CEDRUS BANK

ANNUAL REPORT 2016

Cedrus Group has emerged as one of Lebanon's most dynamic and fastest growing banking groups, offering personalized services and bespoke solutions to its clients.
Cedrus Group offers a complete range and best-of-class banking services ranging from wealth management, capital markets, private equity and investment banking, to retail and commercial banking, addressing high-net-worth individuals, family offices, and corporate entities in the Middle East and North Africa(MENA) region as well as the retail and SMEs sectors.

Our Yearly Numbers, Honestly Yours

CONTENT

'On behalf of the Boards of Directors of CIB and CB, I would like to thank our management and staff for their commitment and dedication throughout 2016. Whilst the year presented the global economy with many new challenges, the Group enjoyed strong and stable growth across all business lines.'

CHAIRMAN MESSAGE

Dear Stakeholders,

Despite the challenging geopolitical environment, Cedrus Group was able to achieve steady, stable growth throughout 2016 across Cedrus Invest and Cedrus Bank. Pursuing efficiencies after the acquisition of the Lebanese operations of Standard Chartered Bank SAL commercial and retail banking in February 2015, enabled Cedrus Bank to start 2016 in robust shape and a healthy balance sheet.
Our strategy of focusing on core clients at Cedrus Invest, whilst pursuing growth in retail and commercial lending at Cedrus Bank, led the group to achieve significant evolution in its total assets, operating income, customer deposits, off-balance sheet business including assets under management and net profit by year end 2016.

GLOBAL ECONOMIC REVIEW

2016 was characterized by contradictory economic patterns. The global economy grew modestly by just under 3%, during a period of significant political uncertainty in the US while the Chinese markets stabilized after a rocky 2015. The Eurozone continued to struggle economically, weighed down by sluggish growth in southern European countries, high unemployment and the shock of the UK's decision to leave the EU. In addition, growth slowed in sub-Saharan Africa, largely due to low oil and commodity prices. We also saw oil prices stabilize and steadily rise towards the end of the year, reaching $54 p/b at year close.
More relevant is the unstable regional geopolitical and economic setting in the Middle East. This unsteadiness coupled with lower Oil and Energy prices have placed rising pressure on our operational environment. In the face of all those factors and the drop in oil prices, GCC countries maintained a strong growth which rose from 1.8% in 2015 to around 3% - with the UAE faring better than its neighbors.
For Lebanon, economic growth slowed to around 1% in 2016. October political developments however brought back a much-needed sense of stability. After two years of political impasse, the elected country's 12th President, Gen. Michel Aoun along with PM Saad Hariri formed the new government. Lebanon's cabinet also approved its first budget in 12 years in Q1 2017, marking a crucial step towards political and economic normalcy.
Looking ahead, global growth trends in 2017 will likely be similar to 2016 but much rests on the Chinese economy, global consumption and investor sentiment in the emerging markets.
Regional factors are expected to continue weighing on our operational conditions.

GROUP FINANCIAL OVERVIEW

Despite all exogenous challenges, The Group's financials have shown a healthy growth stream. Total operating revenue for the Group grew to $26.4 million, up from $16.4 million in 2015, total assets grew to $526.9 million, up from $365.8 million in 2015, with a Total Equity of $121.2 million. The year 2017 is expected to witness additional substantial growth in the financial standing of Cedrus Group with a major capital increase expected to be finalized during the first half of 2017.

ACKNOWLEDGEMENTS

Finally, the stable, steady growth enjoyed by the Group in 2016 was made possible by an engaged Board of Directors, diligent management and dedicated employees at every level of the organization. Their combined efforts allowed Cedrus Group to protect the interests of its shareholders by strengthening its capital base and enlarging its business reach during uncertain economic times.
I invite you all to continue following up on our success story and I am sure my fellow colleagues will enjoy the ride.

Honestly Yours,

Fadi Assali
Chairman, General Manager

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AT A GLANCE & FINANCIAL HIGHLIGHTS

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CEDRUS GROUP FINANCIAL HIGHLIGHTS

- Total operating revenue grew to $26.4 million, up from $16.4 million in 2015
- YOY total assets grew to $526.9 million, up from $365.8 million in 2015
- Total equity rose by 8%, reaching $121.2 million in 2016
- Equity increased by 143% in the first 5 months of 2017 reaching around $300 million
- Total profit reached USD 7.4 million in 2016

CEDRUS BANK

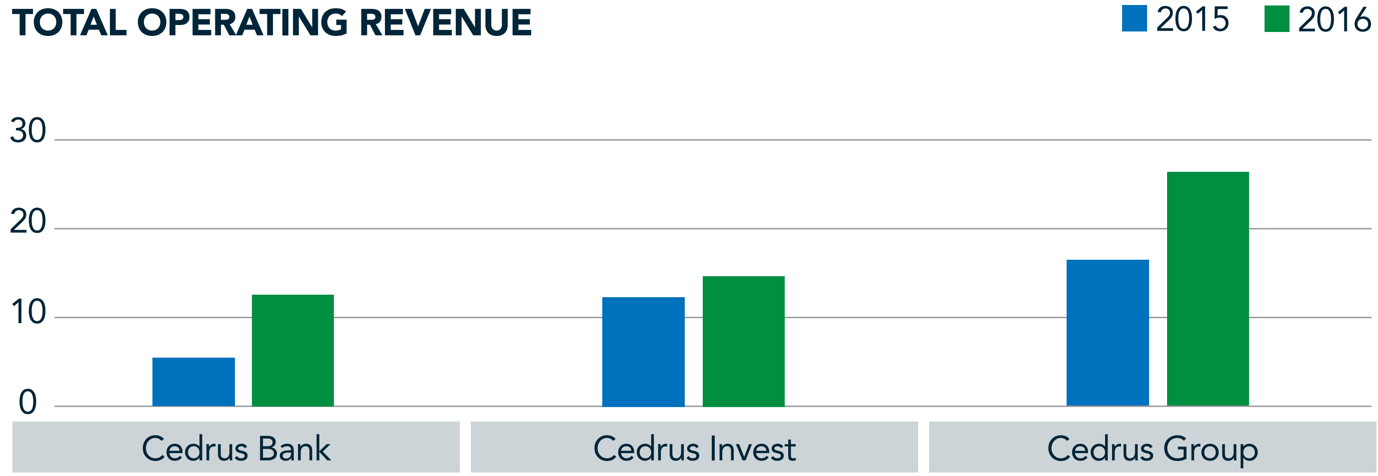
Customer deposits increased by 173% post-acquisition (February 2015 – December 2016), from $77 million to $210 million; whilst 2016 YOY deposits grew by 46%. The balance sheet grew by almost three times from the acquisition date (February 2015) and by 65% for the full financial year 2016.

Loans and advances to customers grew by 69% during 2016 from $38 million to $64 million. The Bank's Home Loan and Corporate Loan platforms were not launched until the end of Q1 2016 and the Bank anticipates that loan advances will grow by over 200% YOY by year end 2017.

CEDRUS INVEST BANK

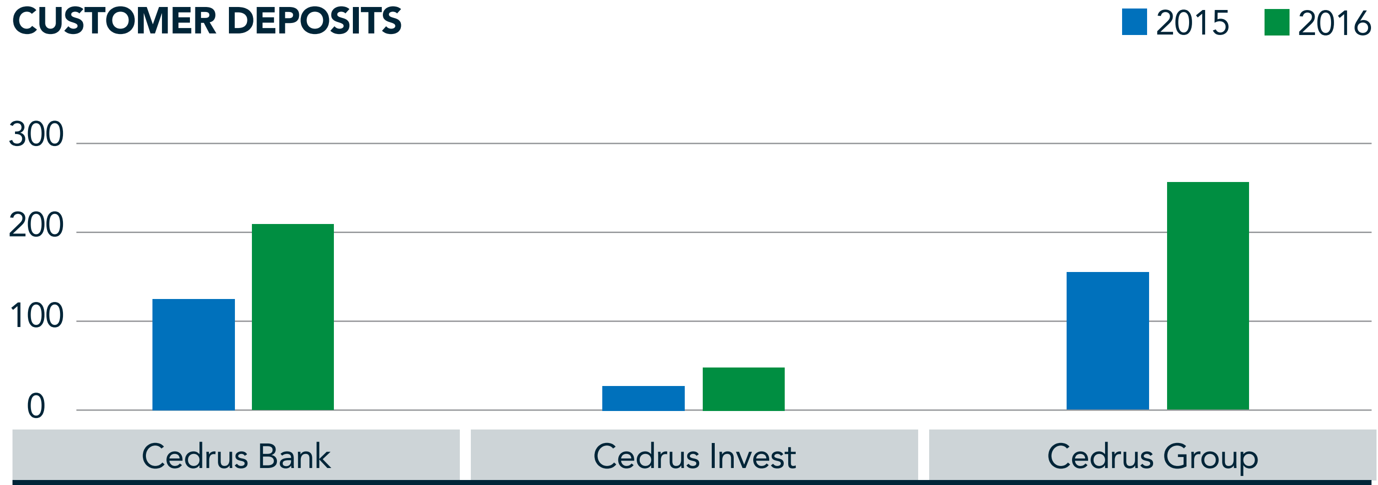
Cedrus Invest saw steady profit growth of 18% during 2016 reaching $7.12 million. Financial instruments grew by 63.6% during 2016, from $44 million to $72 million, whilst the Off-Balance Sheet business reached around $1 billion.

TOTAL OPERATING REVENUE



TOTAL OPERATING REVENUE		
USD, Mio	**2015**	**2016**
Cedrus Bank	5.53	12.45
Cedrus Invest	12.17	14.68
Cedrus Group	16.43	26.45

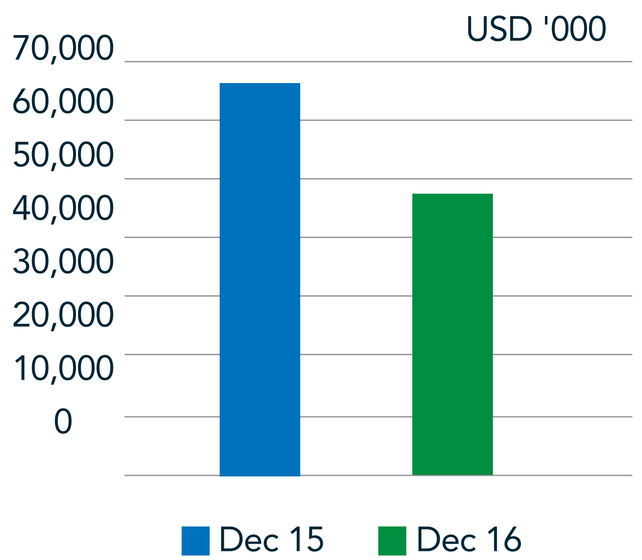
CUSTOMER DEPOSITS



CUSTOMER DEPOSITS		
USD, Mio	**2015**	**2016**
Cedrus Bank	125.47	209.97
Cedrus Invest	29.64	47.09
Cedrus Group	155.48	257.07

CEDRUS BANK SAL - ADVANCES TO CUSTOMERS

	USD '000
Total Retail Loans	36,738
Total Commercial & SME Loans	29,177



	USD '000
Dec-15	65,916
Dec-16	38,388

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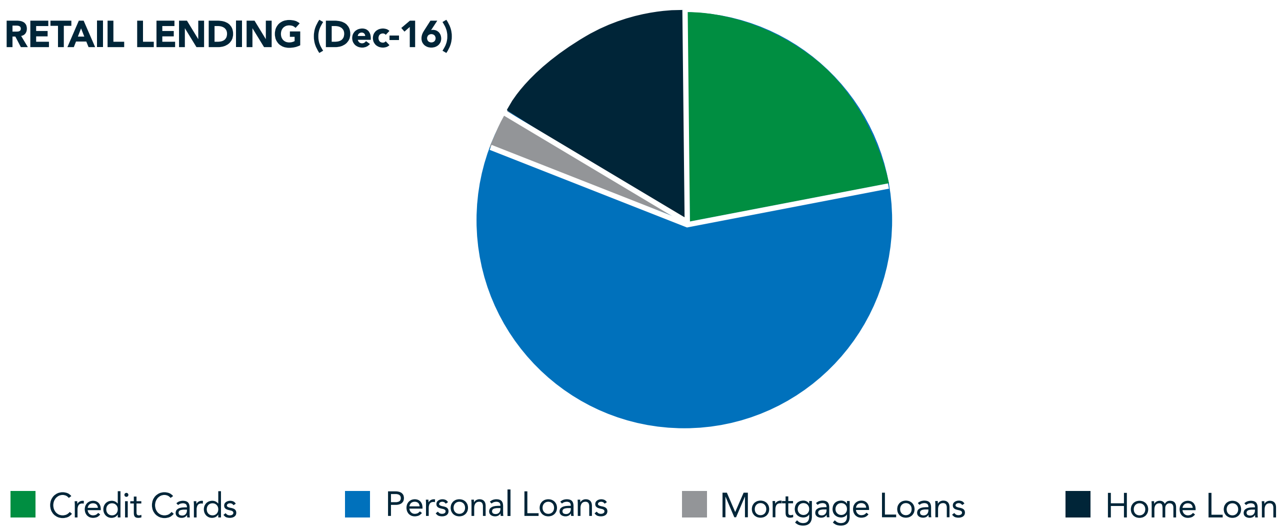
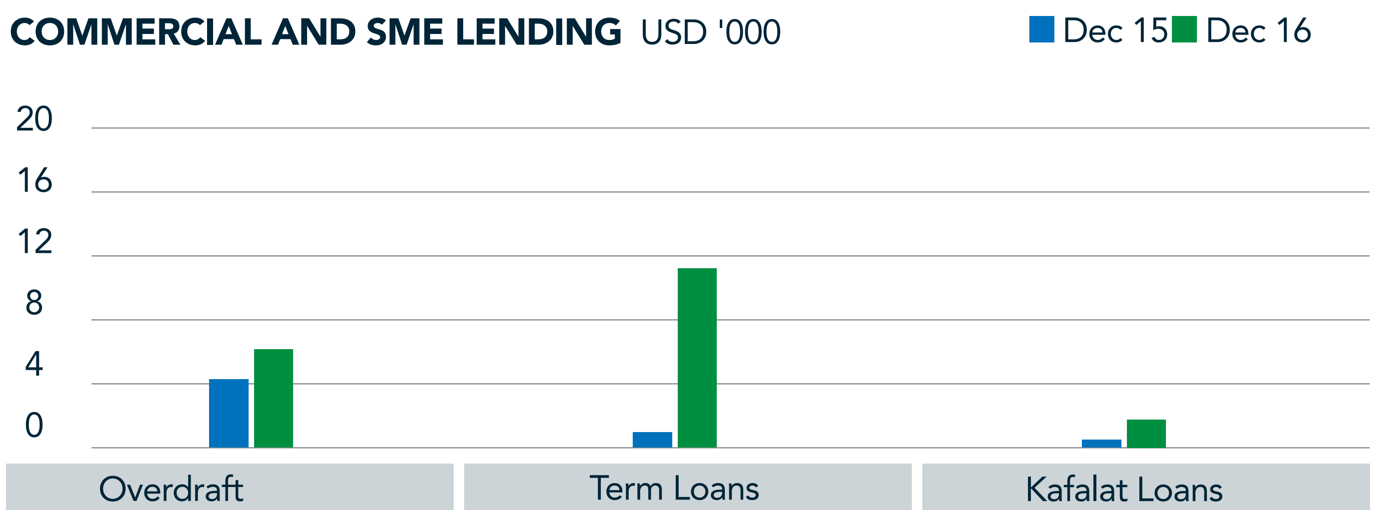
RETAIL LENDING (Dec-16)



RETAIL LENDING	
USD,000	**Dec-16**
Credit Cards	8,171
Personal loans	21,667
Car Loans	0
Mortgage Loans	695
Home Loan	6,206
Total Retail Loans	36,738

COMMERCIAL AND SME LENDING USD '000



COMMERCIAL LENDING		
USD,000	**Dec-15**	**Dec-16**
Overdraft	4,197	16,171
Term Loans	1,084	11,021
Kafalat Loans	519	1,984

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BOARD OF DIRECTORS **& SENIOR MANAGEMENT**

BOARD OF DIRECTORS

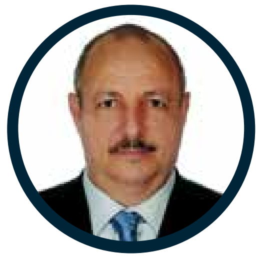
Cedrus Invest Bank and Cedrus Bank Board of Directors consist of eight and seven members respectively.

CEDRUS INVEST BANK

Mr. Fadi Assali
Chairman - General Manager

Mr. Raed Khoury
Executive Member

Mr. Ibrahim Al Jammaz
Non-Executive Member



Mr. Elias Abou Farhat
Non-Executive Member

Mr. Michel Tanios Choueiry
Independent Member

Dr. Ghassan Ayache
Independent Member

Mr. Assad Razzouk
Independent Member

Mr. Ghazi Youssef
Independent Member

CEDRUS BANK

Mr. Fadi Assali
Chairman - General Manager

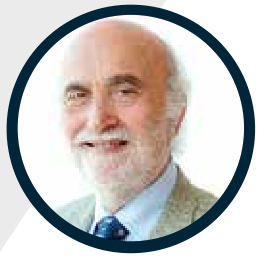
Mr. Nicolas Chammas
Vice Chairman

Mr. Raed Khoury
Non-Executive Member

Mr. Michel Nasri Choueiry
Executive Member

Dr. Ghassan Ayache
Independent Member

Mr. Antoine Gougassian
Independent Member



Mr. George Atik*
Non-Executive Member

* (elected on 22/6/2017 and awaiting regulatory approval)

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MANAGEMENT COMMITTEE

The Management Committee's primary role for each bank is to assist the respective Board of Directors in setting the Group's strategy and monitor its implementation. The Committee's responsibilities include helping to define the Group's long-term goals and strategy, review risk exposure in coordination with the Risk Management department, assist in reviewing the Group's budget and business plans; and sub-delegate across the Group.

CEDRUS INVEST BANK MANAGEMENT COMMITEE:

Fadi Assali	Chairman – General Manager
Nada Hitti	Assistant General Manager – Chief Financial Officer
Emile Albina	Assistant General Manager – Investment Advisory & Multi Family Office
Louis Karam	Director - Head of Dealing Room
Bassel Barbir	Director Fixed Income
Christelle Wakim	Head of Compliance
Simon Abdallah	Head of Risk Management
Ghassan Jalbout	Director - Head of Investment Advisory

CEDRUS BANK MANAGEMENT COMMITTEE:

VOTING MEMBERS		
Fadi Assali	Chairman- General Manager	Committee Chairman
Michel Nasri Choueiry	Executive Director - Assistant General Manager	Deputy Committee Chairman
Raoul Cherfane	Assistant General Manager – Branches	Member
Charbel Gharios	Assistant General Manager – Treasury & Correspondent Banks	Member
Jacqueline Melhem	Head of Human Resources	Member
Elie Barakat	Chief Information Officer	Member
Joseph Azar	Deputy Head of Commercial Banking	Member
Karim Badreddine	Acting Head of Retail Banking	Member
Rony Farah	Head of Finance	Member
May Diab	Deputy Head of Operations	Member
NON VOTING MEMBERS		
Tony Fenianos	Chief Risk Officer	Member
Joumana Rizk	Head of Compliance	Member

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CORPORATE GOVERNANCE

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Cedrus Group adopts a comprehensive Corporate Governance framework that is now considered to be the new benchmark in the country. Our governance code comprises a number of pillars: corporate discipline, transparency, accountability, succession planning, disclosure and social responsibility amongst others.
Clients looking for a bank with an entrepreneurial spirit similar to their own will find in our bank a dependable and highly capable partner.

The main pillars of Cedrus Group's Corporate Governance approach are:

CORPORATE DISCIPLINE

The Group is committed to adhering to behaviors that are universally recognized and accepted to be correct and proper. This encompasses the awareness of, and commitment to, the underlying principles of good governance, particularly at the Senior Management Level.

TRANSPARENCY

All information relating to the Group's operations is made available to its stakeholders in a candid, accurate and timely manner, ensuring that the media, investors and shareholders have immediate and unfettered access to pertinent information.

ACCOUNTABILITY

Cedrus Group has implemented policies that hold decision makers accountable; ensuring that investors have the means to query and assess the actions of the Boards and its committees.

SUCCESSION PLANNING

The CEO and Senior Management of the Group are responsible for ensuring that a robust, up-to-date and effective succession plan is always in place, indicating at least one successor for every Senior Managerial position within the Group

DISCLOSURE

It is the Group's policy to present its financial statements and associated disclosures in accordance with International Financial Reporting Standards (IFRS). The Group's Board of Directors and internal Audit Committee are responsible for ensuring that all financial statements are audited by an external, independent auditing companies and made available to the relevant stakeholders.

SOCIAL RESPONSIBILITY

The Group is committed to ethical standards of governance and is in full compliance with all requisite laws concerning the environment and the communities where it operates.

BOARD OF DIRECTORS

Cedrus Invest Bank and Cedrus Bank's Board of Directors have overall responsibility for directing the Group's affairs, to create and preserve value through the Group's operations, and to consider the shareholders and other stakeholders interests. Cedrus Invest Bank and Cedrus Bank's Board of Directors consist of eight and six Board Members respectively, of which four are Non-Executive and three are Independent Members. The Board of Cedrus Bank has overall responsibility for directing the Group's affairs, to create and preserve value through the Group's operations, and to consider the shareholders' interests. The Board is also responsible for making delegations to the management, including the definition, scope, frequency and nature of powers.

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THE BOARD COMMITTEES

THE BOARD REMUNERATION COMMITTEE

This Committee exercises competent and independent judgment on the Bank's compensation policies and practices and the incentives they create. The responsibilities of this committee are mainly to:

1 Approve, and oversee the implementation, design and functioning of the Bank's compensation system.

2. Ensure that the compensation system is appropriate and consistent with the following:

a. The Bank's overall culture.

b. The Bank's long-term business objectives.

c. The Bank's risk appetite.

d. The Bank's performance.

e. The Bank's control environment.

f. The legal and regulatory requirements.

3. Analyze the responsibilities, knowledge, experience, and competencies of the Board members with their respective roles.

4. Assist in the assessment of the effectiveness of the Board and the Senior Management.

THE BOARD AUDIT COMMITTEE

The Board Audit Committee assists the Board of Directors in fulfilling its duties and supervisory role regarding the requirements of internal control and internal audit stipulated in the relevant regulations and recommendations issued by Banque du Liban and the Banking Control Commission, particularly in terms of:

1. Competence and autonomy of the external auditors and of the Internal Audit Unit specified in Basic Decision No 7737 of December 2000 ,15.

2. Control of financial statements' soundness, and review of the disclosure standards adopted by the bank.

3. Efficiency and effectiveness of internal control regulations and procedures.

4. Follow-up of the implementation of remedial measures proposed in the reports of the Unit, the control authorities and the external auditors.

5. Monitoring the bank's compliance with the regulations and recommendations issued by Banque du Liban and the Banking Control Commission.

THE BOARD RISK COMMITTEE

The Board Risk Committee shall be in charge of assisting the Board in managing the Bank's capital, liquidity, and the various risks to which the Bank is, or may be, exposed, including: credit risk, market risk, operational risk, legal risk, compliance risk, and reputational risk. Its main responsibilities are the following:

1. Recommend to the Board the bank's risk appetite.

2. Advise the Board on the bank's overall current and future risk tolerance/appetite and strategy.

3. Review the Bank's risk policies.

4. Oversee the implementation of the risk management rules as detailed in the regulations issued by the Central Bank of Lebanon and the Banking Control Commission.

5. Oversee the implementation of the Bank's risk strategy and policies by the Senior Management.

THE BOARD AML/CFT COMMITTEE

This Committee ensures the presence of an effective and efficient control environment to protect the bank against risks of money laundering and terrorism financing. This is only possible through the implementation of a robust compliance program. The responsibilities of this committee are mainly to:

- Review the reports submitted by the Compliance and Internal Audit units on adopted procedures, unusual operations, high risk accounts etc.
- Review the reports submitted by the Compliance Unit to the Special Investigation Commission regarding suspicious accounts and/or suspicious operations
- Review the External Audit reports related to compliance and the corrective actions taken in this regard
- Review and approve the Compliance Program
- Review and approve the AML/CFT manual
- Review the KYC Forms (Know you Client) submitted by the Compliance Unit
- Support the Board of Directors in its functions and supervisory role in fighting money laundering and terrorism financing
- Assist the Board of Directors in taking the appropriate decisions with regards to fighting money laundering and terrorism financing

MEMBERSHIPS OF THE BOARD COMMITTEES:

CEDRUS INVEST BANK

		Committees			
Name	**BOD Type**	**Audit**	**Risk**	**Remuneration**	**AML/CFT**
Fadi Mousbah Assali	Chairman		Member		Member
Raed Fouad Khoury	Executive		Member		Member
Ghazi Ali Youssef	Independent	Chairman		Member	
Michel Tanios Choueiry	Independent				Chairman
Assaad Wajdi Razzouk	Independent		Chairman	Chairman	
Ghassan Chafic Ayache	Independent	Member			Member
Ibrahim Abdel Aziz Jammaz	Non-Executive	Member		Member	
Elias Farhat Abou Farhat	Non-Executive		Member		

CEDRUS BANK

		Committees			
Name	**BOD Type**	**Audit**	**Risk**	**Remuneration**	**AML/CFT**
Fadi Mosbah Assali	Executive		Member		Member
Nicolas Elie Chammas	Non-Executive	Member			
Raed Fouad Khoury	Non-Executive	Member	Member	Member	Member
Ghassan Chafic Ayache	Independent		Chairman	Member	Chairman
Antoine Jean-Jack Gougassian	Independent	Chairman		Chairman	
Georges Atik	Non-Executive				
Michel Nasri Choueiry	Executive		Member		Member

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THE MANAGEMENT COMMITTEES

OPERATIONAL RISK COMMITTEE

This Committee ensures the effective management of Operational Risk throughout the Bank in accordance with the risk directives and limits set by the Board of Directors.

It ensures the effective implementation of the Operational Risk policies and procedures and ensures that operational risk identification, measurement, and monitoring techniques, systems, and resources are in place.

The Committee also ensures that all operational incidents are reported in an accurate, exhaustive, and timely manner to the Operational Risk Department and:

1 Major operational risks are reported to the Board of Directors in a timely manner.

2. Appropriate and efficient controls, mitigations, or transfers of risks are in place.

3. Appropriate action is taken in response to material events, risk issues.

PROCEDURES APPROVAL COMMITTEE

This Committee ensures the presence and proper update of a set of policies and procedures that covers the whole spectrum of services, products and other workflows carried out by the Bank in line with the applicable laws and regulations, and that they preserve efficiency and effectiveness of operations while maintaining a control environment in line with the Bank's risk appetite.

ALCO

The role of the Asset & Liability Committee (ALCO) is to maintain a strong balance sheet (Capital + Liquidity) which supports business objectives and to comply with regulatory requirements.

It ensures the efficient implementation of balance sheet management policies as directed by the Board of Directors (BOD), and reviews reports on liquidity, market risk and capital management and ensures adherence to applicable limits, policies and regulatory requirements.

The Committee also:

a. Identifies balance sheet management issues that are leading to under-performance and refers those that cannot be resolved to BOD.

b. Ensures business activity is consistent with the structural integrity of the balance sheet.

c. Manages the balance sheet efficiently taking a forward-looking view of changes to economic, regulatory and competitive actions.

d. Reviews asset and deposit pricing strategy

MANAGEMENT COMMERCIAL CREDIT COMMITTEE

This Committee is authorized to decide on all direct and indirect commercial and business credit exposures with all types of borrowers and counterparties.

MANAGEMENT RETAIL CREDIT COMMITTEE

This Committee is authorized to decide on all direct and indirect credit exposures with individuals for financing needs that are personal, related to housing, and similar.

AML/CFT COMMITTEE

This Committee prepares and ascertains proper implementation of policies and procedures to implement the provisions of the Law on Fighting Money Laundering and Counter Terrorism Financing, and the requirements issued by the Regulatory Authorities.

It also reviews the reports submitted by the Compliance Unit and the Internal Audit Unit on adopted procedures, unusual operations and high-risk accounts, regarding cash deposits and withdrawals, and transfers, and the links between these operations and economic activities.

This Committee is responsible to Inform the Special Investigation Commission of any suspect operations which have occurred on clients' accounts.

INFORMATION SECURITY COMMITTEE

This Committee assists the Board and Management in fulfilling their responsibilities by overseeing and reviewing the internal controls to protect information and proprietary assets, and the IT governance structure, including related risk policies.

The committee also reviews and appraises the Bank's IT security governance structure, key policies and critical risk tolerances adopted.

HR COMMITTEE

This Committee discusses Talent Management procedures and processes when required and escalates any people risk and potential impact on the business to the members, and if required to Risk.

It develops and implements training and education strategies for the organization's employees, relevant to their specific needs and ensures a proper Individual Learning Development Plan (ILDP) is set to each employee.

This Committee also reviews staff assignment in critical roles and agrees on succession plans to be in place.

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THE MANAGEMENT COMMITTEES – CIB

		Information Security Committee	AML/CFT Committee	ALCO	Investment Committee	Operational Risk Committee	Credit Committee
Fadi Assali	Chairman - General Manager	Chairman	Chairman	Chairman	Chairman	Chairman	Chairman
Nada Hitti	Assistant General Manager - Chief Financial Officer	Member	Member	Member	Member	Member	Member
Emile Albina	Assistant General Manager – Investment Advisory & Multi Family Allowances		Member	Member	Member		Member
Elie Barakat	Group Chief Information Officer	Member					
Charbel Gharios	Assistant General Manager – Group Treasury & Financial Institution			Member			
Louis Karam	Director - Head of Dealing room			Member	Member	Member	Member
Ghassan Jalbout	Director - Head of Risk Management			Member	Member		
Simon Abdallah	Head of Risk Management	Member	Member	Member	Member	Member	Member
Christelle Wakim	Head of Compliance	Member	Member	Member	Member	Member	Member
Malake Halabi	Head of Back Office		Member			Member	Member
Ziad El Hout	Head of Internal Audit	Member	Member			Member	
Daniel Koberssi	Senior Officer - IT Security	Member					

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THE MANAGEMENT COMMITTEES – CB

		HR Committee	Information Security Committee	AML/CFT Committee	Management Retail Credit Committee	Management Commercial Credit Committee	ALCO	Procedures Approval Committee	Operational Risk Committee
Fadi Assali	Chairman- General Manager	Member	Chairman	Chairman	Chairman	Chairman	Chairman	Chairman	Chairman
Michel Choueiry	Board of Directors - Assistant General Manager	Member	Member	Member	Member	Member	Member	Member	Member
Raoul Cherfane	Assistant General Manager - Branches	Member		Member	Member	Member	Member	Member	Member
Jacqueline Melhem	Head of Human Resources	Chairman							Member
Elie Barakat	Chief Information Officer		Member						Member
Karim Badreddine	Acting Head of Retail Banking			Member	Member		Member		Member
Charbel Gharios	Assistant General Manager Treasury & Financial Institution						Member		
Rony Farah	Head of Finance						Member		Member
May Diab	Deputy Head of Operations		Member	Member					Member
Tony Fenianos	Chief Risk Officer	Member	Member	Member	Member		Member	Member	Alternate Chairman
Joumana Rizk	Head of Compliance			Deputy Chairman				Member	Member
Fadi Nahra	Head of Internal Audit		Member	Member				Member	Member
Bedros Amoghlian	Head of Organization & Planning							Deputy Chairman	
Francoise Lebnan	Head of Operational Risk		Member						Member
Hisham Salameh	Head of Information Technology		Member						
Ziad Saarti	Head of Sales				Member				
Daniel Koborsi	Information Technology Security Officer		Member						
Sally Ayoub	Retail Credit Risk Head				Member				

/04 RISK

"Our risk culture is central to the successful delivery of our strategic objectives."

The risk environment in which the Group operates changes continuously, caused by a range of factors, from the transactional level to macroeconomic and political events, both on the national and regional levels. The risk environment therefore requires ongoing monitoring and assessment.
Accordingly, appropriate risk management practices are in continuous development in both Cedrus Invest Bank and Cedrus Bank, and the enhancement of the Risk Culture is constant.

The focus risk management principles in both banks are:
- The Boards of Directors, through the Board Risk Committees and other delegated Committees (such as the Credit Committees, the ALCOs, and the Operational Risk Committees) maintain overall responsibility for risk oversight within each Bank and within the Group as a whole.
- The risk management approach is premised on three lines of defense:
  1. The risk-taking business units:
     They are responsible for the day-to-day management of risks inherent, in their business activities
  2. The risk control units:
     They are responsible for setting-up the risk management frameworks and developing tools and methodologies for the identification, measurement, monitoring, control and testing of all risks.
  3. The Internal Audit:
     The Internal Audit function provides independent assurance of the effectiveness of the risk management approach.

The Risk Management teams in each Bank are functionally and organizationally independent of the Business Units and the other risk-taking units within each Bank. Those teams, including the Chief Risk Officer and several experienced Risk Managers and Officers, assume the independent responsibility of reviewing and issuing recommendations on all the risk-taking activities of the various Business Units.

The Risk Management provides risk oversight and consultancy to all lines of business for all risk categories including credit risk, market risk, liquidity risk, operational risk and other industry-specific risks that are discussed under Pillar 2 of the Basel regime. Also, the Risk Management functions are responsible for the execution of various risk policies and related business decisions empowered by the Boards of Directors.

CAPITAL ADEQUACY UNDER BASEL

The Basel Accord is an international standard of risk and capital management practices and is intended to strengthen risk management practices and processes within financial institutions stipulating a minimum regulatory capital requirement given the risk profile of the institution.

The Central Bank of Lebanon (BDL), has been at the forefront of ensuring that the Lebanese Banking Sector adopts and implements the best practices that Basel Accords propose and has accordingly issued various guidelines in this regard.

The Basel framework consists of three mutually re-enforcing pillars which, acting together, are intended to bring soundness and consistency of practices across the financial industry.

The Basel II framework became effective on January 1, 2008 as per the BDL guidelines. Accordingly, Cedrus Group, and each Bank within the Group, monitors the adequacy of its capital using capital adequacy standards and their underlying ratios as set and regimented by the BDL. These standards and ratios measure capital adequacy by comparing the Banks eligible capital with its Risk Weighted Assets (RWA).

The Internal Capital Adequacy Assessment Process (ICAAP) is designed to capture capital requirements for Pillar-II risks, both, on a current and forward-looking basis, taking into consideration, the Bank's current exposures and future growth plans. The ICAAP also assesses the resilience of the Bank's business and capital models under various levels of plausible stress scenarios. Cedrus Invest Bank and Cedrus Bank prepare each a separate ICAAP on annual basis.

The table below illustrates the various approaches that are adopted at the Group for capital requirements calculation under Basel II in relation to the various risk types under Pillar I:

Credit Risk	Market Risk	Operational Risk
The Standardized Approach	The Standardized Measurement Approach	The Basic Indicator Approach

The table below summarizes the Capital Adequacy Ratios (CAR) of Cedrus Invest Bank and Cedrus Bank based on the financial statements as at December 31, 2016.

Risk Weighted Assets and Eligible Equity (Amounts in LBP million)			
The Standardized Approach	Cedrus Invest Bank	Cedrus Bank	Cedrus Group
Total risk weighted assets (for Credit Risk, Market Risk, and Operational Risk)	182,303	295,953	453,930
Net Tier 1 Capital	163,993	32,61	149,007
Tier 1 Capital Adequacy Ratio	89.96%	11.02%	32.83%
Net Common Equity Tier 1 Capital	163,993	32,61	149,007
Common Equity Tier 1 Capital Adequacy Ratio	89.96%	11.02%	32.83%
Total Capital	163,993	40,128	149,007
Total Capital Adequacy Ratio	89.96%	13.56%	34.42%

CAPITAL MANAGEMENT

A strong capital position is essential to the Group's business strategy and competitive position. The Group's capital strategy focuses on long-term stability, which aims to build and invest in core banking activities. The Group seeks to maintain adequate levels of capital to:

• Support the underlying risks of both Cedrus Invest Bank and Cedrus Bank;
• Optimize growth; and
• Withstand capital demands under market shocks and stress conditions.

The Group ensures that risks are properly identified and assessed based on its Risk Appetite. Thus, the levels of capital needed are one of the major focuses of the Group's shareholders and the Management Teams of each Bank. Accordingly, the Group maintains one of the highest capitals in Lebanon's banking sector.

/05

OUR CULTURE

Our Mission and Values are the critical ingredients of our unique customer-centric value proposition.

VISION

To contribute to the growth of a modern, vibrant, outward looking national economy by creating innovative financial solutions and a positive route to success for our customers.

MISSION

To be recognized as a dynamic, outward-looking banking group that shares its ambitions, intelligence and resilience with its clients: doing things differently and celebrating our shared success.

VALUES

“We aim to build a cross-generational relationship with our clients, anchored in the fact that we are protecting their wealth as if it were our own, and doing everything in our expertise to multiply it. We deliver on our promise through total transparency, dynamism, ambition and a commitment to building highly productive, lifelong relationships.”

A STRATEGY FOR FINANCIAL GROWTH

In 2015, Cedrus Invest Bank SAL expanded to commercial banking through the acquisition of Standard Chartered Bank SAL in Lebanon. Cedrus Invest SAL had been operating since 2011 as a specialized , integrated investment bank and has quickly become the largest specialized bank in Lebanon in terms of capitalization, with a shareholders’ equity exceeding $300 million in 2017, and around $1 billion in assets under management.

Cedrus Invest's strategy of delivering highly personalized, research-based investment solutions has delivered success to HNW individuals, family businesses and autonomous investors across the Middle East. Our Capital Markets & Brokerage Services offer fast, efficient execution services for investors and a world-class trading platform that provides instant access to all asset classes across major global and regional markets.

A DISTINCTIVE APPROACH

Cedrus Invest Bank SAL supports its wealth management solutions with access to research and intelligence from the world’s biggest banks, enabling our clients to benefit from a global perspective. Our discretionary and advisory services allow us to offer clients a choice between full wealth management and expert advice to support their own investment decisions. At the heart of everything we do is a commitment to putting the customers right at the heart of their own financial future, working together to build their wealth and secure it for today and generations to come.

> *‘SMEs are the largest employers and the most important job creators in Lebanon. Nurturing small and medium sized businesses is crucial to wealth creation and wider economic growth.’*

A STRATEGY FOR BUSINESS SUCCESS THROUGH NATIONAL RENEWAL

Cedrus Bank’s strategic goal is to deliver organic growth through investment in new branches, an enlarged ATM network, product development and best-in-class new digital and technology platforms. These services will support the Bank’s growing retail and commercial customer base, supporting growth in Lebanon’s increasingly diverse and outward-looking SME sector.

- Branch network to expand from 5 to 7 in 2017
- Focus on personal and housing loans in retail banking
- Enhanced delivery channels – including mobile and internet banking; and direct sales
- New credit card, loyalty card and high-end debit card products
- Existing ATMs to be replaced with Smart Cash and Cheque Deposit Machines

SUPPORTING LEBANON’S EMPLOYERS

The SME market in Lebanon is currently underserved, holding back growth potential for thousands of small and medium sized companies. SMEs are the largest employers and the most important job creators in Lebanon. Nurturing small and medium sized businesses is crucial to wealth creation and wider economic growth.

Cedrus Bank widens access to commercial banking services that provide much-needed capital for growth during a new era of national political and economic stability. The Bank will focus on lending to small and medium enterprises throughout 2017 and beyond, through direct sales, an increasing high-street presence and targeted services for small and medium sized companies.

Our focus on SMEs helps to serve a widespread community that is currently underserved. We understand the importance of SMEs in a growing market and wish to build our own business by investing in others and helping today’s innovators, entrepreneurs and risk-takers to become to business leaders of tomorrow.

HONESTLY YOURS

TRUST | QUALITY | TRANSPARENCY

OUR PEOPLE

The development and nurturing of talent is central to Cedrus Group's commitment to the delivery of excellence in all that it does, giving it a competitive edge and a reputation as a high-quality employer. A diverse, ambitious and highly skilled workforce is not only a defining characteristic of the Group but critical to the development of a sustainable economy.

The Bank aims to maintain robust performance culture and ensuring appropriate and competitive rewards for sustainable performance to support and drive our business strategy and reinforce our values in the context of a clearly articulated risk appetite and One bank framework.

The Group's Human Resources Committee is responsible for all matters pertaining to talent management procedures, including recruitment, training and development, employee's Individual Learning Development Plan (ILDP), Employee Relations and succession plans.

The Bank continues to invest in the learning and development of the employees and their Individual Learning and Development Plan (ILDP). The Bank adopts and applies a balanced approach to learning for all employees which is part of each employee job objectives for the year. The Bank follows the 70-20-10 balanced approach to learning:

- 70% on the job – This focuses on learning first hand on the job
- 20% learning from others – This focuses on "on the job learning through others
- 10% formal learning – Comprises of learning via formal methods

"A diverse, ambitious and dynamic workforce is critical to the development of a strong and sustainable economy."

/06

BUSINESS AND **OPERATIONAL REVIEW**

CEDRUS INVEST BANK

Cedrus Invest Bank saw steady growth throughout 2016, with fees and commission income growing by 5.2% to $4.5 million, representing 30.8% of total revenues. Net profits exceeded the 2016 goal of $6.5 million, reaching $7.12 million, representing a YoY increase of 18%. Financial instruments grew by 63.6% during 2016, from $44 million to $72 million, whilst the Off-Balance Sheet business reached around $1 billion.

CAPITAL MARKETS & BROKERAGE SERVICES

Our Capital Markets & Brokerage team offers a range of services to clients. Our state-of-the-art trading platform provides instant access to all asset classes, covering major global and regional markets at very competitive fees and commissions. We also ensure best execution for trading in Equities, Mutual Funds, ETFs, Structured Products, Futures & Options, Fixed Income and other instruments.

INVESTMENT BANKING

The Investment Banking Division (IBD) is focused on the middle market', defined as companies with revenues over $20 million and deal sizes ranging between $10 million and $100 million. Our team delivers high-quality and personalized strategic advice and creative financing and fundraising solutions, advice on mergers & acquisitions, in addition to a full range of advisory services.

MULTI-FAMILY OFFICE SERVICES

The Multi-Family Office unit at Cedrus Invest Bank helps wealthy families and high net-worth individuals manage their wealth. The offered services include consolidation and reporting, discretionary and advisory management, wealth structuring, estate and wealth transfer, succession planning, life planning, and entity administration.

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PRIVATE EQUITY & REAL ESTATE

The Private Equity & Real Estate division offers focused opportunities in addition to a full range of advisory services in Lebanon and abroad.

WEALTH MANAGEMENT

Cedrus Invest Bank team helps affluent individuals and their families manage their wealth today, and develop new sources of wealth for future generations. The team offers discretionary and advisory services, supported by international research and a team of highly experienced investment advisers and portfolio managers. CIB's External Asset Management agreement with Barclays, UBS and UBP allows our client to directly open their accounts with these banks and manage it through our team.

CEDRUS BANK

Housing Loan
- Cedrus Housing Loan
- BDL Subsidized Housing Loan
- Public Corporation for Housing (PCH)

- Personal Loan
- Mortgage Loan
- Car Loan
- Cedrus Bank Cards
(Debit, Credit, Internet)

- Commercial and Corporate Loans including BDL subsidized loans and Kafalat loans.

/07 SHAREHOLDERS

SHAREHOLDERS LIST OF CEDRUS INVEST BANK SAL

Shareholder	Percentage
Said Fayez Khalaf	9.38%
Nicolas Chammas	8.59%
Ibrahim Bin Abdul Aziz Bin Ibrahim Al Jammaz	8.26%
Elias Farhat Abou Farhat	8.19%
Georges Salim El Attik	5.16%
Nabil Al Zahlawi	4.92%
Jamil Fouad El Agha Kasbah	3.39%
Eric Amin Daaboul	3.21%
Samir Georges Chaghouri	2.41%
Mutlak Bin Saleh Bin Mutlak Al Hanaky	2.40%
Michel Tanios Choueiry	2.35%
Samir Georges Aoun	1.92%
Saleh Bin Mohammed Bin Saleh Al Hajjaj	1.80%
CSC Holding	1.76%
ASD 48 Holding SAL	1.69%
Tanios Nemer Saliba	1.64%
Fadlo Tanios Touma	1.64%
Raed Fouad Khoury	1.55%
Capanama Holding S.A.L.	1.52%
Fadi Mosbah Assali	1.45%
Others	26.77%
Total	100.00%

SHAREHOLDERS LIST OF CEDRUS BANK SAL

Shareholder	Percentage
Cedrus Invest Bank SAL	84.916%
Nicolas Chammas	14.976%
Others	0.108%
Total	100.000%

/08

CONSOLIDATED FINANCIAL STATEMENT

EY
Building a better working world

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INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF CEDRUS INVEST BANK SAL

Opinion

We have audited the consolidated financial statements of Cedrus Invest Bank SAL (the "Bank") and its subsidiaries (the "Group"), which comprise the Consolidated Statement of Financial Position as at 31 December 2016, and the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Other Information Included in The Group's 2016 Annual Report

Other information consists of the information included in the Annual Report, other than the consolidated financial statements and our auditors' report thereon. Management is responsible for the other information. The Group's 2016 Annual Report is expected to be made available to us after the date of this auditors' report. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If based on the work we perform, we conclude that there is a material misstatement of this other information, we are required to report this fact.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2016. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

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

The risks outlined above were addressed by us as follows:

- For corporate customers, we tested the key controls over the credit grading process, to assess if the risk grades allocated to the counterparties were appropriate. We then performed detailed credit assessment of all loans in excess of a defined threshold and loans in excess of a lower threshold in the watch list category and impaired category together with a selection of other loans.

- Where impairment allowance was calculated on a collective basis for performing corporate loans, we tested the completeness and accuracy of the underlying loan information used in the impairment model by agreeing details to the Group's source systems as well as re-performing the calculation of the modelled impairment allowances. For the key assumptions in the model, we assessed whether those assumptions were appropriate in the circumstances.

- For consumer loans, specific and collective impairment allowances are calculated using a simple model, which are based on a percentage of outstanding amounts. We understood and critically assessed the model used and checked that no undue changes had been made in model parameters and assumptions. We tested the completeness and accuracy of data from underlying systems that is used in this model. We also re-performed the calculation of the modelled impairment allowance.

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

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

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

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

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

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

The partners in charge of the audit resulting in this independent auditors' report are Ramzi Ackawi for Ernst & Young and Camille Sifri for PricewaterhouseCoopers.

Erntst & Young

31 March 2017
Beirut, Lebanon

PricewaterhouseCoopers

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2016

	Notes	2016 L.L. Million	2015 L.L. Million
Interest and similar income	4	**33,881**	20,297
Interest and similar expense	5	**(12,235)**	(5,668)
Net interest income		**21,646**	14,629
Fee and commission income	6	**9,353**	8,559
Fee and commission expense	7	**(1,605)**	(1,114)
Net fee and commission income		**7,748**	7,445
Net gain from financial assets at fair value through profit or loss	8	**5,867**	2,833
Gain from sale of financial assets at amortized cost	9	**6,020**	167
Provision for credit losses, net	16	**(1,415)**	(299)
Total operating revenue		**39,866**	24,775
Personnel expenses	10	**(12,744)**	(8,810)
Depreciation of property and equipment	19	**(531)**	(574)
Amortization of intangible assets	20	**(687)**	(149)
General and other operating expenses	11	**(14,746)**	(14,130)
Total operating expenses		**(28,708)**	(23,663)
Profit for the year		**11,158**	1,112
Other comprehensive income			
Unrealized gain on financial assets at fair value through other comprehensive income		**63**	-
Total comprehensive income for the year		**11,221**	1,112
Attributable to:			
Equity holders of the parent		**11,020**	1,931
Non-controlling interests		**201**	(819)
		11,221	1,112

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
For the year ended 31 December 2016

	Notes	2016 L.L. Million	2015 L.L. Million
Assets			
Cash and balances with the Central Bank of Lebanon	13	**133,933**	47,389
Due from banks and financial institutions	14	**61,867**	115,032
Financial assets at fair value through profit or loss	15	**38,359**	38,095
Loans and advances to customers at amortized cost	16	**147,140**	101,557
Financial assets at amortized cost	17	**369,159**	223,370
Financial assets at fair value through other comprehensive income	18	**13,003**	869
Goodwill	3	**11,021**	11,021
Property and equipment	19	**7,175**	1,429
Intangible assets	20	**2,692**	2,805
Non-current assets held for sale		**1,314**	1,314
Other assets	21	**8,590**	8,540
Total assets		**794,253**	551,421
Liabilities and equity			
Liabilities			
Due to the Central Bank of Lebanon	22	**117,069**	73,493
Due to banks and financial institutions	23	**82,991**	64,679
Customers' deposits at amortized cost	24	**352,406**	210,703
Due to shareholders	32	**22,071**	10,011
Deposits from related parties at amortized cost	25	**13,049**	13,677
Provision for risk and charges	26	**939**	1,578
Other liabilities	27	**23,023**	8,749
Total liabilities		**611,548**	382,890
Equity			
Share capital	28	**138,310**	138,310
Share premium	28	**11,293**	11,293
Non-distributable reserves	29	**3,185**	1,916
Distributable reserve	29	**16,153**	8,295
(Accumulated losses) retained earnings		**(2,401)**	4,732
Profit for the year		**10,966**	1,931
		177,506	166,477
Non-controlling interest		**5,199**	2,054
Total equity		**182,705**	168,531
Total liabilities and equity		**794,253**	551,421
Off-balance sheet accounts:			
Assets under management and administration			
- Assets under management	31	**218,309**	241,869
- Assets under External Asset Manager Services	31	**158,242**	193,347
- Assets under custody	31	**142,690**	142,690
- Fiduciary deposits	31	**233,304**	67,849
		752,545	645,755

The consolidated financial statements were authorized for issue in accordance with the resolution of the Board of Directors on 24 February 2017

Fadi Assali Chairman and General Manager

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

ANNUAL REPORT **2016**

	Share capital million LL	Share premium million LL	Non distributable reserves LL million	Distributable reserve LL million	Reserve for capital increase LL million	Retained earnings (accumulated losses) LL million	Profit for the year LL million	Non-controlling interest LL million	Total LL million
Balance at 1 January 2015	**77,999**	**-**	**1,141**	**3,031**	**3,279**	**910**	**6,039**	**6**	**92,405**
Capital increase (note 28)	**60,311**	**11,293**	**-**	**-**	**(3,279)**	**-**	**-**	**-**	**68,325**
Transfer to reserve for capital increase (note 29)	**-**	**-**	**775**	**5,264**	**-**	**-**	**(6,039)**	**-**	**-**
Acquisition of subsidiary (note 3)	**-**	**-**	**-**	**-**	**-**	**3,822**	**-**	**621**	**4,443**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**1,931**	**(819)**	**1,112**
Increase in capital of a subsidiary (note 3)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,246**	**2,246**
Balance at 31 December 2015	**138,310**	**11,293**	**1,916**	**8,295**	**-**	**4,732**	**1,931**	**2,054**	**168,531**
Increase in capital of subsidiary (note 3)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,942**	**2,942**
Appropriation of profits (note 29)	**-**	**-**	**1,260**	**7,804**	**-**	**(7,133)**	**(1,931)**	**-**	**-**
Reserve for capital increase (note 29.a)	**-**	**-**	**9**	**-**	**-**	**-**	**-**	**2**	**11**
Total comprehensive income for the year	**-**	**-**	**-**	**54**	**-**	**-**	**10,966**	**201**	**11,221**
Balance at 31 December 2016	**138,310**	**11,293**	**3,185**	**16,153**	**-**	**(2,401)**	**10,966**	**5,199**	**182,705**

	Notes	2016 L.L. Million	2015 L.L. Million
OPERATING ACTIVITIES			
Profit for the year			
Adjustments for:		**11,158**	1,112
Depreciation of property and equipment	19	**531**	574
Amortization of intangible assets	20	**687**	149
Gain from sale of financial assets at amortized cost		**-**	(167)
Net loss from financial assets at fair value through profit or loss		**731**	503
Provision for credit losses		**1,415**	298
Provision for risks and charges		**(639)**	(11,252)
Changes in operating assets and liabilities:		**13,883**	(8,783)
Balances with Central Bank		**(34,758)**	4,437
Loans and advances to customers at amortized cost		**(46,998)**	(19,055)
Financial assets at amortized cost		**(132,493)**	(182,869)
Financial assets at fair value through profit or loss		**(14,291)**	(17,364)
Customers' deposits at amortized cost		**144,962**	102,660
Deposits from related parties at amortized cost		**(3,887)**	552
Due from banks and financial institutions		**47,032**	51,996
Due to banks and financial institutions		**18,312**	20,425
Other assets		**(50)**	3,069
Other liabilities		**14,274**	(1,279)
Net cash from (used in) operating activities		**5,986**	(46,211)
INVESTING ACTIVITIES			
Purchase of property and equipment	19	**(6,277)**	(930)
Purchase of intangible assets	20	**(574)**	(2,603)
Partial disposal of subsidiary		**-**	6,689
Acquisition of subsidiary, net		**-**	(18,383)
Financial assets at fair value through other comprehensive income		**(12,073)**	-
Net cash used in investing activities		**(18,924)**	(15,227)
FINANCING ACTIVITIES			
Loans from Central Bank of Lebanon		**43,576**	73,493
Due to shareholders		**12,060**	10,011
Non-controlling interest		**2,953**	-
Net cash from financing activities		**58,589**	83,504
INCREASE IN CASH AND CASH EQUIVALENTS		**45,651**	22,066
Cash and cash equivalents at beginning of year		**64,585**	42,519
CASH AND CASH EQUIVALENTS AT END OF YEAR	33	**110,236**	64,585

The principal non-cash transaction during the year ended 31 December 2016 was the transfer of LL 13,296 million from the fair value through profit or loss category into the amortized cost (note 17).

1- CORPORATE INFORMATION

Cedrus Invest Bank SAL ("the Bank") and its subsidiaries (together "the Group") provide retail, corporate and specialised financial services. The Bank is a Lebanese joint stock company (specialized bank) registered at the Commercial Register in Beirut under number 1013830 on 14 June 2011. The Bank is under number 137 in the list of Banks of the Central Bank of Lebanon. The Bank is located in Achrafieh, Sofil Center, Beirut – Lebanon.

The Bank's specialized financial services could be summarized as follows:

- Multi-family office services: comprehensive oversight of various financial assets through consolidated performance reporting, fee negotiation, documentation, record keeping, accountability detection and investment advisory including asset allocation and security selection. The Bank charges clients a quarterly fee as a percentage of the total assets under this service.

- Advisory and discretionary portfolio management services. With external banks and financial institutions.

- Brokerage services providing access to clients to international financial markets and trade execution services.

The Bank is exempt from income taxes on profits as per the provisions of legislative decree No. 50 dated 15 July 1983 for a period of 7 years extending from the date of its establishment.

The Group comprises the Bank together with its subsidiaries as follows:

	Activities	Country of Incorporation	Percentage Ownership
Cedrus Bank SAL	Commercial Bank	Lebanon	84.78%
Cedrus Real Estate Management SAL	Services	Lebanon	79.90%

2-BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The consolidated financial statements of the Group have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income, which have been measured at fair value.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Changes in assumptions may have a significant impact on the consolidated financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and that the Group's consolidated financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 2.5.

The consolidated financial statements and the relevant disclosures are presented in thousands of Lebanese Lira (LL million) except when otherwise indicated.

The Group presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the consolidated statement of financial position date (non-current) is presented in note 35 to the consolidated financial statements.

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

2.2- Basis of consolidation

The consolidated financial statements comprise the financial statements of Cedrus Invest Bank SAL and its subsidiaries as at 31 December 2015.

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

Business combinations and goodwill
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group measures the non-controlling interest in the acquiree at the proportionate share of the acquiree's identifiable net assets.

When the Group makes an acquisition meeting the definition of a business under IFRS 3, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through the consolidated income statement. It is then considered in the determination of goodwill.

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

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

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

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

Control and subsidiaries
Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

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

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

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

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

Non-Controlling interest
Non-controlling interest represent the portion of profit or loss and net assets of subsidiaries not owned by the Group. The Group has elected to measure the non-controlling interest in acquirees at the proportionate share of each acquiree's identifiable net assets. Interests in the equity of subsidiaries not attributable to the Group are reported in consolidated equity as non-controlling interests. Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

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

2.3- Changes in accounting policies and disclosures

New and amended standards and interpretations

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

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

Standard	Description	Effective date (early adoption permitted)
Amendments to IAS 1 – Disclosure Initiative	The amendments provide clarifications and narrow-focus improvements on materiality, presentation of primary statements, structure of notes, disclosure of accounting policies, and presentation of OCI arising from equity accounted investments. The amendments are designed to further encourage companies to apply professional judgement in determining what information to disclose and how to structure notes in their financial statements.	1 January 2016
Amendments to IFRS 11 – Accounting for acquisition of interests in Joint Operations	The amendments clarify that when acquiring an interest in a joint operation where the activity of the joint operation constitutes a business, all of the principles on business combinations accounting in IFRS 3, and other IFRSs, that do not conflict with the guidance in IFRS 11, are to be applied. The requirements apply to the acquisition of both the initial interest and additional interests in a joint operation but any previously held interest in the joint operation would not be remeasured.	1 January 2016
Amendments to IFRS 10, IFRS 12 and IAS 28 Investment entities – Applying the consolidation exception	The amendments define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.	1 January 2016
Amendments to IAS 16 and IAS 38 – Clarification of acceptable methods of depreciation and amortization	The amendment clarifies that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate. The IASB has also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset.	1 January 2016
IFRS 10 Consolidated Financial Statements and IAS 28 – Investments in Associates & Joint Ventures	The amendment clarifies the treatment of the sale or contribution of assets from an investor to its associate or joint venture, as follows: (a) require full recognition in the investor's financial statements of gains and losses arising on the sale or contribution of assets that constitute a business (as defined in IFRS 3 Business Combinations). (b) require the partial recognition of gains and losses where the assets do not constitute a business, i.e. a gain or loss is recognized only to the extent of the unrelated investors' interests in that associate or joint venture.	1 January 2016

2- BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued) Standards issued but not yet effective

The standards and amendments that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards and amendments, if applicable, when they become effective.

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

2- BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued) Standards issued but not yet effective (continued)

Standard	Description	Effective date (early adoption permitted)
IFRS 9, (2014) 'Financial instruments'	In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments IFRS 9, (2014) which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. In prior years, the Bank has early adopted IFRS 9, (2011) which includes the requirements for the classification and measurement. IFRS 9, (2014) is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. The adoption of IFRS 9, (2014) will have an effect on measuring impairment allowances and on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities. The Group is currently assessing the impact of IFRS 9, (2014) and plans to adopt the new standard on the required effective date. **Impairment** There is now a new expected credit loss model that replaces the incurred loss impairment model used in IAS 39. IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and receivables, either on a 12-month or lifetime basis. **Hedging** IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.	1 January 2018
IFRS 16, 'Leases'	The IASB issued the new standard for accounting for leases in January 2016. (a) The new standard does not significantly change the accounting for leases for lessors. However, it does require most leases on their balance sheets as lease liabilities, with the lessees to recognize corresponding right-of-use assets. (b) Lessees must apply a single model for all recognized leases, but will have the option not to recognize 'short-term' leases and leases of 'low-value' assets. (c) Generally, the profit or loss recognition pattern for recognized leases will be similar to today's finance lease accounting, with interest and depreciation expense recognized separately in the statement of profit or loss. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach.	1 January 2019

The Group has assessed the impact of other standards, amendments to standards, revisions and interpretations. Based on the assessment, the above standards, amendments to standards, revisions and interpretations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT
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2- BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4- Summary of significant accounting policies

(1) Foreign currency

(i) Transactions and balances
Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the statement of financial position date. Revaluation differences are recorded under "other operating expenses" in the statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using exchange rates as at the dates of the initial transactions.

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

(2) Financial assets and financial liabilities

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

(ii) Classification
At inception a financial asset is classified as measured at amortized cost or fair value.
Amortized cost
A financial asset qualifies for amortized cost measurement only if it meets both of the following conditions:
• the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
• the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal and interest.

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

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

The Group classifies its financial liabilities as measured at amortized cost. Financial liabilities include "Due to Banks and financial institutions", "deposits from customers and related parties" and "other liabilities".
Financial assets at fair value through profit or loss
Financial assets classified in this category are those that have been designated by management on initial recognition. Management may only designate an instrument at fair value through profit or loss upon initial recognition when the following criteria are met, and designation is determined on an instrument by instrument basis
• The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the financial assets or liabilities or recognizing gains or losses on them on a different basis; or
• The assets and liabilities are part of a group of financial assets, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
• The financial instrument contains one or more embedded derivatives which significantly modify the cash flows that otherwise would be required by the contract.

(ii) Classification (continued)
Financial assets at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded in "Gain or loss on financial assets at fair value through profit or loss".

Interest earned or incurred is accrued within the same caption using the effective interest rate, while dividend income is recorded in the same caption when the right to the payment has been established.

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

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

(iii) Reclassification
Financial assets are not reclassified subsequent to their initial recognition, except when the Group changes its business model for managing financial assets.

The Group shall not reclassify any financial liability.

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

The Group enters into transactions whereby it transfers assets recognized on its consolidated statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognized. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

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

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

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or expired.

(v) Offsetting
Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to set off the recognized amounts and it intends either to settle on a net basis to realize the asset and settle the liability simultaneously.
Income and expenses are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

(vi) Amortized cost measurement
The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

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

Evidence of impairment may include indications that the debtor is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial restructuring 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. If such evidence exists, any impairment loss is recognized in the consolidated statement of comprehensive income.

(i) Financial assets carried at amortized cost
For financial assets carried at amortized cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.
If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of comprehensive income. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the "Credit loss expense".

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. If the Group has reclassified trading assets to loans and advances, the discount rate for measuring any impairment loss is the new effective interest rate determined at the reclassification date. 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 for obtaining and selling the collateral, whether or not foreclosure is probable.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) Renegotiated loans
Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

(viii) Fair value measurement
The Group measures financial instruments, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortized cost are disclosed in the notes.

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

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

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:
- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

At each reporting date, the management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group’s accounting policies.

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

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

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

The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate.

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

(ii) Fee and commission
Fees and commission income (include account servicing fees, investment management, sales commission, placement fees, etc.) are recognized as the related services are performed.
Fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are rendered.

(iii) Dividend income
Dividend income is recognized when the right to receive payment is established. Dividends on equity instruments at fair value through profit or loss are presented within "net gains on financial assets at fair value through profit or loss".

(4) Cash and cash equivalents
Cash and cash equivalents as referred to in the consolidated statement of cash flows comprise balances with original maturities of a period of three months or less including: cash and balances with the Central Bank and deposits with banks and financial institutions.

(5) Property and equipment
Property and equipment are stated at cost less accumulated depreciation and accumulated impairment in value. Replacements or major inspection costs are capitalized when incurred and if it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably.

Depreciation is calculated on a straight line basis to write down the cost of property and equipment to their residual values over their estimated useful lives. The estimated useful lives are as follows:

Leasehold improvements	5 to 12.5 years
Office furniture and equipment	4 to 12.5 years
Fixtures and installations	5 years
Vehicles	4 years

The assets’ residual values, useful lives and method of depreciation are reviewed at each financial period and adjusted prospectively, if appropriate. Impairment reviews are performed when there are indications that the carrying value may not be recoverable. Impairment losses are recognized in the consolidated statement of comprehensive income as an expense.

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 the consolidated statement of comprehensive income in the year the asset is derecognized.

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

Subsequent expenditure is capitalized only when it is probable that the future economic benefits of the expenditure will follow to the Group. Ongoing repairs and maintenance are expensed.

(6) Intangible assets
Intangible assets consist of computer software licenses. These are measured at amortized cost less accumulated amortization and any impairment losses. Subsequent costs are capitalized only when it can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group. All other expenditure is expensed as incurred.
The useful life of these intangible assets is assessed to be finite and is amortized over their useful economic life. These intangible assets are amortized over a period of five years using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives, subject to impairment testing.

(7) Non-current assets held for sale
Properties acquired through enforcement of security over loans and advances to customers are accounted for in accordance with the directives issued by the Central Bank of Lebanon. A reserve is recognized against assets not disposed of within two years. The accumulated reserve is classified under equity.

(8) Impairment of non-financial assets
The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used.

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

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

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

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

(9)Asset management
The Bank provides advisory and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity and under management (discretionary and/or non-discretionary) are not reported in the consolidated financial statements, as they are not the assets of the Bank; they are recorded as off-balance sheet items.

(10) Retirement benefits obligation
The Group is subscribed to the compulsory defined benefit plan of the National Social Security Fund.

IAS 19 'Employee benefits' requirements:
A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service or compensation. The liability recognized in the consolidated statement of financial position in respect of the defined benefit plan is the present value of the defined benefit obligation at the consolidated statement of financial position date less contributions to the fund. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government securities that have terms to maturity approximating the terms of the related pension liability.

Local requirements:
The compulsory defined benefit plan varies according to each employee's final salary and length of service, subject to the completion of a minimum service period. The provision is calculated based on the difference between total indemnities due and total monthly contributions paid to National Social Security Fund (''NSSF''), End-of-Service Indemnity contributions paid to NSSF represents 8.5 percent of employee benefits.

The difference between the carrying amount of the provision and its value in accordance with IAS 19 'Employee benefits' is not significant.

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(11) Provision for risks and charges
Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the consolidated statement of comprehensive income.

(12) Operating lease arrangement
Lease agreements which do not transfer substantially all the risks and benefits incidental to ownership of the leased items are classified as operating leases. Operating lease payments are recorded in the consolidated statement of comprehensive income on a straight line basis over the lease term.

(13) Share capital

(a) Share issue costs
Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

(b) Dividends on ordinary shares
Dividends on ordinary shares are recognized in equity in the period in which they are approved by the Bank's shareholders.
Dividends for the year that are declared after the date of the consolidated statement of financial position are dealt with in the subsequent events note.

(14) Cash and cash equivalents
Cash and cash equivalents comprise balances with maturities of a period of three months including cash and balances with the Central Banks, deposits held at call with banks and financial institutions and other short-term highly liquid investments with original maturities of three months or less.

2.5- Significant accounting judgments and estimates

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

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

Business model (in reference to IFRS 9 – Phase I)
In making an assessment whether a business model’s objective is to hold assets in order to collect contractual cash flows, the Group considers at which level of its business activities such assessment should be made. Generally, a business model is a matter of fact which can be evidenced by the way business is managed and the information provided to management. However, in some circumstances it may not be clear whether a particular activity involves one business model with some infrequent asset sales or whether the anticipated sales indicate that there are two different business models.

In determining whether its business model for managing financial assets is to hold assets in order to collect contractual cash flows the Group considers:
- management’s stated policies and objectives for the portfolio and the operation of those policies in practice;
- how management evaluates the performance of the portfolio;
- whether management’s strategy focuses on earning contractual interest revenues;
- the degree of frequency of any expected asset sales;
- the reason for any asset sales; and
- whether assets that are sold are held for an extended period of time relative to their contractual maturity.

Contractual cash flows of financial assets (In reference to IFRS 9 – Phase I)
The Group exercises judgment in determining whether the contractual terms of financial assets it originates or acquires give rise on specific dates to cash flows that are solely payments of principal and interest on the principal outstanding and so may qualify for amortized cost measurement. In making the assessment the Group considers all contractual terms, including any prepayment terms or provisions to extend the maturity of the assets, terms that change the amount and timing of cash flows and whether the contractual terms contain leverage.

3- BUSINESS COMBINATION

On 27 February 2015, the Bank acquired 1,196,880 shares of Standard Chartered Bank SAL (“the subsidiary” renamed Cedrus Bank SAL as of 2 March 2015) for an amount of LL 19,487 million. Effective 31 May 2015, the Bank sold 179,512 shares to a minority shareholder for an amount of US$ 2,947,000 (equivalent to LL 4,443 million). During July 2015, and pursuant to the sales and purchase agreement, the Bank received an amount of LL 750 million from the seller as an adjustment to the initial consideration.

In 2015, and pursuant to the Central Bank of Lebanon approval (granted on 10 November 2015), the Bank subscribed in the capital increase of Cedrus Bank SAL of LL15,000 million for a cash consideration of LL 12,754 million. The portion allocated to the non-controlling interest amounted to LL 2,246 million.

In June 2016, and pursuant to the Central Bank of Lebanon approval, the Bank subscribed in the capital increase of Cedrus Bank SAL of LL 19,598 million for a cash consideration of LL 16,655 million. The portion allocated to non-controlling interest amounted to LL 2,942 million.

The fair values of the identifiable net assets and liabilities of Cedrus Bank SAL on 27 February 2016, the date of acquisition were as follows:

	Fair value recognized on acquisition LL million
Assets	
Cash and balances with the Central Bank of Lebanon	37,163
Due from banks and financial institutions	10,599
Loans and advances to customers at amortized cost	55,400
Financial assets at amortized cost	22,001
Financial assets at fair value through other comprehensive income	869
Property and equipment	375
Other assets	2,016
Non-current assets held for sale	1,314
	129,737
Liabilities	
Due to banks and financial institutions	(835)
Customers' deposits at amortized cost	(102,189)
Other liabilities	(6,521)
Provision for risk and charges (*)	(12,830)
	(122,375)
Total identifiable net assets at fair value	7,362
Bank's share of identifiable net assets at fair value	7,362
Goodwill arising on acquisition	11,021
Total purchase consideration	18,383

** On 20 May 2014 and as part of the acquisition of the shares, the Bank and the subsidiary jointly approved to abide by the conditions of the protocol agreement (compensation benefits to terminated and retained employees). As at 27 February 2015, the protocol costs were estimated at LL 12,822 million and have been subsequently revised to become LL 12,830 million.*

The effect of the partial disposal of the subsidiary without loss of control was as follows:

	LL million
Non-controlling interest share in subsidiary on date of transfer of shares	**(621)**
Consideration received	**4,443**
Adjustment to retained earnings	**3,822**

4- INTEREST AND SIMILAR INCOME

	2016 LL million	2015 LL million
Financial assets at amortized cost	**18,323**	6,363
Loans and advances to customers	**9,309**	7,685
Due from banks and financial institutions	**4,583**	6,059
Central Bank of Lebanon	**1,441**	190
Financial assets at fair value through profit or loss	**225**	-
	33,881	20,297

5- INTEREST AND SIMILAR EXPENSE

	2016 LL million	2015 LL million
Deposits from customers at amortized cost	**8,573**	3,978
Deposits and accounts held with banks and financial institutions	**2,078**	1,325
Central Bank of Lebanon	**1,501**	173
Deposits from related parties at amortized cost (note 32)	**83**	192
	12,235	5,668

6- FEE AND COMMISSION INCOME

	2016 LL million	2015 LL million
Brokerage	**3,783**	3,945
Account management	**1,809**	1,417
Commissions on banking transactions	**1,733**	1,346
Income from multi-family office services	**1,319**	1,258
Custody services	**698**	581
Other commissions	**11**	12
	9,353	8,559

7- FEE AND COMMISSION EXPENSE

	2016 LL million	2015 LL million
Brokerage fees and other commissions fees paid	**1,053**	565
Bank charges	**285**	216
Custody fees	**181**	260
Multi-family office fees	**86**	73
	1,605	1,114

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8- NET GAIN FROM FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016 LL million	2015 LL million
Debt instruments:		
- Net gain on sale	**3,786**	**1,598**
- Interest and similar income from debt instruments	**534**	**1,257**
- Net gain (loss) on revaluation	**142**	**(454)**
	4,462	**2,401**
Equity instruments:		
- Net gain on revaluation	**344**	**45**
- Net gain on sale	**306**	**108**
- Dividend income	**228**	**-**
	878	**153**
Funds:		
- Net gain on sale	**512**	**185**
- Net gain on revaluation	**15**	**94**
	527	**279**
	5,867	**2,833**

9- GAIN FROM SALE OF FINANCIAL ASSETS AT AMORTIZED COST

	2016 LL million	2015 LL million
Realized portion of deferred surplus	**6,165**	-
(Loss) gain on sale	**(145)**	167
	6,020	167

During 2016, the Group entered into certain financial transactions with the Central Bank of Lebanon relating to treasury bills and certificates of deposit denominated in Lebanese Pounds. These transactions were available to banks provided that they are able to reinvest an amount equivalent to the nominal value of the sold instruments in Eurobonds issued by the Lebanese Republic or Certificates of Deposit issued by the Central Bank of Lebanon denominated in US Dollars and purchased at their fair values. The net gains from such trades on financial instruments amounted to LL 16,088 million, of which LL 9,923 million was not recognized in the profit or loss (note 27).

10- PERSONNEL EXPENSES

	2016 LL million	2015 LL million
Salaries and wages	**8,731**	6,959
Management fees (note 32)	**1,432**	-
Bonuses	**300**	331
Social security costs	**881**	680
Other employee charges	**1,400**	840
	12,744	8,810

11- GENERAL AND OTHER OPERATING EXPENSES

	2016 LL million	2015 LL million
Board of Directors members' remuneration (note 32)	**3,039**	1,929
Rent expense	**2,363**	2,448
Professional fees	**1,591**	594
Legal fees	**1,428**	3,912
Taxes and related fees	**1,322**	1,074
Maintenance and repairs (including IT support)	**1,042**	2,456
Subscription fees	**428**	374
Advertising expenses	**364**	101
Travel expenses	**273**	86
Insurance expense	**259**	116
Printing and stationary fees	**208**	307
Entertainment and hospitality	**195**	200
Board of Directors attendance fees (note 32)	**109**	197
Life insurance for senior management (note 32)	**113**	113
Others	**2,012**	223
	14,746	14,130

12- INCOME TAX

As per the provisions of legislative decree no. 50 dated 15 July 1983, the Bank is exempt from income taxes on profits stipulated in legislative decree no.144 dated 12 June 1959 for a period of 7 years starting from the date of its establishment (during 2011).

The Bank's subsidiaries are subject to the applicable tax rate of 15%. The subsidiaries did not incur any income tax expenses for 2016 as they had carried forward taxable losses.

13- CASH AND BALANCES WITH THE CENTRAL BANK OF LEBANON

	2016 LL million	2015 LL million
Cash on hand	**2,585**	2,507
Balances with the Central Bank of Lebanon	**58,553**	6,846
Included under cash and cash equivalents (note 33)	**61,138**	9,353
Mandatory reserve deposits with Central Bank of Lebanon	**58,159**	36,785
Term deposits with Central Bank of Lebanon	**14,636**	1,251
	133,933	47,389

As stipulated by the Central Bank of Lebanon circulars, the Bank is required to hold interest bearing mandatory reserves at the Central Bank of Lebanon on the basis of 15% of the weekly average of deposits denominated in foreign currencies. Mandatory reserves are not available for use in the Bank's day to day operations. The Bank's subsidiary (Cedrus Bank SAL), is required to maintain at the Central Bank of Lebanon an obligatory reserve calculated on the basis of 25% of sight deposits and 15% of term deposits denominated in Lebanese Pounds. Additionally, it is required to maintain interest bearing placements representing 15% of total deposits in foreign currencies regardless of nature.

14- DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	2016 LL million	2015 LL million
Term placements	**32,727**	102,063
Current accounts	**17,203**	4,146
Margin accounts	**11,937**	8,823
	61,867	115,032

15- FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016 LL million	2015 LL million
Lebanese Government Bonds	**3,793**	19,670
Debt securities	**1,508**	1,605
Participation in funds	**24,714**	13,192
Equity securities	**8,344**	3,628
	38,359	38,095

16- LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST

	2016 LL million	2015 LL million
Retail loans	**84,429**	74,881
Corporate loans	**67,177**	26,729
	151,606	101,610
Loans against mortgages	**2,079**	2,562
Loans against securities	**15,436**	22,076
Loans against cash collateral	**24,799**	5,403
Shareholders' loans against securities (i)	**7,677**	13,659
Other loans	**504**	2
	202,101	145,312
Impairment allowance	**(7,235)**	(7,116)
Collective provision	**(2,816)**	(1,224)
Unrealized interest	**(44,910)**	(35,415)
	147,140	101,557

(i) With reference to the Code of Money and Credit, article 152, these facilities are not subject to approval by the General Assembly as these facilities are provided to shareholders with less than 5% share in the Bank and its subsidiaries. Accordingly, these facilities are not considered balances with related parties.

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16- LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST (continued)

Movement in impairment allowance for the year ended 31 December is as follows:

	2016 LL million	2015 LL million
Balance at 1 January	**7,116**	-
Charge for the year	**501**	699
Acquisition of subsidiary	**-**	7,073
Write-back during the year	**(382)**	(328)
Write-off during the year	**-**	(328)
Balance at 31 December	**7,235**	7,116

Movement in unrealized interest during the year ended 31 December is as follows:

	2016 LL million	2015 LL million
Balance at 1 January	**35,415**	-
Acquisition of subsidiary	**-**	28,586
Suspended during the year	**10,362**	7,016
Charge for the year	**44**	56
Write-back during the year	**(340)**	(128)
Write-off during the year	**(571)**	(115)
Balance at 31 December	**44,910**	35,415

Movement in collective provision during the year ended 31 December is as follows:

	2016 LL million	2015 LL million
Balance at 1 January	**1,224**	14
Acquisition of subsidiary	**-**	1,210
Charge for the year	**1,592**	-
Balance at 31 December	**2,816**	1,224

During the year ended 31 December 2016, the Group booked collective provision in the amount of LL 1,592 million to comply with the provisions of Central Bank of Lebanon Intermediary Circular number 436 dated 8 November 2016 and 446 dated 30 December 2016 associated with Basic Decision number 7776 dated 21 February 2001.

17 FINANCIAL ASSETS AT AMORTIZED COST

	2016 LL million	2015 LL million
Certificates of deposits (Central Bank of Lebanon)	**95,137**	34,184
Lebanese Government Bonds	**270,238**	183,857
Lebanese Corporate Bonds	**3,784**	3,784
Asset-backed securities	**-**	1,545
	369,159	223,370

Included under Lebanese Government bonds, are treasury bills with a nominal amount of LL 73,157 million pledged as collateral against the term loan granted by the Central Bank of Lebanon (note 22).

17- FINANCIAL ASSETS AT AMORTIZED COST (continued)

The Bank decided to decrease its exposure to fair value changes. During January 2016, Management decided to amend its business model (under IFRS 9) whereby Lebanese Government Bonds with a carrying value of US$ 8,820,000 (equivalent to LL 13,296 million) were transferred from fair value through profit and loss category into amortized cost category.
The Bank reclassified financial assets so that they are measured at amortised cost; accordingly, their fair value at the reclassification date became their new carrying amount.

18- FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2016 LL million	2015 LL million
Equity securities	13,003	-

19- PROPERTY AND EQUIPMENT

	Leasehold improvements LL million	Fixtures and installations LL million	Office furniture and equipment LL million	Vehicles LL million	Work in progress LL million	Total LL million
Cost :						
Balance at 1 January 2016	604	2,936	5,067	223	551	9,381
Additions	2,063	1,509	809	-	1,896	6,277
Transfers	-	-	551	-	(551)	-
Disposals	-	(1,734)	(794)	-	-	(2,528)
At 31 December 2016	2,667	2,711	5,633	223	1,896	13,130
Depreciation:						
Balance at 1 January 2016	475	2,804	4,450	223	-	7,952
Depreciation for the year	120	63	348	-	-	531
Relating to disposals	-	(1,734)	(794)	-	-	(2,528)
At 31 December 2016	595	1,133	4,004	223	-	5,955
Net carrying amount:						
At 31 December 2016	2,072	1,578	1,629	-	1,896	7,175

	Leasehold improvements LL million	Fixtures and installations LL million	Office furniture and equipment LL million	Vehicles LL million	Work in progress LL million	Total LL million
Cost :						
Balance at 1 January 2015	604	-	778	-	-	1,382
Additions	-	98	281	-	551	930
Subsidiary acquired during the year	-	6,144	6,782	223	-	13,149
Write off		(3,306)	(2,774)	-		(6,080)
At 31 December 2015	604	2,936	5,067	223	551	9,381
Depreciation:						
Balance at 1 January 2015	355	-	327	-	-	682
Depreciation for the year	120	258	196	-	-	574
Subsidiary acquired during the year	-	5,852	6,700	223	-	12,775
Write off	-	(3,306)	(2,773)	-	-	(6,079)
At 31 December 2015	475	2,804	4,450	223	-	7,952
Net carrying amount:						
At 31 December 2015	129	132	617	-	551	1,429

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20- INTANGIBLE ASSETS

	Software LL million	Work in progress LL million	Total LL million
Cost:			
At 1 January 2016	939	2,217	3,156
Additions during the year	574	-	574
Transfers	2,217	(2,217)	-
At 31 December 2016	3,730	-	3,730
Amortization:			
At 1 January 2016	351	-	351
Charge for the year	687	-	687
At 31 December	1,038	-	1,038
Net carrying amount:			
At 31 December 2016	**2,692**	**-**	**2,692**

	Software LL million	Work in progress LL million	Total LL million
Cost:			
At 1 January 2015	553	-	553
Additions during the year	386	2,217	2,603
At 31 December 2015	939	2,217	3,156
Amortization:			
At 1 January 2015	202	-	202
Charge for the year	149	-	149
At 31 December	351	-	351
Net carrying amount:			
At 31 December 2015	588	2,217	2,805

21- OTHER ASSETS

	2016 LL million	2015 LL million
Mandatory deposit with the Lebanese Treasury (a)	4,500	4,500
Prepaid expenses	1,883	2,319
Accrued Income	739	753
Revaluation loss on fixed position	30	30
Other debit balances	1,438	938
	8,590	8,540

(a) This deposit represents a blocked amount with the Lebanese Treasury made by the Bank on its constitution (with reference to Article 132 (b) of the Code of Money and Credit) recovered without interest upon the Bank's liquidation.

22- DUE TO THE CENTRAL BANK OF LEBANON

	2016 LL million	2015 LL million
Term loan	**110,332**	73,157
Other loan	**6,526**	163
Accrued interest	**211**	173
	117,069	73,493

The term loan amounting to LL 73,157 million was granted by the Central Bank of Lebanon on 19 November 2015 to cover certain costs which will be incurred by a subsidiary. The loan is subject to an annual interest rate of 2% payable semiannually. The principal amount of the loan is payable after 5 years from the draw down date. The balance of the loan was used to purchase Lebanese Treasury Bills for a nominal amount of LL 73,157 million with a coupon rate of 6.74% (note 17).

During 2016, the Central Bank of Lebanon has granted the Bank a loan, in accordance with BDL intermediary circular No. 416. The loan is subject to an interest of 1% and is payable through installments starting 2 February 2017. The proceeds of this loan were used in accordance with the provisions of the previously mentioned circular to finance a loan granted to a third party customer having a balance amounting to LL 24,799 million as at 31 December 2016 (note 16). This loan is subject to an effective interest rate of 1.08%.

23- DUE TO BANKS AND FINANCIAL INSTITUTIONS

	2016 LL million	2015 LL million
Current borrowings	**44,719**	4,000
Term borrowings	**38,272**	60,679
	82,991	64,679

Term borrowings are subject to an annual interest rate ranging from 1.75% to 4% as at 31 December 2016 (2015: the same).

24- CUSTOMERS' DEPOSITS AT AMORTIZED COST

	2016 LL million	2015 LL million
Pledged accounts	**21,579**	5,128
Current accounts	**52,163**	36,520
Deposits originating from fiduciary contracts	**84,505**	43,539
Incoming payment order	**2,309**	296
Margin accounts against operations in financial markets (futures and options)	**16,215**	26,365
Term deposits	**175,635**	98,855
	352,406	210,703

The Bank provides facilities to its customers (third parties and shareholders) to finance the acquisition of approved financial securities and within authorized thresholds as defined by the Central Bank of Lebanon (basic circular no. 51 dated 22 October 1998).
Deposits originating from fiduciary contracts represent deposits from other banks on behalf of their customers.

25- DEPOSITS FROM RELATED PARTIES AT AMORTIZED COST

	2016 LL million	2015 LL million
Key Shareholders' accounts	**2,790**	6,004
Related parties' accounts	**10,259**	7,673
	13,049	13,677

Key shareholders represent shareholders holding 5% or more in the Bank's share capital.

26- PROVISION FOR RISKS AND CHARGES

	2016 LL million	2015 LL million
Provision for protocol costs	**939**	1,567
Others	**-**	11
	939	1,578

Provision for protocol costs represents the unsettled portion of the protocol costs pertaining to employees of the subsidiary (Cedrus Bank SAL) who are expected to be terminated within 30 months from the acquisition date based on management's decision (note 3).

27- OTHER LIABILITIES

	2016 LL million	2015 LL million
Deferred surplus (a)	**9,923**	-
Accrued Board of Directors members' remuneration	**2,757**	1,734
Accrued expenses	**4,003**	2,865
Revaluation gain on foreign currency fixed position	**105**	103
Due to the National Social Security Fund	**870**	1,357
Due to the Ministry of Finance	**1,660**	1,647
Other credit balances	**3,705**	1,043
	23,023	8,749

(a) In accordance with BDL Intermediary Circular No. 428 dated 25 June 2016, and its latest amendment provided in BDL Intermediary Circular No. 446 dated 30 December 2016, Banks should record the surplus resulting from the sale of financial instruments denominated in Lebanese Pounds and the simultaneous purchase of financial instruments denominated in foreign currencies under deferred liabilities. This surplus shall be used to provide for:
a. The collective provision requirements as stipulated in basic decision No. 7776 dated 21 February 2001 (note 16).
b. Capital adequacy requirements defined in Basic Decision No. 6939 dated 25 March 1998.
c. Requirements that might arise from application of IFRS 9 effective from 1 January 2018.
d. Provision denominated in Lebanese Pounds resulting from impairment of foreign investments.
e. Provision in Lebanese Pounds for any goodwill impairment resulting from business combinations

27- OTHER LIABILITIES (continued)

Up to 70% of any remaining surplus amount may be written-back to profit and loss as non-distributable profits to be appropriated as reserve for capital increase.

During 2016, as a result of an operation with BDL consisting of the sale of treasury bills denominated in Lebanese Lira with a nominal value of LL 30,030 million and the simultaneous purchase of certificates of deposits (BDL) in US dollars for a nominal value of US$ 20 million and the sale of certificates of deposits (BDL) denominated in Lebanese Lira with a nominal value of LL 18,000 million and the simultaneous purchase of certificates of deposits (BDL) in US dollars for a nominal value of US$ 12 million, the Group received a surplus of LL 16,008 million which was credited to other liabilities. This surplus was used by the Bank to provide for the collective provision of 2% on risk weighted loans for an amount of LL 1,565 million (note 16) and to meet the capital adequacy requirements for an amount of LL 4,600 million.

28- SHARE CAPITAL

On 19 January 2015, the Extraordinary General assembly of shareholders, verified the capital increase undertaken by the Bank amounting to LL 60,311 million. The capital increase was executed through
(i) issuance of 34,334 nominal shares for subscription by the current shareholders with nominal value of LL 1,111,725 million and a premium of US$ 79.12 (equivalent to LL 119,285), (ii) 19,916 nominal shares for subscription by third parties with the nominal value of LL 1,111,725 million and premium of US$ 239.73 million (equivalent to LL 361,402 per share), and (iii) an amount of LL 3,279 million transferred from reserve for capital increase to share capital (note 29).

At 31 December 2016, share capital comprised 124,410 nominal shares (2015: the same) with a nominal amount of LL 1,111,725 million per share (2015: the same) and a total share premium of LL 11,293 million.

29- RESERVES

	2016 LL million	2015 LL million
Reserve for unidentified banking risks (a):		
Opening balance	**475**	305
Appropriation from prior year results	**354**	170
Others	**9**	-
Ending balance	**838**	475
Legal reserve (b):		
Opening balance	**1,441**	836
Appropriation from prior year results	**906**	605
Ending balance	**2,347**	1,441
Non-distributable reserves (a + b)	**3,185**	1,916

a) Reserve for unidentified banking risks
In compliance with the Central Bank of Lebanon basic circular no. 50, banks are required to appropriate from annual profits an amount ranging between 2 per mil and 3 per mil of the total risk-weighted assets (on and off balance sheet) ("RWA") as a reserve for unidentified banking risks. The said reserve should reach 1.25 percent of RWA by the year 2020 and 2 percent by the year 2030. This reserve is considered part of Tier I capital, but is not available for distribution.

29- RESERVES (continued)

b) Legal reserve
In compliance with the requirements of the Code of Money and Credit (article no. 132), banks are required to appropriate 10% of their annual profits as legal reserve. This reserve is not available for distribution to the shareholders.

Distributable reserve
c) General reserve
In accordance with the General Assembly decisions, the net outstanding balance pertaining to the net profits for years 2012 and 2011 (i.e. after deducting appropriation to legal and unidentified banking risks) were appropriated to a general reserve. This reserve is considered part of Tier I capital and is available for distribution.

Retained earnings and reserve for capital increase
On 9 September 2014, the General Assembly decided to keep the net outstanding balance pertaining to the net profits for the year 2013 (i.e. after deducting appropriation to legal and unidentified banking risks) as available for distribution. On 19 December 2014 and as proposed by the Board of Directors, the General Assembly decided to appropriate an amount of LL 3,279 million from retained earnings to reserve for capital increase.

30- CONTINGENT LIABILITIES AND COMMITMENTS

- Operating lease arrangement tributable reserve
Future minimum lease payments under operating leases as at 31 December are as follows:

	2016 LL million	2015 LL million
Within one year	**1,405**	191
After one year but not more than three years	**4,493**	420
More than three years but less than six years	**12,690**	210
	18,588	821

- Tax contingencies
Lebanese tax legislation is subject to varying interpretations when being applied to financial transactions and activities. Fiscal years from 2011 to 2016 of the Bank remain open to review by the authorities, while Cedrus Bank SAL has its books open for the years from 2012 till 2016 (inclusive). Management believes that any such reviews will not result in any material financial loss to the Group.

- Financial commitments

	2016 LL million	2015 LL million
Foreign currencies to receive against foreign currencies to deliver	**15,827**	3,259
Foreign currencies to deliver against foreign currencies to receive	**15,898**	3,243
Guarantees issued to customers	**1,402**	461
Letters of credit issued to customers	**138**	-
Loan commitments to customers (revocable)	**29,235**	20,185

- Legal claims
Litigation is a common occurrence in the banking industry due to the nature of the business. The Group has an established protocol for dealing with such legal claims. Once professional advice has been obtained and the amount of damages can be reasonably estimated, the Group makes adjustments to account for any adverse effects which the claims may have on its consolidated financial statements. Based on advice from legal counsel, management believes that legal claims will not result in any material financial loss to the Group.

- Other commitments
Financial investments at amortized cost include Lebanese Government Bonds amounting to LL 73,157 million pledged to the Central of Lebanon against a term loan.

31- ASSETS UNDER MANAGEMENT AND ADMINISTRATION

	2016 LL million	2015 LL million
Assets held on behalf of customers (on non-discretionary basis)		
Deposits with banks	**37,810**	23,600
Financial instruments	**180,499**	218,269
Fiduciary deposits	**233,304**	67,849
	451,613	309,718
Assets managed on discretionary basis (i)	**158,242**	193,347
Assets under custody	**142,690**	142,690
	752,545	645,755

(i) These represents clients' assets that (a) are held with non-resident banks and financial institutions and (b) are managed by the Bank through a power of attorney.

32- RELATED PARTY TRANSACTIONS

Related parties represent associated companies, major shareholders, directors and key management personnel of the Group and entities controlled or significantly influenced by such parties.
Transactions with related parties included in the income statement are as follows:

Key management compensation	2016 LL million	2015 LL million
Board of Directors members' remuneration	**3,039**	1,929
Remuneration of key management personnel	**894**	1,130
Representation fees for key management personnel	**75**	75
Board of Directors attendance fees	**109**	197
Life insurance for senior management	**113**	113
Taxes on prior year Board of Directors members' remuneration	**83**	71
Management fees (note 10)	**1,432**	-

Key shareholders (i)	2016 LL million	2015 LL million
Commissions income – brokerage		
Accounts management income	**295**	698
	556	457

(i) These represents shareholders with ownership exceeding 5%.	2016 LL million	2015 LL million
Interest expense on deposits from related parties	**196**	192

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32- RELATED PARTY TRANSACTIONS (continued)

Other balances with related parties are disclosed below:

	2016 LL million	2015 LL million
Due from related parties		
Loans to related parties at amortized cost	**504**	48

	2016 LL million	2015 LL million
Due to related parties		
Shareholders' balances	**22,071**	10,011
Deposits by key shareholders	**2,790**	6,004
Deposits by related parties	**10,259**	7,673
	35,116	23,688

Related party balances reported in the off-balance sheet as at 31 December are as follows:

	2016 LL million	2015 LL million
Assets under management	**45,488**	57,792
Assets under External Asset Manager Services	**25,500**	90,688
Assets under custody	**72,298**	81,680
Fiduciary deposits	**14,925**	6,327
	158,211	236,487

33- CASH AND CASH EQUIVALENTS

	2016 LL million	2015 LL million
Cash and balances with the Central Bank	**61,138**	9,353
Due from banks and financial institutions	**49,098**	55,232
	110,236	64,585

34- FAIR VALUE OF FINANCIAL INSTRUMENTS

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 in section "valuation models" below.
The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

2016	Level 1 LL million	Level 2 LL million	Level 3 LL million	Total LL million
Financials assets at fair value through profit or loss:				
Lebanese Government Bonds	**3,695**	**98**	**-**	**3,793**
Debt securities	**-**	**1,508**	**-**	**1,508**
Participation in funds	**24,714**	**-**	**-**	**24,714**
Equity securities	**8,344**	**-**	**-**	**8,344**
	36,753	**1,606**	**-**	**38,359**
Financial assets at fair value through other comprehensive income:				
Equity securities	**-**	**12,060**	**943**	**13,003**

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34- FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

2015	Level 1 LL million	Level 2 LL million	Level 3 LL million	Total LL million
Financials assets at fair value through profit or loss:				
Lebanese Government Bonds	14,364	5,306	-	19,670
Debt securities	-	1,605	-	1,605
Participation in funds	13,192	-	-	13,192
Equity securities	1,243	2,385	-	3,628
	28,799	9,296	-	38,095
Financial assets at fair value through other comprehensive income:				
Equity securities	-	-	869	869

2016	Level 1 LL million	Level 2 LL million	Level 3 LL million	Total fair value LL million	Total fair valA Book value LL million
Assets for which fair values are disclosed:					
Cash and balances with Central Bank	2,585	131,348	-	133,933	133,933
Due from banks and financial institutions	-	61,867	-	61,867	61,867
Financial assets at amortized cost	149,276	218,988	-	368,264	369,159
Loans and advances to customers at amortized cost	-	-	147,140	147,140	147,140
Liabilities for which fair values are disclosed:					
Due to Central Bank of Lebanon	-	117,069	-	117,069	117,069
Due to banks and financial institutions	-	82,991	-	82,991	82,991
Customers' deposits at amortized cost	-	361,426	-	361,426	361,426
Deposits from related parties at amortized cost	-	4,029	-	4,029	4,029

2015	Level 1 LL million	Level 2 LL million	Level 3 LL million	Total fair value LL million	Total fair valA Book value LL million
Assets for which fair values are disclosed:					
Cash and balances with Central Bank	2,508	44,881	-	47,389	47,389
Due from banks and financial institutions	-	115,032	-	115,032	115,032
Financial assets at amortized cost	78,962	141,964	-	220,926	223,370
Loans and advances to customers at amortized cost	-	-	101,557	101,557	101,557
Liabilities for which fair values are disclosed:					
Due to Central Bank of Lebanon	-	73,493	-	73,493	73,493
Due to banks and financial institutions	-	64,679	-	64,679	64,679
Customers' deposits at amortized cost	-	216,464	-	216,464	216,464
Deposits from related parties at amortized cost	-	7,916	-	7,916	7,916

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

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

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

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

Valuation technique using significant unobservable inputs – Level 3
Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). A valuation input is considered observable if it can be directly observed from transactions in an active market, or if there is compelling external evidence demonstrating an executable exit price. 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.

Assets and liabilities measured at fair value using a valuation technique with significant observable inputs (Level 2)
The Group values these 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 carried at fair value using a valuation technique with significant unobservable inputs (Level 3)
Equity shares of non-listed entities
The Group's investments at fair value through other comprehensive income are not traded in active markets. These are investments in private companies, for which there is no or only limited sufficient recent information to determine fair value. The Group determined that cost adjusted to reflect the investee's financial position and results since initial recognition represents the best estimate of fair value.

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)

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

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

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

Assets and liabilities not carried at fair value, for which fair value approximates carrying value
For financial assets and financial liabilities that have a short term maturity, it is assumed that the carrying amounts approximate their fair values. This assumption is also applied to demand deposits, and savings accounts without a specific maturity.

35- RISK MANAGEMENT

35.1- Introduction

Risk is inherent in the Group's activities. The Bank is exposed to credit risk, liquidity risk, prepayment risk, operational risk and market risk, the latter being subdivided into trading and non-trading risks. The Board of Directors is ultimately responsible for identifying and controlling risks.

35.2- CREDIT RISK

Credit risk is the risk that the Group will incur a loss because its counterparties fail to discharge their contractual obligations. The Group manages and controls credit risk by limiting transactions with specific counterparties, and continuously assessing the creditworthiness of counterparties.

Credit quality per class of financial assets

The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continuously assessing the creditworthiness of counterparties. The Group seeks to manage its credit risk exposure through diversification to avoid undue concentrations of risks with counter parties in specific locations or businesses.

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

As at 31 December 2015, loans and advances to customers include a balance of LL nil million granted to a minority shareholder thereby constituting 0% of the total loans and advances. The balance is fully covered by securities (2014: LL 11,953 million constituting 43% of total loans and advances and is fully covered by securities).

The following table shows the maximum exposure to credit risk for the component of the statement of financial position by resident and non-resident.

2016	Resident LL million	Work A Non resident LL million in progress	Net maximum Exposure LL million
Balances with the Central Bank	**131,348**	**-**	**131,348**
Due from banks and financial institutions	**33,023**	**28,844**	**61,867**
Financial assets at fair value through profit or loss	**37,741**	**618**	**38,359**
Loans and advances to customers at amortized cost	**131,901**	**15,239**	**147,140**
Financial assets at amortized cost	**369,159**	**-**	**369,159**
Financial assets at fair value through other comprehensive income	**13,003**	**-**	**13,003**
Total credit exposure	**716,175**	**44,701**	**760,876**

2015	Resident LL million	Work A Non resident LL million in progress	Net maximum Exposure LL million
Balances with the Central Bank	44,882	-	44,882
Due from banks and financial institutions	102,983	12,049	115,032
Financial assets at fair value through profit or loss	38,095	-	38,095
Loans and advances to customers at amortized cost	80,121	21,436	101,557
Financial assets at amortized cost	223,370	-	223,370
Total credit exposure	489,451	33,485	522,936

35.2- CREDIT RISK (continued)

Analysis to maximum exposure to credit risk and collateral

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

2016	Maximum exposure LL million	Cash LL million	Securities LL million	Mortgage LL million	Net exposure LL million
Balances with the Central Bank	**131,348**	**-**	**-**	**-**	**131,348**
Due from banks and financial institutions	**61,867**	**-**	**-**	**-**	**61,867**
Financial assets at fair value through profit or loss	**38,359**	**-**	**-**	**-**	**38,359**
Loans and advances to customers at amortized cost	**147,140**	**58,103**	**25,782**	**3,600**	**59,655**
Financial assets at amortized cost	**369,159**	**-**	**-**	**-**	**369,159**
Financial assets at fair value through other comprehensive income	**13,003**	**-**	**-**	**-**	**13,003**
	760,876	**58,103**	**25,782**	**3,600**	**673,391**

2015	Maximum exposure LL million	Cash LL million	Securities LL million	Mortgage LL million	Net exposure LL million
Balances with the Central Bank	44,882	-	-	-	44,882
Due from banks and financial institutions	115,032	-	-	-	115,032
Financial assets at fair value through profit or loss	38,095	-	-	-	38,095
Loans and advances to customers at amortized cost	101,557	8,560	181,428	3,256	-
Financial assets at amortized cost	223,370	-	-	-	223,370
	522,936	8,560	181,428	3,256	421,379

The main collateral obtained are as follows:

Cash

Cash is obtained from customers and shareholders in the form of pledged deposits against loans granted to formers.

Securities

The balances shown above represent the fair value of securities pledged by the clients and shareholders against loans obtained from the Group.

Mortgage

The Group holds in some cases mortgages over properties. The value shown above reflects the fair value of the property limited to the related mortgaged amount.

Credit quality by class of financial assets

The credit quality of financial assets is managed by the Bank using internal credit ratings.

2016	Neither past due nor impaired LL million	Past due but not impaired LL million	Individually impaired LL million	Total LL million
Balances with the Central Bank	131,348	-	-	131,348
Financial assets at fair value through profit or loss	38,359	-	-	38,359
Financial assets at amortized cost	369,159	-	-	369,159
Financial assets at fair value through other comprehensive income	13,003	-	-	13,003
	420,521	-	-	420,521
Due from banks and financial institutions	61,867	-	-	61,867
Loans and advances to customers at amortized cost	148,901	1,473	52,145	202,519
	762,637	1,473	52,145	816,255

35.2- CREDIT RISK (continued)

2015	Neither past due nor impaired LL million	Past due but not impaired LL million	Individually impaired LL million	Total LL million
Balances with the Central Bank	44,882	-	-	44,882
Financial assets at fair value through profit or loss	38,095	-	-	38,095
Financial assets at amortized cost	223,370	-	-	223,370
	261,465	-	-	261,465
Due from banks and financial institutions	115,032	-	-	115,032
Loans and advances to customers at amortized cost	100,012	1,497	42,531	144,040
	521,391	1,497	42,531	565,419

For accounting purposes, the Group uses an incurred loss model for the recognition of losses on impaired financial assets. This means that losses can only be recognized when objective evidence of a specific loss event has been observed. Triggering events include the following:
- Significant financial difficulty of the counterparty;
- A breach of contract such as a default of payment;
- It becomes probable that the counterparty will enter bankruptcy or other financial reorganization; and
- Observable data that suggests that there is a decrease in the estimated future cash flows from the asset.

35.3- LIQUIDITY RISK AND FUNDING MANAGEMENT

Liquidity risk is defined as the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Group might be unable to meet its payment obligations when they fall due under both normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its capital base, manages assets with liquidity in mind, maintaining a healthy balance of cash and cash equivalents and readily marketable securities.
The Group maintains a portfolio of highly marketable and diverse assets that assumed to be easily liquidated in the event of an unforeseen interruption of cash flows. The Group also has committed lines of credit that it can access to meet liquidity needs.

Analysis of Financial Assets and Liabilities by Contractual Maturities
The table below summarizes the maturity profile of the Bank's financial assets and liabilities as at 31 December.

31 December 2016	Up to 3 months LL million	3 to 12 months LL million	1 to 5 years LL million	Over 5 years LL million	Total LL million
Financial assets					
Cash and balances with the Central Bank	19,387	6,495	45,222	62,829	133,933
Due from banks and financial institutions	50,209	11,658	-	-	61,867
Financial assets at fair value through profit or loss	19,752	23	-	18,584	38,359
Loans and advances to customers at amortized cost	82,014	18,408	37,424	9,294	147,140
Financial assets at amortized cost	1,044	7,534	135,810	224,771	369,159
Financial assets at fair value through other comprehensive income	-	-	-	13,003	13,003
Total financial assets	172,406	44,118	218,456	328,481	763,461
Financial liabilities					
Due to Central Bank, banks and financial institutions	42,184	1,102	111,023	45,751	200,060
Customers and related parties deposits at amortized cost	288,460	96,246	2,775	45	387,526
Total financial liabilities	330,644	97,348	113,798	45,796	587,586
Net financial assets	(158,238)	(53,230)	104,658	282,685	175,875

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35.3- LIQUIDITY RISK AND FUNDING MANAGEMENT (continued)

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

31 December 2015	Up to 3 months LL million	3 to 12 months LL million	1 to 5 years LL million	Over 5 years LL million	Total LL million
Financial assets					
Cash and balances with the Central Bank	29,296	4,524	13,569	-	47,389
Due from banks and financial institutions	91,794	23,238	-	-	115,032
Financial assets at fair value through profit or loss	132	190	6,032	31,741	38,095
Loans and advances to customers and related parties at amortized cost	30,376	15,511	52,204	3,466	101,557
Financial assets at amortized cost	5,725	389	98,335	118,921	223,370
Total financial assets	157,323	43,852	170,140	154,128	525,443
Financial liabilities					
Due to the Central Bank of Lebanon	336	-	73,157	-	73,493
Due to banks and financial institutions	28,868	35,811	-	-	64,679
Customers and related parties deposits at amortized cost	206,132	27,341	729	189	234,391
Total financial liabilities	235,336	63,152	73,886	189	372,563
Net financial assets	(78,013)	(19,300)	96,254	153,939	152,880

35.4- 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.

(a) Interest rate risk

The Group's interest sensitivity gap based on the earlier of contractual re-pricing or maturity date at 31 December was as follows:

2016	Up to 3 months LL million	3 to 12 months LL million	1 to 5 years LL million	More than 5 years LL million	Non-interest sensitive LL million	Total LL million
Financial assets						
Cash and balances with the Central Bank	47,754	6,495	6,000	62,829	10,855	133,933
Due from banks and financial institutions	31,082	11,658	-	-	19,127	61,867
Financial assets at fair value through profit or loss	19,752	23	-	3,616	14,968	38,359
Loans and advances to customers at amortized cost	81,436	18,408	37,424	9,294	578	147,140
Financial assets at amortized cost	1,044	7,534	135,810	220,598	4,173	369,159
Financial assets at fair value through other comprehensive income	-	-	-	-	13,003	13,003
Total financial assets	181,068	44,118	179,234	296,337	62,704	763,461
Financial liabilities						
Due to Central Bank, banks and financial institutions	3,198	1,102	11,023	45,751	38,986	200,060
Customers deposits and related parties at amortized cost	241,751	94,319	2,489	-	48,967	387,526
Total financial liabilities	244,949	95,421	113,512	45,751	87,953	587,586
Net financial assets	(63,881)	(51,303)	65,722	250,586	(25,249)	175,875

35.4- MARKET RISK (continued)

(a) Interest rate risk (continued)

2015	Up to 3 months LL million	3 to 12 months LL million	1 to 5 years LL million	More than 5 years LL million	Non-interest sensitive LL million	Total LL million
Financial assets						
Cash and balances with the Central Bank	30,600	4,524	-	-	12,265	47,389
Due from banks and financial institutions	84,005	23,238	-	-	7,789	115,032
Financial assets at fair value through profit or loss	132	190	6,032	14,920	16,821	38,095
Loans and advances to customers at amortized cost	29,980	15,511	52,204	3,464	398	101,557
Financial assets at amortized cost	3,596	388	98,335	118,920	2,131	223,370
Total financial assets	148,313	43,851	156,571	137,304	39,404	525,443
Financial liabilities						
Due to Central Bank	163	-	73,157	-	173	73,493
Due to banks and financial institutions	16,515	36,655	-	-	11,509	64,679
Customers deposits and related parties at amortized cost	200,959	27,341	729	189	5,173	234,391
Total financial liabilities	217,637	63,996	73,886	189	16,855	372,563
Net financial assets	(69,324)	(20,145)	82,685	137,115	22,549	152,880

(b) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Breakdown of assets and liabilities by currency as at 31 December:

2016	LL LL million	USD LL million	Other LL million	Total LL million
Assets				
Cash and balances with the Central Bank	74,793	46,991	12,149	133,933
Due from banks and financial institutions	32,572	21,398	7,897	61,867
Financial assets at fair value through profit or loss	9,602	28,139	618	38,359
Loans and advances to customers at amortized cost	44,744	97,746	4,650	147,140
Financial assets at amortized cost	136,408	232,751	-	369,159
Financial assets at fair value through other comprehensive income	920	12,083	-	13,003
Total assets	299,039	439,108	25,314	763,461
Liabilities and equity				
Liabilities				
Due to Central Bank	117,069	-	-	117,069
Due to bank and financial institutions	6,313	69,266	7,412	82,991
Customers' and related parties' deposits at amortized cost	59,199	307,912	20,415	387,526
Total liabilities	182,581	377,178	27,827	587,586
Net exposure	116,458	61,930	(2,513)	175,875

(b) Currency risk (continued)

2015	LL LL million	USD LL million	Other LL million	Total LL million
Assets				
Cash and balances with the Central Bank	3,019	44,295	75	47,389
Due from banks and financial institutions	91,983	19,663	3,386	115,032
Financial assets at fair value through profit or loss	5,358	32,737	-	38,095
Loans and advances to customers at amortized cost	4,588	89,074	7,895	101,557
Financial assets at amortized cost	109,375	113,995	-	223,370
Total assets	214,323	299,764	11,356	525,443
Liabilities and equity				
Liabilities				
Due to Central Bank	73,493	-	-	73,493
Due to bank and financial institutions	13,942	43,345	7,392	64,679
Customers' and related parties' deposits at amortized cost	20,703	208,601	5,087	234,391
Total liabilities	108,138	251,946	12,479	372,563
Net exposure	106,185	47,818	(1,123)	152,880

The Bank's exposure to currency risk

As part of the management of the currency exposure, the Bank holds a fixed position with the Central Bank of Lebanon in US Dollars amounting to LL 39,195 million (as converted at year end rate).

Balances denominated in US Dollars are not considered to constitute a significant currency risk as the exchange rate of the Lebanese Lira against the US Dollar has remained stable in recent years.

35.5- OPERATIONAL RISK

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

35.6- PREPAYMENT RISK

Prepayment risk is the risk that the Group will incur a financial loss because counterparties repay or request repayment earlier than expected. Market conditions causing prepayment is not significant in the markets in which the Group operates. Therefore, the Group considers the effect of prepayment on net interest income not material after taking into account the effect of any prepayment penalties.

36- CAPITAL MANAGEMENT

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

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

Capital adequacy and the use of regulatory capital are regularly managed by the Group's management, employing techniques, as requested by the Central Bank of Lebanon, (based on the guidelines developed by the Basel Committee). The required information is filed with the regulator on a semi-annual basis.

The regulatory capital requirements are strictly observed when managing economic capital. The Group complied with all capital ratios requirements throughout the period.

The table below summarizes the composition of regulatory capital ratios for the years ended 31 December 2016 and 2015. The computation of the capital adequacy ratio was performed in accordance with the directives issued by the Banking Control Commission of Lebanon (BCCL memo no. 5/2016).

Regulatory capital
At 31 December, the capital consists of the following:

	2016 LL million	2015 LL million
Tier 1 capital	**149,007**	145,599
Total capital	**149,007**	145,599
Risk weighted assets	**453,931**	330,647

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

	2016	2015
Tier 1 capital ratio	**32.83%**	44.03%

37- COMPARATIVE INFORMATION

During the year ended 31 December 2016, the Bank reclassified some comparative amounts to improve the quality of the information presented.

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