Creditbank S.A.L.

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OFFERING CIRCULAR

(Incorporated in the Lebanese Republic with limited liability)
List of Banks No 103 Commercial Registry
Baabda 2003890

U.S. 20,000,000$
Tier I Perpetual Non-Cumulative Redeemable
Series 7 Preferred Shares
Issue Price: U.S. $ 100.00 per share

September 14, 2018

(Incorporated in the Lebanese Republic with limited liability)
List of Banks No 103 Commercial Registry: Baabda 2003890

CREDITBANK SAL

U.S.$ 20,000,000

Additional Tier I Perpetual Non-Cumulative Redeemable Series 7 Preferred Shares

Issue Price: U.S. $ 100.00 per share

Creditbank SAL, a bank incorporated in Lebanon with limited liability (the "**Bank**"), is offering 200,000 of its Additional Tier 1 Perpetual Non-Cumulative Redeemable Series 7 Preferred Shares, each with a par value of LBP 50,000 (the "**Series 7 Preferred Shares**"), for sale to Eligible Investors in offshore transactions outside the United States.

Capitalized terms not otherwise defined in this Offering Circular are defined in "*Glossary of Defined Terms*".

Annual distributions in respect of the Series 7 Preferred Shares ("**Series 7 Distributions**" or "**Distributions**") shall be payable to holders of Series 7 Preferred Shares, in U.S. Dollars. Series 7 Distributions will be paid, in respect of fiscal year 2018, at a rate representing a dividend yield ranging between 8% and 8.5% per annum *prorated* approximately to reflect the remaining period from the Issue Date to year-end 2018 and, in respect of each fiscal year thereafter, at the rate ranging between U.S $8 and U.S $8.5 per Series 7 Preferred Share (representing a dividend yield ranging between 8% and 8.5% *per annum*), on the terms and subject to the conditions described herein. See "*Description of the Share Capital of Creditbank SAL, — Description of the Series 7 Preferred Shares—Series 7 Distributions*". It is the intention of the Board of Directors of the Bank to declare annual Series 7 Distributions in respect of the Series 7 Preferred Shares out of Available Profit for the Relevant Year, and to recommend to the Bank's shareholders the approval of such Distributions. It is expected that Series 7 Distributions, when declared, will be payable within 60 days following the date of the shareholders' meeting at which the relevant annual audited financial statements of the Bank are approved.

In the event of any voluntary or involuntary liquidation, dissolution or winding-up of the Bank, the holders of Series 7 Preferred Shares shall be entitled to be paid out of the assets of the Bank available for distribution to its shareholders, on a *pro rata* basis with any other preferred shares of the Bank at the time outstanding and ranking *pari passu* with the Series 7 Preferred Shares, but before any payment shall be made on the Common Shares (The "**Liquidation Preference**"), an amount per share equal to the sum of (i) the Lebanese Pound equivalent of USD 100.00 per share (subject to adjustment to reflect the occurrence of an Adjustment Event (any stock split or reverse stock split affecting the Bank's capital, but not any other event, including the issuance of new shares by the Bank below market value, any stock dividend in respect of the Bank's shares, any recapitalization of the Bank's share capital, any merger or acquisition involving the Bank or any like event)) plus (ii) all declared but unpaid Series 7 Distributions in either Lebanese Pounds or United States Dollars. The Liquidation Preference will be subject to adjustment to reflect the occurrence of an Adjustment Event (*as defined below*).

The Series 7 Preferred Shares will be issued on or about October 05, 2018 (tentative) (the "**Issue Date**") and will be of perpetual existence, provided that the Bank may, at its option, subject to compliance with any and all then applicable regulations and financial ratios of the Central Bank of Lebanon (the "**Central Bank**") and the Banking Control Commission, including the availability of sufficient free reserves for the purpose, and to verification of such compliance by the Banking Control Commission, redeem and cancel all or any part (but not less than the lesser of (i) 20.0% of the aggregate issue size or (ii) the aggregate then outstanding size of the Series 7 Preferred Shares (x) at any time after the Issue Date, if a Regulatory Event shall occur; and (y) 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 7 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, in each case at a redemption price equal to 100 percent of the Issue Price per Series 7 Preferred Share (i.e. U.S.$ 100 per share) (subject to adjustment to reflect the occurrence of an Adjustment Event) plus any declared but unpaid distributions on the Series 7 Preferred Shares; provided that no distributions shall be payable in respect of the redeemed and cancelled Series 7 Preferred Shares for the year in which such Series 7 Preferred Shares are redeemed and cancelled.

See "*Certain Investment Considerations*" for a discussion of certain factors to be considered in connection with an investment in the Series 7 Preferred Shares.

The shareholders of the Bank authorized the issuance of the Series 7 Preferred Shares by Extraordinary General Assembly meeting on June 11, 2018 and such issuance was approved by the Central Bank, acting through its Central Council, on August 29, 2018, and the offering of the Series 7 Preferred Shares was approved by the Capital Markets Authority in Lebanon ("*CMA*"), acting through its Board on August 27, 2018.

***BANQUE DU LIBAN* AND THE CMA HAVE NOT PASSED UPON AND TAKE NO RESPONSIBILITY FOR THE INFORMATION CONTAINED IN THIS OFFERING CIRCULAR OR FOR THE MERITS OF ANY OFFERING OF SERIES 7 PREFERRED SHARES HEREUNDER.**

Placement Agent:

CREDITBANK SAL

The date of this Offering Circular is September 14, 2018.

IMPORTANT NOTICE

This offering circular (the "**Offering Circular**") contains information provided by the Bank in connection with the offering of the Series 7 Preferred Shares. The Bank confirms that all information regarding the Bank and the Series 7 Preferred Shares contained in this Offering Circular is true and accurate in all material respects as at the date of this Offering Circular (or, if different, the date as at which such information is stated herein to be supplied) and does not omit any material facts, the omission of which would make any statements of fact or opinion relating thereto and contained herein misleading or inaccurate. The Bank, including its Board of Directors, is responsible for the information contained in this Offering Circular, and believes, to the best of its knowledge, that such information does not omit any material facts the omission of which would make any statements of fact or opinion relating thereto and contained herein misleading.

No person has been authorized to give any information or to make any representations other than those contained in this Offering Circular and, if given or made, such information or representations must not be relied upon as having been authorized.

This Offering Circular (i) is not intended to provide the sole basis of any credit or other evaluation and (ii) should not be considered as a recommendation by the Bank or any of its officers, employees, agents or affiliates, that any recipient of this Offering Circular should purchase Series 7 Preferred Shares.

This Offering Circular does not constitute an offer to sell, or a solicitation of an offer to buy, Series 7 Preferred Shares in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Circular and the offer or sale of Series 7 Preferred Shares may be restricted by law in certain jurisdictions. No action has been taken by the Bank or any other person which would permit a public offering of any Series 7 Preferred Shares or distribution of this Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, no Series 7 Preferred Shares may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable securities laws and regulations. Without limiting the foregoing, there are restrictions on the offer and sale of the Series 7 Preferred Shares and the distribution of this Offering Circular and any other documents relating to the offering of the Series 7 Preferred Shares in the United States, Lebanon, the United Kingdom and the EEA.

In particular, applicants should note the following:

The Series 7 Preferred Shares have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), or with any regulatory authority in the United States and may not be offered or sold within the United States or to, or for the account or benefit of, any U.S. Person (as such terms are defined in Regulation S under the Securities Act), except in accordance with Regulation S under the Securities Act or pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Moreover, none of the United States Securities and Exchange Commission, any other United States federal or state securities commission or regulatory authority or any regulatory authority or agency of any other jurisdiction has recommended or approved Series 7 Preferred Shares or passed upon the accuracy or adequacy of this Offering Circular. Any representation to the contrary may be deemed a criminal offense.

For a further description of certain restrictions on offers and sales of the Series 7 Preferred Shares and on distribution of this Offering Circular, see "***Selling Restrictions***".

The Series 7 Preferred Shares are being offered for sale by the Bank, as Placement Agent, only to Eligible Investors in offshore transactions outside of the United States in reliance on Regulation S under the Securities Act, on an as and if issued basis, subject to prior sale or withdrawal, cancellation or modification. An "**Eligible Investor**" is any person, other than the Chairman of the Board of Directors, any other member of the Board of Directors or any person who is a General Manager of the Bank; any spouse or minor child of any such person; or any other person acting on behalf of any such person; or any other person to whom it is unlawful to make such an offer or sale pursuant to applicable laws and regulations. An Eligible Investor is required to sign a Purchase Application, substantially in the form of Exhibit A hereto, as a condition to making an investment in the Series 7 Preferred Shares.

In making an investment decision, an Eligible Investor must rely on its own independent appraisal of the political, economic and monetary conditions prevailing in Lebanon and in the Middle East region where the Bank conducts business, as such Eligible Investor deems appropriate in determining whether to purchase Series 7 Preferred Shares, and each Eligible Investor is urged to consult its own legal and tax advisors or accountant regarding legal, tax and accounting matters in connection with its purchase, holding and sale of Series 7 Preferred Shares.

In particular, an Eligible Investor should be aware that the Series 7 Preferred Shares will be instruments of limited liquidity and that, accordingly, it may be required to bear the financial risks of its investment for an indefinite period of time.

The delivery of this Offering Circular does not at any time imply that the information contained herein is correct at any time subsequent to the date hereof or such other date as at which it is stated to be given or that any other information supplied in connection with the Series 7 Preferred Shares is correct as at any time subsequent to the date indicated in the document containing the same. Prospective Eligible Investors should review, *inter alia*, the most recently published financial statements of the Bank, and all such other information relating to the status of the Bank or the Series 7 Preferred Shares as they may deem necessary, when deciding whether or not to purchase, sell or hold any Series 7 Preferred Shares.

The Series 7 Preferred Shares will be issued in registered form, registered in the respective names of the purchasers thereof in the share registry maintained by Midclear in respect of the Bank's share capital. Ownership of the Series 7 Preferred Shares will be shown only on, and transfers thereof may be effected (subject as provided herein) only through, the book-entry system maintained by Midclear and its participants, including the Bank. Series 7 Preferred Shares will not be issued in definitive form.

As at the date of this Offering Circular, the Bank does not intend to list the Series 7 Preferred Shares on the Beirut Stock Exchange or any other stock exchange, although it may do so in the future.

NOTICE TO LEBANESE INVESTORS

Law 161 dated August 17, 2011 governing Capital Markets in Lebanon prohibits marketing or promoting financial instruments in Lebanon prior to obtaining the authorization of the Board of the Capital Markets Authority to that effect. The Bank obtained the authorization of the Board of the Capital Markets Authority to market, promote, offer and sell the Series 7 Preferred Shares in Lebanon on the 27th of August, 2018.

THIS OFFERING CIRCULAR INCLUDES INFORMATION PROVIDED IN COMPLIANCE WITH THE REGULATIONS OF THE CAPITAL MARKETS AUTHORITY OF LEBANON (THE "CMA"). THE CMA DOES NOTE ACCEPT RESPONSIBILITY FOR THE CONTENT OF THE INFORMATION IN THIS OFFERING CIRCULAR, INCLUDING THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION. THE LIABILITY FOR THE CONTENT OF THIS OFFERING CIRCULAR LIES WITH THE ISSUER OF THE OFFERING CIRCULAR, ITS DIRETORS AND OTHER PERSONS, SUCH AS EXPERTS, WHOSE OPINIONS ARE INLCUDED IN THE OFFERING CIRCULAR WITH THEIR CONSENT. THE CMA HAS ALSO NOT ASSESSED THE SUITABILITY OF THE SECURITIES COVERED BY THIS OFFERING CIRCULAR FOR ANY PARTICULAR INVESTOR OR TYPE OF INVESTOR.

This Offering Circular is compliant with the requirements of Law 161 (the Capital Markets Law) dated August 17, 2011 and the CMA Series 6000 regulation, relating to the Offers of Securities, dated July 27, 2017.

FORWARD-LOOKING STATEMENTS

Certain statements in this Offering Circular constitute "forward-looking statements". These statements appear in a number of places in this Offering Circular and include statements regarding the Bank's intent, belief or current expectations or those of the Bank's management with respect to, among other things:

- statements regarding the Bank's results of future operations, financial condition and business plans and economic performance;
- statements regarding the Bank's competitive position and the effect of competition on its results of operations;
- statements regarding the Bank's growth and investments and related capital expenditures;
- statements regarding the impact of the on-going global financial and market crisis; and
- statements regarding the potential impact of legal or regulatory actions or litigations, or other proceedings and disputes, on the Bank's financial condition and results of operations and business.

These forward-looking statements can be identified by the use of forward-looking terminology such as "**believes**", "**expects**", "**may**", "**is expected to**", "**will**", "**will continue**", "**should**", "**approximately**", "**would be**", "**seeks**" or "**anticipates**" or similar expressions or comparable terminology, or the negatives thereof. Such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and actual results, performance or achievements of the Bank may differ materially from those expressed or implied in the forward-looking statements as a result of various factors. The information contained in this Offering Circular, including without limitation, the information under "***Certain Investment Considerations***", "***Description of the Bank***" and "***The Banking Sector and Banking Regulation in Lebanon***", identifies important factors that could cause such differences. In addition, many other factors could affect the Bank's actual financial results or results of operations and could cause actual results to differ materially from those in the forward-looking statements. The Bank does not undertake to update any forward-looking statements made herein.

PRESENTATION OF FINANCIAL INFORMATION AND OTHER MATTERS

This Offering Circular contains a copy of the audited consolidated financial statements of the Bank as at and for the years ended December 31, 2017, 2016, and 2015 respectively together with the report of the Bank's independent auditors relating thereto. The Bank's financial statements as at and for the year ended December 31, 2017, 2016, and 2015 respectively were audited by KPMG and BDO - Semaan, Gholam & Co.

The Bank maintains its accounts in Lebanese Pounds and prepares its financial statements in Lebanese Pounds in accordance with International Financial Reporting Standards ("**IFRS**"). For ease of presentation, certain financial information included herewith is presented in U.S. Dollars. Unless otherwise stated in this Offering Circular, such financial information (i) is extracted from the audited consolidated financial statements of the Bank as at and for the year ended December 31, 2017, and (ii) has been translated from Lebanese Pounds into U.S. Dollars at the closing rate of exchange of USD1.00 = LBP 1,507.50, which was the closing rate of exchange on December 31, 2017 and throughout the period then ended. These translations are presented solely for the convenience of the readers of this Offering Circular and no representation is made that any amount in Lebanese Pounds or U.S. Dollars mentioned in this Offering Circular has been, could have been or could be, converted into U.S. Dollars or Lebanese Pounds, as the case may be, at any particular rate or at all.

For purposes of this Offering Circular, unless otherwise specified or the context otherwise requires, references to "**U.S. Dollars**", "**USD**" and "**U.S.D.**" are to the lawful currency of the United States of America; references to "**Lebanese Pounds**" and "**LBP**" are to the lawful currency of Lebanon; and references to "**Euro**" are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended by the Treaty on European Union.

Certain information included in the sections "*Certain Investment Considerations—Considerations Relating to Lebanon*" and "*The Banking Sector and Banking Regulation in Lebanon*", as well as certain similar information relating to Lebanon and the Lebanese banking sector throughout this Offering Circular, has been reproduced from publicly-available information and is given as general information only. In particular, certain statistical and other information relating to the Lebanese banking sector generally and to the Bank's competitive position in its market and the relative positions of its primary competitors in the sector in particular are generally based on information made available from Bankdata Financial Services WLL ("**Bankdata**"), Central Bank statistics and the Bank's internal sources. The Bank confirms that such information has been accurately extracted from publicly-available sources, including Bankdata, and that, as far as the Bank is aware and is able to ascertain from information published, no facts have been omitted that would render the reproduced information inaccurate or misleading.

The Bank has not, however, independently verified the information, data or statistics it has obtained from publicly-available sources, including Bankdata, and does not guarantee the accuracy and completeness of, and accepts no responsibility in respect of, such information, data and statistics, other than that this information has been accurately reproduced. Prospective purchasers should note that such information, data and statistics may be approximations or estimates or use rounded numbers. Prospective purchasers should note that the figures used by Bankdata are based on results as reported to it by the constituent banks and may differ in certain respects from the information published by the Central Bank or the Bank. In particular, figures from Bankdata may differ in certain respects from the Bank's own financial statements and information set forth elsewhere in this Offering Circular as the figures provided to and used by Bankdata may have been prepared using different accounting principles to the Bank's audited financial statements.

Certain monetary amounts included in this Offering Circular have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an exact arithmetic aggregation of the figures that precede them.

Creditbank S.A.L.

To: The Capital Markets Authority

We, the undersigned, being the Chairman-General Manager of Creditbank SAL (the "**Issuer**"), hereby declare the following:

1. We have taken reasonable care and made reasonable enquiries to ensure that the content of this declaration is complete and accurate.

2. We agree that to the best of our knowledge and belief, the Issuer has:

   i. satisfied all the relevant requirements under law 161 dated August 17, 2011 and governing Capital Markets in Lebanon (the "Law"), and Capital Markets Authority Series 6000 dated July 27, 2017 (the "Regulation") for making a public offer of securities,

   ii. included all the information required by the Regulation to be included in the prospectus, and

   iii. supplied or will supply all the documents and materials required to be filed by the Regulation.

3. We confirm that there are no other facts relevant to the Issuer's application to make a public offer that in our opinion should have been disclosed to the Capital Markets Authority.

4. We further confirm that we understand:

   i. that the Issuer must comply with the Regulation,
   ii. the nature of our responsibilities and obligations as Chairman of a company whose securities are issued to the public, and
   iii. what is required of us to enable holders of the offered securities and the public to appraise the Issuer.

5. We authorize the Capital Markets Authority to exchange any relevant information with the securities regulatory authorities or other bodies having responsibility for the supervision of financial services or other relevant authorities.

Signed on behalf of the Issuer by:

The Chairman-General Manager
Tarek Joseph Khalifeh

Signature:

Date: 25-07-2018

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CAPITAL LBP 204.800.000.000 FULLY PAID
Capital LBP 159.619.150.000 fully paid
Fiscal No. 3297
C.R. No. Baabda 2003890
List of Banks No. 103

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GLOSSARY OF DEFINED TERMS

For the purposes of this Offering Circular, the following terms shall have the meanings set forth below:

"**Adjustment Event**" means any stock split or reverse stock split affecting the Bank's share capital (but not any other event, including the issuance of new shares by the Bank below market value, any stock dividend in respect of the Bank's shares, any recapitalization of the Bank's share capital, any merger or acquisition involving the Bank or any like event).

"**Aggregate Issue Price**" means, with respect to the Series 7 Preferred Shares subscribed to by an Eligible Investor, the amount, in U.S. Dollars, equal to the product of the number of such Series 7 Preferred Shares times the Issue Price.

"**Unconsolidated Distributable Net Income**" means, for any year, the Bank's unconsolidated distributable profit for such year, calculated after deduction of legal and regulatory reserves, as set out in the Bank's audited unconsolidated financial statements as at the end of such year and as approved by the shareholders of the Bank at the annual Ordinary General Meeting of Shareholders (or any other shareholders' meeting).

"**Bank**" means Creditbank SAL, a bank incorporated in Lebanon as a joint stock company with limited liability.

"**Banking Control Commission**" means the Banking Control Commission of Lebanon.

"**Basel Accords**" means the guidelines of the Committee on Banking Regulation and Supervisory Practices of the Bank for International Settlements, as in effect from time to time, including the Basel I Accord, the Basel II Accord and the Basel III Accord.

"**Board of Directors**" means the Board of Directors of the Bank.

"**By-laws**" means the by-laws of the Bank as amended to reflect the resolutions adopted by the shareholders of the Bank at the Extraordinary General Meeting held on June 11, 2018 to authorize the issuance of the Series 7 Preferred Shares and as further amended or supplemented from time to time.

"**Central Bank**" means *Banque du Liban*, the Central Bank of Lebanon.

"**CMA**" means the Capital Markets Authority of Lebanon.

"**Common Shares**" means the common shares of the Bank, with a par value of LBP 50,000 each.

"**Confirmation EGM**" means the Extraordinary General Meeting of Shareholders of the Bank which is expected to be held on, October 05, 2018, to confirm and verify the due issuance of the Series 7 Preferred Shares.

"**Eligible Investor**" means any person, other than a U.S. person, the Chairman of the Board of Directors, any other member of the Board of Directors or any person who is a General Manager of the Bank; any spouse or minor child of any such person; or any other person acting on behalf of any such person; or any other person to whom it is unlawful to make such an offer or sale pursuant to applicable laws and regulations.

"**Escrow Agent**" means the Bank, in its capacity as escrow agent for the Aggregate Issue Price paid by each Eligible Investor in connection with its subscription for Series 7 Preferred Shares.

"**Final Allotment Date**" means the final date of the Official Subscription Period, which is expected to be October 02, 2018 (tentative) and on which the Bank shall finally accept or reject each Purchase Application, in whole or in part, and allot the Series 7 Preferred Shares to Eligible Investors.

"**First EGM**" means the Extraordinary General Meeting of Shareholders of the Bank held (among other reasons) to authorize the issuance of the Series 7 Preferred Shares which was held on June 11, 2018.

"**Government**" means the government of Lebanon.

"**IFRS**" means the International Financial Reporting Standards.

"**Issue Date**" means October 05, 2018 (tentative) or such other date as shall be determined by the Bank following the fulfilment of all conditions precedent to the issuance of the Series 7 Preferred Shares.

"**Issue Price**" means USD 100.00 per share.

"**Law 308**" means Law № 308 of Lebanon, dated April 3, 2001, relating to the issuance by banks of shares and dealings therein, the issuance by banks of bonds and the ownership by banks of real property.

"**Lebanon**" means the Lebanese Republic.

"**Midclear**" means Midclear SAL, a joint stock company organized under the laws of Lebanon, which is 99.0% owned by the Central Bank and which acts as the central depositary and clearing house in Lebanon.

"**Official Subscription Period**" means the period from and including October 01, 2018 (tentative) through, and including October 02, 2018 (tentative) at 12:00 noon, Beirut time, or such other period as the Bank shall designate for the purpose of receiving subscriptions for Series 7 Preferred Shares following receipt of approval from the Central Bank for the issuance thereof.

"**Offering Circular**" means this offering circular.

"**Placement Agent**" means the Bank, in its capacity as placement agent for the offering of the Series 7 Preferred Shares.

"**Purchase Application**" means a purchase application, in the prescribed form, for the subscription of Series 7 Preferred Shares, a copy of which is attached to this Offering Circular as Exhibit A.

"**Regulation S**" means Regulation S under the Securities Act.

"**Regulatory Event**" means a change, which becomes effective after the Issue Date, in any applicable law or domestic or international laws or regulations, including regulations published by the Central Bank or the Banking Control Commission, or in the official interpretation or application thereof, as a result of which it would be reasonably likely that any portion of the Aggregate Issue Price paid by any Eligible Investor for the Series 7 Preferred Shares would no longer be included in the Bank's Tier 1 Capital or the Bank would not be permitted to maintain the issue premium in respect of the Series 7 Preferred Shares in U.S. Dollars or any other foreign currency as may be acceptable to the Bank (although the Bank is not obligated to do so).

"**Securities Act**" means the U.S. Securities Act of 1933, as amended.

"**Series 7 Distributions**" and "**Distributions**" have the meaning assigned to such terms on the front cover of this Offering Circular, subject to adjustment to reflect the occurrence of an Adjustment Event.

"**Series 7 Liquidation Preference**" means, in respect of any Series 7 Preferred Share, the amount which the holder of such share shall be entitled to be paid out of the assets of the Bank available for distribution to its shareholders, on a *pro rata* basis with all holders of the Series 2 Preferred Shares, Series 3 Preferred Shares, Series 4 Preferred Shares, Series 5 Preferred Shares, Series 6 Preferred Shares, and any other Tier 1 Capital preferred shares of the Bank at the time outstanding and ranking *pari passu* with the Series 7 Preferred Shares in respect of distributions, determined on the basis of the respective issue price for such shares, but before any payment shall be made on the Common Shares, in the event of any voluntary or involuntary liquidation, dissolution or winding-up of the Bank, which shall equal the sum of (x) the Lebanese Pound equivalent (calculated on or about the date of distribution of the liquidation preference) of USD 100.00 per share, subject to adjustment to reflect any Adjustment Event; and (y) all declared but unpaid Distributions on the Series 7 Preferred Shares in either Lebanese Pounds or United States Dollars.

"**Series 2 Preferred Shares**" means the Tier 1 Non-Cumulative Perpetual Redeemable Series 2 Preferred Shares of the Bank, each with a par value of LBP 50,000.

"**Series 3 Preferred Shares**" means the Tier 1 Non-Cumulative Perpetual Redeemable Series 3 Preferred Shares of the Bank, each with a par value of LBP 50,000.

"**Series 4 Preferred Shares**" means the Tier 1 Non-Cumulative Perpetual Redeemable Series 4 Preferred Shares of the Bank, each with a par value of LBP 50,000.

"**Series 5 Preferred Shares**" means the Tier 1 Non-Cumulative Perpetual Redeemable Series 5 Preferred Shares of the Bank, each with a par value of LBP 50,000.

“**Series 6 Preferred Shares**” means the Tier 1 Non-Cumulative Perpetual Redeemable Series 6 Preferred Shares of the Bank, each with a par value of LBP 50,000, as described in this Offering Circular.

“**Series 7 Preferred Shares**” means the Tier 1 Non-Cumulative Perpetual Redeemable Series 7 Preferred Shares of the Bank, each with a par value of LBP 50,000, as described in this Offering Circular.

“**Series 7 Subscription Escrow Account**” means the account maintained by the Escrow Agent captioned “**Series 7 Preferred Share Subscription Escrow Account**”, for purposes of receiving and holding the Aggregate Issue Price paid by any Eligible Investor in respect of the Series 7 Preferred Shares.

“**Tier 1 Capital**” means the Bank’s Tier 1 capital (which is constituted of the Common Equity Tier 1 and the Additional Tier 1 Capital), as determined in accordance with IFRS and applicable rules and regulations of the Central Bank, which are based generally on the Basel Accords, being paid-up share capital, issue premium, shareholders’ cash contributions to capital (effectively a pre-payment of capital booked in a foreign currency until such time as it is converted into local currency share capital), legal and statutory reserves (including reserves for unspecified banking risks, but excluding reserves allocated for liquidation of real properties), retained earnings non-cumulative perpetual preferred shares, funds allocated for investment in real properties and financial instruments that (i) are issued and fully paid, (ii) are eligible to cover the Bank’s losses on a going concern basis, (iii) have non-cumulative revenues and (iv) are permanent, subject to early redemption at the Bank’s discretion after five years from their issue date and by the exchange of such instruments for equivalent financial instruments.

“**Tier 2 Capital**” means the Bank’s Tier 2 capital, as determined in accordance with IFRS and applicable rules and regulations of the Central Bank, which are based generally on the Basel Accords, being preferred shares (other than preferred shares, which are both perpetual and non-cumulative), certain subordinated loans and any favorable change in fair value of available-for-sale securities, the revaluation surplus of the bank’s properties, subject to the Central Bank’s approval, and general provisions for unspecified risks.

“**United States**” and “**U.S. Persons**” have the meanings assigned to such terms in Regulation S.

THIS OFFERING CIRCULAR INCLUDES INFORMATION PROVIDED IN COMPLIANCE WITH THE REGULATIONS OF THE CAPITAL MARKETS AUTHORITY OF LEBANON. NEITHER THE CENTRAL BANK NOR THE CMA ACCEPTS ANY RESPONSIBILITY FOR THE CONTENT OF THE INFORMATION IN THIS OFFERING CIRCULAR, INCLUDING THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION. THE LIABILITY FOR THE CONTENT OF THIS OFFERING CIRCULAR LIES WITH THE ISSUER OF THE OFFERING CIRCULAR, ITS DIRETORS AND OTHER PERSONS, SUCH AS EXPERTS, WHOSE OPINIONS ARE INLCUDED IN THE OFFERING CIRCULAR WITH THEIR CONSENT. THE CMA HAS ALSO NOT ASSESSED THE SUITABILITY OF THE SECURITIES COVERED BY THIS OFFERING CIRCULAR FOR ANY PARTICULAR INVESTOR OR TYPE OF INVESTOR.

SUMMARY

The following is a summary of certain information contained elsewhere in this Offering Circular and pertaining to the offering of the Series 7 Preferred Shares, including the principal terms thereof. This summary is indicative only, does not purport to be complete and is qualified in its entirety by the more detailed information appearing elsewhere in this Offering Circular, as well as by reference to the resolutions of the shareholders authorizing the increase in the Bank's share capital and the issuance of the Series 7 Preferred Shares, a copy of which is available, for review by applicants at the Head Office of the Bank located at the address indicated on the back cover of this Offering Circular. Any decision to invest in or subscribe to the Series 7 Preferred Shares should be based on the consideration of the Offering Circular as a whole. The Bank is responsible if any information set out herein is false or misleading in a material respect when read in conjunction with more detailed information appearing elsewhere in the Offering Circular.

Issuer:	Creditbank S.A.L. (the *"Bank" or the "Issuer"*) a non-rated Lebanese banking institution.
Offering:	Pursuant to the offering described herein, the Bank is offering up to 200,000 Series 7 Preferred Shares for Eligible Investors in offshore transactions outside the United States.
Type:	Additional Tier 1 Non-Cumulative Perpetual Redeemable Series 7 Preferred Shares, each with a par value LBP 50,000 per share.
Issue Size:	USD 20,000,000 (Twenty Million United States Dollars), subject to adjustment.
Currency of the Offering:	United States Dollars
Minimum Subscription Amount:	The minimum subscription amount for any subscriber in the Series 7 Preferred Shares shall be USD 100,000 (One hundred Thousand United States Dollars) and integral multiples of USD 10,000 (Ten Thousand United States Dollars) in excess thereof. However, the Bank may accept subscriptions of lesser amounts.
Issue Date and Conditions to Issue and Offer:	The Series 7 Preferred Shares are expected to be issued on the date of the Extraordinary General Meeting of Shareholders of the Bank that will be held to confirm the due execution of the capital increase relating to the issuance of the Series 7 Preferred Shares and which is expected to be held on October 05, 2018 (*indicative*) (the *"**Issue Date**"*) subject to obtaining the prior approval by the Central Bank, acting through its Central Council, and the authorization by the Extraordinary General Meeting of Shareholders of the Bank to be held to increase the capital of the Bank through the issuance of the Series 7 Preferred Shares and the simultaneous redemption of the Series 2 Preferred Shares. Offering of the Series 7 Preferred Shares is subject to the prior approval of the Capital Markets Authority in Lebanon, which has been obtained on August 27, 2018.
Official Subscription Period:	The Official Subscription Period for the Series 7 Preferred Shares, during which the duly completed Purchase Applications should be submitted to the Bank, is set from (and including) October 01, 2018 to (and including) October 02, 2018, no later than 12:00 noon, Beirut time (Indicative).
Maturity / Tenor:	Perpetual, subject to call option. See "Call Option" below.

Issue Price: USD 100 (One Hundred United States Dollars) per share (the *"**Issue Price**"*), out of which the amount equivalent to LBP 50,000 shall represent the par value for each share, with the balance which the Bank intends (but is not obligated) to maintain in U.S. Dollars, consisting of issue premium (the *"**Issue Premium**"*).

Use of Proceeds: The net proceeds of the issuance of the Series 7 Preferred Shares will be used by the Issuer for general funding purposes, including, but not limited to, strengthening the Bank's capital structure and the growth of its operations.

Distributions: Subject as provided below, distributions to the holders of Series 7 Preferred Shares on account of the year 2018, shall be paid in 2019, in United States Dollars, in arrear, from the profits of the 2018 financial year, should there be such profits, on the basis of a dividend yield ranging between 8% and 8.5% per annum pro-rated to reflect the remaining period from the Issue Date to year-end 2018 per Series 7 Preferred Share.

Thereafter, subject as provided below, distributions to holders of Series 7 Preferred Shares shall be paid, in arrear, annually, if an when declared, for the 2019 financial year and subsequent financial years, in U.S. Dollars, in a fixed amount ranging between USD 8 and USD 8.5 (representing a dividend yield ranging between 8% and 8.5% per annum) per Series 7 Preferred Share, subject to adjustment to reflect the occurrence of an Adjustment Event (*as defined below*).

It is the intention of the Board of Directors of the Bank to recommend to the shareholders of the Bank that they approve annual distributions in respect of the Series 7 Preferred Shares subject to (i) the availability of unconsolidated distributable net income of the Bank (calculated after allocations of legal and regulatory reserves) for the relevant year in an amount sufficient to cover such Series 7 Preferred Shares distributions and distributions in respect of the Series 2 Preferred Shares (the "***Series 2 Preferred Shares***"), the Series 3 Preferred Shares (the "***Series 3 Preferred Shares***"),the Series 4 Preferred Shares (the "***Series 4 Preferred Shares***"), the Series 5 Preferred Shares (the "***Series 5 Preferred Shares***"), and the Series 6 Preferred Shares (the "***Series 6 Preferred Shares***") of the Issuer and any other Additional Tier 1 Capital preference shares of the Bank at that time outstanding and ranking *pari passu* with the Series 7 Preferred Shares; (ii) the Bank's continued compliance with all applicable Central Bank and Banking Control Commission ratios and regulations at the time imposed with respect to payments related to the net profits of the Bank; and (iii) the approval of the payment of such distributions out of the unconsolidated distributable net income of the Bank for the relevant year, if available, by the Ordinary General Assembly of the Shareholders of the Bank at which the relevant annual audited consolidated financial statements of the Bank are approved, unless there exists an obligatory legal or regulatory reason that requires otherwise.

Should the unconsolidated net income of the Bank for a given year be insufficient to pay the fixed annual amount of distributions for the Series 7 Preferred Shares, the Series 6 Preferred Shares, the Series 5 Preferred Shares, the Series 4 Preferred Shares, the Series 3 Preferred Shares, the Series 2 Preferred Shares and any other Additional Tier I Capital preference shares of the Bank at that time outstanding and ranking *pari passu* with the Series 7 Preferred Shares, then such distributions shall be decreased in proportion to the available profits, if any. In any event, the amount of distributions payable to holders of the Series 7 Preferred Shares, the Series 6 Preferred Shares, the Series 5 Preferred Shares, the Series 4 Preferred Shares, the Series 3 Preferred Shares, the Series 2 Preferred Shares and any other Additional Tier 1 Capital preference shares of the Bank at that time outstanding and ranking *pari passu* with the Series 7 Preferred Shares, may not exceed the distributable unconsolidated net income of the Bank and the actual amount distributable in respect of the Series 7 Preferred Shares for any year, and the date on which such distribution shall be made, shall be determined by, and otherwise be subject to the approval of, the Bank's shareholders at the Ordinary General Assembly of Shareholders at which the relevant annual accounts of the Bank are approved.

In the event the Bank exercises the call option, as provided below, no distributions shall be payable in respect of any redeemed and cancelled Series 7 Preferred Shares for the year in which such Series 7 Preferred Shares are redeemed and cancelled.

Holders of Series 7 Preferred Shares have no right to receive or participate in any distribution in respect of the Bank's capital other than the annual distributions described herein, as and when declared and approved by the General Assembly of the Shareholders, and upon liquidation of the Bank, the liquidation preference as described below.

Accordingly, holders of Series 7 Preferred Shares have no right to receive any distributions in respect of the Bank's reserves and any distributions effected through an increase of the Bank's capital realized by the incorporation of the Bank's retained earnings and reserves and any distributions in the form of newly issued shares.

Adjustment Events: For the purposes of calculating the distributions, as well as the liquidation preference and the amount payable upon any redemption of the Series 7 Preferred Shares (*see below*), *"Adjustment Event"* means any stock split or reverse stock split affecting the Bank's share capital (but not any other event, including the issuance of new shares by the Bank below market value, any stock dividend in respect of the Bank's shares, any recapitalization of the Bank share capital, any merger or acquisition involving the Bank or any like event).

Distributions subject to Withholding Tax: Distributions to holders of Series 7 Preferred Shares are subject to withholding tax in the Lebanese Republic, currently at the rate of 10 percent. The Bank will reimburse the holders of Series 7 Preferred Shares a portion of the applicable withholding tax equal to and not exceeding, at any time, 5 per cent of the amount of each distribution to the holders of Series 7 Preferred Shares

Distributions Not Cumulative: The right to the payment of distributions on the Series 7 Preferred Shares shall not be cumulative. If distributions are not declared and paid, holders of Series 7 Preferred Shares will not be entitled to receive such distributions whether or not funds subsequently become available.

Distribution Payments: Distributions, if and when declared, shall be paid annually after the Ordinary General Assembly of Shareholders at which the annual accounts of the Bank for the relevant year are approved and at which the amount and payment of such distributions are approved.
The date of distribution shall be determined by a resolution of the Ordinary General Assembly of Shareholders at which the relevant annual accounts of the Bank are approved or by a resolution of the Board of Directors and is expected to be within 60 days following the date of such Ordinary General Assembly. The actual date will be made public no later than three days prior to distribution, through publication in two local newspapers of general circulation.

Restrictions on Payment of Dividends upon Common Shares: So long as any Series 7 Preferred Shares shall be outstanding, the Bank shall not declare nor pay any dividend upon its common shares (the "***Common Shares***") on account of any fiscal year unless and until full annual distributions in respect of the Series 7 Preferred Shares on account of such fiscal year (and any other Tier I Capital preference shares of the Bank at that time outstanding and ranking *pari passu* with the Series 7 Preferred Shares in respect of distributions, including, as of the date hereof, the Series 2 Preferred Shares, the Series 3 Preferred Shares, the Series 4 Preferred Shares, the Series 5 Preferred Shares and the Series 6 Preferred Shares) shall have been paid or declared and set apart.

Voting rights: Except in the limited circumstances described below, and reflecting applicable Lebanese law, the holders of Series 7 Preferred Shares shall not have voting rights.

Holders of Series 7 Preferred Shares shall have the right to participate in discussions regarding, and to vote (proportionally to the value of their shares in the capital of the Bank and on a pro rata basis with all holders of shares of the Bank, irrespective of the class thereof,) in respect of the following:

- amendment to the object or legal form of the Bank;
- capital increase by way of a contribution in kind of assets; and
- dissolution, liquidation or merger.

Moreover, pursuant to applicable Lebanese law, including, in particular, Law No. 308 dated April 3, 2001 ("***Law No. 308***"), holders of Series 7 Preferred Shares shall have the right to participate in discussions regarding, and to vote (on a *pro rata* basis with all holders of any other outstanding shares of the Bank, irrespective of the class thereof, including, as of the date hereof the Series 2 Preferred Shares, the Series 3 Preferred Shares, the Series 4 Preferred Shares, the Series 5 Preferred Shares, the Series 6 Preferred Shares and the Common Shares of the Bank regardless of the issue price of these shares) on all matters that come before the shareholders of the Bank in the event that (i) Distributions are not paid in full for three financial years and such voting right shall continue in effect until the end of the financial year in which all accrued and unpaid distributions are paid in full for the current financial year and for all preceding financial years, or (ii) the Bank shall be in default in the provision of any rights or benefits attaching to the Series 7 Preferred Shares and such voting rights shall continue in effect until the default with respect to other rights or benefits attaching to the Series 7 Preferred Shares is cured.

Applicable law further provides for the automatic establishment of an association of holders of Series 7 Preferred Shares to protect the interests of such holders, which may designate a representative that may attend shareholder meetings, but not participate in discussions regarding or vote in respect of matters presented therein, except under the limited circumstances set forth above.

Liquidation Preference: In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Bank, the holders of the Series 7 Preferred Shares shall be entitled, on a *pro rata* basis with the holders of the Series 2 Preferred Shares, the Series 3 Preferred Shares, the Series 4 Preferred Shares, the Series 5 Preferred Shares, the Series 6 Preferred Shares and any Tier I Capital preference shares that may be issued by the Bank, at the time outstanding, and ranking *pari passu* with the Series 7 Preferred Shares, to be paid out of the assets of the Bank available for distribution to its shareholders, before any payment shall be made on the Common Shares of the Bank, an amount per share equal to the sum of (i) the Lebanese Pound equivalent of the Issue Price per share (i.e. US$100) at the current prevailing conversation rate, subject to adjustment to reflect the occurrence of an Adjustment Event, plus (ii) all declared but unpaid distributions on the Series 7 Preferred Shares in either Lebanese Pounds or United States Dollars. It is understood that holders of Preferred Shares may not be entitled to any further payment out of the Bank's assets available for distribution, other than the amounts described here above.

Ranking: The Series 7 Preferred Shares shall rank senior to the Bank's Common Shares in respect of the right to receive distributions relating to the net profits (if any) of the Bank as per the terms provided under "Distributions" above in respect of any relevant year or payments otherwise out of the assets of the Bank upon any voluntary or involuntary liquidation, dissolution or winding up of the Bank.

The Series 7 Preferred Shares will, however, rank "junior" to debt and other similar obligations of the Bank such that, in the event of any voluntary or involuntary liquidation, dissolution or winding up of the Bank, the holders of debt instruments and other similar obligations of the Bank would be entitled to be repaid prior to the payment of any amounts to holders of Series 7 Preferred Shares.

The Series 7 Preferred Shares shall rank *pari passu* with the Series 2 Preferred Shares, the Series 3 Preferred Shares, the Series 4 Preferred Shares, the Series 5 Preferred Shares, the Series 6 Preferred Shares and any future series of Tier I Capital preferred shares that may be issued by the Bank that rank pari passu with the Series 7 Preferred Shares, in respect of:

(x) the right to receive distributions (other than as to the amounts thereof); and,

(y) the right to receive payments out of the assets of the Bank upon any voluntary or involuntary liquidation, dissolution or winding up of the Bank (other than as to the amounts thereof)

In the event the assets of the Bank available for distribution to its shareholders upon any liquidation, dissolution or winding-up of the Bank are insufficient to cover the liquidation preferences payable to the holders of the Series 7 Preferred Shares, the Series 6 Preferred Shares, the Series 5 Preferred Shares, the Series 4 Preferred Shares, the Series 3 Preferred Shares, the Series 2 Preferred Shares and any future Series of Tier I Capital Preferred Shares of the Bank at the time outstanding, the amount payable to such holders will be similarly reduced on a pro rata basis.

In the event any surplus remains after payment of the amounts described here above to the holders of Preferred Shares, such surplus will not be distributed to the holders of the Preferred Shares, but will be made available for distribution to holders of the Common Shares of the Bank.

The Series 7 Preferred Shares are not secured, nor covered by any guarantee from the Bank or any related party, and do not benefit from any other arrangement that legally or economically enhances the preference or seniority of their claims.

Pre-Emptive Rights: Pursuant to Law No. 308, holders of Common Shares do not benefit from pre-emptive right with respect to new issuances of preferred shares.

Each holder of Series 2 Preferred Shares and Series 3 Preferred Shares (unlike holders of Series 4 Preferred Shares, Series 5 Preferred Shares, and Series 6 Preferred Shares) will have the right to subscribe, on a priority basis, to the issue of Series 7 Preferred Shares, *pro rata* to its nominal holding of Series 2 Preferred Shares and Series 3 Preferred Shares held by such holder. Any Series 7 Preferred Shares not subscribed by holders of Series 2 Preferred Shares and Series 3 Preferred Shares exercising their priority right will be allocated in the sole discretion of the Bank.

In order to exercise its priority subscription rights, a holder of Series 2 Preferred Shares and Series 3 Preferred Shares must submit a duly completed Purchase Application (in the form to be provided) to the Bank, together with an indication that such holder is exercising its priority subscription rights and confirmation of the number of Series 2 Preferred Shares and/or the number of Series 3 Preferred Shares held by it, no later than the expiration of the subscription period that will be set by the Bank.

Holders of Series 2 Preferred Shares and Series 3 Preferred Shares who fail to notify the Bank on a timely basis of their intention to exercise their priority subscription rights to purchase Series 7 Preferred Shares will be deemed to have waived such rights.

Priority Subscription Rights: Holders of Series 7 Preferred Shares shall not automatically have the right to subscribe, on a priority basis, to any newly issued Preferred or Common Shares. However, in the event the Extraordinary General Assembly of the Bank's shareholders decides in the future to increase the Bank's share capital by issuing preferred shares, it may decide, if it deems it appropriate at the time, to grant holders of Series 7 Preferred Shares the same right to subscribe to the newly issued shares as for non-shareholders subscribers.

Call Option: Subject to compliance with applicable Central Bank and Banking Control Commission ratios and regulations, including the availability of free reserves for the purpose, and to verification of such compliance by the Banking Control Commission, the Bank may, at its option, redeem and cancel all or any part of the Series 7 Preferred Shares (but not less than 20 percent, each time, of the original issue size or, if less, 100 per cent of the Series 7 Preferred Shares then remaining outstanding):

(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 7 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, in its sole discretion, in each case at a redemption price equal to 100 percent of the Issue Price per Series 7 Preferred Share (i.e. U.S.$ 100 per share) (subject to adjustment to reflect the occurrence of an Adjustment Event),

plus any declared but unpaid distributions on the Series 7 Preferred Shares; provided that no distributions shall be payable in respect of the redeemed and cancelled Series 7 Preferred Shares for the year in which such Series 7 Preferred Shares are redeemed and cancelled. The Bank will transfer the redemption proceeds to the Applicant within three business days following the date of publication by the Issuer in two widely-distributed Lebanese newspapers that the Series 7 Preferred Shares have been redeemed.

In the case of redemption and cancellation of a part only of the Series 7 Preferred Shares, at the time outstanding, such redemption and cancellation will be on a *pro rata* basis.

Upon any redemption of Series 7 Preferred Shares, such Series 7 Preferred Shares shall be cancelled and all required actions shall be taken in order to reflect such cancellation, while the Bank's total capital shall remain unchanged, including the adjustment of the par value of each of the remaining shares then constituting the outstanding share capital of the Bank, irrespective of the class thereof, or the distribution of free Common Shares to holders of Common Shares or any other legal measure acceptable by the Central Bank, as adopted by the Bank's General Assembly of shareholders.

A "*Regulatory Event*" means a change, which becomes effective after the Issue Date, in applicable domestic or international laws or regulations, including regulations published by the Central Bank or the Banking Control Commission, or in the official interpretation or application thereof, as a result of which it would be reasonably likely that any portion of the aggregate Issue Price for the Series 7 Preferred Shares would no longer be included in the Bank's Tier I capital or the Bank would not be permitted to maintain the Issue Premium in foreign currency (although the Bank is not obligated to do so).

Holders of Series 7 Preferred Shares do not have the benefit of any put option or other right to require the Bank to repurchase Series 7 Preferred Shares. Although the Bank has the right to redeem and cancel the Series 7 Preferred Shares as described herein, it has no obligation to do so and its ability to do so may be restricted by applicable ratios and regulations of the Central Bank and the Banking Control Commission.

Form: Registered shares.
The Series 7 Preferred Shares will be issued in registered form, registered in the respective names of the subscribers thereto in the share registry maintained by Midclear in respect of the Bank's share capital.

Settlement & Clearing: Midclear SAL will perform clearing and settlement for the Series 7 Preferred Shares. The Series 7 Preferred Shares will initially be delivered, upon issuance, to the holders by deposit to the Midclear account of the Bank. At any time after the Issue Date, a holder of Series 7 Preferred Shares may request that the Bank arrange for all or a portion of the Series 7 Preferred Shares owned by such holder to be transferred to another participant in Midclear. Transfers of Series 7 Preferred Shares will be effected only through the book-entry system maintained by Midclear and its participants, including the Bank.

Placement Agent: Creditbank SAL

Legal counsel For the purpose of issuing the Series 7 Preferred Shares: Paul Harb Esq.

Auditors KPMG PCC
BDO Semaan, Gholam & Co.

Eligible Investors: The Series 7 Preferred Shares will be sold to Eligible Investors in offshore transactions outside the United States.

An "Eligible Investor" is any person, other than a U.S. person, the Chairman or any member of the Board of Directors or General Managers of the Bank, or the spouse or any minor child of any such person, or any person acting on their behalf, or any other person to whom it is unlawful to make such an offer or sale pursuant to applicable laws and regulations.

Fees: The Bank will not impose issuance, placement, or redemption fees on the Applicant with respect to the issuance, placement, and redemption of the Series 7 Preferred Shares.

Listing: The Bank does not intend, currently, to list the Series 7 Preferred Shares on an international or Lebanese stock exchange. However, the Bank may consider listing the Series 7 Preferred Shares in the future.

Restrictions on Transfer: Subject to compliance with all applicable laws and regulations, there are no restrictions imposed by the Central Bank on the transfer of Series 7 Preferred Shares and, accordingly, the Series 7 Preferred Shares will be freely transferable but only in favour of an Eligible Investor as defined here above, and subject to standard due diligence procedures conducted by the Bank (i.e. Know Your Customer forms).

Applicable Laws : The investment in Series 7 Preferred Shares shall be governed by and construed in accordance with the laws of the Republic of Lebanon, including namely Law no. 308 dated April 3, 2001, relevant Central Bank decisions, as well as Capital Markets Authority regulations.

The Series 7 Preferred Shares will be further governed by the by-laws of the Bank and the terms of the issuance as resolved by the Extraordinary General Meeting of Shareholders of the Bank held for purposes of increasing the capital of the Bank through the issuance of the Series 7 Preferred Shares.

Risk Factors The nature of the investment in the Series 7 Preferred Shares carries with it numerous types of risks including, but not limited to, political, economic, market and financial risks. Those risks relate, *inter alia*, to the circumstances in Lebanon and the region.

Eligible Investors in Series 7 Preferred Shares should make themselves fully aware of the risks relating to their investment in Series 7 Preferred Shares before making such an investment.

The following section does not describe all of the risks of an investment in the Series 7 Preferred Shares. Prior to making an investment decision, prospective applicants should carefully consider all the information set forth herein and as more fully described in this Offering Circular. See "*Certain Investment Considerations*".

Considerations relating to Lebanon

The Bank operates in Lebanon and, accordingly, its financial condition, results of operations and business prospects are closely related to the overall political, social and economic situation in Lebanon, which, in turn, is tied to the geo-political situation in the region.

Foreign Exchange Risk; Monetary Policy

The Lebanese Pound is convertible, and the Central Bank intervenes when necessary in order to maintain orderly conditions in the foreign exchange market. The Central Bank's exchange rate policy since October 1992 has been to anchor the Lebanese Pound exchange rate to the U.S. Dollar. Although the authorities expect to gear their monetary policy toward maintaining stability in the exchange rate, there is no assurance that the Central Bank will continue to be willing or able to maintain a stable currency, through intervention in the exchange markets or otherwise. The possible depreciation of the Lebanese Pound to the U.S. Dollar or the decline in the level of foreign reserves as a result of the Central Bank's intervention in the currency markets could materially impair the Lebanese economy and, in turn, materially adversely affect the Bank's business, liquidity, results of operations, financial condition and prospects.

Consideration relating to the Bank

An investment in the Series 7 Preferred Shares constitutes an investment in the equity of the Bank, and holders of the Series 7 Preferred Shares will be exposed to the overall financial position of the Bank including its assets and liabilities. Holders will not have creditor rights against the Bank in respect of the Series 7 Preferred Shares. See in particular "*Considerations relating to the bank and the Lebanese Banking industry*"

No Distributions Payable Upon Redemption

In the event that the Bank exercises its option to redeem and cancel the Series 7 Preferred Shares at any time on the terms and subject to the conditions described herein, no Distributions shall be payable in respect of the year in which such Series 7 Preferred Shares are redeemed and cancelled. The redemption price of the Series 7 Preferred Shares will be equal to the Issue Price plus any declared but unpaid distributions on the Series 7 Preferred Shares.

Secondary Market; Liquidity

As at the date hereof, the Bank does not intend to list the Series 7 Preferred Shares on the Beirut Stock Exchange or any other stock exchange. There can be no assurance that a secondary market in the Series 7 Preferred Shares will develop, or, if one does develop, that it will provide liquidity of investment or will continue for the life of the Series 6 Preferred Shares. Accordingly, the purchase of Series 7 Preferred Shares is suitable only for, and should be made only by, Eligible Investors who are able to bear the risk of limited liquidity and the financial and other risks associated with an investment in the Series 7 Preferred Shares.

Perpetual, No Fixed Redemption

The Series 7 Preferred Shares shall be of perpetual existence and have no fixed final redemption date and, holders of Series 7 Preferred Shares shall not have the benefit of any put option or other right to require the redemption thereof. Although the Bank has the option to redeem and cancel the Series 7 Preferred Shares, in whole or in part, under certain circumstances, it has no obligation to do so and its ability to do so may be restricted by applicable ratios or regulations of *Banque du Liban* and the Banking Control Commission. As a result, purchasers of Series 7 Preferred Shares must be willing and able to maintain their investment in the long term indefinitely.

Limited Voting Rights

The Series 7 Preferred Shares will be non-voting, except for the limited rights of holders of Series 7 Preferred Shares to vote on any proposed amendments to the object or legal form of the Bank, any capital increase by way of a contribution in kind of assets or any dissolution, liquidation or winding-up of the Bank or any merger scheme in which the Bank is a party or in the event that (i) distributions are not paid in full for three financial years, or (ii) the Bank shall be in default in the provision of any of the rights or benefits attached to the Series 7 Preferred Shares.

SUBSCRIPTION TIMETABLE AND PROCEDURES

Timetable and authorizations [to be updated based on date of receipt of CMA Approval]

The following is a summary timetable and schedule of authorizations relating to the offering of the Series 7 Preferred Shares. Prospective purchasers should note that this timetable is tentative and subject to change. Nevertheless, subject only to the right of subscribers to rescind their Purchase Application as set out in the Purchase Application and this Offering Circular, each Purchase Application is final and irrevocable under all circumstances, regardless of delays in the closing of the transaction.

12 February 2018	A meeting of the Bank's Board of Directors was held to approve the issuance of the Series 7 Preferred Shares.
12 March 2018	Letter was sent by the Bank to the Governor of the Central Bank seeking approval in principle to issue the Series 7 Preferred Shares.
08 May 2018	A letter was received from the Governor of the Central Bank addressed to the Bank approving in principle the issuance of the Preferred Shares.
21 May 2018	A meeting of the Bank's Board of Directors was held: (i) to determine all the terms and conditions for the offering of the Series 6 Preferred Shares, (ii) to delegate to the Chairman-General Manager all powers necessary to organize such offering, and (iii) to convene an Extraordinary General Meeting of Shareholders of the Bank for purposes of increasing the Bank's capital by issuing the Series 7 Preferred Shares.
11 June 2018	The First EGM was held: (i) to authorize the issuance of the Series 7 Preferred Shares; (ii) to determine the size of the issue and the terms of the Series 7 Preferred Shares; (iii) to make consequential amendments to the By-laws; and (iv) to delegate to the Chairman-General Manager of the Bank the power (x) to set the Official Subscription Period, (y) to approve the allocations of the Preferred Shares and accept new shareholders and (z) to set the rate at which Distributions will be paid (subject as provided herein) in respect of the Series 7 Preferred Shares.
03 July 2018	A letter was sent by the Bank to the Governor of the Central Bank, attaching a copy of the minutes of the First EGM and seeking final approval to issue the Series 7 Preferred Shares.
25 July 2018	A letter was sent by the Bank to the Capital Markets Authority seeking approval to offer the Series 7 Preferred Shares.
27 August 2018	A letter was received from the Capital Markets Authority addressed to the Bank approving the offering of the Series 7 Preferred Shares.
29 August 2018	The Central Bank, acting through its Central Council, granted the final approval for the issuance of the Series 7 Preferred Shares.
15 September 2018 *(tentative)*	This Offering Circular shall be made available and free of charge at the Bank's head office and branches to prospective purchasers of Series 7 Preferred Shares, and shall be posted on the Bank's website, with notice to this effect published by the Bank in two local newspapers.
01 October 2018 until 02 October 2018 *(tentative)*	**Official Subscription Period**: Prospective Eligible Investors wishing to subscribe for Series 7 Preferred Shares must submit duly completed Purchase Applications to the Bank in accordance with the instructions contained therein no later than 12:00 noon, Beirut time, on the last day of the Official Subscription Period (*i.e. 02 October, 2018*). **Priority Subscription Rights Exercise Period –** Holders of Series 2 Preferred Shares and Series 3 Preferred Shares wishing to exercise their priority subscription rights must submit duly completed Purchase Applications to the Bank, in accordance with the instructions contained therein no later than 12:00 noon, on October 02, 2018. Holders of Series 2 Preferred Shares and Series 3 Preferred Shares who fail to notify the Bank of their intention to exercise their priority subscription rights to purchase Series 7 Preferred Shares prior to the end of the Priority Subscription Rights Exercise Period will be deemed to have waived such rights.

02 October, 2018 *(tentative)*	**Final Allotment Date**: Final allotments of the Series 7 Preferred Shares are expected to be made by the Bank. The Bank will notify subscribers of its acceptance or rejection, in whole or in part, of their Purchase Applications and allotments, if applicable. Funds held by the Bank, as Escrow Agent, are expected to be transferred to the relevant subscription account at the Central Bank in respect of accepted Purchase Applications (or parts thereof). Funds held by the Bank, as Escrow Agent, are expected to be returned to subscribers in respect of rejected Purchase Applications (or parts thereof), or in the event of exercise of right of rescission by an Applicant. Interest (if any) on escrowed funds is expected to be paid to subscribers as set out in the Purchase Applications. A letter is expected to be sent by the Chairman – General Manager of the Bank to the Banking Control Commission confirming compliance by the Bank with Law 308.
05 October 2018 *(tentative)*	The Confirmation EGM is scheduled to be held. **Issue Date:** The Series 7 Preferred Shares are expected to be issued. A meeting of the Board of Directors of the Bank is expected to be held to convene the first meeting of the association of holders of Series 7 Preferred Shares.
31 October 2018 *(tentative)*	Publication of the date of the first meeting of the association of holders of Series 7 Preferred Shares is expected to be made by the Bank in two widely-distributed Lebanese newspapers.
21 November 2018 *(tentative)*	The first meeting of the association of holders of Series 7 Preferred Shares is expected to be held.

<u>Procedures for subscription</u>

Applications for Subscription; Acceptance by the Bank

Prospective Eligible Investors wishing to subscribe for Series 7 Preferred Shares must submit a Purchase Application, substantially in the prescribed form, a copy of which is attached to this Offering Circular as <u>Exhibit A</u>. Copies of this Offering Circular and the form of Purchase Application are also available at the head office of the Bank, as well as at the Bank's branch offices.

A Purchase Application must be duly completed in full in accordance with the instructions contained therein, signed by a prospective Eligible Investor and submitted to the Bank in two copies. A Purchase Application submitted by a corporation must be signed by a duly authorized representative in accordance with the constitutive documents of such corporation. A Purchase Application shall be deemed accepted only upon execution by the prospective Eligible Investor, payment of the Aggregate Issue Price and acceptance by, or on behalf of, the Bank, such acceptance to be evidenced by the delivery of a fully executed copy of the Purchase Application to the prospective Eligible Investor, indicating the number of Series 7 Preferred Shares allocated to the prospective Eligible Investor. Subject to the preemption rights of the holders of the Series 2 Preferred Shares and the Series 3 Preferred Shares, the acceptance by the Issuer of a Purchase Application, however, shall not entitle the prospective Eligible Investor to an allocation of all or part of the Series 7 Preferred Shares for which it has applied, and the Bank may, in its sole discretion, reject any Purchase Application in whole or in part or reduce the number of Series 7 Preferred Shares allocated to any particular Eligible Investor. Moreover, whether or not a Purchase Application has been accepted, the Bank may terminate or reduce the offering of the Series 7 Preferred Shares at any time and for any reason whatsoever. In any such event, no person shall have any right to purchase Series 7 Preferred Shares from the Bank at any time.

Purchase Applications will be accepted only from Eligible Investors and only if submitted together with full payment of the relevant Aggregate Issue Price.

Exercise of Pre-emptive Rights; Priority Subscription Rights Exercise Period;

Holders of Series 2 Preferred Shares and Series 3 Preferred Shares have the right to subscribe, on a priority basis, to the issue of Series 7 Preferred Shares, *pro rata* to their holdings of Series 2 Preferred Shares and Series 3 Preferred Shares. The Bank will allocate Series 7 Preferred Shares on a priority basis to all holders of Series 2 Preferred Shares and Series 3 Preferred Shares exercising their priority subscription rights, *pro rata* to their holdings of Series 2 Preferred Shares and Series 3 Preferred Shares. Any Series 7 Preferred Shares not subscribed by holders of Series 2 Preferred Shares and Series 3 Preferred Shares exercising their priority subscription rights will be allocated to Eligible Investors by the Bank at its sole discretion.

Holders of Series 2 Preferred Shares and Series 3 Preferred Shares exercising their priority subscription rights should submit a completed Purchase Application to the Bank in accordance with the instructions contained therein no later than the end of the Priority Subscription Rights Exercise Period.

Prospective Eligible Investors wishing to subscribe for Series 7 Preferred Shares should submit a completed Purchase Application to the Bank in accordance with the instructions contained therein no later than 12:00 noon., Beirut time, on October 02, 2018, which is expected to be the last day of the Official Subscription Period.

Official Subscription Period

The Official Subscription Period is expected to begin on or about October 01, 2018, and expected to end at 12:00, noon (Beirut time), on or about October 02, 2018 (tentative). Purchase Applications submitted by an applicant for Series 7 Preferred Shares must be received by the Placement Agent no later than 12:00 noon, Beirut time, on, October 02, 2018 (tentative).

Payment of Aggregate Issue Price

Upon submission of a Purchase Application, a prospective Eligible Investor is required to transfer funds, in U.S. Dollars, to the Escrow Agent for credit to the Series 7 Subscription Escrow Account, in an amount equal to the Aggregate Issue Price (*i.e.*, the product of the number of Series 7 Preferred Shares covered by its Purchase Application times the Issue Price per share (*i.e.*, USD 100.00)). Bank charges, if any, incurred in connection with the payment amounts in respect of the Aggregate Issue Price will be for the account of the relevant Eligible Investor.

In the event that the offering of the Series 7 Preferred Shares is terminated or if a Purchase Application is rejected, in whole or in part, the Aggregate Issue Price (or a corresponding portion thereof) received by the Escrow Agent from the relevant Eligible Investor will be promptly refunded to the relevant Eligible Investor, together with interest, if any, earned thereon. At the end of the Official Subscription Period, and before transferring the amount of the capital increase to the Central Bank, the Escrow Agent shall convert that portion of the funds received by it in respect of the Aggregate Issue Price for the Series 7 Preferred Shares, which corresponds to the par value of the Series 7 Preferred Shares (*i.e.*, the U.S. Dollar-equivalent of LBP 50,000 per Series 7 Preferred Share), into Lebanese Pounds at the USD/LBP spot rate of exchange applicable on the first day of the Official Subscription Period, and thereafter irrevocably transfer the Lebanese Pounds so obtained, to the relevant subscription account at the Central Bank for application to purchase Series 7 Preferred Shares on the Issue Date, on behalf of the respective Eligible Investors whose Purchase Applications have been accepted. The Lebanese Pound amount transferred to the Central Bank shall be credited to the Bank's share capital account, while the U.S. Dollar balance of the subscription funds shall be applied to the Bank's issue premium account.

Whether its Purchase Application is accepted or rejected, each subscriber shall be entitled to receive interest earned on the escrowed funds corresponding to the Aggregate Issue Price paid by it from and including the value date on which such funds were deposited with the Escrow Agent by such subscriber to but excluding, in the case of each Eligible Investor whose Purchase Application has been accepted, the Issue Date (or, in the case of a subscriber whose Purchase Application was rejected or if the offering of the Series 7 Preferred Shares is terminated, such earlier date on which the corresponding escrowed funds are returned to such subscriber), at the rate of 6.5% per annum (subject to applicable taxes, if any). Any interest amounts to which subscribers are entitled shall be transferred to the relevant subscriber promptly following the Issue Date (or such earlier date on which escrowed funds are returned to such subscriber).

Allotment

The Series 7 Preferred Shares will be allotted first to existing holders of Series 2 Preferred Shares and Series 3 Preferred Shares exercising their priority subscription rights on a *pro rata* basis to the extent of their entitlements. Thereafter, to the extent remaining, any unallocated Series 7 Preferred Shares will be allotted to Eligible Investors who have submitted valid Purchase Applications that have been accepted, in whole or in part, by or on behalf of the Bank in its sole discretion. Any Series 7 Preferred Shares not subscribed by holders of Series 2 Preferred Shares and Series 3 Preferred Shares exercising their priority subscription rights will be allocated in the sole discretion of the Bank. It is expected that all allotments of Series 7 Preferred Shares will be made on or about October 02, 2018 (tentative).

If the aggregate amount of Series 7 Preferred Shares subscribed for by Eligible Investors exceeds the maximum aggregate amount of Series 7 Preferred Shares being offered, the Series 7 Preferred Shares will be allocated among the subscribing Eligible Investors in the sole discretion of the Bank prior to the Issue Date.

The Bank will send notices of allotments to Eligible Investors promptly following the end of the Official Subscription Period once the final allotments have been made. Until such time, no subscriber, whether or not exercising priority subscription rights, shall have any right or interest in any Series 7 Preferred Shares.

Right of rescission

Whether or not the Purchase Application has been accepted by the Issuer, Eligible Investors may not rescind their agreement to purchase Series 7 Preferred Shares. If the final terms of the Series 7 Preferred Shares as described in the Offering Circular are substantially and adversely amended by the Bank before the Issue Date, the Bank shall send to the Applicant a supplemental offering circular describing the material changes in the terms and conditions of the Series 7 Preferred Shares; the Applicant shall be required to confirm in writing its approval to purchase the Series 7 Preferred Shares based on the final terms of the Series 7 Preferred Shares within a period that does not exceed seven days from publication in two widely newspapers that the supplement offering circular has been made available at the headquarters of the Bank and its branches as well as on the Bank’s website failing which the Bank will refund the Applicant’s account with the Aggregate Issue Price along with interest thereon and the Applicant will be deemed to have irrevocably waived its priority or other subscription rights (if any) to purchase the Series 7 Preferred Shares. No penalty fees will be imposed on the applicant when exercising its right of rescission.

Powers of Attorney and Authorizations

Pursuant to its Purchase Application, each prospective Eligible Investor will be required to grant to each duly authorized representative of the Bank, acting singly (but without any liability or responsibility on the part of any such representative in his or her individual capacity), a power of attorney to complete, execute and deliver, on behalf of such Eligible Investor, any and all applications, purchase application and other documents, necessary or appropriate for the acceptance of such purchaser by the Central Bank as a shareholder of the Bank and the registration of such purchaser as a shareholder of the Bank.

By purchasing Series 7 Preferred Shares, each Eligible Investor will also be deemed to grant to each person who shall be a duly authorized representative (and a shareholder) of the Bank at the relevant time, each acting singly (but without any liability or responsibility on the part of any such person in his or her individual capacity), a separate power of attorney (x) to attend and vote, on behalf of such Eligible Investor, in any General Meeting of the Shareholders of the Bank (whether Ordinary or Extraordinary), as well as to attend and vote, and to empower any other holder of Series 7 Preferred Shares to attend and vote, in any meeting of the association of holders of Series 7 Preferred Shares and to elect its representative(s), and (y) to complete, execute and deliver, on behalf of such Eligible Investor, any and all documents and other instruments, and to take all such actions, as shall be necessary or appropriate in connection with any redemption of Series 7 Preferred Shares held by such Eligible Investor.

In addition, the resolutions adopted at the First EGM and the by-laws of the association of holders of Series 7 Preferred Shares are each expected to grant authorization to the Bank to the effect that, upon exercise of the call option, in whole or in part, the Bank shall be authorized to take any and all action necessary to effect the redemption of the Series 7 Preferred Shares, which are the subject of such exercise, and to cancel such Series 7 Preferred Shares, including directing and authorizing Midclear to effect such redemption and cancellation. Midclear shall be entitled to rely exclusively on the Bank’s instructions to effect such redemption and cancellation.

As between the Bank and each holder, the redemption shall be effective upon cash payment to such holder of the amount payable to it upon exercise of the call option, as determined by the Bank, pursuant to instructions received from the holder (or, failing receipt of such instructions, pursuant to the instructions in effect for the payment to such holder of the last Distribution made by the Bank, it being understood that the Bank shall not assume any liability if a holder of Series 7 Preferred Shares exercising the call option fails to provide instructions for the payment of redemption proceeds).

Delivery of Series 7 Preferred Shares

The Series 7 Preferred Shares will be issued in registered form, registered in the respective names of the purchasers thereof in the share registry maintained by Midclear in respect of the Bank's share capital. The Series 7 Preferred Shares will be delivered, upon issuance, by deposit to the Midclear account of the Bank (Account № 103) and the Bank will hold the Series 7 Preferred Shares in custody for the benefit of the respective Eligible Investor in accordance with its standard custody arrangements.

Ownership of the Series 7 Preferred Shares will be shown only on, and transfers thereof may be effected (subject as provided herein) only through, the book-entry system maintained by Midclear and its participants, including the Bank. Neither the Bank nor person acting on its behalf shall have any responsibility or liability for any aspect of the records relating to payments made on account of interests in the Series 7 Preferred Shares or for maintaining, supervising or reviewing any records relating to ownership of Series 7 Preferred Shares. Series 7 Preferred Shares in definitive form will not be issued. At any time after the Issue Date, a holder of Series 7 Preferred Shares may request that the Bank arranges for the transfer of the custody of such Series 7 Preferred Shares to another participant with Midclear.

Each Eligible Investor's purchase and ownership of Series 7 Preferred Shares shall constitute its authorization and direction to Midclear and its participants, including the Bank, to disclose such Eligible Investor's ownership of Series 7 Preferred Shares, together with the number of Series 7 Preferred Shares held by such Eligible Investor and such other relevant information concerning the Eligible Investor and its interest in the Series 7 Preferred Shares as may be necessary in connection with any exercise by the Bank of its call option in respect of Series 7 Preferred Shares held by such Eligible Investor.

CERTAIN INVESTMENT CONSIDERATIONS

The following section describes the Bank's understanding of the material risks of an investment in the Series 7 Preferred Shares, as of the date of this Offering Circular. Prior to making an investment decision, prospective purchasers should carefully review this Offering Circular and, in particular, the investment considerations set forth below. Prospective purchasers of Series 7 Preferred Shares should make such inquiries as they deem appropriate regarding the Series 7 Preferred Shares, the Bank, the Lebanese Republic and the Lebanese banking industry, and are advised to consult their own tax, accountant, and/or legal advisors regarding tax, accounting and legal matters concerning their purchase, holding and sale of Series 7 Preferred Shares.

(i) Considerations relating to the Lebanese Republic

The Bank operates in Lebanon and, accordingly, its financial condition, results of operations and business prospects are closely related to the overall political, social and economic situation in Lebanon, which, in turn, is tied to the geopolitical situation in the region.

Political and Military Considerations

Lebanon's financial environment is related to the overall political, social, economic and security situation in Lebanon, which, in turn, depends on the absence of military conflict in Lebanon and among its neighbors as well as a continued internal stability.

A combination of internal and external factors led to a heavily militarized conflict, which lasted from April 1975 until October 1990. Successive rounds of fighting took place, aggravated by two Israeli military invasions in 1978 and 1982. The conflict resulted in significant human losses, a substantial decline in gross domestic product ("GDP") and reduction of economic activity, a significant reduction of the Lebanese government (the "**Government**") authority, substantial physical and infrastructure damage, and a large public sector deficit and capital outflows.

The post conflict era has been characterised by large reconstruction efforts, which resulted in large public sector deficits and setbacks in the implementation of political and economic reforms due, among other matters, to differences in views between political leaders and disagreements within the executive branch of the Government.

The post conflict has also witnessed a series of adverse events, which have led to significant political and social unrest and negatively affected, and may continue to negatively affect, the Lebanese economy and the finances of the Government, including, *inter alia*:

- Political assassinations and attempted assassinations of political leaders and public figures, including the assassinations of former Prime Minister Rafik Hariri in 2005 and other prominent individuals;
- armed conflicts involving Lebanon's neighbours, including the ongoing armed conflicts in Syria and the war in July 2006 during which Israel waged war on Lebanon following the kidnapping by Hizbollah of two Israeli soldiers;
- internal armed clashes, which took place in Beirut, northern Lebanon, the Bekaa Valley and the Chouf Mountains in May 2008, and subsequent clashes in Tripoli and elsewhere in Lebanon;
- various instances of political instability, such as delays in electing a President, the resignations of ministers, the failure of Parliament to convene and delays in forming governments, the resignation of Prime Minister Saad Al Hariri in November 2017; and
- popular protests, demonstrations and general unrest, including, demonstrations in Beirut, precipitated by discontent over uncollected trash.

If these or similar events recur, it could continue to materially adversely affect the Lebanese economy and lead to political and economic instability, as well as loss of confidence in business investment in Lebanon.

Any deterioration of the political, social, economic and security environments in Lebanon could materially affect the political, economic and financial climate in Lebanon and, accordingly, would have a material adverse effect on the Bank's business, liquidity, results of operations, financial condition and prospects.

Parliamentary Elections

Parliamentary elections were scheduled to take place on 20 June 2013 but Parliament adopted laws postponing these elections first to 20 November 2014 and subsequently to June 2017. In June 2017, Parliament adopted a new electoral law providing for proportional representation for the first time in the history of the country and further postponing parliamentary elections which took place in 6 May 2018. Mr. Nabih Berri was re-elected on 23 May 2018 Parliament speaker, ushering in his sixth term in the post since he first took up the speakership in 1992. On the other hand, the President issued a decree designating caretaker Prime Minister Saad Al Hariri as the new prime minister and charged him with the formation of a new cabinet.

While all parties involved expressed a desire to form a cabinet quickly, squabbles continue over the make-up of the cabinet and distribution of ministries. Difficulties and delays in forming the new cabinet may increase political tensions in Lebanon. The forthcoming Cabinet will also have the onerous task of kick-starting an economy suffocated by large deficits and a hefty public debt-to-GDP ratio, and will face a range of international risks that challenge the country's economic and financial prospects.

Regional and International Considerations; Events in Syria and their impact on Lebanon

Lebanon is located in a region that is and has been subject to ongoing political and security concerns. Some Middle Eastern and North African countries have experienced in the recent past, or are currently experiencing, political, social and economic instability, extremism, terrorism, armed conflicts and war, some of which have negatively affected Lebanon in the past. In particular, since the "Arab Spring" began in January 2011, a number of Arab countries have experienced significant political and military upheaval, conflict and revolutions leading to the departure of long-time rulers in Tunisia, Egypt, Yemen and Libya. The continuation of such events or new events in the region could further strain the general resources of the Government and the Government's finances and negatively affect the Lebanese economy despite the commitment of the cabinet after the withdrawal of Hariri's resignation to stay out of the regional conflicts.

Syria has been experiencing significant armed conflict since 2011 and battles still rage in Syria's north and east and in pockets around Damascus. However plans are being made for the re-building of Syria in collaboration with the international community.

Although the stated policy of the Government has been to maintain neutrality with respect to the events in Syria in an attempt to shield Lebanon from any repercussions, these events have had, and are likely to continue to have, an adverse impact on the political, economic and security situation in Lebanon. These adverse consequences include, among others, a disruption to the transit of Lebanese and international goods through Syria resulting in higher transit fees for Lebanese exporters, a decline in tourism from Syria and other Arab countries, and the potential overspill of the dispute in Syria into Lebanon. The crisis in Syria has also strained Lebanon's public finances, service delivery, and the environment, and worsened poverty incidence among Lebanese.

In the past years, there have been divisions in Lebanon between supporters of the Syrian government and supporters of the Syrian opposition, which have, at times, led to clashes amongst civilians and subsequent interventions by Lebanese security forces to restore order. Hezbollah has acknowledged that its fighters are participating in the conflict alongside the Syrian regime, and the Syrian government has accused the Future Party of supporting the Free Syrian Army. A number of kidnappings for ransom related to the conflict in Syria have taken place in the territory of Lebanon. The Lebanese Army and internal security forces rescued a number of detainees and other kidnap victims and arrested some of the perpetrators. However, as a result of such kidnappings, Turkey, Saudi Arabia, Qatar and other Gulf countries issued travel warnings for their citizens about travel to Lebanon, although these were subsequently lifted. In August 2015, Bahrain, Kuwait and Saudi Arabia issued new travel warnings following the demonstrations in Beirut. In addition, various Lebanese parties have voiced differing positions regarding the intervention by Gulf Co-operation Council ("GCC") countries in the Yemen conflict, with some parties expressing support and some opposition. In February 2017, Saudi Arabia announced the lifting of its travel warnings.

There have been a series of attacks by militants in the Beka'a Valley from al-Nusra Front and the so-called "Islamic State" (sometimes referred to as ISIS or ISIL) against Lebanese villages, the Lebanese army, the Lebanese internal security forces and members of Hizbollah, resulting in kidnappings, death and injuries. However, on 28 August 2017, the last ISIL and Tahrir al-Sham remnants withdrew from Lebanon. With the ISIL withdrawal, the Lebanese government regained full control of Lebanese territory for the first time in six years.
In June 2017, several countries in the GCC and Egypt severed diplomatic ties with Qatar and imposed land, sea and air blockades. Turkey Saudi Arabia, Egypt, Bahrain, the United Arab Emirates and Yemen cut diplomatic ties with Qatar, with the Maldives and Libya's eastern-based government later following suit. These countries have accused Qatar of supporting extremist groups. It is uncertain at this stage how the events relating to Qatar will develop or how the situation may impact Lebanon, the region or emerging markets generally. In addition, any position taken by the Government that may be viewed by one side of this dispute may affect Lebanon's relations with the other side.

On the other hand, the US pull-out from the Iran Nuclear Deal increased the risk of political destabilization in Lebanon.

The continuation or escalation of these security concerns, particularly the conflict in Syria, and the resulting repercussions in Lebanon could further strain the general resources of the Government and the Government's finances and negatively affect Lebanon's economy. If future disturbances were to occur, they could lead to further political and economic instability, as well as a loss of confidence in business investment in Lebanon, which would have a material adverse effect on the Bank's business, liquidity, results of operations, financial condition and prospects.

Refugees and Displaced Persons

Lebanon has traditionally hosted large numbers of refugees and displaced persons fleeing armed conflict, including Palestinians and Syrians. The presence of these persons in Lebanon has, at times, led to political disagreements, armed clashes between such persons and Lebanese citizens, interventions by Lebanese security forces and military incursions by Lebanon's neighbours.

Lebanon is currently experiencing an inflow of Syrian nationals fleeing the conflict in Syria. According to Government estimates published in the Lebanon Crisis Response Plan ("**LCRP**") jointly developed by the Government and the United Nations (the "**UN**"), in October 2016, there were approximately 1.5 million displaced persons from the Syrian conflict in Lebanon (including 1.0 million persons registered as refugees with the United Nations High Commissioner for Refugees (the "**UNHCR**")), which amounts to over one quarter of the population in Lebanon and represents the highest per capita ratio of refugees in the world. In the first quarter of 2018, the number of registered Syrian refugees has dropped to 986,912 which is the lowest since 2014, as refugees had resettled as part of the United Nations' resettlement program in third countries including the United States, Sweden and France. Others left on their own, making the dangerous sea journey to reach Europe, or returned to Syria. The presence of Syrian displaced persons in Lebanon has placed burdens on budgetary and non-budgetary expenditures and has had a negative impact on the economic and social stability of Lebanon, as well as on Lebanon's infrastructure and labour market, which has increased poverty and unemployment. It has also blocked land trade routes with Syria and Iraq. The Government has provided displaced persons with limited access to Lebanon's education and healthcare systems and has played an active role in facilitating the coordination of Lebanon's response to the inflow of the Syrian displaced persons. Providing displaced persons with basic accommodation and social services requires considerable resources, which has created an additional burden on the Government's finances. According to estimates published by the International Monetary Fund in January 2017, the direct costs to the Government of the Syrian displaced persons in Lebanon are approximately U.S.$400 million per year, and the indirect costs exceed U.S.$2.5 billion.

The Government has been taking steps since 2015 to limit new refugee arrivals in Lebanon. If the flow of Syrian displaced persons continues and the Lebanese Republic does not receive significant assistance from the international community to partially offset the cost of accommodating Syrian displaced persons, this will continue to strain the general resources of the Government and the Government's finances and negatively affect the Lebanon's economy, which could, in turn, have a material adverse effect on the Bank's business, liquidity, results of operations, financial condition and prospects.

Fiscal Deficit

Lebanon has been sustaining large fiscal deficits. Lebanon's fiscal deficit has increased in recent years from LL 4,632 billion (U.S.$3.1 billion or 6.2% of GDP) in 2014 increasing to LL 5,958 billion (U.S.$4.0 billion or 7.8% of GDP) in 2015 and LL 7,453 billion (U.S.$4.9 billion or 9.6% of GDP) in 2016, due to high debt service costs and transfers to *Electricité du Liban* ("**EDL**"), which is financed in part by the Treasury and is the state-owned supplier of virtually all electricity in Lebanon. However, Lebanon's fiscal deficit fell 22.45% at the end of 2017 to LL 5,728 billion (U.S.$3.8 billion or 7.4% of GDP) thanks to the tax applied on the proceeds from BDL's financial engineering in 2016 which amounted to 775 million $. As a result, the GDP ratio marked its best performance in the last three years. After deducting debt service of LL 7,521 billion, the year 2017 ended with a primary surplus of LL 2,838 billion or 13.37% of total expenditure, against almost nil in 2016. Public revenues grew from LL 13,983 billion in 2016 to LL 16,247 billion, a growth equivalent of 16.1%. The improvement in tax collection in 2017 was another reason for the decline in the fiscal deficit in 2017. Public expenditures grew by 8.7%, moving from LL 19,517 billion to LL 21,223 billion. The modest rise in spending in 2017 comes despite a significant 45.1% rise in EDL transfers to reach LL 2,001 billion driven by higher oil prices.

Despite the fact that fiscal deficit has narrowed during 2017, strong fiscal effort and structural reforms are required to reduce the deficit significantly on a sustainable basis and to exit from the debt overhang. According to IMF most recent report (May 11, 2018), the reforms require increasing tax compliance, raising fuel taxation, reforming the electricity sector to reduce transfers to EDL, selling non-performing state assets, and reforming the public pension system to correct looming imbalances in the system. The collaboration and partnership between the public sector and the private sector could also play a significant role in decreasing the fiscal deficit and could raise the potential growth of the economy.

Without a fast action and significant reforms, the debt dynamics will deteriorate further and public debt will continue to rise. If Lebanon is unable to control or reduce the fiscal deficit and the resulting impact on the public debt, it could raise Lebanon's cost of funding of its debt, strain the general resources of the Government and the Government's finances, materially impair the Republic's capacity to service its debt and negatively affect the Lebanon's economy. Any continuation or worsening of economic conditions in Lebanon, including any significant increases in the budget deficit, could materially adversely affect the Bank's borrowers and contractual counterparties. This, in turn, could have a material adverse effect on the Bank's business, prospects, financial condition, liquidity, cash flows or results of operations.

The fiscal deficits that Lebanon has incurred have limited the Government's ability to incur capital expenditures and other expenditures for discretionary items. Infrastructure in Lebanon is in need of significant investment, especially in light of the influx of Syrian refugees. The Government's ability to finance capital projects is dependent on reducing the fiscal deficit in order that additional funds can be allocated to capital expenditures. Any failure to reduce the fiscal deficit will prevent the Government from financing such expenditures.

The State Budget and the CEDRE conference

The Parliament approved in October 2017 the State Budget for 2017 for the first time since 2005, restoring control over state finances and easing a long-standing political deadlock that has stifled development. The Budget was ratified without a prior audit of previous extra-budgetary expenditures disbursed during the last 12 years, which led to unauthorized government spending and accusations of corruption, and which also led to contestations over the constitutionality of the budget, previous years' accounts having yet to be audited.

On 29 March 2018, the Parliament approved the 2018 budget, which also bypassed the requirement to approve previous years' accounts, and projected a previously stated deficit of U.S$4.8 billion, slightly reduced from 2017. The 2018 budget has been quite austere following cost-cutting efforts though it does not entail tangible fiscal adjustment. It revolves around a lower deficit ratio relative to the 2017 budget (from 9.3% to 8.5%). The government slightly reduced public spending in the 2018 budget to send a clear signal to the participants in the *CEDRE* Conference held in Paris in April 2018 to raise support for investment in Lebanon, that the country is determined to implement wide financial and administrative reforms to lower the deficit.

The 2018 budget is based on a real GDP growth of 2.5% to 3%, slightly higher than the one estimated for 2017, along with a reinforcement of tax collection aimed in the first place to finance the new salary scale adjustments for public sector employees and pensions of retired civil servants adopted in July 2017. The Government is optimistic that the 11 billion dollars pledged to Lebanon in soft loans and grants during the CEDRE Conference would improve growth prospects, accelerate the pace of economic and fiscal reforms, stimulate the economy and create thousands of jobs over the next five years, which could help the country cope better with the socio-economic toll of hosting the large number of Syrian refugees. Also, it declared that such funds will finance major infrastructure projects across the country with special emphasis on electricity and water.

However, there is no assurance that the government will effectively undertake ambitious policies and reforms to tackle internal and external imbalances, improve investor confidence, and raise growth prospects, nor that it will continue its efforts to further lower the deficit, which may cause additional financial burdens on the Lebanese Economy and widen the fiscal deficit and public debt, and therefore negatively affect the Bank's business, prospects, financial condition, liquidity, cash flows or results of operations.

Public Debt

Despite the decrease in the fiscal deficit, the underlying economic situation has not changed and remains challenging, with high public debt, current account deficit, and funding needs. In fact, the Government has been incurring significant internal and external debt, principally for the purpose of financing the fiscal deficit. As at 31 December 2017, Lebanon's gross public debt was LBP 119,905 billion (U.S.$79.54 billion), consisting of LBP 74,077 billion (U.S.$49.1 billion) of gross domestic debt and LBP 45,828 billion (U.S.$30.4 billion) of public debt denominated in foreign currencies. Net outstanding public debt of Lebanon was LBP 104,529 billion (U.S.$69.3 billion) as at 31 December 2017. As at 31 December 2016, the Republic's gross public debt was LBP 112,910 billion (U.S.$74.9 billion), consisting of LBP 70,528 billion (U.S.$46.8 billion) of gross domestic debt and LBP 42,382 billion (U.S.$28.1 billion) of public debt denominated in foreign currencies. Net outstanding public debt of the Lebanese Republic was LBP 98,642 billion (U.S.$65.4 billion) as at 31 December 2016.

The debt burden of Lebanon is significant and has been increasing. Net outstanding public debt as a percentage of estimated GDP increased from approximately 46% in 1992 to approximately 170% as at 31 December 2006 before decreasing to 112% as at 31 December 2012 and subsequently increasing year after year to reach 124% as at 31 December 2015, 132% as at 31 December 2016, and 135% as at 31 December 2017. The IMF estimates that, unless significant fiscal reforms are urgently carried out, the public debt to GDP ratio is projected to increase to 180% in 2023. The executive Board of the IMF which concluded the Article IV consultation with Lebanon on May 11, 2018 stressed in its report that an immediate and substantial fiscal adjustment is essential to improve debt sustainability, which will require strong and sustained political commitment. It noted that a well-defined fiscal strategy, including a combination of revenue and spending measures, amounting to about 5 percentage points of GDP is ambitious but necessary over medium-term to stabilize public debt and place it on a declining path.

Although the Government intends to use all its efforts in order to reduce Lebanon's net outstanding public debt, as well as Lebanon's net outstanding public debt as a percentage of GDP, there is no assurance that it will be able to do so nor that the tensions in the region will not have a negative impact in Lebanon's funding needs or deposit inflows. According to the IMF, without a significant reduction in the economy's funding needs or an increase in deposit inflows, the *Banque Du Liban* will need to increase interest rates and use its sizable gross reserves to meet the funding needs of the economy. Any failure to reduce Lebanon's net outstanding public debt could materially impair Lebanon's capacity to service its debt, which may have a negative impact on the Lebanese economy and, in turn, materially adversely affect the Bank's business, liquidity, results of operations, financial condition and prospects.

Refinancing Risk

Lebanon faces significant debt maturities in the coming years. In order to service its debt, Lebanon has benefited from international assistance in the past, in particular the Paris II and Paris III conferences. This year, the "CEDRE" investment conference hosted by France in April 2018 again rallied the international community to assist Lebanon with concessional financing and some grants for capital infrastructure improvements, conditioned upon long-delayed structural economic reforms in fiscal management, electricity tariffs, and transparent public procurement, among many others. In addition, Lebanese banks are major holders of securities issued by the government. The banks' ability to continue purchasing such securities is tied, in large part, to the continued growth of their deposits. Banking sector deposits grew by 3.8% in 2017 to reach $168.67 billion, as compared to 8% in 2016. Any deposit outflows would adversely affect such ability to purchase securities issued by the government, which could in turn limit the ability of Lebanon to refinance its debt. If Lebanon is not able to refinance its debt on favorable terms or at all Lebanon's capacity to service its debt could be materially impaired and thus there is a possible material adverse effect on the Bank's business, liquidity, results of operations, financial condition and prospects.

Foreign Exchange Risk; Monetary Policy

Lebanon's economy is highly dollarized. The Central Bank's data indicate that the proportion of foreign currency deposits as a share of total deposits stood at approximately 68.7% % per cent as of December 31, 2017. The deposit inflows slowed down in 2017 mostly due to some limited outflows during the November 2017 political crisis. The BDL has increased interest rates through its monetary and financial operations, especially on local currency products, thus playing a critical role in attracting deposit inflows and arrest dollarization in order to effectively manage the difficult situation. However, large vulnerabilities and downside risks remain, stemming from regional political developments as well as domestic events that might affect deposit flows.

The Central Bank's exchange rate policy since October 1992 has been to anchor the Lebanese Pound nominal exchange rate to the U.S. Dollar. The Central Bank has been successful during the past several years in maintaining a stable rate of exchange, through the use of its foreign exchange reserves and its interest rate policy, although it has come under pressure during periods of political instability. Although the Lebanese authorities have indicated that they expect to continue to gear monetary policy towards maintaining stability in the exchange rate, there can be no assurance that the Central Bank will continue to be willing or able to maintain a stable currency through intervention in the exchange markets or otherwise.

Any depreciation of the Lebanese Pound against the U.S. Dollar, or the decline of the level of foreign reserves as a result of The Central Bank's intervention in the currency markets, could materially impair Lebanon's ability to service its debt, which could have a material adverse effect on the Bank's business, liquidity, results of operations, financial condition and prospects.

Furthermore, any such depreciation could adversely affect the financial condition or results of operations of Lebanese companies generally, including the Bank and its customers located or doing business in Lebanon. Because a substantial portion of the loans of banks operating in Lebanon, including the Bank, are denominated in U.S. Dollars, a devaluation of the Lebanese Pound would increase the debt service burden of borrowers whose income is in Lebanese Pounds and, therefore, would likely increase the level of the Bank's non-performing loans.

Prices and Inflation

Lebanon has, in the past, experienced high levels of inflation, although, in recent years, estimated inflation has eased. Inflation in 2017 was estimated by the Central Administration of Statistics ("CAS") at 5.01% on an end-of-period basis and 4.48% on a period average basis, as compared to (3.1)% on an end-of-period basis and (0.8%) on a period average basis in 2016. The increase in average inflation in 2017 was principally due to the increase in the prices of all categories of goods and services, which was principally due to the increase in global commodity prices and the depreciation of the dollar vis-à-vis the euro, leading to significant increase in import prices. The hike in public wages is also contributing to higher prices. Statistically, the CAS reported an increase by 17.4% in the price of clothing and footwear, 8.9% in the cost of water, electricity, gas and other fuels, and 3.7% in the prices of food and non-alcoholic beverages. Other expenditures also marked a significant increase.

On the other hand, the traditional drivers of growth in Lebanon – Tourism, real estate, and construction – remain slow and a strong rebound is unlikely soon. According to the BDL, real estate prices declined by over 10% over 2017, while the purchasing managers' index indicates that private sector confidence continues to be weighed down by political uncertainty.

The Government is considering the implementation of measures that would result in increased public sector wages, as well as the simultaneous implementation of revenue measures to finance such increases, which could have an inflationary effect. An increased inflow of Syrian displaced persons into Lebanon, if not matched by aid and assistance, may also exert an upward pressure on prices.

Although price stability is at the centre of the Central Bank's monetary policy, there can be no assurance that the Central Bank will be able to achieve or maintain price stability and thus control inflation. Significant inflation could have a material adverse effect on the Lebanese economy and, in turn, materially adversely affect the Bank's business, liquidity, results of operations, financial condition and prospects.

Lebanon's Sovereign Credit Rating

Each of Standard & Poor's Credit Market Services Europe Limited ("**S&P**"), Moody's Investor Services Limited ("**Moody's**"), Fitch Ratings Limited ("**Fitch**") and Capital Intelligence Rating ("**CI**"), as international credit rating agencies, have indicated in the past that the ratings and outlook assigned or which would be assigned by them to a Lebanese bank's ratings remain constrained principally by the sovereign risk of Lebanon. As at the date of this Prospectus, the short-term foreign currency sovereign credit ratings assigned to the Lebanese Republic are B by S&P, (NP) Not Prime by Moody's, B by Fitch, and B by CI.
In July 2016, Fitch downgraded Lebanon's long-term foreign and local currency issuer default ratings from B to B- and affirmed the short-term foreign currency sovereign credit rating at B. On 01 February 2018, Fitch affirmed its ratings and maintained the Stable outlook. The long-term foreign currency sovereign credit ratings assigned to the Lebanese Republic by S&P and Moody's are B- and B3, respectively. On 02 March 2018, S&P affirmed its rating and keeping the outlook on the Lebanese Republic as stable and its B- long-term sovereign credit rating and B short-term credit rating. As for Moody's, it downgraded the rating of Lebanon from B2 to B3 on 25 August 2017 and revised the outlook from Negative to Stable. Finally, Capital Intelligence Rating ("**CI**") affirmed at B Lebanon's long foreign and local currency sovereign ratings and maintained the Stable outlook following the CEDRE Conference.
Any downgrade of Lebanon's sovereign credit rating or liquidity problems in Lebanon's economy could adversely affect Lebanon's economic development and would likely result in a downgrade of the Bank's ratings, which could, in turn, materially and adversely affect the Bank's business, liquidity, results of operations, financial condition and prospects.

Failure to Implement Economic Reforms and Privatization Program

As part of the "International Conference for Support to Lebanon", known as the Paris III Conference, the then-Government agreed to an economic reform program of which privatization is an essential component. Disagreements among political parties and the July 2006 War have contributed to delay the implementation of the program. There is no assurance that some of these obstacles will not persist.

In May 2000, Parliament adopted a privatization law, which sets the framework for the privatization of state-owned enterprises. The privatization law established the Higher Council for Privatization and provides that the proceeds from privatization will be applied towards debt repayment. Plans for privatization included, inter alia, the electricity, water and telecommunications sectors. However, due to political interference and disagreements within the executive branch of the Government, the Republic's privatization program has not been successfully implemented.

Emerging Markets

The investment in securities of issuers in emerging markets, such as Lebanon, generally involves a higher degree of risk than investments in securities of corporate or sovereign issuers from more developed countries and carries risks that are not typically associated with mature markets. The Lebanese economy is susceptible to future adverse effects, given Lebanon's below investment grade credit ratings, large and growing fiscal deficits and other weaknesses. Prospective investors should exercise particular care in the assessment of the risks involved in such investments. In light of such assessment and other risks, prospective investors should decide for themselves whether their investment is appropriate. Generally, an investment in the securities of issuers in emerging markets, such as Lebanon, is only suitable for sophisticated investors who fully appreciate the significance of the risks involved. Investors are urged to consult their own legal and tax counsel or accountant before making an investment in the Series 6 Preferred Shares.

(ii) Considerations relating to the bank and the Lebanese Banking industry

Anti-Money Laundering and the Hizballah International Financing Prevention Act of 2015

The Bank is required to comply with applicable anti-money laundering ("**AML**"), anti-terrorism, sanctions and other laws and regulations in the jurisdictions in which it operates. Applicable AML laws and regulations require the Bank, among other things, to conduct customer due diligence regarding sanctions and politically-exposed persons, to keep customer, account and transaction information up to date and to implement effective financial crime policies and procedures detailing what is required from those responsible. In this respect, the Bank also screens its customers against sanctions lists published by, among others, the United States government, the United Nations and the European Union. The Bank's requirements also include AML training for its employees and reporting suspicious transactions and activity to appropriate law enforcement authorities.

Financial crime has become the subject of enhanced regulatory scrutiny and supervision by regulators globally. AML sanctions, laws and regulations are increasingly complex and detailed and have become the subject of enhanced regulatory supervision, requiring improved systems, sophisticated monitoring and skilled compliance personnel.

The Bank has developed policies and procedures aimed at detecting and preventing the use of its banking network for money laundering and other financial crime related activities. These require the implementation of effective controls and monitoring, which in turn requires on-going changes to systems and operational activities. The continuous evolution of financial crime requires proactive and adaptable responses from the Bank to deter threats and criminality effectively. Even known threats can never be fully eliminated, and there will be instances where the Bank may be used by other parties to engage in money laundering and other illegal or improper activities. In addition, the Bank relies heavily on its employees to assist it by spotting such activities and reporting them, and its employees have varying degrees of experience in recognising criminal tactics and understanding the level of sophistication of criminal organisations.

If the Bank fails to fully comply with applicable laws, regulations and expectations, regulators and relevant law enforcement agencies have the ability and authority to impose significant fines and other penalties on it. Any such actions could have a material adverse effect on the Bank's operating results and financial condition.

Pursuant to Central Bank Decision No. 12253 dated 3 May 2016, relating to the U.S. Hizballah International Financing Prevention Act of 2015 ("**HIFPA**") and its implementing regulations, Lebanese financial institutions, including the Bank, are required to conduct their operations in compliance with HIFPA. The passage of HIFPA and its implementing regulations may lead to sanctions or restrictions being imposed on Lebanese financial institutions, including the Bank, if they are determined to have violated the provisions of HIFPA or implementing regulations. Compliance with HIFPA may be more difficult for the banks located in Lebanon, as compared to financial institutions operating and located outside of Lebanon. On the other hand, the US Treasury and its partners in the Terrorist Financing and Targeting Center TFTC which includes six Arab gulf states proclaimed Hezbollah a terrorist organization, dismissed the distinction between the party's political and armed wings, and announced sanctions on the Leadership of Hezbollah, Hassan Nasrallah, and Hezbollah Deputy Secretary General Naim Qasim, which aim at freezing vulnerable assets of those named and blocking their access to global financial networks. The new sanctions also targeted founding member Muhad Yazbak, Nasrallah's adviser Husayn Al-Khalil, and former spokesman Ibrahim Al Amin Al Sayyid. Such sanctions and any other future sanctions or restrictions, if imposed, could have a material adverse effect on the Bank's operating results, financial condition and prospects. In addition, the U.S. Congress is currently considering amendments to strengthen HIFPA. There can be no assurance whether such amendments will become law or, if so, what effects they may have on the Bank.

International Capital Adequacy Reform

Increasingly onerous capital requirements constitute one of the Bank's main regulatory challenges and increasing capital requirements may adversely affect the Bank's profitability and create regulatory risk.

In order to increase the capital resources of the Lebanese banking sector and to respond to potential and unexpected losses, in September 2016, the Central Bank issued Intermediate Circular No. 436 requiring banks to gradually raise their capital adequacy ratios by the end of 2018. Pursuant to that Circular, banks were required to have raised their Common Equity Tier 1 ratio to 10.0% (defined as the ratio of common equity Tier 1 capital to total weighted assets), their Tier 1 ratio to 13.0% (defined as the ratio of Tier 1 capital to total weighted assets) and their total capital ratio to 15.0% (defined as the ratio of the sum of the Tier 1 ratio and the Tier 2 ratio to total weighted assets) by the end of 2018.

United Against Nuclear Iran

United Against Nuclear Iran ("**UANI**"), a New York-based advocacy group that seeks to prevent Iran from obtaining nuclear weapons, launched a campaign in February 2012 against the Lebanese banking sector, BDL and Lebanon, alleging, inter alia, that the Lebanese banking sector and BDL have been engaged in money laundering activities and activities facilitating the evasion of international sanctions imposed upon Iran. UANI has called on international holders of Lebanese sovereign debt, including the Bank, to divest their ownership of such securities. The Government views UANI's allegations as being without merit.

Bank's Financial Condition

An investment in the Series 7 Preferred Shares constitutes an investment in the equity of the Bank. Holders will not have creditor rights against the Bank in respect of Series 7 Preferred Shares, including any non-payment of Distributions.

Exposure to Lebanese Sovereign Risks

In common with other Lebanese banks, a significant portion of the Bank's liquidity in both Lebanese Pounds and foreign currency has historically been invested in Lebanese Government obligations or maintained as reserves with the Central Bank. The composition of the Bank's investment and trading portfolio and placements with the Central Bank remained relatively stable as at 31 December 2017 and 31 December 2016, with Lebanese treasury bills and bonds and placements with the Central Bank (in both Lebanese pounds and foreign currencies) comprising 43.42 % of the Bank's assets as at 31 December 2017, as compared to 37.58 % as at December 31, 2016.

Such investments are generally considered to be relatively illiquid to the extent that, in the event that the Bank was to attempt to sell a significant portion of its holdings, it would likely experience a discount on the price, which could be substantial. As a result, any default by the Lebanese Government or the Central Bank on any of its obligations, or any significant reduction in value or liquidity of Government securities the Bank holds, or in the regulatory or accounting treatment thereof, would have a material adverse effect on the Bank's business, liquidity, results of operations, financial condition and prospects.

Regional and International Expansion

Certain of the countries in which the Bank has existing operations or business, or is considering developing operations or business, have in the past experienced periods of political instability or are located in regions characterized by instability. Such political and social unrest that may characterize the regions where the Bank has operations has, at times, adversely affected the banking sectors in these jurisdictions and there can be no assurance that social and civil disturbances will not occur in the future. In fact, in many cases, these conditions are not likely to be resolved quickly and, accordingly, could lead to further political and economic instability, as well as loss of confidence in business investment in the regions where the Bank currently operates or may operate in the future. As a result, particularly as the Bank expands its operations geographically, regional political and social instability both generally and in local banking sectors in particular could materially adversely affect the Bank's business, liquidity, results of operations, financial condition and prospects. There can be no assurance that the Bank will be able to achieve and effectively manage the growth of its operations in foreign countries. A failure to expand and manage growth as planned or to achieve effective marketing strategies may have a material adverse effect on the Bank's business, liquidity, results of operations, financial condition and prospects.

Risks relating to Future Acquisitions

The Bank intends to continue to implement a strategic plan that envisages selective acquisitions to further its growth. Risks relating to future acquisitions include:

- Diversion of management's attention away from other business concerns;
- Difficulties in the integration of operations, technologies, products and personnel of acquired entities;
- Limitations on foreign ownership of banking or corporate institutions;
- Expenses relating to undisclosed or unknown potential liabilities of acquired entities; and the incurrence of debt and the assumption of liabilities, including contingent liabilities, which could have a material adverse effect on the Bank's business, liquidity, results of operations, financial condition and prospects.

Moreover, the Bank's ability to implement its acquisition strategy in certain countries may be hindered due to a scarcity of acquisition targets and competition from other potential acquirers in the acquisition process.

Any of the foregoing could have a material adverse effect on the Bank's business, liquidity, results of operations, financial condition and prospects.

Currency Considerations and Devaluation Risks

The Lebanese economy is highly dollarized. Central Bank data indicates that the proportion of foreign currency deposits as a share of total deposits was approximately 68.7 % as at December 31st, 2017, and 64.8% as at December 31st, 2016. Although, the Central Bank has been successful during the past several years in maintaining a stable rate of exchange and a high level of foreign currency reserves for such purposes, there can be no assurance that the Central Bank will continue to be willing or able to maintain a stable currency, through intervention in the exchange markets or otherwise. In the event the Lebanese Pound devaluates against the U.S. Dollar, the financial condition or results of operations of Lebanese companies, including the Bank and its customers located or doing business in Lebanon, would be affected. Furthermore, because a substantial portion of the loans of banks operating in Lebanon, including the Bank, are denominated in U.S. Dollars, a devaluation of the Lebanese Pound would increase the debt service burden of borrowers whose income is in Lebanese Pounds and, therefore, would likely increase the level of the Bank's non-performing loans. In addition, a devaluation of the Lebanese Pound against the U.S. Dollar will adversely impact the Bank's ability to generate Unconsolidated Distributable Net Income to make Distributions in U.S. Dollars.

Liquidity and Maturity Mismatching

Lebanon has maintained strong external liquidity despite persistently large current account deficits. Although the Bank's balance sheet appears to indicate a high level of liquidity, the Bank, along with other Lebanese financial institutions, has utilized a portion of these liquidity levels to invest in longer-term higher yielding assets, namely Lebanese Treasury Bills and other financial papers traded in regulated markets. While much of the Bank's investment portfolio is funded by comparatively shorter-term customer deposits, its investments are comprised principally of securities classified as available-for-sale and held-to-maturity, which includes Lebanese treasury bills, Central Bank certificates of deposit and sovereign Eurobonds, which are often, in practice, characterized by limited liquidity. As a result, although, in the past, the Bank has been able to roll over most of its deposits, and these securities typically may be liquidated in times of crisis according to discount arrangements or repurchase agreements with *Banque du Liban*, there can be no assurance that the Bank could liquidate all or a portion of its portfolio of Lebanese governmental securities if it were to become necessary or advisable to do so. As a result, investors should not assume that the Bank's liquidity, as reflected on its balance sheet, will remain available, but instead should be aware that the Bank, in common with other banks in Lebanon, may be required to rely on other more expensive funding sources in order to finance growth in its loan portfolio. Any failure to source funding through less expensive deposits, or at all, would have a material adverse effect on the Bank's business, liquidity, results of operations, financial condition and prospects.

Interest Rate Sensitivity

As a result of the maturity mismatch between its deposits and assets, the Bank, in common with most Lebanese banks, is exposed to the risk of any sharp increase in short term interest rates. Like most commercial banks in Lebanon and the MENA region, the Bank realizes income from the margin between interest earned on its assets and interest paid on its liabilities. Because many of the Bank's assets and liabilities reprice at different times, the Bank is vulnerable to fluctuations in market interest rates. Typically, the Bank's liabilities reprice substantially more frequently than its assets and, as a result, if interest rates rise, the Bank's interest expense will increase more rapidly than its interest income, which could negatively affect interest margins and result in liquidity problems. The Bank is limited in its ability to re-price assets more frequently and to mitigate this risk since many of the securities held in the Bank's investment portfolio either have fixed interest rates or longer-term variable interest rates. As a result, volatility in interest rates could have a material adverse effect on the Bank's business, liquidity, results of operations, financial condition and prospects.

Ordinary Course Banking Risks

In the ordinary course of its business activities, the Bank is exposed, in common with other commercial banks, to a variety of financial, market and operational risks, including credit risk, market risk, currency risk, interest rate risk, prepayment risk, equity price risk, liquidity risk and operational risk. Whilst Management believes that the Bank's risk management policies and procedures are appropriate and sufficient to control and mitigate such risks, any failure to adequately control these risks could be greater than anticipated and could, in turn, have a material adverse effect on the Lebanese economy, the Bank's business, liquidity, results of operations, financial condition and prospects.

Competition

The market for financial and banking services in the Lebanese Republic is competitive. As at December 31, 2017 and based on information published by the *Banque Du Liban*, there were 49 active commercial banks, 16 active Medium and Long Term Banks, 49 financial institutions, and 13 Financial Intermediaries institutions, licensed by *Banque du Liban* to operate in the Lebanese Republic, which has a population of approximately 6.1 million people. Foreign banks are well represented in Lebanon and maintain branches in Lebanon or equity stakes in several Lebanese banks. These banks include large international financial institutions with access to larger and cheaper sources of funding. Competition to attract depositors and quality borrowers and to provide fee-based services to customers has been particularly intense since the end of the civil war in 1990. Due to the intensity of such competition and the increasing number of institutions offering financial and banking services in the Lebanese Republic, in common with other Lebanese banks, the Bank has experienced a decrease in its lending margins, especially in respect of retail loans. While management believes there are still opportunities for growth in the Lebanese banking sector, depending on the continuing extent and intensity of the competition, in common with other Lebanese banks, the Bank may suffer from increased expenses and decreased revenues.

Credit Risk

Risks arising from changes in credit quality and the recoverability of loans and amounts due from customers are inherent in a wide range of the Bank's business. Non-performing or low credit quality loans have in the past and may continue to negatively impact the Bank's results of operations. In particular, the amount of its reported non-performing loans may increase in the future as a result of growth in the Bank's total loan portfolio, including as a result of loans portfolios that the Bank may acquire in the future, or factors beyond its control, such as adverse changes in the credit quality of the Bank's borrowers and counterparties or a general deterioration in economic conditions in the MENA region, or global economic conditions, impact of political events, events affecting certain industries or events affecting financial markets and global economies. There can be no assurance that the Bank will be able to effectively control the level of non-performing loans in its total loan portfolio. If the Bank is unable to control or reduce the level of its non-performing or poor credit quality loans, this could have a material adverse effect on the Bank's business, liquidity, results of operations, financial condition and prospects.

Counterparty Risk

The Bank is exposed to counterparty risk in addition to credit risks associated with lending activities. Counterparty risk may arise from, for example, investing in securities of third parties, entering into derivative contracts under which counterparties have obligations to make payments to it or executing securities, futures, currency or commodity trades from proprietary trading activities that fail to settle at the required time due to non-delivery by the counterparty or systems failure by clearing agents, clearing houses or other financial intermediaries.

The Bank routinely transacts with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual funds, hedge funds, and other institutional clients. Defaults by, and even rumors or questions about the solvency of, certain financial institutions and the financial services industry generally have led to market-wide liquidity problems and could lead to losses or defaults by other institutions. Many of the routine transactions the Bank enters into expose it to significant credit risk in the event of default by one of its significant counterparties.

Central bank of Lebanon

The Central Bank has and continues to deploy all its efforts to ensure that its main objectives, to safeguard monetary and economic stability, to maintain the fixed exchange rates, to keep interest rates steady at moderate levels, to address weak banks, in addition to increase the Lebanese national wealth, are always met.

The government's reappointment of Mr. Riad Salameh in late May 2017 as Governor of the Central Bank for a fifth seven-year term helped ease pressure on financial markets. Uncertainty over the renewal of Salameh's term had led to a drop of U.S.$ 2.3 billion in the Central Bank's foreign assets between the end of February and the middle of May as a result of currency conversions. As at December 31, 2017, BDL's foreign assets grew by 0.22% to reach U.S.$42 billion.

Also, the financial engineering operations introduced by the BDL in 2016 that offered large incentives to domestic commercial banks to invest in BDL's dollar-denominated term deposits, boosted the gross reserves of the BDL and the capital of banks. In addition, the BDL introduced a new operation in December 2017 to incentivize the banks to secure longer maturity local-currency deposits, by increasing the interest rate on existing BDL long-term instruments held by banks by 2-3 percentage points.

However, while the range of these operations has allowed the BDL to play a significant role in maintaining the current economic model and effectively manage crisis episodes, these policies have yet come at a cost to the BDL's balance sheet and net FX position, and created a different set of financial stability risks by exposing banks to significant sovereign exposure and maturity mismatches.

(iii) Considerations relating to the Series 7 Preferred Shares and the Offering

Distributions Not Cumulative

The right to the payment of Distributions on the Series 7 Preferred Shares shall not be cumulative. If Distributions are not declared or paid for any reason, holders of Series 7 Preferred Shares will not be entitled to receive such Distributions whether or not funds are or subsequently become available.

Conditions of Payment of Distributions

It is the intention of the Board of Directors of the Bank to recommend to the Bank's shareholders that they approve the payment of Distributions out of Distributable Net Income for the Year to holders of Series 7 Preferred Shares on an annual basis subject to (i) the availability of Distributable Net Income for the Year in an amount sufficient to cover such Series 7 Distributions and distributions in respect of the Series 2 Preferred Shares, the Series 3 Preferred Shares, the Series 4 Preferred Shares, the Series 5 Preferred Shares, the Series 6 Preferred Shares and any other Tier I Capital preferred shares, if any, which may be issued by the Bank at any time and which by their terms rank *pari passu* with the Series 7 Preferred Shares; (ii) the Bank's continued compliance with all applicable *Banque du Liban* and Banking Control Commission ratios and regulations at the time imposed with respect to payments related to the net profits of the Bank; and (iii) the approval of the payment of such Distributions out of Distributable Net Income for the Year by the Ordinary General Assembly of Shareholders of the Bank at which the annual audited consolidated accounts statements of the Bank for the relevant year are approved; it being understood that, in each year, the Bank's General Assembly is obligated to approve the distribution of Distributable Net Income for the Year, if available, except when the Bank would be prevented from making such distribution by virtue of law or regulations of mandatory application. In the event, however, that Distributable Net Income for the Year is insufficient to pay Series 7 Distributions (and distributions in respect of the Series 2 Preferred Shares, the Series 3 Preferred Shares, the Series 4 Preferred Shares, the Series 5 Preferred Shares, the Series 6 Preferred Shares and any future Tier I Capital series of preference shares of the Bank at the time outstanding and ranking *pari passu* with the Series 7 Preferred Shares) at their stated annual rate, such amount of Distributions shall be decreased in proportion to the available net profits, if any. In any event, the amount of Distributions payable to holders of Series 7 Preferred Shares may not exceed Distributable Net Income for the Year. See "*Description of the Share Capital of Creditbank S.A.L. — Description of the Series 7 Preferred Shares—Distributions*".

If the Bank does not have sufficient Distributable Net Income for the Year, or if the shareholders do not approve Distributions in any particular year, Series 7 Distributions will not be paid.

Limited Voting Rights

The Series 7 Preferred Shares will be non-voting, except for the limited rights of holders of Series 7 Preferred Shares to vote on any proposed amendments to the object or legal form of the Bank, any capital increase by way of a contribution in kind of assets or any dissolution, liquidation or winding-up of the Bank or any merger scheme in which the Bank is a party or in the event that (i) distributions are not paid in full for three financial years, or (ii) the Bank shall be in default in the provision of any of the rights or benefits attached to the Series 7 Preferred Shares.

No Fixed Redemption

The Series 7 Preferred Shares shall be of perpetual existence and have no fixed final redemption date and, holders of Series 7 Preferred Shares shall not have the benefit of any put option or other right to require the redemption thereof. Although the Bank has the option to redeem and cancel the Series 7 Preferred Shares, in whole or in part, under certain circumstances, it has no obligation to do so and its ability to do so may be restricted by applicable ratios or regulations of *Banque du Liban* and the Banking Control Commission. As a result, purchasers of Series 7 Preferred Shares must be willing and able to maintain their investment in the long term indefinitely.

No Distributions Payable Upon Redemption

Although holders of Series 7 Preferred Shares are entitled to a redemption premium in the event the Bank exercises its call option, as provided below, no Distributions shall be payable in respect of any redeemed and canceled Series 7 Preferred Shares for the year in which such Series 7 Preferred Shares are redeemed and canceled.

Potential Conflicts of Interest

The Bank has been, and will continue to be, involved in many aspects of the transactions relating to the issuance of Series 7 Preferred Shares, including in its capacities as Issuer, Placement Agent and Escrow Agent, without the advice of separate legal counsel in respect of these various roles. It is possible that the Bank may be subject to competing interests in its relationship with the holders of Series 7 Preferred Shares. The various roles of the Bank raise potential conflicts of interest whose prospective purchasers of Series 7 Preferred Shares should carefully consider.

Secondary Market; Liquidity

The Bank does not intend to list the Series 7 Preferred Shares on the Beirut Stock Exchange or any other stock exchange, and is not obligated to do so and there can be no assurance that a secondary market in the Series 7 Preferred Shares will develop, or, if one does develop, that it will provide liquidity of investment or will continue for the life of the Series 7 Preferred Shares. Moreover, no assurance can be given that it will be possible to effect a sale of Series 7 Preferred Shares or that, if a sale were to take place, it would not be at a discount to the Issue Price.

The market price for the Series 7 Preferred Shares is likely to be influenced by a number of factors, including the financial condition and results of operations of the Bank, as well as the overall political, economic and social conditions in the Lebanese Republic and the surrounding region, which are outside the control of the Issuer. As a result, the price for the Series 7 Preferred Shares may be subject to volatility.

The Series 7 Preferred Shares are Non-Participating

Holders of Series 7 Preferred Shares have no right to receive or participate in any distribution in respect of the Bank's capital other than annual Series 7 Distributions, if and when declared and approved by the General Assembly of Shareholders, and, upon liquidation, the Series 7 Liquidation Preference. Accordingly and unless otherwise provided under applicable laws, without limitation of the generality of the foregoing, holders of Series 7 Preferred Shares have no right to receive any distributions in respect of the Bank's reserves or any distributions effected through an increase of the Bank's capital realized by incorporation of the Bank's retained earnings or reserves.

REPRESENTATIONS AND WARRANTIES OF PURCHASERS

Each prospective purchaser of Series 7 Preferred Shares will be required to make the representations and warranties set forth in Annex 1 to Exhibit A to this Offering Circular to, and for the benefit of, the Bank, on and as at the date of its application to purchase Series 7 Preferred Shares and on and as at the Issue Date. The Series 7 Preferred Shares will be sold to such purchaser in reliance on such representations and warranties.

USE OF PROCEEDS

The Bank intends to use the proceeds of the issuance of the Series 7 Preferred Shares for general funding purposes, including, but not limited to, strengthening the Bank's capital structure and the growth of its operations. It is intended that the Aggregate Issue Price paid by any Eligible Investor for the Series 7 Preferred Shares, consisting of the par value and the issue premium in excess thereof, will constitute Additional Tier 1 Capital of the Bank; provided that the conditions and characteristics of the Series 7 Preferred Shares comply with the provisions of BDL Basic decisions No. 6938 and 6939 as amended, from time to time, which set the conditions of acceptance of the financial instruments in the category of the Additional Tier 1 Capital. The Bank believes that the proceeds of the issuance are sufficient to cover the Bank's intended use for such proceeds as described herein.

STATEMENT OF CAPITAL AND LONG-TERM LIABILITIES AND DIVIDEND POLICY

The following table sets forth the consolidated long-term liabilities and shareholders' equity of the Bank as at December 31, 2017, on a historical basis and as adjusted to give effect to the offering of the Series 7 Preferred Shares:

	As at December 31,		
Long Term Liabilities	**2017**	**2016**	**2015**
	(LBP million)	*(LBP million)*	*(LBP million)*
Central Banks	236,147	106,011	75,832
Proparco	19,422	24,966	30,482
Loan granted from the "European Investment Bank"	4,270	5,927	7,508
End of Service Indemnity	9,271	7,838	6,795
Total Long Term Liabilities	**269,111**	**144,742**	**120,617**

	As at December 31,				
Shareholders' Equity	**2017**	**2016**	**2015**	**Proposed Preferred Shares Series 7**	**Post Offering PS Series 7**
	(LBP million)	*(LBP million)*	*(LBP million)*	*(LBP million)*	*(LBP million)*
Share Capital	204,800	159,619	159,619	10,000	214,800
Share Premium	143,211	112,986	112,986	20,150	163,361
Cash Contribution to Capital	10,854	10,854	10,854		10,854
Reserves	178,788	156,517	95,901		178,788
Retained Earnings	62,429	54,022	41,712		62,429
Total Equity Attributable to Equity Holders of the Bank	**600,081**	**493,998**	**421,072**	**30,150**	**630,231**
Non-Controlling Interest	51	48	38		51
Total Equity	**600,132**	**494,046**	**421,110**	**30,150**	**630,282**

Except as otherwise described in this Offering Circular, there has been no material change in the long-term liabilities and shareholders' equity of the Bank since December 31, 2017.

Dividend Policy

The Board of Directors as well as the Ordinary General Assembly of shareholders of the Bank established a policy consisting in refraining from distributing any dividends to the Bank's common shareholders. Therefore, dividends distributions for the year 2017 were limited to the holders of the Bank's Series 2 Preferred Shares, Series 3 Preferred Shares, Series 4 Preferred Shares, Series 5 Preferred Shares, and Series 6 Preferred Shares.

SELECTED FINANCIAL INFORMATION AND OPERATIONAL DATA

The selected financial information for the Bank set forth below as at December 31, 2017, 2016, and 2015 has been derived from, should be read in conjunction with, and is qualified in its entirety by reference to, the audited consolidated financial statements of the Bank for the years ended December 31, 2017, 2016, and 2015 which are included elsewhere in this Offering Circular.

Balance Sheet

	As at December 31,											
	2017				2016				2015			
Assets	**LBP**	**C/V LBP**	**TOTAL**	**%**	**LBP**	**C/V LBP**	**TOTAL**	**%**	**LBP**	**C/V LBP**	**TOTAL**	**%**
		(LBP million)		*(Percent)*		*(LBP million)*		*(Percent)*		*(LBP million)*		*(Percent)*
Cash and balances with Central Banks	1,448,418	841,160	2,289,578	39.85%	951,067	711,690	1,662,757	31.43%	455,996	630,452	1,086,449	21.69%
Banks and financial institutions	4,556	140,743	145,299	2.52%	46,131	185,366	231,497	4.38%	5,165	171,499	176,663	3.53%
Loans and advances to customers and related parties	950,580	1,766,624	2,717,204	47.17%	1,095,377	1,643,895	2,739,272	51.78%	782,029	1,757,218	2,539,247	50.70%
Investment securities	94,863	181,565	276,428	4.80%	220,245	161,020	381,265	7.21%	896,634	93,755	990,389	19.77%
Shares acquired in settlement of debt at fair value through profit or loss	-	110,626	110,626	1.92%	-	100,051	100,051	1.89%	-	89,987	89,987	1.70%
Investments in associate	-	84,782	84,782	1.47%	-	69,030	69,030	1.30%	-	-	-	0.00%
Property and equipment	88,781	10,720	99,501	1.73%	60,800	9,318	70,118	1.33%	54,024	22,650	76,674	1.53%
Intangible assets	690	-	690	0.01%	262	262	524	0.01%	190	1,060	1,250	0.02%
Other assets	2,554	29,114	31,668	0.55%	2,697	28,567	31,264	0.59%	2,945	19,982	22,927	0.46%
Non-current assets held for sale	-	4,406	4,406	0.08%	-	4,406	4,406	0.08%	-	15,144	15,144	0.30%
Goodwill	-	-	-	0.00%	-	-	-	0.00%	-	9,728	9,728	0.19%
Total assets	**2,590,443**	**3,169,740**	**5,760,183**	**100%**	**2,376,579**	**2,913,604**	**5,290,183**	**100%**	**2,196,983**	**2,811,476**	**5,008,459**	**100%**

	As at December 31,											
	2017				2016				2015			
Liabilities and shareholders' equity	**LBP**	**C/V LBP**	**TOTAL**	**%**	**LBP**	**C/V LBP**	**TOTAL**	**%**	**LBP**	**C/V LBP**	**TOTAL**	**%**
		(LBP million)		*(Percent)*		*(LBP million)*		*(Percent)*		*(LBP million)*		*(Percent)*
Liabilities												
Due to banks and financial institutions	249,206	48,425	297,631	5.17%	114,378	53,972	168,350	3.18%	106,622	135,567	242,189	4.84%
Deposits from customers and related parties	1,904,795	2,866,907	4,771,702	82.84%	1,871,019	2,615,369	4,486,388	84.81%	1,771,266	2,490,198	4,261,464	85.09%
Current tax liabilities	4,071	-	4,071	0.07%	15,475	-	15,475	0.29%	4,840	-	4,840	0.10%
Other liabilities	16,321	60,555	76,876	1.33%	14,744	46,435	61,179	1.16%	17,554	54,433	71,987	1.54%
Provisions	9,724	46	9,770	0.17%	34,317	30,428	64,745	1.22%	6,826	42	6,868	0.14%
Total liabilities	**2,184,117**	**2,975,933**	**5,160,050**	**89.6%**	**2,049,933**	**2,746,204**	**4,796,137**	**90.7%**	**1,907,108**	**2,680,241**	**4,587,349**	**91.6%**
Equity												
Share capital	204,800	-	204,800	3.46%	159,619	-	159,619	3.02%	159,619	-	159,619	3.19%
Share premium	17,274	125,937	143,211	2.49%	17,274	95,712	112,986	2.14%	17,274	95,712	112,986	2.16%
Cash contribution to capital	-	10,854	10,854	0.19%	-	10,854	10,854	0.21%	-	10,854	10,854	0.22%
Reserves	145,120	33,668	178,788	3.10%	118,818	25,284	144,102	2.72%	78,655	30,152	108,807	2.17%
Non-distributable retained earnings	30,689	-	30,689	0.53%	18,050	-	18,050	0.34%	8,883	-	8,883	0.18%
Translation reserves	-	-	-	0.00%	-	(5,635)	(5,635)	-0.11%	-	(21,790)	(21,790)	-0.44%
Retained earnings	31,739	-	31,739	0.55%	53,984	38	54,022	1.02%	53,296	(11,585)	41,711	0.83%
Equity attributable to equity holders of the Bank	**429,622**	**170,459**	**600,081**	**10.4%**	**367,745**	**126,253**	**493,998**	**9.3%**	**317,728**	**103,344**	**421,072**	**8.4%**
Non-controlling interest	51	-	51	0.00%	48	-	48	0.00%	38	-	38	0.00%
Total equity	**429,673**	**170,459**	**600,132**	**10.4%**	**367,793**	**126,253**	**494,046**	**9.3%**	**317,766**	**103,344**	**421,110**	**8.4%**
Total liabilities and equity	**2,613,790**	**3,146,393**	**5,760,183**	**100%**	**2,417,726**	**2,872,457**	**5,290,183**	**100%**	**2,224,874**	**2,783,585**	**5,008,459**	**100%**

Income Statement:

Income Statement	2017	% Revenue	2016	% Revenue	2015	% Revenue	% Growth 2016/2017	% Growth 2015/2016
	As at December 31,							
	(LBP million)	*(Percent)*	*(LBP million)*	*(Percent)*	*(LBP million)*	*(Percent)*	*(Percent)*	*(Percent)*
Interest income	346,759		327,397		331,677		5.91%	-1.29%
Interest expense	(251,634)		(227,239)		(223,253)		10.74%	1.79%
Net interest income	**95,124**	**62.63%**	**100,158**	**43.68%**	**108,424**	**62.80%**	**-5.03%**	**-7.62%**
Fees and commission income	25,974		27,384		29,037		-5.15%	-5.69%
Fees and commission expense	(6,278)		(6,652)		(7,501)		-5.62%	-11.32%
Net Fees and commission income	**19,696**	**12.97%**	**20,732**	**9.04%**	**21,536**	**12.47%**	**-4.99%**	**-3.73%**
Net trading income / (loss)	2,718	1.79%	(14,200)	-6.19%	4,760	2.76%	-119.14%	-398.32%
Net gain on investment securities at fair value through profit or loss	20,871	13.74%	49,661	21.66%	19,283	11.17%	-57.97%	157.54%
Net gain on investment securities at amortised cost	109	0.07%	61,285	26.73%	8,637	5.00%	-99.82%	609.56%
Dividend income	2,997	1.97%	311	0.13%	286	0.17%	863.63%	8.74%
Other revenue	8,020	5.28%	7,724	3.37%	9,719	5.63%	3.84%	-20.53%
Gain from investment in associate	2,360	1.55%	3,618	1.58%	-	N/A	-34.78%	N/A
Revenue	**151,895**	**100%**	**229,288**	**100%**	**172,646**	**100%**	**-33.75%**	**32.81%**
Personnel charges	(50,956)	33.55%	(47,304)	20.63%	(49,819)	28.86%	7.72%	-5.05%
Net impairment loss on loans and advances to customers	(14,347)	9.45%	(11,943)	5.21%	(19,014)	11.01%	20.13%	-37.19%
Impairment charges on other financial assets	(8,701)	5.73%	(56,318)	24.56%	-	N/A	-84.55%	N/A
Depreciation & amortisation	(4,677)	3.08%	(4,274)	1.86%	(4,568)	2.65%	9.44%	-6.44%
Administrative expenses	(38,154)	25.11%	(31,082)	13.56%	(36,538)	21.16%	22.75%	-14.93%
Profit before tax	**35,059**	**23.08%**	**78,367**	**34.18%**	**62,706**	**36.32%**	**-55.26%**	**24.98%**
Tax expense	(5,073)	3.34%	(18,988)	8.28%	(9,558)	5.54%	-73.29%	98.66%
Profit for the year	**29,986**	**19.75%**	**59,379**	**25.90%**	**53,148**	**30.78%**	**-49.50%**	**11.72%**
Attributable to:								
Equity holders of the Bank	29,977		59,368		53,139			
Non-controlling interests	10		10		10			
Profit for the year	**29,987**		**59,379**		**53,149**			

Main Financial Ratios and Statistics:

	As at December 31,			
	2017	2016	2015	2014
	(USD million)	*(USD million)*	*(USD million)*	*(USD million)*
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%
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	6.60%	6.07%	4.75%	9.85%
% Growth in Deposits	3.50%	3.67%	4.57%	8.93%
% Growth in Net Loans	1.70%	1.39%	5.86%	11.23%
% Growth in Shareholders' Equity	6.40%	10.69%	6.00%	11.86%
% Growth in Total Operating Income	-18.10%	37.54%	6.93%	9.29%
% Growth in Net Profit	6.00%	10.47%	8.26%	8.90%

	As at December 31,			
	2017	2016	2015	2014
	(USD million)	*(USD million)*	*(USD million)*	*(USD million)*
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%
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	6.60%	6.51%	4.76%	9.80%
% Growth in Deposits	3.50%	3.89%	4.55%	8.90%
% Growth in Net Loans	1.70%	2.18%	5.67%	11.20%
% Growth in Shareholders' Equity	6.40%	11.96%	6.13%	11.90%
% Growth in Total Operating Income	-18.10%	33.83%	7.10%	9.30%
% Growth in Net Profit	6.00%	11.91%	8.61%	8.90%

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Basis of Presentation

In this Offering Circular, the following discussion and analysis has been prepared by the Bank's management and should be read in conjunction with the audited consolidated financial statements of the Bank for the years ended December 31, 2017, 2016, and 2015. The audited consolidated financial statements of the Bank were prepared in accordance with International Financial Reporting Standards and interpretations issued by the International Financial Reporting Interpretations Committee, the general accounting plan for banks in Lebanon and the regulations of the Central Bank and the Banking Control Commission.

Overview

Over the past years, the Bank has achieved a significant growth in total assets as well as in the main components of its statement of financial position. The Bank's total assets grew by approximately 8.4% compounded annual growth during the period extending from December 31, 2014 to year-end 2017, reaching USD 3,821 million as at December 31, 2017. Customers' deposits reached USD 3,165 million as at December 31, 2017, as compared to USD 2,601 million as at December 31, 2014, reflecting a 6.77% compounded annual growth from December 31, 2014 to year-end 2017.
The Bank's branch network has grown from 15 branches in 2010 to 25 branches as at December 31st, 2017 spread across different regions of Lebanon.

As at December 31, 2017, the Bank's shareholders' equity was LBP 600,132 million (USD 398 million) reflecting an increase of 23.73% compounded annual growth from December 31, 2014 to year-end 2017. The Bank's consolidated capital adequacy ratio as per Basel III of the year 2017 stood at 16.29%.

In October 2016, Creditbank, then as sole shareholder of ID Bank CJSC (Previously 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 analysing the growth figures the Bank recorded in 2016.

Net Income

As at December 31, 2017, the Bank realized a net income after tax of LBP 29,986 million (USD 20 million) as compared to LBP 59,379 million (USD 39 million) as at December 31, 2016.

For the year ended December 31, 2017, the Bank realized a return on average equity (ROAE) of 5.48%, and a return on average assets (ROAA) of 0.54%, as compared to an ROAE and an ROAA of 12.98% and 1.15%, respectively, for the year ended December 31, 2016.

Interest Income

The Bank's interest income amounted to LBP 346,759 million (USD 230 million) as at December 31, 2017, as compared to LBP 327,397 million (USD 217 million) as at December 31, 2016 and to LBP 331,677 million (USD 220 million) as at December 31, 2015.

The Bank's interest income from investment securities including treasury bills and Central Bank certificates of deposits constituted 5.23% of total interest income received by the Bank for the year ended December 31, 2017, as compared to 19.39% for the year ended December 31, 2016 and to 22.52% for the year ended December 31, 2015.

Interest income from loans to banks (including Central Bank) amounted to LBP 116,854 million (USD 78 million) for the year ended December 31, 2017, as compared to LBP 67,398 million (USD 45 million) for the year ended December 31, 2016.

Interest income from loans and advances to customers constituted 61.08% of the Bank's total interest income in 2017 compared to 60.03% in 2016 and 65.12% in 2015.

The following tables set forth a breakdown of the Bank's interest income for the years ended December 31, 2017, December 31, 2016 and December 31, 2015, respectively:

	2017		2016		2015			
Interest income	**Amount**	**% Total Interest Income**	**Amount**	**% Total Interest Income**	**Amount**	**% Total Interest Income**	**% Growth 2016/2017**	**% Growth 2015/2016**
	(LBP million)	*(Percent)*	*(LBP million)*	*(Percent)*	*(LBP million)*	*(Percent)*	*(Percent)*	*(Percent)*
Balances with Central Banks	114,376	32.98%	52,432	16.01%	40,554	12.23%	118.14%	29.29%
Banks and financial institutions	2,478	0.71%	14,966	4.57%	445	0.13%	-83.44%	3263.15%
Loans and advances to customers and related parties	211,768	61.08%	196,519	60.03%	215,983	65.12%	7.76%	-9.01%
Investment securities	18,137	5.23%	63,481	19.39%	74,686	22.52%	-71.43%	-15.00%
Other interest income	-	0.00%	-	0.00%	8	0.00%	N/A	-100.00%
Total interest income	**346,759**		**327,397**		**331,677**		**5.91%**	**-1.29%**

Interest Expense

The Bank's interest expense amounted to LBP 251,635 million (USD 167 million) for the year ended December 31, 2017, as compared to LBP 227,239 million (USD 151 million) for the year ended December 31, 2016 and to LBP 223,253 million (USD 148 million) for the year ended December 31, 2015.

Total deposits interest expense paid by the Bank to customers increased to reach LBP 246,270 million (USD 163 million) as at December 31, 2017 compared to LBP 221,920 million (USD 147 million) as at December 31, 2016 and to LBP 212,148 million (USD 141 million) as at December 31, 2015.

The following table sets forth a breakdown of the Bank's interest expense and similar charges for the years ended December 31, 2017, December 31, 2016 and December 31, 2015, respectively:

	2017		2016		2015			
Interest expense	**Amount**	**% Total Interest Expense**	**Amount**	**% Total Interest Expense**	**Amount**	**% Total Interest Expense**	**% Growth 2016/2017**	**% Growth 2015/2016**
	(LBP million)	*(Percent)*	*(LBP million)*	*(Percent)*	*(LBP million)*	*(Percent)*	*(Percent)*	*(Percent)*
Deposits from banks	5,365	2.13%	5,320	2.34%	10,639	4.77%	0.85%	-50.00%
Deposits from customers and related parties	246,270	97.87%	221,920	97.66%	212,148	95.03%	10.97%	4.61%
Other interest expense	-	0.00%	-	0.00%	466	0.21%	N/A	-100.00%
Total interest expense	**251,634**		**227,239**		**223,253**		**10.74%**	**1.79%**
Net interest income	**95,124**		**100,158**		**108,423**		**-5.03%**	**-7.62%**

Net Interest Income

The net interest margin (i.e. the net interest divided by average earning assets) decreased from 2.38% for the year ended December 31, 2015 to 2.04% for the year ended December 31, 2016, then decreased to 1.81% for the year ended December 31, 2017.

The Bank's net interest income before provisions reached LBP 95,124 million (USD 63 million) for the period ended December 31, 2017, as compared to LBP 100,158 million (USD 66 million) for the period ended December 31, 2016 and to LBP 108,423 million (USD 72 million) for the period ended December 31, 2015. The decrease of 7.62% between 2015 and 2016 was mainly due to deconsolidation of ID Bank CJSC (Previously Anelik Bank CJSC).

The following table sets out the Bank's net interest income and net interest margin income for the years ended December 31, 2017, December 31, 2016 and December 31, 2015, respectively:

	2017	**2016**	**2015**
Net interest income (LBP million)	95,124	100,158	108,423
Net interest margin	1.82%	2.04%	2.38%

Non-Interest Income

Non-interest income in 2017 reached LBP 56,771 million (USD 38 million) for the year ended December 31, 2017 as compared to LBP 129,130 million (USD 86 million) for the year ended December 31, 2016 and to LBP 64,222 million (USD 43 million) for the year ended December 31, 2015. The increase in 2016 was mainly due to the increase in net gains on investment securities.

The following table outlines the breakdown of non-interest income for the years ended December 31, 2017, December 31, 2016 and December 31, 2015, respectively:

	As at December 31,				
	2017	2016	2015		
Non-interest income	**Amount**	**Amount**	**Amount**	**% Growth 2016/2017**	**% Growth 2015/2016**
	(LBP million)	*(LBP million)*	*(LBP million)*	*(Percent)*	*(Percent)*
Fees and commissions					
Fees and commission income	25,974	27,384	29,037	-5.15%	-5.69%
Fees and commission expense	(6,278)	(6,652)	(7,501)	-5.62%	-11.32%
Net fees and commission income	**19,696**	**20,731**	**21,536**	**-4.99%**	**-3.74%**
Net trading income / (loss)	2,718	(14,200)	4,760	-119.14%	-398.32%
Net gain on investment securities at fair value through profit or loss	20,871	49,661	19,283	-57.97%	157.54%
Net gain on investment securities at amortised cost	109	61,285	8,637	-99.82%	609.56%
Dividend income	2,997	311	286	863.63%	8.74%
Other revenue	8,020	7,724	9,719	3.84%	-20.53%
Gain from investment in associate	2,360	3,618	-	-34.78%	N/A
	37,075	**108,399**	**42,686**	**-65.80%**	**153.95%**
Total non-interest income	**56,771**	**129,130**	**64,222**	**-56.04%**	**101.07%**

Impairment Charges on Other Financial Assets

During November 2016, the Central Bank of Lebanon issued Intermediate Circular number 439 which required banks operating in Lebanon to constitute collective 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 Bank constituted an additional collective 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

Operating Expenses

Total operating expenses reached LBP 93,787 million (USD 62 million) for the year ended December 31, 2017 as compared to LBP 82,660 million (USD 55 million) for the year ended December 31, 2016, reflecting a year-on-year increase of 13.46 %, and to LBP 90,925 million (USD 60 million) for the year ended December 31, 2015, a year-on-year decrease of 9.09% between 2015 and 2016.

The decrease in the Bank’s total operating expenses during 2016 was mainly due to deconsolidation of ID Bank CJSC (Previously Anelik Bank CJSC).

The Bank’s cost-to-income ratio was 61.75% for the period ended December 31, 2017 compared to 36.05 % for the period ended December 31, 2016, and 52.67 % for the period ended December 31, 2015.

The following tables set forth a breakdown of the Bank’s operating expenses income for the years ended December 31, 2017, December 31, 2016 and December 31, 2015, respectively:

Operating expenses	As at December 31, 2017	2016	2015		
	Amount	Amount	Amount	% Growth 2016/2017	% Growth 2015/2016
	(LBP million)	*(LBP million)*	*(LBP million)*	*(Percent)*	*(Percent)*
Personnel charges	50,956	47,304	49,819	7.72%	-5.05%
Depreciation and amortisation	4,677	4,274	4,568	9.42%	-6.42%
Administrative expenses	38,154	31,082	36,538	22.75%	-14.93%
Total operating expenses	**93,787**	**82,660**	**90,925**	**13.46%**	**-9.09%**

Income Tax

Income tax expense for the year ended December 31, 2017 amounted to LBP 5,073 million (USD 3 million), compared to LBP 18,988 million (USD 13 million) for the year ended December 31, 2016, and LBP 9,558 million (USD 6 million) for the year ended December 31, 2015.

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.

Financial Position

Total Assets

The following tables set forth a breakdown of the Bank's total assets for the years ended December 31, 2017, December 31, 2016 and December 31, 2015, respectively:

	As at December 31, 2017		2016		2015	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
	(LBP million)	*(Percent)*	*(LBP million)*	*(Percent)*	*(LBP million)*	*(Percent)*
Cash and balances with Central Banks	2,289,578	39.75%	1,662,757	31.43%	1,086,449	21.70%
Banks and financial institutions	145,299	2.52%	231,497	4.38%	176,663	3.53%
Loans and advances to customers & related parties	2,717,204	47.17%	2,739,272	51.78%	2,539,247	50.70%
Investment securities	276,428	4.80%	381,265	7.21%	990,389	19.77%
Shares acquired in settlement of debt	110,626	1.92%	100,051	1.89%	89,987	1.80%
Investments in associate	84,782	1.47%	69,030	1.30%	-	0.00%
Property and equipment	99,501	1.73%	70,118	1.33%	76,674	1.53%
Intangible assets	690	0.01%	524	0.01%	1,250	0.02%
Other assets	31,668	0.55%	31,264	0.59%	22,927	0.46%
Non-current assets held for sale	4,406	0.08%	4,406	0.08%	15,144	0.30%
Goodwill	-	0.00%	-	0.00%	9,728	0.19%
Total assets	**5,760,183**		**5,290,183**		**5,008,459**	

The Bank's total assets stood at LBP 5,760,183 million (USD 3,821 million) as at December 31, 2017 as compared to LBP 5,290,183 million (USD 3,509 million) as at December 31, 2016, and to LBP 5,008,459 million (USD 3,322 million) as at December 31, 2015 reflecting a year-on-year increase of 8.88 % between 2017 and 2016.

Cash and Central Bank deposits (excluding certificates of deposits issued by the Central Bank) increased in 2017 by 37.70% to reach LBP 2,289,578 million (USD 1,519 million) as compared to LBP 1,662,757 million (USD 1,103 million) as at December 31,2016. As a percentage of total liquid assets of the Bank as of December 31, 2017, and 2016, Cash and Central Bank deposits represented 84.45% and 73.07%, respectively. Liquid assets are defined as the sum of cash and compulsory reserves held with the Central Bank, banks and financial institutions and investment securities.

The Bank's portfolio of treasury bills and other government securities in all currencies amounted to LBP 137,769 million (USD 91 million) as at December 31, 2017, as compared to LBP 275,227 million (USD 183 million) as at December 31, 2016, reflecting a year-on-year decrease of 49.94 %.

The Bank's portfolio of certificates of deposits issued by the Central Bank in all currencies amounted to LBP 118,223 million (USD 78 million) as at December 31, 2017, as compared to LBP 92,098 million (USD 61 million) as at December 31, 2016, reflecting a year-on-year increase of 28.37 %.
The Bank's loans and advances to customers portfolio in all currencies amounted to LBP 2,717,204 million (USD 1,802 million) as at December 31, 2017, as compared to LBP 2,739,272 million (USD 1,817 million) as at December 31, 2016, reflecting a year-on-year decrease of 0.81%.

Placements with banks (excluding placements with the Central Bank) amounted to LBP 145,299 million (USD 96 million) as at December 31, 2017 as compared to LBP 231,497 million (USD 154 million) as at December 31, 2016, reflecting a year-on-year decrease of 37.24%.

Total Liabilities

The Bank's total liabilities were LBP 5,160,050 million (USD 3,423 million) as at December 31, 2017 as compared to LBP 4,796,137 million (USD 3,181 million) as at December 31, 2016, reflecting an increase of 7.59% in 2017.

The Bank's customers' and related parties deposits were LBP 4,771,702 million (USD 3,165 million) as at December 31, 2017, as compared to LBP 4,486,388 million (USD 2,976 million) as at December 31, 2016, reflecting a year-on-year increase of 6.36%.

For the last years, the Bank's customers' deposits constituted the main portion of the Bank's total liabilities, representing 92.47 % of total liabilities in 2017 and 93.54% of total liabilities in 2016. In addition, as a percentage of total assets, total customers' deposits represented 82.84%, and 84.81% in 2017 and 2016, respectively.

The following table shows the level of the Bank's total liabilities as at December 31, 2017, 2016 and 2015, respectively:

	As at December 31,					
	2017		2016		2015	
Liabilities	**Amount**	**% of Total**	**Amount**	**% of Total**	**Amount**	**% of Total**
	(LBP million)	*(Percent)*	*(LBP million)*	*(Percent)*	*(LBP million)*	*(Percent)*
Due to banks and financial institutions	297,631	5.77%	168,350	3.51%	242,189	5.28%
Deposits from customers and related parties	4,771,702	92.47%	4,486,388	93.54%	4,261,464	92.90%
Current tax liabilities	4,071	0.08%	15,475	0.32%	4,840	0.10%
Other liabilities	76,876	1.49%	61,179	1.28%	71,987	1.57%
Provisions	9,770	0.19%	64,745	1.35%	6,868	0.15%
Total liabilities	**5,160,050**		**4,796,137**		**4,587,349**	

Shareholders' Equity and Capital Adequacy

The Bank's total regulatory capital amounted to LBP 575,982 million (USD 382 million) as at December 31, 2017 as compared to LBP 435,480 million (USD 288 million) as at December 31, 2016.

The following table sets forth the regulatory capital and total capital adequacy ratio for the years ended December 31, 2017, 2016 and 2015, respectively:

	As at December 31,		
	2017	**2016**	**2015**
	(LBP million)	*(LBP million)*	*(LBP million)*
Share capital - common shares	142,300	112,119	112,119
Share premium - common shares	17,274	17,274	17,274
Cash contribution to capital	10,854	10,854	10,854
Capital reserves	164,480	132,232	98,935
Retained earnings *	51,336	61,145	40,617
Non-controlling interest	-	-	38
Less:			
Goodwill	-	-	(9,728)
Intangible assets	(690)	(524)	(1,250)
100% Fair value reserve of financial assets at FVTOCI - loss	(148)	(134)	(124)
Translation reserve	-	(5,635)	(21,790)
Regulatory adjustment due to investments in associates out of consolidation scope **	-	(36,297)	-
Net Common Equity - Tier 1	**385,404**	**291,034**	**246,945**
Share capital - preferred shares	62,500	47,500	47,500
Share premium - preferred shares	125,937	95,712	95,712
Net Tier 1 Capital	**573,842**	**434,247**	**390,158**
50% Fair value reserve of financial assets through OCI - gain	2,140	1,233	66
Tier 2 Capital	**2,140**	**1,233**	**66**
Total regulatory capital	**575,982**	**435,480**	**390,223**
Net Common Equity Tier 1 Ratio	**10.90%**	**8.77%**	**8.09%**
Net Tier 1 Capital Ratio	**16.23%**	**13.09%**	**12.78%**
Capital adequacy ratio	**16.29%**	**13.13%**	**12.79%**

As at December 31, 2017, the Bank's consolidated capital adequacy ratio was 16.29% compared to 13.13% as at December 31, 2016.

* 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.

SELECTED STATISTICAL FINANCIAL DATA

Loans Portfolio

As at December 31, 2017, the Bank's loans and advances to customers portfolio reached LBP 2,717,204 million (USD 1,802 million), as compared to LBP 2,739,272 million (USD 1,817 million) as at December 31, 2016, reflecting a year-on-year decrease of 0.81%.

Aggregate loans made by the entire Lebanese banking sector grew by 2.0% as at December 31, 2016, compared to December 31, 2015.

The Bank's loans are denominated in both Lebanese Pounds (34.98 % and 39.99% of total loans as at December 31, 2017 and 2016, respectively) and foreign currencies (65.02% and 60.01% of total loans as at December 31, 2017 and 2016, respectively), principally in U.S. Dollars.

The Bank's short-term loans and facilities include overdrafts and other working capital facilities, such as export and import related financing, consumer credits and bills discounting. The Bank's borrowers are spread over a range of economic sectors and industries. Virtually all of the lending facilities extended by the Bank carry variable interest rates, are revolving overdraft facilities granted for a period of one year, renewable on a yearly basis.

The ratio of the Bank's net loans to total assets was 47.17 % as at December 31, 2017, compared to 51.78 % as at December 31, 2016. The Bank's loan-to-deposit ratio was 56.94 % as at December 31, 2017, compared to 61.06 % as at December 31, 2016, and compared to average ratios for the banking sector of 38.36 % as at December 31, 2016.

Breakdown of the Bank's loans by Nature of Borrower

The following table sets out the composition of the Bank's loans portfolio, by the nature of borrower, as well as the percentage changes therein, as at December 31, 2017, December 31, 2016 and December 31, 2015 respectively:

	As at December 31,				
	2017	**2016**	**2015**	**2016/2017**	**2015/2016**
	(LBP million) *(Percentage of total loan portfolio)*	*(LBP million)* *(Percentage of total loan portfolio)*	*(LBP million)* *(Percentage of total loan portfolio)*	*(Percentage change)*	*(Percentage change)*
Retail	657,620	635,019	640,997	3.56%	-0.93%
	24.20%	*23.18%*	*25.24%*		
Corporate	2,059,584	2,104,253	1,898,249	-2.12%	10.85%
	75.80%	*76.82%*	*74.76%*		
Total	**2,717,204**	**2,739,272**	**2,539,247**		

As at December 31, 2017, corporate lending amounted to LBP 2,059,584 million(USD 1,366 million) , representing 75.80 % of the total loans, as compared to LBP 2,104,253 million and 76.82 % of the total loans, as at December 31, 2016.

The Retail lending amounted to LBP 657,620 million (USD 436 million), representing 24.20 % of the total loans portfolio as at December 31, 2017, as compared to LBP 635,019 million(USD 421 million), representing 23.18 % of the total loans portfolio as at December 31, 2016.

Distribution of the Bank's Loans by Industry

The following table sets out the composition of the Bank's loans portfolio, by the borrower's economic activity, as well as the percentage changes therein, as at December 31, 2017, December 31, 2016 and December 31, 2015 respectively:

	As at December 31,				
	2017	2016	2015	2016/2017	2016/2015
	(LBP million) (Percentage of total loan portfolio)	*(LBP million) (Percentage of total loan portfolio)*	*(LBP million) (Percentage of total loan portfolio)*	*(Percentage change)*	*(Percentage change)*
Com. and trade	783,656 *28.84%*	859,963 *31.39%*	725,792 *28.58%*	-8.87%	18.49%
Construction	705,311 *25.96%*	664,097 *24.24%*	565,774 *22.28%*	6.21%	17.38%
Retail	594,751 *21.89%*	579,907 *21.17%*	625,622 *24.64%*	2.56%	-7.31%
Industry	284,720 *10.48%*	270,098 *9.86%*	290,716 *11.45%*	5.41%	-7.09%
Financial activities	168,312 *6.19%*	184,604 *6.74%*	145,992 *5.75%*	-8.83%	26.45%
Other	170,909 *6.29%*	142,696 *5.21%*	142,517 *5.61%*	19.77%	0.13%
Agriculture	9,546 *0.35%*	37,906 *1.38%*	42,834 *1.69%*	-74.82%	-11.51%
Total	**2,717,204**	**2,739,272**	**2,539,247**	**-0.81%**	**7.88%**

Commerce and trade loans constituted 28.84% of total loans as at December 31, 2017, compared to 31.39% as at December 31, 2016 and to 28.58% as at December 31, 2015.

Construction loans constituted 25.96% of total loans as at December 31, 2017, compared to 24.24% as at December 31, 2016 and to 22.28% as at December 31, 2015.

The Bank's retail, industrial, financial activities and agriculture loans comprised 21.89%, 10.48%, 6.19% and 0.35% of total loans, respectively, as at December 31, 2017, compared to 21.17%, 9.86%, 6.74% and 1.38% of total loans, respectively, as at December 31, 2016, and to 24.64%, 11.45%, 5.75% and 1.69% of total loans, respectively, as at December 31, 2015.

Loans by size

The following table sets out the composition of the Bank's loans portfolio, by size of loan, as well as the percentage changes therein, excluding loans loss provisions and including acceptances, as at December 31, 2017, 2016, and 2015, respectively:

	As at December 31,		
	2017	**2016**	**2015**
	(LBP million) (Percentage of total loan portfolio)	*(LBP million) (Percentage of total loan portfolio)*	*(LBP million) (Percentage of total loan portfolio)*
Up to LBP 750 Million	691,375 *24.13%*	658,511 *23.49%*	744,034 *28.62%*
Between LBP 750 & 4,500 Million	441,422 *15.40%*	406,978 *14.51%*	442,290 *17.01%*
Between LBP 4,500 & 30,000 Million	1,212,507 *42.31%*	1,153,025 *41.12%*	998,441 *38.40%*
Between LBP 30,000 & 150,000 Million	520,357 *18.16%*	585,406 *20.88%*	415,126 *15.97%*
Over LBP 150,000 Million	0 *0.00%*	0 *0.00%*	0 *0.00%*
Total	**2,865,661**	**2,803,920**	**2,599,892**

Loans by Currency

The following table sets out the composition of the Bank's loans portfolio, by currency, as well as the percentage changes therein, as at December 31, 2017, 2016, and 2015, respectively:

	As at December 31,		
	2017	**2016**	**2015**
	(LBP million) *(Percentage of total loan portfolio)*	*(LBP million)* *(Percentage of total loan portfolio)*	*(LBP million)* *(Percentage of total loan portfolio)*
In LBP	950,580	1,095,377	782,029
	34.98%	*39.99%*	*30.80%*
In foreign currency (mainly U.S.$)	1,766,624	1,643,895	1,757,218
	65.02%	*60.01%*	*69.20%*
Total	**2,717,204**	**2,739,272**	**2,539,247**

As at December 31, 2017, LBP 950,580 million (USD 631 million), representing 34.98 % of total loans, were denominated in Lebanese Pounds, with the remaining 65.02 %, denominated in foreign currencies, principally U.S. Dollars, compared to LBP 1,095,377 million (USD 727 million), and 39.99% of total loans, denominated in Lebanese Pounds and the remaining 60.01 % denominated in foreign currencies, principally U.S. Dollars as at December 31, 2016.

Loans in foreign currencies represented 61.62% of total foreign currency customers' deposits as at December 31, 2017, compared to 62.86% as at December 31, 2016, and compared to Lebanese banking sector average of 43.32 % as at December 31, 2016.

Loans by Maturity

The following table sets out the composition of the Bank's loans portfolio, by maturity, as well as the percentage changes therein, as at December 31, 2017, 2016 and 2015, respectively:

	As at December 31,					
	2017		**2016**		**2015**	
Loan portfolio by maturity	**Amount**	**% of Total**	**Amount**	**% of Total**	**Amount**	**% of Total**
	(LBP million)	*(Percent)*	*(LBP million)*	*(Percent)*	*(LBP million)*	*(Percent)*
Short term loans (<= one year)	1,094,452	40.28%	1,189,513	43.42%	1,001,816	39.45%
Medium and long term loans (> one year)	1,622,752	59.72%	1,549,759	56.58%	1,537,431	60.55%
Net loans	**2,717,204**		**2,739,272**		**2,539,247**	

As at December 31, 2017, the Bank's loans portfolio was divided between loans with a maturity of less than one year (40.28%) and loans with a maturity of over one year (59.72%).
As at December 31, 2016, the Bank's loans portfolio was divided between loans with a maturity of less than one year (43.42%) and loans with a maturity of over one year (56.58%).
As at December 31, 2015, the Bank's loans portfolio was divided between loans with a maturity of less than one year (39.45%) and loans with a maturity of over one year (60.55%).

Loans by Collateral

The following table sets out the composition of the Bank's loans portfolio, by type of collateral, as at December 31, 2017, 2016 and 2015, respectively:

	As at December 31,					
	2017		**2016**		**2015**	
	Amount	**% of Total**	**Amount**	**% of Total**	**Amount**	**% of Total**
	(LBP million)	*(Percent)*	*(LBP million)*	*(Percent)*	*(LBP million)*	*(Percent)*
Loans and advances - cash collateral	159,824	5.88%	236,163	8.62%	176,448	6.95%
Loans and advances - mortgage	1,578,413	58.09%	1,468,516	53.61%	1,431,079	56.36%
Loans and advances - marketable securities	92,173	3.39%	77,788	2.84%	99,378	3.91%
Loans and advances - personal guarantee and unsecured	886,794	32.64%	956,805	34.93%	832,342	32.78%
Total	**2,717,204**		**2,739,272**		**2,539,247**	
Secured loans as % of total loans	67.36%		65.07%		67.22%	

A significant proportion of the Bank's loans are secured or guaranteed. The types of security include cash collateral, mortgages over land and other property and securities (e.g., Lebanese treasury bills and debt and equity securities).

The value of the collaterals is calculated in accordance with applicable Central Bank and Banking Control Commission regulations.

Lending Policies and Procedures

Lending Limits

While Lebanese regulatory authorities impose no special lending limits relating to economic sectors on banks, Lebanese banks are subject to regulatory lending limits by reference to geographic sectors or countries, as well as to concentration limits with respect to loans granted to single or groups of related borrowers. In addition, the Bank has adopted a number of internal lending guidelines and procedures, which establish lending limits to ensure adequate portfolio diversification, including limits with respect to concentration within the portfolio of: (i) single borrowers; (ii) groups of related borrowers; (iii) economic sector; (iv) type of product and segment; (v) maturity of loans granted; (v) currency of loans granted; (vi) country and regional location of borrowers; and (vii) other credit risk mitigation factors.

Loan Approval Procedures

The Bank adopts a sophisticated method in its credit analysis, considering a wide range of factors for approving a loan. To that end, the Bank implements policies and follows strict procedures for credit review that include financial analysis and cash flow projections with respect to Corporate/SME customers and a credit assessment/scoring system for retail customers.

The Bank's credit or lending policy revolves around 4 main points, as follows:

A. Collecting information;
B. Analyzing information;
C. Decision making; and
D. Loan monitoring.

A- Collecting information:

The Bank currently uses the services of specialized external inquiry agencies, such as MM. Khalil Masri & Sons and MM. Paragon Consulting Group, which are dedicated to the Lebanese market. The Bank is keen to have profound knowledge of its potential customers prior to entering into a relationship with them.

B- Analyzing information:

For the Bank, the basic elements of a credit file are those outlined by the Banking Control Commission, in its Circular № 238/2002. The Bank requires basic information when opening a credit file, defined as Minimum Key Information (MKI).

A preliminary analysis also allows for a better understanding of customers and for a filtering of all potential customers, so as to make the process more focused and efficient. The more reliable and complete the information provided by the customer is, the more detailed will be the terms and conditions of the proposed facility. If additional information is provided after the beginning of the assessment process, the Bank will modify the terms of the facility accordingly. Any file that does not have the required MKI will not be studied by the Bank.

The Credit Division uses a specified data base when reviewing credit files, which includes the following:

- The number of files accepted versus the number of files received.
- Authorizations by amount and by sector.
- Utilizations by amount and by sector.
- Idle accounts.
- Unpaid accounts.
- Profitability by customers.

The above figures are included in the Bank's system and are compiled automatically.

The Bank would suspend a credit file if there is a deterioration of the credit risk or a non-utilization of the credit granted.

As part of the surveillance process, members of the Credit Division verify all lines of credit granted on a monthly basis, and would therefore notice all non-utilizations of credit and report such non-utilization to the head of the Credit Division, who has the authority to suspend the utilization of the facility prior to informing the debtor. There is a regular exchange of information between members of the Credit Committee and the heads of the Credit Divisions and the Risk Divisions.

In the first half of 2008, the Bank began to rate its commercial customers using a third party expert system (6 Sigma Risk Rating System) where financial, management, industry, and environment factors are all being weighted to produce a final rating for the customer.

Simultaneously, a credit risk strategy has been initiated through the implementation of the Basel II program, by means of which Target Market Criteria are being defined and Risk Acceptance Criteria are being set for each type of product program. A new credit grid is being developed where credit delegations are linked to ratings and exposures.

The Bank is in the process of developing an insight system that provides visibility of the global profitability of each customer. This system assesses profitability by business line such as Corporate Finance, Sales and Trading, Retail Banking, Commercial Banking, and Agency Services in accordance with Basel II requirements. This approach would suggest that every source of income of the Bank (interest, commission, etc.) should be allocated to a particular service. The analysis of profitability by customer will contribute to manage customer relations on a portfolio basis, permit the establishment of a more efficient pricing strategy, and eliminate unprofitable relations. The Bank also aims to develop its economic and sector analysis capabilities, as well as its decision making capacity according to utilization, maturity, products, etc.

C- Decision making:

The Bank established an Internal Credit Committee within each of the Credit Divisions of the Bank. These Committees include the head of the relevant Division, other members of the commercial banking and the person which assessed the file.

Other members of the Bank's Credit Committee may participate in these Internal Credit Committees, which meet once a week (sometimes more, depending on the volume of files). A credit file is approved by a majority vote of Internal Credit Committee members. The aim of such Committees is to quickly approve small credits and to therefore improve the efficiency and speed of the credit approval process.

The disposal of funds cannot take place before the customer file and analysis have been completed, the customer file has been approved by the Legal Division of the Bank, and the final approval of the relevant Internal Credit Committee has been granted.

The approval of the Bank's Credit Committee is required for commercial credit from USD 500,000 and up to 10% of equity, and for retail credit exceeding USD 300,000. The Bank's Credit Committee is made up of the following members:

- The Chairman - who is the President of the Committee;
- The Deputy General Manager heading the Commercial Division;
- The Assistant General Manager heading the Branch Network Division;
- The Head of Credit Assessment (CAS); and
- Invitee for fiduciary cases: The Head of Financial Institutions Department.

The Credit Committee meets weekly, although the frequency of meetings may change according to the volume of files. The quorum of the Credit Committee is achieved by the presence of three voting members. The presence of the President is compulsory. Decisions are taken by a majority vote, with the right of veto to the Chairman.

Credit files with amounts exceeding the limit granted to Internal Credit Committees must be passed on to the Bank's Credit Committee. For credit files with amounts falling within the limit of the Internal Credit Committees, the latter may take the decision to pass on the file to the Bank's Credit Committee.

The Audit Division of the Bank, as part of its credit control, must carry out the following tasks:

- Follow up and control the activity of the Internal Credit Committees of the different divisions as well as for the Bank's Credit Committee.
- Identify all irregularities and incoherence, file them and then submit them to the Board of Directors.
- Ensure there is sufficient risk control. Identify bad applications of policies and procedures, excessive tolerances in the system of authorization, insufficient credit analyses, weaknesses in the legal function, etc…
- Ensure there is sufficient administrative control. Identify bad organizations, negligence (mainly in the collection of collateral and its follow up), insufficient protection of values and guarantees, computer failures, the application of noncompliant conditions, etc.

The Bank's Asset Liability Committee (ALCO) has the responsibility of fixing the reference rate to the Bank's customers.

This Committee establishes the rate of reference on the basis of information provided by the Treasury and Finance Divisions. For a determined customer, the applicable rate is reviewed by the concerned Head of Division, who bases his decision on the proposition of the relationship manager, and on the global profitability of the account.

D- Loan monitoring:

The Bank formally reviews permanently its loans files at least once per year. In addition, the Bank's employees regularly follow-up all operations carried out by the debtors as well as other events and facts that might affect such debtors credit quality. Credit files, which are subject to renewals, are submitted to similar policies and procedures applied for new credit files. The renewal procedure is usually triggered one month before the credit file's deadline. The Bank believes that the continuous follow-up on credit files by Bank's employees, and the regular updating of these files, have reduced the time period of the information collection phase. File updating and follow up allows for faster decisions regarding credit file renewals.

Related Party Transactions

Transactions with related parties are governed by the Lebanese Code of Commerce, the Code of Money and Credit and Central Bank Decision N° 7776 dated February 21, 2001, as amended ("**Decision** N° **7776**") as well as Central Bank Basic Decision N° 11717 dated March 8, 2014 (**Decision** N°**11717**) and the BCC circular N° 279 dated October 20, 2014 (**Circular** N° **279**) which defined the level and scope of application of **Decision** N°**11717**, which collectively provide that a transaction with a related party must be formally authorized by a general meeting of the bank's shareholders and approved by the bank's Board of Directors. Decision N° 7776 as further amended on November 9, 2012 and Decision N°11717 provide that advances and credit facilities to directors, managers and companies having common directors with a bank may not exceed 2.0% of shareholders equity, 1.0% of which may be granted without having to meet the conditions specified in the Code of Money and Credit, including, among other things, the formal prior approval of the general meeting of the bank's shareholders. The Decision N°11717 also provides that the value of any cash collateral will be deducted from the aggregate value of credit facilities extended to related parties as defined in the Code of Money and Credit, Decision N° 7776 and Decision N°11717 and secured by such cash collateral only if such credit facilities bear interest at a market rate and not a preferential rate.
Decision N° 11717 further expands the list of related parties to include the following persons working in banks, their subsidiaries and partnership(s) in Lebanon and abroad: persons in charge of managerial offices including major shareholders of the bank, members of the Board of Directors, executive management (composed of the General Manager, the vice general managers and assistant general managers), the directors and holders of main administrative positions (i.e. any person who enjoys the quality or the rank of director and any person heading a department), the family members of all such persons who are dependents thereof, the institutions that are directly or indirectly related to such persons, as well as those borrowers whose debts are secured by any of the persons mentioned above.

Circular N° 279 set the basis according to which the above mentioned advances and credit facilities shall or not be included within the calculation of the 2.0% of shareholders equity, depending on the nature of such advances and credit facilities; said Circular also defined the guarantees that would result in reusing the overall amount of the advances and credit facilities from the calculation of aforementioned percentage.

Loans Classification and Provisioning

The Group rates its counterparties according to the six rating classes defined by the Central Bank and the Banking Control Commission of Lebanon 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.

In accordance with Central Bank Intermediary Decision N° 10711 dated April 27, 2011 all Lebanese banks are required to adopt in addition to the supervisory classification (which is required for the classification of performing and non-performing loans that mandates the establishment of provisions) its own loan grading system for purposes of managing its credit risk. All Lebanese banks must equate between the supervisory classification and loan grading system. The loan grading system must at a minimum grade the loans extended by the bank as follows:

Loan Grading System

1. Excellent
2. Strong
3. Good
4. Satisfactory
5. Adequate
6. Marginal
7. Vulnerable
8. Substandard
9. Doubtful
10. Loss

Lebanese banks must put in place an action plan for purposes of implementing the requirements of Intermediary Decision N° 10711 (including the adoption of their own loan grading system) before December 31, 2012 and inform the Banking Control Commission of the work progress.

The frequency of the Bank's review of loans is dependent upon the applicable classification and is conducted either on a monthly or a quarterly basis. Loans that are classified "regular accounts" or "accounts to be followed-up and regularised" are reviewed by the Bank on a quarterly basis, whereas loans that are classified as "non-performing accounts", "doubtful accounts" or "bad or ailing accounts" are reviewed on a monthly basis.

The Banking Control Commission retains the right to review periodically the entire loans portfolio of every bank and has power to impose provisions relating to loans if it assesses them as doubtful or inadequately secured. Since June 1996, the Central Bank has required banks to maintain on an annual basis, a general reserve (which is included in Tier 1 capital and charged against net profits) for unidentifiable risks in an amount equal to 0.2% of a bank's total risk weighted assets, as determined by reference to the Central Bank's capital adequacy requirements. This reserve is required to reach 1.25% of risk weighted assets after a period of ten years and 2% of risk weighted assets after 20 years. In addition to the Banking Control Commission's periodic reviews, the Bank's external auditors conduct an annual review of the Bank's loans portfolio in line with their given procedures.

Customer advances (other than consumer loans) receive a non-accrual status immediately if, in the opinion of the Bank's management, principal or interest is not likely to be paid in accordance with the terms of the loan agreement or when principal or interest is 90 days or more past due. Effective as of the date on which a loan receives a non-accrual status, interest income (including interest accrued but not collected) ceases to be accrued in the statement of income and is allocated as "unrealized interest". In comparison, the Central Bank considers a loan to be "non-performing" if partial or full provisions are required in respect thereof in accordance with the Central Bank's loan classification regulations (i.e. loans classified as "non-performing accounts", "doubtful accounts" or "bad or ailing accounts"). A non-performing loan must be provisioned for based on estimated losses and the value of any collateral.
Specific provisions are also made against loans and off-statement of financial position items based on the Bank's management on-going assessment of the Bank's credit exposure, prevailing and anticipated domestic and international economic conditions, the current and projected financial status and creditworthiness of borrowers, certain off-statement of financial position credit risks, the nature and level of non-performing loans identified as potential problems, past and expected loss experience and other factors deemed relevant by management. A major factor in determining the level of specific provisions is the adequacy of collateral (i.e. where the Bank provides for the difference between the amount of the non-performing loan and the current value of the real collateral).

Certain accounts exhibiting the characteristics listed below are classified as special accounts. Any account classified as a special account will have its file placed directly under the supervision and responsibility of the Collection and Recovery Department for closer monitoring and closure of the account if warranted.

Special accounts are accounts meeting any of the following criteria:

- The account is always at its overdraft limit, implying that the customer may be facing difficulties of funding, or may be using short-term funding for long-term purposes.
- The account has a low volume and turnover during the fiscal year.
- The account is in default on three consecutive instalment dues.
- The account has exceeded its allowed borrowing limit.

The following tables show the breakdown of the Bank's loan portfolio (gross and net) over the last three years:

		As at December 31,					
		2017		2016		2015	
Class	**Gross Loans**	**Amount**	**% of Total**	**Amount**	**% of Total**	**Amount**	**% of Total**
		(LBP million)	*(Percent)*	*(LBP million)*	*(Percent)*	*(LBP million)*	*(Percent)*
1 & 2	Good loans	1,862,825	64.32%	1,889,209	66.67%	1,890,832	72.20%
3	Watch loans	774,983	26.76%	776,380	27.40%	558,244	21.32%
4	Substandard loans	57,993	2.00%	30,363	1.07%	13,122	0.50%
5	Doubtful loans	184,842	6.38%	124,188	4.38%	144,854	5.53%
6	Bad loans	15,349	0.53%	13,385	0.47%	11,675	0.45%
	Total gross loans	**2,895,991**		**2,833,524**		**2,618,727**	

		As at December 31,					
		2017		2016		2015	
Class	**Net Loans**	**Amount**	**% of Total**	**Amount**	**% of Total**	**Amount**	**% of Total**
		(LBP million)	*(Percent)*	*(LBP million)*	*(Percent)*	*(LBP million)*	*(Percent)*
1 & 2	Good loans	1,851,783	68.16%	1,883,899	68.77%	1,883,955	74.19%
3	Watch loans	737,219	27.13%	775,565	28.31%	557,380	21.95%
4	Substandard loans	52,433	1.93%	26,637	0.97%	9,874	0.39%
5	Doubtful loans	75,769	2.79%	53,171	1.94%	88,038	3.47%
6	Bad loans	0	N/S	0	N/S	1	N/S
	Total net loans	**2,717,204**		**2,739,272**		**2,539,247**	

Classified loans and Loan Loss Provision:

The following table sets out the distribution details of the classified loans for the last three years, as well as the loan loss provisioned:

	As at December 31,		
	2017	**2016**	**2015**
Provisioning and Coverage ratio	*(LBP million)*	*(LBP million)*	*(LBP million)*
Classification 4 loans (Substandard loans)	57,993	30,363	13,122
Classification 5 & 6 loans (Doubtful and Bad loans)	200,190	137,573	156,529
Total classified loans	**258,183**	**167,936**	**169,651**
Specific and collective provisions for loan losses	77,863	57,111	53,996
Reserved interest (Substandard loans)	4,484	2,417	2,065
Reserved interest (Doubtful and Bad loans)	47,634	34,724	23,419
Total provisions	**129,981**	**94,252**	**79,480**
	(Percent)	*(Percent)*	*(Percent)*
Classified loans (4) / Total gross loans	2.00%	1.07%	0.50%
Classified loans (5 & 6) / Total gross loans	6.91%	4.86%	5.98%
Total classified / Total gross loans	**8.92%**	**5.93%**	**6.48%**
NPL provisions / Non-performing loans	50.34%	56.12%	46.85%

The quality of the Bank's loans and advances is measured by the following ratio: total ratio of classified loans (substandard + non-performing loans) to gross loans 8.92 % in 2017, 5.93 % in 2016, and 6.48% in 2015.

Financial instruments at fair value

The following table sets out the composition of the Bank's portfolio of other comprehensive income financial instruments and of profit or loss financial instruments, by type therein, as at December 31, 2017, 2016 and 2015, respectively:

As at December 31, 2017	**Level 1**	**Level 2**	**Level 3**	**Total**
	(LBP million)	*(LBP million)*	*(LBP million)*	*(LBP million)*
Financial instruments at fair value through profit or loss	3,318	9,829	-	13,148
Financial instruments at fair value through other comprehensive income	459	4,595	-	5,055
Shares acquired in settlement of debt at fair value through profit or loss	-	110,626	-	110,626
	3,778	**125,050**	**-**	**128,828**

As at December 31, 2016	**Level 1**	**Level 2**	**Level 3**	**Total**
	(LBP million)	*(LBP million)*	*(LBP million)*	*(LBP million)*
Financial instruments at fair value through profit or loss	68,498	7,768	-	76,266
Financial instruments at fair value through other comprehensive income	464	4,589	-	5,053
Shares acquired in settlement of debt at fair value through profit or loss	-	100,051	-	100,051
	68,962	**112,408**	**-**	**181,370**

As at December 31, 2015	**Level 1**	**Level 2**	**Level 3**	**Total**
	(LBP million)	*(LBP million)*	*(LBP million)*	*(LBP million)*
Financial instruments at fair value through profit or loss	34,806	73,947	-	108,752
Financial instruments at fair value through other comprehensive income	829	3,083	115	4,027
Shares acquired in settlement of debt at fair value through profit or loss	-	89,987	-	89,987
	35,634	**167,017**	**115**	**202,766**

<u>Note:</u>

- ***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.*

Financial instruments at fair value through profit or loss

The following table sets out the composition of the Bank's portfolio of financial instruments at fair value through profit or loss, by type, and the percentage changes therein, as at December 31, 2017, 2016 and 2015, respectively:

	As at December 31,				
	2017	**2016**	**2015**	**2016/2017**	**2015/2016**
	(LBP million)	*(LBP million)*	*(LBP million)*	*(Percentage change)*	*(Percentage change)*
Government treasury bills and eurobonds	8,205	50,147	57,965	*-83.64%*	*-13.49%*
Certificates of deposit	2,145	21,245	44,736	*-89.90%*	*-52.51%*
Funds	1,598	2,638	2,638	*-39.44%*	*0.00%*
Interest receivable	160	969	2,061	*-83.45%*	*-52.99%*
Debt securities	**12,108**	**74,999**	**107,400**	***-83.85%***	***-30.16%***
Equity securities	**1,039**	**1,267**	**1,353**	***-17.93%***	***-6.35%***
Total	**13,148**	**76,266**	**108,752**	***-82.76%***	***-29.87%***

The following tables set out the composition of the Bank's portfolio of certificates of deposit issued by the Central Bank, treasury bills and bonds and corporate bonds, which comprise the major portion of the Bank's financial instruments at fair value through profit or loss, by maturity and currency, exclusive of accrued interest and interest received in advance, as at December 31, 2017, 2016, and 2015, respectively:

	As at December 31, 2017			**As at December 31, 2016**			**As at December 31, 2015**		
	In LBP	**In Foreign Currency**	**Total**	**In LBP**	**In Foreign Currency**	**Total**	**In LBP**	**In Foreign Currency**	**Total**
Government Treasury Bills and Eurobonds		*(LBP million)*			*(LBP million)*			*(LBP million)*	
Less than one year	-	-	**-**	1,793	1,583	**3,376**	-	641	**641**
Between 1 & 2 years	-	103	**103**	-	-	**-**	2,135	31	**2,165**
Between 2 & 3 years	-	8	**8**	-	-	**-**	-	-	**-**
Between 3 & 4 years	-	-	**-**	-	7	**7**	-	-	**-**
Between 4 & 5 years	5,718	-	**5,718**	-	-	**-**	-	8	**8**
Between 5 & 7 years	1,481	-	**1,481**	3,528	4,296	**7,824**	-	-	**-**
Between 7 & 10 years	896	-	**896**	2,278	25,374	**27,652**	32,912	5,371	**38,283**
Over 10 years	-	-	**-**	-	11,287	**11,287**	-	16,868	**16,868**
Total	**8,095**	**110**	**8,205**	**7,600**	**42,548**	**50,147**	**35,047**	**22,917**	**57,965**
Certificates of deposit									
Less than one year	-	-	**-**	-	-	**-**	-	-	**-**
Between 1 & 2 years	-	-	**-**	-	-	**-**	-	-	**-**
Between 2 & 3 years	-	-	**-**	-	-	**-**	-	-	**-**
Between 3 & 4 years	-	-	**-**	-	-	**-**	-	-	**-**
Between 4 & 5 years	-	-	**-**	-	-	**-**	-	-	**-**
Between 5 & 7 years	-	-	**-**	-	-	**-**	-	-	**-**
Between 7 & 10 years	-	-	**-**	-	-	**-**	-	7,555	**7,555**
Over 10 years	-	2,145	**2,145**	-	21,245	**21,245**	37,181	-	**37,181**
Total	**-**	**2,145**	**2,145**	**-**	**21,245**	**21,245**	**37,181**	**7,555**	**44,736**
Funds									
Less than one year	-	844	**844**	-	1,884	**1,884**	-	-	**-**
Between 1 & 2 years	-	-	**-**	-	-	**-**	-	1,884	**1,884**
Between 2 & 3 years	-	754	**754**	-	-	**-**	-	754	**754**
Between 3 & 4 years	-	-	**-**	-	754	**754**	-	-	**-**
Total	**-**	**1,598**	**1,598**	**-**	**2,638**	**2,638**	**-**	**2,638**	**2,638**

Financial instruments at amortised cost

The following table sets out the composition of the Bank's portfolio of financial instruments at amortised cost, by type, and the percentage changes therein, as at December 31, 2017, 2016 and 2015, respectively:

	As at December 31,				
	2017	2016	2015	2016/2017	2015/2016
	(LBP million)	*(LBP million)*	*(LBP million)*	*(Percentage change)*	*(Percentage change)*
Government treasury bills and eurobonds	129,564	225,079	50,291	*-42.44%*	*347.56%*
Certificates of deposit	116,078	70,853	803,457	*63.83%*	*-91.18%*
Funds and corporate bonds	9,045	2,611	3,293	*246.43%*	*-20.71%*
Interest receivable	3,539	1,403	20,569	*152.35%*	*-93.18%*
Debt securities	**258,226**	**299,945**	**877,610**	***-13.91%***	***-65.82%***

The following tables set out the composition of the Bank's portfolio of financial instruments at amortised cost, by type, maturity and currency, exclusive of accrued interest and interest received in advance, as at December 31, 2017, 2016 and 2015, respectively:

	As at December 31, 2017			As at December 31, 2016			As at December 31, 2015		
	In LBP	In Foreign Currency	Total	In LBP	In Foreign Currency	Total	In LBP	In Foreign Currency	Total
Government Treasury Bills and Eurobonds		*(LBP million)*			*(LBP million)*			*(LBP million)*	
Less than one year	-	-	-	190,899	3,032	**193,932**	20,138	208	**20,346**
Between 1 & 2 years	-	-	-	-	-	-	4,964	3,055	**8,018**
Between 2 & 3 years	-	7,704	**7,704**	-	-	-	-	-	-
Between 3 & 4 years	-	-	-	-	-	-	-	-	-
Between 4 & 5 years	17,660	7,705	**25,365**	5,000	9,948	**14,948**	-	-	-
Between 5 & 7 years	24,078	13,963	**38,041**	16,200	-	**16,200**	-	10,159	**10,159**
Between 7 & 10 years	43,475	7,571	**51,046**	-	-	-	-	9,899	**9,899**
Over 10 years	-	7,409	**7,409**	-	-	-	-	1,868	**1,868**
Total	**85,213**	**44,352**	**129,564**	**212,099**	**12,980**	**225,079**	**25,102**	**25,189**	**50,291**
Certificates of Deposit									
Less than one year	-	-	-	-	-	-	-	-	-
Between 1 & 2 years	-	-	-	-	-	-	-	-	-
Between 2 & 3 years	-	-	-	-	-	-	-	-	-
Between 3 & 4 years	-	-	-	-	-	-	-	-	-
Between 4 & 5 years	-	-	-	-	-	-	-	-	-
Between 5 & 7 years	-	-	-	-	-	-	-	-	-
Between 7 & 10 years	-	-	-	-	-	-	-	-	-
Over 10 years	-	116,078	**116,078**	-	70,853	**70,853**	777,830	25,628	**803,457**
Total	**-**	**116,078**	**116,078**	**-**	**70,853**	**70,853**	**777,830**	**25,628**	**803,457**
Funds & Corporate Bonds									
Less than one year	-	754	**754**	-	-	-	-	640	**640**
Between 1 & 2 years	-	-	-	-	754	**754**	-	-	-
Between 2 & 3 years	-	754	**754**	-	-	-	-	16	**16**
Between 3 & 4 years	-	-	-	-	965	**965**	-	-	-
Between 4 & 5 years	-	-	-	-	-	-	-	616	**616**
Between 5 & 7 years	-	-	-	-	893	**893**	-	-	-
Between 7 & 10 years	-	7,538	**7,538**	-	-	-	-	2,021	**2,021**
Total	**-**	**9,045**	**9,045**	**-**	**2,611**	**2,611**	**-**	**3,293**	**3,293**

Sources of Funds

Customer deposits represent the principal source of the Bank's funding. The Bank is aiming at diversifying funding sources by issuing equity securities such as preferred shares or other financial instruments, but will continue to rely on deposits for funding. Customer deposits have accounted for 82.84 % of total assets as at December 31, 2017.

Savings and term deposits accounted for 87.92 % of total customer deposits as at December 31, 2017. Other sources of funds include inter-bank deposits, Proparco, and BDL circular 313 borrowings.

The following table sets out a breakdown of the Bank's sources of funding (other than shareholders' equity), as at December 31, 2017, 2016 and 2015, respectively:

	As at December 31,				
	2017	2016	2015	2016/2017	2015/2016
	(LBP million)	*(LBP million)*	*(LBP million)*	*(Percentage change)*	*(Percentage change)*
Due to banks and financial institutions:					
Current deposits	1,533	5,392	4,540	-71.58%	18.79%
Term deposits	35,783	25,514	98,262	40.25%	-74.03%
Due to Central Banks	140,953	105,151	87,902	34.05%	19.62%
Due to Central Bank of Lebanon against pledged treasury bills	93,650	-	-	N/A	N/A
Loans from banks and financial institutions	-	-	11,230	N/A	-100.00%
Loans granted from the European Investment Bank	4,213	5,847	7,408	-27.95%	-21.07%
Loan granted from Proparco	19,186	24,668	30,150	-22.22%	-18.18%
Interest payable	2,312	1,777	2,698	30.08%	-34.13%
Total	**297,631**	**168,350**	**242,189**	**76.79%**	**-30.49%**
Deposits from customers and related parties:					
Savings	1,180,999	1,358,639	1,651,602	-13.07%	-17.74%
Term deposits	3,014,203	2,427,266	1,940,947	24.18%	25.06%
Current deposits	248,267	263,368	274,060	-5.73%	-3.90%
Deposits under fiduciary contracts	39,032	36,180	60,003	7.88%	-39.70%
Net creditor and cash collateral against debtor accounts	229,739	357,443	289,449	-35.73%	23.49%
Margins on letter of credits	6,778	4,578	4,608	48.07%	-0.64%
Interest payable	31,989	28,128	26,474	13.72%	6.25%
Deposits from related parties	20,695	10,784	14,321	91.91%	-24.70%
Total	**4,771,702**	**4,486,388**	**4,261,464**	**6.36%**	**5.28%**

Customer deposits

The growth of the Bank's customer deposits has been on a steady rise for the last years.

Customer deposits generally represent the principal source of the Bank's funding and, as at December 31, 2017 and 2016, comprised 82.84 % and 84.81 % of the Bank's total assets, respectively.

Total customer deposits increased by 6.36 % to LBP 4,771,702 million as at December 31, 2017 from LBP 4,486,388 million as at December 31, 2016.

Customer deposits by type of deposit

As at each of December 31, 2017 and 2016, term deposits, represented the largest portion of the Bank's customer deposits (63.17% and 54.1%, respectively, of total deposits); savings accounts represented 24.75% and 30.28%, respectively, of total deposits and current deposits, which earn the minimum balance rate offered by the Bank, represented 5.20%, and 5.87%, respectively, of total deposits.

Customer deposits by currency

The following table sets out the composition of the Bank's customer deposits by currency, as well as the percentage changes therein, as at December 31, 2017, 2016, and 2015, respectively:

	As at December 31,				
	2017	2016	2015	2016/2017	2015/2016
	(LBP million) (Percentage of customer deposits)	*(LBP million) (Percentage of customer deposits)*	*(LBP million) (Percentage of customer deposits)*	*Percentage Change*	*Percentage Change*
In LBP	1,904,795	1,871,019	1,771,266	1.81%	5.63%
	39.92%	*41.70%*	*41.56%*		
In foreign currency (mainly USD)	2,866,907	2,615,369	2,490,198	9.62%	5.03%
	60.08%	*58.30%*	*58.44%*		
Total	**4,771,702**	**4,486,388**	**4,261,463**	**6.36%**	**5.28%**

Customer deposits denominated in foreign currencies, principally U.S. Dollars, constituted 60.08%, 58.30 %, and 58.44 % of total deposits as at December 31, 2017, 2016 and 2015, respectively. Foreign currency deposits, which are primarily comprised of time deposits and savings accounts, increased by 5.03% between 2015 and 2016 and by 9.62% between 2016 and 2017.

Deposits denominated in Lebanese Pounds increased by 1.81 % in 2017 and constituted 39.92 % of total deposits at December 31, 2017.

Customer Deposits by Size

The table below sets out the composition of the Bank's customer deposits, by the size of the deposit, as well as the percentage changes therein, as at December 31, 2017, 2016 and 2015, respectively:

	As at December 31,				
	2017	**2016**	**2015**	**2016/2017**	**2015/2016**
	(LBP million) (Percentage of customer deposits)	*(LBP million) (Percentage of customer deposits)*	*(LBP million) (Percentage of customer deposits)*	*(Percentage Change)*	*(Percentage Change)*
Up to LBP 750 Million	1,693,704	1,539,430	1,515,515	10.02%	1.58%
	35.49%	*34.31%*	*35.56%*		
Between LBP 750 & 4,500 Million	1,417,035	1,278,675	1,129,948	10.82%	13.16%
	29.70%	*28.50%*	*26.52%*		
Between LBP 4,500 & 30,000 Million	1,129,856	1,220,547	1,106,304	-7.43%	10.33%
	23.68%	*27.21%*	*25.96%*		
Between LBP 30,000 & 150,000 Million	225,283	270,603	247,405	-16.75%	9.38%
	4.72%	*6.03%*	*5.81%*		
Over LBP 150,000 Million	305,824	177,133	262,292	72.65%	-32.47%
	6.41%	*3.95%*	*6.15%*		
Total	**4,771,702**	**4,486,388**	**4,261,464**	**6.36%**	**5.28%**

The Bank's customer deposits are comprised principally of deposits up to LBP 750 million, which accounted for 35.49 % of total deposits as at December 31, 2017, 34.31 % of total deposits as at December 31, 2016, and 35.56% of total deposits as at December 31, 2015.

Eurobonds and Euro-Certificates of Deposit

As at the date of this Offering Circular, the Bank has not issued Eurobonds or Euro-certificates of deposits, and has relied mainly on customers and inter-banks deposits for funding of banking activities.

Other Sources of Funding

The Bank only has customers and inter-banks deposits as main sources of funds. Proparco and BDL circular 313 borrowings provide funding for the Bank. Also, the Central Bank may, if necessary, provide additional liquidity in the Lebanese banking sector by discounting TBs, thereby effectively acting as a lender of last resort.

Assets and Liabilities Management

The purpose of assets and liabilities management is to monitor and control the size and concentration of risk arising from liquidity, interest rate sensitivity, exchange rate exposure, credit and other risks. The Bank's Asset-Liability Committee (ALCO) (see ***"Management – Bank Committees"***) supervises assets and liabilities management to ensure compliance with applicable Central Bank's regulation including *inter alia* those relating to reserve requirements and foreign exchange trading. See "***The Banking Sector and Banking Regulation in the Lebanese Republic***."

Regarding foreign exchange risk, ALCO sets limits on the level of exposure the Bank is permitted to take by currency and in total both for overnight and intra-day positions. These limits are in line with applicable laws and regulations set out by the Central Bank. As a consequence, in common with all other banks in Lebanon, currency mismatches are virtually non-existent at the Bank.

Hedging the liquidity risk is the responsibility of ALCO. The Bank's policy is to maintain a sufficiently high liquidity ratio to counter any liquidity problem. The Bank had a liquidity ratio (defined as Net liquid assets to total customers' deposits) of 41.26 % as at December 31, 2017 as compared to 33.57 % as at December 31, 2016, and a loans to deposits ratio of 56.94 % as at December 31, 2017 as compared to 61.06 % as at December 31, 2016.

Furthermore, in line with all banks in Lebanon, the Bank suffers from maturity discrepancies. Although deposit funding is usually short-term in nature as compared to most assets including government debt securities, it is substantially recurrent and stable. In addition, the Bank manages such maturity discrepancies and mitigates resulting interest rates risk, liquidity risk, and maturity gaps, by maintaining a high level of liquidity, exercising (through ALCO) regular re-pricing to ensure the best use of available funds while minimizing risk, and using other traditional hedging techniques.

The Bank hedges itself against credit risk through its conservative lending policy and the diversification of its lending activities, avoiding concentrations of credit risk with a particular individual, group of customers, or a specific business sector. Furthermore, the Bank controls its credit risk exposure by regularly monitoring, through its credit committees, the creditworthiness of its clients and the appropriate collateral to be secured. See ***"Management – Bank Committees"***

Interest Rate Sensitivity and Liquidity

As December 31, 2017, 97.03% of total loans portfolio of the Bank was made at variable interest rates compared to 97.27% of total loans portfolio as at December 31, 2016. Customer deposits account for the principal source of the Bank's funding, as reflected by the customers deposits/total assets ratio of around 82.84 % as at December 31, 2017.

Property and Plant

The following table sets forth the property, plant and equipment owned by the Bank for the years ended December 31, 2017, 2016 and 2015:

	2017			
In thousands of Lebanese Pound	**Land & bulidings**	**Furniture & equipment**	**Work in progress**	**Total**
Cost	70,998,510	53,544,905	10,651,980	135,195,395
Accumulated depreciation	8,799,500	26,894,466	—	35,693,966
Carrying amounts	**62,199,010**	**26,650,439**	**10,651,980**	**99,501,429**

	2016			
In thousands of Lebanese Pound	**Land & bulidings**	**Furniture & equipment**	**Work in progress**	**Total**
Cost	44,249,021	49,565,615	9,730,920	103,545,556
Accumulated depreciation	7,933,867	25,493,597	—	33,427,464
Carrying amounts	**36,315,154**	**24,072,018**	**9,730,920**	**70,118,092**

	2015			
In thousands of Lebanese Pound	**Land & bulidings**	**Furniture & equipment**	**Work in progress**	**Total**
Cost	55,817,317	53,144,814	3,484,875	112,447,006
Accumulated depreciation	9,040,238	26,732,695	—	35,772,933
Carrying amounts	**46,777,079**	**26,412,119**	**3,484,875**	**76,674,073**

It is to be noted that the property, plant and equipment decreased between 2015 and 2016 due to the deconsolidation done with ID Bank CJSC (Previously Anelik Bank CJSC), resulting in the removal of their assets.

Risk Management

Introduction

With the banking sector being exposed to numerous pressures and various risks, Creditbank has introduced a series of 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 policies 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, Creditbank Board Committee on Risk Management provides a solid governance framework supervising risk management. All risk-related policies and risk mitigation 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 Internal Capital Adequacy Assessment Process (ICAAP), an internal assessment procedure regarding risk management and capital quality that aims to steer the Bank through adverse economic scenarios and cover all risks to which it is exposed.

The Total Capital Adequacy Ratio stood at 16.29% as at December 31, 2017 compared to a regulatory minimum of 14.5% end of 2017. Tier 1 Equity Ratio stood at 16.23% compared to a regulatory minimum of 12% and Common Equity Ratio stood at 10.9% compared to a regulatory minimum of 9% (All regulatory limits include the capital conservation buffer).

A. Risk Management Function

The Risk Management Function follows the rules and regulations set by the Central Bank of Lebanon and Basel Committee guidelines in the Core Principles for Effective Banking Supervision (September 2012) and the International Convergence of Capital Measurement and Capital Standards 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 in the Bank’s activities.

In 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 (IRB) to calculate Expected Credit Loss for credit risk.

Capital management is addressed in 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 function 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.

B. Risk Management Framework

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

1. Credit Risk

The Bank studies the borrower’s profile, repayment sources, underlying collateral and many other factors to determine and monitor credit risk.

The Bank controls its credit exposure by setting limits that are in line with rules and regulations to one borrower, a group of borrowers and/or to economic sectors. Such limits are continuously monitored.

Credit risk exposure is managed through regular analysis of the ability of obligors to meet capital and interest repayment obligations and by obtaining collateral and/or guarantees and by assessing obligor’s collateral’s eligibility to mitigate the gross credit risk exposure.

The Bank’s Internal Credit Risk Rating System allows it to analyse and rate the many conditions related to each obligor and determine the probability of default, an analysis of eligible collaterals and/or guarantee 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.

The concentration of credit risk is analysed by Client/Group, by economic sectors, by Collateral Type and by Geographical Location.

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.

The Bank developed a Liquidity Risk Management Policy and Contingency Funding Plan (CFP) to manage and monitor the liquidity on a daily basis. The liquidity position is assessed using various scenarios and stress tests that may impact the Immediate Liquidity Ratio.

The liquidity ratio of the Bank for all currencies was at 41.26 % as at end year 2017 compared to 33.57% as at end year 2016.

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.

4. Market Risk

Market risk at the Bank arises from open positions in interest rates (related to debt instruments that are being traded), and equity instruments (classified at Fair Value through Profit or Loss - FVTPL), all of which are exposed to general and specific market movements, in addition to currency risk due from open positions.

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.

5. Operational Risk

Operational Risk Management (ORM) is a continual process that consists of six stages: risk identification, assessment, control analysis, mitigation decision, mitigation implementation, supervision and review. This cycle enhances control for all of the Bank's processes, existing and new products, activities and systems.

The framework for collecting, managing and controlling operational 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.

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.

OVERVIEW OF THE BANK

Credit Bank SAL الاعتماد المصرفي ش.م.ل was incorporated in 1981, as a Lebanese joint stock company. The Bank was initially registered under № 44094 at the Beirut Commercial Register and under № 103 on the list of banks at the Central Bank. According to the resolutions of the Extraordinary General Assembly meeting held on June 24, 2003 which decided to move the head office of the Bank from Achrafieh (Beirut) to Dekwaneh (Mount Lebanon), the registration of the Bank with the commercial register was transferred to the Baabda Commercial Register under № 2003890 on August 11, 2004. The Bank's head office was relocated to the Freeway Centre, Sin El Fil Blvd, Dekwaneh, Lebanon. The central phone number is +961- 4-727 555, email: info@creditbank.com. The website of the Bank is www.creditbank.com. The Bank is subject to regulation and supervision by the Central Bank and the Banking Control Commission. In addition, certain operations conducted by the Bank are subject to regulation by the CMA, which is a regulatory body responsible for the regulation of the capital markets in Lebanon.

The Bank was founded by brothers-in-law, Mr. Joseph Khalife and Mr. Fouad Zoghby. In July 1984, Mr. Fouad Zoghby passed away, while his brother-in-law Mr. Joseph Khalife passed away in 1993. Following this loss, a professional team was designated to manage the Bank and serve the Bank's clients while maintaining the same distinctive family spirit of the enterprise. As a result, new concepts of marketing, sales, training have been applied in addition to the adoption of the latest information technology systems.

In 1996, the Lebanese economy regained its dynamism and there was potential for growth once again. This growth was witnessed through the expansion of the banking sector, the diversification of financial capabilities, and the rise of international competition through foreign banks. Following this development, the Bank started a major restructuring process, with the main objective being the institutionalization of the Bank.

The Bank's major corporate transaction was the acquisition in 2002 of the Lebanese subsidiary of the French bank, Crédit Lyonnais. This acquisition increased the Bank's total assets from LBP 361.6 billion (USD 239.9 million) in 2001 to LBP 491.7 billion (USD 326.1 million) in 2002, which represented a 36% growth at that time.

As of the year 2000, the Bank commenced the improvement of its retail and corporate lending activities, and the development and expansion of its network. The Bank's branch network grew from 8 branches to 25 branches by December 2017. Furthermore, new senior managers and experienced professionals were hired to enhance the Bank's activities and handle all sorts of innovative banking products and services. As a result, the Bank's overall activities increased in particular its corporate banking, SME and retail services. However, it is worth mentioning that the Bank is not rated by any credit rating organization.

With a view to accommodate the growth and expansion of the Bank, the Bank issued in 2009 its first series of Tier 1 non-cumulative, redeemable Series 1 Preferred Shares for USD 27 million, in 2012 its second series of Tier 1 non-cumulative, redeemable Series 2 Preferred Shares for USD 20 million, in 2013 its third series of Tier 1 non-cumulative, redeemable Series 3 Preferred Shares for USD 30 million, in 2014 its fourth series of Tier 1 non-cumulative, redeemable Series 4 Preferred Shares for USD 20 million, an issuance that was coupled with the redemption of the Series 1 Preferred Shares, in 2015 its fifth series of Additional Tier 1 non-cumulative, redeemable Series 5 Preferred Shares for USD 25 million, and in 2017 its sixth series of Additional Tier 1 non-cumulative, redeemable Series 6 Preferred Shares for USD 30 million.

In October 2016, it was resolved to increase the share capital of ID Bank CJSC (Previously Anelik Bank CJSC), and a company owned by Russian citizens of Armenian origins subscribed to the full amount of the capital increase. This resulted in Creditbank's participation in ID Bank (CJSC) decreasing to 40.3%, whereas the participation of the subscribing company went to 59.7%. Consequently, the deconsolidation of ID Bank CJSC from the financial statements of Creditbank was realized starting 2016.

The Bank currently provides a wide range of banking services. This includes a number of retail banking services (including but not limited to, consumer lending, credit cards, car loans, housing loans and lending to sole businesses and sole proprietorships), corporate banking services (including but not limited to, extending various forms of credit facilities including loans and overdrafts to medium size and large corporations), banking services to small and medium size companies and trade finance services (letters of credit and letters of guarantee).

In 2012, the Bank decided to create a new department dedicated to servicing the Bank's clients in the factoring field. The factoring activities were launched in 2014.

In September 2013, and in accordance with the provisions of BDL Basic Circular n. 128 dated January 12, 2013, a Compliance Department has been created. The following three units are linked to the Compliance Department: the AML/CFT Unit, the Legal Compliance Unit and the Social and Environmental Compliance Unit.

The Bank established a FATCA compliance project in view of the Bank becoming fully compliant with FATCA requirements within the deadlines set by the IRS regulations. The relevant documentation included new enhanced KYC forms, amendment of Opening of Account Forms, specific Banking Secrecy Waivers authorizing the reporting to the IRS, and a FATCA manual containing the related procedure and policies. The project also entailed the organization of intensive internal training sessions in order to create sufficient awareness and know-how for the bank employees to properly meet FATCA requirements.

The Bank successfully registered online with the IRS portal as Participating FFI (lead of an EAG) and obtained the following Global Intermediary Identification Number (GIIN) 75PQB8.00000.LE.422

In 2016, the Bank also launched a CRS compliance project in view of the Bank becoming compliant with the CRS requirements before the beginning of the automatic exchange of information in 2018. The relevant documentation included new enhanced KYC forms, CRS Tax Residency Self-Certifications, and notices to Creditbank's account holders regarding CRS. The project also entailed the organization of intensive internal training sessions in order to create the sufficient awareness and know-how for the bank employees to properly meet the CRS requirements.

The Bank was in the process of developing its capital markets services (trading and sales of various types of financial instruments and products) and private banking services (including but not limited to, securities trading, portfolio management, alternative investments and structured products, etc.). However, Intermediate circular n. 437 issued on the 8th of November, 2016 amended articles 2 and 5 of the Intermediate decision n. 7493 dated 24/12/1999 in such manner as to prohibit banks and financial institutions from dealing with securities (i.e. issue, purchase, sell and promote securities and financial instruments) on behalf or for the benefit of their clients, and consequently, compelled banks other than the specialized banks to carry out such transactions and operations for their clients only through a specialized bank falling under the legislative decree n. 50 dated 15/8/1983 or through brokerage institutions. A deadline was set on December 31, 2017 for the non-specialized banks to remedy their situation with this respect. On the 1st of June 2018, the intermediary decision 12823 further amended the above mentioned basic decision in a manner as to require the specialized banks to sign agreements with the clients that comply with the requirements of the CMA and to establish a specialized "Structured Products and Derivatives Unit" in order for the latter to carry out transactions on financial instruments.

Strategy

The Board of Directors, led by its Chairman-General Manager, Mr. Tarek Khalife, initiated a re-evaluation of the Bank's position within the Lebanese banking sector, and re-defined the Bank's mission, vision, and strategy for the coming years.

The Bank's mission is to establish and develop its services in emerging and small market economies throughout the Middle East and Central Asia, where it potentially has the ability to add knowledge and compete in line with its values and code of conduct, while providing superior returns to its shareholders, employees, and clients, and contributing to the communities in which it operates.

The Chairman-General Manager of the Bank's vision focuses on the reinforcement of the following embedded four core values: "*Be stable in your policies; caring in your attitude, innovative in every approach and transparent in your corporate culture*".

The Board of Directors is factoring in the severe declining margins on the international markets and their impact on the Lebanese banking sector, and aware of the need to diversify revenues, create new business activities and increase productivity. The aim of the Bank is to build a healthy, diversified and regular income stream that would permit its capital growth. In light of the most recent capital regulations, as outlined by the Basel Accords, the Board of Directors intends to develop the Bank's procedures relating to risk and capital management, and to increase and maintain a solid capital basis, which will commensurate with the Bank's risk levels.

Moreover, the Bank has considered the saturation of the capacity to incur debt in both the public and private sectors, and is aware of the greater capacity of the country's larger banks in attracting foreign and Arab deposits.

By continuously improving its traditional core business in commercial and retail banking, the Bank has started to implement a new five-year plan, which consists mainly of the following:

- Propagate its corporate governance and elaborate organizational culture and structure;
- Continuously invest in the development of Human Resources and IT structures;
- Seek service excellence through proprietary performance measurement systems;
- Improve its critical mass and image, as well as productivity;
- Implement and monitor a centralized risk management culture;

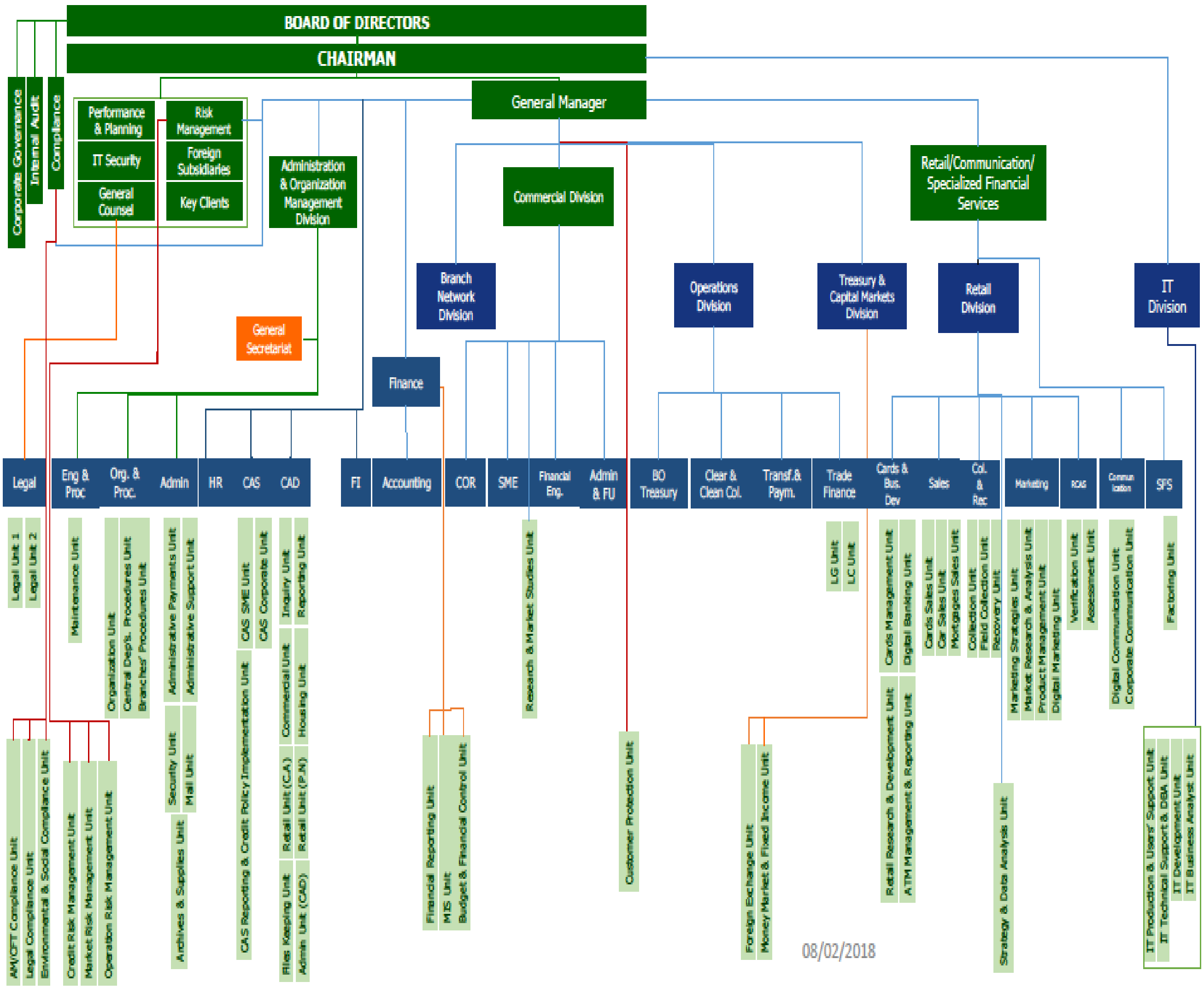
- Partner with regional actors; and
- Increase equity to adequately meet Basel III requirements. The Bank intends to increase its equity level by issuing preferred shares followed by ordinary shares.

The Bank's strategy consists in implementing its five-year plan by expanding its market share domestically through an aggressive growth strategy focused on outperforming its peers and engineering its expansion into the international market by opening up the capital of the Bank.

The Bank acknowledges that in order to implement its strategy of expanding locally and abroad, it needs to have the necessary financial resources, which may include an ultimate listing on one of the region's main stock exchanges within the next four years.

The future capital structure of the Bank is expected to be composed as follows: (i) common equity to amount to no less than 70 % of the capital structure, and preferred shares to amount to approximately 30%.

CREDITBANK S.A.L. ORGANISATION CHART



General Banking Operations

The Bank's main activities are (i) commercial lending to the private sector, focusing on well managed Small and Medium Enterprises (SME) showing a good potential for growth and on reputable and well established corporations, having amongst its clients' base a good part of the top 50 companies in Lebanon, (ii) retail lending through personal and consumer loans, housing loans, car loans, credit cards, etc. (iii) the acceptance of creditor accounts (savings, checking or time deposits) in Lebanese Pounds/foreign currencies, through a network of 25 branches across Lebanon, (iv) trade finance services including the issuance of letters of credit, letters of guarantee and other forms of documentary credit to private sector entities to finance imports and business projects, (v) treasury, capital markets and brokerage services, etc. There are no material changes planned by the Bank to the nature of its business.

Retail Banking

Recognizing the varying needs of clients through the many stages of their lives, the Bank continuously strives to build a customer-focused strategy aimed at delivering a wide and innovative range of products and services. The customer is at the heart of the product development process from idea generation to design, marketing, communication, and finally to reach suitable product offered to customers. The Bank accepts deposits in Lebanese Pound and other foreign currencies through savings accounts, time deposits, current and checking accounts. Also, the Bank offers a wide range of consumer lending products as detailed below.

In this respect, it is worth mentioning that Creditbank S.A.L. is among the very few local banks to rely on world class analytical tools and sophisticated decision making engine to optimize its decision making process, workflow and performance based on best industry practice.

As at the date of this Offering Circular, the main retail product lines and services currently offered by the Bank include:

Personal Loan

The main personal loan product offered by the Bank is referred to as "CB Personal". This product is offered both in USD and LBP and has the following main characteristics:

- A net loan amount reaching up to USD 150,000 or its equivalence in LBP.
- A loan term of up to 5 years.
- A regressive annual interest rate of 17% is applicable on loans granted in USD and LBP.

Car Loan

Car loan. The Bank's car loan is denominated in US Dollars and is applicable for used and new cars and has the following main characteristics:

- A maximum loan amount of USD 150,000.
- A minimum down payment starting 25% of car price.
- A maximum loan term of 5 years for used and 6 years for new cars.
- A fixed flat annual interest rate ranging from 4.85% for new cars and 6.75% for used cars.

Car Leasing. The Bank, through its Corporate Division and in coordination with the Retail Division, is also active in the car leasing field. The lease contract may extend up to 3 years for commercial and utility cars including the registration fees with an assignment of the lease contract in favour of the Bank. No down payment is required. The buy back guarantee on the vehicle is given by car dealers during the rental period.

Home loan

CB Home. CB Home is the Bank's main housing loan and has the following main characteristics:

- This type of loan is granted to buy, build or renovate a house.
- The loan is denominated in US Dollars.
- There is no maximum loan amount.
- A minimum down payment of 25% is required.
- The maximum financing period is 30 years including the grace period.
- A variable interest rates linked to BRR (Beirut Reference Rate) plus 0.75% is applicable with a minimum of 7.99%.
- A quarterly commission of 2‰ on outstanding loan balance and a one-time file fees of ~$150 are applicable, in addition to the real estate expert fees of ~$175 depending on location and other property specifications.

Business loan

Pro+ Business Loan. The Pro+ Business Loan is designed for self-employed professionals such as doctors, engineers, lawyers for financing the purchase or improvement of a non-residential office space. The Pro+ loan has the following main features:

- The loan is denominated in US Dollars.
- The net loan amount can reach up to USD 1,000,000.
- A minimum down payment of 25% is required.
- An optional grace period reaching up to 48 months is available
- The loan term is up to 10 years including the grace period
- A variable annual interest rate linked to BRR (Beirut Reference Rate) plus 1.75% is applicable with a minimum of 9%.
- A quarterly commission of 2‰ on outstanding loan balance and yearly file fees of $150 are applicable, in addition to the real estate expert fees estimated at $150.

Retail Savings and Deposits

The Bank also offers, amongst other retail products, the following retail savings and deposit products and services in both LBP and foreign currencies, mainly USD, Euro and GBP:

CB Current Account

The current account is a checking account held for the purpose of securely and quickly providing frequent access to the account holders' funds. The current account can be activated through check books or via debit cards on all POS and ATMs. The current account comes with the following bundled benefits:

- Domiciliation of salary, invoices, telephone and electricity bills, etc…
- Check books' order.
- Free Online Banking allowing clients to check, and manage their accounts as well as perform internal transfers anywhere and at any time. Client can also download their account statements free of charge.
- Free Mobile Banking.
- Bank transfers.
- Inter-branch transactions.
- Periodical statements.
- Permanent instructions on or from this account.
- SMS alerts sent to account holders at every use of the debit card.
- Transfers via ATMs

The requirements are easily met:
- Both individuals and companies are entitled to open current accounts.
- Current accounts may be opened in any currency, mainly LBP, USD, Euro and GBP.
- The account holder may be resident or non-resident.
- There is no minimum required amount.
- It can be a joint account.

Savings Accounts

Creditbank S.A.L. offers "interest bearing" accounts available in all major currencies at highly attractive interest rates based on balances and maturities.

Characteristics of a blocked savings account:
- It can be joint account
- It can be opened by individuals, residents or non-residents.
- It can be opened in all major currencies, mainly: LBP, USD, GBP, EURO, etc.
- Attractive interest rates are offered, along with the flexibility to choose the maturity date best suited to client's needs. The account shall yield interest pursuant to the rate agreed upon. Accrued interest will be added to the capital at maturity date.
- Blocked savings accounts are automatically renewable and are available in one, three, six, twelve month periods, or more, depending on client's requirements.
- Free online and mobile banking.
- Savings Accounts can also be opened for minors by their legal guardians.

Time Deposit Accounts

Characteristics of a time deposit account:

- Time deposit accounts are available in all major currencies, mainly: LBP, USD, GBP, and EURO.
- It can be a joint account.
- It can be opened by individuals or Companies/Institutions.
- It can be opened by residents or non-residents.
- It can be opened for minors by their legal guardians.
- Free online and mobile banking.
- No passbook is provided for withdrawing or depositing funds into the account. Instead, the Time Deposit Account holder shall be given a voucher specifying the transaction.
- Attractive interest rates are offered, along with the flexibility to choose the maturity date best suited to your needs. The account shall yield interest pursuant to the rate agreed upon. Accrued interest will be added to the capital at maturity date.
- Time Deposit Accounts are automatically renewable and are available in one, three, six, twelve month periods, or more, depending on the client's requirements.

Wedding Accounts

Creditbank's "We Propose" Wedding Account offers couples and guests the convenience of optimizing time through a list of online services:

- Guest List Management: Allowing the couple to upload their guest lists online and access their wedding account anytime to edit, add or delete their guests' information and to have updated details on gift payments and wedding confirmations and declines.
- Complete RSVP Service: Allowing the guests to accept a wedding invitation or to send their regrets online through Creditbank online banking website or through the Mobile App. The couple can share "Thank You" messages with their guests, by e-mail or SMS, with the option of personalizing the text message and including their wedding picture as a souvenir.
- Instant Gift Payment: Allowing the clients to pay a wedding gift securely using their credit card. Creditbank clients can pat their wedding gift through their online or mobile banking services. No fees are applied to the gift amount. No fees are applied to the gift amount.

Creditbank cards

The Bank issues and services Visa and MasterCard cards. The types of cards issued are debit and credit cards. The balance of each card is settled on a multiple payment basis (minimum monthly payment of 5 to 10% of the outstanding balance).

Other types of cards are the prepaid cards: The gift cards that serve as the perfect gift for every occasion, the Websurfer internet card that makes online shopping safer and more secure, and the Multi-Currency card that offers frequent travellers the convenience of carrying up to 4 currencies in one card.
The Bank's innovative cards include the Combo Card that combines credit and debit in a single card with the convenience of choosing one PIN code for both accounts. The Creditbank sticker is another innovative product that gets attached to a mobile phone or any personal item allowing clients to perform contactless payments in just one step.

As at December 31, 2017, the Bank had approximately 28,301 cards issued to its customers for an upward total limit of USD 40,446,986 and an approximate aggregate outstanding balance of USD $13,796,405. Cardholders can transact worldwide, 24 hours a day through ATM machines or points of sale.

Credit cards come with additional benefits depending on card type and category. Some of the benefits include: Free travel insurance, free fraud and life insurance, a complimentary priority pass membership card, a welcome gift of 50-100 points under Creditbank loyalty program, a gift of 2-3 airport lounge entries per year, free supplementary cards, etc…

Creditbank loyalty program, known as CB Miles, is designed to reward cardholders for spending on their credit cards by accumulating "CB Points" that can be redeemed for airline tickets or travel packages from partner travel agencies or for movie theatre vouchers used at any Grand Cinemas theatre.

Bancassurances Products

The Bank in collaboration with Allianz-SNA offers through Credex SAL, a wholly owned subsidiary of the Bank, contingent products including retirement plan, education plan, foreign labor insurance plan, travel insurance plan and Pre-signed Plan.

Z Generation (18-25)

Z Generation is more than a bank account. It is a community that connects the dynamic youth of Generation Z between 18 and 25. It is an empowering Youth Program that caters to their unique interests, needs and ambitions.

Z Generation provides a platform engaging young men and women through meaningful interactions, knowledge sharing, and collaborations that can lead to social awareness and stronger communities through interactive digital platforms (Mobile App & WhatsApp) and social media channels (Instagram, Insta Stories and Snapchat Ads), etc. Community members, who open an account at Creditbank, will access an array of exclusive benefits that enrich their lifestyle:

- A Welcome Gift that includes cinema and discount vouchers from our network of merchants.
- Special Deals to save on purchases related to their daily needs and interests: sports & fitness, entertainment, cinema, restaurants, coffee shops, taxi services, and so on.
- A Reward Program that allows them to redeem their accumulated points on banking transactions for cashback at the end of each year.
- Draws & Competitions up to twice a year for a chance to win all kinds of prizes and giveaways, from tech gadgets to concert tickets.
- A Referral System that rewards community members with gifts for successfully referring their friends to Creditbank.

Collection and Recovery Department

The collection and recovery department was restructured according to good working practices. All collection is centralized and tackled “early on” by an expert team of professionals. Field collectors with a proven track record have been added.

Recently, a world class collection decision engine was purchased and implemented to automate the collection and recovery process in terms of workflows and strategies.

24/7 Digital Services and Customer Assistance

Creditbank’s call centre operates 24 hours a day, seven days a week, on the following number: 00961-4-727555, to answer any of its client’s and other people’s inquiries.
Moreover, the Bank’s well developed IT infrastructure enables it to offer digital services to its retail customer base through the following channels: Website, Online Banking, Mobile App, and Smart ATMs.

Website

Accessible at www.creditbank.com from any desktop and mobile device allowing our clients and other website visitors to access the following:

- Request a call back for cards and loans
- Use the home loan simulator for approximate monthly payments
- Use the car loan calculator for approximate monthly payments
- Use the car “mecanique” simulator for approximate fees and payment deadline
- Locate a Creditbank branch and ATM with Google Maps and get contact info
- Search for any product or service
- Access their online banking

Mobile Banking

Creditbank Mobile App enables its clientele to access a wide range of innovative and secured banking services on the go through their smartphones. Below are the services currently offered through Creditbank Mobile App, which can be downloaded for free from Apple Store and Google Play:

- Access the accounts anytime.
- Transfer money to other Creditbank’s clients.
- Pay directly to merchants using CMO.
- Pay a wedding gift.
- Transfer money within the client’s accounts.
- Withdraw cash from cardless ATM.
- Request check books and statements of account.
- Locate a Creditbank branch or ATM.

Online Banking

With Creditbank's upgraded version of Online Banking, clients can access their accounts anytime of the day and benefit from additional features within an enhanced security environment:

- One-Time-Password (OTP) as two-factor authentication for the client's account.
- Transfer to other Creditbank's clients.
- Scheduled transfers for late, recurring and deferred payments.
- Wedding gift payment.
- Transfers within the client's accounts.
- Requests for checkbooks and statements of accounts.
- GPS locator for Creditbank's branches and ATMs.

Smart ATM

Creditbank features an extensive network of Smart ATMs strategically located to ensure the Bank's services are available to its customers across the country and are easily accessible at their own convenience. Below are the services that can be performed at our Smart ATMs:

- Withdraw and deposit cash in multiple currencies
- Deposit up to 30 checks in one bundle
- Transfer between the client's accounts
- Pay the loans
- Settle the credit card payment
- Recharge the prepaid mobile phone
- Check the account balance

Marketing Department

The Marketing Department is responsible to conduct market research and competition analysis to recommend the introduction of new products and services or the enhancement of existing product offerings to meet customer's requirements.
A lot of attention is being drawn lately to digital marketing, as a strategic platform for lead generation to boost sales and as a channel for products and services to meet new markets. Also, innovation plays an important role in developing retail products and services that embrace new technology and that speak to the tech savvy and digital crowd.

Corporate Banking

The Corporate Banking Department is a dynamic and essential department at Creditbank that offers a wide range of commercial banking services and products to large businesses.

The Bank provides its corporate customers with broad advisory services and all types of facilities ranging from syndicated and long-term loans, working capital, project and trade finance facilities, foreign exchange services, discount of commercial drafts, as well as customized products and packages to finance complex operations. Creditbank's corporate services are a reflection of the Bank's innovative approach to product development and tailor-made financial solutions.

Throughout the years the Bank established a large portfolio of corporate clients in all market sectors and was able to provide effective solutions to meet their financing needs. The fastness and efficiency of the services offered are the main strength of this department that is focused on building healthy and enduring business relationships with clients.

Small and Medium Enterprise (SME) Banking

The Bank has always allocated significant resources to develop micro-credit and small-business lending throughout its branch network, as it strongly believes that such enterprises are the backbone of a healthy economy and dynamic society. The Bank's small and medium enterprise loans aim to serve and finance businesses in all productive economic sectors such as agriculture, industry, handcraft, trade, tourism, technology or real estate. The Bank has also devised a "Hand-holding" approach for start-ups, which comprises advisory services, feasibility studies, as well as capital and debt restructuring. The Bank developed a wide range of products independently or through cooperation with leading development agencies and governmental bodies, as follows:

- Kafalat Loans: In association with BDL and Kafalat SAL, this loan aims to finance development projects by small and medium businesses in the agriculture, industry, handcraft, high technology and tourism sectors. In addition to the guarantee being secured by Kafalat SAL for up to 90%, BDL subsidizes the interest rates for up to 4.5% over maximum 7 years.

- Subsidized loans: In collaboration with BDL, this loan aims to launch new projects or enlarge existing business in the agriculture, industry, handcraft, high technology and tourism sectors and at very competitive features. Clients can benefit under such loans from subsidized debtor rates up to 4.5% over maximum 7 years under the schemes of BDL circulars.
- Incentive loans: In collaboration with BDL, this long term loan aims to launch new projects or enlarge existing business in all economic sectors through financing the fixed assets of the project over a period going up to 19 years (reimbursement over 15 years after a grace period of 4 years) and at a low debtor rate.
- Energy/environmental loans to finance Green projects: this loan could be reimbursed over a maximum period of 10 years (after a grace period going up to 4 years), granted at low rate. The energy saving projects could benefit from an EU grant once financed works are executed.
- Long-term loans at attractive rates.
- European Investment Bank Financing.
- Overdraft – Letter of Credit.
- Letter of Guarantee.
- Project finance.
- Discounted Bills.
- Promissory notes.
- Other Commercial Credit facilities.

CB Factoring

The Bank has launched, early 2014, a new trade finance activity: Factoring, which is a complete financial and commercial package that combines working capital financing, credit risk protection, accounts receivables management and collection services. The Bank, as a factor, offers the following key services:

1- Financing businesses by securing immediate cash against accounts receivable.
2- Managing debtor accounts (follow up on invoices; provide information and assessment on the creditworthiness of existing and prospective debtors, etc…)
3- Collecting receivables on maturity dates.
4- Credit Risk Guarantee in respect of accounts receivable (in case of the financial inability of debtors to pay).

The Bank proposes 4 types of factoring transactions:

- Factoring without Recourse: Client benefits from all the services mentioned above.
- Factoring with Recourse: Client benefits from all the aforementioned services except for the Credit Risk Guarantee of accounts receivables since the default risk of the debtor is on the client.
- Confidential Factoring (or Invoice Discounting): the Bank role will be limited to the financing of client against its receivables without the other services. Confidential Factoring is requested where and when the client needs financing only and wants to remain in charge of the management of his receivables.
- Maturity Factoring: Client benefits from all of the above services except for financing.

Communication

The Communication Department is mainly responsible for presenting and safeguarding the Bank’s public image and brand name. The Communication Department’s core responsibility is to formulate a communication strategy concerning all types of internal and external communication, crisis management, Corporate Social Responsibility (CSR) and sponsorship guidelines, which reflects the Board’s vision, mission and values, while taking into account the many dimensions related to the Bank’s positioning. Ultimately, the aim is to translate and project the Bank’s vision and values through a myriad of means and media channels in order to reach our target audiences. This entails a wide spectrum of activities, including all Above and Below The Line advertising regarding corporate communication, brand building, the Bank’s products and services, ensuring the optimal media planning and exposure of the Bank’s campaigns and all other communication initiatives. The Communication Department also organizes events and conferences, develops editorials and press releases. Last but not least, the Communication Department manages all online communication. This requires developing a multifaceted digital media strategy and implementing it across all of the Bank’s websites and social media channels. It includes creating digital campaigns, as well as monitoring and updating the Bank’s online presence.

Legal

The Bank’s team of legal consultants and advisors advises on all issues related to the Bank’s daily activities within the framework of applicable Lebanese laws and regulations. The Bank’s Legal Department team is also consulted on all contracts and collateral documents related to the Bank’s business dealings. The Bank’s Legal Department handles as well litigations involving the Bank and closely coordinates debt recovery with external legal advisors and the Bank’s recovery department.

Human Resources

To implement the Bank's strategy for growth, the Human Resources department developed a business plan that supports and enhances the Bank's growth strategy, while seeking to develop the Bank's main pillars: innovation, technology, professionalism, and excellence in quality of service in addition to the performance, transparency, integrity and corporate citizenship of the Bank.

The Human Resources department focuses on recruiting qualified professionals from the local and regional market, while training, developing and retaining the existing workforce within the human capital of the Bank.

The Human Resources department's strategy aims to set evidence-based goals and targets that will facilitate the sustainability and support the growth of the Bank's workforce. As such, recruitment and selection, training and development, accountability, reward and empowerment are key focuses of the Human Resources Group.

The Human Resources department's strategy consists of giving priority to internal recruitment, as it provides employees with the right qualifications and the opportunity to advance in their careers within the Bank. The Human Resources Group is also responsible for and active in offering internal, external and international training programs for the Bank's employees.

The Human resources department monitors and identifies any shortage in skills within the Bank's teams and addresses these shortages. It has also implemented and integrated performance appraisal system that is designated to identify talent within the Bank.

The Human Resources department focuses on building a culture of accountability within the Bank, but also strives to create a positive work environment, improve employee morale and motivate high performance through the implementation of Rewards and Recognition Programs throughout the Bank.

External Auditors

According to Central Bank regulations, Lebanese banks are required to appoint two external auditors to jointly audit the Financial Statements of the Bank.

In this respect, the Annual Ordinary General Assembly of the Bank designated two external auditors: "BDO, Semaan, Gholam & Co" for a three-year period ending at the date of the annual General Assembly that will be held to approve the accounts of the Bank for the 2019 fiscal year, and "KPMG" for a three-year period ending at the date of the annual General Assembly that will be held to approve the accounts of the Bank for the 2018 fiscal year.

Internal Audit Department

Internal Audit is an independent and objective activity designed to add value to Bank's activities, services and operations. The Internal Audit helps improving the operations in the departments, branches and subsidiaries in terms of managing risk, maintaining effective controls and improving governance.

A. It assists the Bank to manage risk by:

- *Identifying and evaluating significant exposures to risk.*
- *Contributing to the improvement of risk management and control systems.*
- *Monitoring and evaluating the risk management system.*

B. It assists the Bank to maintain effective controls by:

- *Evaluating the effectiveness and efficiency of controls.*
- *Promoting the continuous improvement of the control environment.*

C. It assists the Bank to improve governance in:

- *Promoting appropriate ethics and values.*
- *Effectively communicating risk and control information to appropriate areas of the Bank.*

The Bank's Internal Audit is a service function organized and operated primarily for the purpose of conducting audits in accordance with the *International Standards for the Professional Practice of Internal Auditing* and Central Bank applicable regulations.

The audits observations and their findings form the basis for the recommendations and opinions issued to the relevant members of senior management, the Board Committee on Audit and the Board of Directors.

Internal Audit activity assists management in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the Bank's performance through:

A. Developing a risk-based plan by taking into account the Bank’s risk management framework, including using risk appetite levels set by management for the different activities or departments of the Bank and using own judgments of risks after consideration with the senior management and the Board of Directors.

B. Developing and documenting a plan for each engagement by:

- Conducting a preliminary survey of the area of engagement: Fact-gathering through interviews – reviewing prior audit reports and other relevant documentation – mapping processes – developing checklists.
- Completing a detailed risk assessment of the area: Identifying business objectives and their risks – rating each risk in terms of likelihood and significance – identifying controls and evaluating their adequacy and effectiveness.
- Establishing engagement objectives and finalizing the engagement scope.
- Identifying criteria for assurance engagements: Internal audit criteria are the benchmarks against which the subject matter of the engagement is assessed.
- Considering the potential for fraud.
- Determining engagement procedures: these are the means to attain engagement objectives.
- Determining the level of staff and resources required for the engagement.
- Establishing adequate planning and supervision of the engagement: The extent of supervision depends on the proficiency and experience of internal auditors and the complexity of the engagement.
- Preparing engagement work program: A document that lists the procedures to be followed during an engagement, designed to achieve the engagement plan.

C. Performing the engagement by:

- Collecting, analysing and interpreting data: Identify sufficient, reliable, relevant and useful information to achieve the engagement’s objectives through data gathering tools (interviews – questionnaires), manual audit procedures (inquiries – observations – inspections – vouching – tracing – confirmations) and data testing (statistical analysis – analytical review techniques – computerized audit tools and techniques).
- Developing and reviewing working papers: Documentation of the audit engagement with relevant information to support its conclusions and results.
- Drawing conclusions, developing recommendations when appropriate and reporting engagement results.
- Completing performance appraisal of engagement staff: Annual review – post-audit review.

D. Monitoring engagement outcomes through identifying appropriate method of monitoring, conducting the follow-up and communicating its results to senior management, the Board Committee on Audit and the Board of Directors.

The Bank’s Internal Audit department reports to the Board of Directors and is under the oversight of the Board Committee on Audit.

The Board Committee on Audit’s main responsibilities with respect to Internal Audit include:

- Reviewing Internal Audit Annual Plan and providing recommendation to the Board of Directors for approval.
- Reviewing Internal Audit reports which cover internal control over operations and compliance with policies and procedures.
- Reviewing the overall effectiveness of Internal Audit.

The scope of Internal Audit is defined in the Audit Charter which allows unrestricted coverage of the Bank’s activities and unlimited access to all records and assets deemed necessary in the course of the audit.

Internal Audit staff abide by the Code of Ethics established by the Institute of Internal Auditors (Integrity, Objectivity, Confidentiality, Competency), as well as adhere to the policies set forth by the top management of the Bank.

Compliance and Anti Money Laundering

Pursuant to Central Bank Decision № 11323, dated January 12, 2013, the Bank has established a Compliance Department comprised of three main units: AML/CFT Unit (responsible for monitoring compliance with, and developing, the Bank’s AML/CFT policies and procedures, the Legal Compliance Unit, and the Environmental and Social Compliance Unit.

The Compliance Department was created with a view to protect the Bank, not only by managing adherence to applicable laws, regulations and other standards of conduct, but also by promoting business behaviour and activities consistent with global standards. In this perspective, the Bank believes that compliance risk management commences with the Bank's board of directors and senior management, who establish the atmosphere from the top by promoting a firm culture of ethics, compliance and control, and who ensures the abidance by the applicable laws and regulations, through enforcing the Bank's policies and practices at all times.

The main functions of the Compliance Department are to:

• verify that an adequate regulatory compliance process is in place with the aim of ensuring that the Bank's business operations meet all applicable legal and regulatory obligations in a timely, effective and efficient manner;

• effectively manage the Group Anti-Money Laundering & Combating the Financing of Terrorism ("AML/CFT") program and meet all related legal and regulatory requirements;

• inform the Board of Directors and Management of key compliance risks and their consequences, as well as how these risks are adequately coordinated and mitigated;

• monitor the effectiveness of compliance culture and procedures across the Bank and provide the needed advice and support, and interpret legal and regulatory requirements and the application of international standards and best practices;

• develop policies and procedures covering AML/CFT, and of the regulatory and operational compliance issues in line with international standards, best practices and applicable laws;

• monitor the implementation of the above policies and procedures across the Bank; and

• conduct compliance training and awareness covering AML/CFT (including KYC, customer due diligence and transaction monitoring) and other compliance topics as needed.

Additionally, in the context of the "Environmental and Social Compliance Unit", the Bank aims at promoting environmentally sound and sustainable development in the range of business and activities. The Bank believes that sustainable development is a fundamental aspect of sound business management by requiring that all the projects the Bank is financing are acceptable in environmental and social terms by applying appropriate safeguards to all its operations. The Bank believes that sustainable development is a fundamental aspect of sound business management by requiring that all the projects the Bank is financing are acceptable in environmental and social terms by applying appropriate safeguards to all its operations.

Pursuant to Central Bank Decision № 12255 dated May 4, 2016, which amended Decision № 7818 dated May 18, 2001, the Bank has established an anti-money laundering Board committee, which monitors the development of changing regulations and is responsible for the adjustment of internal policies and provision of staff training and education.

The Bank is also compliant with the international efforts to combat tax evasion and the related tax information exchange initiatives be it the Foreign Account Tax Compliance Act (FATCA) or the Economic Co-Operation and Development (OECD) requirements under the Common Reporting Standard (CRS).

Compliance requirements are widening and the impact of non-compliance is growing. With the rapid change in legislation and regulatory requirements, the Bank believes that the compliance function has to evolve to keep pace. This evolution requires a far stronger compliance team, one with the skills and experience to address a less well defined compliance environment.

Accordingly, the Compliance Department is constantly looking to enhance its human and technical capital by employing new skilled personnel and testing new technological solutions.
However, with the rapid and continuous change in legislation and regulatory requirements grey areas will always remain as to "how" to be compliant rather than "what" needs to be complied with. Here, the Compliance Department believes that the pillar to rely on are ethics. In case of doubt, stick to ethics.

Subsidiaries and Affiliated Entities:

ID Bank CJSC (Previously Anelik Bank CJSC)

In 2009, the Bank acquired a 51 % stake in ID Bank CSJC ("ID Bank"), a bank established in Armenia during 1990, which has its main branch in Yerevan and 13 other branches in Gyumri, Abovyan, Payazat, Echmiadzin, Vanadzor, Sevan, Shengavit, Central, Arabkir, Nork, Davitashen, Baghramyan and Malatia, ID Bank CJSC is operated as an independent subsidiary of the Bank.

In 2011, the Bank increased its equity stake in ID Bank CJSC to 69.5 % and to 89.95 % in 2012 and to 100% in 2013.

However, in October 2016, it was resolved to increase the share capital of ID Bank CJSC, and a company owned by Russian citizens of Armenian origins subscribed to the full amount of the capital increase. This resulted in Creditbank's participation in ID Bank CJSC decreasing to 40.3%, whereas the participation of the subscribing company went to 59.7%. Consequently, the deconsolidation of ID Bank CJSC from the financial statements of Creditbank was realized starting 2016.

Credex SAL

In 2004, the Bank established Credex SAL ("Credex") as a wholly owned subsidiary of the Bank with a paid-up capital of LBP 750 million. Credex SAL is registered under No. 2003490 with the Commercial Registry of Baabda and authorized to act as an insurance broker by the Ministry of Economy and Trade.

Credex SAL was established to manage the Bank's insurance brokerage portfolio and acts as an intermediary between the Bank's clients and insurance companies.

As at December 31, 2017, Credex SAL had total assets of LBP 11,773 million (USD 7.8 million) as compared to LBP 13,418 million (USD 8.9 million) for 2016. In 2017, Credex SAL recorded net profit of LBP 1,683 million (USD 1.11 million) as compared to LBP 1,918 million (USD 1.27 million) for 2016.

Branch Network

As at December 31st, 2017, the Bank has a total of 25 branches in Lebanon strategically spread across the country. Creditbank's branch network is as follows:

Dekwaneh (Head Office & Branch), Achrafieh, Chiah, Hamra, Jal El Dib, Jdeideh, Jounieh, Ajaltoun, Ghazir, Sarba, Kornet Chehwan-Elissar, Tripoli, Saida, Chtaura, Mansourieh, Amioun, Bourj Hammoud, Hazmieh, Ain El Remmaneh, Sodeco-Achrafieh, Verdun, Jbeil, Badaro-Sami El Solh, Corniche El Mazraa, and Jdidet El Joumh- Halba

Creditbank intends to expand consistently his Branch Network, key operations and services in order to achieve greater reach and better accessibility.

In order to further strengthen its distribution network, particularly in the retail and SME sectors, the Bank intends to expand its branch network by adding more branches to its existing network of 25 domestic branches. The Bank's management believes that a stronger branch network will provide better access to the growing retail and SME sectors in Lebanon.

Competition

The market for financial and banking services in the Lebanese Republic is competitive. As of December 2017, and based on information published by the *Banque Du Liban*, there were 49 active commercial banks, 16 active Medium and Long Term Banks, 49 financial institutions, and 13 Financial Intermediaries institutions licensed by Banque du Liban to operate in the Lebanese Republic. These banks include large international financial institutions with access to larger and cheaper sources of funding. Competition to attract depositors and quality borrowers and to provide fee-based services to customers has been particularly intense since the end of the civil war in 1990. Due to the intensity of such competition and the increasing number of institutions offering financial and banking services in Lebanon, in common with other Lebanese banks, the Bank has experienced a decrease in its lending margins, especially in respect of retail loans. Depending on the continuing extent and intensity of the competition, in common with other Lebanese banks, the Bank's expenses may increase and its revenues may decrease.

The Bank offers a wide variety of banking products, including retail products, and competes directly with the largest banks in Lebanon, which offer comparable innovative products and services, targeted at middle-income clients, and small to medium size businesses. From 2014 to 2017, the Bank achieved better growth percentages on most of the main figures compared to the averages of Alpha group; as calculated below, the comparative compound annual growth rate in 6 key banks' indicators show the following:

Annual Compound Growth Rate	**Assets**	**Loans**	**Deposits**	**Equity**	**Total Operating Income**	**Net Profit**
	(Percent)	*(Percent)*	*(Percent)*	*(Percent)*	*(Percent)*	*(Percent)*
Average Alpha Group (2014 - 2017)........	6.2%	3.3%	4.3%	8.3%	6.7%	10.3%
Creditbank (2014 -2017)..................	**8.4%**	**6.8%**	**6.8%**	**23.7%**	**1.9%**	**-8.3%**

Note: The source of Alpha Group data is BANKDATA.

Real Estate

The Bank owns 11 of the 25 domestic branches it operates and leases the premises of the remaining branches from unrelated third parties. The followings are the branches owned by the Bank:

Dekwaneh (Head Office & Branch), Chiah, Jdeideh, Ajaltoun, Sarba, Ghazir, Hamra, Jal El Dib, Jbeil and Achrafieh Sodeco, Badaro Sami El Solh.

It also possesses a very small real estate portfolio, which is mainly the result of real estate acquired in settlement of bad debts.

Information Technology (IT)

The information technology (IT) division is responsible for the operation and maintenance of all the Bank's information systems, including the network – local network (LAN) and wide network (WAN), the core banking application, and surrounding applications, the Swift system, Bloomberg, Reuters, ATM's, e-channel applications, Internet access, gateways and individual computers spread out across the Bank.

The IT topology used is centralized; all branches are linked to the head-office through redundant lines to ensure full continuity of the activity. Servers are redundant; data is replicated online in 2 different sites.

The IT division also encompasses a development unit which is responsible for developing information systems, either through the external acquisition of ready-made systems or through internal development. This division is actively involved in planning the Bank's IT activity by planning structures, re-examining on a constant basis the current systems and adapting them to the latest operational strategy, and proposing a budget for the development of the Bank's IT. The division also identifies the IT needs of the Bank and sets up the appropriate teams and plans to implement new strategies.

The IT division is also dealing with IT equipment and software, external suppliers and deciding which systems to purchase or develop internally. If a system is internally developed, the division is responsible for the development and installation. Finally, the division is responsible for ensuring that the Bank's systems are compatible for updating systems and equipment, and for measuring the IT system's efficiency.

IT Security Rules

The Information Security Department's main rules are the protection of the Bank's information and information systems (IS) from unauthorized access, use, disclosure, disruption, modification, or destruction.

The Bank information is provided under many forms: printed, written, stored electronically, transmitted by post or using electronic means, shown on films, spoken in conversation. Whatever form the information takes, or means by which it is shared or stored, it should always be appropriately protected.

Therefore, the Information Security measures are implemented in a way that ensures that the following criteria are met: (i) maintain confidentiality and availability of the data and systems, (ii) and maintain the integrity of the data.

The Information Security Department is in charge of: (i) identifying the risk, (ii) develop and implement policies, standards and guidelines, (iii) establishing the security procedures and the control of their application along with the follow-up and solving of the IS security problems, (iv) securing the network and related infrastructure, (v) auditing the IS, (vi) organize security awareness and training program, (vii) and constructing the business continuity plan.

Litigation

The Bank is not involved in any governmental, legal or arbitration proceedings (including any proceedings which are pending or threatened of which the Bank is aware) which may have, or have had significant effects on its financial position or profitability in the twelve (12) months preceding the date of this Offering Circular.

Insurance

The Bank maintains insurance policies, which cover theft, forgery, cash in transit and forged and counterfeit currency, all properties including off premises ATMs, fixtures and fittings, computer equipment and motor vehicles with reputable insurance companies. As is the case with many banks and companies in Lebanon, the Bank's insurance policies do not provide the same level of coverage as it would be normally provided in the United States or Europe, as Lebanon's recent history has resulted in insurance premiums being so high as to make full coverage uneconomical.

MANAGEMENT AND EMPLOYEES

Board of Directors

The Bank is managed by a Board of Directors that must be composed of a minimum of three members and a maximum of twelve members elected by the Ordinary General Assembly from among its shareholders fulfilling the conditions stated in the Code of Commerce and the Code of Money and Credit. At least three of the Board members of the Bank shall be non-executive directors amongst whom two shall be independent. These directors are independent parties with no vested interest in the Bank so as to ensure objectivity. Current directors of the Bank are appointed for a period of three years ending on the date of the Bank's Annual General Assembly Meeting to be held before end of June 2015 for purposes of approving the accounts of the Bank for the 2014 fiscal year.

Lebanese law stipulates that the Board of Directors must be composed of a majority of Lebanese nationals. Board members are, subject to certain exceptions, jointly and severally liable to the Bank, shareholders and third parties for violations of the law, the Bank's By-laws or regulations and for any damage caused by fraud, abuse of authority or gross negligence. In addition, Board members are liable to the Bank and the shareholders for improper performance of their duties. Central Bank Basic Decision N° 9956 dated July 21, 2008, as amended from time to time, relating to Board of Directors and Board Committees in Lebanese banks, requires that at least four Board of Directors meetings be held annually of which at least two must be held in Lebanon.

The shareholders are empowered, by resolution adopted at an ordinary or extraordinary meeting of shareholders, to remove Board members. Board members are not permitted to carry out similar functions in a competing company without the authorization of the shareholders, which authorization must be renewed at each annual meeting of shareholders.

The Board of Directors appoints one of its members as Chairman. According to the Code of Commerce, the Chairman of the Board of Directors also acts as General Manager of the Bank and has extensive powers to execute resolutions adopted by the Board of Directors, to carry out operations necessary for the daily functioning of the Bank and generally to represent the Bank in its commercial activities.

The Chairman may delegate some or all of his authority as General Manager to another person or persons, who act under the supervision of the Chairman, the Chairman remains responsible for the acts of all his delegates.

The duties and roles of the Board include, among other things, the following:

(i) the election of the Chairman-General Manager and the appointment of the Deputy General Manager;
(ii) the setting of corporate policy on finance, risk, credit and personnel;
(iii) the responsibility for the financial soundness of the Bank and for the supervision of its activities;
(iv) the approval of major investments, asset sales and compensation programs; approval of large loans and exceptions to bank lending policy;
(v) The approval of basic policies and procedures, the business plans and annual budgets, expense controls, approval of limits and delegation of responsibilities; the monitoring of the Committees and the Bank's compliance with applicable laws, regulations and guidelines;
(vi) The setting of performance criteria and the retaining, compensation and dismissal of senior management; and,
(vii) The monitoring and prevention of any self-serving practices and preferential transactions with insiders.

As at the date of the Offering Circular, the directors of the Bank are the following:

Mr. Tarek Joseph Khalife is the Chairman-General Manager of the Bank since 2003 and was previously a delegate Board member. Mr. Khalife was elected as Managing Director in 1994, before becoming Chairman and General Manager. Mr. Khalife is fully dedicated to overview the Bank's management and to implement the Bank's strategy as set by the Board of Directors. Mr. Khalife holds a degree in civil engineering and a Master's in Business Administration from San Diego State University. He chairs the Bank's Board Committee on Corporate Governance. Moreover, he is a shareholder, chairman and board member of a number of real estate, contracting and commercial companies in both Lebanon and Kuwait.

Mrs. Maria Khalife Bazerji is an Executive Board member and Deputy General Manager of the Bank in charge of administration department. In such capacity, she sits as member in the Board Committee on Risk Managemenet and several Management committees of the bank. Mrs. Bazerji is also the chairwoman of Copri Housing SAL, Ashrafieh 784 SAL, and Baabda 1587 SAL, which are real-estate companies, and member of the board of Credex SAL and other real estate companies. Mrs. Bazerji holds a Master's degree in Business Administration (MBA).

Holfiban SAL Holding is a Board member of the Bank since June 4, 2012, member of the Board Committee on AML/CFT, and is represented by Me. Paul Harb the general counsel of the Bank. Holfiban SAL Holding was incorporated on August 23, 2005 and registered in Beirut under № 1900532. As at the date of this Offering Circular, Holfiban SAL Holding has a total share capital of LBP 9,407,650,000 and is owned by Mr. Tarek Khalife (93.74 %), Mrs Myrna Adaimy Khalifé (0.01%) and Me. Paul Harb (6.25%).
PAUL HARB Esq, who represents Holfiban Holding s.a.l. on the BoD and on the Board Committee on AML/CFT, 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 the Bank as head of the Legal Department in 2003. He currently acts as General Counsel of the Bank, Secretary of the Bank's Board of Directors, Secretary of the Board Committees on Corporate Governance and Remuneration, and member of the Executive and Investment Committee.

Financial Trust Participation Holding SAL is a board member of the Bank since June 1st, 2007, member of the Board Committee on risk management, and is represented by Mr. Tarek Khalife who is the Chairman of the Bank. Financial Trust Participation Holding SAL was incorporated on January 17, 2007 and registered in Beirut under №1900845. As at the date of this Offering Circular, Financial Trust Participation Holding SAL has a total share capital of LBP 30,000,000 and is owned by Mr. Tarek Khalife (87.84%), Mr. Ghassan Kebbé (9.5%), and Me. Paul Harb (2.66%).

Financial Profile Holding SAL is a non-executive Board member of the Bank since January 21st, 2010, member of the Board Committee on Audit and the Board Committee on remuneration, and is represented by Mr. Fady Barbar. Financial Profile Holding SAL was incorporated on August 24, 2009 and registered in Beirut under № 1901549. As at the date of this Offering Circular, Financial Profile Holding SAL has a total share capital of USD 34,000,000 and is owned by Mrs. Shamma Succar (99.40%), Mr. Fady Barbar (0.30%) and Mr. Iskandar Succar (0.30%).
Mr. FADI BARBAR, who represents Financial Profile Holding s.a.l, holds a degree in Business Administration. Mr. Barbar owns a series of business interests in Africa and real estate projects in Lebanon. He also represents Financial Profile Holding s.a.l at the Bank's Board Committees on Audit and on Remuneration.

H.E. Mr. Dimyanos Fares Kattar is a non-executive independent Board member who joined the Bank in 2007. He presides over the Board Committee on Audit and is a member of the Board Committee on Corporate Governance and the Board Committee on remuneration. Former Lebanese Minister of Finance and Economy, Mr. Kattar holds degrees in Management and Strategy as well as Political Economics; he was previously the director of the Lebanese Red Cross (NGO) and, was later on appointed as strategy advisor for several companies in Lebanon and abroad. He was also appointed as advisor to the former Minister of Telecommunications and advisor to the former Prime Minister, Mr. Najib Mikati before being designated as Minister of Finance in 2008. He is currently the Dean of the Faculty of Business Administration at the Antonine University.

Dr. Henry Joseph 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 the Board Committee on Risk Management and the Board Committee on remuneration. He has PhD in Finance and currently occupies the position of Chief Investment Strategist in Al Khabeer Capital (KSA). Through his different tenures in several financial companies located in Europe, Asia, 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 Roger Letayf is a non-executive independent Board member who joined the Bank in 2018 and presides the Board Committee on AML/CFT. He holds a Master of Science's degree in Management from HEC school of Management, Paris and is the founder and the 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.

The directors of the Bank were appointed by the Shareholders' General Assembly dated 16/07/2018 for a term of 3 years which ends on the date the Shareholders' General Assembly meets to approve accounts of the year 2020.

The aggregate compensation paid to the directors of the Bank (excluding the compensation of the Chairman for the year ended December 31, 2017) was LBP /2.935.242.000/ No other benefits were granted to the directors for the year ended December 31, 2017 and, as of the date of this Offering Circular, no options for the purchase by any of the Directors of the Bank of any of the Bank's securities were outstanding.

The business address of all the directors is Creditbank SAL, Sin El Fil, Freeway Center, Beirut, Lebanon.

Key persons

As at the date of this Offering Circular, the key persons are divided into the following five categories:

(Category 1) Mr. Tarek Joseph Khalife, Chairman – General Manager, and Mrs. Maria Khalife Bazerji, executive Board member and Deputy General Manager.

(Category 2) The non-executive Board Members, being:

- (3) the individual board members H.E. Mr. Dimyanos Fares Kattar, Dr. Henry Joseph Chaoul and Mr. Albert Roger Letayf,
- And the representatives of the board members Financial Trust Participation Holding, Financial Profile Holding and Holfiban SAL Holding, being respectively Mr. Tarek Khalife, Mr. Fadi Barbar and Me. Paul Harb respectively.

(Category 3) the following persons entrusted with executive functions:

- The Deputy General Managers Mr. Elie Khoury and Miss Nayla Zeidan,
- the Legal Counsel Paul Harb Esq.,
- and the Assistant General Managers Mr. Charles Assouad, Mr. Fady Moubarak, Mr. Michel Nahas, and Mrs. Hanadi Saad.

(Category 4) The heads of departments entrusted with control function whose names and functions appear in the following table:

Name	Position
Ms. Reda El Khoury	Executive Senior Manager- Head of Credit Assessment- Commercial
Mr. Abboud Hachem	Executive Senior Manager- Head of Credit Administration
Mr. Gabriel Chkaiban	Senior Manager- Head of Internal Audit
Ms. Denise Fares	Senior Manager- Head of Risk Management
Mrs. Aline Kareh	Senior Manager- Head of Finance
Mr. Antoine Sassine	Senior Manager – Head of IT Security
Me. Anis Wakim	Head of Compliance
Mrs. Liliane Bterrani	Manager - Head of Retail CAS Department
Ms. Gladys Majdalani	Head of Admin. And follow up – Commercial Division
Ms. Vicky Taja	Head of Personnel

(Category 5) The heads of other departments whose names and functions appear in the following table:

Name	Position
Mr. Antoine El Msan	Executive Senior Manager - Head of Administration
Mr. Georges Mrad	Executive Senior Manager- Head of IT Division
Mr. Gabriel Chami	Senior Manager- Head of Cards and Business Development
Ms. Aline Chamoun	Senior Manager- Head of Human Resources
Mr. Michel El Khoury	Senior Manager- Head of Engineering and Procurement
Mr. Camille Hajjar	Senior Manager – Head of Specialized Financial Services
Mr. Costi Khoury Haddad	Senior Manager - Head of Financial Institutions
Miss. Najat Acar	Senior Manager - Head of L.C./ L.G.
Mr. Mazen Shehayeb	Manager - Head of Foreign Subsidiaries
Mr. Raymond Mourad	Head of Accounting
Mrs. Jimmy Assouad	Manager - Head of Organization & Procedures
Mrs. Nidale Karam Akl	Manager – Head of Collection & Recovery
Ms. Hyam Aoude	Manager – Head of Communication
Ms. Norma Majdalani	Assistant to the Head of Banking Operations Division
Mrs. Esperance Abou Jaoude	Head of Financial Engineering Department – Commercial Division
Ms. Alia Bou Antoun	Head of Strategy & Data Analysis – Retail Division
Mr. Joe Cherfan	Head of Sales – Retail Division
Ms. Nawal El Hajjar	Head of Clearing and Collection
Ms. Colette Hakim	Head of Training
Ms. Jinane Hadchiti	Head of SME – Commercial Division
Mr. Charbel Raad	Head of B/O Treasury/Forex/Capital Markets
Mr. Rabih Samaha	Head of Performance and Planification
Ms. Mona Sarkis	Head of Transfers & Payments
Ms. Joelle Yazbeck	Head of Marketing – Retail Division

Key persons' compensation

The compensations that the Bank paid to the above mentioned Key Persons are detailed in the following table with regard to each category of Key Persons as designated here above:

Category of Key persons	Number of beneficiaries	Total remuneration (In LBP)	Total of amounts set aside or accrued for pensions, retirement or similar benefits
Category 1 (Including the allowances for attending board meetings and committees)	2	3.624.749.939	None
Category 2 (Including the allowances for attending board meetings and committees)	6	937.568.000	None
Category 3	7	4.513.497.725,00	None
Category 4	10	1.877.808.966,00	None
Category 5	24	4.083.767.230,00	None

No other benefits were granted to the key persons for the year ended December 31, 2017 and, as of the date of this Offering Circular, no options for the purchase by any of the key persons of the Bank of any of the Bank's securities were outstanding.

No prior conviction or disqualification

In the five years prior to the date of this Offering Circular, none of the key persons were:

i. convicted of violating laws relating to fraud or financial services industries;
ii. associated with an entity in bankruptcy, liquidation or receivership;
iii. publicly sanctioned or found in violation of any rules or regulations imposed by statutory, regulatory or professional bodies; or,
iv. disqualified from acting as a director or officer of a company.

There are no conflicts of interests between any of the key persons and the Bank.

In addition, no key person of the Bank has an interest in any contract, arrangement or transaction entered into by the Bank or its subsidiaries, which is or was unusual in its nature or conditions or significant in relation to the business of the Bank. Notwithstanding the foregoing, Mrs. Maria Khalife Bazerji, Deputy General Manager, has entered into service contracts with the Bank.

Bank Committees

The Bank's various committees are established with clear missions, authorities and responsibilities in line with Central Bank regulations including Basic Circular № 81 dated February 21, 2001, as amended. Recommendations made by any committees that require the Board of Directors' approval are submitted through the Chairman-General Manager for review, decision-making or ratification. The Board of Directors is kept informed of all the decisions governing the Bank's overall activities, as submitted and recommended by the various committees. The Board of Directors is of the view that the decisions and recommendations of the various committees are made in compliance with applicable laws and regulations and in line with the strategic objectives set by the Board of Directors, as well as relevant internal Bank policies.

The Board of Directors of the Bank has established expert committees from among its members that deal with specific issues. Each committee has its specific charter. Each chairperson of a committee shall report periodically to the Board of Directors on the activities of the committee.

Board Committees

For more efficiency in the Board of Directors' role in the conduct of the Bank's affairs, it has formed the Board Committee on Audit, Corporate Governance, Risk Management, and Remuneration. Each Committee has an approved charter that sets out its mandate, scope of work and working procedures in order to support the Board of Directors in the fulfilment of its duties. Each Board Committee has direct access to appropriate members of the Bank's management, in accordance with the provisions of its respective functions. The Board of Directors is of the view that the decisions and recommendations of the various committees are made in compliance with applicable laws and regulations and in line with the strategic objectives set by the Board of Directors, as well as relevant internal Bank policies.

Board Committee on Audit

This committee comprises three Board members of which two independent Board members and one non-executive Board member. Its role and functions are defined in Central Bank's Basic Decision N° 9956 dated July 21, 2008 as amended by the Intermediate Decision N° 10405 dated March 30, 2010.

This committee is composed of Mr. Fadi Barbar (representing Financial Profile Holding SAL) a non-executive Board member, H.E. Dimyanos Kattar and Dr. Henri Chaoul independent Board members. The committee is headed by H.E. Dimyanos Kattar.

Board Committee on Corporate Governance

This committee is formed of four Board members including the Chairman-General Manager and two independent Board members. The committee debates, modifies, and approves the terms of the Code of Corporate Governance, sets up a strategy and a plan to be submitted to the Board of Directors for ratification, and follows questions related to Corporate Governance.

This committee is composed of the Chairman-General Manager Mr. Tarek Joseph Khalife, H.E. Dimyanos Kattar, Dr. Henri Chaoul and Mr. Albert Letayf, independent Board members. The committee is headed by the Chairman-General Manager.

Board Committee on Risk Management

This committee is composed of three Board members. It reviews and approves the risk management various strategies and policies of the Bank and makes regular reports to the Board. The role of the committee is mainly to:

- Establish and guide the bank's risk appetite,
- ensure the implementation of sound risk management principles facilitating the identification, measurement, monitoring and control of risks,
- monitor the bank's overall risk profile and exposure,
- discuss risk management policies and limits and either approve them or recommend modifications to the Board,
- review risk management policies annually and where deemed necessary,
- examine reports as submitted by ALCO, committee on operational risk and the head of risk management concerning risks inherent in the Bank's activities and abidance with related limits, and
- Submit policies, limits, risk management reports, etc. along with the committee's recommendations and resolutions to the board for endorsement.
- Discuss the management's reports concerning developments in liquidity position,

This committee is composed of the independent board member Dr. Henri Chaoul, Financial Trust Participation Holding SAL represented by Mr. Tarek Khalife, and Mrs. Maria Bazerji. The committee is headed by Dr. Henri Chaoul.

Board Committee on Remuneration

The Bank's Board of directors dated February 20, 2015 created a Remuneration Committee in accordance with *Banque du Liban* Basic Circular N°133 dated August 6, 2014. The Committee is composed of three non-executive Board members, its role and functions are defined in the aforementioned Basic Circular.

This committee is composed of, H.E. Dimyanos Kattar and Dr. Henri Chaoul and Financial Profile Holding SAL represented by Mr. Fadi Barbar as non-executive Board member. The committee is headed by Dr. Henri Chaoul.

The Anti-Money Laundering/Counter Financing Terrorism Board Committee

In compliance with the Central Bank Intermediary circular N° 421 dated May 4, 2016, the Bank created in May 8th, 2018 an Anti-Money Laundering/Counter Financing Terrorism Board Committee whose responsibilities include mainly:

- Supporting the Board of Directors in its function and supervisory role with respect to fighting money laundering and terrorism financing and understanding the related risks, and assisting it with making the appropriate decision in this regard; and
- Reviewing from a risk-based approach the reports submitted by the compliance and internal audit departments on adopted procedures, unusual operations and high-risks accounts, regarding cash deposits and withdrawals, transfers, exceptions from filling cash transaction slips and the link between these operations and economic activities, and also taking the relevant decision.

This committee is composed of Mrs. Maria Bazerji, Mr. Albert Letayf, and –Holfiban SAL Holding represented by Me. Paul Harb. The committee is headed by the Independent Board Member Mr. Albert Letayf.

Bank's Management Committees

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

The Executive & Investment Committee

The Executive & Investment Committee is composed of four members; it meets on a monthly basis and at request. The Executive & Investment Committee roles and responsibilities are set as follows:
- To define the strategic orientations of the Bank based on recommendations of the various committees and the BDL and BCC rules and regulations, and to submit them to the Board of Directors.
- To periodically set and review Bank policies including risk management policies and submit them to the Board of Directors.
- To set targets and define the budget.
- To follow up on the budget and the performance in accordance with the targets.
- To validate recommendations and supervise the activity of various Committees.
- Network expansion.
- To discuss any new investments including mergers and acquisition, partnership agreements, investments in companies or financial institutions, establishing foreign banks.

The Asset/Liability Committee (ALCO)

The ALCO Committee is composed of five members; it meets on a bi-monthly basis and at request. The main roles and responsibilities of the ALCO Committee are set as follows:
- To enforce the application of the assets liability management standards
- To analyse the Bank's financial ratios.
- To decide on the trading operations for the bank portfolio.
- To manage placements, deposits and credit lines with the Bank's correspondents based on the Board strategy, within the set limits.
- To define interest rates policies.
- GAP Review and Analysis.
- To analyse reports on the sources and utilizations of funds.
- To propose to the Executive & Investment Committee market risk limits.
- To decide on financial instruments based on detailed analysis including stress test scenarios and feasibility studies.
- To supervise implementation of IAS 32, 39 standards.
- To ensure the reporting to the Board of Directors through the Executive & Investment Committee, periodically and at least quarterly, operations related to investments, loans, sharing and participations that are above 1 million US or above 1% of tier one capital.
- To abide by BDL and BCC rules and regulations.
- 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.

The Credit Committee

The Credit Committee is composed of four voting members and a fifth voting member invited for fiduciary cases, it meets weekly and at request. The main roles and responsibilities of the Credit Committee are set as follows:
- To evaluate client risk and decide on the facilities to grant, as well as the terms and conditions to be applied.
- To decide on the transfer of a file to the non-performing loan Committee.
- To propose to the Executive & Investment Committee a credit policy, in coordination with the Head of Risk Management.
- To abide by BDL and BCC rules and regulations.
- To assess the risks on fiduciary cases.

The Classification, Provisioning and Non-Performing Loans Committee

The Classification, Provisioning and Non-Performing Loans Committee is composed of six voting members, it meets every three months and at request. The Classification, Provisioning and Non-Performing Loans Committee main roles and responsibilities are set as follows:

- To decide on classifying and reclassifying loans whether on-balance sheet or off-balance sheet within the three stages mentioned in article 7 of Basic Circular No. 143.
- To determine the provisions against expected credit losses.
- In general, to implement and overview the adopted approaches regarding the build-up of provisions against expected credit losses, in accordance with BDL Basic Circular No. 143 dated 7/11/2017 and BCC Circular No. 293 dated 28/12/2017.
- To review and take decisions on cases handed over by the Credit Committee.
- To follow up on cases handed over to the Legal Department.
- To recommend actions on cases and approve settlements.
- To decide on adequate provisions.

The IT & Organization Committee

The IT & Organization Committee is composed of four voting members, it meets bi-monthly and at request. The IT & Organization Committee main roles and responsibilities are set as follows:

- To optimize the performance and the bank's organization.
- To ensure the coherence and simplification of procedures.
- To revise the structures in line with new technologies, new products and business lines introduced to the Bank.
- To enforce the application of best practice.
- To decide and follow up on new IT and telecommunication projects.
- To study and follow up on the annual IT budget and make recommendations to the Executive and Investment Committee.
- To decide on new technologies to introduce to the Bank.

The Internal Control Committee

The Internal Control Committee is composed of five voting members and two non-voting members, its meets on a quarterly basis and at request. The main roles and responsibilities of the Internal Control Committee are set as follows:

- To ensure the proper application of procedures and regulations.
- To analyse audit reports and the departments' answers thereto.
- To take adequate decisions and recommend solutions.

The Network & Retail Committee

The Network & Retail Committee is composed of seven members; it meets on a quarterly basis and at request. The Network Manager has the responsibility to hold meetings with the branch managers at least quarterly to follow up on targets and budgets. The main roles and responsibilities of the Network & Retail Committee are set as follows:

- To follow up performance of the network and the retail operations.
- To develop and follow up new products and services and their commercialization.
- To make recommendations on network expansion to the Executive and Investment Committee.

The Procurement Committee

The Procurement Committee is composed of four voting members and one non-voting member; it meets on a quarterly basis and at request.

The main roles and responsibilities of the Procurement Committee are set as follows:

- To validate purchasing procedures: tenders and rules and conditions of settlement.
- To validate specifications, tenders, and technical choices for the procurements above 10.000 USD or its equivalent in other currencies.
- To study annual Budgets of Material Resources (Fixed assets, general expenses…) and make recommendations to the Executive and Investment Committee.
- To follow up on the Budget and control every expense exceeding 10%.
- To approve the list of agreed upon suppliers.

The Human Resources Committee

The Human Resources Committee is composed of four members, it meets twice a year and at request. The main roles and responsibilities of the Human Resources Committee are set as follows:

- To validate various Human Resources procedures: recruitment, career development, performance appraisals, promotions, salaries, administrative issues…
- To validate variable remunerations that are linked to the employee performance, as well the annual training plan and the annual rotation Plan.
- To study and follow up on the Human Resources annual budget and make recommendations to the Executive and Investment Committee.
- To follow up on career evolutions of management and new selected recruits.
- To approve loans to employees.
- To decide on yearly salaries increases and bonuses, except for upper management who are submitted to the Board Committee on Remuneration directly.

The Human Resources Committee is composed of the Chairman-General Manager, the deputy General Managers and the Head of Human Resources department. The Human Resources Committee is headed by the Chairman-General Manager.

The Security Committee

The Security Committee is composed of five voting members and two non-voting members; it meets on a quarterly basis and at request. This Committee's responsibilities are defined in the Banking Control Commission circular № 222 dated August 18, 2000. Its roles are mainly focused on the human security within the bank's premises and the premises and material resources security.

The Anti-Money Laundering/Counter Financing Terrorism Committee

The Anti-Money Laundering/Counter Financing Terrorism Committee is composed of eight voting members and one non-voting member; it meets on a quarterly basis and at request. Responsibilities of this Committee are as defined in the Central Bank Intermediary Decisions N° 8488 dated September 17, 2003 and N° 10725 dated May 21, 2011, as well as by Law no. 318 as amended by law 44 dated November 24, 2015 on Fighting Money Laundering (ML), Combatting Financing Terrorism (FT) and all other illegal activities relating thereto. Moreover, this committee shall keep the Chairman simultaneously notified of all findings and decisions.

The Committee on Operational Risk Management

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

- To enhance the overall handling of operational risk.
- To ensure the abidance by the Bank's operational risk policies and procedures.
- To review and approve the operational risk management procedures developed by the Risk Manager.,
- To examine and recommend on the operational risks inherent to the Bank's activities.
- To discuss the risk management operational risk and control assessment process (ORCAP) outcome and send all related reports/recommendations to the Board.

The Follow-up Committee for Subsidiaries Abroad

The Follow-up Committee for subsidiaries abroad is composed of four members; it meets a minimum of 4 meetings per year. Responsibilities of this Committee are as defined in the Central Bank's Basic Decision N° 9671 dated August 16, 2007.

Senior Management

The following table sets out the names of the senior executives of the Bank who sit on the various Committees, and their current positions at the Bank:

Name	Position
Mr. Tarek Khalife	Chairman & General Manager (GM)
Mrs. Maria Bazerji	DGM
Mr. Elie Khoury	DGM
Miss Nayla Zeidan	DGM – Head of Commercial Banking
Me. Paul Harb	General Counsel
Mr. Charles Assouad	AGM- Head of Banking Operations Division
Mr. Fady Moubarak	AGM- Head of Treasury and Capital Markets Division
Mr. Michel Nahas	AGM- Head of Branch Network Division
Mrs. Hanadi Saad	AGM – Head of Retail Division
Ms. Reda El Khoury	Executive Senior Manager- Head of Credit Assessment-Commercial Division
Mr. Antoine El Msan	Executive Senior Manager - Head of Administration
Mr. Abboud Hachem	Executive Senior Manager- Head of Credit Administration
Mr. Georges Mrad	Executive Senior Manager- Head of IT Division
Mr. Gabriel Chami	Senior Manager- Head of Cards and Business Development
Ms. Aline Chamoun	Senior Manager- Head of Human Resources
Mr. Gabriel Chkaiban	Senior Manager- Head of Internal Audit
Mr. Michel El Khoury	Senior Manager- Head of Engineering and Procurement
Ms. Denise Fares	Senior Manager- Head of Risk Management
Mr. Camille Hajjar	Senior Manager – Head of Specialized Financial Services
Mrs. Aline Kareh	Senior Manager- Head of Finance
Mr. Costi Khoury Haddad	Senior Manager - Head of Financial Institutions
Mr. Antoine Sassine	Senior Manager – Head of IT Security
Me. Anis Wakim	Head of Compliance
Mrs. Liliane Bterrani	Head of Retail CAS Department
Mr. Mazen Shehayeb	Head of Foreign Subsidiaries
Mr. Raymond Mourad	Head of Accounting
Miss. Najat Acar	Head of L.C./ L.G.
Mrs. Jimmy Assouad	Head of Organization & Procedures

Employees and Training

The Bank values its human resources and accordingly, the Bank’s workforce as at December 31, 2017 comprised of 617 employees compared to 593 employees as at December 31, 2016.

The Collective Labor Agreement that governs working conditions of all Bank employees is a contract between the Federation of unions of Bank's employees in Lebanon and the Association of Banks in Lebanon.

The stipulations of this agreement must conform to minimum requirements of the Labor Code, although greater benefits may be provided to employees than those available under the Labor Code. Some of the major provisions covered by the Collective Labor Agreement include employee hierarchy and minimum salary scales, allowances and other benefits, base salary increases, vacation and leave entitlement, health care, maximum work week, general discipline and end-of-service payment.

To date, the Bank's experience with the Federation of unions of Bank's employees in Lebanon has been one of favorable cooperation. In the past five years, the banking sector has rarely been on strike and, when strikes have occurred, such strikes have not been longer than one day.

During strikes, the Bank's personnel have always been able to secure banking services to its clients. All strikes experienced by the Bank have been sector-wide.

THE BANKING SECTOR AND BANKING REGULATIONS IN THE LEBANESE REPUBLIC

Role of Banque du Liban

Banque du Liban was created by the Law implemented by Decree No. 13513 dated August 1, 1963. Banque du Liban is a separate legal entity, not a governmental department, and is vested with financial autonomy. It is considered a commercial institution in its relations with third parties. It is headquartered in Beirut and has branches in Tripoli, Jounieh, Saida, Zahle, Bikfaya, Aley, Tyre, Nabatiye and Baalbek. Banque du Liban is managed by a Governor assisted by four Vice-Governors, collectively constituting the Governorship of Banque du Liban. The Board of Banque du Liban is chaired by the Governor and composed of the Vice-Governors, the Director-General of the Ministry of Finance and the Director-General of the Ministry of Economy and Trade.

The Governor is appointed, for a six calendar year tenure, by decree from the Council of Ministers, acting on the proposal of the Minister of Finance. The Vice-Governors are appointed for five calendar years by decree from the Council of Ministers on the proposal of the Minister of Finance, after consultation with the Governor.

Banque du Liban's primary role is to safeguard the currency and promote monetary stability, thereby creating a sound environment for economic and social progress. Banque du Liban also advises the Government of Lebanon on various economic and financial matters. In conducting its monetary management function, Banque du Liban utilizes a wide range of instruments, including reserve requirements on Lebanese Pound deposits with commercial banks, liquidity requirements on U.S. Dollar deposits with commercial banks and Treasury bill repurchase and swap agreements with commercial banks, as well as Lebanese Pound and U.S. Dollar-denominated certificates of deposit issued by Banque du Liban.

As a result of high inflation prior to 1992, the Lebanese economy became substantially dollarized. Despite the decline in the rate of inflation, the proportion of foreign currency deposits (primarily in U.S. Dollars) remains high as a share of total deposits, approximately 65 % as at December 31, 2016.

Banking Sector

As of June 2018, and based on information from the Association des Banques au Liban, there were 65 active banks, 49 financial institutions, and 13 financial intermediaries institutions in Lebanon. Foreign banks are well represented in Lebanon and maintain branches in Lebanon or equity stakes in several Lebanese banks.

Unlike the banking sector in some other emerging market countries, the banking sector in Lebanon is generally acknowledged to be stable and financially strong, and plays a critical role in the economy as a whole.

The banking sector currently offers services related to short-term and, increasingly, medium-term financing. As medium-term funds become available to Lebanese banks (by way of loans from international organizations, such as the International Finance Corporation, the European Investment Bank, Proparco, Agence Française de Développement, the European Union and the Arab Trade Financing Program or the issuance of debt securities on the international capital markets), commercial banks have begun to offer a variety of medium-term loans, such as residential mortgage loans, other consumer loans and several types of loans to corporate investors. In addition, Parliament passed legislation to revitalize specialized banks (for housing, agriculture and industry). State participation in the shareholding of these banks has been reduced to a minority stake. In addition, Parliament passed laws relating to the listing of bank shares on stock exchanges and several banks currently list their eligible shares on the Beirut Stock Exchange.

The Bank considers the banks in Lebanon with customers' deposits in excess of U.S. $2.0 billion (the "Alpha Group") to be its main competitors. As at December 31, 2017, based on financial statements of banks operating in the Lebanese Republic provided to Bank data, the Bank ranked 14.

Banking Regulations

Banking activities in Lebanon are governed by the Code of Commerce, the Code of Money and Credit and Banque du Liban Decisions. Regulations are set out by Banque du Liban and the Banking Control Commission, which was established in 1967 and has responsibility to supervise banking activities and ensure compliance with regulations and legislation.

The Banking Control Commission undertakes both off-site reviews and on-site examinations of Lebanese banks to assess, inter alia, compliance with banking laws and regulations, reliability of bank reporting, levels of liquidity and capital adequacy and loan-to-deposit ratios.

The Capital Markets Authority, established pursuant to Law 161 dated 17/8/2011, is an independent body that regulates the capital Markets in Lebanon and promotes investment in financial instruments. The Capital Markets Authority is presided by the Governor and is comprised of the Board, the Secretariat, the Financial Control Unit, and the Sanction Committee. The Capital Markets Authority coordinates and cooperates with its counterparts, as well as with *Banque du Liban* and any other concerned authority or institution in Lebanon or abroad. The Capital Markets Authority issued its first regulations on June 11, 2013. Banks in Lebanon are bound to comply with the Capital Markets Authority's regulations relating to the capital markets and financial instruments.

Banks regularly submit reports to *Banque du Liban*, including daily lists of foreign exchange transactions undertaken, weekly reports on the portfolio of treasury bills held periodic financial information on customers and interbank deposits and audited financial statements. Banks also submit regular reports to the Banking Control Commission mainly on their lending portfolio and on some details of their financial statements. Banks are also required to provide certain reports, including semi-annual financial statements, monthly financial instruments reports, insider lists and details of operations undertaken by insiders to the Capital Markets Authority. Furthermore, banks, like all joint stock companies registered in Lebanon, must have their by-laws and minutes of certain shareholders' meetings, as well as minutes of Board of Directors meetings whose objects relate to, or otherwise affect, third parties, registered with the Register of Commerce.

Related Party Transactions

Transactions between the Bank and related parties are subject to the limitations set forth in the Lebanese Code of Commerce, the Code of Money and Credit and the newly issued *Banque du Liban* Decision No. 11717 dated March 8, 2014 ("Decision No. 11717"), that deleted the provisions related to this issue in Central Bank Decision No. 7776 dated February 21, 2001.

Decision No. 11717 defines related parties in accordance with Article 152 (4) of the Code of Money and Credit as follows: "(a) major shareholders who own or are part of a connected group of shareholders who own directly or indirectly (i) 5% or more of the company's shares or voting rights, whichever is greater; or (ii) less than 5% of the company's shares but have influence on the company's decisions as a result of the share distribution among shareholders; (b) members of the Board of (i) the company, (ii) its subsidiaries and associates in Lebanon and abroad, and (iii) companies holding directly or indirectly 20% or more of the company's shares or their related voting rights whichever is greater, or having a significant influence on the company's decisions as a result of the share distribution among shareholders even if they own less than 20% of the company's shares; (c) the company's management, meaning any employee holding the title of Manager and above (i) in the company, (ii) in any company's subsidiaries in Lebanon and abroad, and (iii) in companies holding directly or indirectly 20% and above of the company's shares or their related voting rights whichever is greater, or having a significant influence on the company's decisions as a result of the share distribution among shareholders even if they own less than 20% of the company's shares; (d) family members of the above mentioned related parties under (a), (b) and (c) meaning their spouse, parents, children and sibling who are financially dependent on them; (e) companies related directly or indirectly to the parties previously mentioned under (a), (b), (c) and (d) meaning companies in which any of such persons directly or indirectly holds more than 20% of the shares or their related voting rights whichever is greater or have a significant influence on the companies' decision or with which such persons have common interests in the opinion of the Banking Control Commission; (f) individuals and companies having directly or indirectly the guarantee of the previous mentioned parties under (a), (b), (c), (d) and (e); (g) the non-financial company's subsidiaries and associates in Lebanon and abroad."

Pursuant to Article 152 of the Code of Money and Credit, the Board of Directors of the Bank must authorise all credit facilities granted directly or indirectly to major shareholders, Board members and Management, as well as to their respective family members and related companies. The authorisation of the Board of Directors must specify the amount and terms of the facilities granted, which should thereafter be submitted to the General Assembly for approval as required.

Banque du Liban Decision No. 11717 sets out the details of the application of Article 152, as follows: (i) loans granted by branches of a company in Lebanon and abroad, as well as its bank and financial institutions subsidiaries in Lebanon, and (ii) to consolidated shareholders' equity of those entities identified in (i) after deduction of the company's total investments in the banks and financial institutions subsidiaries abroad.

Banque du Liban Intermediary Decision No. 10621, dated December 30, 2010, amending Decision No. 7776, prohibits lending and deposits made by commercial banks with "specialised banks" and "Islamic banks" belonging to the same economic group. These restrictions do not apply to deposits made by "specialised banks" and "Islamic banks" in commercial banks belonging to the same economic group.

Banque du Liban Decision No. 7156, dated November 10, 1998, provides that net inter-bank deposits and placements among banks and foreign affiliated companies (whether or not financial institutions) may not exceed 25.0% of a bank's Tier I Capital.

Reserve Requirements

Pursuant to Decision No. 7835, dated 2 June 2001, as amended, all banks operating in Lebanon, except investment banks and commercial banks making medium and long-term loans, must maintain a compulsory reserve in cash with *Banque du Liban* equal to: (i) 25 per cent of the weekly average of the sum of Lebanese Pound-denominated demand deposits; and (ii) 15 per cent of the weekly average of Lebanese Pound-denominated term deposits. *Banque du Liban,* pursuant to recent regulations amending Decision No. 7835, established exemptions from compulsory reserves requirements to incentivize banks to extend different types of Lebanese Pound-denominated loans, such as, housing, Kafalat, education and consumer loans for the financing of environment-friendly projects.

On 27 September 2001, *Banque du Liban* issued Decision No. 7935, as amended, implemented Decision No. 7926, dated 20 September 2001, pursuant to which all banks operating in Lebanon must maintain in cash with *Banque du Liban* an interest-bearing deposit to the extent of 15 per cent of all foreign currency-denominated deposits, notes, certificates of deposit, banks' certificates and other debt instruments and loans granted by the financial sector with a remaining time to maturity of one year or less, against payment of interest at the rate applied by *Banque du Liban* on foreign currency-denominated deposits.

Pursuant to *Banque du Liban* Decision No. 6101 dated 8 February 1996, as amended, *Banque du Liban* may grant, on a case-by-case basis, to commercial banks making medium- and long-term loans, the same reserve requirement concessions and exemptions as those granted to "specialized banks" governed by Decree Law No. 50 dated 15 July 1983. Pursuant to Intermediary Decision No. 10987 dated 30 April 2012, amending Decision No. 6101, "specialized banks" were required to maintain a compulsory reserve in cash with *Banque du Liban* equal to: (i) 15 per cent of the weekly average of the sum of Lebanese Pound-denominated deposits that are not invested; and (ii) 15 per cent of the aggregate investment amounts that are not in compliance with the delays prescribed by Decree Law No. 50 dated 15 July 1983. *Banque du Liban* Decision No. 7693 dated 18 October 2000, as amended, provides that all banks operating in Lebanon must maintain at all times a minimum of 10 per cent. of all foreign currency-denominated deposits, debt securities, certificates of deposits, banks' certificates and other debt instruments and loans granted by the financial sector with a remaining time to maturity of one year or less, in liquid assets consisting of: (i) cash in a bank's vaults; (ii) cash deposited with the Central Bank; and (iii) cash deposited with other banks with a remaining time to maturity equal to or less than one year.

Banque du Liban Decision No. 7694, dated 18 October 2000, as amended, provides that all banks operating in Lebanon must also maintain a minimum of 40 per cent of their Tier I Capital denominated in Lebanese Pounds, after provisions and distribution of profits, in liquid assets, consisting of: (i) cash in the Bank's vaults; (ii) cash deposited with the Central Bank; (iii) cash deposited with other banks with a remaining time to maturity equal to or less than one year; and (iv) Lebanese treasury bills with a remaining time to maturity of one year or less.

Banque du Liban, pursuant to recent regulations amending Decision No. 7835, established exemptions from compulsory reserves requirements to incentivize banks to extend different types of Lebanese Pound-denominated loans, such as, housing, Kafalat, education and consumer loans for the financing of environment-friendly projects.

Liquidity

Banque du Liban Decision No. 7693 dated 18 October 2000, as amended, provides that all banks operating in Lebanon must maintain at all times a minimum of 10 per cent of all foreign currency-denominated deposits, debt securities, certificates of deposits, banks' certificates and other debt instruments and loans granted by the financial sector with a remaining time to maturity of one year or less, in liquid assets consisting of: (i) cash in a bank's vaults; (ii) cash deposited with *Banque du Liban*; and (iii) cash deposited with other banks with a remaining time to maturity equal to or less than one year.

Banque du Liban Decision No. 7694, dated 18 October 2000, as amended, provides that all banks operating in Lebanon must also maintain a minimum of 40 per cent of their Tier I Capital denominated in Lebanese Pounds, after provisions and distribution of profits, in liquid assets, consisting of: (i) cash in the Bank's vaults; (ii) cash deposited with *Banque du Liban*; (iii) cash deposited with other banks with a remaining time to maturity equal to or less than one year; and (iv) Lebanese treasury bills with a remaining time to maturity of one year or less.

Banque du Liban Basic Decision No. 12768, dated March 8, 2018 sets an obligation on banks operating in Lebanon to keep a Liquidity Coverage Ratio (LCR) which reflects their internal assessment of liquidity risk and is consistent with their liquidity risk profile, provided this ratio exceeds 100% for each significant currency, i.e. the currencies representing 5% or more of total liabilities.

Calculations for the LCR and criteria are provided in said decision. Also, by virtue of said decision, the banks shall provide all the data needed for the LCR calculation, shall designate the persons in charge of the data reporting process, and shall set up the relevant regulatory framework for LCR automated calculation and periodic monitoring. They are also required, for the purpose of managing and examining the liquidity position, to adopt additional scenarios and assumptions, to develop any necessary complementary liquidity tools, to set internal liquidity limits, and to conduct stress tests to examine their impact on the existing liquidity ratios.

Property acquired in settlement of debts

Pursuant to *Banque du Liban* Decision No. 7740, dated 21 December 2000, as amended, banks are required to establish a special reserve for properties acquired in satisfaction of debts and not liquidated within the required delays. The Banking Control Commission Circular No. 4/2008 provides that banks must establish such special reserve at the end of the fiscal year during which the acquired property should have been liquidated. This special reserve shall be withheld from the annual profits and shall not be accounted for as an expense in the profit and loss account in accordance with IFRS.

Capital Adequacy

Pursuant to *Banque du Liban* Decision No. 6939, dated March 25, 1998, with effect from December 31, 2001, all banks operating in Lebanon have been required to maintain a minimum capital adequacy ratio, initially set at 12.0%. *Banque du Liban* Decision No. 9302, dated April 1, 2006 ("**Decision No. 9302**") required Lebanese banks to phase in application of the Basel II Accord from January 1, 2008 in accordance with the standards set out in Decision No. 9302 and any subsequent decisions or implementing regulations.

On December 7, 2011, Decision No. 6939 was amended by Decision No. 10848 to define three minimum levels of capital adequacy ratios to be adopted by all banks operating in Lebanon progressively as follows: (i) Common Equity Tier I Ratio (5.0% as at December 31, 2012, 6.0% as at December 31, 2013, 7.0% as at December 31, 2014 and 8.0% as at December 31, 2015); (ii) Tier I Ratio (8.0% as at 31 December 2012, 8.5% as at December 31, 2013, 9.5% as at December 31, 2014 and 10.0% as at December 31, 2015); and (iii) Total Capital Ratio (10.0% as at December 31, 2012, 10.5% as at December 31, 2013, 11.5% as at December 31, 2014 and 12.0% as at December 31, 2015), taking into consideration in the year 2015 a capital conservation buffer of 2.5%.

On 30 September 2016, Decision No. 6939 was amended by Decision No. 12348, which provides for the gradual adoption of new capital adequacy ratios, as follows: (i) Common Equity Tier I Ratio (8.5% as at 31 December 2016, 9% as at 31 December 2017, 10% as at 31 December 2018); (ii) Tier I Ratio (11% as at 31 December 2016, 12% as at 31 December 2017, 13% as at 31 December 2018); and (iii) Total Capital Ratio (14% as at 31 December 2016, 14.5% as at 31 December 2017, 15% as at 31 December 2018), with all ratios including a capital conservation buffer that will reach 4.5% of weighted assets by 2018.

On March 6, 2014, the Central Bank issued Intermediary Decision No. 11714, which renamed Decision No. 6939 as the "Capital Adequacy Regulatory Framework for Banks Operating in Lebanon" and amended Decision No. 6939 through the restructuring of certain provisions and introducing a definition of free earnings, subsidiaries and associates, as well as a definition of the conditions to classify financial instruments in respective capital categories (Tier I common equity and additional Tier II) with a detailed list of acceptable elements in each category.

The capital of commercial banks in Lebanon has increased substantially in recent years. As at December 31, 2016, the total capital adequacy ratio of Lebanese banks was 14.6%, which is above the level required by the Basel III Accord.

Pursuant to *Banque du Liban* Decision No. 9957, dated July 21, 2008, relating to the assessment of the capital adequacy of Lebanese banks, the senior executive management of Lebanese banks is required, in addition to meeting the Pillar I requirements (*i.e.*, minimum capital levels under the Basel II Accord), to establish a documented mechanism for the assessment of the bank's capital adequacy (ICAAP or Internal Capital Adequacy Assessment Process). The assessment of such capital adequacy is to be carried out in accordance with certain guidelines, including, among other things, (i) the risks to which the bank is exposed, such as credit risk, market risk, operational risk, interest rate risk, credit concentration risk, liquidity risk and strategic risk; (ii) the future capital needs of the bank; and (iii) the periodic monitoring of the sufficiency of the bank's capital to cover the minimum requirements to counter any risks or potential negative changes.

The Banking Control Commission periodically ensures that the assessment of a bank's capital adequacy is carried out in accordance with Decision No. 9957 by reviewing and evaluating all the qualitative (*i.e.*, corporate governance, risk management and internal control regulations) and quantitative (*i.e.*, the calculation of the capital requirements in accordance with Pillar I and Pillar II) elements adopted by a bank in its capital adequacy assessment process.

The Banking Control Commission has the right to instruct the bank to increase its shareholders' equity should it deem the foregoing qualitative and quantitative elements to be weak or inadequate, although any such increase of shareholders' equity shall not exempt the bank from rectifying such weaknesses or inadequacies.

Corporate Governance

Central Bank decision No. 7737, issued on 15 December 2000, as amended, establishes an internal control and internal audit framework for banks, depending on the size of the relevant bank and the nature of risks it is or might be exposed to and taking into consideration several basic components.

Central Bank Decision No. 7776, issued on 21 February 2001, as amended, requires all decisions concerning credit granting, liquid asset investments, real estate investments, shareholding, participations, and operations performed on their own account on structured or derived financial instruments to be taken by banks operating in Lebanon to be submitted to the prior approval of one or more committees, as needed and as per a pre-defined structure and framework, specialized in the setting of efficient strategies for the management, follow-up and development of the bank's activities, whether at the level of the bank or the banking group, as applicable.

Central Bank Decision No. 9286, dated March 9, 2006, as amended, requires employees in specified regulated functions within the Bank to meet certain qualifications and to acquire certain certificates (depending on the type of function concerned) in order to hold such positions.

Banque du Liban Decision No. 9382 dated July 26, 2006, as modified on April 21, 2011, adopted in implementation of the Basel II International Convention regarding the banks' corporate governance, has outlined the general guidelines for the banks' corporate governance, regarding, inter alia: (i) the directors' competence to hold their positions; (ii) the board of directors' role in specifying the strategic goals and corporate values of the bank and to ensure implementation thereof; (iii) the board of directors' duty to clearly provide for responsibilities and accountability and to ensure that such responsibility and accountability are thoroughly applied; and (iv) the transparent management of the bank.

Pursuant to *Banque du Liban* Basic Decision No. 9956 dated July 21, 2008, the board of directors of each Lebanese bank is required to:

- Establish an audit committee composed of at least three non-executive directors, one of whom shall have experience in accounting, financial management or auditing. This audit committee shall, inter alia, assist the board of directors in the performance of its duties, in particular with respect to: (i) assessing the qualifications and independence of each of the auditors and the internal audit unit; (ii) monitoring the accuracy of the bank's financial statements and reviewing the disclosure criteria adopted by the bank; (iii) reviewing the sufficiency and effectiveness of the bank's internal control regulations and procedures; (iv) following up on the implementation of the proposed corrections included in any reports issued by the internal audit unit and the auditors; and (v) monitoring the bank's compliance with applicable Banque du Liban and Banking Control Commission regulations.

  In addition, the audit committee shall, separate from its duty to assist the board of directors, independently supervise the internal audit activities, assess the performance, independence and objectivity of the auditors and review the internal control regulations and procedures, including AML procedures and the prevention of terrorism financing procedures, in order to ensure their sufficiency and effectiveness.

- Establish a risk committee comprised of at least three directors and chaired by an independent member who has modern and practical banking or financial experience in risk assessment and management. The risk committee shall, among other things, assist the Board of Directors in the performance of its duties, in particular with respect to supervision of the proper implementation by the Bank of risk management rules, as detailed in the regulations issued and to be issued by the Central Bank and the Banking Control Commission. The Committee's scope of work shall cover the Bank in Lebanon and all its branches and subsidiaries abroad.

- Determine the compensation of the Audit and Risk Committee's Chairmen and members.

Banque du Liban Decision No. 10224 dated August 13, 2009 requires all Lebanese banks to appoint as of the 2010 financial year two separate external auditors to jointly audit the banks' accounts. The Bank is in compliance with the requirements provided under said decision.

According to *Banque du Liban* Basic Decision Nº 11821 dated August 6, 2014 (Decision Nº 11821) the Board of Directors of each Lebanese bank shall before the end of 2014 (i) approve a written "remuneration" policy in line with the bank's strategy and development; (ii) establish a Remuneration Committee chosen among the Board non- executive members. The Remuneration Committee shall draft the remuneration policy and the remuneration system, supervise the proper implementation thereof and review and assess them periodically. The Committee shall also evaluate accurately the total granted remunerations, and submit to the Board of Directors specific proposals about the Senior Executive Management remunerations along with a written procedure for evaluation of the performance of the Bank's employees in an objective and transparent manner. Furthermore, the Committee shall make sure that the Remuneration Policy complies with BDL regulations and verify that the disclosure principles adopted by the bank are consistent with the provisions of Articles 13 and 14 of Decision Nº 11821.

Pursuant to *Banque du Liban* Basic Decision No. 10227 dated August 21, 2009; Lebanese banks are required to adopt a business continuity plan for purposes of ensuring the continuity of the banks' operations in the event of the occurrence of any disaster or other event that may affect the continuity of any bank's operation. Decision 10227 grants banks a one-year phase-in compliance period. The business continuity plan shall include: (i) preventive and precautionary measures; (ii) detection procedure; (iii) rescue measures or operating pattern during and after the disaster; and (iv) procedures for resuming the ordinary course of business. The Bank adopted its first business continuity plan in 2008 and periodically reviews and updates it.

Banque du Liban Decision No. 11323 dated January 12, 2013 requires all Lebanese banks to establish a Compliance Department which is divided into (i) a Legal Compliance Unit, and (ii) an AML/CFT Compliance Unit. The Compliance Department should be independent from all other activities of the bank and its members should not be executive members of the banks. The Bank established a Compliance Department and appointed a head thereto in June 2013.

Banque du Liban Intermediary circular N° 421 dated May 4, 2016 instructed the banks to create an Anti-Money Laundering/Counter Financing Terrorism Board Committee whose responsibilities shall include mainly:

- Supporting the Board of Directors in its function and supervisory role with respect to fighting money laundering and terrorism financing and understanding the related risks, and assisting it with making the appropriate decision in this regard; and
- Reviewing from a risk-based approach the reports submitted by the compliance and internal audit departments on adopted procedures, unusual operations and high-risks accounts, regarding cash deposits and withdrawals, transfers, exceptions from filling cash transaction slips and the link between these operations and economic activities, and also taking the relevant decision.

Pursuant to *Banque du Liban* Basic Decision No. 12670 dated September 18, 2017; Lebanese banks are required to prepare a "Recovery Plan" to be approved by the BOD in order to restore stability to their financial situation and to cope with any future difficulties in times of crisis. The plan must be written and adapted to the bank's size, to its level of expansion abroad, and to the degree of complexity of its activities and operations. It must also be updated annually with the BOD's approval. Decision 12670 provides for the key elements that must be contained in such recovery plan, and sets an obligation to provide the Banking Control Commission with it. The decision grants banks a six-month time limit from the issuance date of the decision and the application guidance issued by the BCC.

Pursuant to *Banque du Liban* Basic Decision No. 12689 dated October 05, 2017; the BOD of Lebanese banks shall adopt a documented plan called "Board Members' Succession Plan" in which it proposes the names of the new Chairman and members of the Board to the General Assembly at the end of the term of office of a Board Member or in case of vacancy. BDL decision 12689 provides for the relevant elements that must be contained in such plan that shall be reviewed by the BOD on an annual basis to ensure its compliance with the bank's strategy and the development of its operations. The aforementioned decision grants banks a one-year time limit as of its issuance date to fulfill its requirments.

The Bank is complying with all aforementioned decisions and requirements and is for that purpose, (i) finalizing the strategy and business plan as well as the recovery plan, (ii) arranging for certain employees in specified regulated functions within the Bank to complete the relevant exams required by the Central Bank Decision No. 9286 dated March 9, 2006, and (iii) preparing the Board Members' Succession Plan and obtaining the necessary internal approvals thereon.

Credit Limits

Banque du Liban Decision N° 7055 dated August 13, 1998, as amended by Decision N° 11309 dated December 20, 2012, sets the maximum allowable weighted credit limit for loans to a single borrower (or a group of related borrowers) at: (i) 20.0% of the Bank's Tier 1 capital with respect to loans extended to a single borrower (or a group of related borrowers) the proceeds of which are to be used in Lebanon or outside Lebanon, or (ii) 10.0% of the Bank's Tier 1 capital with respect to loans extended to a single borrower (or a group of related borrowers) the proceeds of which are to be used in countries with sovereign ratings, subject to the following:

- the aggregate exposure of a bank to borrowers in all countries other than Lebanon, regardless of the sovereign ratings of such countries, may not exceed 400.0% of the Bank's Tier 1 capital;
- for countries with a rating BBB and above, the aggregate exposure of a bank to borrowers in any one such country may not exceed 50.0% of the Bank's Tier 1 capital;
- for countries with a rating below BBB and unrated, (x) the aggregate exposure of a bank to borrowers in all such countries may not exceed 100.0% of the Bank's Tier 1 capital and (y) the aggregate exposure of a bank to borrowers in any one such country may not exceed 25.0% of the Bank's Tier 1 capital; and
- the relevant country limit imposed on a bank's foreign banking operations may be increased by an additional 25% of the Bank's Tier 1 capital with respect to loans granted and to be used in the country in which the relevant foreign banking operation conducts its principal business; provided such loans are financed by local deposits.
- Total facilities (exceeding 10% of consolidated Tier 1 capital of the bank) may not exceed 4 times consolidated Tier 1 capital.

In any event, exposure to any one borrower or group of borrowers may not exceed 20.0% of the bank's consolidated Tier 1 capital.

Article 152 of the Code of Money and Credit provides that advances and credit facilities to directors or managers of banks or to companies having common directors with a bank must be authorised by the shareholders of the bank, must not exceed in aggregate 2.0% of the bank's shareholders' equity, and must be secured. According to the Bank's independent auditors, as at December 31, 2016, the Bank was in compliance with article 152 of the Code of Money and Credit and with the Central Bank Decision No. 7055.

Foreign Exchange Trading

Banque du Liban Decision No. 6568, dated April 24, 1997, as amended, prohibits Lebanese banks from maintaining at any time net trading positions against Lebanese Pounds in an amount greater than 1 per cent of Tier I Capital provided that global positions greater than 40 per cent of Tier I Capital.
Lebanese banks, however, are allowed, under Decision No. 6568, to hold a structural foreign exchange position up to 60 per cent of adjusted Tier I Capital denominated in Lebanese Pounds.

Loan Classification

Banque du Liban Decision No. 7159, dated November 10, 1998, as amended among others, by Decision No. 12256 dated May 4th, 2016, introduces specific rules relating to loan classification and provisioning in accordance with the Basel Committee regulations. Specifically, it differentiates between the Retail Loans - which include the consumer loans, the revolving credits, and the housing loans - and the commercial loans such as the corporate or SME loans. It also divides loan facilities into six categories: regular loans, follow up loans, watch list loans, substandard loans, doubtful loans, and Bad Debt Loans.

Also in accordance with *Banque du Liban* Intermediary Decision No. 10711, all Lebanese banks are required to adopt in addition to the supervisory classification, their own loan grading system for purposes of managing their credit risk. In this context, Lebanese banks are required to classify the loans into ten categories: Excellent, Strong, Good, Satisfactory, Adequate, Marginal, Vulnerable, Substandard, Doubtful and Loss.

The loan grading system must, inter alia, include:

- the criteria for adopting the credit rating or the scoring rating methodologies to a credit file;
- a classification system based on the ratings of the borrowers and the facilities through, inter alia:
  - i- reviewing the standalone or consolidated financial statements of the borrowers, including (a) current and anticipated cash flows, (b) sales and returns, (c) profitability (profit margin, return on assets and return on equity), (d) source of funding (leverage ratio, working capital and receivables), (e) quality of assets and (f) transparency in the financial statements;
  - ii- assessing the borrowers' management, including, (a) the credentials and experience of their senior management, (b) the existence of a succession plan, (c) their relations with third parties (reputational and legal risks), (d) their business plan and (e) future plans;
  - iii- evaluating the economic sectors of the borrowers, including (a) the profitability and risks of the economic sectors, (b) volatility of earnings and cyclicality of demand and (c) market share and position of the borrowers;
  - iv- evaluating the facilities risks, including (a) type of facilities, (b) covenants provided under the facilities documents, and (c) type of available collaterals and/or guarantees;
  - v- evaluating the country risks, including political and economic risks and their impact on the borrowers; and
  - vi- evaluating the external factors, including operational and regulatory risks.

All Lebanese banks must harmonize between the supervisory classification and loan grading system as per the following:

<table>
<tr><th>Loan Grading System</th><th>Supervisory Classification</th></tr>
<tr><td>Excellent</td><td rowspan="4">Regular Accounts</td></tr>
<tr><td>Strong</td></tr>
<tr><td>Good</td></tr>
<tr><td>Satisfactory</td></tr>
<tr><td>Adequate</td><td>Follow-Up</td></tr>
<tr><td>Marginal</td><td rowspan="2">Watch list</td></tr>
<tr><td>Vulnerable</td></tr>
<tr><td>Substandard</td><td>Substandard</td></tr>
<tr><td>Doubtful</td><td>Doubtful</td></tr>
<tr><td>Loss</td><td>Loss accounts</td></tr>
</table>

Provision for Bad Debt and Doubtful Loans

Loan provisioning is based on the Bank’s loan classifications, subject to the prior approval of the Banking Control Commission. The Banking Control Commission undertakes a regular review of banks and their portfolios.

Provisions for doubtful debts are established to cover any possible losses in principal and interest in the existing portfolio of loans and advances to customers and contingent accounts. No statutory general provisions are required on a bank’s loan portfolio other than the legally mandated reserve for unspecified banking risks. In determining the level of provisions to be constituted, the Bank takes into consideration (among other things) the level and type of collateral and guarantees held against each non-performing loan.

Banque du Liban has no current policy of requiring non-performing loans to be written-off, except upon conclusion of bankruptcy or similar proceedings. Generally, write-offs are recorded only after all reasonable restructuring or collection recourses have been exhausted and the possibility of any future recovery is considered to be remote. Conversely, provisions are written back to income only when the debt is restructured or repayment effectively resumed. In accordance with Circular N° 240 issued by the Banking Control Commission effective January 2, 2004, fully provisioned bad debts maintained for more than four years (two years if in amounts less than the equivalent of U.S.$5,000) are to be transferred to off-balance sheet.

Provisions are reviewed periodically by the Bank, using criteria consistent with the preceding year.

Reserves for General Banking Risk

Pursuant to Banque du Liban Basic Decision No. 7129, dated October 15, 1998, as amended by Intermediary Decision No. 10146 dated May 9, 2009, banks operating in Lebanon are required to allocate on a yearly basis a general reserve (to be included in Tier I Capital) for unspecified banking risks out of net profits in an amount equal to a minimum of 0.2 per cent and a maximum of 0.3 per cent of risk-weighted assets. The accumulated reserve for unspecified banking risks must be equivalent to 1.25 per cent of risk-weighted assets within ten years from the Decision No. 7129’s issuance and 2.0 per cent of risk-weighted assets within a period of 20 years from the Decision No. 7129’s issuance. The reserve for general banking risks shall be calculated in accordance with Basel II requirements as of the 2008 fiscal year.

Accounting Standards

Effective since 1997, all Lebanese banks are required to prepare their financial statements in accordance with International Financial Reporting Standards (IFRS). The Banking Control Commission has issued instructions which correspond to International Financial Reporting Standards; for instance, the recognition of interest on classified loans only on a cash basis, collective provisions calculations, guidelines for the effects of hyper-inflation, the recording of exchange gains and losses arising from revaluation of foreign exchange positions and a statement of non-monetary assets acquired in settlement of debts at current price.

There are also certain restrictions on lending to shareholders and directors and on investments in subsidiaries and affiliates.

Banque du Liban Decision N° 6576 dated April 24, 1997, requires Lebanese banks to prepare consolidated financial statements effective July 1, 1997. Consolidated financial statements must include all companies (financial and non-financial) under a bank’s exclusive control (evidenced by ownership of 50.0% or exclusive control over management). Companies in which the bank has joint control (evidenced by direct or indirect ownership ranging from 20.0% up to 50.0%) should be presented using the “equity method”.

On 12 November 2009, the IASB issued IFRS 9 Financial Instruments as the first step in its project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces new requirements for classifying and measuring financial assets that must be applied starting 1 January 2013, with early adoption permitted.
IFRS 9 divides all financial assets that are currently in the scope of IAS 39 into two classifications - those measured at amortised cost and those measured at fair value. Classification is made at the time the financial asset is initially recognised, namely when the entity becomes a party to the contractual provisions of the instrument.
All equity investments in scope of IFRS 9 are to be measured at fair value in the statement of financial position, with value changes recognized in profit or loss, except for those equity investments for which the entity has elected to report value changes in 'other comprehensive income'. If an equity investment is not held for trading, an entity can make an irrevocable election at initial recognition to measure it at fair value through other comprehensive income (FVTOCI) with only dividend income recognized in profit or loss.

Basic Decision No. 12689 dated 07 November 2017 and relating to the implementation of the IFRS9, require banks and financial institutions, as of 1st January 2018, to apply the IFRS9 on both individual and consolidated financial statements, and to prepare and document one or more business models that are consistent with the IFRS9 requirements and that reflect the strategy set to manage financial assets and ensure cash flow.
According to said decision, banks must:

1- Assess periodically, at least quarterly, and as needed, the credit risk associated with each type of on-balance sheet financial assets and off-balance sheet financial liabilities involving a credit risk, particularly to monitor any likely significant increase in credit risk and the magnitude of that increase,
2- Classify these on-balance sheet financial assets and off-balance sheet financial liabilities into three categories:
   - Stage 1: Performing on-balance sheet financial assets and off-balance sheet financial liabilities which were not exposed to a significant increase in credit risk.
   - Stage 2: Under-performing on-balance sheet financial assets and off-balance sheet financial liabilities which were exposed to a significant increase in credit risk.
   - Stage 3: Non-performing on-balance sheet financial assets and off-balance sheet financial liabilities which were credit-impaired and which comprise debts that are rated "substandard", "doubtful", and "bad debts" pursuant to Basic Decision No. 7159 of 10 November 1998.

The above mentioned decision sets an obligation on banks and financial institutions to build up provisions against expected credit losses. Also, the BOD shall approve the IFRS9 adopted policies and procedures and revise them periodically. The Audit and Risk committee shall also hold periodic meetings with the specialized committees in charge of the IFRS9 implementation, and they shall have a key role in ensuring compliance with IFRS 9.

According to Basic Decision 12659 dated 06 September 2017, external auditors are requested to express their opinions on whether the financial statements of the banks and financial institutions reflect properly and justly their financial position, performance, and cash flows in line with the IFRS9.

AML/CFT Laws and regulations

According to Law No. 318 dated April 20, 2001, banks must control their operations with customers in order to prevent any involvement in operations related to money laundering or terrorism financing. This law also established a Special Investigation Commission (SIC), which acts as a Financial Investigation Unit, to supervise, control and investigate AML and CFT operations in accordance with the law.

Law No. 44 dated November 13, 2015, amended Law No. 318, through, among other changes, the introduction of new predicate offenses, including tax evasion, piracy, insider trading, fraud and corruption, bribery, illicit enrichment, abuse of power and misuse of authority.

On May 18, 2001, the Central Bank issued Decision No. 7818, as amended, to implement Law No. 318, which detailed the requirements with which all banks and other concerned institutions should comply. This Decision covered, among other things, relations with foreign correspondent banks, relations with customers and due diligence measures, controls on certain operations and customers, the establishment of committees and administrative units in charge of the control of operations for fighting money laundering and terrorism financing, and the tasks to be assigned to such units.

Central Bank Basic Decision No. 7818 dated 18 May 2001, relating to the Control of Financial and Banking Operations for Fighting Money Laundering and Terrorism Financing (AML/CFT) as amended by Central Bank Intermediary Decision No. 12255 dated May 4, 2016, provides that, by no later than May 4, 2017, banks operating in Lebanon must establish an AML/CFT board committee composed of at least three board members, including one independent board member that will act as chair of the committee. The Bank is in the process of establishing the AML/CFT at board level.
Also, the most recent amendment to said decision was made by the Intermediate Decision 12826 (Intermediate Circular 498) dated 13/06/2018, which precisely defined the "Ultimate Beneficial Owner" and set clear criteria in order for the Bank to identify the Beneficial Owner through vigilant procedures and policies, search for the source of the funds, and adopt due diligence measures before opening any account.

The Hizballah International Financing Prevention Act of 2015

Pursuant to Central Bank Decision No. 12253 dated May 3, 2016, relating to the U.S. Hizballah International Financing Prevention Act of 2015 and its implementing regulations, regarding the prevention of access by Hizballah to international financial and other institutions, Lebanese banks are required to conduct their operations in compliance with this Act and promptly notify the SIC of the procedures and measures taken in compliance with the Act while justifying the reasons behind any such procedures and measures

Implementation of FATF Recommendation 6 concerning UN Security Council Resolutions 1267 (1999), 1988 (2011), 1989 (2011), and any related successor resolutions

Pursuant to Central Bank Decision No. 12147 dated December 22, 2015, banks, financial institutions and all other institutions licensed or supervised by the Central Bank, and all their branches, sister institutions and subsidiaries abroad are required to (i) review on a continuous basis any updates to the UN Security Council Website concerning the names designated in the lists issued pursuant to UN Security Council Resolutions 1267 (1999), 1988 (2011), 1989 (2011) and any related successor resolutions, and/or issued by the Special Sanctions Committees; and to automatically and immediately freeze, without delay and without any prior notice, the funds, accounts, operations, or other assets in whatever form (*i.e.*, direct, indirect or joint) related to such names, as soon as such names are listed; and to inform the Special Investigation Commission of this action and provide it with any information in this respect within 48 hours; and (ii) notify the Special Investigation Commission in case of similarities between the name of a customer and any specific name and details included in the lists issued pursuant to the UN Security Council Resolutions referred to in (i) above and/or issued by the Special Sanction Committee.

Adoption of the Common Reporting Standards

In line with Lebanon's commitment to abide by international standards and best practices, several laws have been issued in order to ensure compliance with the common reporting standards issued by the OECD.

- Law No. 55 of 27 October 2016 provides for the exchange of information for tax purposes.
- Law No. 60 of 27 October 2016 amended certain provisions of Law No. 44 of 11 November 2008, by introducing a definition of residency and granting the Lebanese tax authorities with extensive powers of control and inspection in order to comply with exchange of information requirements.
- Law No. 74 of 27 October 2016 imposed tax reporting obligations on persons acting as trustees of foreign trusts.
- Law No. 75 of 27 October 2016 prohibits the issuance of bearer shares and shares per order.
- Law No. 77 of 27 October 2016 amended article 316 of the Penal Code relating to the financing of terrorism.
- Decree No. 1022 of 07 July 2017 provides for detailed implementation of Law No. 55 and sets due diligence and reporting obligations on the reporting financial institutions, as well as specifies the relevant sanctions on any breach thereof.

International Bank Account Number (IBAN)

Pursuant to Decision N° 10120, dated April 14, 2009, all banks operating in Lebanon must take necessary measures for issuing and verifying the banking identification number to be used in the processing of domestic and international bank transfers starting January 1, 2010.

Business Continuity Plan

Pursuant to Decision N° 10227 dated August 21, 2009, effective August 21, 2010, all banks operating in Lebanon are required to adopt a business continuity plan for purposes of ensuring the continuity of their operations in the event of the occurrence of any disaster or other event that may affect the continuity of their operations. The plan must include preventive and prudential procedures, detection procedures to determine the occurrence of a disaster, rescue procedures or disaster and post-disaster operation modes and finally procedures for resuming normal operation mode. In addition, banks must adopt general principles based on ISO IEC 27002-2005 Standard including, in particular (i) risk classification, (ii) bank activity classification, (iii) activity selection under disaster and post-disaster operation modes, (iv) resource classification and provision under disaster and post-disaster operation modes, (v) alternate site selection, (vi) selecting implementation staff, and determining their duties and responsibilities, (vii) training staff entrusted with operating the plan, (viii) data transfer and software maintenance, (ix) security procedures, (x) plan implementation procedures, (xi) testing the plan and (xii) updating the plan.

The Bank adopted its first business continuity plan in July 2006, prior to the issuance of Decision N° 10227, and believes it is in full compliance with Decision N° 10227 and the related requirements of *Banque du Liban*.

Scientific, technical and ethical qualifications required for performing certain functions in the banking and financial sectors

On March 9, 2006, Banque du Liban issued the Decision N° 9286, its purpose being to define the framework and the scientific, technical and ethical qualifications required from persons responsible for performing certain functions in the banking and financial sectors in Lebanon, in order to preserve the stability of these sectors and give protection to their clients. Some persons are exempted from taking the examination such as (i) the Chairman – General Manager, (ii) persons with at least 15 years of experience in the banking or financial sector as at September 18, 2009, (iii) directors or heads of branches appointed before 18 September 2009 and having at least seven years of experience in the banking and financial sector, acquired during the nine years preceding their assignment to this position and (iv) persons holding diplomas and examinations accepted by Banque du Liban.

Relationship between Banks and Financial Institutions and their correspondents

Pursuant to Banque du Liban Decision N° 10965, dated April 5, 2012, banks and financial institutions in Lebanon must (i) strictly implement the Regulations for the Control of Financial and Banking Operations for Fighting Money Laundering and Terrorist Financing, particularly with respect to customers who require cross-border operations through correspondent banks and financial institutions, (ii) be fully informed of the laws and regulations governing their correspondents abroad, and deal with the latter in conformity with the laws, regulations, procedures, sanctions and restrictions adopted by international legal organizations or by the sovereign authorities in the correspondents' countries. Any dealings between banks and financial institutions operating in Lebanon, and their branches, subsidiaries or sister companies abroad should also be subject to these conditions.

Real Time Gross Settlement System "BDL-RTGS"

Pursuant to Banque du Liban Decision N° 11081, dated June 27, 2012, Real Time Gross Settlement System "BDL-RTGS" is a national payment system to be used in banks and certain financial institutions which have applied to be a participant. BDL-RTGS has been established at Banque du Liban in accordance with the Code of Money and Credit Decree N° 13513. BDL-RTGS is a domestic funds transfer system whereby participants can send or receive a single Funds Settlement Instruction "FSI" to and from each other. FSIs are settled on a gross basis and in a real time manner provided that participants have sufficient funds or credit facilities. The BDL-RTGS offers the participants secure, reliable and real time method of payment that adheres to International Standards.

Bank Share Issuing and Trading, Investments and Participations (Prohibitions related to Bearer Shares)

Central Bank Basic Circular No. 7814 and Basic Circular No. 7776 have been amended to prohibit banks and financial institutions from carrying on any kind of banking, non-banking, financial or non-financial operations, directly or indirectly, with any company or mutual investment fund, whose shares (or units) are wholly or partially in bearer form or whose shares (or units) are owned, directly or indirectly, by companies or mutual investment funds whose shares or units are in bearer form. In addition, whenever the shares of any Lebanese bank or financial institution are subject to a change in ownership to become the property of companies or mutual investment funds, the concerned bank or financial institution is required, in its sole responsibility, to ensure that the shares of such companies or mutual investment funds (as well as those of any parent companies) are in registered form.

Obligation to disclose information to the CMA and to the holders of Preferred Shares

CMA Decision No. 1, dated June 11, 2013, requires joint stock companies and collective investment funds with tradable shares (listed or "over-the-counter") and having more than 20 shareholders to implement a disclosure policy to govern, among other things, any company related information affecting the company's stock price. The disclosure policy is intended to ensure good corporate governance and the protection of stakeholder rights and is subject to the prior approval of the CMA.

CMA Decision No. 2, dated June 11, 2013, sets out the information to be disclosed by joint stock companies, including financial information, which must be communicated in a timely manner and through defined channels of communication (which must be disclosed to the CMA prior to adoption). Any amendments to disclosed information must be disclosed to shareholders as soon as possible.

Prohibition of Exploitation of Inside Non-Public Information

Law No. 160 prohibits insider trading, which is defined as the selling or purchasing of securities on the basis of material non-public information. Law No. 160 also prohibits the disclosure of material non-public information and the provision of investment advice on the basis of such information.

Brokerage Activities

CMA Decision No. 10, dated January 9, 2014, as amended, which replaces Central Bank Decision No. 6213, dated 28 June 1996, regulates brokerage activities undertaken by authorised institutions and promulgates rules relating to restrictions, transparency and disclosure obligations, among other matters.

CMA's Business Conduct Regulation, Series 3000 dated November 10, 2016, establishes the rules and code of conduct that an approved institution must comply with in carrying out securities business, dealing with clients and handling their assets. This regulation sets forth the internal controls and the procedures that need to be followed by institutions in their dealings with clients and their assets. It, among others, requires investor profiles to be created and maintained to evaluate proposed investment suitability, prohibits the making or acceptance of any phone call with an existing or a potential client regarding the operations of financial instruments unless the call is recorded. All clients are required to be informed that the calls are being recorded and such recordings shall be kept for a period of ten years or, if subject to a dispute, until the resolution of such dispute.

In addition, on November 8, 2016, the Central Bank issued Intermediate Decision No. 437, amending Basic Decision No. 7493. The Intermediate Circular provides that banks that are not subject to Legislative Decree No. 50 dated July 15, 1983, and financial institutions are prohibited from undertaking, for the account of their clients, operations on financial instruments and products except through specialized banks that are subject to the provisions of the abovementioned legislative decree or through financial intermediaries. Banks and financial institutions that are non-compliant with these provisions are granted until December 31, 2017 to reconcile their situation.

Furthermore, CMA Series 2000, dated January 10, 2017, sets out requirements related to the licensing and registration of institutions and persons with the CMA in order to conduct securities business activities, identifying categories of licenses specific to dealing, advising, arranging, managing, and custody activities. The CMA ensures that the applicant meets certain principles to be approved for a license.

Financial Instruments and Products

CMA Series 6000, dated 27 July 2017, , sets out the rules for issuing and promoting financial instruments and products including with respect to certain exempted practices. Series 6000 prohibits the issuance and the promotion of financial instruments and products to the public without the CMA's prior approval. It also imposes transparency and disclosure obligations in respect of such activities.

Other CMA decisions

The CMA has also issued other decisions in respect of, among other things, crowd funding and reporting requirements.

CMA Decision No. 20, dated 22 February 2016 enables clients to lodge claims against Lebanese investment services providers before the CMA's Sanctions Committee, provided clients have addressed the claim to the relevant department of the concerned investment services provider.

Pursuant to CMA Decision No. 18, dated 31 August 2015, institutions conducting operations in financial instruments are required to ask their external auditors to include certain specified information relating to operations in financial instruments in the audited financial statements. The Decision also requires external auditors to co-operate with the Control Unit of the CMA on any enquiry in this regard and to provide the CMA with any document or analysis that it may require.

CMA Decision No. 17, dated 9 March 2015, the CMA has imposed know-your-client requirements, which require banks to investigate a client's profile, including its investment objectives, financial situation, risk appetite, among other things.

DESCRIPTION OF THE SHARE CAPITAL OF CREDITBANK SAL

General

Shares in Issue

As at the date of this Offering Circular, the Bank's share capital consists of /3.192.383/ (three million, one hundred and ninety-two thousand, three hundred and eighty-three) nominal shares with a par value of /50,000/ LBP (fifty thousand Lebanese pounds) each, such shares are divided into two categories:

(1) Ordinary Shares amounting to /2.846.000/ (two million, eight hundred and fourty-six thousand) All of the Bank's Common Shares are issued and fully paid up and constitute a single class of shares.

(2) Preferred Shares divided to:

a. Preferred Shares amounting to /200,000/ (two hundred thousand) Series 2 Preferred Shares to be redeemed simultaneously with the issuance of the Series 7 Preferred Shares.

b. Preferred Shares amounting to /300,000/ (three hundred thousand) Series 3 Preferred Shares.

c. Preferred Shares amounting to /200,000/ (two hundred thousand) Series 4 Preferred Shares.

d. Preferred Shares amounting to /250,000/ (two hundred and fifty thousand) Series 5 Preferred Shares.

e. Preferred Shares amounting to /300.000/ (three hundred thousand) Series 6 Preferred Shares.

Changes in Share Capital

The share capital of the Bank may be increased only with the approval of the Bank's shareholders at an Extraordinary General Meeting and the authorization of the Central Bank, following a recommendation of the Board of Directors. The Bank's shareholders at the Extraordinary General Meeting shall also determine the conditions of issue of new shares. Increases in share capital may be effected either by the issue of new shares, by incorporation of retained earnings or free reserves or by any other legally authorized means. New shares may be issued for cash or, in limited instances, for assets contributed in kind. Under Lebanese law, the share capital of the Bank may not be reduced in any circumstances; however, in common with other Lebanese banks, the Bank is authorized to buy back its own shares and cancel them subject to certain conditions, including the adjustment of the par value of each of the remaining shares then constituting the outstanding share capital of the Bank, irrespective of the class thereof, or the distribution of free Common Shares to holders of Common Shares or any other legal measure acceptable by the Central Bank, as adopted by the Bank's General Meeting of shareholders.

The Bank has undertaken the following changes affecting its share capital over the past eight years:

- On December 22, 2008, the shareholders of the Bank adopted resolutions at an Extraordinary General Meeting of Shareholders authorizing the increase in the share capital of the Bank through the issuance of 270,000 Series 1 Preferred Shares, each with a par value of LBP 26,000; pursuant to Law 308. The Central Bank approved the capital increase and the consequential amendments made to the Bank's by-laws on February 16, 2009. The issuance of the Series 1 Preferred Shares resulted in the increase of the share capital of the Bank to from LBP 48,505,678,000 to LBP 55,525,678,000.
- On October 5, 2012, the shareholders of the Bank adopted resolutions at an Extraordinary General Meeting of Shareholders authorizing the increase in the share capital of the Bank through the issuance of 200,000 Series 2 Preferred Shares, each with a par value of LBP 26,000 (which became 50.000 further to the Bank's capital increase that was decided by the EOGM dated October 02, 2015); pursuant to Law 308. The Central Bank approved the capital increase and the consequential amendments made to the Bank's by-laws on December 3, 2012. The issuance of the Series 2 Preferred Shares resulted in the increase of the share capital of the Bank to from LBP 55,525,678,000 to LBP 60,725,678,000.
- On September 20, 2013, the shareholders of the Bank adopted resolutions at an Extraordinary General Meeting of Shareholders authorizing the increase in the share capital of the Bank through the issuance of 300,000 Series 3 Preferred Shares, each with a par value of LBP 26,000 (which became 50.000 further to the Bank's capital increase that was decided by the EOGM dated October 02, 2015); pursuant to Law 308. The Central Bank approved the capital increase and the consequential amendments made to the Bank's by-laws on December 23, 2013. The issuance of the Series 3 Preferred Shares resulted in the increase of the share capital of the Bank to from LBP 60,725,678,000 to LBP 68,525,678,000.

- On July 11, 2014 the shareholders of the Bank adopted resolutions at an Extraordinary General Meeting of Shareholders authorizing the increase in the share capital of the Bank through the issuance of 200,000 Series 4 Preferred Shares, each with a par value of LBP 26,000 (which became 50.000 further to the Bank's capital increase that was decided by the EOGM dated October 02, 2015); pursuant to Law 308. The Central Bank approved the capital increase and the consequential amendments made to the Bank's by-laws on August 06, 2014.
  The issuance of the Series 4 Preferred Shares resulted in the increase of the share capital of the Bank to from LBP 68,525,678,000 to LBP73.725.678.000. It was coupled with the total redemption of the Series 1 Preferred Shares through the issuance of new 270.000 free common shares that were distributed amongst the Bank's shareholders on a *pro rata* basis.

- On February 20, 2015 the shareholders of the Bank adopted resolutions at an Extraordinary General Meeting of Shareholders authorizing the increase in the share capital of the Bank through the issuance of 250,000 Series 5 Preferred Shares, each with a par value of LBP 26,000 (which became 50.000 further to the Bank's capital increase that was decided by the EOGM dated October 02, 2015); pursuant to Law 308. The Central Bank approved the capital increase and the consequential amendments made to the Bank's by-laws on April 8, 2015. The issuance of the Series 5 Preferred Shares resulted in the increase of the share capital of the Bank to from LBP73.725.678.000 to LBP 80.225.678.000.

- On October 02, 2015, the Extraordinary General Meeting of Shareholders resolved to increase the share capital of the Bank through the increase of the par value of the shares from LBP 26,000 to LBP 50,000 and the issuance of 106,780 new common shares. This resulted in the increase of the share capital of the Bank from LBP 80.225.678.000 to LBP 159.619.150.000.

- On August 17, 2017, the Extraordinary General Meeting of Shareholders adopted resolutions at an Extraordinary General Meeting of Shareholders authorizing the increase in the share capital of the Bank through the issuance of 300,000 Series 6 Preferred Shares, each with a par value of LBP 50,000 pursuant to Law 308. The Central Bank approved the capital increase and the consequential amendments made to the Bank's by-laws on October 25, 2017. The issuance of the Series 6 Preferred Shares resulted in the increase of the share capital of the Bank to from LBP 159.619.150.000 to LBP 174.619.150.000.

- On October 09, 2017, the Extraordinary General Meeting of Shareholders adopted resolutions at an Extraordinary General Meeting of Shareholders authorizing the increase in the share capital of the Bank through the issuance of 603.617 new common shares each with a par value of LBP 50.000. The Central Bank approved the capital increase and the consequential amendments made to the Bank's by-laws on 13 November 2017. The issuance of the new common shares resulted in the increase of the share capital of the Bank from LBP 174.619.150.000 to LBP 204.800.000.000.

No other changes in the Bank's share capital have been effected in the last eight years.

At the annual General Meeting of Shareholders held on July 16, 2018, the Bank's Shareholders approved the payment, out of the Bank's unconsolidated distributable net income for the year ended December 31, 2017, of dividends to (i) the holders of Series 2 Preferred Shares an aggregate amount of LBP 2,185,875,000 (USD 1,450,000) representing an amount of USD 7.25 per Series 2 Preferred Shares, (ii) the holders of Series 3 Preferred Shares an aggregate amount of LBP 3.278.812.500 (USD 2.175.000) representing an amount of USD 7.25 per Series 3 Preferred Shares, (iii) the holders of Series 4 Preferred Shares an aggregate amount of LBP 2.185.875.000 (USD 1.450.000) representing an amount of USD 7.25 per Series 4 Preferred Shares, (iv) the holders of Series 5 Preferred Shares an aggregate amount of LBP 2.638.125.000 (USD 1.750.000) representing an amount of USD 7 per Series 5 Preferred Shares, and the holders of Series 6 Preferred Shares an aggregate amount of LBP 167.270.548 (USD 110.959) representing an amount of USD 7.5 per Series 6 Preferred Shares calculated on prorate basis for the period stretching from the Series 6 Preferred Share's issue date to year-end 2017, in each case, before taxes of 10%. Total distributions on account of the Series 2 Preferred Shares, the Series 3 Preferred Shares, the Series 4 Preferred Shares, the Series 5 Preferred Shares and the Series 6 Preferred Shares paid for 2017 represented 37.7 % of unconsolidated net income for that year, as compared to distributions representing 18.10 % of unconsolidated net income for 2016. It is the intention of the Board of Directors of the Bank to recommend to the shareholders of the Bank that they approve similar annual distributions including Distributions to holders of Series 7 Preferred Shares.

Directors' Interests

The interests of the Directors of the Bank in the share capital of the Bank held directly as at December 31, 2017 are set out in the table below:

	Number of Shares	% Holding [1]
Mr. Tarek Joseph Khalife	8,978	0.31%
Financial Trust Participation SAL - FTP (Holding Company)	1,382,737	48.59%
Holfiban SAL (Holding)	292,972	10.29%
Financial Profile Holding SAL	569,202	20.00%
Mrs. Maria Joseph Khalife Bazerji	133,424	4.69%
H.E. Dimyanos Kattar	154	0.005%
Dr. Henri Chaoul	154	0.005%
Mr. Albert Letayf	100	0.003%
Total	**2,387,721**	**83.89%**

Notes:
(1) Percentage of total share capital consisting of 2,846,000 Common Shares as at December 31, 2017.

Mrs. Maria Khalife Bazerji, Deputy General Manager, responsible for the Administration and the Human Resources Departments has entered into service contracts with the Bank.

Related Party Transactions

In the ordinary course of its activities, the Bank transacts business with related parties, including shareholders, directors, subsidiaries and associates. See "*The Banking Sector and Banking Regulation in the Lebanese Republic—Banking Sector—Related Party Transactions*".

The following table sets out the balances of related parties with the Bank as at each of December 31, 2017, 2016 and 2015:

	As at December 31,				
	2017	**2016**	**2015**	**2016/2017**	**2015/2016**
	(LBP million)	*(LBP million)*	*(LBP million)*	*(Percentage change)*	*(Percentage change)*
Loans and advances to key management personnel	6,188	5,525	5,782	12.02%	-4.45%

No director of the Bank has an interest in any contract, arrangement or transaction entered into by the Bank or its subsidiaries, which is or was unusual in its nature or conditions or significant in relation to the business of the Bank and which was effected during the current or immediately preceding fiscal year, or was effected during an earlier fiscal year and remains in any respect outstanding or unperformed.

Shareholders

The following table sets out the composition of the main holders of the Bank's Common Shares, who control, directly or indirectly, at least 2% of the Bank's share capital, as shown in the Bank's register of shareholders as at December 31, 2017:

	Number of Shares	% Holding [1]
Financial Trust Participation SAL - FTP (Holding Company)	1,382,737	48.59%
Financial Profile Holding SAL	569,202	20.00%
Holfiban SAL (Holding)	292,972	10.29%
Mernosa Holding SAL	284,601	10.00%
Mr. Ramzi Rachid Haidar	170,763	6.00%
Mrs. Maria Joseph Khalife Bazerji	133,424	4.69%
Others [2]	12,301	0.43%
Total	**2,846,000**	**100%**

Notes:
(1) Percentage of total share capital consisting of 2.846.000 Common Shares as at December 31, 2017.
(2) Each with less than 2%.

Mr. Tarek Joseph Khalife is the ultimate beneficial owner of the Bank. The business address of Mr. Tarek Joseph Khalife is Creditbank SAL, Sin El Fil, Freeway Center, Beirut, Lebanon.

Other than as indicated in the table above, the Bank is not aware of any person who has an interest in 5% or more of its issued share capital or any person who, directly or indirectly, jointly or severally, exercises or could exercise control over the Bank.

Description of Series 7 Preferred Shares

For information regarding the terms of Series 7 Preferred Shares, which are being offered pursuant to this Offering Circular, see "Summary", as well as the resolutions of the shareholders authorizing the increase in the Bank's share capital and the issuance of Series 7 Preferred Shares, a copy of which is available, in Arabic, for review by potential purchasers at the offices of the Bank.

General

The shareholders of the Bank have authorized the issuance of 200.000 Series 7 Preferred Shares, each with a par value of LBP 50,000 to Eligible Investors in offshore transactions outside the United States. It is expected that the Series 7 Preferred Shares will be issued on or about October 05, 2018 on the terms and subject to the conditions described in this Offering Circular. The issuance of the Series 7 Preferred Shares has been approved by the Central Bank, acting through its Central Council, on August 29, 2018.

Distributions

Subject as provided below, Distributions to the holders of Series 7 Preferred Shares on account of the year 2017, in the event the Series 7 Preferred Shares are issued in 2018, shall be paid in 2019, from Unconsolidated Distributable Net Income (being the 2017 financial year), should there be such profits, at a rate representing a dividend yield of 8% *per annum* per Series 7 Preferred Share *pro-rated* approximately to reflect the remaining period from the Issue Date to year-end 2017.

Thereafter, subject as provided below, Distributions to holders of Series 7 Preferred Shares shall be paid, in arrear, annually, for the 2018 financial year and subsequent financial years, in U.S. Dollars, in a fixed amount of USD 8 per Series 7 Preferred Share (representing a dividend yield of 8% *per annum* per Series 7 Preferred Share), subject to adjustment to reflect the occurrence of an Adjustment Event.
It is the intention of the Bank's Board of Directors to recommend to the shareholders of the Bank that they approve the payment of Distributions to holders of Series 7 Preferred Shares on an annual basis subject to:

(i) there being Unconsolidated Distributable Net Income to cover such Series 7 Distributions and distributions in respect of the Series 2 Preferred Shares, the Series 3 Preferred Shares, the Series 4 Preferred Shares, the Series 5 Preferred Shares, the Series 6 Preferred Shares, and any other Tier 1 Capital preferred shares of the Bank at that time outstanding and ranking *pari passu* with the Series 7 Preferred Shares;

(ii) the Bank's continued compliance with all applicable Central Bank and Banking Control Commission ratios and regulations at the time imposed with respect to payments related to the net profits of the Bank; and

(iii) the approval of the payment of such Distributions out of Unconsolidated Distributable Net Income by the Ordinary General Meeting of Shareholders of the Bank (or such other shareholders' meeting) at which the then most recent annual audited consolidated financial statements of the Bank are approved, unless there exists an obligatory legal or regulatory reason that requires otherwise.

Should the Unconsolidated Distributable Net Income be insufficient to pay the fixed annual amount of Series 7 Distributions and distributions in respect of the Series 2 Preferred Shares, the Series 3 Preferred Shares, the Series 4 Preferred Shares, the Series 5 Preferred Shares, the Series 6 Preferred Shares, and any other preferred shares of the Bank at that time outstanding and ranking *pari passu* with the Series 7 Preferred Shares, then such distributions (including Series 7 Distributions) shall be decreased in proportion to the Unconsolidated Distributable Net Income (if any). In any event, the amount of Distributions payable to holders of Series 7 Preferred Shares, and of distributions payable to holders of the Series 2 Preferred Shares, the Series 3 Preferred Shares, the Series 4 Preferred Shares, the Series 5 Preferred Shares, the Series 6 Preferred Shares, and any other Tier 1 Capital preferred shares of the Bank at that time outstanding and ranking *pari passu* with the Series 7 Preferred Shares, may not exceed the Unconsolidated Distributable Net Income (if any).

In the event that the Bank exercises the call option as provided below, no Distributions shall be payable in respect of any redeemed and cancelled Series 7 Preferred Shares for the year in which such Series 7 Preferred Shares are redeemed and cancelled.

Series 7 Distributions, if and when declared, shall be paid annually after the Ordinary General Meeting of Shareholders at which the annual accounts of the Bank for the relevant year are approved and at which the amount and payment of such distributions are approved, subject to the sufficiency of Unconsolidated Distributable Net Income.

The date on which any Series 7 Distributions shall be paid, and the actual amount distributable in respect of the Series 7 Preferred Shares for any year, shall be determined by a resolution of the Ordinary General Meeting of Shareholders at which the relevant annual audited accounts of the Bank are approved. The actual date, which is expected to be within 60 days following the date of such Ordinary General Meeting, will be made public no later than three days prior to distribution, through publication in two local newspapers of general circulation.

Holders of Series 7 Preferred Shares have no right to receive or participate in any distribution in respect of the Bank's capital other than annual Series 7 Distributions described herein, as and when declared and approved by the relevant General Meeting of Shareholders, and, upon liquidation, the Series 7 Liquidation Preference as described below.

Accordingly, holders of Series 7 Preferred Shares have no right to receive any distributions in respect of the Bank's reserves and any distributions effected through an increase of the Bank's capital realized by the incorporation of the Bank's retained earnings or reserves.

The right to the payment of Distributions on the Series 7 Preferred Shares shall not be cumulative. If Series 7 Distributions are not declared and paid, holders of Series 7 Preferred Shares will not be entitled to receive such Distributions whether or not funds are or subsequently become available.

Ranking

All Series 7 Preferred Shares shall rank senior to the Bank's Common Shares in respect of the right to receive distributions out of the Available Profits for the Relevant Year (if any) as provided under "*Distributions*" above and the right to receive payments (if any) otherwise out of the assets of the Bank upon any voluntary or involuntary liquidation, dissolution or winding up of the Bank.

All Series 7 Preferred Shares will, however, rank "junior" to debt and other similar obligations of the Bank such that, in the event of any voluntary or involuntary liquidation, dissolution or winding up of the Bank, the holders of debt instruments and other similar obligations of the Bank would be entitled to be repaid prior to the payment of any amounts to holders of Series 6 Preferred Shares.

The Series 7 Preferred Shares shall rank *pari passu* with the Series 2 Preferred Shares, the Series 3 Preferred Shares, the Series 4 Preferred Shares, the Series 5 Preferred Shares, the Series 6 Preferred Shares, and any other Tier 1 Capital preferred shares of the Bank at the time and granted a similar ranking in respect of:

(i) the right to receive distributions of assets payable out of the Unconsolidated Distributable Net Income (other than as to the amounts thereof);
(ii) the right to receive payments out of the assets of the Bank upon any voluntary or involuntary liquidation, dissolution or winding up of the Bank (other than as to the amounts thereof); and
(iii) The Series 7 Preferred Shares are not secured or covered by any guarantee from the Bank or any related party, and do not benefit from any other arrangement that legally or economically enhances the preference or seniority of their claims.

In the event the assets of the Bank available for distribution to its shareholders upon any liquidation, dissolution or winding-up of the Bank are insufficient to cover the liquidation preferences payable to the holders of the Series 7 Preferred Shares, the Series 6 Preferred Shares, the Series 5 Preferred Shares, the Series 4 Preferred Shares, the Series 3 Preferred Shares, the Series 2 Preferred Shares and any future Series of Tier I Capital Preferred Shares of the Bank at the time outstanding, the amount payable to such holders will be similarly reduced on a pro rata basis.

The Series 7 Preferred Shares are not secured, nor covered by any guarantee from the Bank or any related party, and do not benefit from any other arrangement that legally or economically enhances the preference or seniority of their claims.

Priority Subscription Rights

Holders of Series 7 Preferred Shares shall not automatically have the right to subscribe, on a priority basis, to any newly issued Preferred or Common Shares. However, in the event the Extraordinary General Assembly of the Bank's shareholders decides in the future to increase the Bank's share capital by issuing preferred shares, it may decide, if it deems it appropriate at the time, to grant holders of Series 7 Preferred Shares the same right to subscribe to the newly issued shares as for non-shareholders subscribers.

Each holder of Series 2 Preferred Shares and Series 3 Preferred Shares will have the right to subscribe, on a priority basis, to the issue of Series 7 Preferred Shares, *pro rata* to their nominal holdings of Series 2 and Series 3 Preferred Shares, held by such holder. Any Series 7 Preferred Shares not subscribed by holders of Series 2 and Series 3 Preferred Shares exercising their priority right will be allocated in the sole discretion of the Bank.

In order to exercise its priority subscription rights, a holder of Series 2 Preferred Shares and Series 3 Preferred Shares must submit a duly completed Purchase Application (in the form to be provided) to the Bank, together with an indication that such holder is exercising its priority subscription rights and confirmation of the number of Series 2 Preferred Shares and Series 3 Preferred Shares held by it, no later than the expiration of the subscription period that will be set by the Bank.

Holders of Series 2 Preferred Shares and Series 3 Preferred Shares who fail to notify the Bank on a timely basis of their intention to exercise their priority subscription rights to purchase Series 7 Preferred Shares will be deemed to have waived such rights.

Liquidation Preference

In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Bank, the holders of the Series 7 Preferred Shares shall be entitled, on a *pro rata* basis with the Series 2 Preferred Shares, the Series 3 Preferred Shares, the Series 4 Preferred Shares, the Series 5 Preferred Shares, the Series 6 Preferred Shares, and any other Tier 1 Capital preferred shares of the Bank at the time outstanding and ranking *pari passu* with the Series 7 Preferred Shares, to be paid out of the assets of the Bank available for distribution to its shareholders, before any payment shall be made on the Common Shares of the Bank, an amount per share equal to the sum of (i) the Lebanese Pound equivalent to the Issue Price per share, subject to adjustment to reflect the occurrence of an Adjustment Event, plus (ii) all declared but unpaid Series 7 Preferred Shares Distributions in either Lebanese Pounds or United States Dollars.

Adjustment Event

The calculation of Series 7 Distributions (if any), of the Series 7 Liquidation Preference (if any) and of the amount payable upon any redemption of Series 7 Preferred Shares is, in each case, subject to adjustment upon the occurrence of an Adjustment Event (*i.e.*, any stock split or reverse stock split affecting the Bank's share capital, but not any other event, including the issuance of new shares by the Bank below market value, any stock dividend in respect of the Bank's shares, any recapitalization of the Bank's share capital, any merger or acquisition involving the Bank or any like event).

Voting Rights

Except in the limited circumstances described below and reflecting applicable Lebanese law, the holders of Series 7 Preferred Shares shall not have voting rights.

Holders of Series 7 Preferred Shares shall have the right to participate in discussions regarding, and to vote (proportionally to the value of their shares in the capital of the Bank and on a pro rata basis with all holders of shares of the Bank, irrespective of the class thereof) in respect of the following:

(i) amendments to the object or legal form of the Bank;

(ii) any capital increase by way of a contribution in kind of assets; and

(iii) any dissolution, liquidation or merger.

Moreover, pursuant to applicable Lebanese law, including, in particular, Law 308 relating to "Bank Share Issuing and Trading, Bank Bond Issuing, and Bank Ownership of Real Estate", holders of Series 7 Preferred Shares shall have the right to participate in discussions regarding, and to vote (on a *pro rata* basis with the holders of any other outstanding shares of the Bank, irrespective of the class thereof) on all matters that come before the shareholders of the Bank in the event that:

(i) Distributions are not paid in full for three financial years and such voting rights shall continue in effect until the end of the financial year in which all accrued and unpaid Distributions are paid in full for the current financial year and for all the preceding financial years; or

(ii) the Bank shall be in default in the provision of any rights or benefits attaching to the Series 7 Preferred Shares, in which event such voting rights shall continue in effect until the default with respect to other rights or benefits attaching to the Series 7 Preferred Shares is cured.

Applicable law further provides for the automatic establishment of an association of holders of Series 7 Preferred Shares to protect the interests of such holders, which may designate a representative that may attend shareholders' meetings, but not participate in discussions regarding, or vote in respect of, matters presented therein, except under the limited circumstances described above.

Call Option

Subject to compliance with applicable Central Bank and Banking Control Commission ratios and regulations, including the availability of sufficient free reserves for the purpose, and to verification of such compliance by the Banking Control Commission, the Bank may, at its option, redeem and cancel all or any part (but not less than the lesser of (i) 20.0% of the aggregate issue size or (ii) the aggregate then outstanding size of the Series 7 Preferred Shares) of the Series 7 Preferred Shares:

(x) at any time after the Issue Date, if a Regulatory Event shall occur; and

(y) 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 7 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, in its sole discretion, in each case, at a redemption price equal to USD100.00 per Series 7 Preferred Share (subject to adjustment to reflect the occurrence of an Adjustment Event), plus any declared but unpaid Series 7 Distributions, provided that no Series 7 Distributions shall be payable in respect of any redeemed and canceled Series 7 Preferred Shares for the year in which such Series 7 Preferred Shares are redeemed and canceled. The Bank will transfer the redemption proceeds to the Applicant within three business days following the date of publication of the Issuer in two widely-distributed Lebanese newspapers that the Series 7 Preferred Shares have been redeemed.

In the case of redemption and cancellation of a part only of the Series 7 Preferred Shares at the time outstanding, such redemption and cancellation will be on a *pro rata* basis.

Upon any redemption of Series 7 Preferred Shares, such Series 7 Preferred Shares shall be canceled and all required actions shall be taken in order to reflect such cancellation, while the Bank's total capital shall remain unchanged, including the adjustment of the par value of the remaining shares then constituting the outstanding share capital of the Bank, irrespective of the class thereof, or the distribution of free Common Shares to the holders of Common Shares or any other legal measure acceptable to the Central Bank, as adopted by the Bank's General Meeting of Shareholders.

Holders of Series 7 Preferred Shares do not have the benefit of any put option or other right to require the Bank to repurchase Series 7 Preferred Shares. Although the Bank has the right to redeem and cancel the Series 7 Preferred Shares as described herein, it has no obligation to do so and its ability to do so may be restricted by applicable ratios and regulations of the Central Bank and the Banking Control Commission.

Transfers of Series 7 Preferred Shares

Subject to compliance with all applicable laws and regulations, there are no restrictions imposed by the Central Bank on the transfer of Series 7 Preferred Shares and, accordingly, the Series 7 Preferred Shares will be freely transferable but only to Eligible Investors as defined in this Offering Circular, and subject to the due diligence procedures conducted by the Bank, i.e. Know Your Customer forms..

Redemption of the Series 1 Preferred Shares

The Extraordinary General Assembly of Shareholders held on July 11, 2014 resolved the redemption of the 270,000 Series 1 Preferred Shares. The redemption of the Series 1 Preferred Shares was approved by *Banque du Liban* on August 06, 2014 and was made concomitantly with the issuance of the Series 4 Preferred Shares.

Description of the Series 2 Preferred Shares

As of the date of this Offering Circular, the Bank's preferred share capital includes 200,000 Series 2 Preferred Shares, each with a par value of LBP 26,000 and which were issued in December 2013 at an issue price of U.S. $ 100.00. The Series 2 Preferred Shares may (subject to certain conditions) be redeemed by the Bank at U.S. $ 100.00 if redemption is caused by a Regulatory Event or at a redemption price equal to U.S. $ 101 per share if the redemption occurs in 2018, at a price equal to U.S. $ 102 per share (subject to adjustment to reflect the occurrence of an Adjustment Event) if the right of redemption is exercised in 2019, at a price equal to U.S. $ 103 per share (subject to adjustment to reflect the occurrence of an Adjustment Event) if the right of redemption is exercised in 2020, at a price equal to U.S. $ 104 per share (subject to adjustment to reflect the occurrence of an Adjustment Event) if the right of redemption is exercised in 2021, at a price equal to U.S. $ 105 per share (subject to adjustment to reflect the occurrence of an Adjustment Event) if the right of redemption is exercised in 2022 and each subsequent year thereafter. All the Series 2 Preferred Shares are issued and fully paid.

The principal terms of the Series 2 Preferred Shares are identical to the principal terms of the Series 7 Preferred Shares, except the preferential subscription right and subject to the same conditions applicable to the payment of Distributions and the Call Option in respect of the Series 2 Preferred Shares.

The Extraordinary General Assembly of Shareholders held on June 11, 2018 resolved the redemption of the Series 2 Preferred Shares subject to the approval of *Banque du Liban*. The redemption of the Series 2 Preferred Shares is expected to be made concomitantly with the issuance of the Series 7 Preferred Shares.

Description of the Series 3 Preferred Shares

As of the date of this Offering Circular, the Bank's preferred share capital includes 300,000 Series 3 Preferred Shares, each with a par value of LBP 26,000 and which were issued in December 2012 at an issue price of U.S. $ 100.00. The Series 3 Preferred Shares may (subject to certain conditions) be redeemed by the Bank at U.S. $ 100.00 if redemption is caused by a Regulatory Event or occurs in 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 or each subsequent year thereafter. All the Series 3 Preferred Shares are issued and fully paid.

The principal terms of the Series 3 Preferred Shares are identical to the principal terms of the Series 7 Preferred Shares, except for the preferential subscription right and subject to the same conditions applicable to the payment of Distributions and the Call Option in respect of the Series 3 Preferred Shares.

Description of the Series 4 Preferred Shares

As of the date of this Offering Circular, the Bank's preferred share capital includes 200,000 Series 4 Preferred Shares, each with a par value of LBP 26,000 and which were issued in August 2014 at an issue price of U.S. $ 100.00. The Series 4 Preferred Shares may (subject to certain conditions) be redeemed by the Bank at U.S. $ 100.00 if redemption is caused by a Regulatory Event or occurs in 2020 subject to the lapse of 5-years from the date of the Extraordinary General Assembly held to confirm the due issuance of the Series 4 Preferred Shares or each subsequent year thereafter. All the Series 4 Preferred Shares are issued and fully paid.

The principal terms of the Series 4 Preferred Shares are identical to the principal terms of the Series 7 Preferred Shares, subject to the same conditions applicable to the payment of Distributions and the Call Option in respect of the Series 4 Preferred Shares.

Description of the Series 5 Preferred Shares

As of the date of this Offering Circular, the Bank's preferred share capital includes 200,000 Series 5 Preferred Shares, each with a par value of LBP 26,000 and which were issued in April 30, 2015 at an issue price of U.S. $ 100.00. The Series 5 Preferred Shares may (subject to certain conditions) be redeemed by the Bank at U.S. $ 100.00 if redemption is caused by a Regulatory Event or occurs in 2021 subject to the lapse of 5-years from the date of the Extraordinary General Assembly held to confirm the due issuance of the Series 5 Preferred Shares or each subsequent year thereafter. All the Series 5 Preferred Shares are issued and fully paid.

The principal terms of the Series 5 Preferred Shares are identical to the principal terms of the Series 7 Preferred Shares, subject to the same conditions applicable to the payment of Distributions and the Call Option in respect of the Series 5 Preferred Shares.

Description of the Series 6 Preferred Shares

As of the date of this Offering Circular, the Bank's preferred share capital includes 300,000 Series 6 Preferred Shares, each with a par value of LBP 50,000 and which were issued in 21 December, 2017 at an issue price of U.S. $ 100.00. The Series 6 Preferred Shares may (subject to certain conditions) be redeemed by the Bank at U.S. $ 100.00 if redemption is caused by a Regulatory Event or occurs in 2022 subject to the lapse of 5-years from the date of the Extraordinary General Assembly held to confirm the due issuance of the Series 6 Preferred Shares or each subsequent year thereafter. All the Series 6 Preferred Shares are issued and fully paid.

The principal terms of the Series 6 Preferred Shares are identical to the principal terms of the Series 7 Preferred Shares, subject to the same conditions applicable to the payment of Distributions and the Call Option in respect of the Series 6 Preferred Shares.

Description of the Common Shares

The following description of the Bank's Common Shares and the rights relating thereto does not purport to be complete and is qualified in its entirety by reference to Lebanese law and the By-laws (which have been filed with and are presently available from the Register of Commerce of Beirut and at the offices of the Bank and the Placement Agent currently located at the respective addresses indicated on the back cover to this Offering Circular).

General

As at the date of this Offering Circular, the Bank's share capital includes 2.846.000 Common Shares, with a par value of LBP 50,000 per Common Share, all of which are issued and fully paid up and constitute a single class of shares.

Payment of Dividends

Net income in each financial year, as increased or reduced, as the case may be, by any profit or loss of the Bank carried forward from prior years, less any allocation to legal reserves and any net write-back of provisions for doubtful loans no longer required, is available for distribution to the shareholders of the Bank as dividends, subject to the requirements of Lebanese law and the Bank's By-laws.

The Bank is legally required to establish and maintain a legal reserve to which an amount equal to 10% of the annual net profits after taxation must be transferred each year. The legal reserve is distributable only upon the liquidation of the Bank. Pursuant to Central Basic Decision N° 7129 dated October 15, 1998, as amended, the Bank is also legally required to set aside a minimum of 0.2% and a maximum of 0.3% of the Bank's risks-weighted assets as a reserve for unspecified banking risks, which forms an integral part of the Bank's Tier 1 Capital. The reserve for unspecified banking risks must be equivalent to 1.25% of risk-weighted assets within a period of 10 years from the Decision's issuance and 2.0% of risk-weighted assets within a period of 20 years from the Decision's issuance and shall be calculated in accordance with Basel II requirements as of the 2008 fiscal year. In addition, Central Bank Decision N° 7740, dated December 21, 2000, as amended, provides that banks are required to establish a special reserve for properties acquired in satisfaction of debts and not liquidated within the required delays. Banking Control Commission Circular № 4/2008 provides that banks must establish such special reserve at the end of the fiscal year during which the acquired property should have been liquidated. This special reserve shall be withheld from the annual profits and shall not be accounted for as an expense in the profit and loss account in accordance with IFRS.

Moreover, as per Central Bank Intermediary Decision No. 12372 dated November 8th, 2016, the Bank is legally required to establish a reserve not included in any of the categories of equity, to be equivalent to 2% of the credit risk weighted assets of all loan portfolios, including retail loans, as part of the IFRS 9 requirements applicable starting January 1, 2018.

Under Banking Control Commission Circular № 270/2011, as of January, 2011, the Bank may not distribute unrealized profits, which result from the valuation of financial instruments at Fair Value through Profit or Loss in accordance with IFRS 9. These unrealized profits shall be deducted from the annual profits of the Bank after deduction of all legal and regulatory reserves. These profits may be distributed upon their realization if there are sufficient retained earnings available for distributions.

The By-laws of the Bank provide that, after the required allocation to the legal and other regulatory reserves, the Bank's shareholders, acting in a General Meeting of Shareholders, have the authority to allocate net profits among the following categories:

i. to the allocation of 10% of net income to the legal reserve;

ii. to the allocation of amounts required for the establishment of regulatory reserves as per the Central Bank regulations;

iii. deduction of unrealized profits resulting from the valuation of financial instruments at Fair Value Through Profit or Loss in accordance with IFRS 9;

iv. to the payment of distributions in respect of preferred shares issued by the Bank (including distributions in respect of all other preferred shares, if any, issued by the Bank at any time, which by their terms rank *pari passu* with the Series 2 Preferred Shares, Series 3 Preferred Shares, the Series 4 Preferred Shares, the Series 5 Preferred Shares, the Series 6 Preferred Shares, and the Series 7 Preferred Shares), as and when approved by the shareholders of the Bank pursuant to a resolution adopted at the Ordinary General Meeting at which the annual accounts of the Bank for the relevant year are approved;

v. to the establishment of additional special or general reserves and/or to the allocation of amounts to be carried forward to the following year in accordance with a decision of the Bank's shareholders pursuant to a resolution adopted at a General Meeting; and

vi. to the distribution of the balance to holders of Common Shares.

Payment of dividends must be made annually on the dates specified by the General Meeting of Shareholders. Under Lebanese law, dividends not claimed within five years of the date of payment become barred by the statute of limitations; half of these unclaimed dividends revert to the Bank and the other half to the Lebanese Government.

Liquidation Rights

If the Bank is liquidated, the assets of the Bank remaining after payment of its debts, liquidation expenses (including the liquidation preference in respect of the Series 2 Preferred Shares, the Series 3 Preferred Shares, the Series 4 Preferred Shares, the Series 5 Preferred Shares, the Series 6 Preferred Shares, and the Series 7 Preferred Shares and any future Series of Tier I Capital Preferred Shares of the Bank outstanding at the time with respect to the Bank's assets available for distribution to holders of Preferred Shares) and all remaining obligations, will be distributed to repay in full the par value of the Common Shares. ***Restrictions on Transfer of Common Shares***

In accordance with Law № 308 and *Banque du Liban* Basic Decision Nº7814 dated 11/05/2001 as amended, any transfer of Common Shares, which would result in the transferee owning (directly or indirectly) or controlling 5% or more of the outstanding Common Shares or voting rights relating thereto (on a combined basis including Common Shares owned or controlled before and after giving effect to such transfer) requires the approval of the *Banque du Liban*, except in the case of transfers by inheritance or intestate. Moreover, any transfer of Common Shares from or to a current or elected member of the Board of Directors requires the approval of the Central Bank, irrespective of the number of Common Shares transferred. In calculating the percentage ownership of any holder of Common Shares, the interests of any spouse and minor children of such holder and any financial groups (as defined by the Central Bank) of which such holder is a part are taken into account.
Furthermore, the By-laws of the Bank provide no restrictions on the transfer of Common Shares except for restrictions provided under applicable laws and regulations.
Any transfer of Common Shares from a shareholder to a non-shareholder is subject to the pre-emptive rights of existing shareholders.

Attendance and Voting at Shareholders' Meetings

In accordance with Lebanese law, there are three types of General Meetings of Shareholders: constituent, ordinary and extraordinary.

The constituent General Meeting of Shareholders takes place only once, at the call of the founders, and takes all resolutions concerning the constitution of the Bank.

Ordinary General Meetings of Shareholders are required for matters such as the election and remuneration of directors, the appointment and remuneration of statutory auditors, the approval or modification of the annual accounts, the declaration of dividends, the creation of reserves, and the issuance of bonds.

The Board of Directors is required to convene an annual Ordinary General Meeting of Shareholders, which must be held following the end of the Bank's financial year, to approve the Bank's annual accounts and the annual reports of the Board of Directors, as well as the distribution of dividends, if any, in respect of the Bank's shares. The quorum required for the annual Ordinary General Meeting of Shareholders is one-third of the capital (Art. 198-1 of the Code of Commerce). If the quorum is not present, the Ordinary General Meeting of Shareholders is adjourned. Upon recommencement of the adjourned Meeting, there is no quorum requirement and the resolutions of that Meeting will be valid regardless of the portion of capital represented (Art. 198-2 of the Code of Commerce). Resolutions are adopted by a simple majority vote of shareholders voting in person or by proxy.

Extraordinary General Meetings of Shareholders are required for approval of matters such as amendments to the By-laws, mergers (including the transfer of the Bank's assets to the resulting company of such a merger), modifications of the form or object of the Bank, increases in share capital (including pursuant to a waiver of preferential subscription rights), the creation of a new class of shares, the issue of bonds convertible into or exchangeable for shares, the extension or reduction of the duration of the Bank and the liquidation of the Bank prior to the end of its statutory term. Resolutions proposing a modification of the Bank's form or object require a quorum of at least three-quarters of the Bank's voting capital. Resolutions put forward at an Extraordinary General Meeting of Shareholders proposing other changes require a quorum of at least two-thirds of the Bank's voting capital. If the requisite quorum is not satisfied at the first General Meeting of Shareholders, holders of at least one-half of the Bank's voting capital must be present or represented at the second General Meeting of Shareholders and at least one-third of the Bank's voting capital must be present or represented at any subsequent General Meeting of Shareholders.

Resolutions proposed at Extraordinary General Meetings of Shareholders are passed by a vote of at least two-thirds majority vote of the Bank's voting capital present or represented. Any amendment to the By-laws is subject to the approval of the Central Bank.

Other Ordinary or Extraordinary General Meetings of Shareholders may be convened at any time during the year. General Meetings of Shareholders may be convened by the Board of Directors, or, if the Board of Directors fails to call such a Meeting, by the Bank's statutory auditors upon their own initiative or the request of 20% of the shareholders, or by a court-appointed agent.

At least sixteen days before the date set for any General Meeting, a notice must be published in two local daily newspapers or through notification to holders, with acknowledgment of receipt. For Extraordinary General Meetings convened for the second or third time following a previous inquorate General Meeting, notice should be published twice at a week's interval, in the Official Gazette, an economic newspaper and a local daily newspaper. Such a notice must state the agenda of the previous inquorate Meeting and the results of that Meeting.

The notice of any General Meeting of Shareholders must state the date, venue and agenda for such General Meeting. The agenda for a General Meeting of Shareholders must be drawn up by the Board of Directors or the person that has convened the General Meeting (auditor, special director or liquidator). No action may be taken at any Meeting on any matter not listed on the agenda for that Meeting, except for matters that arise during the course of the Meeting, to the extent that such matters are unexpected and urgent.

A General Meeting of Shareholders must be convened by the auditors within one month following the date of a request of shareholders representing at least one-fifth of the Bank's share capital. The agenda of such a Meeting must state the items that the requesting shareholders wish to discuss.

If the annual Ordinary General Meeting of Shareholders is not called, any shareholder has the right to petition the President of the Tribunal of Commerce in the city of the head office of the Bank to appoint a special director. The reasons for not convening the annual Ordinary General Meeting of Shareholders, and the consequences of the failure to convene, will be discussed with the special director.

Attendance and exercise of voting rights at any Ordinary General Meeting or Extraordinary General Meeting of Shareholders are subject to certain conditions. Each holder of Common Shares has the right to participate in and vote at each General Meeting. Voting occurs by a show of hands or by any other method agreed by shareholders at a General Meeting. Each Common Share confers on the holder thereof the right to one vote; any fully paid Common Share, which has been registered in the name of the same shareholder for at least two years prior to any Meeting, shall carry two votes.

A shareholder may appoint a proxy to vote on its behalf. With the exception of legal representatives of incapacitated shareholders or legal entities, such proxies must themselves be holders of Common Shares.

A shareholder may not vote in person, or by proxy, on any matter in which it has a vested interest or in respect of a dispute between itself and the Bank.

A request by any shareholder for a secret ballot must be granted where resolutions concern personal matters, such as the dismissal of Board members or the determination of potential liability of directors.

A General Meeting of Shareholders held in accordance with Lebanese law represents all holders of Common Shares, whether present or not, and its resolutions shall be binding on all such shareholders, including absent or dissenting shareholders.

Resolutions of General Meetings of Shareholders must be signed by the Chairman of the Board of Directors, the Secretary and two scrutineers and are recorded in a special register. This register is kept at the head office of the Bank and every holder of Common Shares has the right to consult it.

Preferential Subscription Rights

In the event of an increase in the share capital of the Bank, the Code of Commerce and the By-laws confer on existing holders of Common Shares a preferential right to subscribe for newly issued Common Shares (but not preferred shares), for cash on a *pro rata* basis.

Existing holders of Common Shares may decide at an Extraordinary General Meeting of Shareholders to exclude the preferential right to subscribe for new Common Shares, in whole or in part, or that new Common Shares shall not be offered for subscription in proportion to Common Shares already held. Any allotment of newly issued Common Shares pursuant to an exclusion of preferential rights, whether to persons who are not existing shareholders or preferentially to a particular class of existing shareholders, is subject to a process of verification by an expert appointed by the Court of First Instance. In the case of an issue to persons who are not existing shareholders, this verification process applies to the full amount of newly issued Common Shares. In the case of an issue to existing shareholders, only the amount of newly issued Common Shares, which is not offered to existing holders of Common Shares, is subject to the verification process (Article 113 of the Code of Commerce). Failure to comply with this verification process will render a capital increase null and void (Article 113 of the Code of Commerce).

Notwithstanding a collective decision of existing shareholders at an Extraordinary General Meeting of Shareholders to exercise their preferential rights of subscription, holders of Common Shares may elect individually to refrain from exercise of their preferential rights and take no further action, may assign their preferential rights to a third party or may expressly waive their preferential rights.

Repurchase of Common Shares

Pursuant to Lebanese law and the Central Bank regulations, Lebanese banks may acquire up to 10.0% of their own shares listed on any stock exchange, with the approval of the Central Bank and subject to certain conditions.

Form of Common Shares

The Common Shares are in registered form. Interests in the Common Shares are shown only on, and transfers thereof may be effected (subject as provided herein) only through, the book-entry system maintained by Midclear.

TAXATION

The following is a summary of the principal Lebanese tax consequences with respect to the purchase, ownership and sale of Series 7 Preferred Shares. This summary does not purport to be a comprehensive description of all relevant tax considerations, and each potential purchaser should consult its own tax advisor before making a decision to purchase Series 7 Preferred Shares. The following is based on the tax laws of the Lebanese Republic as in effect on the date hereof. For advice relating to the tax consequences to holders of Series 7 Preferred Shares in countries outside the Lebanese Republic, including countries in which they may be resident or domiciled and any tax treaty between Lebanon and such countries of residence or domicile, potential purchasers are urged to consult their own tax advisors.

Withholding Tax on Distributions

Under current Lebanese law, a distribution of dividends is subject to withholding tax at the rate of 10% on any dividend payment and any other distributions to holders, which tax rate is reduced by 50% in the case of a company listed on the Beirut Stock Exchange. As at the date of this Offering Circular, the Bank's share capital is not listed on the Beirut Stock Exchange, and therefore, the withholding tax applicable to Distributions on the Series 7 Preferred Shares is 10%, subject to as provided under "*Summary—Distributions Subject to Withholding Tax*".

In principal, this tax is due irrespective of the nationality or domicile of the beneficiary of the dividends; however, the application of tax treaties aimed at avoiding double taxation between Lebanon and other countries, when applicable, may reduce or cancel this tax.

The Bank has agreed to reimburse the holders of Series 7 Preferred Shares a portion of the applicable withholding tax equal to and not exceeding at any time 5% of Series 7 Distributions.

The Bank does not have any obligation to reimburse any holder of Series 7 Preferred Shares for other taxes, if any, withheld in respect of Distributions.

Taxation of Capital Gains

Capital gains made in connection with the sale of shares of Lebanese joint stock companies, such as the Bank, are subject to the following:

- gains on the sale of shares held by individuals (resident and non-resident) and foreign non-resident companies holding minority interests are currently not subject to tax on moveable assets;
- gains on the sale of shares held by Lebanese holding companies are tax exempt if held for a minimum period of two years; otherwise, they are subject to capital gains tax, currently at a rate of 10%;
- gains on the sale of shares held by Lebanese companies, the object of which includes the trading of shares and securities, are subject to corporate tax, currently at a rate of 15%; and
- gains on a sale of shares held by Lebanese companies outside the normal course of their business (as non-current equity securities), or by foreign companies holding an amount beyond a limit (as determined by the Ministry of Finance of Lebanon) of ownership of the share capital of a Lebanese joint stock company, are subject to capital gain tax at the rate of 10%.

Stamp Duties

The law promulgated by Decree N° 5439 dated November 20, 1982 granted an exemption to all contracts for the transfer of shares, bonds or treasury bills from the stamp duty imposed by the law promulgated by Decree N° 67 dated August 5, 1967. Accordingly, there is no stamp duty imposed in the Lebanese Republic upon any holder in connection with the transfer of Series 6 Preferred Shares.

SELLING RESTRICTIONS

Placement

Creditbank S.A.L. is acting as the Placement Agent in connection with the issue, offer and sale of the Series 7 Preferred Shares. The Series 7 Preferred Shares are being offered for sale by the Bank only to Eligible Investors in offshore transactions outside the United States in reliance on Regulation S under the Securities Act, on an as and if issued basis, subject to prior sale or withdrawal, cancellation or modification. An Eligible Investor is required to sign a Purchase Application, substantially in the form of Exhibit A hereto, as a condition to making an investment in the Series 7 Preferred Shares. See "*Subscription Timetable and Procedures*".

Selling Restrictions

The Series 7 Preferred Shares have not been and will not be registered under the laws of any jurisdiction, nor has any other action been taken, nor will any action be taken, by the Bank, or any other person, that would permit a public offering of the Series 7 Preferred Shares or the possession, circulation or distribution of this Offering Circular, or any amendment or supplement hereto, or any other offering material relating to the Bank or the Series 7 Preferred Shares, in any country or jurisdiction where action for any such purpose may be required. The offer and sale of Series 7 Preferred Shares, and the delivery of this Offering Circular, are restricted by law in certain jurisdictions and Series 7 Preferred Shares may not be offered or sold, and this Offering Circular may not be distributed, in any jurisdiction under circumstances where such offer, sale or distribution would be prohibited or restricted by law.

The Bank has agreed that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it offers, sells or delivers the Series 7 Preferred Shares or possesses or distributes this Offering Circular. The Bank however does not represent that the Series 7 Preferred Shares may at any time lawfully be sold outside Lebanon in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to an exemption available thereunder, and the Bank does not assume any responsibility for facilitating any such sale.

Without limiting the foregoing, prospective purchasers of Series 7 Preferred Shares should be aware of the following restrictions:

United States of America

The Series 7 Preferred Shares have not been and will not be registered under the Securities Act or any applicable state securities laws and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, any U.S. person including any non-resident US person, except in accordance with Regulation S under the Securities Act or pursuant to another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Lebanon

The marketing, offering, distribution and sale of the Series 7 Preferred Shares in Lebanon shall comply with all applicable laws and regulations in Lebanon, in particular, Law 161 dated August 17, 2011 governing Capital Markets in Lebanon which prohibits marketing or promoting financial instruments in Lebanon prior to obtaining the authorization of the Council of the Capital Markets Authority to that effect. The Bank has obtained the authorization of the Council Capital Markets Authority to market, promote, offer and sell the Series 7 Preferred Shares in Lebanon.

GENERAL INFORMATION

1. The creation and issue of the Series 7 Preferred Shares were authorized by a resolution of the shareholders of the Bank adopted at an Extraordinary General Meeting of Shareholders of the Bank held on June 11, 2018. The Central Bank, acting through its Central Council, granted its final approval to issue the Series 6 Preferred Shares on August 29, 2018. All consents, approvals, registrations, authorizations, notifications and other orders of regulatory authorities required to be obtained prior to the Issue Date under the laws and regulations of Lebanon in connection with the issue, offer and sale of the Series 7Preferred Shares have been or, prior to the Issue Date, will be obtained.

2. There are no litigation or arbitration proceedings against or affecting the Bank or its assets, nor is the Bank aware of any pending or threatened proceedings, which have a materially adverse effect on it or its operations or which are or might be material in the context of the issue of the Series 7 Preferred Shares.

3. The Annual General Assembly of the Bank appointed Semaan, Gholam & Co and KPMG as auditors for the three years ending at the Annual General Assembly approving the accounts of the Bank for 2019, respectively KPMG and Semaan, Gholam & Co have given and not withdrawn their written consent to the distribution of this Offering Circular with the inclusion herein of their reports and references to their names in the form and context in which these appear.

EXHIBIT A- FORM OF PURCHASE APPLICATION

Purchase Application **for Creditbank S.A.L. Additional Tier 1 Non-Cumulative Perpetual Redeemable** **Series 7 Preferred Shares**
1. **Applicant Information**
Applicant Name ("**Applicant**"):
Applicant Fiscal N°:____________
Midclear SAL Shareholder N°:____________ (if applicable)
If No, please complete the New Shareholder Information Sheet required by Midclear SAL
Creditbank SAL Client ID:
Creditbank SAL Branch:
Address (Street):
(City):
(Country):
Telephone Number:
Fax Number:
Jurisdiction of Organization/Country of Residence (if signing on behalf of a corporation or other legal entity):
Authorized Signatory of Applicant: (Name): (Title)**:**

2. Application to Purchase Series 7 Preferred Shares

A. Acknowledgment

The Applicant acknowledges that Creditbank S.A.L. a non-rated Lebanese banking institution (the "**Issuer**" or "**Creditbank**"), intends to issue on or about October 05, 2018 (indicative) (the "**Issue Date**") up to US$ 20.000.000 of its Tier 1 Non-Cumulative Perpetual Redeemable Series 7 Preferred Shares, at an issue price of US$ 100 with a par value of LBP 50,000 per share (the "**Series 7 Preferred Shares**"), the terms of which are more fully set forth in the Summary Term Sheet (the "**Term Sheet**"). The Applicant acknowledges having received the Term Sheet and hereby represents that it has carefully reviewed and fully understands the contents thereof. The Applicant further acknowledges that, upon issuance, the Series 7 Preferred Shares will have such terms and conditions as described in the offering circular relating to the issue, offer and sale of the Series 7 Preferred Shares (the "***Offering Circular***"), which was carefully reviewed by the Applicant when made available at the head office and the branches of the Issuer as well as on its website two days prior to the commencement of the offer.

The Applicant acknowledges that Creditbank S.A.L. is acting as placement agent (in such capacity the "**Placement Agent**") in connection with the issue, offer and sale of the Series 7 Preferred Shares.

The Applicant acknowledges that it is required and may be required later on to provide a proof of identity and other information for Know Your Customer documentation. Such documentation may be required under applicable regulations or as per the Issuer's internal policies and procedures. Such documentation may need to be duly certified in certain cases. A Purchase Application received without correct documentation cannot be processed. Accordingly, the Applicant undertakes to provide the Issuer or the Placement Agent, as the case may be, with any information or documentation whenever requested to do so by the Issuer or the Placement Agent.

BANQUE DU LIBAN AND THE CAPITAL MARKETS AUTHORITY IN LEBANON TAKE NO RESPONSIBILITY FOR THE INFORMATION CONTAINED IN THIS PURCHASE APLLICATION AND TERM SHEET OR FOR THE MERITS OF ANY OFFERING OF SERIES 7 PREFERRED SHARES.

B. Application to Purchase Series 7 Preferred Shares

[*To be completed by the Applicant*]

Subject to paragraphs C (2) and (3) below, and subject to all other terms and conditions set forth herein, the Applicant hereby offers to purchase Series 7 Preferred Shares as specified below (complete as appropriate):

_________________Series 7 Preferred Shares [*insert number of shares*]

At the Issue Price of: US $ 100 (one hundred United States Dollars) per share

The aggregate of US $ ____________________[*insert total amount subscribed*]

C. Acceptance, Termination, Etc.

The Applicant acknowledges and agrees that:

1. This Purchase Application shall be deemed accepted only upon execution by the Applicant, payment of the Aggregate Subscription Amount (*as defined below*) and acceptance by the Issuer, such acceptance to be evidenced by delivery of a fully-executed copy of this Purchase Application to the Applicant provided that, if this Purchase Application is submitted by a holder of the Issuer's outstanding Series 2 Preferred Shares or Series 3 Preferred Shares, exercising its priority subscription rights, this Purchase Application shall be automatically accepted absent any manifest error or defect. Unlike holders of Series 4 Preferred Shares, Series 5 Preferred Shares and Series 6 Preferred Shares, holders of Series 2 Preferred Shares and Series 3 Preferred Shares have the right to subscribe, on a priority basis, to the issue of Series 7 Preferred Shares, *pro rata* to their holdings of Series 2 Preferred Shares and Series 3 Preferred Shares. The Issuer will allocate Series 7 Preferred Shares on a priority basis to all holders of Series 2 Preferred Shares and Series 3 Preferred Shares exercising their priority subscription rights, including, if applicable, the Applicant, *pro rata* to their holdings of Series 2 Preferred Shares and Series 3 Preferred Shares. Any Series 7 Preferred Shares not subscribed by holders of Series 2 Preferred Shares or Series 3 Preferred Shares exercising their priority subscription rights will be allocated by the Issuer at its sole discretion. However, the acceptance by the Issuer of the Purchase Application, shall not entitle the Applicant to an allocation of all or part (except to the extent of its priority allocation rights, if applicable) of the Series 7 Preferred Shares it applied for, as the Issuer shall have full discretion in the allocation of the issued Series 7 Preferred Shares and the Applicant hereby accepts that it might be allocated only part of the Series 7 Preferred shares it applied for or none of them and waives any right of discussion or challenge or contest in this respect.
2. Whether or not this Purchase Application has been accepted by the Issuer, the Applicant may not rescind its agreement to

purchase Series 7 Preferred Shares. If the final terms of the Series 7 Preferred Shares as described in the Offering Circular are substantially and adversely amended by the Bank before the Issue Date, the Bank shall send to the Applicant a supplemental offering circular describing the material changes in the terms and conditions of the Series 7 Preferred Shares; the Applicant shall be required to confirm in writing its approval to purchase the Series 7 Preferred Shares based on the final terms of the Series 7 Preferred Shares within a period that does not exceed seven days from publication in two widely newspapers that the supplement offering circular has been made available at the headquarters of the Bank and its branches and posted on the Bank's website failing which the Bank will refund the Applicant's account with the Aggregate Issue Price along with interest thereon as specified below and the Applicant will be deemed to have irrevocably waived its priority or other subscription rights (if any) to purchase the Series 7 Preferred Shares. No penalty fees will be imposed on the applicant when exercising its right of rescission.

3. The Issuer may, in its sole discretion, reject this Purchase Application in whole or in part or terminate the offering of the Series 7 Preferred Shares at any time and for any reason whatsoever. Moreover, the Issuer shall terminate the offering in the event that *Banque du Liban* or the Extraordinary General Assembly Meeting of Shareholders of the Issuer fails to approve the issue of the Series 7 Preferred Shares. In any such event, the Applicant shall have no right to purchase Series 7 Preferred Shares from the Issuer at any time. In addition, if this Purchase Application has been accepted, the Issuer retains the right to reduce, in its sole discretion, the number of Series 7 Preferred Shares allocated to the Applicant.

D. <u>Payment</u>

The Applicant represents that it has transferred funds to Creditbank, as escrow agent (in such capacity, the "**Escrow Agent**"), for credit to the "Preferred Share Subscription Escrow Account" (which account details are set out below), in an amount (the "**Aggregate Subscription Amount**") equal to the product of the number of Series 7 Preferred Shares covered by this Purchase Application times the Issue Price per share, each as specified in Paragraph B above.

Escrow account:

Name: Preferred Share Subscription Escrow Account

Account N° ___________________,

In the event that the offering of the Series 7 Preferred Shares is terminated or if this Purchase Application is rejected, in whole or in part, or if the Applicant exercises its right of rescission (as set out in paragraph C2 above) the Aggregate Subscription Amount (or corresponding portion thereof) received by the Escrow Agent from the Applicant will be refunded to the Applicant, together with interest thereon as specified below, at the following account details:

Client ID N° ………………………..,

With bank: ………………………

Branch:………………………………

Beneficiary:…………………………

The Applicant further requests that all proceeds, such as distributions, arising from, or relating to, any Series 7 Preferred Shares it may hold from time to time shall be credited by the Issuer to the above account or to such other account as may be designated in writing by the Applicant 30 days prior to the date of payment of any such proceeds.

Subject to paragraphs C (2) and (3) above, and the other terms and conditions set forth herein, the Applicant hereby authorizes the Escrow Agent to apply the Aggregate Subscription Amount (or the relevant portion thereof) received by it hereunder, on behalf of the Applicant, to purchase the Series 7 Preferred Shares in respect of which this Purchase Application has been accepted on the Issue Date and to transfer the Aggregate Subscription Amount (or such portion thereof) to the relevant subscription account maintained at *Banque du Liban*. The Applicant shall be entitled to receive interest on the amount of the Aggregate Subscription Amount received from it hereunder, from and including the value date as of which such amount is deposited into escrow by the Applicant to but excluding the Issue Date (or such earlier date on which the funds shall be returned to the Applicant in the event this Purchase Application is rejected, in whole or in part, or the offering of the Series 7 Preferred Shares is terminated), at the annual rate of 6.5% (subject to applicable taxes). Such interest amounts shall be transferred to the account above indicated on or promptly following the Issue Date (or such earlier refund date, as the case may be).

E. <u>Delivery of Series 7 Preferred Shares</u>

The Applicant acknowledges that the Series 7 Preferred Shares will be delivered, upon issuance, by deposit to the Midclear account of Creditbank, Account No. 103, and the Applicant hereby instructs Creditbank to hold the Series 7 Preferred

Shares purchased by it hereunder in custody for the benefit of the Applicant in accordance with its standard custody arrangements, the terms of which are available to Applicant upon request at the head office and branches of the Issuer. At any time after the Issue Date, the Applicant may request that Creditbank arrange for the transfer of the custody of such Series 7 Preferred Shares to another subcustodian with Midclear.

F. <u>Representations and Undertakings</u>

1. The Applicant hereby makes the representations and warranties set forth in Annex A hereto to, and for the benefit of the Issuer and the Placement Agent, on the date hereof and on and as of the Issue Date. The Applicant understands that the Series 7 Preferred Shares will be sold to the Applicant in reliance on such representations and warranties.
2. The Applicant hereby agrees and undertakes that he will, as promptly as possible after request by the Issuer or the Placement Agent, complete and furnish to the Issuer all information requested by *Banque du Liban* in connection with the acceptance of the Applicant as a new shareholder of the Issuer; the Applicant represents, for the benefit of *Banque du Liban*, the Issuer and the Placement Agent that all such information will be true, accurate and complete. In the event the banking regulatory or supervisory authorities express reservation or objection on the Applicant, this Purchase Application will be rejected by the Issuer, even after its acceptance by the Issuer, and will be considered null and void, and the Applicant undertakes that he will, if necessary, transfer and assign the Series 7 Preferred Shares to another investor as soon as requested by the Issuer.
3. The Applicant hereby grants, to each of Mr. Michel Victor Nahas and Mrs. Rania Sfeir Bassil acting jointly or singly, (but without any liability or responsibility on any of them in his individual capacity), a Power of Attorney to complete, execute and deliver, on behalf of the Applicant, any and all applications, purchase applications and other documents necessary or appropriate for the acceptance of the Applicant by *Banque du Liban* as a shareholder of the Issuer, and the registration of the Applicant as a shareholder of the Issuer, without any form of liability or responsibility on the part of any of the two above mentioned representatives, whether acting jointly or singly.

   By purchasing Series 7 Preferred Shares, the Applicant will be deemed to grant to each person who shall be a duly authorized representative (and a shareholder) of the Issuer at the relevant time, each acting singly (but without any liability or responsibility on either of them in his individual capacity), a separate power of attorney (a) to attend and vote at the constitutive meeting of the association of holders of Preferred Shares that will be held for purposes of adopting the bylaws of the association of holders of Preferred Shares and to elect its representative(s); and (b) to complete, execute and deliver, on behalf of the Applicant, any and all documents and other instruments, and to take all such actions, as shall be necessary or appropriate in connection with the above including any redemption of Preferred Shares held by such Applicant.
4. In addition, the resolutions to be adopted by the Issuer's shareholders at the Extraordinary General Meeting of Shareholders held to authorize the issuance of the Series 7 Preferred Shares and the by-laws of the association of holders of Series 7 Preferred Shares are expected to grant authorization to the Issuer to the effect that, upon exercise of the call option, in whole or in part, the Issuer shall be authorized to take any and all action necessary to effect the redemption of the Series 7 Preferred Shares, which are the subject of such exercise, and to cancel such shares, including directing and authorizing Midclear to effect such redemption and cancellation. Midclear shall be entitled to rely exclusively on the Issuer's instructions to effect such redemption and cancellation and the Applicant hereby expressly agrees to such redemption if and when decided by the Issuer. As between the Issuer and each holder of Series 7 Preferred Shares, the redemption shall be effective upon cash payment to such holder of the amount payable to it upon exercise of the call, as determined by the Issuer, pursuant to instructions received from the holder (or, failing receipt of such instructions, pursuant to the instructions in effect for the payment to such holder of the last distribution made by the Issuer in respect of the Series 7 Preferred Shares). It is understood that the Issuer shall not assume any liability if the holder of the Series 7 Preferred Shares fails to provide instructions for the payment of the redemption proceeds.
5. The Applicant further acknowledges and agrees that its purchase and ownership of Series 7 Preferred Shares shall constitute its authorization and direction to Midclear and its participants, including the Issuer, to disclose the Applicant's ownership of Series 7 Preferred Shares, together with the number of Series 7 Preferred Shares held by it and such other relevant information concerning the Applicant and its interest in the Series 7 Preferred Shares as may be necessary in connection with any exercise by the Issuer of its call option in respect of the Series 7 Preferred Shares held by such Applicant.

3. <u>General</u>

a) **<u>Modification</u>**. This Purchase Application may not be modified, discharged or terminated orally, but only by an instrument in writing, signed by or on behalf of both the Applicant and the Issuer.

b) **<u>Defined Terms</u>**. Capitalized terms used herein without otherwise being defined shall have the meanings set forth in the Term Sheet.

c) **<u>Counterparts</u>**. This Purchase Application may be executed in two counterpart copies, each of which shall be considered an original and both of which shall constitute one and the same instrument, binding on all parties hereto, notwithstanding that all the parties are not signatories to the same counterpart.

d) **Successors and Assigns**. Except as otherwise provided herein, this Purchase Application shall be enforceable by and against the successors and assigns of the parties hereto, and shall inure to the benefit of and be enforceable by the parties hereto and their respective successors and permitted assigns. This Purchase Application is not transferable or assignable by the Applicant.

e) **Applicable Law**. This Purchase Application shall be governed by and construed in accordance with the laws of the Republic of Lebanon, including and not limited to Law no. 308 dated April 3, 2001, and applicable Banque du Liban decisions and Capital Markets Authority's regulations

يقر مقدم الطلب أنه يتقن اللغة الإنجليزية وأنه إطلع على طلب الشراء هذا ولائحة التعريف التي هي أيضاً باللغة الإنجليزية وهو بالتالي يؤكد بأنه فهم محتواهما كليا. كما وأن مقدم الطلب يقر بأنه تم إعطاءه الفرصة لطرح الأسئلة حول الإصدار وتلقى الإجابات عنها من قبل المصدر و/أو وكلاء المصدر كما وأنه استحصل على معلومات إضافية ضرورية لفهم وتقييم مزايا ومخاطر شراء وامتلاك الأسهم التفضيلية فئة 7.

4. Execution

The undersigned has executed this Purchase Application on this .... day of ………….., 2018.

This form must be signed in **duplicate**.

Signature: ………………………………………

Print Name & Title of Applicant or the Person Signing on Behalf of
Applicant: ……………………………………..

Authentication by the Bank's Branch of the Applicant's signature, with date of authentication. This authentication shall not constitute, in any way, an acceptance of the foregoing Purchase Application by Creditbank.

For authentication of the signature of:…………………according to the specimen of signature at our Bank and without any liability on our part

Creditbank S.A.L.

Signature: ……………………………………….

Name: …………………………………………

Title: ……………………………………

(This part is exclusively reserved to Creditbank General Management).

Creditbank hereby accepts the purchase by:
______________________ ____________________
[print name of the Applicant]

Number of Series 7 Preferred Shares ________________ for or an aggregate subscription amount of : US $______________________

This …….. day of…….2018.

Creditbank S.A.L.

Signature:__________________________

Name : ____________________________

Title :________ _____________________

ANNEX A REPRESENTATIONS AND WARRANTIES OF THE APPLICANT
1. The Applicant certifies that it has consulted such legal, tax advisor and accountant as may be appropriate in connection with this Purchase Application or any related documents.
2. The Applicant warrants that it has obtained all consents and all legal requirements required and/or necessary to be obtained for the Purchase Application under the laws of any jurisdiction to which the Applicant is subject. The Applicant further warrants that he/she/it consulted his/her own tax, accountant, and/or legal advisors regarding tax, accounting and legal matters concerning the purchase, holding and sale of Series 7 Preferred Shares.
3. The Applicant (if legal entity) represents that it is in good standing, duly organized and incorporated under the laws of the jurisdiction of its incorporation and is fully qualified and empowered to own its assets and carry out its business.
4. The Applicant represents and warrants that it has the power to enter into and perform, and (if it is a legal entity) has taken all necessary action to authorize the execution, delivery and performance by it of the Purchase Application and the transactions contemplated herein.
5. The Applicant represents and warrants that the entry into and performance by it of, and the transactions contemplated by, this Purchase Application do not and will not contravene any law or regulation or judicial or official order or instructions of any governmental authority or (if it is a legal entity) conflict with the constitutional documents, charter or By-Laws or any other constitutional documents of the Applicant or conflict with any document or obligation which is binding upon the Applicant.
6. The Applicant certifies that it is acquiring the Series 7 Preferred Shares for its own account.
7. The Applicant understands that the majority of the Issuer's operations are conducted in Lebanon and certain other emerging markets and that, accordingly, the financial condition and results of operations of the Issuer are greatly affected by the political, economic and monetary conditions prevailing in Lebanon and such other markets. In particular, the Series 7 Preferred Shares are instruments reflecting general Lebanese sovereign risk, as well as the particular risk of the Issuer. The debt obligations of the Lebanese Republic have been assigned non-investment grade ratings by the principal international rating agencies. Lebanon's below-investment grade credit ratings, large budget deficit and other fiscal weaknesses characteristic of certain emerging market economies make it susceptible to future adverse effects similar to those suffered by other emerging market countries affect, and are likely to continue to affect, the Issuer's financial condition, including its ability to generate profits.
8.The Applicant understands that the recent global credit crisis and international financial and securities market turmoil are continuing and that, accordingly, there is a general lack of liquidity and significant price volatility in the global securities markets. Such lack of liquidity and price volatility may affect the value of an investment in the Series 7 Preferred Shares, even if there is no decline in the financial condition or performance of the Issuer. Moreover, although Lebanese banks appear to have been less affected by the global credit crisis to date, global economic conditions could, in the future, adversely affect the Issuer's assets and financial performance and, accordingly, could have an adverse impact on the market price of the Series 7 Preferred Shares.
9. The Applicant understands and agrees that the distributions, as well as the actual amount payable in respect of the Series 7 Preferred Shares for any year and the date on which such distribution shall be paid are subject to (1) the availability of unconsolidated distributable net income of the Issuer (calculated after allocations of legal and regulatory reserves) for the relevant year in an amount sufficient to cover such distributions in respect of the Series 7 Preferred Shares and distributions in respect of any other Tier I Capital preference shares of the Bank at that time outstanding and ranking *pari passu* with the Series 7 Preferred Shares, including as at the date hereof, the Series 2 Preferred Shares, the Series 3 Preferred Shares, the Series 4 Preferred Shares, the Series 5 Preferred Shares ,and the Series 6 Preferred Shares (2) the Issuer's continued compliance with all applicable Banque du Liban and Banking Control Commission ratios and regulations at the time imposed with respect to payments related to the net profits of the Issuer and (3) the approval of the payment of such distributions out of the unconsolidated distributable net income of the Issuer for the relevant year, if available, by the Ordinary General Assembly of the Shareholders of the Issuer at which the then most recent annual audited consolidated financial statements of the Issuer are approved, unless there exists an obligatory legal or regulatory reason that requires otherwise.
10.The Applicant understands that the Series 7 Preferred Shares shall be of perpetual existence and have no fixed final redemption date and, holders of Series 7 Preferred Shares shall not have the benefit of any put option or other right to require the redemption thereof. Although the Bank has the option to redeem and cancel the Series 7 Preferred Shares, in whole or in part, under certain circumstances, it has no obligation to do so and its ability to do so may be restricted by applicable ratios or regulations of Banque du Liban and the Banking Control Commission. As a result, purchasers of Series 7 Preferred Shares must be willing and able to maintain their investment in the long term indefinitely.

11. The Applicant took knowledge that the Offering Circular shall contain the Issuer's financial information that is based on audited figures for the year 2017.

12. The Applicant understands that, subject to certain conditions, the Series 7 Preferred Shares are subject to redemption and cancellation, in whole or in part, at the option of the Issuer only (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 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 7 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, in each case at a redemption price equal to 100 percent of the Issue Price per Series 7 Preferred Share (i.e. U.S.$ 100 per share) (subject to adjustment to reflect the occurrence of an Adjustment Event) plus any declared but unpaid distributions on the Series 7 Preferred Shares; provided that no distributions shall be payable in respect of the redeemed and cancelled Series 7 Preferred Shares for the year in which such Series 7 Preferred Shares are redeemed and cancelled. In the case of redemption and cancellation of a part only of the Series 7 Preferred Shares, such redemption and cancellation will be made on a *pro rata* basis for no less than 20%, each time, of the original issue size or, if less, 100% of the Series 7 Preferred Shares then remaining outstanding.

13.The Applicant understands that the issue premium (the difference between the issue price of U.S.$100 and the nominal value of each share, LBP 50,000) has been determined by Creditbank at its discretion and may differ from the issue premium of other preferred shares that may be issued by Creditbank. The Applicant also understands that holders of Series 7 Preferred Shares shall not automatically have the right to subscribe, on a priority basis, to any newly issued Preferred or Common Shares. However, in the event the Extraordinary General Assembly of the Bank's shareholders decides in the future to increase the Bank's share capital by issuing preferred shares, it may decide, if it deems it appropriate at the time, to grant holders of Series 7 Preferred Shares the same right to subscribe to the newly issued shares as for non-shareholders subscribers.

14. The Series 7 Preferred Shares have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. Persons (as defined in Regulation S under the Securities Act), unless the Series 7 Preferred Shares are registered under the Securities Act or an exemption from the registration requirements thereof is available; the offer and sale of the Series 7 Preferred Shares are also subject to restrictions in the United Kingdom and in certain other jurisdictions; and the Applicant is responsible for informing itself about and observing all such restrictions that are applicable to it.

15. The Applicant is not a U.S. person, as defined in Regulation S under the Securities Act, whether residing inside or outside the US; was outside the United States when it made this Purchase Application; and will be outside the United States when it purchases the Series 7 Preferred Shares.

16. The Applicant is an Eligible Investor (i.e., the Applicant is neither a U.S. person nor the Chairman or any member of the Board of Directors or General Manager of the Bank, or the spouse or any minor child of any such person, or any person acting on their behalf).

17. The Applicant understands that the Bank does not intend, currently, to list the Series 7 Preferred Shares on an international or Lebanese stock exchange. However, the Bank may consider listing the Series 7 Preferred Shares in the future. In addition, currently, there is no secondary market for the Series 7 Preferred Shares and that, accordingly, the purchase thereof is suitable only for, and should be made only by, investors who can bear the risks of no liquidity and the financial and other risks associated with such an investment for an indefinite period of time.

Name of the Applicant: ………………………………….

Signature of the Applicant ……………………………….

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REGISTERED OFFICE OF THE BANK

Creditbank SAL
Freeway Center
Sin El-Fil
Beirut
Lebanon

LEGAL ADVISOR

for the purpose of issuing the Series 7 Preferred Shares
Paul Harb Esq.
Parallele Towers (6^{th} floor)
Sin El-Fil
Beirut, Lebanon

STATUTORY AUDITORS OF THE BANK

BDO, Semaan, Gholam & Co.
Gholam Building
Sioufi Street
Beirut, Lebanon

KPMG
Beirut Central District
Lazarieh Building Block 01
Beirut, Lebanon

CREDITBANK S.A.L.

Consolidated Financial Statements

31 December 2017

(With Independent Auditors' Report Thereon)

CREDITBANK S.A.L.

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BDO
SEMAAN, GHOLAM & CO.

KPMG

Independent Auditors' Report

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.

Independent Auditors' Report (continued)

Basis for Qualified Opinion (continued)

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;

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Independent Auditors' Report (continued)

Key Audit Matters (continued)

Impairment of loans and advances to customers (continued)

- 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.

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Independent Auditors' Report (continued)

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.

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Independent Auditors' Report (continued)

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

- 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
16 July 2018
Beirut, Lebanon

KPMG

CREDITBANK S.A.L.

Consolidated statement of financial position

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:

Tarek Khalifeh
Chairman

CREDITBANK S.A.L.

Consolidated statement of profit or loss and other comprehensive income

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

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

CREDITBANK S.A.L.

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December

In thousands of Lebanese Pound	**2017**	**2016**
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.

CREDITBANK S.A.L.

Consolidated statement of changes in equity

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.

CREDITBANK S.A.L.

Consolidated statement of changes in equity

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.

CREDITBANK S.A.L.

Consolidated statement of cash flows

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)
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

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

CREDITBANK S.A.L.

Consolidated statement of cash flows

For the year ended 31 December

In thousands of Lebanese Pound	**Note**	**2017**	**2016**
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 S.A.L.	Lebanon	2,970	99.00%	99.00%
Achrafieh 784 S.A.L.	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.

(2) Basis of preparation (continued)

(d) Use of judgements and estimates (continued)

Assumptions and estimation uncertainties (continued)

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.

(4) Significant accounting policies (continued)

(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.

(4) Significant accounting policies (continued)

(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.

(4) Significant accounting policies (continued)

(m) Financial assets and financial liabilities (continued)

(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.

(4) Significant accounting policies (continued)

(m) Financial assets and financial liabilities (continued)

(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.

(4) Significant accounting policies (continued)

(m) Financial assets and financial liabilities (continued)

(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.

(4) Significant accounting policies (continued)

(m) Financial assets and financial liabilities (continued)

(vii) Identification and measurement of impairment (continued)

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.

(4) Significant accounting policies (continued)

(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.

(4) Significant accounting policies (continued)

(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.

(4) Significant accounting policies (continued)

(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.

(4) Significant accounting policies (continued)

(y) Share capital (continued)

(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 Programmes*. 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.

(5) Standards issued but not yet effective (continued)

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

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.

(5) Standards issued but not yet effective (continued)

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

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

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.

(5) Standards issued but not yet effective (continued)

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

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

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.

(6) Financial risk management (continued)

(a) Introduction and overview (continued)

Risk management framework - Corporate Governance (continued)

(i) Board Committees (continued)

Audit committee (continued)

- 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.

(6) Financial risk management (continued)

(a) Introduction and overview (continued)

Risk management framework - Corporate Governance (continued)

- ***AML / CFT Board Committee (continued)***

- 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.

(6) Financial risk management (continued)

(a) Introduction and overview (continued)

Risk management framework - Corporate Governance (continued)

(ii) Group's Management Committees (continued)

- ***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.

(6) Financial risk management (continued)

(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.

(6) Financial risk management (continued)

(b) Credit risk (continued)

(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.

(6) Financial risk management (continued)

(b) Credit risk (continued)

(iv) Credit quality analysis (continued)

In thousands of Lebanese Pound	Note	Loans and advances to customers and related parties 2017	2016	Due from Central Banks, banks and financial institutions 2017	2016	Investment securities (debt securities) 2017	2016	Lending commitments and financial guarantees 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

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Notes to the consolidated financial statements

31 December 2017

(6) Financial risk management (continued)

(b) Credit risk (continued)

(iv) Credit quality analysis (continued)

In thousands of Lebanese Pound

	Note	Loans and advances to customers and related parties 2017	2016	Due from Central Banks, banks and financial institutions 2017	2016	Investment securities (debt securities) 2017	2016	Lending commitments and financial guarantees 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)	–	–		

(6) Financial risk management (continued)

(b) Credit risk (continued)

(iv) Credit quality analysis (continued)

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:

In thousands of Lebanese Pound	**Loans and advances to customers**		**Banks and financial institutions**	
	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.

(6) Financial risk management (continued)

(b) Credit risk (continued)

(iv) Credit quality analysis (continued)

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:

In thousands of Lebanese Pound	**Loans and advances to customers**			
	Fair value of collateral at inception (for the Group)		**Fair value of collateral at year end**	
	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

(6) Financial risk management (continued)

(b) Credit risk (continued)

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

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.

(6) Financial risk management (continued)

(b) Credit risk (continued)

(vi) Concentrations 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:

In thousands of Lebanese Pound		**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**	
	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.

(6) Financial risk management (continued)

(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:

(iii) Maturity analysis for financial liabilities and financial assets

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

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

(6) Financial risk management (continued)

(c) Liquidity risk (continued)

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

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

(6) Financial risk management (continued)

(c) Liquidity risk (continued)

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

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:

(6) Financial risk management (continued)
(c) Market risk (continued)
(ii) Exposure to interest rate risks – Non trading portfolios (continued)

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

(6) Financial risk management (continued)

(d) Market risks (continued)

(ii) Exposure to interest rate risks – Non-trading portfolios (continued)

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%

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(6) Financial risk management (continued)

(d) Market risks (continued)

(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

(6) Financial risk management (continued)

(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%

(6) Financial risk management (continued)

(f) Capital management (continued)

Regulatory capital (continued)

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.

(6) Financial risk management (continued)

(f) Capital management (continued)

Regulatory capital (continued)

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.

(7) Fair values of financial instruments (continued)

(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 thouands of Lebanese Pound

31 December 2017	**Level 1**	**Level 2**	**Level 3**	**Total**
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

31 December 2016	**Level 1**	**Level 2**	**Level 3**	**Total**
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

31 December 2017 **Financial assets**	**Level 1**	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
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

31 December 2016 **Financial assets**	**Level 1**	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
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

(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
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

(11) Loans and advances to customers and related parties (continued)

(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:

(22) Share capital (continued)

	Series 1	Series 2	Series 3	Series 4	Series 5	Series 6	Total
Date of Extraordinary General Assembly Resolution Date	22-Dec-08	5-Oct-12	20-Sep-13	11-Jul-14	20-Feb-15	17-Aug-17	
Number of Shares issued	–	200,000	300,000	200,000	250,000	300,000	1,250,000
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	50	
Total Nominal Value in '000 LBP	–	10,000,000	15,000,000	10,000,000	12,500,000	15,000,000	62,500,000
Share Issue Price USD	100	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.	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	30,225,000	125,937,499
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	Annual dividends of USD 7.5 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	(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	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	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.

(25) Reserves and non-distributable retained earnings (continued)

(i) Reserves (continued)

(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.

(25) Reserves and non-distributable retained earnings (continued)

(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**
Eurobonds (USD)	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
	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)
Lebanese Treasury Bills (LBP)	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	–
	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

(30) Net gain on investments securities at amortised cost (continued)

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

In thousands of Lebanese Pound

Type of investment securities	Maturity	31-Dec-16 Nominal value	Net gain on sale
Eurobonds (USD)	22-Apr-31	3,015,000	24,120
	22-Apr-31	1,507,500	12,060
	22-Apr-31	12,060,000	(60,300)
		16,582,500	(24,120)
Lebanese Treasury Bills (LBP)	9-Jan-25	5,000,000	1,918
	9-Jan-25	1,000,000	23,844
	15-Oct-26	6,000,000	277,002
	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
Certificates of deposits (LBP)	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
	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

(30) Net gain on investments securities at amortised cost (continued)

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

In thousands of Lebanese Pound

		31-Dec-16	
Type of investment securities	**Maturity**	**Nominal value**	**Net gain on sale**
Certificates of deposits (LBP)	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
	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**	**2017**	**2016**	**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 investment 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:

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

(b) Transactions with related parties

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

(36) Related parties (continued)

(c) Investments in associate

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.

CREDITBANK S.A.L.

Consolidated Financial Statements

31 December 2016

(With Independent Auditors' Report Thereon)

CREDITBANK S.A.L.

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Independent auditors' report

To the shareholders of
Creditbank S.A.L.

Report on the Audit of the Consolidated Financial Statements

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

Basis for Qualified Opinion

As disclosed in note 21 to the consolidated financial statements, the Group recorded:

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

- Net income for the year ended 31 December 2016 would have increased by 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.

Independent Auditors' Report (continued)

Basis for Qualified Opinion (continued)

As disclosed in notes 29 and 30 to the financial statements, the Group 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 Group'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 Group 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 separate 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;

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Independent Auditors' Report (continued)

Key Audit Matters (continued)

Impairment of loans and advances to customers (continued)

- 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.

Independent Auditors' Report (continued)

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 scepticism 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.

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

- 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

BDO, Semaan, Gholam & Co

KPMG

KPMG

29 June 2017
Beirut, Lebanon

CREDITBANK S.A.L.

Consolidated statement of financial position

As at 31 December

In thousands of Lebanese Pound	Note	2016	2015
Assets			
Cash and balances with Central Banks	9	1,662,757,077	1,086,448,811
Banks and financial institutions	10	231,496,926	176,663,367
Loans and advances to customers and related parties	11	2,739,271,955	2,539,246,736
Investment securities	12	381,264,694	990,388,821
Shares acquired in settlement of debt at fair value through	13	100,050,702	89,987,161
Investments in associate	36	69,030,165	–
Property and equipment	14	70,118,092	76,674,073
Intangible assets	15	523,555	1,250,321
Other assets	16	31,264,051	22,926,668
Non-current assets held for sale	17	4,405,996	15,144,313
Goodwill		–	9,728,373
Total assets		5,290,183,213	5,008,458,644
Liabilities			
Due to banks and financial institutions	18	168,350,210	242,189,464
Deposits from customers and related parties	19	4,486,387,546	4,261,463,870
Current tax liabilities		15,475,439	4,840,000
Other liabilities	20	61,178,786	71,987,122
Provisions	21	64,744,743	6,868,227
Total liabilities		4,796,136,724	4,587,348,683
Equity			
Share capital - common shares	22	112,119,150	112,119,150
Share capital - preferred shares	22	47,500,000	47,500,000
Share premium - common shares	23	17,273,587	17,273,587
Share premium - preferred shares	23	95,712,499	95,712,499
Cash contribution to capital	24	10,854,000	10,854,000
Reserves	25	144,102,103	108,807,323
Non-distributable retained earnings	25	18,049,769	8,883,426
Translation reserve	25	(5,635,174)	(21,789,768)
Retained earnings		54,022,333	41,711,823
Equity attributable to equity holders of the bank		493,998,267	421,072,040
Non-controlling interest		48,222	37,921
Total equity		494,046,489	421,109,961
Total liabilities and equity		5,290,183,213	5,008,458,644

The notes on pages 13 to 72 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 29 June 2017:

Tarek Khalifeh
Chairman

CREDITBANK S.A.L.

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December

In thousands of Lebanese Pound	**Note**	**2016**	**2015**
Interest income		327,397,325	331,676,619
Interest expense		(227,239,489)	(223,253,406)
Net interest income	26	100,157,836	108,423,213
Fees and commission income		27,383,671	29,037,374
Fees and commission expense		(6,652,311)	(7,501,082)
Net fees and commission income	27	20,731,360	21,536,292
Net trading (loss) income	28	(14,199,799)	4,759,955
Net gain on investment securities at fair value through profit or loss	29	49,660,585	19,282,806
Net gain on investment securities at amortised cost	30	61,284,642	8,637,469
Dividend income		311,480	286,319
Other revenue		7,724,036	9,719,081
Gain from investment in associate		3,618,000	–
Revenue		229,288,140	172,645,135
Personnel charges	31	(47,304,428)	(49,819,277)
Net impairment loss on loans and advances to customers	11	(11,943,044)	(19,014,336)
Impairment charges - collective provision	21	(56,317,844)	–
Depreciation and amortisation	14, 15	(4,274,414)	(4,567,885)
Administrative expenses	32	(31,081,748)	(36,537,603)
Profit before tax		78,366,662	62,706,034
Income tax expense	33	(18,987,923)	(9,557,558)
Profit for the year		59,378,739	53,148,476
Other comprehensive income			
Net unrealized gain on investment securities at fair value through other comprehensive income			
- From Bank		6,330	42,318
- From investment in associate		2,317,566	–
Total other comprehensive income for the year		2,323,896	42,318
Total comprehensive income for the year		61,702,635	53,190,794

The notes on pages 13 to 72 are an integral part of these consolidated financial statements.

CREDITBANK S.A.L.

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December

In thousands of Lebanese Pound	**2016**	**2015**
Profit attributable to:		
Equity holders of the Bank	59,368,438	53,138,888
Non-controlling interests	10,301	9,588
Profit for the year	59,378,739	53,148,476
Total comprehensive income attributable to:		
Equity holders of the Bank	61,692,334	53,181,206
Non-controlling interests	10,301	9,588
Total comprehensive income for the year	61,702,635	53,190,794

The notes on pages 13 to 72 are an integral part of these consolidated financial statements.

CREDITBANK S.A.L.

Consolidated statement of changes in equity

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	Capital reserves	General reserve on SME & COR portfolio	General reserve on Retail portfolio	Non-current assets held for sale reserve	Fair value reserve	Real estate revaluation reserve	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	94,462,846	1,026,861	3,445,325	1,455,774	321,291	8,095,226	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	–	2,323,896
Total other comprehensive income	–	–	–	–	–	–	–	–	–	2,323,896	–	2,323,896	–	–	–	2,323,896	–	2,323,896
Total comprehensive income for the year	–	–	–	–	–	–	–	–	–	2,323,896	–	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	–	–	–	–	–	–	–	–	–	(313,603)	(650,371)	(963,974)	–	15,145,239	5,356,216	19,537,481	–	19,537,481
Total change in ownership interest in subsidiaries	–	–	–	–	–	–	–	–	–	(313,603)	(650,371)	(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	–	–	–	–	–	33,297,089	–	–	637,769	–	–	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	–	–	–	–	–	33,297,089	–	–	637,769	–	–	33,934,858	9,166,343	1,009,355	(43,101,201)	1,009,355	–	1,009,355
Total transactions recorded directly in equity	–	–	–	–	–	33,297,089	–	–	637,769	(313,603)	(650,371)	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	127,759,935	1,026,861	3,445,325	2,093,543	2,331,584	7,444,855	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 72 are an integral part of these consolidated financial statements.

CREDITBANK S.A.L.

Consolidated statement of changes in equity

For the year ended 31 December 2015

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 2015	55,525,678	18,200,000	–	87,324,999	10,854,000	134,376,295	247,913	(18,898,531)	29,154,735	316,785,089	28,333	316,813,422
Acquisition of non-controlling interests												
Profit for the year	–	–	–	–	–	–	–	–	53,138,888	53,138,888	9,588	53,148,476
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	–	–	–	–	–	42,318	–	–	–	42,318	–	42,318
Total other comprehensive income	–	–	–	–	–	42,318	–	–	–	42,318	–	42,318
Total comprehensive income for the year	–	–	–	–	–	42,318	–	–	53,138,888	53,181,206	9,588	53,190,794
Transactions with owners of the Bank												
Contributions and distributions												
Issue of common shares (note 22)	5,339,000	–	17,273,587	–	–	–	–	–	–	22,612,587	–	22,612,587
Issue of preferred shares (series 5) (note 22)	–	6,500,000	–	31,187,500	–	–	–	–	–	37,687,500	–	37,687,500
Increase in share capital par value	51,254,472	22,800,000	–	–	–	(74,054,472)	–	–	–	–	–	–
Dividends paid to holders of preferred shares (series 2, 3 and 4)	–	–	–	–	–	–	–	–	(6,303,105)	(6,303,105)	–	(6,303,105)
Total contributions and distributions	56,593,472	29,300,000	17,273,587	31,187,500	–	(74,054,472)	–	–	(6,303,105)	53,996,982	–	53,996,982
Other transactions recorded directly in equity												
Transfer from retained earnings to reserves	–	–	–	–	–	25,643,182	8,635,513	–	(34,278,695)	–	–	–
Transfer to reserves (note 25)	–	–	–	(22,800,000)	–	22,800,000	–	–	–	–	–	–
Exchange rate difference arising on consolidation	–	–	–	–	–	–	–	(2,891,237)	–	(2,891,237)	–	(2,891,237)
Total other transactions recorded directly in equity	–	–	–	(22,800,000)	–	48,443,182	8,635,513	(2,891,237)	(34,278,695)	(2,891,237)	–	(2,891,237)
Total transactions recorded directly in equity	56,593,472	29,300,000	17,273,587	8,387,500	–	(25,611,290)	8,635,513	(2,891,237)	(40,581,800)	51,105,745	–	51,105,745
Balances at 31 December 2015	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

The notes on pages 13 to 72 are an integral part of these consolidated financial statements.

CREDITBANK S.A.L.

Consolidated statement of cash flows

For the year ended 31 December

In thousands of Lebanese Pound	Note	2016	2015
Cash flows from operating activities			
Profit for the year		59,378,739	53,148,476
Adjustments for:			
- Depreciation		4,240,451	4,334,777
- Amortisation		83,959	233,108
- Net impairment losses on loans and advances to customers		11,943,044	19,014,336
- Net gain on investment securities at fair value through profit and loss		(49,660,585)	(19,282,806)
- Net gain on investment securities at amortised cost		(61,284,642)	(8,637,469)
- Dividend income		(311,480)	(286,319)
- Reversal of impairment of non-current assets held for sale		–	422,973
- Gain (loss) on sale of property and equipment		21,671	(27,402)
- Net interest income		(100,157,836)	(108,423,213)
- Income tax expense		18,987,923	9,557,558
		(116,758,756)	(49,945,981)
Changes in:			
- Balances held with Central Banks		(317,666,778)	(173,830,932)
- Banks and financial institutions		(2,415,801)	(2,292,158)
- Loans and advances to customers and related parties		(212,792,957)	(328,382,535)
- Other assets		(8,337,383)	(85,507)
- Due to banks and financial institutions		(41,440,567)	24,723,052
- Deposits from customers and related parties		223,269,386	342,014,366
- Investments in associate		(69,030,165)	–
- Non-current assets held for sale		10,738,317	–
- Provisions		57,876,516	(459,158)
- Other liabilities		(10,808,336)	20,507,880
		(487,366,524)	(167,750,973)
Interest received		344,259,518	327,482,569
Interest paid		(226,506,171)	(224,035,770)
Income tax paid		(8,352,484)	(8,170,758)
Net cash used in operating activities		(377,965,661)	(72,474,932)
Cash flows from investing activities			
Net change in investment securities		701,044,184	(124,328,252)
Acquisition of shares acquired in settlement of debt at fair value through profit and loss		(10,063,541)	(6,648,638)
Net change / acquisition in property and equipment		2,261,844	(9,057,889)
Acquisition of intangible assets		(152,741)	(586,024)
Proceeds from sale of property and equipment		909,169	554,213
Proceeds from sale of property acquired in settlement of debt		–	2,910,820
Net (purchase) / proceeds from sale of intangible assets		(1,288)	1,288
Acquisition of property acquired in settlement of debt		689,229	–
Net cash from (used in) investing activities		694,686,856	(137,154,482)

The notes on pages 13 to 72 are an integral part of these consolidated financial statements.

CREDITBANK S.A.L.

Consolidated statement of cash flows

For the year ended 31 December

In thousands of Lebanese Pound	Note	2016	2015
Cash flows from financing activities			
Proceeds from issue / net redemption of preferred shares		–	6,500,000
Proceeds from issue of common shares		–	5,339,000
Proceeds from issue premium - common shares		–	17,273,587
Proceeds from issue premium - preferred shares		–	31,187,500
Change in control in Anelik CJSC		29,265,854	–
Dividends paid		(9,312,943)	(6,303,105)
Net cash from financing activities		19,952,911	53,996,982
Net increase (decrease) in cash and cash equivalents		336,674,106	(155,632,432)
Cash and cash equivalents at 1 January		242,472,809	400,870,270
Effect of exchange rate fluctuations on cash and cash equivalents		1,064,502	(2,765,029)
Cash and cash equivalents at 31 December	34	580,211,417	242,472,809

The notes on pages 13 to 72 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. Set out below is a list of subsidiaries.

	Country of incorporation	Number of shares	31 December 2016 Ownership interest	31 December 2015 Ownership interest
Anelik Bank CJSC	Armenia	273,926	–	100.00%
CB Anelik RU LLC	Russia	–	100.00%	100.00%
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) Basis of accounting

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 Bank's functional currency. All amounts 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 2016 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.

(2) Basis of preparation (continued)

(d) Use of judgements and estimates (continued)

Assumptions and estimation uncertainties (continued)

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 homogenous 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 (k)(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 2016. The nature and the impact of each new standard and amendments are described below.

Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)

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

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

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

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

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

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

Annual Improvements to IFRSs 2012 – 2014 Cycle

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

IFRS 5 is amended to clarify that:

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

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

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

(3) Change in accounting policies (continued)

Annual Improvements to IFRSs 2012 – 2014 Cycle (continued)

IFRS 7 Financial Instruments: Disclosures

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

IAS 19 Employee Benefits

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

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

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

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

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

Disclosure Initiative (Amendments to IAS 1)

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

(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 consolidated financial statements.

The Group produces consolidated financial statements that are available for public use and that comply with IFRS. These consolidated financial statements can be obtained from the Bank's registered office in Dekwaneh (Freeway Center).

(4) Significant accounting policies (continued)

(b) Subsidiary

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.

(4) Significant accounting policies (continued)

(f) Interest (continued)

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 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 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 cost / income

Net trading cost income 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 and interest.

(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.

(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.

(4) Significant accounting policies (continued)

(l) Income tax (continued)

(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.

(4) Significant accounting policies (continued)

(m) Financial assets and financial liabilities (continued)

(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 Group’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.

(4) Significant accounting policies (continued)

(m) Financial assets and financial liabilities (continued)

(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.

(4) Significant accounting policies (continued)

(m) Financial assets and financial liabilities (continued)

(vii) Identification and measurement of impairment (continued)

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 Bank 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 statement of financial position.

(4) Significant accounting policies (continued)

(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.

When the Group purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in Bank’s financial statements.

(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.

(4) Significant accounting policies (continued)

(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 costs

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.

(4) Significant accounting policies (continued)

(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 Group'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.

(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 2016 and earlier adoption is permitted; however, the Group has not early applied 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.

Disclosure Initiative (Amendments to IAS 7)

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted.

IFRS 9 Financial instruments

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

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

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes.*

IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15.

IFRS 16 Leases

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

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

The standard is effective for annual periods beginning on or after 1 January 2019.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16 but is not expected to have a significant effect.

(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 Group 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;

(6) Financial risk management (continued)

(a) Introduction and overview (continued)

Risk management framework - Corporate Governance (continued)

(i) Board Committees (continued)

Audit Committee (continued)

- 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.

(6) Financial risk management (continued)

(a) Introduction and overview (continued)

Risk management framework - Corporate Governance (continued)

(ii) Bank'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 Bank 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.

(6) Financial risk management (continued)

(a) Introduction and overview (continued)

Risk management framework - Corporate Governance (continued)

(ii) Bank's Management Committees (continued)

- ***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 semi-annual 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 Internal Control Committee***

The Internal Control Committee is composed of five voting members and one non-voting member, it meets on a quarterly basis. The main roles and responsibilities of the Internal Control Committee are set as follows:

- To ensure the proper application of procedures and regulations.
- To analyse audit reports and the departments' answers thereto.
- To take adequate decisions and recommend solutions.

- ***The Security Committee***

The Security Committee is composed of five voting members and two non-voting members; it meets on a quarterly basis. This Committee's roles and responsibilities are defined in the Banking Control Commission circular N° 222 dated 18 August 2000.

- ***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.

(6) Financial risk management (continued)

(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 Bank's ALCO Committee.

(ii) Management of credit risk

The Board of Directors has delegated responsibility for the management of individual credit risk to the Bank'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.

(6) Financial risk management (continued)

(b) Credit risk (continued)

(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 Bank 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 Group rates its counterparties according to the six rating classes defined by the Central Bank of Lebanon ("BDL") and the Bankinh 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.

(6) Financial risk management (continued)

(b) Credit risk (continued)

(iv) Credit quality analysis (continued)

In thousands of Lebanese Pound	Note	Loans and advances to customers and related parties 2016	2015	Due from Central Banks, banks and financial institutions 2016	2015	Investment securities (debt securities) 2016	2015	Lending commitments and financial guarantees 2016	2015
Maximum exposure to credit risk									
Carrying amount	9,10,11,12	2,739,271,956	2,539,246,736	1,849,979,426	1,216,291,293	374,944,863	985,009,205	–	–
Amount committed / guaranteed	35	–	–	–	–	–	–	356,894,984	368,004,081
At amortised cost									
Grade 1-2: Low-fair risk		1,889,208,618	1,890,831,620	1,849,979,426	1,213,716,186	299,945,399	877,609,703		
Grade 3: Watch		776,380,140	558,244,449	–	–	–	–		
Grade 4: Substandard		30,362,753	13,121,564	–	–	–	–		
Grade 5: Doubtful		124,188,301	144,854,258	994,074	3,066,099	–	–		
Grade 6: Bad		13,384,529	11,675,086	9,254,063	9,276,828	–	–		
Total gross amount		2,833,524,341	2,618,726,977	1,860,227,563	1,226,059,113	299,945,399	877,609,703		
Allowance for impairment (individual and collective)		(94,252,385)	(79,480,241)	(10,248,137)	(9,767,820)	–	–		
Net carrying amount		2,739,271,956	2,539,246,736	1,849,979,426	1,216,291,293	299,945,399	877,609,703		
At fair value through profit or loss									
Grade 1: Low-fair risk		–	–	–	–	74,999,464	107,399,502		
Total carrying amount		–	–	–	–	74,999,464	107,399,502		
Off balance sheet									
Maximum exposure									
Lending commitments and financial guarantees									
Grade 1-3: low-fair risk								356,814,636	367,931,096
Grade 5: Impaired								80,348	72,985
Total exposure								356,894,984	368,004,081

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Notes to the consolidated financial statements

31 December 2016

(6) Financial risk management (continued)

(b) Credit risk (continued)

(iv) Credit quality analysis (continued)

In thousands of Lebanese Pound	Note	Loans and advances to customers and related parties 2016	Loans and advances to customers and related parties 2015	Due from Central Banks, banks and financial institutions 2016	Due from Central Banks, banks and financial institutions 2015	Investment securities (debt securities) 2016	Investment securities (debt securities) 2015	Lending commitments and financial guarantees 2016	Lending commitments and financial guarantees 2015
Neither past due nor impaired									
Grade 1-2: Low-fair risk		1,884,861,544	1,887,378,767	1,849,979,426	1,213,716,186	374,944,863	985,009,205		
		1,884,861,544	1,887,378,767	1,849,979,426	1,213,716,186	374,944,863	985,009,205		
Past due but not impaired									
Grade 3: Watch		774,609,335	556,428,647	–	–	–	–		
		774,609,335	556,428,647	–	–		–		
Individually impaired									
Grade 1-2: Low-fair risk		4,347,074	3,452,853	–	–	–	–		
Grade 3: Watch		1,770,805	1,815,802	–	–	–	–		
Grade 4: Substandard		30,362,753	13,121,564	–	–	–	–		
Grade 5: Doubtful		124,188,301	144,854,258	994,074	3,066,099	–	–		
Grade 6: Bad		13,384,529	11,675,086	9,254,063	9,276,828	–	–		
		174,053,462	174,919,563	10,248,137	12,342,927	–	–		
Total		2,833,524,341	2,618,726,977	1,860,227,563	1,226,059,113	374,944,863	985,009,205		
Allowance for impairment									
Individual		(88,942,482)	(72,603,316)	(10,248,137)	(9,767,820)	–	–		
Collective		(5,309,903)	(6,876,925)	–	–	–	–		
Total allowance for impairment	10,11	(94,252,385)	(79,480,241)	(10,248,137)	(9,767,820)	–	–		

(6) Financial risk management (continued)

(b) Credit risk (continued)

(iv) Credit quality analysis (continued)

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:

In thousands of Lebanese Pound	**Loans and advances to customers**		**Banks and financial institutions**	
	Gross	**Net**	**Gross**	**Net**
31 December 2016				
Grades 1,2 and 3: Performing loans	6,117,879	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	332	9,254,063	–
Total	174,053,462	85,110,980	10,248,137	–
31 December 2015				
Grades 1,2 and 3: Performing loans	5,268,655	4,403,713	–	–
Grade 4: Individually impaired	13,121,564	9,873,934	–	–
Grade 5: Individually impaired	144,854,258	88,037,662	3,066,099	2,575,107
Grade 6: Individually impaired	11,675,086	938	9,276,828	–
Total	174,919,563	102,316,247	12,342,927	2,575,107

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.

(6) Financial risk management (continued)

(b) Credit risk (continued)

(iv) Credit quality analysis (continued)

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 2016 or 2015.

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:

In thousands of Lebanese Pound	Loans and advances to customers			
	Fair value of collateral at inception (for the Group)		Fair value of collateral at year end	
	2016	**2015**	**2016**	**2015**
Against impaired				
Mortgaged property	35,058,798	13,572,609	58,093,346	21,758,201
Equities	531,822	525,274	244,171	255,800
Other including cash	5,074,655	4,762,051	5,074,655	4,762,051
Against substandard				
Mortgaged property	28,743,454	13,709,844	44,777,597	40,975,923
Other including cash	2,273,294	2,259,729	2,273,294	2,259,729
Against regular loans and advances				
Mortgaged property	1,164,517,747	1,173,641,735	2,285,196,751	2,228,668,250
Debt securities	3,150,139	14,096,108	3,342,446	11,324,742
Equities	161,827,906	71,022,301	125,082,467	49,315,617
Other including cash	368,792,373	383,871,671	368,792,373	356,675,356
Total	1,769,970,188	1,677,461,322	2,892,877,100	2,715,995,669

(6) Financial risk management (continued)

(b) Credit risk (continued)

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

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	**2016**	**2015**
Loan to value (LTV) ratio		
Less than 50%	77,933,323	74,329,102
51% to 70%	89,278,586	75,706,663
71% to 90%	46,730,806	43,556,569
91% to 100%	2,276,576	5,132,725
More than 100%	42,565,420	45,211,884
Total	258,784,711	243,936,943

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.

(6) Financial risk management (continued)

(b) Credit risk (continued)

(vi) Concentrations 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:

In thousands of Lebanese Pound		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	
	Note	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Carrying amount	8, 9, 10, 35	1,849,979,426	1,216,291,293	2,739,271,956	2,539,246,736	374,944,863	985,009,205	356,894,984	368,004,081
Concentration by sector									
Corporate		–	–	2,104,253,085	1,898,249,251	5,294,450	5,977,134	302,389,793	311,002,551
Sovereign		1,618,482,500	1,039,627,926	–	–	369,650,413	979,032,071	–	–
Bank		231,496,926	176,663,367	–	–	–	–	4,845,825	13,574,398
Retail		–	–	635,018,871	640,997,485	–	–	49,659,366	43,427,132
		1,849,979,426	1,216,291,293	2,739,271,956	2,539,246,736	374,944,863	985,009,205	356,894,984	368,004,081
Concentration by location									
Lebanon		1,742,847,277	1,076,708,131	2,402,274,221	2,030,399,272	374,191,168	972,302,808	347,631,050	348,326,172
Americas		37,622,872	41,145,000	33,513,000	26,259,000	–	–	206,947	816,582
Europe		66,352,169	93,546,162	137,061,735	317,382,464	753,695	12,706,397	2,662,013	7,055,148
Asia Pacific		30,744	125,000	213,000	268,000	–	–	7,538	39,538
Middle East and Africa		2,372,995	3,086,000	165,362,000	164,713,000	–	–	6,376,070	11,735,841
Australia		753,369	1,681,000	848,000	225,000	–	–	11,366	30,800
	8, 9, 10, 35	1,849,979,426	1,216,291,293	2,739,271,956	2,539,246,736	374,944,863	985,009,205	356,894,984	368,004,081

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 2016, 234 customers (2015: 213 customers) of the loans and advances and related parties are above LBP 1,500,000 thousands and constitute 72.04% (2015: 69.61%) 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 580,211,417 thousand at 31 December 2016 (2015: LBP 242,472,809 thousand) which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with Central Banks. In addition, cash and cash equivalents are held also with reputable banks and financial institutions.

(6) Financial risk management (continued)

(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.

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 Bank 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	**2016**	**2015**
At 31 December	33.57%	39.68%

(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.

(6) Financial risk management (continued)

(c) Liquidity risk (continued)

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

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 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	2,739,271,956	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	–
		5,114,841,355	6,966,156,249	1,321,701,798	318,094,788	801,572,561	1,717,134,932	2,807,652,170
31 December 2015								
Non-derivative liabilities								
Due to banks and financial institutions	18	242,189,464	(287,455,633)	(61,949,449)	(13,883,189)	(52,959,743)	(42,417,892)	(116,245,360)
Deposits from customers and related parties	19	4,261,463,870	(4,342,290,987)	(3,062,554,635)	(328,623,647)	(731,475,881)	(199,251,892)	(20,384,932)
		4,503,653,334	(4,629,746,620)	(3,124,504,084)	(342,506,836)	(784,435,624)	(241,669,784)	(136,630,292)
Non-derivative assets								
Cash and balances with Central Banks	9	1,086,448,811	1,365,181,118	268,600,593	15,740,891	55,608,379	383,557,234	641,674,021
Banks and financial institutions	10	176,663,367	176,734,983	174,864,770	14,277	67,817	1,780,248	7,871
Loans and advances to customers and related parties	11	2,539,246,736	3,644,576,915	529,282,512	121,644,623	499,590,203	1,158,870,599	1,335,188,978
Investment securities	12	990,388,821	2,384,136,355	8,027,919	13,401,683	80,599,147	164,581,173	2,117,526,433
Shares acquired in settlement of debt at fair value through profit or loss	13	89,987,161	89,987,161	–	–	–	89,987,161	–
		4,882,734,896	7,660,616,532	980,775,794	150,801,474	635,865,546	1,798,776,415	4,094,397,303

(6) Financial risk management (continued)

(c) Liquidity risk (continued)

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

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 Bank'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:

(6) Financial risk management (continued)

(d) Market risks (continued)

(ii) Exposure to interest rate risks – Non-trading portfolios (continued)

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 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	2,739,271,956	2,035,747,956	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
		4,933,471,358	2,754,208,240	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)
		278,733,602	(684,617,433)	(263,833,174)	(217,128,504)	391,644,057	715,834,900	336,833,756
31 December 2015								
Cash and balances with Central Banks	9	1,086,448,811	343,773,671	25,024,410	6,030,000	20,000,000	442,937,500	248,683,230
Banks and financial institutions	10	176,663,367	30,482,127	–	–	363,479	–	145,817,761
Loans and advances to customers and related parties	11	2,539,246,736	1,763,790,653	22,857,000	61,572,000	350,080,000	239,477,000	101,470,083
Investment securities - debt securities	12	877,609,703	90,598	–	20,255,881	9,295,544	827,381,369	20,586,311
		4,679,968,617	2,138,137,049	47,881,410	87,857,881	379,739,023	1,509,795,869	516,557,385
Due to banks and financial institutions	18	(242,189,464)	(64,776,000)	(25,584,000)	(22,109,000)	(12,917,000)	(109,565,000)	(7,238,464)
Deposits from customers and related parties	19	(4,261,463,870)	(3,127,869,870)	(335,025,000)	(364,257,000)	(180,265,000)	(13,930,000)	(240,117,000)
		(4,503,653,334)	(3,192,645,870)	(360,609,000)	(386,366,000)	(193,182,000)	(123,495,000)	(247,355,464)
		176,315,283	(1,054,508,821)	(312,727,590)	(298,508,119)	186,557,023	1,386,300,869	269,201,921

(6) Financial risk management (continued)

(d) Market risks (continued)

(ii) Exposure to interest rate risks – Non-trading portfolios (continued)

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 2016			
LBP	200	-8.32%	-22.80%
USD	200	-8.82%	-11.17%
EUR	200	0.35%	-0.29%
31 December 2015			
LBP	+200	-15.84%	-46.68%
USD	+200	-4.98%	-8.81%
EUR	+200	0.81%	0.10%

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 2015			
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%
31 December 2015			
USD	1%	-0.0511%	-0.0082%
EUR	1%	0.0043%	0.0007%
GBP	1%	-0.0002%	0.0000%
CAD	1%	-0.0121%	-0.0020%
CHF	1%	0.0000%	0.0000%

(6) Financial risk management (continued)

(d) Market risks (continued)

(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 2016			31 December 2015		
In thousands of Lebanese Pound	**LBP**	**C/V LBP**	**Total**	**LBP**	**C/V LBP**	**Total**
Assets						
Cash and balances with Central Banks	951,067,108	711,689,969	1,662,757,077	455,996,476	630,452,335	1,086,448,811
Banks and financial institutions	46,130,894	181,295,883	227,426,777	5,164,527	171,498,840	176,663,367
Head Office, Holdings, Sister and Related Banks	–	4,070,149	4,070,149	–	–	–
Loans and advances to customers and related parties	1,095,377,329	1,643,894,626	2,739,271,955	782,028,566	1,757,218,170	2,539,246,736
Investment securities	220,244,609	161,020,085	381,264,694	896,633,794	93,755,027	990,388,821
Shares acquired in settlement of debt at fair value through profit or loss	–	100,050,702	100,050,702	–	89,987,161	89,987,161
Investments in Subsidiaries and Associates	–	69,030,165	69,030,165	–	–	–
Property and equipment	60,799,924	9,318,168	70,118,092	54,023,978	22,650,095	76,674,073
Intangible assets	261,631	261,924	523,555	190,433	1,059,888	1,250,321
Other assets	2,697,076	28,566,975	31,264,051	2,945,019	19,981,649	22,926,668
Non-current assets held for sale	–	4,405,996	4,405,996	–	15,144,313	15,144,313
Goodwill	–	–	–	–	9,728,373	9,728,373
Total assets	2,376,578,571	2,913,604,642	5,290,183,213	2,196,982,793	2,811,475,851	5,008,458,644
Liabilities and equity						
Due to banks and financial institutions	114,378,348	53,971,862	168,350,210	106,622,390	135,567,074	242,189,464
Deposits from customers and related parties	1,871,019,430	2,615,368,116	4,486,387,546	1,771,266,068	2,490,197,802	4,261,463,870
Current tax liabilities	15,475,439	–	15,475,439	4,840,000	–	4,840,000
Other liabilities	14,743,791	46,434,995	61,178,786	17,554,017	54,433,105	71,987,122
Provisions	34,316,875	30,427,868	64,744,743	6,825,918	42,309	6,868,227
Share capital - common shares	112,119,150	–	112,119,150	112,119,150	–	112,119,150
Share capital - preferred shares	47,500,000	–	47,500,000	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	–	95,712,499	95,712,499	–	95,712,499	95,712,499
Cash contribution to capital	–	10,854,000	10,854,000	–	10,854,000	10,854,000
Reserves	118,818,484	25,283,619	144,102,103	78,655,292	30,152,031	108,807,323
Non-distributable retained earnings	18,049,769	–	18,049,769	8,883,426	–	8,883,426
Retained earnings	53,984,473	37,860	54,022,333	53,296,369	(11,584,546)	41,711,823
Translation reserve	–	(5,635,174)	(5,635,174)	–	(21,789,768)	(21,789,768)
Non-controlling interest	48,222	–	48,222	37,921	–	37,921
Total liabilities and equity	2,417,727,568	2,872,455,645	5,290,183,213	2,224,874,138	2,783,584,506	5,008,458,644

(6) Financial risk management (continued)

(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 Group 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 semi-annual 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. The Group’s total risk weighted assets and regulatory capital adequacy ratio at 31 December were as follows:

In thousands of Lebanese Pound	**2016**	**2015**
Credit risk	2,955,640,126	2,719,389,781
Market risk	104,869,838	90,749,891
Operational risk	256,713,986	241,798,738
Total risk weighted assets	3,317,223,950	3,051,938,410

	2016	**2015**
Net Common Equity Tier 1 Ratio	8.77%	8.09%
Net Tier 1 Capital Ratio	13.09%	12.78%
Capital adequacy ratio	13.13%	12.79%

(6) Financial risk management (continued)

(f) Capital management (continued)

Regulatory capital (continued)

To monitor the adequacy of its capital, the Group uses ratios established by the Group for International Settlements (BIS). In line with with the Central Bank of Lebanon Basic Circular no.44 amended by the Central Bank of Lebanon Intermediary Circular no. 436, the minimum requirements for capital adequacy ratios are set at 8% by the BIS and 12% by the Central Bank of Lebanon at the end of year 2015 to reach 14% at the end of year 2016. The Common Equity Tier 1 Ratio should be 8.5% as at 31 December 2016 and Tier 1 Ratio should be 11% as at the same date.

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, Banks are 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).
- 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.

(7) Financial risk management (continued)

(g) Capital management (continued)

Regulatory capital (continued)

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	**2016**	**2015**
Share capital - common shares	112,119,150	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	132,232,122	98,935,034
Non-distributable retained earnings	18,049,769	8,883,426
Retained Earnings	43,095,334	31,733,977
Non-controlling interest	–	37,922
Less:		
- Goodwill	–	(9,728,373)
- Intangible assets	(523,555)	(1,250,321)
-100% Fair value reserve of financial assets at FVTOCI - loss	(134,017)	(123,615)
- Translation reserve	(5,635,174)	(21,789,768)
- Regulatory adjustment due to investments in associates out of consolidation scope **	(36,296,878)	–
Net Common Equity - Tier 1	291,034,338	246,945,019
Share capital - preferred shares	47,500,000	47,500,000
Share premium - preferred shares	95,712,499	95,712,499
Net Tier 1 Capital	434,246,837	390,157,518
50% Fair value reserve of financial assets through OCI - gain	1,232,801	65,652
	1,232,801	65,652
Total regulatory capital	435,479,638	390,223,170

* 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).

(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 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.

(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.

(7) Fair values of financial instruments (continued)

(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 thouands of Lebanese Pound

31 December 2016	**Level 1**	**Level 2**	**Level 3**	**Total**
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

31 December 2015	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial instruments at fair value through profit or loss	34,805,647	73,946,844	–	108,752,491
Financial instruments at fair value through other comprehensive income	828,675	3,082,928	115,024	4,026,627
Shares acquired in settlement of debt at fair value through profit or loss	–	89,987,161	–	89,987,161
	35,634,322	167,016,933	115,024	202,766,279

(c) Financial instruments not measured at fair value

In thousands of Lebanese Pound

31 December 2016 **Financial assets**	**Level 1**	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
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	2,739,271,956
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	4,933,471,358
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

31 December 2015 **Financial assets**	**Level 1**	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
Cash and balances with Central Banks	46,820,884	1,039,627,927	–	1,086,448,811	1,086,448,811
Banks and financial institutions	–	176,663,367	–	176,663,367	176,663,367
Loans and advances to customers and related parties	–	2,609,092,075	225,769	2,609,317,844	2,539,246,736
Investment securities at amortised cost	40,843,729	863,892,252	–	904,735,981	877,609,703
	87,664,613	4,689,275,621	225,769	4,777,166,003	4,679,968,617
Financial liabilities					
Due to banks and financial institutions	–	242,189,464	–	242,189,464	242,189,464
Deposits from customers and related parties	4,030,371	4,270,825,547	–	4,274,855,918	4,261,463,870
	4,030,371	4,513,015,011	–	4,517,045,382	4,503,653,334

(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 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	–	–	2,739,271,956	2,739,271,956
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	4,933,471,358	5,114,841,355
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
31 December 2015					
Cash and balances with the Central Banks	9	–	–	1,086,448,811	1,086,448,811
Banks and financial institutions	10	–	–	176,663,367	176,663,367
Loans and advances to customers and related parties	11	–	–	2,539,246,736	2,539,246,736
Investment securities	12	108,752,491	4,026,627	877,609,703	990,388,821
Shares acquired in settlement of debt at fair value through profit or loss	13	89,987,161	–	–	89,987,161
		198,739,652	4,026,627	4,679,968,617	4,882,734,896
Due to banks and financial institutions	18	–	–	242,189,464	242,189,464
Deposits from customers and related parties	19	–	–	4,261,463,870	4,261,463,870
		–	–	4,503,653,334	4,503,653,334

(9) Cash and balances with Central Banks

In thousands of Lebanese Pound	2016	2015
Cash	44,274,577	46,820,885
Unrestricted balances with Central Banks	1,089,758,589	522,126,683
Compulsory reserves held with Central Banks	509,097,713	502,566,126
Interest receivable	19,626,198	14,935,117
	1,662,757,077	1,086,448,811

Cash and balances with Central Banks include non-interest bearing balances held by the Group 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 124,079,824 thousand as at 31 December 2016 (2015: LBP 117,566,912 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 USD 255,093 thousand (equivalent to LBP 384,552,698 thousand) as at 31 December 2016 (2015: USD 231,726 thousand - equivalent to LBP 349,327,397 thousand).

Compulsory reserves held with Central Banks are not available for use in the Group's day-to-day operations.

(10) Banks and financial institutions

In thousands of Lebanese Pound	2016	2015
Current accounts	181,612,685	146,299,041
Money market placements	56,428,860	36,013,023
Cash collateral	3,570,617	4,093,494
Interest receivable	132,901	25,629
Allowance for impairment	(10,248,137)	(9,767,820)
	231,496,926	176,663,367

(11) Loans and advances to customers and related parties

In thousands of Lebanese Pound	Gross amount	Impairment allowance	Carrying amount	Gross amount	Impairment allowance	Carrying amount
		2016			2015	
Retail customers:						
Mortgage lending	258,784,711	(614,512)	258,170,199	243,936,943	(410,774)	243,526,169
Personal loans	368,257,215	(10,800,106)	357,457,109	388,107,135	(12,500,595)	375,606,540
Credit cards	21,105,930	(1,714,366)	19,391,564	22,262,432	(1,362,243)	20,900,189
Other	–	–	–	983,611	(19,022)	964,589
	648,147,856	(13,128,984)	635,018,872	655,290,121	(14,292,634)	640,997,487
Corporate customers:						
Secured lending	1,316,542,030	(13,918,351)	1,302,623,679	1,350,864,739	(50,641,165)	1,300,223,574
Other lending	868,834,454	(67,205,050)	801,629,404	612,572,117	(14,546,442)	598,025,675
	2,185,376,484	(81,123,401)	2,104,253,083	1,963,436,856	(65,187,607)	1,898,249,249
	2,833,524,340	(94,252,385)	2,739,271,955	2,618,726,977	(79,480,241)	2,539,246,736

(11) Loans and advances to customers and related parties (continued)

(a) Allowances for impairment – Movement

In thousands of Lebanese Pound	**2016**	**2015**
Specific allowance for impairment		
Balance at 1 January	72,603,316	50,916,190
Impairment loss and suspended interest		
Charge for the year	14,762,193	17,172,893
Provision written back	(3,917,510)	(567,459)
Suspended interest written back	(181,731)	(255,737)
Suspended interest during the year	12,418,846	7,059,323
Write-offs resulting from settlements	(1,108,996)	(1,218,081)
Result of Anelik CJSC de-consolidation	(5,769,101)	–
Difference of exchange	135,465	(503,813)
Balance at 31 December	88,942,482	72,603,316

In thousands of Lebanese Pound	**2016**	**2015**
Collective allowance for impairment		
Balance at 1 January	6,876,925	3,397,709
Impairment loss for the year		
Charge for the year	1,272,098	2,879,870
Provision written back	(620,170)	4,651,028
Write-offs resulting from settlements	–	(4,027,688)
Result of Anelik CJSC de-consolidation	(2,218,902)	–
Difference of exchange	(48)	(23,994)
Balance at 31 December	5,309,903	6,876,925
Total allowance for impairment	94,252,385	79,480,241

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

In thousands of Lebanese Pound	**2016**	**2015**
Provisions written back	4,537,680	1,092,959
Loans directly written off to profit or loss	(449,444)	(54,532)
Collection of bad debts	1,849	–
Charge for the year - specific provision	(14,762,193)	(17,172,893)
Charge for the year - collective provision	(1,272,098)	(2,879,870)
Difference of exchange	1,162	–
	(11,943,044)	(19,014,336)

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

(12) Investment securities

In thousands of Lebanese Pound	2016	2015
Investment securities at fair value through profit or loss (a)	76,266,308	108,752,491
Investment securities at fair value through other comprehensive income (b)	5,052,987	4,026,627
Investment securities at amortised cost (c)	299,945,399	877,609,703
	381,264,694	990,388,821

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

In thousands of Lebanese Pound	2016	2015
Government treasury bills and eurobonds	50,147,351	57,964,556
Certificates of deposit	21,245,348	44,736,273
Funds	2,638,125	2,638,125
Interest receivable	968,640	2,060,548
Debt securities	74,999,464	107,399,502
Equity securities	1,266,844	1,352,989
	76,266,308	108,752,491

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

In thousands of Lebanese Pound	2016	2015
Equity securities	5,052,987	4,026,627

(c) Financial instruments at amortised cost

In thousands of Lebanese Pound	2016	2015
Government treasury bills and eurobonds	225,079,412	49,090,779
Corporate bonds	753,695	656,029
Securities pledged under repurchase agreements	–	1,199,968
Certificates of deposit	70,852,500	803,457,399
Funds	1,857,190	2,636,890
Interest receivable	1,402,602	20,568,638
Debt securities	299,945,399	877,609,703

(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 has revalued those shares and has increased the investment value by the amount of revaluation surplus. The Group should dispose of those shares within a period of two years from the date of acquisition.

In thousands of Lebanese Pound	2016	2015
2,113,194 shares of "IBL Bank S.A.L"	100,050,702	89,987,161

(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 2015	44,857,423	48,251,951	12,640,011	105,749,385
Additions	8,796	1,283,860	7,765,233	9,057,889
Disposals	–	(1,226,883)	–	(1,226,883)
Transfers	11,210,042	5,346,565	(16,556,607)	–
Adjustment	–	–	(363,762)	(363,762)
Effects of movement in exchange rates	(258,944)	(510,679)	–	(769,623)
Balance at 31 December 2015	55,817,317	53,144,814	3,484,875	112,447,006
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
Accumulated depreciation				
Balance at 1 January 2015	8,198,457	24,731,284	–	32,929,741
Depreciation for the year	877,479	3,457,298	–	4,334,777
Disposals	–	(1,063,534)	–	(1,063,534)
Adjustment	–	(300)	–	(300)
Effects of movement in exchange rates	(35,698)	(392,053)	–	(427,751)
Balance at 31 December 2015	9,040,238	26,732,695	–	35,772,933
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
Carrying amounts				
At 1 January 2015	36,658,966	23,520,667	12,640,011	72,819,644
At 31 December 2015	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

(15) Intangible assets

In thousand of Lebanese pound	2016	2015
Cost		
At 1 January	5,158,130	4,680,044
Additions	152,741	586,024
Disposals	–	(1,288)
De-consolidation of Anelik CJSC	(1,558,807)	–
Effects of movement in exchange rates	61,908	(106,650)
At 31 December	3,813,972	5,158,130
Accumulated amortization		
At 1 January	3,907,809	3,721,446
Amortization expense	83,959	233,108
De-consolidation of Anelik CJSC	(723,376)	–
Effects of movement in exchange rates	22,025	(46,745)
At 31 December	3,290,417	3,907,809
Carrying amount		
At 1 January	1,250,321	958,598
At 31 December	523,555	1,250,321

(16) Other assets

In thousands of Lebanese Pound	2016	2015
Accounts receivable and prepayments	23,517,213	10,154,711
Debtors by acceptances (a)	7,536,937	6,649,868
Other assets	209,925	6,122,089
	31,264,075	22,926,668

(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	2016	2015
Balance at 1 January	15,144,313	15,871,603
Disposals	–	(2,910,820)
Additions	689,229	2,834,747
(Reversal) of impairment	–	(422,973)
Effects of movements in exchange rates	–	(228,244)
Effects of deconsolidation	(11,427,546)	–
Balance at 31 December	4,405,996	15,144,313

(17) Non-current assets held for sale (continued)

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 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	**2016**	**2015**
Current deposits	5,392,324	4,539,532
Term deposits	25,514,235	98,261,563
Loan granted from Central Banks	105,150,800	87,901,593
Loan from banks and financial institutions	–	11,230,477
Loan granted from the European Investment Bank	5,847,230	7,407,888
Loan granted from Proparco	24,668,182	30,150,000
Interest payable	1,777,439	2,698,411
	168,350,210	242,189,464

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**	**2016**	**2015**
Savings		1,358,639,429	1,651,601,823
Term deposits		2,427,266,276	1,940,947,241
Current deposits		263,368,204	274,059,998
Deposits under fiduciary contracts		36,180,059	60,002,979
Net creditor and cash collateral against debtor accounts		357,443,431	289,448,894
Margins on letter of credits		4,578,010	4,607,637
Interest payable		28,128,489	26,474,199
Deposits from related parties	36	10,783,648	14,321,099
		4,486,387,546	4,261,463,870

As at 31 December 2016, deposits from customers above LBP 1,500,000 thousand threshold amounted to LBP 2,186,787 million representing 51.24% of total deposits and are held by 424 customers. Same tiers representing 54.22% of total customers' deposits amounting to LBP 2,223,051 million were held by 375 customers in year 2015.

Deposits from customers include coded accounts amounting to LBP 20,629,466 thousand as at 31 December 2016 limited to 11 customers (2015: LBP 18,094,902 thousand limited to 13 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	**2016**	**2015**
Other creditors and accruals	24,093,509	31,951,448
Checks for collection	15,434,364	15,161,981
Engagement by acceptances	7,536,937	6,649,868
Operational taxes and social security payables	4,733,247	7,060,667
Accrued expenses	4,430,587	6,125,740
Commission received in advance	4,607,709	3,923,885
Other liabilities	342,461	1,113,533
	61,178,814	71,987,122

(21) Provisions

In thousands of Lebanese Pound	**2016**	**2015**
Provision for employee benefits obligations (a)	7,838,081	6,794,732
Provision for various matters	33,401	34,456
Provision for loss on structural exchange position	12,925	12,925
Provision for fluctuations in foreign exchange rates (b)	542,492	26,114
Collective provision (c)	56,317,844	–
	64,744,743	6,868,227

(a) Provision for employee benefits obligations

In thousands of Lebanese Pound	**2016**	**2015**
Balance at 1 January	6,794,732	6,887,132
Net provision raised during the year	1,569,125	1,948,804
Indemnity paid during the year	(525,776)	(2,041,204)
Balance at 31 December	7,838,081	6,794,732

(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) Collective provision

During November 2016, the Central Bank of Lebanon issued Intermediate Circular number 439 which required banks operating in Lebanon to constitute collective 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 collective provision amounting to LBP 12,591,844 thousands.

(22) Share capital

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

	2016		2015	
	Number of shares	Value in 000 LBP	Number of shares	Value in 000 LBP
Common shares	2,242,383	112,119,150	2,242,383	112,119,150
Preferred shares	950,000	47,500,000	950,000	47,500,000
	3,192,383	159,619,150	3,192,383	159,619,150

The extraordinary General Assembly of the Shareholders of the Group held on 20 February 2015 resolved to increase the capital of the Group from LBP 73,725,678 thousand to LBP 80,225,678 thousand by issuing 250,000 new preferred shares (series 5), according to the provisions of the law No. 308/2001, of LBP 26 thousand each subscribed to and paid in cash with a premium of LBP 124,750 per share thus a total premium of LBP 31,187,500 thousand.

The extraordinary General Assembly of the Shareholders of the Group held on 2 October 2015 resolved to increase the capital of the Group from LBP 80,225,678 thousand to LBP 159,619,150 thousand as follows:

- Increase of the nominal value from LBP 26 thousand to LBP 50 thousand by transferring from the reserve appropriated to capital increase a total of LBP 74,054,472 thousand.
- Issuance of 106,780 new common shares of LBP 50 thousand each subscribed to and paid in cash with a premium of LBP 161,768 per share thus a total premium of LBP 17,273,587 thousand.

The Central Bank of Lebanon has approved the above transactions on 10 December 2015.

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

CREDITBANK S.A.L.

Notes to the consolidated financial statements

31 December 2016

(22) Share capital (continued)

	Series 2	Series 3	Series 4	Series 5	Total
Date of Extraordinary General					
Assembly Resolution Date	5-Oct-12	20-Sep-13	11-Jul-14	20-Feb-15	
Number of Shares issued	200,000	300,000	200,000	250,000	950,000
Share Nominal Value in '000 LBP	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	47,500,000
Share Issue Price USD	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 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 LBI	20,149,999	30,225,000	20,150,000	25,187,500	95,712,499
Benefits	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	(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 2018, increased by 1 USD for each subsequent year	100	100	100	

(23) Share premium

Share premium – common shares

The premium resulted from the increase of capital of the Group 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 Group 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 Group over the lifetime of the Group,
- These contributions may be used to cover any losses,
- These contributions can be used to increase the capital of the Group,
- No interest is calculated on these contributions.

The amounts of cash contributions to capital as at 31 December 2016 were LBP 10,854,000 thousand (2015: 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	**2016**	**2015**
General banking risks reserve (a)	51,513,321	42,969,380
Legal reserve (b)	28,835,897	23,914,040
Reserve appropriated to capital increase (c)	36,003,739	23,178,789
General reserves	5,996,249	4,400,637
Capital reserves	122,349,206	94,462,846
Reserve against retail portfolio (d)	2,113,772	1,026,861
Reserve against corporate portfolio (e)	7,769,144	3,445,325
Non-current assets held for sale reserve (f)	2,093,542	1,455,774
Fair value reserve (g)	2,331,584	321,291
Real estate revaluation reserve (h)	7,444,855	8,095,226
	144,102,103	108,807,323

(a) General banking risks reserve

According to the Central Bank of Lebanon basic circular no.50, banks in Lebanon are required to appropriate from their annual net profits a minimum of 0.2 percent and a maximum of 0.3 percent of total risk weighted assets based on rates specified by the Central Bank of Lebanon to cover general banking risks. This ratio should not be less than 1.25 percent of these risks at the end of year ten (2007) and 2 percent at the end of year twenty (2017). This reserve is part of Tier I, but is not available for distribution.

(b) Legal reserve

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

(25) Reserves and non-distributable retained earnings (continued)

(i) Reserves (continued)

(c) Reserve appropriated to capital increase

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

In thousands of Lebanese Pound	**2016**	**2015**
At 1 January	23,178,789	67,042,433
Appropriation of previous year profits	12,819,974	7,279,259
Transfer from non-distributable retained earnings	4,976	111,569
Less: transfer to share capital to increase the nominal value (note 22)	–	(74,054,472)
Transfer from share premuim- preferred shares	–	22,800,000
	36,003,739	23,178,789

The transfer in 2015, from share premium - preferred shares to reserve appropriated to capital increase and amounting to LBP 22,800,000 thousand represent the excess resulting from the difference between the amount paid by the preferred shares holders and the nominal value of the common share after the increase of the nominal value of common shares from LBP 26 thousand to LBP 50 thousand each from reserves.

(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 2014. As at 31 December 2016, this reserve amounted to LBP 2,113,772 thousand (2015: LBP 1,026,861 thousand). Additional appropriations of 0.5% per annum are required for six consecutive years starting 2015.

(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 2016, this reserve amounted to LBP 7,769,144 thousand (2015: LBP 3,445,325 thousand).

(f) Non-current assets held for sale reserve

In compliance with the Central Bank of Lebanon circular no.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 debt (note 16), in case the Group failed to liquidate the properties within 2 years from the date of acquisition. The required reserves are established through appropriation of retained earnings. This reserve is not considered as part of the Group’s Tier Capital nor is available for distribution. As per the 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.

(25) Reserves and non-distributable retained earnings(continued)

(i) Reserves (continued)

(h) Real estate revaluation reserve

According to the provisions of law no.282 dated 30 December 1993 and decree no.5451 dated 26 July 1994 and the Central Bank of Lebanon and the Banking Control Commission regulations, the Group proceeded in 1999 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	**2016**	**2015**
At 1 January	8,883,426	247,913
Unrealised gain on investment securities at fair value through profit and loss (note 29)	9,171,319	8,747,082
Revaluation gains related to investment securities sold (transferred to realised)	(4,976)	(111,569)
At 31 December	18,049,769	8,883,426

(26) Net interest income

In thousands of Lebanese Pound	**Note**	**2016**	**2015**
Interest income			
Balances with Central Banks		52,431,945	40,553,850
Banks and financial institutions		14,966,008	444,926
Loans and advances to customers and related parties	36	196,518,798	215,983,211
Investment securities		63,480,574	74,686,489
Other interest income		–	8,143
Total interest income		327,397,325	331,676,619
Interest expense			
Due to banks and financial institutions		(5,319,902)	(10,639,181)
Deposits from customers and related parties	36	(221,919,587)	(212,148,239)
Other interest expense		–	(465,986)
Total interest expense		(227,239,489)	(223,253,406)
Net interest income		100,157,836	108,423,213

(27) Net fees and commission income

In thousands of Lebanese Pound	**2016**	**2015**
Fees and commission income		
Fees on letters of credit and acceptances	1,020,454	1,053,965
Fees on transactions with customers	13,312,550	13,618,164
Fees on letters of guarantee	2,246,964	1,564,196
Fees on various banking transactions	10,803,703	12,801,049
Total fees and commission income	27,383,671	29,037,374
Fees and commission expense		
Fees on banks and financial institutions accounts	(1,193,609)	(1,352,630)
Fees on various banking transactions	(5,458,702)	(6,148,452)
Total fees and commission expense	(6,652,311)	(7,501,082)
Net fees and commission income	20,731,360	21,536,292

(28) Net trading (loss) / income

In thousands of Lebanese Pound	**2016**	**2015**
Foreign exchange (loss) income	(14,199,799)	4,759,955

(29) Net gain on investment securities at fair value through profit or loss

In thousands of Lebanese Pound	**2016**	**2015**
Unrealised gain from investment securities at fair value through profit or loss	12,703,328	9,171,319
Unrealised loss from investment securities at fair value through profit or loss	(4,215,932)	(582,701)
Realised gain from investment securities at fair value through profit or loss	41,635,793	10,836,768
Realised loss from investment securities at fair value through profit or loss	(462,604)	(142,580)
	49,660,585	19,282,806

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 thousands (refer to note 30).

This transaction resulted in net gains for the Group in the amount of LBP 61,284,642 thousands.

(30) Net gain on investments securities at amortised cost

In thousands of Lebanese Pound	2016	2015
Gain from sale of investment securities at amortised cost	61,363,337	8,639,539
Loss from sale of investment securities at amortised cost	(78,695)	(2,070)
	61,284,642	8,637,469

The Group derecognised some debt instruments classified at amortised cost. During the year, the Bank in Lebanon sold investment securities classified at amortised cost with a nominal value of LBP 1,065,417,500 thousand (2015: LBP 212,000,000 thousand) and realized a net gain of LBP 61,284,642 thousand (2015: 8,637,469 thousand).

Below is a detailed listing of the sale transactions that occurred during the year 2016:

In thousands of Lebanese Pound

Type of investment securities	Maturity	31-Dec-16 Nominal value	Net gain on sale
Eurobonds (USD)	22-Apr-31	3,015,000	24,120
	22-Apr-31	1,507,500	12,060
	22-Apr-31	12,060,000	(60,300)
		16,582,500	(24,120)
Lebanese Treasury Bills (LBP)	9-Jan-25	5,000,000	1,918
	9-Jan-25	1,000,000	23,844
	15-Oct-26	6,000,000	277,002
	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
Certificates of deposits (LBP)	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

(30) Net gain on investments securities at amortised cost (continued)

Below is a detailed listing of the sale transactions that occurred during the year 2016 (continued):

In thousands of Lebanese Pound

		31-Dec-16	
Type of investment securities	**Maturity**	**Nominal value**	**Net gain on sale**
Certificates of deposits (LBP)	19-Nov-26	15,000,000	930,420
	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
	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)

(30) Net gain on investments securities at amortised cost (continued)

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	(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
	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
Certificates of deposits (LBP)	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	518,074
		1,007,000,000	59,743,762
		1,065,417,500	61,284,643

(30) Net gain on investments securities at amortised cost (continued)

Below is a detailed listing of the sale transactions that occurred during the year 2015:

In thousands of Lebanese Pounds

Type of investment securities	Maturity	Nominal value	Net gain on sale
Lebanese Treasury Bills (LBP)	30-Oct-25	5,000,000	113,778
	11-Sep-25	5,000,000	131,755
		10,000,000	245,533
Lebanese Treasury Bills Liquidation (LBP)	29-Jan-15	2,000,000	(2,070)
Certificates of deposit (LBP)	19-Mar-26	15,000,000	269,285
	27-Apr-23	3,000,000	88,248
	2-Mar-17	1,000,000	21,035
	20-Aug-26	20,000,000	1,192,525
	25-Dec-25	5,000,000	161,669
	2-Jul-26	5,000,000	279,934
	5-Feb-26	15,000,000	683,008
	3-Dec-26	10,000,000	307,770
	4-Jun-26	5,000,000	156,203
	19-Jan-23	6,000,000	144,985
	16-Oct-25	1,000,000	34,415
	5-Mar-26	88,000,000	3,514,983
	13-Aug-26	10,000,000	618,502
	6-Aug-26	10,000,000	637,089
	22-Jan-26	6,000,000	284,355
		200,000,000	8,394,006
		212,000,000	8,637,469

(31) Personnel charges

In thousands of Lebanese Pound	Note	2016	2015
Wages and salaries		25,889,911	28,792,714
Social security contributions		4,249,109	4,194,971
Provision for employee benefits obligations	21	1,569,125	1,948,804
Representation fees		1,335,800	1,158,347
Exceptional indemnities		4,545,856	4,594,759
Scholarships		1,270,343	1,246,256
Transportation		1,149,081	1,063,403
Insurance and medical expenses		1,197,486	1,044,614
Chairman and vice chairman remunerations		2,252,403	1,863,193
Other benefits		3,845,314	3,912,216
		47,304,428	49,819,277

(32) Administrative expenses

In thousands of Lebanese Pound	**Note**	**2016**	**2015**
Marketing and advertising		3,688,036	4,216,532
Professional fees		4,827,057	5,455,620
Taxes		2,324,337	3,376,091
Rental expenses		2,756,771	2,487,394
Maintenance and repair		2,691,433	3,239,811
Utilities		852,992	884,053
Board of Directors attendance allowance	36	1,027,950	960,450
Telecommunication and postage		1,039,286	1,221,461
Stationary and printings		759,119	675,884
Transportation expense		155,743	167,004
Premium of the guarantee of deposits		2,069,700	1,894,957
Other expenses		8,889,324	11,958,346
		31,081,748	36,537,603

(33) Income tax expense

In thousands of LBP	**2016**	**2016**	**2015**	**2015**
Profit before tax		78,366,662		62,706,034
Income tax using the enacted tax rate	14.90%	11,676,046	14.92%	9,354,936
Non-deductible taxes	0.20%	153,313	0.31%	192,956
Non-deductible provisions	11.03%	8,643,693	0.69%	431,981
Irrecoverable loans	0.09%	67,417	0.01%	8,180
Other non-deductible expenses	0.61%	474,302	1.41%	881,889
Dividends received	-0.06%	(46,722)	-0.07%	(42,948)
Write back of provision	0.00%	–	-0.04%	(23,284)
Collective provision written back	-0.12%	(93,025)	0.00%	–
Gain on reevaluation of financial assets at fair value	-1.72%	(1,344,401)	-2.05%	(1,288,293)
Foreign exchange gain / losses	0.00%	–	-0.06%	(37,998)
Derecognition of unused tax losses carried forward	0.00%	–	0.13%	80,139
Profit from associate	-0.69%	(542,700)	0.00%	–
	24.23%	18,987,923	15.25%	9,557,558

The Bank is subject to a withholding tax of 5% on certain interest income which is considered as a prepayment on corporate income tax due. In case this withholding tax exceeds the calculated corporate income tax expense, the excess is not reimbursable and is considered as a final income tax expense.

The Bank's books and records were reviewed by the Department of Income Tax for the years 2010 to 2013.

The Bank's books and records remain subject to review by the Department of Income Tax for the years 2014, 2015 and 2016.

(34) Cash and cash equivalents

In thousands of Lebanese Pound	**2016**	**2015**
Cash on hand	44,274,577	46,820,885
Unrestricted accounts with Central Banks	325,549,799	69,053,084
Banks and financial institutions	227,527,992	175,217,506
Due to banks and financial institutions	(17,140,951)	(48,618,666)
	580,211,417	242,472,809

(35) Contingent liabilities and commitments

In thousands of Lebanese Pound	**2016**	**2015**
Guarantees		
Guarantees given to banks and financial institutions	29,974,293	41,581,393
Guarantees received from banks and financial institutions	16,747,851	16,748,312
Guarantees given to customers	131,822,226	110,624,119
Guarantees received from customers	5,545,684,074	5,075,034,555
Lending commitments	195,098,465	215,798,569
Operations in foreign currencies		
Foreign currencies to receive	74,754,617	71,923,092
Foreign currencies to deliver	74,412,184	73,036,626
Contingencies on legal disputes (a)	35,777,883	34,255,761
Fiduciary deposits	12,229,400	64,099,388
Bad loans fully provided for	1,630,964	11,333,242

(a) Contingencies on legal disputes

There were a number of legal proceedings involving claims by and against the Group at 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.

(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	**2016**	**2015**
Short-term employee benefits	11,146,905	12,176,601
Board of Directors attendance allowance	1,027,950	960,450

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:

(b) Outstanding balances with subsidiaries

	Balance outstanding as at 31 December	
In thousands of Lebanese Pound	**2016**	**2015**
Loans and advances	5,524,656	5,781,904
Deposits	10,783,648	14,321,099

(c) Transactions with related parties

	Transactions as at 31 December	
In thousands of Lebanese Pound	**2016**	**2015**
Interest income from loans and advances	239,149	272,575
Interest expenses on deposits	(237,906)	(334,577)

(36) Related parties (continued)

(c) Investment in associate

In thousands of Lebanese Pound	**Country of incorporation**	**Number of shares**	**31 December 2016**	**31 December 2015**
Anelik Bank CJSC	Armenia	273,926	40.32%	100.00%

(i) Equity investments at cost in unlisted associate

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 S.A.L. 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.

The investment has been valued under equity method and the movement of the investment value is reflected in the books as follows:

In thousands of Lebanese Pound	**2016**
Cost of investment as at 31 December 2015	80,308,174
Less: Difference of exchange incurred at 30 October 2016	(17,213,575)
Add:	
- Share of Creditbank in the profit realised by Anelik CJSC from 30 October 2016 till 31 December 2016	3,618,000
- Share of Creditbank in the other comprehensive income of Anelik CJSC	2,317,565
	69,030,164

Cost of investment of the Group in Anelik Bank CJSC has amounted to LBP 80,308,174 thousand divided as follows as at 31 December 2015:

In thousands of Lebanese Pound	**2015**
Cost of acquisition	60,862,088
Amount paid in excess	9,728,373
Capital increase	9,717,713
Cost of investment as at 31 December 2015	80,308,174

CREDITBANK S.A.L.

Consolidated Financial Statements

31 December 2015

(With Independent Auditors' Report Thereon)

CREDITBANK S.A.L.

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Independent auditors' report

To the shareholders of
Creditbank S.A.L.

We have audited the accompanying consolidated financial statements of Creditbank S.A.L. (the "Bank" or "Group"), which comprise the consolidated statement of financial position as at 31 December 2015, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2015, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

BDO Semaan Gholam
BDO, Semaan, Gholam & Co

KPMG
KPMG

30 May 2016
Beirut, Lebanon

CREDITBANK S.A.L.

Consolidated statement of financial position

As at 31 December

In thousands of Lebanese Pound	Note	2015	2014
Assets			
Cash and balances with Central Banks	9	1,086,448,811	1,035,937,735
Banks and financial institutions	10	176,663,367	214,370,163
Loans and advances to customers and related parties	11	2,539,246,736	2,232,209,471
Investment securities	12	990,388,821	834,040,743
Shares acquired in settlement of debt at fair value through profit or loss	13	89,987,161	83,338,523
Property and equipment	14	76,674,073	72,819,644
Intangible assets	15	1,250,321	958,598
Other assets	16	22,926,668	22,841,161
Non-current assets held for sale	17	15,144,313	15,871,603
Goodwill		9,728,373	9,728,373
Total assets		5,008,458,644	4,522,116,014
Liabilities			
Due to banks and financial institutions	18	242,189,464	222,296,329
Deposits from customers and related parties	19	4,261,463,870	3,920,746,436
Current tax liabilities		4,840,000	3,453,200
Other liabilities	20	71,987,122	51,479,242
Provisions	21	6,868,227	7,327,385
Total liabilities		4,587,348,683	4,205,302,592
Equity			
Share capital - common shares	22	112,119,150	55,525,678
Share capital - preferred shares	22	47,500,000	18,200,000
Share premium - common shares	23	17,273,587	–
Share premium - preferred shares	23	95,712,499	87,324,999
Cash contribution to capital	24	10,854,000	10,854,000
Reserves	25	108,807,323	134,376,295
Non-distributable retained earnings	25	8,883,426	247,913
Translation reserve	25	(21,789,768)	(18,898,531)
Retained earnings		41,711,823	29,154,735
Equity attributable to equity holders of the bank		421,072,040	316,785,089
Non-controlling interest		37,921	28,333
Total equity		421,109,961	316,813,422
Total liabilities and equity		5,008,458,644	4,522,116,014

The notes on pages 8 to 64 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 30 May 2016:

Tarek Khalifeh
Chairman

CREDITBANK S.A.L.

Consolidated statement of comprehensive income

For the year ended 31 December

In thousands of Lebanese Pound	Note	2015	2014
Interest income		331,676,619	287,657,806
Interest expense		(223,253,406)	(196,680,818)
Net interest income	26	108,423,213	90,976,988
Fees and commission income		29,037,374	28,164,131
Fees and commission expense		(7,501,082)	(9,485,889)
Net fees and commission income	27	21,536,292	18,678,242
Net trading income	28	4,759,955	4,457,204
Net gain on investment securities at fair value through profit or loss	29	19,282,806	15,699,279
Net gain on investment securities at amortised cost	30	8,637,469	4,177,440
Dividend income		286,319	249,751
Other revenue		9,719,081	9,352,323
Revenue		172,645,135	143,591,227
Personnel charges	31	(49,819,277)	(45,436,967)
Net impairment loss on loans and advances to customers	11	(19,014,336)	(13,766,053)
Depreciation and amortisation	14, 15	(4,567,885)	(4,495,488)
Administrative expenses	32	(36,537,603)	(34,349,408)
Profit before tax		62,706,034	45,543,311
Income tax expense	33	(9,557,558)	(6,633,867)
Profit for the year		53,148,476	38,909,444
Other comprehensive income			
Items that will never be reclassified to profit or loss:			
Net unrealized gain on investment securities at fair value through other comprehensive income		42,318	50,744
Total other comprehensive income for the year		42,318	50,744
Total comprehensive income for the year		53,190,794	38,960,188
Profit attributable to:			
Equity holders of the Bank		53,138,888	38,904,333
Non-controlling interests		9,588	5,111
Profit for the year		53,148,476	38,909,444
Total comprehensive income attributable to:			
Equity holders of the Bank		53,181,206	38,955,077
Non-controlling interests		9,588	5,111
Total comprehensive income for the year		53,190,794	38,960,188

The notes on pages 8 to 64 are an integral part of these consolidated financial statements.

CREDITBANK S.A.L.

Consolidated statement of changes in equity

For the year ended 31 December 2015

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 2015	55,525,678	18,200,000	–	87,324,999	10,854,000	134,376,295	247,913	(18,898,531)	29,154,735	316,785,089	28,333	316,813,422
Acquisition of non-controlling interests												
Profit for the year	–	–	–	–	–	–	–	–	53,138,888	53,138,888	9,588	53,148,476
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	–	–	–	–	–	42,318	–	–	–	42,318	–	42,318
Total other comprehensive income	–	–	–	–	–	42,318	–	–	–	42,318	–	42,318
Total comprehensive income for the year	–	–	–	–	–	42,318	–	–	53,138,888	53,181,206	9,588	53,190,794
Transactions with owners of the Bank												
Contributions and distributions												
Issue of common shares (note 22)	5,339,000	–	17,273,587	–	–	–	–	–	–	22,612,587	–	22,612,587
Issue of preferred shares (series 5) (note 22)	–	6,500,000	–	31,187,500	–	–	–	–	–	37,687,500	–	37,687,500
Increase in share capital par value	51,254,472	22,800,000	–	–	–	(74,054,472)	–	–	–	–	–	–
Dividends paid to holders of preferred shares (series 2, 3 and 4)	–	–	–	–	–	–	–	–	(6,303,105)	(6,303,105)	–	(6,303,105)
Total contributions and distributions	56,593,472	29,300,000	17,273,587	31,187,500	–	(74,054,472)	–	–	(6,303,105)	53,996,982	–	53,996,982
Other transactions recorded directly in equity												
Transfer from retained earnings to reserves	–	–	–	–	–	25,643,182	8,635,513	–	(34,278,695)	–	–	–
Transfer to reserves (note 25)	–	–	–	(22,800,000)	–	22,800,000	–	–	–	–	–	–
Transfer from retained earnings to other reserves	–	–	–	–	–	–	–	–	–	–	–	–
Exchange rate difference arising on consolidation	–	–	–	–	–	–	–	(2,891,237)	–	(2,891,237)	–	(2,891,237)
Total other transactions recorded directly in equity	–	–	–	(22,800,000)	–	48,443,182	8,635,513	(2,891,237)	(34,278,695)	(2,891,237)	–	(2,891,237)
Total transactions recorded directly in equity	56,593,472	29,300,000	17,273,587	8,387,500	–	(25,611,290)	8,635,513	(2,891,237)	(40,581,800)	51,105,745	–	51,105,745
Balances at 31 December 2015	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

The notes on pages 8 to 64 are an integral part of these consolidated financial statements.

CREDITBANK S.A.L.

Consolidated statement of changes in equity

For the year ended 31 December 2014

In thousands of Lebanese Pound	Share capital-common shares	Share capital-preferred 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 2014	48,505,678	20,020,000	96,057,499	10,854,000	120,093,658	140,660	(6,786,055)	23,780,531	312,665,971	19,691	312,685,662
Transactions with owners recorded directly in equity											
Profit for the year	–	–	–	–	–	–	–	38,904,333	38,904,333	5,111	38,909,444
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	–	–	–	–	50,744	–	–	–	50,744	–	50,744
Total other comprehensive income	–	–	–	–	50,744	–	–	–	50,744	–	50,744
Total comprehensive income for the year	–	–	–	–	50,744	–	–	38,904,333	38,955,077	5,111	38,960,188
Transactions with owners of the Bank											
Contributions and distributions											
Issue of common shares (note 22) from other reserve	7,020,000	–	–	–	–	–	–	–	7,020,000	–	7,020,000
Issue of preferred shares (series 4) (note 22)	–	5,200,000	24,950,000	–	–	–	–	–	30,150,000	–	30,150,000
Redemption of preferred shares (series 1) (note 22)	–	(7,020,000)	(33,682,500)	–	–	–	–	–	(40,702,500)	–	(40,702,500)
Dividends paid to holders of preferred shares (series 2 & 3)	–	–	–	–	–	–	–	(5,717,453)	(5,717,453)	–	(5,717,453)
Dividends paid to holders of common shares	–	–	–	–	–	–	–	(6,450,000)	(6,450,000)	–	(6,450,000)
Total contributions and distributions	7,020,000	(1,820,000)	(8,732,500)	–	–	–	–	(12,167,453)	(15,699,953)	–	(15,699,953)
Change in ownership interest in subsidiaries											
Change in non-controlling interests	–	–	–	–	–	–	–	–	–	3,531	3,531
Total change in ownership interest in subsidiaries	–	–	–	–	–	–	–	–	–	3,531	3,531
Other transactions recorded directly in equity											
Transfer to reserves (note 25)	–	–	–	–	14,235,300	107,253	–	(14,342,553)	–	–	–
Transfer from retained earnings to other reserves	–	–	–	–	7,020,000	–	–	(7,020,000)	–	–	–
Transfer from other reserves to common shares	–	–	–	–	(7,020,000)	–	–	–	(7,020,000)	–	(7,020,000)
Exchange rate difference arising on consolidation	–	–	–	–	–	–	(12,112,476)	–	(12,112,476)	–	(12,112,476)
Adjustments	–	–	–	–	(3,407)	–	–	(123)	(3,530)	–	(3,530)
Total other transactions recorded directly in equity	–	–	–	–	14,231,893	107,253	(12,112,476)	(21,362,676)	(19,136,006)	–	(19,136,006)
Total transactions recorded directly in equity	7,020,000	(1,820,000)	(8,732,500)	–	14,231,893	107,253	(12,112,476)	(33,530,129)	(34,835,959)	3,531	(34,832,428)
Balances at 31 December 2014	55,525,678	18,200,000	87,324,999	10,854,000	134,376,295	247,913	(18,898,531)	29,154,735	316,785,089	28,333	316,813,422

The notes on pages 8 to 64 are an integral part of these consolidated financial statements.

CREDITBANK S.A.L.

Consolidated statement of cash flows

For the year ended 31 December

In thousands of Lebanese Pound	**Note**	**2015**	**2014**
Cash flows from operating activities			
Profit for the year		53,148,476	38,909,444
Adjustments for:			
- Depreciation		4,334,777	4,224,275
- Amortisation		233,108	271,213
- Net impairment losses on loans and advances to customers		19,014,336	13,766,053
- Net gain on investment securities at fair value through profit and loss		(19,282,806)	(15,699,279)
- Net gain on investment securities at amortised cost		(8,637,469)	(4,177,440)
- Dividend income		(286,319)	(249,751)
- Gain on sale of non-current assets held for sale		–	(104,924)
- (Reversal of) impairment of non-current assets held for sale		422,973	(1,115,199)
- Loss on sale of property and equipment		(27,402)	11,967
- Net interest income		(108,423,213)	(90,976,988)
- Income tax expense		9,557,558	6,633,867
		(49,945,981)	(48,506,762)
Changes in:			
- Balances held with Central Banks		(173,830,932)	31,053,445
- Banks and financial institutions		(2,292,158)	1,197,239
- Loans and advances to customers and related parties		(328,382,535)	(290,828,509)
- Other assets		(85,507)	3,310,470
- Due to banks and financial institutions		24,723,052	64,445,276
- Deposits from customers and related parties		342,014,366	476,358,563
- Provisions		(459,158)	7,183,347
- Other liabilities		20,507,880	(24,595,549)
		(167,750,973)	219,617,520
Interest received		327,482,569	278,379,313
Interest paid		(224,035,770)	(188,764,001)
Income tax paid		(8,170,758)	(7,247,873)
Net cash (used in) from operating activities		(72,474,932)	301,984,959
Cash flows from investing activities			
Net change in investment securities		(124,328,252)	(102,671,046)
Acquisition of shares acquired in settlement of debt at fair value through profit and loss		(6,648,638)	(83,338,523)
Acquisition of property and equipment		(9,057,889)	(9,671,243)
Acquisition of intangible assets		(586,024)	(357,079)
Proceeds from sale of property and equipment		554,213	331,982
Proceeds from sale of property acquired in settlement of debt		2,910,820	1,850,007
Net proceeds from sale of intangible assets		1,288	–
Net cash used in investing activities		(137,154,482)	(193,855,902)

CREDITBANK S.A.L.

Consolidated statement of cash flows

For the year ended 31 December

In thousands of Lebanese Pound	Note	2015	2014
Cash flows from financing activities			
Proceeds from issue / net redemption of preferred shares		6,500,000	(1,820,000)
Proceeds from issue of common shares		5,339,000	–
Proceeds from issue premium - common shares		17,273,587	–
Proceeds / (redemption) from issue premium - preferred shares		31,187,500	(8,732,500)
Dividends paid		(6,303,105)	(12,167,453)
Net cash from (used in) financing activities		53,996,982	(22,719,953)
Net (decrease) increase in cash and cash equivalents		(155,632,432)	85,409,104
Cash and cash equivalents at 1 January		400,870,270	324,379,328
Effect of exchange rate fluctuations on cash and cash equivalents		(2,765,029)	(8,918,162)
Cash and cash equivalents at 31 December	34	242,472,809	400,870,270

The notes on pages 8 to 64 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 consolidated financial statements of the Bank as at and for the year ended 31 December 2015 comprise the Bank and its subsidiaries (together referred to as the Group and individually as Group entities). The Head office of the Bank is located in Dekwaneh (Freeway Center). The Group is primarily involved in investment, retail and corporate banking.

(2) Basis of preparation

(a) Basis of accounting

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). Details of the Bank’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 Bank’s functional currency. All amounts 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 Bank’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 2015 is set out below in relation to the impairment of financial instruments and in the following notes:

- 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 Bank’s critical accounting policies and estimates, and the application of these policies and estimates.

(2) Basis of preparation (continued)

(d) Use of judgements and estimates (continued)

Assumptions and estimation uncertainties (continued)

Impairment of financial instruments

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy 4 (k)(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 homogenous 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 (k)(vii).

In making an assessment of whether an investment in sovereign debt is impaired, the Bank 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.

The Group's assessment of whether there is objective evidence of impairment of its investments in sovereign debt, based on the above factors, see note 6 (b).

(2) Basis of preparation (continued)

(e) Basis of consolidation

(i) Business combinations

Business combinations are accounted for using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately Transactions costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

The Group measures goodwill at the acquisition date as:

- The fair value of the consideration transferred; plus
- The recognised amount of any non-controlling interests in the acquiree; plus
- If the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- The net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, bargain purchase gain is recognised immediately in the profit or loss.

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

(ii) Non-controlling interests

Non-controlling interests are measured at their proportionate share of the acquirer’s identifiable net assets at the date of acquisition.

Changes in the Group’s interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(iii) 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 within the investee and has the ability to affect those returns through its power over the investee. The Group reassesses whether it has control if there are changes to one or more of the elements of control. This includes circumstances in which protective rights held (e.g. those resulting from a lending relationship) become substantive and lead to the Group having power over an investee.

(iv) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(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 2015. The nature and the impact of each new standard and amendments are described below.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions
IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. It is not expected that this amendment would be relevant to the Group since it does not have defined benefit plans with contributions from employees or third parties.

Annual improvements 2010-2012 Cycle
These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

IFRS 2 Share-Based Payment: This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition
- A performance target must be met while the counterparty is rendering service
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same Group
- A performance condition may be a market or non-market condition
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied

IFRS 3 Business Combinations: The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9.

IFRS 8 Operating Segments: The amendments are applied retrospectively and clarifies that 1) an entity must disclose the judgments made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are ‘similar’, and 2) the reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets: The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset.

IAS 24 Related Party Disclosures: The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

(3) Change in accounting policies (continued)

Annual improvements 2011-2013 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

IFRS 3 Business Combinations: The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that 1) joint arrangements, not just joint ventures, are outside the scope of IFRS 3, and 2) this scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

IFRS 13 Fair Value Measurement: The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9.

IAS 40 Investment Property: The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property. The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination.

(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 consolidated financial statements.

The Group produces consolidated financial statements that are available for public use and that comply with IFRS. These consolidated financial statements can be obtained from the Bank's registered office in Dekwaneh (Freeway Center).

(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) 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.

(4) Significant accounting policies (continued)

(d) 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 Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes transaction costs and fees paid or received that are an integral part of the effective 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 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.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Bank's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income, see note 4(f).

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 statement of profit or loss and other comprehensive income.

(e) 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 (see (d)).

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.

(f) Net trading income

Net trading income comprises foreign exchange differences.

(g) 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 and interest.

(4) Significant accounting policies (continued)

(h) Dividend income

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities.

(i) 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.

(j) 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 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.

(k) 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.

(4) Significant accounting policies (continued)

(k) Financial assets and financial liabilities (continued)

(ii) Classification

Financial assets

The Group classifies its financial assets as measured at amortised cost or fair value. See notes 4(l), (n) and (o). 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. See accounting policy 4(t).

(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 Bank 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 separate asset or liability.

(4) Significant accounting policies (continued)

(k) Financial assets and financial liabilities (continued)

(iii) Derecognition (continued)

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 Group'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.

(4) Significant accounting policies (continued)

(k) Financial assets and financial liabilities (continued)

(vi) Fair value measurement (continued)

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 Bank 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.

(4) Significant accounting policies (continued)

(k) Financial assets and financial liabilities (continued)

(vii) Identification and measurement of impairment (continued)

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.

(l) Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances held with the Central Bank of Lebanon, Central Bank of Armenia, Central Bank of Russia 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 statement of financial position.

(4) Significant accounting policies (continued)

(m) 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".

(n) 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.

When the Group purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in Group's financial statements.

(o) 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.

(4) Significant accounting policies (continued)

(p) 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 separate 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 costs

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.

(q) 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.

(4) Significant accounting policies (continued)

(r) 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).

(s) 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.

(t) Deposits

Deposits are the Group’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.

(u) 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.

(v) 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.

(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 2015 and earlier application is permitted; however, the Group has not applied the following new or amended standards in preparing these consolidated financial statements.

(a) IFRS 9 Financial instruments

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

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9. This standard is expected to have a pervasive impact on the Group's consolidated financial statements. In particular, calculation of financial instruments on an expected credit loss basis is expected to result in an increase in the overall level of impairment allowances.

(b) IFRS 15 Revenue from Contracts with Customers

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

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15.

The following amended standards are not expected to have a significant impact on the Group's consolidated financial statements.

- *Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38).*
- *Annual Improvements to IFRSs 2012–2014 Cycle – various standards.*

(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
- 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 Group 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;

(6) Financial risk management (continued)

(a) Introduction and overview (continued)

Risk management framework - Corporate Governance (continued)

(i) Board Committees (continued)

Audit Committee (continued)

- 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 Bank’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.

(6) Financial risk management (continued)

(a) Introduction and overview (continued)

Risk management framework - Corporate Governance (continued)

(ii) Bank'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.

(6) Financial risk management (continued)

(a) Introduction and overview (continued)

Risk management framework - Corporate Governance (continued)

(ii) Bank's Management Committees (continued)

- ***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 semi-annual 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 Internal Control Committee***

The Internal Control Committee is composed of five voting members and one non-voting member, it meets on a quarterly basis. The main roles and responsibilities of the Internal Control Committee are set as follows:

- To ensure the proper application of procedures and regulations.
- To analyse audit reports and the departments' answers thereto.
- To take adequate decisions and recommend solutions.

- ***The Security Committee***

The Security Committee is composed of five voting members and two non-voting members; it meets on a quarterly basis. This Committee's roles and responsibilities are defined in the Banking Control Commission circular N° 222 dated 18 August 2000.

- ***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 (ORCAP) outcome.

(6) Financial risk management (continued)

(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.

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 Bank's ALCO Committee.

(ii) Management of credit risk

The Board of Directors has delegated responsibility for the management of individual credit risk to the 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 sectors. 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* in order 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.

(6) Financial risk management (continued)

(b) Credit risk (continued)

(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 Group 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 below set out information about the credit quality of financial assets and the allowance for impairment / loss held by the Group against those assets.

(6) Financial risk management (continued)

(b) Credit risk (continued)

(iv) Credit quality analysis (continued)

In thousands of Lebanese Pound	Note	Loans and advances to customers and related parties 2015	2014	Due from Central Banks, banks and financial institutions 2015	2014	Investment securities (debt securities) 2015	2014	Lending commitments and financial guarantees 2015	2014
Maximum exposure to credit risk									
Carrying amount	9,10,11,12	2,539,246,736	2,232,209,471	1,216,291,293	1,208,186,662	985,009,205	828,742,805	–	–
Amount committed / guaranteed		–	–	–	–	–	–	368,004,081	321,965,966
At amortised cost									
Grade 1-2: Low-fair risk		1,890,831,620	1,777,808,117	1,213,716,186	1,205,157,704	877,609,703	618,948,504		
Grade 3: Watch		558,244,449	416,746,671	–	–	–	–		
Grade 4: Substandard		13,121,564	13,359,261	–	–	–	–		
Grade 5: Doubtful		144,854,258	68,430,068	3,066,099	3,109,877	–	–		
Grade 6: Bad		11,675,086	10,179,253	9,276,828	9,283,437	–	–		
Total gross amount		2,618,726,977	2,286,523,370	1,226,059,113	1,217,551,018	877,609,703	618,948,504		
Allowance for impairment (individual and collective)		(79,480,241)	(54,313,899)	(9,767,820)	(9,364,356)	–	–		
Net carrying amount		2,539,246,736	2,232,209,471	1,216,291,293	1,208,186,662	877,609,703	618,948,504		
At fair value through profit or loss									
Grade 1: Low-fair risk		–	–	–	–	107,399,502	209,794,301		
Total carrying amount	12	–	–	–	–	107,399,502	209,794,301		
Off balance sheet									
Maximum exposure									
Lending commitments and financial guarantees									
Grade 1-3: low-fair risk								367,931,096	321,890,528
Grade 5: Impaired								72,985	75,438
Total exposure								368,004,081	321,965,966

(6) Financial risk management (continued)

(b) Credit risk (continued)

(iv) Credit quality analysis (continued)

In thousands of Lebanese Pound	Note	Loans and advances to customers and related parties 2015	2014	Due from Central Banks, banks and financial institutions 2015	2014	Investment securities (debt securities) 2015	2014	Lending commitments and financial guarantees 2015	2014
Neither past due nor impaired									
Grade 1-2: Low-fair risk		1,887,378,767	1,772,897,047	1,213,716,186	1,205,157,705	985,009,205	828,742,805		
		1,887,378,767	1,772,897,047	1,213,716,186	1,205,157,705	985,009,205	828,742,805		
Past due but not impaired									
Grade 3: Watch		556,428,647	416,675,761	–	–	–	–		
		556,428,647	416,675,761	–	–	–	–		
Individually impaired									
Grade 1-2: Low-fair risk		3,452,853	4,911,070	–	–	–	–		
Grade 3: Watch		1,815,802	70,910	–	–	–	–		
Grade 4: Substandard		13,121,564	13,359,261	–	–	–	–		
Grade 5: Doubtful		144,854,258	68,430,068	3,066,099	3,109,877	–	–		
Grade 6: Bad		11,675,086	10,179,253	9,276,828	9,283,437	–	–		
		174,919,563	96,950,562	12,342,927	12,393,314	–	–		
Total		2,618,726,977	2,286,523,370	1,226,059,113	1,217,551,019	985,009,205	828,742,805		
Allowance for impairment									
Individual		(72,603,316)	(50,916,190)	(9,767,820)	(9,364,356)	–	–		
Collective		(6,876,925)	(3,397,709)	–	–	–	–		
Total allowance for impairment	10,11	(79,480,241)	(54,313,899)	(9,767,820)	(9,364,356)	–	–		

(6) Financial risk management (continued)

(b) Credit risk (continued)

(iv) Credit quality analysis (continued)

Impaired loans and investment debt securities

The Group regards a loan and advance or a debt security (not carried at fair value through profit or loss) as impaired where 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. 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:

In thousands of Lebanese Pound	**Loans and advances to customers**		**Banks and financial institutions**	
	Gross	**Net**	**Gross**	**Net**
31 December 2015				
Grades 1,2 and 3: Performing loans	5,268,655	4,403,713	–	–
Grade 4: Individually impaired	13,121,564	9,873,934	–	–
Grade 5: Individually impaired	144,854,258	88,037,662	3,066,099	2,575,107
Grade 6: Individually impaired	11,675,086	938	9,276,828	–
Total	174,919,563	102,316,247	12,342,927	2,575,107
31 December 2014				
Grades 1,2 and 3: Performing loans	4,981,980	4,154,733	–	–
Grade 4: Individually impaired	13,359,261	10,601,807	–	–
Grade 5: Individually impaired	68,430,068	31,276,201	3,109,877	3,028,958
Grade 6: Individually impaired	10,179,253	1,631	9,283,437	–
Total	96,950,562	46,034,372	12,393,314	3,028,958

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.

(6) Financial risk management (continued)

(b) Credit risk (continued)

(iv) Credit quality analysis (continued)

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 (k)(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 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 2015 or 2014.

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:

In thousands of Lebanese Pound	**Loans and advances to customers**			
	Fair value of collateral at inception (for the Group)		**Fair value of collateral at year end**	
	2015	**2014**	**2015**	**2014**
Against impaired				
Mortgaged property	13,572,609	12,026,971	21,758,201	17,502,247
Equities	525,274	514,991	255,800	262,437
Other including cash	4,762,051	4,662,689	4,762,051	4,662,689
Against substandard				
Mortgaged property	13,709,844	12,444,646	40,975,923	15,302,375
Other including cash	2,259,729	2,246,914	2,259,729	2,246,914
Against regular loans and advances				
Mortgaged property	1,173,641,735	1,030,836,499	2,228,668,250	1,793,139,563
Debt securities	14,096,108	4,505,954	11,324,742	15,198,080
Equities	71,022,301	60,811,389	49,315,617	48,373,812
Other including cash	383,871,671	312,809,680	356,675,356	359,911,088
Total	1,677,461,322	1,440,859,733	2,715,995,669	2,256,599,205

(6) Financial risk management (continued)

(b) Credit risk (continued)

(v) Collateral held and other credit enhancements

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	**2015**	**2014**
Loan to value (LTV) ratio		
Less than 50%	74,329,102	66,133,789
51% to 70%	75,706,663	64,175,048
71% to 90%	43,556,569	34,778,776
91% to 100%	5,132,725	7,976,618
More than 100%	45,211,884	17,433,026
Total	243,936,943	190,497,257

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.

(6) Financial risk management (continued)

(b) Credit risk (continued)

(vi) Concentration of credit risk by sector and by 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:

In thousands of Lebanese Pound		**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**	
	Note	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Carrying amount	8, 9, 10, 35	1,216,291,293	1,208,186,662	2,539,246,736	2,232,209,471	985,009,205	828,742,805	368,004,081	321,965,966
Concentration by sector									
Corporate		–	–	1,898,249,251	1,478,644,244	5,977,134	6,821,702	311,002,551	236,495,552
Sovereign		1,039,627,926	993,816,498	–	–	979,032,071	821,921,103	–	–
Bank		176,663,367	214,370,164	–	–	–	–	13,574,398	7,650,007
Retail		–	–	640,997,485	753,565,227	–	–	43,427,132	77,820,407
		1,216,291,293	1,208,186,662	2,539,246,736	2,232,209,471	985,009,205	828,742,805	368,004,081	321,965,966
Concentration by location									
Lebanon		1,076,708,131	1,048,314,481	2,030,399,272	1,832,590,669	972,302,808	821,087,608	348,326,172	299,230,220
North America		41,145,000	42,235,000	26,259,000	1,718,000			816,582	198,493
Europe		93,546,162	112,480,000	317,382,464	287,369,447	12,706,397	7,655,197	7,055,148	17,734,643
Asia Pacific		125,000	14,000	268,000	1,934,000	–	–	39,538	39,538
Middle East and Africa		3,086,000	5,032,181	164,713,000	108,597,355	–	–	11,735,841	4,763,072
Australia		1,681,000	111,000	225,000	–	–	–	30,800	–
	8, 9, 10, 35	1,216,291,293	1,208,186,662	2,539,246,736	2,232,209,471	985,009,205	828,742,805	368,004,081	321,965,966

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.

Some SME related Loans and advances were previously classified under the Retail portfolio. In 2015, the Group reclassified these SME related loans and advances from the Retail to the Corporate portfolio.

Cash and cash equivalents

The Group held cash and cash equivalents of LBP 242,472,809 thousand at 31 December 2015 (2014: LBP 400,870,270 thousand) which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with Central Banks. In addition, cash and cash equivalents include cash held also with reputable banks and financial institutions.

(6) Financial risk management (continued)

(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 Bank 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	**2015**	**2014**
At 31 December	39.68%	39.36%

(iii) Maturity analysis for financial assets and liabilities

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

(6) Financial risk management (continued)

(c) Liquidity risk (continued)

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

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 2015								
Non-derivative liabilities								
Due to banks and financial institutions	18	242,189,464	(287,455,633)	(61,949,449)	(13,883,189)	(52,959,743)	(42,417,892)	(116,245,360)
Deposits from customers and related parties	19	4,261,463,870	(4,342,290,987)	(3,062,554,635)	(328,623,647)	(731,475,881)	(199,251,892)	(20,384,932)
		4,503,653,334	(4,629,746,620)	(3,124,504,084)	(342,506,836)	(784,435,624)	(241,669,784)	(136,630,292)
Non-derivative assets								
Cash and balances with Central Banks	9	1,086,448,811	1,365,181,118	268,600,593	15,740,891	55,608,379	383,557,234	641,674,021
Banks and financial institutions	10	176,663,367	176,734,983	174,864,770	14,277	67,817	1,780,248	7,871
Loans and advances to customers and related parties	11	2,539,246,736	3,644,576,915	529,282,512	121,644,623	499,590,203	1,158,870,599	1,335,188,978
Investment securities	12	990,388,821	2,384,136,355	8,027,919	13,401,683	80,599,147	164,581,173	2,117,526,433
Shares acquired in settlement of debt at fair value through profit or loss	13	89,987,161	89,987,161	–	–	–	89,987,161	–
		4,882,734,896	7,660,616,532	980,775,794	150,801,474	635,865,546	1,798,776,415	4,094,397,303
31 December 2014								
Non-derivative liabilities								
Due to banks and financial institutions	18	222,296,329	(248,301,541)	(65,969,535)	(23,524,656)	(50,012,250)	(39,387,121)	(69,407,979)
Deposits from customers and related parties	19	3,920,746,436	(3,991,782,874)	(2,789,127,116)	(353,119,302)	(622,383,547)	(217,053,293)	(10,099,616)
		4,143,042,765	(4,240,084,415)	(2,855,096,651)	(376,643,958)	(672,395,797)	(256,440,414)	(79,507,595)
Non-derivative assets								
Cash and balances with Central Banks	9	1,035,937,735	1,299,341,834	273,013,506	11,063,412	74,854,616	322,983,521	617,426,779
Banks and financial institutions	10	214,370,163	214,589,665	211,399,070	788,401	1,959,364	271,950	170,880
Loans and advances to customers and related parties	11	2,232,209,471	3,323,216,894	368,981,945	114,567,542	429,772,132	1,082,726,335	1,327,168,940
Investment securities	12	834,040,743	1,859,900,547	17,312,793	9,693,840	44,147,282	150,431,895	1,638,314,737
Shares acquired in settlement of debt at fair value through profit or loss	13	83,338,523	83,338,523	–	–	–	83,338,523	–
		4,399,896,635	6,780,387,463	870,707,314	136,113,195	550,733,394	1,639,752,224	3,583,081,336

(6) Financial risk management (continued)

(c) Liquidity risk (continued)

Maturity analysis for financial assets and liabilities (continued)

The above 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.

(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:

CREDITBANK S.A.L.

Notes to the consolidated financial statements

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(6) Financial risk management (continued)

(d) Market risks (continued)

(ii) Exposure to interest rate risks – Non-trading portfolios (continued)

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 2015								
Cash and balances with Central Banks	9	1,086,448,811	343,773,671	25,024,410	6,030,000	20,000,000	442,937,500	248,683,230
Banks and financial institutions	10	176,663,367	30,482,127	–	–	363,479	–	145,817,761
Loans and advances to customers and related parties	11	2,539,246,736	1,763,790,653	22,857,000	61,572,000	350,080,000	239,477,000	101,470,083
Investment securities - debt securities	12	877,609,703	90,598	–	20,255,881	9,295,544	827,381,369	20,586,311
		4,679,968,617	2,138,137,049	47,881,410	87,857,881	379,739,023	1,509,795,869	516,557,385
Due to banks and financial institutions	18	(242,189,464)	(64,776,000)	(25,584,000)	(22,109,000)	(12,917,000)	(109,565,000)	(7,238,464)
Deposits from customers and related parties	19	(4,261,463,870)	(3,127,869,870)	(335,025,000)	(364,257,000)	(180,265,000)	(13,930,000)	(240,117,000)
		(4,503,653,334)	(3,192,645,870)	(360,609,000)	(386,366,000)	(193,182,000)	(123,495,000)	(247,355,464)
		176,315,283	(1,054,508,821)	(312,727,590)	(298,508,119)	186,557,023	1,386,300,869	269,201,921
31 December 2014								
Cash and balances with Central Banks	9	1,035,937,735	35,813,180	6,570,060	45,761,235	265,453,716	427,862,500	254,477,044
Banks and financial institutions	10	214,370,163	49,262,090	1,909,301	–	67,082	375,910	162,755,780
Loans and advances to customers and related parties	11	2,232,209,471	1,549,584,634	22,621,000	67,121,000	343,288,000	209,623,000	39,971,837
Investment securities - debt securities	12	618,948,504	12,351,748	–	–	30,785,515	559,688,239	16,123,002
		4,101,465,873	1,647,011,652	31,100,361	112,882,235	639,594,313	1,197,549,649	473,327,663
Due to banks and financial institutions	18	(222,296,329)	(63,574,000)	(23,561,000)	(20,533,000)	(14,937,000)	(73,230,849)	(26,460,480)
Deposits from customers and related parties	19	(3,920,746,436)	(2,888,830,097)	(230,322,000)	(366,045,000)	(199,675,000)	(6,101,000)	(229,773,339)
		(4,143,042,765)	(2,952,404,097)	(253,883,000)	(386,578,000)	(214,612,000)	(79,331,849)	(256,233,819)
		(41,576,892)	(1,305,392,445)	(222,782,639)	(273,695,765)	424,982,313	1,118,217,800	217,093,844

(6) Financial risk management (continued)

(d) Market risks (continued)

(ii) Exposure to interest rate risks – Non-trading portfolios (continued)

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 or decrease in market interest rates, assuming no asymmetrical 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 2015			
LBP	+200	-15.84%	-46.68%
USD	+200	-4.98%	-8.81%
EUR	+200	0.81%	0.10%
31 December 2014			
LBP	+200	-18.00%	-51.14%
USD	+200	-11.32%	-18.31%
EUR	+200	0.26%	-0.70%

Overall interest rate risk positions are managed by Risk Management, which uses investment securities, advances to banks, deposits from banks to manage the overall position arising from the Bank's activities.

(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 2015			
USD	1%	-0.0511%	-0.0082%
EUR	1%	0.0043%	0.0007%
GBP	1%	-0.0002%	0.0000%
CAD	1%	-0.0121%	-0.0020%
CHF	1%	0.0000%	0.0000%
31 December 2014			
USD	1%	0.0781%	0.0123%
EUR	1%	-0.0304%	-0.0048%
GBP	1%	0.0000%	0.0000%
CAD	1%	0.0001%	0.0000%
CHF	1%	0.0000%	0.0000%

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Notes to the consolidated financial statements

31 December 2015

(6) Financial risk management (continued)

(d) Market risks (continued)

(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 2015			31 December 2014		
In thousands of Lebanese Pound	**LBP**	**C/V LBP**	**Total**	**LBP**	**C/V LBP**	**Total**
Assets						
Cash and balances with Central Banks	455,996,476	630,452,335	1,086,448,811	403,246,948	632,690,787	1,035,937,735
Banks and financial institutions	5,164,527	171,498,840	176,663,367	2,664,403	211,705,760	214,370,163
Loans and advances to customers and related parties	782,028,566	1,757,218,170	2,539,246,736	654,619,062	1,577,590,409	2,232,209,471
Investment securities	896,633,794	93,755,027	990,388,821	799,605,836	34,434,907	834,040,743
Shares acquired in settlement of debt at fair	–	89,987,161	89,987,161	–	83,338,523	83,338,523
Property and equipment	54,023,978	22,650,095	76,674,073	49,483,326	23,336,318	72,819,644
Intangible assets	190,433	1,059,888	1,250,321	109,058	849,540	958,598
Other assets	2,945,019	19,981,649	22,926,668	4,218,188	18,622,973	22,841,161
Non-current assets held for sale	–	15,144,313	15,144,313	–	15,871,603	15,871,603
Goodwill	–	9,728,373	9,728,373	–	9,728,373	9,728,373
Total assets	2,196,982,793	2,811,475,851	5,008,458,644	1,913,946,821	2,608,169,193	4,522,116,014
Liabilities and equity						
Due to banks and financial institutions	106,622,390	135,567,074	242,189,464	76,844,164	145,452,165	222,296,329
Deposits from customers and related parties	1,771,266,068	2,490,197,802	4,261,463,870	1,605,811,867	2,314,934,569	3,920,746,436
Current tax liabilities	4,840,000	–	4,840,000	3,453,200	–	3,453,200
Other liabilities	17,554,017	54,433,105	71,987,122	17,414,044	40,952,330	58,366,374
Provisions	6,825,918	42,309	6,868,227	311,432	128,821	440,253
Share capital - common shares	112,119,150	–	112,119,150	55,525,678	–	55,525,678
Share capital - preferred shares	47,500,000	–	47,500,000	18,200,000	–	18,200,000
Share premium - common shares	17,273,587	–	17,273,587	–	–	–
Share premium - preferred shares	–	95,712,499	95,712,499	–	87,324,999	87,324,999
Cash contribution to capital	–	10,854,000	10,854,000	–	10,854,000	10,854,000
Reserves	78,655,292	30,152,031	108,807,323	126,307,168	8,069,127	134,376,295
Non-distributable retained earnings	8,883,426	–	8,883,426	247,913	–	247,913
Retained earnings	53,296,369	(11,584,546)	41,711,823	41,341,212	(12,186,477)	29,154,735
Translation reserve	–	(21,789,768)	(21,789,768)	–	(18,898,531)	(18,898,531)
Non-controlling interest	37,921	–	37,921	28,333	–	28,333
Total liabilities and equity	2,224,874,138	2,783,584,506	5,008,458,644	1,945,485,011	2,576,631,003	4,522,116,014

(6) Financial risk management (continued)

(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 Group 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 semi-annual basis.

The Group maintains a ratio of total regulatory capital to its risk-weighted assets (the 'Basel Ratio') above the minimum level set by the Central Bank of Lebanon.

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

In thousands of Lebanese Pound	**2015**	**2014**
Credit risk	2,719,389,781	2,448,686,007
Market risk	90,749,891	122,189,998
Operational risk	241,798,738	204,873,870
Total risk weighted assets	3,051,938,410	2,775,749,875

	2015	**2014**
Capital adequacy ratio	12.79%	10.45%

To monitor the adequacy of its capital, the Group uses ratios established by the Bank for International Settlements (BIS). In line with Basel III and Central Bank of Lebanon Basic Circular no.44 amended by the Central Bank of Lebanon Intermediary Circular no. 282, the minimum requirements for capital adequacy ratios are set at 8% by the BIS and 11.5% by the Central Bank of Lebanon at the end of year 2014 to reach 12% at the end of year 2015. These ratios measure capital by comparing the Group's eligible capital with its consolidated statement of financial position, off-statement of financial position commitments and market and operational risk positions at weighted amounts to reflect their relative risk.

(6) Financial risk management (continued)

(f) Capital management (continued)

Regulatory capital (continued)

Following the sharp devaluation of the Russian Rouble and the Armenian Drams, the loss of exchange resulting from the Group investment in Russia and Armenia and accounted for under Shareholders Equity as "translation reserve" increased from LBP 6,786,059 as of 31 December 2013 to LBP 18,898,529 thousands as of 31 December 2014, of which LBP 9,282,000 thousands in November and December 2014 which impacted negatively the capital adequacy ratio of the Group that dropped to 10.45% by the end of 2014.

To remedy to this drop, the Extraordinary General Assembly of shareholders resolved on 20 February 2015 to issue 250,000 non-cumulative perpetual preferred shares (Series 5) with a nominal value of LBP 26,000 each at an issue price of LBP 150,750 (USD 100 per share) totalling USD 25 million. The said issuance was successfully concluded on 9 May 2015.

As a consequence of this capital increase, the capital adequacy ratio of the Group again exceeded the regulatory minimum requirements.

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:

- Tier 1 capital, which includes ordinary share capital, cash contribution to capital, preferred shares, share premium, retained earnings after deduction of dividends to be distributed, capital reserves after deductions of intangible assets and 100% of unrealized losses on equity instruments measured at fair value through other comprehensive income, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier 2 capital, which includes 50% of the fair value reserve relating to unrealised gains on equity instruments measured at fair value through other comprehensive income.

(6) Financial risk management (continued)

(g) Capital management (continued)

Regulatory capital (continued)

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence. The Group has changed its capital structure; refer to note 22.

In thousands of Lebanese Pound	**2015**	**2014**
Tier 1 capital		
Share capital	159,619,150	73,725,678
Cash contribution to capital	10,854,000	10,854,000
Share premium	112,986,086	87,324,999
Capital reserves	98,935,032	125,184,091
Other reserve	(21,789,768)	(18,898,529)
Non-distributable retained earnings	8,883,426	247,913
Retained Earnings	31,733,977	22,213,857
Non-controlling interest	37,921	28,333
Less:		
Goodwill	(9,728,373)	(9,728,373)
Intangible assets	(1,250,321)	(958,598)
100% Fair value reserve of financial assets at FVTOCI - loss	(123,615)	(106,430)
	390,157,515	289,886,941
Tier 2 capital		
50% Fair value reserve of financial assets through OCI - gain	65,652	192,702
	65,652	192,702
Total regulatory capital	390,223,167	290,079,643

(7) Fair values of financial instruments

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Bank determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The Group's accounting policy on fair value measurement is discussed under note 4 (k)(vi).

(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.

(7) Fair values of financial instruments (continued)

(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 thouands of Lebanese Pound

31 December 2015	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial instruments at fair value through profit or loss	34,805,647	73,946,844	–	108,752,491
Financial instruments at fair value through other comprehensive income	828,675	3,082,928	115,024	4,026,627
Shares acquired in settlement of debt at fair value through profit or loss	–	89,987,161	–	89,987,161
	35,634,322	167,016,933	115,024	202,766,279
31 December 2014				
Financial instruments at fair value through profit or loss	87,757,936	123,403,636	–	211,161,572
Financial instruments at fair value through other comprehensive income	775,433	3,037,999	117,235	3,930,667
Shares acquired in settlement of debt at fair value through profit or loss	–	83,338,523	–	83,338,523
	88,533,369	209,780,158	117,235	298,430,762

(c) Financial instruments not measured at fair value

In thousands of Lebanese Pound

31 December 2015 **Financial assets**	**Level 1**	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
Cash and balances with Central Banks	46,820,884	1,039,627,927	–	1,086,448,811	1,086,448,811
Banks and financial institutions	–	176,663,367	–	176,663,367	176,663,367
Loans and advances to customers and related parties	–	2,609,092,075	225,769	2,609,317,844	2,539,246,736
Investment securities at amortised cost	40,843,729	863,892,252	–	904,735,981	877,609,703
	87,664,613	4,689,275,621	225,769	4,777,166,003	4,679,968,617
Financial liabilities					
Due to banks and financial institutions	–	242,189,464	–	242,189,464	242,189,464
Deposits from customers and related parties	4,030,371	4,270,825,547	–	4,274,855,918	4,261,463,870
	4,030,371	4,513,015,011	–	4,517,045,382	4,503,653,334
31 December 2014 **Financial assets**	**Level 1**	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
Cash and balances with Central Banks	42,121,236	993,816,499	–	1,035,937,735	1,035,937,735
Banks and financial institutions	–	214,370,163	–	214,370,163	214,370,163
Loans and advances to customers and related parties	–	2,328,539,720	220,019	2,328,759,739	2,232,209,471
Investment securities at amortised cost	13,783,242	609,340,906	–	623,124,148	618,948,504
	55,904,478	4,146,067,288	220,019	4,202,191,785	4,101,465,873
Financial liabilities					
Due to banks and financial institutions	–	222,296,329	–	222,296,329	222,296,329
Deposits from customers and related parties	–	3,926,424,092	5,957,416	3,932,381,508	3,920,746,436
	–	4,148,720,421	5,957,416	4,154,677,837	4,143,042,765

(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 2015					
Cash and balances with the Central Banks	9	–	–	1,086,448,811	1,086,448,811
Banks and financial institutions	10	–	–	176,663,367	176,663,367
Loans and advances to customers and related parties	11	–	–	2,539,246,736	2,539,246,736
Investment securities	12	108,752,491	4,026,627	877,609,703	990,388,821
Shares acquired in settlement of debt at fair value through profit or loss	13	89,987,161	–	–	89,987,161
		198,739,652	4,026,627	4,679,968,617	4,882,734,896
Due to banks and financial institutions	18	–	–	242,189,464	242,189,464
Deposits from customers and related parties	19	–	–	4,261,463,870	4,261,463,870
		–	–	4,503,653,334	4,503,653,334
31 December 2014					
Cash and balances with the Central Banks	9	–	–	1,035,937,735	1,035,937,735
Banks and financial institutions	10	–	–	214,370,163	214,370,163
Loans and advances to customers and related parties	11	–	–	2,232,209,471	2,232,209,471
Investment securities	12	211,161,572	3,930,667	618,948,504	834,040,743
Shares acquired in settlement of debt at fair value through profit or loss	13	83,338,523	–	–	83,338,523
		294,500,095	3,930,667	4,101,465,873	4,399,896,635
Due to banks and financial institutions	18	–	–	222,296,329	222,296,329
Deposits from customers and related parties	19	–	–	3,920,746,436	3,920,746,436
		–	–	4,143,042,765	4,143,042,765

(9) Cash and balances with Central Banks

In thousands of Lebanese Pound	**2015**	**2014**
Cash	46,820,885	42,121,236
Unrestricted balances with Central Banks	522,126,683	509,235,142
Compulsory reserves held with Central Banks	502,566,126	470,071,439
Interest receivable	14,935,117	14,509,918
	1,086,448,811	1,035,937,735

In application of the Central Bank of Lebanon basic circular number 84, banks in Lebanon are required to constitute a compulsory reserve in local currency representing 15% of the weekly average of term deposits and 25% of the weekly average of current and call deposits in Lebanese Pound, and compulsory reserve in foreign currency representing 15% of their deposits in foreign currencies. The Group also maintains an obligatory minimum reserve deposits with the Central Bank of Armenia equal to 2% of certain obligations of the Anelik Bank CJSC denominated in Armenian Drams and 20% on certain obligations of Anelik Bank CJSC denominated in foreign currencies. Additionally, a minimum restricted reserve deposits is also maintained with the Central Bank of Russia and is a non-interest bearing deposit.

(9) Cash and balances with Central Banks (continued)

Restricted balances held with Central Banks are not available for use in the Group's day-to-day operations.

(10) Banks and financial institutions

In thousands of Lebanese Pound	**2015**	**2014**
Current accounts	146,299,041	161,080,473
Money market placements	36,013,023	58,436,024
Cash collateral	4,093,494	4,190,330
Interest receivable	25,629	27,692
Allowance for impairment	(9,767,820)	(9,364,356)
	176,663,367	214,370,163

(11) Loans and advances to customers and related parties

In thousands of Lebanese Pound

	Gross amount	**Impairment allowance 2015**	**Carrying amount**	**Gross amount**	**Impairment allowance 2014**	**Carrying amount**
Retail customers:						
Mortgage lending	243,936,943	(410,774)	243,526,169	190,497,257	(124,556)	190,372,701
Personal loans	388,107,135	(12,500,595)	375,606,540	560,252,851	(20,047,411)	540,205,440
Credit cards	22,262,432	(1,362,243)	20,900,189	23,444,170	(1,799,584)	21,644,586
Other	983,611	(19,022)	964,589	1,358,412	(15,912)	1,342,500
	655,290,121	(14,292,634)	640,997,487	775,552,690	(21,987,463)	753,565,227
Corporate customers:						
Secured lending	1,350,864,739	(50,641,165)	1,300,223,574	982,305,154	(20,535,370)	961,769,784
Other lending	612,572,117	(14,546,442)	598,025,675	528,665,526	(11,791,066)	516,874,460
	1,963,436,856	(65,187,607)	1,898,249,249	1,510,970,680	(32,326,436)	1,478,644,244
	2,618,726,977	(79,480,241)	2,539,246,736	2,286,523,370	(54,313,899)	2,232,209,471

(a) Allowances for impairment – Movement

In thousands of Lebanese Pound	**2015**	**2014**
Specific allowance for impairment		
Balance at 1 January	50,916,190	32,224,508
Impairment loss and suspended interest		
Charge for the year	17,172,893	13,512,566
Transfer from collective provision	–	1,512,485
Provision written back	(567,459)	3,109,162
Suspended interest written back	(255,737)	(769,589)
Suspended interest during the year	7,059,323	6,190,759
Write-offs resulting from settlements	(1,218,081)	(3,434,062)
Difference of exchange	(503,813)	(1,429,639)
Balance at 31 December	72,603,316	50,916,190

(11) Loans and advances to customers and related parties (continued)

(a) Allowances for impairment – Movement (continued)

In thousands of Lebanese Pound	**2015**	**2014**
Collective allowance for impairment		
Balance at 1 January	3,397,709	4,500,418
Impairment loss for the year		
Charge for the year	2,879,870	679,109
Provision written back	4,651,028	–
Transfer to specific	–	(1,512,485)
Write-offs resulting from settlements	(4,027,688)	–
Difference of exchange	(23,994)	(269,333)
Balance at 31 December	6,876,925	3,397,709
Total allowance for impairment	79,480,241	54,313,899

(b) Net impairment loss on loans and advances to customers recognised in profit or loss

In thousands of Lebanese Pound	**2015**	**2014**
Provisions written back	1,092,958	589,050
Loans directly written off to profit or loss	(54,532)	(163,428)
Charge for the year - specific provision	(17,172,893)	(13,512,566)
Charge for the year - collective provision	(2,879,870)	(679,109)
	(19,014,337)	(13,766,053)

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

(12) Investment securities

In thousands of Lebanese Pound	**2015**	**2014**
Investment securities at fair value through profit or loss (a)	108,752,491	211,161,572
Investment securities at fair value through other comprehensive income (b)	4,026,627	3,930,667
Investment securities at amortised cost (c)	877,609,703	618,948,504
	990,388,821	834,040,743

(a) Investment securities at fair value through profit or loss

In thousands of Lebanese Pound	**2015**	**2014**
Government treasury bills and eurobonds	57,964,556	23,356,561
Certificates of deposit	44,736,273	181,817,334
Funds	2,638,125	1,884,375
Interest receivable	2,060,548	2,736,031
Debt securities	107,399,502	209,794,301
Equity securities	1,352,989	1,367,271
	108,752,491	211,161,572

(12) Investment securities (continued)

(b) Investment securities at fair value through other comprehensive income

In thousands of Lebanese Pound	**2015**	**2014**
Equity securities	4,026,627	3,930,667

(c) Investment securities at amortised cost

In thousands of Lebanese Pound	**2015**	**2014**
Government treasury bills and eurobonds	49,090,779	51,565,464
Corporate bonds and bonds issued by international organisations	656,029	–
Securities pledged under repurchase agreements	1,199,968	7,336,746
Certificates of deposit	803,457,399	539,401,553
Funds	2,636,890	4,522,500
Interest receivable	20,568,638	16,122,241
Debt securities	877,609,703	618,948,504

(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 of Lebanon has approved the amount of such acquisition on 5 June 2014. Subsequently, the Group has revalued those shares and has increased the investment value by the amount of revaluation surplus. The Group should dispose of those shares within a period of two years from the date of acquisition.

In thousands of Lebanese Pound	**2015**	**2014**
2,113,194 shares of "IBL Bank S.A.L"	89,987,161	83,338,523

(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 2014	45,613,945	43,170,265	13,262,454	102,046,664
Additions	10,014	1,998,072	7,663,157	9,671,243
Disposals	–	(942,824)	–	(942,824)
Transfers	1,677,147	6,520,651	(8,197,798)	–
Adjustment	–	(40,917)	(87,802)	(128,719)
Effects of movement in exchange rates	(2,443,683)	(2,453,296)	–	(4,896,979)
Balance at 31 December 2014	44,857,423	48,251,951	12,640,011	105,749,385
Balance at 1 January 2015	44,857,423	48,251,951	12,640,011	105,749,385
Additions	8,796	1,283,860	7,765,233	9,057,889
Disposals	–	(1,226,883)	–	(1,226,883)
Transfers	11,210,042	5,346,565	(16,556,607)	–
Adjustment	–	–	(363,762)	(363,762)
Effects of movement in exchange rates	(258,944)	(510,679)	–	(769,623)
Balance at 31 December 2015	55,817,317	53,144,814	3,484,875	112,447,006
Accumulated depreciation				
Balance at 1 January 2014	7,614,087	23,885,541	–	31,499,628
Depreciation for the year	881,566	3,342,709	–	4,224,275
Disposals	–	(711,153)	–	(711,153)
Adjustment	–	(16,441)	–	(16,441)
Effects of movement in exchange rates	(297,196)	(1,769,372)	–	(2,066,568)
Balance at 31 December 2014	8,198,457	24,731,284	–	32,929,741
Balance at 1 January 2015	8,198,457	24,731,284	–	32,929,741
Depreciation for the year	877,479	3,457,298	–	4,334,777
Disposals	–	(1,063,534)	–	(1,063,534)
Adjustment	–	(300)	–	(300)
Effects of movement in exchange rates	(35,698)	(392,053)	–	(427,751)
Balance at 31 December 2015	9,040,238	26,732,695	–	35,772,933
Carrying amounts				
At 1 January 2014	37,999,858	19,284,724	13,262,454	70,547,036
At 31 December 2014	36,658,966	23,520,667	12,640,011	72,819,644
At 31 December 2015	46,777,079	26,412,119	3,484,875	76,674,073

(15) Intangible assets

In thousand of Lebanese pound	**2015**	**2014**
Cost		
At 1 January	4,680,044	4,686,961
Additions	586,024	357,081
Disposals	(1,288)	–
Effects of movement in exchange rates	(106,650)	(363,998)
At 31 December	5,158,130	4,680,044
Accumulated amortization		
At 1 January	3,721,446	3,644,823
Amortization expense	233,108	271,213
Disposals	–	–
Effects of movement in exchange rates	(46,745)	(194,590)
At 31 December	3,907,809	3,721,446
Carrying amount		
At 1 January	958,598	1,042,138
At 31 December	1,250,321	958,598

(16) Other assets

In thousands of Lebanese Pound	**2015**	**2014**
Accounts receivable and prepayments	10,154,711	8,378,179
Debtors by acceptances (a)	6,649,868	11,353,491
Other assets	6,122,089	3,109,491
	22,926,668	22,841,161

(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	**2015**	**2014**
Balance at 1 January	15,871,603	14,460,321
Disposals	(2,910,820)	(1,745,083)
Additions	2,834,747	3,665,300
Impairment	(422,973)	1,115,199
Effects of movements in exchange rates	(228,244)	(1,624,134)
Balance at 31 December	15,144,313	15,871,603

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 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	**2015**	**2014**
Current deposits	4,539,532	24,276,637
Term deposits	98,261,563	94,794,499
Loan granted from Central Banks	87,901,593	67,309,979
Loan from banks and financial institutions	11,230,477	9,757,966
Loan granted from the European Investment Bank	7,407,888	8,898,405
Loan granted from Proparco	30,150,000	15,075,000
Interest payable	2,698,411	2,183,843
	242,189,464	222,296,329

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**	**2015**	**2014**
Savings		1,651,601,823	1,770,724,495
Term deposits		1,940,947,241	1,515,611,206
Current deposits		274,059,998	237,902,395
Deposits under fiduciary contracts		60,002,979	75,517,323
Net creditor and cash collateral against debtor accounts		289,448,894	270,963,470
Margins on letter of credits		4,607,637	4,996,661
Interest payable		26,474,199	27,771,131
Deposits from related parties	36	14,321,099	17,259,755
		4,261,463,870	3,920,746,436

Deposits from customers above LBP 1,500,000 thousand threshold amounted to LBP 2,223,051 million representing 54.22% of total deposits and are held by 375 customers. Same tiers representing 55.48% of total customers' deposits amounting to LBP 2,090,204 million were held by 356 customers in year 2014.

Deposits from customers include coded accounts amounting to LBP 18,094,902 thousand as at 31 December 2015 limited to 13 accounts (2014: LBP 17,674,217 thousand limited to 14 accounts) 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 Bank 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	**2015**	**2014**
Checks for collection	15,161,981	14,592,439
Engagement by acceptances	6,649,868	11,353,491
Other creditors and accruals	31,951,448	13,960,088
Operational taxes and social security payables	7,060,667	6,097,190
Accrued expenses	6,125,740	2,350,325
Commission received in advance	3,923,885	2,949,126
Other liabilities	1,113,533	176,583
	71,987,122	51,479,242

(21) Provisions

In thousands of Lebanese Pound	**2015**	**2014**
Provision for employee benefits obligations (a)	6,794,732	6,887,132
Provision for various matters	34,456	128,821
Provision for loss on structural exchange position	12,925	12,925
Provision for fluctuations in foreign exchange rates (b)	26,114	298,507
	6,868,227	7,327,385

(a) Provision for employee benefits obligations

In thousands of Lebanese Pound	**2015**	**2014**
Balance at 1 January	6,887,132	6,081,146
Net provision raised during the year	1,948,804	1,025,618
Indemnity paid during the year	(2,041,204)	(219,632)
Balance at 31 December	6,794,732	6,887,132

(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.

(22) Share capital

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

	2015		2014	
	Number of shares	**Value in 000 LBP**	**Number of shares**	**Value in 000 LBP**
Common shares	2,242,383	112,119,150	2,135,603	55,525,678
Preferred shares	950,000	47,500,000	700,000	18,200,000
	3,192,383	159,619,150	2,835,603	73,725,678

The extraordinary General Assembly of the Shareholders of the Bank held on 20 February 2015 resolved to increase the capital of the Bank from LBP 73,725,678 thousand to LBP 80,225,678 thousand by issuing 250,000 new preferred shares (series 5), according to the provisions of the law No. 308/2001, of LBP 26 thousand each subscribed to and paid in cash with a premium of LBP 124,750 per share thus a total premium of LBP 31,187,500 thousand.

The extraordinary General Assembly of the Shareholders of the Bank held on 2 October 2015 resolved to increase the capital of the Bank from LBP 80,225,678 thousand to LBP 159,619,150 thousand as follows:

- Increase of the nominal value from LBP 26 thousand to LBP 50 thousand by transferring from the reserve appropriated to capital increase a total of LBP 74,054,472 thousand.
- Issuance of 106,780 new common shares of LBP 50 thousand each subscribed to and paid in cash with a premium of LBP 161,768 per share thus a total premium of LBP 17,273,587 thousand.

The Central Bank of Lebanon has approved the above transactions on 10 December 2015.

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

(22) Share capital (continued)

	Series 2	Series 3	Series 4	Series 5	Total
Date of Extraordinary General					
Assembly Resolution Date	5-Oct-12	20-Sep-13	11-Jul-14	20-Feb-15	
Number of Shares issued	200,000	300,000	200,000	250,000	950,000
Share Nominal Value in '000 LBP	50 (2014: 26)	50 (2014: 26)	50 (2014: 26)	During 2015, increased from 26 to 50	
Total Nominal Value in '000 LBP	10,000,000	15,000,000	10,000,000	12,500,000	47,500,000
Share Issue Price USD	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 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 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 underwriting dates	
Issue Premium Amount in '000 LBP	20,149,999	30,225,000	20,150,000	25,187,500	95,712,499
Benefits	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	(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 (or any other shareholders' meeting) at which the annual audited financial accounts for the Bank are approved for the immediately preceding fiscal year, in its sole discretion.	(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 2018, increased by 1 USD for each subsequent year	100	100	100	

(23) Share premium – common shares

The premium resulted from the increase of capital of the Bank by issuing 106,780 new common shares 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.

The amounts of cash contributions to capital as at 31 December 2015 were LBP 10,854,000 thousand (2014: LBP 10,854,000 thousand).

(25) Reserves

(i) Reserves

In thousands of Lebanese Pound	**2015**	**2014**
General banking risks reserve (a)	42,969,380	35,229,406
Legal reserve (b)	23,914,040	19,815,618
Reserve appropriated to capital increase (c)	23,178,789	67,042,433
General reserves	4,400,637	3,096,634
Capital reserves	94,462,846	125,184,091
Reserve against retail portfolio (d)	1,026,861	–
Reserve against corporate portfolio (e)	3,445,325	–
Non-current assets held for sale reserve (f)	1,455,774	818,005
Fair value reserve (g)	321,291	278,973
Real estate revaluation reserve (h)	8,095,226	8,095,226
	108,807,323	134,376,295

(a) General banking risks reserve

According to the Central Bank of Lebanon basic circular no.50, banks in Lebanon are required to appropriate from their annual net profits a minimum of 0.2 percent and a maximum of 0.3 percent of total risk weighted assets based on rates specified by the Central Bank of Lebanon to cover general banking risks. This ratio should not be less than 1.25 percent of these risks at the end of year ten (2007) and 2 percent at the end of year twenty (2017). This reserve is part of Tier I, but 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.

(25) Reserves

(i) Reserves (continued)

(c) Reserve appropriated to capital increase

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

In thousands of Lebanese Pound	**2015**	**2014**
At 1 January	67,042,433	65,247,715
Appropriation of previous year profits	7,279,259	1,794,718
Transfer from non-distributable retained earnings	111,569	–
Less: transfer to share capital to increase the nominal value (note 22)	(74,054,472)	–
Transfer from share premuim- preferred shares	22,800,000	–
	23,178,789	67,042,433

The transfer in 2015, from share premium - preferred shares to reserve appropriated to capital increase and amounting to LBP 22,800,000 thousand represent the excess resulting from the difference between the amount paid by the preferred shares holders and the nominal value of the common share after the increase of the nominal value of common shares from LBP 26 thousand to LBP 50 thousand each from reserves.

(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 2014. As at 31 December 2015, this reserve amounted to LBP 1,026,861 thousand (2014: nil). Additional appropriations of 0.5% per annum are required for six consecutive years starting 2015.

(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 2015, this reserve amounted to LBP 3,445,325 thousand (2014: nil).

(f) Non-current assets held for sale reserve

In compliance with the Central Bank of Lebanon circular no.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 debt (note 17), in case the Bank failed to liquidate the properties within 2 years from the date of acquisition. The required reserves are established through appropriation of retained earnings. This reserve is not considered as part of the Bank's Tier Capital nor is available for distribution. As per the 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 26 July 1994 and the Central Bank of Lebanon and the Banking Control Commission regulations, the Bank proceeded in 1999 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.

(25) Reserves (continued)

(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	**2015**	**2014**
At 1 January	247,913	140,660
Unrealised gain on investment securities at fair value through profit and loss (note 29)	8,747,082	107,253
Revaluation gains related to investment securities sold (transferred to realised)	(111,569)	–
At 31 December	8,883,426	247,913

(26) Net interest income

In thousands of Lebanese Pound	**Note**	**2015**	**2014**
Interest income			
Balances with Central Banks		40,553,850	39,133,213
Banks and financial institutions		444,926	2,467,455
Loans and advances to customers and related parties	36	215,983,211	186,850,868
Investment securities		74,686,489	58,408,301
Other interest income		8,143	797,969
Total interest income		331,676,619	287,657,806
Interest expense			
Due to banks and financial institutions		(10,639,181)	(7,109,393)
Deposits from customers and related parties	36	(212,148,239)	(188,970,923)
Other interest expense		(465,986)	(600,502)
Total interest expense		(223,253,406)	(196,680,818)
Net interest income		108,423,213	90,976,988

(27) Net fees and commission income

In thousands of Lebanese Pound	**2015**	**2014**
Fees and commission income		
Fees on letters of credit and acceptances	1,053,965	1,535,450
Fees on transactions with customers	13,618,164	14,499,331
Fees on letters of guarantee	1,564,196	1,214,882
Fees on various banking transactions	12,801,049	10,914,468
Total fees and commission income	29,037,374	28,164,131
Fees and commission expense		
Fees on banks and financial institutions accounts	(1,352,630)	(1,909,706)
Fees on various banking transactions	(6,148,452)	(7,576,183)
Total fees and commission expense	(7,501,082)	(9,485,889)
Net fees and commission income	21,536,292	18,678,242

(28) Net trading income

In thousands of Lebanese Pound	**2015**	**2014**
Foreign exchange income	4,759,955	4,457,204

(29) Net gain on investment securities at fair value through profit or loss

In thousands of Lebanese Pound	**2015**	**2014**
Unrealised gain from investment securities at fair value through profit or loss	9,171,319	8,747,082
Unrealised loss from investment securities at fair value through profit or loss	(582,701)	(12,001)
Realised gain from investment securities at fair value through profit or loss	10,836,768	6,978,275
Realised loss from investment securities at fair value through profit or loss	(142,580)	(14,077)
	19,282,806	15,699,279

(30) Net gain on investment securities at amortised cost

In thousands of Lebanese Pound	**2015**	**2014**
Gain from sale of investment securities at amortised cost	8,639,539	4,177,887
Loss from sale of investment securities at amortised cost	(2,070)	(447)
	8,637,469	4,177,440

The Group derecognises some debt instruments classified at amortised cost due to liquidity gap and yield management. During the year, the Group sold investment securities classified at amortised cost with a nominal value of LBP 210,000,000 thousand (2014: LBP 453,479,317 thousand) and realized a gain of LBP 8,639,539 thousand (2014: 4,177,440 thousand).

Below is a detailed listing of the sale transactions that occurred during the year 2015:

in thousands of LBP

Type of investment securities	**Maturity**	**Nominal value**	**Net gain on sale**
Lebanese Treasury Bills (LBP)	30-Oct-25	5,000,000	113,778
	11-Sep-25	5,000,000	131,755
		10,000,000	245,533
Lebanese Treasury Bills Liquidation (LBP)	29-Jan-15	2,000,000	(2,070)
Certificates of deposit (LBP)	19-Mar-26	15,000,000	269,285
	27-Apr-23	3,000,000	88,248
	2-Mar-17	1,000,000	21,035
	20-Aug-26	20,000,000	1,192,525
	25-Dec-25	5,000,000	161,669
	2-Jul-26	5,000,000	279,934
	5-Feb-26	15,000,000	683,008
	3-Dec-26	10,000,000	307,770
	4-Jun-26	5,000,000	156,203
	19-Jan-23	6,000,000	144,985
	16-Oct-25	1,000,000	34,415
	5-Mar-26	88,000,000	3,514,983
	13-Aug-26	10,000,000	618,502
	6-Aug-26	10,000,000	637,089
	22-Jan-26	6,000,000	284,355
		200,000,000	8,394,006
		212,000,000	8,637,469

(30) Net gain on investment securities at amortised cost (continued)

Below is a detailed listing of the sale transactions that occurred during the year 2014:

All amounts are in thousands of LBP

Type of investment securities	Maturity	Nominal value	Net gain on sale
Eurobonds (USD)	12-Jun-25	7,537,500	1,623
	12-Nov-22	8,983,192	18,065
	2-Nov-16	2,562,750	7,009
	28-Nov-26	9,949,500	4,694
	12-Oct-17	5,050,125	399
	9-Mar-20	6,030,000	2,330
	12-Apr-21	12,813,750	23,882
	29-Nov-27	10,552,500	5,785
		63,479,317	63,787
Lebanese Treasury Bills (LBP)	30-Oct-25	175,000,000	1,590,580
Certificates of deposits (LBP)	19-Jan-23	109,000,000	785,390
	26-Jan-23	15,000,000	106,511
	27-Apr-23	10,000,000	118,928
	20-Apr-23	11,000,000	74,028
	20-Jan-23	5,000,000	20,734
	26-Feb-26	30,000,000	818,815
	12-Feb-26	20,000,000	544,919
	2-Jul-26	15,000,000	53,748
		215,000,000	2,523,073
		453,479,317	4,177,440

(31) Personnel charges

In thousands of Lebanese Pound	Note	2015	2014
Wages and salaries		28,792,714	28,301,488
Social security contributions		4,194,971	3,574,453
Provision for employee benefits obligations	21	1,948,805	1,025,618
Representation fees		1,158,347	921,969
Exceptional indemnities		4,594,759	3,574,674
Scholarships		1,246,256	1,181,641
Transportation		1,063,403	1,108,981
Insurance and medical expenses		1,044,614	926,450
Chairman and vice chairman remunerations	36	1,863,193	1,657,863
Other benefits		3,912,215	3,163,830
		49,819,277	45,436,967

(32) Administrative expenses

In thousands of Lebanese Pound	**Note**	**2015**	**2014**
Marketing and advertising		4,216,532	5,581,584
Professional fees		5,455,620	4,098,851
Taxes		3,376,091	3,647,032
Rental expenses		2,487,394	1,694,275
Maintenance and repair		3,239,811	2,962,982
Utilities		884,053	988,327
Board of Directors attendance allowance	36	960,450	900,300
Telecommunication and postage		1,221,461	1,356,833
Stationary and printings		675,884	983,009
Transportation expense		167,004	181,435
Premium of the guarantee of deposits		1,894,957	1,679,527
Other expenses		11,958,346	10,275,253
		36,537,603	34,349,408

(33) Income tax expense

In thousands of LBP	**2015**	**2015**	**2014**	**2014**
Profit before tax		62,706,034		45,543,311
Income tax using the enacted tax rate	14.92%	9,354,936	14.63%	6,662,956
Non-deductible taxes	0.31%	192,956	0.98%	444,615
Non-deductible provisions	0.69%	431,981	0.00%	–
Irrecoverable loans	0.01%	8,180	0.05%	24,932
Other non-deductible expenses	1.41%	881,889	1.91%	869,070
Dividends received	-0.07%	(42,948)	-0.08%	(37,217)
Write back of provision	-0.04%	(23,284)	-0.04%	(20,229)
Gain on reevaluation of financial assets at fair value	-2.05%	(1,288,293)	-2.88%	(1,310,260)
Foreign exchange gain / losses	-0.06%	(37,998)		
Derecognition of unused tax losses carried forward	0.13%	80,139		
	15.25%	9,557,558	14.57%	6,633,867

The Bank in Lebanon is subject to a withholding tax of 5% on certain interest income which is considered as a prepayment on corporate income tax due. In case this withholding tax exceeds the calculated corporate income tax expense, the excess is not reimbursable and is considered as a final income tax expense.

The Bank’s books and records were reviewed by the Department of Income Tax for the years 2010 to 2013.

The Bank’s books and records remain subject to review by the Department of Income Tax for the years 2014 and 2015.

(34) Cash and cash equivalents

In thousands of Lebanese Pound	**2015**	**2014**
Cash on hand	46,820,885	42,121,236
Unrestricted accounts with Central Banks	69,053,084	197,497,788
Banks and financial institutions	175,217,506	215,214,397
Due to banks and financial institutions	(48,618,666)	(53,963,151)
	242,472,809	400,870,270

(35) Contingent liabilities and commitments

In thousands of Lebanese Pound	**2015**	**2014**
Guarantees		
Guarantees given to banks and financial institutions	41,581,393	34,438,206
Guarantees received from banks and financial institutions	16,748,312	1,675,024
Guarantees given to customers	110,624,119	74,980,135
Guarantees received from customers	5,075,034,555	4,326,098,946
Lending commitments	215,798,569	212,547,625
Operations in foreign currencies		
Foreign currencies to receive	71,923,092	83,578,072
Foreign currencies to deliver	73,036,626	82,405,659
Contingencies on legal disputes (a)	34,255,761	37,074,455
Fiduciary deposits	64,099,388	68,284,663
Bad loans fully provided for	11,333,242	8,432,476

(a) Contingencies on legal disputes

There were a number of legal proceedings involving claims by and against the Group at 31 December 2015, 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.

(36) Related parties

Transactions and balances with key management personnel

Key management personnel compensation

Key management personnel compensation comprised the following:

In thousands of Lebanese Pound	**2015**	**2014**
Short-term employee benefits	12,176,601	10,116,784
Board of Directors attendance allowance	960,450	900,300

Short term benefits include the chairman remunerations amounting to LBP 1,863,193 thousands during 2015 (2014: LBP 1,657,863 thousand).

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 Bank 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:

	Balance outstanding as at 31 December	
In thousands of Lebanese Pound	**2015**	**2014**
Loans and advances	5,781,904	6,342,626
Deposits	14,321,099	17,259,755

	Transactions as at 31 December	
In thousands of Lebanese Pound	**2015**	**2014**
Interest income from loans and advances	272,575	257,099
Interest expenses on deposits	(334,577)	(328,631)

(37) Group entities

	Country of incorporation	**Number of shares**	**31 December 2015 Ownership interest**	**31 December 2014 Ownership interest**
Anelik Bank CJSC	Armenia	273,926	100.00%	100.00%
CB Anelik RU LLC	Russia	–	100.00%	100.00%
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%

(38) Group entities (continued)

Cost of investment of the Bank in Anelik Bank CJSC has amounted to LBP 80,308,174 thousand divided as follows:

In thousands of Lebanese Pound

Cost of acquisition	60,862,088
Amount paid in excess	9,728,373
Capital increase	9,717,713
Cost of investment as at 31 December 2015	80,308,174

Equity of Anelik Bank CJSC as at 31 December 2015 has amounted to LBP 51,031,150 thousand divided as follows:

In thousands of Lebanese Pound

Equity as at date of acquisition	60,589,094
Amount not eliminated at acquisition	(2,509,397)
Capital increase	9,717,713
Operational losses	(1,609,847)
Losses on exchange from translation of Armenian Drams into Lebanese pounds	(15,156,413)
Equity as at 31 December 2015	51,031,150

Operational losses of Anelik Bank CJSC from date of acquisition are detailed as follows:

Year	**Profit (loss)**
2009	(206,538)
2010	1,319,049
2011	51,166
2012	653,609
2013	(5,198,128)
2014	1,091,460
2015	679,535
	(1,609,847)

During 2015, and for the purpose of meeting regulatory requirements, the Bank has requested the approval by the Central Bank of Lebanon to increase the capital of Anelik Bank CJSC by USD 4,000,000.

By its letters dated 6 November 2015 and 11 January 2016, the Central Bank of Lebanon has approved the request of the Bank to increase the capital of Anelik Bank CJSC by USD 4,000,000 and has requested from the Bank to provide, as from 31 December 2016, equally over a period of 5 years, for a yearly special reserve against the cost of its investment in Anelik Bank CJSC.

Management of the Bank is in the process of assigning an impairment test on its investment in Anelik Bank CJSC to an independent professional firm.

Management of the Bank is of the opinion that the impairment loss that would result from this test would not be material, and consequently will ask the Bank of Lebanon to reconsider its request for the provision of the special reserve referred to above.