2,145,699 |

## 22- PROVISIONS

**Provisions consist of the following:**

| | December 31 2016 | December 31 2015 |
|---|---|---|
| | LBP'000 | |
| Provision for staff end-of-service indemnities | 10,492,389 | 9,750,049 |
| Provision for contingencies | 316,765 | 389,421 |
| Provision for foreign currency fluctuations | 20,275 | 121,166 |
| | 10,829,429 | 10,260,636 |

**The movement of the provision for staff end-of-service indemnities is as follows:**

| | 2016 | 2015 |
|---|---|---|
| | LBP'000 | |
| Balance, January 1 | 9,750,049 | 9,418,623 |
| Additions | 1,082,042 | 525,795 |
| Settlements | (339,702) | (194,369) |
| **Balance, December 31** | 10,492,389 | 9,750,049 |

**The movement of the provision for contingencies was as follows:**

| | 2016 | 2015 |
|---|---|---|
| | LBP'000 | |
| Balance, January 1 | 389,421 | 197,568 |
| Additions | - | 326,021 |
| Write-back | (3,309) | - |
| Settlements | (69,347) | (134,168) |
| **Balance, December 31** | **316,765** | **389,421** |

The provision for contingencies is set up to cover possible claims and charges in connection with the Group's activities and includes amounts to cover the likelihood of additional levies due to uncertainties.

## 23- CUMULATIVE PREFERRED SHARES

The Extraordinary General Assembly approved in its meeting held on June 6, 2014 the issuance of 150,000 cumulative series "A" preferred shares with fixed maturity at a nominal value of LBP 10,000 per share in the aggregate amount of LBP 1.5 billion and an aggregate premium of LBP 21.1 billion on the entire issued shares to the sole subscriber "European Investment Bank". The preferred shares earn dividends on a cumulative basis of USD 4.5 per share and mature in seven years.

## 24- SHARE CAPITAL

The Extraordinary General Assembly approved in its meeting held on March 31, 2015, the substitution of the nominal value of 150,000 preferred shares series 1 (LBP 10,000 per share) by the equivalent value in capital transferred from retained earnings. The 150,000 new common shares were issued and distributed to common shareholders on a prorata basis. The share capital of the Bank as at December 31, 2016 and 2015 is constituted of 16,230,000 shares with a nominal value of LBP 10,000 per share fully paid with an additional paid-in capital of LBP 39.92 billion as at December 31, 2015 and 2016.

## 25- PREFERRED SHARES

**This caption consists in 2016 and 2015 of the following:**

| | December 31, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| | Nominal Value | Premium | Nominal Value | Premium |
| | LBP'000 | | | |
| Preferred shares series "2" | 2,500,000 | 35,187,500 | 2,500,000 | 35,187,500 |
| Preferred shares series "3" | 2,500,000 | 35,191,639 | 2,500,000 | 35,191,639 |
| | **5,000,000** | **70,379,139** | **5,000,000** | **70,379,139** |

The Extraordinary General Assembly of the Bank approved in its meeting held on October 28, 2012 the issuance of 250,000 non-cumulative perpetual redeemable series "2" preferred shares with a nominal value of LBP 10,000 each, totaling LBP 2.5 billion and an aggregate premium of LBP 35.2 billion (C/V USD 23.34 million) on the entire issued shares paid in cash by the subscribers in accordance with the terms and conditions specified in the Extraordinary General Assembly indicated above.

The Extraordinary General Assembly approved in its meeting held on October 23, 2014 the issuance of 250,000 non-cumulative perpetual redeemable series "3" preferred shares with a nominal value of LBP 10,000 each, totaling LBP 2.5 billion and an aggregate premium of LBP 35.2 billion (C/V USD 23.34 million) on the entire issued shares to be paid in cash by the subscribers in accordance with the terms and conditions specified in the Extraordinary General Assembly indicated above.

## 26- RESERVES

**This caption consists of the following:**

| | December 31 2016 | December 31 2015 |
|---|---|---|
| | LBP'000 | |
| Legal Reserves (i) | 22,449,419 | 18,846,684 |
| Reserves for general banking risks (ii) | 52,291,679 | 43,936,250 |
| General reserve for performing loans (iii) | 1,969,228 | 1,969,228 |
| Reserves for assets acquired in satisfaction of debts (Note 16) | 1,317,078 | 1,140,426 |
| | **78,027,404** | **65,892,588** |

(i) The legal reserves are constituted in conformity with the requirements of the Lebanese Money and Credit Law on the basis of 10% of net profit. This reserve is not available for distribution.

(ii) The reserves for general banking risks is constituted according to local banking regulations, from net profit, on the basis of a minimum of 2 per mil and a maximum of 3 per mil of the total risk weighted assets, off-balance sheet risk and global exchange position as defined for the computation of the solvency ratio at year-end. This reserve should reach 1.25% of total risk weighted assets, off-balance sheet risk and global exchange position at year 10 and 2% of that amount at year 20. This reserve is constituted in Lebanese Pounds and in foreign currencies in proportion to the composition of the Group's total risk weighted assets and off-balance sheet items. This reserve is not available for distribution.

(iii) In compliance with the basic circular no. 81 issued by the Central Bank of Lebanon, the Group is required to transfer from net profit to general reserve for performing loans the equivalent of:
- 1.5% and 1% of retail loans that are less than 30 days past due (subject to deductions of some guarantees received) to general reserve as of end of the year 2016 and 2015 respectively.
- 1% and 0.5% of performing corporate loans to general reserve as of end of 2016 and 2015 respectively. The Group is exempted from this general reserve if the balance of collective provision exceeds 1% as of end of 2016 and 0.5% as of end of 2015.

## 27- NON-CONTROLLING INTERESTS

**This caption consists of the following:**

| | December 31 2016 | December 31 2015 |
|---|---|---|
| | LBP'000 | |
| Capital | 436,211 | 436,211 |
| Reserves | 26,134 | 21,348 |
| Accumulated profits | 191,745 | 124,434 |
| Funds' Net Asset Value (Note 40) | 142,844,382 | 130,182,571 |
| | **143,498,472** | **130,764,564** |

## 28- INTEREST INCOME

This caption consists of the following:

| | 2016 | 2015 |
|---|---|---|
| | LBP'000 | |
| **Interest income from:** | | |
| Term deposits with Central Bank | 43,339,051 | 39,299,279 |
| Deposits with banks and financial institutions | 6,694,796 | 7,381,863 |
| Financial assets at amortized cost | 157,544,407 | 137,767,218 |
| Loans to banks | 427,843 | 757,536 |
| Loans and advances to customers | 107,115,463 | 101,361,592 |
| Loans and advances to related parties | 936,993 | 969,320 |
| | 316,058,553 | 287,536,808 |

## 29- INTEREST EXPENSE

This caption consists of the following:

| | 2016 | 2015 |
|---|---|---|
| | LBP'000 | |
| **Interest expense on:** | | |
| Deposits and borrowings from banks and financial institutions | 9,076,456 | 9,555,927 |
| Customer's deposits | 228,437,697 | 208,458,383 |
| Related parties' deposits | 6,700,843 | 6,362,596 |
| Interest expense on preferred shares | 1,287,621 | 1,271,869 |
| | 245,502,617 | 225,648,775 |

## 30- FEE AND COMMISSION INCOME

This caption consists of the following:

| | 2016 | 2015 |
|---|---|---|
| | LBP'000 | |
| Commission on documentary credits | 1,386,227 | 2,157,579 |
| Commission on letters of guarantee | 1,793,133 | 2,334,088 |
| Commission on certificates of deposit | 130,116 | 43,242 |
| Service fees on customers' transactions | 11,712,155 | 12,221,809 |
| Brokerage fees | 2,692,950 | 2,892,268 |
| Commission on transactions with banks | 224,444 | 289,417 |
| | 17,939,025 | 19,938,403 |

## 31- FEE AND COMMISSION EXPENSE

**This caption consists of the following:**

| | 2016 | 2015 |
|---|---|---|
| | LBP'000 | |
| Commission on transactions with banks | 2,312,409 | 2,863,467 |
| Commission on private banking transactions | 4,105,684 | 3,240,029 |
| | 6,418,093 | 6,103,496 |

## 32- NET INTEREST AND GAIN OR LOSS ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

**This caption consists of the following:**

| | 2016 | 2015 |
|---|---|---|
| | LBP'000 | |
| Interest income | 48,379,119 | 44,307,135 |
| Unrealized gain (Note 7) | 10,763,863 | 10,645,524 |
| Net realized gain on sold securities | 3,921,986 | 767,088 |
| Dividend income | 2,174,289 | 1,576,201 |
| | 65,239,257 | 57,295,948 |

## 33- OTHER OPERATING INCOME (NET)

**This caption consists of the following:**

| | 2016 | 2015 |
|---|---|---|
| | LBP'000 | |
| Revenue from services provided - A | 8,567,545 | 6,193,820 |
| Gain from disposal of investments at amortized cost (Note 12) - B | 117,292 | 505,254 |
| Commission income on the exchange of investments at amortized cost (Note 12) | 2,890,000 | - |
| Net loss on disposal of assets acquired in satisfaction of loans | (354,278) | (379,134) |
| Net loss on disposal of equipment | (54,695) | (76,288) |
| Direct Write-off of doubtful other assets | (446,503) | - |
| Net foreign exchange gains | 4,315,770 | 4,537,259 |
| Other | 189,286 | 133,451 |
| | 15,224,417 | 10,914,362 |

**A. Revenue from financial services provided by the newly acquired subsidiary Corporate Finance House Limited are broken down as follows:**

| | 2016 | 2015 |
|---|---|---|
| | LBP'000 | |
| Placement and structuring | 7,629,126 | 4,997,362 |
| Management | 742,444 | 956,765 |
| Advisory | 45,225 | 209,543 |
| Brokerage fees | 150,750 | 30,150 |
| | 8,567,545 | 6,193,820 |

**B. Gain from sale and swap of investments at amortized cost are broken down as follows:**

| | Year Ended December 31, 2016 | | | |
|---|---|---|---|---|
| | LBP'000 | | | LBP'000 |
| | Transaction Type | Amortized Cost as of Sale/ Swap Date | Maturity | Gains |
| Corporate bonds | Swap | 30,206,065 | 2016 | 96,611 |
| Lebanese treasury bills | Sale | 3,802,448 | 2016 | 3,989 |
| Lebanese treasury bills | Sale | 4,522,767 | 2017 | 16,692 |
| | | 38,531,280 | | 117,292 |

| | Year Ended December 31, 2015 | | | |
|---|---|---|---|---|
| | LBP'000 | | | LBP'000 |
| | Transaction Type | Amortized Cost as of Sale/ Swap Date | Maturity | Gains |
| Lebanese treasury bills | Swap | 22,558,671 | 2016 | 175,178 |
| Lebanese treasury bills | Swap | 11,441,262 | 2015 | 37,961 |
| Certificates of deposit issued by the Central Bank of Lebanon | Sale | 159,787,954 | 2015 | 292,115 |
| | | 193,787,887 | | 505,254 |

## 34- DEPRECIATION AND AMORTIZATION

**This caption consists of the following:**

| | 2016 | 2015 |
|---|---|---|
| | LBP'000 | |
| Depreciation of property and equipment (Note 17) | 4,515,495 | 4,024,831 |
| Amortization of intangible assets (Note 14) | 143,864 | 209,767 |
| | 4,659,359 | 4,234,598 |

## 35- FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISKS

The guarantees and standby letters of credit and the documentary and commercial letters of credit represent financial instruments with contractual amounts representing credit risk. The guarantees and standby letters of credit represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties and are not different from loans and advances on the balance sheet. However, documentary and commercial letters of credit, which represent written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments documents of goods to which they relate and, therefore, have significantly less risks.

Forward exchange contracts outstanding as of December 31, 2016 and 2015 represent positions held for customers' accounts and at their risk. The Group entered into such instruments to serve the needs of customers, and these contracts are fully hedged by the Group.

## 36- FIDUCIARY DEPOSITS AND ASSETS UNDER MANAGEMENT

**Fiduciary assets are invested as follows:**

| | December 31, 2016 | | |
|---|---|---|---|
| | Resident | Non-Resident | Total |
| | LBP'000 | | |
| Debt and equity securities | 473,277,816 | 74,926,515 | 548,204,331 |
| Deposits with financial institutions | 157,340,022 | 15,553,595 | 172,893,617 |
| | 630,617,838 | 90,480,110 | 721,097,948 |

| | December 31, 2015 | | |
|---|---|---|---|
| | Resident | Non-Resident | Total |
| | LBP'000 | | |
| Debt and equity securities | 459,546,820 | 60,453,091 | 519,999,911 |
| Deposits with financial institutions | 113,179,339 | 10,359,348 | 123,538,687 |
| | 572,726,159 | 70,812,439 | 643,538,598 |

## 37- BALANCES / TRANSACTIONS WITH RELATED PARTIES

**This caption consists of the following:**

| | December 31 2016 | December 31 2015 |
|---|---|---|
| | LBP'000 | |
| **Shareholders, directors and other key management personnel and close family members and related companies:** | | |
| Direct facilities and credit balances: | | |
| - Secured loans and advances | 76,062,078 | 74,211,645 |
| - Unsecured loans and advances | 4,610,413 | 4,662,932 |
| - Deposits | 230,403,235 | 197,670,625 |
| Indirect facilities | 1,853,379 | 1,069,022 |

Interest rates charged on balances outstanding are the same rates that would be charged in an arm's length transaction. Secured loans and advances are covered by pledged deposits of the respective borrowers to the extent of LBP 77 billion (LBP 70 million of December 31, 2015).
In addition, loans and advances were covered by real mortgages to the extent of LBP 4.53 billion

(LBP 3.43 billion as of December 31, 2015). Directors' and senior staff remuneration of the Bank and its subsidiaries amounted to LBP 7.5 billion during 2016 (LBP 7.63 billion during 2015)

## 38- DIVIDENDS PAID

**This caption consists of the following:**

| | December 31 2016 | December 31 2015 |
|---|---|---|
| | LBP'000 | |
| Preferred shares | 5,050,126 | 3,071,528 |
| Ordinary shares | 16,067,700 | 13,795,500 |
| Dividend distributed to First National Dollar Fund and National fixed income fund subscribers | 10,142,915 | 6,029,884 |
| | 31,260,741 | 22,896,912 |

The general assembly of the Bank held on June 7, 2016 approved the dividend distribution of LBP 990 for each common share and USD 6.9 (c/v LBP 10,400) for each preferred share - Series 2 and USD 6.5 (C/V LBP 9,800) for each preferred share - Series 3.

The general assembly of the Bank held on May 29, 2015 approved the dividend distribution of LBP 850 for each common share and USD 6.9 (C/V LBP 10,400) for each preferred share - Series 1 and USD 1.25 (C/V LBP 1,884) for each preferred share - Series 2.

On December 31, 2016 the First National Dollar Fund and the National Fixed Income Fund distributed dividends to its subscribers in the amount of USD 28.9 (CV LBP 43,567) and USD 27.68 (CV LBP 41,728) per share respectively.

On June 30, 2016 the First National Dollar Fund and the National Fixed Income Fund distributed dividends to its subscribers USD 27.77 (CV LBP 41,863) and USD 26.32 (CV LBP 39,671) per share respectively.

The total amount of dividends distributed by the First National Dollar Fund and the National Fixed Income Fund amounted to LBP 10.1 billion during 2016.

During 2015, the First National Dollar Fund and the National Fixed Income Fund distributed dividends to its subscribers in the amount of USD 12.47 (CV LBP 18,799) and USD26.61 (CV LBP 40,110) per share on December 31, 2015 respectively as well as USD 21.39 (CV LBP 32,249) per share on June 30, 2015 totaling an amount of dividends distributed during 2015 of LBP 6 billion.

## 39- CASH AND CASH EQUIVALENTS

**Cash and cash equivalents for the purpose of the statement of cash flows, consist of the following:**

| | December 31 2016 | December 31 2015 |
|---|---|---|
| | LBP'000 | |
| Cash | 34,195,053 | 31,734,311 |
| Current accounts with Central Bank of Lebanon | 24,308,338 | 52,596,989 |
| Time deposits with Central Bank of Lebanon | 318,367,800 | 6,030,000 |
| Current accounts with banks and financial institutions and purchased checks | 88,550,485 | 182,004,717 |
| Time deposits with banks and financial institutions | 94,020,871 | 134,280,117 |
| | 559,442,547 | 406,646,134 |

Time deposits with and from Central Bank of Lebanon and banks and financial institutions included above represent inter-bank placements and borrowings with an original term of 90 days or less.

The following operating, investment and financing activities, which represent non-cash items were excluded from the consolidated statement of cash flows as follows in 2016:

**In 2016:**
(a) Transfer of LBP 3.7 billion from "Loans and advances to customers" to "Assets acquired in satisfaction of debts".

(b) The reclassification of the change in fair value of financial assets at fair value through other comprehensive income in the amount of LBP 2.1 billion for the year ended December 31, 2016 to retained earnings against financial assets at fair value through other comprehensive income in the amount of LBP 1.4 billion and deferred tax asset in the amount of LBP 717 million.

**In 2015:**
(c) Transfer of LBP 2.7 billion from "Loans and advances to customers" to "Assets acquired in satisfaction of debts".

(d) The issuance of preferred shares in the amount of LBP 37.69 billion during 2015 against the deposits blocked for issuance of preferred shares.

(e) The increase of capital in the amount of LBP 1.5 billion during 2015 through the issuance of 150,000 nominative shares of LBP 10,000 each, allocated from the retained earnings of the Bank.

(f) The change in fair value of financial assets at fair value through other comprehensive income in the amount of LBP 808 million for the year ended December 31, 2015 against financial assets at fair value through other comprehensive income in the amount of LBP 951 million and deferred tax asset in the amount of LBP 143 million.

(g) The full redemption of series "1" preferred shares during 2015 that were reflected in the consolidated statement of financial position as at December 31, 2014 under "Treasury preferred shares" pending the completion of the required legal formalities and the approval of the Central Bank of Lebanon.

## 40- MATERIAL PARTLY - OWNED SUBSIDIARY

**The table below shows details of partly owned subsidiaries and mutual fund of the Group that have material non-controlling interests:**

| Name of Subsidiary | Place of Incorporation and Principal Place of Business | % of Ownership | Profit Allocated to Non-Controlling Interests | | Accumulated Non-Controlling Interests | |
|---|---|---|---|---|---|---|
| | | | Year Ended December 31, 2016 | Year Ended December 31, 2015 | Year Ended December 31, 2016 | Year Ended December 31, 2015 |
| | | % | LBP'000 | | | |
| First National Dollar Fund SPC and National Fixed Income Fund SPC | Cayman Islands | 0% | 10,215,994 | 6,001,550 | 142,844,382 | 130,182,571 |

Summarized financial information in respect of the Group's subsidiary that has material non-controlling interests is set out below. The summarized financial information below represent amounts before intragroup eliminations:

**Statement of Financial Position:**

| | Middle East Capital Group Limited | | First National Dollar Fund and National Fixed Income Fund | |
|---|---|---|---|---|
| | December 31, 2016 | December 31, 2015 | December 31, 2016 | December 31, 2015 |
| | LBP'000 | | | |
| Assets | 350,908,228 | 354,918,312 | 152,266,316 | 153,387,293 |
| Liabilities | (147,278,139) | (170,534,157) | (9,421,934) | (23,204,722) |
| Equity | 203,630,089 | 184,384,155 | 142,844,382 | 130,182,571 |

**Statement of Profit or Loss and Other Comprehensive Income:**

| | Middle East Capital Group Limited | | First National Dollar Fund and National Fixed Income Fund | |
|---|---|---|---|---|
| | December 31, 2016 | December 31, 2015 | December 31, 2016 | December 31, 2015 |
| | LBP'000 | | | |
| Net interest income/ (expense) | 902,887 | 1,392,192 | (383,987) | (154,799) |
| Advisory fees | - | - | (1,451,769) | (799,708) |
| Operating and other income/(expenses), net | 1,478,831 | 1,196,847 | (280,615) | (325,865) |
| Net interest and gain or loss on trading assets at fair value through profit or loss | 15,323,644 | 10,071,467 | 12,332,365 | 7,281,922 |
| Income tax expense | (790,054) | (723,558) | - | - |
| **Profit for the period** | **16,915,308** | **11,936,948** | **10,215,994** | **6,001,550** |

## 41- CAPITAL MANAGEMENT

The Group's objectives when managing capital are to comply with the capital requirements set by the Central Bank of Lebanon, the Group's main regulator, to safeguard the Group's ability to continue as a going concern and to maintain a strong capital base.

Risk weighted assets and capital are monitored periodically to assess the quantum of capital available to support growth and optimally deploy capital to achieve targeted returns.

The Central Bank of Lebanon requires each bank or banking group to hold a minimum level of regulatory capital of LBP 10 billion for the head office and LBP 500 million for each local branch and LBP 1.5 billion for each branch abroad. In addition, the bank is required to observe the minimum capital adequacy ratio set by the regulator.

The Group monitors the adequacy of its capital using the methodology and ratios established by Central Bank of Lebanon. These ratios measure capital adequacy by comparing the Group's eligible capital with its balance sheet assets, commitments and contingencies, and notional amount of derivatives at a weighted amount to reflect their relative risk.

**The Group's capital is split as follows:**

**Tier I Capital:**
Comprises share capital after deduction of treasury shares, shareholders' cash contribution to capital, non-cumulative perpetual preferred shares, share premium, reserves from appropriation of profits and retained earnings. Goodwill and cumulative unfavorable change in fair value of financial assets classified through other comprehensive income.

**Tier II Capital:**
Comprises qualifying subordinated liabilities, cumulative favorable change in fair value of financial assets classified through other comprehensive income.

Certain investments in financial and non-financial institutions are ineligible and are deducted from Tier I and Tier II.

Also, various limits are applied to the elements of capital base: Qualifying Tier II capital cannot exceed Tier I capital and qualifying short term subordinated loan capital may not exceed 50% of Tier I capital.

Investments in associates are deducted from Tier I and Tier II capital.

Also, various limits are applied to the elements of capital base: Qualifying Tier II capital cannot exceed Tier I capital and qualifying short term subordinated loan capital may not exceed 50% of Tier I capital.

**The Group's capital adequacy ratio was as follows:**

| | December 31 2016 | December 31 2015 |
|---|---|---|
| | LBP Million | |
| Common equity Tier I | 336,009 | 343,021 |
| Additional Tier I capital | 65,254 | 74,392 |
| **Net Tier I capital** | **401,263** | **417,413** |
| Tier II capital | 101,158 | 22,357 |
| **Total regulatory capital (Tier I + Tier II)** | **502,421** | **439,770** |
| Credit risk | 3,114,376 | 2,900,029 |
| Market risk | 396,328 | 423,186 |
| Operational risk | 194,349 | 202,106 |
| **Risk-weighted assets and risk-weighted off-balance sheet items** | **3,705,053** | **3,525,321** |
| Common equity ratio | 9.07% | 9.73% |
| Tier I ratio | 10.83% | 11.84% |
| **Risk based capital adequacy ratio - Tier I and Tier II capital** | 13.56% | 12.47% |

## 42- FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

**The Group has exposure to the following risks from its use of financial instruments:**

- Credit risk
- Liquidity risk
- Market risk

### A - Credit Risk
Credit risk is the risk of financial loss to the Group if a counterparty to a financial instrument fails to discharge an obligation. Financial assets that are mainly exposed to credit risk are deposits with banks, loans and advances and investment securities. Credit risk also arises from off-balance sheet financial instruments such as letters of credit and letters of guarantee.

Concentration of credit risk arises when a number of counterparties are engaged 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 of credit risk indicate the relative sensitivity of the Group's performance affecting a particular industry or geographical location.

### 1 – Management of credit risk

The Board of Directors has the responsibility to approve the Group's general credit policy as recommended by the Credit Committee. The Credit Committee has the responsibility for the development of the credit function strategy and implementing principles, frameworks, policies and limits.

### 2 – Measurement of credit risk

Policies and principles that the Group follows on loans and advances are included in "Management of Credit Risk" which stipulates the Group's general credit policy.

In measuring credit risk of loans and advances, the Group considers the following:

**A.** Managing credit risk based on the risk profile of the borrower, repayment source and the nature of the underlying collateral given current events and conditions.

**B.** Measuring credit risk through reviewing the following:

- Ability of the counterparty to honor its contractual obligations based on the account's performance, recurring overdues and related reasons, the counterparty's financial position and effect thereto of the economic environment and market conditions;
- Exposure levels of the counterparty and unutilized credit limits granted;
- Exposure levels of the counterparty with other banks;
- Purpose of the credit facilities granted to the counterparty and conformity of utilization by the counterparty.

**In accordance with Central Bank of Lebanon circular No.58 the Group's customers are categorized into six classifications as described below:**

| Classification | Description | |
|---|---|---|
| 1 | Standard monitoring | Indicates that borrowers are able to honor their commitments and there is no reason to doubt their ability to repay principal and interest in full and in a timely manner. Some of the indicators related to this category are: continuous cash inflows, timely submission of financial statements and / or sufficient collateral. |
| 2 | Watch List | Loans and advances rated Watch List are loans that are not impaired but for which the Group determines that they require special monitoring. |
| 3 | Special monitoring | Indicates that borrowers are able to honor their current commitments, although repayment may be adversely affected by specific factors. Such borrowers are subject to special monitoring.<br>Major characteristics of this category are: inadequate loan information such as annual financial statements availability, condition of and control over collateral held is questionable and/or declining profitability. |
| 4 | Substandard | Indicates that borrowers' ability to serve their commitments is in question. In this context, borrowers cannot depend on their normal business revenues to pay back principal and interest, i.e. losses may occur. The main characteristics of this category are severe decline in profitability and in cash inflows. In this case, the Group considers interests and commissions as unrealized but does not establish an allowance for impairment. |
| 5 | Doubtful | Indicates that borrowers cannot honor their commitments in full and on time. Significant losses will be incurred even collateral held is invoked due to payment overdues. The net realizable value of collateral held is insufficient to cover payment of principal and interest. In this case, the Group considers interests and commissions as unrealized and established an allowance for impairment accordingly. |
| 6 | Bad | Indicates that commitments cannot be covered even after taking all possible measures and resorting to necessary legal procedures. Some signals of this category would be inexistence of collateral, low value of collateral and / or, losing contact with the borrower. In this case, the bank considers interests and commissions as unrealized, ceases their accumulation, and provides the whole amount of the exposure's balance. |

If the debtor's default on the loan is temporary, management of the Group identifies and manages to work a plan to reschedule the payments due and/or obtain additional collateral before downgrading the loan to substandard or doubtful.

### 3 - Risk mitigation policies

The Group mainly employs collateral to mitigate credit risk. The principal collateral types for loans and advances are:

- Pledged deposits
- Mortgages over real estate properties (land, commercial and residential properties)
- Bank guarantees
- Business other assets (such as inventories and accounts receivable).

## 4 - Financial assets with credit risk exposure and related concentrations

**Concentration of financial assets and liabilities by geographical area:**

| | December 31, 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Lebanon | Middle East and Africa | North America | Europe | Other | Total |
| | LBP'000 | | | | | |
| **Financial Assets** | | | | | | |
| Cash and deposits with Central Bank of Lebanon | 1,709,306,461 | - | - | - | - | 1,709,306,461 |
| Deposits with banks and financial institutions | 126,572,309 | 13,809,055 | 40,844,294 | 93,418,777 | 23,899,065 | 298,543,500 |
| Trading asset at fair value through profit or loss | 649,755,653 | 3,001,920 | 714,555 | - | - | 653,472,128 |
| Loans to banks | 1,507,869 | - | - | - | - | 1,507,869 |
| Loans and advances to customers | 1,487,910,240 | 21,924,542 | 11,699,105 | 12,342,541 | 9,254,344 | 1,543,130,772 |
| Due from related parties | 515,517 | 5,826,848 | 1,713,070 | 17,333,325 | - | 25,388,760 |
| Financial assets at fair value through other comprehensive income | 11,229,886 | 3,636,268 | 3,768,750 | 10,022,162 | - | 28,657,066 |
| Financial assets at amortized cost | 2,312,771,402 | 3,014,997 | - | - | - | 2,315,786,399 |
| Customers' liability under acceptances | 35,974,316 | 335,488 | - | 869,573 | - | 37,179,377 |
| Other financial assets | 7,792,274 | 665,813 | - | 637,308 | - | 9,095,395 |
| | **6,343,334,632** | **52,214,931** | **58,739,774** | **134,623,686** | **33,153,409** | **6,622,066,432** |
| **Financial Liabilities** | | | | | | |
| Deposits from banks and financial institutions | 163,055,588 | 163,163,306 | - | 143,480,261 | - | 469,699,155 |
| Customers' deposits | 4,381,933,612 | 667,328,081 | 92,378,479 | 239,947,149 | 41,225,336 | 5,422,812,657 |
| Liability under acceptances | 24,934,978 | 1,816,037 | 488,498 | 5,035,413 | 4,904,451 | 37,179,377 |
| Other financial liabilities | 49,838,157 | - | - | - | - | 49,838,157 |
| Cumulative preferred shares | 547,102 | - | - | 22,617,953 | - | 23,165,055 |
| | **4,620,309,437** | **832,307,424** | **92,866,977** | **411,080,776** | **46,129,787** | **6,002,694,401** |

| | December 31, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Lebanon | Middle East and Africa | North America | Europe | Other | Total |
| | LBP'000 | | | | | |
| **Financial Assets** | | | | | | |
| Cash and deposits with Central Bank of Lebanon | 1,161,719,562 | - | - | - | - | 1,161,719,562 |
| Deposits with banks and financial institutions | 228,485,589 | 15,888,223 | 27,089,878 | 198,363,200 | 30,748,212 | 500,575,102 |
| Financial assets at fair value through profit or loss | 732,828,182 | 447,866 | 1,507,500 | - | - | 734,783,548 |
| Loans to banks | 24,706,544 | 1,891,476 | - | - | 3,015,000 | 29,613,020 |
| Loans and advances to customers | 1,362,184,099 | 27,393,241 | 2,540,134 | 8,670,166 | 22,572,667 | 1,423,360,307 |
| Due from related parties | 294,628 | 4,001,003 | - | 450,048 | - | 4,745,679 |
| Financial assets at fair value through other comprehensive income | 1,432,863 | 5,101,242 | - | 4,293,662 | - | 10,827,767 |
| Financial assets at amortized cost | 2,138,173,136 | 3,015,000 | - | 7,537,500 | - | 2,148,725,636 |
| Customers' liability under acceptances | 43,088,652 | 3,550,028 | - | - | - | 46,638,680 |
| Other financial assets | 8,041,765 | - | - | - | - | 8,041,765 |
| | **5,700,955,020** | **61,288,079** | **31,137,512** | **219,314,576** | **56,335,879** | **6,069,031,066** |
| **Financial Liabilities** | | | | | | |
| Deposits from banks and financial institutions | 266,641,752 | 173,424,488 | - | 79,105,676 | - | 519,171,916 |
| Customers' deposits | 4,113,373,260 | 548,915,125 | 69,080,257 | 168,878,339 | 63,763,300 | 4,964,010,281 |
| Liability under acceptances | 12,427,613 | 954,715 | 151,882 | 10,053,520 | 23,050,950 | 46,638,680 |
| Other financial liabilities | 43,822,044 | - | - | - | - | 43,822,044 |
| Cumulative preferred shares | 292,344 | - | - | 22,617,952 | - | 22,910,296 |
| | **4,436,557,013** | **723,294,328** | **69,232,139** | **280,655,487** | **86,814,250** | **5,596,553,217** |

**B – Liquidity Risk**

Liquidity risk is the risk that the Group will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately.

**1- Management of liquidity risk**

Liquidity management involves maintaining ample and diverse funding capacity, liquid assets and other sources of cash to accommodate fluctuations in asset and liability levels. Through ALCO, the Board of Directors is responsible for establishing the liquidity policy which includes:

- Day-to-day funding managed by monitoring future cash flows to ensure that requirements can be met;
- Maintenance of a portfolio of liquid and marketable assets;
- Diversification of funding; and
- Maintenance of adequate contingency plans.

**2- Exposure to liquidity risk**

The Group ensures that its local entities are in compliance with the liquidity limits in Lebanese Pound and foreign currencies as established by the Central Bank of Lebanon.

**The tables below show the Group's financial liabilities segregated by maturity:**

| | Not Subject to Maturity | Up to 3 Months | 3 to 12 Months |
|---|---|---|---|
| **Financial Liabilities** | | | |
| Deposits and borrowings from banks and financial institutions | 42,504,914 | 344,809,070 | 60,314,656 |
| Customer's deposits and credit accounts | 970,696,362 | 3,073,365,889 | 937,765,089 |
| Liability under acceptances | 37,179,377 | - | - |
| Other financial liabilities | 43,203,875 | 1,683,248 | 1,957,443 |
| Cumulative preferred shares | 547,102 | - | - |
| | **1,094,131,630** | **3,419,858,207** | **1,000,037,188** |

| | Not Subject to Maturity | Up to 3 Months | 3 to 12 Months |
|---|---|---|---|
| **Financial Liabilities** | | | |
| Deposits and borrowings from banks and financial institutions | 57,777,440 | 400,235,554 | - |
| Customer's deposits and credit accounts | 922,594,519 | 3,155,694,624 | 782,533,710 |
| Liability under acceptances | 46,638,680 | - | - |
| Other financial liabilities | 36,234,500 | 2,034,025 | 2,248,906 |
| Cumulative preferred shares | 292,344 | - | - |
| | **1,063,537,483** | **3,557,964,203** | **784,782,616** |

| December 31, 2016 | 1 to 3 Years | 3 to 5 Years | Over 5 Years | Total |
|---|---|---|---|---|
| LBP'000 | | | | |
| | 2,745,000 | 2,274,892 | 17,050,623 | 469,699,155 |
| | 438,352,948 | 2,632,369 | - | 5,422,812,657 |
| | - | - | - | 37,179,377 |
| | 2,534,722 | 454,386 | 4,483 | 49,838,157 |
| | 22,617,953 | - | - | 23,165,055 |
| | **466,250,623** | **5,361,647** | **17,055,106** | **6,002,694,401** |

| December 31, 2015 | 1 to 3 Years | 3 to 5 Years | Over 5 Years | Total |
|---|---|---|---|---|
| LBP'000 | | | | |
| | 45,225,000 | 1,970,269 | 13,963,653 | 519,171,916 |
| | 100,813,413 | 2,374,015 | - | 4,964,010,281 |
| | - | - | - | 46,638,680 |
| | 2,853,530 | 445,483 | 5,600 | 43,822,044 |
| | - | 22,617,952 | - | 22,910,296 |
| | **148,891,943** | **27,407,719** | **13,969,253** | **5,596,553,217** |

### C – Market Risks

The market risk is the risk that the fair value or future cash flows of a financial instrument will be affected because of changes in market prices such as interest rate, equity prices, foreign exchange and credit spreads.

### 1. Currency Risk:

The Group carries on exchange risk associated with the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Bank takes preventive measures against this risk on setting up limits on the level of exposure by currency and in total for both overnight and intra-day positions in line with the limits authorized by the regulatory authorities.

Below is the carrying of assets and liabilities segregated by major currencies to reflect the Group's exposure to foreign currency exchange risk at year end.

| | December 31, 2016 | | | | |
|---|---|---|---|---|---|
| | LBP | USD | Euro | Other | Total |
| | LBP'000 | | | | |
| **Assets** | | | | | |
| Cash and deposits with Central Bank of Lebanon | 862,422,422 | 584,688,035 | 260,587,403 | 1,608,601 | 1,709,306,461 |
| Deposits with banks and financial institutions | 8,427,384 | 200,757,565 | 56,331,206 | 33,027,345 | 298,543,500 |
| Financial assets at fair value through profit or loss | 409,076,997 | 242,091,342 | 9,935 | 2,293,854 | 653,472,128 |
| Loans to banks | 1,465,702 | 42,167 | - | - | 1,507,869 |
| Loans and advances to customers | 388,424,578 | 1,107,356,606 | 41,409,260 | 5,940,328 | 1,543,130,772 |
| Due from related parties | - | 21,991,725 | 1,121,494 | 2,275,541 | 25,388,760 |
| Financial assets at fair value through other comprehensive income | 34,168 | 24,274,487 | 4,348,411 | - | 28,657,066 |
| Financial assets at amortized cost | 782,117,220 | 1,501,360,135 | 32,309,044 | - | 2,315,786,399 |
| Customers' liability under acceptances | - | 32,235,875 | 4,943,502 | - | 37,179,377 |
| Investment in and loan to an associate | 241,212 | - | - | - | 241,212 |
| Assets acquired in satisfaction of loans | 7,215 | 6,793,928 | - | - | 6,801,143 |
| Property and equipment | 110,660,469 | 6,242,527 | - | - | 116,902,996 |
| Other assets | 12,208,342 | 8,407,570 | 602,200 | 97,414 | 21,315,526 |
| Goodwill | - | 27,006,068 | - | - | 27,006,068 |
| | **2,575,085,709** | **3,763,248,030** | **401,662,455** | **45,243,083** | **6,785,239,277** |
| **Liabilities** | | | | | |
| Deposits from banks and financial institutions | 44,650,446 | 310,745,113 | 113,636,618 | 666,978 | 469,699,155 |
| Customers' deposits and credit balances | 1,959,159,066 | 2,980,202,746 | 401,320,281 | 82,130,564 | 5,422,812,657 |
| Liability under acceptances | - | 32,235,875 | 4,943,502 | - | 37,179,377 |
| Other liabilities | 153,695,964 | 26,421,879 | 1,288,128 | 711,281 | 182,117,252 |
| Provisions | 10,382,720 | 446,709 | - | - | 10,829,429 |
| Cumulative preferred shares | 1,500,000 | 21,665,055 | - | - | 23,165,055 |
| | **2,169,388,196** | **3,371,717,377** | **521,188,529** | **83,508,823** | **6,145,802,925** |
| Currencies to be delivered | (1,983,283) | (163,201,085) | (7,103,490) | (3,728,100) | (176,015,958) |
| Currencies to be received | - | 12,735,461 | 115,655,258 | 46,404,672 | 174,795,391 |
| | **(1,983,283)** | **(150,465,624)** | **108,551,768** | **42,676,572** | **(1,220,567)** |
| **Net exchange position** | **403,714,230** | **241,065,029** | **(10,974,306)** | **4,410,832** | **638,215,785** |

| | December 31, 2015 | | | | |
|---|---|---|---|---|---|
| | LBP | USD | Euro | Other | Total |
| | LBP'000 | | | | |
| **Assets** | | | | | |
| Cash and deposits with Central Bank of Lebanon | 474,126,488 | 538,593,591 | 144,374,551 | 4,624,932 | 1,161,719,562 |
| Deposits with banks and financial institutions | 12,901,538 | 248,009,928 | 162,845,358 | 76,818,278 | 500,575,102 |
| Financial assets at fair value through profit or loss | 516,561,385 | 217,981,819 | - | 240,344 | 734,783,548 |
| Loans to banks | 1,869,768 | 26,591,075 | - | 1,152,177 | 29,613,020 |
| Loans and advances to customers | 367,749,806 | 1,022,104,939 | 29,111,577 | 4,393,985 | 1,423,360,307 |
| Due from related parties | - | 1,018,981 | 449,865 | 3,276,833 | 4,745,679 |
| Financial assets at fair value through other comprehensive income | 34,168 | 6,443,459 | 4,350,140 | - | 10,827,767 |
| Financial assets at amortized cost | 991,803,706 | 1,123,468,775 | 33,453,155 | - | 2,148,725,636 |
| Customers' liability under acceptances | - | 40,735,780 | 3,470,118 | 2,432,782 | 46,638,680 |
| Investment in and loan to an associate | 241,212 | - | - | - | 241,212 |
| Assets acquired in satisfaction of loans | 7,215 | 4,095,190 | - | - | 4,102,405 |
| Property and equipment | 84,299,687 | 5,755,001 | - | - | 90,054,688 |
| Other assets | 11,804,215 | 17,873,515 | 2,073,230 | 139,325 | 31,890,285 |
| Goodwill | - | 27,006,068 | - | - | 27,006,068 |
| | **2,461,399,188** | **3,279,678,121** | **380,127,994** | **93,078,656** | **6,214,283,959** |
| **Liabilities** | | | | | |
| Deposits from banks and financial institutions | 178,692,124 | 287,922,582 | 50,567,075 | 1,990,135 | 519,171,916 |
| Customers' deposits and credit balances | 1,876,776,162 | 2,648,992,748 | 360,757,860 | 77,483,511 | 4,964,010,281 |
| Liability under acceptances | - | 40,735,780 | 3,470,118 | 2,432,782 | 46,638,680 |
| Other liabilities | 24,064,564 | 27,822,406 | 628,082 | 47,404 | 52,562,456 |
| Provisions | 10,082,330 | 178,306 | - | - | 10,260,636 |
| Cumulative preferred shares | 1,500,000 | 21,410,296 | - | - | 22,910,296 |
| | **2,091,115,180** | **3,027,062,118** | **415,423,135** | **81,953,832** | **5,615,554,265** |
| Currencies to be delivered | (1,211,325) | (52,934,832) | (9,303,516) | (4,786,673) | (68,236,346) |
| Currencies to be received | - | 12,704,958 | 52,878,552 | 3,359,845 | 68,943,355 |
| | **(1,211,325)** | **(40,229,874)** | **43,575,036** | **(1,426,828)** | **707,009** |
| **Net exchange position** | 369,072,683 | 212,386,129 | 8,279,895 | 9,697,996 | 598,436,703 |

## 2. Exposure to Interest Rate Risk:

The Group is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The Group is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities that mature or re-price in a given period. The Group manages this risk by matching the re-pricing of assets and liabilities through risk management strategies regularly reviewed by the asset and liability committee.

**Below is the distribution of financial assets and liabilities by re-pricing time bands:**

| | Not Subject to Interest | Up to 3 Months |
|---|---|---|
| **Financial Assets:** | | |
| Cash and deposits with Central Bank of Lebanon | 189,339,192 | 356,777,620 |
| Deposits with banks and financial institutions | 91,800,516 | 150,359,537 |
| Financial assets at fair value through profit or loss | 81,402,400 | - |
| Loans to banks | 17,570 | 40,299 |
| Loans and advances to customers | 41,446,350 | 964,636,804 |
| Due from related parties | 25,388,760 | - |
| Financial assets at fair value through other comprehensive income | 28,657,066 | - |
| Financial assets at amortized cost | 45,477,963 | 104,912,412 |
| Customers' liability under acceptances | 37,179,377 | - |
| Other financial assets | 9,095,395 | - |
| | **549,804,589** | **1,576,726,672** |
| **Financial Liabilities** | | |
| Deposits and borrowings from banks and financial institutions | 9,804,931 | 377,509,052 |
| Customers' deposits at amortized cost | 101,372,868 | 3,942,689,384 |
| Liability under acceptances | 37,179,377 | - |
| Other financial liabilities | 49,838,157 | - |
| Cumulative preferred shares | 547,102 | - |
| | **198,742,435** | **4,320,198,436** |
| **Net gap position** | **351,062,154** | **(2,743,471,764)** |

| December 31, 2016 | | | | |
|---|---|---|---|---|
| 3 to 12 Months | 1 to 3 Years | 3 to 5 Years | Over 5 Years | Total |
| LBP'000 | | | | |
| | | | | |
| 308,159,250 | 120,600,000 | 258,630,000 | 475,800,399 | 1,709,306,461 |
| 56,383,447 | - | - | - | 298,543,500 |
| 20,582,501 | 18,015,000 | 110,525,300 | 422,946,927 | 653,472,128 |
| - | 450,000 | 1,000,000 | - | 1,507,869 |
| 292,151,921 | 133,270,408 | 43,042,095 | 68,583,194 | 1,543,130,772 |
| - | - | - | - | 25,388,760 |
| - | - | - | - | 28,657,066 |
| 249,297,589 | 287,900,230 | 251,629,895 | 1,376,568,310 | 2,315,786,399 |
| - | - | - | - | 37,179,377 |
| - | - | - | - | 9,095,395 |
| **926,574,708** | **560,235,638** | **664,827,290** | **2,343,898,830** | **6,622,067,727** |
| | | | | |
| 60,314,656 | 2,745,000 | 2,274,892 | 17,050,624 | 469,699,155 |
| 937,765,089 | 438,352,945 | 2,632,371 | - | 5,422,812,657 |
| - | - | - | - | 37,179,377 |
| - | - | - | - | 49,838,157 |
| - | 22,617,953 | - | - | 23,165,055 |
| **998,079,745** | **463,715,898** | **4,907,263** | **17,050,624** | **6,002,694,401** |
| (71,505,037) | 96,519,740 | 659,920,027 | 2,326,848,206 | 619,373,326 |

| | Not Subject to Interest | Up to 3 Months |
|---|---|---|
| **Financial Assets:** | | |
| Cash and deposits with Central Bank of Lebanon | 225,102,695 | 76,059,967 |
| Deposits with banks and financial institutions | 187,121,696 | 213,786,152 |
| Financial assets at fair value through profit or loss | 47,007,807 | - |
| Loans to banks | 165,198 | 4,918,741 |
| Loans and advances to customers | 25,104,966 | 885,172,563 |
| Due from related parties | 4,745,679 | - |
| Financial assets at fair value through other comprehensive income | 10,827,767 | - |
| Financial assets at amortized cost | 33,173,066 | 2,745,000 |
| Customers' liability under acceptances | 46,638,680 | - |
| Other financial assets | 8,041,765 | - |
| | **587,929,319** | **1,182,682,423** |
| **Financial Liabilities** | | |
| Deposits and borrowings from banks and financial institutions | 2,115,165 | 455,875,328 |
| Customers' deposits at amortized cost | 82,494,732 | 3,996,264,634 |
| Liability under acceptances | 46,638,680 | - |
| Other financial liabilities | 43,706,701 | 115,343 |
| Cumulative preferred shares | 292,343 | - |
| | **175,247,621** | **4,452,255,305** |
| **Net gap position** | **412,681,698** | **(3,269,572,882)** |

| | December 31, 2015 | | | | |
|---|---|---|---|---|---|
| | **3 to 12 Months** | **1 to 3 Years** | **3 to 5 Years** | **Over 5 Years** | **Total** |
| | LBP'000 | | | | |
| | | | | | |
| | - | 394,848,000 | 81,405,000 | 384,303,900 | 1,161,719,562 |
| | 72,607,629 | 27,059,625 | - | - | 500,575,102 |
| | - | 23,751,676 | 116,489,039 | 547,535,026 | 734,783,548 |
| | 22,679,081 | - | - | 1,850,000 | 29,613,020 |
| | 289,725,690 | 123,647,908 | 38,947,856 | 60,761,324 | 1,423,360,307 |
| | - | - | - | - | 4,745,679 |
| | - | - | - | - | 10,827,767 |
| | 153,274,877 | 607,236,974 | 227,439,140 | 1,124,856,579 | 2,148,725,636 |
| | - | - | - | - | 46,638,680 |
| | - | - | - | - | 8,041,765 |
| | **538,287,277** | **1,176,544,183** | **464,281,035** | **2,119,306,829** | **6,069,031,066** |
| | | | | | |
| | - | 45,225,000 | 1,992,769 | 13,963,654 | 519,171,916 |
| | 782,070,412 | 100,806,488 | 2,374,015 | - | 4,964,010,281 |
| | - | - | - | - | 46,638,680 |
| | - | - | - | - | 43,822,044 |
| | - | - | 22,617,953 | - | 22,910,296 |
| | **782,070,412** | **146,031,488** | **26,984,737** | **13,963,654** | **5,596,553,217** |
| | (243,783,135) | 1,030,512,695 | 437,296,298 | 2,105,343,175 | 472,477,849 |

## 43- FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The following table shows the fair values of financial assets and financial liabilities recognized in the consolidated financial statements, including their levels in the fair value hierarchy.

It does not include financial assets and financial liabilities which are not measured at fair value and where the directors consider that the carrying amounts of these financial assets and liabilities are reasonable approximations of their fair value due to the short-term maturities of these instruments:

| | Notes | Carrying Amount |
|---|---|---|
| **Financial assets measured at:** | | |
| Fair value through profit or loss | | |
| Quoted equity Securities | 7 | 10,526,270 |
| Unquoted equity securities | 7 | 34,407,278 |
| Lebanese treasury bills | 7 | 181,866,862 |
| Lebanese government bonds | 7 | 69,744,468 |
| Certificates of deposit issued by the Central Bank of Lebanon | 7 | 342,469,286 |
| Corporate bonds | 7 | 3,015,000 |
| | | **642,029,164** |
| Fair value through other comprehensive income | | |
| Quoted equity Securities | 11 | 88,920 |
| Unquoted equity Securities | 11 | 28,568,146 |
| | | **28,657,066** |
| | | |
| **Financial assets measured at amortized cost:** | | |
| Cash and Deposits with Central Bank | 5 | 1,709,305,166 |
| Loans and Advances to Customers | 9 | 1,543,130,772 |
| Lebanese treasury bills | 12 | 565,653,492 |
| Lebanese government bonds | 12 | 759,791,651 |
| Certificates of deposit issued by the Central Bank of Lebanon | 12 | 935,794,412 |
| Corporate Bonds | 12 | 11,817,807 |
| Certificates of deposit issued by local banks | 12 | 9,035,692 |
| | | **5,534,528,992** |
| | | **6,205,215,222** |
| **Financial liabilities measured at amortized cost:** | | |
| Customers' deposits and credit accounts | 20 | 5,422,812,657 |
| Other Liabilities | 21 | 49,838,157 |
| | | **5,472,650,814** |

| | December 31, 2016 | | | |
|---|---|---|---|---|
| | Fair Value | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| | LBP'000 | | | |
| | 10,526,270 | - | - | 10,526,270 |
| | - | - | 34,407,278 | 34,407,278 |
| | - | 181,866,862 | - | 181,866,862 |
| | - | 69,744,468 | - | 69,744,468 |
| | - | 342,469,286 | - | 342,469,286 |
| | - | - | 3,015,000 | 3,015,000 |
| | **10,526,270** | **594,080,616** | **37,422,278** | **642,029,164** |
| | 88,920 | - | - | 88,920 |
| | - | - | 28,568,146 | 28,568,146 |
| | **88,920** | **-** | **28,568,146** | **28,657,066** |
| | - | 1,745,926,446 | - | 1,745,926,446 |
| | - | 1,535,327,136 | - | 1,535,327,136 |
| | - | 576,249,538 | - | 576,249,538 |
| | - | 743,012,226 | - | 743,012,226 |
| | - | 977,345,158 | - | 977,345,158 |
| | 3,376,800 | - | 8,668,125 | 12,044,925 |
| | - | 8,954,550 | - | 8,954,550 |
| | **3,376,800** | **5,586,815,054** | **8,668,125** | **5,598,859,979** |
| | **13,991,990** | **6,180,895,670** | **74,658,549** | **6,269,546,209** |
| | - | 5,055,396,283 | - | 5,055,396,283 |
| | - | - | 49,362,536 | 49,362,536 |
| | **-** | **5,055,396,283** | **49,362,536** | **5,104,758,819** |

| | Notes | Carrying Amount |
|---|---|---|
| **Financial assets measured at:** | | |
| Fair value through profit or loss | | |
| Quoted equity Securities | 7 | 8,678,940 |
| Unquoted equity securities | 7 | 25,129,676 |
| Lebanese treasury bills | 7 | 213,419,787 |
| Lebanese government bonds | 7 | 59,756,008 |
| Certificates of deposit issued by the Central Bank of Lebanon | 7 | 411,584,947 |
| Corporate bonds | 7 | 3,015,000 |
| | | **721,584,358** |
| Fair value through other comprehensive income | | |
| Quoted equity Securities | 11 | 1,555,622 |
| Unquoted equity Securities | 11 | 9,272,145 |
| | | **10,827,767** |
| | | |
| **Financial assets measured at amortized cost:** | | |
| Cash and Deposits with Central Bank | 5 | 1,161,719,562 |
| Loans and Advances to Customers | 9 | 1,423,360,307 |
| Lebanese treasury bills | 12 | 550,396,525 |
| Lebanese government bonds | 12 | 867,702,427 |
| Certificates of deposit issued by the Central Bank of Lebanon | 12 | 668,802,936 |
| Corporate Bonds | 12 | 19,624,780 |
| Certificates of deposit issued by local banks | 12 | 9,025,902 |
| | | **4,700,632,439** |
| | | **5,433,044,564** |
| **Financial liabilities measured at amortized cost:** | | |
| Customers' deposits and credit accounts | 20 | 4,964,010,281 |
| Other Liabilities | 21 | 43,822,044 |
| | | **5,007,832,325** |

| December 31, 2015 | | | |
|---|---|---|---|
| Fair Value | | | |
| Level 1 | Level 2 | Level 3 | Total |
| LBP'000 | | | |
| | | | |
| | | | |
| 8,678,940 | - | - | 8,678,940 |
| - | - | 25,129,676 | 25,129,676 |
| - | 213,419,787 | - | 213,419,787 |
| - | 59,756,008 | - | 59,756,008 |
| - | 411,584,947 | - | 411,584,947 |
| - | - | 3,015,000 | 3,015,000 |
| **8,678,940** | **684,760,742** | **28,144,676** | **721,584,358** |
| | | | |
| 1,555,622 | - | - | 1,555,622 |
| - | - | 9,272,145 | 9,272,145 |
| **1,555,622** | **-** | **9,272,145** | **10,827,767** |
| | | | |
| | | | |
| - | 1,168,794,584 | - | 1,168,794,584 |
| - | 1,411,268,598 | - | 1,411,268,598 |
| - | 563,729,701 | - | 563,729,701 |
| - | 870,311,670 | - | 870,311,670 |
| - | 687,359,481 | - | 687,359,481 |
| 8,021,197 | - | 11,909,250 | 19,930,447 |
| - | 8,999,775 | - | 8,999,775 |
| **8,021,197** | **4,710,463,809** | **11,909,250** | **4,730,394,256** |
| **18,255,759** | **5,395,224,551** | **49,326,071** | **5,462,806,381** |
| | | | |
| - | 4,878,200,683 | | 4,878,200,683 |
| - | - | 43,612,001 | 43,612,001 |
| **-** | **4,878,200,683** | **43,612,001** | **4,921,812,684** |

## VALUATION TECHNIQUES, SIGNIFICANT UNOBSERVABLE INPUTS, AND SENSITIVITY OF THE INPUT TO THE FAIR VALUE

The following table gives information about how the fair values of financial assets and financial liabilities, are determined (Level 2 and Level 3 fair values) and significant unobservable inputs used:

| December 31, 2016 and 2015 | | | |
|---|---|---|---|
| **Financial Assets** | **Date of Valuation** | **Valuation Technique and key Inputs** | **Other Matters** |
| **At fair value through profit or loss:** | | | |
| Lebanese treasury bills | December 31, 2016 and 2015 | DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bonds, adjusted for illiquidity | N/A |
| Lebanese Government bonds | December 31, 2016 and 2015 | Average market price in inactive market | N/A |
| Certificates of deposit issued by the Central Bank of Lebanon in Lebanese Pounds | December 31, 2016 and 2015 | DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bonds, adjusted for illiquidity | N/A |
| Quoted equity securities | December 31, 2016 and 2015 | Quoted prices in an active market | N/A |
| Certificates of deposit issued by the Central Bank of Lebanon in foreign currency | December 31, 2016 and 2015 | Average market price in inactive market | N/A |
| Unquoted equity securities | December 31, 2016 and 2015 | Management estimate based on unobservable input related to market volatility and liquidity | N/A |
| **At fair value through other comprehensive income:** | | | |
| Unquoted equity securities | December 31, 2016 and 2015 | Fair value based on NAV | N/A |
| Quoted equity securities | December 31, 2016 and 2015 | Quoted prices in an active market | N/A |
| **At amortized cost:** | | | |
| Cash and deposits with the Central Bank of Lebanon | December 31, 2016 and 2015 | DCF at a discount rate determined based on the yield curve of Central Bank of Lebanon placements for maturities greater than one year and Libor based interbank rates for maturities less than one year by currency | N/A |
| Loans and advances to customers | December 31, 2016 and 2015 | DCF at a discount rate extrapolated across the maturity spectrum and in line with market rates | N/A |
| Lebanese treasury bills | December 31, 2016 and 2015 | DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bonds, adjusted for illiquidity. | N/A |
| Certificates of deposit issued by the Central Bank of Lebanon in Lebanese Pounds | December 31, 2016 and 2015 | DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bonds, adjusted for illiquidity. | N/A |
| Certificates of deposit issued by the Central Bank of Lebanon in foreign currency | December 31, 2016 and 2015 | Average market price in inactive market | N/A |
| Certificates of deposit issued by local banks | December 31, 2016 and 2015 | Management estimate based on observable input in inactive market | N/A |
| Unquoted corporate bonds | December 31, 2016 and 2015 | Management estimate based on observable input in inactive market | N/A |
| Quoted corporate bonds | December 31, 2016 and 2015 | Quoted prices in an active market | N/A |
| Lebanese Government bonds | December 31, 2016 and 2015 | Average market price in an inactive market | N/A |

| December 31, 2016 and 2015 | | | |
|---|---|---|---|
| **Financial Liabilities** | **Date of Valuation** | **Valuation Technique and key Inputs** | **Other Matters** |
| **At amortized cost:** | | | |
| Deposits and borrowings from banks and financial institutions | December 31, 2016 and 2015 | DCF at a discount rate determined based on the yield curve of Central Bank of Lebanon placements for maturities greater than one year and Libor based interbank rates for maturities less than one year by currency | N/A |
| Customers' deposits and credit accounts | December 31, 2016 and 2015 | DCF based on market rates by currency and maturity bands extrapolated across the maturity spectrum and in line with sectorial rates published by Central Bank of Lebanon. | N/A |
| Other financial liabilities | December 31, 2016 and 2015 | DCF at a discount rate determined based on the maturity spectrum and in line with market rates. | N/A |

There have been no transfers between Level 1, Level 2 and Level 3 during the period.

## 44- APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements for the year ended December 31, 2016 were approved by the Board of Directors in its meeting held on March 8, 2017.

# ADDRESSES

HEAD OFFICE
BRANCHES
LIST OF CORRESPONDENT BANKS
LIST OF FREE-STANDING ATMS

# HEAD OFFICE

## FIRST NATIONAL BANK S.A.L.

Beirut Central District, Allenby Street, Bldg. Mar-
faa 147
Postal Code 2012 6004
P.O.Box: 11 - 435, Riad El Solh / 113-5453 Beirut
P.O.Box: 16-5192 Achrafieh, Beirut - Lebanon
Tel: (961-1) 963000 - 977040
Call Center: 1244
Fax: (961-1) 973090
Swift: FINKLBBE
Telex no. 48627 FNBB
Website: www.fnb.com.lb
E-mail: fnb@fnb.com.lb

# BRANCHES

### MAIN BRANCH- ALLENBY
Beirut Central District, Allenby Street, Marfaa 147 Bldg.
Tel: (01) 963000 - (01) 977040
Fax: (01) 973036
Branch Manager: Ms. Nadine A. Zaher

### ACHRAFIEH
Sassine Square, Michel Sassine Bldg.
Tel: (01) 200452-3-4
Fax: (01) 200455
Branch Manager: Mr. Eric P. Vasdekis

### ALEY
Bakaa Street, Riyad Fakih Center
Tel: (05) 556020-1-3
Fax: (05) 556022
Acting Branch Manager: Mr. Rami K. Abdel Malak

### ANTELIAS
Internal Main Road, Hage Center
Tel: (04) 419323-4-6-8
Fax: (04) 419327
Branch Manager: Ms. Aline A. Ayoub

### BAALBECK
Main Road, Douress Exit, Lakkis Bldg.
Tel: (08) 378701-2-3-4
Fax: (08) 378705
Branch Manager: Mr. Mohamad S. Shreif

### CHOUEIFAT
Old Saida Road (Deir Koubel Exit), Ismail Haidar Bldg.
Tel: (05) 433720-1-2
Fax: (05) 433723
Branch Manager: Mr. Fouad H. Hamadeh

### GHAZIR
Main Road, Kfarhabab, Zone Jaune
Tel: (09) 856271-3-4-5
Fax: (09) 856279
Branch Manager: Ms. Maya N. Nasr

### HALBA
AL Saha, Masoud Center
Tel: (06) 693661-2-7
Fax: (06) 693665
Branch Manager: Mr. Abed S. Chami

### HAMRA
Hamra Street, Immobilia Bldg.
Tel: (01) 738502-3 - (01) 738499 - (01) 340440 - (01) 354799
Fax: (01) 749894
Branch Manager: Ms. Rola S. Zaghloul

### HARET HREIK
Hadi Nasrallah Road, Abou Taam Bldg.
Tel: (01) 548222- (01) 548333 - (01) 548444
Fax: (01) 276516
Acting Branch Manager: Mr. Fadi A. Cheaib

### HAZMIEH
Main Road, Chami Bldg.
Tel: (05) 455673-4-6-7
Fax: (05) 457838
Branch Manager: Mr. Jean G. Chehadeh

### HORCH TABET
General Chehab Street, Sin el Fil, ESLA Center
Tel: (01) 495710-1-2
Fax: (01) 495713
Branch Manager: Vacant

### JAL EL DIB
Abouna Hanna Street, Mallah-Yammine Center
Tel: (04) 725882-3-4
Fax: (04) 725881
Branch Manager: Mr. Elie E. Al Asmar

### JDEIDEH
La Sagesse Street, FNB premises
Tel: (01) 870151 - (01) 870164 - (01) 894007
Fax: (01) 898007
Branch Manager: Ms. Nathalie V. Saloumi

### JDEITA
Main Road, Naim Nassar Bldg.
Tel: (08) 542200-1-2-3-4
Fax: (08) 542205
Branch Manager: Mr. Mohamad H. Chokr

### JNAH – MARRIOTT
Internal Main Road, Golden Tulip Galleria Hotel
Tel: (01) 858310-1-3
Fax: (01) 858312
Branch Manager: Mr. Hussein G. Fakhreddine

### JOUNIEH
Fouad Chehab Street (Serail), Al Turk Bldg.
Tel: (09) 645001-2-5
Fax: (09) 645003
Branch Manager: Mr. Tanios E. Aoun

### MAIS AL JABAL
Main Road, Blida, Hicham Attieh Haydoura Bldg.
Tel: (07) 865800-1-3 - (03) 399334
Fax: (07) 865802

### MAZRAA
Main Road, Khaled Al Ashi Bldg.
Tel: (01) 314339 - (01) 314340 - (01) 305219 - (01) 305220
Fax: (01) 302527
Branch Manager: Ms. Rania M. Qubaa

### MAZRAAT YACHOUH
Main Road, Elissar, Irani Bldg.
Tel: (04) 928560-1-2-3
Fax: (04) 928570
Branch Manager: Ms. Nada A. Kanj

### NABATIEH
Main Road, Habboush, Haidar Center
Tel: (07) 531980-1-2
Fax: (07) 531983
Branch Manager: Mr. Hassan I. Ghosn

### SAIDA
Jezzine Street, Deckerman Area, Golden Tower Bldg.
Tel: (07) 727701-2-3
Fax: (07) 727704
Branch Manager: Mr. Ghassan R. Abou Zahr

### TARIK JDIDEH – SABRA
Main Road, Sabra Street, Ajlan & Zein Bldg.
Tel: (01) 843801-2-3
Fax: (01) 843804
Branch Manager: Ms. Loma S. Zarief

### TRIPOLI
Jimayzat Street, Sahat El Nour,
Moujamaa Tripoli Bldg.
Tel: (06) 432974 - (06) 434974 - (06) 447539
Fax: (06) 431713
Branch Manager: Mr. Ahmad Saoud A. Hajar

### TYRE
Main Road, Al abbassiah, Jal al Bahr, Commercial Center
Tel: (07) 351081-2
Fax: (07) 351086
Branch Manager: Mr. Ali Y. Khochen

### VERDUN
Rachid Karami Street , Omar Saab Bldg.
Tel: (01) 355901-2-3
Fax: (01) 355904
Branch Manager: Mr. Wajih S. Akkari

### ZOUK MOSBEH
Main Road , Jeita Exit
Tel: (09) 225534-6-7-8
Fax: (09) 225539
Branch Manager: Mr. Elie H. Khalil

# LIST OF CORRESPONDENT BANKS

| Town | Institution | |
|---|---|---|
| Amman | Cairo Amman Bank | |
| Barcelona | CaixaBank SA | |
| Beirut | Banque Du Liban | |
| Beijing | Bank of China Limited | Industrial and Commercial Bank of China Limited |
| Brussels | ING Bank SA/NV | KBC Bank NV |
| Colombo | People's Bank | |
| Copenhagen | Danske Bank A/S | |
| Doha | Qatar National Bank SAQ | |
| Dubai City | Emirates NBD PJSC | MashreqBank PSC |
| Frankfurt am Main | Commerzbank AG | Deutsche Bank AG |
| Istanbul | Akbank TAS | |
| Kuwait City | Gulf Bank KSC | National Bank of Kuwait SAKP |
| London | Barclays Bank PLC | |
| Manama | Arab Banking Corporation BSC | |
| Milan | Intesa Sanpaolo SPA | UniCredit SPA |
| Montreal | Bank of Montreal | |
| New York | The Bank of New York Mellon | Standard Chartered Bank |
| Oslo | DNB Bank ASA | |
| Paris | El Khaliji Bank SA | Union de Banques Arabes et Francais – UBAF |
| Riyadh | Alawwal Bank | Riyadh Bank |
| Rome | Banca UBAE SPA | |
| Sabadell | Banco de Sabadell SA | |
| Sharjah | Investbank PSC | |
| Stockholm | Skandinaviska EnskildaBanken AB (Publ) | |
| Sydney | Westpac Banking Corporation | |
| Tokyo | The Bank of New York Mellon | |
| Vienna | UniCredit Bank Austria AG | |
| Zurich | Credit Suisse AG | UBS AG |

# LIST OF FREE-STANDING ATMS

| ATM | Address |
|---|---|
| Beirut | Adlieh, Surete Generale premises |
| Beirut | Gemmayzeh, Electricite du Liban premises (EDL) |
| Beirut | Hamra, Clemenceau street, Weavers center (CFC) |
| Beirut | Hamra, Makdessi street |
| Beirut | Museum, Surete Generale premises |
| Beirut | Sodeco,Surete Generale premises |
| Bekaa | Baalbeck, Rayyan Hospital |
| Bekaa | Rayyak, Rayyak Hospital, main entrance |
| Mount Lebanon | Dekwaneh, Nasr Market, Slave Street, Hagop Kichichian Bldg. |
| Mount Lebanon | Ghineh, Municipality Premises |
| Mount Lebanon | Mkalles, OTV premises |
| Mount Lebanon | Roumieh, Daher El Bachek Hospital |
| Mount Lebanon | Zouk Mosbeh, Electricity plant, Administration Bldg. |
| North Lebanon | Kadisha, Electricite du Liban premises |
| South Lebanon | Saida, OUJ Market,Lebanese University Street |
| South Lebanon | Tyre, Army Coop |