

BANK AUDI SAL

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2016



Building a better
working world

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BANK AUDI SAL

Qualified Opinion

We have audited the consolidated financial statements of Bank Audi SAL (the "Bank") and its subsidiaries (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 consolidated financial position of the Group as at 31 December 2016, its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Qualified Opinion

As disclosed in Note 38 to the consolidated financial statements, during 2016, the Group did not recognise in the consolidated income statement an amount of LBP 307,063 million in gains realised from certain transactions on financial instruments with the Central Bank of Lebanon. The Group recognized LBP 182,702 million of the gains directly as other comprehensive income under non-distributable reserves in equity, LBP 78,300 million under other liabilities in compliance with the Central Bank of Lebanon's Intermediate Circular No. 446 dated 30 December 2016, and LBP 46,061 million in current tax liabilities. Furthermore, as disclosed in Note 23 to the consolidated financial statements, the Group recorded excess collective impairment allowances for loans and advances to customers of LBP 384,039 million in order to comply with the requirements of Central Bank of Lebanon's Intermediate Circulars 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 LBP 638,915 million through an increase in gain from sale of financial assets at fair value through profit or loss and financial assets at amortised cost of LBP 307,063 million; a decrease in "Net credit losses" of LBP 400,253 million; and an increase in "Income tax" of LBP 68,401 million;
- Total assets as at 31 December 2016 would have increased by LBP 364,942 million through an increase in loans and advances to customers of LBP 384,039 million and a decrease in other assets of LBP 19,097 million;
- Total liabilities as at 31 December 2016 would have decreased, through a decrease in other liabilities of LBP 78,300 million; and
- Equity as at 31 December 2016 would have increased by LBP 443,242 million, through an increase the result of the year of LBP 638,915 million, a decrease in other comprehensive income of LBP 182,702; and a decrease in foreign currency translation reserve of LL 12,971 million.

Basis for Qualified Opinion (continued)

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the 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 consolidated 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.

Other Information Included in The Group's 2016 Annual Report

Other information consists of the information included in the Annual Report, other than the consolidated financial statements and our auditors' report thereon. Management is responsible for the other information.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information 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. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard, except for the effect on other information included in the Group's 2016 Annual Report of the matters described in the *Basis for qualified opinion* section above, whereby the Group did not recognise certain gains in the consolidated income statement and recorded excessive collective impairment allowances.

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.

Key Audit Matters (continued)

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 Bank's source systems as well as re-performing the calculation of the modelled impairment allowances. For the key assumptions in the model, we assessed whether those assumptions were appropriate in the circumstances.
- For consumer loans, specific and collective impairment allowances are calculated using a simple model, which are based on a percentage of outstanding amounts. 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.

Impairment of Goodwill

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 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.

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.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

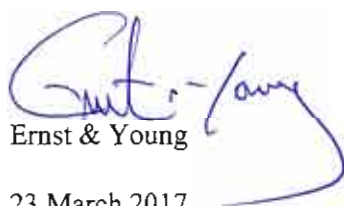
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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 Walid Nakfour for Ernst & Young and Antoine Gholam for BDO, Semaan, Gholam & Co.



Ernst & Young

23 March 2017
Beirut, Lebanon



BDO, Semaan, Gholam & Co.

Bank Audi SAL

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2016

	Notes	2016 LBP Million	2015 * Restated LBP Million
CONTINUING OPERATIONS			
Interest and similar income	5	3,867,438	3,751,014
Interest and similar expense	6	(2,331,623)	(2,300,257)
Net Interest Income		1,535,815	1,450,757
Fee and commission income	7	1,441,911	496,006
Fee and commission expense	8	(106,760)	(96,411)
Net Fee and Commission Income		1,335,151	399,595
Net gain on financial assets at fair value through profit or loss	9	396,931	27,284
Net gain on sale of financial assets at amortized cost	10	199,033	123,426
Revenues from financial assets at fair value through other comprehensive income	26	26,619	23,107
Share of profit of associates under equity method	27	1,090	3,044
Other operating income	11	46,579	32,154
Total Operating Income		3,541,218	2,059,367
Net credit losses	12	(665,384)	(201,057)
Net Operating Income		2,875,834	1,858,310
Personnel expenses	13	(733,910)	(623,093)
Other operating expenses	14	(490,546)	(399,393)
Depreciation of property and equipment	28	(77,802)	(73,262)
Amortisation of intangible assets	29	(30,913)	(28,756)
Impairment of goodwill and other assets	31 & 32	(193,660)	(5,457)
Total Operating Expenses		(1,526,831)	(1,129,961)
Operating Profit		1,349,003	728,349
Net loss on disposal of fixed assets		(23,188)	(821)
Profit Before Tax From Continuing Operations		1,325,815	727,528
Income tax	15	(351,618)	(160,825)
Profit After Tax From Continuing Operations		974,197	566,703
DISCONTINUED OPERATIONS			
(Loss) profit from discontinued operations, net of tax	16	(265,512)	41,024
Profit For The Year		708,685	607,727
Attributable to:			
Equity holders of the Bank:			
Profit for the year from continuing operations		959,594	566,483
(Loss) profit for the year from discontinued operations		(287,499)	21,465
Non-controlling interests:		36,590	19,779
Profit for the year from continuing operations		14,603	220
Profit for the year from discontinued operations		21,987	19,559
		708,685	607,727
Earnings per share:			
		LBP	LBP
Basic and diluted earnings per share	17	1,572	1,387
Basic and diluted earnings per share from continuing operations		2,294	1,333

(* Restated for the effect of separate presentation of profit from discontinued operations and earnings per share information.

The attached notes 1 to 59 form part of these consolidated financial statements.

Bank Audi SAL

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	2016 LBP Million	2015* Restated LBP Million
Profit for the year from continuing operations		974,197	566,703
(Loss) profit for the year from discontinuing operations		(265,512)	41,024
Profit for the year		<u>708,685</u>	<u>607,727</u>
Other comprehensive income			
<i>Items to be reclassified to the income statement in subsequent periods:</i>			
Exchange differences on translation of foreign operations		(758,094)	(326,405)
Loss reclassified to income statement		180,571	-
Net gain on hedge of net investments	21	46,250	124,318
Net deferred income taxes	15	(1,812)	-
	47	<u>(533,085)</u>	<u>(202,087)</u>
Effect of change in time value of hedging instruments	21	(4,655)	(53,500)
Net deferred income taxes	15	94	-
		<u>(4,561)</u>	<u>(53,500)</u>
<i>Items not to be reclassified to the income statement in subsequent periods:</i>			
Actuarial gain on defined benefits plans	39	2,011	9,157
Net deferred income taxes	15	(673)	(891)
	47	<u>1,338</u>	<u>8,266</u>
Net unrealized gain on financial assets at fair value through other comprehensive income		(4,463)	11,040
Net deferred income taxes	15	433	(1,161)
	47	<u>(4,030)</u>	<u>9,879</u>
Revaluation of lands and buildings	28	-	770
Effect of entities deconsolidated during the year		(2,319)	-
Net deferred income taxes	15	-	4,613
	47	<u>(2,319)</u>	<u>5,383</u>
Net gain from sale of financial assets	38 & 43	182,702	-
		<u>177,691</u>	<u>23,528</u>
Other comprehensive income for the year, net of tax		<u>(359,955)</u>	<u>(232,059)</u>
Total comprehensive income for the year, net of tax		<u>348,730</u>	<u>375,668</u>
Attributable to:			
Equity holders of the Bank		372,174	377,891
Non-controlling interests		(23,444)	(2,223)
		<u>348,730</u>	<u>375,668</u>

* Restated for the effect of separate presentation of profit from discontinued operations and earnings per share information

The attached notes 1 to 59 form part of these consolidated financial statements.

Bank Audi SAL

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	2016 LBP Million	2015 LBP Million
ASSETS			
Cash and balances with central banks	18	18,650,596	13,754,922
Due from banks and financial institutions	19	3,027,228	2,704,157
Loans to banks and financial institutions and reverse repurchase agreements	20	2,068,815	2,585,553
Derivative financial instruments	21	390,138	265,863
Financial assets at fair value through profit or loss	22	693,214	383,722
Loans and advances to customers at amortized cost	23	25,732,247	26,812,807
Loans and advances to related parties at amortized cost	24	219,193	214,549
Debtors by acceptances		199,156	240,605
Financial assets at amortized cost	25	13,990,070	14,784,574
Financial assets at fair value through other comprehensive income	26	193,948	144,375
Investments in associates	27	13,333	13,989
Property and equipment	28	881,501	963,438
Intangible assets	29	64,621	101,364
Non current assets held for sale	30	81,027	72,779
Other assets	31	485,295	470,506
Goodwill	32	41,827	209,434
TOTAL ASSETS		66,732,209	63,722,637
LIABILITIES			
Due to central banks	33	2,008,163	651,174
Due to banks and financial institutions	34	2,574,005	2,259,247
Derivative financial instruments	21	272,952	131,199
Customers' deposits	35	53,389,218	52,990,507
Deposits from related parties	36	813,548	690,111
Debt issued and other borrowed funds	37	973,535	1,053,982
Engagements by acceptances		199,156	240,605
Other liabilities	38	769,582	578,000
Provisions for risks and charges	39	156,592	172,060
TOTAL LIABILITIES		61,156,751	58,766,885
SHAREHOLDERS' EQUITY – GROUP SHARE			
Share capital – common shares	40	661,985	661,985
Share capital – preferred shares	40	10,350	6,210
Issue premium – common shares	41	883,582	883,582
Issue premium – preferred shares	41	931,837	559,102
Warrants issued on subsidiary shares	40	12,629	17,145
Cash contribution to capital	42	72,586	72,586
Non-distributable reserves	43	1,456,141	1,179,216
Distributable reserves	44	624,501	642,865
Treasury shares	46	(94,026)	-
Retained earnings		875,244	675,524
Other components of equity	47	(872,818)	(390,195)
Result of the year		672,095	587,948
NON-CONTROLLING INTERESTS	48	341,352	59,784
TOTAL SHAREHOLDERS' EQUITY		5,575,458	4,955,752
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		66,732,209	63,722,637

The attached notes 1 to 59 form part of these consolidated financial statements.

Bank Audi SAL

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2016

	Notes	2016 LBP Million	2015 LBP Million
OPERATING ACTIVITIES			
Profit before tax from continuing operations		1,325,815	727,528
(Loss) profit before tax from discontinued operations		(263,749)	41,387
Non-cash:			
Depreciation and amortisation	28 & 29	108,715	102,018
Impairment of assets acquired in settlement of debt	30	310	-
Net gain on financial instruments at amortised cost	10	(199,033)	(123,426)
Provisions for loans and advances	12	715,797	238,421
Recoveries of provision for loans and advances	12	(50,413)	(37,370)
Share of net profit of associates	27	(1,090)	(3,044)
Net loss (gain) on disposal of assets acquired in settlement of debt	11	11	(225)
Net loss on sale or disposal of fixed assets		23,188	821
Provision for risks and charges		60,581	53,412
Write back of provisions for risks and charges	11	(1,336)	(654)
Impairment of goodwill	32	148,439	5,457
Gain on revaluation of associate	11	-	(7,161)
Effect of entities deconsolidated during the year		73,738	(7,687)
		<u>1,940,973</u>	<u>989,477</u>
Working capital adjustments:			
Balances with the Central Banks, banks and financial institutions maturing in more than 3 months		(3,245,003)	(3,755)
Change in derivatives and financial assets held for trading		(194,955)	25,760
Change in loans and advances to customers and related parties		397,823	(1,334,219)
Change in other assets		(56,138)	71,956
Change in deposits from customers and related parties		522,148	(319,213)
Change in other liabilities		126,870	90,034
		<u>(508,282)</u>	<u>(479,960)</u>
Provisions for risks and charges paid		(49,872)	(32,470)
Taxation paid		(208,891)	(181,523)
		<u>(767,045)</u>	<u>(693,953)</u>
Net cash flows used in operating activities			
INVESTING ACTIVITIES			
Change in financial assets – other than trading		1,025,577	(81,162)
Purchase of property and equipment and intangibles	28 & 29	(171,857)	(170,736)
Change in investments under equity method and related loans		1,746	(377)
Cash collected from sale of property and equipment and intangibles		384	288
Proceed from sale of subsidiaries	16	30,150	-
Acquisition of subsidiary, net of cash acquired		-	(6,766)
		<u>886,000</u>	<u>(258,753)</u>
Net cash flows from (used in) investing activities			
FINANCING ACTIVITIES			
Subsidiary shares warrants	40	(4,516)	(50)
Issuance of preferred shares	40	376,875	-
Cost of issuance preferred shares	40	(7,707)	-
Cancellation of preferred shares series "E"	40	-	(188,438)
Distribution of dividends	40	(275,515)	(286,556)
Treasury GDR and warrants transactions		(93,742)	4,929
Debt issued and other borrowed funds	37	(80,447)	199,527
Change in non controlling interest		359,368	(3,477)
		<u>274,316</u>	<u>(274,065)</u>
Net cash flows from (used in) financing activities			
CHANGE IN CASH AND CASH EQUIVALENTS			
		<u>393,271</u>	<u>(1,226,771)</u>
Net foreign exchange difference			
		(608,014)	(203,617)
Cash and cash equivalents at 1 January		3,671,857	5,102,245
CASH AND CASH EQUIVALENTS AT 31 DECEMBER			
	49	<u>3,457,114</u>	<u>3,671,857</u>
Operational cash flows from interest and dividends			
Interest paid		(3,846,031)	(2,328,462)
Interest received		2,322,153	3,790,528
Dividends received		27,024	23,430

The attached notes 1 to 59 form part of these consolidated financial statements.

Bank Audi SAL

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Attributable to the equity holders of the Bank														
	Share capital - common shares LBP Million	Share capital - preferred shares LBP Million	Issue premium - common shares LBP Million	Issue premium - preferred shares LBP Million	Warrants issued on subsidiary shares LBP Million	Cash contribution to capital LBP Million	Non distributable reserves LBP Million	Distributable reserves LBP Million	Treasury shares LBP Million	Retained earnings LBP Million	Other components of equity LBP Million	Result of the year LBP Million	Total LBP Million	Non-controlling interests LBP Million	Total shareholder's equity LBP Million
Balance at 1 January 2016	661,985	6,210	883,582	559,102	17,145	72,586	1,179,216	642,865	-	675,524	(390,195)	587,948	4,895,968	59,784	4,955,752
Net profits for the year	-	-	-	-	-	-	-	-	-	-	-	672,095	672,095	36,590	708,685
Other comprehensive income	-	-	-	-	-	-	182,702	-	-	-	(482,623)	-	(299,921)	(60,034)	(359,955)
Total comprehensive income	-	-	-	-	-	-	182,702	-	-	-	(482,623)	672,095	372,174	(23,444)	348,730
Appropriation of 2015 profits	-	-	-	-	-	-	235,013	2,681	-	74,739	-	(312,433)	-	-	-
Issuance of series "I" preferred shares	-	4,140	-	372,735	-	-	-	-	-	-	-	-	376,875	-	376,875
Distribution of dividends on ordinary shares	-	-	-	-	-	-	-	-	-	-	-	(241,030)	(241,030)	-	(241,030)
Distribution of dividends on preferred shares	-	-	-	-	-	-	-	-	-	-	-	(34,485)	(34,485)	-	(34,485)
Cost of issuance of shares	-	-	-	-	-	-	-	(7,707)	-	-	-	-	(7,707)	-	(7,707)
Treasury shares transactions	-	-	-	-	-	-	-	284	(94,026)	-	-	-	(93,742)	-	(93,742)
Subsidiary shares warrants	-	-	-	-	(4,516)	-	-	-	-	-	-	-	(4,516)	-	(4,516)
Non-controlling interests share of reserves	-	-	-	-	-	-	(16)	242	-	(8,860)	-	-	(8,634)	8,634	-
Non-controlling interests share of capital	-	-	-	-	-	-	-	-	-	-	-	-	-	359,368	359,368
Entities deconsolidated during the year	-	-	-	-	-	-	(140,774)	(10,865)	-	134,396	-	-	(17,243)	(62,990)	(80,233)
Other movements	-	-	-	-	-	-	-	(2,999)	-	(555)	-	-	(3,554)	-	(3,554)
Balance at 31 December 2016	661,985	10,350	883,582	931,837	12,629	72,586	1,456,141	624,501	(94,026)	875,244	(872,818)	672,095	5,234,106	341,352	5,575,458
Balance at 1 January 2015	659,586	8,250	883,582	745,500	17,195	72,586	1,050,579	616,976	(4,929)	599,388	(178,943)	513,500	4,983,270	63,261	5,046,531
Net profits for the year	-	-	-	-	-	-	-	-	-	-	-	587,948	587,948	19,779	607,727
Other comprehensive income	-	-	-	-	-	-	-	-	-	-	(210,057)	-	(210,057)	(22,002)	(232,059)
Total comprehensive income	-	-	-	-	-	-	-	-	-	-	(210,057)	587,948	377,891	(2,223)	375,668
Appropriation of 2014 profits	-	-	-	-	-	-	143,140	25,927	-	57,877	-	(226,944)	-	-	-
Increase in share nominal value	2,399	23	-	(23)	-	-	(2,399)	-	-	-	-	-	-	-	-
Distribution of dividends on ordinary shares	-	-	-	-	-	-	-	-	-	-	-	(240,766)	(240,766)	-	(240,766)
Distribution of dividends on preferred shares	-	-	-	-	-	-	-	-	-	-	-	(45,790)	(45,790)	-	(45,790)
Redemption of preferred shares series "E"	-	(2,063)	-	(186,375)	-	-	-	-	-	-	-	(188,438)	(188,438)	-	(188,438)
Entities under equity method	-	-	-	-	-	-	-	-	-	612	-	-	612	-	612
Treasury share transactions	-	-	-	-	-	-	-	-	4,929	-	-	-	4,929	-	4,929
Warrants issued on subsidiary shares	-	-	-	-	(50)	-	-	(31)	-	-	-	-	(81)	-	(81)
Non-controlling interests share of reserves	-	-	-	-	-	-	(12,104)	(687)	-	18,737	-	-	5,946	(5,946)	-
Non-controlling interests share of capital	-	-	-	-	-	-	-	-	-	-	-	-	-	4,692	4,692
Sale of financial assets at FVTOCI	-	-	-	-	-	-	-	-	-	4,764	(1,195)	-	3,569	-	3,569
Entities acquired during the year	-	-	-	-	-	-	-	681	-	(6,903)	-	-	(6,222)	-	(6,222)
Other movement	-	-	-	-	-	-	-	(1)	-	1,049	-	-	1,048	-	1,048
Balance at 31 December 2015	661,985	6,210	883,582	559,102	17,145	72,586	1,179,216	642,865	-	675,524	(390,195)	587,948	4,895,968	59,784	4,955,752

The attached notes 1 to 59 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

1 CORPORATE INFORMATION

Bank Audi SAL (the Bank) is a Lebanese joint stock company registered since 1962 in Lebanon under No 11347 at the Register of Commerce and under No 56 on the Banks' list at the Bank of Lebanon ("BDL"). The Bank's head office is located in Bank Audi Plaza, Omar Daouk Street, Beirut, Lebanon. The Bank's shares are listed on the Beirut Stock Exchange and London SEAQ.

The Bank, together with its subsidiaries (collectively "the Group"), provides a full range of retail, commercial, investment and private banking activities through its headquarter as well as its branches in Lebanon and its presence in Europe, the Middle East and North Africa.

The consolidated financial statements were authorized for issue in accordance with the Board of Directors' resolution on 20 March 2017.

2 ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis except for: a) the revaluation of land and buildings pursuant to the adoption of the revaluation model of IAS 16 for this asset class, and b) the measurement at fair value of derivative financial instruments, financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income.

The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and otherwise carried at amortised cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

The consolidated financial statements are presented in Lebanese Pounds (LBP) which is the Bank's functional currency and all values are rounded to the nearest million, except when otherwise indicated. Besides, the consolidated financial statements provide comparative information in respect of the previous period.

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 ("BCC").

Presentation of financial statements

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

Financial assets and financial liabilities are generally reported gross in the consolidated statement of financial position. They are offset and the net amount is reported only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis -or to realise the assets and settle the liability simultaneously - in all of the following circumstances: a) the normal course of business, b) the event of default, and c) the event of insolvency or bankruptcy of the Bank and/or its counterparties. Only gross settlement mechanisms with features that eliminate or result in insignificant credit and liquidity risk and that process receivables and payables in a single settlement process or cycle would be, in effect, equivalent to net settlement. 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. Income and expense will not be offset in the consolidated income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Group.

2 ACCOUNTING POLICIES (continued)

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of Bank Audi SAL and its subsidiaries as at 31 December 2016.

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 measures the non-controlling interest in the acquiree at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group makes an acquisition meeting the definition of a business under IFRS 3, 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 acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through the consolidated income statement. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognised 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 recognised in profit or loss. 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 recognised 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 recognised 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 recognised 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.

Control and subsidiaries

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, and
- The ability to use its power over the investee to affect its returns

2 ACCOUNTING POLICIES (continued)

2.2 Basis of consolidation (continued)

Control and subsidiaries (continued)

Generally, there is a presumption that a majority of voting rights results in control. However, under individual circumstances, the Bank 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 Bank 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 Bank can direct those activities;
- Contractual arrangements such as call rights, put rights and liquidation rights; and
- Whether the Bank 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 Bank 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 Bank obtains control over the subsidiary and ceases when the Bank 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 Bank gains control until the date the Bank ceases to control the subsidiary.

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 derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value at the date of loss of control.

Where the Group loses control of a subsidiary but retains an interest in it, then such interest is measured at fair value at the date that control is lost with the change in carrying amount recognised in profit or loss. Subsequently it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. As such, amounts previously recognised in other comprehensive income are transferred to consolidated income statement.

Non-Controlling interests

Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not owned by the Group. The Group has elected to measure the non-controlling interests in acquirees at the proportionate share of each acquiree's identifiable net assets. Interests in the equity of subsidiaries not attributable to the Group are reported in consolidated equity as non-controlling interests. Profit or loss and each component of 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.

The Group treats transactions with non-controlling interests as transactions with equity holders of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

2 ACCOUNTING POLICIES (continued)

2.2 Basis of consolidation (continued)

Investment in associates

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 are accounted for using the equity method. Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise 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 neither amortised nor separately tested for impairment.

The statement of profit or loss reflects the Group's share of the results of operations of the associates. Any change in other comprehensive income of those investees is presented as part of the Group's other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. 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 associates 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 recognise 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, then recognises the loss in the consolidated income statement.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is transferred to consolidated income statement where appropriate. Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

2.3 Changes in accounting policies and disclosures

New and amended standards and interpretations

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2016.

Although these new standards and amendments have been applied for the first time in 2016, they did not have a material impact on the annual consolidated financial statements of the Group. The nature and the impact of each new standard or amendment are described below:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

2 ACCOUNTING POLICIES (continued)

2.3 Changes in accounting policies and disclosures (continued)

Standard	Description	Effective date (early adoption permitted)
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
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 recognised 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

2 ACCOUNTING POLICIES (continued)

2.4 Changes issued but not yet effective (continued)

Standard	Description	Effective date
IFRS 9 (2014) Financial instruments	<p>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. In prior years the Group has early adopted IFRS 9 (2011) which includes the requirements for the classification and measurement. In 2014, the Group early applied IFRS 9 (2013) which includes the classification and measurement as well as the hedge accounting requirements of the standard. Retrospective application is required, but comparative information is not compulsory. The adoption of IFRS 9 (2014) will have an effect on measuring impairment allowances and on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities.</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>	1 January 2018
IFRS 15, "Revenue from contracts with customers".	<p>This is the converged standard on revenue recognition. It replaces IAS 11, 'Construction contracts', IAS 18, 'Revenue' and related interpretations. Revenue is recognised 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 recognises 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.</p>	1 January 2018
IAS 12, "Income taxes"	<p>The amendments clarify the following</p> <p>(a) Recognition of a deferred tax asset if the loss is unrealized is allowed, if certain conditions are met; and</p> <p>(b) The bottom line of the tax return is not the 'future taxable profit' for the recognition test.</p> <p>The IASB amendments clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value.</p> <p>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.</p>	1 January 2017

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

2 ACCOUNTING POLICIES (continued)

2.4 Changes issued but not yet effective (continued)

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; 1 January 2017
(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

IFRS 16, 'Leases' The IASB issued the new standard for accounting for leases in January 2016. 1 January 2019
(a) The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right-of-use assets.
(b) Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'shortterm' leases and leases of 'low-value' assets.
(c) Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the statement of profit or loss.

Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date.

Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach.

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

Foreign currencies

The consolidated financial statements are presented in Lebanese Pound (LBP) which is also the Bank's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

(i) Transactions and balances

Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the date of the statement of financial position. All differences are taken to "net gain on financial assets at fair value through profit or loss" in the consolidated income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

2 ACCOUNTING POLICIES (continued)**2.5 Summary of significant accounting policies (continued)****(ii) Group companies**

On consolidation, the assets and liabilities of subsidiaries and overseas branches are translated into the Bank's presentation currency at the rate of exchange as at the reporting date, and their income statements are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to the foreign currency translation reserve in equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated income statement.

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 the exchange rate on the reporting date.

The table below presents the exchange rates of the currencies used to translate assets, liabilities and statement of income items of foreign branches and subsidiaries:

	2016		2015	
	Year-end rate LBP	Average rate LBP	Year-end rate LBP	Average rate LBP
US Dollar	1,507.50	1,507.50	1,507.50	1,507.50
Euro	1,596.29	1,662.26	1,646.64	1,677.56
Swiss Franc	1,485.81	1,524.89	1,520.88	1,561.93
Syrian Lira	-	-	4.48	5.66
Turkish Lira	427.66	500.28	518.42	557.96
Jordanian Dinar	2,124.74	2,125.11	2,124.44	2,127.02
Egyptian Pound	81.49	141.22	192.53	195.99
Sudanese Pound	-	-	234.45	236.98
Saudi Riyal	401.91	401.88	401.58	401.79
Qatari Riyal	413.99	414.01	413.89	414.00
Iraqi Dinar	1.29	1.29	-	-

Financial instruments –classification and measurement**(i) Date of recognition**

All financial assets and liabilities are initially recognised on the settlement date. This includes "regular way trades": purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

(ii) Classification and measurement of financial instruments**a. Financial assets**

The classification of financial assets depends on the basis of each 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 amortised cost or 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 recognising 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Financial instruments –classification and measurement (continued)

Financial assets at amortised cost

Debt instruments are subsequently measured at amortised 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 recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributed to the acquisition are also included in the cost of investment. After initial measurement, these financial assets are measured at amortised cost using the effective interest rate (EIR) method, less allowance for impairment. Amortised 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 income statement. The losses arising from impairment are recognised in the income statement in “Impairment losses on other financial assets”.

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

Gains and losses arising from the derecognition of financial assets measured at amortised cost are reflected under “Net gain on sale of financial assets at amortised cost” in the consolidated income statement.

Balances with central banks, due from banks and financial institutions, and loans and advances to customers and related parties – at amortized cost

After initial measurement, “Balances with central banks”, “Due from banks and financial institutions”, and “Loans and advances to customers and related parties” are subsequently measured at amortised cost using the EIR, less allowance for impairment. Amortised 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 amortisation is included in ‘Interest and similar income’ in the consolidated income statement. The losses arising from impairment are recognised in the consolidated income statement in “Net credit losses”.

Financial assets at fair value through profit or loss

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

Debt instruments at fair value through profit or loss

These financial assets are recorded in the consolidated statement of financial position at fair value. Changes in fair value and interest income are recorded under “net gain on financial assets at fair value through profit or loss” in the consolidated income statement. Gains and losses arising from the derecognition of debt instruments and other financial assets at fair value through profit or loss are also reflected under “net gain on 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.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Financial instruments –classification and measurement (continued)

Financial assets at fair value through profit or loss (continued)

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 on 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 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 recognised 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 recognised under “Revenue from financial assets at fair value through other comprehensive income” in the consolidated income statement when the Group’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.

b. Financial liabilities

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

The Group classifies all financial liabilities as subsequently measured at amortised cost using the effective interest 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 recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 Revenue.

The Group 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 recognising 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 Group's key management personnel.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Financial instruments –classification and measurement (continued)

b. Financial liabilities (continued)

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 recognised 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.

Debt issued and other borrowed funds and subordinated notes

Financial instruments issued by the Group, which are not designated at fair value through profit or loss, are classified as liabilities where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, debt issued and other borrowings and subordinated notes are subsequently measured at amortised cost using the effective interest rate method. Amortised 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.

A compound financial instrument which contains both a liability and an equity component is separated at the issue date. A portion of the net proceeds of the instrument is allocated to the debt component on the date of issue based on its fair value (which is generally determined based on the quoted market prices for similar debt instruments). The equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the debt component. The value of any derivative features (such as a call option) embedded in the compound financial instrument other than the equity component is included in the debt component.

Due to central banks, banks and financial institutions and customers' and related parties' deposits

After initial measurement, due to banks and financial institutions, customers' and related parties' deposits are measured at amortised cost less amounts repaid using the effective interest rate method. Amortised 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. Customer deposits which are linked to the performance of indices or commodities are subsequently measured at fair value through profit or loss.

c. Derivatives recorded at fair value through profit or loss

The Group uses derivatives such as interest rate swaps and futures, credit default swaps, cross currency swaps, forward foreign exchange contracts and options on interest rates, foreign currencies and equities.

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 recognised in "Net gain on 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 recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

(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 recognised in the consolidated income statement when the inputs become observable, or when the instrument is derecognised.

(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 and 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 recognised gains, losses or interest are not restated.

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

Derecognition of financial assets and financial liabilities

(i) *Financial assets*

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability in the statement of financial position. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and consideration received (including any new asset obtained less any new liability assumed) is recognised in consolidated income statement.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date are not derecognised from the consolidated statement of financial position as the Group retains substantially all the risks and rewards of ownership. The corresponding cash received is recognised in the consolidated statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within "Due to banks under 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 the agreement using the EIR. When the counterparty has the right to sell or repledge the securities, the Group reclassifies those securities in its statement of financial position to "Financial assets given as collateral".

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the consolidated statement of financial position. The consideration paid, including accrued interest is recorded in the consolidated statement of financial position within "Loans to banks and financial institutions and 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 EIR. 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 on financial instruments at fair value through profit or loss" in the consolidated income statement.

Fair value measurement

The Group measures financial instruments, such as derivatives, and non-financial assets, namely land and building and building improvements, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised 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, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Fair value measurement (continued)

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

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

For the purpose of fair value disclosures, the 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.

Impairment of financial assets

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

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

(i) Financial assets at amortised cost

For financial assets carried at amortised cost (such as due from banks and financial institutions, debt instruments at amortised cost, loans and advances to customers and related parties, 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, recognised are not included in a collective assessment of impairment.

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

(i) Financial assets at amortised cost (continued)

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised 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 recognised; the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the "Net credit losses" in the consolidated income statement.

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 experience.

(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. 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 occasionally acquires properties in settlement of loans and advances. Upon initial recognition, those assets are measured at fair value as approved by the regulatory authorities. Subsequently these properties are measured at the lower of carrying value or net realisable value.

Upon sale of repossessed assets, any gain or loss realized is recognized in the consolidated income statement under "Other operating income" or "Other operating expenses". Gains resulting from the sale of repossessed assets are transferred to "Reserves appropriated for capital increase" in the following financial year.

Hedge accounting

In order to manage particular risks, the Group applies hedge accounting for transactions which meet the specified criteria. The Group makes use of derivative instruments to manage exposures to foreign currency risk. The process starts with identifying the hedging instrument and hedged item and preparing hedge documentation detailing the risk management strategy and objective.

Setting the risk management strategy and objectives

At inception of the hedge relationship, the Group formally documents its risk management 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.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Hedge accounting (continued)

Setting the risk management strategy and objectives (continued)

The risk management strategy is established at the level of executive management and identifies the risks to which the Group is exposed and whether and how the risk management activities should address those risks. The strategy is typically maintained for a relatively long period of time. However, it may include some flexibility to react to changes in circumstances. The risk management strategy is set out in general documentation and is cascaded down through policies containing more specific guidelines.

The Group sets risk management objectives at the level of individual hedging relationships and defines how a particular hedging instrument is designated to hedge a particular hedged item. As such, a risk management strategy would usually be supported by many risk management objectives.

Qualifying hedging relationships

The Group applies hedge accounting for qualifying hedging relationships. A hedging relationship qualifies for hedge accounting only if: (a) the hedging relationship consists only of eligible hedging instruments and eligible hedged items; (b) at the inception of the hedging relationship there is formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge, and (c) the hedging relationship meets all of the hedge effectiveness requirements.

At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis in order to qualify for hedge accounting. The effectiveness test can be performed qualitatively or quantitatively. 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 semi-annually on an ongoing basis. A hedge is expected to be highly effective if:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item. However, that designation shall not reflect an imbalance between the weightings of the hedged item and the hedging instrument that would create hedge ineffectiveness that could result in an accounting outcome that would be inconsistent with the purpose of hedge accounting.

Hedge ineffectiveness is recognized in the consolidated income statement in "Net gain (loss) from financial instruments at fair value through profit or loss.

(i) Fair value hedges

For qualifying fair value hedges, the gain or loss on the hedging instrument is recognised in the consolidated income statement under "Net gain on financial assets at fair value through profit or loss" (or other comprehensive income, if the hedging instrument hedges an equity instrument for which an entity has elected to present changes in fair value in other comprehensive income. Hedging gain or loss on the hedged item adjusts the carrying amount of the hedged item and is recognised in the consolidated income statement also under "Net gain on financial assets at fair value through profit or loss". If the hedged item is an equity instrument for which the Group has elected to present changes in fair value in other comprehensive income, those amounts remain in other comprehensive income.

(ii) Cash flow hedges

For qualifying cash flow hedge, a separate component of equity associated with the hedged item (cash flow hedge reserve) is adjusted to the lower of the following (in absolute amounts):

- a) the cumulative gain or loss on the hedging instrument from inception of the hedge; and
- b) the cumulative change in fair value (present value) of the hedged item from inception of the hedge.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Hedge accounting (continued)

(ii) Cash flow hedges (continued)

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge (the portion that is offset by the change in the cash flow hedge reserve described above) shall be recognised in other comprehensive income. Any remaining gain or loss on the hedging instrument is hedge ineffectiveness that shall be recognised in the consolidated income statement. The amount that has been accumulated in the cash flow hedge reserve and associated with the hedged item is treated as follows:

- a) if a hedged forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the Group removes that amount from the cash flow hedge reserve and includes it directly in the initial cost or other carrying amount of the asset or the liability without affecting other comprehensive income.
- b) for cash flow hedges other than those covered by a), that amount is reclassified from the cash flow hedge reserve to profit or loss as a reclassification adjustment in the same period or periods during which the hedged expected future cash flows affect profit or loss. However, if that amount is a loss and the Group expects that all or a portion of that loss will not be recovered in one or more future periods, it immediately reclassifies the amount that is not expected to be recovered into profit or loss as a reclassification adjustment.

(iii) Hedge of net investments

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 recognised directly in other comprehensive income while any gains or losses relating to the ineffective portion are recognised in the consolidated income statement. On disposal or partial disposal of the foreign operation, the cumulative value of any such gains or losses recognised directly in the foreign currency translation reserve is transferred to the consolidated income statement as a reclassification adjustment.

To enhance hedge effectiveness, the Group designates only the change in the intrinsic value as the hedging instrument when hedging a net investment in a foreign operation through financial derivatives. The time value of the derivatives is treated as costs of hedging to be deferred or amortized. The change in fair value of the time value of the option is recognized in other comprehensive income to the extent that it relates to the hedged item. The method used to reclassify the amounts from equity to consolidated income statement is determined by considering that the hedged item is time-period related since the Group seeks to hedge the currency risk during a period of time.

Leases

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 recognised as an expense in the consolidated income statement on a straight line basis over the lease term. Contingent rental payable are recognised as an expense in the period in which they are incurred.

Group as a lessor

Leases where the Group does not transfer substantially all the risks 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 recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Revenue recognition

Revenue is recognised 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 recognised.

(i) Interest and similar income and expense

For all financial instruments measured at amortised cost, interest income or expense is recorded using the EIR, 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.

(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 recognised as an adjustment to the EIR on the loan. When it is unlikely that a loan be drawn down, the loan commitment fees are recognised as revenues on expiry.

Fee income from providing transaction services

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

(iii) Dividend income

Dividend income is recognised when the right to receive the payment is established.

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

Results arising from financial assets at fair value through profit or loss, include all gains and losses from changes in fair value and related income or expense and dividends for financial assets at fair value through profit or loss. This includes any ineffectiveness recorded in hedging transactions. This caption also includes the results arising from trading activities including all gains and losses from changes in fair value and related income or expense and dividends for financial assets held for trading.

Cash and cash equivalents

Cash and cash equivalents as referred to in the cash flow statement 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, and deposits due to banks and financial institutions.

Property and equipment

Property and equipment, except for land and buildings, is stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of the property and equipment. When significant parts of property and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the consolidated income statement as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Property and equipment (continued)

Land and buildings are measured at fair value less accumulated depreciation on buildings and impairment losses recognised since the date of revaluation. Valuations are performed by internal or external valuers with sufficient frequency to ensure that the carrying amount of a revalued asset does not differ materially from its fair value.

A revaluation surplus is recorded in other comprehensive income and credited to the real estate revaluation reserve in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, the increase is recognised in profit and loss. A revaluation deficit is recognised in the statement of income, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

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

- Buildings 40-50 years
- Freehold Improvements 5-10 years
- Leasehold Improvements 5-10 years
- Motor vehicles 5-7 years
- Office equipment and computer hardware 5-10 years
- Office machinery and furniture 10 years

An item of property and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. 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 included in the consolidated income statement when the asset is derecognised.

Intangible fixed assets

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the 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 amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation 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 benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated income statement.

Intangible assets with indefinite useful lives are not amortised, 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 recognised in the statement of profit or loss when the asset is derecognised.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Intangible fixed assets (continued)

Amortisation is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

- Computer software 5 years
- Key money 70 years

Non-current assets held for sale and discontinued operations

Non-current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets and disposal groups 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 or disposal group 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: a) represents a separate major line of business or geographical area of operations, b) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or c) is a subsidiary acquired exclusively with a view to resale.

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 loss of control. The resulting profit or loss (after taxes) is reported separately in the statement of comprehensive income.

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 fair value less costs to sell and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing 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, recent market transactions are taken into account. If no such transactions can be identified, 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 recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated income statement, unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Impairment of non-financial assets (continued)

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognised in OCI up to the amount of any previous revaluation.

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Provisions for risks and charges

Provisions are recognised 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. The expense relating to any provision is presented in the consolidated income statement net of any reimbursement.

The Bank 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, arbitration and regulatory investigations and proceedings both in Lebanon and in other jurisdictions, arising in the ordinary course of the Bank's business.

When the Bank can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Bank 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 Bank is of the opinion that disclosing these estimates on a case-by-case basis would prejudice their outcome, then the Bank 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 Bank takes into account a number of factors including legal advice, the stage of the matter and historical evidence from similar incidents.

Pensions and other post-employment benefits

The Group provides retirement benefits obligation to its employees under defined benefit plans which requires contributions to be made to separately administered funds. The cost of providing these benefits is determined using the projected unit credit method which involves making actuarial assumptions about discount rates and future salary increases. Those assumptions are unbiased and mutually compatible.

Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding net interest and the return on plan assets (excluding net interest), are recognized immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment, and
- The date that the Group recognises restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under "Personnel expenses" in consolidated statement of income:

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- Net interest expense or income

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Taxes

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 tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

(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 recognised for all taxable temporary differences, except:

- 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 and associates, 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 recognised 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 utilised 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 and associates, deferred tax assets are recognised 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 utilised.

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 utilised. Unrecognised deferred tax assets are reassessed at each statement of financial position date and are recognised 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 realised 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 recognised directly in other comprehensive income are also recognised in other comprehensive income and not in the consolidated income statement.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Taxes (continued)

(ii) Deferred tax (continued)

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

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in profit or loss.

Warrants issued on subsidiary shares

The value of warrants issued on subsidiary shares is reported as part of Group share of equity and is based on the issuance date fair value. Subsequently the carrying amount of those warrants is reduced by the cost of warrants acquired pursuant to trading transactions. No gain or loss is recognised in the consolidated income statement on the purchase, sale, issue or cancellation of those warrants.

Dividends on ordinary shares

Dividends on ordinary shares are recognized as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank. Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

Treasury shares

Own equity instruments of the Bank which are acquired by it or by any of its subsidiaries (treasury shares) are deducted from equity and accounted for at cost. Consideration paid or received on the purchase sale, issue or cancellation of the Bank's own equity instruments is recognised directly in equity. No gain or loss is recognised in the consolidated income statement on the purchase, sale, issue or cancellation of the Bank's own equity instruments.

When the Group holds own equity instruments on behalf of its clients, those holdings are not included in the Group's consolidated statement of financial position.

Contracts on own shares that require physical settlement of a fixed number of own shares for a fixed consideration are classified as equity and added to or deducted from equity. Contracts on own shares that require net cash settlement or provide a choice of settlement are classified as trading instruments and changes in the fair value are reported in the consolidated income statement.

Assets under management and 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 held in trust, under management or under custody or under administration, are not treated as assets of the Group and accordingly are recorded as off balance sheet items.

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 recognised in the 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 recognised less, when appropriate, cumulative amortization recognised 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. The premium received is recognised in the consolidated income statement on a straight line basis over the life of the guarantee.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Customers' acceptances

Customers' 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 statement of financial position for the same amount.

2.6 Significant accounting judgements and estimates

The preparation of the Group's consolidated 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 recognised in the financial statements:

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.

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 amortised 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.

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 financial statements continue to be prepared on the going concern basis.

2 ACCOUNTING POLICIES (continued)

2.6 Significant accounting judgements and estimates (continued)

Judgments (continued)

Deferred tax assets

Deferred tax assets are recognised 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 recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

Deconsolidation of Bank Audi Syria

The Group deconsolidated Bank Audi Syria due to the loss of control over the subsidiary and the Group's inability to direct its relevant activities. The assessment inevitably relied on management judgement which resulted in significant effects on the consolidated financial statements. Please refer to note 16 for more details on these effects.

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 consolidated 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 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. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Impairment losses on loans and advances

The Group reviews its individually significant loans and advances at each statement of financial position date to assess whether an impairment loss should be recorded in the 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.), concentrations of risks and economic data (including levels of unemployment, real estate price indices, country risk and the performance of different individual groups).

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to goodwill and other intangibles with indefinite useful lives recognised by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

2 ACCOUNTING POLICIES (continued)**2.6 Significant accounting judgements and estimates (continued)****Estimates and assumptions (continued)***Revaluation of property and equipment*

As of 31 December 2014, the Group carries its land and building and building improvements at fair value, with changes in fair value being recognised in other comprehensive income. The Group engaged independent valuation specialists to assess fair value as at 31 December 2014. Land and buildings 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. Management believes that price levels did not change significantly since 31 December 2014.

Pensions obligation

The cost of the defined benefit pension plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are highly sensitive to changes in these assumptions.

3 BUSINESS COMBINATIONS

During September 2015, Bank Audi SAL acquired additional 33% of Capital B. Solutions (CBS) Ltd ("CBS") with a total percentage of 70.5% for LBP 10,944 million. CBS (previously "Capital Outsourcing Limited") is a company limited by shares in accordance with Companies Law pursuant to DIFC Law No. 2 of 2009. The registered office of CBS is situated in the Dubai International Financial Center (DIFC). CBS is engaged in providing all information technology enabled services and data processing services, sale, exploitation and lease of all kind of information technology materials, telecommunications' equipment as well as electrical and electronic supplies.

The fair value of the identifiable assets and liabilities acquired and goodwill arising as at the date of acquisition was:

	<i>Fair value recognised on acquisition LBP Million</i>	<i>Carrying value LBP Million</i>
Due from banks	4,178	4,178
Loans and advances	547	547
Property and equipment	1,707	1,707
Intangible assets	223	11,840
Other assets	13,300	13,300
	<u>19,955</u>	<u>31,572</u>
Due to banks	11,958	11,958
Other liabilities	13,707	13,707
Provision for risk and charges	960	960
	<u>26,625</u>	<u>26,625</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

3 BUSINESS COMBINATION (continued)

	<i>LBP Million</i>
Acquisition percentage	70.50%
Fair value of net assets	(4,703)
Goodwill arising on acquisition	28,084
Cost of acquisition	23,381
Cash outflow on acquisition of the subsidiary:	
Cash paid	(10,944)
Net cash acquired with the subsidiary	4,178
Net cash outflow	(6,766)

From the date of acquisition till year end 2015, CBS contributed to a gain of LBP 97 million to the net profit of the Group. If the contribution had taken place at the beginning of the year 2015, the total net operating income for the year ended 2015, would have increased by LBP 579 million.

Goodwill resulting from the above acquisition of LBP 28,084 million was impaired upon testing on 31 December 2016 (note 32).

4 SEGMENT REPORTING

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segments are evaluated based on information relating to net operating income and financial position. Income taxes and depreciation are managed on a group basis and are not allocated to operating segments.

Interest income is reported net, since management monitors net interest income and not the gross income and expense amounts. Net interest income is allocated to the business segment based on the assumption that all positions are funded or invested via a central funding unit. An internal Funds Transfer Pricing (FTP) mechanism was implemented between operating segments.

The assets and liabilities that are reported in the segments are net from inter-segments' assets and liabilities since they constitute the basis of the management measures of the segments' assets and liabilities and the basis of the allocation of resources between segments.

A) Business Segments

The Group operates in four main business segments which are corporate and commercial banking, retail and personal banking, treasury and capital markets and group functions and head office.

Corporate and Commercial Banking Provides diverse products and services to the corporate and commercial customers including loans, deposits, trade finance, exchange of foreign currencies as well as all regular corporate and commercial banking activities.

Retail and Personal Banking Provides individual customers' deposits and consumer loans, overdrafts, credit cards, and funds transfer facilities, as well as all regular retail and private banking activities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

4 SEGMENT REPORTING (continued)**A) Business Segments (continued)****Treasury and Capital Markets**

Provides treasury services including transactions in money and capital markets for the Group's customers, manages investment and trading transactions (locally and internationally), and manages liquidity and market risks. This segment also offers investment banking and brokerage services and manages the Group's own portfolio of stocks, bonds, and other financial instruments.

Group Functions and Head Office

Consists of capital and strategic investments, exceptional profits and losses as well as operating results of subsidiaries which offer non-banking services.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

The following tables present net operating income information and financial position information.

i) Net operating income information

	2016				
	<i>Corporate and Commercial Banking</i> LBP Million	<i>Retail and Personal Banking</i> LBP Million	<i>Treasury and Capital Markets</i> LBP Million	<i>Group Functions and Head Office</i> LBP Million	<i>Total</i> LBP Million
Net interest income	607,568	395,412	432,144	100,691	1,535,815
Non-interest income					
Net fee and commission income	133,188	242,899	951,506	7,558	1,335,151
Foreign exchange operations	598	25,959	217,295	2,153	246,005
Financial operations	-	7,363	339,823	29,392	376,578
Share of profit of associates	-	-	-	1,090	1,090
Other operating income	311	5,264	557	40,447	46,579
Total non-interest income	134,097	281,485	1,509,181	80,640	2,005,403
Total operating income	741,665	676,897	1,941,325	181,331	3,541,218
Net credit losses	(521,963)	(143,421)	-	-	(665,384)
Net operating income	219,702	533,476	1,941,325	181,331	2,875,834
	2015				
	<i>Corporate and Commercial Banking</i> LBP Million	<i>Retail and Personal Banking</i> LBP Million	<i>Treasury and Capital Markets</i> LBP Million	<i>Group Functions and Head Office</i> LBP Million	<i>Total</i> LBP Million
Net interest income	593,105	337,863	502,532	17,257	1,450,757
Non-interest income					
Net fee and commission income	172,694	204,841	20,582	1,478	399,595
Foreign exchange operations	11,579	20,956	13,475	347	46,357
Financial operations	6,000	12,599	76,558	32,303	127,460
Share of profit of associates	-	-	-	3,044	3,044
Other operating income	774	8,495	7,194	15,691	32,154
Total non-interest income	191,047	246,891	117,809	52,863	608,610
Total operating income	784,152	584,754	620,341	70,120	2,059,367
Net credit losses	(114,069)	(86,988)	-	-	(201,057)
Net operating income	670,083	497,766	620,341	70,120	1,858,310

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

4 SEGMENT REPORTING (continued)

A) Business Segments (continued)

ii) Financial position information

	2016				
	Corporate and Commercial Banking LBP Million	Retail and Personal Banking LBP Million	Treasury and Capital Markets LBP Million	Group Functions and Head Office LBP Million	Total LBP Million
Investments in associates	-	-	-	13,333	13,333
Total assets	19,302,205	7,844,788	37,151,484	2,433,732	66,732,209
Total liabilities	13,503,624	41,389,108	5,731,083	532,936	61,156,751

	2015				
	Corporate and Commercial Banking LBP Million	Retail and Personal Banking LBP Million	Treasury and Capital Markets LBP Million	Group Functions and Head Office LBP Million	Total LBP Million
Investments in associates	-	-	-	13,989	13,989
Total assets	20,147,932	7,189,528	33,219,127	3,166,050	63,722,637
Total liabilities	13,332,995	40,153,626	5,118,651	161,613	58,766,885

Capital expenditures amounting to LBP 171,857 million for the year 2016 (2015: LBP 174,850 million) are allocated to the Group Functions and Head Office business segment.

B) Geographical Segments

The Group operates in three geographical segments, Lebanon, Middle East and North Africa and Turkey (MENAT) and Europe, as such, is subject to different risks and returns. The following tables show the distribution of the Groups' net external operating income, assets and liabilities allocated based on the location of the subsidiaries reporting the results or advancing the funds. Transactions between segments are carried at market prices and within pure trading conditions.

i) Net operating income information

	2016			
	Lebanon LBP Million	MENAT LBP Million	Europe LBP Million	Total LBP Million
Net interest income	629,935	841,430	64,450	1,535,815
Non interest income				
Net fee and commission income	922,160	168,841	244,150	1,335,151
Foreign exchange operations	22,426	207,974	15,605	246,005
Financial operations	253,127	101,971	21,480	376,578
Share of profit or loss of associates	91	999	-	1,090
Other operating income	3,419	40,309	2,851	46,579
Total non interest income	1,201,223	520,094	284,086	2,005,403
Total external operating income	1,831,158	1,361,524	348,536	3,541,218
Net credit losses	(343,725)	(315,191)	(6,468)	(665,384)
Net external operating income	1,487,433	1,046,333	342,068	2,875,834

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

4 SEGMENT REPORTING (continued)

B) Geographical Segments (continued)

i) Net operating income information (continued)

	2015			
	Lebanon LBP Million	MENAT LBP Million	Europe LBP Million	Total LBP Million
Net interest income	598,379	799,941	52,437	1,450,757
Non-interest income				
Net fee and commission income	159,021	182,678	57,896	399,595
Foreign exchange operations	20,110	12,680	13,567	46,357
Financial operations	218,970	(97,457)	5,947	127,460
Share of profit or loss of associates	247	2,797	-	3,044
Other operating income	13,645	13,058	5,451	32,154
Total non-interest income	411,993	113,756	82,861	608,610
Total external operating income	1,010,372	913,697	135,298	2,059,367
Net credit losses	(29,781)	(170,940)	(336)	(201,057)
Net external operating income	980,591	742,757	134,962	1,858,310

ii) Financial position information

	2016			
	Lebanon LBP Million	MENAT LBP Million	Europe LBP Million	Total LBP Million
Capital expenditures	65,615	104,793	1,449	171,857
Investments in associates	10,281	3,052	-	13,333
Total assets	42,823,697	20,312,789	3,595,723	66,732,209
Total liabilities	38,254,444	20,012,766	2,889,541	61,156,751

	2015			
	Lebanon LBP Million	MENAT LBP Million	Europe LBP Million	Total LBP Million
Capital expenditures	48,223	123,166	3,461	174,850
Investments in associates	10,420	3,569	-	13,989
Total assets	35,800,023	24,438,939	3,483,675	63,722,637
Total liabilities	31,378,529	24,139,804	3,248,552	58,766,885

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

5 INTEREST AND SIMILAR INCOME

	<i>2016</i> <i>LBP Million</i>	<i>2015</i> <i>LBP Million</i>
Balances with central banks	524,543	424,234
Due from banks and financial institutions	45,219	61,038
Loans to banks and financial institutions and reverse repurchase agreements	113,153	147,329
Loans and advances to customers at amortised cost	2,294,647	2,065,155
Loans and advances to related parties at amortised cost	8,197	6,232
Financial assets classified at amortised cost	881,679	1,046,736
Other interest income	-	290
	<u>3,867,438</u>	<u>3,751,014</u>

The components of interest and similar income from loans and advances to customers at amortised cost are detailed as follows:

	<i>2016</i> <i>LBP Million</i>	<i>2015</i> <i>LBP Million</i>
Corporate and SME	1,719,003	1,510,378
Retail and personal banking	513,166	508,744
Public sector	62,478	46,033
	<u>2,294,647</u>	<u>2,065,155</u>

The components of interest and similar income from financial assets classified at amortised cost are detailed as follows:

	<i>2016</i> <i>LBP Million</i>	<i>2015</i> <i>LBP Million</i>
Lebanese sovereign and Central Bank of Lebanon	605,918	625,042
Other sovereign	255,566	404,089
Private sector and other securities	20,195	17,605
	<u>881,679</u>	<u>1,046,736</u>

6 INTEREST AND SIMILAR EXPENSE

	<i>2016</i> <i>LBP Million</i>	<i>2015</i> <i>LBP Million</i>
Due to central banks	32,814	11,312
Due to banks and financial institutions	58,791	46,160
Customers' deposits	2,135,480	2,139,426
Deposits from related parties	30,961	27,421
Debt issued and other borrowed funds	73,577	75,938
	<u>2,331,623</u>	<u>2,300,257</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

6 INTEREST AND SIMILAR EXPENSE (continued)

The components of interest and similar expense from deposits from customers are detailed as follows:

	<i>2016</i> <i>LBP Million</i>	<i>2015</i> <i>LBP Million</i>
Corporate and SME	606,918	586,047
Retail and personal banking	1,526,516	1,553,355
Public sector	2,046	24
	<u>2,135,480</u>	<u>2,139,426</u>

7 FEE AND COMMISSION INCOME

	<i>2016</i> <i>LBP Million</i>	<i>2015</i> <i>LBP Million</i>
Commercial banking income	87,133	74,854
Credit related fees and commissions	88,782	96,820
Brokerage and custody income	1,009,019	78,514
Trust and fiduciary activities	16,059	13,351
Trade finance income	56,578	63,653
Electronic banking	127,654	119,489
Corporate finance fees	36,957	32,193
Insurance brokerage income	12,591	12,915
Other fees and commissions	7,138	4,217
	<u>1,441,911</u>	<u>496,006</u>

The increase in commissions from brokerage and custody activities resulted mainly from LBP 927,997 million in fees net of associated costs, which were earned for the execution of trades of financial instruments with the Central Bank of Lebanon on behalf of customers in relation to the Central Bank of Lebanon's initiative to raise foreign currency reserves.

8 FEE AND COMMISSION EXPENSE

	<i>2016</i> <i>LBP Million</i>	<i>2015</i> <i>LBP Million</i>
Commercial banking expenses	9,757	8,004
Brokerage and custody fees	14,831	13,452
Electronic banking	66,936	60,987
Insurance brokerage fees	1,124	1,030
Other fees and commissions	14,112	12,938
	<u>106,760</u>	<u>96,411</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

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

	2016			2015		
	Trading gain (loss) LBP Million	Interest income LBP Million	Total LBP Million	Trading gain (loss) LBP Million	Interest income LBP Million	Total LBP Million
a) Net gain on financial instruments						
<i>Lebanese sovereign and Central Bank of Lebanon</i>						
Certificates of deposit	176,792	15,158	191,950	(1,479)	8,449	6,970
Treasury bills	(2,730)	33,137	30,407	77,179	10,897	88,076
Eurobonds	1,644	3,177	4,821	767	4,840	5,607
	<u>175,706</u>	<u>51,472</u>	<u>227,178</u>	<u>76,467</u>	<u>24,186</u>	<u>100,653</u>
<i>Other sovereign</i>						
Treasury bills	(6,095)	690	(5,405)	(2,347)	1,140	(1,207)
Eurobonds	113	-	113	92	4	96
	<u>(5,982)</u>	<u>690</u>	<u>(5,292)</u>	<u>(2,255)</u>	<u>1,144</u>	<u>(1,111)</u>
<i>Private sector and other securities</i>						
Banks and financial institutions debt instruments	478	21	499	802	27	829
Loans and advances	(9,465)	-	(9,465)	-	-	-
Corporate debt instruments	119	-	119	89	731	820
Structured product	4	1,521	1,525	-	-	-
Funds	807	-	807	(673)	-	(673)
Equity instruments	79	-	79	(686)	-	(686)
	<u>(7,978)</u>	<u>1,542</u>	<u>(6,436)</u>	<u>(468)</u>	<u>758</u>	<u>290</u>
b) Other trading income						
Foreign exchange	246,005	-	246,005	46,357	-	46,357
Currency swaps and forwards	(66,899)	-	(66,899)	(108,698)	-	(108,698)
Currency options	(22,319)	-	(22,319)	(21,204)	-	(21,204)
Credit derivatives	9,046	-	9,046	120	-	120
Other derivatives	15,243	-	15,243	10,554	-	10,554
Dividends	405	-	405	323	-	323
	<u>181,481</u>	<u>-</u>	<u>181,481</u>	<u>(72,548)</u>	<u>-</u>	<u>(72,548)</u>
	<u>343,227</u>	<u>53,704</u>	<u>396,931</u>	<u>1,196</u>	<u>26,088</u>	<u>27,284</u>

Trading gain on financial assets at fair value through profit or loss includes the results of trading in the above classes of securities, as well as the result of the change in their fair values.

Currency derivatives includes gains and losses from spot transactions, forward and swap currency contracts, amortization of time value of options designated for hedging purposes.

Foreign exchange includes the result of the revaluation of the daily open foreign currency positions. Gains during 2016 resulted mainly from the Group's subsidiary in Egypt pursuant to the significant decrease in the exchange rate of the Egyptian Pound.

For the year ended 31 December 2016, derivatives include a gain of LBP 9,046 million (2015: gain of LBP 120 million) representing the change in fair value of the credit default swaps related to the Lebanese sovereign risk and embedded in some of the Group's deposits as discussed in note 35 to these consolidated financial statements.

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 on financial instruments amounted to LBP 669,993 million, of which LBP 307,063 million was not realised in the Consolidated Income Statement (note 38).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

10 NET GAIN ON SALE OF FINANCIAL ASSETS AT AMORTISED COST

The Group derecognises some debt instruments classified at amortised cost due to the following reasons:

- Deterioration of the credit rating below the ceiling allowed in the Group'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 gains and losses arising from the derecognition of these financial assets:

	2016			2015		
	Gains LBP Million	Losses LBP Million	Net LBP Million	Gains LBP Million	Losses LBP Million	Net LBP Million
<i>Lebanese sovereign and Central Bank of Lebanon</i>						
Certificates of deposit	241,106	(1,707)	239,399	83,438	(7,284)	76,154
Treasury bills	4,706	(406)	4,300	12,319	(1,397)	10,922
Eurobonds	12,689	(57,989)	(45,300)	36,201	(22,155)	14,046
	258,501	(60,102)	198,399	131,958	(30,836)	101,122
<i>Other sovereign</i>						
Treasury bills	2,185	(1,548)	637	21,490	(493)	20,997
Other governmental securities	6	-	6	450	(1)	449
Eurobonds	-	-	-	6	-	6
	2,191	(1,548)	643	21,946	(494)	21,452
<i>Private sector and other securities</i>						
Banks and financial institutions debt instruments	9	(2)	7	230	(5)	225
Corporate and other debt instruments	1	(17)	(16)	642	(15)	627
	10	(19)	(9)	872	(20)	852
	260,702	(61,669)	199,033	154,776	(31,350)	123,426

Refer to Note 9 for the effect of unrealised gains on certain financial transactions carried out with the Central Bank of Lebanon.

11 OTHER OPERATING INCOME

	2016 LBP Million	2015 LBP Million
Revenue from non-banking activities (A)	37,955	9,957
Accruals written back	3,144	7,609
Safe rental	1,647	1,650
Release of provision for risks and charges (note 39)	1,336	654
Gain on revaluation of associate (B)	-	7,161
Income from disposal of assets acquired against debts	11	225
Release of provision for end of service benefits (note 39)	-	11
Other income	2,486	4,887
	46,579	32,154

(A) Revenue from non-banking activities represent software license and IT-services revenue earned by Capital Banking Solutions Ltd, a subsidiary.

(B) Pursuant to the acquisition of additional 33% equity in Capital Banking Solutions Ltd during 2015 (note 3), the Group re-measured its non-controlling investment immediately before obtaining control which resulted in a gain of LBP 7,161 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

12 NET CREDIT LOSSES

	<i>2016</i> <i>LBP Million</i>	<i>2015</i> <i>LBP Million</i>
Charges for the year		
Loans and advances to customers at amortised cost (note 23)	715,797	238,421
Loans directly written off	-	6
	<u>715,797</u>	<u>238,427</u>
Recoveries for the year		
Impairment allowance recovered (note 23)	(26,178)	(16,591)
Unrealized interest recovered (note 23)	(1,116)	(2,456)
Recoveries of debts previously written off (note 23)	(23,119)	(18,323)
	<u>(50,413)</u>	<u>(37,370)</u>
	<u>665,384</u>	<u>201,057</u>

13 PERSONNEL EXPENSES

	<i>2016</i> <i>LBP Million</i>	<i>2015</i> <i>LBP Million</i>
Salaries and related benefits	591,718	504,849
Social security contributions	51,322	44,619
End of service benefits (note 39)	31,442	17,268
Transportation	18,374	18,162
Schooling	9,704	9,444
Medical expenses	6,102	5,959
Food and beverage	7,726	7,455
Training and seminars	6,620	6,953
Others	10,902	8,384
	<u>733,910</u>	<u>623,093</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

14 OTHER OPERATING EXPENSES

	2016 <i>LBP Million</i>	2015 <i>LBP Million</i>
Operating leases	68,496	66,120
Professional fees	52,572	30,551
Board of Directors fees	5,723	6,103
Advertising fees	50,063	45,548
Taxes and similar disbursements	35,988	19,930
Outsourcing services	34,799	31,909
Premium for guarantee of deposits	24,843	23,652
Information technology	69,050	34,244
Donations and social aids	12,924	5,790
Provisions for risks and charges (note 39)	4,125	8,247
Travel and related expenses	15,501	16,955
Telephone and mail	14,099	14,414
Electricity, water and fuel	10,597	10,925
Maintenance	12,144	12,269
Insurance premiums	8,135	8,347
Facilities services	11,586	9,904
Subscription to communication services	9,996	9,647
Office supplies	6,633	7,259
Receptions and gifts	6,896	5,483
Electronic cards expenses	10,019	9,298
Regulatory charges	9,780	8,533
Documentation and miscellaneous subscriptions	2,843	2,510
Others	13,734	11,755
	<u>490,546</u>	<u>399,393</u>

15 INCOME TAX

The components of income tax expense for the year ended 31 December are detailed as follows:

	2016 <i>LBP Million</i>	2015 <i>LBP Million</i>
<i>Current tax</i>		
Current income tax	299,910	186,170
Adjustment in respect of current income tax of prior years	6,689	(5,754)
Other taxes treated as income tax	4,343	9,187
	<u>310,942</u>	<u>189,603</u>
<i>Deferred tax</i>		
Relating to origination and reversal of temporary differences	40,676	(28,778)
	<u>351,618</u>	<u>160,825</u>

The tax rates applicable to the parent and subsidiaries vary from 7.25% to 35% in accordance with the income tax laws of the countries where the Group operates. For the purpose of determining the taxable results of the subsidiaries for the year, the accounting results have been adjusted for tax purposes. Such adjustments include items relating to both income and expense and are based on the current understanding of the existing tax laws and regulations and tax practices.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

15 INCOME TAX (continued)

The components of operating profit before tax, and the differences between income tax expense reflected in the financial statements and the calculated amounts are shown in the table below:

	<i>2016</i> <i>LBP Million</i>	<i>2015</i> <i>LBP Million</i>
Operating profit before tax	1,325,815	727,528
Income tax	207,997	165,199
<i>Increase resulting from:</i>		
Non deductible expenses	37,886	31,105
Non deductible provisions	110,812	38,417
Unrealised losses on financial instruments	39,286	27,006
Unearned commissions	7,629	7,524
Other non deductibles	69,925	12,922
	<u>265,538</u>	<u>116,974</u>
<i>Decrease resulting from:</i>		
Revenues previously subject to tax	6,773	28,648
Provision recoveries previously subject to tax	72,611	34,730
Exempted revenues	48,397	5,661
Unrealized gains on financial instruments	42,150	21,754
Other deductibles	3,694	5,210
	<u>173,625</u>	<u>96,003</u>
Income tax	<u>299,910</u>	<u>186,170</u>
Effective income tax rate	<u>22.62%</u>	<u>25.59%</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

15 INCOME TAX (continued)

The movement of current tax liabilities during the year is as follows:

	2016 LBP Million	2015 LBP Million
Balance at 1 January	84,879	102,614
Charges for the year	310,942	189,603
Result of discontinued operations	-	415
Transfer from deferred tax liabilities	32,571	-
Transfer to deferred tax liabilities	(2,894)	(4,388)
Taxes on gain recognised directly in other comprehensive income (note 38)	46,061	-
Transfer from other components of equity	-	839
Transfer to tax regularisation accounts	(2,750)	(11,407)
Other transfers	1,258	(3,544)
	<u>385,188</u>	<u>171,518</u>
<i>Less taxes paid:</i>		
Current year tax liability*	132,735	134,860
Prior year tax liabilities	76,156	46,661
Foreign exchange difference	36,414	7,732
	<u>245,305</u>	<u>189,253</u>
Balance at 31 December	<u>224,762</u>	<u>84,879</u>

(*) Represents taxes paid on interest received from treasury bills and central banks' certificates of deposit.

Deferred taxes recorded in the consolidated statement of financial position result from the following items:

	2016			<i>Other comprehensive income</i>
	<i>Deferred tax assets</i>	<i>Deferred tax liabilities</i>	<i>Income statement</i>	<i>income</i>
	<i>LBP Million</i>	<i>LBP Million</i>	<i>LBP Million</i>	<i>LBP Million</i>
Provisions	14,561	35,322	(31,361)	-
Impairment allowance for loans and advances	55,872	-	30,446	-
Financial instruments at FVTOCI	(2,554)	2,728	-	433
Difference in depreciation rates	(2,875)	2,849	(1,799)	-
Defined benefit obligation	1,802	19	-	(673)
Revaluation of real estate	-	2,035	-	-
Financial instruments at FVTPL	7,763	-	5,425	-
Foreign currency translation reserve	10,922	53,298	(45,719)	(1,812)
Net gain on hedge of net investment	10,185	-	-	94
Other temporary differences	11,748	(18)	2,332	-
	<u>107,424</u>	<u>96,233</u>	<u>(40,676)</u>	<u>(1,958)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

15 INCOME TAX (continued)

	2015			
	<i>Deferred tax assets</i> LBP Million	<i>Deferred tax liabilities</i> LBP Million	<i>Income statement</i> LBP Million	<i>Other comprehensive income</i> LBP Million
Provisions	10,744	(2,044)	1,450	-
Impairment allowance for loans and advances	30,904	-	10,003	-
Financial instruments at FVTOCI	(3,336)	2,447	-	(1,161)
Difference in depreciation rates	(3,079)	4,789	(317)	-
Defined benefit obligation	2,432	(88)	-	(891)
Revaluation of real estate	-	42,637	-	4,613
Financial instruments at FVTPL	2,697	43	5,691	-
Foreign currency translation reserve	7,427	20,195	7,427	-
Net gain on hedge of net investment	-	(10,091)	-	-
Other temporary differences	13,275	(24)	4,524	-
	<u>61,064</u>	<u>57,864</u>	<u>28,778</u>	<u>2,561</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

15 INCOME TAX (continued)

The movement of net deferred tax during the year is as follows:

	<i>Provisions</i> LBP Million	<i>Impairment allowance for loans and advances</i> LBP Million	<i>Financial instruments at FVTOCI</i> LBP Million	<i>Difference in depreciation rate</i> LBP Million	<i>Defined benefit plan</i> LBP Million	<i>Revaluation of real estate</i> LBP Million	<i>Financial instruments at FVTPL</i> LBP Million	<i>Foreign currency translation reserve</i> LBP Million	<i>Net gain on hedge of net investment</i> LBP Million	<i>Other temporary differences</i> LBP Million	<i>Total</i> LBP Million
At 1 January 2016	12,788	30,904	(5,783)	(7,868)	2,520	(42,637)	2,654	(12,768)	10,091	13,299	3,200
Net deferred tax related to income statement	(31,361)	30,446	-	(1,799)	-	-	5,425	(45,719)	-	2,332	(40,676)
Net deferred tax related to other comprehensive income	-	-	433	-	(673)	-	-	(1,812)	94	-	(1,958)
Transfer to current tax liabilities	-	-	-	-	-	32,571	-	-	-	-	32,571
Transfer from current tax liabilities	-	-	-	-	-	-	1,654	(2,894)	-	(1,654)	(2,894)
Foreign exchange difference	(2,188)	(5,478)	68	3,943	(64)	8,031	(1,970)	20,817	-	(2,211)	20,948
At 31 December 2016	(20,761)	55,872	(5,282)	(5,724)	1,783	(2,035)	7,763	(42,376)	10,185	11,766	11,191
At 1 January 2015	12,751	23,298	(4,968)	(8,758)	3,449	(48,926)	1,422	-	-	11,222	(10,510)
Net deferred tax related to income statement	1,450	10,003	-	(317)	-	-	5,691	7,427	-	4,524	28,778
Net deferred tax related to other comprehensive income	-	-	(1,161)	-	(891)	4,613	-	-	-	-	2,561
Result of discontinued operations	-	-	-	52	-	-	-	-	-	-	52
Transfer to retained earnings	-	-	-	-	-	-	-	(20,195)	-	-	(20,195)
Transfer from retained earnings	-	-	-	-	-	-	-	-	10,091	-	10,091
Transfer to current tax liabilities	-	(486)	548	-	-	-	(3,960)	-	-	(490)	(4,388)
Other transfers	-	-	(205)	-	-	-	(8)	-	-	213	-
Foreign exchange difference	(1,413)	(1,911)	3	1,155	(38)	1,676	(491)	-	-	(2,170)	(3,189)
At 31 December 2015	12,788	30,904	(5,783)	(7,868)	2,520	(42,637)	2,654	(12,768)	10,091	13,299	3,200

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

16 PROFIT FROM DISCONTINUED OPERATIONS

Bank Audi Syria SA ("BASY"), which is 47% owned by the Group, is engaged in commercial banking activities, mainly deposits taking and loan granting, in Syria which used to be captioned under the Corporate and Commercial Banking and the Treasury and Capital Markets business segments as well as the MENAT geographical segment. In prior years, BASY was consolidated in the Group accounts due to De Facto control.

Since March 2011, Syria has witnessed extremely violent and crippling war in different parts of the country. The war has turned into a humanitarian disaster resulting in Syria being ranked number one on the list of the most dangerous countries in the world. The intensity of the acts of war have led several international bodies and countries (e.g. EU and U.S.A.) to set and implement sanctions and restrictions on dealing with Syria. In addition, the business environment of the country has been burdened by heavy state intervention and Syria was ranked one of the eight most unfree economies in the world by The Heritage Foundation.

The Syrian pound has significantly deteriorated against the US Dollar, since 2011. The Syrian government has maintained currency controls and has created exchange mechanisms, which rendered the market extremely illiquid over time, resulting in an other-than-temporary lack of exchangeability between the Syrian Pound and the U.S. Dollar. The supply of foreign currencies in the market remains structurally well below demand and there are no obvious limits as to how low the Syrian currency can fall.

The above circumstances, combined, have significantly affected Syria's financial system. Banks are largely isolated from the international banking market, being shut-off from the international payment and settlement systems, as well as the credit markets. There was a major flight of deposits as Syrians have reallocated to safer assets. Syria's economy has contracted considerably in real terms since 2011, which has significantly affected the demand for credit facilities and the investment opportunities available for banks inside Syria. Banks are unable to repatriate funds outside the country and end up placing their funds in non-income generating assets, with the Central Bank of Syria and other local commercial or state-owned banks. The negative evolution of the macroeconomic situation limited the Group's ability to effectively manage the subsidiary. In addition, restrictions relating to the regulatory environment, foreign exchange, import authorization, interest rates, granting and Board attendance, have added to the limitations already existing on the significant activities of banks, preventing further the Group from developing and implementing decisions on key operational and financial aspects regarding Syrian operations.

As a result of these factors which are expected to continue for the foreseeable future, effective 31 August 2016 the Group has a) determined that the recoverable value of its net investment in BASY to be insignificant based on the lack of market prospects and expectations of no dividend payments in future periods and has accordingly written off the net assets of BASY in its consolidated financial statements, and b) concluded that the requisite conditions of IFRS 10 have not been met in order for an accounting control to be carried out on the subsidiary and accordingly three Board members representing the Group resigned from the Board of Directors of BASY.

The deconsolidation of BASY resulted in the recognition of losses of LBP 155,594 million, which include: a) the negative impact of LBP 109,258 million resulting from losses from the translation into Lebanese Pounds of the financial statements of BASY previously recognized under foreign currency translation reserve in equity and reclassified to the income statement upon loss of control; and b) a negative impact of LBP 46,336 million due to the full-write off of the net investment.

The fully impaired investment in BASY was classified as an investment at fair value through other comprehensive income as of 31 December 2016. The Group will reassess its position in case there are significant future changes in the circumstances calling for deconsolidation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

16 PROFIT FROM DISCONTINUED OPERATIONS (continued)

National Bank of Sudan, which was 76.56% owned by the Group, is a separate legal entity offering Islamic banking activities to its customers which used to be reported under the Treasury and Capital Markets business segment and the MENAT geographical segment. During 2016, the Group sold its investment in National Bank of Sudan due to the limited market prospects in Sudan and in order to better manage the Group's risk profile. The sale took effect during December 2016 for a total consideration of LBP 22,612 million.

Arabeya Online for Securities Brokerage, which was fully owned by the Group, is a separate legal entity offering brokerage services to its customers which used to be reported under the Treasury and Capital markets business segment and MENAT geographical segment. During August 2016, the Group decided to cease the activities of the subsidiary sold it for a total consideration of LBP 7,538 million.

	2016			Total LBP Million
	Bank Audi Syria LBP Million	National Bank of Sudan LBP Million	Arabeya Online and Brokerage LBP Million	
Interest and similar income	6,134	4,657	413	11,204
Interest and similar expense	(2,561)	(265)	(13)	(2,839)
Net interest income	3,573	4,392	400	8,365
Fee and commission income	2,012	140	2,338	4,490
Fee and commission expense	(148)	(1)	(97)	(246)
Net fee and commission income	1,864	139	2,241	4,244
Other operating income	42,861	6,795	589	50,245
Total operating income	48,298	11,326	3,230	62,854
Total operating expenses	(6,031)	(3,484)	(1,918)	(11,433)
Operating profit	42,267	7,842	1,312	51,421
Loss on derecognition of discontinued operations	(155,594)	(127,164)	(32,412)	(315,170)
Tax attributable to operating profit	(1,418)	(74)	(271)	(1,763)
Loss for the period from discontinued operations	(114,745)	(119,396)	(31,371)	(265,512)
Cash inflow from sale:				
Total consideration received	-	22,612	7,538	30,150
Earnings per share:				LBP
Basic and diluted, from discontinued operations				(722)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

16 PROFIT FROM DISCONTINUED OPERATIONS (continued)

	2015			Total LBP Million
	Bank Audi Syria LBP Million	National Bank of Sudan LBP Million	Arabeya Online and Brokerage LBP Million	
Interest and similar income	14,652	5,038	743	20,433
Interest and similar expense	(7,226)	(289)	(23)	(7,538)
Net interest income	7,426	4,749	720	12,895
Fee and commission income	4,329	600	2,503	7,432
Fee and commission expense	(212)	(4)	(146)	(362)
Net fee and commission income	4,117	596	2,357	7,070
Other operating income	44,808	2,266	545	47,619
Total operating income	56,351	7,611	3,622	67,584
Total operating expenses	(21,439)	(2,966)	(2,840)	(27,245)
Operating profit	34,912	4,645	782	40,339
Non- operating (expenses) income	(278)	1,326	-	1,048
Tax attributable to operating profit	-	(304)	(59)	(363)
Profit for the period from discontinued operations	34,634	5,667	723	41,024
				LBP
Earnings per share: Basic and diluted, from discontinued operations				54

The net cash flows from discontinued operations are as follows:

	2016			Total LBP Million
	Bank Audi Syria LBP Million	National Bank of Sudan LBP Million	Arabeya Online and Brokerage LBP Million	
Operating activities	19,302	3,060	51	22,413
Investing activities	(178)	(242)	3,219	2,799
Financing activities	-	(3,354)	-	(3,354)
Net cash inflows	19,124	(536)	3,270	21,858
	2015			
	Bank Audi Syria LBP Million	National Bank of Sudan LBP Million	Arabeya Online and Brokerage LBP Million	Total LBP Million
Operating activities	22,074	7,436	219	29,729
Investing activities	12,174	(321)	3,749	15,602
Financing activities	-	(1,533)	-	(1,533)
Net cash inflows	34,248	5,582	3,968	43,798

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

17 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the year attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year. The Bank does not have arrangements that might result in dilutive shares. As such, diluted earnings per share was not separately calculated.

The following table shows the income and share data used to calculate earnings per share:

	2016 <i>LBP Million</i>	2015 <i>LBP Million</i>
Profit attributable to equity holders of the Bank	672,095	587,948
Less: dividends attributable to preferred shares	(45,791)	(34,484)
Profit available to holders of ordinary shares	<u>626,304</u>	<u>553,464</u>
Weighted average number of shares outstanding	398,332,801	399,006,205
Basic and diluted earnings per share	1,572	1,387

There were no transactions involving common shares or potential common shares between the reporting date and the date of the completion of these consolidated financial statements which would require the restatement of earnings per share.

18 CASH AND BALANCES WITH CENTRAL BANKS

	2016 <i>LBP Million</i>	2015 <i>LBP Million</i>
<i>Cash on hand</i>	377,438	361,802
<i>Central Bank of Lebanon</i>		
Current accounts	655,206	574,634
Time deposits	14,356,065	9,520,250
Accrued interest	148,729	122,441
	<u>15,160,000</u>	<u>10,217,325</u>
<i>Other Central Banks</i>		
Current accounts	484,049	813,919
Time deposits	2,618,881	2,357,635
Accrued interest	10,228	4,241
	<u>3,113,158</u>	<u>3,175,795</u>
	<u>18,650,596</u>	<u>13,754,922</u>

Obligatory reserves:

- In accordance with the regulations of the Central Bank of Lebanon, banks operating in Lebanon are required to deposit with the Central Bank of Lebanon an obligatory reserve calculated on the basis of 25% of sight commitments and 15% of term commitments denominated in Lebanese Pounds. This is not applicable for investment banks which are exempted from obligatory reserve requirements on commitments denominated in Lebanese Pounds. Additionally, all banks operating in Lebanon are required to deposit with the Central Bank of Lebanon interest-bearing placements representing 15% of total deposits in foreign currencies regardless of nature.
- Subsidiary banks operating in foreign countries are also subject to obligatory reserve requirements determined based on the banking regulations of the countries in which they operate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

18 CASH AND BALANCES WITH CENTRAL BANKS (continued)

The following table summarises the Group's placements in Central Banks available against the obligatory reserves as of 31 December:

	2016			2015		
	Lebanese pounds LBP Million	Foreign currencies LBP Million	Total LBP Million	Lebanese pounds LBP Million	Foreign currencies LBP Million	Total LBP Million
Central Bank of Lebanon						
Current accounts	453,810	-	453,810	354,793	-	354,793
Time deposits	28,833	4,278,108	4,306,941	64,222	3,525,410	3,589,632
	482,643	4,278,108	4,760,751	419,015	3,525,410	3,944,425
Other Central Banks						
Current accounts	-	200,058	200,058	-	491,072	491,072
Time deposits	-	2,092,859	2,092,859	-	2,226,173	2,226,173
	-	2,292,917	2,292,917	-	2,717,245	2,717,245
	482,643	6,571,025	7,053,668	419,015	6,242,655	6,661,670

19 DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	2016 LBP Million	2015 LBP Million
Current accounts	1,576,045	1,497,320
Time deposits	1,264,222	990,563
Checks for collection	141,997	166,034
Other amounts due	45,243	50,096
Accrued interest	537	1,034
Less: impairment allowance	(816)	(890)
	3,027,228	2,704,157

The movement of the impairment allowance was as follows:

	2016 LBP Million	2015 LBP Million
Balance at 1 January	890	895
Foreign exchange difference	(74)	(5)
Balance at 31 December	816	890

20 LOANS TO BANKS AND FINANCIAL INSTITUTIONS AND REVERSE REPURCHASE AGREEMENTS

	2016 LBP Million	2015 LBP Million
Loans and advances	180,403	196,810
Reverse repurchase agreements	1,885,981	2,383,744
Accrued interest	2,431	4,999
	2,068,815	2,585,553

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

20 LOANS TO BANKS AND FINANCIAL INSTITUTIONS AND REVERSE REPURCHASE AGREEMENTS (continued)

Reverse repurchase agreements held by the Group as of 31 December 2016 comprise the following:

<i>Original currency million</i>	<i>Balance LBP Million</i>	<i>Average interest rate LBP Million</i>	<i>Collateral type LBP Million</i>	<i>Collateral value LBP Million</i>
TRY	1,885,981	10.75%	Treasury Bills	1,885,981
	<u>1,885,981</u>			<u>1,885,981</u>

Reverse repurchase agreements held by the Group as of 31 December 2015 comprise the following:

<i>Original currency million</i>	<i>Balance LBP Million</i>	<i>Average interest rate LBP Million</i>	<i>Collateral type LBP Million</i>	<i>Collateral value LBP Million</i>
US\$	278,959	2.85%	BDL CD	312,052
TRY	2,104,785	10.75%	Treasury Bills	2,104,785
	<u>2,383,744</u>			<u>2,416,837</u>

21 DERIVATIVE FINANCIAL INSTRUMENTS

The tables below show the positive and negative fair values of derivative financial instruments, together with the notional amounts analysed by the term to maturity. The notional amount 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.

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive market value of instruments that are favorable to the Group.

Forwards and futures

Forwards and futures contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market. Futures contracts are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements.

Options

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or to sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

Swaps

Swaps are contractual agreements between two parties to exchange movements in interest or foreign currency rates as well as the contracted upon amounts for currency swaps.

In a currency swap, the Group pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross-settled.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

21 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Swaps (continued)

A credit default swap (CDS) is a credit derivative between two counterparties, whereby they isolate the credit risk of at least one third party and trade it. Under the agreement, one party makes periodic payments to the other and receives the promise of a payoff if the third party defaults. The former party receives credit protection and is said to be the "buyer" while the other party provides credit protection and is said to be the "seller". The third party is known as the "reference entity".

The notional amount of credit default swaps represents the carrying value of certain time deposits held by the Group as of 31 December 2016 and 2015.

The Group has positions in the following types of derivatives:

31 December 2016	Positive fair value LBP Million	Negative fair value LBP Million	Notional amount LBP Million	Notional amount by term to maturity			
				Within 3 months LBP Million	3 to 12 months LBP Million	1 to 5 years LBP Million	Over 5 years LBP Million
Derivatives held for trading							
Forward foreign exchange contracts	19,298	27,464	1,730,653	1,402,607	315,453	12,593	-
Forward precious metals contracts	5	13	998	998	-	-	-
Currency swaps	135,404	179,681	8,290,097	6,965,814	772,891	524,781	26,611
Precious metals swaps	1,309	491	84,526	74,897	9,501	128	-
Currency options	49,307	51,809	6,945,481	4,367,716	2,576,762	1,003	-
Interest rate swaps	17,176	10,365	4,932,735	42,702	703,799	3,726,959	459,275
Interest rate options	-	-	205,239	-	-	205,239	-
Credit default swaps	11,588	-	2,507,339	180,698	773,084	1,553,557	-
Equity options	9,654	1,814	39,061	-	-	39,061	-
Total	243,741	271,637	24,736,129	13,035,432	5,151,490	6,063,321	485,886
Derivatives held to hedge net investments in foreign operations							
Currency swaps	8,753	1,315	220,836	-	220,836	-	-
Currency options	137,644	-	603,000	-	-	603,000	-
	146,397	1,315	823,836	-	220,836	603,000	-
	390,138	272,952	25,559,965	13,035,432	5,372,326	6,666,321	485,886
31 December 2015							
Derivatives held for trading							
Forward foreign exchange contracts	16,579	10,138	1,398,617	1,148,637	249,796	184	-
Forward precious metals contracts	13	1	1,286	1,286	-	-	-
Currency swaps	31,463	59,464	5,503,849	4,443,734	828,118	231,997	-
Precious metals swaps	859	65	89,132	86,854	2,278	-	-
Currency options	38,275	45,634	5,489,799	3,652,178	1,787,289	50,332	-
Interest rate swaps	9,463	2,539	2,818,021	129,391	310,621	1,765,677	612,332
Interest rate options	-	-	236,663	-	-	-	236,663
Credit default swaps	2,578	-	2,325,642	236,427	2,089,215	-	-
Equity options	27,326	13,047	62,355	-	-	62,355	-
Total	126,556	130,888	17,925,364	9,698,507	5,267,317	2,110,545	848,995
Derivatives held to hedge net investments in foreign operations							
Currency swaps	5,072	311	222,913	-	222,913	-	-
Currency options	134,235	-	1,055,250	452,250	-	603,000	-
	139,307	311	1,278,163	452,250	222,913	603,000	-
	265,863	131,199	19,203,527	10,150,757	5,490,230	2,713,545	848,995

Derivative financial instruments held for trading purposes

Most of the Group's derivative trading activities relate to deals with customers which are normally offset by transactions with other counterparties. Also included under this heading are any derivatives entered into for risk management purposes which do not meet the IFRS 9 hedge accounting criteria.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

21 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Derivative financial instruments held for hedging purposes

The Group uses derivatives for hedging purposes in order to reduce its exposure to credit and market risks. This is achieved by hedging specific financial instruments, portfolios of fixed rate financial instruments and forecast transaction as well as strategic hedging against overall financial position exposures.

During 2016, the Group had US\$400 million of its net investment in Odea Bank SA hedged through currency option contracts (capped calls) with a notional amount of US\$400 million (LBP 603,000 million) as of December 2016. During 2015, the notional amount of these contracts amounted to US\$ 700 million (LBP 1,055,250 million) and was comprised of US\$ 400 million hedged through capped calls and US\$ 300 million hedged through currency collars. The collars matured on 30 December 2016. At 31 December 2016, the positive fair value of the capped call contracts amounted to US\$ 91 million (LBP 137,644 million). The Bank designated only the intrinsic value of these options as the hedging instrument.

During 2016, the Group renewed its currency swap contracts designated to hedge the net investment in its subsidiaries in Cyprus, France, Kingdom of Saudi Arabia and Qatar. The notional amount of these contracts amounted to LBP 220,836 million as of 31 December 2016 (2015: LBP 222,913 million). The positive fair value of these contracts amounted to LBP 8,753 million while the negative fair value contracts reached LBP 1,315 million (2015: positive fair value of LBP 5,072 million while the negative fair value LBP 131 million) and was transferred to "Foreign currency translation reserve" in equity to offset results of translation of the net investment in those subsidiaries.

No ineffectiveness from hedges of net investments in foreign operations was recognized in profit or loss during the year.

Derivative financial instruments held for hedging purposes (continued)

Information pertaining to the effect of applying hedge accounting for hedged items and hedging instruments is summarized as follows:

31 December 2016	Hedging instrument	Hedged currency	Notional amount	Positive fair value	Negative fair value	Effect of change in time value recognised in OCI		Balances recognised in FCTR during 2016
						31 December 2016	During 2016	
Hedged item	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million
Odea Bank SA - effect of foreign currency fluctuation within a predefined range	Capped Calls	TRY	603,000	137,644	-	(57,713)	(529)	26,659
Odea Bank SA - effect of extreme foreign currency fluctuation	Collars	TRY	-	-	-	-	(4,032)	16,398
Bank Audi France SA - effect of foreign currency fluctuation	Currency Swap	EUR	93,383	8,092	-	-	-	2,943
Banaudi Holding - effect of foreign currency fluctuation	Currency Swap	EUR	9,578	661	-	-	-	302
Audi Capital KSA - effect of foreign currency fluctuation	Currency Swap	SAR	42,099	-	643	-	-	(34)
Audi Qatar - effect of foreign currency fluctuation	Currency Swap	QAR	75,776	-	672	-	-	(18)
				146,397	1,315	(57,713)	(4,561)	46,250
31 December 2015	Hedging instrument	Hedged currency	Notional amount	Positive fair value	Negative fair value	Effect of change in time value recognised in OCI		Balances recognised in FCTR during 2015
Hedged item	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	31 December 2015	During 2015	LBP Million
Odea Bank SA - effect of foreign currency fluctuation within a predefined range	Capped Calls	TRY	603,000	130,204	-	(57,184)	(56,396)	99,278
Odea Bank SA - effect of extreme foreign currency fluctuation	Collars	TRY	452,250	4,031	-	4,032	2,896	12,953
Bank Audi France SA - effect of foreign currency fluctuation	Currency Swap	EUR	96,328	4,846	-	-	-	10,944
Banaudi Holding - effect of foreign currency fluctuation	Currency Swap	EUR	9,880	226	-	-	-	1,123
Audi Capital KSA - effect of foreign currency fluctuation	Currency Swap	SAR	41,645	-	189	-	-	13
Audi Qatar - effect of foreign currency fluctuation	Currency Swap	QAR	75,060	-	122	-	-	7
				139,307	311	(53,152)	(53,500)	124,318

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

22 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016 <i>LBP Million</i>	2015 <i>LBP Million</i>
<i>Lebanese sovereign and Central Bank of Lebanon</i>		
Certificates of deposit	17,559	109,520
Treasury bills	555,086	91,828
Eurobonds	13,100	51,684
	<u>585,745</u>	<u>253,032</u>
<i>Other sovereign</i>		
Treasury bills	2,526	12,863
<i>Private sector and other securities</i>		
Banks and financial institutions	9,427	36,351
Loans and advances to customers	21,898	22,185
Mutual funds	67,701	50,607
Equity instruments	5,917	8,684
	<u>104,943</u>	<u>117,827</u>
	<u>693,214</u>	<u>383,722</u>

The classification of the above instruments according to the type of interest is as follows:

	2016 <i>LBP Million</i>	2015 <i>LBP Million</i>
<i>Fixed interest</i>		
Lebanese sovereign and Central Bank of Lebanon	585,745	253,032
Other sovereign	2,483	12,812
Private sector and other securities	22,352	22,484
	<u>610,580</u>	<u>288,328</u>
<i>Variable interest</i>		
Other sovereign	43	51
<i>Non-interest bearing</i>		
Private sector and other securities	82,591	95,343
	<u>693,214</u>	<u>383,722</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

23 LOANS AND ADVANCES TO CUSTOMERS AT AMORTISED COST

	2016			
	<i>Corporate and SME LBP Million</i>	<i>Retail and personal banking LBP Million</i>	<i>Public sector LBP Million</i>	<i>Total LBP Million</i>
Overdraft accounts	2,787,443	813,956	86,743	3,688,142
Loans	16,745,678	5,694,686	366,660	22,807,024
Discounted bills and commercial paper	299,100	10,746	10,989	320,835
	<u>19,832,221</u>	<u>6,519,388</u>	<u>464,392</u>	<u>26,816,001</u>
Impairment allowance	(770,264)	(245,872)	(4,113)	(1,020,249)
Unrealized interest	(38,112)	(25,393)	-	(63,505)
	<u>19,023,845</u>	<u>6,248,123</u>	<u>460,279</u>	<u>25,732,247</u>
	2015			
	<i>Corporate and SME LBP Million</i>	<i>Retail and personal banking LBP Million</i>	<i>Public sector LBP Million</i>	<i>Total LBP Million</i>
Overdraft accounts	3,471,020	939,599	63,646	4,474,265
Loans	16,913,135	5,651,214	376,595	22,940,944
Discounted bills and commercial paper	180,669	13,834	9,110	203,613
	<u>20,564,824</u>	<u>6,604,647</u>	<u>449,351</u>	<u>27,618,822</u>
Impairment allowance	(502,235)	(183,839)	(3,027)	(689,101)
Unrealized interest	(93,511)	(23,403)	-	(116,914)
	<u>19,969,078</u>	<u>6,397,405</u>	<u>446,324</u>	<u>26,812,807</u>

The breakdown and movement of the impairment allowance during the year are as follows:

	2016			
	<i>Corporate and SME LBP Million</i>	<i>Retail and personal banking LBP Million</i>	<i>Public sector LBP Million</i>	<i>Total LBP Million</i>
Balance at 1 January	502,235	183,839	3,027	689,101
Add:				
Charges for the year (note 12)	543,820	171,977	-	715,797
Transfers	(1,757)	(3,154)	4,911	-
Less:				
Recoveries (note 12)	(15,723)	(10,455)	-	(26,178)
Entities deconsolidated during the year	(34,622)	(3,662)	-	(38,284)
Write offs	(154,627)	(66,826)	-	(221,453)
Foreign exchange difference	(69,062)	(25,847)	(3,825)	(98,734)
Balance at 31 December	<u>770,264</u>	<u>245,872</u>	<u>4,113</u>	<u>1,020,249</u>
Individual impairment	268,710	120,210	-	388,920
Collective impairment	501,554	125,662	4,113	631,329
	<u>770,264</u>	<u>245,872</u>	<u>4,113</u>	<u>1,020,249</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

23 LOANS AND ADVANCES TO CUSTOMERS AT AMORTISED COST (continued)

	2015			Total LBP Million
	Corporate and SME LBP Million	Retail and personal banking LBP Million	Public sector LBP Million	
Balance at 1 January	513,868	162,755	2,709	679,332
Add:				
Charges for the year (note 12)	120,541	116,237	1,643	238,421
Transfers	1,568	(7,162)	(87)	(5,681)
Less:				
Recoveries (note 12)	(9,818)	(6,772)	(1)	(16,591)
Result of discontinued operations	447	-	(1,062)	(615)
Write offs	(80,232)	(66,362)	-	(146,594)
Foreign exchange difference	(44,139)	(14,857)	(175)	(59,171)
Balance at 31 December	502,235	183,839	3,027	689,101
Individual impairment	330,500	114,043	-	444,543
Collective impairment	171,735	69,796	3,027	244,558
	502,235	183,839	3,027	689,101

The movement of unrealized interest during the year is as follows:

	2016		
	Corporate and SME LBP Million	Retail and personal banking LBP Million	Total LBP Million
Balance at 1 January	93,511	23,403	116,914
Add:			
Unrealized interest applied on non-performing loans	30,599	7,030	37,629
Transfers	(1,054)	1,054	-
Less:			
Unrealized interest written off	(79,226)	(5,204)	(84,430)
Entities deconsolidated during the year	(2,553)	(871)	(3,424)
Unrealized interest recovered (note 12)	(851)	(265)	(1,116)
Foreign exchange difference	(2,314)	246	(2,068)
Balance at 31 December	38,112	25,393	63,505

	2015		
	Corporate and SME LBP Million	Retail and personal banking LBP Million	Total LBP Million
Balance at 1 January	89,207	26,135	115,342
Add:			
Unrealized interest applied on non-performing loans	32,178	2,778	34,956
Less:			
Unrealized interest written off	(25,109)	(2,724)	(27,833)
Unrealized interest recovered (note 12)	(1,954)	(502)	(2,456)
Foreign exchange difference	(811)	(2,284)	(3,095)
Balance at 31 December	93,511	23,403	116,914

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

23 LOANS AND ADVANCES TO CUSTOMERS AT AMORTISED COST (continued)

Bad loans and related provisions and unrealized interest which fulfil certain requirements have been transferred to off balance sheet accounts. The gross balance of these loans transferred during 2016 amounted to LBP 183,991 million (2015: LBP 34,327 million). Besides, amounts recovered from off balance sheet accounts during 2016 amounted to LBP 23,119 million (2015: LBP 18,323 million) (Note 12).

During 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, the collective impairment allowances as at 31 December 2016 include an amount of LBP 384,039 million in excess of the provisioning requirements of IAS 39 (2015: nil) (refer to Note 38).

24 LOANS AND ADVANCES TO RELATED PARTIES AT AMORTISED COST

	<i>2016</i>		
	<i>Corporate and SME LBP Million</i>	<i>Retail and personal banking LBP Million</i>	<i>Total LBP Million</i>
Overdraft accounts	3,259	119,067	122,326
Loans	20,840	76,027	96,867
	<u>24,099</u>	<u>195,094</u>	<u>219,193</u>
	<i>2015</i>		
	<i>Corporate and SME LBP Million</i>	<i>Retail and personal banking LBP Million</i>	<i>Total LBP Million</i>
Overdraft accounts	31	134,891	134,922
Loans	17,157	62,470	79,627
	<u>17,188</u>	<u>197,361</u>	<u>214,549</u>

25 FINANCIAL ASSETS AT AMORTISED COST

	<i>2016 LBP Million</i>	<i>2015 LBP Million</i>
Lebanese sovereign and Central Bank of Lebanon		
Certificates of deposit	9,045,756	5,614,622
Treasury bills	1,736,610	1,794,767
Eurobonds	585,250	2,959,183
	<u>11,367,616</u>	<u>10,368,572</u>
Other sovereign		
Treasury bills	1,742,254	3,425,347
Eurobonds	46,274	319,070
Other governmental securities	232,335	72,185
	<u>2,020,863</u>	<u>3,816,602</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

25 FINANCIAL ASSETS AT AMORTISED COST

	<i>2016</i> <i>LBP Million</i>	<i>2015</i> <i>LBP Million</i>
Private sector and other securities		
Banks and financial institutions debt instruments	520,264	494,941
Corporate debt instruments	81,327	109,222
	<u>601,591</u>	<u>604,163</u>
	<u>13,990,070</u>	<u>14,789,337</u>
Less: impairment allowance	-	(4,763)
	<u>13,990,070</u>	<u>14,784,574</u>
The movement of the impairment allowance was as follows:		
Balance at 1 January	4,763	5,186
Entities deconsolidated during the year	(4,763)	-
Result of discontinued operations	-	(433)
Foreign exchange differences	-	10
Balance at 31 December	<u>-</u>	<u>4,763</u>

The classification of the above instruments according to the type of interest is as follows:

	<i>2016</i> <i>LBP Million</i>	<i>2015</i> <i>LBP Million</i>
Fixed interest		
Lebanese sovereign and Central Bank of Lebanon	11,367,616	10,368,572
Other sovereign	1,909,771	3,651,726
Private sector and other securities	601,333	597,876
	<u>13,878,720</u>	<u>14,618,174</u>
Variable interest		
Other sovereign	111,092	164,876
Private sector and other securities	258	1,524
	<u>111,350</u>	<u>166,400</u>
	<u>13,990,070</u>	<u>14,784,574</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

26 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The Group classified the following instruments in private sector securities at fair value through other comprehensive income as it holds them for strategic reasons.

The tables below list those equity instruments and dividends received as well as the changes in fair value net of applicable taxes:

	2016		
	<i>Fair value LBP Million</i>	<i>Cumulative changes in fair value LBP Million</i>	<i>Dividends LBP Million</i>
LIA Insurance SAL	38,881	6,014	2,855
Mass Global Energy (SUL) LTD	37,687	-	-
Visa NC – Class “C”	29,964	21,987	194
Phoenicia – Aer Rianta Co. SAL	10,729	-	19,294
Banque de l’Habitat SAL	19,641	13,092	434
Crossbridge Capital Holding Limit	11,738	(4,296)	-
Solidere International Limited	7,925	(3,169)	-
Liban Lait SAL	5,232	-	-
Saraya Aqaba Real Estate Development	3,853	-	-
Master Card Inc Class B	5,966	5,071	37
BA Capital Holding PLC	3,015	-	-
Visa Europe Ltd	824	65	3,110
Kafa Holding SAL	2,049	-	-
Kafalat	3,138	2,191	-
International Payment Network SAL	1,469	697	-
Arab Trade Finance Program	2,068	284	10
Abdel Wahab 618 Holding SAL	1,203	-	-
Fransabank SAL	848	(317)	72
C-Mobile Group Holding Ltd	1	(10,875)	-
Other equity instruments	7,717	1,410	613
	<u>193,948</u>	<u>32,154</u>	<u>26,619</u>

	2015		
	<i>Fair value LBP Million</i>	<i>Cumulative changes in fair value LBP Million</i>	<i>Dividends LBP Million</i>
LIA Insurance SAL	39,013	6,132	2,347
Visa NC – Class “C”	30,265	22,253	96
Phoenicia – Aer Rianta Co. SAL	10,729	-	17,863
Banque de l’Habitat SAL	17,759	11,498	361
Solidere International Limited	7,003	(3,953)	-
Liban Lait SAL	5,232	-	-
Saraya Aqaba Real Estate Development	3,944	-	-
Master Card Inc Class B	5,734	4,874	19
BA Capital Holding PLC	3,015	-	-
Visa Europe Ltd	2,740	2,192	-
Kafa Holding SAL	2,049	-	-
Kafalat	2,508	1,740	-
International Payment Network SAL	1,469	697	55
Arab Trade Finance Program	1,723	126	10
Abdel Wahab 618 Holding SAL	1,203	-	-
Fransabank SAL	982	(203)	65
C-Mobile Group Holding Ltd	-	(10,867)	-
Other equity instruments	9,007	1,722	2,291
	<u>144,375</u>	<u>36,211</u>	<u>23,107</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

27 INVESTMENTS IN ASSOCIATES

	Country of Incorporation	Activity	2016		2015	
			Ownership %	Carrying value LBP million	Ownership %	Carrying value LBP Million
Investments						
Assurex SAL	Lebanon	Insurance and reinsurance	23.82%	10,278	23.82%	9,942
Syrian Arab for Insurance	Syria	Insurance and brokerage	31.00%	3,052	36.00%	3,569
Pinpay SAL	Lebanon	Mobile payment services	37.04%	-	37.04%	101
				<u>13,330</u>		<u>13,612</u>
Related loans						
Pinpay SAL				3		377
				<u>13,333</u>		<u>13,989</u>

The Group's investments accounted for under the equity method are not listed on public exchanges. The following table illustrates the summarized financial information of these investments:

Associates' statement of financial position

	2016		
	Assurex SAL LBP Million	Syrian Arab for Insurance LBP Million	Pinpay SAL LBP Million
Current assets	69,925	11,976	35
Non-current assets	35,956	16,194	1,334
Current liabilities	(61,987)	(4,558)	(649)
Non-current liabilities	(2,408)	(13,768)	(2,423)
Equity	<u>41,486</u>	<u>9,844</u>	<u>(1,703)</u>
	2015		
	Assurex SAL LBP Million	Syrian Arab for Insurance LBP Million	Pinpay SAL LBP Million
Current assets	65,741	11,675	41
Non-current assets	35,545	19,788	1,596
Current liabilities	(56,757)	(2,644)	(435)
Non-current liabilities	(2,362)	(15,436)	(858)
Equity	<u>42,167</u>	<u>13,383</u>	<u>344</u>

Associates' operating results

	2016 LBP Million	2015 LBP Million
Revenues	46,035	44,433
Operating expenses	(40,192)	(35,775)
Dividends received during the year	487	730
Share of profit for the year	<u>1,090</u>	<u>3,044</u>

Assurex SAL has contingent liabilities of LBP 3,175 million of which LBP 3,100 million relate to guarantees issued in accordance with regulatory requirements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

28 PROPERTY AND EQUIPMENT

	<i>Land</i> <i>LBP Million</i>	<i>Buildings and freehold improvements</i> <i>LBP Million</i>	<i>Leasehold improvements</i> <i>LBP Million</i>	<i>Motor vehicles</i> <i>LBP Million</i>	<i>Office equipment and computer hardware</i> <i>LBP Million</i>	<i>Office machinery and furniture</i> <i>LBP Million</i>	<i>Other</i> <i>LBP Million</i>	<i>Total</i> <i>LBP Million</i>
Cost or revaluation:								
At 1 January 2016	209,519	577,685	152,929	3,481	218,756	110,176	8,816	1,281,362
Entities deconsolidated during the year	(1,919)	(5,862)	(2,548)	(329)	(3,906)	(3,185)	(9)	(17,758)
Additions	1,336	68,569	31,173	230	31,021	8,224	2	140,555
Disposals	-	(62)	(1,912)	(105)	(3,066)	(281)	(7)	(5,433)
Transfers	-	-	-	-	4,165	(4,165)	-	-
Foreign exchange difference	(13,024)	(88,729)	(29,551)	(1,013)	(30,897)	(7,208)	(192)	(170,614)
At 31 December 2016	195,912	551,601	150,091	2,264	216,073	103,561	8,610	1,228,112
Depreciation:								
At 1 January 2016	-	16,740	86,798	1,638	134,793	71,326	6,629	317,924
Entities deconsolidated during the year	-	(2,257)	(1,657)	(193)	(2,353)	(2,231)	-	(8,691)
Depreciation during the year	-	20,444	20,546	343	28,910	7,545	114	77,802
Disposals	-	(62)	(1,867)	(47)	(2,811)	(203)	(7)	(4,997)
Transfers	-	-	-	-	2,256	(2,256)	-	-
Foreign exchange difference	-	(2,574)	(15,293)	(324)	(13,887)	(3,217)	(132)	(35,427)
At 31 December 2016	-	32,291	88,527	1,417	146,808	70,964	6,604	346,611
Net book value:								
At 31 December 2016	195,912	519,310	61,564	847	69,265	32,597	2,006	881,501

	<i>Land</i> <i>LBP Million</i>	<i>Buildings and freehold improvements</i> <i>LBP Million</i>	<i>Leasehold improvements</i> <i>LBP Million</i>	<i>Motor vehicles</i> <i>LBP Million</i>	<i>Office equipment and computer hardware</i> <i>LBP Million</i>	<i>Office machinery and furniture</i> <i>LBP Million</i>	<i>Other</i> <i>LBP Million</i>	<i>Total</i> <i>LBP Million</i>
Cost or revaluation:								
At 1 January 2015	182,267	572,342	146,883	3,104	189,656	107,047	8,745	1,210,044
Entities acquired during the year	-	-	1,661	-	3,016	629	-	5,306
Additions	317	50,475	24,876	878	36,863	7,461	106	120,976
Disposals	-	(1,223)	(5,067)	(308)	(707)	(503)	(9)	(7,817)
Revaluation	-	770	-	-	-	-	-	770
Transfers	27,436	(28,209)	(197)	-	1,518	727	-	1,275
Foreign exchange difference	(501)	(16,470)	(15,227)	(193)	(11,590)	(5,185)	(26)	(49,192)
At 31 December 2015	209,519	577,685	152,929	3,481	218,756	110,176	8,816	1,281,362
Depreciation:								
At 1 January 2015	-	-	77,874	1,553	110,425	65,121	6,530	261,503
Entities acquired during the year	-	-	672	-	2,235	147	-	3,054
Result of discontinued operations	-	317	234	25	269	306	-	1,151
Depreciation during the year	-	19,397	18,301	416	27,099	7,934	115	73,262
Disposals	-	(1,212)	(4,237)	(293)	(587)	(407)	-	(6,736)
Transfers	-	(625)	(197)	-	311	511	-	-
Foreign exchange difference	-	(1,137)	(5,849)	(63)	(4,959)	(2,286)	(16)	(14,310)
At 31 December 2015	-	16,740	86,798	1,638	134,793	71,326	6,629	317,924
Net book value:								
At 31 December 2015	209,519	560,945	66,131	1,843	83,963	38,850	2,187	963,438

Revaluation of land and buildings

Pursuant to the decision of the Board of Directors held on 3 September 2014, the Group changed its accounting policy for measuring land and buildings and related improvements from the cost model to the revaluation model. Management determined that each constitute a single class of asset under IFRS 13, based on the nature, characteristics and risks of the property. These assets are classified under level 3 in the fair value hierarchy.

Fair value of the land and buildings and freehold improvements was determined using the market comparable method. This means that valuations performed by the valuers are based on market prices, significantly adjusted for differences in the nature, location or condition of the specific property. As at the date of revaluation, the properties' fair values are based on valuations carried out by independent valuers accredited by the local regulators in the countries in which the properties are situated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

28 PROPERTY AND EQUIPMENT (continued)

Significant unobservable valuation input

Significant increase (decrease) in the fair value estimation within a range of 5% relative to the adopted fair value measurement would result in a higher (lower) value of revaluation recognized in other comprehensive income by LBP 30,405 million before the effect of applicable taxes (2015: LBP 35,694 million). The reconciliation of fair value between 1 January and 31 December is provided in the property and equipment table presented above.

The Group changed the accounting policy with respect to measurement of land and buildings and freehold improvements during 2014. If land and buildings and related improvements were measured using the cost model, the carrying amounts as of 31 December would have been as follows:

	2016	
	Land LBP Million	Buildings and freehold improvements LBP Million
Cost	69,204	481,387
Accumulated depreciation	-	(165,877)
Net book value	69,204	315,510
	2015	
	Land LBP Million	Buildings and freehold improvements LBP Million
Cost	69,889	479,264
Accumulated depreciation	-	(150,182)
Net book value	69,889	329,082

29 INTANGIBLE FIXED ASSETS

	Key money LBP Million	Computer software LBP Million	Other LBP Million	Total LBP Million
Cost:				
At 1 January 2016	412	202,326	600	203,338
Entities deconsolidated during the year	(412)	(755)	(245)	(1,412)
Additions	-	31,302	-	31,302
Disposals	-	(54,370)	-	(54,370)
Foreign exchange difference	-	(22,866)	(36)	(22,902)
At 31 December 2016	-	155,637	319	155,956
Amortization:				
At 1 January 2016	58	101,614	302	101,974
Entities deconsolidated during the year	(58)	(457)	(81)	(596)
Amortization during the year	-	30,837	76	30,913
Disposals	-	(31,234)	-	(31,234)
Foreign exchange difference	-	(9,652)	(70)	(9,722)
At 31 December 2016	-	91,108	227	91,335
Net book value:				
At 31 December 2016	-	64,529	92	64,621

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

29 INTANGIBLE FIXED ASSETS (continued)

	<i>Key money LBP Million</i>	<i>Computer software LBP Million</i>	<i>Other LBP Million</i>	<i>Total LBP Million</i>
Cost:				
At 1 January 2015	713	167,853	481	169,047
Entities acquired during the year	-	1,295	170	1,465
Additions	-	47,103	-	47,103
Transfers	-	254	-	254
Disposals	(13)	-	-	(13)
Foreign exchange difference	(288)	(14,179)	(51)	(14,518)
At 31 December 2015	412	202,326	600	203,338
Amortization:				
At 1 January 2015	102	76,119	174	76,395
Entities acquired during the year	-	966	94	1,060
Result of discontinued operations	7	43	21	71
Amortization during the year	-	28,716	40	28,756
Transfers	-	185	-	185
Disposals	(13)	-	-	(13)
Foreign exchange difference	(38)	(4,415)	(27)	(4,480)
At 31 December 2015	58	101,614	302	101,974
Net book value:				
At 31 December 2015	354	100,712	298	101,364

30 NON CURRENT ASSETS HELD FOR SALE

The Group occasionally takes possession of properties in settlement of loans and advances. The Group is in the process of selling these properties and are as such included in non-current assets held for sale. Gains or losses on disposal are recognized in the consolidated income statement for the year.

<i>Properties acquired in settlement of debts</i>	<i>2016 LBP Million</i>	<i>2015 LBP Million</i>
Cost:		
At 1 January	75,315	19,095
Entities deconsolidated during the year	(413)	-
Additions	12,728	63,178
Disposals	(8)	(4,699)
Foreign exchange difference	(4,006)	(2,259)
At 31 December	83,616	75,315
Impairment:		
At 1 January	2,536	585
Impairment for the year	332	-
Entities deconsolidated during the year	(248)	-
Result of discontinued operations	-	314
Transfers	-	1,763
Foreign exchange difference	(31)	(126)
At 31 December	2,589	2,536
Net book value:		
At 31 December	81,027	72,779

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

31 OTHER ASSETS

	2016 <i>LBP Million</i>	2015 <i>LBP Million</i>
Advances on acquisition of property and equipment	131,692	92,177
Advances on acquisition of intangible fixed assets	28,450	33,974
Prepaid charges	68,321	64,832
Electronic cards and regularization accounts	38,778	23,962
Receivables related to non-banking operations	8,064	25,975
Advances to staff	4,050	7,232
Hospitalization and medical care under collection	32,591	29,054
Advances on investments	5,058	58,256
Deferred tax assets (note 15)	107,424	61,064
Interest and commissions receivable	5,880	9,718
Funds management fees	1,835	2,971
Fiscal stamps, bullions and commemorative coins	2,007	2,512
Management and advisory fees receivable	1,200	2,466
Tax regularisation account	6,787	6,772
Other debtor accounts	43,158	49,541
	485,295	470,506

During 2016, the Group wrote off advances on investment in the amount of LBP 45,221 million due to lack of its recoverability. The loss was booked under "Impairment of goodwill and other assets" in the consolidated income statement for the year ended 31 December 2016.

32 GOODWILL

	<i>Lebanon LBP Million</i>	<i>Switzerland LBP Million</i>	<i>Egypt LBP Million</i>	<i>UAE LBP Million</i>	<i>Sudan LBP Million</i>	<i>Total LBP Million</i>
Cost:						
At 1 January 2016	54,716	42,812	81,680	28,084	2,142	209,434
Entities deconsolidated during the year	-	-	(8,079)	-	(2,142)	(10,221)
Impairment loss	(54,716)	-	(65,639)	(28,084)	-	(148,439)
Foreign exchange difference	-	(985)	(7,962)	-	-	(8,947)
At 31 December 2016	-	41,827	-	-	-	41,827
Cost:						
At 1 January 2015	54,716	43,290	97,093	-	2,374	197,473
Entities acquired during the year	-	-	-	28,084	-	28,084
Impairment loss	-	-	(5,276)	-	(181)	(5,457)
Foreign exchange difference	-	(478)	(10,137)	-	(51)	(10,666)
At 31 December 2015	54,716	42,812	81,680	28,084	2,142	209,434

For the purpose of impairment testing, goodwill is allocated to the Cash Generating Units (CGUs), which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes. The following CGUs include in their carrying value goodwill that is a significant proportion of total goodwill reported by the Group. These CGUs do not carry on their statement of financial position any intangible assets with indefinite lives, other than goodwill.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

32 GOODWILL (continued)

The following schedule shows the discount and terminal growth rates used for CGUs subject to impairment testing.

	2016		2015	
	<i>Discount rate</i> %	<i>Terminal growth rate</i> %	<i>Discount rate</i> %	<i>Terminal growth rate</i> %
Cash Generating Units				
Private Banking – Lebanon	17.00	2.00	16.00	2.00
Private Banking – Switzerland	10.00	2.00	10.00	2.00
Commercial Banking – Egypt	19.00	3.00	17.00	3.00
Online Brokerage – Egypt	-	-	16.00	3.00
Commercial Banking - Sudan	-	-	22.00	3.00
Banking IT Support - UAE	12.00	2.00	-	-

The key assumptions described above may change in response to changes in economic and market conditions. The Group estimates that reasonably possible changes in these assumptions are not expected to cause the recoverable amount of either unit to decline below the carrying amount.

The commercial banking CGU in Egypt is a separate legal entity performing commercial banking activities to its customers and is reported under mainly the Corporate and Commercial Banking business segment and the MENAT geographical segment. The recoverable amount of this CGU of LBP 363,271 million as at 31 December 2016, has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. The projected cash flows have been updated to reflect the decrease in the level of activity due to the prevailing economic conditions in Egypt. The discount rate applied to cash flow projections is 19% (2015:17%). As a result, an impairment loss on goodwill of LBP 65,639 million was recognised for the year ended 31 December 2016 (2015: none).

The private banking CGU in Lebanon is a separate legal entity performing private banking activities to its customers and is reported mainly under Retail and Personal Banking business segment and Lebanon geographical segment. The recoverable amount of this CGU of LBP 267,131 million as at 31 December 2016, has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. The projected cash flows have been updated to reflect the decreased level of activity. The discount rate applied to cash flow projections is 17% (2015: 16%) and cash flows beyond the five-year period are extrapolated using a 2% growth rate. As a result, an impairment loss on goodwill amounting to LBP 54,716 million was recognised for the year ended 31 December 2016 (2015: none).

The Banking IT Support CGU in UAE is a separate legal entity performing outsourcing activities to its customers and is reported under Group Functions and Head Office business segment and MENAT geographical segment. The recoverable amount of this CGU amounted to LBP 2,582 million as at 31 December 2016, has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. The projected cash flows have been updated to reflect the decreased level of activity. The discount rate applied to cash flow projections is 12%. As a result, an impairment loss on goodwill of LBP 28,084 million was recognised for the year ended 31 December 2016 (2015: none).

The online brokerage CGU in Egypt is a separate legal entity performing brokerage activities to its customers and is reported under the Treasury and Capital Markets business segment and MENAT geographical segment. The recoverable amount of this CGU amounted to LBP 19,640 million as at 31 December 2015, has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. The projected cash flows have been updated to reflect the decreased level of activity. The discount rate applied to cash flow projections is 17%. As a result, an impairment loss on goodwill amounting to LBP 5,276 million was recognised during the year ended 31 December 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

32 GOODWILL (continued)

The commercial banking CGU in Sudan is a separate legal entity performing Islamic banking activities to its customers and is reported under the Treasury and Capital Markets business segment and MENAT geographical segment. The recoverable amount of this CGU amounted to LBP 77,058 million as at 31 December 2015, has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. The projected cash flows have been updated to reflect the decreased level of activity. The discount rate applied to cash flow projections is 22% and cash flows beyond the five-year period are extrapolated using a 2% growth rate. As a result, an impairment loss on goodwill amounting to LBP 181 million was recognised during the year ended 31 December 2015.

The online brokerage CGU in Egypt and the commercial banking CGU in Sudan were deconsolidated during 2016 pursuant to their sale as disclosed under note 16 to the consolidated financial statements.

Goodwill sensitivity

The cost of equity assigned to an individual CGU and used to discount its future cash flows can have a significant effect on its valuation. The cost of equity percentage is generally derived from an appropriate capital asset pricing model, which itself depends on inputs reflecting a number of financial and economic variables including the risk rate in the country concerned and a premium to reflect the inherent risk of the business being evaluated. Projected terminal growth rates used are in line with, and do not exceed, the projected growth rates in GDP and inflation rate forecasts for the jurisdictional area where the operations reside.

Management performed a sensitivity analysis to assess the changes to key assumptions that could cause the carrying value of the units to exceed their recoverable amount. These are summarised in the table below, which shows the details of the sensitivity of the above measures on the Bank's CGU's value in use (VIU):

Key assumptions per CGU	Basis of Key assumptions and associated risk	Reasonably assumed possible changes
Banking IT Support		
Interest Margins	Interest margins are based on current fixed interest yields.	A decrease of 1% causes an increase in impairment by 8% (LBP 2,279 million)
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.	A decrease of 1% causes a decrease of the impairment by 0.85% (LBP 247million)
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.	A decrease of 1% causes an increase of impairment by 0.06% (LBP 17 million)
Private Banking – Lebanon		
Interest margins	Interest margins are based on current fixed interest yields.	A decrease of 0.1% causes an increase in impairment by 19% (LBP 10,260 million)
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.	A decrease of 0.25% causes a decrease in the impairment by 7% (LBP 3,720 million)
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.	A decrease of 0.5% causes an increase of impairment by 8% (LBP 4,118 million)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

32 GOODWILL (continued)

Goodwill sensitivity (continued)

Key assumptions per CGU	Basis of Key assumptions and associated risk	Reasonably assumed possible changes
Commercial Banking – Egypt		
Interest margins	Interest margins are based on current fixed interest yields.	A decrease of 0.1% causes an increase in impairment by 37% (LBP 23,987 million)
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.	A decrease of 0.25% causes a decrease in impairment by 9% (LBP 6,123 million)
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.	A decrease of 0.5% causes an increase in impairment by 6% (LBP 4,136 million)
Private Banking – Switzerland		
Interest margins	Interest margins are based on current fixed interest yields.	A decrease of 0.1% causes a decrease in the value in use by 4.92% (LBP 24,477 million)
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.	A decrease of 0.25% causes an increase in the value in use by 2.63% (LBP 13,098 million)
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.	A decrease of 0.5% causes a decrease in the value in use by 2.20% (LBP 10,938 million)

The following table presents the sensitivity of each input by showing the change required to individual current assumptions to reduce headroom to nil (breakeven) for the Private Banking CGU in Switzerland:

	2016	2015
Interest margin	(0.63%)	(0.82%)
Discount rate	4.75%	5.35%
Growth rate	(22.00%)	(25.00%)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

33 DUE TO CENTRAL BANKS

	2016 <i>LBP Million</i>	2015 <i>LBP Million</i>
<i>Central Bank of Lebanon</i>		
Subsidised loan	804,888	569,742
Term deposits	1,085,400	-
Accrued interest	18,758	114
<i>Other Central Banks</i>		
Term loan	98,066	-
Repurchase agreements	1,051	81,318
	2,008,163	651,174

Subsidised loans

During 2016, The Group signed a credit agreement with the Central Bank of Lebanon based on the provisions of Decision no. 6116 dated 7 March 1996 relating to the facilities which can be granted by BDL to banks. The loan amounted to LBP 804,888 million as of 31 December 2016 and bears a 1% interest that is accrued and paid on a yearly basis. The loan is repaid on a monthly basis based on the utilized portion by the Bank's customers.

Term deposits

As of 31 December 2016, the Group had term deposits of LBP 1,085,400 million (US\$ 720 million) from the Central Bank of Lebanon bearing an interest rate of 6% and maturing during March 2017.

Interest expense on the above loans and deposits amounted to LBP 23,961 million and LBP 4,585 million for the years ended 31 December 2016 and 2015, respectively (note 6).

Repurchase agreements

The Group entered into repurchase agreements by pledging Turkish treasury bills as collateral. The terms of these agreements are as follows:

	2016 <i>LBP Million</i>	2015 <i>LBP Million</i>
Central Banks	1,051	81,318
Carrying value of collateral	1,055	97,960
Interest expense	8,553	6,727
Annual interest rate	7,65%	7,50%
Maturity date	January 2017	January 2016

34 DUE TO BANKS AND FINANCIAL INSTITUTIONS

	2016 <i>LBP Million</i>	2015 <i>LBP Million</i>
Current accounts	403,427	168,297
Term loans	1,845,213	1,853,074
Time deposits	320,964	233,355
Accrued interest	4,401	4,521
	2,574,005	2,259,247

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

34 DUE TO BANKS AND FINANCIAL INSTITUTIONS (continued)

Included in term loans above, is an amount of LBP 627,551 million (2015: LBP 438,051 million) representing loans granted from various supranational entities for the purpose of financing small and medium size enterprises in the private sector with annual interest rates ranging from 2.24% to 5.68%.

The commitments arising from bank facilities received are disclosed in note 51 to these consolidated financial statements.

35 CUSTOMERS' DEPOSITS

	2016				
	<i>Corporate and SME LBP Million</i>	<i>Retail and personal banking LBP Million</i>	<i>Public sector LBP Million</i>	<i>Other LBP Million</i>	<i>Total LBP Million</i>
Sight deposits	2,995,314	4,863,434	132,742	-	7,991,490
Time deposits	11,138,805	25,475,711	199,598	-	36,814,114
Saving accounts	16,918	7,243,213	-	-	7,260,131
Certificates of deposits	52,326	533,860	-	-	586,186
Margins on LC's and LG's	185,752	58,786	22,879	-	267,417
Other margins	136,559	122,646	-	-	259,205
Other deposits	52,488	158,187	-	-	210,675
	<u>14,578,162</u>	<u>38,455,837</u>	<u>355,219</u>	<u>-</u>	<u>53,389,218</u>
Deposits pledged as collateral					<u>5,106,940</u>
	2015				
	<i>Corporate and SME LBP Million</i>	<i>Retail and personal banking LBP Million</i>	<i>Public sector LBP Million</i>	<i>Other LBP Million</i>	<i>Total LBP Million</i>
Sight deposits	3,008,921	4,950,638	116,078	10,982	8,086,619
Time deposits	13,781,231	21,156,425	251,059	2,837	35,191,552
Saving accounts	15,776	7,590,521	-	-	7,606,297
Certificates of deposits	86,482	1,289,374	-	-	1,375,856
Margins on LC's and LG's	206,987	51,379	22	-	258,388
Other margins	144,105	117,425	-	8,813	270,343
Other deposits	77,089	123,166	-	1,197	201,452
	<u>17,320,591</u>	<u>35,278,928</u>	<u>367,159</u>	<u>23,829</u>	<u>52,990,507</u>
Deposits pledged as collateral					<u>4,906,371</u>

Sight deposits include balances of bullion amounting to LBP 62,095 million (2015: LBP 68,226 million) which were carried at fair value through profit or loss.

Time deposits include balances amounting to LBP 2,507,339 million as at 31 December 2016 (2015: LBP 2,325,642 million) whereby the principal is settled at maturity according to the full discretion of the Group either in cash or in Lebanese Government Eurobonds denominated in US Dollars and having the same nominal amount. As these deposits are linked to the credit risk of the Lebanese Republic, the Group separated the embedded derivative and accounted for it at fair value through profit or loss (note 21).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

36 DEPOSITS FROM RELATED PARTIES

	2016		
	<i>Corporate and SME LBP Million</i>	<i>Retail and personal banking LBP Million</i>	<i>Total LBP Million</i>
Sight deposits	146	131,092	131,238
Time deposits	1,233	673,355	674,588
Saving accounts	-	568	568
Other deposits and margin accounts	1,870	5,284	7,154
	<u>3,249</u>	<u>810,299</u>	<u>813,548</u>
Deposits pledged as collateral			<u>221,147</u>
	2015		
	<i>Corporate and SME LBP Million</i>	<i>Retail and personal banking LBP Million</i>	<i>Total LBP Million</i>
Sight deposits	5,817	69,041	74,858
Time deposits	11,940	594,259	606,199
Saving accounts	-	551	551
Other deposits and margin accounts	1,780	6,723	8,503
	<u>19,537</u>	<u>670,574</u>	<u>690,111</u>
Deposits pledged as collateral			<u>185,521</u>

37 DEBT ISSUED AND OTHER BORROWED FUNDS

	2016 <i>LBP Million</i>	2015 <i>LBP Million</i>
Subordinated loans	961,811	962,314
Issued bills	-	77,100
Accrued interests	11,724	14,568
	<u>973,535</u>	<u>1,053,982</u>

The above loans are subordinated, unsecured and subject to the following conditions:

Loan	Nominal amount	Maturity	Interest rate	Frequency
Loan 1	US\$ 350,000,000	16 October 2023	6.75%	Quarterly
Loan 2	US\$ 112,500,000	11 April 2024	6.55% + Libor 6m	Semi-annually
Loan 3	US\$ 37,500,000	11 April 2024	6.55% + Libor 6m	Semi-annually
Loan 4	US\$ 138,017,000	30 September 2024	6.50%	Semi-annually

The principal of the loans is to be repaid at maturity. Any principal amount of the loans prepaid may not be re-borrowed. Prepayment on the loans is applicable as follows:

Loan 1: the Group, at its sole discretion and after obtaining approval of the Central Bank of Lebanon, has the right to prepay all outstanding amounts (entirely and not partially) according to the following:

- First time, after five years from issuance and upon payment of interest thereafter.
- Without regard to the dates set above and according to the following:
 - At any time after one year from the date of issuance, in the event of amendments to local and international laws and regulations, the subordinated bonds cannot be computed within the private funds of the Group (Tier II);
 - At any time after one year from the date of issuance for reasons related to the amendment of Lebanese taxation laws;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

37 DEBT ISSUED AND OTHER BORROWED FUNDS (continued)**Loans 2**

and 3: the Group shall, on any interest payment date or not less than 30 days' prior written notice, have the right to prepay the entire outstanding principal amount of the Loan, in whole but not in part, together with accrued but unpaid interest thereon, and all other amounts payable, and subject to the approval of the Central Bank of Lebanon:

- In the event of a change in Lebanese law or regulation resulting in an increase in the withholding tax rate applicable to payments of interest on the loans to more than 5.00% above the rate in effect on the date of the disbursement. No penalty or premium shall be payable in connection with any prepayment following changes in taxation; or
- Subject to the payment of a premium of 2.00% of the outstanding principal amount of the loans to be prepaid, at the option of the Group, on any interest payment date at any time after the fifth anniversary of the date on which the Loan is disbursed.

Loan 4: On October 21, 2014, Bank Audi SAL granted Odea Bank a subordinated loan in the amount of US\$ 150 million. This loan matures on 30 September 2024 and pays quarterly interest of 6.50%. During 2015, the Bank offered and sold certificates of participation relating to the US\$ 150 million subordinated loan, of which US\$ 138 million were sold to third parties. The certificates constitute pass-through obligations of Bank Audi SAL. Odea Bank shall repay the loan at maturity and may repay the loan in whole, but not in part (1) within one month from the fifth anniversary of the subordinated debt issuance date, or (2) due to changes in BRSA regulation if the loan ceases to be treated as Tier 2 capital under the applicable BRSA regulation.

Besides, during 2015, the Group had issued bills denominated in Turkish Lira to domestic investors in the amount of LBP 77,100 million. These bills matured on 28 February 2016 and paid semi-annual interest of 9.75%.

38 OTHER LIABILITIES

	<i>2016</i> <i>LBP Million</i>	<i>2015</i> <i>LBP Million</i>
Deferred income (A)	78,300	-
Current tax liabilities (note 15)	224,762	84,879
Accrued expenses	159,411	132,185
Miscellaneous suppliers and other payables	38,125	133,806
Operational taxes	54,231	52,765
Employee accrued benefits	11,730	8,641
Unearned commissions and premiums	48,881	58,261
Deferred tax liabilities (note 15)	96,233	57,864
Electronic cards and regularization accounts	18,360	10,030
Social security dues	6,473	5,295
Due to National Institute for Guarantee of Deposits	2,054	1,563
Other credit balances	31,022	32,711
	<u>769,582</u>	<u>578,000</u>

(A) 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 23), 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

38 OTHER LIABILITIES (continued)

The Bank did not recognise in its Consolidated Income Statement LBP 307.063 million in gains realized from certain financial transactions with the Central Bank of Lebanon, but rather elected to recognise LBP 182,702 million representing 70% of the gains, net of taxes, directly in other comprehensive income (refer to Note 43). The remaining 30%, equivalent to LBP 78,300 million, was booked as deferred income. The related taxes amounting to LBP 46,061 million were recorded directly in current tax liability (refer to Note 15). The amount recorded as deferred income qualifies for inclusion within regulatory Tier 2 Capital in accordance with the provisions of the circular.

39 PROVISIONS FOR RISKS AND CHARGES

	2016 <i>LBP Million</i>	2015 <i>LBP Million</i>
Provisions for risks and charges	48,797	66,081
End of service benefits	107,795	105,979
	<u>156,592</u>	<u>172,060</u>

a) Provisions for risks and charges

	2016 <i>LBP Million</i>	2015 <i>LBP Million</i>
Provision for contingencies	16,671	23,824
Provision for legal claims	2,459	10,724
Provision for bonus	20,325	23,058
Other provisions	9,342	8,475
	<u>48,797</u>	<u>66,081</u>

The movement of provision for risks and charges is as follows:

	2016 <i>LBP Million</i>	2015 <i>LBP Million</i>
Balance at 1 January	66,081	48,147
Add:		
Charge for operating expenses (note 14)	4,125	8,247
Charge for personnel expenses	25,014	27,897
Result of discontinued operations	-	11,068
Transfer from other liabilities	2,688	5,201
	<u>31,827</u>	<u>52,413</u>
Less:		
Paid during the year	23,511	24,155
Net provisions recoveries (note 11)	1,336	654
Entities deconsolidated during the year	10,675	-
Foreign exchange difference	13,589	9,670
	<u>49,111</u>	<u>34,479</u>
Balance at 31 December	<u>48,797</u>	<u>66,081</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

39 PROVISIONS FOR RISKS AND CHARGES (continued)

b) End of service benefits

Banking entities operating in Lebanon have two defined benefit plans covering all their employees. The first requires contributions to be made to the National Social Security Fund whereby the entitlement to and level of these benefits depend on the employees' length of service, the employees' salaries and contributions paid to the fund among other requirements. Under the second plan, no contributions are required to be made, however a fixed end of service lump sum amount should be paid for long service employees. The entitlement to and level of these end of service benefits provided depends on the employees' length of service, the employees' salaries and other requirements outlined in the Workers' Collective Agreement. The first plan described above also applies to non-banking entities operating in Lebanon. Defined benefit plans for employees at foreign subsidiaries and branches are set in line with the laws and regulations of the respective countries in which these subsidiaries are located. The movement of provision for staff retirement benefit obligation is as follows:

	2016		
	Lebanon LBP Million	Foreign countries LBP Million	Total LBP Million
Balance at 1 January 2016	81,565	24,414	105,979
Charge for the year (note 13)	25,424	6,018	31,442
Paid during the year	(16,498)	(3,923)	(20,421)
Actuarial loss (gain) on obligation-experience	8,104	(3,201)	4,903
Actuarial (gain) loss on obligation-economic assumptions	(6,402)	563	(5,839)
Actuarial gain on obligation-demographic assumptions	-	(1,075)	(1,075)
Entities deconsolidated during the year	-	(171)	(171)
Advances paid	(6,509)	-	(6,509)
Indemnities transferred from other entities	569	-	569
Foreign exchange difference	-	(1,083)	(1,083)
Balance at 31 December 2016	86,253	21,542	107,795

	2015		
	Lebanon LBP Million	Foreign countries LBP Million	Total LBP Million
Balance at 1 January 2015	86,351	19,463	105,814
Charge for the year (note 13)	14,169	3,099	17,268
Paid during the year	(4,976)	(3,121)	(8,097)
Result of discontinued operations	-	99	99
Actuarial (gain) loss on obligation-experience	(3,620)	225	(3,395)
Actuarial (gain) loss on obligation-economic assumptions	(10,359)	4,597	(5,762)
Entities acquired during the year	-	959	959
Provision released (note 11)	-	(11)	(11)
Advances paid	-	(216)	(216)
Foreign exchange difference	-	(680)	(680)
Balance at 31 December 2015	81,565	24,414	105,979

The charge for the year is broken down as follows:

	2016 LBP Million	2015 LBP Million
Past service cost	12,665	-
Current service cost	11,100	8,308
Interest on obligation	7,677	8,960
	31,442	17,268

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

39 PROVISIONS FOR RISKS AND CHARGES (continued)

Defined benefit plans in Lebanon constitute more than 75% of the Group required obligation. The key assumptions used in the calculation of Lebanese retirement benefit obligation are as follows:

	2016	2015
Economic assumptions		
Discount rate (p.a.)	8.00%	8.50%
Salary increase (p.a.)		
Employees	4.00%	5.00%
Senior managers	6.00%	7.00%
Expected annual rate of return on NSSF contributions	5.00%	5.00%
Treatment of bonus	3-year average as a % of basic	3-year average as a % of basic
Demographic assumptions		
Retirement age	Earliest of age 64 or completion of 20 contribution years	Earliest of age 64 or completion of 20 contribution years
Pre – termination mortality	None	None
Pre – termination turnover rates (age related with average of)	2.00% - 4.00%	2.00% - 4.00%

A quantitative sensitivity analysis for significant assumptions is shown as below:

	<u>Discount rate</u>		<u>Future salary increase</u>	
	% increase LBP Million	% decrease LBP Million	% increase LBP Million	% decrease LBP Million
Impact on net defined benefit obligation – 2016	(4,560)	5,068	4,618	(4,203)
Impact on net defined benefit obligation – 2015	(6,615)	6,957	4,526	(4,167)

The sensitivity analysis above was determined based on a method that extrapolates the impact on the defined benefit obligation as a result of 50 basis point changes in key assumptions occurring at the end of the reporting period.

40 SHARE CAPITAL AND WARRANTS ISSUED ON SUBSIDIARY CAPITAL

Share capital

The share capital of Bank Audi SAL as at 31 December is as follows:

	<i>Stock exchange listing</i>	<u>2016</u>		<u>2015</u>	
		<i>Number of shares</i>	<i>LBP Million</i>	<i>Number of shares</i>	<i>LBP Million</i>
Ordinary shares	Beirut	283,511,087	470,192	283,511,087	470,192
Global depository receipts	London SEAQ and Beirut	116,238,117	191,793	116,238,117	191,793
		<u>399,749,204</u>	<u>661,985</u>	<u>399,749,204</u>	<u>661,985</u>
Preferred shares series "F"	Beirut	1,500,000	2,484	1,500,000	2,484
Preferred shares series "G"	Beirut	1,500,000	2,484	1,500,000	2,484
Preferred shares series "H"	Beirut	750,000	1,242	750,000	1,242
Preferred shares series "I"	Beirut	2,500,000	4,140	-	-
		<u>6,250,000</u>	<u>10,350</u>	<u>3,750,000</u>	<u>6,210</u>
		<u>405,999,204</u>	<u>672,335</u>	<u>403,499,204</u>	<u>668,195</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

40 SHARE CAPITAL AND WARRANTS ISSUED ON SUBSIDIARY CAPITAL (continued)

Share capital (continued)

1. The Extraordinary General Assembly of shareholders held on 26 August 2014 decided to increase the Bank's capital by LBP 64,950 million through the issuance of 50,000,000 ordinary shares with a nominal value of LBP 1,299 per share. This capital increase was divided into two issuances the first (40,000,000 shares) of which was reserved for the Bank's shareholders of ordinary shares while the second (10,000,000 shares) was reserved for Bank shareholders and new investors. The issuance had the following terms:

- Number of shares: 50,000,000 (of which 11,018,762 were converted to GDRs)
- Share's issue price: US\$ 6
- Share's nominal value: LBP 1,299 (later became LBP 1,656 upon increasing the nominal value).
- Issue premium : Calculated in US\$ as the difference between US\$ 6 and the counter value of the par value per share based on the exchange rate at the underwriting dates.
- Benefits: Annual dividends starting from the year 2014 results inclusive.
- Warrants right: 3 warrants per newly issued share exercisable in one month during the first semester of the year 2019. The warrant holder has the right to exchange it against 1 share in Odea Bank AS by paying US\$ 0.95 per share

The Extraordinary General Assembly of shareholders held on 23 September 2014 validated and ratified the capital increases according to the aforementioned terms.

1. The Extraordinary General Assembly of shareholders held on 23 September 2014 decided to increase the Bank's capital by LBP 142,067 million through the increase of nominal value per share from LBP 1,299 to LBP 1,650 by transferring the amount of LBP 140,312 million from the Issue Premium – common shares and LBP 1,755 million from the Issue Premium – preferred shares. The Extraordinary General Assembly of shareholders held on 4 December 2014 validated and ratified the capital increases according to the aforementioned terms.
2. The Bank issued preferred shares series "F" under the following terms:

Preferred shares series "F"

- Number of shares: 1,500,000
- Share's issue price: US\$ 100
- Share's nominal value: LBP 1,254 (later became LBP 1,656 upon increasing the nominal value).
- Issue premium: Calculated in US\$ as the difference between US\$ 100 and the counter value of the par value per share based on the exchange rate at the underwriting dates.
- Benefits: Annual non cumulative dividends of US\$ 4 per share for the year 2012, and US\$ 6 for each subsequent year.
- Repurchase right: The Bank has the right to repurchase the shares in 5 years after issuance, as well as to call them off by that date.

The Extraordinary General Assembly of shareholders held on 22 June 2012 validated and ratified the capital increases according to the aforementioned terms.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

40 SHARE CAPITAL AND WARRANTS ISSUED ON SUBSIDIARY CAPITAL (continued)

3. Pursuant to the resolution of the Extraordinary General Assembly of shareholders held on 15 April 2013, the Bank issued series "G" and "H" preferred shares under the following terms:

Preferred shares series "G"

- Number of shares: 1,500,000
- Share's issue price: US\$ 100
- Share's nominal value: LBP 1,299 (later became LBP 1,656 upon increasing the nominal value)
- Issue premium : Calculated in US\$ as the difference between US\$ 100 and the counter value of the par value per share based on the exchange rate at the underwriting dates.
- Benefits: Annual non cumulative dividends of US\$ 4 per share for the year 2013, and US\$ 6 for each subsequent year.
- Repurchase right: The Bank has the right to repurchase the shares in 5 years after issuance, as well as to call them off by that date.

Preferred shares series "H"

- Number of shares: 750,000
- Share's issue price: US\$ 100
- Share's nominal value: LBP 1,299 (later became LBP 1,656 upon increasing the nominal value)
- Issue premium : Calculated in US\$ as the difference between US\$ 100 and the counter value of the par value per share based on the exchange rate at the underwriting dates.
- Benefits: Annual non cumulative dividends of US\$ 4.5 per share for the year 2013, and US\$ 6.5 for each subsequent year.
- Repurchase right: The Bank has the right to repurchase the shares in 7 years after issuance, as well as to call them off by that date.

The Extraordinary General Assembly of shareholders held on 21 June 2013 validated and ratified the capital increases according to the aforementioned terms for preferred shares series "G" and "H".

4. Pursuant to the resolution of the Extraordinary General Assembly of shareholders held on 29 November 2016, the Bank issued preferred shares series "I" under the following terms:

Preferred shares series "I"

- Number of shares: 2,500,000
- Share's issue price: US\$ 100
- Share's nominal value: LBP 1,656
- Issue premium: Calculated in US\$ as the difference between US\$ 100 and the counter value of the par value per share based on the exchange rate at the underwriting dates.
- Benefits: Annual non cumulative dividends of US\$ 3 per share for the year 2016, and US\$ 7 for each subsequent year.
- Repurchase right: The Bank has the right to repurchase the shares in 5 years after issuance, as well as to call them off by that date.
- Conversion: Mandatorily convertible into 15 common shares in case 1) common equity Tier 1 to risk weighted assets falls below 66.25% of minimum required by the Central Bank of Lebanon or 2) The Bank is deemed non-viable by the Central Bank of Lebanon without such a conversion.

The Extraordinary General Assembly of shareholders held on 21 December 2016 validated and ratified the capital increase according to the aforementioned terms.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

40 SHARE CAPITAL AND WARRANTS ISSUED ON SUBSIDIARY CAPITAL (continued)

Warrants issued on subsidiary shares

As mentioned above, during 2014, and in conjunction with the capital increase held during that year, the Bank issued 172.5 million warrants entitling the holders, during the exercise period, to purchase Odea bank shares at an exercise price of US\$ 0.95 per share. The exercise period is expected to be the 30-day period commencing on 15 May 2019. The warrants are in registered form, detachable and freely tradable.

A warrant holder may exercise any or all of the warrants held during the exercise period. The shares to be made available for delivery by the Bank pursuant to the exercise of the warrants shall be fully paid and shall rank pari passu with shares of the same class in issue on the exercise date, including the right to participate in full in all dividends payable on or after the exercise date.

	2016		2015	
	<i>Number of warrants outstanding</i>	<i>Cost LBP Million</i>	<i>Number of warrants outstanding</i>	<i>Cost LBP Million</i>
Balance at 1 January	154,830,156	17,145	154,933,803	17,195
Purchased during the year	(29,957,852)	(4,516)	(103,647)	(50)
Balance at 31 December	<u>124,872,304</u>	<u>12,629</u>	<u>154,830,156</u>	<u>17,145</u>

Paid dividends

In accordance with the resolution of the general assembly of shareholders held on 8 April 2016 dividends were distributed as follows:

	2016		
	<i>Number of shares</i>	<i>Distribution per share LBP</i>	<i>Total LBP Million</i>
Preferred shares series "F"	1,500,000	9,045	13,568
Preferred shares series "G"	1,500,000	9,045	13,568
Preferred shares series "H"	750,000	9,798	7,349
Common shares and Global Depository Receipts	399,718,174	603	241,030
			<u>275,515</u>

In accordance with the resolution of the general assembly of shareholders held on 07 April 2015, dividends were distributed as follows:

	2015		
	<i>Number of shares</i>	<i>Distribution per share LBP</i>	<i>Total LBP Million</i>
Preferred shares series "E"	1,250,000	9,045	11,306
Preferred shares series "F"	1,500,000	9,045	13,568
Preferred shares series "G"	1,500,000	9,045	13,568
Preferred shares series "H"	750,000	9,798	7,348
Common shares and Global Depository Receipts	399,280,388	603	240,766
			<u>286,556</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

41 ISSUE PREMIUMS

	2016 LBP Million	2015 LBP Million
Issue premium – common shares	883,582	883,582
Issue premium – preferred shares	931,837	559,102
	<u>1,815,419</u>	<u>1,442,684</u>

42 CASH CONTRIBUTION TO CAPITAL

In previous years, agreements were entered between the Bank and its shareholders whereby the shareholders granted cash contributions to the Bank amounting to US\$ 48,150,000 (equivalent to LBP 72,586 million) subject to the following conditions:

- These contributions will remain placed as a fixed deposit as long as the Bank performs banking activities;
- If the Bank incurs losses and has to reconstitute its capital, these contributions may be used to cover the losses if needed;
- The shareholders have the right to use these contributions to settle their share in any increase of capital;
- No interest is due on the above contributions;
- The above cash contributions are considered as part of Tier I capital for the purpose of determining the Bank's capital adequacy ratio; and
- The right to these cash contributions is for the present and future shareholders of the Bank.

43 NON DISTRIBUTABLE RESERVES

	Legal reserve LBP Million	Reserves appropriated for capital increase LBP Million	Gain on sale of treasury shares LBP Million	Reserve for general banking risks LBP Million	Unrealised gain on fair value through profit or loss LBP Million	Reserve for foreclosed assets LBP Million	Other reserves LBP Million	Total LBP Million
Balance at 1 January 2016	494,365	55,511	140	550,469	30,515	7,686	40,530	1,179,216
Appropriation of 2015 profits	67,646	2,041	-	63,071	8,635	1,652	91,968	235,013
Other comprehensive income (note 38)	-	182,702	-	-	-	-	-	182,702
Entities deconsolidated during the year	(15,370)	-	-	(4,414)	-	-	(120,990)	(140,774)
Non-controlling interests share of reserves	(16)	-	-	-	-	-	-	(16)
Balance at 31 December 2016	<u>546,625</u>	<u>240,254</u>	<u>140</u>	<u>609,126</u>	<u>39,150</u>	<u>9,338</u>	<u>11,508</u>	<u>1,456,141</u>

	Legal reserve LBP Million	Reserves appropriated for capital increase LBP Million	Gain on sale of treasury shares LBP Million	Reserve for general banking risks LBP Million	Unrealised gain on fair value through profit or loss LBP Million	Reserve for foreclosed assets LBP Million	Other reserves LBP Million	Total LBP Million
Balance at 1 January 2015	445,767	53,330	140	497,961	21,464	6,865	25,052	1,050,579
Appropriation of 2014 profits	48,748	4,580	-	52,508	9,051	821	27,432	143,140
Increase in share nominal value	-	(2,399)	-	-	-	-	-	(2,399)
Non-controlling interests share of reserves	(150)	-	-	-	-	-	(11,954)	(12,104)
Balance at 31 December 2015	<u>494,365</u>	<u>55,511</u>	<u>140</u>	<u>550,469</u>	<u>30,515</u>	<u>7,686</u>	<u>40,530</u>	<u>1,179,216</u>

43 NON DISTRIBUTABLE RESERVES (continued)

Legal reserve

The Lebanese Commercial Law and the Bank's articles of association stipulate that 10% of the net annual profits be transferred to legal reserve. In addition, subsidiaries and branches are also subject to legal reserve requirements based on the rules and regulations of the countries in which they operate. This reserve is not available for dividend distribution.

The Bank and different subsidiaries transferred to legal reserve an amount of LBP 67,646 million (2015: LBP 48,748 million) as required by the laws applicable in the countries in which they operate.

Reserves appropriated for capital increase

During 2016, the Bank recognized directly in reserves appropriated for capital increase an amount of LBP 182,702 million equivalent to 70% of net gains realized from trading sovereign financial instruments with the Central Bank of Lebanon.

The Group transferred LBP 2,041 million from 2015 profits (2015: LBP 4,580 million from 2014 profits) to reserves appropriated for capital increase. This amount represents the net gain on the disposal of fixed assets acquired in settlement of debt, in addition to reserves on recovered provisions for doubtful loans and debts previously written off, whenever recoveries exceed booked allowances.

Gain on sale of treasury shares

These gains arise from the Global Depository Receipts (GDRs) owned by the Group. Based on the applicable regulations, the Group does not have the right to distribute these gains.

Reserves for general banking risks

According to the Bank of Lebanon's regulations, banks are required to appropriate from their annual net profit a minimum of 0.2 percent and a maximum of 0.3 percent of total risk weighted assets and off-balance sheet accounts based on rates specified by the Central Bank of Lebanon to cover general banking risks. The consolidated ratio should not be less than 2 percent by the year 2017. This reserve is part of the Group's equity and is not available for distribution.

Reserve for unrealised revaluation gains on financial assets at fair value through profit or loss

As per the Banking Control Commission circular No. 270 dated 19 September 2011, banks operating in Lebanon are required to appropriate in a special reserve from their annual net profits the value of gross unrealized profits on financial assets at fair value through profit or loss. This reserve is not available for dividend distribution until such profits are realized and released to general reserves.

Reserve for foreclosed assets

The reserve for foreclosed assets represents appropriation against assets acquired in settlement of debt in accordance with the circulars of the Lebanese Banking Control Commission. Appropriations against assets acquired in settlement of debt shall be transferred to unrestricted reserves upon the disposal of the related assets.

Other reserves

In accordance with decision 362 of the Council of Money and Credit of Syria, unrealized accumulated foreign exchange profits from the revaluation of the structural position in foreign currency maintained by the subsidiary bank in Syria should be appropriated in non-distributable reserve.

Pursuant to the deconsolidation of the Syrian subsidiary in 2016, the balance represents regulatory reserves against retail credit portfolios in Lebanon.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

44 DISTRIBUTABLE RESERVES

	<i>General reserves</i> <i>LBP Million</i>	<i>Loss on sale of subsidiary warrants</i> <i>LBP Million</i>	<i>Cost of capital issued</i> <i>LBP Million</i>	<i>Total</i> <i>LBP Million</i>
Balance at 1 January 2016	648,871	(1,345)	(4,661)	642,865
Appropriation of 2015 profits	2,681	-	-	2,681
Entities deconsolidated during the year	(10,865)	-	-	(10,865)
Non controlling interests share of reserves	20	-	222	242
Cost of issuance of shares	-	-	(7,707)	(7,707)
Treasury shares transactions	284	-	-	284
Other movement	(2,999)	-	-	(2,999)
Balance at 31 December 2016	<u>637,992</u>	<u>(1,345)</u>	<u>(12,146)</u>	<u>624,501</u>
	<i>General reserves</i> <i>LBP Million</i>	<i>Loss on sale of subsidiary warrants</i> <i>LBP Million</i>	<i>Cost of capital issued</i> <i>LBP Million</i>	<i>Total</i> <i>LBP Million</i>
Balance at 1 January 2015	622,950	(1,314)	(4,660)	616,976
Appropriation of 2014 profits	25,927	-	-	25,927
Entities acquired during the year	681	-	-	681
Non controlling interests share of reserves	(687)	-	-	(687)
Warrants issued on subsidiary shares	-	(31)	-	(31)
Other movement	-	-	(1)	(1)
Balance at 31 December 2015	<u>648,871</u>	<u>(1,345)</u>	<u>(4,661)</u>	<u>642,865</u>

45 PROPOSED DIVIDENDS

In its meeting held on 20 March 2017, the Board of Directors of the Bank resolved to propose to the annual Ordinary General Assembly the distribution of dividends of LBP 753.75 per common share and GDR. Proposed dividends related to preferred shares amounted to LBP 45,791 million. These dividends are subject to the General Assembly's approval.

46 TREASURY SHARES

	2016		2015	
	<i>Number of GDRs</i>	<i>Cost LBP Million</i>	<i>Number of GDRs</i>	<i>Cost LBP Million</i>
Balance at 1 January	-	-	496,335	4,929
Purchase of treasury shares	11,333,625	102,529	881,194	8,242
Sale of treasury shares	(955,737)	(8,503)	(1,377,529)	(13,171)
Balance at 31 December	<u>10,377,888</u>	<u>94,026</u>	<u>-</u>	<u>-</u>

47 OTHER COMPONENTS OF EQUITY

	2016						
	<i>Real estate revaluation reserve</i> <i>LBP Million</i>	<i>Cumulative changes in fair value</i> <i>LBP Million</i>	<i>Foreign currency translation reserve</i> <i>LBP Million</i>	<i>Actuarial loss on defined benefit obligation</i> <i>LBP Million</i>	<i>Group share of associates' other comprehensive income</i> <i>LBP Million</i>	<i>Change in time value of hedging instruments</i> <i>LBP Million</i>	<i>Total</i> <i>LBP Million</i>
Balance at 1 January 2016	360,488	36,211	(732,696)	(5,592)	4,546	(53,152)	(390,195)
Other comprehensive income	(2,319)	(4,030)	(401,030)	1,338	-	(4,561)	(410,602)
Non-controlling interest share of other comprehensive income	-	(27)	59,517	-	-	-	59,490
Deconsolidation effect on non-controlling interests	544	-	(132,055)	-	-	-	(131,511)
Balance at 31 December 2016	<u>358,713</u>	<u>32,154</u>	<u>(1,206,264)</u>	<u>(4,254)</u>	<u>4,546</u>	<u>(57,713)</u>	<u>(872,818)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

47 OTHER COMPONENTS OF EQUITY (continued)

	2015						Total LBP Million
	Real estate revaluation reserve LBP Million	Cumulative changes in fair value LBP Million	Foreign currency translation reserve LBP Million	Actuarial loss on defined benefit obligation LBP Million	Group share of associates' other comprehensive income LBP Million	Change in time value of hedging instruments LBP Million	
Balance at 1 January 2015	353,974	27,527	(552,183)	(13,155)	4,546	348	(178,943)
Other comprehensive income	5,383	9,879	(202,087)	8,266	-	(53,500)	(232,059)
Non-controlling interests share of reserves	45	-	21,957	-	-	-	22,002
Other movement	1,086	-	(383)	(703)	-	-	-
Sale of financial assets at FVTOCI	-	(1,195)	-	-	-	-	(1,195)
Balance at 31 December 2015	360,488	36,211	(732,696)	(5,592)	4,546	(53,152)	(390,195)

Real estate revaluation reserve

Effective 31 December 2014, the Group made a voluntary change in its accounting policy for subsequent measurement of two classes of property and equipment being i) Land and ii) Building and building improvements from cost to revaluation model. The revaluation surplus amounted to LBP 383,096 and was booked net of deferred taxes of LBP 49,332 million. During 2015, the Group reversed LBP 4,691 million out of the previously deferred taxes due to the change in applicable tax rates in Egypt.

Cumulative changes in fair value

The cumulative changes as at 31 December represent the fair value differences from the revaluation of financial assets measured at fair value through other comprehensive income. The movement during the year can be summarised as follows:

	Change in fair value LBP Million	Deferred tax LBP Million	Net LBP Million
Balance at 1 January 2016	41,994	(5,783)	36,211
Other comprehensive income	(4,463)	433	(4,030)
Non-controlling interest share of reserves	(27)	-	(27)
Adjustments	(68)	68	-
Balance at 31 December 2016	37,436	(5,282)	32,154
Balance at 1 January 2015	32,495	(4,968)	27,527
Other comprehensive income	11,040	(1,161)	9,879
Sale of financial assets at FVTOCI	(1,405)	210	(1,195)
Adjustments	(136)	136	-
Balance at 31 December 2015	41,994	(5,783)	36,211

Change in the fair value of time value of hedging instruments

IFRS 9 (2013) stipulates that the Group may separate the intrinsic value and the time value of a purchased option contract and designate only the change in the intrinsic value as the hedging instrument. The Group exercised this option with a view to enhance hedge effectiveness. The decrease in fair value of the time value of these options, to the extent that it relates to the hedged item, amounted to LBP 27,861 million for the year ended 31 December 2016 (2015: LBP 75,458 million) and was recognized in other comprehensive income and accumulated in this reserve account. Amortization of the time value at the date of designation in addition to other costs of hedging amounted to LBP 23,300 million for the year ended 31 December 2016 (2015: LBP 21,958 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

48 GROUP SUBSIDIARIES

A. List of significant subsidiaries

The following table shows information related to the significant subsidiaries of the Bank.

	Percentage of ownership		Country of incorporation	Principal activity	Functional currency
	2016	2015			
Bank Audi (France) SA	100.00%	100.00%	France	Banking (Commercial)	EUR
Audi Investment Bank SAL	100.00%	100.00%	Lebanon	Banking (Investment)	LBP
Audi Private Bank SAL	100.00%	100.00%	Lebanon	Banking (Private)	LBP
Banque Audi (Suisse) SA	100.00%	100.00%	Switzerland	Banking (Private)	CHF
Bank Audi Syria SA	47.00%	47.00%	Syria	Banking (Commercial)	SYP
National Bank of Sudan	-	76.56%	Sudan	Banking (Commercial)	SDG
Bank Audi SAE	100.00%	100.00%	Egypt	Banking (Commercial)	EGP
Audi Capital (KSA)	99.99%	99.99%	Saudi Arabia	Financial Services	SAR
Bank Audi LLC Qatar	100.00%	100.00%	Qatar	Banking Services	QAR
Societe Libanaise de Factoring SAL	94.85%	94.85%	Lebanon	Factoring	LBP
Odea Bank SA	76.42%	100.00%	Turkey	Banking (Commercial)	TRY
Infi Gamma Holding SAL	99.97%	99.97%	Lebanon	Investment	US\$
Audi Investments Holding SAL	100.00%	100.00%	Lebanon	Investment	US\$
Capital Banking Solutions Ltd	70.50%	70.50%	UAE	IT Services	US\$

B. Significant restrictions

The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the supervisory frameworks within which banking subsidiaries operate. The supervisory frameworks require banking subsidiaries to keep certain levels of regulatory capital and liquid assets, limit their exposure to other parts of the Group and comply with other ratios.

C. Non-controlling interests

	2016 LBP Million	2015 LBP Million
Capital	359,369	124,699
Capital reserves	1,598	68,056
Retained earnings	3,852	(20,672)
Profit for the year	36,590	19,779
Other components of equity	(60,057)	(132,078)
	<u>341,352</u>	<u>59,784</u>

During 2016, the Group disposed of 23.58% of the ownership interests of Odea Bank A.S. pursuant to the capital increase of the latter which was mostly subscribed to with supranational investors. Following the partial disposal, the Group still controls Odea Bank A.S and retains 76.42% of the ownership interests.

The transaction has been accounted for as an equity transaction with non-controlling interests, resulting in the following:

	2016 LBP Million
Proceed from decrease of 23.58% ownership interest	387,543
Net assets attributable to non-controlling interest	(301,805)
Increase in equity attributable to parent	<u>85,738</u>
Represented by:	
Increase in foreign currency translation reserve	94,657
Decrease in cumulative changes in fair value	(27)
Decrease in retained earnings	(9,114)
Increase in distributable reserves	222
	<u>85,738</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

48 GROUP SUBSIDIARIES (continued)

Material Partially Owned Subsidiaries

	<i>ODEA Bank A.S</i>	<i>National Bank of Sudan</i>	<i>Bank Audi Syria S.A.</i>
	2016	2015	2015
	%	%	%
Proportion of equity interests held by non-controlling interests	23.58%	23.44%	53.00%

Summarized statement of profit or loss

Net interest income	547,447	4,749	7,308
Net fee and commission income	83,990	597	4,116
Net gain on financial assets	86,399	1,371	44,493
Revenues from financial assets at fair value through other comprehensive income	3,110		
Other operating income	1,314	893	27
Total Operating Income	722,260	7,610	55,944
Net credit losses	(266,976)	1,326	(711)
Total operating expenses	(325,923)	(2,967)	(20,976)
Non operating revenues (expenses)	-	2	25
Profit before tax	129,361	5,971	34,282
Income tax	(25,872)	(304)	-
Profit for the period	103,489	5,667	34,282
Attributable to non-controlling interests	14,376	1,328	18,169
Dividends paid to non-controlling interests	-	1,357	-

Summarized statement of financial position

	<i>ODEA Bank A.S</i>
	2016
	LBP Million
ASSETS	
Cash and balances with central banks	2,017,794
Due from banks and financial institutions	140,168
Loans to banks and financial institutions and reverse repurchase agreements	1,886,858
Due from head office, sister, related banks and financial institutions	-
Derivative financial instruments	179,629
Financial assets at fair value through profit or loss	2,525
Loans and advances to customers at amortized cost	11,159,897
Debtors by acceptances	48,977
Financial assets at amortized cost	584,879
Financial assets at fair value through other comprehensive income	824
Investment in subsidiaries and associates	-
Property and equipment	55,368
Intangible assets	42,256
Non current assets held for sale	18,002
Other assets	145,744
TOTAL ASSETS	16,282,921

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

48 GROUP SUBSIDIARIES (continued)

	ODEA Bank A.S 2016 LBP Million
LIABILITIES	
Due to Central Bank	99,117
Due to banks and financial institutions	1,475,396
Derivative financial instruments	233,449
Due to head office, sister, related banks and financial institutions	112,388
Customers' deposits	12,419,546
Deposits from related parties	5,071
Debt issued and other borrowed funds	225,983
Engagements by acceptances	48,977
Other liabilities	100,242
Provisions for risks and charges	23,943
TOTAL LIABILITIES	14,744,112
TOTAL SHAREHOLDERS' EQUITY	1,538,809
<i>Of which: non-controlling interest</i>	<i>316,181</i>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	16,282,921

The tables below summarize the financial position of the deconsolidated entities as at deconsolidation date and 31 December 2015:

	2016			Total LBP Million
	Bank Audi Syria LBP Million	National Bank of Sudan LBP Million	Arabeya Online and Brokerage LBP Million	
Cash and balances with central banks	76,346	21,965	128	98,439
Due from banks and financial institutions	202,982	62,773	9,805	275,560
Loans and advances to customers and related parties at amortized cost	35,819	-	-	35,819
Financial assets at fair value through other comprehensive income	-	-	475	475
Financial assets at amortized cost	-	25,846	-	25,846
Other assets	6,758	5,030	9,774	21,562
TOTAL ASSETS	321,905	115,614	20,182	457,701
Due to banks and financial institutions	81,711	-	-	81,711
Customers and related parties' deposits	153,673	24,069	-	177,742
Other liabilities	4,464	3,183	9,186	16,833
Shareholders' equity	82,057	88,362	10,996	181,415
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	321,905	115,614	20,182	457,701

	2015			Total LBP Million
	Bank Audi Syria LBP Million	National Bank of Sudan LBP Million	Arabeya Online and Brokerage LBP Million	
Cash and balances with central banks	87,562	26,682	248	114,492
Due from banks and financial institutions	204,509	67,480	12,436	284,425
Loans and advances to customers and related parties at amortized cost	61,672	103	-	61,775
Financial assets at fair value through other comprehensive income	-	-	585	585
Financial assets at amortized cost	-	30,181	-	30,181
Other assets	13,810	5,587	18,022	37,419
TOTAL ASSETS	367,553	130,033	31,291	528,877
Due to banks and financial institutions	70,230	-	-	70,230
Customers and related parties' deposits	206,799	33,136	-	239,935
Other liabilities	16,559	3,562	19,935	40,056
Shareholders' equity	73,965	93,335	11,356	178,656
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	367,553	130,033	31,291	528,877

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

48 GROUP SUBSIDIARIES (continued)

Summarized cash flow information

	Share of non-controlling interests		
	ODEA Bank A.S 2016 LBP Million	National	Bank Audi
		Bank of Sudan 2015 LBP Million	Bank Audi Syria S.A 2015 LBP Million
Operating activities	(123,629)	7,436	22,074
Investing activities	(212,983)	(321)	12,174
Financing activities	361,375	(1,533)	-
	24,763	5,582	34,248

49 CASH AND CASH EQUIVALENTS

	2016 LBP Million	2015 LBP Million
Cash and balances with Central Banks	2,549,050	1,391,150
Due from banks and financial institutions	2,054,677	2,625,705
Loans to banks and financial institutions and reverse repurchase agreements	24,654	2,563
Due to banks and financial institutions	(1,171,267)	(347,561)
	3,457,114	3,671,857

50 FAIR VALUE OF FINANCIAL INSTRUMENTS

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. Financial assets and liabilities are classified according to a hierarchy that reflects the significance of observable market inputs. The three levels of the fair value hierarchy are defined below.

Quoted market prices – Level 1

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

Valuation technique using observable inputs – Level 2

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

Valuation technique using significant unobservable inputs – Level 3

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). A valuation input is considered observable if it can be directly observed from transactions in an active market, or if there is compelling external evidence demonstrating an executable exit price. Unobservable input levels are generally determined based on observable inputs of a similar nature, historical observations or other analytical techniques.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

50 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

	2016			Total LBP Million
	Level 1 LBP Million	Level 2 LBP Million	Level 3 LBP Million	
FINANCIAL ASSETS				
Derivative financial instruments	53,138	336,527	473	390,138
Financial assets at fair value through profit or loss				
<i>Lebanese sovereign and central Bank of Lebanon</i>				
Central Bank's certificates of deposits	-	17,559	-	17,559
Treasury bills	-	555,086	-	555,086
Eurobonds	13,100	-	-	13,100
<i>Other sovereign</i>				
Treasury bills and bonds	2,526	-	-	2,526
<i>Private sector and other securities</i>				
Banks and financial institutions	8,973	454	-	9,427
Loans and advances to customers	-	21,898	-	21,898
Funds	964	35,719	31,018	67,701
Equity instruments	5,911	-	6	5,917
	31,474	630,716	31,024	693,214
Financial assets designated at fair value through other comprehensive income				
<i>Private sector and other securities</i>				
Equity instruments	1,167	55,335	137,446	193,948
	85,779	1,022,578	168,943	1,277,300
FINANCIAL LIABILITIES				
Derivative financial instruments	39,063	233,695	194	272,952
Customers deposits - sight	62,095	-	-	62,095
	101,158	233,695	194	335,047
2015				
	Level 1 LBP Million	Level 2 LBP Million	Level 3 LBP Million	Total LBP Million
FINANCIAL ASSETS				
Derivative financial instruments	64,201	197,630	4,032	265,863
Financial assets at fair value through profit or loss				
<i>Lebanese sovereign and central Bank of Lebanon</i>				
Central Bank's certificates of deposits	-	109,520	-	109,520
Treasury bills	-	91,828	-	91,828
Eurobonds	51,684	-	-	51,684
<i>Other sovereign</i>				
Treasury bills and bonds	12,863	-	-	12,863
<i>Private sector and other securities</i>				
Banks and financial institutions	36,051	300	-	36,351
Loans and advances to customers	-	22,185	-	22,185
Funds	7,438	27,480	15,689	50,607
Equity instruments	8,675	-	9	8,684
	116,711	251,313	15,698	383,722
Financial assets designated at fair value through other comprehensive income				
<i>Private sector and other securities</i>				
Equity instruments	1,040	40,021	103,314	144,375
	181,952	488,964	123,044	793,960
FINANCIAL LIABILITIES				
Derivative financial instruments	57,078	74,121	-	131,199
Customers deposits - sight	68,226	-	-	68,226
	125,304	74,121	-	199,425

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

50 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The movement of items recurrently measured at fair value categorized within level 3 during the year is as follows:

FINANCIAL ASSETS	2016			
	<i>Financial instruments at fair value through profit or loss</i> LBP Million	<i>Financial instruments at fair value through other comprehensive income</i> LBP Million	<i>Derivative financial instruments</i> LBP Million	<i>Total</i> LBP Million
Balance at 1 January 2016	15,698	103,314	4,032	123,044
Re-measurement recognised in other comprehensive income	-	(2,113)	(4,032)	(6,145)
Re-measurement recognised in the income statement	(886)	-	473	(413)
Entities deconsolidated during the year	-	(552)	-	(552)
Purchases	16,212	52,869	-	69,081
Sales	-	(15,279)	-	(15,279)
Foreign exchange difference	-	(793)	-	(793)
Balance at 31 December 2016	<u>31,024</u>	<u>137,446</u>	<u>473</u>	<u>168,943</u>

FINANCIAL ASSETS	2015			
	<i>Financial instruments at fair value through profit or loss</i> LBP Million	<i>Financial instruments at fair value through other comprehensive income</i> LBP Million	<i>Derivative financial instruments</i> LBP Million	<i>Total</i> LBP Million
Balance at 1 January 2015	2,197	106,247	1,136	109,580
Re-measurement recognised in other comprehensive income	-	2,655	2,896	5,551
Purchases	13,501	2,781	-	16,282
Sales	-	(8,317)	-	(8,317)
Foreign exchange difference	-	(52)	-	(52)
Balance at 31 December 2015	<u>15,698</u>	<u>103,314</u>	<u>4,032</u>	<u>123,044</u>

Assets and liabilities carried 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 deposits and other debt instruments

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, commodity prices, implied volatilities, and credit spreads.

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

Equity shares of non-listed entities

The Group's strategic investments are generally classified at fair value through other comprehensive income and are not traded in active markets. 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.

Derivatives

Collars held by the Group for hedging purposes are valued using a valuation technique with significant unobservable inputs. The applied valuation technique uses a Monte Carlo simulation which require inputs that cannot be pinned down with precision, given the lack of sufficient liquidity in the US\$/TRY options markets and the Turkish lira yield curve, particularly beyond the shortest maturities. In addition, the valuation need to reflect the substantial volatility skew that exists between US\$ puts and US\$ calls with comparable deltas, and specifically the fact that the implied volatility of US\$ calls is substantially greater than that of US\$ puts, even when their deltas and tenures are equal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

50 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Comparison of carrying 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.

Fair value measurement hierarchy of the Group's financial assets and liabilities for which fair value is disclosed:

31 December 2016	Notional amount LBP Million	Fair Value			Total LBP Million
		Level 1 LBP Million	Level 2 LBP Million	Level 3 LBP Million	
FINANCIAL ASSETS					
Cash and balances with central banks	18,650,596	377,438	18,267,929	-	18,645,367
Due from banks and financial institutions	3,027,228	-	3,027,218	-	3,027,218
Loans to banks and financial institutions and reverse repurchase agreements	2,068,815	-	2,068,841	-	2,068,841
Net loans & advances to customers	25,732,247	-	-	26,277,004	26,277,004
Corporate and SME	19,023,845	-	-	19,522,168	19,522,168
Retail and Personal Banking	6,248,123	-	-	6,294,562	6,294,562
Public Sector	460,279	-	-	460,274	460,274
Net loans & advances to related parties	219,193	-	-	219,143	219,143
Corporate and SME	24,099	-	-	24,081	24,081
Retail and Personal Banking	195,094	-	-	195,062	195,062
Financial assets classified at amortized cost	13,990,070	1,370,998	12,460,599	93,959	13,925,556
Lebanese sovereign and central bank	11,367,616	580,260	10,706,213	-	11,286,473
Other sovereign	2,020,863	434,624	1,599,816	-	2,034,440
Private sector and other securities	601,591	356,114	154,570	93,959	604,643
	<u>63,688,149</u>	<u>1,748,436</u>	<u>35,824,587</u>	<u>26,590,106</u>	<u>64,163,129</u>
FINANCIAL LIABILITIES					
Due to central banks	2,008,163	-	2,008,162	-	2,008,162
Due to banks and financial institutions	2,574,005	-	2,574,241	-	2,574,241
Customers' deposits	53,327,123	-	53,331,455	-	53,331,455
Deposits from related parties	813,548	-	813,550	-	813,550
Debt issued and other borrowed funds	973,535	-	976,558	-	976,558
	<u>59,696,374</u>	<u>-</u>	<u>59,703,966</u>	<u>-</u>	<u>59,703,966</u>
31 December 2015					
	Notional amount LBP Million	Fair Value			Total LBP Million
		Level 1 LBP Million	Level 2 LBP Million	Level 3 LBP Million	
FINANCIAL ASSETS					
Cash and balances with central banks	13,754,922	361,802	13,393,197	-	13,754,999
Due from banks and financial institutions	2,704,157	-	2,704,226	-	2,704,226
Loans to banks and financial institutions and reverse repurchase agreements	2,585,553	-	2,585,713	-	2,585,713
Net loans & advances to customers	26,812,807	-	-	27,060,363	27,060,363
Corporate and SME	19,969,078	-	-	20,264,471	20,264,471
Retail and Personal Banking	6,397,405	-	-	6,349,489	6,349,489
Public Sector	446,324	-	-	446,403	446,403
Net loans & advances to related parties	214,549	-	-	214,535	214,535
Corporate and SME	17,188	-	-	17,183	17,183
Retail and Personal Banking	197,361	-	-	197,352	197,352
Financial assets classified at amortized cost	14,784,574	3,936,183	10,885,032	11,283	14,832,498
Lebanese sovereign and central bank	10,368,572	2,934,698	7,451,212	-	10,385,910
Other sovereign	3,816,602	565,425	3,279,764	-	3,845,189
Private sector and other securities	599,400	436,060	154,056	11,283	601,399
	<u>60,856,562</u>	<u>4,297,985</u>	<u>29,568,168</u>	<u>27,286,181</u>	<u>61,152,334</u>
FINANCIAL LIABILITIES					
Due to central banks	651,174	-	651,174	-	651,174
Due to banks and financial institutions	2,259,247	-	2,277,657	-	2,277,657
Customers' deposits	52,922,281	-	52,948,432	-	52,948,432
Deposits from related parties	690,111	-	689,837	-	689,837
Debt issued and other borrowed funds	1,053,982	-	1,083,160	-	1,083,160
	<u>57,576,795</u>	<u>-</u>	<u>57,650,260</u>	<u>-</u>	<u>57,650,260</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

50 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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)

For financial assets and financial liabilities that are liquid or have a short term maturity (less than three months), the Group assumed that the carrying values approximate the fair values. This assumption is also applied to demand deposits which have no specific maturity and financial instruments with variable rates.

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 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 and credit spreads.

Loans and advances to customers

For the purpose of this disclosure, fair value of loans and advances to customers is estimated using discounted cash flows by applying current rates for new loans 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.

Debt issued and other borrowed funds

Fair values are determined using discounted cash flows valuation models where the inputs used are estimated by comparison with quoted prices in an active market for similar instruments.

51 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 non-financial guarantees and commitments to extend credit. Even though these obligations may not be recognised on the 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.

	2016		
	Banks LBP Million	Customers LBP Million	Total LBP Million
Guarantees and contingent liabilities			
Financial guarantees	256,914	856,196	1,113,110
Other guarantees	17,009	1,655,817	1,672,826
	<u>273,923</u>	<u>2,512,013</u>	<u>2,785,936</u>
Commitments			
Documentary credits	-	649,916	649,916
Loan commitments	-	4,799,560	4,799,560
Of which revocable	-	3,804,675	3,804,675
Of which irrevocable	-	994,885	994,885
	<u>-</u>	<u>5,449,476</u>	<u>5,449,476</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

51 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS
(continued)

Credit-related commitments and contingent liabilities (continued)

	2015		
	Banks LBP Million	Customers LBP Million	Total LBP Million
Guarantees and contingent liabilities			
Financial guarantees	136,275	866,225	1,002,500
Other guarantees	95,688	1,676,852	1,772,540
	<u>231,963</u>	<u>2,543,077</u>	<u>2,775,040</u>
Commitments			
Documentary credits	-	548,320	548,320
Loan commitments	-	5,222,426	5,222,426
Of which revocable	-	4,394,707	4,394,707
Of which irrevocable	-	827,719	827,719
	<u>-</u>	<u>5,770,746</u>	<u>5,770,746</u>

Guarantees

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

- Financial guarantees given to banks and financial institutions on behalf of customers to secure loans, overdrafts, and other banking facilities; and
- Other guarantees are contracts that have similar features to the financial guarantee contracts but fail to meet the strict definition of a financial guarantee contract under IFRS. These include mainly performance and tender guarantees.

Documentary credits

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

Loan commitments

Loan commitments are defined amounts (unutilized credit lines or undrawn portions of credit lines) against which clients can borrow money under defined terms and conditions.

Revocable loan commitments are those commitments that can be unconditionally cancelled at any time subject to notice requirements according to their general terms and conditions. Irrevocable loan commitments result from arrangements where the Group has no right to withdraw the loan commitment once communicated to the beneficiary.

In addition to the above, the Group has issued letters of intent in the amount of LBP 14,962,625 million as of 31 December 2016 (2015: LBP 15,704,228 million). These letters of intent do not represent loan commitments on behalf of the Group.

Investment commitments

The Group invested in funds pursuant to the provisions of Decision no. 6116 dated 7 March 1996 of the Central Bank of Lebanon. In accordance with this resolution, the Group can benefit from facilities granted by the Central Bank of Lebanon to be invested in startup companies, incubators and accelerators whose objects are restricted to supporting the development, success and growth of startup companies in Lebanon or companies whose objects are restricted to investing venture capital in startup companies in Lebanon. These investments have resulted in future commitments on the Group of LBP 30,164 million as of 31 December 2016 (2015: LBP 27,211 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

**51 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS
(continued)****Legal claims**

Litigation is a common occurrence in the banking industry due to the nature of the business. The Group has an established protocol for dealing with such legal claims. Once professional advice has been obtained and the amount of damages 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 legal counsel, management believes that legal claims will not result in any material financial loss to the Group.

Operating lease and capital expenditure commitments

	<i>2016</i> <i>LBP Million</i>	<i>2015</i> <i>LBP Million</i>
Capital expenditure commitments	56,495	42,019
Operating lease commitments – Group as lessee	65,017	92,982
<i>Within one year</i>	20,282	19,410
<i>One to five years</i>	22,638	36,774
<i>More than five years</i>	22,097	36,798
	121,512	135,001

Commitments resulting from credit facilities received

The Group has the following commitments resulting from the credit facilities received from non-resident financial institutions:

- The net past due loans (after the deduction of provisions) should not exceed 5 percent of the net credit facilities granted
- The provision for past due loans which includes specific and collective provisions and unrealized interest should not fall below 70 percent of the past due loans
- The net doubtful loans should not exceed 20 percent of the tier 1 capital
- Sustaining a liquidity ratio exceeding 115 percent
- Sustaining a capital adequacy exceeding the minimum ratio as per the regulations applied by the Central Bank of Lebanon and the requirements of the Basel agreements to the extent it is applied by the Central Bank of Lebanon.

Other commitments and contingencies

Financial assets at amortized cost include Lebanese government treasury bills amounting to LBP 805,013 million (2015: LBP 31,519 million) pledged to the Central Bank of Lebanon against credit facilities. They also include Turkish treasury bills amounting to LBP 1,055 million (2015: LBP 97,960 million) pledged against repurchase agreements (note 33).

The Bank's books in Lebanon remain subject to the review of the tax authorities for the period from 1 January 2012 to 31 December 2016 and the review of the National Social Security Fund (NSSF) for the period from 30 September 2011 to 31 December 2016. In addition, the subsidiaries' books and records are subject to review by the tax and social security authorities in the countries in which they operate. Management believes that adequate provisions were recorded against possible review results to the extent that they can be reliably estimated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

52 ASSETS UNDER MANAGEMENT

Assets under management include client assets managed or deposited with the Group. For the most part, the clients decide how these assets are to be invested.

	<i>2016</i> <i>LBP Million</i>	<i>2015</i> <i>LBP Million</i>
Assets under management	12,919,963	12,592,036
Fiduciary assets	3,407,836	2,255,152
	<u>16,327,799</u>	<u>14,847,188</u>

53 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 operational decisions, or one other party controls both. The definition includes subsidiaries, associates, key management personnel and their close family members, as well as entities controlled or jointly controlled by them.

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. At the level of the Group, key management personnel include the the members of the Bank's Board of Directors and Group Executive Committee.

Loans to related parties, (a) were made in the ordinary course of business, (b) were made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with others and (c) did not involve more than a normal risk of collectability or present other unfavorable features.

Related party balances included in the Group's Statement of Financial Position are as follows as of 31 December:

	<i>2016</i> <i>LBP Million</i>	<i>2015</i> <i>LBP Million</i>
Loans and advances	219,193	214,549
<i>of which: granted to key management personnel</i>	<i>59,676</i>	<i>68,134</i>
Indirect facilities	3,749	5,587
Deposits	813,548	690,111
Cash collateral received against loans	221,147	185,521

Related party balances included in the Group's Income Statement are as follows for the year ended 31 December:

	<i>2016</i> <i>LBP Million</i>	<i>2015</i> <i>LBP Million</i>
Interest income on loans	8,197	6,232
Interest expense on deposits	30,961	27,421

Subsidiaries

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 financial statements

Associates

The Group provides banking services to its associates and to entities under common directorships. As such, loans, overdrafts, interest and non-interest bearing deposits and current accounts are provided to these entities as well as other services. These transactions are conducted on the same terms as third-party transactions. Summarised financial information for the Group's associates is set out in note 27 to these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

53 RELATED PARTY TRANSACTIONS (continued)**Key Management Personnel**

Key Management personnel are those individuals who have the authority and responsibility for planning and exercising power to directly or indirectly control the activities of the Bank and its employees. The Bank considers the members of the Board of Directors (and its sub-committees) and Executive Committee to be Key Management personnel.

	<i>2016</i> <i>LBP Million</i>	<i>2015</i> <i>LBP Million</i>
Short-term benefits	59,914	46,696
Post-employment benefits	16,413	3,969

Short-term benefits comprise of salaries, bonuses, attendance fees and other benefits.

Provision for end of service benefits of key management personnel amounted to LBP 29,944 million as of 31 December 2016 (2015: LBP 23,485 million).

During 2016, the Group sold National Bank of Sudan, a subsidiary, to Fondal Limited, a related party, for a total consideration of LBP 22,612 million (note 16).

54 RISK MANAGEMENT

The Group is exposed to various types of risks, some of which are:

- Credit Risk: The risk of default or deterioration in the ability of a borrower to repay a loan.
- Market risk: The risk of loss in balance sheet and off-balance sheet positions arising from movements in market prices. Movements in market prices include changes in interest rates (including credit spreads), exchange rates and equity prices.
- Liquidity risk: The risk that the Group cannot meet its financial obligations when they come due in a timely manner and at reasonable cost.
- Operational risk: The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.
- Other risks faced by the Group include concentration risk, reputation risk, legal risk and business/strategic risk.

Risks are managed through a process of ongoing identification, measurement, monitoring, mitigation and control and reporting to relevant stakeholders. The Group ensures that risk and rewards are properly balanced and in line with the risk appetite that is approved by the Board of Directors.

Board of Directors

The Board of Directors (the Board) is ultimately responsible for setting the level of acceptable risks to which the Group is exposed, and as such defines the risk appetite for the Group. In addition, the Board approves risk policies and procedures. Periodic reporting is made to the Board on existing and emerging risks in the Group. A number of Management committees and departments are also responsible for various levels of risk management, as set out below.

Board Group Risk Committee

The role of the Board's Group Risk Committee (BGRC) is to oversee the risk management framework and assess its effectiveness, review and recommend to the Board the group risk policies and risk appetite, monitor the group risk profile, review stress tests scenarios and results, and provide access for the Group Chief Risk Officer (CRO) to the Board. The BGRC meets at least every quarter in the presence of the Group CRO.

Executive Committee

The mandate of the Group Executive Committee is to support the Board in the implementation of its strategy, to support the Group CEO in the day-to-day management of the Group, and to develop and implement business policies for the Group and issue guidance for the Group within the strategy approved by the Board. The Executive Committee is involved in reviewing and submitting to the Board the risk policies and risk appetite.

54 RISK MANAGEMENT (continued)

Asset Liability Committee

The Asset Liability Committee (ALCO) is a Management committee responsible in part for managing market risk exposures, liquidity, funding needs and contingencies. It is the responsibility of this committee to set up strategies for managing market risk and liquidity exposures and ensuring that Treasury implements those strategies so that exposures are managed in a manner consistent with the risk policy and limits approved by the Board.

Internal Audit

All risk management processes are independently audited by the Internal Audit department at least annually. This includes the examination of both the adequacy and effectiveness of risk control procedures. Internal audit discusses the results of its assessments with Management and reports its findings and recommendations to the Audit Committee of the Board.

Risk Management

Risk Management is a function independent from business lines and headed by the Chief Risk Officer. The function has the responsibility to ensure that risks are properly identified, measured, monitored, controlled, and reported to heads of business lines, Senior Management, ALCO, the Board Risk Committee and the Board. In addition, the function works closely with Senior Management to ensure that proper controls and mitigants are in place. The Risk function at the Group level has the responsibility of drafting risk policies and principles for adoption at the entity level. In addition, it is in charge of cascading risk appetite to entities and business lines monitoring and aggregating risks across the Group.

Risk Appetite

The Risk appetite reflects the business strategy and market environment of the Group, as well as the level of risks that the Group is willing to accept.

Risk Appetite is formalized in a document which is reviewed by the Executive Committee and the Board Group Risk Committee and approved by the Board. This document comprises qualitative and quantitative statements of risk appetite that includes indicators for asset quality and concentration.

Information independently compiled from all business lines and risk-taking units is examined and processed in order to identify and measure the risk profile. The results are reported and presented on a regular basis to Management and to the Board.

55 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. Credit risk appetite and limits are set at the Group level by the Board and are cascaded to the entities, which in turn formulate their own limits in line with the Group's risk appetite.

Credit Limits

The Group controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentration, and by monitoring exposures in relation to such limits. These limits include the following:

Financial institutions

Percentage floors and absolute limits are set on the Group's placements with highly rated financial institutions.

Sovereign exposure and other financial instruments

Limits are placed on sovereign exposures and other financial instruments according to their ratings.

Loans and advances to customers

The Group sets risk appetite per country, economic sector, tenure of the loan, rating, and group of obligors among others in order to limit undue risk concentrations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

55 CREDIT RISK (continued)

Credit Granting and Monitoring Processes

The Group has set clearly established processes related to loan origination, documentation and maintenance of extensions of credits.

Initiation

Initiation of the credit facilities is done by the business originating function which is shared between branches and the Corporate and Commercial departments.

Analysis

Credit analysis is performed within the business originating function and is reviewed independently by the Credit Review department, which in turn prepares a written independent credit opinion about the facilities and submits it to the respective approval authority.

Approval

Credit officers and credit committees are responsible for the approval of facilities up to the limit assigned to them, which depends on the size of the exposure and the obligor's creditworthiness as measure by his internal rating. Once approved, facilities are disbursed when all the requirements set by the respective approval authority are met and documents intended as security are obtained and verified by the Credit Administration function.

Monitoring

The Group maintains continuous monitoring of the quality of its portfolio. Regular reports are sent to the Executive Committee and to the Board detailing credit risk profile including follow-up accounts, large exposures, risk ratings and concentration by industry, geography and group of obligors.

Recovery and Restructuring

The Group assesses impaired loans by assessing the expected loss on a case by case basis for non-retail loans and on a collective basis for retail products. They are directly managed by the Recovery and Restructuring department which is responsible for formulating a workout strategy, in coordination with the Legal & Compliance department.

Provisioning Policy

As part of the conservative approach to sustain the quality of the Group's loan portfolio, an evaluation of loan loss provisions is made on a regular basis. As such, all adversely classified accounts are reviewed and the Recovery and Restructuring department makes recommendation for specific provisions against the accounts. These recommendations are submitted to the appropriate approval authority before they are implemented. In this regard, specific approval from the regulatory authority might be necessary depending on the regulatory environment of the concerned entity.

Besides, impairment is assessed on a collective basis for loans that are not individually impaired. The Group is in process of preparing for the adoption of IFRS 9, starting 1 January 2018 at a consolidated level as required by the Central Bank of Lebanon.

In the normal course of business, some loans may become unrecoverable. Such loans would then be required to be partially or fully written-off with proper approval when:

- All efforts to recover the bad debt have failed.
- The borrower's bankruptcy or inability to repay is established.
- Legal remedies have proved to be futile and/or cost prohibitive.

Requests for write-offs are to be submitted to the appropriate authority for approval. Approved write-offs are notified to the Executive Committee and then to the Board.

Derivative Financial Instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position. In the case of credit derivatives, the Group is also exposed to the risk of default of the derivative's counterparty.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

55 CREDIT RISK (continued)

Management of Risk Concentration

Credit concentrations arise when a number of counterparties are engaged in similar business activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political and other conditions.

In order to limit undue credit concentration risk and maintain a diversified portfolio base, the Group has set specific limits by certain asset class and type in the Risk Appetite document.

Credit-Related Commitments Risks

The Group makes available to its customers guarantees, which may require payments on their behalf. Such guarantees expose the Group to risks similar to balance sheet exposure and they are mitigated by the same control processes and policies.

Bank Audi SAL

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

55 CREDIT RISK (continued)

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

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

	2016								
	<i>Maximum exposure</i>	<i>Cash collateral and margins</i>	<i>Securities</i>	<i>Guarantees received from banks and financial institutions</i>	<i>Real estate</i>	<i>Vehicles</i>	<i>Other guarantees</i>	<i>Netting agreements</i>	<i>Net credit exposure</i>
	<i>LBP Million</i>	<i>LBP Million</i>	<i>LBP Million</i>	<i>LBP Million</i>	<i>LBP Million</i>	<i>LBP Million</i>	<i>LBP Million</i>	<i>LBP Million</i>	<i>LBP Million</i>
Cash and balances with central banks	18,273,158	-	-	-	-	-	-	-	18,273,158
Due from banks and financial institutions	3,027,228	-	-	-	-	-	-	-	3,027,228
Loans to banks and financial institutions and reverse repurchase agreements	2,068,815	-	-	1,885,981	-	-	-	-	182,834
Derivative financial instruments	378,550	-	-	-	-	-	-	-	378,550
Financial assets at fair value through profit or loss	619,596	-	-	-	-	-	-	-	619,596
Loans and advances to customers at amortised cost	25,732,247	2,905,205	1,275,298	90,535	7,690,285	525,093	553,098	44,299	18,648,434
<i>Corporate and SME</i>	<i>19,023,845</i>	<i>1,873,891</i>	<i>545,750</i>	<i>89,940</i>	<i>5,945,002</i>	<i>215,145</i>	<i>525,232</i>	<i>36,043</i>	<i>9,792,842</i>
<i>Retail and personal banking</i>	<i>6,248,123</i>	<i>1,025,871</i>	<i>729,548</i>	<i>595</i>	<i>1,745,283</i>	<i>309,948</i>	<i>27,866</i>	<i>8,256</i>	<i>2,400,756</i>
<i>Public sector</i>	<i>460,279</i>	<i>5,443</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>454,836</i>
Loans and advances to related parties at amortized cost	219,193	115,522	59	-	25,788	328	876	688	75,932
Debtors by acceptances	199,156	17,259	395	-	3,136	-	6,198	134	172,034
Financial assets at amortized cost	13,990,070	-	-	-	-	-	-	2,507,339	11,482,731
Contingent liabilities	1,763,026	186,013	18,110	27,952	77,318	996	51,884	-	1,400,753
<i>Letters of credit</i>	<i>649,916</i>	<i>104,361</i>	<i>213</i>	<i>144</i>	<i>1,135</i>	<i>60</i>	<i>7,612</i>	<i>-</i>	<i>536,391</i>
<i>Financial guarantee given to banks and financial institutions</i>	<i>256,914</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>256,914</i>
<i>Financial guarantee given to customers</i>	<i>856,196</i>	<i>81,652</i>	<i>17,897</i>	<i>27,808</i>	<i>76,183</i>	<i>936</i>	<i>44,272</i>	<i>-</i>	<i>607,448</i>
Total	66,271,039	3,223,999	1,293,862	2,004,468	7,796,527	526,417	612,056	2,552,460	48,261,250
Guarantees received from banks, financial institutions and customers									
Utilized collateral		3,223,999	1,293,862	2,004,468	7,796,527	526,417	612,056		15,457,329
Surplus of collateral before undrawn credit lines		2,104,088	2,559,579	38,893	15,432,977	289,591	1,830,993		22,256,121
		5,328,087	3,853,441	2,043,361	23,229,504	816,008	2,443,049		37,713,450

The surplus of collateral mentioned above is presented before offsetting additional credit commitments given to customers amounting to LBP 4,799,560 million as at 31 December 2016.

Bank Audi SAL

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

55 CREDIT RISK (continued)

	2015								
	Maximum exposure LBP Million	Cash collateral and margins LBP Million	Securities LBP Million	Guarantees received from banks and financial institutions LBP Million	Real estate LBP Million	Vehicles LBP Million	Other guarantees LBP Million	Netting agreements LBP Million	Net credit exposure LBP Million
Cash and balances with central banks	13,393,120	-	-	-	-	-	-	-	13,393,120
Due from banks and financial institutions	2,704,157	-	-	-	-	-	-	-	2,704,157
Loans to banks and financial institutions and reverse repurchase agreements	2,585,553	-	-	2,384,364	-	-	-	-	201,189
Derivative financial instruments	263,285	-	-	-	-	-	-	-	263,285
Financial assets at fair value through profit or loss	324,431	-	-	-	-	-	-	-	324,431
Loans and advances to customers at amortised cost	26,812,807	3,489,488	983,989	140,889	7,523,830	544,741	624,725	4,468	13,500,677
<i>Corporate and SME</i>	19,969,078	1,903,953	726,667	138,522	5,471,767	85,283	518,859	4,124	11,119,903
<i>Retail and personal banking</i>	6,397,405	1,564,742	257,322	2,367	2,052,063	459,458	105,866	344	1,955,243
<i>Public sector</i>	446,324	20,793	-	-	-	-	-	-	425,531
Loans and advances to related parties at amortized cost	214,549	139,328	110	-	19,160	354	1,288	-	54,309
Debtors by acceptances	240,605	17,579	-	41	828	-	3,358	-	218,799
Financial assets at amortized cost	14,784,574	-	-	-	-	-	-	2,325,642	12,458,932
Contingent liabilities	1,550,820	123,773	16,252	24,924	44,472	-	47,819	-	1,293,580
<i>Letters of credit</i>	548,320	18,861	-	126	1,461	-	8,819	-	519,053
<i>Financial guarantee given to banks and financial institutions</i>	136,275	-	-	-	-	-	-	-	136,275
<i>Financial guarantee given to customers</i>	866,225	104,912	16,252	24,798	43,011	-	39,000	-	638,252
Total	62,873,901	3,770,168	1,000,351	2,550,218	7,588,290	545,095	677,190	2,330,110	44,412,479
Guarantees received from banks, financial institutions and customers									
Utilized collateral		3,770,168	1,000,351	2,550,218	7,588,290	545,095	677,190		16,131,312
Surplus of collateral before undrawn credit lines		1,423,208	2,868,124	53,417	16,133,987	381,661	1,829,400		22,689,797
		5,193,376	3,868,475	2,603,635	23,722,277	926,756	2,506,590		38,821,109

The surplus of collateral mentioned above is presented before offsetting additional credit commitments given to customers amounting to LBP 5,222,426 million as at 31 December 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

55 CREDIT RISK (continued)

Analysis to maximum exposure to credit risk and collateral and other credit enhancements**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 on a regular basis and requests additional collateral in accordance with the underlying agreement when deemed necessary.

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.

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.

Netting agreements: The Group makes use of netting agreements where there is a legally enforceable right to offset in the event of counterparty default and where as a result there is a net exposure for credit risk. However, there is no intention to settle these balances on a net basis under normal circumstances, and they do not qualify for offset. The amounts above represent available netting agreements in the event of default of the counterparty.

This includes netting agreements for loans and advances to customers and financial assets at amortized cost. In addition, derivatives may also be settled net when there is a netting agreement in place providing for this in the event of default, reducing the Group's exposure to counterparties on derivative asset positions. The reduction in risk is the amount of liability held.

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, second degree mortgages, and assignments of insurance or bills proceeds and revenues, which are not reflected in the above table.

Restructured 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 <i>LBP Million</i>	2015 <i>LBP Million</i>
Corporate and SME	676,721	452,599
Retail and personal banking	79,462	19,244
	<u>756,183</u>	<u>471,843</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

55 CREDIT RISK (continued)

Credit Rating System

The Group assesses the quality of its credit portfolio using the following credit rating methodologies:

- (i) External ratings from approved credit rating agencies for financial institutions and financial assets.
- (ii) Internal rating models that take into account both financial as well as non-financial information such as management quality, operating environment and company standing. These internal rating models include a Corporate model, SME models, Project Finance and Individual model. The Group uses Facility Risk Rating (FRR) model to rate facilities based on the Obligor Risk Rating and collaterals.
- (iii) Internally developed scorecards to assess the creditworthiness of retail borrowers in an objective manner and streamline the decision making process.
- (iv) Supervisory ratings, comprising six main categories: (a) *Regular* includes borrowers demonstrating good to excellent financial condition, risk factors, and capacity to repay. These loans demonstrate regular and timely payment of dues, adequacy of cash flows, timely presentation of financial statements, and sufficient collateral / guarantee when required. (b) *Follow-up* represents a lack of documentation related to a borrower's activity, an inconsistency between facilities' type and related conditions. (c) *Follow-up and regularisation* includes credit worthy borrowers requiring close monitoring without being impaired. These loans might be showing weaknesses; insufficient or inadequate cash flows; highly leveraged; deterioration in economic sector or country where the facility is used; loan rescheduling more than once since initiation; or excess utilization above limit. (d) *Substandard* loans include borrowers with incapacity to repay from identified cash flows. Also included under this category are those with recurrent late payments and financial difficulties. (e) *Doubtful* loans where full repayment is questioned even after liquidation of collateral. It also includes loans stagnating for over 6 months and debtors who are unable to repay restructured loans. Finally, (f) *Bad* loans with no or little expected inflows from business or assets. This category also includes borrowers with significant delays and deemed insolvent.

Credit Quality

The table below shows the credit quality by asset class for all financial assets with credit risk, based on the past-due status and impaired / non-impaired classification. The amounts presented are gross of impairment allowances.

	2016				Total LBP Million
	<i>Neither past due nor impaired LBP Million</i>	<i>Past due but not impaired LBP Million</i>	<i>Past due and impaired</i>		
			<i>Substandard LBP Million</i>	<i>Doubtful and bad LBP Million</i>	
Cash and balances with central banks	18,273,158	-	-	-	18,273,158
Due from banks and financial institutions	3,026,774	-	-	1,270	3,028,044
Loans to banks and financial institutions and reverse repurchase agreements	2,068,815	-	-	-	2,068,815
Derivative financial instruments	378,550	-	-	-	378,550
Financial assets at fair value through profit or loss	619,596	-	-	-	619,596
Loans and advances to customers at amortised cost	25,450,307	639,738	64,240	661,716	26,816,001
Loans and advances to related parties at amortised cost	219,193	-	-	-	219,193
Financial assets at amortised cost	13,990,070	-	-	-	13,990,070
	64,026,463	639,738	64,240	662,986	65,393,427
<i>Loans and advances:</i>					
Corporate and SME	18,840,533	475,500	49,105	491,182	19,856,320
Retail and personal banking	6,364,575	164,238	15,135	170,534	6,714,482
Public sector	464,392	-	-	-	464,392
	25,669,500	639,738	64,240	661,716	27,035,194

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

55 CREDIT RISK (continued)

Credit Quality (continued)

	2015				Total LBP Million
	Neither past due nor impaired LBP Million	Past due but not impaired LBP Million	Past due and impaired		
			Substandard LBP Million	Doubtful and bad LBP Million	
Cash and balances with central banks	13,393,120	-	-	-	13,393,120
Due from banks and financial institutions	2,703,717	-	-	1,330	2,705,047
Loans to banks and financial institutions and reverse repurchase agreements	2,585,553	-	-	-	2,585,553
Derivative financial instruments	263,285	-	-	-	263,285
Financial assets at fair value through profit or loss	324,431	-	-	-	324,431
Loans and advances to customers at amortised cost	26,177,539	566,299	57,420	817,564	27,618,822
Loans and advances to related parties at amortised cost	214,549	-	-	-	214,549
Financial assets at amortised cost	14,784,574	-	-	4,763	14,789,337
	<u>60,446,768</u>	<u>566,299</u>	<u>57,420</u>	<u>823,657</u>	<u>61,894,144</u>
<i>Loans and advances:</i>					
Corporate and SME	19,491,183	411,579	44,438	634,812	20,582,012
Retail and personal banking	6,451,554	154,720	12,982	182,752	6,802,008
Public sector	449,351	-	-	-	449,351
	<u>26,392,088</u>	<u>566,299</u>	<u>57,420</u>	<u>817,564</u>	<u>27,833,371</u>

The aging analysis of past due but not impaired loans and advances to customers at amortised cost as at 31 December are as follows:

	2016				Total LBP Million
	Less than 30 days LBP Million	31 to 60 days LBP Million	61 to 90 days LBP Million	More than 90 days LBP Million	
Corporate and SME	28,393	44,431	103,853	298,823	475,500
Retail and personal banking	118,147	29,485	9,979	6,627	164,238
	<u>146,540</u>	<u>73,916</u>	<u>113,832</u>	<u>305,450</u>	<u>639,738</u>
	2015				Total LBP Million
	Less than 30 days LBP Million	31 to 60 days LBP Million	61 to 90 days LBP Million	More than 90 days LBP Million	
Corporate and SME	54,031	33,608	50,524	273,416	411,579
Retail and personal banking	109,859	29,187	7,324	8,350	154,720
	<u>163,890</u>	<u>62,795</u>	<u>57,848</u>	<u>281,766</u>	<u>566,299</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

55 CREDIT RISK (continued)

The classification of loans and advances to customers and related parties at amortised cost as per supervisory ratings is as follows:

	2016			
	<i>Gross balance LBP Million</i>	<i>Unrealised interest LBP Million</i>	<i>Impairment allowances LBP Million</i>	<i>Net balance LBP Million</i>
Regular	23,507,644	-	-	23,507,644
Follow up	1,521,783	-	-	1,521,783
Follow up and regularization	1,279,811	-	-	1,279,811
Substandard	64,240	(5,672)	-	58,568
Doubtful	293,604	(14,541)	(143,555)	135,508
Bad	368,112	(43,292)	(245,365)	79,455
	<u>27,035,194</u>	<u>(63,505)</u>	<u>(388,920)</u>	<u>26,582,769</u>
Collective impairment	-	-	(631,329)	(631,329)
	<u>27,035,194</u>	<u>(63,505)</u>	<u>(1,020,249)</u>	<u>25,951,440</u>
	2015			
	<i>Gross balance LBP Million</i>	<i>Unrealised interest LBP Million</i>	<i>Impairment allowances LBP Million</i>	<i>Net balance LBP Million</i>
Regular	24,216,982	-	-	24,216,982
Follow up	942,188	-	-	942,188
Follow up and regularization	1,799,217	-	-	1,799,217
Substandard	57,420	(2,214)	-	55,206
Doubtful	368,547	(16,722)	(124,621)	227,204
Bad	449,017	(97,978)	(319,922)	31,117
	<u>27,833,371</u>	<u>(116,914)</u>	<u>(444,543)</u>	<u>27,271,914</u>
Collective impairment	-	-	(244,558)	(244,558)
	<u>27,833,371</u>	<u>(116,914)</u>	<u>(689,101)</u>	<u>27,027,356</u>

Bank Audi SAL

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

55 CREDIT RISK (continued)

The classification of the Group financial instruments and balances due from banks and financial institutions as per external ratings are as follows:

	2016					2016					Grand total LBP Million
	Sovereign and Central Banks					Non – Sovereign					
	AAA to AA- LBP Million	A+ to BBB- LBP Million	BB+ to B- LBP Million	Unrated LBP Million	Total LBP Million	AAA to AA- LBP Million	A+ to BBB- LBP Million	BB+ to B- LBP Million	Unrated LBP Million	Total LBP Million	
Balance with central banks	220,385	-	18,052,773	-	18,273,158	-	-	-	-	-	18,273,158
Due from banks and financial institutions	-	-	-	-	-	902,323	1,644,545	297,710	182,650	3,027,228	3,027,228
Loans to banks and financial institutions and reverse repurchase agreements	-	-	-	-	-	-	-	2,000,787	68,028	2,068,815	2,068,815
Financial assets at fair value through profit or loss	-	-	588,271	-	588,271	-	30,870	455	-	31,325	619,596
Financial assets at amortised cost	63,098	8,355	13,317,026	-	13,388,479	170,278	329,679	98,319	3,315	601,591	13,990,070
	<u>283,483</u>	<u>8,355</u>	<u>31,958,070</u>	<u>-</u>	<u>32,249,908</u>	<u>1,072,601</u>	<u>2,005,094</u>	<u>2,397,271</u>	<u>253,993</u>	<u>5,728,959</u>	<u>37,978,867</u>
	2015					2015					
	Sovereign and Central Banks					Non – Sovereign					
	AAA to AA- LBP Million	A+ to BBB- LBP Million	BB+ to B- LBP Million	Unrated LBP Million	Total LBP Million	AAA to AA- LBP Million	A+ to BBB- LBP Million	BB+ to B- LBP Million	Unrated LBP Million	Total LBP Million	Grand total LBP Million
Balance with central banks	262,692	2,041,151	11,064,008	25,269	13,393,120	-	-	-	-	-	13,393,120
Due from banks and financial institutions	-	-	-	-	-	461,312	1,649,766	268,586	324,493	2,704,157	2,704,157
Loans to banks and financial institutions and reverse repurchase agreements	-	-	282,864	-	282,864	-	2,250,063	16,216	36,410	2,302,689	2,585,553
Financial assets at fair value through profit or loss	-	12,863	253,032	-	265,895	-	58,237	299	-	58,536	324,431
Financial assets at amortised cost	43,816	547,570	13,563,607	30,181	14,185,174	230,416	256,819	99,106	13,059	599,400	14,784,574
	<u>306,508</u>	<u>2,601,584</u>	<u>25,163,511</u>	<u>55,450</u>	<u>28,127,053</u>	<u>691,728</u>	<u>2,214,885</u>	<u>384,207</u>	<u>373,962</u>	<u>5,664,762</u>	<u>33,791,835</u>

Bank Audi SAL

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

55 CREDIT RISK (continued)

The Group controls credit risk by maintaining close monitoring credit of its assets exposures by geographic location. The distribution of financial assets by geographic region as of 31 December are as follows:

	2016									
	<i>Lebanon</i> <i>LBP Million</i>	<i>Turkey</i> <i>LBP Million</i>	<i>MENA</i> <i>LBP Million</i>	<i>Europe</i> <i>LBP Million</i>	<i>North</i> <i>America</i> <i>LBP Million</i>	<i>Asia</i> <i>LBP Million</i>	<i>Rest of</i> <i>Africa</i> <i>LBP Million</i>	<i>Central and</i> <i>South America</i> <i>LBP Million</i>	<i>Rest of the</i> <i>world</i> <i>LBP Million</i>	<i>Total</i> <i>LBP Million</i>
Cash and balances with central banks	15,389,610	2,017,794	1,020,890	222,302	-	-	-	-	-	18,650,596
Due from banks and financial institutions	383,372	4,417	463,290	1,190,763	831,563	148,549	119	-	5,155	3,027,228
Loans to banks and financial institutions and reverse repurchase agreements	30,559	2,000,787	37,469	-	-	-	-	-	-	2,068,815
Derivative financial instruments	22,297	51,197	358	177,579	137,644	1,063	-	-	-	390,138
Financial assets at fair value through profit or loss	622,898	2,525	26,913	35,122	5,756	-	-	-	-	693,214
Loans and advances to customers at amortised cost	8,110,715	11,095,913	4,777,043	702,189	193,267	104,416	479,855	123,256	145,593	25,732,247
Loans and advances to related parties at amortised cost	169,956	-	48,208	1,029	-	-	-	-	-	219,193
Debtors by acceptances	99,499	49,215	14,263	3,935	2,528	1,713	28,003	-	-	199,156
Financial assets at amortized cost	11,468,992	375,695	1,847,618	110,162	57,808	107,862	-	-	21,933	13,990,070
Financial assets at fair value through other comprehensive income	87,644	-	53,371	17,002	35,931	-	-	-	-	193,948
	<u>36,385,542</u>	<u>15,597,543</u>	<u>8,289,423</u>	<u>2,460,083</u>	<u>1,264,497</u>	<u>363,603</u>	<u>507,977</u>	<u>123,256</u>	<u>172,681</u>	<u>65,164,605</u>

Bank Audi SAL

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

55 CREDIT RISK (continued)

	2015									Total LBP Million
	Lebanon LBP Million	Turkey LBP Million	MENA LBP Million	Europe LBP Million	North America LBP Million	Asia LBP Million	Rest of Africa LBP Million	Central and South America LBP Million	Rest of the world LBP Million	
Cash and balances with central banks	10,431,052	2,112,346	946,263	265,261	-	-	-	-	-	13,754,922
Due from banks and financial institutions	326,086	139,466	425,863	1,218,731	568,194	18,176	422	-	7,219	2,704,157
Loans to banks and financial institutions and reverse repurchase agreements	313,246	2,269,744	-	2,563	-	-	-	-	-	2,585,553
Derivative financial instruments	21,900	31,326	358	82,075	130,204	-	-	-	-	265,863
Financial assets at fair value through profit or loss	271,947	12,863	24,220	74,692	-	-	-	-	-	383,722
Loans and advances to customers at amortised cost	8,130,981	11,071,793	6,067,861	814,811	63,593	88,120	347,941	30,003	197,704	26,812,807
Loans and advances to related parties at amortised cost	178,147	-	36,355	47	-	-	-	-	-	214,549
Debtors by acceptances	131,654	35,476	29,657	11,371	613	3,198	27,907	-	729	240,605
Financial assets at amortized cost	10,481,953	536,473	3,481,628	116,702	35,210	69,380	-	-	63,228	14,784,574
Financial assets at fair value through other comprehensive income	85,810	-	15,238	7,293	36,034	-	-	-	-	144,375
	<u>30,372,776</u>	<u>16,209,487</u>	<u>11,027,443</u>	<u>2,593,546</u>	<u>833,848</u>	<u>178,874</u>	<u>376,270</u>	<u>30,003</u>	<u>268,880</u>	<u>61,891,127</u>

Bank Audi SAL

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

55 CREDIT RISK (continued)

Industrial analysis

	2016									
	<i>Financial services and brokerage</i> LBP Million	<i>Government</i> LBP Million	<i>Consumers</i> LBP Million	<i>Retail and whole sale</i> LBP Million	<i>Construction and materials</i> LBP Million	<i>Manufacturing</i> LBP Million	<i>Energy and petroleum</i> LBP Million	<i>Services and utilities</i> LBP Million	<i>Agriculture</i> LBP Million	<i>Total</i> LBP Million
Cash and balances with central banks	377,438	18,273,158	-	-	-	-	-	-	-	18,650,596
Due from banks and financial institutions	3,027,228	-	-	-	-	-	-	-	-	3,027,228
Loans to banks and financial institutions and reverse repurchase agreements	2,068,815	-	-	-	-	-	-	-	-	2,068,815
Derivative financial instruments	298,966	-	14,496	42,833	6,971	13,340	-	12,465	1,067	390,138
Financial assets at fair value through profit or loss	104,895	588,271	-	-	43	-	-	5	-	693,214
Loans and advances to customers at amortised cost	1,390,749	15,641	6,595,402	2,646,213	4,572,190	3,425,231	2,123,683	4,707,509	255,629	25,732,247
Loans and advances to related parties at amortised cost	100,384	-	99,085	-	3,027	57	-	16,640	-	219,193
Debtors by acceptances	760	80	-	107,521	6,000	79,165	-	1,850	3,780	199,156
Financial assets at amortized cost	535,169	13,388,479	-	-	758	48,437	-	14,170	3,057	13,990,070
Financial assets at fair value through other comprehensive income	132,895	-	-	-	653	38,295	-	22,105	-	193,948
	<u>8,037,299</u>	<u>32,265,629</u>	<u>6,708,983</u>	<u>2,796,567</u>	<u>4,589,642</u>	<u>3,604,525</u>	<u>2,123,683</u>	<u>4,774,744</u>	<u>263,533</u>	<u>65,164,605</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

55 CREDIT RISK (continued)

Industrial analysis (continued)

	2015									
	<i>Financial services and brokerage</i> LBP Million	<i>Government</i> LBP Million	<i>Consumers</i> LBP Million	<i>Retail and whole sale</i> LBP Million	<i>Construction and materials</i> LBP Million	<i>Manufacturing</i> LBP Million	<i>Energy and petroleum</i> LBP Million	<i>Services and utilities</i> LBP Million	<i>Agriculture</i> LBP Million	<i>Total</i> LBP Million
Cash and balances with central banks	361,802	13,393,120	-	-	-	-	-	-	-	13,754,922
Due from banks and financial institutions	2,704,157	-	-	-	-	-	-	-	-	2,704,157
Loans to banks and financial institutions and reverse repurchase agreements	2,585,553	-	-	-	-	-	-	-	-	2,585,553
Derivative financial instruments	183,283	-	10,410	58,897	3,307	9,687	-	270	9	265,863
Financial assets at fair value through profit or loss	117,760	265,895	-	-	67	-	-	-	-	383,722
Loans and advances to customers at amortised cost	1,533,644	11,479	6,562,575	2,882,849	4,312,819	3,816,702	1,857,841	5,596,857	238,041	26,812,807
Loans and advances to related parties at amortised cost	102,564	-	94,759	-	8,943	85	-	8,198	-	214,549
Debtors by acceptances	16,789	-	-	145,223	5,313	64,407	-	4,714	4,159	240,605
Financial assets at amortized cost	547,248	14,185,174	-	-	-	36,663	-	12,444	3,045	14,784,574
Financial assets at fair value through other comprehensive income	122,023	-	-	-	522	580	-	21,250	-	144,375
	<u>8,274,823</u>	<u>27,855,668</u>	<u>6,667,744</u>	<u>3,086,969</u>	<u>4,330,971</u>	<u>3,928,124</u>	<u>1,857,841</u>	<u>5,643,733</u>	<u>245,254</u>	<u>61,891,127</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

56 MARKET RISK

Market risk is defined as the potential loss in both on balance sheet and off-balance sheet positions resulting from movements in market risk factors such as foreign exchange rates, interest rates and equity prices.

The Market Risk unit's responsibilities are to identify, measure, report, and monitor all potential and actual market risks to which the Group is exposed. The purpose is to introduce transparency around the treasury, investment portfolio, and asset and liability risk profile through consistent and comprehensive risk measurements, aggregation, management and analysis. Policies are set and limits monitored in order to ensure the avoidance of large, unexpected losses and the consequent impact on the Group's safety and soundness.

Tools developed in-house by a centralized unit of specialists offer a holistic view of risk exposures and are customized to meet the requirements of all end users (Group Risk, Senior Management, Business Lines and Legal Compliance). Stress scenarios include the various manifestations of the credit crisis that are relevant to the Group's exposures, as well as scenarios related to the Group's environment.

A. CURRENCY RISK

Foreign exchange (or currency) risk is the risk that the value of a portfolio will fall as a result of changes in foreign exchange rates. The major sources of this type of market risk are imperfect correlations in the movements of currency prices and fluctuations in interest rates. Therefore, exchange rates and relevant interest rates are acknowledged as distinct risk factors.

In addition to regulatory limits, the Board has set limits on positions by currency. These positions are monitored to ensure they are maintained within established limits.

The following tables present the breakdown of assets and liabilities by currency:

	2016						
	LBP LBP Million	USD LBP Million	EUR LBP Million	TRY LBP Million	EGP LBP Million	Other LBP Million	Total LBP Million
Assets							
Cash and balances with central banks	5,408,979	10,427,945	1,373,241	583,485	591,330	265,616	18,650,596
Due from banks and financial institutions	97,049	1,999,307	375,640	4,754	1,465	549,013	3,027,228
Loans to banks and financial institutions and reverse repurchase agreements	30,559	86,894	27,035	1,886,858	37,469	-	2,068,815
Derivative financial instruments	1,613	298,074	69,378	4,119	34	16,920	390,138
Financial assets at fair value through profit or loss	572,650	55,937	4,319	2,525	1,942	55,841	693,214
Loans and advances to customers at amortised cost	1,844,393	12,569,329	3,951,749	4,834,289	1,583,743	948,744	25,732,247
Loans and advances to related parties at amortised cost	36,741	179,070	1,362	-	-	2,020	219,193
Debtors by acceptances	-	132,455	57,406	4,220	321	4,754	199,156
Financial assets at amortised cost	2,517,224	9,603,864	22,724	192,590	777,668	876,000	13,990,070
Financial assets at fair value through other comprehensive income	65,204	122,533	501	-	144	5,566	193,948
Investments in associates	10,281	-	-	-	-	3,052	13,333
Property and equipment	643,354	2,284	1,191	55,368	77,555	101,749	881,501
Intangible fixed assets	11,637	121	1,418	42,256	4,573	4,616	64,621
Non current assets held for sale	2,361	59,934	495	18,002	235	-	81,027
Other assets	28,593	203,023	17,771	137,339	48,265	50,304	485,295
Goodwill	-	-	(372)	-	-	42,199	41,827
Total assets	11,270,638	35,740,770	5,903,858	7,765,805	3,124,744	2,926,394	66,732,209
Liabilities and shareholders' equity							
Due to central banks	805,013	1,125,694	76,405	1,051	-	-	2,008,163
Due to banks and financial institutions	26,234	1,677,037	531,737	4,079	727	334,191	2,574,005
Derivative financial instruments	538	23,214	36,145	195,318	229	17,508	272,952
Customers' deposits	6,585,518	31,089,956	6,089,197	4,672,015	2,960,499	1,992,033	53,389,218
Deposits from related parties	123,474	602,168	25,465	4,932	-	57,509	813,548
Debt issued and other borrowed funds	-	973,535	-	-	-	-	973,535
Engagements by acceptances	-	132,455	57,406	4,220	321	4,754	199,156
Other liabilities	386,969	164,310	54,650	90,951	20,433	52,269	769,582
Provisions for risks and charges	98,214	2,585	6,274	23,943	7,358	18,218	156,592
Shareholders' equity	3,721,446	1,595,187	(54,167)	(250,758)	(96,122)	659,872	5,575,458
Total liabilities and shareholders' equity	11,747,406	37,386,141	6,823,112	4,745,751	2,893,445	3,136,354	66,732,209

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

56 MARKET RISK (continued)

A. CURRENCY RISK (continued)

	2015							Total LBP Million
	LBP LBP Million	USD LBP Million	EUR LBP Million	TRY LBP Million	EGP LBP Million	Other LBP Million		
Assets								
Cash and balances with central banks	1,209,050	10,514,772	881,593	274,547	442,275	432,685	13,754,922	
Due from banks and financial institutions	81,117	1,431,375	574,675	3,277	2,554	611,159	2,704,157	
Loans to banks and financial institutions and reverse repurchase agreements	36,410	379,788	63,950	2,105,405	-	-	2,585,553	
Derivative financial instruments	-	175,383	27,787	39,488	12	23,193	265,863	
Financial assets at fair value through profit or loss	201,347	109,305	5,916	12,863	8,913	45,378	383,722	
Loans and advances to customers at amortised cost	1,931,674	12,846,464	3,647,756	4,796,340	2,600,692	989,881	26,812,807	
Loans and advances to related parties at amortised cost	31,164	182,227	694	-	-	464	214,549	
Debtors by acceptances	-	141,390	82,734	3,927	277	12,277	240,605	
Financial assets at amortised cost	5,702,192	5,506,838	32,406	254,304	2,327,694	961,140	14,784,574	
Financial assets at fair value through other comprehensive income	63,348	71,691	3,336	-	340	5,660	144,375	
Investments in associates	10,043	-	-	-	-	3,946	13,989	
Property and equipment	626,765	993	1,477	74,083	163,962	96,158	963,438	
Intangible fixed assets	40,866	7	1,759	51,273	3,409	4,050	101,364	
Non current assets held for sale	2,156	53,839	510	15,555	554	165	72,779	
Other assets	12,640	244,012	22,859	72,573	53,462	64,960	470,506	
Goodwill	-	82,800	(382)	-	81,680	45,336	209,434	
Total assets	9,948,772	31,740,884	5,347,070	7,703,635	5,685,824	3,296,452	63,722,637	
Liabilities and shareholders' equity								
Due to central banks	569,856	-	-	81,318	-	-	651,174	
Due to banks and financial institutions	25,156	1,643,399	388,775	2,778	-	199,139	2,259,247	
Derivative financial instruments	966	21,920	20,745	64,660	132	22,776	131,199	
Customers' deposits	6,504,410	28,215,722	5,789,507	4,984,173	5,121,906	2,374,789	52,990,507	
Deposits from related parties	104,837	527,597	9,235	5,214	-	43,228	690,111	
Debt issued and other borrowed funds	-	973,629	-	80,353	-	-	1,053,982	
Engagements by acceptances	-	141,390	82,734	3,927	277	12,277	240,605	
Other liabilities	197,577	144,532	18,030	74,319	66,771	76,771	578,000	
Provisions for risks and charges	91,606	1,193	6,532	25,641	13,939	33,149	172,060	
Shareholders' equity	2,312,507	2,238,549	(54,040)	(213,772)	122,395	550,113	4,955,752	
Total liabilities and shareholders' equity	9,806,915	33,907,931	6,261,518	5,108,611	5,325,420	3,312,242	63,722,637	

The Group's Exposure to Currency Risk

The Group is subject to currency risk on financial assets and liabilities that are listed in currencies other than the Lebanese Pounds. Most of these financial assets and liabilities are listed in US Dollars, Euros and Turkish Liras.

The table below shows 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 numbers represent the effect of a reasonably possible movement of the currency rate against the Lebanese Pound, with all other variables held constant, first on the income statement (due to the potential change in fair value of currency sensitive non-trading monetary assets and liabilities) and equity (due to the impact of currency translation gains/losses of consolidated subsidiaries and the change in fair value of currency swaps used to hedge net investment in foreign subsidiaries). A negative amount reflects a potential net reduction in income or equity, while a positive amount reflects a net potential increase.

Currency	Increase in currency rate %	2016		2015	
		Effect on profit before tax LBP Million	Effect on equity LBP Million	Effect on profit before tax LBP Million	Effect on equity LBP Million
USD	1%	(7,780)	4,422	(7,704)	6,438
EUR	1%	(23)	(9,620)	(130)	(10,652)
TRY	1%	-	27,995	-	17,778

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

56 MARKET RISK (continued)

A. CURRENCY RISK (continued)

Hedging net investments

A foreign currency exposure arises from net investments in subsidiaries that have a different functional currency from that of the Bank. The risk arises from the fluctuation in spot exchange rates between the functional currency of the subsidiaries and branches and the Bank's functional and presentation currency which causes the amount of the net investment to vary. Such a risk may have a significant impact on the Group's financial statements. In order to mitigate this risk, the Group has entered into foreign currency derivative contracts to enhance its risk profile and manage the effect of foreign currency translation.

a) Hedge of net investment in Odea Bank SA

The hedged item

During January 2014, the Bank decided to hedge US\$ 600 million component of its net investment in Odea Bank SA through currency option contracts, which was increased to US\$ 700 million in January 2015.

The hedging instruments and hedged risk

During January 2014, the Group entered in a series of capped calls deals with prime rated financial institutions for a total notional amount of US\$400 million. Each capped call deal comprises a combination of a long plain vanilla call option on US\$/TRY and a short plain vanilla call option, both legs having different strike prices. On average, and for all the deals, this strategy is translated in a protection against the upside of the US\$ against TRY triggered when US\$/TRY hits 2.26 and continues until it touches 3.23. The term of the hedging instruments ends during April 2018.

For this strategy the hedged risk is the change in the US\$ / TRY spot exchange rate within the range of prices falling between strike price of the long call option and that of the short call. The risk is hedged from January 2014 to April 2018 where the deals mature and settle.

The remaining US\$300 million were hedged through zero-cost collars each comprising a combination of a long call option and a short put option maturing in one month and the strategy is automatically rolled-over for 36 month ending in December 2016. The roll-over strike prices of the calls and puts depend on whether the spot rate has been trending up or down in the past month. The strikes of each collar may be set at either a "wide" range if the US\$ has been weakening, or a "narrow" range if US\$ has been strengthening.

This strategy hedges the changes in the US\$ / TRY spot exchange rate beyond the narrow range delimited by the strike price of the bought call option and the strike price of the sold put option. As such, it protects against significant variations of the TRY during the month but not against limited variations. The Group forgoes any profit on the net investment should the TRY price appreciate beyond the strike price of the written put. In return, however, maximum downside protection is assured. The risk was hedged from January 2014 to December 2016.

The Group designated only the change in the intrinsic value as the hedging instrument in both of the above strategies.

Sources of ineffectiveness

For the capped calls, since the hedge is effective over a range, ineffectiveness arises if the Turkish Lira exchange rate goes below the strike of the bought call option (where changes in foreign exchange position will not be offset by the hedge), or above the strike price of the sold call option (where part of the depreciation will not be captured). As for the collars, ineffectiveness exists when the US\$/TRY exchange rate ranges between the strike price of the bought call option and the strike price of the sold put option.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

56 MARKET RISK (continued)

A. CURRENCY RISK (continued)

b) Hedge of net investment in other subsidiaries

During 2016, the Group renewed its currency swap contracts designated to hedge the net investment in its subsidiaries in Cyprus, France, Kingdom of Saudi Arabia and Qatar. The hedged risk is the risk of weakening EUR, SAR, and QAR exchange rate versus the US\$ that will result in changes in the value of the Group's net investment in its subsidiaries. The swaps are renewed on annual basis for a period of one year.

Hedged item	Hedging instrument	Hedged currency exposure	Currency swap notional amount LBP Million	Maturity date 31 December 2016	Forward price upon renewal	Maturity date 31 December 2015	Forward price upon renewal
Bank Audi France SA	Currency Swap	EUR	93,383	22 June 2017	1.1507	22 June 2016	1.1472
Banaudi Holding	Currency Swap	EUR	9,578	2 June 2017	1.1319	7 June 2016	1.1173
Audi Capital KSA	Currency Swap	SAR	42,099	12 June 2017	0.2625	9 June 2016	0.2652
Audi Qatar	Currency Swap	QAR	75,776	8 June 2017	0.2722	8 June 2016	0.2741

Assessment of hedge effectiveness criteria

The Group establishes that an economic relationship exists between the hedged item and the hedging instruments since the hedging instruments have fair value changes that offset the changes in the value of the net investment resulting from the hedged risk. The effect of credit risk does not dominate the value changes that result from that economic relationship. The analysis of the possible behaviour of the hedging relationship during its term indicates that it is expected to meet the risk management objective.

The hedge ratio is being designated based on actual amounts of the hedged item and hedging instrument. The notional amounts of the options and forward described above are on a par with the components of net investment hedged. Hence, the hedge ratio is 100%.

B. INTEREST RATE RISK

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair value of financial instruments. The Group is exposed to interest rate risk as a result of mismatches of interest rate repricing of assets and liabilities. Positions are monitored on a daily basis by management and, whenever possible, hedging strategies are used to ensure positions are maintained within established limits.

Interest Rate Sensitivity

The table below shows the sensitivity of interest income and shareholders' equity to reasonably possible parallel changes in interest rates, all other variables being held constant.

The impact of interest rate changes on net interest income is due to assumed changes in interest paid and received on floating rate financial assets and liabilities and to the reinvestment or refunding of fixed rate financial assets and liabilities at the assumed rates. The result includes the effect of hedging instruments and assets and liabilities held at 31 December 2016 and 2015. The change in interest income is calculated over a 1-year period. The impact also incorporates the fact that some monetary items do not immediately respond to changes in interest rates and are not passed through in full, reflecting sticky interest rate behaviour. The pass-through rate and lag in response time are estimated based on historical statistical analysis and are reflected in the outcome.

There is no direct effect for the change in interest rates on equity pursuant to the early adoption of IFRS9 (2013) in 2014 whereby no debt instruments can be classified at fair value through other comprehensive income.

Besides, the effect on equity resulting from the discount rate applied to defined benefit plan obligations is disclosed in note 39 to these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

56 MARKET RISK (continued)

B. INTEREST RATE RISK

Interest Rate Sensitivity (continued)

The effect of any future associated hedges made by the Group is not accounted for. The sensitivity of equity was calculated for an increase in basis points whereby a similar decrease has an equal and offsetting effect.

		<i>Sensitivity of net interest income</i>			
		2016		2015	
	<i>Change in basis points</i>	<i>LBP million Increase</i>	<i>LBP million Decrease</i>	<i>LBP million Increase</i>	<i>LBP million Decrease</i>
LBP	± 100	7,179	(7,179)	(2,980)	2,980
USD	± 50	2,268	(2,268)	2,419	(2,419)
EUR	± 25	(5,505)	5,505	(6,029)	6,029
TRY	± 200	(9,642)	9,642	(22,072)	22,072

Bank Audi SAL

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

56 MARKET RISK (continued)

B. INTEREST RATE RISK (continued)

The Group's interest sensitivity position based on contractual repricing arrangements is shown in the table below. The expected repricing and maturity dates may differ significantly from the contractual dates particularly with regard to the maturity of customer demand deposits.

	2016								
	Up to 1 month LBP Million	1 to 3 months LBP Million	3 months to 1 year LBP Million	Total less than 1 year LBP Million	1 to 5 years LBP Million	Over 5 years LBP Million	Total more than 1 year LBP Million	Non interest bearing LBP Million	Total LBP Million
Assets									
Cash and balances with central banks	6,201,074	1,868,420	666,500	8,735,994	5,039,210	3,506,750	8,545,960	1,368,642	18,650,596
Due from banks and financial institutions	2,647,874	40,757	154	2,688,785	-	-	-	338,443	3,027,228
Loans to banks and financial institutions and reverse repurchase agreements	1,947,603	72,131	31,854	2,051,588	2,700	12,224	14,924	2,303	2,068,815
Derivative financial instruments	30,058	52,999	94,365	177,422	159,140	2,832	161,972	50,744	390,138
Financial assets at fair value through profit or loss	24,240	20,763	208,483	253,486	323,845	32,759	356,604	83,124	693,214
Loans and advances to customers at amortized cost	8,066,507	5,476,099	6,039,312	19,581,918	4,910,773	971,038	5,881,811	268,518	25,732,247
Loans and advances to related parties at amortized cost	148,666	5,790	51,637	206,093	11,595	871	12,466	634	219,193
Debtors by acceptances	-	-	-	-	-	-	-	199,156	199,156
Financial assets at amortized cost	92,219	305,874	580,944	979,037	3,137,358	9,656,304	12,793,662	217,371	13,990,070
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	193,948	193,948
Investments in associates	-	-	-	-	-	-	-	13,333	13,333
Property and equipment	-	-	-	-	-	-	-	881,501	881,501
Intangible fixed assets	-	-	-	-	-	-	-	64,621	64,621
Non current assets held for sale	-	-	-	-	-	-	-	81,027	81,027
Other assets	-	-	-	-	-	-	-	485,295	485,295
Goodwill	-	-	-	-	-	-	-	41,827	41,827
Total assets	19,158,241	7,842,833	7,673,249	34,674,323	13,584,621	14,182,778	27,767,399	4,290,487	66,732,209
Liabilities and shareholders equity									
Due to central banks	8,354	1,096,446	165,781	1,270,581	277,759	441,065	718,824	18,758	2,008,163
Due to banks and financial institutions	569,499	553,486	977,304	2,100,289	296,356	153,513	449,869	23,847	2,574,005
Derivative financial instruments	79,487	31,571	81,067	192,125	43,758	1,234	44,992	35,835	272,952
Customers' deposits	30,662,863	8,744,869	6,455,138	45,862,870	4,247,203	15,424	4,262,627	3,263,721	53,389,218
Deposits from related parties	340,984	174,503	117,539	633,026	63,293	-	63,293	117,229	813,548
Debt issued & other borrowed funds	-	-	226,125	226,125	-	735,685	735,685	11,725	973,535
Engagements by acceptances	-	-	-	-	-	-	-	199,156	199,156
Other liabilities	-	-	-	-	-	-	-	769,582	769,582
Provisions for risks and charges	-	-	-	-	-	-	-	156,592	156,592
Shareholders' equity	-	-	-	-	-	-	-	5,575,458	5,575,458
Total liabilities and shareholders' equity	31,661,187	10,600,875	8,022,954	50,285,016	4,928,369	1,346,921	6,185,978	10,171,903	66,732,209
Interest rate sensitivity gap	(12,502,946)	(2,758,042)	(349,705)		8,656,252	12,835,857		(5,881,416)	
Cumulative gap	(12,502,946)	(15,260,988)	(15,610,693)		(6,954,441)	5,881,416			

Bank Audi SAL

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

56 MARKET RISK (continued)

B. INTEREST RATE RISK (continued)

	2015								
	Up to 1 month LBP Million	1 to 3 months LBP Million	3 months to 1 year LBP Million	Total less than 1 year LBP Million	1 to 5 years LBP Million	Over 5 years LBP Million	Total more than 1 year LBP Million	Non interest bearing LBP Million	Total LBP Million
Assets									
Cash and balances with central banks	4,500,859	1,911,311	677,214	7,089,384	4,071,758	1,506,750	5,578,508	1,087,030	13,754,922
Due from banks and financial institutions	2,078,575	282,715	15,049	2,376,339	-	-	-	327,818	2,704,157
Loans to banks and financial institutions and reverse repurchase agreements	2,199,988	296,332	78,305	2,574,625	-	5,929	5,929	4,999	2,585,553
Derivative financial instruments	33,890	33,561	28,677	96,128	140,584	1,316	141,900	27,835	265,863
Financial assets at fair value through profit or loss	53,543	31,596	96,978	182,117	50,150	88,929	139,079	62,526	383,722
Loans and advances to customers at amortized cost	7,407,549	7,003,035	6,282,562	20,693,146	4,683,553	1,222,978	5,906,531	213,130	26,812,807
Loans and advances to related parties at amortized cost	144,373	9,508	49,821	203,702	10,292	96	10,388	459	214,549
Debtors by acceptances	-	-	-	-	-	-	-	240,605	240,605
Financial assets at amortized cost	319,327	757,771	1,430,743	2,507,841	6,304,572	5,741,874	12,046,446	230,287	14,784,574
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	144,375	144,375
Investments in associates	-	-	375	375	-	-	-	13,614	13,989
Property and equipment	-	-	-	-	-	-	-	963,438	963,438
Intangible fixed assets	-	-	-	-	-	-	-	101,364	101,364
Non current assets held for sale	-	-	-	-	-	-	-	72,779	72,779
Other assets	-	-	-	-	-	-	-	470,506	470,506
Goodwill	-	-	-	-	-	-	-	209,434	209,434
Total assets	16,738,104	10,325,829	8,659,724	35,723,657	15,260,909	8,567,872	23,828,781	4,170,199	63,722,637
Liabilities and shareholders equity									
Due to central banks	104,463	6,681	55,098	166,242	185,579	299,183	484,762	170	651,174
Due to banks and financial institutions	342,630	215,856	1,072,420	1,630,906	403,838	203,708	607,546	20,795	2,259,247
Derivative financial instruments	37,912	38,169	32,299	108,380	8,432	790	9,222	13,597	131,199
Customers' deposits	32,305,059	11,593,660	6,486,224	50,384,943	1,328,212	19,754	1,347,966	1,257,598	52,990,507
Deposits from related parties	316,842	221,036	44,129	582,007	97,544	-	97,544	10,560	690,111
Debt issued & other borrowed funds	80,353	-	226,125	306,478	-	736,189	736,189	11,315	1,053,982
Engagements by acceptances	-	-	-	-	-	-	-	240,605	240,605
Other liabilities	-	-	-	-	-	-	-	578,000	578,000
Provisions for risks and charges	-	-	-	-	-	-	-	172,060	172,060
Shareholders' equity	-	-	-	-	-	-	-	4,955,752	4,955,752
Total liabilities and shareholders' equity	33,187,259	12,075,402	7,916,295	53,178,956	2,023,605	1,259,624	3,283,229	7,260,452	63,722,637
Interest rate sensitivity gap	(16,449,155)	(1,749,573)	743,429		13,237,304	7,308,248		(3,090,253)	
Cumulative gap	(16,449,155)	(18,198,728)	(17,455,299)		(4,217,995)	3,090,253			

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

56 MARKET RISK (continued)**C. 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 rates fall.

Market risks that lead to prepayments are not material with respect to the markets where the Group operates. Accordingly, the Group considers prepayment risk on net profits as not material after considering any penalties arising from prepayments.

D. EQUITY PRICE RISK

Equity price risk is the risk that the value of a portfolio will fall as a result of a change in stock prices. Risk factors underlying this type of market risk are a whole range of various equity (and index) prices corresponding to different markets (and currencies / maturities) in which the Group holds equity-related positions.

The Group sets tight limits on equity exposures and the types of equity instruments that traders are allowed to take positions in. Nevertheless, depending on the complexity of financial instruments, equity risk is measured in first cash terms, such as the market value of a stock /index position, and also in price sensitivities, such as sensitivity of the value of a portfolio to changes in the underlying asset price. These measures are applied to an individual position and/or to a portfolio of equities.

57 LIQUIDITY RISK

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 both normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind and of monitoring future cash flows and liquidity on a daily basis. The 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 could be used to secure additional funding if required.

The Group maintains a portfolio of marketable and diverse assets that can be liquidated in the event of an unforeseen interruption of cash flow. As per applicable regulations, the Group must retain obligatory reserves with the central banks where the Group entities operate.

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.

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

	<i>Loans to deposits</i>	
	<i>2016</i>	<i>2015</i>
	<i>%</i>	<i>%</i>
Year-end	48	50
Maximum	53	50
Minimum	48	46
Average	51	47

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

57 LIQUIDITY RISK (continued)

Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

The table below summarises the maturity profile of the Group's financial assets and liabilities as of 31 December based on contractual undiscounted cash flows. The contractual maturities have been determined based on the period remaining to reach maturity as per the statement of financial position actual commitments. Repayments which are subject to notice are treated as if notice were to be given immediately. Concerning deposits, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay.

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

	2016					Total LBP Million
	Less than 1 month LBP Million	1 to 3 months LBP Million	3 to 12 months LBP Million	1 to 5 years LBP Million	Over 5 years LBP Million	
Financial assets						
Cash and balances with central banks	7,235,969	728,525	894,484	8,522,267	4,800,098	22,181,343
Due from banks and financial institutions	2,996,829	30,530	-	-	-	3,027,359
Loans to banks and financial institutions and reverse repurchase agreements	1,889,603	20,262	124,595	34,344	30,451	2,099,255
Derivative financial instruments	29,494	64,796	78,265	214,288	3,296	390,139
Financial assets at fair value through profit or loss	25,160	4,331	236,071	384,788	58,162	708,512
Loans and advances to customers at amortised cost	4,488,742	1,753,946	5,039,744	10,133,930	4,802,613	26,218,975
Loans and advances to related parties at amortised cost	138,080	741	50,520	22,057	13,752	225,150
Debtors by acceptances	71,180	50,918	76,873	186	-	199,157
Financial assets at amortised cost	279,416	509,739	1,636,923	5,029,812	11,412,246	18,868,136
Total financial assets	17,154,473	3,163,788	8,137,475	24,341,672	21,120,618	73,918,026
Financial liabilities						
Due to central banks	9,654	1,220,461	81,290	301,648	462,661	2,075,714
Due to banks and financial institutions	584,240	536,074	747,043	369,913	362,280	2,599,550
Derivative financial instruments	112,192	26,539	81,832	50,543	1,847	272,953
Customers' deposits	34,741,859	8,437,646	6,098,134	4,636,389	17,061	53,931,089
Deposits from related parties	447,442	183,811	123,245	72,193	-	826,691
Debt issued and other borrowed funds	9,570	-	45,784	220,626	1,080,839	1,356,819
Engagements by acceptances	71,180	50,918	76,873	186	-	199,157
Total financial liabilities	35,976,137	10,455,449	7,254,201	5,651,498	1,924,688	61,261,973
	2015					
	Less than 1 month LBP Million	1 to 3 months LBP Million	3 to 12 months LBP Million	1 to 5 years LBP Million	Over 5 years LBP Million	Total LBP Million
Financial assets						
Cash and balances with central banks	5,078,809	415,554	1,262,969	7,083,328	1,861,021	15,701,681
Due from banks and financial institutions	2,408,081	282,515	15,059	-	-	2,705,655
Loans to banks and financial institutions and reverse repurchase agreements	2,395,737	19,310	146,313	23,398	25,968	2,610,726
Derivative financial instruments	9,141	25,336	63,247	154,699	13,440	265,863
Financial assets at fair value through profit or loss	54,294	10,690	106,229	91,360	115,734	378,307
Loans and advances to customers at amortised cost	5,180,284	1,610,046	5,727,474	10,016,629	4,929,910	27,464,343
Loans and advances to related parties at amortised cost	142,950	919	47,667	18,511	9,122	219,169
Debtors by acceptances	50,680	88,637	85,158	12,587	3,543	240,605
Financial assets at amortised cost	343,250	755,995	2,274,768	8,964,264	7,077,755	19,416,032
Total financial assets	15,663,226	3,209,002	9,728,884	26,364,776	14,036,493	69,002,381
Financial liabilities						
Due to central banks	104,519	6,681	24,434	235,299	317,108	688,041
Due to banks and financial institutions	1,049,939	116,859	571,842	316,571	229,904	2,285,115
Derivative financial instruments	5,676	30,218	59,652	27,956	7,697	131,199
Customers' deposits	35,651,597	10,573,761	5,867,911	1,632,683	25,618	53,751,570
Deposits from related parties	343,485	203,431	47,775	111,930	-	706,621
Debt issued and other borrowed funds	89,766	-	44,114	-	1,157,275	1,291,155
Engagements by acceptances	50,680	88,637	85,158	12,587	3,543	240,605
Total financial liabilities	37,295,662	11,019,587	6,700,886	2,337,026	1,741,145	59,094,306

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

57 LIQUIDITY RISK (continued)

Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities (continued)

The table below shows the contractual expiry by maturity of the Group's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	2016					Total LBP Million
	On demand LBP Million	Less than 3 months LBP Million	3 to 12 months LBP Million	1 to 5 years LBP Million	More than 5 years LBP Million	
Financial guarantees	844,304	7,364	131,421	99,559	30,462	1,113,110
Other guarantees	868,456	95,995	628,959	62,994	16,422	1,672,826
Documentary credits	401,068	55,426	182,637	10,529	256	649,916
Loan commitments	3,679,964	33,052	480,527	545,250	60,767	4,799,560
	<u>5,793,792</u>	<u>191,837</u>	<u>1,423,544</u>	<u>718,332</u>	<u>107,907</u>	<u>8,235,412</u>
	2015					Total LBP Million
	On demand LBP Million	Less than 3 months LBP Million	3 to 12 months LBP Million	1 to 5 years LBP Million	More than 5 years LBP Million	
Financial guarantees	691,590	21,499	148,491	110,053	30,867	1,002,500
Other guarantees	609,147	137,708	864,407	135,052	26,226	1,772,540
Documentary credits	271,080	122,307	127,151	27,353	429	548,320
Loan commitments	3,176,026	49,295	833,777	1,090,790	72,538	5,222,426
	<u>4,747,843</u>	<u>330,809</u>	<u>1,973,826</u>	<u>1,363,248</u>	<u>130,060</u>	<u>8,545,786</u>

Maturity analysis of assets and liabilities

The table below summarizes the maturity profile of the Group's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the statement of financial position date to the contractual maturity date and do not take account of the effective maturities as indicated by the Group's deposit retention history and the availability of liquid funds. The maturity profile is monitored by management to ensure adequate liquidity is maintained.

Bank Audi SAL

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

57 LIQUIDITY RISK – MATURITY PROFILE (continued)

The maturity profile of the assets and liabilities at 31 December 2016 is as follows:

	<i>Less than 1 month LBP Million</i>	<i>1 to 3 months LBP Million</i>	<i>3 months to 1 year LBP Million</i>	<i>Total less than one year LBP Million</i>	<i>1 to 5 years LBP Million</i>	<i>Over 5 years LBP Million</i>	<i>Total more than one year LBP Million</i>	<i>Amount without maturity LBP Million</i>	<i>Total LBP Million</i>
Assets									
Cash and balances with central banks	7,069,396	575,496	508,109	8,153,001	6,863,887	3,506,750	10,370,637	126,958	18,650,596
Due from banks and financial institutions	2,996,775	30,453	-	3,027,228	-	-	-	-	3,027,228
Loans to banks and financial institutions and reverse repurchase agreements	1,889,316	19,923	122,826	2,032,065	15,004	21,746	36,750	-	2,068,815
Derivative financial instruments	29,494	64,796	78,265	172,555	214,288	3,295	217,583	-	390,138
Financial assets at fair value through profit or loss	25,040	4,118	211,876	241,034	354,612	52,112	406,724	45,456	693,214
Loans and advances to customers at amortised cost	4,485,445	1,745,129	4,980,428	11,211,002	9,924,576	4,596,669	14,521,245	-	25,732,247
Loans and advances to related parties at amortised cost	138,051	594	49,839	188,484	19,560	11,149	30,709	-	219,193
Debtors by acceptances	71,180	50,918	76,873	198,971	185	-	185	-	199,156
Financial assets at amortised cost	270,468	444,571	1,169,110	1,884,149	2,443,483	9,662,438	12,105,921	-	13,990,070
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	193,948	193,948
Investments in associates	-	-	-	-	-	-	-	13,333	13,333
Property and Equipment	-	-	-	-	-	-	-	881,501	881,501
Intangible fixed assets	-	-	-	-	-	-	-	64,621	64,621
Non current assets held for sale	-	-	-	-	-	-	-	81,027	81,027
Other assets	109,339	3,338	24,228	136,905	42,844	-	42,844	305,546	485,295
Goodwill	-	-	-	-	-	-	-	41,827	41,827
Total assets	17,084,504	2,939,336	7,221,554	27,245,394	19,878,439	17,854,159	37,732,598	1,754,217	66,732,209
Liabilities and shareholders equity									
Due to central banks	9,654	1,206,365	73,320	1,289,339	277,759	441,065	718,824	-	2,008,163
Due to banks and financial institutions	584,145	533,634	739,573	1,857,352	355,413	361,240	716,653	-	2,574,005
Derivative financial instruments	112,191	26,539	81,832	220,562	50,543	1,847	52,390	-	272,952
Customers' deposits	34,712,500	8,411,998	5,968,534	49,093,032	4,279,269	16,917	4,296,186	-	53,389,218
Deposits from related parties	446,421	182,978	120,833	750,232	63,316	-	63,316	-	813,548
Debt issued and other borrowed funds	8,112	-	3,731	11,843	-	961,692	961,692	-	973,535
Engagements by acceptances	71,180	50,918	76,873	198,971	185	-	185	-	199,156
Other liabilities	136,028	72,693	252,822	461,543	31,513	7,839	39,352	268,687	769,582
Provision for risks and charges	-	-	-	-	-	-	-	156,592	156,592
Shareholders' equity	-	-	-	-	-	-	-	5,575,458	5,575,458
Total liabilities and shareholders' equity	36,080,231	10,485,125	7,317,518	53,882,874	5,057,998	1,790,600	6,848,598	6,000,737	66,732,209
Liquidity gap	(18,995,727)	(7,545,789)	(95,964)	14,820,441	16,063,559	4,246,520	(4,246,520)	-	-
Cumulative gap	(18,995,727)	(26,541,516)	(26,637,480)	(11,817,039)	4,246,520	-	-	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

57 LIQUIDITY RISK – MATURITY PROFILE (continued)

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

	Less than 1 month LBP Million	1 to 3 months LBP Million	3 months to 1 year LBP Million	Total less than one year LBP Million	1 to 5 years LBP Million	Over 5 years LBP Million	Total more than one year LBP Million	Amount without maturity LBP Million	Total LBP Million
Assets									
Cash and balances with central banks	4,908,406	286,912	1,249,137	6,444,455	5,770,517	1,518,119	7,288,636	21,831	13,754,922
Due from banks and financial institutions	2,406,772	282,337	15,048	2,704,157	-	-	-	-	2,704,157
Loans to banks and financial institutions and reverse repurchase agreements	2,391,088	19,009	127,321	2,537,418	22,300	25,835	48,135	-	2,585,553
Derivative financial instruments	9,141	25,336	63,247	97,724	154,699	13,440	168,139	-	265,863
Financial assets at fair value through profit or loss	54,294	10,507	97,960	162,761	72,344	102,817	175,161	45,800	383,722
Loans and advances to customers at amortised cost	5,162,396	1,594,170	5,647,223	12,403,789	9,717,523	4,691,495	14,409,018	-	26,812,807
Loans and advances to related parties at amortised cost	142,946	846	47,164	190,956	16,223	7,370	23,593	-	214,549
Debtors by acceptances	50,680	88,637	85,158	224,475	12,587	3,543	16,130	-	240,605
Financial assets at amortised cost	274,931	689,138	1,607,634	2,571,703	6,469,698	5,743,173	12,212,871	-	14,784,574
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	144,375	144,375
Investments in associates	-	-	375	375	-	-	-	13,614	13,989
Property and Equipment	-	-	-	-	-	-	-	963,438	963,438
Intangible fixed assets	-	-	-	-	-	-	-	101,364	101,364
Non current assets held for sale	-	-	-	-	-	-	-	72,779	72,779
Other assets	74,313	3,552	6,924	84,789	19,923	72	19,995	365,722	470,506
Goodwill	-	-	-	-	-	-	-	209,434	209,434
Total assets	15,474,967	3,000,444	8,947,191	27,422,602	22,255,814	12,105,864	34,361,678	1,938,357	63,722,637
Liabilities and shareholders equity									
Due to central banks	83,456	6,816	24,250	114,522	225,631	311,021	536,652	-	651,174
Due to banks and financial institutions	1,049,552	115,417	564,555	1,729,524	301,341	228,382	529,723	-	2,259,247
Derivative financial instruments	5,676	30,218	59,652	95,546	27,956	7,697	35,653	-	131,199
Customers' deposits	35,524,104	10,485,249	5,609,939	51,619,292	1,349,418	21,797	1,371,215	-	52,990,507
Deposits from related parties	342,958	201,894	47,691	592,543	97,568	-	97,568	-	690,111
Debt issued and other borrowed funds	88,204	-	3,466	91,670	-	962,312	962,312	-	1,053,982
Engagements by acceptances	50,680	88,637	85,158	224,475	12,587	3,543	16,130	-	240,605
Other liabilities	241,216	21,347	157,191	419,754	6,227	10,128	16,355	141,891	578,000
Provision for risks and charges	-	-	-	-	-	-	-	172,060	172,060
Shareholders' equity	-	-	-	-	-	-	-	4,955,752	4,955,752
Total liabilities and shareholders' equity	37,385,846	10,949,578	6,551,902	54,887,326	2,020,728	1,544,880	3,565,608	5,269,703	63,722,637
Liquidity gap	(21,910,879)	(7,949,134)	2,395,289	20,235,086	10,560,984	10,560,984	(3,331,346)	-	-
Cumulative gap	(21,910,879)	(29,860,013)	(27,464,724)	(7,229,638)	3,331,346	3,331,346	-	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

58 OPERATIONAL RISK

Operational risk is the risk of loss or damage resulting from inadequate or failed internal processes, people, systems or external events. The failure of operational risk controls may result in reputational damage, business disruptions, business loss, or non-compliance with laws and regulations that can lead to significant financial losses.

The operational risk management framework is implemented by an independent operational risk management team that operates in coordination with other support functions such as: Corporate Information Security and Business Continuity, Compliance, and Internal Control. The Internal Audit provides an independent assurance on the effectiveness of this framework through annual reviews.

Operational risks are controlled based on a set of principles detailed in the Board-approved operational risk management framework. These principles include: redundancy of mission-critical systems, segregation of duties, four-eyes principle, independency of employees performing controls, reconciliations, mandatory vacations, awareness, training and rotation of employees of specific functions. Controls are also embedded within the applications modules and process workflows. In addition, specific processes are controlled through client identity checks, end of day reports and dual validations.

Incidents are captured and analysed to identify their root causes. Corrective and preventive measures are recommended to prevent their reoccurrence. Risk and Control Assessments (RCAs) are conducted on an ongoing basis to identify risks and control vulnerabilities associated to changes pertaining to products, processes, activities and systems. Key Risk Indicators are also developed continuously to detect breaches and alarming trends. Recommendations to improve the control environment are communicated to concerned parties and escalated to management as deemed necessary.

Major incidents, RCA findings and operational losses are reported to the Board of Directors and Risk Committees on a quarterly basis.

Insurance coverage is used as an additional layer of mitigation and is commensurate with the Group business activities, in terms of volume and nature

59 CAPITAL MANAGEMENT

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 to regulatory required capital derived by assigning standard risk weights to on- and off-balance sheet exposures depending on their relative risk.

During 2016, the Central Bank of Lebanon issued an intermediary circular no. 436 by which it amended Basic Circular 44 related to the minimum Capital Adequacy Ratios (CAR). These ratios are set to increase gradually between December 2016 and December 2018 to reach 10.0%, 13.0% and 15.0% for CET1, Tier 1 and Total CAR respectively in 2018, including a capital conservation buffer of 4.5% in 2018. The following table shows the applicable regulatory capital ratios from end of 2015 to end of 2018:

	Common Tier 1 capital ratio	Tier 1 capital ratio	Total capital ratio
Year ended 31 December 2015*	8.0%	10.0%	12.0%
Year ended 31 December 2016*	8.5%	11.0%	14.0%
Year ended 31 December 2017*	9.0%	12.0%	14.5%
Year ended 31 December 2018*	10.0%	13.0%	15.0%

(*) Include Capital Conservation Buffer (CCB). This CCB, which will reach 4.5% of risk-weighted assets by end of 2018, must be met through Common Equity Tier 1 capital.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

59 CAPITAL MANAGEMENT (continued)

	2016 <i>LBP Million</i>	2015 <i>LBP Million</i>
Risk weighted assets:		
Credit risk	35,885,526	34,094,449
Market risk	543,016	700,170
Operational risk	3,559,749	2,966,760
Total risk weighted assets	<u>39,988,291</u>	<u>37,761,379</u>

The regulatory capital including net income for the year less proposed dividends as of 31 December is as follows:

	2016 <i>LBP Million</i>	2015 <i>LBP Million</i>
Tier 1 Capital	4,650,121	3,859,588
<i>Of which: Common Tier 1</i>	3,635,151	3,289,950
Tier 2 Capital	1,260,672	1,185,534
Total Capital*	<u>5,910,793</u>	<u>5,045,122</u>

The capital adequacy ratio including net income for the year less proposed dividends as of 31 December is as follows:

	2016	2015
Capital adequacy – Common Tier 1	9.09%	8.71%
Capital adequacy - Tier 1	11.63%	10.22%
Capital adequacy - Total Capital*	<u>14.78%</u>	<u>13.36%</u>

(*) Total capital includes LBP 182,702 million transferred to equity reserves and LBP 78,300 million of deferred income treated as Tier 2 Capital following the Central Bank of Lebanon Intermediary Circular 446 dated 30 December 2016 (refer to note 38). In addition, preferred shares of LBP 376,875 million were issued during 2016.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions, its business model and risk profile. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends payment to shareholders, return capital to shareholders or issue capital securities.