ANNUAL REPORT 2015

LGB BANK

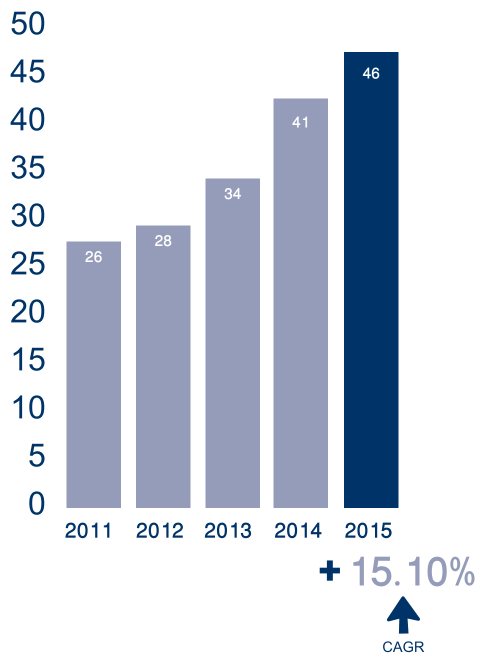
بنك لبنان والخليج ش.م.ل.

Contents

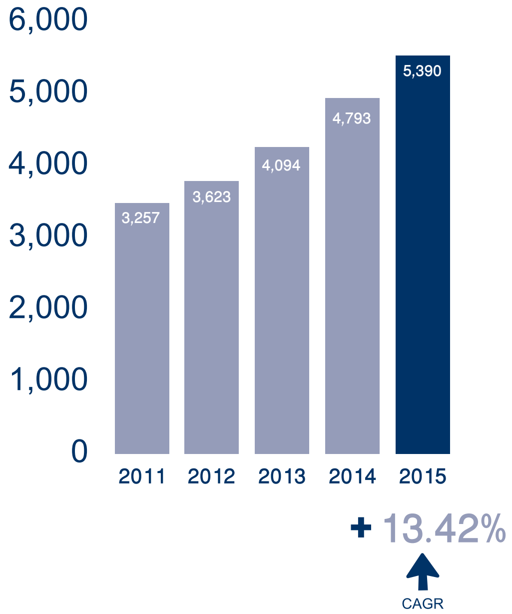
FINANCIAL HIGHLIGHTS

In millions of LBP					As at December 31
	2015	2014	2013	2012	2011
Balance Sheet					
Total Assets	5,389,716	4,793,244	4,093,660	3,622,979	3,257,439
Customers' Deposits	4,684,857	4,225,906	3,564,320	3,242,413	2,892,778
Loans & Advances	2,086,028	1,923,909	1,596,134	1,371,187	1,087,001
Equity	482,585	412,122	368,647	286,102	263,037
Financial Results					
Net Operating Income	102,105	95,284	81,274	67,874	61,263
Net Interest Income	73,918	67,380	63,766	44,751	28,867
Net Non-interest Income	35,882	33,265	31,383	27,758	36,947
Net Income	46,218	40,849	34,125	28,158	26,337

Net Income
In billions of LBP

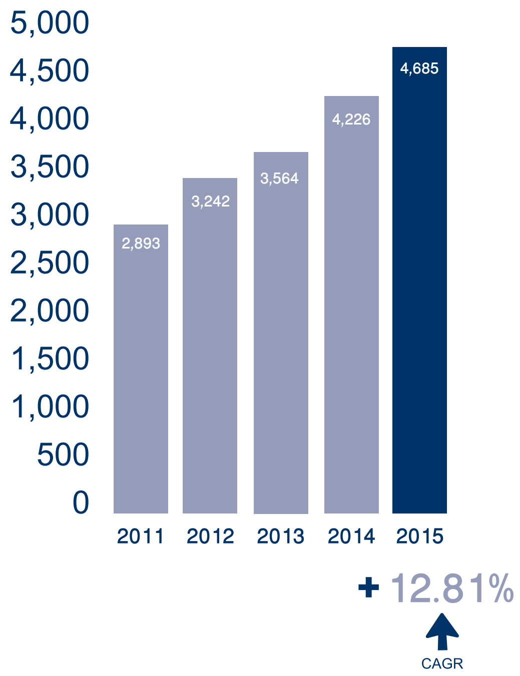


Total Assets
In billions of LBP



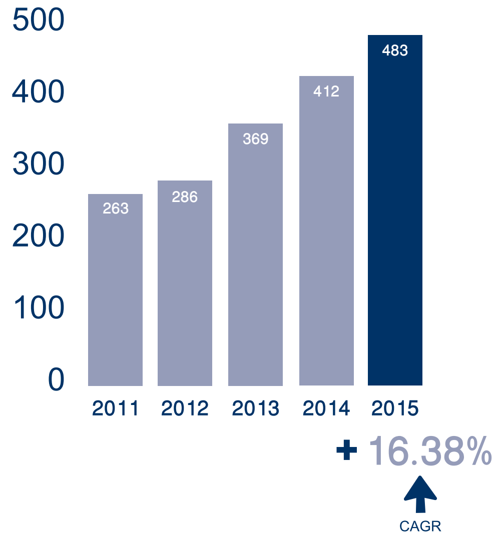
CAGR: Compounded Annual Growth Rate

Total Customers' Deposits
In billions of LBP



Total Loans & Advances
In billions of LBP

Total Equity
In billions of LBP



CHAIRMAN & VICE CHAIRMAN'S LETTER

Dear Valued Stakeholders,

The year 2015 was another prosperous year for LGB BANK, and despite the challenging global economic conditions and regional tensions, the Bank achieved a remarkable performance and generated solid returns, therefore, embarking on a new milestone in the success of its steady growth strategy. This accomplishment was largely due to an unrelenting focus on building relationships, enhancing capabilities and offering out of the box banking products. LGB BANK's dedicated team of professionals and your invaluable support were also central to this success.

A closer look at financial figures, reflects the Bank's sound performance. The profitability increased by 13.1% reaching LBP 46 Billion in 2015, up from LBP 41 Billion in 2014, furthermore, assets increased to LBP 5,390 Billion, which is equivalent to a 12.4% growth. This raise was mainly due to a significant 10.9% growth in customer deposits which reached LBP 4,685 Billion in 2015. Lending activity improved, as the loan portfolio reached LBP 2,086 Billion, which corresponds to a growth of 8.4%. Additionally, and in accordance with its strategy of enhancing equity, LGB BANK retained all earnings and issued preferred shares resulting in an increase in shareholder's equity to LBP 483 Billion, a growth of 17.1% from 2014.

The virtuous performance highlighted above was attained while maintaining a strictly resilient financial standing. In fact, an effective risk management is one of the Bank's top strategic priorities, and an appropriate balance is always maintained between risk and reward. This is reflected in LGB BANK's high liquidity, well capitalization and adequate loan loss coverage ratio. High asset quality is also a top management priority and strict rules are followed in building assets books.

To further safeguard the interests of its stakeholders, LGB BANK is committed to apply the best corporate governance practices and enforce Compliance and Anti-Money laundering requirements. In this regard, a compliance program was implemented at the heart of the organization in accordance with international and local laws and regulations. We made significant changes in response to regulatory action and increasingly far- reaching global sanctions and AML regulations. AML has changed from being a standalone function under compliance to an increasingly complex and overreaching function cutting across legal, risk operations and tax.

In order to preserve its growth momentum and continue in its success journey, LGB BANK's long term plan is to increase its presence in the Lebanese and regional markets.

The expansionary strategy has resulted in a network of 18 branches across Lebanon with plans to open consistently new branches in the nearby future. The Bank is seeking to consolidate its position in the region and it remains keen on identifying investment opportunities in new regional and lucrative markets, and seeking, globally, to preserve its international trade activities by maintaining solid partnerships with correspondent banks. LGB BANK realizes that continuous development and success are not possible without a highly skilled human capital, and for this purpose, the Bank adopted policies to encourage career advancement and individual growth. It also recommended professional training programs for all functions and set advanced incentive schemes to encourage desired staff performance.

The success of LGB BANK's strategy in creating a new banking approach that unites modern technologies, innovative products and traditional values is demonstrated by the international recognition of the Bank's achievements. In fact, during 2015, LGB BANK earned the following international excellence awards from distinguished institutions: "Best Transformational Bank" from "The Banker", "Best Retail Bank 2015", "Best Credit Card Design" and "Best Co-Branded Credit Card".

In conformity with this strategy, LGB BANK revamped its total brand image by releasing a new logo and branch design, since the Bank's management believes that the new image grants LGB BANK a competitive edge and enables it to secure and expand its position in a challenging operating environment. Additionally, a spectrum of novel and customer-centric products were launched this year resulting in a substantial interest from existing and new clientele and various business segments.

LGB BANK was also keen on enhancing its electronic platforms and IT security, where comprehensive solutions were developed in this regard such as mobile banking, mobile payments and E-banking. The Bank also initiated loyalty programs which offer credit card users a unique rewards scheme and a variety of redemption options such as miles, cash back, gifts and many others.

Believing that communication is centric for today's business operations, LGB BANK invested special efforts on this matter, by launching a fully fledged social media network and redesigning the Bank's website, while maintaining a 24/7 SMS banking and call center services and offering late banking hours at the Allenby main branch to increase flexibility for clients.

LGB BANK has always endorsed corporate responsibility and is active in several social initiatives in its efforts to sustain and give back to its community. Throughout 2015, the Bank was involved in supporting several civic societies and empowerment projects.

Looking forward, the future looks promising and the plan is to continue with our well defined growth and innovation strategies. This pursuit is not possible without the support and trust of our dedicated team of professionals and loyal customers while the final word carries our sincerest appreciation and gratitude, for they have secured LGB BANK's greatest accomplishments throughout the years.

Abdul Hafiz M. Itani
Chairman-General Manager

Samer A.H Itani
Vice Chairman- Chief Executive Officer

OUR BANK

■ Historical Foundation

With more than 50 years of banking tradition, trust and excellence in customer service, LGB BANK stands today as one of Lebanon's deeply rooted banks.

Established in 1963 under the name of Banque de Credit Agricole s.a.l., LGB BANK adopted its current name and shareholders form in 1980 when a group of businessmen (led by the current Chairman) acquired the majority of its shares. The Bank currently operates from its head office which is located in Beirut Central District, and is backed by a powerful network of 18 branches spread across the country, along with a branch in Cyprus since 1986, and a Representative Office in Dubai, UAE.

As one of the most evolving and vibrant institutions in the country today, LGB BANK is committed to a regular systematic expansion strategy. By early 2012, the Bank had embarked on a new branding effort which, aligned with its business strategy, promised to propel it to new heights. In 2013, this strategy has transformed into an enhancement of LGB BANK's operational and information technology infrastructure, a substantial growth in profits and deposits, and most importantly into a concentrated modernization and development of the human capital. 2014 also marked major changes in the Bank's new identity which aimed at reflecting its core values and attributes in terms of quality and professionalism. The latter has affected LGB BANK's corporate image, achievements and premises, amongst others. The Bank's expansion strategy runs simultaneously in Lebanon and the Middle East, as LGB BANK is continuously tapping into potential prospective markets.

With its dedication and clear vision, LGB BANK continues to build strong relationships with its clients through a personalized approach coupled with sophisticated services and innovative products that match the customers' financial aspirations.

■ Vision

Based on its ongoing pursuit of excellence and optimized customer satisfaction, LGB BANK aims to become the bank of choice for Lebanese and regional customers. Through a consolidated and growing network of branches and affiliates, we aim to establish lasting relationships with our customers and continuously improve our performance to gradually become a cornerstone in the banking industry.

■ Mission

At LGB BANK, we thrive to provide our customers with best in line products and services that meet their evolving short and long term needs. Our mission is to establish trustful and personalized relations with each and every one of our clients; while giving them access to a team of reliable professionals, who are committed to a high quality financial performance. We value excellence over quantity and settle for nothing less than outstanding results that surpass our clients' expectations.

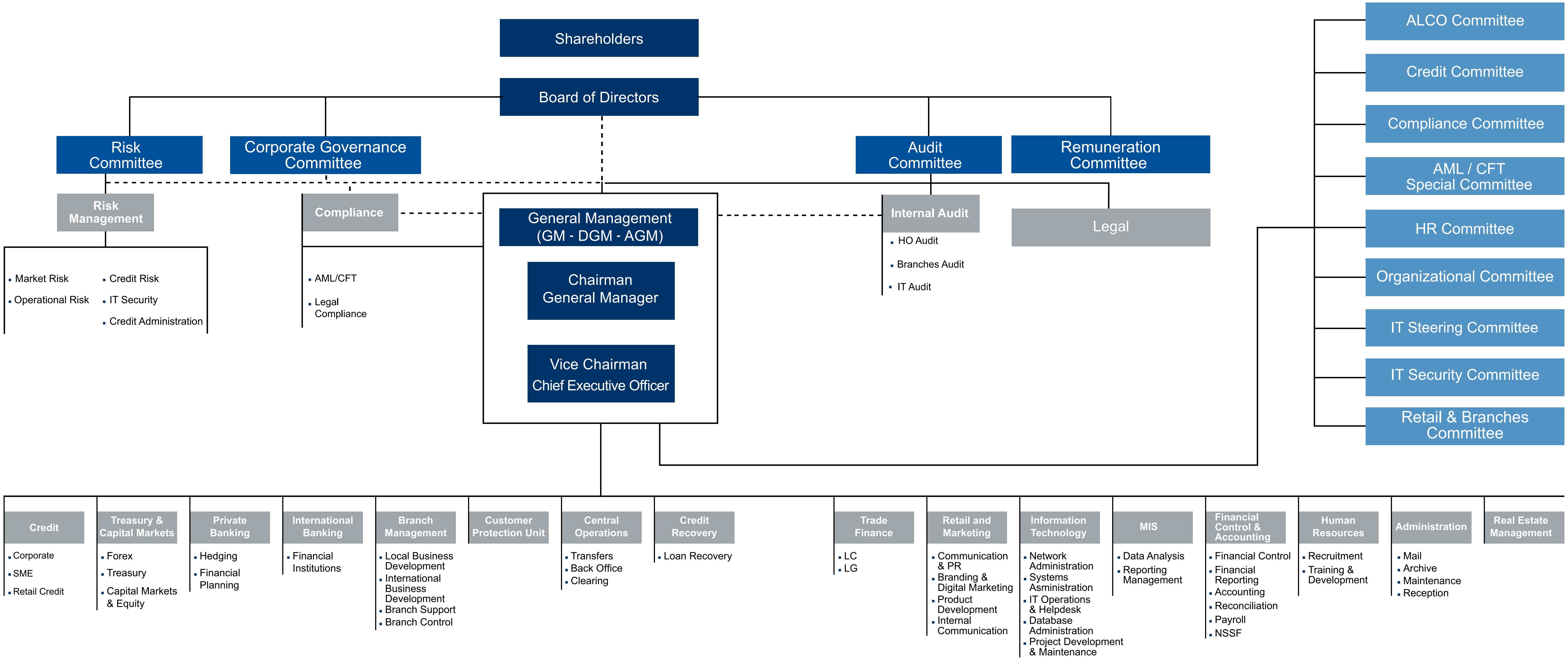
■ Values

Legacy
From one generation to another, the Bank has cumulated a valuable experience thus, building a successful and proven track record. LGB BANK firmly believes in the consistency and continuity that a valuable banking legacy can offer.

Integrity
At LGB BANK we put our customers' best interests at the forefront of our operations. We believe that delivering genuinely good services will undoubtedly lead us to achieve success. This is why we adopt a widely transparent strategy while dealing with our clients.

Quality
LGB BANK has a long and proven track record in the Lebanese market; one that is marked by the delivery of high quality products and services. Indeed, premium quality remains at the heart of our business strategy which aims at preserving high levels of customer satisfaction by offering impeccable services.

Accountability
LGB BANK is a reliable banking partner for Lebanese customers. We provide them with a diversified portfolio of offerings, based on thorough analysis of the market and the local customers' needs. We also put at the disposition of our clients the expertise of a pool of industry experts who offer professional advice and reliable solutions.


Shareholders
Board of Directors
Risk Committee
Corporate Governance Committee
Audit Committee
Remuneration Committee
ALCO Committee
Credit Committee
Compliance Committee
AML / CFT Special Committee
HR Committee
Organizational Committee
IT Steering Committee
IT Security Committee
Retail & Branches Committee
Risk Management
Market Risk
Operational Risk
Credit Risk
IT Security
Credit Administration
Compliance
AML/CFT
Legal Compliance
General Management (GM - DGM - AGM)
Chairman General Manager
Vice Chairman Chief Executive Officer
Internal Audit
HO Audit
Branches Audit
IT Audit
Legal
Credit
Corporate
SME
Retail Credit
Treasury & Capital Markets
Forex
Treasury
Capital Markets & Equity
Private Banking
Hedging
Financial Planning
International Banking
Financial Institutions
Branch Management
Local Business Development
International Business Development
Branch Support
Branch Control
Customer Protection Unit
Central Operations
Transfers
Back Office
Clearing
Credit Recovery
Loan Recovery
Trade Finance
LC
LG
Retail and Marketing
Communication & PR
Branding & Digital Marketing
Product Development
Internal Communication
Information Technology
Network Administration
Systems Asministration
IT Operations & Helpdesk
Database Administration
Project Development & Maintenance
MIS
Data Analysis
Reporting Management
Financial Control & Accounting
Financial Control
Financial Reporting
Accounting
Reconciliation
Payroll
NSSF
Human Resources
Recruitment
Training & Development
Administration
Mail
Archive
Maintenance
Reception
Real Estate Management

CORPORATE GOVERNANCE

■ GOVERNANCE

LGB BANK is keen on ensuring complete compliance with local and international governance practices. Armed with the core values of integrity, transparency, and accountability, the Bank's governance culture has been progressively evolving to encompass robust risk management and control practices that direct it in sustaining business performance and delivering long term value to stakeholders.

The Board's key governance responsibilities are to set the Bank's strategic objectives while relying on Management's relevant and timely controls to facilitate complex decision making. The board also sets the Bank's internal controls and risk appetite through a well-defined policy supported by proper oversight to ensure the accurate and comprehensive implementation of these controls.

LGB BANK recognizes its responsibility towards its stakeholders in ensuring safe, sound, and ethical financial operations. It is essential therefore, that our risk culture supports our risk profile and our adopted risk management practices.

LGB BANK acknowledges that long term success is achieved by having the right leaders in place. Thus, talent development and strategic succession planning are critical components of sustainable success at the Board and Executive Management levels.

CORPORATE GOVERNANCE FRAMEWORK

The Bank's Corporate Governance Policies, including the Code of Corporate Governance, Board Charter, Code of Conduct and Code of Ethics, lay a solid foundation for transparent and accountable decision making. The Bank's Corporate Governance Framework is specifically designed to guide the Board in achieving the Bank's aims, led by the highest ethical standards and interests of its stakeholders. As part of our continuous commitment to sound Corporate Governance, Succession Planning remains one of the Bank's key focuses this year, along with enhancing our Succession Plan, mainly focusing on the Bank's key managerial and functional positions for talent and leadership development. In addition, the Bank also fortified its Disclosure Policy to ensure that all required regulatory disclosures are done effectively and efficiently, taking into account due disclosure of conflict of interests.

BOARD SELECTION AND ELECTION

Board members are appointed on merit, based on the required diversity for effective decision making. Board members' selection relies on integrity, character, range of skills, professional experiences and background, and finally, willingness to commit adequate time and effort to the Bank in addition to putting forth value added material to the Board.

BOARD RESPONSIBILITIES

The Board sets strategic objectives and policies that are focused on delivering long-term value providing overall strategic direction within a framework of risk appetite and controls. It aims at ensuring that executive management is balanced between promoting long-term growth and delivering short-term objectives.
The Board is also responsible for ensuring that Management maintains a system of internal control which provides assurance of effective and efficient operations, internal financial controls and compliance with laws and regulations. In addition, the Board is responsible for guaranteeing that management maintains an effective Risk Management and oversight process at the highest level. In carrying out its responsibilities, the Board upholds the Bank's reputation and manages the materiality of financial risks and other threats inherent in the business thus, reaps the benefits of implementing specific controls.

■ BOARD COMMITTEES

AUDIT COMMITTEE

The Audit Committee's mission resides in assessing the integrity of the Bank's financial reporting, the effectiveness of internal controls in addition to the performance of the Bank's Internal Audit Unit and External Auditors with respect to the suitability and relevance of the submitted reports.
The Audit Committee supports the Board in protecting the interests of shareholders and other stakeholders by acting with the right level of diligence to assure that appropriate and prudent judgments have been made with respect to financial reporting given that the financial statements provide a realistic view of the Bank's financial position and that the auditor's independent analysis on behalf of shareholders is both objective and effective.

RISK COMMITTEE

The Risk Committee reviews and recommends the Bank's Risk Policies and Risk Appetite directly to the Board.
It is also responsible for identifying and monitoring the Bank's risk profile for all types of risks and ensuring that the overall risk profile and risk appetite remain appropriate, in addition to recognizing and assessing future potential risks. The Committee oversees the Risk Management Framework, assesses its effectiveness, and supervises the proper implementation of Risk Management policy in order to adapt to local needs and regulations.

CORPORATE GOVERNANCE COMMITTEE

The Corporate Governance Committee is responsible for ensuring that the composition of the Board and its Committees are suitable and function efficiently by regularly examining the skills, experiences and diversity of the Board and of each Committee member.
The Committee is responsible for reviewing the Bank policies on corporate governance and making recommendations to the board in addition to succession planning suggestions for key Board and Executive Management positions.It also monitors the training and continuous professional development of directors and senior management, as well as reviews shareholders' communication policy on a regular basis and makes appropriate recommendations to the board wherever recommended to enhance effective communication between the Banks and shareholders.

The Committee also assesses the annual Board's effectiveness review process by remaining up-to- date with any corporate governance issues and developments to ensure that the Bank's practices are always in line with the highest corporate governance standards.

REMUNERATION COMMITTEE AND REMUNERATION PRACTICES

The Remuneration Committee is responsible for setting the principles and framework of the Bank's Remuneration Policy. In particular, it oversees the remuneration policy's proper implementation and alignment with the Bank's business strategy, objectives, risk appetite, values, long term interests and all regulatory requirements. Periodically, the committee reviews the principles on the basis of which this policy is implemented and submits any suggested modifications and recommendation to the Board of Directors.

In addition, the Remuneration Committee ensures that a fair and transparent system is in place for determining remuneration packages, on the basis of merit, qualifications, and competence, and having regard to the Bank's operating results, individual performance, and comparable market statistics which thereby reflect our objectives of good corporate governance and sustained, long-term value creation for our shareholders.

The Remuneration Policy takes into consideration the nature of service, complexity of tasks, and visibility of the role, time commitment, and related risks to spread a culture of reward for performance that encourages effective performance while maintaining short-term and long-term financial stability and conformity to the Bank's overall strategy. Thus, it comprises of fixed and variable components. It is also important to note that the remuneration of control functions is determined in away to ensure their objectivity and independence.

Mr. Abdul Hafiz M. Itani

Chairman – General Manager

Mr. Abdul Hafiz Itani has been the Chairman - General Manager since 1980 upon acquiring the majority of the Bank's shares along with a group of local and Gulf investors.
With more than 65 years of experience in the banking and finance industry, Mr. Itani's professional career, crowned with his successful management of a long-lasting established family business, impelled him to lead LGB BANK through affluent and challenging times to be one of the leading banks in Lebanon.
During his career timeline, Mr. Itani has occupied several key positions in the Lebanese banking sector.

Mr. Samer A.H. Itani

Vice Chairman - CEO

Mr. Samer Itani started his Banking career at LGB BANK by occupying several managerial positions in different divisions at the Bank, prior to being selected in 1995 as a member of the Board of Directors.
Mr. Itani was appointed to his current position in 2007 and is currently responsible for leading the restructuring and expansion strategies of the Bank, thus positioning it as one of the best performing Lebanese banks.
Mr. Itani holds a degree in finance and international management from Georgetown University in Washington DC. He attended advanced management programs at both INSEAD and London Business School.

Mr. Joseph M. Hakim

Deputy General Manager - Board Member

Mr. Hakim joined LGB BANK in 1980 and assumed several key positions before being appointed as Deputy General Manager and Head of the International Banking Division.

Mr. Hakim has 54 years of solid banking experience as he formerly worked in different local commercial banks and holding several managerial positions. Mr. Hakim holds a degree in general commerce from the American University of Beirut.

Me. Antoine J. Chader

Board Member

With over 45 years of experience in law, banking, government and financial institutions, Me. Chader's professional career is marked with key positions, appointed Chairman and General Manager of many local Banks and the President of Association of Banks in Lebanon. He was also elected as a Member of the Lebanese Parliament. Me. Chader is a prominent Lebanese lawyer holding a Law Degree from the Saint Joseph University's Law School.

Mr. Emile H. Baroud

Board Member

Mr. Baroud is an independent member on the Board of Directors since 2009.
Mr. Baroud's professional career is marked with 50 years of banking experience and a strong network of International and Arab relations, having formerly worked abroad as General Manager at Qatar National Bank in Paris, Executive Vice President at the Saudi European Bank in Paris and Assistant Director at Banque du Benelux. Mr. Baroud holds a degree in Economics from the Université de Paris.

Mr. Mounib M. Hammoud

Board Member

Mr. Mounib Hammoud is an independent member on the Board of LGB BANK.

Mr. Hammoud has over 35 years of experience in banking, institutional finance, city making, land development, real estate development, retail and tourism projects development, strategic planning, corporate finance and financial architecture, as well as sales and marketing of real estate projects, in the Middle East, North Africa and Europe. He holds a Masters degree in Business Administration from AUB.

Me. Said M. Mirza

Board Member

Mr Saeed Mirza is an independent member on the Board of Directors and a prominent Judge with over 50 years of experience in law, government, banking and financial institutions. He joined the Ministry of Justice as a judge in 1971. He headed the judicial efforts on important national scales and participated in the documentation efforts of high value legal texts and legal provisions.

Dr. Mohammed A.H. Cheaib

Board Member

With over 50 years of experience in the Lebanese Banking Sector, Dr. Cheaib is an independent member on the Board of Directors. He is now Chairman and General Manager of INTRA Investment, and an independent member of board at Phoenicia Bank, Casino Du Liban as well as a member of the International Association of Arab Bankers. With several studies published in Lebanese media outlets, Dr. Cheaib holds a Ph.D. in Finance and Banking from Marseille University in France.

Mr. Rabih A.K. El-Noueiri

Board Member

Mr. Noueiri has been an independent member on the Board of Directors since 2009.
Mr. Noueiri has more than 35 years of American, European, and local banking experience. He was the Executive Manager at American Express Bank in London, Member of the Executive Management at Union Bancaire Privée in London, Senior Vice President at Chase Manhattan Bank in addition to several key positions in local commercial Banks.
Mr. Noueiri holds a Business and Commerce Masters degree from Beirut Arab University.

Dr. Ghaleb S. Mahmassani

Board Member

Dr. Mahmasani is an independent member of the Bank's Board. Dr. Mahmasani currently holds the position of Acting President at the Beirut Stock Exchange Commission in addition to memberships in other prestigious local and international legal commissions and committees such as the Commission on Electoral Law – Lebanon, the Commission of modernization of Laws at the Lebanese Ministry of Justice, the Legal Commission at the Banker's Association of Lebanon, the International Court of Arbitration of the International Chamber of Commerce (ICC) in Paris and the National Committee of the Permanent Court of Arbitration at the Hague, the Netherlands.
Dr. Mahmasani holds a Ph.D. in Law from Lyon University in France.

Mr. Philippe A. Saleh

Board Member

Mr. Philippe Saleh is an independent member on the board of LGB Bank, with over 35 years of experience as a veteran banking professional. After having started his career with Citibank NA in the Corporate Banking Division, Mr. Saleh has held several managerial positions at a local commercial bank, the latest of which was Chief Risk Officer (CRO) – AGM, Head of Group Risk Management Division. He demonstrated expertise in developing an integrated risk management framework for all aspects of risk across the organization, and implementing a set of risk metrics and Basel II and Basel III compliant reporting and spreading a strong risk culture.
Mr Saleh holds a Masters degree in Business Administration from Paris IX Dauphine University, a Masters in Science from the Faculty of Lyon as well as the "Citibank Management Training" Certificate.

OUR BUSINESS

■ CORPORATE & COMMERCIAL BANKING

LGB Bank maintains a well-established position in the commercial lending field, with a concentration on corporate banking services through a distinctive approach for quality planning and trustworthy financial consultancy. After years of success in the local financial market, and with the unwavering reliability of its clientele, the bank has been acknowledged as a highly reliable business partner rather than just an ordinary service provider.

With the support of its skilled personnel and solid financial and logistical resources, LGB Bank is able to keep a close eye on its customers' businesses and projects. Consequently, the bank enables its clients to achieve all their goals by granting them financial counseling and proper orientation.

The customer portfolio at LGB Bank is composed of small, medium and large scaled enterprises, all of which benefit from a variety of products and services tailored to meet their specific financial needs. Our offerings include traditional overdraft facilities, project financing, loan syndication, structured business solutions, and various trade finance products such as Letters of Credit (LCs) and Letters of Guarantee (LGs).

LGB Bank Constantly aims to expand its corporate and commercial client base while maintaining adequate collateralized debt obligations and while remaining in full compliance with the regulations of the Central Bank of Lebanon.

■ INVESTMENT & PRIVATE BANKING

Backed by a solid track record and a proven know- how in customer handling and servicing, LGB BANK has established a robust private banking practice to provide customers with a premium range of financial advisory, brokerage and capital markets' services.

For this purpose, the Bank has taken steps to constitute a specialized cell of professionals trained in private banking, whose objective is to offer the Bank's clients with reliable consultancy and personalized solutions with access to a broad spectrum of markets.

PRODUCTS AND SERVICES

The Bank offers its clients access to an array of personalized products engineered to meet their modern banking needs.
These offerings include:

• Equities, fixed income and foreign exchange
• Money markets
• Multi-asset class funds
• Alternative investment and hedge funds
• Structured products with various underlying instruments
• Capital protected products
• Brokerage services
• Safekeeping of all types of financial instruments

PRIVATE BANKING

In a highly competitive market, LGB BANK has managed to accustom a niche segment of high net worth customers by offering them impeccable services. To maintain such strong bonds, the Bank's Private Banking teams have been able to provide their customers with investment products based on a clear understanding of their financial objectives. Backed by a high sense of resourcefulness, in-depth business knowledge and solid commitment towards the Bank, the teams' performance has been commendable from all angles.

In parallel, the Bank's private banking services include investment consultancy in both domestic and international markets in equities, fixed income, mutual funds and foreign exchange. Skilled team members provide the Bank's clients with informed advices and an eclectic range of investment products, including stocks, bonds, funds and structured products.

TREASURY

The Treasury Department at LGB BANK is the clients' key to access World Money and Capital Markets as well as Foreign Exchange. Whether the client's interest lies in investment banking, equities, fixed income or foreign exchange, LGB BANK has the global network and industry expertise to meet his expectations.

The Treasury Department also plays a strategic role in the management of the Bank's assets & liabilities.
It has the responsibility of recommending the financial engineering solutions that would secure optimum returns on investment and boost the Bank's profitability.

■ RETAIL BANKING

LGB BANK has, at all times, based its product development policy around the client's ever-changing needs, and kept up with the evolving requirements of the markets. In parallel, the Bank was always keen to continuously improve the customer's banking experience, by providing a totally modern and transparent service based on trust and knowledge of the client's aspirations whilst capitalizing on the role of new technologies.

Adopting this dynamic approach, the ultimate objective of LGB BANK is to go beyond its customers presumptions and retain their loyalty as their preferred Bank. During the last few years, the Bank has kept on developing its portfolio of targeted products and services, aligning its actions with its broad product strategy and succeeding in widening its clientele base, while remaining faithful to its quality standards.

The Retail Banking practice at LGB BANK is aligned with the Bank's corporate strategy which aims at presenting personalized services through innovation. In fact, one of the Bank's main business objectives is to offer its customers unmatched services while giving them a choice of real value banking products.

INNOVATIVE SERVICES

In light of its wider corporate strategy, LGB BANK has been a leader in the field of retail banking.
It is to be remembered that the Bank was the first to introduce the SMS alert service.The "Banking by Night" service is another one of the Bank's pioneering initiatives which provides customers with flexible banking hours, making the Bank one of the very few financial institutions in Lebanon to open its doors for a second shift from 7:00 PM to 10:00 PM. The LGB BANK mobile payment platform, a ground-breaking service at LGB BANK, is a highly safe payment solution which comes in the form of a mobile application. By linking a credit card to a mobile number, the service enables customers to make secure and reliable purchases within the application. With customer satisfaction in focus, LGB BANK is also working on developing a series of new retail solutions and products, as the Bank's objective works to stay ahead and be the first to introduce premier products and services.

PAYMENT CARDS

Responding to evolving banking needs and modern lifestyles, LGB BANK proposes an extended line-up of MasterCard and VISA to choose from, including Debit, Credit and Prepaid cards.
Each of these cards offers tailor-made solutions in line with clients' diverse requirements, allowing customers flexible payment solutions around the globe.
With an objective to introduce innovative payment solutions that offer value added benefits to cardholders, LGB BANK, in collaboration with MasterCard, launched the First UAE Dirham Credit Card that has been specifically designed for UAE visitors and residents, offering its holders exclusive benefits and rewards while sparing inconvenient change rates.

A real pioneer in this field, LGB BANK was one of the first banks to issue MasterCard in Lebanon, back in 1992. Today the Bank offers a wide range of payment cards from Titanium, Gold, Platinum, and Black under both MasterCard and Visa brands, with many currencies such as USD, LBP, Euro, Sterling, UAE Dirham, Turkish Lira, and Riyal Saudi.. LGB cards are developed with appealing payment facilities and flexible use limits which are constantly revised to meet the customers' increasing demand for cash.

In addition to the regular payment cards that come handy anytime and anywhere, the Bank also offers a Debit MasterCard with an exclusive Pin Trigger, a feature through which customers can activate their cards via the Bank's ATMs or any other ATM related to CSC Bank s.a.l so as to avoid fraudulent attempts.

Topping this range of retail offerings is the LGB Black Card. Considered as an exclusive "MasterCard World Card", a global access to a group of internationals has now been exclusively offered to the most valued customers, as Black Card holders can take advantage of the generous services, exclusive offers and luxurious experiences presented to the very few. Moreover, the Black Card comes with a special package for Yacht owners, "The Yacht Card", enabling Yacht owners to get the most of their Yachting experience. The card is designed to provide a genuine royal treatment to sail into a world of luxurious services. Moreover, the bank launched a high end co-branded credit card for Porsche Club members, offering lots of benefits and privileges under the motto "Adding Privilege to Power".

Further in line with its customer centric strategy, the Bank initiated its LGB Miles Program under "More Miles, More Destinations". This Loyalty concept allows LGB Credit Card holders to earn 1.5 Miles for each USD 1 spent on any LGB Card. In this sense, LGB BANK reconfirms its intent to provide an unmatched banking experience by rewarding its customers for their loyalty as well as their frequent use of its payment cards.

CONSUMER LOANS

With a rising demand on loan products, LGB BANK has developed services that aim to improve its customers' quality of life, whether from a personal or a professional standpoint.

In addition to the usual common loans such as the Home, Personal and Car loans, the Bank has launched the Public Sector Personal Loan which allows public employees to obtain a competent credit facility against an attractive rate and within favorable conditions. Along with the private offer for salary domiciliation which allows private sector employees to benefit from a wide range of free services and offers, the loan also allows customers to transfer existing liabilities and centralize their loans with LGB BANK while benefiting from additional funding with minimum formalities.

BANCASSURANCE SERVICES

Bancassurance is a byproduct that has also been witnessing significant growth since the beginning of this decade. In collaboration with Allianz SNA Insurance, the leading insurance partner, LGB BANK has been able to provide its customers with highly beneficial insurance programs covering personal accidents, health, fire, car and other matters. The Bank has designed even more customized programs for its customers, including "Education Plan" and "Retirement Plan", an educational saving plan and a retirement saving plan, both coupled with life insurance. In 2010, the Bank introduced the Income Compensation Plan providing customers, with a cost-effective plan B that allows them to sustain their income in case of accidents.

THE e-LGB BANK PLATFORM

Over the past few years, the world has witnessed a real electronic revolution, pushing most businesses to leverage their operations through an online system. In this line, LGB BANK has launched a modern and upbeat version of its corporate website, www.lgbbank.com, with user friendly functions to meet its clients' contemporary needs and expectations, in a virtually controlled world. The website includes both corporate and retail banking products and services, thus creating a comprehensive interface to browse and explore.

Digital specialists have implemented the Online Banking platform, "LGB Online Banking", allowing the Bank's customers to benefit from a number of products and services from the comfort of their homes or offices. LGB Mobile Banking platform was made also available, on Apple store, Google play and Blackberry World providing LGB BANK customers with even more flexibility, giving them the opportunity to complete many of their daily banking transactions, in a swift and efficient manner at their own convenient time. The online banking platform is currently being renovated in order to provide customers with the newest and most up-to-date technology.

LGB BANK is also present on all digital platforms such as Facebook and Twitter and is committed to keeping its customers up-to-date at all times with news, product launches, events, new services as well as the opening of all branches.

■ INTERNATIONAL & CORRESPONDENT BANKING

Throughout the years the Financial Institutions Department succeeded in developing a global network of correspondent banking relationships. It has built bilateral relations with the major international banks while focusing on its adherence to international and local standards both on AML/CFT and Compliance level.

The FID continuously conducts business reviews that identify several challenges and opportunities for major enhancement in its units to better serve the specific and growing needs of LGB Bank's customers, corporates and institutions. And it is actually backed by the trust and support of our correspondent banks, that we are able to meet our clients' satisfaction.

Its target is to identify and explore new slots with potential where LGB Bank can market its products in a professional and successful manner and take advantage of new business opportunities while managing, developing and maintaining successful alliances with correspondents.

■ MARKETING AND COMMUNICATION

While being recognized as a banking instiution striving for excellence and ambitious growth, LGB BANK was able to win several international industry prizes that confirm its standing and business philosophy including:

- The STP award from Commerz Bank
- The most innovative banking product in Lebanon
- Best credit card design
- Best Retail Bank
- Best co-branded credit card
- Best Arab co-branded credit card
- Best transformation Bank growth

Further leveraging its efforts to meet the latest banking trends and provide an optimised experience to its customers, LGB BANK has changed its brand identity by giving it a modern look and feel accordingly with its evolving values. This initiative aimed essentially at mirroring the Bank's core values and attributes including transparency, quality, integrity and professionalism. In addition, the rebranding operation which affected the Bank's corporate image, advertisements, premises and even ATMs, aimed at providing customers with a more welcoming and friendly atmosphere, where they would feel secure and comfortable. The Bank continues to improve its excellence practices, striving to provide a world class experience to its customers, which gained it several recognition awards from renowned financial authorities in the world commending its level of service.

Today, the Bank's main communication priority remains to highlight its customer centric strategy using a mix of conventional and out-of-the-box tools. Lately, LGB BANK has redesigned its corporate website to meet contemporary users' expectations and launched the "e-LGB Bank Newsletter" to keep its customer base in the loop of the Bank's news, activities and updates. As a result, LGB BANK has been able to make quite an entrance and impact on the Lebanese banking scene, gaining in communication penetration and market share.

A key element of LGB BANK's campaigns is to factually convey its corporate values. LGB BANK does not build its reputation on commercial promotions, but rather on actual servicing. This is how the Bank is managing to retain and sustain its customers' trust with a rightfully communicated and reliable performance. An example of that is the Currency credit cards campaign that was done in 2015 in addition to the Porche club co-branded card campaign.

Furthermore, the Bank has adopted an "open door" communication policy whether towards the customers or between employees, aiming at safeguarding its image from all possible angles: well thought internal communication activities that enhance the synergy between the employees and promote teamwork; corporate social responsibility communication that endorses community initiatives including the constant endorsement of "Ajialouna", a Lebanese non profitable association; and customer campaigns that highlight the competitive edge of the Bank's products and services.

Additionally, LGB BANK maximised its exposure by participating in the Beirut Boat Show edition where it showcased its pioneering "Boat Loan", reaping great praise and success amongst its own customers and other visitors of the event.

■ HUMAN RESOURCES

LGB Bank strategy revolves around the constant enhancement and strengthening of its three main assets: the financial capital, the technological capital, and most importantly, the human capital. The Bank's human capital management strategy consists of developing, maintaining and managing the workforce through effective systems, policies, procedures and methodologies, which are consistent with the Bank's corporate and business objectives, as well as business conduct.

At LGB Bank we strive to motivate our employees through the adoption of a two-pronged approach consisting, on the one hand, in providing training to individuals who need a skill update, as well as developing those who show potential, and, on the other, in offering a pecuniary reward to employees who accomplish their assigned objectives and show dedication at work, while being fully committed to the Bank's values. In fact, we believe that investing in human capital is a major component of our customer-centric strategy, aimed at delivering unmatched and highly personalized services.

In line with this perspective, a harmonious and growing team of experts from various professional backgrounds is constantly mustered. The team reflects the values and ethical principles of the bank and strives to achieve its strategy and objectives.

On the other hand, with LGB Bank's determination to uncover fresh talents, the Human Resources team always seeks to attend job fairs. Many of the new hires at LGB BANK are initiated to its culture through internships. Such trainings allow them to obtain an overview of the bank as well as at its products and services while getting acquainted with its code of conduct. This document was designed to offer guidelines and rules for all to follow, stressing the need to conduct business in an ethically, socially, environmentally, and professionally responsible manner, while building upon and maintaining the Bank's corporate management philosophy. The code defines five main areas, namely employee behavior, clients relations, employees relations, dealing with other banks, and reporting unacceptable behavior.

At LGB Bank, we perceive human capital as our most valuable of asset, and we offer every staff member an inspiring work environment to encourage their growth & prosperity. LGB Bank also seeks to retain its high potential employees who were identified by the Human Resources Department as ready to assume higher positions in the short and medium term. The constant observation of this population will continue in 2016, allowing the Human Resources Department to ascertain the potential of the selected employees prior to furthering their training, to enhance their existing capabilities, and constantly monitor their career development.

■ INFORMATION TECHNOLOGY

A technically advanced business platform provides an optimized customer experience, regardless of the line of business. In the banking sector, technology is enabling financial institutions with a competitive edge to reduce error margins, save time and speed up business procedures to ensure the highest levels of customer satisfaction.

To keep up with the fast changing business trends, banks need to integrate cutting edge technologies that guarantee more flexibility and practicality to their clients. Consequently, LGB BANK has embraced the technological revolution to ride the wave of sustainable growth in a challenging world economy. In line with this, the Bank is enhancing the functionality of its core banking system and implementing new modules, coupled with a comprehensive reengineering, enhancement and improvement of its human and technological resources and processes.

A real pioneer in this field, LGB BANK was one of the very first banks in Lebanon to adopt such technological updates in the industry. In fact, the technological reform stipulated the upgrade of the infrastructure to introduce better risk and security controls and improve productivity. A new security system was also implemented in order to avoid hacking and fraudulent actions.

The IT interface deployed by LGB BANK allows great flexibility in terms of work flow and transactions' processing; in addition to allowing employees to share information internally, creating a solid synergy between departments. All units are linked together by a robust IT system and supported by highly qualified and skilled engineers who are ready to assist with any request.

Furthermore, the Bank adopted a new software known as "Trade Innovation Plus", which comes to replace the already existing IT software and displays highly flexible functions, delivering an optimized performance in quality and speed, as it facilitates transactions related to Transfers and Treasury.

Yet, integrating new technologies in its internal processes is not the only policy LGB BANK implemented to become a modern financial institution. The Bank has actually worked on developing innovative electronic banking solutions to deliver even higher performance, by providing employees with special online tools that could facilitate their daily chores; and by allowing customers to access a set of online services that simplify their banking transactions. The Bank has also boosted its IT platform by increasing the number of ATMs across the Lebanese territory getting strategically closer to the Lebanese customers.

Recently, and in line with its commitment to remain among the most advanced banks in Lebanon, LGB BANK has entirely redesigned and launched its corporate website to offer a comprehensive online experience to its clients. Thoroughly planned and executed, the new website offers an active and user friendly platform for customers wherever they are. This will enable the Bank to remain at the forefront of banking technology and support its business development strategy.

Today, the Bank is conducting a series of new projects to exploit technological advances and makes sure that the latest solutions are being implemented.

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

BASIS OF PRESENTATION

The following part which covers the Management Discussion and Analysis section (MD&A) enables readers to assess the performance of Lebanon & Gulf Bank s.a.l. – referred to as "The Bank" - for the year ended December 31, 2015 as compared to its previous year ended December 31, 2014.
MD&A should be taken in conjunction with our Financial Statements and Related Notes for the year ended December 31, 2015. Amounts are primarily derived from the Bank's Annual Financial Statements prepared in accordance with International Financial Accounting Standards (IFRS).

ECONOMIC ENVIRONMENT

The Lebanese economy continued its weak performance reflected by the high level of political and geopolitical risks which is weighing on overall Lebanese economy performance, growth stagnated to a mere real GDP of 1% in 2015.

According to the Ministry of Finance, fiscal deficit widened by 28.6% (y-o-y) to reach USD 3.9 billion by the end of 2015. This was attributed to the 12% yearly decrease in government revenues outpacing the 3% annual decline in fiscal expenditures.

Moreover, gross public debt increased by 5.6% to reach USD 70.3 billion. Debt in local currency stood at USD 43.2 billion at end of December 2015, accounting for 61.5% of the gross public debt. Debt in foreign currency amounted to USD 27.1 billion in the mentioned period; constituting 38.5% of the total gross public debt. Gross debt to GDP maintained a slightly lower ratio of 130% in 2015 against 133% at end of 2014.

The trade deficit contracted by 12.0% (year on year) by the end of December 2015, to register USD 15.1 billion due to a 11.8% decline in total imports outpacing the 10.9% fall in total exports. This decrease is largely affected by the international low prices of oil and the weak euro.

Balance of Payments deficit widened from USD 1.4 billion in 2014 to USD 3.4 billion in 2015. This deterioration came about as the net foreign assets of the Central Bank dropped by USD 473.4 million and as those of commercial banks declined by USD 2.9 billion. The worsening of Lebanon's external position is the result of lower capital inflows following the unrest in neighboring Syria and local turmoil.

As for the monetary situation, the Lebanese banking sector proved its strong stability, even in difficult times. The money aggregate M3 increased by 5% to reach an all time high of USD 123 billion.

Major Economic Indicators in Lebanon

USD Million	As at December 31		
	2014	2015	% Growth
Nominal GDP	50,028	54,395	8.7%
Real GDP growth	2.0%	1.0%	-1.0%
Imports	20,494	18,069	-11.8%
Exports	3,313	2,952	-10.9%
Trade deficit	-17,181	-15,117	-12.0%
Balance of payments	-1,407	-3,354	138.4%
Gross Public Debt	66,564	70,311	5.6%
Gross Public Debt/GDP	133%	130%	-3.0%
Fiscal Deficit	3,073	3,952	28.6%

Source: BDL, Ministry of Finance, IMF, ABL, IIF

LEBANESE BANKING ENVIRONMENT

Despite the limited economical growth and political instability, the regulators of the financial sector in Lebanon always tend to maintain a sound banking environment, which was reflected by a positive growth of the banking activities in 2015.

In the second half of year 2015, the international rating agencies revised Lebanon's outlook from "stable" to "negative". This was attributed to the regional economic tensions and the local political instability which negatively weighed on the economic growth.

Total consolidated assets of commercial banks operating in Lebanon amounted to USD 186.0 billion at the end of December 2015, thus increasing by 5.9% from end of December 2014.

Lebanese banks depend on deposits as a primary source of funds (constituting 81.5% of total assets); an expansion of 5% in total deposits was noted in the year 2015 with an equivalent of USD 151.6 billion up from USD 144.4 billion in year 2014.

Loans to customers showed a growth of 6.5% to reach USD 54.2 billion. As a result, loans to deposits ratio stood at 35.8% up from 35.2% at end of December 2014.

The dollarization ratio of deposits decreased in 2015 to reach 64.9% compared to 65.7% in 2014. Also, the dollarization of loans witnessed a slight drop in 2015 reaching 74.8% down from 75.6% in 2014.

USD Billion	As at December 31		
	2014	2015	% Growth
Total assets	175.7	186.0	5.9%
Total deposits	144.4	151.6	5.0%
o/w in LBP	49.5	53.2	7.5%
o/w in FC	94.9	98.3	3.6%
Total loans	50.9	54.2	6.5%
o/w in LBP	12.4	13.6	9.7%
o/w in FC	38.5	40.6	5.5%
Equity	15.7	16.7	6.0%
Dollarization of deposits (%)	65.7%	64.9%	-
Dollarization of loans (%)	75.6%	74.8%	-
Loans/Deposit Ratio (%)	35.2%	35.8%	-
Deposits/Assets (%)	82.2%	81.5%	-
Equity/Assets Ratio (%)	8.96%	8.96%	-

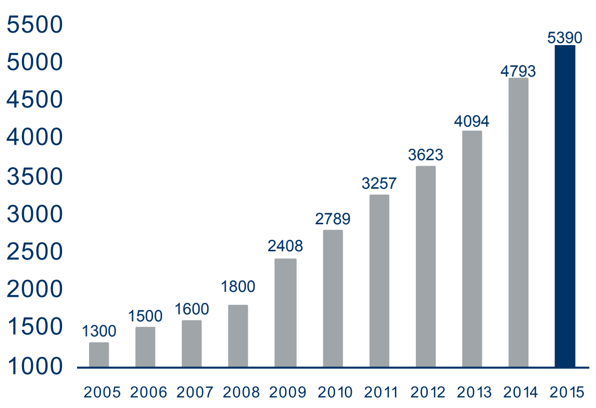
Source: BDL, ABL

THE BANK'S GROWTH

Between 2005 and 2015, LGB BANK managed to achieve a steady and continuous growth in all main financial indicators.

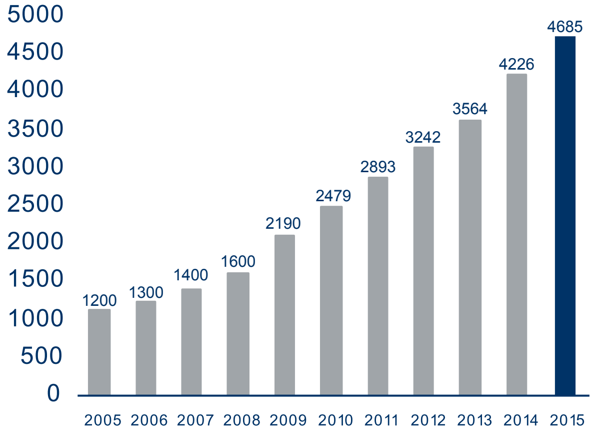
TOTAL ASSETS IN BILLIONS OF LBP

During the period of 2005-2015, the total assets of the Bank increased from LBP 1,300 billion (USD 862 million) as of December 2005 to LBP 5,390 billion (USD 3,575 million) as of December 2015, reflecting a remarkable growth of 315%.



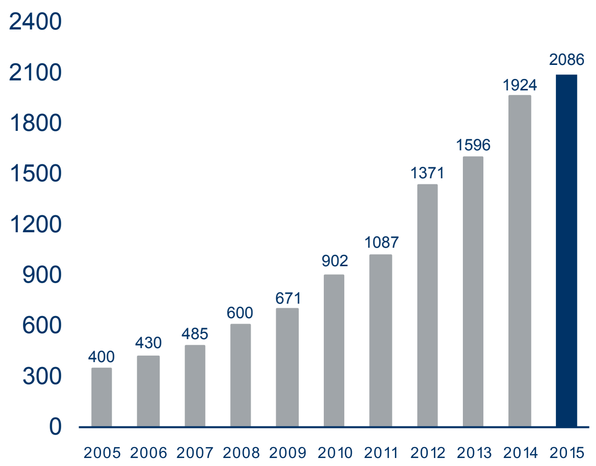
CUSTOMERS' DEPOSITS IN BILLIONS OF LBP

The growth in the Bank's assets during the period of 2005-2015 reflected a similar growth in Customers' Deposits which increased by 290% from LBP 1,200 billion (USD 796 million) as of December 2005 to LBP 4,685 billion (USD 3,108 million) as of December 2015.



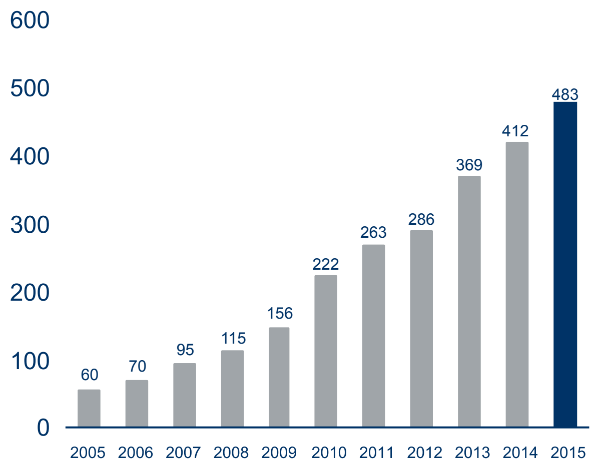
LOANS & ADVANCES IN BILLIONS OF LBP

The Bank successfully grew its commercial and retail lending portfolio. Accordingly, Loans & Advances to customers increased from LBP 400 billion in 2005 (USD 265 million) to reach LBP 2,086 billion (USD 1,384 million) as of December 2015, reflecting a growth of 422%.



EQUITY IN BILLIONS OF LBP

The increase in Equity from LBP 60 billion in 2005 (USD 40 million) to LBP 483 billion in 2015 (USD 320 million) reflected a growth of 705%.



THE BANK'S PERFORMANCE

Despite the difficult aftermath of the recent turmoil, 2015 was another successful year for LGB Bank. The Bank maintained a strong performance where total assets increased by 12.4% to reach LBP 5,390 billion and customers' deposits rose by 10.9% to stand at LBP 4,685 billion.

The Bank's loan portfolio increased by 8.4% to reach LBP 2,086 billion in 2015. Moreover, shareholders' equity rose by 17.1% to stand at LBP 483 billion. Net income witnessed an increase of 13.1% to reach LBP 46 billion with a stable ratio for Return on Average Assets (ROAA) accounting for 1% in 2014 & 2015, as well as a steady ratio for Return on Average Equity (ROAE) declared at 10.3% in 2014 & 2015.

1. PROFITABILITY

Profitability for the period ending on December 31st, 2014 and 2015 was as follows:

In millions of LBP	As at December 31		Growth	
	2014	2015	Amount	%
Net Income	40,849	46,218	5,369	13.1
Net Interest Income	67,380	73,918	6,538	9.7
Net Fees and Commission Income	19,028	15,053	-3,975	-20.9
Total Net Non-Interest Income	33,265	35,882	2,617	7.9
Net Operating Income	95,284	102,105	6,821	7.2
Total Operating Expenses	43,720	46,229	2,509	5.7

1.1 NET INTEREST INCOME

Net Interest Income increased by 9.7% between 2014 & 2015, from LBP 67.4 billion in 2014 to LBP 73.9 billion in 2015. This is due to a 12.9% increase in interest income in 2015,an 8.4% balance sheet increase in loans (2014-2015) and other increases in balances with the Central Bank and other banks.

BREAKDOWN OF INTEREST RECEIVED

In millions of LBP	As at December 31	
	2014	2015
Interest received from investments securities	111,658	132,354
Interest received from loans and advances	111,638	122,990
Interest received from banks and financial institutions	22,682	22,484
Interest received from related parties	117	79
TOTAL	**246,095**	**277,907**

BREAKDOWN OF INTEREST PAID

In millions of LBP	As at December 31	
	2014	2015
Interest paid on deposits from customers	174,080	199,309
Interest paid on banks and financial institutions	4,010	2,260
Interest paid to banks under repurchase agreements	-	1,863
Interest paid on related parties' deposits	625	557
TOTAL	178,715	203,989

1.2 NET FEES AND COMMISSIONS INCOME

A decrease in loan services and trade finance business in 2015 resulted in a 20.9% decrease in net fees and commissions income, compared to an extra ordinary event that lead to a 37.6% increase 2014.

In millions of LBP	As at December 31	
	2014	2015
Fee and commission received		
Credit related fees and commissions	8,474	7,258
Trade Finance	8,303	5,293
General banking income	2,095	2,039
Electronic banking	818	773
Other services	49	69
	19,739	15,432
Fee and commission paid		
Correspondents' accounts	(711)	(379)
NET FEE AND COMMISSION INCOME	19,028	15,053

1.3 TOTAL NET NON INTEREST INCOME

Non-interest income increased by 7.9% from LBP 33.3 billion in 2014, up to LBP 35.9 billion in 2015.This is mainly due to the increase in net trading income , although the net fees and commissions decreased by 20.9% in 2015 from LBP 19.0 billion in 2014 down to LBP 15.1 billion in 2015.

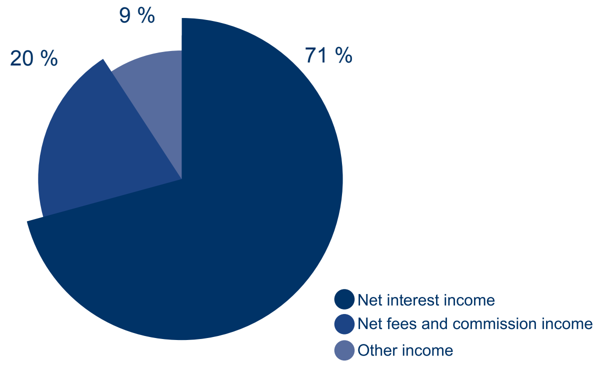
In millions of LBP	As at December 31	
	2014	2015
Net fees and commission	19,028	15,053
Net trading income	5,908	9,965
Net gain on financial investments	5,023	5,915
Other operating income	3,306	4,949
TOTAL	33,265	35,882

1.4 NET OPERATING INCOME

Net Operating Income registered an increase of 7.2% from LBP 95.3 billion in 2014, to LBP 102.1 billion in 2015, where the total operating expenses registered an increase of 5.7%, going up from LBP 43.7 billion in 2014, to LBP 46.2 billion in 2015.

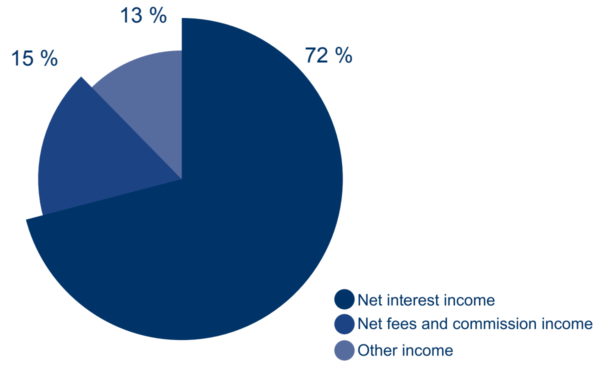
BREAKDOWN OF TOTAL NET OPERATING INCOME

2014



BREAKDOWN OF TOTAL NET OPERATING INCOME

2015



BREAKDOWN OF TOTAL OPERATING EXPENSES

In millions of LBP	As at December 31	
	2014	2015
Personnel expenses	25,241	27,490
Depreciation of property and equipment	3,397	3,751
Other operating expenses	15,082	14,988
TOTAL	43,720	46,229

2. SOURCES AND USES OF FUNDS

In millions of LBP	As at December 31			
				Growth
	2014	2015	Amount	%
Total assets	4,793,244	5,389,716	596,472	12.4
Customers' Deposits	4,225,906	4,684,857	458,951	10.9
Loans and advances to customers (net)	1,923,909	2,086,028	162,119	8.4
Security portfolio	1,651,185	2,008,850	357,665	21.7
Total equity	412,122	482,585	70,463	17.1
Net Income for the year	40,849	46,218	5,369	13.1
Dollarization of deposits	70.7%	68.8%	-	-1.8%
Dollarization of loans	82.0%	82.2%	-	0.2%

2.1 SOURCES OF FUNDS

Similar to all Lebanese banks, LGB BANK's main source of funds is Customers' Deposits, which accounted for 86.9% of its overall funding sources in 2015 compared to 88.2% in 2014.

Shareholders' Equity accounted for 9.0% in 2015 compared to 8.6% in 2014.

BREAKDOWN OF FUNDING SOURCES

In millions of LBP — As at December 31

	2014	%	2015	%	Growth Amount	Growth %
Customers' Deposits	4,225,906	88.2	4,684,857	86.9	458,951	10.9
Shareholders' Equity	412,122	8.6	482,585	9.0	70,463	17.1
Banks Under Repo agreements	-	-	90,922	1.7	90,922	-
Banks and Financial Institutions	53,132	1.1	49,910	0.9	-3,222	-6.1
Other Liabilities	70,371	1.4	46,187	0.8	-24,184	-34.4
Due to Central Banks	31,713	0.7	35,255	0.7	3,542	11.2
TOTAL	**4,793,244**	**100**	**5,389,716**	**100**	**596,472**	**12.4**

2.1.1 CUSTOMERS' DEPOSITS

Constituting the main funding source, Customers' Deposits recorded a continuous growth over the years, reaching LBP 4,685 billion as of December 31, 2015 and representing an increase of 10.9% in comparison to LBP 4,226 billion on December 31, 2014.

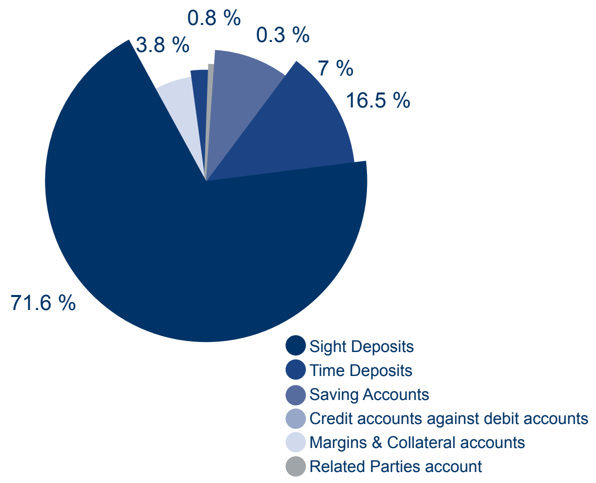
DEPOSIT DISTRIBUTION BY TYPE

In millions of LBP — As at December 31

	2014	%	2015	%	Growth Amount	Growth %
Sight Deposits	295,481	7.0	320,232	6.8	24,751	8.4
Time Deposits	695,861	16.5	740,682	15.8	44,821	6.4
Saving Accounts	3,027,364	71.6	3,423,609	73.1	396,245	13.1
Credit accounts against debit accounts	160,235	3.8	182,241	3.9	22,006	13.7
Margins & collateral accounts	35,424	0.8	6,101	0.1	-29,323	-82.8
Related parties account	11,541	0.3	11,992	0.3	451	3.9
TOTAL	**4,225,906**	**100**	**4,684,857**	**100**	**458,951**	**10.9**

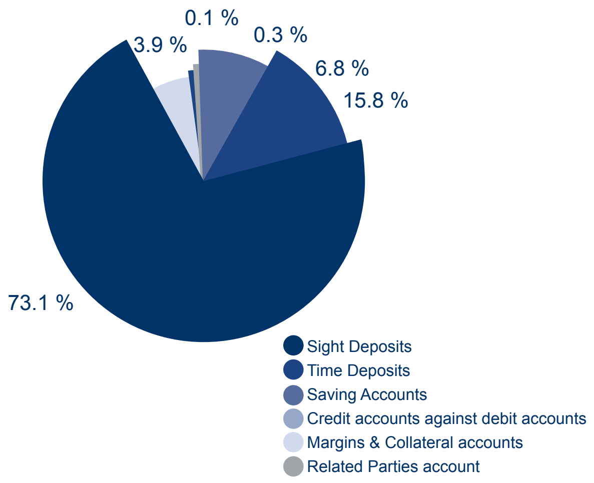
DEPOSITS DISTRIBUTION

2014



DEPOSITS DISTRIBUTION

2015



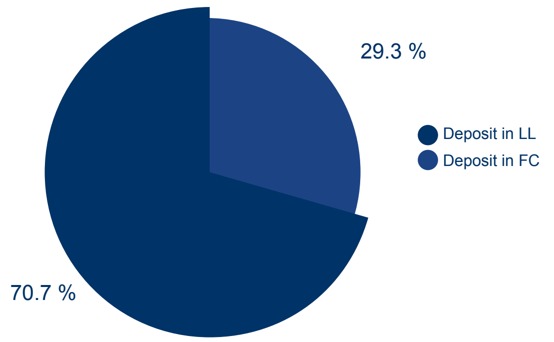
DEPOSIT DISTRIBUTION BY CURRENCY

The breakdown of deposits' growth indicates that deposits denominated in LBP grew by 18.1% in 2015 compared to those denominated in foreign currencies which increased by 7.9%.

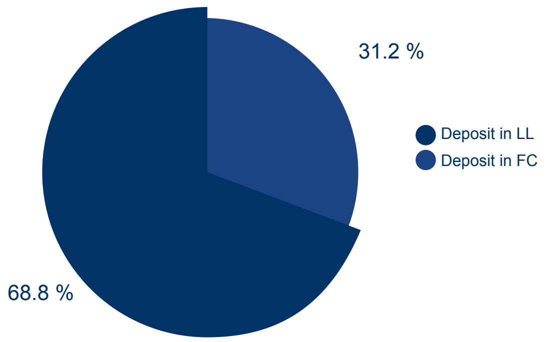
The "Deposit Dollarization Rate" (measured as deposits denominated in foreign currencies to total deposits) slightly decreased from 70.7% as of December 31st, 2014 compared to 68.8% as of December 31st, 2015. This has led to a fall in dollarization by approximately 1.9%.

DEPOSIT DISTRIBUTION BY CURRENCY FOR THE YEARS 2013 AND 2014 WAS AS FOLLOWS:

2014



2015



2.1.2 CAPITALIZATION

The Bank's current equity is mainly composed of supportive, core shareholders who have helped in maintaining our policy of retaining full earnings. These earnings have served to reinforce the capital base over the last five years.
Total capital funds increased by 17.1% year on year to USD 320.12 million at the end of 2015, contributing to total funds of nearly 9.0 % in 2015 and 8.6% 2014.
Tier I capital alone increased by 16.7% to USD 286.09 million at the end of 2015 compared to USD 245.11 million in 2014.

Tier I capital increase was mainly attributed to retain 2015's profits, amounting to USD 25.3 million after dividend distribution compared to 23.2 million in 2014. In addition to issuing new 200,000 preferred shares in 2015. This measure falls in line with the Bank's strategy of growing organically and at a steady pace.

2.2 USES OF FUNDS

Maintaining high asset quality and adequate liquidity remains one of the Bank's fundamental priorities.

Loans and Advances to customers accounted for 38.7% from total assets in 2015 in comparison to 40.1% in 2014, while Loans to Deposit ratio decreased from 45.5% in 2014 to 44.5% in 2014, as per the Bank's lending policy.

The share of cash and balances with the Central Bank recorded a slight increase from 15.0% in 2014 to 15.1% in 2015.

The shares of Security Portfolio increased from 34.5% in 2014 to 37.3% in 2015. This has resulted in a slight decrease in the Bank's total exposure to the Lebanese Government from 28.9% in 2014 to 27.5% in 2015.

In millions of LBP — As at December 31

	2014	%	2015	%	Growth Amount	Growth %
Cash and Balances with Central Bank	721,207	15.0	816,950	15.1	95,743	13.3
Banks and Financial Institutions	348,279	7.3	349,904	6.5	1,625	0.5
Loans to banks and financial institutions	13,011	0.3	14,979	0.3	1,968	15.1
Security Portfolio	1,651,185	34.5	2,008,850	37.3	357,665	21.7
Loans and Advances to Customers	1,923,909	40.1	2,086,028	38.7	162,119	8.4
Other Assets	135,653	2.8	113,005	2.1	-22,648	-16.7
TOTAL	**4,793,244**	**100**	**5,389,716**	**100**	**596,472**	**12.4**

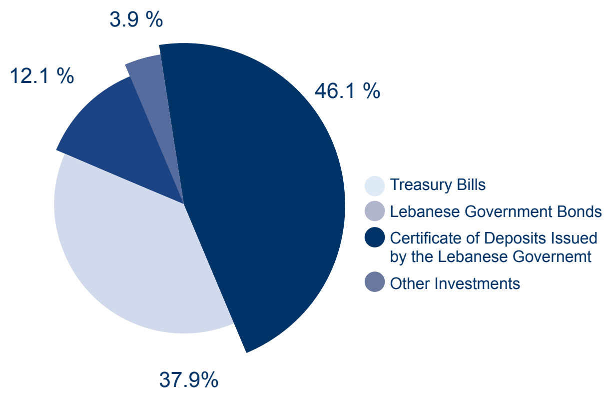
2.2.1 SECURITY PORTFOLIO

In millions of LBP — As at December 31

	2014	%	2015	%	Growth Amount	Growth %
Treasury Bills	761,759	46.1	741,160	36.9	-20,599	-2.7
Lebanese Government Bonds	625,516	37.9	742,744	37.0	117,228	18.7
Certificate of Deposits issued by the Lebanese Government	200,136	12.1	448,275	22.3	248,139	124.0
Subordinated Bonds	-	-	3,028	0.1	3,028	0.1
Other Investments	63,774	3.9	73,643	3.7	9,869	15.5
TOTAL	**1,651,185**	**100**	**2,008,850**	**100**	**354,637**	**21.5**

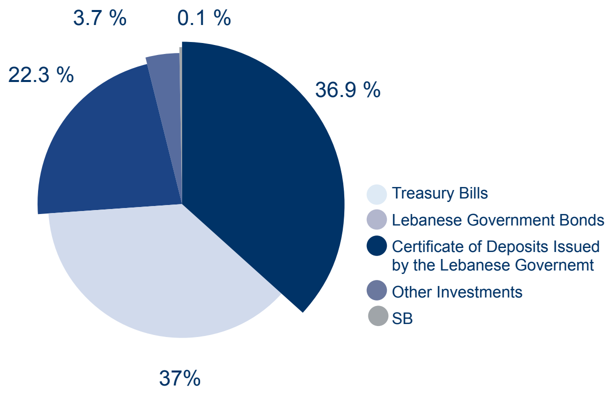
DISTRIBUTION BY TYPE

2014



DISTRIBUTION BY TYPE

2015



DISTRIBUTION BY CLASSIFICATION

In millions of LBP — As at December 31 — 2014

	FVTPL	%	FVTOCI	%	Amortized Cost	%	Total	%
Treasury Bills	-	-	-	-	761,759	48.0	761,759	46.1
Lebanese Government Bonds	-	-	-	-	625,516	39.4	625,516	37.9
Certificate of Deposits issued by the Lebanese Government	-	-	-	-	200,136	12.6	200,136	12.1
Others	57,454	100	6,320	100	-	-	63,774	3.9
TOTAL	**57,454**	**100**	**6,320**	**100**	**1,587,411**	**100**	**1,651,185**	**100**
Per Cent to Total		**3.5**		**0.4**		**96.1**		**100**

In millions of LBP — As at December 31 — 2015

	FVTPL	%	FVTOCI	%	Amortized Cost	%	Total	%
Treasury Bills	-	-	-	-	741,160	38.3	741,160	36.9
Lebanese Government Bonds	-	-	-	-	742,744	38.4	742,744	37.0
Certificate of Deposits issued by the Lebanese Government	-	-	-	-	448,275	23.2	448,275	22.3
Subordinated Bonds	-	-	-	-	3,028	0.1	3,028	0.1
Others	67,323	100	6,320	100	-	-	73,643	3.7
TOTAL	**67,323**	**100**	**6,320**	**100**	**1,935,207**	**100**	**2,008,850**	**100**
Per Cent to Total		**3.4**		**0.3**		**96.3**		**100**

2.2.2 NET LOANS AND ADVANCES TO CUSTOMERS

The "Loans and Advances to Customers" portfolio witnessed an increase of 8.4% in 2015, reaching LBP 2,086 billion compared to LBP 1,924 billion in 2014.

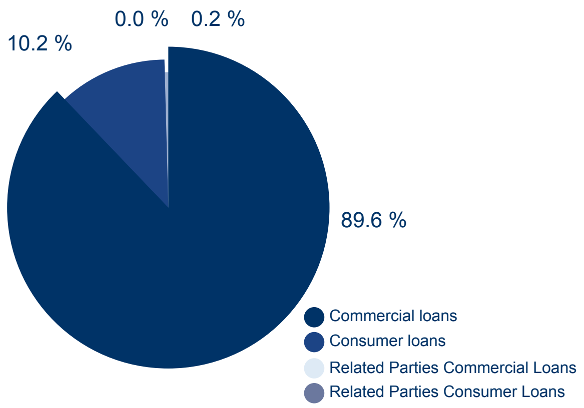
Following the Bank's lending policy, the Bank slightly decreased its "Loan to Deposit Ratio", which stood at 44.5% at the end of 2015 compared to 45.5% at the end of 2014.

In millions of LBP — As at December 31

	2014	%	2015	%	Growth Amount	Growth %
Net loans and advances to customers	**1,920,738**	**99.8**	**2,080,863**	**99.8**	**160,125**	**8.3**
Commercial loans	1,724,658	89.6	1,865,613	89.5	140,955	8.2
Consumer loans	196,080	10.2	215,250	10.3	19,170	9.8
Loans & advances to related parties	**3,171**	**0.2**	**5,165**	**0.2**	**1,994**	**62.9**
Commercial loans	63	-	10	-	-53	-84.1
Consumer loans	3,108	0.2	5,155	0.2	2,047	65.9
TOTAL	1,923,909	100	2,086,028	100	162,119	8.4

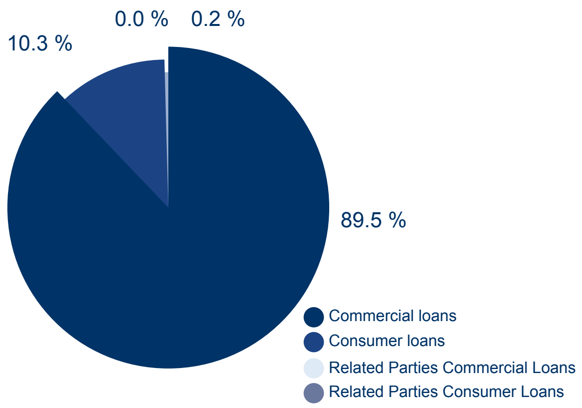
LOANS & ADVANCES DISTRIBUTION

2014



LOANS & ADVANCES DISTRIBUTION

2015



3. RISK MANAGEMENT

LGB BANK's Risk Management framework provides a robust and consistent approach to Risk Management across the Bank and is a core component of the Bank's Internal Governance framework. Throughout 2014, the integrated governance, risk, and control frameworks were further embedded while continuing the use of a consistent approach to risk appetite, delegated authorities and governance committee structures.

Effective Risk Management is fundamental to the success of the Bank, and is recognized as one of the Bank's strategic priorities. The primary goals of Risk Management are consistent with the Bank's strategies and risk appetite, and there is an appropriate balance between risk and reward in order to maximize shareholder returns.

The Bank's Risk Management framework is subject to constant evaluation to ensure that it meets the challenges and requirements of the global markets in which the Bank operates, including regulatory standards and industry best practices. It consists of three key elements: Risk Governance, Risk Appetite, and Risk Management Techniques.

The Bank has a well-established risk governance structure, with an active and engaged Board of Directors supported by an experienced senior management team and a centralized Risk Management that is independent of business lines.

The Board of Directors, either directly or through related committees, ensures that decision-making is aligned with the Bank's strategies and risk appetite. The Board receives regular updates on key risks of the Bank – including periodic comprehensive summary of the Bank's risk profile and performance of the portfolio against defined goals, which is also presented to the Board Risk Committee – and approves key risk policies, limits, strategies, and risk appetite.

The Chief Risk Officer (CRO) is responsible for Risk Management under the oversight of the Board Risk committee. The CRO, who oversees the Global Risk Management division of the Bank, has direct access to the Board Risk Committee.

CREDIT RISK

The Board of Directors reviews and approves the Bank's credit risk strategy and policy. The objective of the credit risk strategy is to ensure that target markets and products' offerings are well defined and the risk parameters for the portfolios are clearly specified.

Risk Management develops the credit risk management framework and policies that detail the delegation of authority for granting credit, the credit risk rating architecture and associated parameter estimates, and the calculation of the allowance for credit losses.

Credit Risk Management regularly reviews the various segments of the credit portfolio on an enterprise-wide basis to assess the impact of economic trends or specific events on the performance of the portfolio and to determine whether corrective action is required. These reviews include the examination of the risk factors for particular products, industries and countries. The results of these reviews are reported to the Risk Committee and, when significant, to the Board.

Stress testing is conducted regularly as a supplementary tool to assess resilience to adverse market conditions and to act upon if mitigating actions are deemed necessary. Stress testing framework helps ensure our portfolio is not overly exposed to extreme market events. Stress tests and their results are reviewed by the risk committee and potential Management actions are proposed if necessary.

MARKET RISK

The Board of Directors reviews and approves market risk policies and limits annually. The Bank's Asset and Liability Committee (ALCO) and Market Risk Management oversee the application of the framework set by the Board, and monitor the Bank's market risk exposures and activities.

Risk Management provides independent oversight of all significant market risks, supporting the ALCO with thorough analysis, quantification and recommendation regarding new investments and products.

The applied market risk measurement methodologies support risk quantification, scenario analysis and stress testing, for its market risks. Various scenarios are performed to take into account changes in the operating environment in Lebanon and the region where the methodologies are used in the stress testing range from single factor to multi-factor stress tests.

LIQUIDITY RISK

The Bank defines its liquidity risk framework, strategy, and in particular its tolerance to liquidity risk by identifying, measuring and managing its liquidity risk position.

The Bank supports a strong liquidity risk management culture and ensures association to the Bank's strategic objectives while taking into consideration all supervisory circulars and Basel requirements. The Risk Management division is responsible for the oversight and validation of the Bank's liquidity risk framework, limits, reporting and funding related issues.

Stress testing and scenario analysis play a central role in the Bank's liquidity Risk Management framework and is considered as part of its liquidity monitoring, a continuous update of its Contingency Funding Plan, which incorporates an assessment of asset liquidity under various stress scenarios. The purpose is to ensure sufficient liquidity for the Bank under both idiosyncratic and systemic market stress conditions.

OPERATIONAL RISK

Operational Risk Management is at the core of the Bank's operations - integrating Risk Management practices into processes, systems and cultures. As a pro-active partner to senior management, Risk Management value lies in supporting and challenging them to align the business control environment with the Bank's strategy by measuring and mitigating risk exposure contributing to optimal return for stakeholders.

The three lines of defense model help to ensure proper accountability and clearly define the roles and responsibilities for Operational Risk Management. The first line of defense is the business unit, who owns the risks in their businesses and operations. The second line of defense is led by an Operational Risk department within the Risk Management division, with support from control functions across the Bank. The third line of defense is Internal Audit.

LGB BANK has implemented an operational risk umbrella that encompasses all aspects of potential risks - bank protection, fraud prevention, key risk indicators, capture of operational loss data, business line risk oversight and new products and initiatives for data security.

INFORMATION SECURITY

LGB BANK has implemented an information security Management System following best practices and ISO standards.

The Information Security department, responsible for enhancing the information Security program, manages the development, implementation, and enforcement of information systems' security polices and related recommended guidelines, operating procedures and technical standards, as well as ensures appropriate risk mitigation and control process for security incidents which are operated as required.

The department also provides direction and guidance on safeguarding the confidentiality, integrity and availability of LGB BANK's information and computing assets, thus conducting security awareness sessions and training to LGB BANK's staff.

In addition, the Information Security department continuously enhances the risk management program that ensures the identification of vulnerabilities and threats to the information resources, while putting into practice countermeasures in order to reduce risk to an acceptable level, based on the value of the information resource to the organization.

OTHER RISKS

A good reputation and a positive public image is an invaluable asset to our Bank. Risk Management monitors all business activities, policies and procedures, to guarantee that they are in compliance with legal requirements.

Reputational Risk is managed and controlled throughout the Bank by codes of conduct, governance practices and Risk Management programs, policies, procedures and training. Many relevant checks and balances are undertaken by Risk Management procedures, particularly operational risk, where reference is made to the Bank's well-established compliance program. All directors, officers and employees have a responsibility to conduct their activities in accordance with the LGB BANK Guidelines for Business Conduct.

Strategic Risk is also a vital component of Risk Management, where proper business decisions and appropriate business planning are addressed in all business units.

CAPITAL FUNDS AS PER BASEL III

The Bank conducts an annual strategic planning process, which lays out the development of its future strategic direction for its business areas. The adequacy of capital is actively managed and monitored where the primary objective of the Bank's capital management is to ensure that the Bank maintains a sufficient level of capital to exceed all regulatory requirements and to achieve a strong credit rating, while optimizing shareholders' value.

This is done through a greater focus on the Bank's own estimates of capital demand and targeted earnings through a more formalized assessment of key risks, risk bearing capacity and the use of enterprise stress testing to assess impact of capital demand, capital supply and liquidity, as a complement to economic and regulatory capital.

The targets are monitored on an ongoing basis in ALCO and Risk Committee meetings. Any projected shortfall from limits and targets is discussed together with potential mitigating strategies seeking to ensure that we remain on track. Amendments to the strategic and capital plan must be approved by the Board.

The Bank is fully compliant with Basel III, Capital Requirement and with the BCCL intermediate circular no.282, dated December 2011 and the updates in March 2014 intermediate circulars 258 and 259. The current Bank's adequate capital ratios are the result of its internal capital generation, management of the balance sheet and periodic cash injection by existing shareholders and issuance of preferred shares. Those ratios are calculated in accordance with the Standardized Approach for Credit Risk, the Basic Indicator Approach for Operational Risk and the Standardized Measurement for Market Risk

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

The ICAAP is becoming more and more of a corner stone in setting the Bank's strategy, which includes ongoing assessment of risks and updates of measurement techniques and controls set by the Bank for all its risks to reach the best mitigation and assessment of overall required capital to cover any unanticipated losses.

The Board and senior management are liable for incorporating capital planning and capital management into the Bank's overall management culture and approach. They ensure that the reliability of the Capital Planning Process is communicated, implemented and supported by sufficient authority and resources. Their main concern is to ensure that the Bank maintains an adequate level of near and longer term capital needs and capital expenditures required for the foreseeable future to exceed all regulatory requirements

■ 4. INTERNAL AUDIT

The Internal Audit Unit carries out independent risk-based audit and reviews of key business, support, and other control areas, and provides an independent assurance service to the Board Audit Committee and Management, focusing on reviewing the level of effectiveness of the governance, Risk Management and control processes that the management has put into place.

■ 5. COMPLIANCE MANAGEMENT

As per its internal policies and in line with local regulations and international standards, LGB BANK continues improving and strengthening its internal controls.

This year witnessed the implementation of the Bank's decision to restructure the Compliance framework into a consolidated function that consists of two units: The AML/CFT Compliance Unit and the Legal Compliance Unit.

Through a synergy of collaboration with both the Risk and Audit functions, the Compliance function adopts a Risk Based Approach to handling non-compliance risks, which can be mainly listed as:

- Risks of non-complying with laws, rules and regulations in jurisdictions in which the Bank is present.
- Risks of non-complying with laws, rules and regulations in jurisdictions with which the Bank has financial or non-financial transactions.
- Risks of non-complying with the Bank's internal policies and procedures.
- Risks of non-complying with international standards.

AML/CFT COMPLIANCE

The Bank continues to further develop this particular compliance function while capitalizing on its long experience in the field of insuring, both locally and internationally, the Bank's compliance with AML/CFT laws, rules and regulations.

The AML/CFT Compliance has been boosted with the introduction of new technologies to enhance its on-boarding controls as well as the monitoring of suspicious transactions.

LEGAL REGULATORY COMPLIANCE

The Legal Compliance Unit oversees the Bank's receiving, understanding and executing requested tasks that regulatory bodies enforce.

The strategy adopted to achieve the above can be roughly divided into the following steps:

1- Prioritizing requirements based on their risk of non compliance.
2- Building a Legal Compliance Library.
3- Overseeing the Banks' compliance by performing suitable tests.
4- Following up on future compliance issues.

■ 6. TRANSPARENCY AND DISCLOSURES

In an endeavor to further strengthen its corporate governance standards and enhance transparency and disclosure in its financial reports, the Bank has adopted one of the strongest global standards of transparency in financial reporting, the International Financial Reporting Standards (IFRS) as certified by the International Accounting Standards Board.

The Board directs the process of disclosure and communication with stakeholders, to ensure that they are fair, transparent, comprehensive and timely. These disclosures include the Bank's profile, statements of its vision and mission, strategy and objectives as well as its financial statements.

The appropriate financial and practical information is disclosed through our main shareholders, annual report, website, brochures, newsletters as well as regular announcements in the media.

■ 7. SOCIAL RESPONSIBILITY PROGRAMS

The Bank plays an active role in supporting its local communities by contributing to a number of social responsibility programs that are aligned with its overall business strategy. These initiatives embody the Bank's commitment to ethical standards and its appreciation of the social, environmental and economic impact of its activities on the communities in which it operates

AUDITOR'S REPORT

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Independent auditors' report

To the shareholders of
LEBANON & GULF BANK S.A.L.

We have audited the accompanying separate financial statements of Lebanon & Gulf Bank S.A.L. (the "Bank"), which comprise the separate statement of financial position as at 31 December 2015, the separate income statement, separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the separate financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these separate financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the separate financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the separate financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the separate financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the separate financial statements present fairly, in all material respects, the unconsolidated financial position of the Bank as at 31 December 2015, and unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

BDO, Semaan, Gholam & Co.

BDO, Semaan, Gholam & Co.

24 March 2016
Beirut, Lebanon

KPMG

KPMG.

FINANCIAL STATEMENTS

Separate statement of Comprehensive Income

In millions of LBP — For the year ended 31 December 2015

	Notes	2015	2014
Interest and similar income	21	277,907	246,095
Interest and similar expense	21	(203,989)	(178,715)
NET INTEREST AND SIMILAR INCOME		**73,918**	67,380
Fee and commission income	22	15,432	19,739
Fee and commission expense	22	(379)	(711)
NET FEE AND COMMISSION INCOME		**15,053**	19,028
Net gain from financial assets at fair value through profit or loss	23	9,965	5,908
Net gain from derecognition of financial assets at amortized cost	24	5,915	5,023
Other operating income	25	4,949	3,306
TOTAL OPERATING INCOME		**109,800**	100,645
Net impairment loss	26	(7,695)	(5,361)
NET OPERATING INCOME		**102,105**	95,284
Personnel expenses	27	(27,490)	(25,241)
Depreciation of property and equipment	10	(3,751)	(3,397)
Other operating expenses	28	(14,988)	(15,082)
TOTAL OPERATING EXPENSES		**(46,229)**	(43,720)
Net loss on disposal of property and equipment		(165)	(143)
PROFIT BEFORE TAX		**55,711**	51,421
Income tax expense	29	(9,493)	(10,572)
PROFIT FOR THE YEAR		46,218	40,849
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		46,218	40,849

The attached notes 1 to 37 are an integral part of these separate financial statements.

Separate statement of Financial Position

In millions of LBP — For the year ended 31 December 2015

	Notes	2015	2014
ASSETS			
Cash and balances with Central Banks	3	816,950	721,207
Due from Banks and Financial Institutions	4	349,904	348,279
Financial assets at fair value through profit or loss	5	67,323	57,454
Loans to banks and financial institutions		14,979	13,011
Loans and advances to customers at amortized cost	6	2,080,863	1,920,738
Loans and advances to related parties at amortized cost	7	5,165	3,171
Debtors by acceptances		29,881	53,193
Financial assets at amortized cost	8	1,935,207	1,587,411
Investment in subsidiary	9	6,320	6,320
Property and equipment	10	50,788	49,507
Assets obtained in settlement of debt	11	26,053	27,003
Other assets	12	6,283	5,950
TOTAL ASSETS		**5,389,716**	4,793,244
LIABILITIES AND EQUITY			
Liabilities			
Due to central bank	13	35,255	31,713
Due to Banks and Financial Institutions	14	49,910	53,132
Due to Banks under repurchase agreements	14	90,922	-
Deposits from customers	15	4,672,865	4,214,365
Deposits from related parties	7	11,992	11,541
Engagements by acceptances		29,881	53,193
Other liabilities	16	9,124	10,494
Provisions for risks and charges	17	7,182	6,684
TOTAL LIABILITIES		**4,907,131**	4,381,122
Equity			
Share capital - common shares	18	194,068	194,068
Share capital - preferred shares	18	18,879	14,819
Share premium - preferred shares	18	121,482	95,392
Non distributable reserves	19	66,669	49,324
Retained earnings	20	35,269	17,670
Net results of the financial period – Profit	20	46,218	40,849
TOTAL EQUITY		482,585	412,122
TOTAL LIABILITIES AND EQUITY		5,389,716	4,793,244

The attached notes 1 to 37 are an integral part of these separate financial statements.

Separate statement of Cash Flows

In millions of LBP — For the year ended 31 December 2015

	Notes	2015	2014
OPERATING ACTIVITIES			
Profit for the year before tax		55,711	51,421
Adjustments for:			
Depreciation of property and equipment	10	3,751	3,397
Provision for employees' end of service benefits	17	608	794
Net impairment loss	26	7,695	5,361
Net gain on disposal of assets obtained in settlement of debts	25	(2,996)	(1,375)
Net Loss on disposal of property and equipment		165	143
Net gain from financial assets at amortized cost	24	(5,915)	(5,023)
Net unrealized gain on financial assets at fair value through profit or loss	23	(6,991)	(1,761)
Realized gain on financial assets at fair value through profit or loss	23	(12)	(1,037)
Provisions for structural exchange position	17	59	-
Operating profit before working capital changes		52,075	51,920
Changes in operating assets and liabilities			
Cash and balances with central banks		(67,095)	(148,013)
Due from banks and financial institutions		(5,886)	(13)
Financial assets at fair value through profit or loss		(3,129)	(38,009)
Loans and advances to customers at amortized cost		(167,820)	(335,344)
Loans and advances to related parties at amortized cost		(1,994)	2,208
Assets obtained in settlement of debt		(2,253)	(2,925)
Proceeds from disposal of assets obtained in settlement of debt		6,199	4,414
Other assets		(333)	1,184
Due to Banks and Financial Institutions		2,192	(4,711)
Deposits from customers		458,500	665,091
Deposits from related parties		451	(3,505)
Other liabilities		(1,809)	421
Cash from operations		269,098	192,718
Taxation paid		(9,054)	(8,601)
Retirement benefits paid	17	(169)	(131)
Net cash from operating activities		259,875	183,986

The attached notes 1 to 37 are an integral part of these separate financial statements.

Separate statement of Cash Flows (continued)

In millions of LBP — For the year ended 31 December 2015

	Notes	2015	2014
INVESTING ACTIVITIES			
Financial assets classified at amortized cost		(341,881)	(206,599)
Acquisition of a subsidiary		-	(6,320)
Loans to Banks and Financial Institutions		1,064	1,045
Net acquisition of property and equipment	10	(5,506)	(10,830)
Proceeds from sale of property and equipment		289	361
Dividends received	23	263	103
Net cash used in investing activities		(345,771)	(222,240)
FINANCING ACTIVITIES			
Redemption of preferred shares (2007 issue)	18	-	(22,161)
Issue of preferred shares (2014 issue)	18	-	30,150
Issue of preferred shares (2015 issue)	18	30,150	-
Dividends paid	30	(5,905)	(5,364)
Due to banks under repurchase agreements		90,922	-
Due to central bank		3,542	19,095
Net cash from financing activities		118,709	21,720
Net effect of foreign exchange		20	53
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		32,833	(16,481)
Cash and cash equivalents at 1 January		377,108	393,589
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	31	409,941	377,108

The attached notes 1 to 37 are an integral part of these separate financial statements.

Separate statement of Changes in Equity

In millions of LBP | For the year ended 31 December 2015

	Note	Share capital- common shares	Share capital- preferred shares	Share premium- preferred shares	Non distributable reserves	Retained earnings	Net Results of the financial period- Profit	Total equity
Balance at 1 January 2015		**194,068**	**14,819**	**95,392**	**49,324**	**17,670**	**40,849**	**412,122**
Transactions with owners of the bank								
Contributions and distributions								
Appropriation of 2014 profits	20	-	-	-	17,345	17,599	(34,944)	-
Dividends distributions	30	-	-	-	-	-	(5,905)	(5,905)
Issue of preferred shares (2015 issue)	18	-	4,060	26,090	-	-	-	30,150
Total contributions and distributions		-	4,060	26,090	17,345	17,599	(40,849)	24,245
Total comprehensive income								
Profit for the year		-	-	-	-	-	46,218	46,218
Total comprehensive income		-	-	-	-	-	46,218	46,218
Balance at 31 December 2015		**194,068**	**18,879**	**121,482**	**66,669**	**35,269**	**46,218**	**482,585**
Balance at 1 January 2014		**191,200**	**13,400**	**87,611**	**40,460**	**1,852**	**34,125**	**368,648**
Transactions with owners of the bank								
Contributions and distributions								
Appropriation of 2013 profits	20	-	-	-	12,716	16,045	(28,761)	-
Dividends distributions	30	-	-	-	-	-	(5,364)	(5,364)
Increase of par value of share capital from LBP 20,000 to LBP 20,300		2,868	159	-	(2,800)	(227)	-	-
Redemtion of preferred shares (2007 issue)		-	(2,800)	(18,309)	(1,052)	-	-	(22,161)
Issue of preferred shares (2014 issue)	18	-	4,060	26,090	-	-	-	30,150
Total contributions and distributions		2,868	1,419	7,781	8,864	15,818	(34,125)	2,625
Total comprehensive income								
Profit for the year		-	-	-	-	-	40,849	40,849
Total comprehensive income for the year 2014		-	-	-	-	-	40,849	40,849
Balance at 31 December 2014		**194,068**	**14,819**	**95,392**	**49,324**	**17,670**	**40,849**	**412,122**

The attached notes 1 to 37 are an integral part of these separate financial statements.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

1. REPORTING ENTITY

Lebanon & Gulf Bank SAL (the "Bank") is a Lebanese joint stock company incorporated in 1963 under the name of Agricultural Credit Bank. The name of the Bank was changed to Lebanon & Gulf Bank SAL in year 1980. The Bank is registered under No 43171 in the Beirut Register of Commerce and under No 94 on the banks' list published by the Central Bank of Lebanon.

The Bank provides a full range of commercial banking activities through its headquarter located in Beirut Central District, Allenby street, Beirut, Lebanon, and its branches in Lebanon and a foreign branch in Larnaca (Cyprus).

On 14 March 2013, the Central Bank of the United Arab Emirates licensed the Bank to open a representative office in Dubai. This license is valid for 5 years. The representative office conducted its business starting from the above date.

2. ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The separate financial statements have been prepared on the historical cost basis except for the measurement at fair value of financial assets at fair value through profit or loss.

Functional and presentation currency
The separate financial statements are presented in Lebanese Pound (LBP) which is the functional and presentation currency of the Bank and all amounts are rounded to the nearest million (LBP million) except when otherwise indicated.

Statement of compliance
The separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Presentation of separate financial statements
The shareholders of the Bank have elected to present separate financial statements and the Bank did not produce consolidated financial statements.

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

Financial assets and financial liabilities are offset and the net amount reported in the separate statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense are not offset in the income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Bank.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

New and amended standards and interpretations
Except for the changes below, the Bank has consistently applied the accounting policies as set out in note 2.4 to all years presented in these separate financial statements.

The Bank adopted certain standards and amendments to standards, with a date of initial application of 1 January 2015. The nature and the impact of each new standard and amendments are described below.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions
IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. It is not expected that this amendment would be relevant to the Bank since it does not have defined benefit plans with contributions from employees or third parties.

Annual improvements 2010-2012 Cycle
These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Bank. They include:
IFRS 2 Share-Based Payment:
This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:
• A performance condition must contain a service condition
• A performance target must be met while the counterparty is rendering service
•A performance target may relate to the operations or activities of an entity, or to those of another entity in the same Bank
• A performance condition may be a market or non-market condition
• If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied

IFRS 3 Business Combinations:
The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9.

IFRS 8 Operating Segments:
The amendments are applied retrospectively and clarifies that 1) an entity must disclose the judgments made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are 'similar', and 2) the reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets:
The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.

IAS 24 Related Party Disclosures:
The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual improvements 2011-2013 Cycle
These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Bank. They include:

IFRS 3 Business Combinations:
The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that 1) joint arrangements, not just joint ventures, are outside the scope of IFRS 3, and 2) this scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

IFRS 13 Fair Value Measurement:
The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9.

IAS 40 Investment Property:
The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property. The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination.

2.3 STANDARDS ISSUED BY NOT YET EFFECTIVE

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2015, and earlier application is permitted; however the Bank has not applied the following new or amended standards in preparing these separate financial statements.

IFRS 9 Financial Instruments
IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. The Banks are currently required to apply phase I of IFRS 9 issued in November 2009, which only addressed the classification and measurement of financial assets. The complete version issued in 2014 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. (It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39). IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Bank is assessing the potential impact on its separate financial statements resulting from the application of IFRS 9. This standard is expected to have a pervasive impact on the Bank's separate financial statements. In particular, calculation of financial instruments on an expected credit loss basis is expected to result in an increase in the overall level of impairment allowances.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 establishes a comprehensive framework for

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

The Bank is assessing the potential impact on its separate financial statements resulting from the application of IFRS 15.

The following amended standards are not expected to have a significant impact on the Bank's separate financial statements.

- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38).
- Annual Improvements to IFRSs 2012–2014 Cycle-various standards.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) Foreign currency translation

The separate financial statements are presented in Lebanese Pound, which is the Bank's presentation currency. The foreign branch of the Bank determines its own functional currency and items included in its separate financial statements are measured using that functional currency.

(i) Foreign currency transaction

Transactions in foreign currencies are translated into the respective functional currencies at the exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange at the date of the statement of financial position. All differences are taken to "Net gain from financial assets at fair value through profit or loss" in the 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 translation 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 recognized in other comprehensive income or profit or loss is also recognized in other comprehensive income or profit or loss respectively).

(ii) Translation of foreign branches

As at the reporting date, the assets and liabilities of overseas branches are translated into the Bank's presentation currency at the rate of exchange as at the statement of financial position 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 a separate component of equity. On disposal of a foreign branch, the deferred cumulative amount recognized in equity relating to that particular foreign branch is recognized in the income statement.

(B) Financial instruments – classification and measurement

(i) Date of recognition

All financial assets and liabilities are initially recognized on the trade date, i.e. the date that the Bank becomes a party to the contractual provisions of the instrument. 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 the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Assets are initially measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, particular transaction costs. Assets are subsequently measured at amortized cost or at fair value.

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

Financial assets at amortized cost

Financial assets that meet both of the following conditions are subsequently measured at amortized cost less any impairment loss (except for financial assets that are designated at fair value through profit or loss upon initial recognition):

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

These financial assets are initially recognized at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributed to the acquisition are also included in the cost of investment. After initial measurement, these financial assets are measured at amortized cost using the effective interest rate method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or 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 recognized in the income statement in "Net impairment loss".

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 amortized cost are reflected under "Net gain from financial assets at amortized cost" in the income statement.

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

After initial measurement, "Balances with central banks", "Due from banks and financial institutions", "Loans to banks and financial institutions" and "Net loans and advances to customers and related parties" are subsequently measured at amortized cost using the Effective Interest Rate (EIR) method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in 'Interest and similar income' in the income statement. The losses arising from impairment are recognized in the income statement in "Net impairment loss".

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 amortized cost" above, debt instruments designated at fair value through profit or loss upon initial recognition and equity instruments at fair value through profit or loss.

Debt instruments at fair value through profit or loss

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

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

Equity instruments at fair value through profit or loss

Investments in equity instruments are classified at fair value through profit or loss, unless the Bank 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 statement of financial position at fair value. Changes in fair value and dividend income are recorded under "Net gain from financial assets at fair value through profit or loss" in the income statement.

Gains and losses arising from 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 income statement.

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 amortized cost or fair value.

The Bank classifies all financial liabilities as subsequently measured at amortized cost using the effective interest method.

Financial liabilities measured at amortized cost consist of due to central bank, due to banks and financial institutions, customers' and related parties' deposits.

"Due to central bank, due to banks and financial institutions, due to banks under repurchase agreements, customers' and related parties' deposits"

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

(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 Bank immediately recognizes the difference between the transaction price and fair value (a "Day 1" profit or loss) in the income statement. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognized in the income statement when the inputs become observable, or when the instrument is derecognized.

(iv) Reclassification of financial assets

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

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

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

(C) Derecognition of financial assets and financial liabilities

(i) Financial assets

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

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

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

(ii) Financial liabilities

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

(D) Fair value measurement

The Bank measures financial instruments designated at fair value through profit or loss at fair value at each statement of financial position date. Also, fair values of financial instruments measured at amortized cost are disclosed in the notes.

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

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability to which the Bank has access at that date.

The principal or the most advantageous market must be accessible by the Bank. 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.

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

If there is no quoted price in an active market, then the Bank 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 separate 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 (i.e., as prices) or indirectly (i.e., derived from prices) observable.
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable and has a significant effect on the instrument's valuation.

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

If an asset or a liability measured at fair value has a bid price and an ask price, the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid. For assets and liabilities that are recognized in the separate financial statements on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Bank's management determines the policies and procedures for recurring fair value measurement, such as unquoted financial assets.

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 Bank'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 Bank 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.

(E) Impairment of financial assets

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

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

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

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

(iii) Collateral valuation
The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, other non-financial assets and credit enhancements such as netting agreements. The fair value of collateral is generally assessed, at a minimum, at inception and periodically updated based on the Bank's policies and type of collateral.

To the extent possible, the Bank uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties, such as independent accredited experts and other independent sources.

(F) Leases

The determination of whether an arrangement is a lease or 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.

Bank as a lessee
Leases which do not transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognized as an expense in the income statement in the period in which they are incurred. Contingent rental payable are recognized as an expense in the period in which they are incurred.

(G) Recognition of income and expenses

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

(i) Interest and similar income and expense
For all financial instruments measured at amortized cost, interest income or expense is recorded using the effective interest rate (EIR) method, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period), to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses. The calculation of the effective interest rate includes transaction costs and fees paid or received that are an integral part of the effective rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

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

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

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

Interest income and expense on the trading assets are considered to be incidental to the Bank's trading operations and are presented with other changes in the fair value of trading assets in :"Net gain from financial assets at fair value through profit or loss".

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

Fee income earned from services that are provided over a certain period of time
Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.
Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the effective interest rate on the loan.

Fee income from providing transaction services
Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or

other securities, are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.
Other fees and commission expense relate mainly to transaction and service fees which are expensed as the services are received.

(iii) Dividend income
Dividend income is recognized when the right to receive the income is established. Usually, this is the ex-dividend date for quoted equity securities. Dividends are presented in "Net gain from financial assets at fair value through profit or loss"

(iv) Net gain from 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 expenses, dividends for financial assets at fair value through profit or loss, foreign exchange differences and all realized and unrealized fair value changes.

(H) Cash and cash equivalents

Cash and cash equivalents as referred to in the cash flow statement comprise cash on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of a period of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments including: cash and balances with central banks, due from banks and financial institutions and due to banks and financial institutions.

Cash and cash equivalents are carried at amortized cost in the separate statement of financial position.

(I) Property and equipment

Items of property and equipment are measured at cost excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment losses. 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 Bank recognized such parts as individual assets with specific useful lives and depreciates them accordingly.

Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the equipment as a replacement if the recognition criteria are satisfied.

All other repair and maintenance costs are recognized in the 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.

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment. Changes in the expected useful life are accounted for by changing the depreciation period or method, as appropriate and treated as changes in accounting estimates.

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

The estimated useful lives are as follows:

• Buildings	50 years
• Vehicles	10 years
• Office installations	16.66 years
• Furniture	12.5 years
• Computer equipment	5 years

Property and equipment is derecognized on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in "Net loss on disposal of property and equipment" in the year the asset is derecognized.

The asset's residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively if appropriate.

(J) Intangible assets

An intangible asset is recognized only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank. The Bank's intangible assets include the value of computer software.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses.

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

The estimated useful life of software for the current and comparative periods is 5 years.

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 recognized period or method, as appropriate, and treated as changes in accounting estimates. The recognized expense on intangible assets with finite lives is recognized in the income statement.

Amortization is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives.

(K) Assets obtained in settlement of debt

The Bank occasionally acquires assets in settlement of certain loans and advances that are in default. Repossessed properties are measured at the lower of carrying amount and fair value less costs to sell and reported within "Assets obtained in settlement of debt" which is in accordance with the Central Bank of Lebanon main circular 78 and the Banking Control Commission circulars 173 and 267.

Upon sale of repossessed assets, any gain or loss realized is recognized in the income statement under "Other operating income" or "Other operating expenses". Gains resulting from the sale of repossessed assets are transferred to "Reserves for assets in settlement of debts disposed off" in the following financial year. These reserves cannot be distributed as dividends.

(L) Impairment of non-financial assets

The Bank 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 Bank 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. 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 the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices or other available fair value indicators.

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

(M) Financial guarantees and loan commitments

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument.

Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of this amortised amount, and the present value of any expected payment to settle the liability when a payment under the contract has become probable.

Loan commitments are irrevocable commitments to provide credit under pre-specified terms and conditions.

Any increase in the liability relating to financial guarantees is recorded in the income statement in "Net impairment loss".

(N) Provisions for risks and charges

Provisions are recognized when the Bank 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. Provisions are determined based on management best estimates. The expense relating to any provision is presented in the income statement net of any reimbursement.

(O) Employees' end-of-service benefits

The Bank is subscribed to the compulsory defined benefit plan of the National Social Security Fund.

For the Bank and its branches operating in Lebanon, end-of-service benefit subscriptions paid and due to the National Social Security Fund (NSSF) are calculated on the basis of 8.5% of the staff salaries. The final end-of-service benefits due to employees after completing 20 years of service, at the retirement age, or if the employee permanently leaves employment, are calculated based on the last salary multiplied by the number of years of service. The Bank is liable to pay to the NSSF the difference between the subscriptions paid and the final end-of-service benefits due to employees. The Bank provides for end-of-service benefits on that basis.

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

(P) Income tax

Income tax expense comprises current tax. It is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Taxes are provided for in accordance with regulations and laws that are effective in the countries where the Bank and its branches operate.

Current tax for the current and prior years is measured at the amount expected to be paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the statement of financial position date. Current tax also includes any tax arising from dividends.

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

Dividends are subject to a flat 10% tax, reducible to 5% provided that the entity is listed on a regulated stock exchange.

(Q) Assets held in custody and under administration

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

(R) 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.

(S) Customers' acceptances

Customers' acceptances represent term documentary credits which the Bank 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.

2.5 SUMMARY OF ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the Bank's separate financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses and the accompanying disclosures, and the disclosure of contingent liabilities. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis and changes are recognized prospectively.

Judgments

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

Going concern
The Bank's management has made an informal assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank 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 Bank's ability to continue as a going concern. Therefore, the separate financial statements continue to be prepared on the going concern basis.

Business model
In making an assessment whether a business model's objective is to hold assets in order to collect contractual cash flows, the Bank 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 Bank 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 Bank exercises judgment in determining whether the contractual terms of financial assets it originates or acquires give rise on specific dates to cash flows that are solely payments of principal and interest on the principal outstanding and so may qualify for amortized cost measurement. In making the assessment the Bank 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.

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 December 2015 is set out below in relation to the impairment of financial instruments and in the following notes in relation to other areas:

Note 33- determination of the fair value of financial instruments with significant unobservable inputs.
Note 17 and 32- recognition and measurement of provisions and contingencies: Key assumptions about the likelihood and magnitude of an outflow of resources.

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

Impairment losses on loans and advances
The Bank 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 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 Bank 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).

3. CASH AND BALANCES WITH CENTRAL BANKS

In millions of Lebanese Pound

	2015	2014
Cash on hand	21,691	16,979
Current accounts with Central Bank	161,664	107,194
Deposits with the Central Banks	633,595	597,034
	816,950	721,207

Cash and balances with the Central Banks include balances with the Central Bank of Lebanon in coverage of the obligatory reserve requirements for all banks operating in Lebanon on deposits in Lebanese Pound as required by the Lebanese banking rules and regulations. This obligatory reserve is calculated on the basis of 25% of the weekly average of current accounts denominated in Lebanese Pounds and 15% of the weekly average of term deposits. Accordingly, the obligatory reserve amounted to LBP 101,882 million at 31 December 2015 (2014: LBP 78,225 million).

In addition to the above, all banks operating in Lebanon are required to deposit with the Central Bank of Lebanon placements equivalents to 15% of total deposits in foreign currencies regardless of their nature. These placements amounted to US$ 319,053 thousands (equivalent to LBP 480,974 million) as at 31 December 2015 (2014: US$ 294,494 thousands equivalent to LBP 443,950 million).

Foreign branches are also subject to obligatory reserve requirements with varying percentages, according to the banking rules and regulations of the countries in which they are located.

The obligatory reserve at Cyprus branch at 31 December 2015 amounted to € 35,994 equivalent to LBP 59 million (2014: LBP nil).

4. DUE FROM BANKS AND FINANCIAL INSTITUTIONS

In millions of Lebanese Pound

	2015	2014
Current accounts	179,298	200,849
Checks for collection	28,671	21,360
Blocked accounts	5,899	22
Term accounts	136,036	126,048
	349,904	348,279

5. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

In millions of Lebanese Pound

	2015	2014
Equity instruments	67,323	57,454

In millions of Lebanese Pound

	2015	2014
Detailed as follows:		
CSC Bank SAL	59,081	52,745
Other equity instruments	8,242	4,709
	67,323	57,454

On 28 April 2014, the Board of Directors of the Bank resolved to acquire an additional 40% of the share capital of CSC Bank S.A.L. for an amount of USD 35 million which resulted in 49% ownership in total. Subsequently the bank sold 10% of CSC Bank S.A.L. share, resulting in an ownership of 39% at 31 December 2014. Equity instruments include equity securities other than the ownership in CSC Bank S.A.L.

6. LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST

In millions of Lebanese Pound

	2015	2014
Corporate loans	1,945,017	1,803,820
Retail consumer loans	215,250	196,621
	2,160,267	2,000,441
Less:		
Allowance for impairment losses (a)	(74,218)	(73,940)
Allowance for unrealised interest on impaired loans (b)	(5,186)	(5,763)
	2,080,863	1,920,738

Impairment allowance for loans and advances to customers at amortized cost

(a) The movement of the allowance for impairment losses for loans and advances to customers at amortized cost during the year was as follows:

In millions of Lebanese Pound

	Note	2015	2014
Balance at 1 January		73,940	67,920
Add:			
Charge for the year *	26	7,372	6,529
Foreign exchange difference		(291)	(381)
		81,021	74,068
Less:			
Provisions transferred to off financial position		(1,016)	-
Provisions written-off		(5,325)	(119)
Write-back of provisions	26	(462)	(9)
Balance at 31 December		74,218	73,940
Individual impairment		60,676	63,217
Collective impairment		13,542	10,723
		74,218	73,940
Gross amount of loans individually determined to be impaired		86,787	89,863
Gross amount of loans classified as substandard		12,979	13,788

* The charge for the year is detailed as follows:

In millions of Lebanese Pound

	2015	2014
Individual impairment	4,553	4,832
Collective impairment	2,819	1,697
	7,372	6,529

(b) The movement of allowance for unrealized interest on impaired loans during the year was as follows:

In millions of Lebanese Pound

	Note	2015	2014
Balance at 1 January		5,673	6,571
Add:			
Unrealized interest for the year		1,426	603
Foreign exchange difference		(202)	(252)
		6,987	6,922
Less:			
Write-back of unrealized interest	26	(1)	(1,159)
Interests written-off		(1,800)	–
		(1,801)	(1,159)
Balance at 31 December		5,186	5,763

In millions of Lebanese Pound

	2015	2014
Unrealized interest on substandard loans	1,761	2,391
Unrealized interest on doubtful loans	2,504	2,451
Unrealized interest on bad loans	921	921
	5,186	5,763

7. RELATED PARTIES BALANCES AND TRANSACTIONS

Related parties of the Bank include Key Management Personnel of the Bank, close family members of Key Management Personnel and entities controlled or jointly controlled by Key Management Personnel or their close family members.

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

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

Terms and conditions of transactions with related parties

The Bank enters into transactions with major related parties in the ordinary course of business at normal commercial interest and commission rates.

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

In millions of Lebanese Pound

	2015		2014	
	Outstanding balance	Income (expense)	Outstanding balance	Income (expense)
Key Management Personnel				
Net loans and advances	5,155	71	3,108	117
Deposits	11,992	(557)	10,883	(625)
Guarantees taken	358	–	319	–
Entities under common directorships				
Net loans and advances	10	7	63	–
Deposits	-	–	658	–

Compensation of the Key Management Personnel of the Bank

In millions of Lebanese Pound

	2015	2014
Short-term benefits*	1,486	1,336

*Short-term benefits comprise salaries, bonuses, attendance fees and other short-term benefits to Key Management Personnel.

- During the year ended 31 December 2015, the Bank paid attendance fees to the members of the board of directors amounting to LBP 706 million (2014: LBP 672 million);
- During the year ended 31 December 2015, the Bank received dividends amounting to LBP 646 million (2014: LBP 741 million) from CSC Bank S.A.L.

8. FINANCIAL ASSETS AT AMORTIZED COST

In millions of Lebanese Pound

	2015	2014
Quoted investment securities		
Governmental debt securities	742,744	625,516
Unquoted investments securities		
Central Bank's certificates of deposits	448,275	200,136
Governmental debt securities	741,160	761,759
Subordinated bonds	3,028	-
	1,192,463	961,895
	1,935,207	1,587,411

9. INVESTMENT IN SUBSIDIARY

In millions of Lebanese Pound

Company	Country of incorporation	% of ownership 2015	% of ownership 2014	2015	2014
L & Gulf Company Limited	U.A.E	100	100	6,320	6,320

During 2014, the Bank acquired 100% of shares of L & Gulf Company Limited a newly incorporated entity in UAE. The principal activity of the offshore company is to purchase and own an office in Dubai for Lebanon & Gulf Bank Rep Office.

The subsidiary is dormant and owns a property valued at LBP 6,379 million; therefore the bank is not issuing consolidated financial statements.

10. PROPERTY AND EQUIPMENT

In millions of Lebanese Pound

	Freehold land and buildings	Vehicles	Furniture, office installa-tions and computer equipment	Advances on fixed assets	Total
Cost :					
At 1 January 2015	37,317	1,857	41,323	1,420	**81,917**
Additions	–	1,313	4,044	149	**5,506**
Disposals	–	(549)	–	–	**(549)**
Transfers	1,418	–	151	(1,569)	**–**
Write offs	–	(21)	–	–	**(21)**
Translation difference	(15)	(5)	(67)	–	**(87)**
At 31 December 2015	38,720	2,595	45,451	–	**86,766**
Accumulated Depreciation:					
At 1 January 2015	5,042	571	26,797	–	**32,410**
Depreciation for the year	625	229	2,897	–	**3,751**
Disposals	–	(105)	–	–	**(105)**
Write offs	–	(11)	–	–	**(11)**
Translation difference	(10)	(5)	(52)	–	**(67)**
At 31 December 2015	5,657	679	29,642	–	**35,978**
Carrying amount:					
At 31 December 2015	33,063	1,916	15,809	–	**50,788**

In millions of Lebanese Pound

	Freehold land and buildings	Vehicles	Furniture, office installa-tions and computer equipment	Advances on fixed assets	Total
Cost :					
At 1 January 2014	32,750	2,240	37,225	–	**72,215**
Additions	2,396	486	3,387	4,561	**10,830**
Disposals	–	(814)	(77)	–	**(891)**
Transfers	2,190	3	948	(3,141)	**–**
Write offs	–	(45)	(75)	–	**(120)**
Translation difference	(19)	(13)	(85)	–	**(117)**
At 31 December 2014	37,317	1,857	41,323	1,420	**81,917**
Accumulated depreciation					
At 1 January 2014	4,486	825	24,293	–	**29,604**
Depreciation for the year	568	186	2,643	–	**3,397**
Disposals	–	(411)	(61)	–	**(472)**
Write offs	–	(17)	(18)	–	**(35)**
Translation difference	(12)	(12)	(60)	–	**(84)**
At 31 December 2014	5,042	571	26,797	–	**32,410**
Carrying amount:					
At 31 December 2014	32,275	1,286	14,526	1,420	**49,507**

11. ASSETS OBTAINED IN SETTLEMENT OF DEBT

In millions of Lebanese Pound

	2015	2014
Net carrying amount:		
At 1 January	27,003	27,137
Acquisitions	–	1,362
Rehabilitation and formality fees	1,133	1,563
Disposals	(2,083)	(3,039)
Translation difference	–	(20)
At 31 December	26,053	27,003

These assets represent properties acquired in settlement of defaulting client's facilities. As stipulated by the code of money and credit, banks have two years from the date of acquisition to liquidate those assets, otherwise banks are required to constitute reserves (through appropriation from retained earnings) against these assets, prior to distribution of dividends.

12. OTHER ASSETS

In millions of Lebanese Pound

	2015	2014
Prepayments	5,097	4,334
Due from National Social Security Fund	626	1,108
Deposits for auctions against assets to be obtained in settlement of debt	207	197
Other Assets	353	311
	6,283	5,950

13. DUE TO THE CENTRAL BANK

Following the Central Bank of Lebanon basic decision no. 6116 related to basic circular no. 23 and intermediate circular no. 367 issued on 11 August 2014, the Central Bank of Lebanon offered the commercial banks facilities that are subject to an interest rate of 1% per annum payable on a yearly basis. These facilities were given subject to granting mainly housing loans back to clients at an average interest rate of 5.44%.

14. DUE TO BANKS AND FINANCIAL INSTITUTIONS

In millions of Lebanese Pound

	2015	2014
Current accounts	3,683	4,708
Time deposits	44,131	44,318
Margin accounts	2,096	4,106
	49,910	53,132

Due to banks under repurchase agreements

During 2015, the Bank entered into repurchase agreements, for an aggregate amount of USD 60 million (c/v LBP 90,450 million) of which USD 30 million having a fixed rate and USD 30 million with a floating rate renewable over 180 days against quoted investment securities held at amortized cost having a nominal value of USD 100 million (c/v LBP 150,750 million).

The blocked account against these repurchase agreements amounted to USD 2.69 million (c/v LBP 4,055 million) at 31 December 2015 (Note 4).

15. CUSTOMERS' DEPOSITS AT AMORTIZED COST

In millions of Lebanese Pound

	2015	2014
Sight deposits	320,232	295,481
Time deposits	740,682	695,861
Saving accounts	3,423,609	3,027,364
Credit accounts and deposits against debit accounts	182,241	160,235
Margins on letters of credit	6,101	35,424
	4,672,865	4,214,365

Customers' deposits include coded deposit accounts amounting to LBP 16,173 million as of 31 December 2015 (2014: LBP 16,763 million). These accounts were opened under the provisions of article 3 of the banking secrecy law dated 3 September 1956 governing banks in Lebanon. As per the terms of this article, the Bank is not permitted to disclose the identities of the coded deposit accounts to third parties including its auditors.

16. OTHER LIABILITIES

In millions of Lebanese Pound

	2015	2014
Taxes on profit	4,338	4,424
Other taxes	3,078	2,553
Sundry creditors	978	2,894
Due to National Social Security Fund	332	322
Accrued expenses and other regularization accounts	255	234
Other liabilities	143	67
	9,124	10,494

17. PROVISIONS FOR RISKS AND CHARGES

In millions of Lebanese Pound

	2015	2014
Provision for employees' end of service benefits*	6,977	6,538
Net trading foreign exchange position	75	75
Structural exchange position	130	71
	7,182	6,684

* The movement in the provision for employees' end of service benefits during the year is as follows:

In millions of Lebanese Pound

	2015	2014
Balance at 1 January	6,538	5,875
Charge for the year (note 27)	608	794
Benefits paid	(169)	(131)
Balance at 31 December	6,977	6,538

The provision for employees' end of service benefits amount recognized in the separate financial statements is not materially different from what could be required as per IAS 19 Employee Benefits.

18. SHARE CAPITAL AND SHARE PREMIUM

In millions of Lebanese Pound

	2015		2014	
	Share capital	Share premium	Share capital	Share premium
Common shares – Authorized, issued and fully paid				
9,560,000 nominal shares at LBP 20,300 each (2014: 9,560,000 nominal shares at LBP 20,300 each)	194,068	–	194,068	–
Preferred shares – Authorized, issued and fully paid				
300,000 (2010 issue) of LBP 20,300 each (2014: LBP 20,300 each)	6,090	39,245	6,090	39,245
230,000 (2013 issue) of LBP 20,300 each (2014: LBP 20,300 each)	4,669	30,056	4,669	30,056
200,000 (2014 issue) of LBP 20,300 each (2014: LBP 20,300 each)	4,060	26,090	4,060	26,090
200,000 (2015 issue) of LBP 20,300 each	4,060	26,090	–	–
	18,879	121,481	14,819	95,391

According to the resolution of the extraordinary general assembly of shareholders held on 27 July 2015 and the approval of the Central Bank of Lebanon on 30 September 2015, the Bank's capital was raised from LBP 208,887 million to LBP 212,947 million thus an increase of LBP 4,060 million through issuance of 200,000 preferred shares with a nominal value of LBP 20,300 per share.

The table below summarizes all preferred shares series issued by the Bank and outstanding at 31 December 2015:

	2010 issue	2013 issue	2014 issue	2015 issue
Date of Extraordinary General Assembly Resolution	1 September 2010	26 October 2013	19 September 2014	27 July 2015
Date of Central Bank of Lebanon approval	20 October 2010	20 November 2013	5 November 2014	30 September 2015
Number of shares	300,000	230,000	200,000	200,000
Issue price	100 USD	100 USD	100 USD	100 USD
Par value of issued shares (LBP 20,300 per share)	LBP 6,090 million	LBP 4,669 million	LBP 4,060 million	LBP 4,060 million
Premium calculated in USD as the difference between the issue price and the counter value of the nominal value per share based on the exchange rate at the subscription dates	(USD 26,033 thousands) LBP 39,245 million	(USD 19,938 thousands) LBP 30,056 million	(USD 17,307 thousands) LBP 26,090 million	(USD 17,307 thousands) LBP 26,090 million
Distributions (non-cumulative, subject to the approval of the general assembly and the availability of distributable income) calculated on a pro rata basis in the year of issuance	7.5%	7%	7%	7%
Call option redeemable, pursuant to the exercise of that option, 60 days after the annual general assembly dealing with the accounts for the years	2015 and any of the following years	2018 and any of the following years	2019 and any of the following years	2020 and any of the following years
Redemption price per share (no entitlement to dividend in the year of redemption)	104 USD	103.50 USD	103.50 USD	103.50 USD

In the event of any liquidation, dissolution or winding-up of the Bank, the holders of any series of preferred shares shall be entitled to be paid out of the assets of the Bank available for distribution to its shareholders on a pro rata basis, before any payment shall be made to common shareholders.

Refer to note 30 for information about dividends declared and paid during the year.

19. NON DISTRIBUTABLE RESERVES

In millions of Lebanese Pound

	Reserve for general banking risks	Other reserves	Legal reserve	Reserve for assets in settlement of debts	Reserve for redemption of preferred shares	Total
At 1 January 2014	26,524	1,904	–	5,053	6,979	40,460
Appropriation of 2013 profits	5,367	–	3,412	2,375	1,562	12,716
Increase of par value of share capital from LBP 20,000 to LBP 20,300	–	–	–	–	(2,800)	(2,800)
Redemption of preferred shares (2007 issue)	–	–	–	–	(1,052)	(1,052)
At 31 December 2014	31,891	1,904	3,412	7,428	4,689	49,324
Appropriation of 2014 profits	6,099	–	4,085	4,445	2,716	17,345
At 31 December 2015	37,990	1,904	7,497	11,873	7,405	66,669

Reserves for general banking risks
According to the Central Bank of Lebanon's regulations, BDL circular 50, banks are required to appropriate from their annual net profit a minimum of 0.2 percent and a maximum of 0.3 percent of total risk weighted assets and off statement of financial position accounts based on rates specified by the Central Bank of Lebanon to cover general banking risks. The consolidated ratio should not be less than 1.25 percent of these risks by the year 2007 and 2 percent by the year 2017 as per BCC memo number 13/2015. This reserve is part of the Bank's equity and cannot be distributed as dividends.

Legal reserve
According to the Lebanese Code of Commerce and to the Money and Credit Act, banks operating in Lebanon have to transfer 10% of their annual net profit to legal reserve. This reserve cannot be distributed as dividends.

Reserve for assets in settlement of debts
In compliance with the Central Bank of Lebanon circular 78, banks are required to deduct from annual profits an amount of 20% or 5% of the carrying value of its properties within 2 years from the date of acquisition. The required reserves are established through appropriation of retained earnings. This reserve is not considered as part of the Bank's tier capital nor is available for distribution.

Reserve for redemption of preferred shares
In accordance with the resolutions of the Ordinary General Assembly of Shareholders of the Bank, held on 29 May 2015 (2014: 21 May 2014), an amount of LBP 2,716 million (2014: LBP 1,562 million) has been appropriated to the reserve for the redemption of preferred shares (issue 2010 and 2013).

20.RETAINED EARNINGS

In accordance with the resolutions of the Ordinary General Assembly of Shareholders held on 29 May 2015 (2014: 21 May 2014), the profits of the Bank were appropriated and distributed as follows:

In millions of Lebanese Pound

	2015	2014
Prior year retained earnings	17,670	1,852
Prior year profit	40,849	34,125
Dividends declared (note 30)	(5,905)	(5,364)
Appropriations:		
- to legal reserve	(4,085)	(3,412)
- to reserve for general banking risks	(6,099)	(5,367)
- to reserve for assets in settlement of debts	(4,445)	(2,375)
- to reserve for redemption of preferred shares	(2,716)	(1,562)
- to share capital for increase of par value from LBP 20,000 to LBP 20,300	–	(227)
	(17,345)	(12,943)
At 31 December	35,269	17,670

21. NET INTEREST AND SIMILAR INCOME

Interest and similar income

In millions of Lebanese Pound

	2015	2014
Financial assets at amortized cost	132,354	111,658
Loans to bank and financial institutions	22,484	22,682
Loans and advances to customers at amorized cost	122,990	111,638
Loans and advances to related parties at amorized cost	79	117
	277,907	246,095

Interest and similar expense

In millions of Lebanese Pound

	2015	2014
Due to banks and financial institutions	2,260	4,010
Due to banks under repurchase agreements	1,863	–
Deposit from customers	199,309	174,080
Deposits from related parties	557	625
	203,989	178,715

22. NET FEE AND COMMISSION INCOME

In millions of Lebanese Pound

	2015	2014
Fee and commission income		
Credit related fees and commissions	7,258	8,474
Trade finance	5,293	8,303
General banking transactions	2,039	2,095
Electronic banking	773	818
Other services	69	49
	15,432	19,739
Fee and commission expense		
Correspondents' accounts	(379)	(711)
Net fee and commission income	**15,053**	**19,028**

23. NET GAIN FROM FINANCIAL ASSETS AT FAIR VALUE THOUGH PROFIT OR LOSS

In millions of Lebanese Pound

	2015	2014
Net gain from debt instruments at fair value through profit or loss:		
Interest and similar income from debt instruments at fair value through profit or loss:		
Governmental debt securities	3	64
	3	64
Unrealized gain from revaluation of governmental debt securities	–	81
Realized gain on sale of governmental debts securities	12	155
	12	236
Net gain from debt instruments at fair value through profit or loss	15	300
Net gain from equity instruments at fair value through profit or loss:		
-Unrealized gain from revaluation	7,021	1,680
-Unrealized loss from revaluation	(30)	(12)
-Dividend income	263	103
-Realized gain on sale of equity securities	–	882
Net gain from equity instruments at fair value through profit or loss	7,254	2,653
Foreign exchange income	2,696	2,955
	9,965	5,908

24. NET GAIN FROM FINANCIAL ASSETS AT AMORTIZED COST

Derecognition of financial assets at amortized cost were made during the year due to liquidity gap and yield management.

The schedule below details the gains arising from the derecognition of these financial assets:

In millions of Lebanese Pound

	2015 Gains	2014 Gains
Lebanese sovereign and Central Bank of Lebanon:		
Central Bank's certificates of deposits	522	888
Treasury bills	5,138	4,135
Eurobonds	255	–
	5,915	5,023

25. OTHER OPERATING INCOME

In millions of Lebanese Pound

	2015	2014
Net gain from disposal of assets obtained in settlement of debt	2,996	1,375
Other income	1,953	1,931
	4,949	3,306

26. NET IMPAIRMENT LOSS

In millions of Lebanese Pound

	Note	2015	2014
Charges for the year:			
Provision for doubtful loans and advances	6	(7,372)	(6,529)
Bad debts directly written-off to income statement		(786)	–
Recoveries during the year:			
Write-back of provisions for loans and advances	6	462	9
Unrealized interest on loans and advances to customers	6	1	1,159
		(7,695)	(5,361)

27. PERSONNEL EXPENSES

In millions of Lebanese Pound

	Note	2015	2014
Salaries and related charges		19,624	18,008
Social security contributions		2,734	2,560
Provision for end of service indemnity	17	608	794
Additional allowances paid		4,524	3,879
		27,490	25,241

28. OTHER OPERATING EXPENSES

In millions of Lebanese Pound

	2015	2014
Fees for guarantee of deposits	1,816	1,543
Professional fees	1,171	1,343
Maintenance and repairs	1,856	1,803
Marketing and advertising	842	953
Postage and telecommunications	744	830
Travel expenses	895	1,060
Electricity and fuel	624	586
Rent and related charges	693	660
Board of directors' attendance fees	706	672
Stationery and printing	507	479
Donations	738	800
Taxes and fees	228	114
Insurance premiums	349	402
Subscriptions and fees	728	853
Other Expenses	3,091	2,984
	14,988	15,082

29. INCOME TAX EXPENSE

The components of income tax expense for the years ended 31 December 2015 and 2014 are detailed as follows:

In millions of Lebanese Pound

	2015	2014
Lebanon branches	8,831	7,966
Cyprus branch	2	29
Tax related to previous years	660	2,577
	9,493	10,572

The Bank's books and records were reviewed by the Department of Income Tax for the years 2009 to 2012.

The books and records of the Bank remain subject to review by the Department of Income Tax for the years 2013 to 2015.

A reconciliation between the tax expense and the accounting profit for the years ended 31 December 2015 and 2014 is as follows:

In millions of Lebanese Pound

	2015	2014
Accounting profit before income tax – Lebanon branches	55,725	51,423
Add:		
Non deductible collective provision	2,794	1,697
	58,519	53,120
Less:		
Share of profit on financial assets under equity method	(7,107)	(1,680)
Dividends received and previously subject to income tax	(263)	(103)
Taxable profit	51,149	51,337
Effective income tax rate	15.00%	15.00%
Income tax due	7,672	7,701

The components of income tax expense for the years ended 31 December 2015 and 2014 are detailed as follows:

In millions of Lebanese Pound

	2015	2014
5% tax paid on interest revenue during the year	4,156	3,487
Income tax on profit for the year	4,339	4,423
5% tax on interest calculated in previous period	336	56
	8,831	7,966

30. DIVIDENDS DECLARED AND PAID

According to the Ordinary General Assembly of Shareholders held on 29 May 2015 (2014: 21 May 2014), dividends amounting to LBP 5,905 million were declared and paid to the preferred shareholders (2014: LBP 5,364 million).

31. CASH AND CASH EQUIVALENTS

In millions of Lebanese Pound

	2015	2014
Cash and balances with central banks	81,123	52,475
Due from banks and financial institutions	344,005	348,266
Loans to banks and financial institutions	9,062	6,030
Due to banks and financial institutions	(24,249)	(29,663)
	409,941	377,108

32. CONTINGENT LIABILITIES AND COMMITMENTS

Credit-related commitments and contingent liabilities

To meet the financial needs of customers, the Bank 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 recognized on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Bank. 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 any clients default.

As a significant portion of guarantees and commitments is expected to expire without being withdrawn, the aggregate amount of the nominal principal is not indicative of future liquidity requirements.

The Bank has the following credit related commitments:

In millions of Lebanese Pound

	2015	2014
Commitments issued to financial institutions	25,290	16,865
Commitments issued to customers	61,132	65,113
Guarantees issued to financial institutions	5,186	5,222
Guarantees issued to customers	142,977	133,191
Acceptances	29,881	53,193
Undrawn credit lines	38,385	47,082
Balance at 31 December	302,851	320,666

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

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 guarantees contracts. These include mainly performance and tender guarantees.

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

Legal claims
Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Bank has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. At year end, the Bank 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 Bank.

Lease arrangements
The Bank does not have material capital expenditures and operating lease payments that were not provided for as of the separate statement of financial position date.

Other contingencies
The Bank's books for the year 2013 to 2015 are still subject to review by the tax authorities. The ultimate outcome of such review cannot be presently determined.

The Bank's books in Lebanon have not been reviewed by the National Social Security Fund (NSSF) since 1 November 2006. The ultimate outcome of any review by the NSSF on the Bank's books in Lebanon cannot be presently determined.

■ 33. FAIR VALUE OF THE FINANCIAL INSTRUMENTS

The fair values in this note are stated at the dates specified in the tables and may be different from the amounts which will actually be paid on the maturity or settlement dates of the instruments. 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 Bank as a going concern.
The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy for financial instruments measured at fair value. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

In millions of Lebanese Pound — 31 December 2015

		Fair Value Valuation techniques			Carrying Amount
	Quoted market price Level 1	Observ-able inputs Level 2	Unobserv-able inputs Level 3	Total	
Financial assets measured at fair value :					
Financial assets at fair value through profit and loss:					
Unquoted equity instruments	–	**2,985**	64,338	**67,323**	67,323
Financial assets not measured at fair value:					
Cash and balances with central banks	21,691	**795,259**	–	**816,950**	816,950
Due from banks and financial institutions	–	**349,904**	–	**349,904**	349,904
Loans to banks and financial institutions	–	**14,979**	–	**14,979**	14,979
Loans and advances to customers at amortized cost	–	**2,080,863**	–	**2,080,863**	2,080,863
Loans and advances to related parties at amortized cost	–	**5,165**	–	**5,165**	5,165
Financial assets at amortized cost	734,856	**1,237,677**	3,028	**1,975,561**	1,936,207
Governmental debt securities	734,856	**784,072**	–	**1,518,928**	1,483,904
Certificates of deposit - Central Bank of Lebanon	–	**453,605**	–	**453,605**	448,275
Subordinated bonds	–	**-**	3,028	**-**	3,028
Financial liabilities not measured at fair value:					
Due to central bank	–	**35,255**	–	**35,255**	35,255
Due to banks and financial institutions	–	**49,910**	–	**49,910**	49,910
Due to banks under repurchase agree-ments	–	**90,922**	–	**90,922**	90,922
Deposits from customers	–	**4,672,865**	–	**4,672,865**	4,672,865
Deposits from related parties	–	**11,992**	–	**11,992**	11,992

In millions of Lebanese Pound — 31 December 2014

	Fair Value Valuation techniques Quoted market price Level 1	Observ-able inputs Level 2	Unobserv-able inputs Level 3	Total	Carrying Amount
Financial assets measured at fair value:					
Financial assets at fair value through profit or loss:					
Unquoted equity securities	–	–	57,454	57,454	57,454
Financial assets not measured at fair value:					
Cash and balances with central banks	16,979	704,228	–	721,207	721,207
Due from banks and financial institutions	–	348,279	–	348,279	348,279
Loans to banks and financial institutions	–	13,011	–	13,011	13,011
Loans and advances to customers at amortized cost	–	1,920,738	–	1,920,738	1,920,738
Loans and advances to related parties at amortized cost	–	3,171	–	3,171	3,171
Financial assets at amortized cost	645,509	987,872	–	1,633,381	1,587,411
Governmental debt securities	645,509	782,302	–	1,427,811	1,387,275
Certificate of deposits – Central Bank	–	205,570	–	205,570	200,136
Financial liabilities not measured at fair value:					
Due to central bank	–	31,713	–	31,713	31,713
Due to banks and financial institutions	–	53,132	–	53,132	53,132
Deposits from customers	–	4,214,365	–	4,214,365	4,214,365
Deposits from related parties	–	11,541	–	11,541	11,541

The fair value of financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. 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.
This category includes cash on hand and in transit and liquid governmental bonds actively traded through an exchange or clearing house.

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.
This category includes liquid governmental bonds and certificates of deposit, less actively traded through an exchange or clearing house, balances with central bank, due from banks and financial institutions, net loans and advances to customers and related parties, loans and advances to banks and financial institutions, due to central bank, due to banks and financial institutions, customers and related parties' deposits.

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. An input is deemed significant if it is shown to contribute more than 10% to the valuation of a financial instrument.

Unobservable input levels are generally determined based on observable inputs of a similar nature, historical observations or other analytical techniques.

This category includes unquoted equity securities.
Assets and liabilities measured at fair value using a valuation technique with significant observable inputs – Level 2

Derivatives
The Bank uses foreign exchange contracts to manage some of its transactions exposures. These contracts are not designated as cash flow hedges and are entered into for periods consistent with foreign currency exposure of the underlying transactions, generally from one to 24 months. 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.

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

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

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

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

Loans and advances to customers
For the purpose of this disclosure, in many cases, the fair value disclosed approximates carrying value because these advances are short-term in nature or have interest rate that re-price frequently.
The fair value of loans and advances to customers with long-term maturities is estimated using discounted cash flows by applying current and market rates.

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.

34. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

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

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

In millions of Lebanese Pound	31 December 2015			
	Amounts without contractual maturity	Less than one year	More than one year	Total
ASSETS				
Cash and balances with central banks	21,691	161,664	633,595	**816,950**
Due from banks and financial institutions	–	349,904	–	**349,904**
Financial assets at fair value through profit or loss	67,323	–	–	**67,323**
Loans to banks and financial institutions	–	9,062	5,917	**14,979**
Loans and advances to customers at amortized cost	–	1,413,436	667,427	**2,080,863**
Loans and advances to related parties at amortized cost	–	2,869	2,296	**5,165**
Debtors by acceptances	–	29,881	–	**29,881**
Financial assets at amortized cost	–	123,252	1,811,955	**1,935,207**
Investment in a subsidiary	6,320	–	–	**6,320**
Property and equipment	50,788	–	–	**50,788**
Assets obtained in settlement of debt	–	–	26,053	**26,053**
Other assets	6,283	–	–	**6,283**
TOTAL ASSETS	152,405	2,090,068	3,147,243	**5,389,716**
LIABILITIES				
Due to central bank	–	2,584	32,671	**35,255**
Due to banks and financial institutions	–	47,817	2,093	**49,910**
Due to banks under repurchase agreements	–	–	90,922	**90,922**
Deposits from customers	–	4,672,865	–	**4,672,865**
Deposits from related parties	–	11,992	–	**11,992**
Engagements by acceptances	–	29,881	–	**29,881**
Other liabilities	–	9,124	–	**9,124**
Provisions for risks and charges	7,182	–	–	**7,182**
TOTAL LIABILITIES	7,182	4,774,263	125,686	**4,907,131**
NET	145,223	(2,684,195)	3,021,557	**482,585**

The maturity profile of the Bank's assets and liabilities as at 31 December 2014 is as follows:

In millions of Lebanese Pound	31 December 2014			
	Amounts without contractual maturity	Less than one year	More than one year	Total
ASSETS				
Cash and balances with central banks	16,979	157,554	546,674	**721,207**
Due from banks and financial institutions	–	348,279	–	**348,279**
Financial assets at fair value through profit or loss	57,454	–	–	**57,454**
Loans to banks and financial institutions	–	6,039	6,972	**13,011**
Loans and advances to customers at amortized cost	–	1,185,700	735,038	**1,920,738**
Loans and advances to related parties at amortized cost	–	809	2,362	**3,171**
Debtors by acceptances	–	53,193	–	**53,193**
Financial assets at amortized cost	–	118,153	1,469,258	**1,587,411**
Investment in a subsidiary	6,320	–	–	**6,320**
Property and equipment	49,507	–	–	**49,507**
Assets obtained in settlement of debt	–	–	27,003	**27,003**
Other assets	5,950	–	–	**5,950**
TOTAL ASSETS	136,210	1,869,727	2,787,307	**4,793,244**
LIABILITIES				
Due to central bank	–	2,406	29,307	**31,713**
Due to banks and financial institutions	–	53,132	–	**53,132**
Deposits from customers	–	4,214,365	–	**4,214,365**
Deposits from related parties	–	11,541	–	**11,541**
Engagement by acceptances	–	53,193	–	**53,193**
Other liabilities	–	10,494	–	**10,494**
Provisions for risks and charges	6,684	–	–	**6,684**
TOTAL LIABILITIES	6,684	4,345,131	29,307	**4,381,122**
NET	129,526	(2,475,404)	2,758,000	**412,122**

35. FINANCIAL RISK MANAGEMENT

The Bank manages its business activities within risk management guidelines as set by the Bank's "Risk Management Policy" approved by the board of directors (the "Board"). The Bank recognizes the role of the Board and executive management in the risk management process as set out in the Banking Control Commission circular 242. In particular, it is recognized that ultimate responsibility for establishment of effective risk management practices and culture lies with the Board as does the setting up of Bank's risk appetite and tolerance levels. The Board delegates through its risk management committee the day–to–day responsibility for establishment and monitoring of risk management process across the Bank to the Chief Risk Officer, who is directly appointed by the Board, in coordination with executive management at the Bank.

The Bank is exposed mainly to credit risk, liquidity risk, market risk and operational risk.

The Board's risk management committee has the mission to periodically (1) review and assess the Bank's charter risks, (2) review the adequacy of the Bank's capital and its allocation within the Bank, and (3) review risk limits and reports and make recommendations to the Board.

The Chief Risk Officer undertakes his responsibilities through the "Risk Management Division" overseeing and monitoring risk management activities throughout the Bank. The Risk Manager is responsible for establishing the function of Risk Management and its employees across the Bank.

Lebanon & Gulf Bank's risk management division aids executive management in controlling and actively managing the Bank's overall risk. The division mainly ensures that:

- Risk policies and methodologies are consistent with the Bank's risk appetite.
- Limits and risk across banking activities are monitored throughout the Bank.

Through a comprehensive risk management framework, transactions and outstanding risk exposures are quantified and compared against authorized limits, whereas non-quantifiable risks are monitored against policy guidelines as set by the Bank's "Risk Management Policy". Discrepancies, breaches or deviations are escalated to executive senior management in a timely manner for appropriate action.

The major objective of risk management is the implementation of sound risk management practices and the Basel framework as well as all related regulatory requirements within the Bank. Pillar I capital adequacy calculations have been generated since December 2004, while preparations for moving on to more advanced approaches of pillar I have been initiated. Risk Management is progressively complying with the requirements of pillars II and III of the Basel framework.

Excessive risk concentration

Concentrations arise when the Bank has significant exposure to one borrower or a group of related borrowers or to a number of counter parties engaging in similar business activities or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance developments affecting a particular industry or geographic location.

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. Selective hedging is used within the Bank to manage risk concentrations at both the relationship and industry levels.

35.1 Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Bank's loans and advances to customers and other banks, and investment debt securities.

The Bank manages credit risk in line with the regulatory guidelines. The Bank has set a credit risk policy which lays down norms for credit risk governance, methodologies and procedures for credit risk management and measurement. It consists of the following:

- The permissible activities, segments, programs and services that the Bank intends to deliver and the acceptable limits;
- The mechanism of the approval on credit-facilities;
- The mechanism for managing and following up credit-facilities; and
- The required actions for analyzing and organizing credit files.

Credit initiation and approval

Credit granting comprises the identification of suitable business to include in the portfolio and the best approaches to capture it. The process begins at the Board level by developing the Bank strategy. Once the strategy is approved, the Senior Management executes it. The Board does not interfere with the execution process, but observes and monitors the execution of the strategy to ensure its proper implementation, as per its guidelines.

The Bank is essentially split into two parts: (1) the one that generates the business, and (2) the one that monitors and ensures that this business is in line with the strategy of the Bank. And accordingly, the credit processing stage is governed by three major steps, namely:

a) Business Origination Unit: This centralized Unit is the generator of the business and includes all the relationship officers and analysts that liaise with clients. The main function of this Unit is to identify, analyze and recommend potential clients and the suitable facilities to these clients.

In essence, the Business Origination Unit is the engine of the Bank that creates the requisite business and manages it in a manner to ensure that sufficient profitability is attained to compensate the Bank for the operating expenses and risks taken. The Business Origination Unit benefits directly from risk adjusted profits generated from clients, as such, has a vested interest in ensuring that credits are passed and processed quickly.

For internal fraud avoidance, the Client Relationship and the Transaction Processing sides of the Business Origination Unit are managed and controlled separately with sufficient Chinese walls to allow the Business Origination Unit head to function efficiently.

b) Credit Control and Review Unit: For each recommended credit, a separate independent Unit within the Risk Management Division called the Control and Review Unit will examine it to ensure that the analysis and recommendations are in line with the Bank's Policies and Procedures Guidelines. This Unit acts on behalf of the Credit Committee to guarantee the sanctity of the credit granting process.

c) Credit Committee: The credit is finally passed on to the Credit Committee, which approves or disapproves the credit based on various parameters. Should the credit be approved, the Credit Administration Unit, which acts as a separate clerical control function and custodian of the credit requisite documentation and limits, enters the credit's characteristics and features into the Bank's core system.

Any amendments to the granted credits, renewals, or any excess to the approved limit need a special approval based on a predefined credit grid. The grid assigns approval levels based primarily on the riskiness of the credit, nature of credit and the credit's risk exposure. The delegation of authority involves the allocation of such limits to designated credit functionaries within the Bank. Such functionaries hold independent positions, but caution is exercised to ensure that a functionary cannot recommend, approve and/or process credits singularly.

Loans follow up and monitoring

The Bank's Risk Management is designed to identify and set appropriate risk limits and to monitor the risk adherence to these limits. Actual exposures against the limits are monitored daily, monthly and periodically. Bank Risk Management is responsible for monitoring the risk profile of the Bank's loan portfolio by producing internal reports highlighting any exposure of concern in commercial and consumer lending. The Bank examines the level of concentration whether by credit quality, client groupings or economic sector and collateral coverage. Further, the Bank monitors non-performing loans and takes the required provisions for these loans.

The Bank in the ordinary course of lending activities holds collaterals and guarantees as securities to mitigate credit risk from the loans and advances. These collaterals mostly include cash collateral, quoted shares and debt securities, real estate mortgages, personal guarantees and others. In addition, the recovery unit in the Bank dynamically manages and takes remedial actions for non-performing loans.

In compliance with credit best practices, and within the framework of the supervisory directives with regards to Basel implementation and more specifically the Central Bank of Lebanon Intermediary Circular 256 dated 27 April 2011, the Bank uses an Internal Risk Rating System to grade the credit risk of obligors in the Corporate and Middle market business.

For this purpose, and for the time being, the Bank will use two classification schemes; the first will be an internal rating system (that will be referred to as "The Internal Loan Grading System") purchased from Moody's and divided into ten grades, and the second will be a more subjective loan classification system (that will be referred to as

"Supervisory Classification System"), divided into six grades, of which three grades relate to the performing portfolio (regular credit facilities: risk ratings "OA" and special mention – watch list: risk rating "B1" and "B2"), one grade relates to substandard loans (risk rating "OC") and two grades relate to non-performing loans (risk ratings "OD" and "OE").

Credit cards, personal loans, car loans and housing loans are classified in compliance with Banking Control Commission Circular 280 dated 2 January 2015. Each individual borrower is classified based on an internally developed scoring model that evaluates risk based on financial and qualitative inputs. These scores are reviewed on an annual basis. In addition to that, the bank works in full compliance with the new supervisory circulars.

Non-performing loans are managed proactively by a dedicated collection unit. These loans are closely monitored and well provisioned, with appropriate corrective actions taken.

Impairment allowance
For accounting purposes, the Bank uses an incurred loss model for the recognition of losses on impaired financial assets.
The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue or whether there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances, in compliance with Banking Control Commission Circular 280 dated 2 January 2015.

Individually assessed allowances
The Bank determines the allowances appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected payout should bankruptcy ensue, the availability of other financial support, the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances
Allowances are assessed collectively for losses on loans and advances. They are also assessed individually as per BCC 280 for significant loans and advances that have been assessed individually and found to be impaired.
The Bank generally bases its analyses on historical experience. However, when there are significant market developments, regional and/or global, the Bank would include macroeconomic factors within its assessments. These factors include, depending on the characteristics of the individual or collective assessment: unemployment rates, current levels of bad debts, changes in laws, changes in regulations, bankruptcy trends, and other consumer data. The Bank may use the aforementioned factors as appropriate to adjust the impairment allowances.

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

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 loans collateralized against financial and non-financial assets and the net exposure to credit risk.

In millions of Lebanese Pound — **31 December 2015**

		Amounts collateralized against:				
	Maximum exposure	Cash	Securities	Letters of credit / guarantees	Real estate	Net credit exposure
Balances with Central Banks	795,259	–	–	–	–	795,259
Due from banks and financial institutions	349,904	–	–	–	–	349,904
Loans to banks and financial institutions	14,979	–	–	–	–	14,979
Loans and advances to customers at amortized cost:	2,080,863	308,190	13,882	3,715	1,208,359	546,717
Corporate loans	1,865,197	277,371	13,882	3,715	1,087,523	482,706
Retail consumer loans	215,666	30,819	–	–	120,836	64,011
Loans and advances to related parties at amortized cost	5,165	–	–	–	–	5,165
Debtors by acceptances	29,881	–	–	–	–	29,881
Financial assets at amortized cost	1,935,207	–	–	–	–	1,935,207
	5,211,258	308,190	13,882	3,715	1,208,359	3,677,112
Guarantees	148,163	31,791	–	–	–	116,372
Documentary credits	25,290	2,929	–	–	–	22,361
Undrawn credit lines	38,385	–	–	–	–	38,385
	5,423,096	342,910	13,882	3,715	1,208,359	3,854,230

In millions of Lebanese Pound **31 December 2014**

	Maximum exposure	Amounts collateralized against: Cash	Securities	Letters of credit / guarantees	Real estate	Net credit exposure
Balances with central banks	704,228	–	–	–	–	704,228
Due from banks and financial institutions	348,279	–	–	–	–	348,279
Loans to banks and financial institutions	13,011	–	–	–	–	13,011
Loans and advances to customers at amortized cost:	1,920,738	258,626	24,305	4,710	1,061,641	571,456
Corporate loans	1,724,658	232,763	24,305	4,710	902,395	560,485
Retail consumer loans	196,080	25,863	–	–	159,246	10,971
Loans and advances to related parties at amortized cost	3,171	–	–	–	–	3,171
Debtors by acceptances	53,193	32,548		–	–	20,645
Financial assets at amortized cost	1,587,411	–	–	–	–	1,587,411
	4,630,031	291,174	24,305	4,710	1,061,641	3,248,201
Guarantees	138,413	44,610	–	–	–	93,803
Documentary credits	16,865	2,877	–	–	–	13,988
Undrawn credit lines	47,082	–	–	–	–	47,082
	4,832,391	338,661	24,305	4,710	1,061,641	3,403,074

Collateral and other credit enhancements:
The amount, type and valuation of collateral are based on guidelines specified in the risk management framework. The main types of collateral obtained include real estate, bonds and shares, cash collateral and bank guarantees. Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

The main types of collateral obtained are as follows:

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

Letters of credit / guarantees:
The Bank 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 Bank.

Real estate (commercial and residential):
The Bank 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 up to the related mortgaged amount.

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

Credit quality by class of financial assets

The credit quality of financial assets is managed by the Bank using internal and external credit ratings. The table below shows the credit quality of asset for all financial assets exposed to credit risk, based on the Bank's internal credit rating system and the relationship with external credit rating. The amounts presented are gross of impairment allowances.

In millions of Lebanese Pound **31 December 2015**

	Neither past due nor impaired: High grade	Standard grade	Past due but not impaired	Individually impaired Non performing	Total
Balances with Central Banks	795,259	–	–	–	795,259
Due from banks and financial institutions	349,904	–	–	–	349,904
Loans to banks and financial institutions	14,979	–	–	–	14,979
Loans and advances to customers at amortized cost	1,320,772	723,767	15,962	99,766	2,160,267
Loans and advances to related parties at amortized cost	5,165	–	–	–	5,165
Debtors by acceptances	29,881	–	–	–	29,881
Financial assets at amortized cost	1,935,207	–	–	–	1,935,207
Total	4,451,167	723,767	15,962	99,766	5,290,662

In millions of Lebanese Pound **31 December 2014**

	Neither past due nor impaired: High grade	Standard grade	Past due but not impaired	Individually impaired Non performing	Total
Balances with Central Banks	704,228	–	–	–	704,228
Due from banks and financial institutions	348,279	–	–	–	348,279
Loans to banks and financial institutions	13,011	–	–	–	13,011
Loans and advances to customers at amortized cost	1,202,274	686,628	7,888	103,651	2,000,441
Loans and advances to related parties at amortized cost	3,171	–	–	–	3,171
Debtors by acceptances	53,193	–	–	–	53,193
Financial assets at amortized cost	1,587,411	–	–	–	1,587,411
Total	3,911,567	686,628	7,888	103,651	4,709,734

Aging analysis of past due but not impaired loans per class of financial assets:

In millions of Lebanese Pound	Less than 90 days	91 to 180 days	More than 181 days	Total
31 December 2015				
Loans and advances to customers at amortized cost:				
- Corporate loans	6,783	1,936	6,979	15,698
- Retail consumer loans	209	26	29	264
	6,992	1,962	7,008	15,962

In millions of Lebanese Pound	Less than 90 days	91 to 180 days	More than 181 days	Total
31 December 2014				
Loans and advances to customers at amortized cost:				
- Corporate loans	4,621	170	2,963	7,754
- Retail consumer loans	45	16	73	134
	4,666	186	3,036	7,888

The classification of loans and advances to customers and related parties at amortized cost by grade according to Central Bank of Lebanon circular 58 are as follows:

In millions of Lebanese Pound	Gross Balance	Unrealised interest	Impairment allowances	Net balance
31 December 2015				
Regular	1,309,138	–	–	1,309,138
Follow up	670,476	–	–	670,476
Follow up and regularization	80,887	–	–	80,887
Substandard	12,979	(1,761)	–	11,218
Doubtful	77,502	(2,504)	(52,365)	22,633
Bad	9,285	(921)	(8,311)	53
	2,160,267	(5,186)	(60,676)	2,094,405
Collective impairment	–	–	(13,542)	(13,542)
	2,160,267	(5,186)	(74,218)	2,080,863

In millions of Lebanese Pound	Gross Balance	Unrealised interest	Impairment allowances	Net balance
31 December 2014				
Regular	1,196,577	–	–	1,196,577
Follow up	624,147	–	–	624,147
Follow up and regularization	76,066	–	–	76,066
Substandard	13,788	(2,390)	–	11,398
Doubtful	79,519	(2,452)	(53,869)	23,198
Bad	10,344	(921)	(9,348)	75
	2,000,441	(5,763)	(63,217)	1,931,461
Collective impairment	–	–	(10,723)	(10,723)
	2,000,441	(5,763)	(73,940)	1,920,738

Renegotiated Loans

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

Restructuring policies and practices are based on indicators or criteria which, in the judgment of local management, indicate that repayment will probably continue. The application of these policies varies according to the nature of the market and the type of the facility. As of 31 December 2015, renegotiated loans amounted to LBP 9,526 million (2014: LBP 11,413 million).

Analysis of risk concentration

The Bank's concentrations of risk are managed on a client or counterparty basis, by geographical region and by industry sector.

The Bank's exposure to the highest concentration at 31 December 2015 amounted to LBP 76,023 million (2014: LBP 61,986 million) before taking account of collateral or other credit enhancements and LBP 20,575 million (2014: LBP 38,971 million) net of such protection.

The following tables show the maximum exposure to credit risk for the components of the separate statement of financial position by geography of counterparty and by industry before the effect of mitigation through the use of netting and collateral agreements.

Industry analysis

An industry sector analysis of the Bank's financial assets, before taking into account any collateral held or other credit enhancements, is as follows:

In millions of Lebanese Pound **31 December 2015**

	Commercial	Industrial	Agriculture	Services	Banks and other financial institutions	Construction	Retail	Governmental	Other	Total
Balances with central bank	–	–	–	–	–	–	–	795,259	–	**795,259**
Due from banks and financial institutions	–	–	–	–	349,904	–	–	–	–	**349,904**
Loans to banks and financial institutions	–	–	–	–	14,979	–	–	–	–	**14,979**
Loans and advances to customers at amortized cost	938,580	172,447	15,417	132,404	–	623,344	155,586	–	43,085	**2,080,863**
Corporate loans	878,790	164,473	14,927	108,210	–	609,757	69,478	–	19,978	**1,865,613**
Retail consumer loans	59,790	7,974	490	24,194	–	13,587	86,108	–	23,107	**215,250**
Loans and advances to related parties at amortized cost	–	–	–	–	–	–	5,165	–	–	**5,165**
Corporate loans	–	–	–	–	–	–	10	–	–	**10**
Retail consumer loans	–	–	–	–	–	–	5,155	–	–	**5,155**
Debtors by acceptances	25,751	4,037	–	–	–	93	–	–	–	**29,881**
Financial assets at amortized cost	–	–	–	–	3,028	–	–	1,932,179	–	**1,935,207**
Lebanese governmental bonds	–	–	–	–	–	–	–	1,483,904	–	**1,483,904**
Certificates of deposit issued by the Central Bank of Lebanon	–	–	–	–	–	–	–	448,275	–	**448,275**
Subordinated bonds	–	–	–	–	3,028	–	–	–	–	**3,028**
	964,331	176,484	15,417	132,404	367,911	623,437	160,751	2,727,438	43,085	**5,211,258**

In millions of Lebanese Pound **31 December 2014**

	Commercial	Industrial	Agriculture	Services	Banks and other financial institutions	Construction	Retail	Governmental	Other	Total
Balances with central bank	–	–	–	–	–	–	–	704,228	–	**704,228**
Due from banks and financial institutions	–	–	–	–	348,279	–	–	–	–	**348,279**
Loans to banks and financial institutions	–	–	–	–	13,011	–	–	–	–	**13,011**
Loans and advances to customers at amortized cost	844,246	160,565	17,327	102,634	–	530,107	184,882	–	80,977	**1,920,738**
Corporate loans	752,497	152,977	15,619	80,473	–	486,193	164,247	–	72,652	**1,724,658**
Retail consumer loans	91,749	7,588	1,708	22,161	–	43,914	20,635	–	8,325	**196,080**
Loans and advances to related parties at amortized cost	–	–	–	–	–	–	3,171	–	–	**3,171**
Corporate loans	–	–	–	–	–	–	63	–	–	**63**
Retail consumer loans	–	–	–	–	–	–	3,108	–	–	**3,108**
Debtors by acceptances	17,602	34,998	–	586	–	7	–	–	–	**53,193**
Financial assets at amortized cost	–	–	–	–	–	–	–	1,587,411	–	**1,587,411**
Lebanese governmental bonds	–	–	–	–	–	–	–	1,387,275	–	**1,387,275**
Certificates of deposit issued by the Central Bank of Lebanon	–	–	–	–	–	–	–	200,136	–	**200,136**
	861,848	195,563	17,327	103,220	361,290	530,114	188,053	2,291,639	80,977	**4,630,031**

Geographic analysis

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

In millions of Lebanese Pound	31 December 2015		
	Domestic	Others	Total
Financial assets			
Balances with central banks	795,179	80	795,259
Due from banks and financial institutions	155,054	194,850	349,904
Current accounts	67,046	140,923	207,969
Time deposits	88,008	53,927	141,935
Loans to banks and financial institutions	8,937	6,042	14,979
Loans and advances to customers at amortized cost:	1,888,104	192,759	2,080,863
Corporate loans	1,672,854	192,759	1,865,613
Retail consumer loans	215,250	–	215,250
Loans and advances to related parties at amortized cost	5,165	–	5,165
Corporate loans	10	–	10
Retail consumer loans	5,155	–	5,155
Debtors by acceptances	29,596	285	29,881
Financial assets at amortized cost	1,935,207	–	1,935,207
Lebanese governmental bonds	1,483,904	–	1,483,904
Certificates of deposit issued by the Central Bank of Lebanon	448,275	–	448,275
Subordinated bonds	3,028	–	3,028
Total credit exposure	4,817,242	394,016	5,211,258

In millions of Lebanese Pound	31 December 2014		
	Domestic	Others	Total
Financial assets			
Balances with central banks	704,217	11	704,228
Due from banks and financial institutions	81,591	266,688	348,279
Current accounts	29,734	192,475	222,209
Time deposits	51,857	74,213	126,070
Loans to banks and financial institutions	6,972	6,039	13,011
Loans and advances to customers at amortized cost:	1,773,927	146,811	1,920,738
Commercial loans	1,621,416	103,242	1,724,658
Consumer loans	152,511	43,569	196,080
Loans and advances to related parties at amortized cost	3,171	–	3,171
Commercial loans	63	–	63
Consumer loans	3,108	–	3,108
Debtors by acceptances	20,602	32,591	53,193
Financial assets at amortized cost	1,587,411	–	1,587,411
Lebanese governmental bonds	1,387,275	–	1,387,275
Certificates of deposit issued by the Central Bank of Lebanon	200,136	–	200,136
Total credit exposure	4,177,891	452,140	4,630,031

35.2 Liquidity risk

Liquidity risk is defined as the risk that the Bank 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 Bank 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 Bank 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 Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. In addition, the Bank maintains statutory deposits with Central Banks. As per Lebanese banking regulations, the Bank must retain obligatory reserves with the Central Bank of Lebanon calculated on the basis of 25% of the sight deposits and 15% of term deposits denominated in Lebanese Pounds, in addition to interest bearing placements equivalent to 15% of all deposits in foreign currencies regardless of their nature.

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 Bank. The Bank maintains a solid ratio of highly liquid net assets in foreign currencies to deposits and commitments in foreign currencies taking market conditions into consideration.

Regulatory ratios and limits

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

The Bank 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 and related parties as a percentage of client's deposits.

	Loans to deposits	
	2015	2014
	%	%
Year-end	44.53	45.53

35.2.1 Analysis of financial assets and liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the undiscounted cash flows of the Bank's financial assets and liabilities as of 31 December based on their contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were being given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay.

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

In millions of Lebanese Pound — **31 December 2015**

	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Financial assets					
Cash and balances with central banks	183,355	–	489,193	144,402	816,950
Due from banks and financial institutions	344,005	–	5,899	–	349,904
Loans to banks and financial institutions	9,062	–	1,007	4,910	14,979
Loans and advances to customers at amortized cost	678,265	735,171	491,602	175,825	2,080,863
Loans and advances to related parties at amortized cost	2,869	–	–	2,296	5,165
Debtors by acceptances	23,498	6,383	–	–	29,881
Financial assets at amortized cost	3,065	120,187	282,256	1,529,699	1,935,207
Total undiscounted financial assets	1,244,119	861,741	1,269,957	1,857,132	5,232,949
Financial liabilities					
Due to central bank	1,018	1,566	17,317	15,354	35,255
Due to banks and financial institutions	41,691	6,126	2,093	–	49,910
Due to banks under repurchase agreements	–	–	90,922	–	90,922
Deposits from customers	3,280,227	1,392,638	–	–	4,672,865
Deposits from related parties	11,809	183	–	–	11,992
Engagements by acceptances	23,498	6,383	–	–	29,881
Total undiscounted financial liabilities	3,358,243	1,406,896	110,332	15,354	4,890,825
Net undiscounted financial assets / (liabilities)	(2,114,124)	(545,155)	1,159,625	1,841,778	342,124

In millions of Lebanese Pound — **31 December 2014**

	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Financial assets					
Cash and balances with central banks	174,533	–	402,300	144,374	721,207
Due from banks and financial institutions	347,855	424	–	–	348,279
Loans to banks and financial institutions	6,039	–	1,361	5,611	13,011
Loans and advances to customers at amortized cost	579,927	605,773	369,602	365,436	1,920,738
Loans and advances to related parties at amortized cost	809	–	–	2,362	3,171
Debtors by acceptances	18,424	34,769	–	–	53,193
Financial assets at amortized cost	27,276	90,877	429,903	1,039,355	1,587,411
Total undiscounted financial assets	1,154,863	731,843	1,203,166	1,557,138	4,647,010
Financial liabilities					
Due to central bank	961	1,445	7,793	21,514	31,713
Due to banks and financial institutions	51,382	1,750	–	–	53,132
Deposits from customers	3,525,721	688,644	–	–	4,214,365
Deposits from related parties	11,541	–	–	–	11,541
Engagements by acceptances	18,424	34,769	–	–	53,193
Total undiscounted financial liabilities	3,608,029	726,608	7,793	21,514	4,363,944
Net undiscounted financial assets / (liabilities)	(2,453,166)	5,235	1,195,373	1,535,624	283,066

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

In millions of Lebanese Pound — **31 December 2015**

	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Financial guarantees	72,331	64,605	11,227	–	148,163
Documentary credits	15,622	9,668	–	–	25,290
Undrawn credit lines	2,449	24,222	11,714	–	38,385
	90,402	98,495	22,941	–	211,838

In millions of Lebanese Pound — 31 December 2014

	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Financial guarantees	51,353	79,913	7,147	–	138,413
Documentary credits	11,943	4,689	233	–	16,865
Undrawn credit lines	6,093	24,743	16,246	–	47,082
	69,389	109,345	23,626	–	202,360

The Bank expects that not all of the contingent liabilities or commitments will be demanded before maturity.

35.3 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market prices. Market risks arise from open positions in interest rate and currency rate, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates and foreign exchange rates.

Risk Management is responsible for generating internal reports quantifying the Bank's earnings at risk due to extreme movements in interest rates, while daily monitoring the sensitivity of the Bank's trading portfolio of fixed income securities to changes in market prices and / or market parameters. Interest rate sensitivity gaps are reported to executive management on a monthly basis. The Bank's Asset and Liability Management policy assigns authority for its formulation, revision and administration to the Asset / Liability Management Committee (ALCO) of the Bank. Risk Management is responsible for monitoring compliance with all limits set in the policy ranging from core foreign currency liquidity to liquidity mismatch limits to interest sensitivity gap limits.

35.3.1 Interest rate risk

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

Interest rate sensitivity

The following table analyses the sensitivity to a reasonably possible change in interest rates, with all other variables held constant of the Bank's comprehensive income.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at the year end, including the effect of hedging instruments.

In millions of Lebanese Pound — 31 December 2015

Currency	Increase in basis points	Sensitivity of net interest income
Lebanese Pound	200	(15,459)
United States Dollar	100	(6,255)
Euro	50	(89)

In millions of Lebanese Pound — 31 December 2014

Currency	Increase in basis points	Sensitivity of net interest income
Lebanese Pound	200	(12,991)
United States Dollar	100	(5,493)
Euro	50	(94)

A decrease in basis points will have an opposite effect on net interest income.

Interest sensitivity gap

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

In millions of Lebanese Pound — **31 December 2015**

	Up to 1 month	1 to 3 months	3 months to 1 year	(1-2) years	(2-5) years	More than 5 years	Non-interest sensitive	Total
ASSETS								
Cash and balances with central banks	–	–	–	113,063	375,368	140,075	188,444	**816,950**
Due from banks and financial institutions	52,867	82,912	–	5,898	–	–	208,227	**349,904**
Loans to banks and financial institutions	3,015	6,030	–	–	1,000	4,900	34	**14,979**
Financial assets at fair value through profit or loss	–	–	–	–	–	–	67,323	**67,323**
Loans and advances to customers at amortized cost	652,262	547,769	662,930	149,309	31,084	3,606	33,903	**2,080,863**
Loans and advances to related parties at amortized cost	5,165	–	–	–	–	–	–	**5,165**
Debtors by acceptances	7,416	16,082	6,383	–	–	–	–	**29,881**
Financial assets at amortized cost	–	3,000	119,255	113,302	164,613	1,508,745	26,292	**1,935,207**
Total	720,725	655,793	788,568	381,572	572,065	1,657,326	524,223	**5,300,272**
LIABILITIES								
Due to central bank	648	370	1,566	4,648	12,669	15,354	–	**35,255**
Due to banks and financial institutions	20,460	17,164	6,061	2,092	–	–	4,133	**49,910**
Due to banks under repurchase agreements	–	22,612	22,612	–	45,225	–	473	**90,922**
Deposits from customers	2,770,501	922,613	667,605	122	–	–	312,024	**4,672,865**
Deposits from related parties	8,919	2,890	183	–	–	–	–	**11,992**
Engagements by acceptances	7,416	16,082	6,383	–	–	–	–	**29,881**
TOTAL	2,807,944	981,731	704,410	6,862	57,894	15,354	316,630	**4,890,825**
Total interest rate sensitivity gap	(2,087,219)	(325,938)	84,158	374,710	514,171	1,641,972	207,593	**409,447**

In millions of Lebanese Pound — **31 December 2014**

	Up to 1 month	1 to 3 months	3 months to 1 year	(1-2) years	(2-5) years	More than 5 years	Non-interest sensitive	Total
ASSETS								
Cash and balances with central banks	14,053	36,180	–	–	401,749	140,075	129,150	**721,207**
Due from banks and financial institutions	72,912	52,621	423	–	–	–	222,323	**348,279**
Financial assets at fair value through profit or loss	–	–	–	–	–	–	57,454	**57,454**
Loans to banks and financial institutions	–	6,039	–	100	1,251	5,600	21	**13,011**
Loans and advances to customers at amortized cost	493,031	509,038	684,415	159,603	36,890	3,089	34,672	**1,920,738**
Loans and advances to related parties at amortized cost	3,171	–	–	–	–	–	–	**3,171**
Debtors by acceptances	–	–	–	–	–	–	53,193	**53,193**
Financial assets at amortized cost	21,248	5,150	89,356	142,132	281,775	1,027,920	19,830	**1,587,411**
Total	604,415	609,028	774,194	301,835	721,665	1,176,684	516,643	**4,704,464**
LIABILITIES								
Due to central bank	651	311	1,445	1,911	5,881	21,514	–	**31,713**
Due to banks and financial institutions	22,879	23,031	800	901	–	–	5,521	**53,132**
Deposits from customers	2,422,412	814,713	430,270	261,352	49	–	285,569	**4,214,365**
Deposits from related parties	11,541	–	–	–	–	–	–	**11,541**
Engagements by acceptances	–	–	–	–	–	–	53,193	**53,193**
TOTAL	2,457,483	838,055	432,515	264,164	5,930	21,514	344,283	**4,363,944**
Total interest rate sensitivity gap	(1,853,068)	(229,027)	341,679	37,671	715,735	1,155,170	172,360	**340,520**

35.3.2 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rate.

The Bank is allowed to maintain a net trading position not to exceed 1 percent of its net Tier 1 equity, as long as the global foreign position does not exceed, at the same time, 40 percent of net Tier 1 equity. This is subject to the Bank's commitment to comply in a timely and consistent manner with the required capital adequacy ratio.
The table below indicates the separate statement of financial position detailed in Lebanese Pound (LBP) and foreign currencies, translated into LBP.

In millions of Lebanese Pound — **31 December 2015**

		Foreign currencies in Lebanese Pounds				
	Lebanese Pound	US Dollars in	Euro in	Other foreign currencies	Total foreign currencies	Total
ASSETS						
Cash and balances with central banks	243,624	567,215	5,543	568	573,326	816,950
Due from banks and financial institutions	5,094	201,141	115,910	27,759	344,810	349,904
Financial assets at fair value through profit or loss	60,814	6,509	–	–	6,509	67,323
Loans to banks and financial institutions	5,917	9,062	–	–	9,062	14,979
Loans and advances to customers at amortized cost	368,203	1,641,269	59,967	11,424	1,712,660	2,080,863
Loans and advances to related parties at amortized cost	2,785	2,349	23	8	2,380	5,165
Debtors by acceptances	–	23,455	6,426	–	29,881	29,881
Financial assets at amortized cost	1,015,618	901,743	17,846	–	919,589	1,935,207
Investment in a subsidiary	–	–	–	6,320	6,320	6,320
Property and equipment	50,650	–	138	–	138	50,788
Assets obtained in settlement of debt	495	25,558	–	–	25,558	26,053
Other assets	5,091	1,087	47	58	1,192	6,283
TOTAL ASSETS	1,758,291	3,379,388	205,900	46,137	3,631,425	5,389,716
FINANCIAL LIABILITIES						
Due to central bank	35,255	–	–	–	–	35,255
Due to banks and financial institutions	16,589	31,554	1,750	17	33,321	49,910
Due to banks under repurchase agreements	–	90,922	–	–	90,922	90,922
Deposits from customers	1,456,888	2,981,216	198,299	36,462	3,215,977	4,672,865
Deposits from related parties	6,302	5,072	595	23	5,690	11,992
Engagements by acceptances	–	23,455	6,426	–	29,881	29,881
Other liabilities	7,602	1,495	28	–	1,523	9,125
Provisions for risks and charges	7,182	–	–	–	–	7,182
Total liabilities	1,529,818	3,133,714	207,098	36,502	3,377,314	4,907,132
NET EXPOSURE	228,473	245,674	(1,198)	9,635	254,111	482,584

In millions of Lebanese Pound — **31 December 2014**

		Foreign currencies in Lebanese Pounds				
	Lebanese Pound	US Dollars in	Euro in	Other foreign currencies	Total foreign currencies	Total
ASSETS						
Cash and balances with central banks	211,803	498,469	8,552	2,383	509,404	721,207
Due from banks and financial institutions	4,518	247,750	78,458	17,553	343,761	348,279
Financial assets at fair value through profit or loss	54,439	3,015	–	–	3,015	57,454
Loans to banks and financial institutions	6,972	6,039	–	–	6,039	13,011
Loans and advances to customers at amortized cost	343,757	1,528,168	39,773	9,040	1,576,981	1,920,738
Loans and advances to related parties at amortized cost	2,552	602	12	5	619	3,171
Debtors by acceptances	–	50,509	2,581	103	53,193	53,193
Financial assets at amortized cost	871,551	695,986	19,874	–	715,860	1,587,411
Investment in a subsidiary	–	–	–	6,320	6,320	6,320
Property and equipment	49,311	–	196	–	196	49,507
Assets obtained in settlement of debt	494	26,509	–	–	26,509	27,003
Other assets	4,649	1,192	51	58	1,301	5,950
TOTAL ASSETS	1,550,046	3,058,239	149,497	35,462	3,243,198	4,793,244
FINANCIAL LIABILITIES						
Due to central bank	31,713	–	–	–	–	31,713
Due to banks and financial institutions	12,882	33,782	6,460	8	40,250	53,132
Deposits from customers	1,231,985	2,813,734	140,025	28,621	2,982,380	4,214,365
Deposits from related parties	7,169	4,100	241	31	4,372	11,541
Engagements by acceptances	–	50,509	2,581	103	53,193	53,193
Other liabilities	9,218	1,260	17	–	1,277	10,495
Provisions for risks and charges	6,684	–	–	–	–	6,684
Total liabilities	1,299,651	2,903,385	149,324	28,763	3,081,472	4,381,123
NET EXPOSURE	250,395	154,854	173	6,699	161,726	412,121

Bank's sensitivity to currency exchange rates

The table below shows the currencies to which the Bank has significant exposure at 31 December 2015 and 2014 on its monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Lebanese Pound, with all other variables held constant, on the income statement (due to the potential change in fair value of currency sensitive monetary assets and liabilities). A negative amount reflects a potential net reduction in income while a positive amount reflects a net potential increase.

In millions of Lebanese Pound

Currency	Change in currency rate %	2015 Effect on profit before tax	2014 Effect on profit before tax
US Dollar	5	**(12,284)**	(7,743)
Euro	5	**60**	(9)
Other currencies	5	**(482)**	(335)

Prepayment risk

Prepayment risk is the risk that the Bank incurs a financial loss because its customers and counterparties repay or request repayment earlier than expected, such as fixed rate housing loans when interest rates fall. The fixed rate financial assets of the Bank are not significant compared to the total assets. Moreover, other market conditions causing prepayment are not significant in the markets in which the Bank operates. Therefore, the Bank considers the effect of prepayment on net interest income as not material after taking into account the effect of any prepayment penalties.

35.4 Operational risk

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

36. CAPITAL MANAGEMENT

By maintaining an actively managed capital base, the Bank'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 Bank's capital is monitored using, among other measures, the rules and ratios established by the Central Bank of Lebanon of Basic Circular No 44 and related amendments (latest in March 2014). These ratios measure capital adequacy by comparing the Bank's eligible capital with its statement of financial position assets and off-financial position commitments at a weighted amount to reflect their relative risk. To satisfy Basel III capital requirements, the Central Bank of Lebanon requires maintaining a ratio of total regulatory capital to risk-weighted assets at or above 12% to be achieved in 2015. Additionally, Common Equity tier 1 Ratio should increase to 8% and the Tier 1 ratio to 10%.

In millions of Lebanese Pound

	2015	2014
Risk weighted assets:		
Credit risk	**3,210,057**	2,830,583
Market risk	**83,509**	67,648
Operational risk	**170,722**	151,362
Total risk weighted assets	**3,464,288**	3,049,593

The capital base as per Basel III requirements as of 31 December is as follows:

In millions of Lebanese Pound

	Excluding net income for the year		Including net income for the year less proposed dividends	
	2015	2014	2015	2014
Tier 1 Capital	**393,148**	335,767	**431,279**	369,499
Tier 2 Capital	**1,904**	1,904	**1,904**	1,904
Total Capital	**395,052**	337,671	**433,183**	371,403

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities.

The capital adequacy ratio as of 31 December is as follows:

In millions of Lebanese Pound

	Excluding net income for the year		Including net income for the year less proposed dividends	
	2015	2014	2015	2014
Capital adequacy – Tier 1	**11.35%**	11.01%	**12.45%**	12.12%
Capital adequacy – Total Capital	**11.40%**	11.07%	**12.50%**	12.18%

37. SUBSEQUENT EVENT

On 26 February 2016 the Board of Directors approved the sale of 500,000 shares owned by the Bank which represent 12.5% of the shares of CSC Bank SAL, thus decreasing the ownership of the Bank from 39% to 26.5%.

The Bank's profit realized in 2016 on this transaction amounted to USD 3.6 Million approximately. This transaction is still subject to the approval of the Central Bank of Lebanon as per article 4 of Law 308/2001 which regulates the trading of bank's shares.

LIST OF MAJOR CORRESPONDENTS

NORTH AMERICA

United States of America
. The Bank of New York Mellon
. Standard Chartered Bank
. Deutsche Bank Trust company Americas

Canada
. Bank of Montreal

SOUTH AMERICA

Brazil
. Banco Santander (Brasil) SA
. Banco Safra SA

EUROPE

Austria
. Unicredit Bank Austria AG

United Kingdom
. Barclays Bank PLC
. Standard Chartered Bank

Germany
. Commerzbank AG
. Deutsche Bank AG
. The Bank of New York Mellon

France
. Natixis
. Banque Fédérative du Crédit Mutuel – BFCM

Switzerland
. Banque de Commerce et de Placements SA

Belgium
. KBC Bank N.V

Italy
. Intesa Sanpaolo SPA
. Unicredit SpA
. Banca UBAE SPA

Spain
. Banco de Sabadell S.A.
. CaixaBank

Denmark
. Danske Bank A/S
. Saxo Bank A/S

Sweden
. Skandinaviska Enskilda Banken AB

Poland
. Bank Polska Kasa Opieki SA
. Powszechna Kasa Oszczednosci Bank Polski SA

Greece
. National Bank of Greece SA
. Piraeus Bank SA

Cyprus
. National Bank of Greece (Cyprus) Ltd

Finland
. Danske Bank PLC
. Skandinaviska Enskilda Banken AB (Publ)

Turkey
. Turkiye Is Bankasi AS
. A&T Bank
. Turkiye Garanti Bankasi AS
. Yapi Ve Kredi
. Turkland Bank
. Turkiye Finans Katilim Bankasi

AUSTRALIA

Australia
. Westpac Banking Corporation
. Bank of Sydney

ASIA

Japan
. Sumitomo Mitsui Banking Corporation

China
. Bank of China Limited LTD
. Industrial and Commercial Bank of China LTD

Pakistan
. Habib Bank Limited

Philippines
. Philippines National Bank

Hong Kong
. Standard Chartered Bank (Hong Kong) Limited
. The Bank of New York Mellon

Indonesia
. Deutsche Bank AG

India
. Indian Overseas Bank
. Mashreqbank PSC
. Canara Bank

Korea
. KEB Hana Bank

Sri lanka
. Bank of Ceylon

Malaysia
. Malayan Banking Berhad

Taiwan
. Mega International Commercial Bank Co Ltd
. The Bank of New York Mellon

Thailand
. Export-Import Bank of Thailand
. Deutsche Bank AG

Veitnam
. Asia Commercial Joint Stock Bank
. Veitnam Export Import Commercial Joint Stock Bank

U.A.E.
. Mashreqbank PSC
. Emirates NBD
. Al Khaliji France SA
. National Bank of Abu Dhabi

Bahrain
. Mashreqbank PSC
. Ahli United Bank BSC
. The Housing Bank for Trade & Finance

Jordan
. The Housing Bank for Trade & Finance

Kuwait
. Burgan Bank SAK
. The Gulf Bank K.S.C.

Qatar
. Doha Bank
. Qatar National Bank SAQ

Saudi Arabia
. The National Commercial Bank

AFRICA

Ethiopia
. Commercial Bank of Ethiopia
. Dashen Bank SC

Morocco
. Banque Marocaine du Commerce Exterieur SA
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