

# ANNUAL REPORT 2016

LET'S  
GET  
THINGS  
MOVING









## CULTURE

The advancement of culture lies at the heart of SGBL's concern. That's why several of our CSR initiatives uphold cultural events that engage a variety of people. SGBL is genuinely proud to be associated with this fascinating bouquet of festivals and events that has been enriching the Lebanese cultural scene throughout the year. In our relentless engagement in promoting culture, we always get things moving.



## ECONOMY

Contributing to economic growth is something that SGBL believes in and strives for constantly. That's why we've partnered with several of the most well-established companies and brands in the country, in support of economic activities that lead to national prosperity and continuous progress. It's SGBL's way of getting the economy moving.



## SPORTS

Year after year, SGBL proves to be a leading supporter of sports in Lebanon through sponsoring athletic teams, tournaments and events across the country. By bringing people together in sports, we are proud to promote civic values such as team spirit, self-expression, solidarity and the determination to overcome challenges. Through our relentless commitment to endorsing sports, we get things moving!



## SOCIETY

Making a difference and giving back to our community is always one of SGBL's top priorities. In this spirit, SGBL undertakes civic projects and CSR initiatives, aiming to contribute to a more united world and benefit our environment and all members of our society at large through longstanding partnerships with various NGOs and charities. We also encourage our employees to take part in charity work and rally them around the Group's key initiatives. At SGBL moving beyond long established divisions always gets things moving!

// A people without the knowledge of their past history origin and culture is like a tree without roots.

– Marcus Gravey

LET'S GET THINGS MOVING IN  
**CULTURE**

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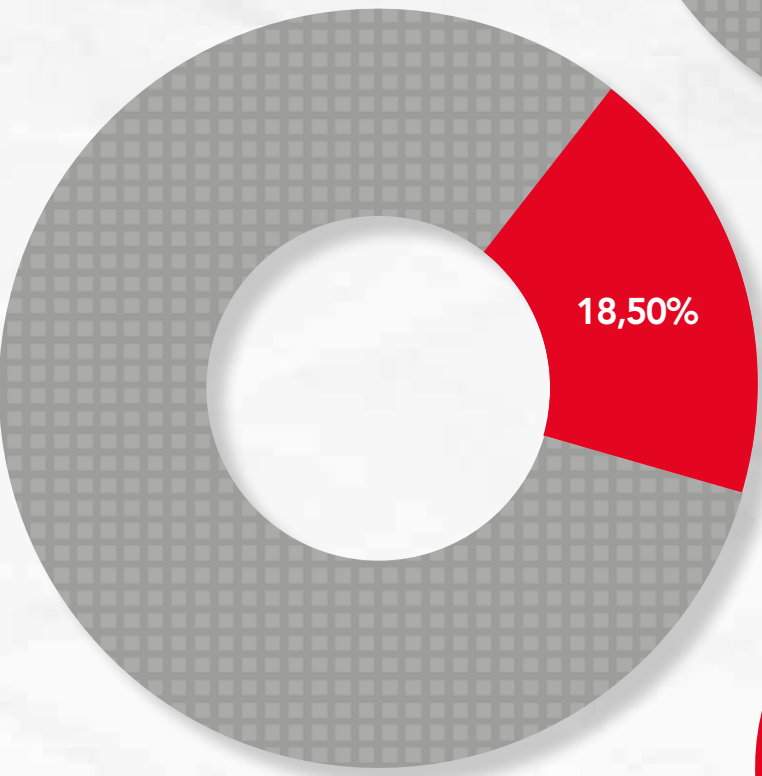
DIRECTORY

# FINANCIAL HIGHLIGHTS

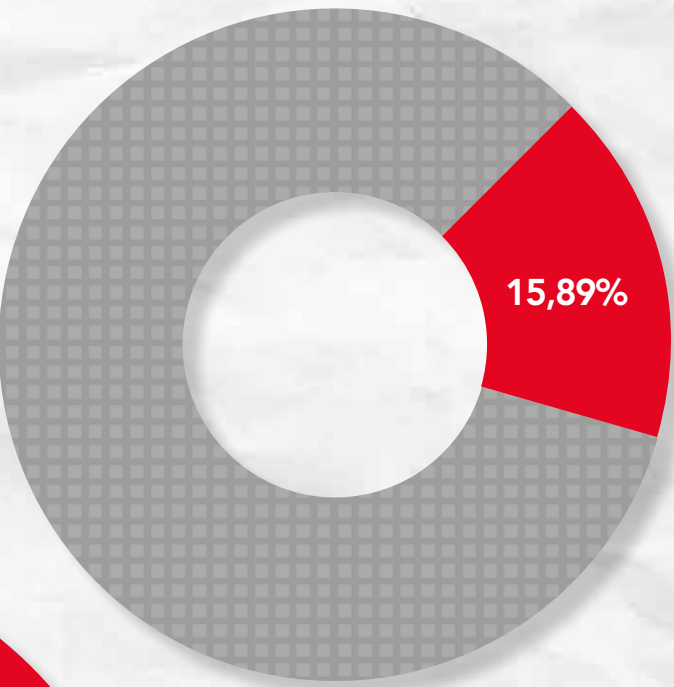
AS AT DECEMBER 31, 2016



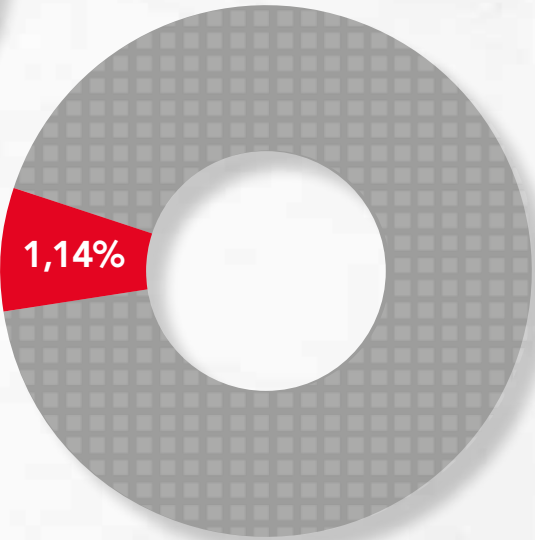
CAPITAL ADEQUACY RATIO



AVERAGE ROE AFTER TAX



AVERAGE ROA AFTER TAX



# GROUP PROFILE

Societe Generale de Banque au Liban sal (SGBL) is a joint stock company incorporated in 1953, with a term of 99 years. It is registered with the Commercial Registry of Beirut under No. 3696 and registered under No. 19 on the list of banks licensed by Banque du Liban, the Central Bank of Lebanon.

## OUR VISION

To grow alongside our clients and shareholders against all odds

## OUR MISSION

As bankers, we at SGBL endeavor to provide cutting edge universal banking services to best serve our individual and corporate clients day after day

## OUR VALUES

- Team spirit
- Responsibility
- Innovation
- Commitment

## INTERNATIONAL PRESENCE

SGBL group relies on the international network of Societe Generale, one of the largest European financial services groups.

## BUSINESS LINES

SGBL is the parent company of SGBL group which encompasses a broad range of financial and non-financial services delivered by specialized subsidiaries. SGBL, SGBJ (Jordan) and SGBCy (Cyprus) the Group's banks, operate according to the universal banking model.

Our 4 core business lines are:

- Retail Banking
- Corporate Banking
- Private Banking
- Investment Banking

The Group's other businesses include: life insurance, leasing, financial brokerage and credit card processing.

## REGIONAL NETWORK

With its core business anchored in Lebanon, SGBL group operates a regional platform with direct presence in Jordan and Cyprus. This platform supports the Group's business in the Middle East, Europe, Africa and the Americas.

# 2,040

STAFF MEMBERS AS AT  
DECEMBER 31, 2016,  
IN LEBANON, JORDAN,  
AND CYPRUS



# 140

ATMs

BRANCHES IN <b>LEBANON</b>	70
BRANCHES IN <b>JORDAN</b>	17
BRANCHES IN <b>CYPRUS</b>	4

## SUBSIDIARIES



### SOGELEASE LIBAN

Provider of financial leasing solutions, Sogelease Liban offers professionals, craftsmen and enterprises of all sizes, solutions for financing their equipment.



### SOGECAP LIBAN

Life insurance company that ranks among the top 10 life insurance companies in Lebanon. Sogecap Liban offers a complete range of life insurance products based on contingency and capitalization.



### FIDUS

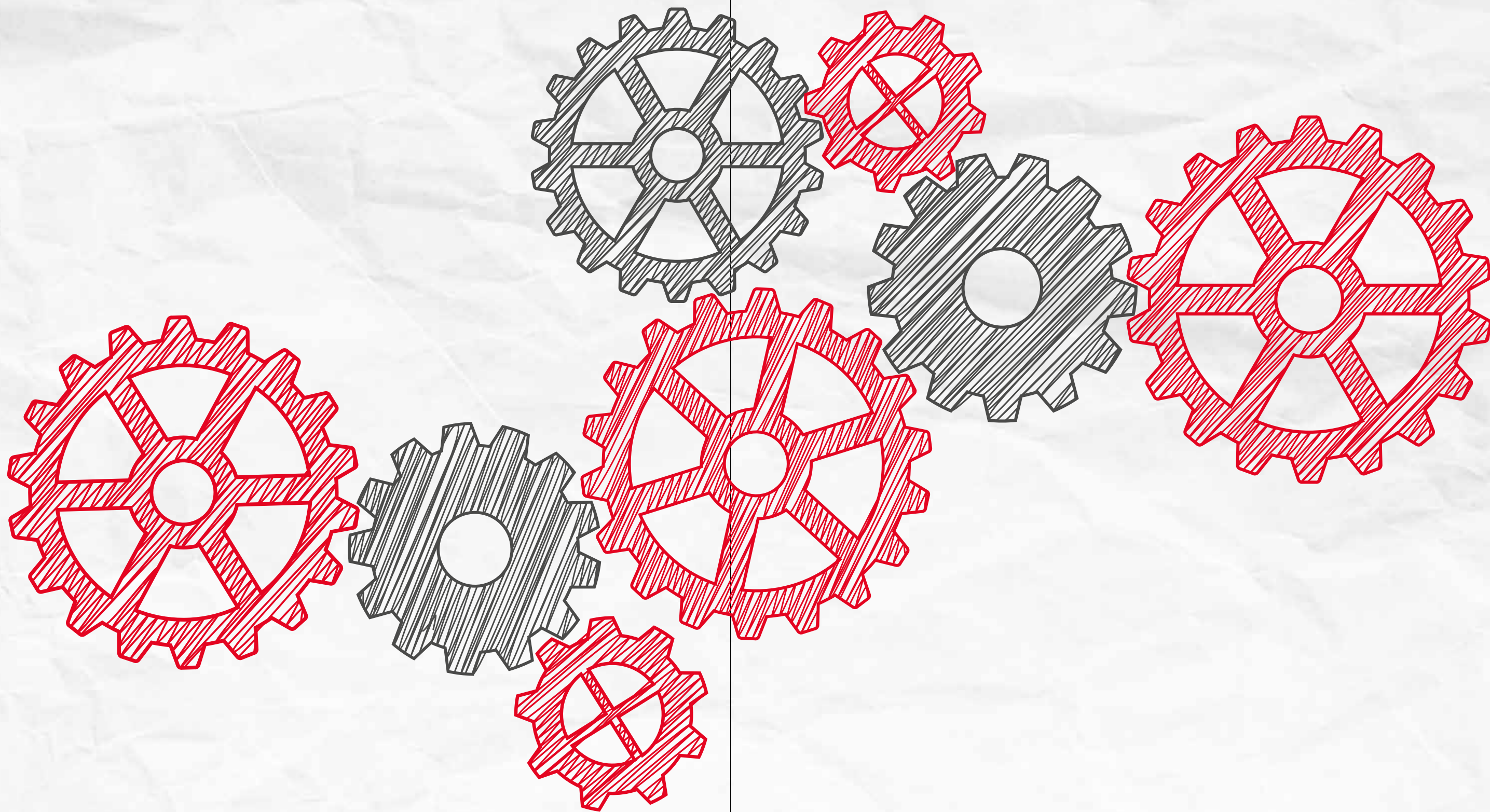
Financial institution that provides a full range of investment, wealth management, brokerage, advisory and financial services to a diversified clientele including high-net-worth individuals, banks, corporations and financial institutions. Headquartered in Beirut, the firm maintains a dynamic presence in the Levant, the Gulf, Africa and Europe.



### CENTRE DE TRAITEMENT MONÉTIQUE (CTM)

Specialized in credit card management, CTM is an electronic card processing company that is a joint venture between SGBL and Banque Libano-Française.





**CORPORATE  
GOVERNANCE**

# CORPORATE GOVERNANCE

## SHAREHOLDING

Main Holders of Common Shares  
(as of 31 Dec. 2016)  
% of common shares

ANTOUN SEHNAOUI	KAFINVEST HOLDING LEBANON SAL
51.65%	19.25%
SOCIETE GENERALE SA	NSKINV LTD
16.79%	12.20%

(\*) A Director may be considered non-executive if he/she:

- does not perform management duties within the Bank, does not carry out any executive tasks at this Bank and /or in any of its branches or subsidiaries in Lebanon and abroad, or does not have advisory capacity vis-à-vis senior management either at the moment or during the two years preceding his/ her appointment as a director;

(\*\*) A Director may be considered Independent if he/she:

- is a Non-Executive Director;
- is not one of the major shareholders who owns, directly or indirectly, more than 5% of the total amount of the shares of the Bank or of the voting rights relating thereto, whichever is higher;
- is independent of any members of the Senior Management of the Bank and of its major shareholders, i.e. that there has been no employment ties with any of above mentioned parties whether at the moment or during the two years preceding his/ her appointment as a director;
- is not a member of the immediate family, up to fourth degree of consanguinity, of any major shareholder;
- is not one of the Bank’s debtors.

# CORPORATE GOVERNANCE

## BOARD OF DIRECTORS AND COMMITTEES

BOARD OF DIRECTORS			EXECUTIVE NON-EXECUTIVE (*) INDEPENDENT (**)		COMMITTEES			
					Audit	Risk	Governance	Remuneration AML/CFT
Antoun SEHNAOUI	Chairman	E				Member	Chairman	
Nabil SEHNAOUI	Member	NE			Member		Member	Member
Pierre Frédéric KAMEL	Member	NE				Member	Member	
Kafinvest Holding Lebanon SAL - represented by Pierre Frédéric KAMEL	Member	NE						
NSKINV Ltd - Represented by Antoun SEHNAOUI	Member	NE						
Societe Generale SA (France) - Represented by Alexandre MAYMAT	Member	NE			Member			
Jean-Louis MATTEI	Member	I						Member Chairman
Ishac Mazen HANNA	Member	I				Chairman		Chairman
Grégoire LEFEBVRE	Member	NE			Member	Member	Member	Member
Jean-Pierre DUCROQUET	Member	I			Chairman			

# CORPORATE GOVERNANCE

## STATUTORY AUDITORS

BDO, Semaan, Gholam & Co  
Ernst & Young P.C.C.



# CORPORATE GOVERNANCE

## EXECUTIVE COMMITTEE



**CHAIRMAN & CEO**  
ANTOUN SEHNAOUI

A. Sehnaoui is SGBL's chairman and CEO since 2007. He is also the chairman of Fidus, the Group's financial brokerage firm. Mr. Sehnaoui holds a BA in Business Administration – major in International Finance and Banking from the University of Southern California (USA) and is a member of the Board of Directors of the Association of Banks in Lebanon.



**DEPUTY GENERAL MANAGER**  
GEORGES SAGHBINI

*Group CFO, Head of Business Development, Strategy, and Corporate Secretariat*

G. Saghbini joined SGBL group in 1996. He has since occupied several executive positions in the Bank and within the Group. Mr. Saghbini presently acts as Chairman of Sogecap Liban, the Group's life insurance company, and is a board member of SGBJ and SGBCy, the Group's subsidiary banks in Jordan and Cyprus respectively. He holds a Master's degree in Economics from the Paris I – Sorbonne University and from Ecole Normale Supérieure in Paris, as well as a Post graduate diploma in Money, Banking and Finance from the Sorbonne University.



**DEPUTY CHIEF EXECUTIVE OFFICER**  
PHILIPPE DUBOIS

Ph. Dubois joined SGBL group in 2014 and was appointed Deputy CEO by the board in March 2015. Prior to that, he was with Societe Generale group where he held several positions in Societe Generale's network in France, before taking up executive positions within the international network (French Polynesia and Serbia) and later on, supervising the Retail banking activity in Russia. Mr. Dubois graduated from French business school ESLSCA (Ecole Supérieure Libre des Sciences Commerciales Appliquées) and holds a Master's Degree in Management Control.



**DEPUTY GENERAL MANAGER**  
KHALIL LETAYF

*CEO of Societe Generale Bank – Cyprus Ltd*

K. Letayf joined SGBL group in 2008. Prior to that, he held different managerial positions in the e-payment and banking businesses in both France and Lebanon. Within SGBL group, and prior to heading SGBL's subsidiary in Cyprus, Mr. Letayf acted as SGBL's Head of the Resources and Services division and occupied, on rotating presidency basis, the position of Chairman of CTM, the credit card processing company that is 50% owned by SGBL. He holds a degree in Engineering from Ecole Centrale de Paris.



**DEPUTY GENERAL MANAGER**  
TAREK CHEHAB

*Head of the Commercial Division - Retail, Corporate and Private Banking*

T. Chehab joined SGBL group in 1999 as General Manager of Fidus. Prior to that, Mr. Chehab held several executive positions in France in various businesses, among which as Group financial controller with Tractel Group and as Senior consultant at United Group Consultants. Within SGBL group, Mr. Chehab also acts as Chairman of Sogelease Liban, the Group's leasing company. He holds a Master's degree in Management – major in Finance, from the University of Dauphine in Paris.



**DEPUTY GENERAL MANAGER**  
SLEIMAN MAARAOUI

*Head of the Systems, Projects, and Infrastructure Division*

S. Maaraoui joined SGBL group in 2001 after holding several executive positions in the banking sector in France. Prior to heading the Systems, Projects and Infrastructure division, Mr. Maaraoui was SGBL's Head of Internal Audit and Inspection. He holds a Master's degree in Economics – major in Finance from the University of Amiens (France).

# CORPORATE GOVERNANCE

## MANAGEMENT COMMITTEE

MEMBERS OF THE EXECUTIVE COMMITTEE	SGBJ GENERAL MANAGER	CORPORATE BANKING
	NADIM ABAOUAT	RABIH ABDALLAH
GENERAL MANAGEMENT OFFICE - STRATEGY, FINANCE AND GENERAL SECRETARIAT	RISKS	FINANCE
NOHA ABOU-SAAD	FADY ABOU SAMRA	SARITA AMMOUN CHAANINE
OPERATIONS	GROUP RISKS	HUMAN RESOURCES
SAMI BOU KHALIL	PIERRE DINET	HENRI EL HACHEM
INSURANCE BUSINESS LINE	SMALL AND MEDIUM ENTERPRISES	RETAIL AND NETWORK
MICHEL FIANI	MICHEL GEAMMAL	NAGIB GHANTOUS
PLANNING, PROJECT MANAGEMENT & ORGANIZATION	PRIVATE BANKING	CHANGE OF CORE BANKING APPLICATION
DANIELLE HADDAD	ELIE JEFFY	CAROL KARKOUR
STRATEGY AND MARKETING	FINANCIAL MARKETS	INFORMATION TECHNOLOGY SYSTEMS & SERVICES
HABIB KHOURY	KARIM KHOURY	ELIE RIZK

// The more difficult the victory,  
the greater the happiness  
in winning.  
– Pele

LET'S GET THINGS MOVING IN  
SPORTS



# CORPORATE GOVERNANCE

## FRAMEWORK

The implementation of appropriate Corporate Governance guidelines allows for consolidating the Bank's universal banking model that is geared towards customers, expanding the customer base, improving operational efficiency and developing human capital.

In addition to its obligations towards its shareholders, SGBL Group has the obligation of fulfilling its responsibilities towards depositors and other stakeholders. Setting up a sound corporate governance framework earns and maintains the trust and confidence of the public.

A Corporate Governance Charter was developed at SGBL in 2008. It evolves continuously in accordance with new local and international regulations, with the latest amendments introduced in 2017 in line with the Central Bank's recently issued guidelines.

The organizational structure that was adopted by SGBL promotes the sound and proper functioning of the Bank in compliance with the fundamental principles of sound Corporate Governance. It also reflects and serves SGBL Group's corporate culture, objectives and strategy.

### THIS STRUCTURE IS BASED ON

1. Internal stakeholders, primarily the Board of Directors, Senior Management Executives, Internal Audit, Risk Management, and Compliance divisions for which a clear definition of roles and responsibilities is established while respecting the principle of the separation of powers through the creation of several committees serving that purpose;
2. The committees of the deliberative and decision making bodies as well as those deriving from these bodies, namely the Audit, Risk, Governance, Remuneration and AML/ CFT Committees;
3. External stakeholders, mainly shareholders, supervisory authorities and external auditors;
4. A risk management system stemming from the implementation of an overall risk management policy. This policy has been devised in accordance with the provisions of the Banking Control Commission circulars. Furthermore, this policy has been detailed for each specific risk: credit risk, concentration risk, market risk and interest rate risk, liquidity risk and operational risks;
5. An internal monitoring system built on formal procedures, both at the continuous monitoring level (daily security and formal supervision) and at the level of periodic internal audit.
6. An efficient communication and information system specifying the communication channels between all levels of the hierarchy as well as the reporting process enabling all stakeholders to be up to date with policies, procedures and internal control systems adopted by the Bank.

The Board and its committees are governed by their own specific internal regulations. Moreover, each Director acknowledges and agrees to comply with the Director's Charter as adopted by the Board of Directors.

### BOARD OF DIRECTORS

The Board of Directors consists of 10 Directors, the majority of whom are independent and non-executive. Board members are elected by an Ordinary General Shareholders' Meeting for a period of three years.

The Board of Directors bears the ultimate responsibility of the Bank's operations and financial soundness. Its main mission is to ensure that the Bank operates in accordance with the regulations to which it is subject, in line with the established strategy and in the best interests of the shareholders whom it represents.

In certain areas, the preparatory work for the deliberations of the Board is carried out by specialized Committees composed of directors appointed by the Board; these Committees examine matters within their remit and submit their opinions and proposals to the Board for approval.

These committees achieve their mission under the authority of the Board of Directors.

### RISK COMMITTEE

The mission of the Risk Committee comprises i) periodically reviewing the organization and the performance of the Risk monitoring framework at SGBL, ii) supervising the effective application of the principles of risk management at the Bank and Group level, iii) examining the portfolio of credit and market risks borne by the Bank, iv) monitoring the portfolio breakdown and its evolution by category of limits/outstanding volumes and debtor clients, the regulatory ratios and key indicators (allocation of common equity per major risk, risk deterioration, concentration risks by sector, cost of risk, etc.), changes to the quality of loans etc.

### AUDIT COMMITTEE

The Audit Committee assists the Board of Directors in its missions and its supervisory role. Overall, the committee i) examines, at regular intervals, the operating conditions and the activities of periodic and permanent internal control, ii) ensures the consistency and effectiveness of the security control measures, of the mechanisms established for the internal control of procedures, risks, regulatory accounting and ethical standards as well as anti-money laundering and anti-terrorist financing mechanisms, iii) ensures that the Bank complies with all the laws, rules and standards that govern the banking industry, namely with the directives, circulars and recommendations of the Central Bank of Lebanon, the Banking Control Commission and the Special Investigation Commission, iv) reports to the Board of Directors the delays detected and the potential discrepancies within the framework of critical or high-priority corrective actions, particularly deficiencies that might expose the Bank to significant risk.

### REMUNERATION COMMITTEE

The Remuneration Committee is assigned the task of making recommendations to the board based on the review of the practices followed by SGBL group. Its mission comprises i) to prepare the Remuneration Policy and the Remuneration System and submit them to the Board of Directors for approval, ii) to supervise the proper implementation of both the Remuneration Policy and Remuneration System, iii) to review at least once a year the rules/principles based on which the Remuneration Policy is implemented, iv) to assess periodically the efficiency of the Remuneration Policy and its effectiveness, v) to evaluate accurately the total remunerations granted, and compare them against the future expected revenues in order to avoid any likely negative results, vi) to submit to the Board of Directors specific proposals about the Senior Executive Management and holders of key positions remunerations, vii) the process of renewal and replacement of directors and members of Senior Management, viii) to propose long term incentives ix) to propose fees paid to directors and executives, x) to coordinate closely with the Risk Committee upon assessing the remuneration and their related risks and upon reviewing the Remuneration Policy.

#### AML/CFT COMMITTEE

The mission of AML/CFT Committee is to i) 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, and ii) 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.

#### GOVERNANCE COMMITTEE

The mission of the Governance Committee is to i) oversee the effective functioning of the corporate governance structure, ii) evaluate and update this structure, iii) carry out preparatory work for the examination by the Board of Directors of corporate governance issues, and iv) conduct an annual assessment of the Board of Directors' performance.

#### EXECUTIVE COMMITTEE

The Bank's Executive Committee comprises: the Chairman and Chief Executive Officer, the Deputy Chief Executive Officer and the Deputy General Managers.

The Bank's Executive Committee implements the strategy approved by the Board of Directors, delegates tasks and establishes an organizational structure that allows for appropriate operations; it monitors the responsibilities, and it is ultimately responsible before the Board for the effective operation of the Bank.

#### MANAGEMENT COMMITTEE

The Management Committee is composed of members of executive committee, senior managers and managers representing the major functions and sectors of the Bank and whose responsibilities have a major impact on the activity of the Bank. This Committee is an instance for communication and exchanges on the strategy and the bank's general interest issues. It promotes the exchange of information and thorough reflection as well as the emergence of positive initiatives for the development of the bank.

#### FREQUENCY OF MEETINGS

The Board holds at least four meetings each year, and whenever required. At least once a year, an item of the agenda is dedicated to the evaluation of the performance of the Board of Directors.

The frequency of the meetings of the Committees is set by the Board of Directors, taking into account local regulations. A minimum number of meetings is required as follows:

- Four annual meetings of the Risk and Audit Committees at the rate of one committee per quarter of which at least two are to be held in Lebanon
- Two annual Remuneration and AML/CFT Committees at the rate of one per semester
- One annual Corporate Governance Committee.

// Economy growth  
doesn't mean anything  
if it leaves people out.

– Jack Kemp

LET'S GET THINGS MOVING IN

**ECONOMY**



# CORPORATE GOVERNANCE

## INTERNAL SPECIALIZED COMMITTEES

In order to achieve an adequate level of protection against the risks faced by the Bank, Senior Management must hold on regular basis internal specialized committees that comprise officers in charge of handling the issues mentioned below. The following committees fall within the category of internal specialized committees:

### CREDIT COMMITTEES

Credit Committees approve loans which exceed the approval limits set for the commercial division.

### SENSITIVE RISK COMMITTEES

Sensitive Risk Committees review sensitive and doubtful loans managed by the commercial entities. Frequency of meetings: quarterly.

### RECOVERY COMMITTEES

Recovery Committees are mandated to take decisions in respect of non-performing loans managed by the Recovery Department.

### ASSET/LIABILITY MANAGEMENT COMMITTEE (ALCO)

This committee's mission is to prepare the decisions of the Management in terms of general tolerance to liquidity risks, validate the contingency funding plan to enable the bank to overcome the liquidity crisis, monitor the evolution of the liquidity situation, validate the adequacy of the monitoring system, management and supervision of structural risks, and review developments of structural Group risk through consolidated reports. Frequency of meetings: quarterly.

### TREASURY COMMITTEE

Delegated by the ALCO Management Committee, this committee assesses the Bank's short-term liquidity and takes steering decisions in accordance with the market's situation. Frequency of meetings: monthly.

### CORRESPONDENT BANKING COMMITTEE

This Committee's mission is to approve the files of correspondent banks that have been authorized by the Board of Directors according to the limits set.

### MARKET RISK MONITORING COMMITTEE

Its mission is: i) to identify, assess and track market risk generated by operations carried out on behalf of his activities of proprietary trading, corporate and institutional clients and the financial department in relation to the ALCO Committee, ii) to define and follow up the alert procedures, and iii) to ensure the real independence between the back and the front offices. Frequency of meetings: quarterly.

### INVESTMENT COMMITTEE

Its missions is to approve any equity participation of the Bank in a company in Lebanon or abroad

### OPERATING REAL ESTATE INVESTMENT COMMITTEE

Its mission is to approve i) any purchase or sale of real estate within the scope of article 153 of CMC and ii) any participation in a real estate company which activities are strictly limited to the acquisition of said real estate properties.

### ANTI-MONEY LAUNDERING AND ANTI-TERRORIST FINANCING COMMITTEE

Its mission is to monitor and manage human resources, tools, instruments, and regulatory provisions that are necessary to combat money laundering and terrorist financing. Frequency of meetings: quarterly.

### OPERATIONAL RISKS AND COMPLIANCE COMMITTEE

This committee ensures the proper implementation of policies and procedures pertaining to the management of operational risks as set by the Board of Directors and Senior Management. Frequency of meetings: quarterly.

### PHYSICAL AND IT SECURITY COMMITTEE

Its mission is to i) validate the IT and physical security policies following the recommendation of the Head of IT, ii) supervise the proper implementation of this policy, iii) decide on appropriate corrective actions and iv) recommend measures to be taken in case of breaches of any security rules. Frequency of meetings: twice a year.

### SUBSIDIARIES MONITORING COMMITTEE

This committee's mission is to monitor the situation of subsidiaries both at the level of their performance and at the level of ongoing risk assessment and compliance with local regulations and with the directives of SGBL Group. Frequency of meetings: quarterly.

### PROJECTS PORTFOLIO MONITORING COMMITTEE

This Committee is in charge of i) implementing the Bank transversal projects, ii) monitoring their progress, and iii) decides on projects, priorities and deadlines. Frequency of meetings: every 2 months.

### NEW PRODUCT COMMITTEE

This committee approves the concept and the proposal for a new product based on a feasibility study. It also gives the green light for launching a product based on a complete report detailing targets, marketing channels and the subsequent action plan.

### LEGAL AFFAIRS COMMITTEE

Twice a year, this committee makes an assessment of the coverage of legal risks at the Recovery and Legal Affairs departments.

### QUALITY MONITORING COMMITTEE

This committee validates the quality policy to be validated by the Board and submits to the General Management periodic reports, at least quarterly, about customers' claims, the nature, handling, and outcome of these claims, and the measures proposed to improve the policy relating to "The Principles of Banking and Financial Operations with Customers" Frequency of meeting: quarterly

### PROCUREMENT COMMITTEE

The committee's mission is to authorize purchases, orders or agreements pertaining to services or maintenance.



# **CONSOLIDATED FINANCIAL STATEMENTS**





## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF SOCIÉTÉ GÉNÉRALE DE BANQUE AU LIBAN SAL

### Qualified opinion

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

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

### Basis for qualified opinion

As disclosed in note 38 to the consolidated financial statements, during 2016, the Group did not recognize in the consolidated income statement an amount of LL 734,253 million in gains realized from certain transactions on financial instruments with the Central Bank of Lebanon and their related taxes of LL 110,742 million. Instead the Group recognized LL 404,801 million of the gains net of tax directly under non distributable reserves in equity and LL 218,710 million under other liabilities in compliance with the Central Bank of Lebanon's Intermediate Circular no. 446 dated 30 December 2016. Furthermore, as disclosed in note 39 to the consolidated financial statements, the Group recorded excess collective impairment allowances for LL 165,825 million in order to comply with the requirements of the Central Bank of Lebanon's Intermediate Circular no. 439 dated 8 November 2016. The Group's accounting for the above-mentioned transactions departs from the requirements of International Financial Reporting Standards.

Had the Group properly accounted for these transactions, events and conditions, in accordance with IFRS, the effects on the consolidated financial statements would have been as follows:

- Net income for the year ended 31 December 2016 would have increased by LL 789,336 million through an increase in gain from sale of financial assets at amortized cost by LL 734,253 million; a decrease in other operating expenses by LL 165,825 million; and an increase in income tax by LL 110,742 million;
- Total liabilities as at 31 December 2016 would have decreased, through a decrease in provisions for risks and charges by LL 165,825 million and a decrease in other liabilities by LL 218,710 million;
- Equity as at 31 December 2016 would have increased, through an increase in net income, by LL 789,336 million instead of LL 404,801 million which represent part of the gain recognized directly in equity, through a credit to non-distributable reserves;

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

### Key audit matters

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

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

### Impairment of loans and advances

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

The risks outlined above were addressed by us as follows:

- For corporate customers, we tested the key controls over the credit grading process to assess if the risk grades allocated to the counterparties were appropriate. We then performed detailed credit assessment of all loans in excess of a defined threshold and loans in excess of a lower threshold in the watch list category and impaired category together with a selection of other loans.
- Where impairment allowance was calculated on a collective basis for performing corporate loans, we tested the completeness and accuracy of the underlying loan information used in the impairment model by agreeing details to the Group's source systems as well as re-performing the calculation of the modelled impairment allowances. For the key assumptions in the model, we assessed whether those assumptions were appropriate in the circumstances.
- For consumer loans, specific and collective impairment allowances are calculated using a simple model, which are based on a percentage of repayments due but not yet paid. We understood and critically assessed the model used and checked that no undue changes had been made in model parameters and assumptions. We tested the completeness and accuracy of data from underlying systems that is used in this model. We also re-performed the calculation of the modelled impairment allowance.

# CONSOLIDATED FINANCIAL STATEMENTS

## Goodwill impairment

Goodwill impairment testing of cash generating units ("CGUs") relies on estimates of value-in-use based on estimated future cash flows. Due to the uncertainty of forecasting and discounting future cash flows, this is deemed significant risk.

We assessed the reasonableness of cash flow projections and compared key inputs, such as discount rates and growth rates, to externally available industry, economic and financial data and the Group's own historical data and performance. We used our own valuation specialists to test the assumptions used in valuation.

### Other information included in the Group's 2016 Annual Report

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

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

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

### Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

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

### 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 judgment and maintain professional skepticism throughout the audit. We also:

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


- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities with 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 to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

The partners in charge of the audit resulting in this independent auditors' report are Ramzi Ackawi for Ernst & Young and Nehme Semaan for BDO, Semaan, Gholam & Co:



Beirut, Lebanon  
25 April 2017





# CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2016

	Notes	2016 LL million	2015 LL million
Interest and similar income	5	1,350,541	1,204,837
Interest and similar expense	6	(954,170)	(810,987)
<b>NET INTEREST INCOME</b>		<b>396,371</b>	<b>393,850</b>
Fee and commission income	7	102,433	102,211
Fee and commission expense		(33,163)	(31,222)
<b>NET FEE AND COMMISSION INCOME</b>		<b>69,270</b>	<b>70,989</b>
Net gain from financial assets at fair value through profit or loss	8	18,668	23,522
Revenue from financial assets at fair value through other comprehensive income	9	638	1,012
Net gain from sale of financial assets at amortized cost	24	579,708	105,963
Other operating income	10	31,653	25,338
<b>TOTAL OPERATING INCOME</b>		<b>1,096,308</b>	<b>620,674</b>
Net credit losses	11	(19,511)	(27,824)
<b>NET OPERATING INCOME</b>		<b>1,076,797</b>	<b>592,850</b>
Personnel expenses	12	(133,379)	(123,278)
Other operating expenses	13	(167,954)	(140,573)
Depreciation of property and equipment	26	(11,269)	(10,932)
Amortization of intangible assets	27	(3,210)	(3,040)
Impairment of goodwill	31	(163,158)	-
<b>TOTAL OPERATING EXPENSES</b>		<b>(478,970)</b>	<b>(277,823)</b>
<b>OPERATING PROFIT</b>		<b>597,827</b>	<b>315,027</b>
Provisions for risks and charges	39	(165,825)	-
Net gain from sale and write-off of other assets		19	283
<b>PROFIT BEFORE TAX</b>		<b>432,021</b>	<b>315,310</b>
Income tax expense	14	(128,999)	(56,998)
<b>PROFIT FOR THE YEAR</b>		<b>303,022</b>	<b>258,312</b>
<b>Attributable to:</b>			
Equity holders of the parent		286,259	250,844
Non-controlling interest		16,763	7,468
		<b>303,022</b>	<b>258,312</b>

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

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	2016 LL million	2015 LL million
<b>PROFIT FOR THE YEAR</b>	<b>303,022</b>	<b>258,312</b>
<b>Other comprehensive loss</b>		
Other comprehensive loss to be reclassified to profit or loss in subsequent periods (net of tax):		
Exchange differences on translation of foreign operations	(2,089)	(8,691)
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods (net of tax):		
Net gain (loss) from financial assets at fair value through other comprehensive income	245	(574)
<b>Other comprehensive loss for the year, net of tax</b>	<b>(1,844)</b>	<b>(9,265)</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX</b>	<b>301,178</b>	<b>249,047</b>
<b>Attributable to:</b>		
• Equity holders of the parent	284,425	241,590
• Non-controlling interests	16,753	7,457
	<b>301,178</b>	<b>249,047</b>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	2016 LL million	2015 LL million
<b>ASSETS</b>			
Cash and balances with the Central Banks	15	8,544,014	5,817,726
Due from banks and financial institutions	16	798,629	698,264
Amounts due from affiliated banks and financial institutions	17	918,608	777,435
Reverse repurchase agreements	18	-	416,910
Loans to banks and financial institutions		8,397	8,397
Derivative financial instruments	19	2,472	2,969
Financial assets at amortized cost pledged as collateral	20	1,175,427	576,118
Financial assets at fair value through profit or loss	21	180,270	239,806
Loans and advances to customers at amortized cost	22	6,627,649	5,929,958
Loans and advances to related parties at amortized cost	23	100,737	153,546
Debtors by acceptances		211,715	169,491
Financial assets at amortized cost	24	9,300,920	8,928,466
Financial assets at fair value through other comprehensive income	25	25,208	26,560
Property and equipment	26	433,785	214,345
Intangible assets	27	49,317	40,945
Investment properties	28	1,483	1,480
Non-current assets held for sale	29	175,919	185,318
Other assets	30	109,800	100,871
Goodwill	31	3,405	167,040
<b>Total assets</b>		<b>28,667,755</b>	<b>24,455,645</b>

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

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)  
As at 31 December 2016

	Notes	2016 LL million	2015 LL million
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Due to the Central Banks	32	431,765	609,961
Loans and repurchase agreements	33	2,062,317	2,116,164
Due to banks and financial institutions	34	568,948	612,282
Amounts due to affiliated banks and financial institutions	35	1,429	21,185
Derivative financial instruments	19	9,507	4,450
Customers' deposits at amortized cost	36	21,788,334	18,679,877
Related parties' deposits at amortized cost	37	181,207	132,771
Engagements by acceptances		211,715	169,491
Other liabilities	38	589,764	142,048
Provision for risks and charges	39	263,010	75,737
<b>Total liabilities</b>		<b>26,107,996</b>	<b>22,563,966</b>
<b>EQUITY</b>			
Share capital – common shares	40	14,586	14,586
Share capital – preferred shares	40	9,675	9,675
Share premium – common shares	40	149,349	149,349
Share premium – preferred shares	40	561,171	559,161
Cash contribution by shareholders	40	106,746	106,746
Non distributable reserves	41	864,648	391,134
Distributable reserves	42	20,532	19,442
Revaluation reserve of property	43	3,934	3,934
Cumulative change in fair value of financial assets at fair value through other comprehensive income	44	(218)	(477)
Profit for the year		286,259	250,844
Foreign currency translation reserve		(18,862)	(16,769)
Retained earnings		496,250	351,552
<b>Equity attributable to equity holders of parent</b>		<b>2,494,070</b>	<b>1,839,177</b>
Non-controlling interests		65,689	52,502
<b>Total equity</b>		<b>2,559,759</b>	<b>1,891,679</b>
<b>Total liabilities and equity</b>		<b>28,667,755</b>	<b>24,455,645</b>

The consolidated financial statements were authorized for issue in accordance with a resolution of the Board of Directors on 25 April 2017.

Antoun Sehnaoui  
Chairman

Georges Saghbini  
Deputy General Manager

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
For the year ended 31 December 2016

ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT														Non-controlling interest	Total equity
LL MILLION														LL million	LL million
Notes	Share capital – common shares LL million	Share capital – preferred shares LL million	Share premium – common shares LL million	Share premium – preferred shares LL million	Cash contribution by shareholders LL million	Non distributable reserves LL million	Distributable reserves LL million	Revaluation reserve of property LL million	Cumulative change in fair value of financial assets at fair value through other comprehensive income		Foreign currency translation reserve LL million	Profit for the year LL million	Retained earnings LL million	Total LL million	
									LL million	LL million					
Balance at 31 December 2014	13,173	8,738	149,349	560,065	106,746	316,878	20,669	3,934	113	(8,105)	226,977	242,597	1,641,134	48,167	1,689,301
Profit for the year	-	-	-	-	-	-	-	-	-	-	250,844	-	250,844	7,468	258,312
Other comprehensive loss	-	-	-	-	-	-	-	-	(590)	(8,664)	-	-	(9,254)	(11)	(9,265)
Total comprehensive income	-	-	-	-	-	-	-	-	(590)	(8,664)	250,844	-	241,590	7,457	249,047
Increase in share capital	40	1,413	937	-	-	-	(2,350)	-	-	-	-	-	-	-	-
Issuance of preferred shares	40	-	2,330	-	148,226	-	-	-	-	-	-	-	150,556	-	150,556
Redemption of preferred shares	40	-	(2,330)	-	(151,264)	-	206	-	-	-	-	-	(153,388)	-	(153,388)
Transfer to retained earnings	-	-	-	-	-	-	-	-	-	-	(226,977)	226,977	-	-	-
Transfer to non distributable reserves	41	-	-	-	-	74,269	-	-	-	-	-	(74,269)	-	-	-
Transfer to distributable reserves	42	-	-	-	-	-	917	-	-	-	-	(917)	-	-	-
Transfer to share premium	40	-	-	-	2,134	-	-	-	-	-	-	(2,134)	-	-	-
Dividends paid to equity holders of the parent – preferred shares	45	-	-	-	-	-	-	-	-	-	-	(40,702)	-	(40,702)	-
Dividends paid to non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	(3,122)	(3,122)	-
Adjustments	-	-	-	-	-	(13)	-	-	-	-	-	-	(13)	-	(13)
Balance at 31 December 2015	14,586	9,675	149,349	559,161	106,746	391,134	19,442	3,934	(477)	(16,769)	250,844	351,552	1,839,177	52,502	1,891,679
Profit for the year	-	-	-	-	-	-	-	-	-	-	286,259	-	286,259	16,763	303,022
Other comprehensive loss	-	-	-	-	-	-	-	-	259	(2,093)	-	-	(1,834)	(10)	(1,844)
Total comprehensive income	-	-	-	-	-	-	-	-	259	(2,093)	286,259	-	284,425	16,753	301,178
Transfer to retained earnings	-	-	-	-	-	-	-	-	-	-	(250,844)	250,844	-	-	-
Income on financial transactions	38	-	-	-	-	404,801	-	-	-	-	-	-	404,801	-	404,801
Transfer to non distributable reserves	41	-	-	-	-	68,765	-	-	-	-	-	(68,765)	-	-	-
Transfer to distributable reserves	42	-	-	-	-	-	1,090	-	-	-	-	(1,090)	-	-	-
Transfer to share premium	40	-	-	-	2,010	-	-	-	-	-	-	(2,010)	-	-	-
Dividends paid to equity holders of the parent – preferred shares	45	-	-	-	-	-	-	-	-	-	-	-	(34,281)	-	(34,281)
Dividends paid to non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,566)	(3,566)
Adjustments	-	-	-	-	-	(52)	-	-	-	-	-	-	(52)	-	(52)
<b>Balance at 31 December 2016</b>	<b>14,586</b>	<b>9,675</b>	<b>149,349</b>	<b>561,171</b>	<b>106,746</b>	<b>864,648</b>	<b>20,532</b>	<b>3,934</b>	<b>(218)</b>	<b>(18,862)</b>	<b>286,259</b>	<b>496,250</b>	<b>2,494,070</b>	<b>65,689</b>	<b>2,559,759</b>

# CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

OPERATING ACTIVITIES	Notes	2016 LL million	2015 LL million
Profit before income tax		432,021	315,310
Adjustments for:			
Depreciation and amortization	26 & 27	14,479	13,972
Share of (profit) loss from an associate	30	(90)	12
Amortization of additional deferred costs resulting from the acquisition of the Lebanese Canadian Bank SAL	30	3,526	6,815
Amortization of deferred employee termination benefits	30	8,103	8,080
Provision for impaired loans – customers	22	37,337	34,775
Provision for impaired loans – related parties	23	1,500	1,453
Loans written off	11	668	866
Impairment loss of goodwill	31	163,158	-
Net provisions for impairment of non-current assets held-for-sale		268	517
Write-back of provision for other impaired debit balances	30	(219)	(20)
Recoveries of credit losses – customers	22	(11,720)	(17,941)
Provision for employees' end of service benefits	12	6,293	4,317
Gain from sale of property and equipment		(19)	(283)
Provision for other assets	30	-	249
(Write-back of provision) provision for financial assets at amortized cost	22	(8,442)	8,442
Gain from sale of non-current assets held-for-sale	10	(3,080)	(544)
Write-off of property and equipment		31	-
Write-off of intangible assets		-	19
Net provision for risks and charges		191,767	14,468
Unrealized loss on derivative financial instruments		5,554	1,632
		841,135	392,139
Working capital changes:			
Cash and balances with the Central Banks		(2,917,943)	(57,604)
Due from banks and financial institutions		105,502	(114,919)
Amounts due from affiliated banks and financial institutions		(2,794)	(39,466)
Reverse repurchase agreements		219,567	(219,567)
Due to the Central Banks		(403,800)	16,749
Loans and repurchase agreements		(53,847)	(2,584)
Due to banks and financial institutions		(196,017)	166,648
Loans and advances to customers at amortized cost		(729,801)	(667,568)
Loans and advances to related parties at amortized cost		51,309	(12,038)
Financial assets at fair value through profit or loss		59,536	(96,922)
Financial assets at fair value through other comprehensive income		1,597	(259)
Financial assets at amortized cost		449,914	(540,101)
Financial assets at amortized cost pledged as collateral		(599,309)	(228,192)
Loans to banks and financial institutions		-	(2,036)
Other assets		(23,844)	(172)
Customers' deposits at amortized cost		3,108,457	1,767,525
Related parties' deposits at amortized cost		48,436	2,588
Other liabilities		43,437	(3,368)
Cash from operations		1,535	360,853

## CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

For the year ended 31 December 2016

Employees' end of service benefits paid	39	(1,088)	(1,698)
Taxation paid		(54,422)	(49,080)
Provision for risks and charges paid		(5,965)	(4,357)
Net cash flows (used in) from operating activities		(59,940)	305,718

### INVESTING ACTIVITIES

Purchase of property and equipment	26	(78,771)	(21,761)
Purchase of intangible assets	27	(11,580)	(9,366)
Proceeds from sale of property and equipment		65	360
Proceeds from sale of non-current assets held for sale		17,317	2,507
Acquisition of a subsidiary, net of cash acquired	3	(151,380)	-
Net cash flows used in investing activities		(224,349)	(28,260)

### FINANCING ACTIVITIES

Issuance of preferred shares	40	-	150,556
Redemption of preferred shares	40	-	(153,388)
Dividends paid to equity holders of the parent	45	(34,281)	(40,702)
Dividends paid to non-controlling interest		(3,566)	(3,122)
Net cash flows used in financing activities		(37,847)	(46,656)
Effect of exchange rate changes and other adjustments		(1,474)	(6,723)

**(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS** (323,610) 224,079

Cash and cash equivalents at 1 January 2,193,918 1,969,839

**CASH AND CASH EQUIVALENTS AT 31 DECEMBER** 46 1,870,308 2,193,918

### Operational cash flows from interest and dividend

Interest paid	934,440	802,777
Interest received	1,310,925	1,200,647
Dividend received	2,905	2,661



# CONSOLIDATED FINANCIAL STATEMENTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

### 1 CORPORATE INFORMATION

Société Générale de Banque au Liban SAL (the “Bank”) is a shareholding company registered in Beirut, Lebanon. It was registered in 1953 under no. 3696 at the Commercial Registry of Beirut and no. 19 on the list of banks published by the Central Bank of Lebanon. The headquarters of the Bank are located at Saloumeh Square, Sin El Fil, Lebanon.

The Bank, together with its subsidiaries (collectively the “Group”), are mainly involved in banking, insurance and financial services activities (commercial, investment and private).

### 2 ACCOUNTING POLICIES

#### 2.1 BASIS OF PREPARATION

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

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

#### Statement of compliance

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

#### Presentation of financial statements

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

Financial assets and financial liabilities are generally reported gross in the consolidated statement of financial position. They are only offset and reported net when, in addition to having an unconditional legally enforceable right to offset the recognized amounts without being contingent on a future event, the parties also intend to settle on a net basis in all of the following circumstances:

- The normal course of business
- The event of default
- The event of insolvency or bankruptcy of the Group and/or its counterparties

#### Basis of consolidation

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

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

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

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

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

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group’s accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

The consolidated financial statements represent the financial statements of the Bank and the following subsidiaries:

# CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
31 December 2016

Name	Country of incorporation	Activities	PERCENTAGE OF OWNERSHIP	
			2016	2015
Société Générale Bank - Cyprus Ltd	Cyprus	Banking	100.00%	100.00%
Société Générale de Banque - Jordanie	Jordan	Banking	87.67%	87.67%
Fidus SAL*	Lebanon	Financial services	49.00%	49.00%
Sogelease Liban SAL	Lebanon	Leasing	99.75%	99.75%
Sogecap Liban SAL	Lebanon	Insurance	75.00%	75.00%
Société Générale Jordanie Brokerage Ltd	Jordan	Brokerage	100.00%	100.00%
Société Générale Libanaise Foncière SARL	Lebanon	Real estate	98.66%	98.66%
Société Générale de Services d'Investissement SARL	Lebanon	Services and studies	98.50%	98.50%
LCB Finance SAL	Lebanon	Financial services	100.00%	100.00%
LCB Investments Holding SAL	Lebanon	Investments & management	100.00%	100.00%
LCB Insurance Brokerage House SAL (owned by LCB Investments Holding SAL)	Lebanon	Brokerage	99.14%	99.14%
LCB Estates SAL (owned by LCB Investments Holding SAL)	Lebanon	Real Estate	99.14%	99.14%
SGBL Courtage Assurance SARL	Lebanon	Brokerage	100.00%	100.00%
799 Bassatine Tripoli SAL	Lebanon	Investments and management	60.00%	60.00%
Foncière 415 Saifi SAL	Lebanon	Real estate	100.00%	-
Société d'Investissements et de Services «SIS» SAL	Lebanon	Investments and management	99.00%	99.00%

\* The Group controls Fidus SAL despite having an interest of only 49% in this entity. Consequently, the financial statements of Fidus SAL have been consolidated with those of the Bank.

2.2 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

Judgments

In the process of applying the Group’s accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect in the amounts recognized in the consolidated financial statements:

Going concern

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

Impairment of goodwill

Management judgment is required in estimating the future cash flows of the CGUs. These values are sensitive to cash flows projected for the periods for which detailed forecasts are available, and to assumptions regarding the term sustainable pattern of cash flows thereafter. While the acceptable range within which underlying assumptions can be applied is governed by the requirement for resulting forecasts to be compared with actual performance and verifiable economic data in future years, the cash flow forecasts necessarily and appropriately reflect management view of future business prospects.

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Business model

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

In determining whether its business model for managing financial assets is to hold assets in order to collect contractual cash flows, the Group considers:

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

Contractual cash flows of financial assets

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

Estimates and assumptions

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

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset-backed securities. The valuation of financial instruments is described in more detail in note 51.

Impairment losses on loans and advances

The Group reviews its individually significant loans and advances at each consolidated statement of financial position date to assess whether an impairment loss should be recorded in the consolidated income statement. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Group makes judgments about the borrower’s financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as credit quality, levels of arrears, credit utilization, loan to collateral ratios etc.), and judgments to the effect of concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

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Deferred tax assets

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

Revaluation of investment properties

The Group carries its investment properties at fair value, with changes in fair value being recognized in the consolidated income statement. The Group engaged an independent valuation specialist to assess fair value as at 31 December. Investment properties were valued by reference to market-based evidence, using comparable prices adjusted for specific market factors such as nature, location and condition of the property.

Provisions and other contingent liabilities

The Group operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent to its operations. As a result, it is involved in various litigation and proceedings arising in the ordinary course of the Group’s businesses.

When the Group can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Group records a provision against the case. Where the probability of outflow is considered to be remote, or probable, but a reliable estimate cannot be made, a contingent liability is disclosed. However, when the Group is of the opinion that disclosing these estimates on a case-by-case basis would prejudice their outcome, then the Group does not include detailed, case-specific disclosures in its financial statements.

Given the subjectivity and uncertainty of determining the probability and amount of losses, the Group takes into account a number of factors including legal advice, the stage of the matter and historical evidence from similar incidents. Significant judgement is required to conclude on these estimates.

2.3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

New standards and interpretations effective after 1 January 2016

The following new and revised IFRSs have been applied in the current period in these consolidated financial statements. Their adoption had no significant impact on the amounts reported in these consolidated financial statements but may affect the accounting for future transactions or arrangements.

Standard	Description	Effective Date
Amendments to IAS 1 – Disclosure Initiative	The amendments provide clarifications and narrow-focus improvements on materiality, presentation of primary statements, structure of notes, disclosure of accounting policies, and presentation of OCI arising from equity accounted investments.  The amendments are designed to further encourage companies to apply professional judgement in determining what information to disclose and how to structure notes in their financial statements.	1 January 2016
Amendments to IFRS 11 – Accounting for acquisition of interests in Joint Operations	The amendments clarify that when acquiring an interest in a joint operation where the activity of the joint operation constitutes a business, all of the principles on business combinations accounting in IFRS 3, and other IFRSs, that do not conflict with the guidance in IFRS 11, are to be applied. The requirements apply to the acquisition of both the initial interest and additional interests in a joint operation but any previously held interest in the joint operation would not be remeasured.	1 January 2016
Amendments to IFRS 10, IFRS 12 and IAS 28 Investment entities – Applying the consolidation exception	The amendments define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.	1 January 2016

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Amendments to IAS 16 and IAS 38 – Clarification of acceptable methods of depreciation and amortization	The amendment clarifies that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate. The IASB has also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset.	1 January 2016
IFRS 10 Consolidated Financial Statements and IAS 28 - Investments in Associates & Joint Ventures	The amendment clarifies the treatment of the sale or contribution of assets from an investor to its associate or joint venture, as follows:  (a) require full recognition in the investor’s financial statements of gains and losses arising on the sale or contribution of assets that constitute a business (as defined in IFRS 3 Business Combinations).  (b) require the partial recognition of gains and losses where the assets do not constitute a business, i.e. a gain or loss is recognized only to the extent of the unrelated investors’ interests in that associate or joint venture.	1 January 2016

2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE

Certain new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2016, with the Group not opting for early adoption. These have, therefore, not been applied in preparing these consolidated financial statements.

Standard	Description	Effective Date
IFRS 15, ‘Revenue from contracts with Customers’.	This is the converged standard on revenue recognition. It replaces IAS 11, ‘Construction contracts’, IAS 18, ‘Revenue’ and related interpretations. Revenue is recognized when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service. The core principle of IFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 also includes a cohesive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity’s contracts with customers.	1 January 2018
IAS 12, “Income taxes”	The amendments clarify the following  (a) Recognition of a deferred tax asset if the loss is unrealized is allowed, if certain conditions are met; and  (b) The bottom line of the tax return is not the ‘future taxable profit’ for the recognition test. The IASB amendments clarify the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value.  The current approach of using the expected bottom line on the tax return – i.e. future taxable income less tax-deductible expenses, will no longer be appropriate instead the taxable income before the deduction will be used, to avoid double counting.	1 January 2017
IAS 7, “Statement of cash flows”	The amendments issued are as follows:  (a) introduce additional disclosure requirements intended to address investors’ concerns as currently they are not able to understand the management of an entity’s financing activities;  (b) require disclosure of information enabling users to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes;  (c) do not prescribe a specific format for disclosures but indicates that we can fulfil the requirement by providing a reconciliation between opening and closing balances for liabilities arising from financing activities; and  (d) are also applicable to financial assets that hedge liabilities arising from financing activities	1 January 2017



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IFRS 9, 'Financial instruments'	<p>In prior years the Group has early adopted IFRS 9 (2010) which includes the requirements for the classification and measurement. In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments (IFRS 9 (2014)) which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.</p> <p>Classification and measurement</p> <p>Debt instruments held within a business model in which assets are managed both in order to collect contractual cash flows and for sale should be measured at fair value through OCI but only if they pass the contractual characteristics assessment.</p> <p>Impairment</p> <p>There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and receivables, either on a 12-month or lifetime basis.</p> <p>Hedging</p> <p>IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes.</p> <p>Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.</p>	1 January 2018
IFRS 16, 'Leases'	<p>The IASB issued the new standard for accounting for leases in January 2016.</p> <p>(a) The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognize most leases on their balance sheets as lease liabilities, with the corresponding right-of-use assets.</p> <p>(b) Lessees must apply a single model for all recognized leases, but will have the option not to recognize 'short-term' leases and leases of 'low-value' assets.</p> <p>(c) Generally, the profit or loss recognition pattern for recognized leases will be similar to today's finance lease accounting, with interest and depreciation expense recognized separately in the statement of profit or loss.</p> <p>Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date.</p> <p>Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach.</p>	1 January 2019

The Group is currently assessing the impact of adopting the above changes as it plans to adopt the new standards on the required effective dates.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Foreign currency translation

The consolidated financial statements are presented in Lebanese Lira. For each entity in the Group, the Bank determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation.

(i) Transactions and balances

Transactions in foreign currencies are initially recorded at the spot rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot rate of exchange at the reporting date. All differences arising on non-trading activities are taken to other operating income in the income statement, with the exception of differences on foreign currency borrowings that provide an effective hedge against a net investment in a foreign entity. These differences are taken directly to equity until the disposal of the net investment, at which time, they are recognized in the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rates as at the date of recognition. Non-monetary items measured at fair value in a foreign currency are translated using the spot exchange rates at the date when the fair value was determined.

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(ii) Group companies

On consolidation, the assets and liabilities of foreign operations are translated into Lebanese Lira at the rate of exchange prevailing at the reporting date and their income statements are translated at the weighted average exchange rates for the year. The exchange differences arising on translation for consolidation are recognized in other comprehensive income. On disposal of a foreign entity, the deferred cumulative amount recognized in equity relating to that particular foreign operation is recognized in the income statement in other operating expenses or other operating income. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

(2) Financial instruments – classification and measurement

(i) Date of recognition

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

(ii) Classification and measurement of financial investments

a. Financial assets

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

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

Financial assets at amortized cost

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

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

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

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

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Gains and losses arising from the derecognition of financial assets measured at amortized cost are reflected under “net (loss) gain from sale of debt instruments at amortized cost” in the consolidated income statement.

### **Financial assets at fair value through profit or loss**

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

#### *i. Debt instruments at fair value through profit or loss*

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

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

#### *ii. Equity instruments at fair value through profit or loss*

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

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

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

### **Financial assets at fair value through other comprehensive income**

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

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

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

### **Balances with the Central Banks, due from banks and financial institutions, loans to banks and financial institutions, reverse repurchase agreements, amounts due from affiliated banks and financial institutions and loans and advances to customers and related parties – at amortized cost**

After initial measurement, “Balances with the Central Banks”, “Due from banks and financial institutions”, “Loans to banks and financial institutions”, “Reverse repurchase agreements”, “Amounts due from affiliated banks and financial institutions” and “Loans and advances to customers and to related parties” are subsequently measured at amortized cost using the effective interest rate method (EIR), less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in “Interest and similar income” in the consolidated income statement. The losses arising from impairment are recognized in the consolidated income statement in “Net credit losses”.

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### **b. Financial liabilities**

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

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

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

### **Fair value option**

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

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

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

### **Due to the Central Banks, loans and repurchase agreements, due to banks and financial institutions, amounts due to affiliated banks and financial institutions and customers’ deposits and related parties’ deposits**

After initial measurement, “due to the Central Banks”, “loans and repurchase agreements”, “due to banks and financial institutions”, “amounts due to affiliated banks and financial institutions” and “customers’ and related parties’ deposits” are measured at amortized cost less amounts repaid using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate method.

### **c. Derivatives recorded at fair value through profit or loss**

The Group uses derivatives such as forward foreign exchange contracts and interest rate swaps.

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

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

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



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### (iii) 'Day 1' profit or loss

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

### (iv) Reclassification of financial assets

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

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

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

## (3) Derecognition of financial assets and financial liabilities

### (i) Financial assets

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

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

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

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

### (ii) Financial liabilities

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

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### (4) Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date are not derecognized from the consolidated statement of financial position as the Group retains substantially all the risks and rewards of ownership. The corresponding cash received is recognized in the consolidated statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within "loans and repurchase agreements", reflecting the transaction's economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the effective interest rate. When the counterparty has the right to sell or repledge the securities, the Group reclassifies those securities in its consolidated statement of financial position to "Financial assets pledged as collateral".

Conversely, securities purchased under agreements to resell at a specified future date are not recognized in the consolidated statement of financial position. The consideration paid, including accrued interest, is recorded in the consolidated statement of financial position within "Reverse repurchase agreements", reflecting the transaction's economic substance as a loan by the Group. The difference between the purchase and resale prices is recorded in "Net interest income" and is accrued over the life of the agreement using the effective interest rate.

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

### (5) Securities lending and borrowing

Securities lending and borrowing transactions are usually collateralized by securities or cash. The transfer of the securities to counterparties is only reflected on the consolidated statement of financial position if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability.

Securities borrowed are not recognized on the consolidated statement of financial position, unless they are then sold to third parties, in which case the obligation to return the securities is recorded as a trading liability and measured at fair value with any gains or losses included in "Net trading income".

### (6) Determination of fair value

The Group measures financial instruments such as derivatives, and non-financial assets such as investment properties, at fair value at each statement of financial position date. Also, fair values of financial instruments measured at amortized cost are disclosed in the notes.

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

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

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

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

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

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

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

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

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

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

### (7) Impairment of financial assets

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

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

#### (i) Financial assets carried at amortized cost

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

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

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

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the

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current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs of obtaining and selling the collateral, whether or not the foreclosure is probable.

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

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

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

#### (ii) Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

#### (iii) Collateral repossessed

The Group's policy is to determine whether a repossessed asset is best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets that are determined better to be sold, are immediately transferred to assets held for sale at their fair value at the repossessed date in line with the Group's policy.

### (8) Hedge accounting

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

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

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

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### (i) Fair value hedges

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

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

### (ii) Cash flow hedges

For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is initially recognized directly in equity in the “Cash flow hedge reserve”. The ineffective portion of the gain or loss on the hedging instrument is recognized immediately in the consolidated income statement.

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

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

### (iii) Hedge of a net investment

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

## (9) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements. Therefore, the related assets and liabilities are presented gross in the consolidated statement of financial position.

## (10) Leasing

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

### Group as a lessee

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

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### Group as a lessor

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

## (11) Recognition of income and expense

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

### (i) Interest and similar income and expenses

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

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

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

### (ii) Fee and commission income

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

#### *Fee income earned from services that are provided over a certain period of time*

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

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

#### *Fee income from providing transaction services*

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

#### *Fee and commission income from providing insurance services*

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

### (iii) Dividend income

Dividend income is recognized when the Group’s right to receive the payment is established.

### (iv) Net gain (loss) on financial instruments at fair value through profit or loss

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



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(12) Cash and cash equivalents

Cash and cash equivalents as referred to in the consolidated statement of cash flows comprise balances with original maturities of a period of three months or less including cash and balances with the Central Banks, deposits with banks and financial institutions, reverse repurchase agreements, amounts due from affiliated banks and financial institutions, due to the Central Banks, loans and repurchase agreements, due to banks and financial institutions and amounts due to affiliated banks and financial institutions.

(13) Investments in an associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries.

The Group’s investments in its associate is accounted for using the equity method. Under the equity method, the investment in an associate is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group’s share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment individually.

The statement of profit or loss reflects the Group’s share of the results of operations of the associate. Any change in OCI of this investee is presented as part of the Group’s OCI. In addition, when there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognizes the loss in the statement of profit or loss.

(14) Property and equipment

Property and equipment are initially recorded at cost less accumulated depreciation and any impairment in value. Buildings acquired prior to 1 January 1994 were restated for the changes in the general purchasing power of Lebanese Lira after the approval of the Central Bank of Lebanon. Net surplus arising on restatement is credited to “Revaluation reserve of property”. Changes in the expected useful life are accounted for by changing the depreciation period or method, as appropriate, and treated as changes in accounting estimates.

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

- |                          |                 |
|--------------------------|-----------------|
| • Buildings              | 50 years        |
| • Furniture and fixtures | 5 to 12.5 years |
| • Installations          | 16.67 years     |
| • Vehicles               | 10 years        |

Property and equipment is derecognized on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in “Net profit from sale and write-off of other assets” in the consolidated income statement in the year the asset is derecognized.

The assets’ residual lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively if applicable.

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(15) Business combinations and goodwill

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

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

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

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

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

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

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

(16) Intangible assets

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

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

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

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benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated income statement in the expense category consistent with the function of the intangible asset.

Amortization is calculated using the straight line method to write down the cost of intangible assets to their residual values. The estimated useful lives are as follows:

Software	5 years
Key money	5 years
Customer relationship – core deposits	12.5 years
Customer relationship – loans and advances	12.5 years

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

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated income statement when the asset is derecognized.

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

**(17) Investment properties**

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the period in which they arise, including the corresponding tax effect. Fair values are determined based on the evaluation performed by independent qualified valuers on the basis of current market values and if any, by reference to sale agreements entered into by the Group for the disposal of the property subsequent to year end.

Investment properties are derecognized either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the consolidated income statement in the period of derecognition.

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

**(18) Non-current assets held for sale**

Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition, management has committed to the sale, and the sale is expected to have been completed within one year from the date of classification.

A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations
  - Is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations
- Or
- Is a subsidiary acquired exclusively with a view to resale

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In the consolidated statement of comprehensive income of the reporting period, and of the comparable period of the previous year, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit after taxes, even when the Group retains a non-controlling interest in the subsidiary after the sale.

**(19) Impairment of non-financial assets**

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

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

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

**(20) Financial guarantees**

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

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

**(21) Tax**

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

**(i) Current tax**

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The taxation rates and tax law used to compute the amount are those that are enacted or substantively enacted by the statement of financial position date.

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

**(ii) Deferred tax**

Deferred tax is provided on temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except:

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

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

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

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

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

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

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

(22) Provisions

Provision are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

(23) Employees’ end of service benefits

The Bank’s contributions for end of service benefits paid and due to the National Social Security Fund (NSSF) are calculated on the basis of 8.5% of staff salaries. The final end of service benefits due to employees by the NSSF (a defined contribution plan) after completing 20 years of service, at the retirement age, or if the employee permanently leaves employment, are calculated based on the last month salary multiplied by the number of years of service as stipulated in the National Social Security Law. The Group is liable to pay to the NSSF the difference between the contributions paid and the final end of service benefits due to employees by the NSSF.

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

Contributions are recorded as an expense under “personnel expenses”.

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(24) Assets held in custody and under administration

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

(25) Dividends on common and preferred shares

Dividends on common and preferred shares are recognized as a liability and deducted from equity when they are approved by the Group’s shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Group.

Dividends for the year that are approved after the statement of financial position date are disclosed as an event after the consolidated statement of financial position date.

(26) Customer’s acceptances

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

(27) Equity reserves

The reserves recorded in equity (other comprehensive income) on the Group’s consolidated statement of financial position include:

“Cumulative change in fair value of financial instruments at fair value through other comprehensive income” reserve which comprises changes in fair value of equity instruments at fair value through other comprehensive income.

“Distributable and non-distributable reserve” which include transfers from retained earnings in accordance with regulatory requirements.

“Revaluation reserve of property” which comprises the revaluation surplus relating to property.

3 BUSINESS COMBINATIONS

During 2016, the Bank acquired the total shares and the amounts due from the former shareholders of Fonciere 415 Saifi SAL for LL 151,400 million after obtaining the approval of the Central Bank of Lebanon on 30 November 2016. This company owns a plot of land where the Bank’s new headquarters will be constructed.

Assets acquired and liabilities assumed

The fair values of the identifiable assets and liabilities of Fonciere 415 Saifi SAL as at the date of acquisition were:

	Fair value recognized on acquisition LL million
Assets	
Cash and bank balances	20
Property and equipment (note 3)	151,492
Other assets	138
	151,650
Liabilities	
Other liabilities	250
Total identifiable net assets at fair value	151,400
Purchase consideration transferred	151,400



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	LL million
<b>Cash flow on acquisition</b>	
Net cash acquired from the acquisition	20
Cash paid	(151,400)
<b>Net cash flow on acquisition</b>	<b>(151,380)</b>

4 MATERIAL PARTLY-OWNED SUBSIDIARIES

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

Proportion of equity interests held by non-controlling interests:

Name	Country of incorporation	2016 %	2015 %
Sogecap Liban SAL	Lebanon	25.00	25.00
Fidus SAL	Lebanon	51.00	51.00
Société Générale de Banque – Jordanie (SGBJ)	Jordan	12.33	12.33

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

Summarized statements of profit and loss for 2016:

	Sogecap Liban SAL LL million	Fidus SAL LL million	Société Générale de Banque - Jordanie LL million
Net interest income	9,234	3,655	43,328
Net fee and commission income (expense)	(3,383)	31,293	8,370
Net gain (loss) from financial assets at fair value through profit or loss	1,127	(13)	1,837
Revenue from financial assets at fair value through other comprehensive income	-	-	40
Net gain from sale of debt instruments at amortized cost	-	-	6,653
Income from insurance activities	24,223	-	-
Other operating income	93	1,354	1,370
Net credit losses	-	(283)	(954)
Operating expenses	(16,524)	(12,206)	(25,442)
Income tax expense	(450)	(3,554)	(12,014)
Profit for the year	14,320	20,246	23,188
Attributable to non-controlling interests	3,580	10,325	2,859
Dividends paid to non-controlling interest	2,261	-	1,305

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Summarized statements of profit and loss for 2015:

	Sogecap Liban SAL LL million	Fidus SAL LL million	Société Générale de Banque - Jordanie LL million
Net interest income	8,276	2,903	37,479
Net fee and commission income (expense)	(2,798)	12,190	6,456
Net gain (loss) from financial assets at fair value through profit or loss	(665)	(9)	6,603
Revenue from financial assets at fair value through other comprehensive income	-	-	36
Net gain from sale of debt instruments at amortized cost	-	-	7,043
Income from insurance activities	21,524	-	-
Other operating income	9	92	469
Net credit losses	-	(200)	(1,942)
Operating expenses	(11,569)	(12,060)	(23,398)
Income tax expense	(421)	(443)	(11,462)
Profit for the year	14,356	2,473	21,284
Attributable to non-controlling interests	3,589	1,261	2,624
Dividends paid to non-controlling interest	2,073	-	1,049

Summarized statements of financial position as at 31 December 2016:

	Sogecap Liban SAL LL million	Fidus SAL LL million	Société Générale de Banque - Jordanie LL million
Cash and balances with the Central Banks	4	909	306,021
Due from banks and financial institutions	-	91,327	89,397
Amounts due from affiliated banks and financial institutions	190,142	66,048	149,457
Financial assets at fair value through profit or loss	20,379	300	-
Loans and advances at amortized cost	-	130,248	1,210,961
Financial assets at amortized cost	1,475	-	677,304
Financial assets at amortized cost pledged as collateral	-	-	271,431
Financial assets at fair value through other comprehensive income	-	330	1,017
Property and equipment	1,369	4,805	47,481
Intangible assets	-	-	2,880
Non-current assets held for sale	-	-	6,243
Other assets	2,048	651	6,716
Due to the Central Banks	-	-	(25,737)
Due to banks and financial institutions	-	(109,650)	(105,228)
Amounts due to affiliated banks and financial institutions	-	(8,788)	(511)
Deposits at amortized cost	(132,541)	(117,879)	(2,325,789)
Other liabilities	(30,205)	(23,898)	(28,116)
Total equity	52,671	34,403	283,527
Attributable to non-controlling interests	13,168	17,546	34,948

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Summarized statements of financial position as at 31 December 2015:

	Sogecap Liban SAL LL million	Fidus SAL LL million	Société Générale de Banque - Jordanie LL million
Cash and balances with the Central Banks	6	52	573,015
Due from banks and financial institutions	-	117,741	67,954
Amounts due from affiliated banks and financial institutions	117,649	14,923	46,407
Financial assets at fair value through profit or loss	18,545	315	68,551
Loans and advances at amortized cost	-	254,418	918,076
Financial assets at amortized cost	54,209	-	591,598
Financial assets at amortized cost pledged as collateral	-	-	240,069
Financial assets at fair value through other comprehensive income	-	338	532
Property and equipment	1,427	4,657	48,744
Intangible assets	-	-	1,988
Non-current assets held for sale	-	-	6,828
Other assets	2,058	1,173	7,111
Due to the Central Banks	-	(543)	(30,860)
Due to banks and financial institutions	-	(98,146)	(62,913)
Amounts due to affiliated banks and financial institutions	-	(73,382)	(12,524)
Deposits at amortized cost	(122,189)	(200,661)	(2,171,131)
Other liabilities	(24,309)	(6,729)	(22,394)
Total equity	47,396	14,156	271,051
Attributable to non-controlling interests	11,849	7,220	33,421

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

	Sogecap Liban SAL LL million	Fidus SAL LL million	Société Générale de Banque - Jordanie LL million
Operating	20,421	79,736	(120,090)
Investing	58,803	(537)	(185,446)
Financing	(9,045)	(10,753)	(18,163)
Net increase in cash and cash equivalents	70,179	68,446	(323,699)

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

	Sogecap Liban SAL LL million	Fidus SAL LL million	Société Générale de Banque - Jordanie LL million
Operating	18,257	(10,569)	473,836
Investing	(5,760)	(274)	(228,864)
Financing	(8,291)	(608)	(4,476)
Net increase in cash and cash equivalents	4,206	(11,451)	240,496

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5 INTEREST AND SIMILAR INCOME

	2016 LL million	2015 LL million
Financial assets at amortized cost	586,604	577,244
Loans and advances to customers at amortized cost	392,846	356,075
Balances with the Central Banks	306,195	241,145
Financial assets at amortized cost pledged as collateral	42,287	9,663
Reverse repurchase agreements (note 18)	11,924	7,435
Loans and advances to related parties at amortized cost	5,045	8,159
Due from banks and financial institutions	4,975	4,683
Amounts due from affiliated banks and financial institutions	665	433
	1,350,541	1,204,837

6 INTEREST AND SIMILAR EXPENSE

	2016 LL million	2015 LL million
Customers' deposits at amortized cost	825,378	725,130
Due to banks and financial institutions	74,557	45,575
Due to the Central Banks	50,185	35,301
Related parties' deposits at amortized cost	3,939	4,955
Amounts due to affiliated banks and financial institutions	111	26
	954,170	810,987

7 FEE AND COMMISSION INCOME

	2016 LL million	2015 LL million
Loans and advances	23,049	23,518
Maintenance of accounts	21,557	21,853
Credit cards	13,264	10,799
Customers' market transactions	18,060	18,979
Transfers	6,003	6,140
Letters of guarantee	5,441	4,754
Letters of credit and acceptance	3,800	3,394
Checks	2,231	2,469
Cash transactions	1,892	2,106
Commission on insurance related activities	1,811	1,762
Other commissions	5,325	6,437
	102,433	102,211

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## 8 NET GAIN ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016 LL million	2015 LL million
Net gain on foreign exchange	12,844	15,074
Interest income on debt instruments at fair value through profit or loss	3,733	4,030
Dividend income from equity instruments at fair value through profit or loss	2,267	1,648
Realized and unrealized (loss) gain from financial assets at fair value through profit or loss	(176)	2,770
	<b>18,668</b>	<b>23,522</b>

Net gain on foreign exchange includes gains and losses from spot and forward contracts and the revaluation of the daily open trading position.

## 9 REVENUE FROM FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2016 LL million	2015 LL million
Dividend income from financial assets at fair value through other comprehensive Income	638	1,012

## 10 OTHER OPERATING INCOME

	2016 LL million	2015 LL million
Income from services rendered	134	134
Write-back of impairment losses on non-current assets held-for-sale (note 29)	684	103
Gain from sale of non-current assets held-for-sale (note 29)	3,080	544
Income from insurance activities	24,223	21,524
Other operating income	3,532	3,033
	<b>31,653</b>	<b>25,338</b>

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## 11 NET CREDIT LOSSES

	2016 LL million	2015 LL million
Provision for loans and advances to customers (note 22)	(37,337)	(34,775)
Provision for loans and advances to related parties (note 23)	(1,500)	(1,453)
Write-back of provision for loans and advances to customers (note 22)	7,748	11,151
Write-back of unrealized interest on loans and advances to customers (note 22)	3,972	6,790
Loans written off	(668)	(866)
	<b>(27,785)</b>	<b>(19,153)</b>
Provision for other assets (note 30)	-	(249)
Provision on balances with banks and financial institutions (note 16)	(154)	-
Impairment loss on financial assets at amortized cost (note 24)	(233)	(8,442)
Write-back of impairment on financial assets at amortized cost (note 24)	8,442	-
Write-back of provision for other assets (note 30)	219	20
	<b>(19,511)</b>	<b>(27,824)</b>

## 12 PERSONNEL EXPENSES

	2016 LL million	2015 LL million
Salaries and wages	87,819	82,374
Social Security contributions	12,807	12,233
Provisions for employees' end of service benefits (note 39)	6,293	4,317
Other allowances	26,460	24,354
	<b>133,379</b>	<b>123,278</b>

## 13 OTHER OPERATING EXPENSES

	2016 LL million	2015 LL million
Net provision for risks and charges	18,454	10,855
Professional services	30,246	22,937
Publicity and advertising	16,734	13,763
Rent	16,271	19,546
Travelling and entertainment expenses	12,072	9,627
Maintenance and repairs	10,591	9,764
Telecommunication and postage	10,253	10,374
Taxes and fees	7,992	7,832
Premiums for guarantee of deposits	7,799	7,386
Electricity, water and fuel	4,782	4,613
Printings and stationery	2,766	2,856
Legal expenses	2,381	2,501
Other operating charges	27,613	18,519
	<b>167,954</b>	<b>140,573</b>



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### 14 INCOME TAX

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

	2016 LL million	2015 LL million
<i>Current tax</i>		
Current income tax	239,148	56,426
Other adjustments	12	739
<i>Deferred tax</i>		
Relating to origination and reversal of temporary differences	581	(167)
Relating to transactions with the Central Bank of Lebanon	(110,742)	-
	<u>128,999</u>	<u>56,998</u>

### Reconciliation of the total tax charge

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

	2016 LL million	2015 LL million
<b>Accounting profit before tax</b>	432,021	315,310
Less: Revenues previously subject to tax	(32,091)	(24,692)
Add: Non-deductible expenses	415,462	47,410
Add: Gain recognized directly in non-distributable reserves	476,698	-
Add: Deferred income	257,555	-
	<u>1,549,645</u>	<u>338,028</u>
Taxable profit	1,549,645	338,028
Effective income tax rate	15.43%	16.69%
<b>Income tax expense reported in the consolidated income statement</b>	<u>239,148</u>	<u>56,426</u>

### Current tax liabilities (note 38)

	2016 LL million	2015 LL million
Income tax due	239,148	56,426
Tax withheld on interest previously paid	(21,387)	(21,479)
Others	832	(1,467)
	<u>218,593</u>	<u>33,480</u>

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### Deferred tax

The following table shows deferred tax recorded on the consolidated statement of financial position and changes recorded in the income tax expense:

	2016			2015		
	Deferred tax assets LL million	Deferred tax liabilities LL million	Income statement LL million	Deferred tax assets LL million	Deferred tax liabilities LL million	Income statement LL million
Non-current assets held for sale	-	-	-	-	-	1
Depreciation of property and equipment	21	562	(202)	25	356	(339)
Impairment allowance for loans and advances	4,623	-	-	4,623	-	(455)
Unrealized losses on financial instruments at fair value through profit or loss	214	-	-	214	-	(214)
Tax losses expected to be utilized in future periods	776	-	846	1,622	-	1,290
Others	1,572	-	(63)	1,509	-	(450)
	<u>7,206</u>	<u>562</u>	<u>581</u>	<u>7,993</u>	<u>356</u>	<u>(167)</u>

### 15 CASH AND BALANCES WITH THE CENTRAL BANKS

	2016 LL million	2015 LL million
Cash	106,330	97,882
Current accounts with the Central Banks	729,735	886,015
Time deposits with the Central Banks	7,707,949	4,833,829
	<u>8,544,014</u>	<u>5,817,726</u>

Cash and balances with the Central Banks include non-interest bearing balances held by the Group at the Central Bank of Lebanon in coverage of the compulsory reserve requirements for all banks operating in Lebanon. This compulsory reserve is calculated on the basis of 25% of sight commitments and 15% of term commitments after taking into account certain waivers related to subsidized loans denominated in Lebanese Lira. Accordingly, the compulsory reserve amounted to LL 252,773 million as at 31 December 2016 (2015: LL 321,870 million).

In addition a 15% of total deposits in foreign currencies regardless of nature is required. These placements amounted to US\$ 1,095,640,000 (equivalent to LL 1,651,677 million) as at 31 December 2016 (2015: US\$ 1,065,308,850 equivalent to LL 1,605,953 million).

Société Générale de Banque – Jordanie and Société Générale Bank – Cyprus Ltd are also subject to compulsory reserve requirements with varying percentages, according to the banking rules and regulations of the Kingdom of Jordan and the Republic of Cyprus.

Time deposits include placements of LL 540,944 million pledged to the favor of the Central Bank of Lebanon against loans granted by the latter as at 31 December 2016 (2015: LL 548,496 million) (note 33).

# CONSOLIDATED FINANCIAL STATEMENTS

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Time deposits with the Central Bank of Lebanon include the following long term placements:

Amount in original currency	2016 LL million	2015 LL million	Interest rate	Interest Payment Date	Maturity date
LL 720,000 million	720,000	-	8.40%	every 6 months	13-Sep-46
LL 500,000 million	500,000	-	8.00%	every 6 months	2-Oct-36
LL 500,000 million	500,000	-	8.40%	every 6 months	20-Sep-46
LL 500,000 million	500,000	-	8.40%	every 6 months	20-Sep-46
LL 300,000 million	300,000	-	8.40%	every 6 months	20-Sep-46
LL 439,000 million	439,000	-	5.00%	every 6 months	9-Dec-21
EUR 150 million	239,444	246,996	6.75%	every 6 months	5-Apr-22
US\$ 200 million	301,500	301,500	6.75%	every 6 months	5-Apr-22
US\$ 200 million	301,500	301,500	7.25%	every 6 months	29-Nov-24
LL 200,000 million	200,000	200,000	8.60%	every 6 months	10-Feb-22
US\$ 250 million	376,875	376,875	8.00%	every 6 months	7-Aug-28
US\$ 250 million	376,875	376,875	6.30%	every 6 months	7-Oct-19
US\$ 150 million	226,125	226,125	6.30%	every 6 months	2-Dec-19
	<u>4,981,319</u>	<u>2,029,871</u>			

## 16 DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	2016 LL million	2015 LL million
Current accounts	338,253	176,375
Time deposits	271,965	328,298
Checks for collection	65,620	78,774
Discounted bills	-	828
Pledged accounts (i)	120,058	99,234
Debtor accounts against creditor accounts, net	3,008	14,900
	<u>798,904</u>	<u>698,409</u>
Less: Provision for impairment	(275)	(145)
	<u>798,629</u>	<u>698,264</u>

(i) Included under pledged accounts an amount of LL 89,668 million placed as collateral against repurchase agreements as at 31 December 2016 (2015: LL 64,133 million) (note 33).

The movement of the provision for impairment of deposits with banks and financial institutions as recognized in the consolidated statement of financial position is as follows:

	2016 LL million	2015 LL million
Provision at 1 January	145	152
Provision during the year (note 11)	154	-
Difference of exchange	(24)	(7)
Provision at 31 December	<u>275</u>	<u>145</u>

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## 17 AMOUNTS DUE FROM AFFILIATED BANKS AND FINANCIAL INSTITUTIONS

	2016 LL million	2015 LL million
Sight deposits	483,304	351,015
Time deposits	435,304	426,420
	<u>918,608</u>	<u>777,435</u>

Time deposits include an amount of LL 47,889 million (equivalent to Euro 30 million) as of 31 December 2016 (2015: Euro 30 million, equivalent to LL 53,848 million) pledged in favor of Société Générale SA Paris in guarantee of documentary letters of credit and guarantees issued in favor of the Bank's clients.

## 18 REVERSE REPURCHASE AGREEMENTS

	2016 LL million	2015 LL million
Financial institution	-	416,910

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

During 2016 and 2015, the Group bought Certificates of Deposit issued by the Central Bank of Lebanon from a financial institution under the agreement to resell them.

Net interest income on the reverse repurchase agreements amounted to LL 11,924 million for the year ended 31 December 2016 (2015: LL 7,435 million) (note 5).

## 19 DERIVATIVE FINANCIAL INSTRUMENTS

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

	2016			2015		
	Assets LL million	Liabilities LL million	Total notional amount LL million	Assets LL million	Liabilities LL million	Total notional amount LL million
<b>Derivatives held for trading</b>						
Forward foreign exchange contracts	2,472	(9,507)	674,487	2,969	(4,450)	551,131

Derivatives often involve at their inception only a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have a significant impact on the profit or loss of the Group.

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Over-the-counter derivatives may expose the Group to the risks associated with the absence of an exchange market on which to close out an open position.

The Group's exposure under derivative contracts is closely monitored as part of the overall management of the Group's market risk.

### Derivative financial instruments held or issued for trading purposes

Most of the Group's derivative trading activities relate to deals with customers that are normally offset by transactions with other counterparties. Also included under this heading are any derivatives entered into for hedging purposes that do not meet the hedge accounting criteria.

### Fair value hedges

Fair value hedges are used by the Group to protect it against changes in the fair value of financial assets and financial liabilities due to movements in exchange rates and interest rates. The financial instruments hedged for interest rate risk include loans and advances. The Group uses interest rate swaps to hedge interest rate risk.

## 20 FINANCIAL ASSETS AT AMORTIZED COST PLEDGED AS COLLATERAL

	2016 LL million	2015 LL million
Governmental bonds mortgaged against deposits from Social Security of Jordan	267,717	235,813
Governmental bonds mortgaged in favor of the Central Bank of Jordan	857	1,797
Treasury bills mortgaged in favor of the Central Bank of Lebanon (i)	180,658	330,228
Certificates of deposits mortgaged in favor of the Central Bank of Lebanon (ii)	301,500	-
Certificates of deposits mortgaged in favor of a customer (iii)	410,040	-
Accrued interest receivable	14,655	8,280
	1,175,427	576,118

(i) The Lebanese treasury bills are pledged against soft loans granted by the Central Bank of Lebanon (note 32). These consist of the following:

	Nominal amount			
Financial assets	2016 LL million	2015 LL million	Coupon rate	Maturity date
Lebanese treasury bills	170,000	170,000	6.74%	1 June 2017
Lebanese treasury bills	-	150,000	6.50%	7 July 2016
Lebanese treasury bills	-	483	6.18%	30 June 2016
Lebanese treasury bills	483	-	6.50%	21 June 2018
Lebanese treasury bills	9,745	9,745	6.74%	6 February 2020
Lebanese treasury bills	430	-	8.24%	8 September 2022
	180,658	330,228		

(ii) During 2016, the Bank obtained the approval of the Central Bank of Lebanon to release an amount of US\$ 200 million (equivalent LL 301,500 million) from obligatory reserves provided that this amount is invested in governmental bonds pledged in the favor of the Central Bank of Lebanon. The Bank pledged Eurobonds with a nominal amount of US\$ 200 million (equivalent to LL 301,500 million) from 13 January 2016 until 18 August 2016, and subsequently two certificates of deposits with a total nominal amount of US\$ 200 million (equivalent to LL 301,500 million).

(iii) The Bank mortgaged and registered certificates of deposit in favor of a customer as a guarantee for the deposit placed at the Bank by the latter (note 36).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

	2016 LL million	2015 LL million
<b>Quoted</b>		
Shares	94,196	74,866
Funds	20,376	18,542
Lebanese treasury bills – Eurobonds	3,688	17,540
	118,260	110,948
<b>Unquoted</b>		
Shares	23,228	21,526
Lebanese treasury bills – denominated in LL	1,094	1,093
Debt securities issued by banks	37,688	37,688
Foreign governmental debt securities	-	68,551
	62,010	128,858
	180,270	239,806

## 22 LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST

	2016 LL million	2015 LL million
Corporate lending	4,254,325	3,834,747
Retail lending	2,985,287	2,676,593
	7,239,612	6,511,340
Less: Unrealized interest (i)	(380,513)	(371,634)
Less: Allowance for impairment losses (ii)	(231,450)	(209,748)
	6,627,649	5,929,958



# CONSOLIDATED FINANCIAL STATEMENTS

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(i) The movement of unrealized interest on substandard, doubtful, and bad loans is as follows:

	2016		
	Corporate LL million	Retail LL million	Total LL million
Balance at 1 January	308,372	63,262	371,634
Unrealized interest for the year	44,341	24,147	68,488
Less: Write-back during the year (note 11)	(1,885)	(2,087)	(3,972)
Less: Unrealized interest written off	(63,465)	(4,681)	(68,146)
Transfers from off-statement of financial position	11,197	3,275	14,472
Difference of exchange	(759)	(1,204)	(1,963)
Balance at 31 December	297,801	82,712	380,513

	2015		
	Corporate LL million	Retail LL million	Total LL million
Balance at 1 January	343,467	61,121	404,588
Unrealized interest for the year	55,239	17,687	72,926
Less: Write-back during the year (note 11)	(4,391)	(2,399)	(6,790)
Less: Unrealized interest written off	(86,123)	(14,305)	(100,428)
Transfers from off-statement of financial position	12,131	5,712	17,843
Transfers to off-statement of financial position	(11,003)	(1,958)	(12,961)
Difference of exchange	(948)	(2,596)	(3,544)
Balance at 31 December	308,372	63,262	371,634

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(ii) The movement of the impairment allowances during the year was as follows:

	2016		
	Corporate LL million	Retail LL million	Total LL million
Balance at 1 January	111,597	98,151	209,748
Charge for the year (note 11)	8,134	29,203	37,337
Less: Write-back of provision (note 11)	(3,619)	(4,129)	(7,748)
Less: Provisions written off	(14,687)	(2,019)	(16,706)
Transfers from off-statement of financial position	9,467	1,392	10,859
Difference of exchange	(695)	(1,345)	(2,040)
Balance at 31 December	110,197	121,253	231,450
Specific provisions	101,327	98,948	200,275
Collective provisions	8,870	22,305	31,175
	110,197	121,253	231,450
Gross amount of loans individually determined to be impaired, before deducting the individually assessed impairment allowance	468,513	295,340	763,853

	2015		
	Corporate LL million	Retail LL million	Total LL million
Balance at 1 January	148,171	100,057	248,228
Charge for the year (note 11)	17,484	17,291	34,775
Transfer from retail loans to corporate loans	170	(170)	-
Transfer from deposits	6,990	1,122	8,112
Less: Write-back of provision (note 11)	(6,966)	(4,185)	(11,151)
Less: Provisions written off	(42,345)	(11,567)	(53,912)
Transfers from off-statement of financial position	3,524	2,960	6,484
Transfers to off-statement of financial position	(13,423)	(3,530)	(16,953)
Difference of exchange	(2,008)	(3,827)	(5,835)
Balance at 31 December	111,597	98,151	209,748
Specific provisions	101,890	83,777	185,667
Collective provisions	9,707	14,374	24,081
	111,597	98,151	209,748
Gross amount of loans individually determined to be impaired, before deducting the individually assessed impairment allowance	468,517	238,944	707,461

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## 23 LOANS AND ADVANCES TO RELATED PARTIES AT AMORTIZED COST

	2016 LL million	2015 LL million
Corporate lending	83,013	132,239
Retail lending	38,772	40,781
	121,785	173,020
Less: Unrealized interest (i)	(339)	(281)
Less: Allowance for impairment losses (ii)	(20,709)	(19,193)
	100,737	153,546

(i) The movement of unrealized interest on substandard, doubtful, and bad loans is as follows:

	2016		
	Corporate LL million	Retail LL million	Total LL million
Balance at 1 January	281	-	281
Unrealized interest for the year	51	-	51
Difference of exchange	7	-	7
Balance at 31 December	339	-	339

	2015		
	Corporate LL million	Retail LL million	Total LL million
Balance at 1 January	234	-	234
Unrealized interest for the year	47	-	47
Balance at 31 December	281	-	281

(ii) The movement of the impairment allowances during the year was as follows:

	2016		
	Corporate LL million	Retail LL million	Total LL million
Balance at 1 January	19,193	-	19,193
Charge for the year (note 11)	1,500	-	1,500
Difference of exchange	16	-	16
Balance at 31 December	20,709	-	20,709
Gross amount of loans individually determined to be impaired, before deducting the individually assessed impairment allowance	24,818	-	24,818

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	2015		
	Corporate LL million	Retail LL million	Total LL million
Balance at 1 January	17,748	-	17,748
Charge for the year (note 11)	1,453	-	1,453
Difference of exchange	(8)	-	(8)
Balance at 31 December	19,193	-	19,193
Gross amount of loans individually determined to be impaired, before deducting the individually assessed impairment allowance	22,890	-	22,890

## 24 FINANCIAL ASSETS AT AMORTIZED COST

	2016 LL million	2015 LL million
<b>Quoted</b>		
Lebanese treasury bills – Eurobonds	40,284	871,752
Lebanese treasury bills – Eurobonds pledged as collateral against repurchase agreements	2,582,749	1,664,449
Foreign governmental debt securities	33,222	1,710
Foreign governmental debt securities pledged as collateral against repurchase agreements	25,194	81,930
Debt securities issued by banks	9,028	11,280
Debt securities issued by banks pledged as collateral against repurchase agreements	-	73,487
Corporate bonds pledged as collateral against repurchase agreements	42,980	125,402
<b>Gross quoted investments at amortized cost</b>	2,733,457	2,830,010
Provision for impairment (i)	-	(8,442)
	2,733,457	2,821,568
<b>Unquoted</b>		
Lebanese treasury bills – denominated in LL	2,877,681	2,773,197
Lebanese treasury bills – denominated in LL pledged as collateral against repurchase agreements	-	403,023
Certificates of deposit – denominated in LL	513,170	1,932,221
Certificates of deposit – EuroCDs	2,443,352	349,993
Certificates of deposit – EuroCDs pledged as collateral against repurchase agreements	45,390	46,311
Certificates of deposits issued by foreign central banks	-	141,515
Corporate bonds	22,013	22,025
Foreign governmental debt securities	656,675	429,212
Certificates of deposit issued by banks	10,566	10,554
<b>Gross unquoted investments at amortized cost</b>	6,568,847	6,108,051
Provision for impairment (i)	(1,384)	(1,153)
	6,567,463	6,106,898
	9,300,920	8,928,466

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	2016 LL million	2015 LL million
Provision at 1 January	9,595	1,153
Provided during the year (note 11)	233	8,442
Written-back during the year (note 11)	(8,442)	-
Difference of exchange	(2)	-
Balance at 31 December	1,384	9,595

The Group derecognized some debt instruments classified at amortized cost due to the following reasons:

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

The schedule below details the net gain from sale of financial assets at amortized cost:

	2016			2015		
	Gains LL million	Losses LL million	Net LL million	Gains LL million	Losses LL million	Net LL million
<b>Lebanese sovereign and Central Bank of Lebanon</b>						
Certificates of deposit	393,732	(13,102)	380,630	73,130	-	73,130
Treasury bills	214,497	-	214,497	25,053	-	25,053
Eurobonds	662	(23,110)	(22,448)	737	-	737
	608,891	(36,212)	572,679	98,920	-	98,920
<b>Other sovereign</b>						
Other governmental securities	7,262	-	7,262	7,043	-	7,043
<b>Private sector and other securities</b>						
Corporate and other debt instruments	1,675	(1,908)	(233)	-	-	-
	617,828	(38,120)	579,708	105,963	-	105,963

During 2016, the Group entered into certain financial transactions with the Central Bank of Lebanon relating to treasury bills and certificates of deposit denominated in Lebanese Pounds. These transactions were available to banks provided that they are able to reinvest an amount equivalent to the nominal value of the sold instruments in Eurobonds issued by the Lebanese Republic or Certificates of Deposit issued by the Central Bank of Lebanon denominated in US Dollars and purchased at their fair values. The net gains from such trades in excess of the fair value of the financial instruments sold amounted to LL 1,272,142 million, of which LL 734,253 million was not realized in the consolidated income statement (note 38).

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

	2016 LL million	2015 LL million
<b>Quoted</b>		
Shares	12,593	13,935
<b>Unquoted</b>		
Shares	12,615	12,625
	25,208	26,560

Dividend income recognized in the consolidated income statement from financial assets at fair value through other comprehensive income is as follows:

	2016 LL million	2015 LL million
Dividend income from equity instruments	638	1,012

### 26 PROPERTY AND EQUIPMENT

	Advances on purchase of property and equipment LL million	Land and buildings LL million	Furniture and fixtures LL million	Installations LL million	Vehicles LL million	Total LL million
Cost:						
At 1 January 2016	64,415	127,355	83,403	63,297	2,122	340,592
Additions	37,597	-	39,013	1,856	305	78,771
Acquisition of a subsidiary (note 3)	-	151,492	-	-	-	151,492
Disposals	-	-	(406)	(13)	(218)	(637)
Transfers	(16,332)	4,148	2,747	9,356	81	-
Transfer from non-current assets held for sale (note 29)	534	-	-	-	-	534
Write-off	-	-	(9)	(610)	-	(619)
Exchange differences	(10)	4	(181)	(43)	(8)	(238)
<b>At 31 December 2016</b>	<b>86,204</b>	<b>282,999</b>	<b>124,567</b>	<b>73,843</b>	<b>2,282</b>	<b>569,895</b>
Depreciation:						
At 1 January 2016	-	21,206	63,708	38,575	1,401	124,890
Provided during the year	-	2,395	5,934	2,743	197	11,269
Relating to disposals	-	-	(380)	(13)	(198)	(591)
Relating to write-off	-	-	(9)	(579)	-	(588)
Exchange differences	-	-	(174)	(45)	(8)	(227)
<b>At 31 December 2016</b>	<b>-</b>	<b>23,601</b>	<b>69,079</b>	<b>40,681</b>	<b>1,392</b>	<b>134,753</b>
Impairment:						
At 1 January 2016 and 31 December 2016	-	1,357	-	-	-	1,357
Net carrying amount:						
<b>At 31 December 2016</b>	<b>86,204</b>	<b>258,041</b>	<b>55,488</b>	<b>33,162</b>	<b>890</b>	<b>433,785</b>



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	Advances on purchase of property and equipment LL million	Land and buildings LL million	Furniture and fixtures LL million	Installations LL million	Vehicles LL million	Total LL million
Cost:						
At 1 January 2015	51,000	125,664	80,695	60,652	1,995	320,006
Additions	18,011	-	2,447	1,079	224	21,761
Disposals	-	(53)	(80)	(3)	(81)	(217)
Transfers	(4,547)	1,767	1,031	1,749	-	-
Write-off	-	-	(11)	-	-	(11)
Exchange differences	(49)	(23)	(679)	(180)	(16)	(947)
At 31 December 2015	64,415	127,355	83,403	63,297	2,122	340,592
Depreciation:						
At 1 January 2015	-	18,977	58,419	36,167	1,283	114,846
Provided during the year	-	2,259	5,921	2,586	166	10,932
Relating to disposals	-	(29)	(71)	(3)	(37)	(140)
Relating to write-off	-	-	(11)	-	-	(11)
Exchange differences	-	(1)	(550)	(175)	(11)	(737)
At 31 December 2015	-	21,206	63,708	38,575	1,401	124,890
Impairment:						
At 1 January 2015 and 31 December 2015	-	1,357	-	-	-	1,357
Net carrying amount:						
At 31 December 2015	64,415	104,792	19,695	24,722	721	214,345

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27 INTANGIBLE ASSETS

	Advances on intangible assets LL million	Customer relationships LL million	Key money LL million	Licenses and software LL million	Total LL million
Cost:					
At 1 January 2016	15,621	20,600	9,861	17,202	63,284
Additions	10,513	-	-	1,067	11,580
Transfers	(2,050)	-	-	2,050	-
Exchange differences	-	-	-	(62)	(62)
At 31 December 2016	24,084	20,600	9,861	20,257	74,802
Amortization:					
At 1 January 2016	-	6,867	1,934	13,538	22,339
Provided during the year	-	1,717	-	1,493	3,210
Exchange differences	-	-	-	(64)	(64)
At 31 December 2016	-	8,584	1,934	14,967	25,485
Net carrying amount:					
At 31 December 2016	24,084	12,016	7,927	5,290	49,317

	Advances on intangible assets LL million	Customer relationships LL million	Key money LL million	Licenses and software LL million	Total LL million
Cost:					
At 1 January 2015	6,914	20,600	9,861	16,791	54,166
Additions	8,707	-	-	659	9,366
Write-off	-	-	-	(19)	(19)
Exchange differences	-	-	-	(229)	(229)
At 31 December 2015	15,621	20,600	9,861	17,202	63,284
Amortization:					
At 1 January 2015	-	5,151	1,934	12,407	19,492
Provided during the year	-	1,716	-	1,324	3,040
Exchange differences	-	-	-	(193)	(193)
At 31 December 2015	-	6,867	1,934	13,538	22,339
Net carrying amount:					
At 31 December 2015	15,621	13,733	7,927	3,664	40,945

Customer relationships represents the intangibles resulting from the acquisition of assets and liabilities of the Lebanese Canadian Bank SAL (under liquidation) in prior years.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 28 INVESTMENT PROPERTIES

	2016 LL million	2015 LL million
Investment properties	1,483	1,480

The movement of investment properties recognized in the consolidated statement of financial position is as follows:

	2016 LL million	2015 LL million
At 1 January	1,480	1,445
Exchange difference	3	35
At 31 December	1,483	1,480

The Group's investment properties consist of properties in Lebanon held by the Group for capital appreciation.

As at 31 December 2016 and 2015, the fair values of the properties are based on valuations performed by accredited independent valuers specialized in valuing these types of properties.

The Group did not generate any rental income nor incurred any expenses relating to investment properties during the years ended 31 December 2016 and 31 December 2015.

The Group has no restrictions on the realizability of its investment properties and no contractual obligations to either purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

### 29 NON-CURRENT ASSETS HELD FOR SALE

	2016 LL million	2015 LL million
Assets obtained in settlement of debts (i)	175,919	185,318

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(i) The movement of the assets obtained in settlement of debts held for sale recognized in the consolidated statement of financial position is as follows:

	2016 LL million	2015 LL million
Cost:		
At 1 January	202,810	171,289
Additions	5,825	33,489
Disposals	(14,237)	(1,963)
Transfers to property and equipment (note 26)	(534)	-
Other adjustments	(185)	(5)
At 31 December	193,679	202,810
Impairment:		
At 1 January	17,492	16,975
Additions	952	620
Write-back during the year	(684)	(103)
At 31 December	17,760	17,492
Net carrying amount:		
<b>At 31 December</b>	<b>175,919</b>	<b>185,318</b>

Assets obtained in settlement of debt held-for-sale represent primarily land and buildings acquired by the Group in settlement of certain loans and advances.

During the year, the Group disposed of assets obtained in settlement of debt held for sale with a cost of LL 14,237 million (2015: LL 1,963 million) and recognized a gain of LL 3,080 million (2015: LL 544 million) and a write-back of impairment losses amounting to LL 684 million (2015: LL 103 million) (refer to note 10), in addition to the release of reserve for non-current assets held for sale amounting to LL 8,462 million (2015: LL 151 million) to reserve for capital increase. This amount relates to appropriations previously booked on property acquired in settlement of debts held for sale (refer to note 41).

### 30 OTHER ASSETS

	2016 LL million	2015 LL million
Deferred employee termination benefits (i)	20,760	28,863
Additional deferred costs resulting from the acquisition of the Lebanese Canadian Bank SAL (ii)	-	3,526
Due from the National Social Security Fund	17,426	16,663
Prepaid expenses	9,773	11,139
Deferred tax assets (note 14)	7,206	7,993
Investment in an associate (iii)	1,773	1,683
Receivable from sale of non-current assets held for sale	15,975	980
Other debtors	44,023	33,646
Provision (iv)	(7,136)	(3,622)
	<b>109,800</b>	<b>100,871</b>

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### (i) Deferred employee termination benefits

Deferred employee termination benefits amounting to LL 20,760 million as at 31 December 2016 (2015: LL 28,863 million), represent compensations paid to employees whose contracts were terminated as a result of the acquisition of the assets and liabilities of the Lebanese Canadian Bank SAL and their related taxes.

These compensations were calculated on the basis provided for in the staff compensation arbitrary decision dated 29 August 2011.

These benefits were deferred up to an amount of LL 60,300 million (equivalent to US\$ 40 million). As a compensation for the employee termination benefits, the Central Bank of Lebanon exempted the Bank from part of the compulsory reserves denominated in Lebanese Lira. Part of these reserves were invested in Lebanese treasury bills whose nominal value amounted to LL 80,000 million and maturing on 1 December 2016.

During June 2012, the Central Bank of Lebanon granted the Bank a soft loan amounting to LL 170,000 million (note 32) in substitute of the exemption from part of the compulsory reserves granted during 2011. The proceeds from the soft loan were invested in Lebanese treasury bills maturing on 1 June 2017. These treasury bills were pledged as collateral against the settlement of the soft loan. The interest income generated from these treasury bills will be offset against these deferred compensations over the period of the future economic benefits of these treasury bills.

During the year ended 31 December 2016, deferred employee termination benefits of LL 8,103 million (2015: LL 8,080 million) were amortized to the consolidated income statement against a net spread between the interest income from the Lebanese treasury bills and interest expense on the soft loan.

### (ii) Additional deferred costs resulting from the acquisition of the Lebanese Canadian Bank SAL

On 3 June 2013, the Central Council of the Central Bank of Lebanon granted the Bank a soft loan amounting to LL 150,000 million (note 32) to cover additional costs incurred subsequently in relation to the acquisition of the assets and liabilities of the Lebanese Canadian Bank SAL. The proceeds from the soft loan were invested in Lebanese treasury bills maturing on 7 July 2016. These treasury bills were pledged as collateral against the settlement of the soft loan. The interest income generated from these treasury bills will be offset against these deferred compensations over the period of the future economic benefits of these treasury bills.

During the year ended 31 December 2016, deferred costs of LL 3,526 million (2015: LL 6,815 million) were amortized to the consolidated income statement against a net spread between the interest income from the Lebanese treasury bills and interest expense on the soft loan.

### (iii) Investment in an associate

As of 31 December 2016 and 2015 the Group had 50% equity interest in Centre de Traitement Monetique SAL. The Group's share of profit from the associate amounted to LL 90 million for the year ended 31 December 2016 (2015: Share of loss from the associate amounted to LL 12 million).

### (iv) Provision

The movement of the provision recognized in the consolidated statement of financial position is as follows:

	2016 LL million	2015 LL million
Provision at 1 January	3,622	3,393
Provided during the year (note 11)	-	249
Written-back during the year (note 11)	(219)	(20)
Transfer from provision for risk and charges	3,733	-
Provision at 31 December	7,136	3,622

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

### 31 GOODWILL

	2016 LL million	2015 LL million
Cost:		
At 1 January	169,685	171,756
Difference of exchange	(557)	(2,071)
At 31 December	169,128	169,685
Impairment:		
At 1 January	2,645	2,946
Impairment allowance during the year	163,158	-
Difference of exchange	(80)	(301)
At 31 December	165,723	2,645
Net book value:		
At 31 December	3,405	167,040

### Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to five individual cash generating units (CGUs) for impairment testing as follows:

	2016 LL million	2015 LL million
Société Générale de Banque – Jordanie	2,393	2,393
Fidus SAL	199	199
Sogecap Liban SAL	813	813
Société Générale Bank – Cyprus Ltd (i)	-	15,567
Corporate banking (ii)	-	72,355
Retail banking (iii)	-	75,713
	3,405	167,040

(i) The recoverable amount of Société Générale Bank - Cyprus Ltd CGU amounted to LL 93,350 million compared to a book value of LL 108,446 million. Accordingly, the Bank booked an impairment loss on goodwill of LL 15,090 million.

(ii) The recoverable amount of the retail CGU amounted to LL 91,653 million compared to a book value of LL 167,036 million. Accordingly, the Bank booked an impairment loss on goodwill of LL 75,713 million.

(iii) The recoverable amount of the corporate CGU amounted to LL 283,797 million compared to a book value of LL 356,308. Accordingly, the Bank booked an impairment loss on goodwill of LL 72,355 million.



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Key assumptions used in value in use calculations

The recoverable amount of the Corporate Banking, Retail Banking and Société Générale Bank – Cyprus Ltd have been determined based on value in use calculations, using cash flow projections based on financial budgets approved by senior management covering a five-year period. The following rates are used by the Group:

	2016		2015	
	Discount rate %	Projected growth rate %	Discount rate %	Projected growth rate %
Cash Generating Units				
Corporate Banking	13.80%	3.00%	12.67%	3.00%
Retail Banking	13.80%	3.00%	12.67%	3.00%
Société Générale Bank – Cyprus Ltd	12.70%	2.00%	13.65%	3.67%

Projected growth rates used are in line with, and do not exceed, the projected growth rates in GDP and inflation rate forecasts for Lebanon and Cyprus (where the operations reside).

The calculation of value in use for the CGUs is most sensitive to interest margin, discount rates and the projected growth rates used to extrapolate cash flows beyond the budget period.

Key assumptions

Interest margins

Interest margins are based on current fixed interest yields.

Cost of equity

The cost of equity is the return required for an investment to meet capital return requirements; it is often used as a capital budgeting threshold for required rate of return.

Growth rate

Growth rate is the percentage change of the compounded annualized rate of growth of revenues, earnings, dividends and even including macro concepts such as GDP and the economy as a whole.

32 DUE TO THE CENTRAL BANKS

	2016 LL million	2015 LL million
Current account	33	554
Term soft loans	428,855	604,991
Accrued interest	2,877	4,416
	431,765	609,961

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Term soft loans include:

- Term loans amounting to LL 10,228 million as at 31 December 2016 (2015: LL 10,228 million) were granted by the Central Bank of Lebanon to cover 60% of the replacement costs of the Bank’s damaged buildings and installations and to cover 60% of the Bank’s credit losses relating to debtors directly affected by July 2006’s war. The effective interest rate for 2016 was 3.04% (2015: 3.04%).
- Term loan amounting to LL 170,000 million granted during June 2012 from the Central Bank of Lebanon after the acquisition of the assets and liabilities of the Lebanese Canadian Bank SAL for a ten years period. The effective interest rate is 2% for the first 5 years and will be revised on a later stage by the Central Bank of Lebanon for the remaining 5 years (note 30).
- Term loan amounting to LL 150,000 million granted during October 2013 from the Central Bank of Lebanon for a three years period to cover the additional losses resulting from the acquisition of the assets and liabilities of the Lebanese Canadian Bank SAL. The effective interest rate is 1.97% for the first two years and will be revised for the third year by the Central Bank of Lebanon (note 30). The loan matured during 2016.
- Term loans totaling to LL 222,997 million as at 31 December 2016 (2015: LL 243,962 million) were granted by the Central Bank of Lebanon to subsidize the loans granted to customers under circular 313 of the Central Bank of Lebanon. The term loans are subject to a 1% interest rate payable on a monthly basis.

Loans amounting to LL 180,228 million (2015: LL 330,228 million) are secured by the pledge on Lebanese treasury bills for a nominal amount of LL 180,658 million (2015: LL 330,228 million) included under financial assets pledged as collateral as at 31 December 2016 (note 20).

33 LOANS AND REPURCHASE AGREEMENTS

	2016 LL million	2015 LL million
Central Bank of Lebanon	582,452	982,973
Banks and financial institutions	1,479,865	1,133,191
	2,062,317	2,116,164

The Group has a program to sell securities under agreements to repurchase (‘repos’). The securities sold under agreements to repurchase are transferred to third parties and the Group receives cash in exchange. If the securities decrease in value, the Group may be required to pay additional cash collateral. The Group has determined that it retains substantially all the risks and rewards of these securities, which include credit risk and market risk, and therefore has not derecognized them. In addition, it recognizes a financial liability for cash received as collateral.

The carrying amount and fair value of securities sold under agreements to repurchase at 31 December 2016 was LL 2,696,313 million and LL 2,648,811 million respectively (2015: LL 2,386,160 million and LL 2,364,682 million respectively). Those securities are presented in the consolidated statement of financial position under “Financial assets at amortized cost” (note 24).

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The following tables provide a summary of financial instruments that have been transferred in such a way that part or all of the transferred financial assets do not qualify for derecognition or were pledged against facilities granted, together with the associated liabilities:

2016								
	Transferred financial asset	Foreign govern-mental debt securities LL million	Debt securities issued by banks LL million	Certificates of deposit – EuroCDs & bank placements LL million	Lebanese Treasury bills – de-nominated in LL million	Corporate bonds LL million	Lebanese Treasury bills – Eurobonds LL million	Total LL million
Carrying amount of assets	Securities lending and repos	25,194	-	586,334	-	42,980	2,582,749	3,237,257
Carrying amount of associated liabilities	Securities lending and repos	22,344	-	582,452	-	39,905	1,417,616	2,062,317
2015								
	Transferred financial asset	Foreign govern-mental debt securities LL million	Debt securities issued by banks LL million	Certificates of deposit – EuroCDs & bank placements LL million	Lebanese Treasury bills – de-nominated in LL million	Corporate bonds LL million	Lebanese Treasury bills – Eurobonds LL million	Total LL million
Carrying amount of assets	Securities lending and repos	80,597	69,883	594,807	403,023	121,897	1,664,449	2,934,656
Carrying amount of associated liabilities	Securities lending and repos	77,402	60,810	580,994	401,979	110,098	884,881	2,116,164

In addition to the above an amount of LL 89,668 million is pledged as additional collateral against repurchase agreements as at 31 December 2016 (2015: LL 64,133 million). These placements are included under “Due from banks and financial institutions” (note 16).

34 DUE TO BANKS AND FINANCIAL INSTITUTIONS

	2016 LL million	2015 LL million
Sight deposits	162,888	107,081
Time deposits	406,060	505,201
	568,948	612,282

35 AMOUNTS DUE TO AFFILIATED BANKS AND FINANCIAL INSTITUTIONS

	2016 LL million	2015 LL million
Sight deposits	1,429	3,671
Time deposits	-	17,514
	1,429	21,185

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36 CUSTOMERS’ DEPOSITS AT AMORTIZED COST

2016			
	Corporate LL million	Retail LL million	Total LL million
Sight deposits	934,722	1,337,031	2,271,753
Net creditor accounts against debtor accounts	-	988	988
Blocked margins	307,891	186,640	494,531
	1,242,613	1,524,659	2,767,272
Time deposits	3,676,276	9,057,654	12,733,930
Savings accounts	357,438	5,929,694	6,287,132
	5,276,327	16,512,007	21,788,334
2015			
	Corporate LL million	Retail LL million	Total LL million
Sight deposits	790,406	1,203,261	1,993,667
Net creditor accounts against debtor accounts	-	1,476	1,476
Blocked margins	307,419	265,355	572,774
	1,097,825	1,470,092	2,567,917
Time deposits	3,079,761	7,077,464	10,157,225
Savings accounts	211,020	5,743,715	5,954,735
	4,388,606	14,291,271	18,679,877

Included in customers’ deposits as at 31 December 2016 are coded accounts amounting to LL 37,489 million (2015: LL 135,920 million). These accounts are opened in accordance with article 3 of the Banking Secrecy Law dated 3 September 1956.

Included under customers’ deposits an amount of LL 376,884 million maturing during 2018 and 2019 guaranteed by certificates of deposit with a nominal amount of LL 410,040 (note 20).

37 RELATED PARTIES’ DEPOSITS AT AMORTIZED COST

2016			
	Corporate LL million	Retail LL million	Total LL million
Sight deposits	618	3,835	4,453
Time deposits	3,973	172,781	176,754
	4,591	176,616	181,207
2015			
	Corporate LL million	Retail LL million	Total LL million
Sight deposits	8,713	632	9,345
Time deposits	79,291	44,135	123,426
	88,004	44,767	132,771

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### 38 OTHER LIABILITIES

	2016 LL million	2015 LL million
Deferred income (i)	218,710	-
Current tax liabilities (note 14)	218,593	33,480
Redeemed preferred shares payable to third parties (ii)	21,859	21,859
Accrued expenses	41,424	21,447
Payable to the shareholders of the Lebanese Canadian Bank SAL (iv)	12,060	12,060
Customers' transactions between Head Office and branches	15,193	7,104
Other taxes payable	17,951	9,142
Interest and commissions received in advance	10,121	10,521
Due to the National Social Security Fund	1,949	1,667
Deferred tax liabilities (note 14)	562	356
Other creditors (iii)	31,342	24,412
	<b>589,764</b>	<b>142,048</b>

(i) During 2016, the Central Bank of Lebanon issued Intermediate Circular number 446 dated 30 December 2016 relating to the gain realized by banks from certain financial transactions with the Central Bank of Lebanon, consisting of the sale of financial instruments denominated in Lebanese Pounds and the purchase of financial instruments denominated in US Dollars. In accordance with the provisions of this circular, banks should recognize in the income statement, only part of the gain net of tax, capped to the extent of the losses recorded to comply with recent regulatory provisioning requirements (refer to note 39), the impairment losses on goodwill recorded in accordance with IAS 36 and the shortage needed to comply with the capital adequacy requirements. Lebanese banks may further recognize up to 70% of the remaining balance of the gain realized net of tax in the income statement as non-distributable profits to be appropriated to reserves for capital increase, qualifying for inclusion within regulatory Common Equity Tier One.

As a result of these operations with the Central Bank of Lebanon, the Group received a surplus of LL 1,272,142 million net of transaction costs consisting of interest, fees and other costs. The Group recognized current tax liabilities amounting to LL 188,436 million on the remaining balance of LL 1,272,142 million. The Group then recognized an amount of LL 537,889 million and their related taxes of LL 77,694 million in the consolidated statement of income and elected to recognize LL 404,801 million net of taxes, directly in non-distributable reserves within equity (note 41). The remaining surplus, equivalent to LL 218,710 million, was booked as deferred income.

(ii) Redeemed preferred shares payable to third parties represent liabilities acquired with the acquisition of the assets and liabilities of the Lebanese Canadian Bank SAL and relating to preferred shares redeemed by the Lebanese Canadian Bank SAL and not yet claimed by the holders of those shares.

(iii) Included under other creditors an amount of LL 8,003 million as at 31 December 2016 (2015: the same), representing the partial settlement made by a debtor in settlement of his debts amounting to LL 8,356 million.

The Group will reimburse this payment since it has received the full payment of LL 8,356 million from the shareholders of the Lebanese Canadian Bank SAL during the year 2012.

(iv) This represents the balance of the cash collateral deposited by the shareholders of the Lebanese Canadian Bank SAL and amounting to US\$ 8 million (equivalent to LL 12,060 million) as a guarantee against default of the loans of an acquired subsidiary.

This amount is refundable to the shareholders of the Lebanese Canadian Bank SAL, since the initial consideration paid for the acquisition was reduced by the same amount.

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### 39 PROVISION FOR RISKS AND CHARGES

	2016 LL million	2015 LL million
Technical reserve for insurance contracts	24,918	19,585
Employees' end of service benefits (i)	31,064	25,859
Provision for contingencies and charges	3,532	5,296
Excess provisions to comply with the Central Bank of Lebanon Intermediate Circular number 439 dated 8 November 2016 (ii)	165,825	-
Other provisions	37,671	24,997
	<b>263,010</b>	<b>75,737</b>

(i) Movements in the provision for end of service benefits recognized in the consolidated statement of financial position are as follows:

	2016 LL million	2015 LL million
Balance at 1 January	25,859	23,240
Provided during the year (note 12)	6,293	4,317
Paid during the year	(1,088)	(1,698)
Balance at 31 December	<b>31,064</b>	<b>25,859</b>

(ii) On 8 November 2016, the Central Bank of Lebanon issued Intermediate Circular number 439 which required banks operating in Lebanon to constitute additional collective provisions. As such, provisions for risks and charges as at 31 December 2016 include an amount of LL 165,825 million in excess of the provisioning requirements of IAS 39 (note 38).

### 40 SHARE CAPITAL

#### a) Common shares

The authorized, issued and fully paid share capital as of 31 December 2016 comprised 56,535 shares of nominal value LL 258,000 each (2015: 56,535 shares of nominal value of LL 258,000 each).

The extraordinary general assembly of shareholders held on 2 July 2015 resolved to increase the nominal value of each share from LL 233,000 to LL 258,000. Accordingly, an amount of LL 1,413 million was transferred from "distributable reserves" to "share capital – common shares" (note 42).

#### b) Preferred shares

- On 15 March 2010, the Bank issued 10,000 preferred shares (Series 2010) for a nominal amount of LL 212,400 each (a total of LL 2,124 million) plus a share premium denominated in US Dollars of US\$ 9,859. Accordingly, share premium of LL 148,284 million represents a premium of US\$ 98,590,000 (or LL 148,624 million) less issuance costs of LL 340 million. The extraordinary general assembly of shareholders held on 2 July 2015 resolved to redeem all the 10,000 preferred shares (Series 2010).

- On 28 March 2013, the Bank issued 12,500 preferred shares (Series 2012) for a nominal amount of LL 212,400 each (a total of LL 2,655 million) plus a share premium denominated in US Dollars of US\$ 9,859 per share. Accordingly, the total share premium resulting from the issuance amounted to US\$ 123,238,806 (or LL 185,782 million) less issuance costs of LL 395 million.



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- On 13 September 2013, the Bank issued 15,000 preferred shares (Series 2013) for a nominal amount of LL 212,400 each (a total of LL 3,186 million) plus a share premium denominated in US Dollars of US\$ 9,859 per share. Accordingly, the total share premium resulting from the issuance amounted to US\$ 147,886,567 (or LL 222,939 million) less issuance costs of LL 385 million.
- On 2 July 2015, the Bank issued 10,000 preferred shares (Series 2015) for a nominal amount of LL 233,000 each (a total of LL 2,330 million) plus a share premium denominated in US Dollars of US\$ 9,845 per share. Accordingly, the total share premium resulting from the issuance amounted to US\$ 98,454,395 (or LL 148,420 million) less issuance costs of LL 194 million.

The payment of dividends for preferred shareholders is dependent on:

- (1) The availability of non-consolidated net income for a specific year after appropriation of legal and other regulatory reserves;
- (2) The continuous compliance with regulations issued by the Central Bank of Lebanon and the Banking Control Commission; and
- (3) The approval of the ordinary general assembly of shareholders to distribute those dividends.

During 2016, the Bank transferred LL 2,010 million (2015: LL 2,134 million) from “retained earnings” to the “share premium – preferred shares”. These represent the appropriation of transaction costs incurred on preferred shares and additional premiums of 1.25% relating to preferred shares – Series 2012, 2% relating to preferred shares – Series 2013 and 1.5% relating to preferred shares – Series 2015.

The extraordinary general assembly of shareholders held on 2 July 2015 resolved to increase the nominal value of shares from LL 233,000 to LL 258,000. Accordingly an amount of LL 937 million was transferred from “distributable reserves” to “share capital – preferred shares” (note 42).

### c) Cash contribution by shareholders

Cash contribution to capital amounted to US\$ 9,855,900 and EUR 46,229,259 as at 31 December 2016 totaling to LL 106,746 million (2015: US\$ 9,855,900 and EUR 46,229,259 totaling LL 106,746 million). These contributions were granted by the shareholders of the Bank in order to support and develop the activities of the Bank, in accordance with the following conditions:

- Every shareholder is committed to retain the contributions during the lifetime of the Bank;
- The shareholders commit to cover any loss using their contributions according to the provisions of article 3-8 of circular N° 44 of the of the Central Bank of Lebanon and article 134 of the Money and Credit Act; and
- The shareholders have the right to use or not to use these contributions in case of a capital increase.

Both the Central Council of the Central Bank of Lebanon and the ordinary general assembly of the Bank approved these contributions.

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### 41 NON DISTRIBUTABLE RESERVES

	Legal reserve LL million	Reserve for general banking risks LL million	Reserve against doubtful and impaired loans LL million	Reserve for capital increase LL million	Reserve for non-current assets held for sale LL million	Reserve for retail and corporate loans LL million	Total LL million
At 1 January 2015	104,583	111,082	648	66,128	34,437	-	316,878
Appropriation during the year	24,373	20,843	-	8,646	11,716	8,691	74,269
Transfers	-	-	-	151	(151)	-	-
Adjsutments	-	-	(13)	-	-	-	(13)
At 31 December 2015	128,956	131,925	635	74,925	46,002	8,691	391,134
Appropriation during the year	25,724	22,931	-	484	10,156	9,470	68,765
Transfers	-	-	-	8,462	(8,462)	-	-
Income on financial transactions (note 38)	-	-	-	404,801	-	-	404,801
Adjsutments	-	-	(52)	-	-	-	(52)
At 31 December 2016	154,680	154,856	583	488,672	47,696	18,161	864,648

### a) Legal reserve

As required by local regulations where the Group operates, a percentage of the net profit for the year should be transferred to legal reserve. This reserve is not available for dividend distribution.

### b) Reserve for general banking risks

In compliance with the Central Bank of Lebanon regulations, the Bank should appropriate from its net profit for the year, a minimum amount of 2 per thousand and a maximum of 3 per thousand from the total risk weighted assets and off-statement of financial position items based on the rates specified by the Central Bank of Lebanon as a reserve for general banking risks. The consolidated ratio should not be less than 2% of these risks at the end of 2027.

In addition, Société Générale de Banque – Jordanie and Société Générale Bank – Cyprus Ltd are also required to appropriate reserves for general banking risks in accordance with local requirements.

### c) Reserve against doubtful and impaired loans

In compliance with pronouncement 20/2008 of the Banking Control Commission issued on 13 September 2008, the Bank should appropriate to a special reserve an amount equal to its portfolio of doubtful and impaired loans which were not settled in accordance with the Central Bank basic circular no. 73 and its subsequent amendments.

The Bank releases this reserve to retained earnings when:

- The loan is settled and fully paid; or
- Partial settlement of the loan leading to a reserve in excess of the loan net carrying amount; or
- A provision is made in the income statement.

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### d) Reserve for capital increase

In compliance with the circular No. 167 issued by the Banking Control Commission, the Bank is required to appropriate the net write-back of provisions for doubtful debts in a particular year to the reserve for capital increase when the net results are positive.

In compliance with the circular No. 173 issued by the Banking Control Commission, the Bank is required to appropriate the gain realized from the sales of non-current assets held for sale to the reserve for capital increase when the net results are positive.

In compliances with the Central Bank of Lebanon intermediate circular no. 446 dated 30 December 2016, the Bank should appropriate the gain realized from the sale of treasury bills and certificates of deposits denominated in LL and the simultaneous purchase of Eurobonds and certificates of deposit denominated in US\$ to the reserve for capital increase.

### e) Reserve for non-current assets held for sale

In compliance with pronouncements of the Banking Control Commission, when properties acquired in settlement of debts are not sold within the timeframe required by local regulators, the Bank should appropriate an amount equal to 5% or 20% of the carrying value of such properties. The annual appropriation, which is from the net profit of the respective year after appropriations to legal reserve and reserve for general banking risks, is reported under "reserve for non-current assets held for sale".

The Bank shall make a transfer from this reserve into the "Reserve for capital increase" when:

- The reserve appropriated in prior years related to a property disposed of; or
- The reserve appropriated in prior years, equal or up to an impairment loss recognized in the income statement against the acquired property.

### f) Reserve for retail and corporate loans

In compliance with the circular No. 280 issued by the Banking Control Commission, the Bank is required to transfer from net profits for the year the equivalent of:

- 0.5% of retail loans that are less than 30 days past due (subject to deductions of some guarantees received) to general reserve for the year 2014. This ratio will increase yearly by 0.5% over a six year period starting 2015.
- 0.25% of corporate loans that are less than 30 days past due (subject to deductions of some guarantees received) to general reserve for the year 2014. This ratio will increase to 0.5% for the year 2015, 1% for the year 2016 and 1.5% for the year 2017.

## 42 DISTRIBUTABLE RESERVES

	<i>General reserves</i>	
	<b>2016 LL million</b>	<b>2015 LL million</b>
Balance at 1 January	19,442	20,669
Appropriation during the year	1,090	917
Transfer to share capital – common shares (note 40)	-	(1,413)
Transfer to share capital – preferred shares (note 40)	-	(937)
Transfer upon redemption of preferred shares	-	206
Balance at 31 December	<b>20,532</b>	19,442

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### 43 REVALUATION RESERVE OF PROPERTY

	<b>2016 LL million</b>	<b>2015 LL million</b>
Revaluation amount	5,499	5,499
Book value	(945)	(945)
Sale of real estate	(620)	(620)
Revaluation variance	<b>3,934</b>	3,934

The Central Bank of Lebanon and the tax authorities approved on 29 March 1995 and on 18 April 1995 respectively, the revaluation of some of the buildings owned by the Bank and used for operating purposes in accordance with the law no. 282 dated 30 December 1993.

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

	<b>2016 LL million</b>	<b>2015 LL million</b>
Balance at 1 January	(477)	113
Net unrealized gain (loss) on financial assets at fair value through other comprehensive income, net of tax	259	(590)
Balance at 31 December	<b>(218)</b>	(477)

### 45 DIVIDENDS PAID TO EQUITY HOLDERS OF THE PARENT

According to the resolution of the ordinary general assembly of shareholders held on 25 April 2016 the following dividends were declared and paid:

	<b>2016</b>		
	<b>Number of shares</b>	<b>Dividend per share in LL</b>	<b>Total LL million</b>
Dividends for preferred shares – 2012 issue	12,500	1,055,250	13,191
Dividends for preferred shares – 2013 issue	15,000	1,055,250	15,829
Dividends for preferred shares – 2015 issue	10,000	526,185	5,261
			<b>34,281</b>

According to the resolution of the ordinary general assembly of shareholders held on 24 April 2015 the following dividends were declared and paid:

	<b>2015</b>		
	<b>Number of shares</b>	<b>Dividend per share in LL</b>	<b>Total LL million</b>
Dividends for preferred shares – 2010 issue	10,000	1,168,313	11,683
Dividends for preferred shares – 2012 issue	12,500	1,055,250	13,190
Dividends for preferred shares – 2013 issue	15,000	1,055,250	15,829
			<b>40,702</b>

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### 46 CASH AND CASH EQUIVALENTS

	2016 LL million	2015 LL million
Cash and balances with the Central Banks	8,544,014	5,817,726
Financial instruments – Treasury bills	5,687,379	6,067,103
Financial instruments – Certificates of deposit	3,734,590	2,339,079
Financial instruments – Certificates of deposits issued by foreign Central Banks	-	141,515
Due from banks and financial institutions	798,629	698,264
Amounts due from affiliated banks and financial institutions	918,608	777,435
Reverse repurchase agreements	-	416,910
Due to the Central Banks	(431,765)	(609,961)
Loans and repurchase agreements	(2,062,317)	(2,116,164)
Due to banks and financial institutions	(568,948)	(612,282)
Amounts due to affiliated banks and financial institutions	(1,429)	(21,185)
	16,618,761	12,898,440
<i>Less: balances with maturities exceeding 3 months</i>		
Cash and balances with the Central Banks	7,778,553	4,860,610
Financial instruments – Treasury bills	5,681,269	6,067,103
Financial instruments – Certificates of deposit	3,519,512	2,339,079
Due from banks and financial institutions	80,913	186,415
Amounts due from affiliated banks and financial institutions	59,736	56,942
Reverse repurchase agreements	-	219,567
Due to the Central Banks	(205,608)	(609,408)
Loans and repurchase agreements	(2,062,317)	(2,116,164)
Due to banks and financial institutions	(103,605)	(299,622)
	14,748,453	10,704,522
Cash and cash equivalents at 31 December	1,870,308	2,193,918

### 47 RELATED PARTY TRANSACTIONS

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

A list of the Group's principal subsidiaries is shown in note 2. Transactions between the Bank and its subsidiaries meet the definition of related party transactions. However, where these are eliminated on consolidation, they are not disclosed in the Group's consolidated financial statements.

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

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

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### Terms and conditions of transactions with related parties

The Group enters into transactions with major related parties in the ordinary course of business at normal commercial interest and commission rates. As at 31 December 2016, the Group has made provisions and suspended interest for doubtful debts relating to amounts owed by related parties totaling to LL 21,048 million ( 2015: LL 19,474 million) (note 23).

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

	2016		2015	
	Outstanding balance LL million	Income (expense) LL million	Outstanding balance LL million	Income (expense) LL million
<b>Key management personnel</b>				
Net loans and advances	95,260	4,220	139,848	5,594
Deposits	126,267	(2,114)	44,372	(1,939)
Guarantees given	1,144	-	433	-
Commitments	360	-	754	-
<b>Entities under common directorship</b>				
Net loans and advances	5,386	824	13,602	2,565
Deposits	53,501	(1,828)	87,203	(3,041)
Guarantees given	617	-	189	-
Commitments	-	-	20,405	21
<b>Shareholder – Bank</b>				
Net loans and advances	915,847	665	772,566	433
Deposits	476	-	17,973	-
Guarantees given	34,466	-	145,654	-
Guarantees received	35	-	-	-
Commitments	438	(51)	-	-
<b>Associate</b>				
Deposits	1,220	-	854	(22)

Technical assistance fees paid to Société Générale – Paris, shareholder, amounted to LL 754 million for the year ended 31 December 2016 (2015: LL 754 million).

The bank rented offices from board members for LL 510 million for the year ended 31 December 2016 (2015: LL 509 million).

### Compensation of the key management personnel is as follows:

	2016 LL million	2015 LL million
Short-term benefits (i)	12,122	8,936
Termination benefits	137	190
	12,259	9,126

(i) Short-term benefits comprise of salaries, bonuses, attendance fees and other short-term benefits to Key Management Personnel.



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48 FIDUCIARY ACCOUNTS

A summary of the Group’s fiduciary accounts according to law no. 520 dated 6 June 1996 relating to the development of financial markets and fiduciary contracts is as follows:

	2016 LL million	2015 LL million
Deposits with banks	9,303	3,351
Loans and advances	6,030	19,598
Bonds	128,138	113,062
	143,471	136,011

49 ASSETS HELD IN CUSTODY AND UNDER ADMINISTRATION

	2016 LL million	2015 LL million
Lebanese treasury bills and Eurobonds	50,264	92,965
Bonds and other debt instruments	109,949	92,639
Equity instruments	317,457	334,579
Funds	23,241	19,284
	500,911	539,467

50 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS

Credit-related commitments and contingent liabilities

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

The table below discloses the nominal principal amounts of credit-related commitments and contingent liabilities. Nominal principal amounts represent the amount at risk should the contracts be fully drawn upon and clients default. As a significant portion of guarantees and commitments is expected to expire without being withdrawn, the total of the nominal principal amount is not indicative of future liquidity requirements.

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	2016		
	Banks LL million	Customers LL million	Total LL million
Guarantee and contingent liabilities			
Financial guarantees	64,796	94,174	158,970
Other guarantees	14,607	252,752	267,359
	79,403	346,926	426,329
Commitments			
Documentary credits	246,693	11,150	257,843
Undrawn credit lines	-	1,120,491	1,120,491
	246,693	1,131,641	1,378,334

	2015		
	Banks LL million	Customers LL million	Total LL million
Guarantee and contingent liabilities			
Financial guarantees	170,015	76,004	246,019
Other guarantees	17,776	254,471	272,247
	187,791	330,475	518,266
Commitments			
Documentary credits	160,384	9,212	169,596
Undrawn credit lines	-	976,146	976,146
	160,384	985,358	1,145,742

Guarantees

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

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

Documentary credits

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

Undrawn credit lines

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

Legal claims

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

Capital commitments

At 31 December 2016, the Group had capital commitments in respect of premises and equipment purchases amounting to LL 102,581 million (2015: LL 59,900 million).

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Operating lease commitments – Group as lessee

The Group enters into commercial leases on premises. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum lease payments under non-cancelable operating leases as at 31 December are as follow:

	2016 LL million	2015 LL million
Within one year	8,529	6,834
After one year but not more than five years	26,117	16,116
More than five years	1,627	242
	36,273	23,192

Other commitments

The Group has commitments relating to future donations to not for profit organizations amounting to LL 7,538 million as at 31 December 2016 (2015: LL 7,085 million).

Other contingencies

- a) The Bank’s books and records are being reviewed by the Department of Income Tax for the years 2012 to 2014. The outcome of this review is still not predictable. Management believe that the effect of any such review will not have a material effect on the consolidated financial statements.
- b) Certain areas of the Lebanese tax legislation are subject to different interpretations in respect of the taxability of certain types of financial transactions and activities. Fiscal years 2015 and 2016 are not yet reviewed by the Department of Income Tax as well as the Value Added Tax since inception. Management believe that the effect of any such review will not have a material effect on the consolidated financial statements.
- c) The Bank’s contributions to the National Social Security Fund (NSSF) have not been reviewed since May 2004. Management believe that the effect of any such review will not have a material effect on the consolidated financial statements.

51 FAIR VALUE MEASUREMENT

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

The fair value of assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Assets and liabilities are classified according to a hierarchy that reflects the significance of observable market inputs. The three levels of the fair value hierarchy are defined below.

Quoted market prices – Level 1

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

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Valuation technique using observable inputs – Level 2

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

Valuation technique using significant unobservable inputs – Level 3

Assets and liabilities are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). A valuation input is considered observable if it can be directly observed from transactions in an active market, or if there is compelling external evidence demonstrating an executable exit price. An input is deemed significant if it is shown to contribute more than 10% to the valuation of the asset or liability. Unobservable input levels are generally determined based on observable inputs of a similar nature, historical observations or other analytical techniques.

Fair value measurement hierarchy of the Group’s assets and liabilities carried at fair value:

	2016			
	Valuation techniques			
	Quoted market price Level 1 LL million	Observable inputs Level 2 LL million	Unobservable inputs Level 3 LL million	Total LL million
Assets measured at fair value:				
Derivative financial instruments:				
Forward foreign exchange contracts	-	2,472	-	2,472
Financial assets at fair value through profit or loss:				
Lebanese treasury bills (LL)	-	1,094	-	1,094
Lebanese treasury bills (Eurobonds)	3,688	-	-	3,688
Debt securities issued by banks	-	37,688	-	37,688
Funds	20,376	-	-	20,376
Shares	94,196	23,228	-	117,424
Financial assets at fair value through other comprehensive income:				
Shares	12,593	11,741	874	25,208
Investment properties	-	-	1,483	1,483
Liabilities measured at fair value:				
Derivative financial instruments:				
Forward foreign exchange contracts	-	9,507	-	9,507

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2015				
		Valuation techniques		
	Quoted market price Level 1 LL million	Observable inputs Level 2 LL million	Unobservable inputs Level 3 LL million	Total LL million
<b>Assets measured at fair value:</b>				
Derivative financial instruments:				
Forward foreign exchange contracts	-	2,969	-	2,969
Financial assets at fair value through profit or loss:				
Lebanese treasury bills (LL)	-	1,093	-	1,093
Lebanese treasury bills (Eurobonds)	17,540	-	-	17,540
Debt securities issued by banks	-	37,688	-	37,688
Foreign governmental debt securities	-	68,551	-	68,551
Funds	18,542	-	-	18,542
Shares	74,866	21,526	-	96,392
Financial assets at fair value through other comprehensive income:				
Shares	13,935	11,750	875	26,560
Investment properties	-	-	1,480	1,480
<b>Liabilities measured at fair value:</b>				
Derivative financial instruments:				
Forward foreign exchange contracts	-	(4,450)	-	(4,450)

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

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

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

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

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

*Equity shares of non-listed entities*  
These are investments in private companies, for which there is no or only limited sufficient recent information to determine fair value. The Group determined that cost adjusted to reflect the investee’s financial position and results since initial recognition represents the best estimate of fair value.

*Investment properties*  
Investment properties valued using unobservable inputs are generally determined based on observable inputs of a similar nature, historical observations or other techniques. Investment properties are mainly valued by independent qualified valuers on the basis of current market prices of similar properties sold in the same area.

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

	2016		2015	
	Carrying value LL million	Fair value LL million	Carrying value LL million	Fair value LL million
<b>Financial assets</b>				
Cash and balances with the Central Banks	8,544,014	8,544,014	5,817,726	5,817,726
Due from banks and financial institutions	798,629	798,629	698,264	698,264
Amounts due from affiliated banks and financial institutions	918,608	918,608	777,435	777,435
Reverse repurchase agreements	-	-	416,910	416,910
Loans to banks and financial institutions	8,397	8,397	8,397	8,397
Financial assets pledged as collateral	1,175,427	1,163,669	576,118	579,990
Loans and advances to customers at amortized cost	6,627,649	6,627,649	5,929,958	5,929,958
Loans and advances to related parties at amortized cost	100,737	100,737	153,546	153,546
Financial assets at amortized cost	9,300,920	9,163,745	8,928,466	9,017,179
	27,474,381	27,325,448	23,306,820	23,399,405
<b>Financial liabilities</b>				
Due to the Central Banks	431,765	429,842	609,961	607,980
Loans and repurchase agreements	2,062,317	2,062,317	2,116,164	2,116,164
Due to banks and financial institutions	568,948	568,948	612,282	612,282
Amounts due to affiliated banks and financial institutions	1,429	1,429	21,185	21,185
Customers’ deposits at amortized cost	21,788,334	21,788,334	18,679,877	18,679,877
Related parties’ deposits at amortized cost	181,207	181,207	132,771	132,771
	25,034,000	25,032,077	22,172,240	22,170,259



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Fair values measurement hierarchy of the Group’s financial assets and liabilities for which fair values are disclosed:

	2016			
	Quoted market price Level 1 LL million	Valuation techniques		Total LL million
		Observable inputs Level 2 LL million	Unobservable inputs Level 3 LL million	
<b>Assets for which fair values are disclosed:</b>				
Cash and balances with the Central Banks	106,330	8,437,684	-	8,544,014
Due from banks and financial institutions	-	798,629	-	798,629
Amounts due from affiliated banks and financial institutions	-	918,608	-	918,608
Loans to banks and financial institutions	-	8,397	-	8,397
Financial assets at amortized cost pledged as collateral:				
Lebanese treasury bills	-	183,296	-	183,296
Foreign governmental bonds	-	279,006	-	279,006
Certificates of deposit issued by the Central Bank of Lebanon	-	701,367	-	701,367
Loans and advances to customers at amortized cost	-	-	6,627,649	6,627,649
Loans and advances to related parties at amortized cost	-	-	100,737	100,737
Financial assets at amortized cost:				
Lebanese treasury bills (LL)	-	2,900,272	-	2,900,272
Lebanese treasury bills (Eurobonds)	2,577,876	-	-	2,577,876
Foreign governmental debt securities	58,751	669,410	-	728,161
Corporate bonds	44,040	20,246	-	64,286
Certificates of deposit issued by the Central Bank of Lebanon	-	2,873,362	-	2,873,362
Certificates of deposit issued by banks	-	10,578	-	10,578
Debt securities issued by banks	9,210	-	-	9,210
<b>Liabilities for which fair values are disclosed:</b>				
Due to the Central Banks	-	(429,842)	-	(429,842)
Loans and repurchase agreements	-	(2,062,317)	-	(2,062,317)
Due to banks and financial institutions	-	(568,948)	-	(568,948)
Amounts due to affiliated banks and financial institutions	-	(1,429)	-	(1,429)
Customers' deposits at amortized cost	-	(21,788,334)	-	(21,788,334)
Related parties' deposits at amortized cost	-	(181,207)	-	(181,207)

	2015			
	Quoted market price Level 1 LL million	Valuation techniques		Total LL million
		Observable inputs Level 2 LL million	Unobservable inputs Level 3 LL million	
Assets for which fair values are disclosed:				
Cash and balances with the Central Banks	97,822	5,719,904	-	5,817,726
Due from banks and financial institutions	-	698,264	-	698,264

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51 FAIR VALUE MEASUREMENT (continued)

Amounts due from affiliated banks and financial institutions	-	777,435	-	777,435
Reverse repurchase agreements	-	416,910	-	416,910
Loans to banks and financial institutions	-	8,397	-	8,397
Financial assets at amortized cost pledged as collateral:				
Lebanese treasury bills	-	339,921	-	339,921
Foreign governmental bonds	-	240,069	-	240,069
Loans and advances to customers at amortized cost	-	-	5,929,958	5,929,958
Loans and advances to related parties at amortized cost	-	-	153,546	153,546
Financial assets at amortized cost:				
Lebanese treasury bills (LL)	-	3,252,205	-	3,252,205
Lebanese treasury bills (Eurobonds)	2,524,484	-	-	2,524,484
Foreign governmental debt securities	80,822	445,171	-	525,993
Corporate bonds	110,786	20,930	-	131,716
Certificates of deposits issued by foreign central banks	-	141,515	-	141,515
Certificates of deposit issued by the Central Bank of Lebanon	-	2,345,560	-	2,345,560
Certificates of deposit issued by banks	-	10,578	-	10,578
Debt securities issued by banks	85,128	-	-	85,128

Liabilities for which fair values are disclosed:

Due to the Central Banks	-	(607,980)	-	(607,980)
Loans and repurchase agreements	-	(2,116,164)	-	(2,116,164)
Due to banks and financial institutions	-	(612,282)	-	(612,282)
Amounts due to affiliated banks and financial institutions	-	(21,185)	-	(21,185)
Customers’ deposits at amortized cost	-	(18,679,877)	-	(18,679,877)
Related parties’ deposits at amortized cost	-	(132,771)	-	(132,771)

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

Deposits with banks and loans and advances to banks

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

Government bonds, certificates of deposits and other debt securities

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

Loans and advances to banks and customers

For the purpose of this disclosure, fair value of loans and advances is estimated using discounted cash flows by applying current rates for new loans granted during the year with similar remaining maturities and to counterparties with similar credit quality.

Deposits from banks and customers

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

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52 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

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

At 31 December 2016	Less than one year LL million	More than one year LL million	Total LL million
ASSETS			
Cash and balances with the Central Banks	1,234,877	7,309,137	8,544,014
Due from banks and financial institutions	768,627	30,002	798,629
Amounts due from affiliated banks and financial institutions	918,608	-	918,608
Loans to banks and financial institutions	-	8,397	8,397
Derivative financial instruments	2,472	-	2,472
Financial assets at amortized cost pledged as collateral	182,535	992,892	1,175,427
Financial assets at fair value through profit or loss	180,270	-	180,270
Loans and advances to customers at amortized cost	3,807,450	2,820,199	6,627,649
Loans and advances to related parties at amortized cost	89,337	11,400	100,737
Debtors by acceptances	211,715	-	211,715
Financial assets at amortized cost	917,533	8,383,387	9,300,920
Financial assets at fair value through other comprehensive income	1,017	24,191	25,208
Property and equipment	11,270	422,515	433,785
Intangible assets	5,407	43,910	49,317
Investment properties	-	1,483	1,483
Non-current assets held for sale	168,304	7,615	175,919
Other assets	105,138	4,662	109,800
Goodwill	-	3,405	3,405
TOTAL ASSETS	8,604,560	20,063,195	28,667,755
LIABILITIES			
Due to the Central Banks	208,034	223,731	431,765
Loans and repurchase agreements	1,046,725	1,015,592	2,062,317
Due to banks and financial institutions	546,700	22,248	568,948
Amounts due to affiliated banks and financial institutions	1,429	-	1,429
Derivative financial instruments	9,507	-	9,507
Customers’ deposits at amortized cost	20,681,680	1,106,654	21,788,334
Related parties’ deposits at amortized cost	181,207	-	181,207
Engagements by acceptances	211,715	-	211,715
Other liabilities	371,054	218,710	589,764
Provision for risks and charges	27,366	235,644	263,010
TOTAL LIABILITIES	23,285,417	2,822,579	26,107,996
NET	(14,680,857)	17,240,616	2,559,759

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At 31 December 2015	Less than one year LL million	More than one year LL million	Total LL million
ASSETS			
Cash and balances with the Central Banks	1,589,527	4,228,199	5,817,726
Due from banks and financial institutions	654,629	43,635	698,264
Amounts due from affiliated banks and financial institutions	777,435	-	777,435
Reverse repurchase agreements	416,910	-	416,910
Loans to banks and financial institutions	-	8,397	8,397
Derivative financial instruments	2,969	-	2,969
Financial assets at amortized cost pledged as collateral	158,147	417,971	576,118
Financial assets at fair value through profit or loss	239,806	-	239,806
Loans and advances to customers at amortized cost	2,772,966	3,156,992	5,929,958
Loans and advances to related parties at amortized cost	118,432	35,114	153,546
Debtors by acceptances	167,061	2,430	169,491
Financial assets at amortized cost	516,970	8,411,496	8,928,466
Financial assets at fair value through other comprehensive income	532	26,028	26,560
Property and equipment	10,932	203,413	214,345
Intangible assets	4,470	36,475	40,945
Investment properties	-	1,480	1,480
Non-current assets held for sale	185,318	-	185,318
Other assets	77,095	23,776	100,871
Goodwill	-	167,040	167,040
TOTAL ASSETS	7,693,199	16,762,446	24,455,645
LIABILITIES			
Due to the Central Banks	181,508	428,453	609,961
Loans and repurchase agreements	990,425	1,125,739	2,116,164
Due to banks and financial institutions	584,487	27,795	612,282
Amounts due to affiliated banks and financial institutions	21,185	-	21,185
Derivative financial instruments	4,450	-	4,450
Customers’ deposits at amortized cost	18,599,222	80,655	18,679,877
Related parties’ deposits at amortized cost	131,861	910	132,771
Engagements by acceptances	167,061	2,430	169,491
Other liabilities	142,048	-	142,048
Provision for risks and charges	22,235	53,502	75,737
TOTAL LIABILITIES	20,844,482	1,719,484	22,563,966
NET	(13,151,283)	15,042,962	1,891,679

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53 RISK MANAGEMENT

The Group devotes significant resources to the ongoing adaptation of its risk management framework, in order to keep pace with the increasing diversification of its activities. Risk management is implemented in compliance with the two following fundamental principles:

- risk assessment departments are completely independent from the operating divisions
- a consistent approach to risk assessment and monitoring is applied at the Group level

a) Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving risk strategies and principles.

Risk Management

The Risk Management Unit is responsible for implementing and maintaining risk related procedures to ensure an independent control process.

Group Treasury

Group Treasury is responsible for managing the Group’s assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Group.

Internal Audit

Risk management processes throughout the Group are audited annually by the internal audit function, that examines both the adequacy of the procedures and the Group’s compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Board of Directors.

b) Risk measurement and reporting systems

The Group is using a RAROC (Risk-Adjusted Return on Capital) approach to quantify its credit risk. One of the main objectives is to establish, using quantitative methods, the level of loss expected on credit transactions over the course of the business cycle.

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition, the Group monitors and measures the overall risk-bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

c) Risk mitigation

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, credit risks, and exposures arising from forecast transactions.

The Group actively uses collateral to reduce its credit risks.

d) Excessive concentration

The Group also attempts to control credit risk by regular monitoring of its credit exposures and continuous assessment of the creditworthiness of counterparties by the credit risk committee.

53.1 CREDIT RISK

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

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The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process aims to allow the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective actions. The risk rating system, which is managed by an independent unit, provides a rating based on client and transaction level. The classification system includes ten grades, of which five grades relate to credit facilities which are neither past due nor impaired (risk rating “1”, “2”, “3”, “4”, and “5”) (and credit facilities which are past due but not impaired) risk rating “6a” and “6c”), substandard individually impaired loans (risk rating “6b”) and doubtful individually impaired loans (risk rating “7” and “8”). The Group uses the above internal rating system for the classifications of all of its financial assets portfolio.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded on the consolidated statement of financial position. In the case of credit derivatives, the Group is also exposed to or protected from the risk of default of the underlying entity referenced by the derivative.

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

Credit-related commitments risk

The Group makes available to its customers guarantees which may require that the Group makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Letters of credit and guarantees (including standby letters of credit) commit the Group to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Group to similar risks as loans and are mitigated by the same control processes and policies.

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

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



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31 December 2016	Maximum exposure LL million	Collateral			Letters of credit / guarantees LL million	Net credit exposure LL million
		Cash LL million	Securities LL million	Real estate LL million		
Balances with the Central Banks	8,437,684	-	-	-	-	8,437,684
Due from banks and financial institutions	798,629	-	-	-	-	798,629
Amounts due from affiliated banks and financial institutions	918,608	-	-	-	-	918,608
Loans to banks and financial institutions	8,397	-	-	(8,397)	-	-
Financial assets at amortized cost pledged as collateral	1,175,427	-	-	-	-	1,175,427
Derivative financial instruments	2,472	-	-	-	-	2,472
Financial assets at fair value through profit or loss	180,270	-	-	-	-	180,270
Loans and advances to customers at amortized cost:						
Retail loans	2,781,322	(332,586)	(260)	(1,546,396)	(105,890)	796,190
Corporate loans	3,846,327	(340,012)	(3)	(1,355,538)	(15,901)	2,134,873
Loans and advances to related parties at amortized cost						
Retail loans	38,772	(36)	-	(106)	-	38,630
Corporate loans	61,965	(2,314)	(91)	(12,362)	-	47,198
Debtors by acceptances	211,715	(14,223)	-	(3,816)	-	193,676
Financial assets at amortized cost	9,300,920	-	-	-	-	9,300,920
Financial assets at fair value through other comprehensive income	25,208	-	-	-	-	25,208
	27,787,716	(689,171)	(354)	(2,926,615)	(121,791)	24,049,785
Financial guarantees	158,970	(37,795)	(2)	(14,827)	-	106,346
Documentary credits	257,843	(20,018)	-	(18,568)	-	219,257
Undrawn credit lines	1,120,491	(94,622)	(3,623)	(46,729)	-	975,517
	1,537,304	(152,435)	(3,625)	(80,124)	-	1,301,120
	29,325,020	(841,606)	(3,979)	(3,006,739)	(121,791)	25,350,905

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31 December 2015	Maximum exposure LL million	Collateral			Letters of credit / guarantees LL million	Net credit exposure LL million
		Cash LL million	Securities LL million	Real estate LL million		
Balances with the Central Banks	5,719,844	-	-	-	-	5,719,844
Due from banks and financial institutions	698,264	-	-	-	-	698,264
Amounts due from affiliated banks and financial institutions	777,435	-	-	-	-	777,435
Reverse repurchase agreements	416,910	-	(416,910)	-	-	-
Loans to banks and financial institutions	8,397	-	-	(8,397)	-	-
Financial assets at amortized cost pledged as collateral	576,118	-	-	-	-	576,118
Derivative financial instruments	2,969	-	-	-	-	2,969
Financial assets at fair value through profit or loss	239,806	-	-	-	-	239,806
Loans and advances to customers at amortized cost:						
Retail loans	2,515,180	(272,006)	(174,495)	(1,392,535)	(10,829)	665,315
Corporate loans	3,414,778	(421,627)	(57,136)	(1,257,409)	-	1,678,606
Loans and advances to related parties at amortized cost						
Retail loans	40,781	-	-	(106)	-	40,675
Corporate loans	112,765	(2,335)	-	(12,362)	-	98,068
Debtors by acceptances	169,491	(1,935)	-	(3,639)	-	163,917
Financial assets at amortized cost	8,928,466	-	-	-	-	8,928,466
Financial assets at fair value through other comprehensive income	26,560	-	-	-	-	26,560
	23,647,764	(697,903)	(648,541)	(2,674,448)	(10,829)	19,616,043
Financial guarantees	246,019	(16,306)	(2)	(16,399)	-	213,312
Documentary credits	169,596	(5,537)	-	(16,133)	-	147,926
Undrawn credit lines	976,146	(79,650)	(3,572)	(70,052)	-	822,872
	1,391,761	(101,493)	(3,574)	(102,584)	-	1,184,110
	25,039,525	(799,396)	(652,115)	(2,777,032)	(10,829)	20,800,153

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

The main types of collateral obtained are as follows:

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

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

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### Real estate (commercial and residential)

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

### Other

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

### Risk concentrations: maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The Group's concentrations of risk are managed by client/counterparty and by geographical region. The maximum credit exposure to any client as at 31 December 2016 was LL 368,148 million (2015: LL 309,334 million) before taking account of collateral or other credit enhancements and LL 147,711 million (2015: LL 52,732 million) net of such protection.

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

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### Geographic analysis

	2016			2015		
	Lebanon LL million	Outside Lebanon LL million	Total LL million	Lebanon LL million	Outside Lebanon LL million	Total LL million
<b>Financial assets</b>						
Cash and balances with the Central Banks	8,225,975	318,039	8,544,014	5,231,801	585,925	5,817,726
Due from banks and financial institutions	123,285	675,344	798,629	120,580	577,684	698,264
Amounts due from affiliated banks and financial institutions	-	918,608	918,608	-	777,435	777,435
Reverse repurchase agreements	-	-	-	416,910	-	416,910
Loans to banks and financial institutions	-	8,397	8,397	-	8,397	8,397
Derivative financial instruments	1,336	1,136	2,472	326	2,643	2,969
Financial assets at amortized cost pledged as collateral						
- Lebanese treasury bills	181,885	-	181,885	336,049	-	336,049
- Certificates of deposit	722,111	-	722,111			
- Other governmental debt securities	-	271,431	271,431	-	240,069	240,069
Financial assets at fair value through profit or loss						
- Shares	96,229	21,195	117,424	74,714	21,678	96,392
- Funds	-	20,376	20,376	-	18,542	18,542
- Other governmental debt securities	-	-	-	-	68,551	68,551
- Lebanese treasury bills	4,782	-	4,782	18,633	-	18,633
- Debt securities issued by banks	37,688	-	37,688	37,688	-	37,688
Loans and advances to customers at amortized cost	4,696,755	1,930,894	6,627,649	4,231,317	1,698,641	5,929,958
Loans and advances to related parties at amortized cost	72,136	28,601	100,737	79,419	74,127	153,546
Financial assets at amortized cost						
- Lebanese treasury bills	5,500,714	-	5,500,714	5,712,421	-	5,712,421
- Other governmental debt securities	-	715,091	715,091	-	512,852	512,852
- Certificates of deposit	3,012,478	-	3,012,478	2,339,079	141,515	2,480,594
- Other debt securities	-	72,637	72,637	-	222,599	222,599
Financial assets at fair value through other comprehensive income						
- Shares	8,569	16,639	25,208	10,395	16,165	26,560
	<b>22,683,943</b>	<b>4,998,388</b>	<b>27,682,331</b>	<b>18,609,332</b>	<b>4,966,823</b>	<b>23,576,155</b>

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### Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group using internal credit ratings. The tables below show the credit quality by class of asset based on the Group's internal credit rating system. The amounts presented are gross of impairment allowances.

	Neither past due nor impaired	Past due but not impaired	Individually impaired		Total
	LL million	LL million	Substandard LL million	Doubtful LL million	LL million
<b>2016</b>					
Cash and balances with the Central Banks	8,544,014	-	-	-	8,544,014
Due from banks and financial institutions	798,087	-	-	817	798,904
Loans to banks and financial institutions	-	-	-	24,668	24,668
Amounts due from affiliated banks and financial institutions	918,608	-	-	-	918,608
Derivative financial instruments	2,472	-	-	-	2,472
Financial assets at fair value through profit or loss					
- Shares	117,424	-	-	-	117,424
- Funds	20,376	-	-	-	20,376
- Lebanese treasury bills	4,782	-	-	-	4,782
- Debt securities issued by banks	37,688	-	-	-	37,688
Loans and advances to customers at amortized cost					
- Corporate	3,749,068	36,744	61,500	407,013	4,254,325
- Retail	2,661,384	28,563	24,942	270,398	2,985,287
Loans and advances to related parties at amortized cost					
- Corporate	58,195	-	-	24,818	83,013
- Retail	38,772	-	-	-	38,772
Financial assets at amortized cost pledged as collateral					
- Lebanese treasury bills	181,885	-	-	-	181,885
- Certificates of deposit	722,111	-	-	-	722,111
- Other governmental bonds	271,431	-	-	-	271,431
Financial assets at amortized cost					
- Lebanese treasury bills	5,500,714	-	-	-	5,500,714
- Other governmental debt securities	715,091	-	-	-	715,091
- Certificates of deposit	3,012,478	-	-	-	3,012,478
- Other debt securities	72,637	-	-	1,384	74,021
Financial assets at fair value through other comprehensive income					
- Shares	25,208	-	-	15	25,223
	<b>27,452,425</b>	<b>65,307</b>	<b>86,442</b>	<b>729,113</b>	<b>28,333,287</b>
<b>Moody's equivalent</b>	<b>Aaa – B3*</b>	<b>Not rated</b>	<b>Not rated</b>	<b>Not rated</b>	<b>Not rated</b>

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	Neither past due nor impaired	Past due but not impaired	Individually impaired		Total
	LL million	LL million	Substandard LL million	Doubtful LL million	LL million
<b>2015</b>					
Cash and balances with the Central Banks	5,817,726	-	-	-	5,817,726
Due from banks and financial institutions	697,416	-	-	993	698,409
Reverse repurchase agreements	416,910	-	-	-	416,910
Loans to banks and financial institutions	-	-	-	21,920	21,920
Amounts due from affiliated banks and financial institutions	777,435	-	-	-	777,435
Derivative financial instruments	2,969	-	-	-	2,969
Financial assets at fair value through profit or loss					
- Shares	96,392	-	-	-	96,392
- Funds	18,542	-	-	-	18,542
- Lebanese treasury bills	18,633	-	-	-	18,633
- Debt securities issued by banks	37,688	-	-	-	37,688
- Other governmental debt securities	68,551	-	-	-	68,551
Loans and advances to customers at amortized cost					
- Corporate	3,295,457	70,773	62,701	405,816	3,834,747
- Retail	2,402,494	35,155	20,702	218,242	2,676,593
Loans and advances to related parties at amortized cost					
- Corporate	109,349	-	-	22,890	132,239
- Retail	40,781	-	-	-	40,781
Financial assets at amortized cost pledged as collateral					
- Lebanese treasury bills	336,049	-	-	-	336,049
- Other governmental bonds	240,069	-	-	-	240,069
Financial assets at amortized cost					
- Lebanese treasury bills	5,712,421	-	-	-	5,712,421
- Other governmental debt securities	512,852	-	-	-	512,852
- Certificates of deposit	2,480,594	-	-	-	2,480,594
- Other debt securities	188,902	-	-	43,292	232,194
Financial assets at fair value through other comprehensive income					
- Shares	26,560	-	-	15	26,575
	<b>23,297,790</b>	<b>105,928</b>	<b>83,403</b>	<b>713,168</b>	<b>24,200,289</b>
<b>Moody's equivalent</b>	<b>Aaa – B3*</b>	<b>Not rated</b>	<b>Not rated</b>	<b>Not rated</b>	<b>Not rated</b>

(\*) Amounts due from affiliated banks and financial institutions, derivative financial instruments, loans and advances to customers, loans and advances to related parties are not rated by Moody's.

It is the Group's policy to maintain accurate and consistent risk rating across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy. The attributable risks are assessed and updated regularly.

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

	2016			
	Gross balance LL million	Unrealized interest LL million	Impairment allowances LL million	Net balance LL million
Regular	5,800,273	-	-	5,800,273
Follow up	484,561	-	-	484,561
Follow-up and regularization	287,892	-	-	287,892
Substandard	86,442	(37,564)	-	48,878
Doubtful	512,120	(221,980)	(154,808)	135,332
Bad	190,109	(121,308)	(66,176)	2,625
	7,361,397	(380,852)	(220,984)	6,759,561
Collective impairment	-	-	(31,175)	(31,175)
	7,361,397	(380,852)	(252,159)	6,728,386

	2015			
	Gross balance LL million	Unrealized interest LL million	Impairment allowances LL million	Net balance LL million
Regular	5,120,710	-	-	5,120,710
Follow up	520,129	-	-	520,129
Follow-up and regularization	313,170	-	-	313,170
Substandard	83,403	(39,334)	-	44,069
Doubtful	488,590	(231,217)	(150,197)	107,176
Bad	158,358	(101,364)	(54,663)	2,331
	6,684,360	(371,915)	(204,860)	6,107,585
Collective impairment	-	-	(24,081)	(24,081)
	6,684,360	(371,915)	(228,941)	6,083,504

Renegotiated loans

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

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

	2016 LL million	2015 LL million
Corporate loans	141,567	249,108
Retail loans	16,154	27,473
	157,721	276,581

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Impairment assessment

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

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

Individually assessed allowances

The Group determines the allowance appropriate for each individually significant loan or advance on an individual basis, taking into account any overdue payments of interests, credit rating downgrades, or infringement of the original terms of the contract. Items considered when determining allowance amounts include the sustainability of the counterparty’s business plan, its ability to improve performance once a financial difficulty has risen, projected receipts and the expected payout should bankruptcy ensue, the availability of other financial support, the realizable value of collateral and the timing of the expected cash flows. Impairment allowances are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances and debt securities at amortized cost that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans that have been assessed individually and found not to be impaired. Allowances are evaluated separately at each reporting date with each portfolio.

The Group generally bases its analysis on historical experience. However, when there are significant market developments, regional and / or global, the Group would include macroeconomic factors within its assessments. These factors include, depending on the characteristics of the individual or collective assessment: unemployment rates, current levels of bad debts, changes in laws, changes in regulations, bankruptcy trends, and other consumer data. The Group may use the aforementioned factors as appropriate to adjust the impairment allowances.

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

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

53.2 MARKET RISK

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices.

The Board has set limits on the value of risk that may be accepted. This is monitored on a weekly basis by the Asset and Liability Committee.



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## 53.2.1 INTEREST RATE RISK

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

### Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's consolidated income statement.

The sensitivity of the consolidated income statement is the effect of the assumed changes in interest rates on the profit or loss for the year, based on the floating rate financial assets and financial liabilities held at 31 December, including the effect of hedging instruments.

Currency	2016		2015	
	Increase/decrease in basis points	Sensitivity of profit or loss LL million	Increase/decrease in basis points	Sensitivity of profit or loss LL million
Lebanese Lira	+ 50	6,955	+ 50	5,638
US Dollars	+ 50	9,034	+ 50	9,177
Euro	+ 50	(241)	+ 50	650
Lebanese Lira	- 50	(6,955)	- 50	(5,638)
US Dollars	- 50	(9,034)	- 50	(9,177)
Euro	- 50	241	- 50	(650)

### Interest sensitivity gap

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

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	2016 (LL million)							
	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 5 years	Over 5 years	Non interest bearing	Total
ASSETS								
Cash and balances with the Central Banks	993,461	815,306	47,889	-	1,252,750	4,623,881	810,727	8,544,014
Due from banks and financial institutions	326,844	164,378	24,578	-	-	6,301	276,528	798,629
Amounts due from affiliated banks and financial institutions	545,403	12,340	47,889	-	-	-	312,976	918,608
Loans to banks and financial institutions	8,397	-	-	-	-	-	-	8,397
Financial assets at amortized cost pledged as collateral	-	746	170,000	483	451,767	537,791	14,640	1,175,427
Derivative financial instruments	-	-	-	-	-	-	2,472	2,472
Financial assets at fair value through profit or loss	-	541	-	478	1,076	40,314	137,861	180,270
Loans and advances to customers at amortized cost	862,730	2,001,541	2,972,104	297,901	103,523	376,900	12,950	6,627,649
Loans and advances to related parties at amortized cost	47,362	377	52,970	-	-	-	28	100,737
Financial assets at amortized cost	40,646	336,933	410,609	1,203,521	2,260,982	4,910,956	137,273	9,300,920
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	25,208	25,208
TOTAL ASSETS	2,824,843	3,332,162	3,726,039	1,502,383	4,070,098	10,496,143	1,730,663	27,682,331
LIABILITIES								
Due to the Central Banks	-	10,410	176,017	1,458	6,500	234,472	2,908	431,765
Loans and repurchase agreements	152,165	649,280	267,054	-	958,973	22,172	12,673	2,062,317
Due to banks and financial institutions	398,504	77,080	29,536	1,131	12,004	9,112	41,581	568,948
Amounts due to affiliated banks and financial institutions	965	-	-	-	-	-	464	1,429
Customers' deposits at amortized cost	10,984,269	3,416,185	3,774,424	801,615	187,617	322,388	2,301,836	21,788,334
Related parties' deposits at amortized cost	170,770	26	2,664	-	-	1,137	6,610	181,207
Derivative financial instruments	-	-	-	-	-	-	9,507	9,507
TOTAL LIABILITIES	11,706,673	4,152,981	4,249,695	804,204	1,165,094	589,281	2,375,579	25,043,507
Total interest sensitivity gap	(8,881,830)	(820,819)	(523,656)	698,179	2,905,004	9,906,862	(644,916)	2,638,824

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	2015 (LL million)							Total
	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 5 years	Over 5 years	Non interest bearing	
ASSETS								
Cash and balances with the Central Banks	1,379,846	909,210	-	-	813,750	2,111,434	603,486	5,817,726
Due from banks and financial institutions	389,382	16,500	145,678	-	3,724	11,653	131,327	698,264
Amounts due from affiliated banks and financial institutions	383,867	4,449	56,930	-	-	-	332,189	777,435
Loans to banks and financial institutions	8,397	-	-	-	-	-	-	8,397
Financial assets at amortized cost pledged as collateral	-	-	152,325	170,000	9,745	235,768	8,280	576,118
Derivative financial instruments	-	-	-	-	-	-	2,969	2,969
Financial assets at fair value through profit or loss	-	-	24,558	36,299	16,597	47,146	115,206	239,806
Loans and advances to customers at amortized cost	1,184,697	1,299,065	2,594,090	301,377	171,065	368,582	11,082	5,929,958
Loans and advances to related parties at amortized cost	59,145	507	82,445	488	1,602	9,311	48	153,546
Financial assets at amortized cost	151,326	43,073	199,668	656,894	2,698,626	5,056,163	122,716	8,928,466
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	26,560	26,560
Reverse repurchase agreements	-	197,175	219,235	-	-	-	500	416,910
TOTAL ASSETS	3,556,660	2,469,979	3,474,929	1,165,058	3,715,109	7,840,057	1,354,363	23,576,155
LIABILITIES								
Due to the Central Banks	696	7,295	162,422	179,745	-	255,436	4,367	609,961
Loans and repurchase agreements	152,165	996,518	18,316	75,375	685,638	178,115	10,037	2,116,164
Due to banks and financial institutions	369,634	41,259	169,846	1,570	7,266	18,960	3,747	612,282
Amounts due to affiliated banks and financial institutions	19,774	-	-	-	-	-	1,411	21,185
Customers' deposits at amortized cost	10,759,485	3,415,148	2,168,775	23,420	25,147	303,515	1,984,387	18,679,877
Related parties' deposits at amortized cost	92,119	26,151	1,348	907	-	43	12,203	132,771
Derivative financial instruments	-	-	-	-	-	-	4,450	4,450
TOTAL LIABILITIES	11,393,873	4,486,371	2,520,707	281,017	718,051	756,069	2,020,602	22,176,690
Total interest sensitivity gap	(7,837,213)	(2,016,392)	954,222	884,041	2,997,058	7,083,988	(666,239)	1,399,465

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53.2.2 CURRENCY RISK

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group has set limits on positions by currency. In accordance with the Group’s policy, positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

Sensitivity to currency exchange rates

The table below indicates the currencies to which the Group had significant exposure at 31 December on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Lebanese Lira, with all other variables held constant, on the consolidated income statement (due to fair value of currency sensitive non-trading monetary assets and liabilities). A negative amount in the table reflects a potential net reduction in consolidated income statement or equity, while a positive amount reflects a net potential increase. An equivalent decrease in each of the below currencies against the Lebanese Lira would have resulted in an equivalent but opposite impact.

Currency	2016		2015	
	Change in currency rate in %	Effect on profit before tax LL million	Change in currency rate in %	Effect on profit before tax LL million
US Dollars	+ 2.5	(199)	+ 2.5	(148)
Euro	+ 2.5	9	+ 2.5	9

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The following consolidated statements of financial position as at 31 December 2016 and 2015 are detailed in Lebanese Lira (LL million) and foreign currencies, primarily US\$, translated into LL million:

	31 December 2016			31 December 2015		
	LL million	Foreign currencies in LL million	Total LL million	LL million	Foreign currencies in LL million	Total LL million
<b>ASSETS</b>						
Cash and balances with the Central Banks	3,898,288	4,645,726	8,544,014	1,121,440	4,696,286	5,817,726
Due from banks and financial institutions	36,106	762,523	798,629	55,876	642,388	698,264
Amounts due from affiliated banks and financial institutions	-	918,608	918,608	-	777,435	777,435
Reverse repurchase agreements	-	-	-	-	416,910	416,910
Loans to banks and financial institutions	-	8,397	8,397	-	8,397	8,397
Derivative financial instruments	-	2,472	2,472	-	2,969	2,969
Financial assets at fair value through profit or loss	9,987	170,283	180,270	9,985	229,821	239,806
Loans and advances to customers at amortized cost	1,739,795	4,887,854	6,627,649	1,486,516	4,443,442	5,929,958
Loans and advances to related parties at amortized cost	161	100,576	100,737	36,296	117,250	153,546
Debtors by acceptances	-	211,715	211,715	-	169,491	169,491
Financial assets at amortized cost	3,390,852	5,910,068	9,300,920	5,108,440	3,820,026	8,928,466
Financial assets at amortized cost pledged as collateral	181,884	993,543	1,175,427	336,049	240,069	576,118
Financial assets at fair value through other comprehensive income	521	24,687	25,208	521	26,039	26,560
Property and equipment	198,342	235,443	433,785	143,824	70,521	214,345
Intangible assets	46,139	3,178	49,317	38,746	2,199	40,945
Investment properties	-	1,483	1,483	-	1,480	1,480
Non-current assets held for sale	5,315	170,604	175,919	7,991	177,327	185,318
Other assets	58,149	51,651	109,800	64,819	36,052	100,871
Goodwill	(147,056)	150,461	3,405	1,012	166,028	167,040
<b>TOTAL ASSETS</b>	<b>9,418,483</b>	<b>19,249,272</b>	<b>28,667,755</b>	<b>8,411,515</b>	<b>16,044,130</b>	<b>24,455,645</b>
<b>LIABILITIES</b>						
Due to the Central Banks	405,995	25,770	431,765	578,548	31,413	609,961
Loans and repurchase agreements	-	2,062,317	2,062,317	401,979	1,714,185	2,116,164
Due to banks and financial institutions	188	568,760	568,948	44,472	567,810	612,282
Amounts due to affiliated banks and financial institutions	9	1,420	1,429	81	21,104	21,185
Derivative financial instruments	-	9,507	9,507	-	4,450	4,450
Customers' deposits at amortized cost	6,774,394	15,013,940	21,788,334	6,361,552	12,318,325	18,679,877
Related parties' deposits at amortized cost	90,286	90,921	181,207	8,687	124,084	132,771
Engagements by acceptances	-	211,715	211,715	-	169,491	169,491
Other liabilities	484,053	105,711	589,764	52,196	89,852	142,048
Provision for risks and charges	220,882	42,128	263,010	43,256	32,481	75,737
<b>TOTAL LIABILITIES</b>	<b>7,975,807</b>	<b>18,132,189</b>	<b>26,107,996</b>	<b>7,490,771</b>	<b>15,073,195</b>	<b>22,563,966</b>
<b>NET EXPOSURE</b>	<b>1,442,676</b>	<b>1,117,083</b>	<b>2,559,759</b>	<b>920,744</b>	<b>970,935</b>	<b>1,891,679</b>

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### 53.2.3 EQUITY PRICE RISK

Equity price risk is the risk that the fair value of equities decreases as the result of changes in the level of equity indices and individual stocks. Equity price risk exposure arises from equity securities classified at fair value through profit or loss and at fair value through other comprehensive income. A 10 percent increase in the value of the Group's equities at 31 December 2016 would have increased net income by LL 11,742 million and other comprehensive income by LL 2,520 million (2015: LL 9,639 million and LL 2,514 million respectively). An equivalent decrease would have resulted in an equivalent but opposite impact.

### 53.2.4 PREPAYMENT RISK

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected, such as fixed rate mortgages when interest rate fall. Market conditions causing prepayment is not significant in the markets in which the Group operates. Therefore the Group considers the effect of prepayment risk on net profit as not material after taking into account the effect of any prepayment penalties.

### 53.3 LIQUIDITY RISK AND FUNDING MANAGEMENT

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

The Group maintains a portfolio of highly marketable and diverse assets that are assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. The Group also has committed lines of credit that it can access to meet liquidity needs. In addition, the Group maintains a statutory deposit with the Central Banks on customer deposits. In accordance with the Group's policy, the liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group. The Group maintains a solid ratio of highly liquid net assets in foreign currencies to deposits and commitments in foreign currencies taking market conditions into consideration.

#### Regulatory ratios and limits

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

Besides the regulatory requirements, the liquidity position is also monitored through internal limits, such as the loans-to-deposits ratio.

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Loans to deposits		2016	2015
	Year-end	30.53%	32.75%
	Maximum	34.21%	33.26%
	Minimum	30.53%	32.07%
	Average	32.74%	32.67%

The table below summarizes the maturity profile of the undiscounted cash flows of the Group’s financial assets and liabilities as at 31 December. Trading derivatives are shown at fair value in a separate column. All derivatives used for hedging purposes are shown by maturity, based on their contractual undiscounted repayment obligations.

Repayments which are subject to notice are treated as if notice were being given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group’s deposit retention history.

31 December 2016:

	Trading derivative LL million	Up to 1 month LL million	1 to 3 months LL million	3 months to 1 year LL million	1 to 5 years LL million	Over 5 years LL million	Total LL million
<b>Financial assets</b>							
Cash and balances with the Central Banks	-	1,105,630	14,315	116,867	3,018,569	11,761,828	16,017,209
Due from banks and financial institutions	-	727,328	26,561	14,878	13,526	21,032	803,325
Loans to banks and financial institutions	-	-	-	-	-	8,397	8,397
Amount due from affiliated banks and financial institutions	-	858,396	12,341	47,889	-	-	918,626
Derivative financial instruments	2,472	-	-	-	-	-	2,472
Financial assets at fair value through profit or loss	-	20,379	1,216	2,081	12,335	160,699	196,710
Loans and advances to customers at amortized cost	-	2,177,736	96,516	1,704,057	1,945,957	1,447,685	7,371,951
Loans and advances to related parties at amortized cost	-	60,213	127	29,525	4,387	11,742	105,994
Financial assets at amortized cost pledged as collateral	-	-	12,826	208,450	585,391	705,447	1,512,114
Financial assets at amortized cost	-	60,493	418,730	864,310	5,068,263	6,689,449	13,101,245
Financial assets at fair value through other comprehensive income	-	1,018	-	-	-	24,190	25,208
<b>Total undiscounted financial assets</b>	<b>2,472</b>	<b>5,011,193</b>	<b>582,632</b>	<b>2,988,057</b>	<b>10,648,428</b>	<b>20,830,469</b>	<b>40,063,251</b>
<b>Financial liabilities</b>							
Due to the Central Banks	-	5,051	15,711	190,890	79,475	162,431	453,558
Loans and repurchase agreements	-	20,514	67,649	1,039,874	1,086,665	22,893	2,237,595
Due to banks and financial institutions	-	440,165	77,294	29,601	14,830	11,582	573,472
Amounts due to affiliated banks and financial institutions	-	1,429	-	-	-	-	1,429
Derivative financial instruments	9,507	-	-	-	-	-	9,507
Customers’ deposits at amortized cost	-	12,092,769	4,494,108	4,822,138	1,170,850	67	22,579,932
Related parties’ deposits at amortized cost	-	188,653	26	2,777	-	-	191,456
<b>Total undiscounted financial liabilities</b>	<b>9,507</b>	<b>12,748,581</b>	<b>4,654,788</b>	<b>6,085,280</b>	<b>2,351,820</b>	<b>196,973</b>	<b>26,046,949</b>
<b>Total net financial assets (liabilities)</b>	<b>(7,035)</b>	<b>(7,737,388)</b>	<b>(4,072,156)</b>	<b>(3,097,223)</b>	<b>8,296,608</b>	<b>20,633,496</b>	<b>14,016,302</b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

31 December 2015:

	Trading derivative LL million	Up to 1 month LL million	1 to 3 months LL million	3 months to 1 year LL million	1 to 5 years LL million	Over 5 years LL million	Total LL million
<b>Financial assets</b>							
Cash and balances with the Central Banks	-	1,338,167	38,671	213,998	2,368,169	3,579,074	7,538,079
Due from banks and financial institutions	-	515,821	-	138,861	7,832	43,445	705,959
Loans to banks and financial institutions	-	-	-	-	-	8,397	8,397
Amount due from affiliated banks and financial institutions	-	716,068	4,450	56,942	-	-	777,460
Reserve repurchase agreements	-	-	199,035	220,546	-	-	419,581
Derivative financial instruments	2,969	-	-	-	-	-	2,969
Financial assets at fair value through profit or loss	-	18,545	874	26,699	66,759	152,026	264,903
Loans and advances to customers at amortized cost	-	2,140,339	138,540	646,708	1,997,219	1,689,223	6,612,029
Loans and advances to related parties at amortized cost	-	110,991	140	7,918	7,869	32,433	159,351
Financial assets at amortized cost pledged as collateral	-	4,875	328	169,032	187,741	238,226	600,202
Financial assets at amortized cost	-	167,759	141,620	693,988	5,331,307	7,272,980	13,607,654
Financial assets at fair value through other comprehensive income	-	-	-	-	338	26,222	26,560
<b>Total undiscounted financial assets</b>	<b>2,969</b>	<b>5,012,565</b>	<b>523,658</b>	<b>2,174,692</b>	<b>9,967,234</b>	<b>13,042,026</b>	<b>30,723,144</b>
<b>Financial liabilities</b>							
Due to the Central Banks	-	7,122	10,915	171,085	230,416	223,972	643,510
Loans and repurchase agreements	-	15,279	987,963	26,754	1,024,783	202,693	2,257,472
Due to banks and financial institutions	-	373,609	41,358	170,939	9,714	23,777	619,397
Amounts due to affiliated banks and financial institutions	-	21,185	-	-	-	-	21,185
Derivative financial instruments	4,450	-	-	-	-	-	4,450
Customers’ deposits at amortized cost	-	11,559,486	4,186,508	2,942,421	82,729	-	18,771,144
Related parties’ deposits at amortized cost	-	105,860	26,152	181	942	-	133,135
<b>Total undiscounted financial liabilities</b>	<b>4,450</b>	<b>12,082,541</b>	<b>5,252,896</b>	<b>3,311,380</b>	<b>1,348,584</b>	<b>450,442</b>	<b>22,450,293</b>
<b>Total net financial assets (liabilities)</b>	<b>(1,481)</b>	<b>(7,069,976)</b>	<b>(4,729,238)</b>	<b>(1,136,688)</b>	<b>8,618,650</b>	<b>12,591,584</b>	<b>8,272,851</b>



# CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
31 December 2016

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

	2016					
	On demand LL million	Less than 3 months LL million	3 to 12 months LL million	1 to 5 years LL million	Over 5 years LL million	Total LL million
Financial guarantees	27,199	30,410	52,729	5,076	43,556	158,970
Documentary credit	58,889	82,220	103,964	12,770	-	257,843
Total	86,088	112,630	156,693	17,846	43,556	416,813

	2015					
	On demand LL million	Less than 3 months LL million	3 to 12 months LL million	1 to 5 years LL million	Over 5 years LL million	Total LL million
Financial guarantees	119,853	21,294	44,532	14,753	45,587	246,019
Documentary credit	20,509	61,448	76,956	10,683	-	169,596
Total	140,362	82,742	121,488	25,436	45,587	415,615

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

53.4 OPERATIONAL RISK

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

54 CAPITAL

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

To satisfy Basel III capital requirements, the Central Bank of Lebanon requires maintaining the following ratios of total regulatory capital to risk-weighted assets for the year ended 31 December 2016 and thereafter:

	Common Tier 1 capital ratio	Tier 1 capital ratio	Total capital ratio
Year ended 31 December 2016	8.5 %	11 %	14 %

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
31 December 2016

Risk weighted assets

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

	2016 LL million	2015 LL million
Risk weighted assets	14,041,529	11,957,663

Regulatory capital

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

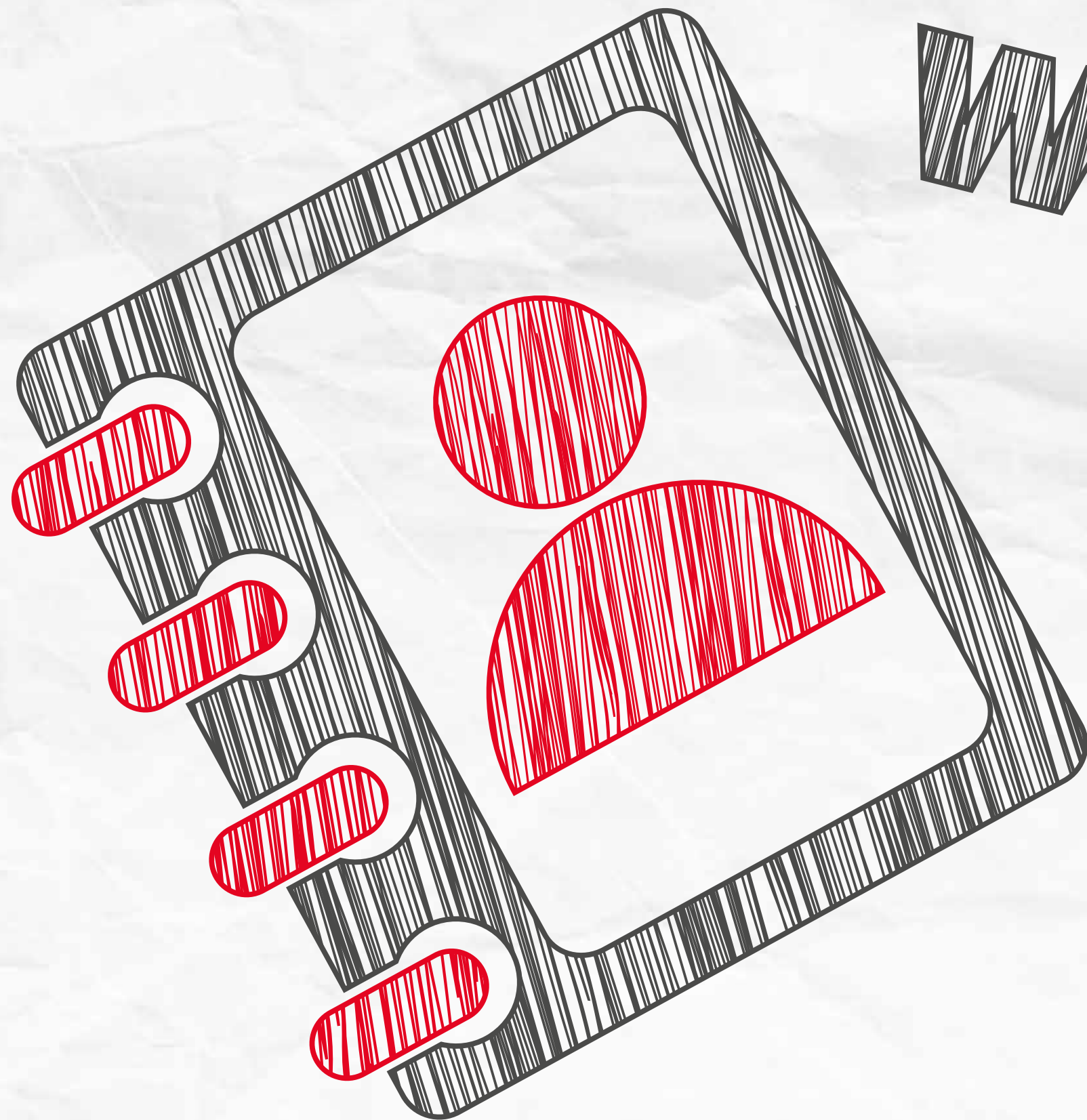
	Excluding profit for the year		Including profit for the year less proposed dividends	
	2016 LL million	2015 LL million	2016 LL million	2015 LL million
Common Tier 1 capital	1,550,591	776,404	1,796,819	991,949
Additional Tier 1 capital	574,769	571,067	574,769	571,067
Tier 2 capital	225,496	6,277	225,496	6,277
Total capital	2,350,856	1,353,748	2,597,084	1,569,293

Capital adequacy ratio

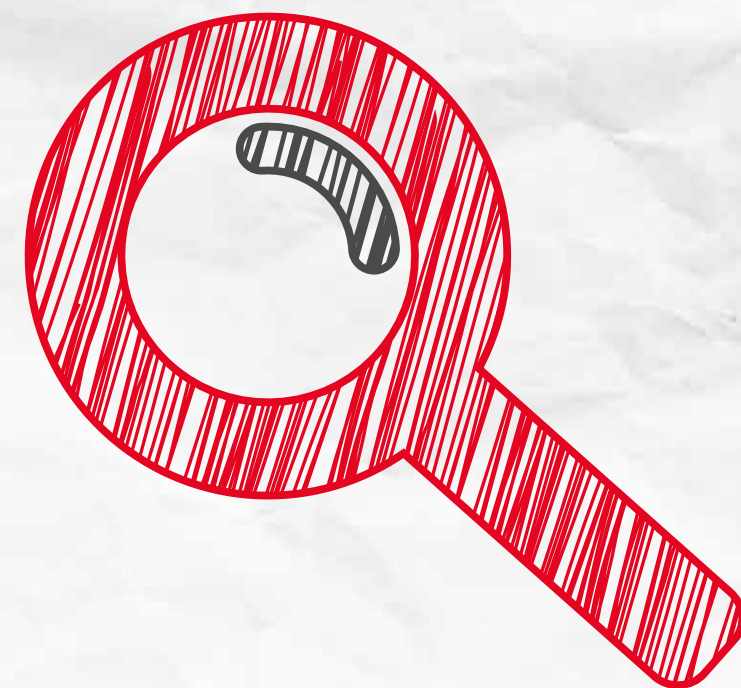
As of 31 December 2016 and 2015, capital adequacy ratio is as follows:

	Excluding profit for the year		Including profit for the year less proposed dividends	
	2016	2015	2016	2015
Common Tier 1 capital	11.04%	6.49%	12.80%	8.30%
Total Tier 1 capital ratio	15.14%	11.27%	16.89%	13.07%
Total capital ratio	16.74%	11.32%	18.50%	13.12%

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



www.



**DIRECTORY**

# DIRECTORY

## THE GROUP’S CONTACT INFORMATION

**ELECTRONIC BANKING**  
www.esgbl.com: for clients to check their accounts on the web  
www.sgbl.com: our website in French and English  
“Banking with SGBL” mobile application

**CALL CENTER**  
1274 / (+961) 3 477 777

**GENERAL MANAGEMENT**  
Saloumeh-Dekwaneh, Saloumeh Roundabout, SGBL Bldg., PO Box 11 2955, T +961 1 499 813  
F +961 1 502 820, Telex 44453 44368 LE – Swift SGLILBBX, Email sgbl@sgbl.com.lb

**HEADQUARTERS**  
Riad el Solh, Riad el Solh Street, T +961 1 980 783 / 4, F +961 1 980 785

## THE NETWORK IN LEBANON

GREATER BEIRUT		
Achrafieh - Hotel Dieu, Facing Hotel Dieu de France, Sehnaoui Bldg., GF	T 01 427 541 - 422 558 / 9	F 01 427 541
Airport Road, Airport Boulevard, Allied Center	T 01 453 000	F 01 451 192
Badaro, Main Road, Middle East Bldg., GF	T 01 386 295 - 386 297	F 01 386 296
Barbir, Main Road, Barbir Hospital Bldg.	T 01 630 983 - 659 693	F 01 647 305
Bourj El Barajneh, Ain El Sekke Street	T 01 451 137 / 8	F 01 451 139
Chiah - Al Ariss, Mar Mekhael Church Street	T 01 277 832	F 01 277 835
Chiah - Moucharrafieh, Taleb Bldg.	T 01 277 311 / 3	F 01 545 993
Ghobeiry, Main Road, Mahdi Nasser Bldg.	T 01 856 116 / 7	F 01 841 431
Hamra, Banque du Liban Street	T 01 350 020 / 1	F 01 751 764
Hamra - Makdessi, Makdessi Street, Serhal and Massabki Bldg.	T 01 346 090	F 01 346 090
Jeitawi, Achrafieh, St. Georges Hospital Street, Jesuit Bldg.	T 01 448 170 / 1	F 01 562 402
Kafaat, Borj El Barajneh-El Kafaat, El Sayyed Hadi Nasrallah Highway	T 01 465 084 / 5 / 6	F 01 465 084
Kfarchima, Old Saida Road, Kfarchima bridge	T 05 470 091	F 05 470 091
Khaldeh, Khaldeh highway, Coop Bldg.	T 05 800 184 - 803 990	F 05 803 151
Mar Elias, Mar Elias Street, Hamzeh Sabeh Center	T 01 312 223 / 4	F 01 309 231
Mazraa, El Mama Street, Saeb Salam Corniche	T 01 818 155 / 6	F 01 314 794
Riad El Solh, Banks Street	T 01 980 783 / 4	F 01 980 785
Sadat, Hamra, Lagos Center	T 01 743 075 / 7	F 01 743 076
Sassine, Achrafieh, Sassine Square, Independence Avenue	T 01 200 525 - 215 513	F 01 200 526
Saydeh, Father Youssef Cherfan Street, Debs Bldg.	T 01 219 0702/1/	F 01 219073
St.Charles - Mina El Hosn, Omar Daouk Street, St. Charles Center	T 01 366 337	F 01 366 337
St. Nicolas, Achrafieh, Wadih Naim Street	T 01 322 740 / 1 / 2 / 3	F 01 322 740
Unesco, Moussaitbeh, Unesco Intersection, Hamadeh Bldg.	T 01 796 200	F 01 786 056
Verdun, Main road, Debes and Ammar Bldg.	T 01 860 703 / 4	F 01 860 706

MOUNT LEBANON		
Ajaltoun, Main Road	T 09 230 683 / 4	F 09 231 065
Antelias, Internal Road, near Saint Elie Church	T 04 410 480 / 1	F 04 402 137
Baabda, Main Road, Bassil building, GF	T 05 468 135 - 468 770	F 05 468 065
Bikfaya, Bikfaya Square, Saint-Coeur Bldg.	T 04 986 271 / 2	F 04 981 392
Bourj Hammoud, Municipality Square	T 01 258 883 / 4 - 255 993 - 259 991	F 01 259 992
Broumana, Main Road, Elias Kenaan Center	T 04 961 538 - 963 652	F 04 961 539
Dbayeh, Road Leading to the Outside Parking of Le Mall Dbayeh from Beirut, Mouawad Bldg., GF	T 04 402 312	F 04 402 312
Dhour Choueir, Dhour El Choueir Square	T 04 390 352 - 391 129	F 04 390 574
Dora, Dora Highway, Ghantous Bldg.	T 01 250 222	F 01 250 222
Furn El Chebbak, Main Road, Gharios Center	T 01 289 143 - 291 992	F 01 293 631
Ghazir, Jounieh Highway, Ghazir Junction, Slaiby Bldg.	T 09 856051 / 2 / 3 / 4	F 09 856051 / 2 / 3 / 4
Horch Tabet, Tayyar Center	T 01 512 550 / 3	F 01 512 552
Jal El Dib, Main road, Oscar Center	T 04 713 000	F 04 713 000
Jbeil - Municipality, Near Municipality	T 09 542 900	F 09 542 900
Jbeil - Souk, Old Souk, Saliba Bldg.	T 09 541 170 - 949 316	F 09 540 877
Jdeideh, Nahr El Mot, Monte Libano Bldg.	T 01 893 555 - 895 044	F 01 884 237
Jounieh - Apôtres, Main Entrance of Apôtres College	T 09 643 510	F 09 643 510
Jounieh - Haret Sakher, Banque du Liban Street, Stella Maris Bldg.	T 09 936 522 - 936 801	F 09 831 714
Kaslik, Sarba Highway, La Perla Bldg.	T 09 640 037 - 640 716	F 09 831 715
Mansourieh - Boulevard, Main Road	T 04 533 281	F 04 533 281
Mar Takla - Hazmieh, Gardenia Street, GF	T 05 455 900	F 05 455 900
Mazraat Yachouh - Elyssar, Elyssar Main Road, Karam Bldg.	T 04 916 551 / 2	F 04 916 553
Saloumeh - Dekwaneh, Saloumeh Roundabout	T 01 483 001 - 499 813	F 01 502 820
Sin El Fil - Boulevard, Horch Tabet Area	T 01 482 430	F 01 482 430
Zouk Mosbeh, Jeita Roundabout, Facing NDU	T 09 226 640	F 09 226 640

SOUTH		
Nabatieh - Mahmoud Fakih Street, Daher Center	T 07 760 256	F 07 760 256
Nabatieh - Main Road, Al Biyad Area	T 07 764 204 / 5	F 07 768 288
Saida - Jezzine Street, Golden Tower Bldg.	T 07 725 549 - 724 704	F 07 753 945
Saida - Riad El Solh Street, Riad El Solh Square, Fakhoury Bldg.	T 07 753 001	F 07 753 001
Sour - Al Massaref Street, Banks Street, Maarouf Sahily Bldg.	T 07 343 420	F 07 343 420
Sour - Al Ramel, Al Istiraha Street	T 07 741 702 - 349 437	F 07 740 614


NORTH		
Abdeh, Main Road	T 06 471 041 / 3	F 06 471 044
Amioun, Main Road, Obeid Bldg.	T 06 950 962 / 723	F 06 952 762
Batroun, Main Entrance, Najem Bldg.	T 06 744 288	F 06 744 288
Halba, Main Road, Massoud Bldg.	T 06 692 743	F 06 692 743
Kfaraaka, Koura Main Road	T 06 953 535 - 952 900	F 06 952 901
Tripoli - Al Maarad, Mouawad Street, Tripoli Center	T 06 435 222	F 06 435 221
Tripoli - Bechara El Khoury, Boulevard Street, Ghanem Bldg.	T 06 442 084 / 5 / 6	F 06 442 148
Tripoli - Fouad Chehab, Boulevard Street, Facing CNSS	T 06 441 043 - 624 988	F 06 430 321
Tripoli - Mina, El Mina Street, Farah Center	T 06 442 549 - 424 048	F 06 442 594

BEKAA		
Chtaura, Main Road, SGBL Bldg.	T 08 540 125 - 542 898	F 08 543 034
Hermel, Main Road, Chahine Center	T 08 200 600	F 08 200 600
Laboueh, Main Road	T 08 230 231	F 08 230 222
Zahle - Serail, Near Serail, St. Georges Street	T 08 809 700	F 08 809 700


# DIRECTORY

## THE REGIONAL NETWORK

**JORDAN**  
SGBJ - Societe Generale de Banque - Jordanie  
T +962 6 5600300 F +962 6 5693410  
**Headquarters** Ayla Street, Building No. 1,  
Abdali Development Project, Amman P.O.Box 560 Amman - 11118,  
www.sgbj.com




**CYPRUS**  
SGBCy - Societe Generale Bank - Cyprus  
T +357 8000 7777, F +357 22 399700  
**Headquarters** Corner of 88, Digenis Akritas Avenue and 36,  
Kypranoros Street, 1061, Nicosia  
www.sgcypus.com




## AFFILIATED COMPANIES

**SOGELEASE**




Jal el Dib Square, facing Mallah Center, Bldg. 26, Lebanon  
T +961 4 723043, F +961 4 723041

**SOGECAP LIBAN**




Sogecap Bldg., 41 Street, Dekwaneh, Lebanon  
T +961 1 511691, F +961 1 511695  
www.sogecapliban.com

**FIDUS**












Sehnaoui Bldg., Riad El Solh, Beirut, Lebanon  
T +961 1 990600, F +961 1 990601  
www.fidus.com.lb

**CENTRE DE TRAITEMENT MONÉTIQUE (CTM)**



Achrafieh, Beirut, Lebanon  
T +961 1 577612 / 3 / 4, F +961 1 577611

## CORRESPONDENT BANKS

	AUSTRALIA	<b>Sydney</b>	Commonwealth Bank of Australia
	CANADA	<b>Toronto</b>	Canadian Imperial Bank of Commerce
	DENMARK	<b>Copenhagen</b>	Danske Bank A/S
	FRANCE	<b>Paris</b>	Societe Generale SA
	GERMANY	<b>Frankfurt</b>	Commerzbank AG
		<b>Frankfurt</b>	Deutsche Bank AG
	JAPAN	<b>Tokyo</b>	Mizuho Bank Ltd
	JORDAN	<b>Amman</b>	Societe Generale de Banque - Jordanie
	KUWAIT	<b>Kuwait City</b>	Mashreq Bank PSC
	NEW ZEALAND	<b>Wellington</b>	ANZ Bank New Zealand Limited
	NORWAY	<b>Oslo</b>	DNB Bank ASA
	QATAR	<b>Doha</b>	Al Khaliji Commercial Bank (Al Khaliji QSC)
	SAUDI ARABIA	<b>Riyadh</b>	Riyadh Bank
	SWEDEN	<b>Stockholm</b>	Skandinaviska Enskilda Banken AB (PUBL)
	SWITZERLAND	<b>Zurich</b>	Credit Suisse AG
	UNITED ARAB EMIRATES	<b>Abu Dhabi</b>	First Abu Dhabi Bank (Previously National Bank of Abu Dhabi)
		<b>Dubai</b>	Mashreq Bank PSC
	UNITED KINGDOM	<b>London</b>	Barclays Bank PLC
	UNITED STATES	<b>New York</b>	Societe Generale
		<b>New York</b>	The Bank of New York Mellon
		<b>New York</b>	JPMorgan Chase Bank NA



## SOCIETE GENERALE DE BANQUE AU LIBAN

Lebanese Joint-Stock Company with a Capital of  
LBP 24.261.030.000, fully paid, C.R. 3696 Beirut, List of banks No.19,  
Fiscal No. 3518

Saloumeh-Dekwaneh, Saloumeh Roundabout,  
PO Box 112955 Beirut, Lebanon  
T +961 1 499 813, 1274

[sgbl.com](http://sgbl.com)

### PUBLISHING, CONCEPTION AND COPYWRITING

Corporate Communication  
Department, SGBL

### DESIGN AND LAYOUT

M&C Saatchi

### PHOTOGRAPHY

Chairman & CEO: Céline Nieszawer  
Executive Committee: Roger Moukarzel







