Creditbank S.A.L.

# ANNUAL REPORT **2017**

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# CHAIRMAN'S LETTER

Despite operating in an increasingly difficult environment, Creditbank, as in previous years, managed to book a positive result by the end of 2017. Thanks to the Bank's robust business structure, emphasis on customer centricity, and balanced growth, we saw assets and deposits expand by 8.9 percent and 6.4 percent respectively. These figures, however, should not close our eyes on the challenges we have been facing both on the domestic front and internationally.

The foundation of a nation is set by the public and private sectors harmoniously working in tandem. The public sector must be firmly institutionalized and have a clear vision to be able to set the rules and regulations for society to abide by. It is only within such boundaries that private enterprise can flourish.

In Lebanon, the absence of a strong government in combination with a lack of transparency and accountability continue to prevent the country from reaching its full potential.

We hope the 2018 parliamentary elections will spur positive change that would translate into strengthened state institutions, greater tackling of corruption, and the formulation of a strategic plan for the future ahead, especially with an eye on the offshore hydrocarbon reserves, which have remained untapped for far too long.

As one of the main pillars of the Lebanese economy, the financial sector depends on trust and stability to thrive. In this respect, we have witnessed, by the end of last year, how political uncertainty can translate into negative economic consequences, such as pressure on the Lebanese pound. Lebanese banks were forced to raise interest rates in order to prevent clients from switching their accounts in Lebanese pounds to the US dollar or even abroad.

From a regional perspective, the Lebanese economy continues to suffer from the state of strife that holds large parts of the Middle East in its grip. The trade and tourism sectors in particular remain subdued mainly due to the ongoing conflict in Syria, which now in its 7th year has caused unspeakable misery.

From an international perspective, the financial sector as a whole is obliged to comply with an ever more complex regulatory system, noting that Creditbank has already complied with all rules and regulations regarding money laundering and terrorism financing, as well as capital requirements as set by Basel III and the Central Bank of Lebanon.

We must also keep a critical eye on the emerging trend of non-financial actors offering services traditionally provided only by banks, and in particular the cryptocurrency phenomenon which can either gravely disrupt the global financial system as we know it, or alternatively positively revolutionize our approach to trading and currency.



All of the above-mentioned developments are both a challenge and an opportunity. On the one hand, they affect the Bank's operational cost and profitability. On the other, they force us to stay innovative in order to maintain our competitive edge. It is with the latter in mind that I have the utmost confidence that Creditbank will continue to excel and prosper in the years to come.

With sound management and a forward-thinking workforce, Creditbank has always been a frontrunner in terms of technological innovation. We have remained dedicated to our belief that a bank should primarily function as a catalyzer for market growth and private enterprise, which is illustrated by our high loans-to-deposits ratio and strong presence in the SME market segment.

Thanks to such firm business foundations and core values, I am positive we will maintain the level of organic growth that in 2013 propelled us to Alpha Bank status.

The ultimate key to our continuous success, however, remains our concept of customer centricity. It is always with the customer in mind that we have launched new products and services, introduced the latest state-of-the-art solutions, and will be fundamentally reshaping the banking experience. Serving as a pilot project that seeks to combine digital and traditional banking under one roof, in a setting that transcends the conventional and breaks barriers, a first "hybrid branch" offering fully automated banking solutions and the latest technologies will soon be unveiled.

Finally, we remain dedicated to the highest standards of business integrity, transparency and customer protection, and perceive it our duty as a good corporate citizen to conclude long-term CSR partnerships in the communities we operate in.

I would like to thank our staff for their professionalism and dedication, and all our clients for their loyalty and trust.

Despite the challenging environment we have faced in recent times, I look at the years ahead with greater conviction and even greater expectations.

**Tarek Khalifé**
Chairman - General Manager

# GENERAL PROFILE

Creditbank is one of Lebanon's leading and fastest growing banks. With an extensive branch network spread across the country, the Bank was awarded Lebanon's prestigious Alpha Bank status in 2013 when deposits broke the USD 2 billion benchmark. By the end of 2017, 15 of Lebanon's 49 commercial banks were regarded Alpha Banks.

Creditbank was first established in 1981 as "Crédit Bancaire" by Joseph Khalifé and Fouad Zoghby. Despite the climate of political turmoil facing Lebanon at the time, the Bank's founders had a strong belief in the Lebanese financial sector's strength and ability to regain its position as the region's main banking hub.

A strong commitment to a policy of natural growth in 2002 led to the Bank's acquisition of French bank Credit Lyonnais s.a.l., which triggered the name change from "Crédit Bancaire" to Creditbank s.a.l.
Ever since, the Bank has continued to expand.

Internationally, Creditbank in 2013 finalized the full acquisition of Anelik RU LLC in Russia and ID Bank CJSC (previously Anelik Bank CJSC) in Armenia.

In October 2016, Creditbank, then sole shareholder of ID Bank CJSC, realized an increase in equity of the latter, by opening up the capital. Consequently, Creditbank landed with a participation in ID Bank CJSC of 40.3% of the new capital. Accordingly, Creditbank deconsolidated ID Bank CJSC from its financial statements.

In line with Creditbank's corporate strategy, set and endorsed a few years ago, consisting in phasing out its presence in the Russian market by gradually decreasing the activity of its Russian subsidiary Anelik RU, with a view to selling it or winding it up. On August 9, 2017, Anelik RU ceased its activity.

With an eye on the strategic decision to consolidate its domestic market share, the Bank has furthermore taken steps to enlarge its shareholders' base by positioning itself for growth through acquisition.

Domestically, Creditbank's network currently includes 25 branches spread across Lebanon, with a workforce of 617.

In 2017 with a shareholders' equity of USD 398 million, Creditbank saw assets and deposits grow by 8.9% and 6.4% respectively, whilst the average 2017 growth rate among Alpha Banks amounted to 6.1% for assets and 3% for deposits.

Strongly committed to its core philosophy that a bank's primary role within the economy is to function as a market catalyzer, Creditbank's loans-to-deposits ratio in 2017 stood at 56.9%, one of Lebanon's highest ratios. Around 75.8% of loans is being extended to commercial enterprises and entrepreneurs.

The Bank's main fields of expertise include all traditional and emerging banking operations, including Retail and Commercial Banking and Specialized Finance. The Bank moreover is highly recognized for its specialized consultancy and advisory services.

Ever since its foundation, Creditbank has made it a priority to introduce the latest state-of-the-art technologies in its products and services, and offer tailor-made retail solutions to elevate customer satisfaction.

Years of solid growth aided by an overhaul of its corporate identity have enabled Creditbank to position itself more distinctly within Lebanon's highly mature and competitive banking and financial sector.

At its core lies the concept of customer centricity, Creditbank's revamped corporate identity is built upon two main pillars: first, the ability to interact and understand people's needs on an equal footing, second, the aptitude to act in a professional manner with the prime objective to establish long-term partnerships.

To reinforce its new brand identity, Creditbank has furthermore completed the rejuvenation of its branch network. The revolutionary new interior design and workflow model was first introduced in 2014. The Bank's new generation branches maintain a perfect harmony between customer comfort and technological innovation.

The fully digitalized waiting lounge and intelligent queuing system produce a pleasant and seemingly effortless banking experience, while the one-on-one service pods offer a superior level of privacy, comfort and efficiency. In tandem, the Bank's customers are able to carry out 75% of their daily transactions through the Bank's 24/7 smart ATMs.

Finally, Creditbank is firmly committed to the highest standards of transparency, business ethics and customer protection, as illustrated by its corporate governance framework, while it continues to pursue a consistent policy of Corporate Social Responsibility, particularly in the field of youth, health and education.

# CORPORATE GOVERNANCE

BOARD OF DIRECTORS

## MR. TAREK JOSEPH KHALIFÉ

CHAIRMAN AND GENERAL MANAGER

Holding a bachelor's degree in Civil Engineering and a master's degree in Business Administration, Mr. Khalifé is the Bank's major shareholder. He was elected Managing Director in 1994, before becoming Chairman and General Manager in 2004. Mr. Khalifé furthermore heads the Board Committee on Corporate Governance, the Executive & Investment Committee and several managerial committees.

## MR. FADI BARBAR

BOARD MEMBER

Mr. Barbar is a non-executive Board Member representing Financial Profile Holding s.a.l. With a degree in Business Administration, he owns a series of business interests in Africa and real estate projects in Lebanon. Mr. Barbar also represents Financial Profile Holding s.a.l at the Bank's Board Committees on Audit and on Remuneration.

## MRS. MARIA KHALIFÉ-BAZERJI

BOARD MEMBER

Mrs. Bazerji is an executive Board Member and the Bank's Deputy General Manager in charge of Administration. Holding a master's degree in Business Administration, Mrs. Bazerji is furthermore a member of the Bank's Board Committee on Risk Management and several management committees, including the Executive and Investment Committee.

## H.E. MR. DIMYANOS KATTAR

INDEPENDENT BOARD MEMBER

Mr. Kattar is a non-executive independent Board Member who joined the Board in 2007. He presides over the Board Committee on Audit and is a member of the Board Committee on Remuneration and the Board Committee on Corporate Governance. A former Lebanese Minister of Finance and Economy who studied Management and Strategy, as well as Political Economics, he has worked in both the business environment and the academic arena. Mr. Kattar has a wide experience in the field of corporate and public governance.

## DR. HENRI CHAOUL

INDEPENDENT BOARD MEMBER

Dr. Chaoul is a non-executive independent Board Member who joined the Bank in 2011. Dr. Chaoul is a member of the Board Committees on Audit and Corporate Governance and presides over the Board Committee on Risk Management and the Board Committee on Remuneration. He has a PhD in Economics and has most recently occupied the position of Chief Investment Officer in Al Khabeer Capital (KSA). Through his different tenures in several financial companies located in Europe, North America and the Middle East, Dr. Chaoul gained wide experience in investment banking, private equity, merger and acquisition analysis, corporate and business unit strategy, economic analysis and financial consulting.

## MR. ALBERT LETAYF

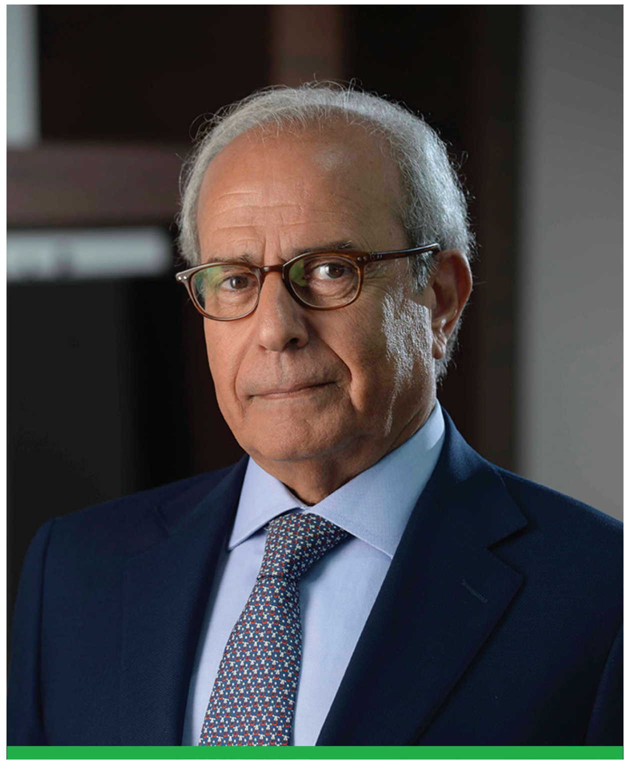
INDEPENDENT BOARD MEMBER

Mr. Letayf is a non-executive independent Board Member who joined the Bank in 2018 and presides over the Board Committee on AML/CFT. He holds a Master of Science's degree in Management from HEC School Of Management, Paris (now HEC Paris) and is the founder and Chief Executive Officer of "Primecorp Invest", a company based in Beirut specialized in offering corporate finance advisory services to local and international corporations. Through his different positions in several banks and investment companies in France and Lebanon, Mr. Letayf gained wide experience in AML/CFT, investment banking and financial consulting.

## PAUL HARB Esq.

BOARD MEMBER

Representing Holfiban s.a.l Holding, Me. Harb holds an LLB in Private Law and a master's degree in Advanced Private Law studies. A senior partner at the Abirached Harb Moussa law firm since 2012, he has long been a member of the Beirut Bar Association. Me. Harb joined Creditbank as head of the Legal Department in 2003. Today, he is the Bank's General Counsel, Secretary of the Board of Directors, Secretary of the Board Committees on Corporate Governance and Remuneration, and a member of the Executive and Investment Committee.



## RENÉ ABIRACHED Esq.

SECRETARY OF THE BOARD

Holding a Lebanese and French master's degree in law, Me. Abirached is Secretary of the Creditbank Board of Directors. He is also the secretary of the Bank's Board Committee on Audit and has been the Bank's legal advisor since 1987. A senior partner at the Abirached Harb Moussa law firm and a member of the Beirut Bar Association, Me. Abirached is "Chargé d'enseignement" of Criminal Law and International Private Law at Saint Joseph University and a member of both the International Arbitration Center in Lebanon and the International Penal Law Association.

## MAROUN ZEIN Esq.

SECRETARY OF THE BOARD

Me. Zein is Secretary of the Creditbank Board of Directors. Holding a law degree from Saint Joseph University, he has been a member of the Beirut Bar Association since 1962 and the Bank's legal advisor since 1985. Me. Zein is a founding senior partner in Zein Law Firm, which is specialized in legal banking matters.

Ever since its establishment, Creditbank has been firmly committed to the highest standards of corporate governance as the basis for sound and sustainable growth and the ultimate benchmark to meet the demands of all stakeholders involved.

Corporate governance refers to the cohesive system of rules, regulations, best industry practices and internal checks and balances by which a company is run and as such ensures transparency and accountability. Touching every sphere of management, it also provides the framework for the Bank to achieve its strategic objectives.

The main guiding principles of Creditbank's Corporate Governance Code are:

- Responsibility – a clear division and delegation of authority.
- Accountability – in the relations between the Bank's management and the Board of Directors (the Board) and between the Board and all stakeholders.
- Transparency and disclosure – to enable stakeholders to constantly assess the Bank's financial performance.
- Fairness – in the treatment of all stakeholders.

Regarding the Bank's internal organization, the Board is ultimately responsible for all of the Bank's operations and financial health.

It approves the Bank's strategic goals and offers guidance and effective oversight for senior management to make sure that the Bank is properly directed within the framework of all applicable internal and external rules and regulations.

The Board furthermore continuously examines if the Bank's internal control mechanisms are effective and up to date.

The Board consists of eight members, including executive, non-executive and independent members who are elected for a period of three years by the General Assembly of shareholders.

It is common policy to appoint at least three independent members to ensure an element of impartiality in the boardroom. Currently, the Board includes three independent members. The Board Secretary keeps a permanent written record of the board meetings, which take place regularly and at least eight times a year.

The Board, among other tasks, formulates the Bank's main objectives and the plan to achieve them. It establishes temporary and permanent management committees, draws up the branch expansion plan, as well as the strategy regarding placements, investments, participations and expenditures.

The Board elects the Bank's Chairman from among its members for a maximum period of three years. The Chairman enables a constructive dialogue between the Board and the Bank's management, and exercises as per applicable laws the function of General Manager.

The Board ensures a clear separation of executive powers and approves the appointment of every senior executive within the Bank, which includes the heads of divisions and departments, as well as the heads of Internal Audit and Compliance.



The Bank's management committees include:

- Executive and Investment Committee
- Asset Liability Committee (ALCO)
- Credit Committee
- Internal Control Committee
- Classification, Provisioning, and Non-Performing Loans Committee
- IT and Organization Committee
- Network Committee
- Retail Products and Services Committee
- Procurement Committee
- Human Resources Committee
- Security Committee
- Anti-Money Laundering / Counter Financing Terrorism Committee
- Committee on Operational Risk Management
- Follow up Committee for Subsidiaries Abroad

The Board is ultimately responsible for formulating the Bank's strategy and observing its implementation, especially with an eye on risk appetite and policies, budget, compliance and internal procedures.

To streamline the decision making process and add efficiency to its supervising role, the Board has established five Board Committees: Board Committee on Audit, Board Committee on Risk Management, Board Committee on Remuneration, Board Committee on Corporate Governance, and Anti-Money Laundering and Counter Financing Terrorism Board Committee.

There is a formal and transparent process for all appointments to the Board committees, each of which has full access to all members of the Bank's management. In accordance with the regulations of the Lebanese Central Bank and Banking Control Commission, the Board Committee on Audit consists of three members. It reports to the Board on, among other things, the annual financial results and all accounting judgements intrinsic to every financial statement prior to publication. It furthermore examines the efficiency of the financial criteria used and the adequacy of the Bank's internal and external control mechanisms.

The Board Committee on Risk Management reviews and approves the Bank's internal risk management strategies on a regular basis. Senior management is responsible for implementing the strategies and policies approved by the Board.

In accordance with BDL Basic Circular No 133 related to remunerations and bonuses granted to bank employees, the Board has established a Board Committee on Remuneration composed of three board members responsible for formulating a sound remuneration policy and supervising its implementation in accordance with BDL guidelines. It also drafts the Performance Appraisal System, which it submits to the Board for approval.

Consisting of four members, the Board Committee on Corporate Governance supervises the Bank's commitment to good corporate governance as laid down in the following guidelines: Corporate Governance Code, Corporate Governance Guidelines, Terms of Reference for the Board of Directors and Code of Ethics and Business Conduct.

The Board established an AML/CFT Board Committee in accordance with the BDL Basic Decision No 7818 on "the Regulations on the Control of Financial and Banking Operations for Fighting Money Laundering and Terrorist Financing (AML/CFT)". The main responsibility of said committee consists in supporting the Board in its functions and supervisory role with respect to fighting Money Laundering and Terrorism Financing and assisting it in making the appropriate decisions. This committee is composed of three board members including an independent member who chairs it.

Creditbank closely monitors the rapid evolution of corporate governance and best banking practices around the globe, as it aims to continuously update and upgrade its corporate framework and decision making process in order to deliver the best possible outcome for all internal and external stakeholders involved.

# CORPORATE SOCIAL RESPONSIBILITY

Ever since Creditbank's establishment, corporate social responsibility has been a major pillar of our business strategy. We strongly believe it is our duty as a good corporate citizen to take up a proactive role in society and make a positive contribution to the communities we are part of.

Our aim is to cement long term partnerships in order to produce a lasting impact and as such be a force for constructive change particularly in the domain of youth, health, education, nature and environment. In 2017, we continued to be engaged with a wide range of existing affiliations and embraced a number of promising new initiatives.

We renewed our cooperation with the Institut de Reeducation Audio-Phoenetique (IRAP) for a third consecutive year. Founded in 1960, IRAP is a specialized center for the education of deaf children and adolescents. A multidisciplinary team offers schooling from the earliest stages to the academic Brevet level to some 90 hearing impaired children.

Following our support for a brand new kitchen, which was inaugurated in 2016, we visited IRAP multiple times in 2017 to interact with both students and management. Having thoroughly studied the institute's most pressing needs, we agreed to construct a three-story building.

The new structure will bring all activities related to IRAP's pastry making capacity under one roof in order to improve efficiency and enhance health and safety standards. Construction will start in 2018.

We furthermore prolonged our collaboration with the Lebanon Mountain Trail Association (LMTA) for a second consecutive year. Since 2007, the LMTA has been working on developing and protecting Lebanon's first long distance hiking trail to promote socially responsible tourism, which aims to attract visitors while protecting natural habitats and cultural heritage.

We took part in several LMTA activities, most notably the annual "Thru Walk", which sees two teams of hikers cover the 470 km trail in opposite directions in a period of 30 days. Ultimate aim is to raise awareness about the value and importance of Lebanon's mountains and resources and enhance appreciation for the country's natural beauty.

Under the slogan "Walk for Our Mountains" over 230 people from 21 countries participated. Our team took part in several sectional hikes. In addition, we sponsored the annual fundraising dinner, which last year celebrated the LMTA's 10-year anniversary and highlighted the many culinary traditions of the mountain villages connected by the trail.

In 2017, we also struck a fresh partnership with The American Society of Civil Engineering (ASCE) at the American University of Beirut (AUB). The ASCE aims to enrich the life of engineering students and strengthen the bonds between students, staff and alumni by organizing a scope of events and activities.

We aided ASCE in organizing its annual summer volunteering camp, which offers students an opportunity to gain experience during their holiday by doing community service. This resulted in the rehabilitation of a series of public spaces in and around the city of Batroun.

The AUB students, among other things, built a wall and renovated changing rooms in the town of Jran, worked on a public garden in El Heri, renovated a basketball court in Kfarhay, and constructed sidewalks and planted trees in Kfour Al Arabi.

We moreover joined hands for a second consecutive year with Beyt el Kottab (BeK) better known in English as the International Writers House. Founded in 2012, BeK aims to support and promote Arab literature and literary creation exploring the most pressing social issues of our time.

It does so by offering Arab writers residencies in Beirut and abroad, translating and publishing literary texts, as well as organizing literary festivals, public readings and exhibitions.

In May 2017, we contributed to BeK's "Save Beirut Heritage" event, which consisted of a series of public talks, debates, workshops, site visits, art performances and street fairs. The aim was to raise awareness of Beirut's cultural heritage and to recognize the city's inhabitants as participants in the process of urban renewal with an undeniable right to be heard.

Last but not least, we continued our support of the GNK Traffic Academy in Kfarhazir, which seeks to instill ethics and rules of safe driving in generations of 6 to 18-year-old Lebanese children and adolescents by educating them about in-car and pedestrian safety through an accredited, integrated and interactive E-learning and simulator based curriculum.

The steps involved in the curriculum are: theoretical (lecture room), interactive (simulator room), practical (traffic garden) and knowledge-based (computer room).

We have been committed to the establishment and progress of the GNK Traffic Academy ever since 2013, as we strongly believe in the importance of teaching road safety and responsible driving.

We were involved in the various stages of creating the Academy's traffic garden and donated a Biro car, which visitors can use for test drives. Last year, our team organized several events and school visits to promote awareness of the GNK Traffic Academy and its objectives.

2017 saw Creditbank continue to play its part as an agent for change by consolidating and extending existing partnerships as well as endorse new and additional schemes. No doubt, we will continue to actively promote an agenda of social change.

# ECONOMIC OVERVIEW

Due to a region in turmoil and a flare of domestic uncertainty by the end of last year, the Lebanese economy in 2017 produced a rather lackluster performance. The banking sector, however, still recorded good results and there were other positives, including the Lebanese Central Bank (BDL) launching a renewed $500 million stimulus package and parliament passing a government budget for the first time in over a decade.

According to the BDL, real GDP growth in 2017 amounted to 2.5%, while the International Monetary Fund estimated growth to reach 2.2%. Both projections are in line with the annual average growth rate since 2011 and remain a far cry from the 8% growth recorded between 2006 and 2010.

Regionally, the GCC standoff with Qatar, the war in Yemen, the uncertainty in Libya and above all the ongoing conflict in Syria play a negative role. It is no coincidence that economic growth in Lebanon sharply declined in 2011, as that was the year when strife in Syria started.

With Lebanon's gateway to the region sealed off, the trade and tourism sectors in particular suffered serious setbacks. Meanwhile the country continues to host over 1 million Syrian refugees, which has put an additional strain on the country's fragile infrastructure in terms of drinking water, power supply and solid waste management.

By the end of last year, however, the Lebanese authorities announced a $16 billion investment program with an eye on improving the country's energy, transport, telecom, water and waste treatment sectors. The scheme got an important boost in early 2018 when the Paris international CEDRE conference in support of Lebanese development saw some 50 states and organizations pledge over $11 billion in soft loans and aid.

The donors were no doubt encouraged by the fact that the Lebanese government in October 2017 formulated an official budget for the first time in 12 years and managed to reduce the annual fiscal deficit by 25% to reach $2.5 billion.

Still, this should not close our eyes for the structural problems facing the country. For example, state spending on the redundant electricity sector in 2017 surged by 51.5% to over $1 billion, due mainly to an increase in international oil prices. Additionally, interest payments on the country's public debt in 2017 rose by 4.71% to amount to $3.9 billion.

According to the Ministry of Finance, Lebanon's gross public debt climbed by 6.19% to reach $79.52 billion by the end of last year. With a GDP of $52.7 billion, Lebanon's debt-to-GDP ratio surpassed the 150% mark by the end of last year and remains one of the world's highest.

LBP-dominated debt continued to represent the biggest share, yet foreign currency debt grew at a faster rate of 8.11% to amount to $30.38 billion, mainly due to a $1.7 billion Eurobonds swap issued in November 2017. Lebanese commercial banks held 37.5% of the LBP-dominated debt, while the BDL owned a 48% stake. Over 92 % of the foreign currency debt consisted of Eurobonds.

Meanwhile, the country's trade deficit widened by 29%, as imports on the one hand increased from $18.7 billion in 2016 to $23.1 billion in 2017, mainly due to a hike in fuel imports. Exports, on the other hand, witnessed a slight decline to amount to $2.8 billion, despite land exports increasing by 25% as several Syrian border crossings were able to reopen.

Another positive development was the tourism sector continuing its upward trend. Representing nearly 20 percent of GDP, the number of foreign visitors in 2017 increased by 10 percent to a total of over 1.8 million, which is the highest influx since 2010 when a record 2.2 million tourists flocked to Lebanon's shores.

Most foreign visitors are Europeans, although the country witnessed a significant uptick of some 8% in arrivals from the GCC countries. According to the tourism shopping tax refund company Global Blue, tourist spending in 2017 increased by 5.5%.

As a consequence of the upward trend, Lebanon's Prime Minister Saad Hariri last year announced that the Beirut International Airport, which currently has a capacity of 6 million passengers, will be expanded to accommodate 5 million more.

The real estate and construction sector remains another major component of Lebanese GDP and showed further signs of recovery in 2017. Although the number of construction permits fell by 3.48% to 16,502 permits by December 2017, according to the Orders of Engineers in Beirut and Tripoli, the area under construction authorized by the permits actually rose by 14.81% year-on-year to reach 11.8 million square meters.

Remittances by Lebanese expatriates, many of whom reside in the Gulf countries, also increased by 3.3% to amount to nearly $8 billion in 2017, according to the World Bank.

Despite another year of limited economic growth, the Lebanese banking sector reported positive end-of-year results and thus confirmed its status as one of the country's main financial pillars.

Under supervision of the BDL, the sector by the end of 2017 consisted of 65 banks and 48 financial institutions. However, Lebanon's Alpha Group, which consists of 15 banks, including Creditbank, with customer deposits worth over $2 billion, represents 90% of the sector.

Lebanon's Alpha Banks saw assets grow by 6.6% to amount to $232.982 billion by the end of last year. Customer deposits increased at a slightly slower pace than in 2016 to reach $182.6 billion.

The latter was mainly due to a brief period of uncertainty concerning the Prime Minister's post by the end of last year, which led to a minor capital outflow and an increased dollarization of domestic accounts. Also, interest rates on new local-currency deposits increased.

The Alpha Banks' loan portfolio increased by 1.7% to reach $66.5 billion, whereby a slight decline in foreign loans was offset by an uptick in domestic loans. The BDL since 2013 has launched special packages of low-interest loans to stimulate economic growth. The latest such deal worth $500 million was launched in October last year.

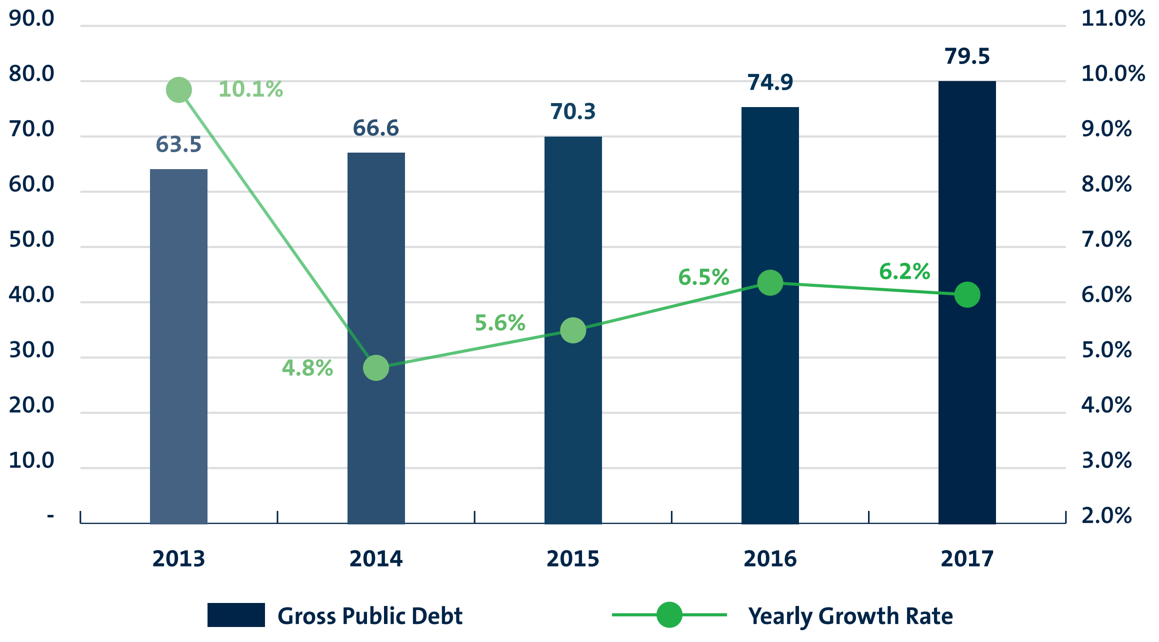
Founded in 1963, the BDL is an independent public entity that is not only charged with supervising the banking sector, but also with safeguarding Lebanon's monetary and economic stability.

On a regulatory level, the Lebanese parliament since 2015 has passed multiple laws regarding international cooperation in terms of tax evasion, money laundering and terrorism financing. In addition, Lebanese banks are in compliance with the US' Foreign Account Tax Compliance Act (FATCA) and committed to the Organization of Economic Cooperation and Development's Global Account Tax Compliance Act (GATCA).

In terms of capitalization, Lebanese banks have long exceeded the minimum requirements set by Basel III, the global regulatory framework regarding capital adequacy and market liquidity agreed upon in Switzerland in 2010/2011.

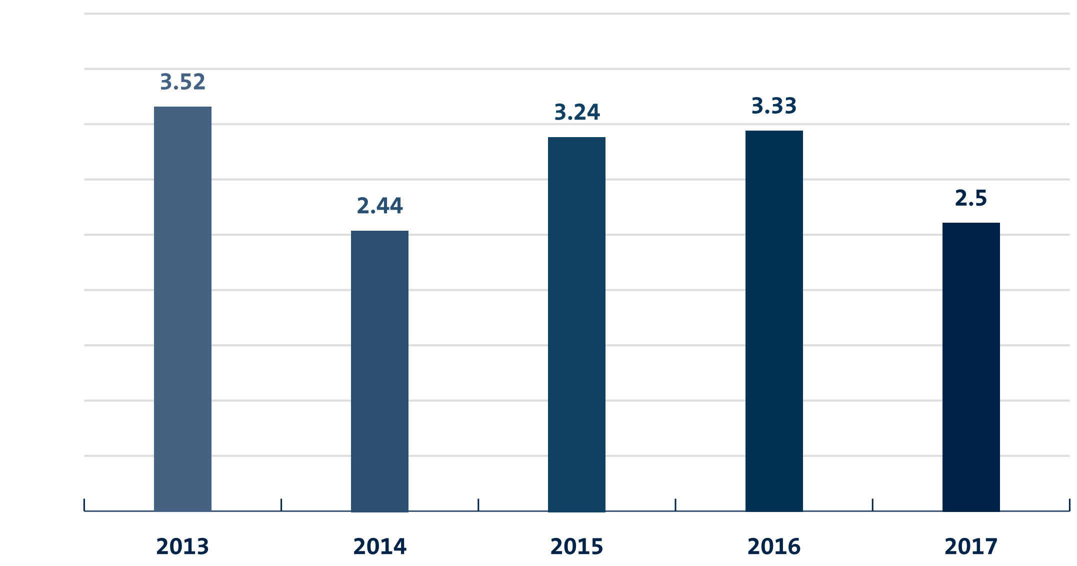
Despite the short term uncertainties facing Lebanon, the medium term outlook for both country and region remains positive, while the oil and gas reserves situated off Lebanon's coast offer viable prospects on the long term.

## GROSS PUBLIC DEBT YEARLY GROWTH RATE (in USD billion)




Source: Ministry of Finance

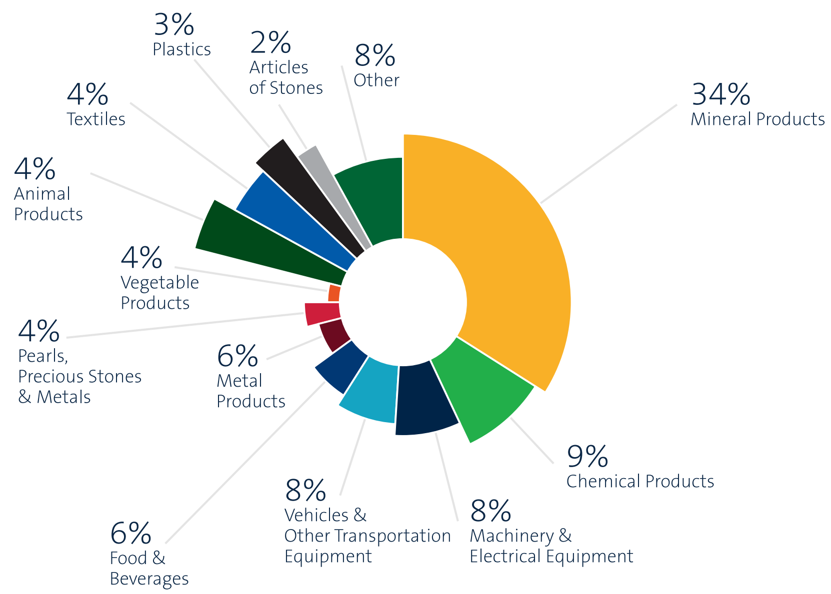
## ANNUAL GOVERNMENT DEFICIT (in USD billion)




**Note: until Oct. 2017**

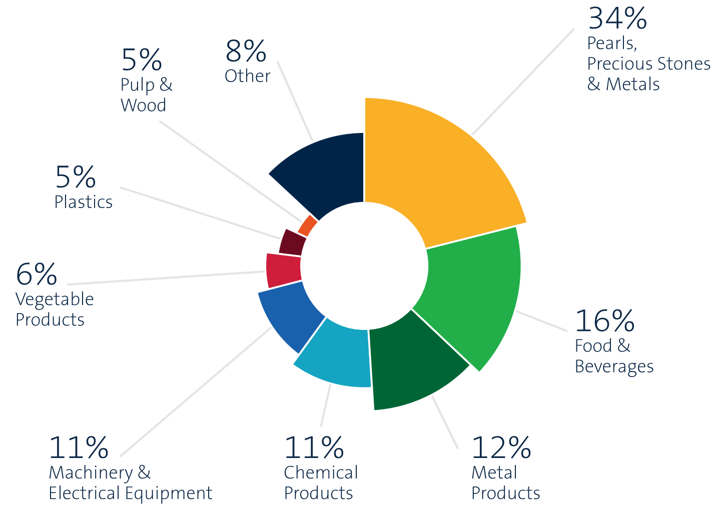
Source: Ministry of Finance

## IMPORT COMPOSITION (2017)



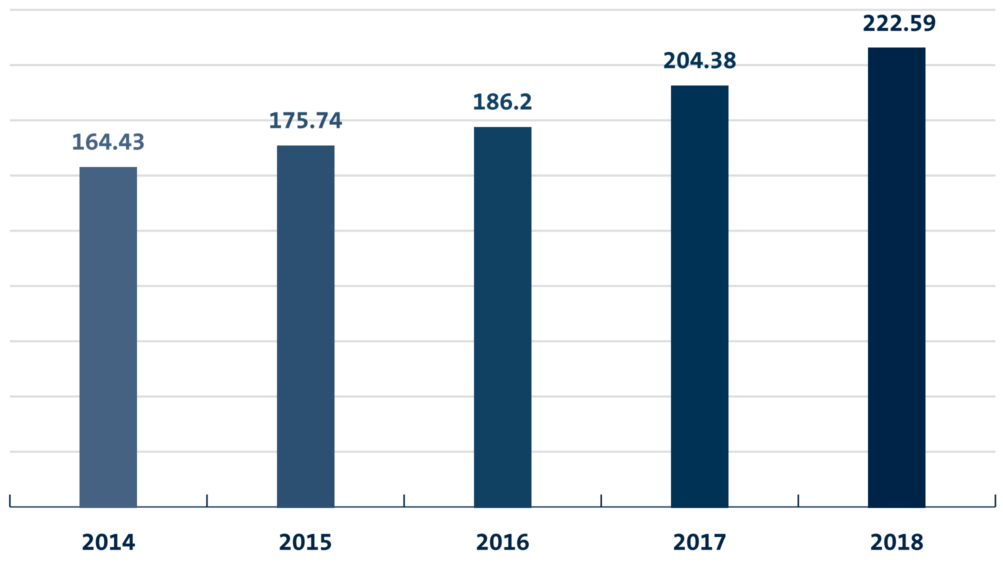

Source: Lebanese Customs

## EXPORT COMPOSITION (2017)



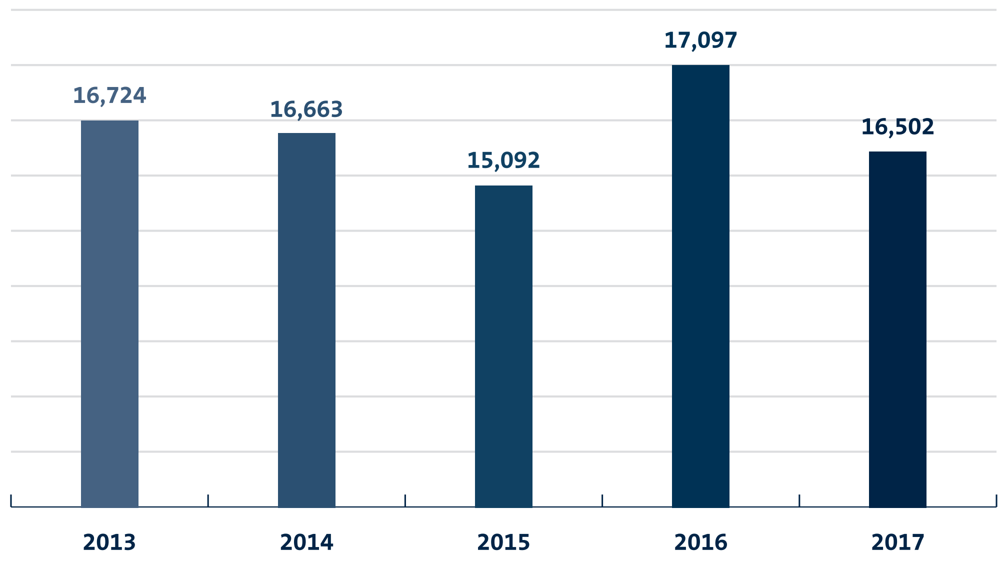

Source: Lebanese Customs

## LEBANESE COMMERCIAL BANKS' TOTAL ASSETS (in USD billion)



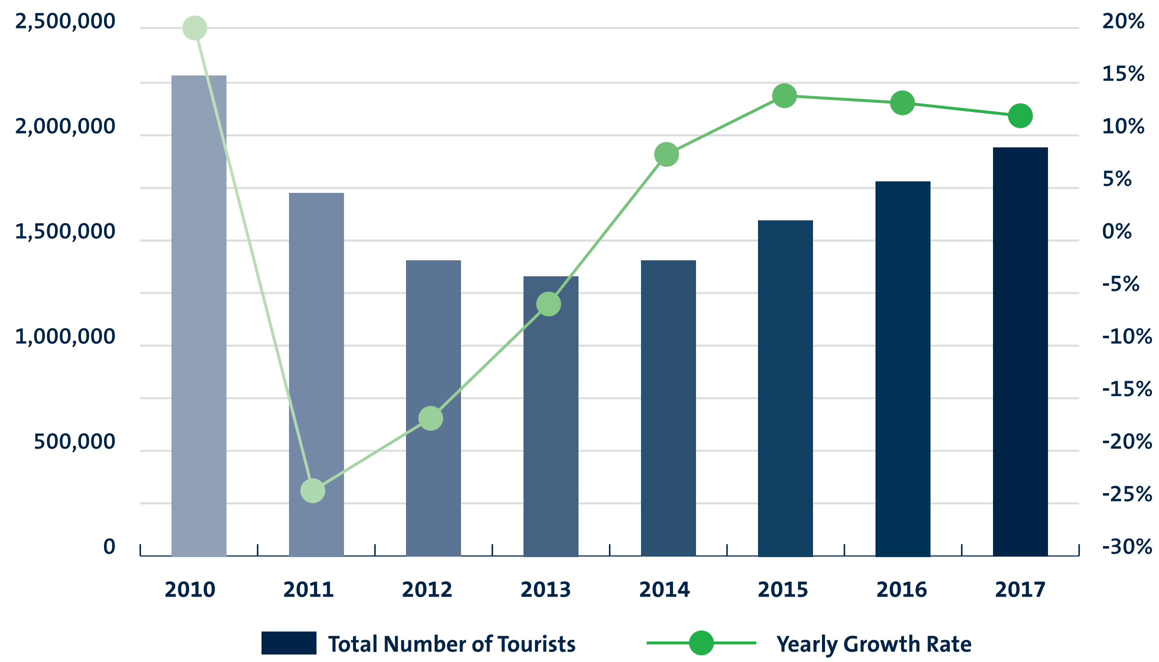

Source: Central Bank of Lebanon

## NUMBER OF CONSTRUCTION PERMITS ISSUED PER YEAR




Source: Orders of Engineers of Beirut & Tripoli

## ANNUAL NUMBER OF TOURIST ARRIVALS




Source: Ministry of Tourism

# MANAGEMENT DISCUSSION &FINANCIAL ANALYSIS

| *USD million* | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| **Main Financial Indicators** | | | | |
| Total Assets | 3,821 | 3,509 | 3,322 | 3,000 |
| Customer Deposits | 3,165 | 2,976 | 2,827 | 2,601 |
| Net Loans | 1,802 | 1,817 | 1,684 | 1,481 |
| Net Liquid Assets | 1,601 | 1,398 | 1,334 | 1,236 |
| Shareholders' Equity | 398 | 328 | 279 | 210 |
| Total Operating Income | 101 | 152 | 115 | 95 |
| Net Profit | 20 | 39 | 35 | 26 |
| EBITA | 42 | 100 | 57 | 42 |
| Number of Branches (Local) | 25 | 25 | 23 | 22 |
| Number of Branches (Abroad) | N/A | 2 | 19 | 15 |
| Number of ATM's (Local) | 52 | 48 | 44 | 43 |
| Number of ATM's (Abroad) | N/A | 6 | 64 | 64 |
| Number of Employees (Local) | 628 | 605 | 545 | 508 |
| Number of Employees (Abroad) | N/A | 141 | 529 | 508 |
| **Profitability & Efficiency Ratios (%)** | | | | |
| ROAA | 0.54% | 1.15% | 1.12% | 0.91% |
| ROAE | 5.48% | 12.98% | 14.40% | 12.36% |
| Leverage Multiplier | 10.10 | 11.25 | 12.92 | 13.51 |
| Spread | 1.47% | 1.72% | 2.13% | 1.97% |
| Net Interest Margin | 1.82% | 2.04% | 2.38% | 2.23% |
| Cost / Income | 61.75% | 36.05% | 52.67% | 58.70% |
| **Assets Quality Ratios (%)** | | | | |
| Gross Non Performing loans / Gross Loans | 8.92% | 5.93% | 6.48% | 4.02% |
| NPL Provisions / Non Performing Loans | 50.34% | 56.12% | 46.85% | 59.06% |

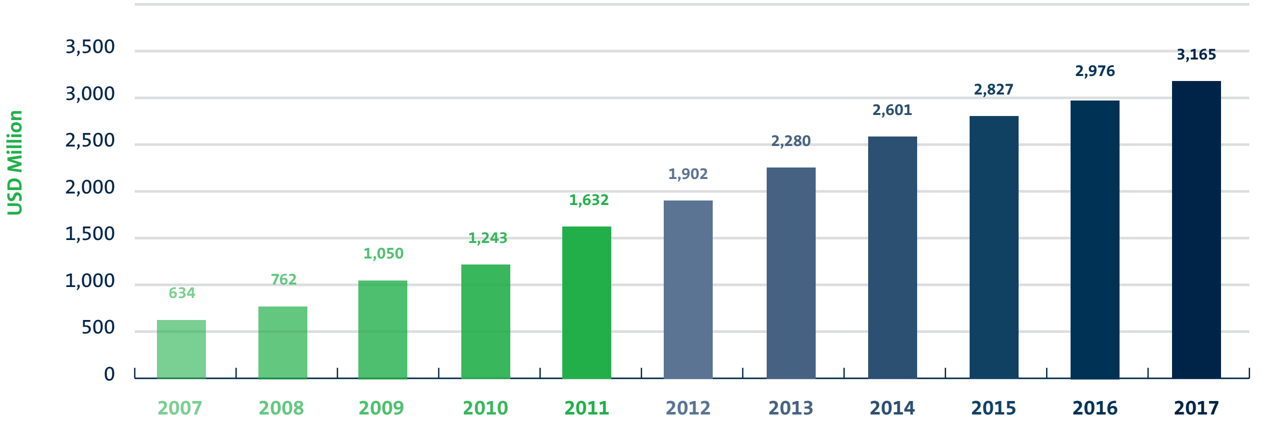


| | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| **Liquidity & Funding Ratios (%)** | | | | |
| Net Loans / Assets | 47.17% | 51.78% | 50.70% | 49.36% |
| Customer Deposits / Assets | 82.84% | 84.81% | 85.09% | 86.70% |
| Net Liquid Assets / Assets | 41.90% | 39.83% | 40.16% | 41.20% |
| Net Loans / Customer Deposits | 56.94% | 61.06% | 59.59% | 56.93% |
| **Capital Adequacy Ratios (%)** | | | | |
| Total Capital Adequacy Ratio (CAR) | 16.29% | 13.13% | 12.79% | 10.45% |
| Equity / Total Assets | 10.42% | 9.34% | 8.41% | 7.01% |
| Internal Capital Growth | 3.57% | 10.73% | 11.87% | 10.36% |
| **Growth Indicators (Creditbank)** | | | | |
| % Growth in Assets | 8.88% | 5.62% | 10.75% | 13.49% |
| % Growth in Deposits | 6.36% | 5.28% | 8.69% | 14.06% |
| % Growth in Net Loans | -0.81% | 7.88% | 13.75% | 14.04% |
| % Growth in Shareholders' Equity | 21.47% | 17.32% | 32.92% | 1.32% |
| % Growth in Total Operating Income | -33.75% | 32.81% | 20.23% | 24.87% |
| % Growth in Net Profit | -49.50% | 11.72% | 36.60% | 42.27% |
| **Growth Indicators (Alpha Group)** | | | | |
| % Growth in Assets | 6.10% | 6.07% | 4.75% | 9.85% |
| % Growth in Deposits | 3.00% | 3.67% | 4.57% | 8.93% |
| % Growth in Net Loans | 0.80% | 1.39% | 5.86% | 11.23% |
| % Growth in Shareholders' Equity | 5.90% | 10.69% | 6.00% | 11.86% |
| % Growth in Total Operating Income | -19.60% | 37.54% | 6.93% | 9.29% |
| % Growth in Net Profit | 4.8% | 10.47% | 8.26% | 8.90% |

Source of Alpha Group figures: BANKDATA

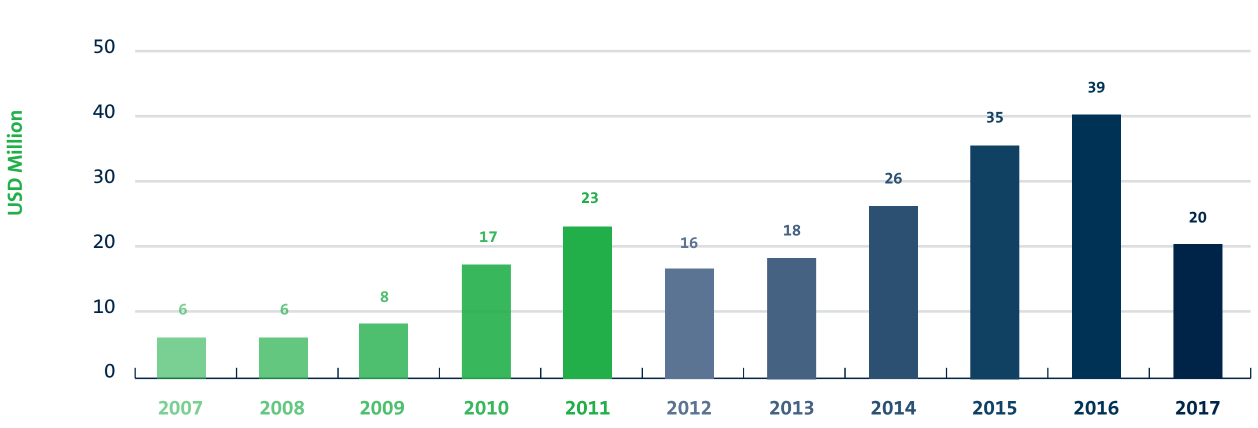
## CUSTOMER DEPOSITS

CAGR
17.45%



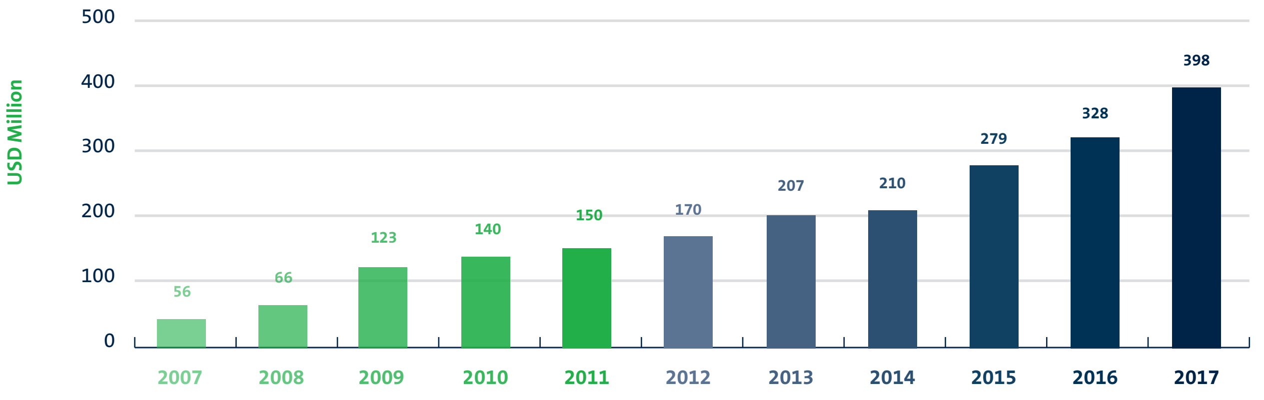

## NET PROFIT

CAGR
12.54%



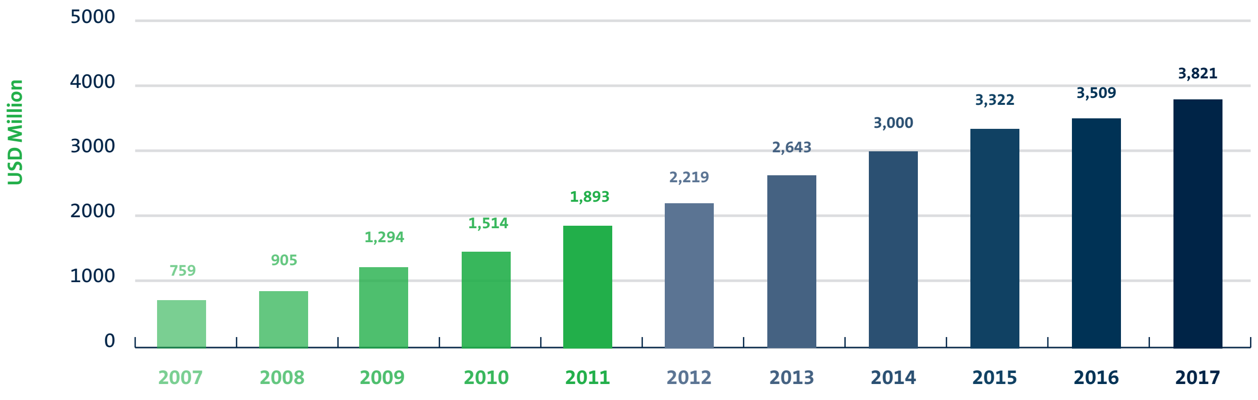

## TOTAL EQUITY

CAGR
21.73%



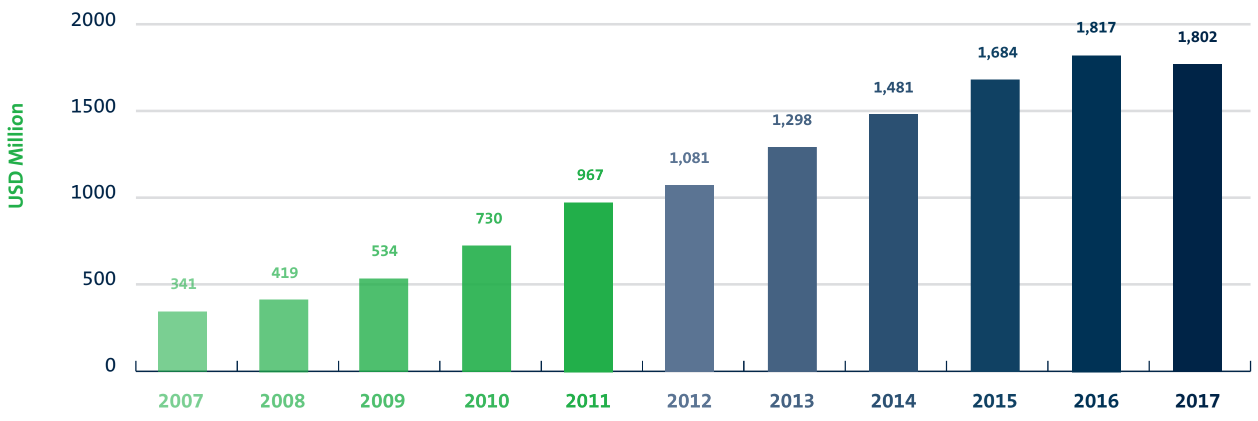

## TOTAL ASSETS

CAGR
17.54%



## NET LOANS

CAGR
18.11%






## OVERVIEW

The Group Today

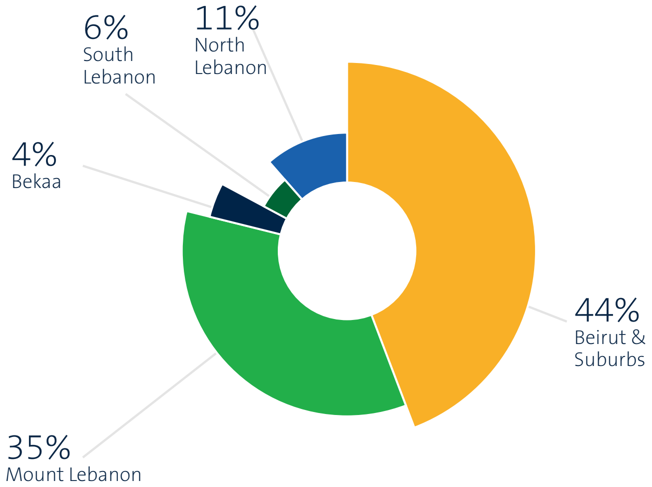
On December 31, 2017, the Group had 628 employees. Creditbank SAL had a network of 25 branches in Lebanon. The Group owned 99.76% of insurance brokerage firm Credex S.A.L. and 99% of the real estate companies Baabda 1587 S.A.L. and Achrafieh 784 S.A.L.

In October 2016, Creditbank, then as sole shareholder of Anelik Bank (CJSC), realized an increase in equity of the latter, by opening up the capital. Consequently, Creditbank landed with a participation in Anelik Bank (CJSC) of 40.3% of the new capital. Accordingly, Creditbank deconsolidated Anelik Bank (CJSC) from its financial statements. It is recommended to take this event into account when studying the financial statements of the Bank and analyzing the growth figures the Bank recorded in 2016.

The following discussion covers the performance of the Group during the fiscal year 2017 in comparison with the previous year. The data are based on the Group's audited consolidated financial statements.

All USD amounts found in this section were converted using an LBP 1,507.5 = USD 1 rate.

## GEOGRAPHICAL DISTRIBUTION OF ATMS IN LEBANON

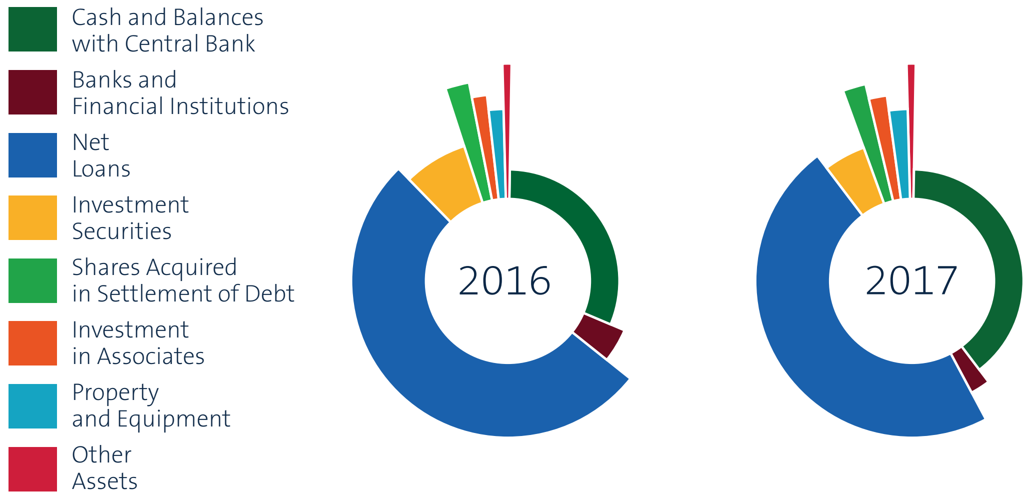



## TOTAL ASSETS

The following table shows the composition of the Group's total assets, as well as the percentage of total and percentage changes therein, on December 31, 2017, and December 31, 2016, respectively:

| LBP Million | 2017 | % Total | 2016 | % Total | Growth | % Growth |
|---|---|---|---|---|---|---|
| Cash and Balances with Central Bank | 2,289,578 | 39.7% | 1,662,757 | 31.4% | 626,821 | 37.7% |
| Banks and Financial Institutions | 145,299 | 2.5% | 231,497 | 4.4% | (86,198) | -37.2% |
| Net Loans | 2,717,204 | 47.2% | 2,739,272 | 51.8% | (22,068) | -0.8% |
| Investment Securities | 276,428 | 4.8% | 381,265 | 7.2% | (104,837) | -27.5% |
| Shares Acquired in Settlement of Debt | 110,626 | 1.9% | 100,051 | 1.9% | 10,575 | 10.6% |
| Investments in Associates | 84,782 | 1.5% | 69,030 | 1.3% | 15,752 | 22.8% |
| Property and Equipment | 99,501 | 1.7% | 70,118 | 1.3% | 29,383 | 41.9% |
| Other Assets | 36,764 | 0.6% | 36,194 | 0.7% | 570 | 1.6% |
| Total Assets | **5,760,183** | | **5,290,183** | | **469,999** | **8.9%** |

## BREAKDOWN OF TOTAL ASSETS




The growth of total assets continued in 2017 and reached 8.9% or LBP 469,999 million (USD 312 million). By December 31, 2017, the Group's total assets stood at LBP 5,760,183 million (USD 3,821 million), compared to LBP 5,290,183 million (USD 3,509 million) on December 31, 2016.
Net loans amounted to LBP 2,717,204 million (USD 1,802 million) by December 31, 2017, compared to LBP 2,739,272 million (USD 1,817 million) at December 31, 2016.

Net loans and cash and balances with central banks constituted respectively 47.2% and 39.7% of the Group's total assets in 2017, compared to 51.8% and 31.4% in 2016.

Investment securities amounted to LBP 276,428 million (USD 183 million) by December 31, 2017, compared to LBP 381,265 million (USD 253 million) at December 31, 2016. They constituted 4.8% of total assets by December 31, 2017, compared to 7.2% by December 31, 2016.

## DISTRIBUTION OF LOANS BY BUSINESS SEGMENT

The following table sets out the composition of the Group's loan portfolio as defined by the borrower's business segment, as well as the percentage of total and changes therein, on December 31, 2017, and December 31, 2016, respectively:

| LBP Million | 2017 | % of portfolio | 2016 | % of portfolio | Growth | % Growth |
|---|---|---|---|---|---|---|
| Retail | 657,620 | 24.2% | 635,019 | 23.2% | 22,601 | 3.6% |
| SME | 1,622,590 | 59.7% | 1,707,791 | 62.3% | (85,201) | -5.0% |
| Corporate | 436,994 | 16.1% | 396,462 | 14.5% | 40,532 | 10.2% |
| **Total** | **2,717,204** | | **2,739,272** | | **(22,068)** | **-0.8%** |

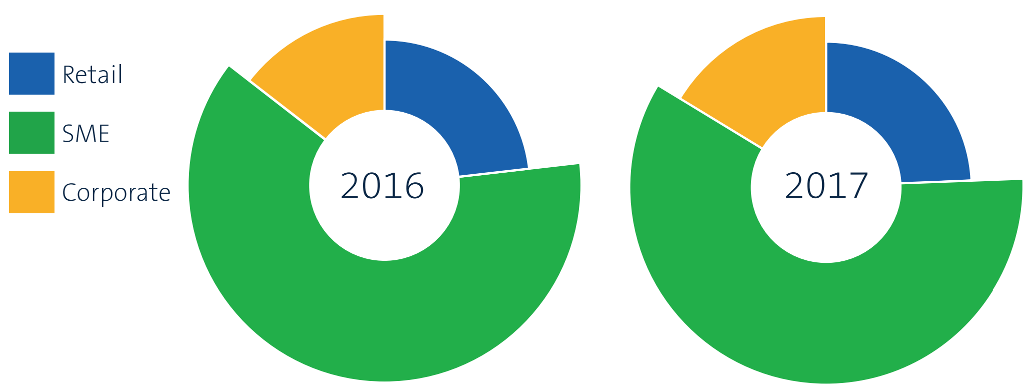
Corporate lending amounted to LBP 436,994 million (USD 290 million) on December 31, 2017, compared to LBP 396,462 million (USD 263 million) on December 31, 2016, reflecting a year on year increase of 10.2%.

SME lending reached LBP 1,622,590 million (USD 1,076 million) on December 31, 2017, compared to LBP 1,707,791 million (USD 1,133 million) on December 31, 2016, reflecting a year on year decrease of 5%.

Retail lending amounted to LBP 657,620 million (USD 436 million) on December 31, 2017, compared to LBP 635,019 million (USD 421 million) on December 31, 2016, reflecting a year on year increase of 3.6%.

Corporate, SME, and Retail loans constituted 16.1%, 59.7% and 24.2% of total loans respectively on December 31, 2017, compared to 14.5%, 62.3% and 23.2% on December 31, 2016.

## DISTRIBUTION OF LOANS BY BUSINESS SEGMENT

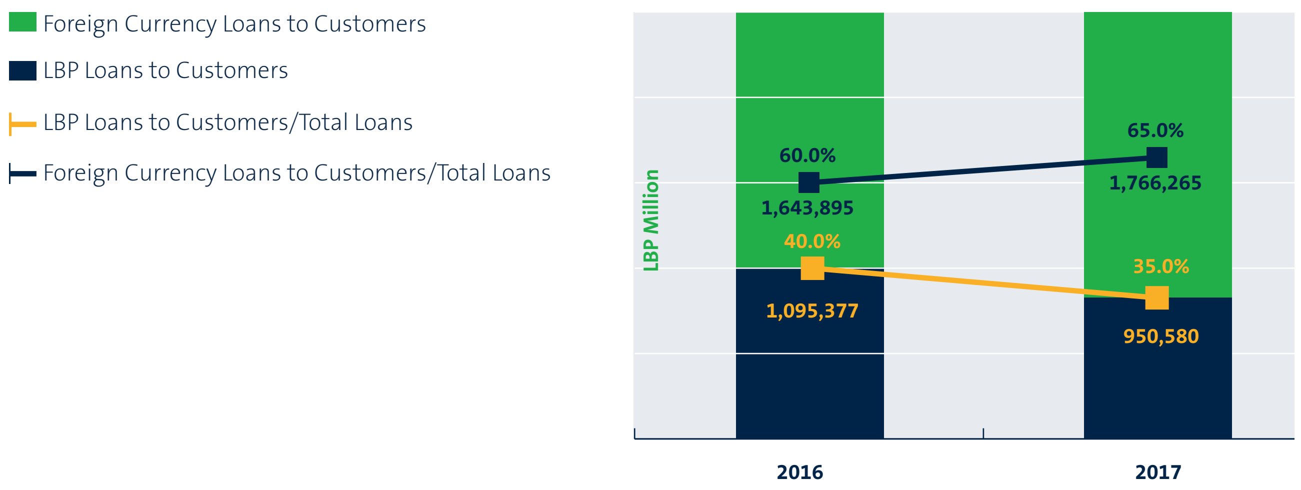



## DISTRIBUTION OF LOANS BY CURRENCY

The following table sets out the composition of the Group's loan portfolio by currency, as well as the percentage changes therein on December 31, 2017, and December 31, 2016, respectively:

| LBP Million | 2017 | 2016 | Growth | % Growth |
|---|---|---|---|---|
| LBP Loans to Customers | 950,580 | 1,095,377 | (144,797) | -13.2% |
| Foreign Currency Loans to Customers | 1,766,625 | 1,643,895 | 122,730 | 7.5% |
| **Total** | **2,717,204** | **2,739,272** | **(22,068)** | **-0.8%** |

### LOANS BY CURRENCY




Loans to customers in LBP represented 35% or LBP 950,580 million (USD 631 million) of total loans by December 31, 2017, whereas loans to customers in foreign currencies represented 65% or LBP 1,766,625 million (USD 1,172 million) of total loans.

By December 31, 2016, loans to customers in LBP represented 40% or LBP 1,095,377 million (USD 727 million), while loans in foreign currencies represented 60% or LBP 1,643,895 million (USD 1,090 million) of total loans.

## DISTRIBUTION OF LOANS BY LOCATION

The following table shows the composition of the Group's loan portfolio by geographical location, as well as the percentage of total and percentage changes therein, on December 31, 2017, and December 31, 2016, respectively:

| LBP Million | 2017 | % of Total | 2016 | % of Total | Growth | % Growth |
|---|---|---|---|---|---|---|
| Lebanon | 2,390,566 | 88.0% | 2,402,274 | 87.7% | (11,709) | -0.5% |
| Americas | 30,052 | 1.1% | 33,513 | 1.2% | (3,461) | -10.3% |
| Europe | 133,765 | 4.9% | 137,062 | 5.0% | (3,297) | -2.4% |
| Asia Pacific | 269 | 0.0% | 213 | 0.0% | 56 | 26.3% |
| Middle East and Africa | 162,167 | 6.0% | 165,362 | 6.0% | (3,195) | -1.9% |
| Australia | 386 | 0.0% | 848 | 0.0% | (462) | -54.5% |
| **Total Loans** | **2,717,204** | | **2,739,272** | | **(22,068)** | **-0.8%** |

The majority of the Group's loan portfolio concerned Lebanon, amounting to 88.0% by December 31, 2017, compared to 87.7% by December 31, 2016.

The loan portfolio concerning the Middle East and Africa, Europe, and Americas constituted 6.0%, 4.9%, and 1.1% of the total loan portfolio by the end of 2017, compared to 6.0%, 5.0%, and 1.2% by the end of 2016.



## DISTRIBUTION OF LOANS BY ECONOMIC SECTOR

The following table shows the composition of the Group's loan portfolio by the borrower's economic activity, as well as the percentage of total and changes therein, by December 31, 2017, and December 31, 2016, respectively:

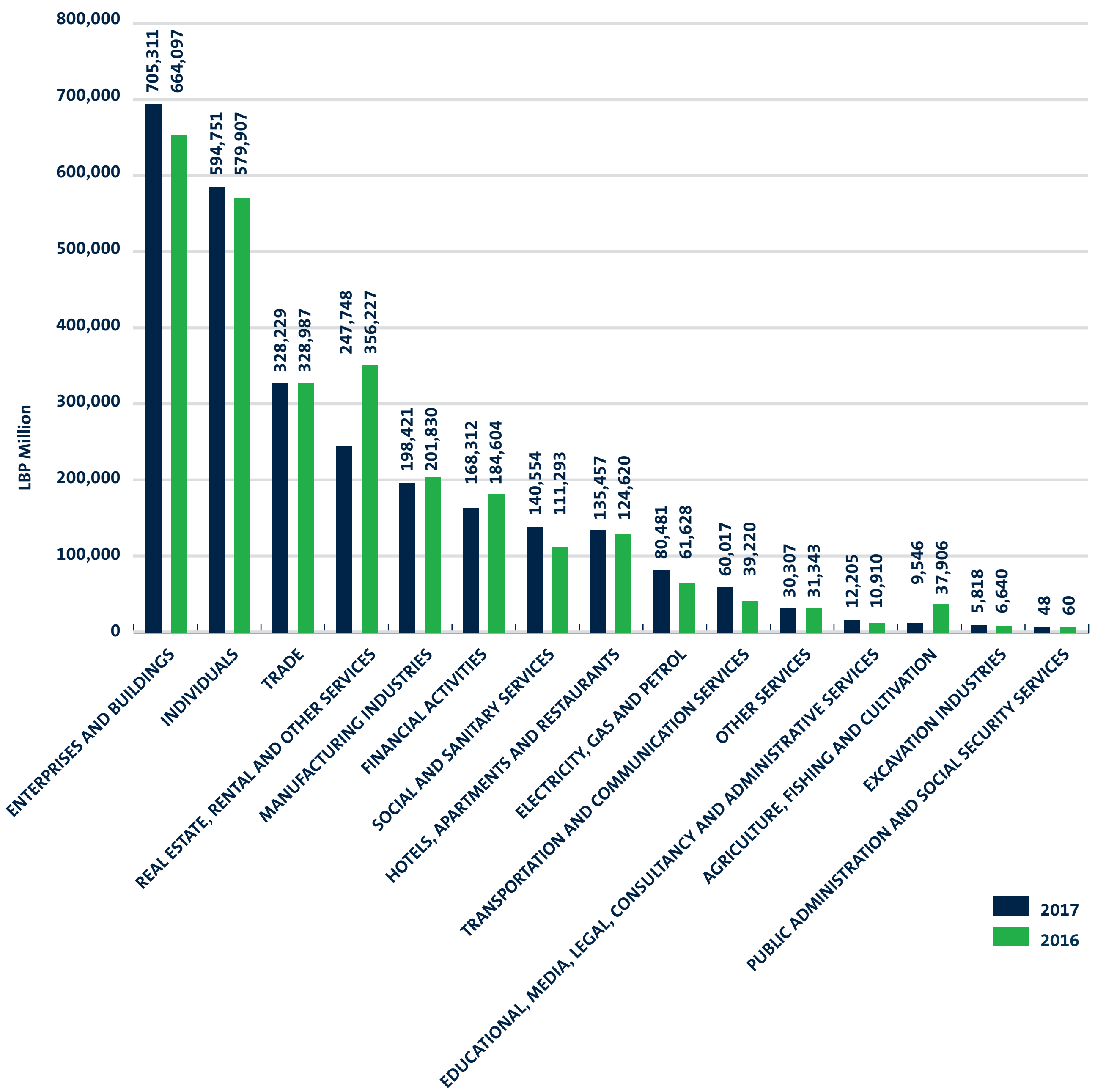
| LBP Million | 2017 | % of Total | 2016 | % of Total | Growth | % Growth |
|---|---|---|---|---|---|---|
| Enterprises and buildings | 705,311 | 26.0% | 664,097 | 24.2% | 41,214 | 6.2% |
| Individuals | 594,751 | 21.9% | 579,907 | 21.2% | 14,844 | 2.6% |
| Trade | 328,229 | 12.1% | 328,987 | 12.0% | (758) | -0.2% |
| Real Estate, rental, and other services | 247,748 | 9.1% | 356,227 | 13.0% | (108,479) | -30.5% |
| Manufacturing industries | 198,421 | 7.3% | 201,830 | 7.4% | (3,409) | -1.7% |
| Financial activities | 168,312 | 6.2% | 184,604 | 6.7% | (16,292) | -8.8% |
| Social and sanitary services | 140,554 | 5.2% | 111,293 | 4.1% | 29,261 | 26.3% |
| Hotels, apartments, and restaurants | 135,457 | 5.0% | 124,620 | 4.5% | 10,837 | 8.7% |
| Electricity, gas, and petrol | 80,481 | 3.0% | 61,628 | 2.2% | 18,853 | 30.6% |
| Transportation and communication services | 60,017 | 2.2% | 39,220 | 1.4% | 20,797 | 53.0% |
| Other services | 30,307 | 1.1% | 31,343 | 1.1% | (1,036) | -3.3% |
| Educational, media, legal, consultancy, and administrative services | 12,205 | 0.4% | 10,910 | 0.4% | 1,296 | 11.9% |
| Agriculture, fishing, and cultivation | 9,546 | 0.4% | 37,906 | 1.4% | (28,360) | -74.8% |
| Excavation industries | 5,818 | 0.2% | 6,640 | 0.2% | (822) | -12.4% |
| Public administration and social security services | 48 | 0.0% | 60 | 0.0% | (12) | -20.0% |
| **Total** | **2,717,204** | | **2,739,272** | | **(22,068)** | **-0.8%** |

In 2017, loans concerning enterprises and buildings increased by 6.2% or LBP 41,214 million (USD 27 million) to reach LBP 705,311 million (USD 468 million) or 26.0% of the Group's total loans by December 31, 2017.

Loans to individuals constituted 21.9 % of total loans reaching LBP 594,751 million (USD 395 million) on December 31, 2017, compared to LBP 579,907 million (USD 385 million) on December 31 2016.

Trade, real estate, rental, and other services, manufacturing industries and financial activities loans amounted to LBP 328,229 million (USD 218 million), LBP 247,748 million (USD 164 million), LBP 198,421 million (USD 132 million) and LBP 168,312 million (USD 112 million) on December 31, 2017, which represented 12.1%, 9.1%, 7.3% and 6.2% of total loans respectively.

## LOANS BY ECONOMIC SECTOR






## GROSS AND NET LOANS

The following tables set out the composition of the Bank's gross and net loans portfolio by classification, as well as the percentage of total and percentage changes therein by December 31, 2017, and December 31, 2016, respectively:

**Gross Loans**

| LBP Million | 2017 | % of Total | 2016 | % of Total | Growth | % Growth |
|---|---|---|---|---|---|---|
| Low fair risk/follow up (1 - 2) | 1,862,825 | 64.3% | 1,889,209 | 66.6% | (26,384) | -1.4% |
| Watch/Special mention (3) | 774,983 | 26.8% | 776,380 | 27.4% | (1,397) | -0.2% |
| Substandard (4) | 57,993 | 2.0% | 30,363 | 1.1% | 27,631 | 91.0% |
| Doubtful (5) | 184,842 | 6.4% | 124,188 | 4.4% | 60,653 | 48.8% |
| Bad (6) | 15,349 | 0.5% | 13,385 | 0.5% | 1,964 | 14.7% |
| **Total Gross Loans** | **2,895,991** | | **2,833,524** | | **62,467** | **2.2%** |

**Net Loans**

| LBP Million | 2017 | % of Total | 2016 | % of Total | Growth | % Growth |
|---|---|---|---|---|---|---|
| Low fair risk/follow up (1 - 2) | 1,851,783 | 68.2% | 1,883,899 | 68.8% | (32,116) | -1.7% |
| Watch/Special mention (3) | 737,219 | 27.1% | 775,565 | 28.3% | (38,346) | -4.9% |
| Substandard (4) | 52,433 | 1.9% | 26,637 | 1.0% | 25,796 | 96.8% |
| Doubtful (5) | 75,769 | 2.8% | 53,171 | 1.9% | 22,598 | 42.5% |
| Bad (6) | 0 | 0.0% | 0 | 0.0% | (0) | N/A |
| **Total Net Loans** | **2,717,204** | | **2,739,272** | | **(22,068)** | **-0.8%** |

## LOANS CLASSIFICATION

The Group classifies its counterparties according to the six rating classes defined by the Central Bank of Lebanon (BDL) and the Banking Control Commission of Lebanon (BCC) requirements as follows:

- Low fair risk / Normal and follow up (grades 1 and 2) – types of loans that are expected to be repaid on a timely and consistent basis; for grade 2, the client file is not complete.
- Watch / Special mention (grade 3) – type of loan that is expected to be repaid but current conditions lead to believe that the probability of repayment would be lowered;
- Substandard (grade 4) – type of loan where the client is witnessing a difficult financial condition and might not be in a position to settle the loan in full;
- Doubtful (grade 5) – type of loan where there is no movement in the clients' balance;
- Bad (grade 6) – type of loan where the probability of repayment is low and almost nil.



## DISTRIBUTION OF LOANS BY COLLATERAL TYPE

The following table sets out the composition of the Group's loan portfolio by type of collateral as well as the percentage of total and percentage changes therein on December 31, 2017, and 2016, respectively:

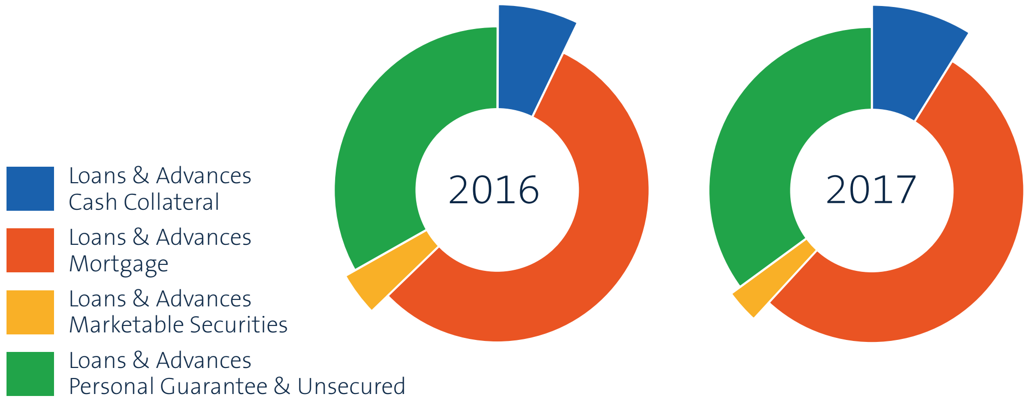
| LBP Million | 2017 | % of Total | 2016 | % of Total | Growth | % Growth |
|---|---|---|---|---|---|---|
| Loans & Advances - Cash Collateral | 159,824 | 5.9% | 236,163 | 8.6% | (76,339) | -32.3% |
| Loans & Advances - Mortgage | 1,578,413 | 58.1% | 1,468,516 | 53.6% | 109,897 | 7.5% |
| Loans & Advances - Marketable Securities | 92,173 | 3.4% | 77,788 | 2.8% | 14,385 | 18.5% |
| Loans & Advances - Personal Guarantee & Unsecured | 886,794 | 32.6% | 956,805 | 34.9% | (70,010) | -7.3% |
| **Total** | **2,717,204** | | **2,739,272** | | **(22,068)** | **-0.8%** |
| Secured Loans as % of Total Loans | 67.4% | | 65.1% | | | |

A significant proportion of the Group's loans is secured or guaranteed.

Types of guarantee include cash collateral, mortgages over land and other property and securities (e.g. debt and equity securities).

The Group's high percentage of secured loans on December 31, 2017, and 2016 respectively, reflects the Group's conservative policies in regards to collateral requirements.

## LOANS AND ADVANCES BY COLLATERAL TYPE




## INVESTMENT SECURITIES

The following tables set out the composition of the Group's investment securities by December 31, 2017, and 2016 respectively:

**As at 31 December 2017**

| LBP Million | Equity Instrument at Fair Value through P or L | Debt Instrument at Fair Value through P or L | Debt Instrument at Amortized Cost | Equity Instrument at Fair Value through OCI | Total |
|---|---|---|---|---|---|
| Lebanese Government Treasury Bills and Eurobonds | - | 8,205 | 129,564 | - | 137,769 |
| Certificates of Deposit | - | 2,145 | 116,078 | - | 118,223 |
| Corporate Bonds | - | - | 754 | - | 754 |
| Equity Securities | 1,039 | - | - | 5,055 | 6,094 |
| Funds | - | 1,598 | 8,291 | - | 9,889 |
| Interest Receivable | - | 160 | 3,539 | - | 3,700 |
| **Total By Category** | **1,039** | **12,108** | **258,226** | **5,055** | **276,428** |

**As at 31 December 2016**

| LBP Million | Equity Instrument at Fair Value through P or L | Debt Instrument at Fair Value through P or L | Debt Instrument at Amortized Cost | Equity Instrument at Fair Value through OCI | Total |
|---|---|---|---|---|---|
| Lebanese Government Treasury Bills and Eurobonds | - | 50,147 | 225,079 | - | 275,227 |
| Certificates of Deposit | - | 21,245 | 70,853 | - | 92,098 |
| Corporate Bonds | - | - | 754 | - | 754 |
| Equity Securities | 1,267 | - | - | 5,053 | 6,320 |
| Funds | - | 2,638 | 1,857 | - | 4,495 |
| Interest Receivable | - | 969 | 1,403 | - | 2,371 |
| **Total By Category** | **1,267** | **74,999** | **299,945** | **5,053** | **381,265** |

## TOTAL LIABILITIES AND EQUITY

The following table sets out the composition of the Group's total liabilities and equity, as well as the percentage of total and percentage changes therein by December 31, 2017, and 2016 respectively:

| LBP Million | 2017 | % of Total | 2016 | % of Total | Growth | % Growth |
|---|---|---|---|---|---|---|
| Due to Banks and Financial Institutions | 297,631 | 5.2% | 168,350 | 3.2% | 129,281 | 76.8% |
| Deposits From Customers and Related Parties | 4,771,702 | 82.8% | 4,486,388 | 84.8% | 285,314 | 6.4% |
| Other Liabilities | 80,947 | 1.4% | 76,654 | 1.4% | 4,293 | 5.6% |
| Provisions | 9,770 | 0.2% | 64,745 | 1.2% | (54,975) | -84.9% |
| **Total Liabilities** | **5,160,050** | **89.6%** | **4,796,137** | **90.7%** | **363,913** | **7.6%** |
| Equity | 600,132 | 10.4% | 494,046 | 9.3% | 106,086 | 21.5% |
| **Total Liabilities & Equity** | **5,760,183** | | **5,290,183** | | **469,999** | **8.9%** |

The Group's total liabilities reached LBP 5,160,050 million (USD 3,423 million) by December 31, 2017, compared to LBP 4,796,137 million (USD 3,182 million) by December 31, 2016. The increase of LBP 363,913 million (USD 241 million) or 7.6% was mainly due to a LBP 285,314 million (USD 189 million) or 6.4% growth in deposits from customers and related parties.

By December 31, 2017, total equity increased by LBP 106,086 million (USD 70 million) or 21.5% to reach LBP 600,132 million (USD 398 million), compared to 494,046 million (USD 328 million) by December 2016. Its share of total liabilities and equity reached 10.4% in 2017 compared to 9.3% in 2016.

Total liabilities and equity amounted to LBP 5,760,183 million (USD 3,821 million) by December 31, 2017, compared to LBP 5,290,183 million (USD 3,509 million) by December 31, 2016.

Deposits from customers and related parties constituted 82.8%, the largest share of total liabilities and equity by the end of December 2017 compared to 84.8% by the end of December 2016.

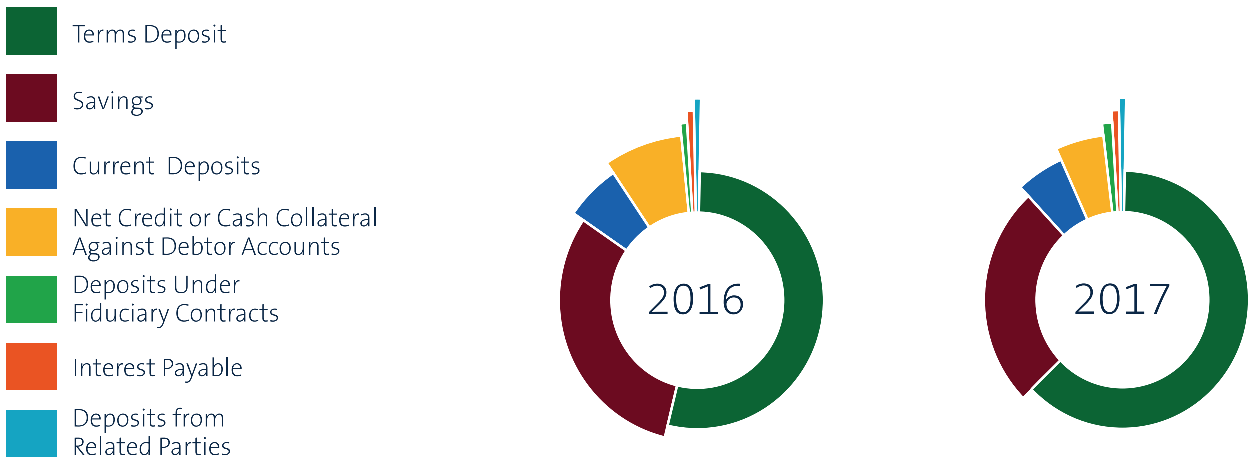


## DEPOSITS FROM CUSTOMERS & RELATED PARTIES

The following table shows the composition of the Group's deposits by type of account, as well as the percentage of total and percentage changes therein on December 31, 2017, and 2016 respectively:

| LBP Million | 2017 | % of Total | 2016 | % of Total | Growth | % Growth |
|---|---|---|---|---|---|---|
| Term Deposits | 3,014,203 | 63.2% | 2,427,266 | 54.1% | 586,937 | 24.2% |
| Savings | 1,180,999 | 24.8% | 1,358,639 | 30.3% | (177,641) | -13.1% |
| Current Deposits | 248,267 | 5.2% | 263,368 | 5.9% | (15,101) | -5.7% |
| Net Creditor and Cash Collateral Against Debtor Accounts | 229,739 | 4.8% | 357,443 | 8.0% | (127,705) | -35.7% |
| Deposits Under Fiduciary Contracts | 39,032 | 0.8% | 36,180 | 0.8% | 2,852 | 7.9% |
| Interest Payable | 31,989 | 0.7% | 28,129 | 0.6% | 3,860 | 13.7% |
| Deposits from Related Parties | 20,695 | 0.4% | 10,784 | 0.4% | 9,912 | 91.9% |
| Margins on Letter of Credits | 6,778 | 0.1% | 4,579 | 0.1% | 2,200 | 48.0% |
| **Total Deposits** | **4,771,702** | | **4,486,389** | | **285,314** | **6.4%** |

## BREAKDOWN OF DEPOSITS FROM CUSTOMERS AND RELATED PARTIES




Deposits from customers and related parties continued to be the Group's main source of funding. Constituting 82.8% and 84.8% of the Group's total liabilities and equity, they amounted to LBP 4,771,702 million (USD 3,165 million) and LBP 4,486,388 million (USD 2,976 million) on December 31, 2017 and December 31, 2016 respectively.

Term deposits increased by 24.2% or LBP 586,937 million (USD 389 million) to reach LBP 3,014,203 million (USD 1,999 million) or 63.2% of total customers and related parties deposits by the end of 2017, compared to LBP 2,427,266 million (USD 1,610 million) or 54.1% of total deposits from customers and related parties by the end of 2016.

Savings, current deposits and net creditor and cash collateral against debtor accounts constituted 24.8%, 5.2% and 4.8% of total deposits from customers and related parties on December 31, 2017, compared to 30.3%, 5.9%, and 8% on December 31, 2016.

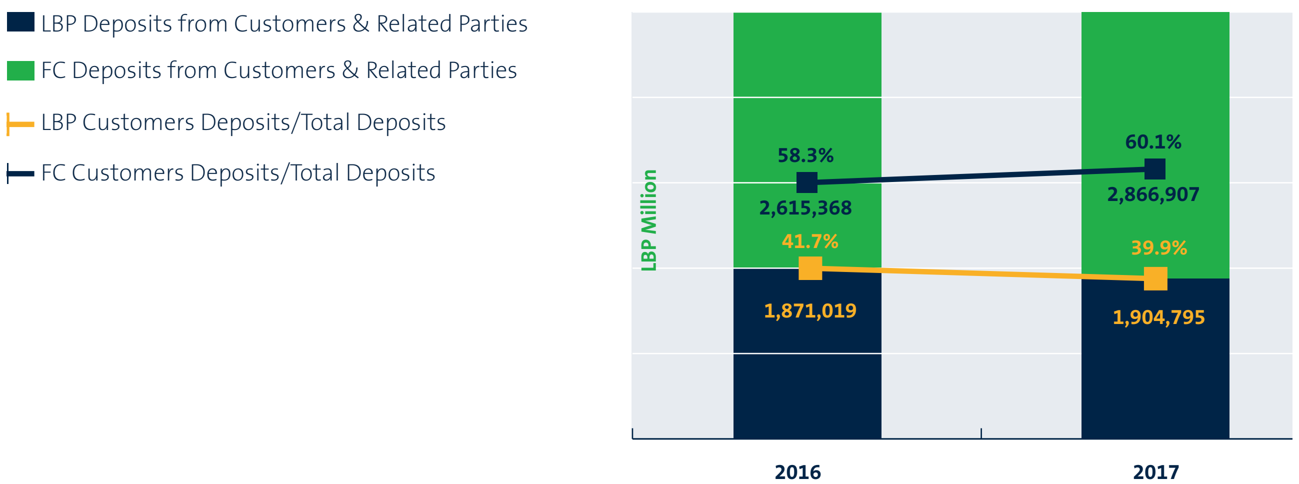


## DISTRIBUTION OF DEPOSITS BY CURRENCY

The following table sets out the composition of the Group's deposit portfolio by currency, as well as percentage changes therein on December 31, 2017, and 2016 respectively:

| LBP Million | 2017 | 2016 | Growth | % Growth |
|---|---|---|---|---|
| LBP Deposits from Customers & Related Parties | 1,904,795 | 1,871,019 | 33,776 | 1.8% |
| FC Deposits from Customers & Related Parties | 2,866,907 | 2,615,368 | 251,539 | 9.6% |
| Total Deposits | **4,771,702** | **4,486,388** | **285,314** | **6.4%** |

## DEPOSITS BY CURRENCY



Total deposits from customers and related parties in 2017 grew by 6.4% or LBP 285,314 million (USD 189 million), LBP 251,539 million (USD 167 million) of which in foreign currencies and LBP 33,776 million (USD 22 million) in Lebanese Pounds.

Deposits from customers and related parties by December 31, 2017 reached LBP 4,771,702 million (USD 3,165 million) of which 39.9% or LBP 1,904,795 million (USD 1,264 million) in Lebanese Pounds and 60.1 % or LBP 2,866,907 million (USD 1,902 million) in foreign currencies.

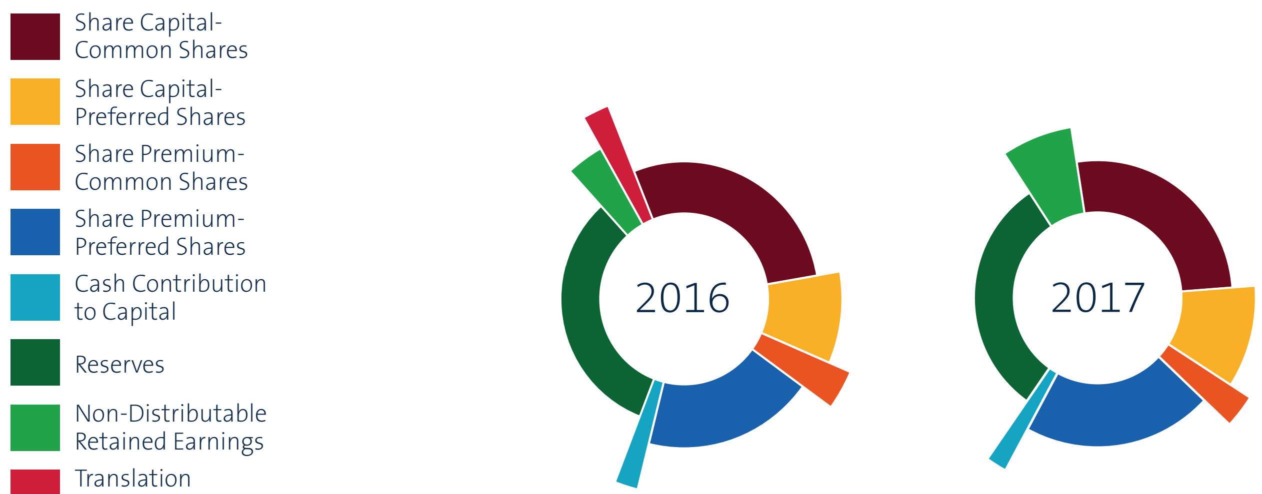
On December 31, 2016, deposits from customers and related parties reached LBP 4,486,388 million (USD 2,976 million), of which 41.7% or LBP 1,871,019 million (USD 1,241 million) in Lebanese Pounds and 58.3 % or LBP 2,615,368 million (USD 1,735 million) in foreign currencies.

## EQUITY

The following table sets out the composition of the Group's total equity, as well as the percentage of total and changes therein on December 31, 2017, and 2016 respectively:

| LBP Million | 2017 | % of Total | 2016 | % of Total | Growth | % Growth |
|---|---|---|---|---|---|---|
| Share Capital - Common Shares | 142,300 | 23.7% | 112,119 | 22.6% | 30,181 | 26.9% |
| Share Capital - Preferred Shares | 62,500 | 10.4% | 47,500 | 9.6% | 15,000 | 31.6% |
| Share Premium - Common Shares | 17,274 | 2.9% | 17,274 | 3.5% | - | 0.0% |
| Share Premium - Preferred Shares | 125,937 | 21.0% | 95,712 | 19.4% | 30,225 | 31.6% |
| Cash Contribution to Capital | 10,854 | 1.8% | 10,854 | 2.2% | - | 0.0% |
| Reserves | 178,788 | 29.8% | 144,102 | 29.2% | 34,686 | 24.1% |
| Non-Distributable Retained Earnings | 30,689 | 5.1% | 18,050 | 3.7% | 12,639 | 70.0% |
| Translation Reserve | - | 0.0% | (5,635) | -1.1% | 5,635 | -100.0% |
| Retained Earnings | 31,739 | 5.3% | 54,022 | 10.9% | (22,283) | -41.2% |
| **Equity Attributable to Equity Holders of the Bank** | **600,081** | **100.0%** | **493,998** | **100.0%** | **106,083** | **21.5%** |
| Non-Controlling Interest | 51 | 0.0% | 48 | 0.0% | 3 | 5.8% |
| **Total Equity** | **600,132** | **100.0%** | **494,046** | **100.0%** | **106,086** | **21.5%** |

## TOTAL EQUITY




The Group's total equity recorded a growth of LBP 106,086 million (USD 70 million) or 21.5% to amount to LBP 600,132 million (USD 398 million) by December 31, 2017, compared to LBP 494,046 million (USD 328 million) at December 31, 2016.

The extraordinary General Assemblies of the Shareholders of the Bank held on 9 October 2017 and 17 August 2017 resolved to increase the capital of the Bank from LBP 159,619,150 thousand to LBP 204,800,000 thousand by issuing 603,617 ordinary shares with a par value of LBP 50,000 thousand paid in cash. The increase of common shares amounted to LBP 30,180,850 thousands.

Additionally the extraordinary general assembly held on 17 August 2017 resolved the issuance of 300,000 new preferred shares (Series 6) with a par value of 50,000 thousand and a total premium of LBP 30,225,000 thousands.

## PROFITABILITY

The following table sets out the composition of the Group's profitability, as well as the percentage changes therein for the year 2017 and 2016, respectively:

| LBP Million | 2017 | 2016 | Growth | % Growth |
|---|---|---|---|---|
| Net Interest Income | 95,124 | 100,158 | (5,033) | -5.0% |
| Net Fees and Commissions Income | 19,696 | 20,731 | (1,035) | -5.0% |
| Net Profits on Financial Operations | 26,694 | 97,057 | (70,363) | -72.5% |
| Other Revenue | 8,020 | 7,724 | 296 | 3.8% |
| Gain from investment in associate | 2,360 | 3,618 | (1,258) | -34.8% |
| **Total Operating Income (Before Impairment)** | **151,895** | **229,288** | **(77,393)** | **-33.8%** |
| Net Impairment Loss on Loans and Advances to Customers | (14,347) | (11,943) | (2,404) | 20.1% |
| Impairment Charges on other financial assets | (8,701) | (56,318) | 47,617 | -84.5% |
| **Total Operating Income (After Impairment)** | **128,847** | **161,027** | **(32,181)** | **-20.0%** |
| Operating Expenses | (89,110) | (78,386) | (10,724) | 13.7% |
| Depreciation & Amortization | (4,677) | (4,274) | (403) | 9.4% |
| Tax Expense | (5,073) | (18,988) | 13,915 | -73.3% |
| **Net Income** | **29,986** | **59,379** | **(29,392)** | **-49.5%** |
| **Bank's Share** | **29,977** | **59,368** | | |
| Dividend on Preferred Shares Series 2 | 2,186 | 2,186 | | |
| Dividend on Preferred Shares Series 3 | 3,279 | 3,279 | | |
| Dividend on Preferred Shares Series 4 | 2,186 | 2,186 | | |
| Dividend on Preferred Shares Series 5 | 2,638 | 2,638 | | |
| Dividend on Preferred Shares Series 6 | 167 | - | | |
| Net Income related to Common Shares | 19,521 | 49,080 | | |
| Number of Common Shares During the Period | 2,846,000 | 2,242,383 | | |
| Earnings per Common Share **(In LBP)** | 6,859 | 21,887 | | |

Net income after tax amounted to LBP 29,986 million (USD 20 million) by December 31, 2017, compared to LBP 59,379 million (USD 39 million) by December 31, 2016.



## OPERATING INCOME

The following table shows the composition of the Group's operating income, as well as the percentage changes therein for the year 2017, and 2016, respectively:

| LBP Million | 2017 | 2016 | Growth | % Growth |
|---|---|---|---|---|
| Balances with Central Banks | 114,376 | 52,432 | 61,944 | 118.1% |
| Banks and Financial Institutions | 2,478 | 14,966 | (12,488) | -83.4% |
| Loans and Advances to Customers and Related Parties | 211,768 | 196,519 | 15,249 | 7.8% |
| Investment Securities | 18,137 | 63,481 | (45,344) | -71.4% |
| **Total Interest Income** | **346,759** | **327,397** | **19,362** | **5.9%** |
| Due to banks and financial institutions | 5,365 | 5,320 | 45 | 0.8% |
| Deposits from customers and related parties | 246,270 | 221,920 | 24,350 | 11.0% |
| **Total Interest Expense** | **251,634** | **227,239** | **24,395** | **10.7%** |
| **Net Interest Income** | **95,124** | **100,158** | **(5,033)** | **-5.0%** |
| Fees and Commissions Income | 25,974 | 27,384 | (1,409) | -5.1% |
| Fees and Commissions Expense | (6,278) | (6,652) | 374 | -5.6% |
| **Net Fees and Commissions Income** | **19,696** | **20,731** | **(1,035)** | **-5.0%** |
| Net Trading Income | 2,718 | (14,200) | 16,918 | -119.1% |
| Net Income from Investment Securities at Fair Value | 20,871 | 49,661 | (28,790) | -58.0% |
| Net Income from Investment Securities at Amortized Cost | 109 | 61,285 | (61,176) | -99.8% |
| Dividend Income | 2,997 | 311 | 2,685 | 862.1% |
| Other Operating Income | 8,020 | 7,724 | 296 | 3.8% |
| Gain from investment in associates | 2,360 | 3,618 | (1,258) | -34.8% |
| **Net Income from Other Operating Activities** | **37,074** | **108,399** | **(71,325)** | **-65.8%** |
| **Total Non-Interest Income** | **56,771** | **129,130** | **(72,360)** | **-56.0%** |
| **Total Operating Income** | **151,895** | **229,288** | **(77,393)** | **-33.8%** |

The Group's interest income reached LBP 346,759 million (USD 230 million) by December 31, 2017, compared to LBP 327,397 million (USD 217 million) by December 31, 2016.

The Group's interest expense amounted to LBP 251,634 million (USD 167 million) on December 31, 2017, as compared to 227,239 million (USD 151 million) on December 31, 2016. The increase of LBP 24,395 million (USD 16 million) was mainly due to the growth of customer deposits in 2017.

On December 31, 2017 the Group's net interest income reached LBP 95,124 million (USD 63 million), compared to LBP 100,158 million (USD 66 million) by December 31, 2016.

Total operating income of the Group amounted to LBP 151,895 million (USD 101 million) by the end of 2017, compared to LBP 229,288 million (USD 152 million) by the end of 2016.

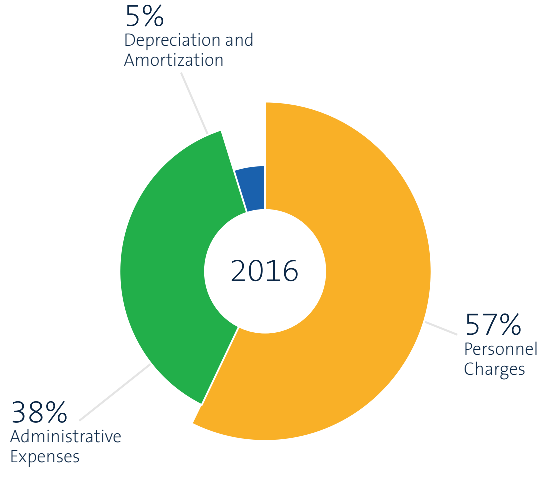


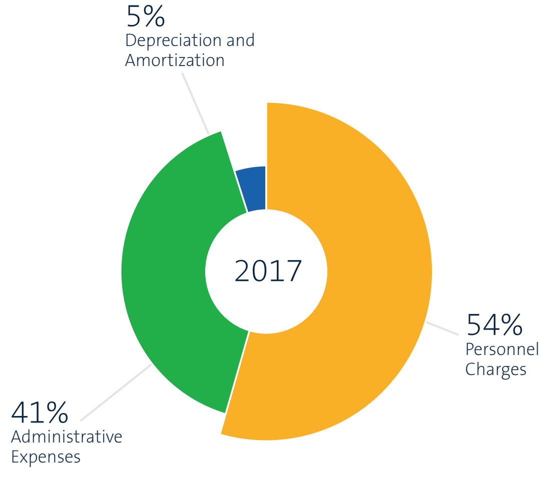
## OPERATING EXPENSES

The following table shows the composition of the Bank's operating expenses, as well as the percentage of total and changes therein by December 31, 2017, and December 31, 2016, respectively:

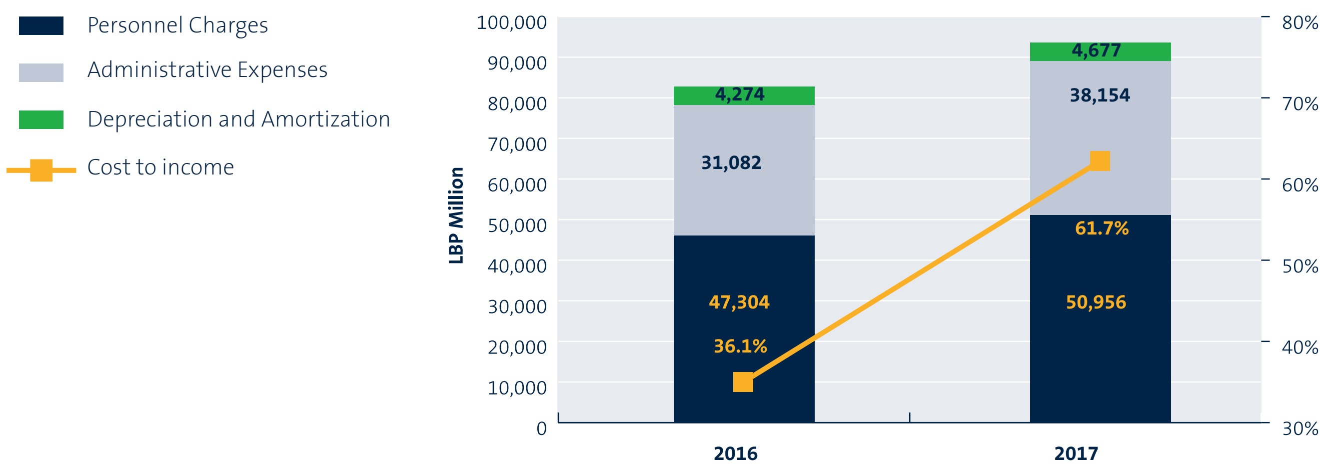
| LBP Million | 2017 | % of Total | 2016 | % of Total | Growth | % Growth |
|---|---|---|---|---|---|---|
| Personnel Charges | 50,956 | 54.3% | 47,304 | 57.2% | 3,652 | 7.7% |
| Administrative Expenses | 38,154 | 40.7% | 31,082 | 37.6% | 7,072 | 22.8% |
| Depreciation and Amortization | 4,677 | 5.0% | 4,274 | 5.2% | 403 | 9.4% |
| **Total Operating Expenses** | **93,788** | | **82,660** | | **11,127** | **13.5%** |

## BREAKDOWN OF OPERATING EXPENSES



## OPERATING EXPENSES




On December 31, 2017 the Group's total operating expenses reached LBP 93,788 million (USD 62 million), compared to LBP 82,660 million (USD 55 million) on December 31, 2016.

Personnel charges constituted 54.3 % of the Group's total operating expenses by December 31, 2017, compared to 57.2% by December 31, 2016, while administrative expenses stood at 40.7% and 37.6% respectively.



## RISK MANAGEMENT

### Introduction

"Together everyone achieves more" (TEAM) has never been a truer statement when it comes to risk management in challenging times. With the banking sector exposed to numerous pressures and risks, Creditbank is continuously introducing measures to evaluate and enhance its risk capacity: the ability to identify the financial resources, expertise and operating mandate needed to determine how much risk can be taken, subject to risk limits and other controls. The procedures regarding good governance and internal control have been instrumental in supporting the Bank to weigh and judge emerging risks and maximize long-term results. Providing an upgraded set of tools to protect assets, revenues and reputation, they have allowed the Bank to determine its capacity more clearly, particularly in terms of risk tolerance and risk appetite. With the help of regular departmental reports, the Creditbank Board Committee on Risk Management provides a solid governance framework supervising risk management. All risk-related policies and strategic decisions are approved by the Board Committee on Risk Management and endorsed by the Board of Directors.

The Group manages to maintain its strong financial position through enhanced capital management practices, which enabled it to continue to take advantage of growth opportunities, maintain access to financial markets and return capital to its shareholders. This is in particular achieved through the Bank's annual Internal Capital Adequacy Assessment Process (ICAAP), an internal assessment procedure regarding risks and capital quality that aims to steer the Bank through adverse economic scenarios and cover all risks to which it is exposed.

### Risk Management Function

The Risk Management Function follows the rules and regulations of the Central Bank of Lebanon and the guidelines of the Basel Committee in the Core Principles for Effective Banking Supervision and the International Convergence of Capital Measurement and Capital Standards - A Revised Framework - to measure and manage credit risk, operational risk, liquidity risk, market risk, interest rate risk in the banking book, as well as other risks inherent to the Bank's activities. With respect to the Basel recommendations regarding best practices in risk management and the objective of capital measurement and capital adequacy, the Bank in addition to the IFRS9 impairment requirements, has adopted a phased and sophisticated approach to managing credit risk. It makes use of an internal rating based methodology to calculate Expected Credit Loss

Capital management is addressed in the Bank's annual Internal Capital Adequacy Assessment Process (ICAAP) covering all risks to which the Group is or may be exposed to, along with an assessment of capital levels. The overall responsibility of the ICAAP is assigned to an ICAAP Team, comprised of the Head of Risk Management, the Head of Finance and the Head of Internal Audit. The Risk Management Department continues to play a key role in ensuring that the appropriate risk management practices remain in place and in line with the Bank's overall strategy, thus adding an extra layer of protection to both the Bank and its stakeholders.

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MANAGEMENT NOTES

**Risk Management Framework**

The Bank is mainly exposed to credit risk, liquidity risk, interest rate risk and operational risks, with a lower exposure to market risk.

**1. Credit Risk**

In order to determine and monitor credit risk, the Bank studies the borrower's profile, repayment sources, underlying collateral in addition to numerous factors such as its management, the environment and industry where he operates. The Bank controls its credit exposure by setting limits in line with rules and regulations regarding the exposure to a single borrower, a group of borrowers and/ or industry segments. Such limits are continuously monitored. Credit risk evolvement is managed through the regular analysis of the obligors' ability to meet their obligations (i.e. interest and capital repayment), as well as by obtaining collateral and/or other guarantees, and by assessing the obligor's collateral's eligibility to mitigate the gross credit risk exposure. Creditbank's Internal Credit Risk System grants the ability to analyze and rate the many conditions related to each obligor and determine the probability of default. An analysis of eligible collaterals and/or guarantees is furthermore used to determine the expected credit loss in case of the obligor's potential default, upon which provisioning, and ultimately capital charges and risk pricing will be based.

*Reference pages 49 - 50 (Classification of Loans)*

Analysis of Credit Concentration Risk The concentration of credit risk is analyzed by Client/ Group, by Industry Segment, by Collateral Type and by Geographical Location. The following tables show the total exposure to credit risk (Loans & Advances) by collateral type.

*Reference pages 51 - 52 (Distribution of Loans by Collateral Type)*

**2. Liquidity Risk**

Funding and liquidity risk management allows the Bank to maintain excess liquidity and access diverse funding sources, including the Bank's stable deposit base.

A Liquidity Risk Management Policy is established to manage, monitor and ensure an adequate liquidity position. In addition to a Contingency Funding Plan (CFP) to be adopted in the event of liquidity crisis.
The liquidity position is assessed using various scenarios and stress tests that may impact the Immediate Liquidity Ratio.

*Reference pages 55 - 56 (Deposits from Customers & Related Parties) and page 57 (Distribution of Deposits by Currency)*

**3. Interest Rate Risk in the Banking book**

The Bank manages interest rates to ensure that rate fluctuations do not adversely affect the core net interest income and the economic value of equity. The IRR arises from the mismatch of re-pricing of assets and liabilities.

*Reference to IRR Tables pages 127 - 128*

**4. Market Risk**

Market risk at the Bank arises from open positions in interest rates (related to debt instruments that are being traded), currency and equity instruments classified at Fair Value through Profit or Loss (FVTPL), all of which are exposed to general and specific market movements. The Market Risk Governance has been defined in the Investment Policy. It is the responsibility of the Asset and Liability Committee (ALCO) to manage the Bank's investment portfolio under the terms of the Investment Policy. While striving to maximize portfolio performance, the ALCO shall keep the management of the portfolio within the bounds of good banking practices, satisfy the Bank's liquidity needs, and ensure compliance with both regulatory and internally set limits and requirements.

*Reference page 53 (Investment Securities: Equity and Debt instruments)*

**5. Operational Risk**

Operational Risk Management (ORM) is a continual process that consists of six stages:

1.Risk identification.
2.Risk Assessment.
3.Control analysis
4.Mitigation decision
5.Mitigation implementation.
6.Supervision and review.

This cycle enhances the control environment for all of the Bank's activities, processes, existing and new products and systems. The framework for collecting, managing and controlling operational financial and non-financial (reputational) risks encompasses various tools including:

- Risk and Control Self-Assessment (RCSA).
- Operational risk data collection.
- Assessment and analysis of reported Operational risk events.
- Key risk indicators.
- Profit And Loss Accounts

**6. Enterprise-wide Stress Testing**

Periodic enterprise-wide stress tests are conducted to enable a better understanding and reveal the potential impact of the Bank's risk profile in terms of earnings, capital and liquidity. Such tests also help tackle unanticipated market conditions. "It would be a mistake to conclude that the only way to succeed in banking is through ever-greater size and diversity. Indeed, better risk management may be the truly necessary element of success in banking"
- Alan Greenspan, Former Chairman of Federal Reserve

# CONSOLIDATED FINANCIAL STATEMENTS

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To the shareholders of Creditbank S.A.L.

**Report on the Audit of the Consolidated Financial Statements**

**Qualified Opinion**

We have audited the Consolidated financial statements of Creditbank S.A.L. (the "Bank" or "Group"), which comprise the Consolidated statement of financial position as at 31 December 2017, the Consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, except for the effects of matters described in the *"Basis for Qualified Opinion"* section of our report under number 1 below, the accompanying Consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

**Basis for Qualified Opinion**

1- As disclosed in note 36 d) to the consolidated financial statements, the Group has an investment in Russia "CB Anelik RU LLC", a foreign subsidiary accounted for at cost in the separate financial statements of the Bank. In July 2017, the Central Bank of Russia decided to withdraw the banking license of this subsidiary, ordered to cease off all their operations and designated a liquidator to proceed with the liquidation and accordingly lost control over "CB Anelik RU LLCs ". In addition, the Group was not able to consolidate "CB Anelik RU LLC" for the period from 1 January 2017 till the period of losing control since there were no available audited financial statements for that period.

Accordingly, we were unable to obtain sufficient appropriate audit evidence whether the Group is exposed to additional obligation or liability arising from the liquidation of "CB Anelik RU LLCs " as at and for the year ended 31 December 2017 and we were unable to determine whether any adjustments to the consolidated financial statements were necessary for the same period as a result of not consolidating "CB Anelik RU LLCs ".

2- As disclosed in note 21 to the consolidated financial statements, the Bank recorded in 2016:
   - Excess provisions amounting to LBP 43,726 million under "Provisions" in order to comply with the provisioning requirements of Central Bank of Lebanon's Intermediate Circular number 439 dated 8 November 2016;
   - Furthermore, the Bank recorded excess provisions amounting to LBP 12,592 million under "Provisions". We were unable to obtain appropriate evidence whether those provisions would be required for loans and advances to customers or any other financial statements captions.



The Bank's accounting for the above-mentioned transactions departs from the requirements of International Financial Reporting Standards (IFRSs). Had the Bank properly accounted for these transactions, events and conditions, in accordance with International Financial Reporting Standards, the effects on the consolidated financial statements would have been as follows:

   - Net income for the year ended 31 December 2016 would have increased by LBP 56,318 million through a decrease in "Provisions for risks and charges" by LBP 56,318 million;
   - Total liabilities as at 31 December 2016 would have decreased by LBP 56,318 million, through a decrease in "Provisions" by LBP 56,318 million; and
   - Equity as at 31 December 2016 would have increased, through an increase in net income, by LBP 56,318 million.

3- As disclosed in notes 29 and 30 to the financial statements, the Bank has derecognized during 2016 financial instruments at amortised cost for the amount of LBP 1,065,417,500 thousand which resulted in capital gains for the amount of LBP 61,284,642 thousand. This derecognition was material to the Bank's portfolio of investment securities measured at amortised cost and is inconsistent with the business model of the Bank for financial assets, and deviates from the provisions of International Financial Reporting Standard (IFRS) 9 "Financial Instruments" which requires the Bank to reconsider its business model for the measurement of securities at amortised cost in line with the behaviour of the portfolio.

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

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the 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 Consolidated opinion on these matters.

***Impairment of loans and advances to customers***

Impairment of loans and advances to customers is a key audit matter due to the significance of the balances, and complexity and subjectivity over estimating timing and amount of impairment. The risk is that the amount of impairment may be misstated.

The estimation of the impairment loss allowance on an individual basis requires management to make judgements to determine whether there is objective evidence of impairment and to make assumptions about the financial condition of the borrowers and expected future cash flows.

The collective impairment loss allowance relates to retail and corporate loans and losses incurred but not yet identified (IBNR loss allowance) on other loans.

Our procedures in this area included:

- assessing the trends in the local credit environment, considering their likely impact on the Group's exposures and using this information to focus our testing on the key risk areas;
- assessing and testing the design and operating effectiveness of the controls over the Group's loan impairment process — for example:
  - controls over the model process, including building, monitoring, periodic validation and approvals;
  - controls over the completeness and accuracy of data input into models;
  - for the principal underlying system generating credit data, IT controls such as access, data management, and change management;
  - controls over the identification of which loans and advances were impaired. For individually significant loans this included controls over credit grading and the monitoring process; and
  - the management review process over the calculations;
- re-performing certain credit procedures as follows:
  - for individually significant loans:
    - performing a credit assessment of a sample of loans in credit risk grades 4, 5 and 6 to determine whether their grading was appropriate and assess the reasonableness of the amount and timing of estimated recoverable cash flows, including realisable value of collateral and how forbearance was considered; and
    - performing a credit assessment of a sample of loans graded 1 to 3 to determine whether their grading was appropriate; and
  - for retail loans:
    - testing the accuracy of key inputs into the models;
    - for a selection of models, assessing the appropriateness of the impairment calculation methodology; and
    - re-performing certain calculations; and
- assessing whether disclosures in the Consolidated financial statements appropriately reflect the Group's exposure to credit risk.

**Other Information**

Management is responsible for the other information. The other information comprises the information included in the Annual Report but does not include the Consolidated financial statements and our auditors' report thereon. The Annual Report is expected to be made available to us after the date of this auditors' report.

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

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

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

**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 IFRS, 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.

**Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

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

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

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

- 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 Consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our 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 Group 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 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 auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Mr. Wissam Safwan for KPMG and Mr. Antoine Gholam for BDO, Semaan, Gholam & Co.

BDO, Semaan, Gholam & Co

KPMG

16 July 2018
Beirut, Lebanon

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION I AS AT 31 DECEMBER

| *In thousands of Lebanese Pound* | Note | 2017 | 2016 |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances with Central Bank of Lebanon | 9 | 2,289,577,866 | 1,662,757,077 |
| Banks and financial institutions | 10 | 145,298,645 | 231,496,926 |
| Loans and advances to customers and related parties | 11 | 2,717,204,252 | 2,739,271,955 |
| Investment securities | 12 | 276,428,328 | 381,264,694 |
| Shares acquired in settlement of debt at fair value through profit or loss | 13 | 110,626,099 | 100,050,702 |
| Investments in associate | 36 | 84,781,563 | 69,030,165 |
| Property and equipment | 14 | 99,501,429 | 70,118,092 |
| Intangible assets | 15 | 690,109 | 523,555 |
| Other assets | 16 | 31,668,269 | 31,264,051 |
| Non-current assets held for sale | 17 | 4,405,996 | 4,405,996 |
| **Total assets** | | **5,760,182,556** | **5,290,183,213** |
| | | | |
| **Liabilities** | | | |
| Due to banks and financial institutions | 18 | 297,630,858 | 168,350,210 |
| Deposits from customers and related parties | 19 | 4,771,702,446 | 4,486,387,546 |
| Current tax liabilities | | 4,070,500 | 15,475,439 |
| Other liabilities | 20 | 76,876,464 | 61,178,786 |
| Provisions | 21 | 9,770,109 | 64,744,743 |
| **Total liabilities** | | **5,160,050,377** | **4,796,136,724** |
| | | | |
| **Equity** | | | |
| Share capital - common shares | 22 | 142,300,000 | 112,119,150 |
| Share capital - preferred shares | 22 | 62,500,000 | 47,500,000 |
| Share premium - common shares | 23 | 17,273,587 | 17,273,587 |
| Share premium - preferred shares | 23 | 125,937,499 | 95,712,499 |
| Cash contribution to capital | 24 | 10,854,000 | 10,854,000 |
| Reserves | 25 | 178,787,865 | 144,102,103 |
| Non-distributable retained earnings | 25 | 30,689,023 | 18,049,769 |
| Translation reserve | | – | (5,635,174) |
| Retained earnings | | 31,739,490 | 54,022,333 |
| **Equity attributable to equity holders of the bank** | | **600,081,464** | **493,998,267** |
| **Non-controlling interest** | | **50,715** | **48,222** |
| **Total equity** | | **600,132,179** | **494,046,489** |
| **Total liabilities and equity** | | **5,760,182,556** | **5,290,183,213** |

The notes on pages 13 to 73 are an integral part of these consolidated financial statements.
The consolidated financial statements were authorised for issue by the Chairman of the Board of Directors on 16 July 2018:

**Mr. Tarek Khalifeh**
Chairman



## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME I FOR THE YEAR ENDED 31 DECEMBER

| *In thousands of Lebanese Pound* | Note | 2017 | 2016 |
|---|---|---|---|
| Interest income | | 346,758,924 | 327,397,325 |
| Interest expense | | (251,634,496) | (227,239,489) |
| **Net interest income** | 26 | **95,124,428** | **100,157,836** |
| | | | |
| Fees and commission income | | 25,974,320 | 27,383,671 |
| Fees and commission expense | | (6,277,881) | (6,652,311) |
| **Net fees and commission income** | 27 | **19,696,439** | **20,731,360** |
| | | | |
| Net trading income / (loss) | 28 | 2,717,880 | (14,199,799) |
| Net gain on investment securities at fair value through profit or loss | 29 | 20,870,984 | 49,660,585 |
| Net gain on investment securities at amortised cost | 30 | 108,658 | 61,284,642 |
| Dividend income | | 2,996,886 | 311,480 |
| Other revenue | | 8,020,255 | 7,724,036 |
| Gain from investment in associate | | 2,359,506 | 3,618,000 |
| **Revenue** | | **151,895,036** | **229,288,140** |
| | | | |
| Personnel charges | 31 | (50,956,136) | (47,304,428) |
| Net impairment loss on loans and advances to customers | 11 | (14,347,230) | (11,943,044) |
| Impairment charges on other financial assets | 34 | (8,701,290) | (56,317,844) |
| Depreciation and amortisation | 14,15 | (4,677,256) | (4,274,414) |
| Administrative expenses | 32 | (38,154,221) | (31,081,748) |
| **Profit before tax** | | **35,058,903** | **78,366,662** |
| | | | |
| Income tax expense | 33 | (5,072,522) | (18,987,923) |
| **Profit for the year** | | **29,986,381** | **59,378,739** |
| | | | |
| **Other comprehensive income** | | | |
| Net unrealized (loss) / gain on investment securities at fair value through other comprehensive income | | | |
| - From Bank | | (4,523) | 6,330 |
| - From investment in associate | | 1,804,717 | 2,317,566 |
| **Total other comprehensive income for the year** | | **1,800,194** | **2,323,896** |
| **Total comprehensive income for the year** | | **31,786,575** | **61,702,635** |
| | | | |
| **Profit attributable to:** | | | |
| Equity holders of the Bank | | 29,976,688 | 59,368,438 |
| Non-controlling interests | | 9,693 | 10,301 |
| **Profit for the year** | | **29,986,381** | **59,378,739** |
| | | | |
| **Total comprehensive income attributable to:** | | | |
| Equity holders of the Bank | | 31,776,882 | 61,692,334 |
| Non-controlling interests | | 9,693 | 10,301 |
| **Total comprehensive income for the year** | | **31,786,575** | **61,702,635** |

The notes on pages 13 to 73 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY I FOR THE YEAR ENDED 31 DECEMBER 2017



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY I FOR THE YEAR ENDED 31 DECEMBER 2017

| *In thousands of Lebanese Pound* | Share capital-common shares | Share capital-preferred shares | Share premium - common shares | Share premium - preferred shares | Cash contribution to capital | Reserves | Non-distributable retained earnings | Translation reserve | Retained earnings | Total | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balances at 1 January 2017** | **112,119,150** | **47,500,000** | **17,273,587** | **95,712,499** | **10,854,000** | **144,102,103** | **18,049,769** | **(5,635,174)** | **54,022,333** | **493,998,267** | **48,222** | **494,046,489** |
| **Acquisition of non-controlling interests** | | | | | | | | | | | | |
| Profit for the year | – | – | – | – | – | – | – | – | 29,976,688 | 29,976,688 | 9,693 | 29,986,381 |
| **Other comprehensive income, net of tax** | | | | | | | | | | | | |
| Net change of financial assets measured at fair value through other comprehensive income: | | | | | | | | | | | | |
| Net change in fair value on equity instruments designated at fair value through other comprehensive income | – | – | – | – | – | 1,800,194 | – | – | – | 1,800,194 | – | 1,800,194 |
| Total other comprehensive income | – | – | – | – | – | 1,800,194 | – | – | – | 1,800,194 | – | 1,800,194 |
| Total comprehensive income for the year | – | – | – | – | – | 1,800,194 | – | – | 29,976,688 | 31,776,882 | 9,693 | 31,786,575 |
| **Transactions with owners of the Bank** | | | | | | | | | | | | |
| **Contributions and distributions** | | | | | | | | | | | | |
| Issue of common shares (note 22) | 30,180,850 | – | – | – | – | – | – | – | – | 30,180,850 | – | 30,180,850 |
| Issue of preferred shares (series 5) (note 22) | – | 15,000,000 | – | 30,225,000 | – | – | – | – | – | 45,225,000 | – | 45,225,000 |
| Dividends paid to holders of preferred shares (series 2, 3, 4 and 5) | – | – | – | – | – | – | – | – | (10,288,688) | (10,288,688) | – | (10,288,688) |
| Dividends paid to holders of common shares | – | – | – | – | – | (3,000,000) | – | – | 7,200 | (2,992,800) | (7,200) | (3,000,000) |
| **Total contributions and distributions** | **30,180,850** | **15,000,000** | **–** | **30,225,000** | **–** | **(3,000,000)** | **–** | **–** | **(10,281,488)** | **62,124,362** | **(7,200)** | **62,117,162** |
| **Other transactions recorded directly in equity** | | | | | | | | | | | | |
| Transfer from retained earnings to reserves | – | – | – | – | – | 35,885,568 | 12,639,254 | – | (48,524,822) | – | – | – |
| Differences due to de-consolidation of Anelik Russia | – | – | – | – | – | – | – | 5,635,174 | 6,546,779 | 12,181,953 | – | 12,181,953 |
| **Total other transactions recorded directly in equity** | **–** | **–** | **–** | **–** | **–** | **35,885,568** | **12,639,254** | **5,635,174** | **(41,978,043)** | **12,181,953** | **–** | **12,181,953** |
| **Total transactions recorded directly in equity** | **30,180,850** | **15,000,000** | **–** | **30,225,000** | **–** | **32,885,568** | **12,639,254** | **5,635,174** | **(52,259,531)** | **74,306,315** | **(7,200)** | **74,299,115** |
| **Balances at 31 December 2017** | **142,300,000** | **62,500,000** | **17,273,587** | **125,937,499** | **10,854,000** | **178,787,865** | **30,689,023** | **–** | **31,739,490** | **600,081,464** | **50,715** | **600,132,179** |

The notes on pages 13 to 73 are an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY I FOR THE YEAR ENDED 31 DECEMBER 2016



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY I FOR THE YEAR ENDED 31 DECEMBER 2016

| *In thousands of Lebanese Pound* | Share capital-common shares | Share capital-preferred shares | Share premium - common shares | Share premium - preferred shares | Cash contribution to capital | Reserves | Non-distributable retained earnings | Translation reserve | Retained earnings | Total | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balances at 1 January 2016** | **112,119,150** | **47,500,000** | **17,273,587** | **95,712,499** | **10,854,000** | **108,807,323** | **8,883,426** | **(21,789,768)** | **41,711,823** | **421,072,040** | **37,921** | **421,109,961** |
| **Acquisition of non-controlling interests** | | | | | | | | | | | | |
| Profit for the year | – | – | – | – | – | – | – | – | 59,368,438 | 59,368,438 | 10,301 | 59,378,739 |
| **Other comprehensive income, net of tax** | | | | | | | | | | | | |
| Net change of financial assets measured at fair value through other comprehensive income: | | | | | | | | | | | | |
| Net change in fair value on equity instruments designated at fair value through other comprehensive income | – | – | – | – | – | 2,323,896 | – | – | – | 2,323,896 | – | 2,323,896 |
| Total other comprehensive income | – | – | – | – | – | 2,323,896 | – | – | – | 2,323,896 | – | 2,323,896 |
| Total comprehensive income for the year | – | – | – | – | – | 2,323,896 | – | – | 59,368,438 | 61,692,334 | 10,301 | 61,702,635 |
| **Transactions with owners of the Bank** | | | | | | | | | | | | |
| **Contributions and distributions** | | | | | | | | | | | | |
| Dividends paid to holders of preferred shares (series 2, 3, 4 and 5) | – | – | – | – | – | – | – | – | (9,312,943) | (9,312,943) | – | (9,312,943) |
| **Total contributions and distributions** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(9,312,943)** | **(9,312,943)** | **–** | **(9,312,943)** |
| **Change in ownership interest in subsidiaries** | | | | | | | | | | | | |
| Change in ownership interest in subsidiary to associate | – | – | – | – | – | (963,974) | – | 15,145,239 | 5,356,216 | 19,537,481 | – | 19,537,481 |
| **Total change in ownership interest in subsidiaries** | **–** | **–** | **–** | **–** | **–** | **(963,974)** | **–** | **15,145,239** | **5,356,216** | **19,537,481** | **–** | **19,537,481** |
| **Other transactions recorded directly in equity** | | | | | | | | | | | | |
| Transfer from retained earnings to reserves | – | – | – | – | – | 33,934,858 | 9,166,343 | **–** | (43,101,201) | – | – | – |
| Exchange rate difference arising on consolidation | – | – | – | – | – | – | – | 1,009,355 | – | 1,009,355 | – | 1,009,355 |
| **Total other transactions recorded directly in equity** | **–** | **–** | **–** | **–** | **–** | **33,934,858** | **9,166,343** | **1,009,355** | **(43,101,201)** | **1,009,355** | **–** | **1,009,355** |
| **Total transactions recorded directly in equity** | **–** | **–** | **–** | **–** | **–** | **32,970,884** | **9,166,343** | **16,154,594** | **(47,057,928)** | **11,233,893** | **–** | **11,233,893** |
| **Balances at 31 December 2016** | **112,119,150** | **47,500,000** | **17,273,587** | **95,712,499** | **10,854,000** | **144,102,103** | **18,049,769** | **(5,635,174)** | **54,022,333** | **493,998,267** | **48,222** | **494,046,489** |

The notes on pages 13 to 73 are an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS I FOR THE YEAR ENDED 31 DECEMBER

| *In thousands of Lebanese Pound* | Note | 2017 | 2016 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit for the year | | 29,986,381 | 59,378,739 |
| Adjustments for: | | | |
| -Depreciation | | 4,494,615 | 4,240,451 |
| -Amortisation | | 182,641 | 83,959 |
| -Net impairment losses on loans and advances to customers | | 14,347,230 | 11,943,044 |
| -Net gain on investment securities at fair value through profit and loss | | (20,870,984) | (49,660,585) |
| -Net gain on investment securities at amortised cost | | (108,658) | (61,284,642) |
| -Dividend income | | (2,996,886) | (311,480) |
| -Loss on sale of property and equipment | | 70,155 | 21,671 |
| -Net interest income | | (95,124,428) | (100,157,836) |
| -Income tax expense | | 5,072,522 | 18,987,923 |
| | | **(64,947,412)** | **(116,758,756)** |
| Changes in: | | | |
| -Balances held with Central Banks | | (824,097,524) | (317,666,778) |
| -Banks and financial institutions | | 3,834,526 | (2,415,801) |
| -Loans and advances to customers and related parties | | 8,657,616 | (212,657,492) |
| -Other assets | | (404,217) | (8,337,383) |
| -Due to banks and financial institutions | | 89,594,328 | (41,440,567) |
| -Deposits from customers and related parties | | 281,454,804 | 223,269,386 |
| - Investments in associate | | (15,751,398) | (69,030,165) |
| - Non-current assets held for sale | | – | 10,738,317 |
| -Provisions | | (54,974,634) | 57,876,516 |
| -Other liabilities | | 15,697,678 | (10,808,336) |
| | | **(560,936,233)** | **(487,231,059)** |
| Interest received | | 331,017,598 | 344,259,518 |
| Interest paid | | (247,239,750) | (226,506,171) |
| Income tax paid | | (16,477,461) | (8,352,484) |
| **Net cash used in operating activities** | | **(493,635,846)** | **(377,830,196)** |

The notes on pages 13 to 73 are an integral part of these consolidated financial statements.



CONSOLIDATED STATEMENT OF CASH FLOWS I FOR THE YEAR ENDED 31 DECEMBER

| *In thousands of Lebanese Pound* | Note | 2017 | 2016 |
|---|---|---|---|
| **Cash flows from investing activities** | | | |
| Net change in investment securities | | 137,047,148 | 701,044,184 |
| Acquisition of shares acquired in settlement of debt at fair value through profit and loss | | (10,575,397) | (10,063,541) |
| Net change in property and equipment | | (39,082,954) | 2,261,844 |
| Acquisition of intangible assets | | (349,195) | (152,741) |
| Proceeds from sale of property and equipment | | 5,134,847 | 909,169 |
| Net change in intangible assets | | – | (1,288) |
| Acquisition of property acquired in settlement of debt | | – | 689,229 |
| **Net cash from investing activities** | | **92,174,449** | **694,686,856** |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of common shares | | 30,180,850 | – |
| Proceeds from issue of preferred shares | | 15,000,000 | – |
| Proceeds from issue of preferred shares - Premium | | 30,225,000 | – |
| Change in control in Anelik CJSC | | – | 29,265,854 |
| Dividends paid | | (13,288,688) | (9,312,943) |
| **Net cash from financing activities** | | **62,117,162** | **19,952,911** |
| **Net (decrease) / increase in cash and cash equivalents** | | **(339,344,235)** | **336,809,571** |
| Cash and cash equivalents at 1 January | | 580,211,417 | 242,472,809 |
| Effect of exchange rate fluctuations on cash and cash equivalents | | – | 929,037 |
| Effect of deconsolidation of CB Anelik RU LLC | | 11,244,809 | – |
| **Cash and cash equivalents at 31 December** | 35 | **252,111,991** | **580,211,417** |

The notes on pages 13 to 73 are an integral part of these consolidated financial statements.

## (1) REPORTING ENTITY

Creditbank S.A.L. (the "Bank" or "Group") is a joint stock company domiciled in Lebanon. The Bank is registered under No.103 on the list of banks published by the Central Bank of Lebanon. The Head office of the Bank is located in Dekwaneh (Freeway Center). The Group is primarily involved in investment, retail and corporate banking, through its head office in Beirut and its network of 25 Branches across Lebanon.

| | Country of incorporation | Number of shares | 2017 Ownership interest | 2016 Ownership interest |
|---|---|---|---|---|
| Credex SAL | Lebanon | 74,820 | 99.76% | 99.76% |
| Baabda 1587 SAL | Lebanon | 2,970 | 99.00% | 99.00% |
| Achrafieh 784 SAL | Lebanon | 990 | 99.00% | 99.00% |



## (2) BASIS OF PREPARATION

**(a) Statement of compliance**
The Consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). Details of the Group's accounting policies, including change during the year, are included in Notes 3 and 4.

**(b) Basis of measurement**
The Consolidated financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- Investment securities at fair value through other comprehensive income are measured at fair value;
- Investment securities designated at fair value through profit or loss are measured at fair value; and
- Shares acquired in settlement of debt are measured at fair value.

**(c) Functional and presentation currency**
These Consolidated financial statements are presented in Lebanese Pound (LBP), which is the Group's functional currency. All financial information presented in LBP have been rounded to the nearest thousand, except when otherwise indicated.

**(d) Use of judgements and estimates**
In preparing these Consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

**Assumptions and estimation uncertainties**
Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 December 2018 is set out below in relation to the impairment of financial instruments and in the following notes in relation to other areas:

- Notes 21 and 35 - recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources.
- Note 7 - determination of the fair value of financial instruments with significant unobservable inputs.

Management discusses with the Board of Directors the development and disclosure of the Group's critical accounting policies and estimates, and the application of these policies and estimates.

*Impairment of financial instruments*
Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy 4 (m)(vii).

The individual component of the total allowance for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the recoverable amounts that are expected to be received. In estimating the recoverable amount, management makes judgements about a debtor's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of amounts considered recoverable are independently approved by the concerned committees.
A collective component of the total allowance is established for:

- groups of homogeneous loans that are not considered individually significant; and
- groups of assets that are individually significant but that were not found to be individually impaired (loss 'incurred but not reported' or IBNR).

The collective allowance for groups of homogeneous loans is established using statistical methods such as roll rate methodology or, for small portfolios with insufficient information, a formula approach based on historical loss rate experience. The roll rate methodology uses statistical analysis of historical data on delinquency to estimate the amount of loss. Management applies judgement to ensure that the estimate of loss arrived at on the basis of historical information is appropriately adjusted to reflect the economic conditions and product mix at the reporting date. Roll rates and loss rates are regularly benchmarked against actual loss experience.

The IBNR allowance covers credit losses inherent in portfolios of loans and advances and investments securities at amortised cost with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired items but the individual impaired items cannot yet be identified.

In assessing the need for collective loss allowance, management considers factors such as credit quality, portfolio size, concentrations and economic factors. To estimate the required allowance, assumptions are made to define how inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowance depends on the model assumptions and parameters used in determining the collective allowance.



Investments in equity securities were evaluated for impairment on the basis described in Note 4 (m)(vii).

In making an assessment of whether an investment in sovereign debt is impaired, the Group considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of the creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

## (3) CHANGE IN ACCOUNTING POLICIES

Except for the changes below, the Group has consistently applied the accounting policies as set out in note (4) to all years presented in these Consolidated financial statements.

The Group adopted certain standards and amendments to standards, with a date of initial application of 1 January 2017. These improvements, effective from 1 January 2017 did not have a material impact on the Group. They include:

**Disclosure Initiative (Amendments to IAS 7)**

**Recognition of deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)**

**Annual Improvements to IFRSs 2014 – 2016 Cycle (Amendments to IFRS 1, 12 and IAS 28)**

- IFRS 1 *First-time adoption of IFRS*
- IFRS 12 *Disclosure of Interest in Other Entities*
- IAS 28 *Investments in Associates and Joint Venture*

## (4) SIGNIFICANT ACCOUNTING POLICIES

Except for the change explained in note (3), the accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements.

**(a) Presentation of consolidated financial statements**
The Group has elected to present separate and consolidated financial statements that comply with IFRS.

**(b) Subsidiaries**
Subsidiaries are investees controlled by the Group. The Group controls an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investees. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases. Subsidiaries are accounted for at cost in these consolidated financial statements.

**(c) Interests in associates**
Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies.

Interests in associates are accounted for using the equity-method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the financial statements include the Company's share of the profit or loss and other comprehensive income of the associates, until the date on which significant influence ceases.

**(d) Loss of control**
When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when the control is lost.

**(e) Foreign currency**
***Foreign currency transactions***
Transactions in foreign currencies are translated into the respective functional currencies of the operations at the spot exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the spot exchange rate at the date that the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Foreign currency differences arising on translation are generally recognised in profit or loss. However, foreign currency differences arising from the translation of financial assets at fair value through other comprehensive income are recognised in other comprehensive income.

**(f) Interest**
Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes transaction costs and fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

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

Fair value changes on other financial assets and liabilities carried at fair value through profit or loss, are presented in 'Net gain on investments securities at fair value through profit or loss' in the consolidated statement of profit or loss and other comprehensive income.

**(g) Fees and commission**
Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment management fees, sales commission and placement fees, are recognised as the related services are performed.

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

**(h) Net trading income / (loss)**
Net trading income / (loss) comprises foreign exchange differences.

**(i) Net gain from investments securities at fair value through profit or loss**
Net gain from investments securities at fair value through profit or loss includes all realised and unrealised fair value changes.

**(j) Dividend income**
Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities and preferred shares.

**(k) Lease payments - Lessee**
Payments made under operating lease are recognised in profit or loss on a straight-line basis over the term of the lease.

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

***(i) Current tax***
Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

***(ii) Tax exposures***
In determining the amount of current and income tax, the Group considers the impact of tax exposures, including whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities would impact tax expense in the period in which such a determination is made.

**(m) Financial assets and financial liabilities**

***(i) Recognition***
The Group initially recognises loans and advances and deposits on the date at which they are originated. All other financial instruments (including regular way purchases and sales of financial assets) are recognised on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

***(ii) Classification***
**Financial assets**
The Group classifies its financial assets as measured at amortised cost or fair value. A financial asset qualifies for amortised cost measurement only if it meets both of the following conditions:

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

If a financial asset does not meet both of these conditions, then it is measured at fair value.

The Group makes an assessment of a business model at a portfolio level as this reflects best the way the business is managed and information is provided to management.

In making an assessment of whether an asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows, the Group considers:

- management's stated policies and objectives for the portfolio and the operation of those policies in practice;
- how management evaluates the performance of the portfolio;
- whether management's strategy focuses on earning contractual interest revenues;
- the degree of frequency of any expected asset sales;
- the reason for any asset sales; and
- whether assets that are sold are held for an extended period of time relative to their contractual maturity or are sold shortly after acquisition or an extended time before maturity.

Financial assets held for trading are not held within a business model whose objective is to hold the asset in order to collect contractual cash flows.

**Financial liabilities**
The Group classifies its financial liabilities at amortized cost.

***(iii) Derecognition***

**Financial assets**

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that has been recognized in other comprehensive income is recognized in profit or loss. Any interest in such transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a consolidated asset or liability.

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such case, the transferred assets are not derecognized. Examples of such transactions are securities lending and sale and repurchase transactions.When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to repurchase transactions because the Group retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Group retains obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract, depending on whether the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

***Financial liabilities***

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

***(iv) Offsetting***

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

Income and expenses are presented on a net basis when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Goup's trading activity.

***(v) Amortised cost measurement***

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

***(vi) Fair value measurement***

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 in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

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

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

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

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid. The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

***(vii) Identification and measurement of impairment***

At each reporting date the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment. In general, the Group considers a decline of 20% to be 'significant' and a period of nine months to be 'prolonged'. However, in specific circumstances a smaller decline or a shorter period may be appropriate

The Group considers evidence of impairment for loans and advances and investment securities measured at amortised cost at both a specific asset and collective level. All individually significant loans and advances and investment securities measured at amortised cost are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and investment securities measured at amortised cost that are not individually significant are collectively assessed for impairment by grouping together loans and advances and investment securities measured at amortised cost with similar risk characteristics.

In assessing collective impairment, the Group uses statistical modelling of historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or less than is suggested by historical trends. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets measured at amortized cost are calculated as the difference between the carrying amount of the financial amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and advances or investment securities at amortised cost. If an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss. The Group writes off certain loans and advances and investment securities, when Group Credit Committee determines that there is no realistic prospect of recovery.

***(viii) Designation at fair value through profit or loss***

The Group has designated financial assets at fair value through profit or loss in either of the following circumstances:

- The assets are managed, evaluated and reported internally on a fair value basis.
- The designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Note 7 sets out the amount of each class of financial asset that has been designated at fair value through profit or loss. A description of the basis for each designation is set out in the note for the relevant asset class.

**(n) Cash and cash equivalents**

Cash and cash equivalents include cash on hand, unrestricted balances held with the Central Bank of Lebanon and highly liquid financial assets with original maturities of three months or less from the acquisition date that are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

**(o) Trading assets and liabilities**

Trading assets and liabilities are those assets and liabilities that the Group acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the statement of financial position, with transaction costs recognised in profit or loss. All changes in fair value are recognised as part of "Net gain on investments securities at fair value through profit or loss".

**(p) Loans and advances**

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

**(q) Investment securities**

Investment securities are initially measured at fair value plus, in the case of investment securities not at fair value through profit or loss, incremental direct transaction costs, and subsequently accounted for depending on their classification at amortized cost, fair value through profit or loss or fair value through other comprehensive income.

Investment securities are measured at amortised cost using the effective interest method, if:

- they are held within a business model with an objective to hold assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest; and
- they have not been designated previously as measured at fair value through profit or loss.

The Group elects to present changes in fair value of certain investments in equity instruments held for strategic purposes in other comprehensive income. The election is irrevocable and is made on an instrument-by-instrument basis at initial recognition.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in other comprehensive income. Cumulative gains and losses recognised in other comprehensive income are transferred to retained earnings on disposal of an investment.

Other investment securities are measured at fair value through profit or loss.

**(r) Property and equipment**

***(i) Recognition and measurement***

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

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

If significant parts of an item of property or equipment have different useful lives, then they are accounted for as consolidated items (major components) of property and equipment.

Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised within other income / other expenses in profit or loss.

***(ii) Subsequent expenditure***

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

***(iii) Depreciation***

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

The estimated useful lives for the current and comparative years are as follows:

- Buildings 50 years
- Furniture and equipment 5 - 12.5 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

**(s) Intangible assets**

***Software***

Software acquired by the Group is measured at cost less accumulated amortisation and any accumulated impairment losses. Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures are expensed as incurred.

Software is amortised on a straight line basis in profit or loss over its estimated useful life, from the date that it is available for use. The estimated useful life of software for the current and comparative periods is three to ten years. Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

**(t) Non-current assets held for sale**
Properties acquired through the enforcement of security over loans and advances to customers are accounted for in accordance with the Directives issued by the Central Bank of Lebanon and the Banking Control Commission.

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and the sale is considered highly probable. They are stated at lower of fair value of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use.

A reserve is constituted for assets not disposed of within two years of the date of enforcement at an annual rate of 20% or 5%.

The accumulated amortisation is classified under "Reserves" (note 25).

**(u) Impairment of non-financial assets**
At each reporting date, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, based on the management's best estimate.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit or loss. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**(v) Deposits**
Deposits are the Goup's source of debt funding.

Deposits are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

**(w) Provisions**
A provision is recognised 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. Provision is determined using management's best estimates to the risk specific to the liability.

**(x) Financial guarantees and loan commitments**
Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

**(y) Share capital**
***(i) Share issue costs***
Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Preferred shares are redeemable at the sole discretion of the issuer and are classified as equity instruments.

***(ii) Dividends on ordinary shares***
Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Group's shareholders.

***(iii) Cash on contributions to capital***
Cash contributions to capital are classified as equity and does not generate interest.

## (5) STANDARDS ISSUED BUT NOT YET EFFECTIVE

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2017 and earlier application is permitted; however, the Group has not early adopted the following new or amended standards in preparing these consolidated financial statements. The new standards and amendments listed below are those that could potentially have an impact on the Group's performance, financial position or disclosures.

***(i)* IFRS 15 *Revenue from Contracts with Customers***

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue,* IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programme*s. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Group earns fee and commission income mainly on retail and corporate banking and financial guarantees. IFRS 15 is not expected to have a material impact on the timing of recognition or measurement of fees and commission income.

***(ii)* IFRS 16 *Leases***

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance and operating leases.

IFRS 16 replaces existing leases guidance including IAS 17 *Leases,* IFRIC 4 *Determining whether an Arrangement contains a Lease,* SIC-15 *Operating Leases- Incentives and* SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease.*

The standard is effective for annual reporting periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial application of IFRS 16.

The Group is currently assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16.

***(iii)* IFRS 9 *Financial Instruments***

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. It replaces IAS 39 *Financial Instruments: Recognition and Measurement.*

In October 2017, the IASB issued Prepayment Features with Negative Compensation *(Amendments to IFRS 9).* The amendments are effective for annual periods beginning on or after 1 January 2019, with early adoption permitted.

As permitted by the transitional provisions of IFRS9, the Group is not planning to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at 31 December 2017 will be recognised in the opening retained earnings and other reserves at 1 January 2018.

The Group did not disclose the impact of IFRS 9 because not all transition work has been finalised. The actual impact of adopting IFRS 9 on 1 January 2018 may change because:

- IFRS 9 will require the Group to revise its accounting processes and internal controls and these changes are not yet complete;
- Although runs were carried out in 2018, the new systems and associated controls in place have not been operational for more extended period;
- The Group has not finalized the testing and assessment of controls over its new IT systems and changes in its governance framework;
- The Group is refining and finalizing its models for ECL calculations; and
- The new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until the Group finalized its first financial statements that include the date of initial application.

***a) Classification – Financial assets***

The Group has early adopted classification and measurement requirements as issued in IFRS 9 (2009) and IFRS (2010). In the July 2014 publication of IFRS 9, the new measurement category FVOCI was introduced for financial assets that satisfy the contractual cash flow characteristics (SPPI test). This category is aimed at portfolio of debt instruments for which amortised cost information, as well as fair value information is relevant and useful. This will be the case if these assets are held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets.

As the date of application of IFRS 9 (2014), the Group reassessed the classification and measurement for all financial assets debt instruments that satisfy the contractual cash flow characteristic (SPPI test) and classified them within the category that it is consistent with the business model for managing these financial assets in the bases of facts and circumstances that existed at that date.
The classification and measurement requirements for financial assets that are equity instruments or debt instruments that do not meet the contractual cash flow characteristics (SPPI test) and financial liabilities remain unchanged from previous versions of IFRS 9.

***b) Impairment- Financial assets, loan commitments and financial guarantee contracts***

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking credit loss' model.

This will require considerable judgement over how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model applies to the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments,
- loan commitments and financial guarantee contracts issued (previously impairment was measured under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets).*

Under IFRS 9, no impairment loss is recognised on equity investments.

IFRS 9 requires a loss allowance to be recognised at an amount equal to either 12-month ECLs or lifetime ECL. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date.

The Group will recognise loss allowances at an amount equal to lifetime ECLs, except in the case of financial instruments for which credit risk has not increased significantly since initial recognition, for which the amount recognised will be 12-month ECLs.

The impairment requirements of IFRS 9 are complex and require management judgement estimates and assumptions, particularly in the following areas which are discussed in detail below:

- assessing whether the credit risk of an instrument has increased significantly since initial recognition:
- incorporating forward-looking information into the measurement of ECLs.

*Measurement of ECLs*

ECLs are a probability weighted estimate of credit losses and will be measured as follows:

- financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls— i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive,
- financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive: and
- financial guarantee contracts: the present value of the expected payments to reimburse the holder less any amounts that the Group expects to recover.

Financial assets that are credit-impaired are defined by IFRS 9 in a similar way to financial assets that are impaired under IAS 39.

*Definition of default*

Under IFRS 9, the Group will consider a financial asset to be in default when in Stage 3:

Stage 1: Performing - low credit risk at reporting date (Days of Delays less than or equal to 30 days)

Stage 2: Significant increase in credit risk deterioration of credit quality but no objective evidence of impairment (Days of Delays between 31 and 90 days)

Stage 3: Non-Performing (Credit Impaired), there is objective evidence of impairment at reporting date (Days of Delays higher than or equal to 91 days)

*Significant increase in credit risk*

Under IFRS 9, when determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Group will consider reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Group historical experience, expert credit assessment and forward-looking information.

*Credit risk grades*

The Group will allocate each exposure to a credit risk grade based on a variety of data that determined to be predictive of the risk of default and applying experienced credit judgement. The Group uses the conditioned days of delays in identifying the increase in credit risk under IFRS 9. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default. These factors may vary depending on the nature of the exposure and the type of borrower.

Each exposure will be allocated to credit risk grade on initial recognition based on available information about the borrower. Exposures will be subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

*Generating the term structure of PD*

Credit risk grades will be a primary input into the determination of the term structure of PD for exposures.

The Group will employ statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis will include the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors. For most exposures, the prospect GDP growth indicator will be considered as the key macro- economic indicators.

*Inputs into measurement of ECLs*

The key inputs into the measurement of ECLs are likely to be the term structures of the following variables:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

These parameters will be derived from internally developed statistical models and other historical data that leverage regulatory models.

PD estimates are estimates at a certain date, which will be calculated based on the Group's historical data using an internal calculation methodology.

LGD is the magnitude of the likely loss if there is a default.

EAD represents the expected exposure in the event of default. The EAD of a financial asset will be the gross carrying amount at default.

***c) Disclosures***

IFRS 9 will require extensive new disclosures, in particular about credit risk and ECLs.

There are no other standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

## (6) FINANCIAL RISK MANAGEMENT

**(a) Introduction and overview**

The Group has exposure to the following risks from financial instruments:

- Credit risk;
- Liquidity risk;
- Market risks; and
- Operational risks.

This note presents information about the Group's objectives, policies and processes for measuring and managing risk.

**Risk management framework - Corporate Governance**

**(i) Board Committees**

***Board of Directors***

The Board is ultimately responsible for the conduct of the Group's affairs. However, for added efficiency, Board Committees may be set up with declared role and responsibilities. The Board Committees should regularly report to the full Board. In addition to the Audit Committee, a Corporate Governance Committee and a Risk Management Committee have been formed.

There is a formal and transparent process for appointments to the Board Committees and their membership is made public on the Group's website. The function, roles, and responsibilities of each Board Committee are set out in terms of reference and shall be published on the Group's website.

Each Board Committee has direct access to appropriate members of the Group's management, in accordance with the provisions of its respective function. A permanent written record of Board Committee discussions, motions, and Directors' votes is kept by the committee secretary.

The Group expects to set up more Board Committees over time. It may also decide to combine the functions of several committees if appropriate or if administratively more convenient.

***Audit Committee***

In accordance with the requirements and recommendations of the Lebanese Central Bank and Banking Control Commission, in particular the principal circular N°118, the Bank has a Board Committee on Audit comprising 3 members. Membership of the Audit Committee shall be disclosed in the annual report.

The Group's policy is that at least one member of the Audit Committee should have accounting or other financial management qualifications and expertise.



The Audit Committee reviews, and reports to the full Board

- the Group's annual financial results prior to publication or distribution;
- the accounting judgments that are intrinsic to the financial statements;
- the accuracy of the financial statements and of the efficiency of the criteria adopted for reporting;
- the Group's internal controls and, in consultation with management and the external auditors, the integrity of the Group's financial reporting processes and controls;
- any significant findings of the external auditors together with management's responses;
- compliance with the Lebanese Central Banks circulars as well as the reports and circulars of the Banking Control Commission;
- the scope, results, and adequacy of the Group's internal and external audits;
- any significant changes to the Group's accounting principles, and any items required to be communicated by the external auditors;
- the objectivity and independency of both external and internal auditors;
- other non-audit work performed by the external auditors so as not to compromise the auditors' objectivity. Such non-audit work is to be disclosed in the annual report.
- the scope of the Audit Committee's work also covers the Group's subsidiaries in Lebanon and abroad. The Committee shall assist the Board of Directors in fulfilling its duties with regard to overview of the subsidiaries financial statements' soundness and the capital adequacy and financial ratios in such a way as to assess the risks related to the investment, thus allowing the Board of Directors to mitigate such risks.

The Audit Committee has the ability to obtain any information from management and to meet with any manager of the Group.

The Audit Committee has the ability to meet each of the Group's external auditors and its internal auditors, without (other) management being present, at least once a year. The Group considers that a strong and open relationship between the Audit Committee and these two audit functions is critical to the successful functioning of this important governance mechanism.

The Audit Committee ensures a follow-up of the corrective suggestions mentioned in the external and internal audit reports. The Audit Committee ensures the efficiency and sufficiency of the regulations of procedures of the Internal Audit. The Group recognizes that the Audit Committee does not substitute for the responsibilities of the Board of Directors or the Company's management for the supervision and adequacy of the Company's internal control systems.

***Corporate Governance Committee***

The Board has formed a Corporate Governance Committee to oversee the preparation and amendments of its Code.

The Committee comprises three Directors (including one non-executive Director) as well as the Board's Secretary. Membership of the Committee is disclosed in the annual report and may be published in the Group's website. The Corporate Governance Committee may also supervise compliance with, and enforcement of the Code.

***Risk Management Committee***

The review of risk management is in the first instance handled by a coherent and comprehensive Risk Management Department. The Board, on a regular basis, reviews and approves the risk management strategies and policies of the Group. Senior management is responsible for implementing the strategies that have been approved by the Board, and for developing the policies and procedures for managing the various types of risk.The creation of a Risk Management Board Committee has been proposed by management, and approved by the Board.

The Group considers that the rapid development and increasing sophistication and complexity of risk management requires that the Risk Management Department and later Committee keep fully informed of the developments in the Group's risk management functions. Accordingly, the Committee shall make regular reports to the full Board.

***AML / CFT Board Committee***

According to BDL Intermediate Decision No 12255 (Basic Circular No 83), the Board established an AML/CFT Board Committee composed of three members.
The role and responsibilities of this AML/CFT Board Committee are as follows:

- To support the Board of Directors in its functions and supervisory role with respect to fighting money laundering and terrorist financing and understanding the related risks, and to assist it with making the appropriate decisions in this regard.
- To review, from a risk-based approach, the reports submitted by the Compliance Unit and the Internal Audit Unit on adopted procedures, unusual operations and high-risk accounts, regarding cash deposits and withdrawals, transfers, exemptions from filling Cash Transaction Slips (CTS) and the link between these operations and economic activities, and to also take the relevant decisions.

**(ii) Group's Management Committees**

The Group operates through a number of committees, set up with clear missions, authorities and responsibilities, as follows:

***Executive and Investment Committee***

The Executive and Investment Committee is composed of five members; it meets on a monthly basis. The Executive and Investment Committee roles and responsibilities are set as follows:

- To define the strategic orientations of the Group and to submit them to the Board of Directors.
- To periodically set and review Group policies and submit them to the Board of Directors.
- To set targets and define the relevant budget and carry on the follow-up thereof.
- To discuss any new investments including mergers and acquisition, partnership agreements, investments in companies or financial institutions.
- To define Network expansion.
- To validate recommendations and supervise the activity of various Committees

***Asset Liability Committee (ALCO)***

The ALCO Committee is composed of five members; it meets on a bi-monthly basis. The main roles and responsibilities of the ALCO Committee are set as follows:

- To define interest rate policies and enforce the application of the assets liability management standards analyze the Group's financial ratios, GAP Review and Analysis.
- To decide on the trading operations and financial instruments, manage placements, deposits and credit lines.
- To review Credit risk, Market Risk, Liquidity Risk, Interest Rate Risk Limits and Reports. All related reports / recommendations will be sent to the Board of Directors.
- To propose to the Executive and Investment Committee market risk limits.
- To ensure the reporting to the Board of Directors through the Executive and Investment Committee.

***The Credit Committee***

The Credit Committee is composed of four voting members and a fifth non-voting member, it meets weekly. The main roles and responsibilities of the Credit Committee are set as follows:

- To evaluate customer risk and decide on the facilities to grant, as well as the terms and conditions thereof.
- To decide on the transfer of a file to the non-performing loan Committee.
- To propose to the Executive and Investment Committee a credit policy.

***The Non-Performing Loans Committee***

The Non-Performing Loans Committee is composed of five voting members in addition to one non-voting member, it meets on a quarterly basis. The Non-Performing Loans Committee main roles and responsibilities are set as follows:

- To review and take decisions on non-performing loans and recommend actions on a going forward basis with respect to the relevant files.
- To follow up on cases handed over to the Legal Department and approve settlements.
- To propose adequate provisions.

***The Anti-Money Laundering/Counter Financing Terrorism Committee***

The Anti-Money Laundering/Counter Financing Terrorism Committee is composed of seven members and one non-voting member; it meets on a quarterly basis. Responsibilities of this Committee are as defined in the Central Bank Intermediary Decisions N° 8488 dated 17 September 2003 and N° 10725 dated 21 May 2011.

***The Operational Risk Management Committee***

The Operational Risk Management Committee is composed of five members, it meets upon request. Its main roles and responsibilities are set as follows:

- To review and approve the operational risk management procedures developed by the Risk Manager and enhance the overall handling of operational risk,
- To ensure the abidance by the Group's operational risk policies and procedure, examine and recommend on the operational risks inherent to the Group's activities, and
- Discuss the risk management operational risk and control assessment process (RCSA) outcome.

**(b) Credit risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's loans and advances to customers, banks and financial institutions, and investment debt securities. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

For risk management purposes, credit risk arising on trading assets is managed independently.

***(i) Settlement risk***

The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a counterparty to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions, the Group mitigates this risk by conducting settlements through a settlement / clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval / limit monitoring process described earlier. Acceptance of settlement risk on free settlement trades requires transaction-specific or counterparty-specific approval from the Group's ALCO Committee.

***(ii) Management of credit risk***

The Board of Directors has delegated responsibility for the management of individual credit risk to the Group's Credit Committee. A Risk Management Department reporting to the General Manager, is responsible for the management of the Group's Corporate (portfolio) credit risk, in coordination with commercial and credit assessment functions, including:

- *Formulating credit policies,* covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- *Reviewing and assessing credit risk:* The Credit Committee assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- *Limiting concentrations of exposure* to counterparties, geographies and industries (for loans and advances, financial guarantees and similar exposures), and by issuer, credit rating band, market liquidity and country (for investment securities). The Group's approach to controlling this concentration of exposure is by the diversification of its commitments and by setting limits at level of aggregate of products, economic sectors, region and segments.
- *Developing and maintaining the Group's risk grading,* to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current Internal Rating framework consists of 10 grades (mapped to the Central Bank of Lebanon's 6 grades) reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting the final risk grades lies with the Credit Committee and is subject to regular reviews.
- *Reviewing compliance* with agreed exposure limits, including those for selected industries, and product types. Regular reports on the credit quality of local portfolios are discussed in ALCO and appropriate corrective action is taken in coordination with Credit Committee.
- *Providing advice, guidance* to promote best practice throughout the Group in the management of credit risk.

***(iii) Grading of credit risk***

Each credit officer is required to implement the Group credit policies and procedures, with credit approval authorities delegated from the Board of Directors. Each Credit officer reports on all credit related matters to management and the Group Credit Committee. Each Credit officer is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in his/her portfolios, including those subject to central approval.

Regular audits of Group Credit processes are undertaken by Internal Audit.

To measure the credit risk of loans and advances to customers and to banks at a counterparty level, the Bank rates its counterparties according to the six rating classes defined by the Central Bank of Lebanon (“BDL”) and the Banking Control Commission of Lebanon (“BCC”) requirements as follows:

- Low fair risk / Normal and follow up (grades 1 and 2) – types of loans that are expected to be repaid on a timely and consistent basis; for grade 2, the client file is not complete.
- Watch / Special mention (grade 3) – type of loan that is expected to be repaid but current conditions lead to believe that the probability of repayment would be lowered;
- Substandard (grade 4) – type of loan where the client is witnessing a difficult financial condition and might not be in a position to settle the loan in full;
- Doubtful (grade 5) – type of loan where there is no movement in the clients’ balance;
- Bad (grade 6) – type of loan where the probability of repayment is low and almost nil.

The Group has two risk rating systems: a grading system for retail obligors and a credit risk rating system for the commercial portfolio (corporate and SME) – Rating Obligors – ORR and Rating facilities FRR.

Grades are from 1 to 10; 1 being the best and 10 being the worst. To be noted that each risk rating is mapped to the supervisory classification grades.

***(iv) Credit quality analysis***

The tables on the next pages set out information about the credit quality of financial assets and the allowance for impairment / loss held by the Group against those assets.

| | | Loans and advances to customers and related parties | | Due from Central Banks, banks and financial institutions | | Investment securities (debt securities) | | Lending commitments and financial guarantees | |
|---|---|---|---|---|---|---|---|---|---|
| *In thousands of Lebanese Pound* | **Note** | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** |
| **Maximum exposure to credit risk** | | | | | | | | | |
| Carrying amount | 9,10,11,12 | 2,717,204,252 | 2,739,271,955 | 2,386,917,659 | 1,849,979,426 | 269,580,700 | 374,944,863 | – | – |
| Amount committed / guaranteed | 37 | – | – | – | – | – | – | 413,166,413 | 356,894,984 |
| **At amortised cost** | | | | | | | | | |
| Grade 1-2: Low-fair risk | | 1,862,824,942 | 1,889,208,617 | 2,386,917,659 | 1,849,979,426 | 257,472,579 | 299,945,399 | | |
| Grade 3: Watch | | 774,982,706 | 776,380,140 | – | – | – | – | | |
| Grade 4: Substandard | | 57,993,277 | 30,362,753 | – | – | – | – | | |
| Grade 5: Doubtful | | 184,841,511 | 124,188,301 | – | 994,074 | – | – | | |
| Grade 6: Bad | | 15,348,611 | 13,384,529 | 9,264,921 | 9,254,063 | – | – | | |
| Total gross amount | | 2,895,991,047 | 2,833,524,340 | 2,396,182,580 | 1,860,227,563 | 257,472,579 | 299,945,399 | | |
| Allowance for impairment (individual and collective) | 10,11 | (178,786,795) | (94,252,385) | (9,264,921) | (10,248,137) | – | – | | |
| Net carrying amount | | 2,717,204,252 | 2,739,271,955 | 2,386,917,659 | 1,849,979,426 | 257,472,579 | 299,945,399 | | |
| **At fair value through profit or loss** | | | | | | | | | |
| Grade 1: Low-fair risk | | – | – | – | – | 12,108,121 | 74,999,464 | | |
| Total carrying amount | 12 | – | – | – | – | 12,108,121 | 74,999,464 | | |
| **Off balance sheet** | | | | | | | | | |
| **Maximum exposure** | | | | | | | | | |
| Lending commitments and financial guarantees | | | | | | | | | |
| Grade 1-3: low-fair risk | | | | | | | | 412,706,533 | 356,814,636 |
| Grade 5: Impaired | | | | | | | | 459,880 | 80,348 |
| Total exposure | | | | | | | | 413,166,413 | 356,894,984 |

| | | **Loans and advances to customers and related parties** | | **Due from Central Banks, banks and financial institutions** | | **Investment securities (debt securities)** | | **Lending commitments and financial guarantees** | |
|---|---|---|---|---|---|---|---|---|---|
| *In thousands of Lebanese Pound* | **Note** | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** |
| **Neither past due nor impaired** | | | | | | | | | |
| Grade 1-2: Low-fair risk | | 1,842,120,447 | 1,884,861,544 | 2,386,917,659 | 1,849,979,426 | 269,580,700 | 374,944,863 | | |
| | | 1,842,120,447 | 1,884,861,544 | 2,386,917,659 | 1,849,979,426 | 269,580,700 | 374,944,863 | | |
| **Past due but not impaired** | | | | | | | | | |
| Grade 3: Watch | | 675,102,072 | 774,609,335 | – | – | – | – | | |
| | | 675,102,072 | 774,609,335 | – | – | – | – | | |
| **Individually impaired** | | | | | | | | | |
| Grade 1-2: Low-fair risk | | 20,704,495 | 4,347,073 | – | – | – | – | | |
| Grade 3: Watch | | 99,880,634 | 1,770,805 | – | – | – | – | | |
| Grade 4: Substandard | | 57,993,277 | 30,362,753 | – | – | – | – | | |
| Grade 5: Doubtful | | 184,841,511 | 124,188,301 | – | 994,074 | – | – | | |
| Grade 6: Bad | | 15,348,611 | 13,384,529 | 9,264,921 | 9,254,063 | – | – | | |
| | | 378,768,528 | 174,053,461 | 9,264,921 | 10,248,137 | – | – | | |
| Total | 11 | 2,895,991,047 | 2,833,524,340 | 2,396,182,580 | 1,860,227,563 | 269,580,700 | 374,944,863 | | |
| **Allowance for impairment** | | | | | | | | | |
| Individual | | (172,105,160) | (88,942,482) | (9,264,921) | (10,248,137) | – | – | | |
| Collective | | (6,681,635) | (5,309,903) | – | – | – | – | | |
| Total allowance for impairment | 10,11 | (178,786,795) | (94,252,385) | (9,264,921) | (10,248,137) | – | – | | |

**Impaired loans and investment debt securities**
The Group regards a loan and advance or a debt security as impaired in the following circumstances.

- There is objective evidence that a loss event has occurred since initial recognition and the loss event has an impact on future estimated cash flows from the asset.
- A retail loan is overdue for more than 31 days (housing loans for more than 181 days).

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there is no other indicators of impairment.

Loans that are subject to a collective incurred but not yet reported (IBNR) provision are not considered impaired.

Debt securities carried at fair value through profit or loss are not assessed for impairment but are subject to the same grading.

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of individually impaired assets by risk grade:

| | Loans and advances to customers | | Banks and financial institutions | |
|---|---|---|---|---|
| *In thousands of Lebanese Pound* | **Gross** | **Net** | **Gross** | **Net** |
| **31 December 2017** | | | | |
| Grades 1,2 and 3: Performing loans | 120,585,129 | 78,460,863 | – | – |
| Grade 4: Individually impaired | 57,993,277 | 52,433,358 | – | – |
| Grade 5: Individually impaired | 184,841,511 | 75,769,117 | – | – |
| Grade 6: Individually impaired | 15,348,611 | 30 | 9,264,921 | – |
| **Total** | **378,768,528** | **206,663,368** | **9,264,921** | – |
| **31 December 2016** | | | | |
| Grades 1,2 and 3: Performing loans | 6,117,878 | 5,302,288 | – | – |
| Grade 4: Individually impaired | 30,362,753 | 26,637,132 | – | – |
| Grade 5: Individually impaired | 124,188,301 | 53,171,228 | 994,074 | – |
| Grade 6: Individually impaired | 13,384,529 | 331 | 9,254,063 | – |
| **Total** | **174,053,461** | **85,110,979** | **10,248,137** | – |



**Write-off policy**
The Group writes-off a loan or an investment debt security balance, and any related allowances for impairment losses and suspended interest, when the Group's committees determine that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

**Loans and investment debt securities that are past due but not impaired**
Loans and investment debt that are past due but not impaired are those for which contractual interest or principal payments are past due, but the Group believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Group. The amounts disclosed exclude assets measured at fair value through profit or loss.

**Loans with renegotiated terms**
The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in 4 (m)(vii).

**Debt securities**
Debt securities held by the Group consist of Lebanese treasury bills and Eurobonds issued by the Lebanese Government and certificates of deposits issued by Central Bank of Lebanon. These securities are rated B- based on rating agency Standard & Poor's.

***(v) Collateral held and other credit enhancements***

The Group holds collateral and other credit enhancements against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and updated regularly. Collateral generally is held over banks and financial institutions in cases of LCs confirmations but not held over investment securities, and no such collateral was held at 31 December 2017 or 2016.

An estimate made at the time of borrowing and as at year end of the fair value of collateral and other security enhancements held against loans and advances to customers is shown below:

**Loans and advances to customers**

| | Fair value of collateral at inception (for the Group) | | Fair Value of collateral at year end | |
|---|---|---|---|---|
| *In thousands of Lebanese Pound* | **2017** | **2016** | **2017** | **2016** |
| **Against impaired** | | | | |
| Mortgaged property | 59,432,048 | 35,058,798 | 88,950,154 | 58,093,346 |
| Equities | 546,464 | 531,822 | 190,547 | 244,171 |
| Other including cash | 6,354,281 | 5,074,655 | 6,354,281 | 5,074,655 |
| **Against substandard** | | | | |
| Mortgaged property | 25,161,144 | 28,743,454 | 31,770,125 | 44,777,597 |
| Other including cash | 1,438,970 | 2,273,294 | 1,438,970 | 2,273,294 |
| **Against regular loans and advances** | | | | |
| Mortgaged property | 1,253,032,173 | 1,164,517,747 | 2,480,079,387 | 2,285,196,751 |
| Debt securities | 214,550 | 3,150,139 | 214,550 | 3,342,446 |
| Equities | 105,680,872 | 161,827,906 | 67,386,871 | 125,082,467 |
| Other including cash | 242,103,781 | 368,792,373 | 242,103,781 | 368,792,373 |
| **Total** | **1,693,964,283** | **1,769,970,188** | **2,918,488,666** | **2,892,877,100** |

**Residential mortgage lending**

The table below stratifies credit exposures from mortgage loans and advances to retail customers by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan – or the amount committed for loan commitments – to the value of the collateral. The gross amounts exclude any impairment allowances. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on the collateral value at origination updated based on changes in house price indices.

| *In millions of Lebanese Pound* | **2017** | **2016** |
|---|---|---|
| **Loan to value (LTV) ratio** | | |
| Less than 50% | 91,847,710 | 77,933,323 |
| 51% to 70% | 105,491,169 | 89,278,586 |
| 71% to 90% | 54,030,527 | 46,730,806 |
| 91% to 100% | 2,114,732 | 2,276,576 |
| More than 100% | 45,826,288 | 42,565,420 |
| **Total** | **299,310,426** | **258,784,711** |

**Loans and advances to corporate customers**

The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security and the Group generally requests that corporate borrowers provide it. The Group may take collateral in the form of a first charge over real estate, floating charges over all corporate assets and other liens and guarantees.

Because of the Group's focus on corporate customer's creditworthiness, the Group does also routinely update the valuation of the collateral held against all loans to corporate customers. Valuation of collateral is also updated when the credit risk of a loan deteriorates significantly as the loan is monitored more closely. The Group obtains appraisals of collateral because current value of the collateral is an input to the impairment measurement.

***(vi) Concentration of credit risk by sector and by geographic location***

The Group monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk from loans and advances, lending commitments, financial guarantees and investment securities at the reporting date is shown below:

| | | Due from Central Banks, banks and financial institutions | | Loans and advances to customers and related parties | | Investment securities (debt securities) | | Lending commitments and financial guarantees | |
|---|---|---|---|---|---|---|---|---|---|
| *In thousands of Lebanese Pound* | **Note** | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** |
| Carrying amount | 8, 9, 10, 37 | 2,386,917,659 | 1,849,979,426 | 2,717,204,252 | 2,739,271,955 | 270,334,395 | 374,944,863 | 413,166,413 | 356,894,984 |
| **Concentration by sector** | | | | | | | | | |
| Corporate | | – | – | 2,059,583,901 | 2,104,253,085 | 10,893,190 | 5,294,450 | 351,458,685 | 302,389,793 |
| Sovereign | | 2,241,619,014 | 1,618,482,500 | – | – | 259,441,205 | 369,650,413 | – | – |
| Bank | | 145,298,645 | 231,496,926 | – | – | – | – | 6,763,657 | 4,845,825 |
| Retail | | – | – | 657,620,351 | 635,018,870 | – | – | 54,944,071 | 49,659,366 |
| | | **2,386,917,659** | **1,849,979,426** | **2,717,204,252** | **2,739,271,955** | **270,334,395** | **374,944,863** | **413,166,413** | **356,894,984** |
| **Concentration by location** | | | | | | | | | |
| Lebanon | | 2,269,511,448 | 1,742,847,277 | 2,390,565,563 | 2,402,274,221 | 269,580,700 | 374,191,168 | 403,375,743 | 347,631,050 |
| Americas | | 79,307,348 | 37,622,872 | 30,052,000 | 33,513,000 | – | – | 264,368 | 206,947 |
| Europe | | 36,243,261 | 66,352,169 | 133,764,659 | 137,061,734 | 753,695 | 753,695 | 1,044,240 | 2,662,013 |
| Asia Pacific | | 31,370 | 30,744 | 269,000 | 213,000 | – | – | 19,927 | 7,538 |
| Middle East and Africa | | 1,170,894 | 2,372,995 | 162,167,030 | 165,362,000 | – | – | 8,450,769 | 6,376,070 |
| Australia | | 653,338 | 753,369 | 386,000 | 848,000 | – | – | 11,366 | 11,366 |
| | **8, 9, 10, 37** | **2,386,917,659** | **1,849,979,426** | **2,717,204,252** | **2,739,271,955** | **270,334,395** | **374,944,863** | **413,166,413** | **356,894,984** |

Concentration by location for loans and advances and for lending commitments and financial guarantees is based on the customer's country of utilisation. Concentration by location for investment securities is based on the country of domicile of the issuer of the security.

**Concentration of loans and advances to customers**

As at 31 December 2017, 254 customers (2016: 234 customers) of the loans and advances and related parties are above LBP 1,500,000 thousands and constitute 71.36% (2016: 72.04%) of total net loans and advances to customers and related parties as at year end.

**Cash and cash equivalents**

The Group held cash and cash equivalents of LBP 252,111,991 thousand at 31 December 2017 (2016: LBP 580,211,417 thousand) which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with the Central Bank of Lebanon, which is rated "B-" based on rating agency Standard & Poor's. In addition, cash and cash equivalents are held also with reputable banks and financial institutions.

**(c) Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

***(i) Management of liquidity risk***

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Treasury Department receives information regarding the liquidity profile of financial assets and financial liabilities. The Treasury Department then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, deposits with banks and financial institutions and other facilities, to ensure that sufficient liquidity is maintained within the Group.

The daily liquidity position is monitored. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of the Group as a whole.

The Group relies on deposits from customers and banks as its primary sources of funding. Deposits from customers and banks and financial institutions generally have short maturities. The short-term nature of these deposits increases the Group's liquidity risk and the Group actively manages this risk through maintaining high quality service and constant monitoring of market trends.

***(ii) Exposure to liquidity risk***

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose, net liquid assets are considered as including cash and cash equivalents and investment debt securities for which there is an active and liquid market less any deposits from banks and financial institutions, other borrowings and commitments maturing within the following month. A similar, but not identical, calculation is used to measure the Group's compliance with the liquidity limit established by the Central Bank of Lebanon and the Lebanese Banking Control Commission.

Details of the reported Group ratio of net liquid assets to customers' deposits at the reporting date and during the reporting period were as follows:

| *In thousands of Lebanese Pound* | **2017** | **2016** |
|---|---|---|
| At 31 December | 41.26% | 33.57% |

***(iii) Maturity analysis for financial liabilities and financial assets***

The tables below set out the remaining contractual maturities of the Group's financial assets and financial liabilities.

| *In thousands of Lebanese Pound* | **Note** | **Carrying amount** | **Gross nominal inflow / (outflow)** | **Less than 1 month** | **1 to 3 months** | **3 months to 1 year** | **1 to 5 years** | **More than 5 years** |
|---|---|---|---|---|---|---|---|---|
| **31 December 2017** | | | | | | | | |
| *Non-derivative liabilities* | | | | | | | | |
| Due to banks and financial institutions | 18 | 297,630,858 | (367,100,713) | (38,422,981) | (17,794,718) | (20,694,849) | (81,602,691) | (208,585,474) |
| Deposits from customers and related parties | 19 | 4,771,702,446 | (4,912,987,847) | (2,878,191,551) | (556,678,940) | (1,047,505,902) | (408,467,686) | (22,143,768) |
| | | **5,069,333,304** | **(5,280,088,560)** | **(2,916,614,532)** | **(574,473,658)** | **(1,068,200,751)** | **(490,070,377)** | **(230,729,242)** |
| *Non-derivative assets* | | | | | | | | |
| Cash and balances with Central Banks | 9 | 2,289,577,866 | 3,387,207,532 | 301,006,494 | 24,352,441 | 146,547,816 | 851,770,577 | 2,063,530,204 |
| Banks and financial institutions | 10 | 145,298,645 | 145,459,555 | 145,459,555 | – | – | – | – |
| Loans and advances to customers and related parties | 11 | 2,717,204,252 | 4,027,745,367 | 662,116,964 | 104,606,576 | 486,027,844 | 1,101,512,616 | 1,673,481,367 |
| Investment securities | 12 | 276,428,328 | 514,705,493 | 2,292,363 | 2,495,670 | 12,841,514 | 71,260,232 | 425,815,714 |
| Shares acquired in settlement of debt at fair value through profit or loss | 13 | 110,626,099 | 110,626,099 | – | – | – | 110,626,099 | – |
| | | **5,539,135,190** | **8,185,744,046** | **1,110,875,376** | **131,454,687** | **645,417,174** | **2,135,169,524** | **4,162,827,285** |
| **31 December 2016** | | | | | | | | |
| *Non-derivative liabilities* | | | | | | | | |
| Due to banks and financial institutions | 18 | 168,350,210 | (211,719,748) | (13,551,344) | (6,228,714) | (26,037,267) | (73,776,141) | (92,126,282) |
| Deposits from customers and related parties | 19 | 4,486,387,546 | (4,567,019,960) | (3,286,294,708) | (385,984,321) | (678,769,743) | (194,875,287) | (21,095,901) |
| | | **4,654,737,756** | **(4,778,739,708)** | **(3,299,846,052)** | **(392,213,035)** | **(704,807,010)** | **(268,651,428)** | **(113,222,183)** |
| *Non-derivative assets* | | | | | | | | |
| Cash and balances with Central Banks | 9 | 1,662,757,077 | 2,084,354,236 | 499,540,490 | 18,803,156 | 112,912,437 | 413,806,708 | 1,039,291,445 |
| Banks and financial institutions | 10 | 231,496,926 | 231,940,509 | 226,903,365 | 5,037,144 | – | – | – |
| Loans and advances to customers and related parties | 11 | 2,739,271,955 | 3,874,176,352 | 590,972,224 | 221,296,247 | 534,741,388 | 1,151,820,148 | 1,375,346,345 |
| Investment securities | 12 | 381,264,694 | 675,634,450 | 4,285,719 | 72,958,241 | 153,918,736 | 51,457,374 | 393,014,380 |
| Shares acquired in settlement of debt at fair value through profit or loss | 13 | 100,050,702 | 100,050,702 | – | – | – | 100,050,702 | – |
| | | **5,114,841,354** | **6,966,156,249** | **1,321,701,798** | **318,094,788** | **801,572,561** | **1,717,134,932** | **2,807,652,170** |

The previous table shows the undiscounted cash flows on the Group's financial assets and liabilities on the basis of their earliest possible contractual maturity.

The Group's expected cash flows on some financial assets and financial liabilities vary significantly from the contractual cash flows. The principal differences are as follows:

- Demand deposits from customers are expected to remain stable or increase;
- Unrecognised loan commitments are not all expected to be drawn down immediately; and
- Retail mortgage loans have an original contractual maturity between 20 and 25 years but an earlier maturity because some customers might take advantage of early repayment options.

As part of the management of liquidity risk arising from financial liabilities, the Group holds liquid assets comprising cash and balances with the Central Bank of Lebanon, banks and financial institutions, and investment securities for which there is an active and liquid market so that they can be readily sold to meet liquidity requirements. In addition, the Group maintains agreed lines of credit with banks.

## (d) Market risks

Market risk is the risk that changes in market prices, such as interest rates, equity prices, and foreign exchange rates will affect the Group's income or the value of its holdings of financial instruments. The objective of Group's market risk management is to manage and control market risk exposures within acceptable parameters to ensure the Group's solvency, while optimising the return on risk.

### *(i) Management of market risks*

Overall authority for market risk is vested in ALCO. ALCO sets up limits for type of risk in aggregate and for portfolios, with market liquidity being a primary factor in determining the level of limits set for trading portfolios.

### *(ii) Exposure to market risk – Non-trading portfolios*

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for reprising bands. ALCO is the monitoring body for compliance with these limits and the Risk Management is monitoring these limits monthly.

A summary of the Group's interest rate gap position on non-trading portfolios is as follows:

| *In thousands of Lebanese Pound* | Note | Carrying amount | Less than 3 months | 3-6 months | 6-12 months | 1-5 years | More than 5 years | Non bearing interest |
|---|---|---|---|---|---|---|---|---|
| **31 December 2017** | | | | | | | | |
| Cash and balances with Central Banks | 9 | 2,289,577,866 | 452,654,713 | 12,359,090 | – | 254,500,000 | 1,286,783,985 | 283,280,078 |
| Banks and financial institutions | 10 | 145,298,645 | 10,199,500 | – | – | – | – | 135,099,145 |
| Loans and advances to customers and related parties | 11 | 2,717,204,252 | 1,930,627,744 | 11,501,000 | 28,254,000 | 339,539,000 | 297,981,000 | 109,301,508 |
| Investment securities - debt securities | 12 | 258,226,274 | – | – | 753,695 | 33,822,474 | 220,110,674 | 3,539,431 |
| | | **5,410,307,037** | **2,393,481,957** | **23,860,090** | **29,007,695** | **627,861,474** | **1,804,875,659** | **531,220,162** |
| Due to banks and financial institutions | 18 | (297,630,858) | (49,157,000) | (4,148,000) | (8,420,000) | (32,153,000) | (199,908,000) | (3,844,858) |
| Deposits from customers and related parties | 19 | (4,771,702,446) | (3,170,654,529) | (462,279,000) | (532,777,000) | (364,685,000) | (13,091,000) | (228,215,917) |
| | | **(5,069,333,304)** | **(3,219,811,529)** | **(466,427,000)** | **(541,197,000)** | **(396,838,000)** | **(212,999,000)** | **(232,060,775)** |
| | | **340,973,733** | **(826,329,572)** | **(442,566,910)** | **(512,189,305)** | **231,023,474** | **1,591,876,659** | **299,159,387** |
| **31 December 2016** | | | | | | | | |
| Cash and balances with Central Banks | 9 | 1,662,757,077 | 599,728,645 | 7,183,305 | – | 283,500,000 | 475,325,400 | 297,019,727 |
| Banks and financial institutions | 10 | 231,496,926 | 50,745,414 | – | – | – | – | 180,751,512 |
| Loans and advances to customers and related parties | 11 | 2,739,271,955 | 2,035,747,955 | 17,554,000 | 26,097,000 | 305,954,000 | 271,804,000 | 82,115,000 |
| Investment securities - debt securities | 12 | 299,945,399 | 67,986,225 | 28,489,521 | 98,348,496 | 16,666,057 | 87,052,500 | 1,402,600 |
| | | **4,933,471,357** | **2,754,208,239** | **53,226,826** | **124,445,496** | **606,120,057** | **834,181,900** | **561,288,839** |
| Due to banks and financial institutions | 18 | (168,350,210) | (10,387,000) | (14,538,000) | – | (32,646,000) | (103,610,000) | (7,169,210) |
| Deposits from customers and related parties | 19 | (4,486,387,546) | (3,428,438,673) | (302,522,000) | (341,574,000) | (181,830,000) | (14,737,000) | (217,285,873) |
| | | **(4,654,737,756)** | **(3,438,825,673)** | **(317,060,000)** | **(341,574,000)** | **(214,476,000)** | **(118,347,000)** | **(224,455,083)** |
| | | **278,733,601** | **(684,617,434)** | **(263,833,174)** | **(217,128,504)** | **391,644,057** | **715,834,900** | **336,833,756** |

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and financial liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 200bp. The following is an analysis of the Group's sensitivity to an increase in market interest rates, assuming a symmetrical movement in yield curves and a constant financial position:

| *In thousands of Lebanese Pound* | Change in bp | Sensitivity of net interest income | Sensitivity of Tier I and Tier II (EVE) |
|---|---|---|---|
| **31 December 2017** | | | |
| LBP | 200 | -17.53% | -34.48% |
| USD | 200 | -10.52% | -14.77% |
| EUR | 200 | 0.71% | -0.27% |
| **31 December 2016** | | | |
| LBP | 200 | -8.32% | -22.80% |
| USD | 200 | -8.82% | -11.17% |
| EUR | 200 | 0.35% | -0.29% |

Overall interest rate risk positions are monitored by the Risk Management and highlighted to ALCO.



***(iii) Exposure to currency risks – Non-trading portfolios***

The Group is subject to currency risk on financial assets and liabilities denominated in currencies other than the Group's functional currency, which is the Lebanese Pound (LBP). Most of these financial assets and liabilities are denominated in US Dollars or Euros. The following is an analysis of the Group's sensitivity to a change in currency rates, assuming all other variables remain constant:

| *In thousands of Lebanese Pound* | Increase in currency rate | Effect on profit before tax | Effect on Tier I and Tier II |
|---|---|---|---|
| **31 December 2017** | | | |
| USD | 1% | -0.2954% | -0.0179% |
| EUR | 1% | 0.0049% | 0.0003% |
| GBP | 1% | -0.0007% | 0.0000% |
| CAD | 1% | -0.0001% | 0.0000% |
| CHF | 1% | 0.0012% | 0.0001% |
| **31 December 2016** | | | |
| USD | 1% | 0.1141% | 0.0205% |
| EUR | 1% | 0.0015% | 0.0003% |
| GBP | 1% | 0.0002% | 0.0000% |
| CAD | 1% | 0.0000% | 0.0000% |
| CHF | 1% | 0.0000% | 0.0000% |

### *(iv) Exposure to foreign currency exchange risk*

The Group monitors any concentration risk in relation to any individual currency in regard to the translation of foreign currency transactions and monetary assets and liabilities into the functional currency of the Group, and with regard to the translation of foreign operations into the presentation currency of the Group.

The following table presents the breakdown of assets and liabilities by currency:

| | 31 December 2017 | | | 31 December 2016 | | |
|---|---|---|---|---|---|---|
| *In thousands of Lebanese Pound* | **LBP** | **C/V LBP** | **Total** | **LBP** | **C/V LBP** | **Total** |
| **Assets** | | | | | | |
| Cash and balances with Central Banks | 1,448,417,685 | 841,160,181 | 2,289,577,866 | 951,067,108 | 711,689,969 | 1,662,757,077 |
| Banks and financial institutions | 4,555,752 | 138,334,728 | 142,890,480 | 46,130,894 | 181,295,883 | 227,426,777 |
| Head Office, Holdings, Sister and Related Banks | – | 2,408,165 | 2,408,165 | – | 4,070,149 | 4,070,149 |
| Loans and advances to customers and related parties | 950,579,645 | 1,766,624,607 | 2,717,204,252 | 1,095,377,329 | 1,643,894,626 | 2,739,271,955 |
| Investment securities | 94,863,147 | 181,565,181 | 276,428,328 | 220,244,609 | 161,020,085 | 381,264,694 |
| Shares acquired in settlement of debt at fair value through profit or loss | – | 110,626,099 | 110,626,099 | – | 100,050,702 | 100,050,702 |
| Investments in Subsidiaries and Associates | – | 84,781,563 | 84,781,563 | – | 69,030,165 | 69,030,165 |
| Property and equipment | 88,780,965 | 10,720,464 | 99,501,429 | 60,799,924 | 9,318,168 | 70,118,092 |
| Intangible assets | 690,109 | – | 690,109 | 261,631 | 261,924 | 523,555 |
| Other assets | 2,554,479 | 29,113,790 | 31,668,269 | 2,697,076 | 28,566,975 | 31,264,051 |
| Non-current assets held for sale | – | 4,405,996 | 4,405,996 | – | 4,405,996 | 4,405,996 |
| **Total assets** | **2,590,441,782** | **3,169,740,774** | **5,760,182,556** | **2,376,578,571** | **2,913,604,642** | **5,290,183,213** |
| **Liabilities and equity** | | | | | | |
| Due to banks and financial institutions | 249,206,091 | 48,424,767 | 297,630,858 | 114,378,348 | 53,971,862 | 168,350,210 |
| Deposits from customers and related parties | 1,904,795,160 | 2,866,907,286 | 4,771,702,446 | 1,871,019,430 | 2,615,368,116 | 4,486,387,546 |
| Current tax liabilities | 4,070,500 | – | 4,070,500 | 15,475,439 | – | 15,475,439 |
| Other liabilities | 16,321,430 | 60,555,034 | 76,876,464 | 14,743,791 | 46,434,995 | 61,178,786 |
| Provisions | 9,724,452 | 45,657 | 9,770,109 | 34,316,875 | 30,427,868 | 64,744,743 |
| Share capital - common shares | 142,300,000 | – | 142,300,000 | 112,119,150 | – | 112,119,150 |
| Share capital - preferred shares | 62,500,000 | – | 62,500,000 | 47,500,000 | – | 47,500,000 |
| Share premium - common shares | 17,273,587 | – | 17,273,587 | 17,273,587 | – | 17,273,587 |
| Share premium - preferred shares | – | 125,937,499 | 125,937,499 | – | 95,712,499 | 95,712,499 |
| Cash contribution to capital | – | 10,854,000 | 10,854,000 | – | 10,854,000 | 10,854,000 |
| Reserves | 145,119,414 | 33,668,451 | 178,787,865 | 118,818,484 | 25,283,619 | 144,102,103 |
| Non-distributable retained earnings | 30,689,023 | – | 30,689,023 | 18,049,769 | – | 18,049,769 |
| Retained earnings | 31,739,490 | – | 31,739,490 | 53,984,473 | 37,860 | 54,022,333 |
| Translation reserve | – | – | – | – | (5,635,174) | (5,635,174) |
| Non-controlling interest | 50,715 | – | 50,715 | 48,222 | – | 48,222 |
| **Total liabilities and equity** | **2,613,789,862** | **3,146,392,694** | **5,760,182,556** | **2,417,727,568** | **2,872,455,645** | **5,290,183,213** |



### (e) Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

Operational risks arise from all of the Group's operations. Operational Risk Management (ORM) at the Bank is a continuous process comprising six stages of identical importance: Risk Identification, Risk Assessment, Control Analysis, Mitigation Decision, Mitigation Implementation, and Supervision and Review. Historical loss data is being collected and analysed and Key Risk Indicators (KRIs) are being identified. Risk and Control Self-Assessment (RCSA) is being conducted for all organisation units' processes.

### (f) Capital management

#### *Regulatory capital*

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of the statement of financial position, are:

- To comply with the capital requirements set by the regulators of the banking markets where the Group operates;
- To apply mitigation techniques that may help lower the capital charge;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by the Group's management, employing techniques based on the guidelines issued by the Central Bank of Lebanon (in line with the guidelines issued by the Basel Committee). The required information is filed with the authority on a quarterly basis.

The Group did maintain a ratio of total regulatory capital above the 'Basel Ratio', and did maintain a ratio of Common Equity Tier 1 and Tier 1 Capital above the minimum level set by the Central Bank of Lebanon; however, the total capital adequacy ratio is below the minimum level set by the Central Bank of Lebanon for the year ended 31 December 2016. All ratios were met and exceeded for the year ended 31 December 2017.

The Group's total risk weighted assets and regulatory capital adequacy ratio at 31 December were as follows:

| *In thousands of Lebanese Pound* | **2017** | **2016** |
|---|---|---|
| Credit risk | 3,254,293,359 | 2,955,640,126 |
| Market risk | 19,781,421 | 104,869,838 |
| Operational risk | 262,087,456 | 256,713,986 |
| **Total risk weighted assets** | **3,536,162,236** | **3,317,223,950** |

| | **2017** | **2016** |
|---|---|---|
| **Net Common Equity Tier 1 Ratio** | **10.90%** | **8.77%** |
| **Net Tier 1 Capital Ratio** | **16.23%** | **13.09%** |
| **Capital adequacy ratio** | **16.29%** | **13.13%** |

To monitor the adequacy of its capital, the Group uses ratios established by the Group for International Settlements (BIS). In line with the Central Bank of Lebanon Basic Circular no.44 amended by the Central Bank of Lebanon Intermediary Circular no. 436.

The Group must achieve a total regulatory capital to risk-weighted assets at or above 14% in 2016, 14.5% in 2017, and 15% in 2018. Common Equity Tier 1 Ratio should increase to 8.5% in 2016, 9% in 2017, and 10% in 2018.Tier 1 Ratio should increase to 11% in 2016, 12% in 2017, and 13% in 2018.

These ratios measure capital by comparing the Group's eligible capital with its statement of financial position, off-statement of financial position commitments and market and operational risk positions at weighted amounts to reflect their relative risk.

The market risk approach covers the risk of open positions in currencies and debt and equity securities. Assets are weighted according to broad categories of notional risk, being assigned a risk weighting according to the level of risk necessary to support them.

Off-statement of financial position credit instruments are taken into account by applying different categories of conversion factors, designed to convert these items into statement of financial position equivalents. The resulting equivalent amounts are then weighted for risk using the same percentages as for assets in the statement of financial position.

In accordance with the Central Bank of Lebanon basic circular no. 43, the Group's capital is constituted of the following:

- Net Common Equity Tier 1 capital, which includes ordinary share capital, cash contribution to capital, common shares premium, retained earnings after deduction of dividends to be distributed and non-current assets held for sale reserve, capital reserves after deductions of intangible assets and unrealized losses on equity instruments measured at fair value through other comprehensive income. As per the BCC memo 06/2017, the Group is required to deduct from its Net Common Equity Tier 1 an amount due from its investment in Anelik CJSC by more than 10% of its Net Common Equity Tier 1 after regulatory adjustments (investments in associates out of consolidation scope). The Group obtained an extension till 2019.
- Net Tier 1 capital is obtained by the addition of Net Common Equity Tier 1 capital and preferred shares
- Total Capital Ratio, which includes 50% of the fair value reserve relating to unrealised gains on equity instruments measured at fair value through other comprehensive income.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence.

| *In thousands of Lebanese Pound* | 2017 | 2016 |
|---|---|---|
| Share capital - common shares | 142,300,000 | 112,119,150 |
| Share premium - common shares | 17,273,587 | 17,273,587 |
| Cash contribution to capital | 10,854,000 | 10,854,000 |
| Capital reserves | 164,479,922 | 132,232,122 |
| Retained earnings* | 51,335,511 | 61,145,103 |
| Less: | | |
| - Intangible assets | (690,109) | (523,555) |
| -100% Fair value reserve of financial assets at FVTOCI - loss | (148,489) | (134,017) |
| - Translation reserve | – | (5,635,174) |
| - Regulatory adjustment due to investments in associates out of consolidation scope ** | – | (36,296,878) |
| **Net Common Equity - Tier 1** | **385,404,422** | **291,034,338** |
| Share capital - preferred shares | 62,500,000 | 47,500,000 |
| Share premium - preferred shares | 125,937,499 | 95,712,499 |
| **Net Tier 1 Capital** | **573,841,921** | **434,246,837** |
| 50% Fair value reserve of financial assets through OCI - gain | 2,140,133 | 1,232,801 |
| | 2,140,133 | 1,232,801 |
| **Total regulatory capital** | **575,982,054** | **435,479,638** |

*Retained earnings less dividends to be distributed and reserve of assets held for sale.

** Starting 2016, the Group is required to deduct from its Net Common Equity Tier 1 an amount due from its investment in Anelik CJSC by more than 10% of its Net Common Equity Tier 1 (investments in associates out of consolidation scope). In 2017, the Group obtained an extension till 2019.

## (7) FAIR VALUES 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 in the principal or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

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

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

**(a) Valuation models**

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, bond and equity prices and foreign currency exchange rates.

The objective of valuation techniques is to arrive at a fair value measurment that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Group uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity security exchange-traded derivatives and simple over the counter derivatives such as interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

**(b) Financial instruments measured at fair value – fair value hierarchy**

The table below analyses financial instruments measured at fair value at the end of the reporting year, by the level in the fair value hierarchy into which the fair value measurement is categorised:

| *In thousands of Lebanese Pound* | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **31 December 2017** | | | | |
| Financial instruments at fair value through profit or loss | 3,318,326 | 9,829,206 | – | 13,147,532 |
| Financial instruments at fair value through other comprehensive income | 459,486 | 4,595,036 | – | 5,054,522 |
| Shares acquired in settlement of debt at fair value through profit or loss | – | 110,626,099 | – | 110,626,099 |
| | **3,777,812** | **125,050,341** | **–** | **128,828,153** |

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **31 December 2016** | | | | |
| Financial instruments at fair value through profit or loss | 68,497,962 | 7,768,346 | – | 76,266,308 |
| Financial instruments at fair value through other comprehensive income | 464,008 | 4,588,979 | – | 5,052,987 |
| Shares acquired in settlement of debt at fair value through profit or loss | – | 100,050,702 | – | 100,050,702 |
| | **68,961,970** | **112,408,027** | **–** | **181,369,997** |

**(c) Financial instruments not measured at fair value**

| *In thousands of Lebanese Pound* | Level 1 | Level 2 | Level 3 | Total fair values | Total carrying amount |
|---|---|---|---|---|---|
| **31 December 2017** | | | | | |
| **Financial assets** | | | | | |
| Cash and balances with Central Banks | 47,958,852 | 2,241,619,014 | – | 2,289,577,866 | 2,289,577,866 |
| Banks and financial institutions | – | 145,298,645 | – | 145,298,645 | 145,298,645 |
| Loans and advances to customers and related parties | – | 2,645,331,504 | – | 2,645,331,504 | 2,717,204,252 |
| Investment securities at amortised cost | 154,531,786 | 86,729,591 | 753,695 | 242,015,072 | 258,226,274 |
| | **202,490,638** | **5,118,978,754** | **753,695** | **5,322,223,087** | **5,410,307,037** |
| **Financial liabilities** | | | | | |
| Due to banks and financial institutions | – | 297,630,858 | – | 297,630,858 | 297,630,858 |
| Deposits from customers and related parties | – | 4,777,408,290 | – | 4,777,408,290 | 4,771,702,446 |
| | **–** | **5,075,039,148** | **–** | **5,075,039,148** | **5,069,333,304** |

| *In thousands of Lebanese Pound* | Level 1 | Level 2 | Level 3 | Total fair values | Total carrying amount |
|---|---|---|---|---|---|
| **31 December 2016** | | | | | |
| **Financial assets** | | | | | |
| Cash and balances with Central Banks | 44,274,577 | 1,618,482,500 | – | 1,662,757,077 | 1,662,757,077 |
| Banks and financial institutions | – | 231,496,926 | – | 231,496,926 | 231,496,926 |
| Loans and advances to customers and related parties | – | 2,727,965,447 | – | 2,727,965,447 | 2,739,271,955 |
| Investment securities at amortised cost | 84,311,125 | 214,015,809 | 753,695 | 299,080,629 | 299,945,399 |
| | **128,585,702** | **4,791,960,682** | **753,695** | **4,921,300,079** | **4,933,471,357** |
| **Financial liabilities** | | | | | |
| Due to banks and financial institutions | – | 168,350,210 | – | 168,350,210 | 168,350,210 |
| Deposits from customers and related parties | – | 4,667,835,970 | – | 4,667,835,970 | 4,486,387,546 |
| | **–** | **4,836,186,180** | **–** | **4,836,186,180** | **4,654,737,756** |

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## (8) CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The table below provides reconciliation between line items in the consolidated statement of financial position and categories of financial instruments:

| *In thousands of Lebanese Pound* | Note | Fair value through profit or loss | Fair value through other comprehensive income | Amortised cost | Total carrying amount |
|---|---|---|---|---|---|
| **31 December 2017** | | | | | |
| Cash and balances with the Central Banks | 9 | – | – | 2,289,577,866 | 2,289,577,866 |
| Banks and financial institutions | 10 | – | – | 145,298,645 | 145,298,645 |
| Loans and advances to customers and related parties | 11 | – | – | 2,717,204,252 | 2,717,204,252 |
| Investment securities | 12 | 5,054,522 | 13,147,532 | 258,226,274 | 276,428,328 |
| Shares acquired in settlement of debt at fair value through profit or loss | 13 | 110,626,099 | – | – | 110,626,099 |
| | | **115,680,621** | **13,147,532** | **5,410,307,037** | **5,539,135,190** |
| Due to banks and financial institutions | 18 | – | – | 297,630,858 | 297,630,858 |
| Deposits from customers and related parties | 19 | – | – | 4,771,702,446 | 4,771,702,446 |
| | | **–** | **–** | **5,069,333,304** | **5,069,333,304** |

| *In thousands of Lebanese Pound* | Note | Fair value through profit or loss | Fair value through other comprehensive income | Amortised cost | Total carrying amount |
|---|---|---|---|---|---|
| **31 December 2016** | | | | | |
| Cash and balances with the Central Banks | 9 | – | – | 1,662,757,077 | 1,662,757,077 |
| Banks and financial institutions | 10 | – | – | 231,496,926 | 231,496,926 |
| Loans and advances to customers and related parties | 11 | – | – | 2,739,271,955 | 2,739,271,955 |
| Investment securities | 12 | 76,266,308 | 5,052,987 | 299,945,399 | 381,264,694 |
| Shares acquired in settlement of debt at fair value through profit or loss | 13 | 100,050,702 | – | – | 100,050,702 |
| | | **176,317,010** | **5,052,987** | **4,933,471,357** | **5,114,841,354** |
| Due to banks and financial institutions | 18 | – | – | 168,350,210 | 168,350,210 |
| Deposits from customers and related parties | 19 | – | – | 4,486,387,546 | 4,486,387,546 |
| | | **–** | **–** | **4,654,737,756** | **4,654,737,756** |

## (9) CASH AND BALANCES WITH THE CENTRAL BANK OF LEBANON

| *In thousands of Lebanese Pound* | 2017 | 2016 |
|---|---|---|
| Cash | 47,958,852 | 44,274,577 |
| Unrestricted balances with Central Banks | 1,662,770,653 | 1,089,758,589 |
| Compulsory reserves held with Central Banks | 549,800,489 | 509,097,713 |
| Interest receivable | 29,047,872 | 19,626,198 |
| | **2,289,577,866** | **1,662,757,077** |

Cash and balances with the Central Bank include non-interest bearing balances held by the Bank at the Central Bank of Lebanon in coverage of compulsory reserve requirements for all banks operating in Lebanon as required by the Lebanese banking rules and regulations. This compulsory reserve is calculated on the basis of 25% of the weekly average of current accounts denominated in Lebanese Pound and 15% of the weekly average of term deposits after taking into account certain waivers relating to subsidised loans denominated in Lebanese Pound and foreign currencies. The compulsory reserve amounted to LBP 121,282,760 thousand as at 31 December 2017 (2016: LBP 124,079,824 thousand).

In addition, all banks operating in Lebanon are required to deposit 15% of total foreign currency deposits with the Central Bank of Lebanon interest-bearing placements regardless of their nature. These placements amounted to LBP 428,517,729 thousand (2016: LBP 384,552,245 thousand).

Compulsory reserves held with the Central Bank of Lebanon are not available for use in the Bank's day-to-day operations.

## (10) BANKS AND FINANCIAL INSTITUTIONS

| *In thousands of Lebanese Pound* | 2017 | 2016 |
|---|---|---|
| Current accounts | 135,080,652 | 181,612,685 |
| Money market placements | 9,264,921 | 56,428,860 |
| Cash collateral | 10,199,500 | 3,570,617 |
| Interest receivable | 18,493 | 132,901 |
| Allowance for impairment | (9,264,921) | (10,248,137) |
| | **145,298,645** | **231,496,926** |

## (11) LOANS AND ADVANCES TO CUSTOMERS AND RELATED PARTIES

| *In thousands of Lebanese Pound* | Gross amount | Impairment allowance 2017 | Carrying amount | Gross amount | Impairment allowance 2016 | Carrying amount |
|---|---|---|---|---|---|---|
| **Retail customers:** | | | | | | |
| Mortgage lending | 299,310,426 | (1,142,168) | 298,168,258 | 258,784,711 | (614,512) | 258,170,199 |
| Personal loans | 352,892,644 | (13,082,939) | 339,809,705 | 368,257,215 | (10,800,106) | 357,457,109 |
| Credit cards | 22,148,732 | (2,506,344) | 19,642,388 | 21,105,930 | (1,714,366) | 19,391,564 |
| | **674,351,802** | **(16,731,451)** | **657,620,351** | **648,147,856** | **(13,128,984)** | **635,018,872** |
| **Corporate customers:** | | | | | | |
| Secured lending | 1,362,849,702 | (19,077,959) | 1,343,771,743 | 1,316,542,030 | (13,918,351) | 1,302,623,679 |
| Other lending | 858,789,543 | (142,977,385) | 715,812,158 | 868,834,454 | (67,205,050) | 801,629,404 |
| | **2,221,639,245** | **(162,055,344)** | **2,059,583,901** | **2,185,376,484** | **(81,123,401)** | **2,104,253,083** |
| | **2,895,991,047** | **(178,786,795)** | **2,717,204,252** | **2,833,524,340** | **(94,252,385)** | **2,739,271,955** |



### *(a) Allowances for impairment – Movement*

| *In thousands of Lebanese Pound* | 2017 | 2016 |
|---|---|---|
| **Specific allowance for impairment** | | |
| Balance at 1 January | 88,942,478 | 72,603,316 |
| Impairment loss and suspended interest | | |
| Charge for the year | 13,214,207 | 14,762,193 |
| Provision written back | (241,414) | (3,917,510) |
| Suspended interest written back | (474,411) | (181,731) |
| Transfer from provisions (note 21) | 56,317,844 | – |
| Suspended interest during the year | 15,879,295 | 12,418,846 |
| Write-offs resulting from settlements | (609,817) | (1,108,996) |
| Result of Anelik CJSC de-consolidation | – | (5,769,101) |
| Result of Anelik RU de-consolidation | (937,143) | – |
| Difference of exchange | 14,121 | 135,465 |
| **Balance at 31 December** | **172,105,160** | **88,942,482** |

| *In thousands of Lebanese Pound* | 2017 | 2016 |
|---|---|---|
| **Collective allowance for impairment** | | |
| Balance at 1 January | 5,309,907 | 6,876,925 |
| Impairment loss for the year | | |
| Charge for the year | 1,371,528 | 1,272,098 |
| Provision written back | – | (620,170) |
| Result of Anelik CJSC de-consolidation | – | (2,218,902) |
| Difference of exchange | 200 | (48) |
| Balance at 31 December | 6,681,635 | 5,309,903 |
| **Total allowance for impairment** | **178,786,795** | **94,252,385** |

### *(b) Net impairment loss on loans and advances to customers*

| *In thousands of Lebanese Pound* | 2017 | 2016 |
|---|---|---|
| Charge for the year - specific provision | 13,214,207 | 14,762,193 |
| Charge for the year - collective provision | 1,371,528 | 1,272,098 |
| Provisions written back | (241,414) | (4,537,680) |
| Loans directly written off to profit or loss | 16,147 | 449,444 |
| Collection of bad debts | (13,238) | (1,849) |
| Difference of exchange | – | (1,162) |
| | **14,347,230** | **11,943,044** |

Loans and advances to related parties are disclosed in note 36.

## (12) INVESTMENT SECURITIES

| *In thousands of Lebanese Pound* | 2017 | 2016 |
|---|---|---|
| Investment securities at fair value through profit or loss (a) | 13,147,532 | 76,266,308 |
| Investment securities at fair value through other comprehensive income (b) | 5,054,522 | 5,052,987 |
| Investment securities at amortised cost (c) | 258,226,274 | 299,945,399 |
| | **276,428,328** | **381,264,694** |

### *(a) Financial instruments at fair value through profit or loss*

| *In thousands of Lebanese Pound* | 2017 | 2016 |
|---|---|---|
| Lebanese government treasury bills and eurobonds | 8,205,046 | 50,147,351 |
| Certificates of deposit | 2,145,097 | 21,245,348 |
| Funds | 1,597,673 | 2,638,125 |
| Interest receivable | 160,305 | 968,640 |
| Debt securities | 12,108,121 | 74,999,464 |
| Equity securities | 1,039,411 | 1,266,844 |
| | **13,147,532** | **76,266,308** |



### *(b) Financial instruments at fair value through other comprehensive income*

| *In thousands of Lebanese Pound* | 2017 | 2016 |
|---|---|---|
| Equity securities | 5,054,522 | 5,052,987 |

### *(c) Financial instruments at amortised cost*

| *In thousands of Lebanese Pound* | 2017 | 2016 |
|---|---|---|
| Government treasury bills and eurobonds | 129,564,396 | 225,079,412 |
| Corporate bonds | 753,695 | 753,695 |
| Certificates of deposit | 116,077,500 | 70,852,500 |
| Funds | 8,291,250 | 1,857,190 |
| Interest receivable | 3,539,433 | 1,402,602 |
| **Debt securities** | **258,226,274** | **299,945,399** |

## (13) SHARES ACQUIRED IN SETTLEMENT OF DEBT AT FAIR VALUE THROUGH PROFIT OR LOSS

During the year 2014, the Group acquired 2,113,194 shares in IBL Bank SAL (representing 10.83% of its share capital) as a settlement of debt amounting to USD 49,500 thousand related to a corporate client.

The Central Bank has approved the amount of such acquisition on 5 June 2014. Subsequently, the Group re-values those shares at each reporting date using the equity method. As per BDL circular number 78 and article 154 of the Code of Money and Credit, the Group should dispose of those shares within a period of two years from the date of acquisition. The number of shares as at 31 December 2017 amounts to 2,167,378 share.

| *In thousands of Lebanese Pound* | 2017 | 2016 |
|---|---|---|
| 2,167,378 shares of "IBL Bank S.A.L" (2016: 2,113,194 shares) | 110,626,099 | 100,050,702 |

## (14) PROPERTY AND EQUIPMENT

| *In thousands of Lebanese Pound* | Land and bulidings | Furniture and and equipment | Work in progress | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance at 1 January 2016 | 55,817,317 | 53,144,814 | 3,484,875 | 112,447,006 |
| Additions | 1,912,720 | 1,679,205 | 9,673,740 | 13,265,665 |
| Disposals | – | (487,326) | – | (487,326) |
| Transfers | – | 2,640,972 | (2,640,972) | – |
| Adjustment | – | – | (786,723) | (786,723) |
| De-Consolidation Anelik CJSC | (13,481,016) | (7,650,326) | – | (21,131,342) |
| Effects of movement in exchange rates | – | 238,276 | – | 238,276 |
| **Balance at 31 December 2016** | **44,249,021** | **49,565,615** | **9,730,920** | **103,545,556** |
| Balance at 1 January 2017 | 44,249,021 | 49,565,615 | 9,730,920 | 103,545,556 |
| Additions | 26,749,489 | 2,272,638 | 5,344,659 | 34,366,786 |
| Disposals | – | (1,042,559) | – | (1,042,559) |
| Transfers | – | 4,423,599 | (4,423,599) | – |
| De-Consolidation Anelik RU | – | (1,674,388) | – | (1,674,388) |
| **Balance at 31 December 2017** | **70,998,510** | **53,544,905** | **10,651,980** | **135,195,395** |
| **Accumulated depreciation** | | | | |
| Balance at 1 January 2016 | 9,040,238 | 26,732,695 | – | 35,772,933 |
| Depreciation for the year | 834,895 | 3,355,560 | – | 4,190,455 |
| Disposals | – | (343,209) | – | (343,209) |
| De-Consolidation Anelik CJSC | (1,941,266) | (4,449,290) | – | (6,390,556) |
| Effects of movement in exchange rates | – | 197,841 | – | 197,841 |
| **Balance at 31 December 2016** | **7,933,867** | **25,493,597** | **–** | **33,427,464** |
| Balance at 1 January 2017 | 7,933,867 | 25,493,597 | – | 33,427,464 |
| Depreciation for the year | 865,633 | 3,628,982 | – | 4,494,615 |
| Disposals | – | (910,772) | – | (910,772) |
| De-Consolidation Anelik RU | – | (1,317,341) | – | (1,317,341) |
| **Balance at 31 December 2017** | **8,799,500** | **26,894,466** | **–** | **35,693,966** |
| **Carrying amounts** | | | | |
| At 1 January 2016 | 46,777,079 | 26,412,119 | 3,484,875 | 76,674,073 |
| At 31 December 2016 | 36,315,154 | 24,072,018 | 9,730,920 | 70,118,092 |
| **At 31 December 2017** | **62,199,010** | **26,650,439** | **10,651,980** | **99,501,429** |



## (15) INTANGIBLE ASSETS

| *In thousand of Lebanese Pound* | 2017 | 2016 |
|---|---|---|
| **Cost** | | |
| At 1 January | 3,405,210 | 5,158,130 |
| Additions | 611,118 | 152,741 |
| De-consolidation of Anelik CJSC | – | (1,558,807) |
| Effects of movement in exchange rates | – | 61,908 |
| **At 31 December** | **4,016,328** | **3,813,972** |
| **Accumulated amortization** | | |
| At 1 January | 3,143,578 | 3,907,809 |
| Amortization expense | 182,641 | 83,959 |
| De-consolidation of Anelik CJSC | – | (723,376) |
| Effects of movement in exchange rates | – | 22,025 |
| **At 31 December** | **3,326,219** | **3,290,417** |
| **Carrying amount** | | |
| At 1 January | 261,632 | 1,250,321 |
| At 31 December | 690,109 | 523,555 |

## (16) OTHER ASSETS

| *In thousands of Lebanese Pound* | 2017 | 2016 |
|---|---|---|
| Accounts receivable and prepayments | 8,170,318 | 23,517,213 |
| Other receivable | 2,930,580 | – |
| Allowance for doubtful debt | (1,465,290) | – |
| Debtors by acceptances (a) | 21,787,897 | 7,536,937 |
| Other assets | 244,764 | 209,901 |
| | **31,668,269** | **31,264,051** |

***(a) Debtors by acceptances***

Customers' acceptances represent term documentary credits which the Group has committed to settle on behalf of its customers against commitments provided by them, which are stated as a liability in the balance sheet under other liabilities under caption "Engagement by acceptances". Debtors and engagements by acceptances are considered as current assets and liabilities.

## (17) NON-CURRENT ASSETS HELD FOR SALE

| *In thousands of Lebanese Pound* | 2017 | 2016 |
|---|---|---|
| Balance at 1 January | 4,405,996 | 3,716,767 |
| Additions | – | 689,229 |
| **Balance at 31 December** | **4,405,996** | **4,405,996** |

These assets represent properties acquired in settlement of debt against settlement of facilities of defaulting clients. As per BDL basic circular no.78 and article no.154 of the Code of Money and Credit Act, banks have two years (from the date of acquisition) to liquidate those assets, else they are required to constitute reserves (through appropriation of retained earnings) against these assets, prior to distribution of dividends (refer to note 25).

## (18) DUE TO BANKS AND FINANCIAL INSTITUTIONS

| *In thousands of Lebanese Pound* | 2017 | 2016 |
|---|---|---|
| Current deposits | 1,532,626 | 5,392,324 |
| Term deposits | 35,783,407 | 25,514,235 |
| Due to Central Banks | 140,953,274 | 105,150,800 |
| Due to the Central Bank of Lebanon against pledged treasury bills | 93,650,000 | – |
| Loan granted from the European Investment Bank | 4,213,099 | 5,847,230 |
| Loan granted from Proparco | 19,186,363 | 24,668,182 |
| Interest payable | 2,312,089 | 1,777,439 |
| | **297,630,858** | **168,350,210** |

* Following the Central Bank of Lebanon basic decision no. 6116 related to basic circular no. 23 and intermediate circular no. 367 issued on 11 August 2014, the Central Bank of Lebanon offered the commercial banks facilities that are subject to an interest rate of 1% per annum payable on a yearly basis. These facilities were given subject to granting mainly housing loans back to clients at an average interest rate of 5.2%.



## (19) DEPOSITS FROM CUSTOMERS AND RELATED PARTIES

| *In thousands of Lebanese Pound* | Note | 2017 | 2016 |
|---|---|---|---|
| Savings | | 1,180,998,657 | 1,358,639,429 |
| Term deposits | | 3,014,203,057 | 2,427,266,276 |
| Current deposits | | 248,267,280 | 263,368,204 |
| Deposits under fiduciary contracts | | 39,032,307 | 36,180,059 |
| Net creditor and cash collateral against debtor accounts | | 229,738,818 | 357,443,431 |
| Margins on letter of credits | | 6,778,465 | 4,578,010 |
| Interest payable | | 31,988,585 | 28,128,489 |
| Deposits from related parties | 36 | 20,695,277 | 10,783,648 |
| | | **4,771,702,446** | **4,486,387,546** |

As at 31 December 2017, deposits from customers above LBP 1,500,000 thousand threshold amounted to LBP 2,470,456 million representing 51.69% of total deposits and are held by 486 customers. Same tiers representing 51.24% of total customer's deposits amounting to LBP 2,186,787 were held by 424 customers in the year 2016.

Deposits from customers include coded accounts amounting to LBP 24,082,291 thousands (2016: LBP 20,629,466 thousand limited to 9 customers) which are subject to the provisions of the Article 3 of the Banking Secrecy Law dated 3 September 1956. Under the provisions of this Article, the Group cannot reveal the identity of these depositors to third parties including auditors. Since 2013, management has been working on closing these accounts.

## (20) OTHER LIABILITIES

| *In thousands of Lebanese Pound* | 2017 | 2016 |
|---|---|---|
| Other creditors and accruals | 24,132,390 | 24,093,509 |
| Checks for collection | 15,178,192 | 15,434,364 |
| Engagement by acceptances | 21,787,897 | 7,536,937 |
| Operational taxes and social security payables | 6,891,434 | 4,733,247 |
| Accrued expenses | 3,735,786 | 4,430,587 |
| Commission received in advance | 4,627,204 | 4,607,709 |
| Other liabilities | 523,561 | 342,433 |
| | **76,876,464** | **61,178,786** |

## (21) PROVISIONS

| *In thousands of Lebanese Pound* | 2017 | 2016 |
|---|---|---|
| Provision for employee benefits obligations (a) | 9,271,344 | 7,838,081 |
| Provision for various matters | 37,805 | 33,401 |
| Provision for loss on structural exchange position | 12,925 | 12,925 |
| Provision for fluctuations in foreign exchange rates (b) | 448,035 | 542,492 |
| General provision (c) | – | 56,317,844 |
| | **9,770,109** | **64,744,743** |

### (a) Provision for employee benefits obligations

| *In thousands of Lebanese Pound* | 2017 | 2016 |
|---|---|---|
| Balance at 1 January | 7,838,081 | 6,794,732 |
| Net provision raised during the year | 1,832,331 | 1,569,125 |
| Indemnity paid during the year | (399,068) | (525,776) |
| **Balance at 31 December** | **9,271,344** | **7,838,081** |

### (b) Provisions for fluctuations in foreign exchange rates

As per local regulatory requirements the Group provides for an amount equivalent to 5 percent of its year-end foreign exchange position.

### (c) General provision

During November 2016, the Central Bank of Lebanon issued Intermediate Circular number 439 which required banks operating in Lebanon to constitute general provision equivalent to 2% of consolidated risk weighted loans and advances to customers. This provision amounted to LBP 43,726,000 thousands as at 31 December 2016. In addition, the Group constituted an additional general provision amounting to LBP 12,591,844 thousands.

During 2017, the Group allocated these provisions to specific allowance for impairment on loans and advances to customers (refer to note 11).

## (22) SHARE CAPITAL

The share capital of the Group as at 31 December is as follows:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | **Number of shares** | **Value in 000 LBP** | **Number of shares** | **Value in 000 LBP** |
| Common shares | 2,846,000 | 142,300,000 | 2,242,383 | 112,119,150 |
| Preferred shares | 1,250,000 | 62,500,000 | 950,000 | 47,500,000 |
| | **4,096,000** | **204,800,000** | **3,192,383** | **159,619,150** |

The extraordinary General Assemblies of the Shareholders of the Bank held on 9 October 2017 and 17 August 2017 resolved to increase the capital of the Bank from LBP 159,619,150 thousand to LBP 204,800,000 thousand by issuing 603,617 ordinary shares with a par value of LBP 50,000 thousand paid in cash. The increase of common shares amounted to LBP 30,180,850 thousands.

Additionally the extraordinary general assembly held on 17 August 2017 resolved the issuance of 300,000 new preferred shares (Series 6) with a par value of 50,000 thousand and a total premium of LBP 30,225,000 thousands.

The Central Bank of Lebanon has approved the above transactions on 31 October 2017.

Below is a summary of the prospectus issued relating to preferred shares series 2, 3, 4 and 5, and 6; in addition to its related amendments:

| | Series 1 | Series 2 | Series 3 | Series 4 | Series 5 |
|---|---|---|---|---|---|
| Date of Extraordinary General | | | | | |
| Assembly Resolution Date | 22-Dec-08 | 5-Oct-12 | 20-Sep-13 | 11-Jul-14 | 20-Feb-15 |
| Number of Shares issued | – | 200,000 | 300,000 | 200,000 | 250,000 |
| Share Nominal Value in '000 LBP | 26 | Was increased from 26 to 50 during 2015 | Was increased from 26 to 50 during 2015 | Was increased from 26 to 50 during 2015 | Was increased from 26 to 50 during 2015 |
| Total Nominal Value in '000 LBP | – | 10,000,000 | 15,000,000 | 10,000,000 | 12,500,000 |
| Share Issue Price USD | 100 | 100 | 100 | 100 | 100 |
| Issue Premium | Calculated in USD as the difference between USD100 and the counter value of the nominal value per share based on the exchange rate at the underwriting dates. | Calculated in USD as the difference between USD100 and the counter value of the nominal value per share based on the exchange rate at the subscription dates. | Calculated in USD as the difference between USD100 and the counter value of the nominal value per share based on the exchange rate at the subscription dates. | Calculated in USD as the difference between USD100 and the counter value of the nominal value per share based on the exchange rate at the subscription dates. | Calculated in USD as the difference between USD100 and the counter value of the nominal value per share based on the exchange rate at the subscription dates. |
| Issue Premium Amount in '000 LBP | – | 20,149,999 | 30,225,000 | 20,150,000 | 25,187,500 |
| Benefits | Annual dividends of USD 8.50 per share | Annual dividends of USD 7.25 per share | Annual dividends of USD 7.25 per share | Annual dividends of USD 7.25 per share | Annual dividends of USD 7 per share |
| Call Option | The Bank may at its option redeem the shares within 60 days following the date of the Ordinary General Meeting held to approve the accounts of the Bank for the year 2013 and for each subsequent year thereafter | (i) at any time after the Issue Date, if a Regulatory Event shall occur at a redemption price equal to the issue price (i.e. U.S. $ 100.00 per share) ; or (ii) within 60 days following the lapse of a 5-year period as of the date of the Confirmation EGM and for each subsequent year thereafter within 60 days following the date of the Ordinary General Assembly of Shareholders held to approve the accounts of the Bank for the immediately preceding fiscal year. | (i) at any time after the Issue Date, if a Regulatory Event shall occur at a redemption price equal to the issue price (i.e. U.S. $ 100.00 per share); or (ii) within 60 days following the date of the Ordinary General Assembly of Shareholders held to approve the annual accounts of the Bank for the year 2018 subject to the lapse of 5-years from the date of the Extraordinary General Assembly held to confirm the due issuance of the Series 3 Preferred Shares, and annually thereafter within 60 days following each such subsequent Ordinary General Meeting at which the annual audited financial accounts for the Bank are approved for the immediately preceding fiscal year. | (i) at any time after the Issue Date if a Regulatory Event (as defined below) shall occur, at a redemption price equal to the issue price (i.e. USD 100 per share); or (ii) for the first time, within 60 days following the lapse of a 5-year period as of the date of the Extraordinary General Assembly held to ascertain the due issuance of the Series 4 Preferred Shares, and, for each subsequent year thereafter, within 60 days following the date of each Ordinary General Assembly of Shareholders held to approve the annual accounts of the Bank for the immediately preceding fiscal year. | (i) at any time after the Issue Date if a Regulatory Event (as defined below) shall occur, at a redemption price equal to the issue price (i.e. USD 100 per share); or (ii) for the first time, within 60 days following the lapse of a 5-year period as of the date of the Extraordinary General Assembly held to ascertain the due issuance of the Series 5 Preferred Shares, and, for each subsequent year thereafter, within 60 days following the date of each Ordinary General Assembly of Shareholders held to approve the annual accounts of the Bank for the immediately preceding fiscal year |
| Redemption Value USD | 101, if in 2014, increased by 1 USD for each subsequent year | 101, if in 2018, increased by 1 USD for each subsequent year | 100 | 100 | 100 |

| | Series 6 | Total |
|---|---|---|
| Date of Extraordinary General | | |
| Assembly Resolution Date | 17-Aug-17 | |
| Number of Shares issued | 300,000 | 1,250,000 |
| Share Nominal Value in '000 LBP | 50 | |
| Total Nominal Value in '000 LBP | 15,000,000 | 62,500,000 |
| Share Issue Price USD | 100 | |
| Issue Premium | Calculated in USD as the difference between USD100 and the counter value of the nominal value per share based on the exchange rate at the subscription dates. | |
| Issue Premium Amount in '000 LBP | 30,225,000 | 125,937,499 |
| Benefits | Annual dividends of USD 7.5 per share | |
| Call Option | (i) at any time after the Issue Date if a Regulatory Event (as defined below) shall occur, at a redemption price equal to the issue price (i.e. USD 100 per share); or (ii) for the first time, within 60 days following the lapse of a 5-year period as of the date of the Extraordinary General Assembly held to ascertain the due issuance of the Series 6 Preferred Shares, and, for each subsequent year thereafter, within 60 days following the date of each Ordinary General Assembly of Shareholders held to approve the annual accounts of the Bank for the immediately preceding fiscal year | |
| Redemption Value USD | 100 | |

## (23) SHARE PREMIUM

***Share premium – common shares***
The premium resulted from the increase of capital of the bank by issuing 106,780 new common shares in 2015 at LBP 50 thousand each with a premium of LBP 161,768 per share.

***Share premium – preferred shares***
The premium resulted from the increase of the capital of the Bank by issuing preferred shares which represents the difference between the amount paid by the shareholders and the nominal value of the shares. Refer to the table in note 22.



## (24) CASH CONTRIBUTION TO CAPITAL

The cash contributions to capital are subject to the following terms:

- The balance is blocked with the Bank over the lifetime of the Bank,
- These contributions may be used to cover any losses,
- These contributions can be used to increase the capital of the Bank,
- No interest is calculated on these contributions.

Cash contribution to capital as at 31 December 2017 amounts to LBP 10,854,000 thousand (31 December 2016: LBP 10,854,000 thousand). No interest has been paid on these cash contributions.

## (25) RESERVES AND NON-DISTRIBUTABLE RETAINED EARNINGS

### (i) Reserves

| *In thousands of Lebanese Pound* | 2017 | 2016 |
|---|---|---|
| General banking risks reserve (a) | 65,807,800 | 51,513,321 |
| Legal reserve (b) | 34,750,852 | 28,835,897 |
| Reserve appropriated to capital increase (c) | 40,539,577 | 36,003,739 |
| General reserves | 4,726,684 | 5,996,249 |
| **Capital reserves** | **145,824,913** | **122,349,206** |
| Reserve against retail portfolio (d) | 3,492,688 | 2,113,772 |
| Reserve against corporate portfolio (e) | 15,162,320 | 7,769,144 |
| Non-current assets held for sale reserve (f) | 2,731,311 | 2,093,542 |
| Fair value reserve (g) | 4,131,778 | 2,331,584 |
| Real estate revaluation reserve (h) | 7,444,855 | 7,444,855 |
| | **178,787,865** | **144,102,103** |

***(a) General banking risks reserve***
In compliance with the Central Bank of Lebanon's regulations basic circular 50, banks are required to appropriate from their annual net profit a minimum of 0.2 percent and a maximum of 0.3 percent of total risk weighted assets and off statement of financial position accounts as a reserve for general banking risks. The ratio should not be less than 1.25 percent of these risks by the year 2007 and 2 percent by the year 2017 as per BCC memo number 13/2015. This reserve is considered part of Tier I capital and is not available for distribution.

***(b) Legal reserve***
The Money and Credit Act, article no. 132 and the Bank's articles of association stipulate that 10% of the net annual profits be transferred to legal reserve. This reserve is not available for distribution.

***(c) Reserve appropriated to capital increase***

Movement on the reserve appropriated to capital increase is summarised as follows:

| *In thousands of Lebanese Pound* | **2017** | **2016** |
|---|---|---|
| At 1 January | 36,003,739 | 23,178,789 |
| Appropriation of previous year profits | 4,471,764 | 12,819,974 |
| Transfer from non-distributable retained earnings | 64,074 | 4,976 |
| | **40,539,577** | **36,003,739** |

***(d) Reserve against retail portfolio***

BCC circular no. 280 introduced the requirement to establish a reserve for performing retail portfolio (i.e. where late settlements do not exceed 30 days) equal to 0.5% of the carrying amount of the portfolio at 31 December 2017. As at 31 December 2017, this reserve amounted to LBP 3,492,688 thousand (2016: LBP 2,113,772 thousand). Additional appropriations of 0.5% per annum were required to be made until the reserve reaches 3.5% of the total performing loans by 31 December 2020.

As per article 16 of the Central Bank of Lebanon basic circular no. 143 dated 7 November 2017, financial institutions are no longer required to constitute a general reserve on the retail portfolio. Accordingly, this reserve will be considered a general non-distributable reserve in future year.

***(e) Reserve against corporate portfolio***

BCC circular no. 280 introduced the requirement to establish a reserve for performing corporate portfolio not less than 0.25% of the carrying amount of the portfolio in 2014, 0.5% in 2015, 1% in 2016 and 1.5% in 2017. As at 31 December 2017, this reserve amounted to LBP 15,162,320 thousand (2016: LBP 7,769,144 thousand). As per article 16 of the Central Bank of Lebanon basic circular no. 143 dated 7 November 2017, financial institutions are no longer required to constitute a general reserve on the corporate portfolio. Accordingly, this reserve will be considered a general non-distributable reserve in future year.

***(f) Non-current assets held for sale reserve***

In compliance with the Central Bank of Lebanon circular 78, banks are required to deduct from annual profits an amount of 20% or 5% of the carrying value of its properties acquired in settlement of debts within 2 years from the date of acquisition. The required reserves are established through appropriation of retained earnings. This reserve is not considered as part of the Group's tier capital nor is available for distribution. Upon disposal of these properties, this reserve is transferred to a reserve specifically restructured to future increases in share capital. As per Banking Control Commission circular no. 173, the gain realised on the sale of an asset acquired in settlement of debt should be recognised in the statement of comprehensive income at the date of the sale and transferred subsequently to the statement of changes in equity.

***(g) Fair value reserve***

The fair value reserve includes the cumulative net change in the fair value of equity investments measured at fair value through other comprehensive income. When such equity instruments are derecognised, the related cumulative amount in the fair value reserve is transferred to retained earnings.

***(h) Real estate revaluation reserve***

According to the provisions of law no.282 dated 30 December 1993 and decree no.5451 dated July 1994 and the Central Bank of Lebanon and the Banking Control Commission regulations, the Group proceeded in 19999 to the revaluation of its owned buildings. The Central Bank of Lebanon approved, on 26 January 2000 the revaluation amounting to LBP 7,444,856 thousand.

**(ii) Non-distributable retained earnings**

Cumulative unrealised gains (gross of losses) are treated as retained earnings not available for distribution under BCC circular no. 270 regulations. These gains will become available for distribution upon disposal of the related instrument.

Movement on these retained earnings is summarised as follows:

| *In thousands of Lebanese Pound* | **2017** | **2016** |
|---|---|---|
| At 1 January | 18,049,769 | 8,883,426 |
| Unrealised gain on investment securities at fair value through profit and loss (note 29) | 12,703,328 | 9,171,319 |
| Revaluation gains related to investment securities sold (transferred to realised) | (64,074) | (4,976) |
| **At 31 December** | **30,689,023** | **18,049,769** |

## (26) NET INTEREST INCOME

| *In thousands of Lebanese Pound* | Note | 2017 | 2016 |
|---|---|---|---|
| **Interest income** | | | |
| Balances with Central Banks | | 114,375,718 | 52,431,945 |
| Banks and financial institutions | | 2,478,210 | 14,966,008 |
| Loans and advances to customers and related parties | 36 | 211,767,858 | 196,518,798 |
| Investment securities | | 18,137,138 | 63,480,574 |
| **Total interest income** | | **346,758,924** | **327,397,325** |
| **Interest expense** | | | |
| Due to banks and financial institutions | | (5,364,547) | (5,319,902) |
| Deposits from customers and related parties | 36 | (246,269,949) | (221,919,587) |
| **Total interest expense** | | **(251,634,496)** | **(227,239,489)** |
| **Net interest income** | | **95,124,428** | **100,157,836** |

## (27) NET FEES AND COMMISSION INCOME

| *In thousands of Lebanese Pound* | 2017 | 2016 |
|---|---|---|
| **Fees and commission income** | | |
| Fees on letters of credit and acceptances | 1,579,529 | 1,020,454 |
| Fees on transactions with customers | 11,516,386 | 13,312,550 |
| Fees on letters of guarantee | 3,359,901 | 2,246,964 |
| Fees on various banking transactions | 9,518,504 | 10,803,703 |
| **Total fees and commission income** | **25,974,320** | **27,383,671** |
| **Fees and commission expense** | | |
| Fees on banks and financial institutions accounts | (1,152,532) | (1,193,609) |
| Fees on various banking transactions | (5,125,349) | (5,458,702) |
| Total fees and commission expense | (6,277,881) | (6,652,311) |
| **Net fees and commission income** | **19,696,439** | **20,731,360** |



## (28) NET TRADING INCOME / (LOSS)

| *In thousands of Lebanese Pound* | 2017 | 2016 |
|---|---|---|
| **Foreign exchange income / (loss)** | 2,717,880 | (14,199,799) |

## (29) NET GAIN ON INVESTMENT SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

| *In thousands of Lebanese Pound* | 2017 | 2016 |
|---|---|---|
| Unrealised gain from investment securities at fair value through profit or loss | 15,045,886 | 12,703,328 |
| Unrealised loss from investment securities at fair value through profit or loss | (262,975) | (4,215,932) |
| Realised gain from investment securities at fair value through profit or loss | 6,296,108 | 41,635,793 |
| Realised loss from investment securities at fair value through profit or loss | (208,035) | (462,604) |
| | **20,870,984** | **49,660,585** |

During 2016, the Central Bank of Lebanon bought from the Group long-term treasury bills and certificates of deposit denominated in Lebanese Lira at prices significantly exceeding their fair values. These transactions were available to banks on the condition that they are able to reinvest an amount equivalent to the nominal value of the sold instruments in Eurobonds issued by the Lebanese Republic or certificates of deposits issued by the Central Bank of Lebanon denominated in US dollars and purchased at their fair values. In fact, these transactions involved the purchase and sale (exchange) of financial instruments held at fair value through profit and loss (FVTPL); namely certificates of deposit and treasury bills. The mentioned transactions occurred simultaneously at two consolidated stages and instances (June and August 2016).

During June 2016, the Group exchanged certificates of deposit with a nominal amount of LBP 37,500 million. The net gain resulting from this transaction amounted to LBP 10,754 million.

During August 2016, the Group exchanged treasury bills with a nominal amount of LBP 30,000 million. The net gain resulting from this transaction amounted to LBP 15,323 million.

The cumulative net gain that resulted from the above mentioned exchange transactions amounts to LBP 26,077 million was reported under “Realized gain from investment securities at fair value through profit or loss”.

Furthermore, and for the purpose of increasing its share in the special transactions referred to above, the Group sold to other banks financial instruments recognized at amortised cost for the amount of LBP 1,065,417,500 thousand (refer to note 30). This transaction resulted in net gains for the Group in the amount of LBP 61,284,642 thousand during the year 2016.

## (30) NET GAIN ON INVESTMENTS SECURITIES AT AMORTISED COST

| *In thousands of Lebanese Pound* | 2017 | 2016 |
|---|---|---|
| Gain from sale of investment securities at amortised cost | 341,360 | 61,363,337 |
| Loss from sale of investment securities at amortised cost | (232,702) | (78,695) |
| | **108,658** | **61,284,642** |

During the year, the Group sold investment securities classified at amortised cost with a nominal value of LBP 314,288,750 thousand (2016: LBP 1,065,417,500 thousand) and realized a net gain of LBP 108,658 thousand (2016: LBP 61,284,642 thousand).



Below is a detailed listing of the sale transactions that occurred during the year 2017:

| *In thousands of Lebanese Pound* | 31-Dec-17 | | |
|---|---|---|---|
| **Type of investment securities** | **Maturity** | **Nominal value** | **Net gain on sale** |
| | 12-Oct-17 | 3,015,000 | (13,749) |
| | 12-Apr-21 | 4,522,500 | 17,952 |
| | 12-Apr-21 | 3,919,500 | 15,559 |
| | 12-Apr-21 | 603,000 | 2,395 |
| | 4-Oct-22 | 2,261,250 | 3,315 |
| | 4-Oct-22 | 753,750 | 359 |
| | 4-Oct-22 | 753,750 | 1,105 |
| Eurobonds (USD) | 4-Oct-22 | 6,030,000 | (201,567) |
| | 4-Oct-22 | 6,783,750 | (17,386) |
| | 22-Apr-24 | 3,015,000 | 5,132 |
| | 29-Nov-27 | 3,015,000 | 10,397 |
| | 29-Nov-27 | 3,015,000 | 7,447 |
| | 23-Mar-37 | 6,030,000 | 120,600 |
| | 23-Mar-37 | 753,750 | 11,306 |
| | 23-Mar-37 | 6,030,000 | - |
| | 3-May-17 | 5,020,000 | 231 |
| | | **55,521,250** | **(36,904)** |
| | 3-Aug-17 | 5,300,000 | - |
| | 2-Nov-17 | 21,200,000 | - |
| | 16-Nov-17 | 32,000,000 | - |
| | 30-Nov-17 | 21,800,000 | - |
| | 30-Nov-17 | 24,800,000 | - |
| | 7-Sep-23 | 8,000,000 | 89,416 |
| | 5-Oct-23 | 5,000,000 | 56,146 |
| | 2-Feb-17 | 20,000,000 | - |
| | 16-Feb-17 | 19,100,000 | - |
| Lebanese Treasury Bills (LBP) | 2-Mar-17 | 21,600,000 | - |
| | 16-Mar-17 | 1,500,000 | - |
| | 30-Mar-17 | 5,300,000 | - |
| | 13-Apr-17 | 6,850,000 | - |
| | 27-Apr-17 | 7,950,000 | - |
| | 11-May-17 | 8,550,000 | - |
| | 11-May-17 | 20,050,000 | - |
| | 25-May-17 | 14,150,000 | - |
| | 8-Jun-17 | 1,230,000 | - |
| | 6-Jul-17 | 6,850,000 | - |
| | | **251,230,000** | **145,562** |
| Certificates of deposits (USD) | 9-Jun-29 | 7,537,500 | - |
| | | **314,288,750** | **108,658** |

Detailed list of sale transactions that occurred during the year 2016:

| *In thousands of Lebanese Pound* | 31-Dec-16 | | |
|---|---|---|---|
| **Type of investment securities** | **Maturity** | **Nominal value** | **Net gain on sale** |
| | 22-Apr-31 | 3,015,000 | 24,120 |
| Eurobonds (USD) | 22-Apr-31 | 1,507,500 | 12,060 |
| | 22-Apr-31 | 12,060,000 | (60,300) |
| | | **16,582,500** | **(24,120)** |
| | 9-Jan-25 | 5,000,000 | 1,918 |
| | 9-Jan-25 | 1,000,000 | 23,844 |
| | 15-Oct-26 | 6,000,000 | 277,002 |
| Lebanese Treasury Bills (LBP) | 12-Nov-26 | 17,760,000 | 759,218 |
| | 17-Sep-26 | 6,435,000 | 280,752 |
| | 15-Oct-26 | 5,640,000 | 222,267 |
| | | **41,835,000** | **1,565,001** |
| | 5-Mar-26 | 5,000,000 | 196,228 |
| | 5-Mar-26 | 5,000,000 | 196,023 |
| | 5-Feb-26 | 6,000,000 | 491,840 |
| | 2-Jul-26 | 5,000,000 | 301,697 |
| | 20-Aug-26 | 3,000,000 | 193,305 |
| | 20-Aug-26 | 2,000,000 | 128,851 |
| | 22-Jan-26 | 5,000,000 | 250,856 |
| | 19-Nov-26 | 10,000,000 | 622,478 |
| | 6-Aug-26 | 10,000,000 | 604,981 |
| | 29-Jan-26 | 10,000,000 | 802,611 |
| | 5-Feb-26 | 10,000,000 | 803,386 |
| | 22-Jan-26 | 30,000,000 | 1,547,344 |
| | 22-Jan-26 | 5,000,000 | 258,836 |
| | 29-Jan-26 | 10,000,000 | 801,952 |
| | 29-Jan-26 | 5,000,000 | 400,976 |
| | 19-Nov-26 | 10,000,000 | 621,122 |
| | 6-Aug-26 | 15,000,000 | 928,810 |
| | 19-Nov-26 | 15,000,000 | 930,420 |
| Certificates of deposits (LBP) | 6-Aug-26 | 10,000,000 | 633,640 |
| | 15-Jan-26 | 10,000,000 | 798,330 |
| | 19-Nov-26 | 25,000,000 | 1,548,939 |
| | 6-Aug-26 | 3,000,000 | 185,227 |
| | 6-Aug-26 | 2,000,000 | 123,454 |
| | 15-Jan-26 | 20,000,000 | 1,538,486 |
| | 6-Aug-26 | 3,000,000 | 179,294 |
| | 15-Jan-26 | 5,000,000 | 405,739 |
| | 6-Aug-26 | 2,000,000 | 119,530 |
| | 29-Jan-26 | 5,000,000 | 406,382 |
| | 8-Jan-26 | 10,000,000 | 816,534 |
| | 15-Jan-26 | 25,000,000 | 2,026,104 |
| | 8-Jan-26 | 20,000,000 | 1,604,198 |
| | 8-Jan-26 | 3,000,000 | 237,930 |
| | 8-Jan-26 | 3,000,000 | 237,882 |
| | 8-Jan-26 | 4,000,000 | 317,112 |
| | 8-Jan-26 | 3,000,000 | 237,787 |
| | 8-Jan-26 | 10,000,000 | 785,441 |
| | 8-Jan-26 | 9,000,000 | 706,897 |



| *In thousands of Lebanese Pound* | 31-Dec-16 | | |
|---|---|---|---|
| **Type of investment securities** | **Maturity** | **Nominal value** | **Net gain on sale** |
| | 8-Jan-26 | 3,000,000 | 237,739 |
| | 8-Jan-26 | 4,000,000 | 317,072 |
| | 22-Jan-26 | 2,000,000 | 104,564 |
| | 22-Jan-26 | 2,000,000 | 101,659 |
| | 5-Feb-26 | 1,000,000 | 78,705 |
| | 8-Jan-26 | 3,000,000 | (9,215) |
| | 8-Jan-26 | 3,000,000 | (9,180) |
| | 12-Apr-35 | 3,000,000 | 85,395 |
| | 1-Mar-46 | 20,000,000 | 1,005,549 |
| | 8-Mar-46 | 5,000,000 | 184,866 |
| | 1-Mar-46 | 50,000,000 | 2,513,937 |
| | 1-Mar-46 | 5,000,000 | 184,931 |
| | 7-Sep-45 | 50,000,000 | 2,727,589 |
| | 8-Mar-46 | 25,000,000 | 1,256,797 |
| | 10-Aug-45 | 40,000,000 | 2,183,866 |
| Certificates of deposits (LBP) | 7-Dec-45 | 30,000,000 | 1,573,913 |
| | 30-Nov-45 | 30,000,000 | 1,573,062 |
| | 29-Jun-45 | 60,000,000 | 3,342,945 |
| | 22-Feb-46 | 30,000,000 | 1,542,353 |
| | 20-Jul-45 | 40,000,000 | 2,231,299 |
| | 16-Feb-45 | 50,000,000 | 2,942,040 |
| | 17-Aug-45 | 30,000,000 | 1,637,438 |
| | 21-Sep-45 | 10,000,000 | 545,460 |
| | 16-Nov-45 | 50,000,000 | 2,619,342 |
| | 24-Aug-45 | 30,000,000 | 1,637,060 |
| | 13-Apr-45 | 60,000,000 | 3,462,061 |
| | 1-Mar-46 | 5,000,000 | 184,957 |
| | 5-Mar-26 | 5,000,000 | 233,527 |
| | 6-Aug-26 | 5,000,000 | 279,113 |
| | 12-Apr-35 | 7,000,000 | 948,148 |
| | 5-Apr-46 | 8,000,000 | 518,074 |
| | 5-Apr-46 | 8,000,000 | 518,073 |
| | | **1,007,000,000** | **59,743,761** |
| | | **1,065,417,500** | **61,284,642** |

## (31) PERSONNEL CHARGES

| *In thousands of Lebanese Pound* | Note | 2017 | 2016 |
|---|---|---|---|
| Wages and salaries | | 25,810,539 | 25,889,911 |
| Exceptional indemnities | | 6,265,292 | 4,545,856 |
| Social security contributions | | 4,792,971 | 4,249,109 |
| Provision for employee benefits obligations | 21 | 1,832,331 | 1,569,125 |
| Representation fees | | 1,429,923 | 1,335,800 |
| Transportation | | 1,296,978 | 1,149,081 |
| Insurance and medical expenses | | 1,296,369 | 1,197,486 |
| Scholarships | | 1,293,168 | 1,270,343 |
| Chairman and vice chairman remunerations | | 2,613,856 | 2,252,403 |
| Other benefits | | 4,324,709 | 3,845,314 |
| | | **50,956,136** | **47,304,428** |

## (32) ADMINISTRATIVE EXPENSES

| *In thousands of Lebanese Pound* | Note | 2017 | 2016 |
|---|---|---|---|
| Professional fees | | 5,887,057 | 4,827,057 |
| Marketing and advertising | | 4,554,986 | 3,688,036 |
| Taxes | | 4,337,737 | 2,324,337 |
| Maintenance and repair | | 3,173,217 | 2,691,433 |
| Anelik Russia liquidation | 36 d | 3,550,693 | – |
| Rental expenses | | 2,604,770 | 2,756,771 |
| Premium of the guarantee of deposits | | 2,254,959 | 2,069,700 |
| Board of Directors attendance allowance | 36 a | 1,027,950 | 1,027,950 |
| Telecommunication and postage | | 996,659 | 1,039,286 |
| Utilities | | 747,126 | 852,992 |
| Stationary and printings | | 576,934 | 759,119 |
| Transportation expense | | 141,112 | 155,743 |
| Other expenses | | 8,301,021 | 8,889,324 |
| | | **38,154,221** | **31,081,748** |

## (33) INCOME TAX EXPENSE

| *In thousands of LBP* | 2017 | | 2016 | |
|---|---|---|---|---|
| **Profit before tax** | | **35,058,903** | | **78,366,662** |
| Income tax using the enacted tax rate | 15.17% | 5,317,101 | 14.90% | 11,676,046 |
| Non-deductible taxes | 0.29% | 102,529 | 0.20% | 153,313 |
| Non-deductible provisions | 0.60% | 210,689 | 11.03% | 8,643,693 |
| Irrecoverable loans | 0.01% | 2,480 | 0.09% | 67,417 |
| Other non-deductible expenses | 0.39% | 137,578 | 0.61% | 474,302 |
| Dividends received | -1.31% | (460,371) | -0.06% | (46,722) |
| Write back of provision | -0.04% | (14,575) | 0.00% | – |
| Collective provision written back | 0.00% | – | -0.12% | (93,025) |
| Gain on reevaluation of financial assets at fair value | -6.48% | (2,270,898) | -1.72% | (1,344,401) |
| Profit from associate | -1.03% | (362,459) | 0.00% | – |
| Subsidiary liquidation fees | 1.56% | 545,445 | 0.00% | – |
| Provision for impairment on inv. Anelik RU | 3.17% | 1,111,569 | 0.00% | – |
| Additional Provision Tax | 2.15% | 753,434 | -0.69% | (542,700) |
| | **14.47%** | **5,072,522** | **24.23%** | **18,987,923** |

During 2017, the Ministry of Finance increased the corporate income tax rate from 15% to 17%, 15% applicable for the period ending 26 October 2017 inclusive, and 17% applicable starting 27 October 2017. In addition, the Ministry of Finance published a new decision no.1504/1 dated 22 December 2017 regarding the implementation of article 51 of law no.497/2003 which states that interest income is subject to a tax rate of 7% (5% applicable for the period starting 1 January 2017 till 26 October 2017 inclusive while 7% starting 27 October 2017) and Banks can no longer benefit from deducting the tax on interest received when calculating the income tax.

## (34) IMPAIRMENT CHARGES ON OTHER FINANCIAL ASSETS

| *In thousands of Lebanese Pound* | Note | 2017 | 2016 |
|---|---|---|---|
| Impairment charges-General provisions | 21 | - | 56,317,844 |
| Impairment charges on other receivables | 16 | 1,465,290 | - |
| Impairment charges on invesment in subsidiary | 36 | 7,236,000 | - |
| | | **8,701,290** | **56,317,844** |

## (35) CASH AND CASH EQUIVALENTS

| *In thousands of Lebanese Pound* | 2017 | 2016 |
|---|---|---|
| Cash on hand | 47,958,851 | 44,274,577 |
| Unrestricted accounts with Central Banks | 115,167,116 | 325,549,799 |
| Banks and financial institutions | 145,278,645 | 227,527,992 |
| Due to banks and financial institutions | (56,292,621) | (17,140,951) |
| | **252,111,991** | **580,211,417** |



## (36) RELATED PARTIES

### (a) Transactions and balances with key management personnel

***Key management personnel compensation***

Key management personnel compensation comprised the following:

| *In thousands of Lebanese Pound* | 2017 | 2016 |
|---|---|---|
| Short-term employee benefits | 13,508,512 | 11,146,905 |
| Board of Directors attendance allowance | 1,027,950 | 1,027,950 |

***Key management personnel accounts***

A number of the board members hold positions in other entities that result in having control over the financial or operation policies of these entities.

A number of these entities transacted with the Group in the reporting period. The aggregated value of transactions and outstanding balances related to key management personnel and entities over which they have control were as follows:

| *In thousands of Lebanese Pound* | Balance outstanding as at 31 December<br>2017 | 2016 |
|---|---|---|
| Loans and advances | 6,188,027 | 5,524,656 |
| Deposits | 20,695,277 | 10,783,648 |

### (b) Transactions with related parties

| *In thousands of Lebanese Pound* | Transactions as at 31 December<br>2017 | 2016 |
|---|---|---|
| Interest income from loans and advances | 290,843 | 239,149 |
| Interest expenses on deposits | (272,761) | (237,906) |

### (c) Investments in associates

| In thousands of Lebanese Pound | Country of incorporation | Number of shares | 31 December 2017 | 31 December 2016 |
|---|---|---|---|---|
| Anelik Bank CJSC | Armenia | 273,926 | 0.00% | 40.32% |

### Equity investments in unlisted associate
### (i) Equity investments in associates

| In thousands of Lebanese Pound | Country of incorporation | Number of shares | 2017 Ownership interest | 2016 Ownership interest |
|---|---|---|---|---|
| Anelik Bank CJSC* | Armenia | 273,926 | 73,082,499 | 69,030,165 |
| | | | 40.32% | 40.32% |

*In application to the directions of the Central Bank of Armenia, which imposed a minimum for the capital of Armenian banks, the General Assembly of shareholders of Anelik Bank CJSC resolved on 12 August 2016 to increase the capital of the mentioned bank from AMD 13,696,300 thousand to AMD 33,971,850 thousand, thus an increase of AMD 20,275,550 thousand.

The capital increase was fully paid by new shareholders on 28 October 2016, following the approval of the Central Bank of Armenia, thus reducing the percentage of Creditbank SAL share from 100% to 40.32%, resulting in the loss of control over this subsidiary and it's consideration as an associate, starting 30 October 2016.

### (d) Investments in subsidiary under liquidation

| In thousands of Lebanese Pound | 2017 | 2016 |
|---|---|---|
| CB Anelik RU LLC* | 7,930,314 | 15,166,314 |
| Subordinated loan | 3,768,750 | 3,768,750 |

CB Anelik RU LLC is a subsidiary 100% owned by Creditbank SAL which is under liquidation since July 2017 based on the decision of the Central Bank of Russia .The Bank has provided for a provision amounting to LBP 7,236,000 thousand on its investment in CB Anelik RU LLC as at 31 December 2017 in the separate financial statements of the Bank for the year ended 31 December 2017.

The Group incurred expenses equivalent to LBP 3,550,693 thousand due to the liquidation of CB Anelik RU LLC (refer to note 32).



## (37) CONTINGENT LIABILITIES AND COMMITMENTS

| *In thousands of Lebanese Pound* | 2017 | 2016 |
|---|---|---|
| **Guarantees** | | |
| Guarantees given to banks and financial institutions | 34,651,331 | 29,974,293 |
| Guarantees received from banks and financial institutions | 16,749,775 | 16,747,851 |
| Guarantees given to customers | 148,697,308 | 131,822,226 |
| Guarantees received from customers | 5,830,412,561 | 5,545,684,074 |
| **Lending commitments** | **229,817,774** | **195,098,465** |
| **Operations in foreign currencies** | | |
| Foreign currencies to receive | 70,343,250 | 74,412,184 |
| Foreign currencies to deliver | 70,866,811 | 74,754,617 |
| **Contingencies on legal disputes (a)** | **47,913,502** | **35,777,883** |
| **Fiduciary deposits** | **12,091,916** | **12,229,400** |
| **Bad loans fully provided for** | **1,634,238** | **1,630,964** |

***(a) Contingencies on legal disputes***

There were a number of legal proceedings involving claims by and against the Group at 31 December 2017 and 31 December 2016, which arose in the ordinary course of business. The Group does not expect the ultimate resolution of any of the proceedings, to which the Group is party, to have a significantly adverse effect on its financial position.

MANAGEMENT
& NETWORK

## CREDITBANK S.A.L.

**Board of Directors:**

1. **Mr. Tarek Khalifé,** Chairman and General Manager
2. **Mr. Fadi Barbar,** representing Financial Profile s.a.l - Board Member
3. **Mrs. Maria Khalifé-Bazerji,** Board Member
4. **H.E. Mr. Dimyanos Kattar,** Independent Board Member
5. **Dr. Henri Chaoul,** Independent Board Member
6. **Mr. Albert Letayf,** Independent Board Member
7. **Me. Paul Harb,** representing Holfiban s.a.l Holding - Board Member
8. **Financial Trust Participation Holding s.a.l. (FTP),** represented by Mr. Tarek Khalifé - Board Member

## HEAD OFFICE

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E-Mail: info@creditbank.com

## CREDEX S.A.L.

**Board of Directors:**

1. **Mr. Tarek Khalifé,** Chairman
2. **Creditbank S.A.L.,** Board Member
3. **Mrs. Maria Bazerji,** Board Member
4. **Me. Paul Harb,** Board Member

**General Manager:**
**Mr. Selim Beshara**

## HEAD OFFICE

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## BEIRUT & SUBURBS

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E-Mail: info@creditbank.com

### MAIN BRANCH

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3 ATMs
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### AIN EL REMMANEH

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680, Beshir Gemayel Blvd., Sassine Area.
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Manager: Mr. Charles Obeid
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### BADARO – SAMI EL SOLH

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### BOURJ HAMMOUD

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Opened in: 2011
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### CHIYAH

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ATM
Opened in: 1995
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### CORNICHE EL MAZRAA

Abdel Latif Bldg., Corniche el Mazraa, Moussaitbeh
Telefax: (01) 707294/5/6 - (81) 636461
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Opened in: 2016
Manager: Mr. Rabih Boudany
E-Mail: cmazraa@creditbank.com

### HAMRA (RAS BEIRUT)

Vision 1974 Bldg., Sourati Street.
Telefax: (01) 742877/8 - (03) 361836
ATM
Opened in: 1991
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E-Mail: hamra@creditbank.com

### HAZMIEH

Ghaleb Center - Said Freiha Street.
Telefax: (05) 953410 – (70) 001720
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Opened in: 2012
Manager: Mr. Marcelino Saad
E-Mail: hazmieh@creditbank.com

### JAL EL DIB

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### JDEIDEH

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### SODECO-ASHRAFIEH

Belle View d'Ashrafieh 784 Bldg., El Khatib Street, Nasra, Ashrafieh.
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3 ATMs
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### VERDUN

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## OTHER REGIONS

### AJALTOUN

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Opened in: 1986
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### AMIOUN

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### CHTAURA

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### JDIDET EL JOUMEH – HALBA

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### JOUNIEH

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### KORNET CHEHWAN - ELISSAR

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### SAIDA

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### SARBA

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### TRIPOLI

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2 ATMs
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