# North Africa Commercial Bank S.A.L.

Beirut – Lebanon

ANNUAL REPORT

2015

North Africa Commercial Bank S.A.L.

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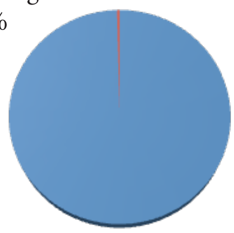
# Ownership, BOD, General Management

## Ownership

| | |
|---|---|
| Libyan Foreign Bank | 99.56% |
| Demoreco Holding S.A.L. | 0.43% |
| Others | 0.01% |




## Board of Directors

| | |
|---|---|
| **Mr. Mohamed Najib Hmida El-Jamal** | **Chairman** |
| Libyan Foreign Bank | Member Rep. by *Mr. Mohamed Najib Mugber* |
| Demoreco Holding S.A.L. | Member Rep. by *Dr. Abdusslam A. Gehawe* |
| Mr. Mohamed Mounir Naffi | Member |
| Mr. Jean Paul Marcel Touma | Member |
| Dr. Khaled Mohamed El Kurdi | Member |
| Dr. Abubaker Mohamed Al Waddan | Member |
| Mr. Youssef Mabrouk Al Ajail | Member |
| Rawi Boutros Kanaan Esq. | Member |
| Mrs. Rania Joseph El Hage | Secretary of the board |

## General Management

| | |
|---|---|
| **Mr. Mohamed Najib Hmida El-Jamal** | **Chairman & General Manager** |
| Mr. AlHadi Emgahid Abultife | AGM for Banking Operations |

# The Board of Directors Members of North Africa Commercial Bank S.A.L.

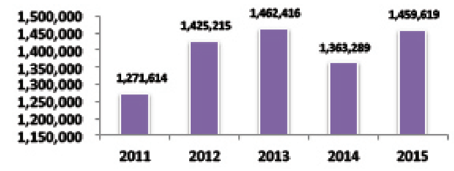
| Members Name | Independent | Executive | Audit Committee | Risk Committee | Remuneration Committee |
|---|---|---|---|---|---|
| Mr. Mohamed Najib Hmida El-Jamal | | • | | | |
| Libyan Foreign Bank Member Rep. by Mr. Mohamed Najib Mugber | | | | • | • |
| Demoreco Holding Member Rep. by Dr. Abdusslam Gehawe | | | • | | |
| Mr. Mohamed Mounir Naffi | • | | President • | | |
| Mr. Jean Paul Marcel Touma | • | | | President • | |
| Dr. Khaled Mohamed El Kurdi | • | | | • | |
| Dr. Abubaker Mohamed Al Waddan | • | | • | | • |
| Mr. Youssef Mabrouk Al Ajail | | | • | | |
| Rawi Boutros Kanaan Esq. | • | | | • | President • |

| | |
|---|---|
| **Mrs. Rania El Hage** | Secretary of the Board / Secretary of Remuneration Committee |
| **Mrs. Henriette Gemayel** | Secretary of Risk Committee |
| **Mr. Hassane Ghalayini** | Secretary of Audit Committee |

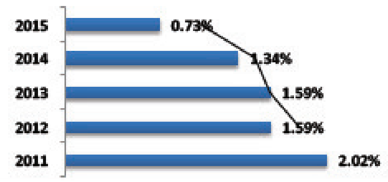
# Financial Highlights

in Million of LBP

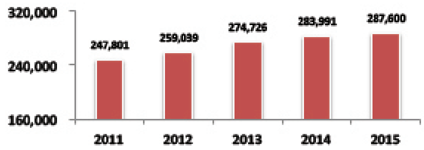
## Total Assets



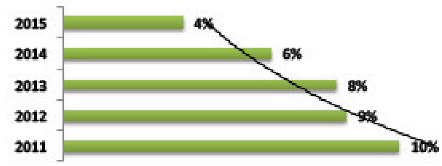

## Return on Assets



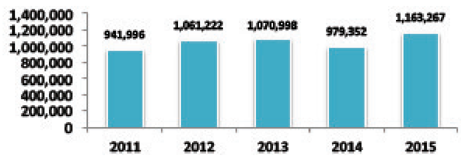

## Shareholders' Equity



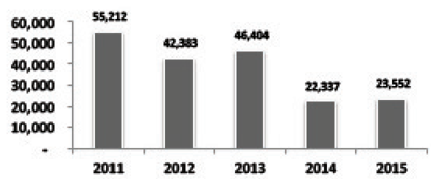

## Return on Equity



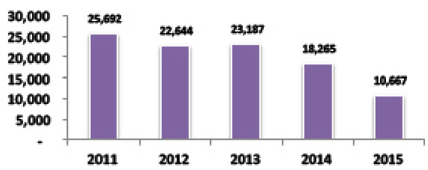

## Total Deposits



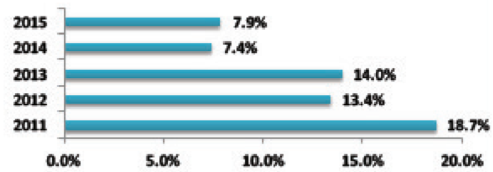

## Loans and Advances to customers



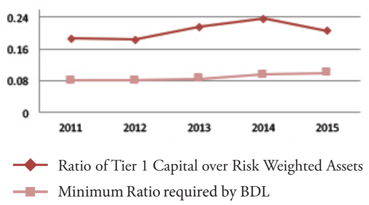

## Net Profit



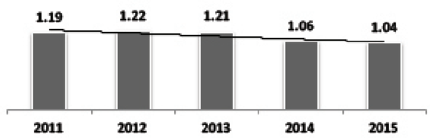

## Loans and Advances to Deposits Ratio




## Capital Adequacy Ratio




## Gearing ratio



# Board of Directors Report

## Chairman's letter

Dear Sirs,

The Lebanese banking sector continued to face the regional and internal challenges given the high efficiency of The Central Bank of Lebanon and the robustness of Lebanese banks, which allowed this sector to assume a leading position in the Middle East, promoting its ability to work in unstable circumstances and attract local, Arab, and international customers. In spite of the huge burden resulting from the weak economic growth and external payments deficit, the banking sector in Lebanon grew by 4.8% in terms of deposits, which is a sufficient percentage to cover the financing needs of the Lebanese economy. Moreover, banks' capitals reached a historical level of 16.7 billion USD, knowing that the consolidated balance sheet of commercial banks in Lebanon amounted to 187.6 billion USD, with a growth of 6%, representing 374% of Lebanon's Growth Domestic Product (GDP).

In such a situation, North Africa Commercial Bank S.A.L., with its available capabilities and limited sources, is trying to promote its financial position and reached a growth of 7% and a capital adequacy ratio of 20.5%, while improving the quality of its assets through the adoption of a conservative policy for internal marketing, and limiting the costs to harmonize risks and rewards under precautionary measures due to regional circumstances and the situation in the Arab region resulting from the repercussions of political, financial, and economic crises and wars in some countries, especially in Libya which is considered one of the main and important markets, in addition to the events in Syria which are affecting the Lebanese economy, as well as the instability of international markets and the problems that the European economy is facing.

All these repercussions affected the banking sector in general, and small banks in particular, and were accompanied by the huge drop of oil prices which really affected exporting countries, leaving a negative impact on the different economic and development levels, particularly that economic policies' management of sovereign resources throughout the years failed to achieve a strategy for oil returns alternatives to finance their economies, in order to hedge for such a scenario and regain growth patterns by activating true economy, given the sharp fluctuations in oil prices and the prevailing international circumstances. Therefore, the current local and international environment can be considered a real indicator of instability in international markets in the short term. This will have a highly negative impact on all enterprises in our region and on its financial sector, especially small banks.

In our modest institution, we have already mentioned in our previous annual reports such expectations which made us fully convinced that shareholders in Arab banks of any size must take decisions based on the evaluation of dangerous and more complex international circumstances to be able to face such a situation, and to focus on a strategy leading to mergers or the emergence of banking clusters in our countries, to prevent clearly serious consequences, while confirming at the same time the numerous expected problems that would affect banks in general, and banks of limited capitals in particular. Thus, considering transnational common strategies has become inevitable to enhance our protection shield against the coming high risks, in an attempt to reach a secure and relatively stable environment.

In light of this tensed and unstable environment in our region, at NACB Beirut we tried and still seeking a banking cluster with Lebanese or sister banking institutions, and we keep reminding our shareholders, for many years now, that risks are clear for small banks, and that there is no alternative but consolidating banks' capitals and supporting their reserves. That is why we urgently called for this vision to guarantee an important share in the banking entity to be formed, allowing a competitive solvency, and stressing the importance of time factor to take a decision in this regard to protect our bank and use its available resources in a unified and organized collective manner – with one or more banks – foreseeing future prospects and being able to keep abreast of developments in this field to achieve the economic growth of our countries.

Finally, on my behalf and that of NACB Board members and employees, I would like to wish all of us the best of luck for the good of our countries and that God enlightens our way to build strong economic and financial institutions in our Arab world that are able to support our societies. This would not be possible without understanding the international political and economic situation and dealing with it in a professional and scientific manner, and by prevailing national interests in international relations to reinforce public and private institutions through the synergy of the banking sector, being the main pillar of the economy and its only refuge.

**Mohamed Najib Hmida El-Jamal**
**Chairman & General Manager**

## Corporate Governance

Corporate governance in banks is considered one of the international community priorities after the numerous crises that hit the economies of countries, making it the main focus of international organizations and institutions. The publications and guidelines of Basel Committee aimed to address corporate governance gaps, knowing that some of these resulted from the international financial crisis and were highlighted in the relevant best practices guidelines.

Therefore, it is necessary to develop and improve governance and risk management practices, supervisory and control frameworks, design incentives systems in the decision making process, address the main challenges of the Board's structure, put in place the appropriate mechanisms to protect shareholders' and depositors' rights, and promote risk tolerance frameworks.

Our bank's commitment to apply corporate governance, has led to the increase in accountability which was reflected by increasing transparency of financial statements, and ensuring proper evaluation of the financial performance and fighting corruption to preserve the rights of all parties.

Moreover, internal audit systems in banks played a major role in activating the approach of corporate governance by linking the Board of Directors with external parties, and realizing autonomy to reach transparency and full disclosure through the quality of professional performance. This contributed to enhancing integrity, independence, and objectivity of external auditors through their supervisory role; in addition to promoting investors' awareness of their rights in terms of accountability of BOD members and executive managers.

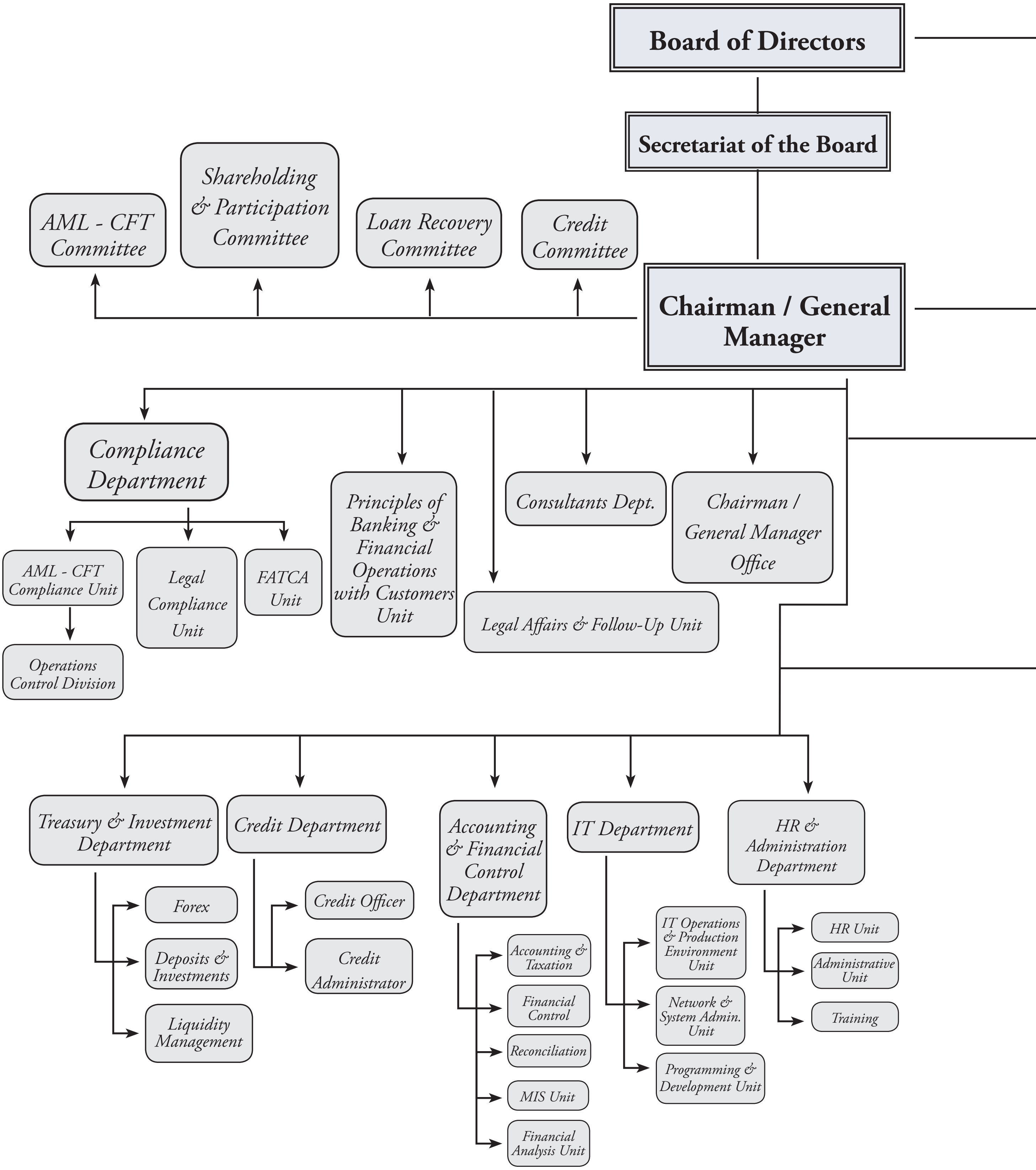
North Africa Commercial Bank SAL abides by the circulars of the Central Bank of Lebanon (BDL) and the Banking Control Commission (BCCL), especially regarding the application of the corporate governance guide, and through cooperation and collaboration between executive management and employees, and by clearly and transparently distributing roles and responsibilities among supervisory, administrative, and executive entities.

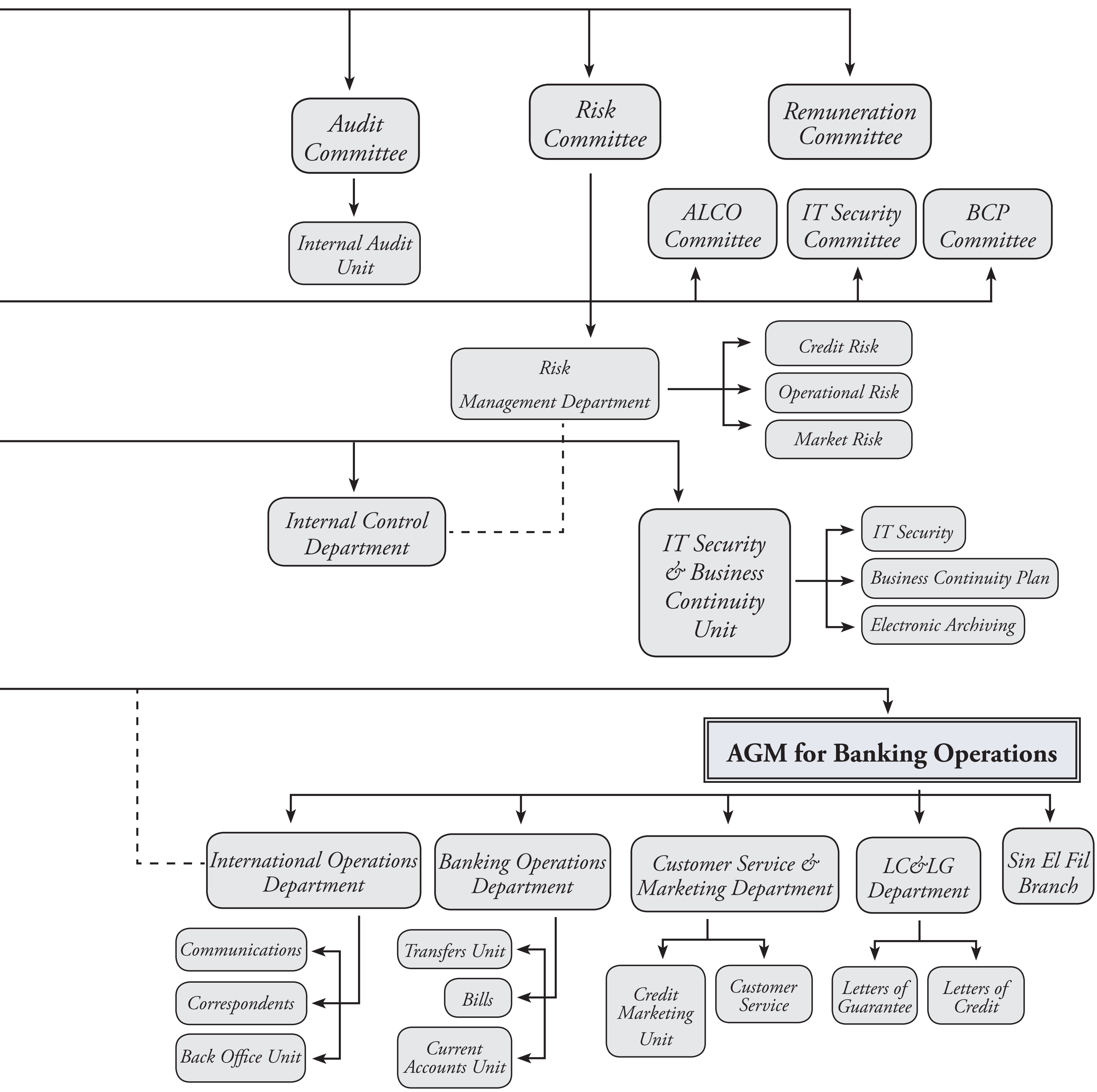
The Board and the executive senior management of North Africa Commercial Bank SAL continuously seek to create a balance between the requirements of Lebanese regulatory authorities in applying Basel standards and the requirements of protecting the bank and its assets.

The executive senior management works on assessing the financial and organizational performance subject to accountability through the optimization of employees' capabilities and competencies, and the management of its available resources that would work on developing the bank.

The Board seeks to implement corporate governance through a complete practical framework including a specific organization structure, to be able to apply all the main standards and pillars of corporate governance according to the adopted policy and best practices.

The banking activities are applied according to the following organization chart:


Board of Directors
Secretariat of the Board
Chairman / General Manager
AML - CFT Committee
Shareholding & Participation Committee
Loan Recovery Committee
Credit Committee
Compliance Department
AML - CFT Compliance Unit
Operations Control Division
Legal Compliance Unit
FATCA Unit
Principles of Banking & Financial Operations with Customers Unit
Consultants Dept.
Chairman / General Manager Office
Legal Affairs & Follow-Up Unit
Treasury & Investment Department
Forex
Deposits & Investments
Liquidity Management
Credit Department
Credit Officer
Credit Administrator
Accounting & Financial Control Department
Accounting & Taxation
Financial Control
Reconciliation
MIS Unit
Financial Analysis Unit
IT Department
IT Operations & Production Environment Unit
Network & System Admin. Unit
Programming & Development Unit
HR & Administration Department
HR Unit
Administrative Unit
Training


Audit Committee
Risk Committee
Remuneration Committee
Internal Audit Unit
ALCO Committee
IT Security Committee
BCP Committee
Risk Management Department
Credit Risk
Operational Risk
Market Risk
Internal Control Department
IT Security & Business Continuity Unit
IT Security
Business Continuity Plan
Electronic Archiving
AGM for Banking Operations
International Operations Department
Banking Operations Department
Customer Service & Marketing Department
LC&LG Department
Sin El Fil Branch
Communications
Correspondents
Back Office Unit
Transfers Unit
Bills
Current Accounts Unit
Credit Marketing Unit
Customer Service
Letters of Guarantee
Letters of Credit

## Board of Directors' Committees

### Audit Committee

- Ensure qualifications and independence of both regulators and internal audit unit.
- Monitor the integrity of financial statements and review disclosures standards adopted in the Bank.
- Assure adequacy and effectiveness of systems and internal control procedures.
- Follow up the good execution of corrective suggestions presented in the reports of the internal audit unit and the regulatory authorities and controller's commission.
- Monitor the bank's compliance to regulations and recommendations issued by the Central Bank of Lebanon and the Banking Control Commission.

### Remuneration Committee

- Supervise the proper implementation of both the "Remuneration Policy" and "Remuneration System", and review periodically the efficiency and effectiveness of this policy.
- Submit to the Board of Directors specific proposals about the Senior Executive Management remunerations.

### Risk Committee

- Review the Risk Management strategy, as well as the risk appetite approved by the Board of Directors.
- Ensure the availability of risk management policies, frameworks, programs, and tools to do so, in parallel to the periodic revision to ensure their effectiveness and modify them if necessary.
- Revise stress tests used in the analysis of credit, market, and operational risks and approve plans for emergency cases.
- Discuss the reports of risk management.
- Monitor the Bank's preparations to apply Basel 2 and 3 requirements with respect to the risk management and measurement.

## Core Decisions' Executive Committees

### Credit Committee

- Make the necessary decisions on credit operations according to the limits and terms specified by the Bank's Board of Directors.
- Examine and follow up on everything pertaining to the Credit Department, including the development of its policies and procedures.

### Shareholding & Participation Committee

- Make all necessary decisions related to shareholding and participation operations, as well as real estate investments.
- Put the general framework of the bank's investment policy.
- Set the appropriate strategies for Bank's free capital placements.

### ALCO Committee

- Make all major decisions relating to investment processes and ensure the optimal return.
- Illustrate the general framework for market risk management policy, including interest rate risk, liquidity risk, and Forex risk.

# Senior Management Committees

## *Strategic Committee*

- Periodically follow up to implement the guidelines of the Bank's strategy.
- Recognize expansion plans in terms of offering new products, accessing new markets, developing Bank activities, and training staff.

## *Business Continuity Plan Committee*

- Periodically supervise business continuity plan to mitigate the risk of disasters and exceptional conditions.
- Categorize the Bank's activities priorities to basic, necessary and not obligatory.
- Identify alternative location and key staff to perform this task.

## *Information Technology Security Committee*

- Periodically review ITS Policies and procedures to ensure the safety of information technology systems, and enhance any essential updates.
- Examine and assess all the information security risks.
- Review and adopt alternative plans to ensure the integrity of information systems in the Bank.

## *Management Information Systems Committee*

- Supervise the proper use of database.
- Develop Management Information Systems, especially those related to financial reports for authorities and regulators, disclosures and risk management systems.

## *AML - CFT Committee*

- Supervise the proper implementation of anti-money laundering activities guide.
- Follow up and discuss the periodic reports raised by the Compliance Unit related to banking operations, and ensure appropriate reporting to the BOD.

## *Foreign Account Tax Compliance Act-(FATCA) Committee*

- Follow up the requirements of the Foreign Account Tax Compliance Act (FATCA) and the necessary procedures to be applied accordingly, taking into consideration the schedule enclosed in this Act.
- Coordinate directly with the Committee formed in the parent bank (Libyan Foreign Bank) to follow up the (FATCA) application, because of the close correlation to the bank owner in the application of this law, as stated in the texts.
- Provide the necessary training to all the Bank's staff, especially to those who deal directly with customers.

## Internal Control and Risk Management Systems

The bank attaches a great importance to the internal control function due to its important role to achieve banking security and safety, as well as the integrity and credibility of financial information and what is related to processing and accounting, in addition to the compliance with legislations, regulations, and internal policies and procedures.

Internal control systems in NACB SAL are as follows:

## The Internal Audit unit

Internal audit is an independent and objective assurance and consulting function aiming to improve banking operations and help the bank in achieving its objectives. The Internal Audit Unit performs this function by adopting a methodological and organized approach in its auditing roles in order to evaluate and improve the efficiency and effectiveness of governance and internal control and risk management systems at the bank.

The unit works according to the internal audit charter approved by the Audit Committee and the Board of Directors; which guarantees its independence and specifies its scope of work, roles and responsibilities, and its relation with the Audit Committee and the General Management.

## Risk Management Department

NACB SAL attaches a great importance to risk management which is an essential part of the corporate governance practical framework, and stresses the need to comply with the latest banking requirements of Basel Committee and regulatory authorities in Lebanon.

The internal control policies and procedures adopted by the bank aim at reducing the risks, and defining investment trends and supporting mechanisms, the regulatory capital and the new capital reserves according to Basel III standards, international liquidity standards and stress tests, the newly introduced controls, the Internal Capital Adequacy Assessment Process (ICAAP), the corporate governance and risk management good practices, and forecasting and early warning indicators supported by the Management Information System (MIS) adopted by the bank.

The Risk Management Department specifies, evaluates, and measures risks and develops efficient strategies to manage and take the appropriate measures to reduce these risks and mitigate their effects to follow the bank's activities development and its related risks.

The Risk Management Department reports to the Risk Committee, and to the Chairman/ General Manager. It supports the bank's committees, such as Credit Committee, Assets and Liabilities Management Committee, and Shareholding and Participations Committee. Its main tasks are the following:

- Participating in the development of modern concepts of risk management and deepening the understanding of the bank's risk policy;
- Increasing risk transparency and disclosure by applying the appropriate management information systems and credit assessment programs;
- Keeping high Capital Adequacy Ratios by maintaining the quality of the bank's assets and reducing the rate of non-performing loans;
- Improving the Liquidity Coverage Ratio (LCR) and stress tests;
- Conducting quantitative impact studies of Basel III indicators for regulators, and abiding by leverage ratios;
- Encouraging continuous learning to identify the risks by designing and providing training and educational programs in the bank;
- Working on introducing the necessary amendments on the methods of calculating losses on bank's credit portfolios as per IFRS 9.

## Compliance Department

### 1- Legal Compliance Unit

The Legal Compliance Unit performs its tasks as per its annual program in line with its working mechanism aiming at identifying and hedging legal risks as per article five of BDL's circular No. 128, starting by reviewing the extent of compliance of units' policies and procedures with banking laws and circulars, to conducting the appropriate field tests to confirm employees' abidance, counseling, and applying the necessary corrective measures.

The unit also keeps abreast with all developments in laws and regulations and proposes any amendments to the bank's policies and procedures that it deems necessary in this field.

### 2- Anti-Money Laundering and Combating Financing Terrorism Compliance Unit

In terms of effective activities of anti-money laundering and combating financing terrorism, the compliance unit ensures the continuous control of all banking operations as per the laws and instructions of BDL and the Special Investigation Commission (SIC), and international best practices and standards. Moreover, the unit has developed its work approaches and procedures, in line with BDL's Intermediate Circular No. 371 and Law No. 44 dated 24/11/2015 related to anti-money laundering and combating financing terrorism, and is in the last phase of implementing the supporting program that the bank has acquired recently, which will support its work once implemented.

### 3- FATCA Compliance Unit

The FATCA Unit continuously monitors the bank's compliance with FATCA requirements and deadlines. It also follows up on all developments related to relevant American entities in that regard. And in order to activate the notification and control process as per this law, the bank has bought a program that will support the unit in its tasks once it is fully implemented.

## IT Security and Business Continuity Department

The bank is fully committed to develop the infrastructure of IT and IT Security by investing in information protection systems and guarantying business continuity against any disaster, in order to protect bank's customers' information and ensure the proper functioning of their business.

The bank is also fully committed to apply all BDL and BCCL's circulars, and abides by the safety measures adopted to protect all IT systems and equipments in order to guarantee business continuity and the bank's technical activities. Therefore, the bank applies all relevant policies and commits to IT security standards and best international practices, to spread and promote the IT governance culture.

## Bank's Financial Analysis

Political crises in Lebanon and the Arab region during the last years had largely affected all financial and economic indicators. Therefore, the bank works on maintaining the growth trend of its business volume. Total assets had an average growth of 3% in the last years, as a result of the efforts to increase the sources of funds, especially from non-resident parties. Moreover, the bank worked on comprehensively covering non-performing loans. And in line with capital support scheme as per Basel III requirements, the bank allocates the profits in a way to guarantee appropriate yield to shareholders and maintain high financial indicators in terms of financial leverage ratios.

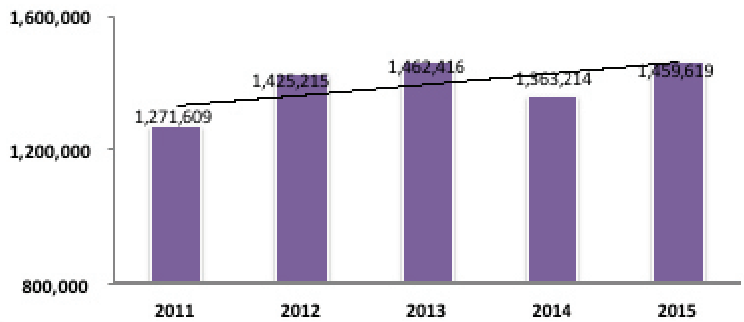
Below we expose the developments regarding the growth of assets and liabilities, as well as the analysis of profitability, liquidity, and solvency for the past five years.

### First. Assets:

The bank maintained a good level of growth in the five previous years, as a result of the attractiveness of the Lebanese market, the strength of the banking sector, the high interest rates applied in Lebanon compared to global interest rates, in addition to the marketing efforts to support the confidence of depositors in the bank's strength.

### Total Assets

Million Lebanese Pounds



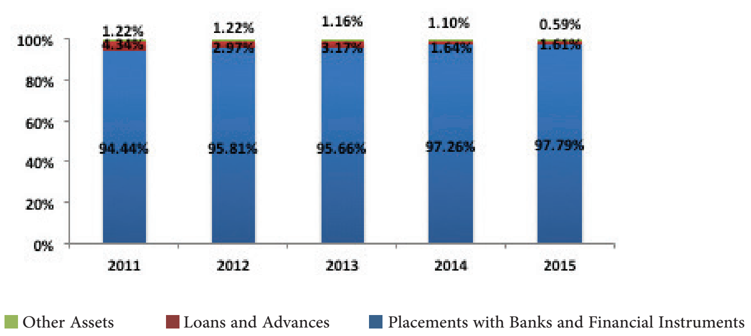

US Dollar exchange rate: 1507.50 LP

North Africa Commercial Bank S.A.L.

## Assets distribution ratios

In recent years, the bank has followed a conservative policy in terms of funds placements and focused on rewarding and low risk investments, such as investments with banks and investments in financial instruments. These represented in total 97.79% of total assets by the end of 2015, allowing the bank to maintain high liquidity ratios. This came as a result of slow economic growth rates in the Lebanese market that do not encourage increasing credit limits.

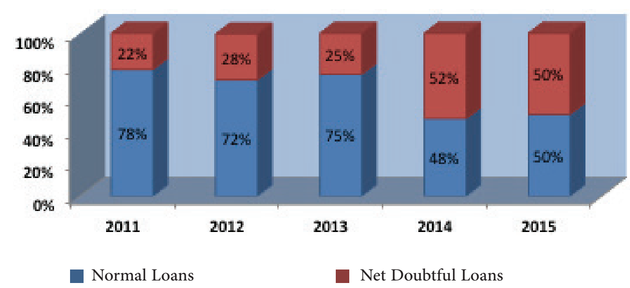
**Percentage Distribution of Assets**




## 1- Loans and advances to customers:

In the midst of political and economic situation in the region and in Lebanon, Lebanese banks took a conservative position regarding advances which were limited to specific customers, based on a long history of dealing with them. The bank remains conservative in terms of advances that are limited to loans and facilities granted against sufficient guarantees. The bank was able to liberate its financial position from the burden of non-performing loans by creating sufficient provisions and reserves for these debts.

**Loans and Advances**




US Dollar exchange rate: 1507.50 LP

| In Millions of LBP | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| Normal Loans | 42,902 | 30,326 | 34,690 | 10,630 | 11,845 |
| Net Doubtful Loans* | 12,310 | 11,971 | 11,714 | 11,707 | 11,707 |
| Total Loans | 55,212 | 42,483 | 46,404 | 22,337 | 23,552 |

* Fully covered by special reserves against doubtful loans in addition to real estate collaterals.

## 2- Investments with banks

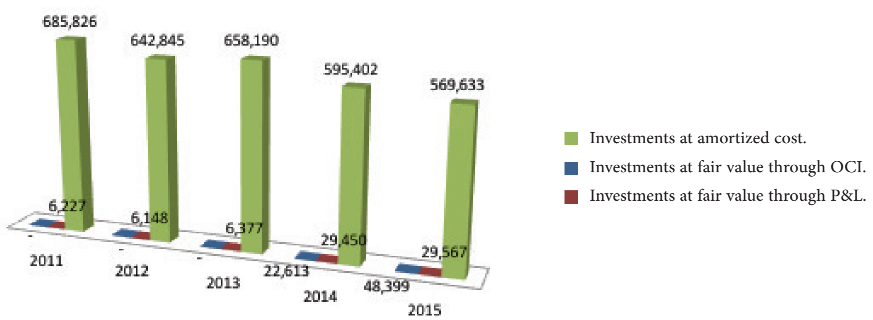
Investments with banks and financial institutions witnessed a noticeable growth by the end of 2015, reaching 53% of the bank's total assets. The bank also kept short term investments represented by term deposits with commercial banks in order to maintain the adequate liquidity levels. These investments include compulsory reserves with BDL.

## 3- Financial instruments portfolio

The portfolio of financial instruments witnessed an important development recently, for that it represented 44% of the bank's total assets in 2015. These investments are composed of Treasury Bills and Eurobonds issued by the Lebanese Republic, certificates of deposit and debt securities issued by BDL and Lebanese banks, in addition to some investment funds. The development of these instruments was as follows:

### Financial Instruments Portfolio

Million Lebanese Pounds



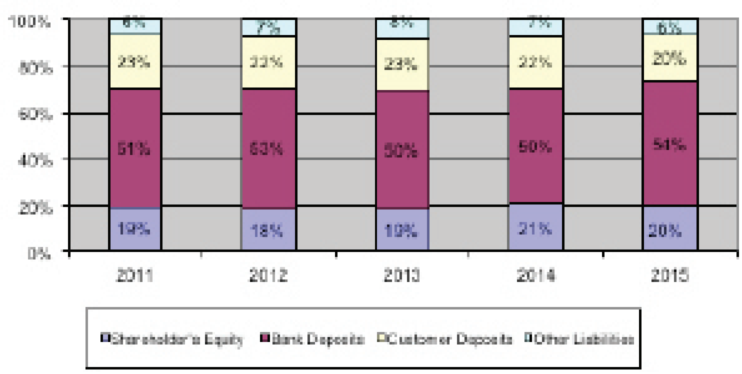

US Dollar exchange rate: 1507.50 LP

| Million Lebanese Pounds | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| Investments at amortized cost | 685,826 | 642,845 | 658,190 | 595,402 | 569,633 |
| Investments at fair value through P&L | 6,227 | 6,148 | 6,377 | 29,450 | 29,567 |
| Investments at fair value through OCI | - | - | - | 22,613 | 48,399 |
| **Financial Instruments Portfolio** | **692,053** | **648,993** | **664,567** | **647,465** | **647,599** |

## Second. Liabilities and Shareholders' equity

A substantial change in the structure of the bank's sources of funds took place recently where shareholders' equity represented 20% of these sources by the end of 2015, whereas banks' deposits represented the largest part of these sources by 54%.

### Percentage Distribution of Liabilities

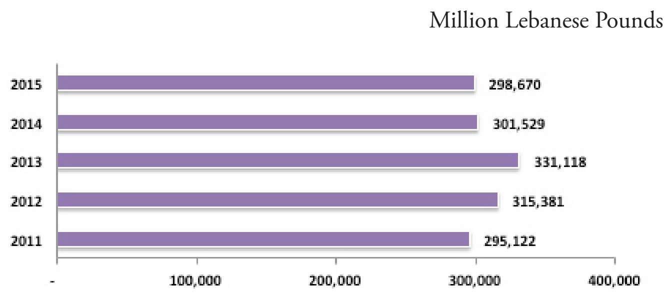



US Dollar exchange rate: 1507.50 LP

## 1- Customers' deposits

The customers' deposits portfolio represented 20% of the total sources of funds by the end of 2015. Customers' deposits remained almost the same as it is in comparison with 2014, because of the current political and economic situation.

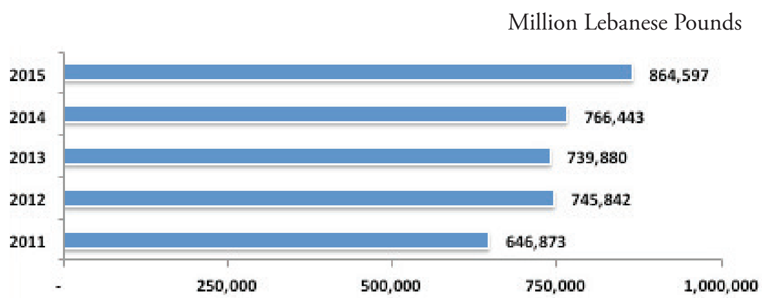
### Customer Deposits




## 2- Deposits from Banks

The efforts made in the past five years contributed to the growth in deposits from banks in quite noticeable way by a yearly average of 7%; the size of these deposits reached 864,597 million Lebanese Pounds by the end of 2015, representing 59% of the total sources of funds.

### Deposits from Banks



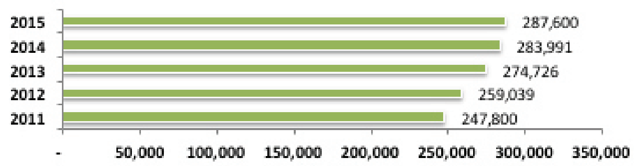

US Dollar exchange rate: 1507.50 LP

## 3- Shareholders' equity

Complying with Basel III requirements, and in order to keep high solvency and liquidity ratios, the bank works annually through the capital support scheme on increasing its capital by retaining profits and taking the necessary reserves. The bank's capital is characterized by being within the Common Equity Tier1 category. Shareholders' equity in the past five years grew as follows:

### Shareholder's Equity

Million Lebanese Pounds




| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| Shareholders' Equity | 247,800 | 259,039 | 274,726 | 283,991 | 287,600 |

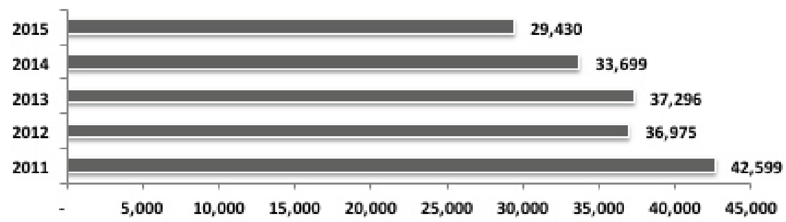
## Third. Profits and Losses

### 1- Net interest income

Due to decrease in investments, resulting from the bad economic and political situation in the region, the net interest income went down in the last two years reaching 29,430 million Lebanese Pounds by the end of 2015. The net interest income in the past five years was as follows:

### Net Interest Income

Million Lebanese Pounds



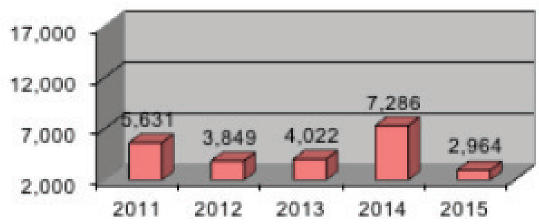

US Dollar exchange rate: 1507.50 LP

## 2- Net commissions and other Income

The majority of changes in this item are related to commissions received from letters of credits and guarantees. These Commissions decreased in 2015 by 59% in comparison with 2014. The net profit of commissions and other revenues in the past five years was as follows:

**Net Commissions & Other Income**

Million Lebanese Pounds




## 3- Administrative and general expenses

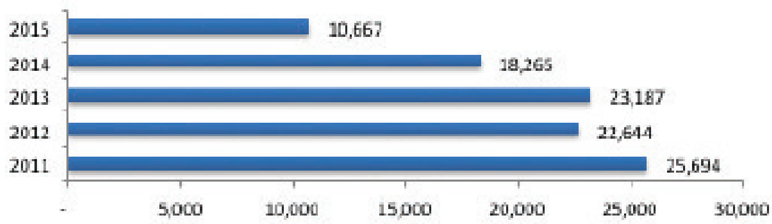
The bank maintained the policy of rationalizing the general expenses and the operational expenses in line with the growth of bank and the adopted budget.

## 4- Net profits

The bank was able to make net profits amounting to 10,667 million Lebanese Pounds by the end of 2015. This decrease in comparison with the last years resulted from the decrease in commissions specifically letters of credits commissions, and also due to lower return on financial instruments within the Lebanese market.

**Net Profit**

Million Lebanese Pounds



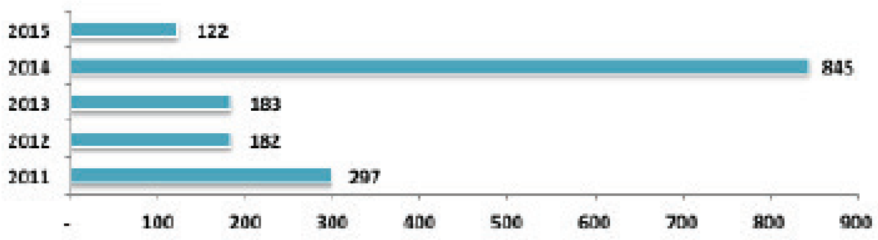

US Dollar exchange rate: 1507.50 LP

## Fourth. Letters of credit

The bank played in the last few years the role of financial intermediary in the MENA region. The political and economic situation in the Arab world -especially Libya- had negative repercussions on the size of letters of credit in the previous years. And the size of credits amounted to 122 billion Lebanese Pounds by the end of 2015. The size of the letters of credit in the last five years was as follows:

### Total L/Cs Processed

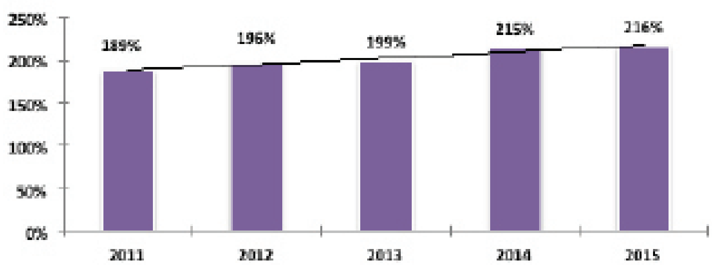
Billion Lebanese Pounds




## Fifth. Liquidity ratio (liquid assets to customers' deposits)

The bank maintains high liquidity ratios, and the ratio of liquid assets to customers' deposits reached almost 216% in 2015; reflecting the bank's tendency for liquid investments, which ensure the necessary liquidity and the sufficient financial flexibility of the bank to face any contingency, risks or commitments.

### Liquid Assets to Deposits




US Dollar exchange rate: 1507.50 LP

**Sixth. Capital Adequacy Ratio (Basel III):**

The bank maintains Capital Adequacy Ratios that exceed the minimum ratios required by Banque du Liban (BDL). Capital Adequacy Ratios in the last years were as follows:

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| Total Capital/Risk Weighted Assets | 18.65% | 18.28% | 21.48% | 23.57% | 20.52% |
| Ratio required by BDL | 10.00% | 10.00% | 10.50% | 11.50% | 12.00% |
| Tier 1 Capital/Risk Weighted Assets | 18.65% | 18.28% | 21.48% | 23.57% | 20.52% |
| Ratio required by BDL | 8.00% | 8.00% | 8.50% | 9.50% | 10.00% |
| Common Equity Tier 1/Risk Weighted Assets | 18.65% | 18.28% | 21.48% | 23.57% | 20.50% |
| Ratio required by BDL | 5.00% | 5.00% | 6.00% | 7.00% | 8.00% |

US Dollar exchange rate: 1507.50 LP

## Shareholders Annual Meeting

The Shareholders Annual Ordinary Meeting held on 28/06/2016 approved the board of directors' report, the balance sheet and the profit and loss account for the financial year2015 giving discharge to the members of the board.

# NORTH AFRICA COMMERCIAL BANK S.A.L.

*Financial statements and independent auditors' report*
*year ended 31 December 2015*


| | |
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| Independent Auditors' Report | 28-29 |
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# Independent Auditors' Report

To the Shareholders

North Africa Commercial Bank S.A.L.

Beirut, Lebanon

We have audited the accompanying financial statements of North Africa Commercial Bank S.A.L., which comprise the statement of financial position as at December 31, 2015, and the statement of profit or loss and other comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## Management's responsibility for the financial statements

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

## Auditor's responsibility

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

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

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

**Opinion**

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

***Deloitte & Touche*** ***Sidani & Co.***

Beirut, Lebanon

March 19, 2016

# Statement Of Financial Position

LBP'000

| | December 31 | | |
|---|---|---|---|
| | Notes | 2015 | 2014 |
| Assets | | | |
| Cash and Central Bank | 5 | 241,572,193 | 222,893,129 |
| Deposits with banks and financial institutions | 6 | 524,333,218 | 453,368,250 |
| Deposits with the parent, sister and other related banks | 7 | 13,927,232 | 2,192,097 |
| Loans and advances to customers | 8 | 23,552,334 | 22,337,070 |
| Investment securities at fair value through profit or loss | 9 | 29,567,409 | 29,450,464 |
| Investment securities at fair value through other comprehensive income | 9 | 48,399,075 | 22,612,477 |
| Investment securities at amortized cost | 9 | 569,632,557 | 595,401,940 |
| Customers' liability under acceptances | 10 | - | 264,994 |
| Assets acquired in satisfaction of loans | 11 | - | 5,889,955 |
| Property and equipment | 12 | 7,026,283 | 7,272,668 |
| Intangible assets | 13 | 544,557 | 470,454 |
| Other assets | 14 | 1,064,531 | 1,060,836 |
| Total Assets | | 1,459,619,389 | 1,363,214,334 |
| **Liabilities** | | | |
| Deposits from a central bank | 15 | 81,705,139 | 88,616,097 |
| Deposits from banks and financial institutions | 16 | 116,882,161 | 100,184,844 |
| Deposits from the parent, sister and other related banks | 17 | 666,010,117 | 577,640,175 |
| Customers' deposits | 18 | 298,669,872 | 301,527,671 |
| Liability under acceptances | 10 | - | 264,994 |
| Other liabilities | 19 | 3,682,390 | 5,990,648 |
| Provisions | 20 | 5,069,482 | 4,998,689 |
| Total liabilities | | 1,172,019,161 | 1,079,223,118 |
| **Equity** | | | |
| Capital | 21 | 15,000,000 | 15,000,000 |
| Cash contribution to capital | 21 | 148,488,750 | 148,488,750 |
| Reserves | 22 | 76,177,130 | 68,616,066 |
| Change in fair value of investment securities at fair value through other comprehensive income | 9 | 442,007 | - |
| Retained earnings | | 36,825,336 | 33,621,270 |
| Profit for the year | | 10,667,005 | 18,265,130 |
| Total equity | | 287,600,228 | 283,991,216 |
| Total Liabilities and Equity | | 1,459,619,389 | 1,363,214,334 |
| **Financial instruments with off-balance Sheet risks** | 30 | | |
| Letters of guarantee and standby letters of credit | | 64,552,696 | 66,641,468 |
| Letters of credit - import | | - | 2,310,901 |
| Letters of credit - export confirmed | | 66,953,310 | 41,492,864 |

*THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.*

## Statement of profit or loss and other comprehensive income for the year ended 31 December 2015

LBP'000

| | Notes | 2015 | 2014 |
|---|---|---|---|
| | Year Ended December 31 | | |
| Interest income | 23 | 45,895,736 | 49,175,866 |
| Interest expense | 24 | (16,465,836) | (15,477,128) |
| Net interest income | | 29,429,900 | 33,698,738 |
| Fee and commission income | 25 | 2,407,033 | 5,991,508 |
| Fee and commission expense | | (335,074) | (329,477) |
| Net fee and commission income | | 2,071,959 | 5,662,031 |
| Net gain on investment securities at fair value through profit or loss | 26 | 1,651,302 | 517,547 |
| Gain on difference of exchange | | 96,995 | 99,630 |
| Realized gain on disposal of securities at amortized cost | 9 | 152,861 | - |
| Net financial revenues | | 33,403,017 | 39,977,946 |
| Net (provision)/write-back of impairment loss on loans and advances | 8 | (22,377) | 835,591 |
| Net financial revenues after write-back of impairment loss | | 33,380,640 | 40,813,537 |
| Loss on disposal of assets acquired in satisfaction of loans | 11 | (968,684) | - |
| Salaries and related charges | 27 | (12,933,373) | (13,237,034) |
| Depreciation and amortization | 12, 13 | (869,821) | (879,488) |
| General and administrative expenses | 28 | (4,977,419) | (5,021,834) |
| Other (expense)/income | 12 | (7,262) | 1,012,498 |
| Total operating expenses | | (19,756,559) | (18,125,858) |
| Profit before income tax | | 13,624,081 | 22,687,679 |
| Income tax expense | 19 | (2,957,076) | (4,422,549) |
| Profit for the year | | 10,667,005 | 18,265,130 |

*THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.*

## Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2015

LBP'000

| | Notes | 2015 | 2014 |
|---|---|---|---|
| | Year Ended December 31 | | |
| Net profit for the year | | 10,667,005 | 18,265,130 |
| Other comprehensive income: | | | |
| *Items that will not be reclassified subsequently to profit or loss* | | | |
| Unrealized gain on financial assets designated at fair value through other comprehensive income (IFRS 9) | 9 | 520,008 | - |
| Deferred tax | 19 | (78,001) | - |
| Total other comprehensive income | | 442,007 | - |
| Total comprehensive income for the year | | 11,109,012 | 18,265,130 |

*THE ACCOMPANYING NOTES 1 TO 47 FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS.*

# Statement of changes in equity

LBP'000

| | Capital | Cash contribution for Capital | Reserves | Changes in fair value of investment securities | Retained Earnings | Profit for the Year | Total |
|---|---|---|---|---|---|---|---|
| Balance January 1, 2014 | 15,000,000 | 148,488,750 | 54,428,171 | - | 33,621,270 | 23,187,895 | 274,726,086 |
| Allocation of 2013 profit | - | - | 14,187,895 | - | 9,000,000 | (23,187,895) | - |
| Dividends paid (Note 21) | - | - | - | - | (9,000,000) | - | (9,000,000) |
| Total comprehensive income for the year 2014 | - | - | - | - | - | 18,265,130 | 18,265,130 |
| Balance December 31, 2014 | 15,000,000 | 148,488,750 | 68,616,066 | - | 33,621,270 | 18,265,130 | 283,991,216 |
| Allocation of 2014 profit | - | - | 7,561,064 | - | 10,704,066 | (18,265,130) | - |
| Dividends paid (Note 21) | - | - | - | - | (7,500,000) | - | (7,500,000) |
| Total comprehensive income for the year 2015 | - | - | - | 442,007 | - | 10,667,005 | 11,109,012 |
| Balance December 31, 2015 | 15,000,000 | 148,488,750 | 76,177,130 | 442,007 | 36,825,336 | 10,667,005 | 287,600,228 |

*THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.*

LBP'000

# Statement of cash flows

| | Notes | Year Ended December 31 2015 | 2014 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit for the year before income tax | | 13,624,081 | 22,687,679 |
| Adjustments for: | | | |
| Depreciation and amortization | 12, 13 | 869,821 | 879,488 |
| Change in fair value of investment securities at fair value through profit or loss | 26 | (88,729) | (311,557) |
| Net provision/ (write back) of impairment loss on loans and advances | 8 | 22,377 | (835,591) |
| Provision for employees' end-of-service indemnities | 20 | 673,170 | 854,206 |
| Loss on disposal of assets acquired in satisfaction of loan | 11 | 968,684 | - |
| Loss/(Gain) on disposal of property and equipment | 12 | 7,186 | (1,057,226) |
| Dividend income | 26 | (1,562,573) | (205,990) |
| Interest income | | (45,895,736) | (49,175,866) |
| Interest expense | | 16,465,836 | 15,477,128 |
| Compulsory deposits with Central Bank of Lebanon with a maturity exceeding three months | | (62,650,857) | 317,805 |
| Deposits with banks and financial institutions with a maturity exceeding three months | | (217,663,358) | 223,212,011 |
| Investment securities at fair value through profit or loss | 9 | (28,216) | (22,762,091) |
| Investment securities at fair value through other comprehensive income | 9 | (25,344,591) | (22,612,477) |
| Investment securities at amortized cost | 9 | 24,624,935 | 61,610,825 |
| Loans and advances to customers | 8 | (1,237,641) | 24,902,312 |
| Other assets | 14 | (3,695) | 7,187 |
| Deposits from central banks | 15 | (6,922,544) | 4,188,415 |
| Deposits from banks and financial institutions | 16 | 16,660,647 | (124,213,290) |
| Deposits from parent, sister and other related banks | 17 | 86,822,704 | 62,191,157 |
| Customers' deposits | 18 | (2,976,710) | (29,489,580) |
| Other liabilities | 19 | (800,285) | (19,991,001) |
| Settlements made from provision for employees' end-of-service indemnities | 20 | (602,377) | (294,641) |
| | | (205,037,871) | 145,378,903 |
| Income tax paid | | (4,465,049) | (4,581,709) |
| Dividends received | | 1,562,573 | 205,990 |
| Interest received | | 46,540,985 | 50,736,339 |
| Interest paid | | (14,751,431) | (15,614,195) |
| **Net cash (used in)/ generated by operating activities** | | 176,150,793 | 176,125,328 |
| **Cash flows from investing activities:** | | | |
| Acquisition of property and equipment | 12 | (477,064) | (354,675) |
| Proceeds from disposal of property and equipment | 12 | 3,015 | 1,297,958 |
| Acquisition of intangible assets | 13 | (230,676) | (107,100) |
| Proceeds from disposal of assets acquired in satisfaction of loan | 11 | 4,921,271 | - |
| Improvements on assets acquired in satisfaction of loans | 11 | - | (18,728) |
| **Net cash generated by investing activities** | | 4,216,546 | 817,455 |
| **Cash flows from financing activities:** | | | |
| Dividends paid | 21 | (7,500,000) | (9,000,000) |
| **Net cash used in financing activities** | | (7,500,000) | (9,000,000) |
| **Net (decrease)/ increase in cash and cash equivalents** | | (179,434,247) | 167,942,783 |
| **Cash and cash equivalents beginning of year** | | 412,716,805 | 244,774,022 |
| **Cash and cash equivalents end of year** | 29 | 233,282,558 | 412,716,805 |

*THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.*

# Notes to the financial statements For the year ended 31 December 2015

## 1. General information

- North Africa Commercial Bank S.A.L. is a Lebanese joint-stock company registered in the Trade Register in 1973 under Number 30199 and in the Central Bank of Lebanon list of banks under number 62.
- The Bank offers a full range of commercial banking activities in accordance with the applicable Lebanese Laws and banking regulations. The head office is situated on Justinian Street, Hamra, Beirut.
- The Bank is 99.56% owned by the Libyan Foreign Bank (parent bank).

## 2. Application of new and revised International Financial Reporting Standards (IFRSs)

### 2.1 New and revised IFRSs applied with no material effect on the combined financial statements

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2015, have been adopted in these financial statements. The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

- Annual Improvements to IFRSs 2010 - 2012 Cycle that includes amendments to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38.
- Annual Improvements to IFRSs 2011 - 2013 Cycle that includes amendments to IFRS 1, IFRS 3, IFRS 13 and IAS 40.
- Amendments to IAS 19 Employee Benefits to clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service.

## 2.2 New and revised IFRSs in issue but not yet effective:

The Bank has not yet applied the following new and revised IFRSs that have been issued but are not yet effective:

| Effective for annual periods beginning on or after | |
|---|---|
| 1 January 2016 | • IFRS 14 Regulatory Deferral Accounts |
| 1 January 2016 | • Amendments to IAS 1 Presentation of Financial Statements relating to Disclosure initiative |
| 1 January 2016 | • Amendments to IFRS 11 Joint arrangements relating to accounting for acquisitions of interests in joint operations |
| 1 January 2016 | • Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets relating to clarification of acceptable methods of depreciation and amortisation |
| 1 January 2016 | • Amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture relating to bearer plants |
| 1 January 2016 | • Amendments to IAS 27 Separate Financial Statements relating to accounting investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements |
| 1 January 2016 | • Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investment in Associates and Joint Ventures relating to applying the consolidation exception for investment entities |
| 1 January 2016 | • Annual Improvements to IFRSs 2012 - 2014 Cycle covering amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34 |

| Effective for annual periods beginning on or after | |
|---|---|
| 1 January 2018 | • IFRS 9 Financial Instruments (revised versions in 2013 and 2014)<br><br>IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.<br><br>A finalised version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 Financial Instruments: Recognition and Measurement. The standard contains requirements in the following areas:<br><br>• **Classification and measurement:** Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk. |

<table>
<tr><th>Effective for annual periods beginning on or after</th><th></th></tr>
<tr><td>1 January 2018</td><td>
<ul>
<li>Impairment: The 2014 version of IFRS 9 introduces an ‘expected credit loss’ model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised.</li>
<li>Hedge accounting: Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.</li>
<li>Derecognition: The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.</li>
</ul>
</td></tr>
<tr><td>1 January 2018</td><td>
<ul>
<li>IFRS 15 Revenue from Contracts with Customers</li>
</ul>
In May 2014, IFRS 15 was issued which established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective.
The core principle of IFRS 15 is that an entity should recognize 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. Specifically, the standard introduces a 5-step approach to revenue recognition:
</td></tr>
</table>

| Effective for annual periods beginning on or after | |
|---|---|
| | • Step 1: Identify the contract(s) with a customer.<br>• Step 2: Identify the performance obligations in the contract.<br>• Step 3: Determine the transaction price.<br>• Step 4: Allocate the transaction price to the performance obligations in the contract.<br>• Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.<br>Under IFRS 15, an entity recognises when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15. |
| **1 January 2019** | • IFRS 16 Leases<br>IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. |
| **Effective date deferred indefinitely** | Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture. |

Except for the effect of IFRS9 on the provisioning for impairment, the Directors of the Bank do not anticipate that the application of these amendments will have significant impact on the Bank's financial statements.

## 3. Significant Accounting Policies

### Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

### Basis of Measurement

The financial statements have been prepared on the historical cost basis except for some financial instruments measured at fair value.

Assets and liabilities are grouped according to their nature and presented in the financial statements in accordance to their relative liquidity.

The principal accounting policies are set out below:

### A. Foreign Currencies:

Transactions in currencies other than the entity's reporting currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for exchange differences on transactions entered into in order to hedge certain foreign currency risks, which are recognized in other comprehensive income.

### B.Recognition and Derecognition of Financial Assets and Liabilities:

The Bank initially recognizes loans and advances, deposits, debt securities issued and subordinated liabilities on the date that they are originated. All other financial assets and liabilities are initially recognized on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

The Bank derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

Debt securities exchanged against securities with longer maturities with similar risks, and issued by the same issuers, are derecognized as management considers that they do meet the conditions for derecognition.

On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

The Bank derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

When the Bank enters into transactions whereby it transfers assets recognized on its statement of financial position and retains all risks and rewards of the transferred assets, then the transferred assets are not derecognized, for example, securities lending and repurchase transactions.

**C. Classification of Financial Assets:**

All recognized financial assets are measured in their entirety at either amortized cost or fair value, depending on their classification.

*Debt Instruments:*

Non-derivative debt instruments that meet the following two conditions are subsequently measured at amortized cost using the effective interest method, less impairment loss (except for debt instruments that are designated as at fair value through profit or loss on initial recognition):

- They are held within a business model whose objective is to hold the financial assets in order to collect the contractual cash flows, rather than to sell the instrument prior to its contractual maturity to realize its fair value changes, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments which do not meet both of these conditions are measured at fair value through profit or loss ("FVTPL").

Even if a debt instrument meets the two amortized cost criteria above, it may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.

*Equity Instruments:*

Investments in equity instruments are classified as at FVTPL, unless the Bank designates an investment that is not held for trading as at fair value through other comprehensive income ("FVTOCI") on initial recognition (see below).

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on re-measurement recognized in profit or loss.

On initial recognition, the Bank can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at fair value through other comprehensive income ("FVTOCI"). Investments in equity instruments at FVTOCI are measured at fair value. Gains and losses on such equity instruments are recognized in other comprehensive income, accumulated in equity and are never reclassified to profit or loss. Only dividend income is recognized in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment, in this case it is recognized in other comprehensive income. Cumulative gains and losses recognized in other comprehensive income are transferred to retained earnings on disposal of an investment.

Designation at FVTOCI is not permitted if the equity investment is held for trading.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument or a financial guarantee.

*Reclassification:*

Financial assets are reclassified between FVTPL and amortized cost or vice versa, if and only if, the Bank's business model objective for its financial assets changes so its previous model assessment would no longer apply. When reclassification is appropriate, it is done prospectively from the reclassification date.

Reclassification is not allowed where:

- the other comprehensive income option has been exercised for a financial asset, or
- the fair value option has been exercised in any circumstance for a financial instrument.

**D. Financial Liabilities and Equity Instruments:**

*Classification as debt or equity:*

Debt and equity instruments issued by the Bank are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument, where applicable.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank are recognized at the proceeds received, net of direct issue costs, where applicable.

Repurchase of the Bank's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue, or cancellation of the Bank's own equity instruments.

*Financial Liabilities:*

Financial Liabilities that are not held-for-trading and are not designated as at FVTPL are subsequently measured at amortized cost using the effective interest method.

**E. Offsetting:**

Financial assets and liabilities are set-off and the net amount is presented in the statement of financial position when, and only when, the Bank has a legal right to set-off the amounts or intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

**F. Fair Value Measurement of Financial Instruments:**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of an asset or a liability is measured by taking into account the characteristics of the asset or liability that if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

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 Bank 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.

International Financial Reporting Standard (IFRS 13) establishes the hierarchy of fair value as follows:

• Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

• Level 2 – Inputs, other than quoted prices included within Level 1, that are observable for the asset and liability either directly or indirectly; and

• Level 3 – Inputs are unobservable inputs for the asset or liability.

**G. Impairment of Financial Assets:**

Financial assets carried at amortized cost are assessed for indicators of impairment at the reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the asset, a loss event has occurred which has an impact on the estimated future cash flows of the financial asset.

Objective evidence that an impairment loss related to financial assets has been incurred can include information about the debtors' or issuers' liquidity, solvency and business and financial risk exposures and levels of and trends in delinquencies for similar financial assets, taking into account the fair value of collateral and guarantees.

The Bank considers evidence of impairment for assets measured at amortized cost at both specific asset and collective level.

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial assets and the corresponding estimated recoverable amounts. Losses are recognized in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortized cost would have been, had the impairment not been recognized.

### H. Derivative Financial Instruments:

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

### I. Loans and Advances:

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and advances are disclosed at amortized cost net of unearned interest and after provision for credit losses. Non-performing loans and advances to customers are stated net of unrealized interest and provision for credit losses because of doubts and the probability of non-collection of principal and/or interest.

### J. Property and Equipment:

Property and equipment are stated at historical cost, less accumulated depreciation and impairment loss, if any.

Depreciation is recognized so as to write off the cost or valuation of property and equipment, other than land and advance payments on capital expenditures less their residual values, if any, over the estimated useful lives of the related assets using the straight-line method as follows:

| | Years |
|---|---|
| Buildings | 50 |
| Furniture | 12.5 |
| Office equipment | 12.5 |
| Computer equipment | 5 |
| Vehicles | 4 |
| Leasehold improvements | 16.5 |

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

**K. Intangible Assets:**

Other intangible assets consisting of computer software and key money are amortized over a period of 5 years and are subject to impairment testing. Subsequent expenditure on software assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

**L. Assets acquired in satisfaction of loans:**

Real estate properties acquired through the enforcement of collateral over loans and advances are measured at cost less any accumulated impairment losses. The acquisition of such assets is regulated by the local banking authorities who require the liquidation of these assets within 2 years from acquisition. In case of default of liquidation the regulatory authorities require an appropriation of a special reserve from the yearly profits and accumulated in equity.

**M. Impairment of Financial and Non-Financial Assets:**

At the end of each reporting period, the Bank reviews the carrying amounts of its financial and non-financial, asset to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 for which the estimates of future cash flows have not been adjusted.

**N. Provision for Employees' End-of-Service Indemnity:**

The provision for staff termination indemnities is based on the liability that would arise if the employment of all the staff were voluntary terminated at the reporting date. This provision is calculated in accordance with the directives of the Lebanese Social Security Fund and Labor laws based on the number of years of service multiplied by the monthly average of the last 12 months' remunerations and less contributions paid to the Lebanese Social Security National Fund and interest accrued by the Fund.

**O. Provisions:**

Provision is recognized if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

**P. Revenue and Expense Recognition:**

Interest income and expense are recognized on an accrual basis, taking account of the principal outstanding and the rate applicable, except for non-performing loans and advances for which interest income is only recognized upon realization. Interest income and expense include the amortization of discount or premium.

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or liability (e.g. commissions and fees earned on loans) are included under interest income and expense.

Other fee and commission income are recognized as the related services are performed.

Interest income on financial assets measured at fair value through profit or loss and interest expense of financial liabilities designated at fair value through profit or loss are presented separately in the income statement.

Net gain and losses on financial assets measured at fair value through profit or loss includes:

- Dividend income.
- Realized and unrealized fair value changes.
- Foreign exchange differences.

Dividend income is recognized when the right to receive payment is established. Dividends on equity instruments designated as at fair value through other comprehensive income in accordance with IFRS 9, are recognized in profit or loss, unless the dividend clearly represents a recovery of part of the investment, in which case it is presented in other comprehensive income.

**Q. Income Tax:**

Income tax expense represents the sum of the tax currently payable and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in other comprehensive income, in which case it is recognized in other comprehensive income (as applicable).

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because of the items that are never taxable or deductible. The Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Part of debt securities invested in by the Bank is subject to withheld tax by the issuer. This tax is deducted at year-end from the corporate tax liability not eligible for deferred tax benefit, and therefore, accounted for as prepayment on corporate income tax and reflected as a part of income tax provision.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the statement of financial position and the corresponding tax base used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

**R. Cash and Cash Equivalents:**

Cash and cash equivalents comprise balances with maturities of a period of three months including: cash and deposits with the Central Bank, deposits with banks and financial institutions and deposits with parent and related banks.

## 4. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Bank's accounting policies, which are described in note 3, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised or in the future periods if the revision affects both current and future periods.

**A. Critical accounting judgments in applying the Group's accounting policies:**

**Classification of Financial Assets:**

Business Model:

The business model test requires the Bank to assess whether its business objective for financial assets is to collect the contractual cash flows of the assets rather than realize their fair value change from sale before their contractual maturity. The Bank considers at which level of its business activities such assessment should be made. Generally, a business model can be evidenced by the way business is managed and the information provided to management. However the Bank's business model can be to hold financial assets to collect contractual cash flows even when there are some sales of financial assets. While IFRS 9 provides some situations where such sales may or may not be consistent with the objective of holding assets to collect contractual cash flows, the assessment requires the use of judgment based on facts and circumstances.

Characteristics of the Financial Asset:

Once the Bank determines that its business model is to hold the assets to collect the contractual cash flows, it exercises judgment to assess the contractual cash flows characteristics of a financial asset. In making this judgment, the Bank considers the contractual terms of the acquired asset to determine that they give rise on specific dates, to cash flows that solely represent principal and principal settlement and accordingly may qualify for amortized cost accounting.

**B. Key Sources of Estimation Uncertainty:**

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

**Allowances for Credit Losses - Loans and Advances to Customers:**

Specific impairment for credit losses is determined by assessing each case individually. This method applies to classified loans and advances and the factors taken into consideration when estimating the allowance for credit losses include the counterparty's credit limit, the counterparty's ability to generate cash flows sufficient to settle his advances and the value of collateral and potential repossession.

**Determining Fair Values:**

The determination of fair value for financial assets for which there is no observable market price requires the use of valuation techniques as described in Note 3 F. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainly of market factors, pricing assumptions and other risks affecting the specific instrument.

## 5. Cash And Central Bank

LBP'000

| | December 31 | |
|---|---|---|
| | 2015 | 2014 |
| Cash on hand | 1,427,821 | 1,254,430 |
| Purchased checks | 1,084,390 | 18,718 |
| Current accounts with Central Bank of Lebanon (including compulsory reserves) | 25,794,376 | 25,953,231 |
| Term placements with Central Bank of Lebanon | 212,522,750 | 195,161,250 |
| Accrued interest receivable | 742,856 | 505,500 |
| | 241,572,193 | 222,893,129 |

Term placements with Central Bank of Lebanon have the following maturities:

| | December 31, 2015 | | | |
|---|---|---|---|---|
| | Accounts in LBP | Average interest rate | Accounts in F/Cy | Average interest rate |
| **Maturity** | **L.L. Million** | **%** | **L.L. Million** | **%** |
| First quarter of 2016 | 17,000,000 | 2.88 | 145,021,500 | 0.18 |
| Second quarter of 2016 | - | - | 15,075,000 | 0.22 |
| Year 2018 | - | - | 12,813,750 | 4.75 |
| Year 2025 | - | - | 7,537,500 | 6.04 |
| Year 2029 | - | - | 15,075,000 | 7.5 |
| | 17,000,000 | - | 195,522,750 | - |

| | December 31, 2014 | | | |
|---|---|---|---|---|
| | Accounts in LBP | Average interest rate | Accounts in F/Cy | Average interest rate |
| **Maturity** | **L.L. Million** | **%** | **L.L. Million** | **%** |
| First quarter of 2015 | 12,000,000 | 2.9 | 155,272,500 | 0.16 |
| Year 2018 | - | - | 12,813,750 | 4.75 |
| Year 2029 | - | - | 15,075,000 | 7.5 |
| | 12,000,000 | - | 183,161,250 | - |

Current accounts with Central Bank of Lebanon include cash compulsory reserves in Lebanese Pound in the amount of LBP 16.53 billion (LBP 16.02 billion in 2014). This compulsory reserve is non-interest earning and is computed on the basis of 25% and 15% of the average weekly demand and term customers' deposits in Lebanese Pounds respectively, in accordance with the local banking regulations. Compulsory deposits are not available for use in the Bank's day-to-day operations.

Term placements with Central Bank of Lebanon include the equivalent in foreign currencies of LBP 153 billion (LBP 147 billion in 2014) deposited in accordance with local banking regulations which require banks to maintain interest earning placements in foreign currency to the extent of 15% of customers' deposits in foreign currencies, which includes all types of deposits, certificates of deposit and loans acquired from non-resident financial institutions with remaining maturities of one year or less.

## 6. Deposits with banks and financial institutions

LBP'000

| | December 31 | |
|---|---|---|
| | 2015 | 2014 |
| Current accounts with correspondents | 23,458,933 | 70,668,673 |
| Term placements | 500,100,618 | 382,187,753 |
| Accrued interest receivable | 773,667 | 511,824 |
| | 524,333,218 | 453,368,250 |

Term placements represents, short term maturities, having an average interest rate on outstanding balances of 1.08% as at December 31, 2015 (1.32% as at December 31, 2014).

Refer to Note 31 for outstanding balances with related parties.

## 7. Deposits with the parent sister and other related banks

LBP'000

| | December 31 | |
|---|---|---|
| | 2015 | 2014 |
| Current Accounts: | | |
| Sister Banks | 13,597,759 | 1,663,653 |
| Parent Bank | 329,473 | 528,444 |
| | 13,927,232 | 2,192,097 |

## 8. Loans and advances to customers

LBP'000

| | December 31, 2014 | | |
|---|---|---|---|
| | Gross amount net of unrealized interest | Impairment allowance | Carrying amount |
| Performing Loans<br>- Retail<br>- Housing loans | <br>806,168<br>2,360,948 | <br>-<br>- | <br>806,168<br>2,360,948 |
| | 3,167,116 | - | 3,167,116 |
| Performing Loans – Companies<br>- Small and medium enterprises | <br>8,693,258 | <br>- | <br>8,693,258 |
| | 8,693,258 | - | 8,693,258 |
| Non-performing loans<br>- Doubtful and bad | <br>28,750,070 | <br>(17,042,542) | <br>11,707,528 |
| | 28,750,070 | (17,042,542) | 11,707,528 |
| Collective provision | - | (15,568) | (15,568) |
| | 40,610,444 | (17,058,110) | 23,552,334 |

LBP'000

| | December 31, 2014 | | |
|---|---|---|---|
| | Gross amount net of unrealized interest | Impairment allowance | Carrying amount |
| Performing Loans<br>- Retail<br>- Housing loans | <br>2,611,607<br>2,700,464 | <br>-<br>- | <br>2,611,607<br>2,700,464 |
| | 5,312,071 | - | 5,312,071 |
| Performing Loans – Companies<br>- Small and medium enterprises | <br>5,325,009 | <br>- | <br>5,325,009 |
| | 5,325,009 | - | 5,325,009 |
| Non-performing loans<br>- Doubtful and bad | <br>30,663,979 | <br>(18,956,451) | <br>11,707,528 |
| | 30,663,979 | (18,956,451) | 11,707,528 |
| Collective provision | - | (7,538) | (7,538) |
| | 41,301,059 | (18,963,989) | 22,337,070 |

Performing loans include an economic group having an aggregate balance around LBP 4.3 billion as at December 31, 2015 (representing 36% of the total performing loans) (LBP2.6billion representing 25% of the total performing loans as of December 31, 2014) in addition to indirect facilities of LBP 2.8 billion (LBP 3.2 billion as at December 31, 2014). These facilities are covered by real estate mortgages and treasury bills up to LBP 10.4 billion and concession of the customer's cash inflows from projects with the public sector.

The movement of unrealized interest on substandard and doubtful loans is as follows:

**LBP'000**

| | 2015 | 2014 |
|---|---|---|
| Balance – beginning of year | 339,488,101 | 305,992,416 |
| Additions | 70,128,021 | 60,966,128 |
| Transfer to off-balance sheet | (5,593,654) | - |
| Write-off | - | (27,178,041) |
| Effect of exchange rates changes | (18,810) | (292,402) |
| Balance - end of the year | 404,003,658 | 339,488,101 |

The movement of the allowance for impairment is as follows:

**LBP'000**

| | 2015 | 2014 |
|---|---|---|
| Balance – beginning of the year | 18,956,451 | 19,866,831 |
| Additions | 29,550 | 100,238 |
| Write-back through profit or loss | (15,203) | (943,367) |
| Transfer to off-balance sheet | (1,928,256) | (67,251) |
| Balance - end of the year | 17,042,542 | 18,956,451 |

During 2014, one of the Bank's doubtful debts was closed resulting in a write-back of provision in the amount of LBP 943 million and write-off of unrealized interest in the amount of LBP 27 billion.

The movement of collective provision is as follows:

**LBP'000**

| | 2015 | 2014 |
|---|---|---|
| Balance – beginning of year | 7,538 | - |
| Additions | 8,030 | 7,538 |
| Balance - end of the year | 15,568 | 7,538 |

## 9. Investment securities

LBP'000

| | December 31, 2015 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Fair value through profit or loss | | | Amortized Cost | | | Fair value through other comprehensive Income | | |
| | Balances in LBP | Balances in Foreign currencies | Total | Balances in LBP | Balances in Foreign currencies | Total | Balances in LBP | Balances in Foreign currencies | Total |
| Unquoted equity securities | 170,000 | 75,375 | 245,375 | - | - | - | - | - | - |
| Quoted equity securities | - | 60,239 | 60,239 | - | - | - | - | 48,399,075 | 48,399,075 |
| Investment fund | - | 29,261,795 | 29,261,795 | - | - | - | - | - | - |
| Lebanese treasury bills | - | - | - | 71,242,000 | - | 71,242,000 | - | - | - |
| Lebanese Government bonds | - | - | - | - | 348,310,607 | 348,310,607 | - | - | - |
| Certificates of deposit issued by the Central Bank of Lebanon | - | - | - | 91,000,000 | 28,190,250 | 119,190,250 | - | - | - |
| Corporate bonds – local bank | - | - | - | - | 22,612,500 | 22,612,500 | - | - | - |
| | 170,000 | 29,397,409 | 29,567,409 | 162,242,000 | 399,113,357 | 561,355,357 | - | 48,399,075 | 48,399,075 |
| Accrued interest receivable | - | - | - | 3,422,722 | 4,854,478 | 8,277,200 | - | - | - |
| | 170,000 | 29,397,409 | 29,567,409 | 165,664,722 | 403,967,835 | 569,632,557 | - | 48,399,075 | 48,399,075 |

LBP'000

| | December 31, 2014 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Fair value through profit or loss | | | Amortized Cost | | | Fair value through other comprehensive Income | | |
| | Balances in LBP | Balances in Foreign currencies | Total | Balances in LBP | Balances in Foreign currencies | Total | Balances in LBP | Balances in Foreign currencies | Total |
| Unquoted equity securities | 170,000 | 75,375 | 245,375 | - | - | - | - | - | - |
| Quoted equity securities | - | 61,655 | 61,655 | - | - | - | - | 22,612,477 | 22,612,477 |
| Investment fund | - | 29,143,434 | 29,143,434 | - | - | - | - | - | - |
| Lebanese treasury bills | - | - | - | 76,890,000 | - | 76,890,000 | - | - | - |
| Lebanese Government bonds | - | - | - | - | 378,314,370 | 378,314,370 | - | - | - |
| Certificates of deposit issued by the Central Bank of Lebanon | - | - | - | 87,000,000 | 21,163,422 | 108,163,422 | - | - | - |
| Corporate bonds – local bank | - | - | - | - | 22,612,500 | 22,612,500 | - | - | - |
| | 170,000 | 29,280,464 | 29,450,464 | 163,890,000 | 422,090,292 | 585,980,292 | - | 22,612,477 | 22,612,477 |
| Accrued interest receivable | - | - | - | 3,492,564 | 5,929,084 | 9,421,648 | - | - | - |
| | 170,000 | 29,280,464 | 29,450,464 | 167,382,564 | 428,019,376 | 595,401,940 | - | 22,612,477 | 22,612,477 |

The movement of investment securities during 2015 and 2014 is summarized as follows:

LBP'000

| | Investment securities at fair value through profit or loss | Investment securities at amortized cost | Investment securities at fair value through other comprehensive income |
|---|---|---|---|
| Balance as at January 1, 2015 | 29,450,464 | 585,980,292 | 22,612,477 |
| Additions | 28,216 | 20,779,500 | 25,344,591 |
| Redemption upon maturity | - | (42,380,770) | - |
| Unrealized gain from change in fair value (Note 26) | 88,729 | - | 442,007 |
| Swaps (net) | - | 1,055,250 | - |
| Amortization of discount / premium | - | (1,626,202) | - |
| Effect of exchange rates changes | - | (2,452,713) | - |
| Balance as at December 31, 2015 | 29,567,409 | 561,355,357 | 48,399,075 |
| Balance as at January 1, 2014 | 6,376,816 | 647,591,117 | - |
| Additions | 22,762,091 | 77,777,500 | 22,612,477 |
| Redemption upon maturity | - | (142,388,250) | - |
| Unrealized gain from change in fair value (Note 26) | 311,557 | - | - |
| Amortization of discount / premium | - | 6,155,715 | - |
| Effect of exchange rates changes | - | (3,155,790) | - |
| Balance as at December 31, 2014 | 29,450,464 | 585,980,292 | 22,612,477 |

During 2015, the Bank sold Lebanese Government bonds maturing in year 2015 classified at amortized cost with a carrying amount of LBP 19.6 billion in exchange of certificates of deposit issued by the Central Bank of Lebanon amounting to LBP 20.65 billion maturing on June 23, 2025. The Bank realized a gain for around LBP 152 million recorded in the statement of profit or loss.

## A. Investment Securities at fair value through profit or loss:

LBP'000

| | LBP | | | F/CY | | |
|---|---|---|---|---|---|---|
| | Cost | Fair Value | Cumulative change in fair value | Cost | Fair Value | Cumulative change in fair value |
| **December 31, 2015** | | | | | | |
| Unquoted equity securities | 170,000 | 170,000 | - | 150,750 | 75,375 | (75,375) |
| Quoted equity securities | - | - | - | 132,951 | 60,239 | (72,712) |
| Investment Fund | - | - | - | 28,861,541 | 29,261,795 | 400,254 |
| | 170,000 | 170,000 | - | 29,145,242 | 29,397,409 | 252,167 |
| **December 31, 2014** | | | | | | |
| Unquoted equity securities | 170,000 | 170,000 | - | 150,750 | 75,375 | (75,375) |
| Quoted equity securities | - | - | - | 132,951 | 61,655 | (71,296) |
| Investment Fund | - | - | - | 28,833,325 | 29,143,434 | 310,109 |
| | 170,000 | 170,000 | - | 29,117,026 | 29,280,464 | 163,438 |

During 2014, the Bank subscribed in investment funds issued by local banks amounting to LBP 22.7 billion. These funds are subject to an annual return ranges between 3% to 5% of the issuing price in condition that the issuing banks have sufficient net profits to settle these returns. These securities were classified as investment securities at fair value through profit or loss under "Investment funds" section.

## B. Investment Securities at Amortized Cost:

LBP'000

| | LBP | | | C/V of F/CY | | |
|---|---|---|---|---|---|---|
| | Amortized Cost | Accrued interest receivable | Fair Value | Amortized Cost | Accrued interest receivable | Fair Value |
| **December 31, 2015** | | | | | | |
| Lebanese Government bonds | - | - | - | 348,310,607 | 4,664,121 | 343,884,190 |
| Lebanese treasury bills | 71,242,000 | 1,373,496 | 72,508,345 | - | - | - |
| Certificates of deposit issued by the Central Bank of Lebanon | 91,000,000 | 2,049,226 | 94,380,803 | 28,190,250 | 168,477 | 27,800,452 |
| Corporate bonds – Local bank | - | - | - | 22,612,500 | 21,880 | 22,687,875 |
| | 162,242,000 | 3,422,722 | 166,889,148 | 399,113,357 | 4,854,478 | 394,372,517 |
| **December 31, 2014** | | | | | | |
| Lebanese Government bonds | - | - | - | 378,314,370 | 5,520,279 | 376,189,636 |
| Lebanese treasury bills | 76,890,000 | 1,524,716 | 77,303,495 | - | - | - |
| Certificates of deposit issued by the Central Bank of Lebanon | 87,000,000 | 1,967,848 | 85,467,326 | 21,163,422 | 386,925 | 21,349,245 |
| Corporate bonds – Local bank | - | - | - | 22,612,500 | 21,880 | 22,763,250 |
| | 163,890,000 | 3,492,564 | 162,770,821 | 422,090,292 | 5,929,084 | 420,302,131 |

Investments at amortized cost are segregated over remaining period to maturity as follows:

| | December 31, 2015 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Balances in LBP | | | | Balances in Foreign Currency | | | |
| | Nominal value | Amortized Cost | Fair value | Average Coupon Rate | Nominal value | Amortized Cost | Fair value | Average Coupon Rate |
| | LBP'000 | LBP'000 | LBP'000 | % | LBP'000 | LBP'000 | LBP'000 | % |
| **Lebanese Government bonds:** | | | | | | | | |
| - Up to one year | - | - | - | - | 42,210,000 | 42,256,908 | 41,627,873 | 4.75 |
| - 1 year to 3 years | - | - | - | - | 115,221,470 | 115,221,470 | 114,828,893 | 6.95 |
| - 3 years to 5 years | - | - | - | - | 79,143,750 | 79,239,425 | 77,465,950 | 5.84 |
| - 5 years to 10 years | - | - | - | - | 105,525,000 | 111,592,804 | 109,961,474 | 7.44 |
| | - | - | - | - | 342,100,220 | 348,310,607 | 343,884,190 | - |
| **Corporate bonds – Local bank** | | | | | | | | |
| - 5 to 10 years | - | - | - | - | 22,612,500 | 22,612,500 | 22,687,875 | 6.83 |
| | - | - | - | - | 22,612,500 | 22,612,500 | 22,687,875 | - |
| **Lebanese treasury bills:** | | | | | | | | |
| - Up to one year | 7,000,000 | 7,000,000 | 7,163,538 | 6.18 | - | - | - | - |
| - 1 year to 3 years | 34,000,000 | 34,000,000 | 34,692,618 | 6.61 | - | - | - | - |
| - 3 years to 5 years | 18,402,000 | 18,402,000 | 18,429,789 | 6.90 | - | - | - | - |
| - 5 years to 10 years | 11,840,000 | 11,840,000 | 12,222,400 | 8.21 | - | - | - | - |
| | 71,242,000 | 71,242,000 | 72,508,345 | - | - | - | - | - |
| **Certificates of deposit:** | | | | | | | | |
| - 1 year to 3 years | 4,000,000 | 4,000,000 | 4,171,055 | 7.90 | - | - | - | - |
| - 3 years to 5 years | - | - | - | - | - | - | - | - |
| - 5 years to 10 years | 73,000,000 | 73,000,000 | 76,108,088 | 8.23 | 20,652,750 | 20,652,750 | 20,051,914 | 6.04 |
| - Above 10 years | 14,000,000 | 14,000,000 | 14,101,660 | 8.47 | 7,537,500 | 7,537,500 | 7,748,538 | 6.76 |
| | 91,000,000 | 91,000,000 | 94,380,803 | - | 28,190,250 | 28,190,250 | 27,800,452 | - |
| Grand Total | 162,242,000 | 162,242,000 | 166,889,148 | - | 392,902,970 | 399,113,357 | 394,372,517 | - |

| | December 31, 2014 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Balances in LBP | | | | Balances in Foreign Currency | | | |
| | Nominal value | Amortized Cost | Fair value | Average Coupon Rate | Nominal value | Amortized Cost | Fair value | Average Coupon Rate |
| | LBP'000 | LBP'000 | LBP'000 | % | LBP'000 | LBP'000 | LBP'000 | % |
| **Lebanese Government bonds:** | | | | | | | | |
| - Up to one year | - | - | - | - | 25,983,270 | 26,228,850 | 26,236,622 | 7.85 |
| - 1 year to 3 years | - | - | - | - | 100,132,736 | 100,233,777 | 101,890,939 | 7.01 |
| - 3 years to 5 years | - | - | - | - | 105,730,197 | 105,619,210 | 102,163,506 | 5.33 |
| - 5 years to 10 years | - | - | - | - | 138,690,000 | 146,232,533 | 145,898,569 | 7.19 |
| | - | - | - | - | 370,536,203 | 378,314,370 | 376,189,636 | - |
| **Corporate bonds – Local bank** | | | | | | | | |
| - 5 to 10 years | - | - | - | - | 22,612,500 | 22,612,500 | 22,763,250 | 6.83 |
| | - | - | - | - | 22,612,500 | 22,612,500 | 22,763,250 | - |
| **Lebanese treasury bills:** | | | | | | | | |
| - Up to one year | 14,890,000 | 14,890,000 | 15,217,975 | 6.21 | - | - | - | - |
| - 1 year to 3 years | 35,000,000 | 35,000,000 | 35,553,023 | 6.50 | - | - | - | - |
| - 3 years to 5 years | 18,000,000 | 18,000,000 | 18,241,902 | 6.96 | - | - | - | - |
| - 5 years to 10 years | 4,000,000 | 4,000,000 | 4,136,003 | 6.96 | - | - | - | - |
| - Above 10 years | 5,000,000 | 5,000,000 | 4,154,592 | 8.74 | - | - | - | - |
| | 76,890,000 | 76,890,000 | 77,303,495 | - | - | - | - | - |
| **Certificates of deposit issued by the Central Bank of Lebanon:** | | | | | | | | |
| - Up to one year | - | - | - | - | 21,105,000 | 21,163,422 | 21,349,245 | 10.00 |
| - 1 year to 3 years | 4,000,000 | 4,000,000 | 4,206,547 | 7.90 | - | - | - | - |
| - 3 years to 5 years | 73,000,000 | 73,000,000 | 73,997,408 | 8.23 | - | - | - | - |
| - 5 years to 10 years | 10,000,000 | 10,000,000 | 7,263,371 | 8.48 | - | - | - | - |
| | 87,000,000 | 87,000,000 | 85,467,326 | - | 21,105,000 | 21,163,422 | 21,349,245 | - |
| Grand Total | 163,890,000 | 163,890,000 | 162,770,821 | - | 414,253,703 | 422,090,292 | 420,302,131 | - |

### (c) Investment Securities at far value through other comprehensive income

LBP'000

| | Cost | Fair Value | Accumulated Change in Fair Value |
|---|---|---|---|
| **December 31, 2015** | | | |
| Priority shares - local bank | 22,612,477 | 22,612,477 | - |
| Nominal shares - local bank | 25,266,590 | 25,786,598 | 520,008 |
| | 47,879,067 | 48,399,075 | |
| Deferred Tax liability (Note 19) | | | (78,001) |
| | | | 442,007 |
| **December 31, 2014** | | | |
| Priority shares - local bank | 22,612,477 | 22,612,477 | - |

Priority shares earn an annual dividends of 4% of the issue price provided there are enough declared net profits for the issued bank to allow the payment of such dividends.

## 10. Customers' liability under acceptances

Acceptances represent documentary credits which the Bank has committed to settle on behalf of its customers against commitments by those customers (acceptances). The commitments resulting from these acceptances are also stated as a liability in the statement of financial position for the same amount.

## 11. Assets acquired in satisfaction of loans

LBP'000

| | December 31 | |
|---|---|---|
| | 2015 | 2014 |
| Foreclosed assets acquired in satisfaction of loans | - | 5,889,955 |

The acquisition of assets in settlement of loans requires the approval of the banking regulatory authorities. These assets should be liquidated within 2 years from the Central Bank's acquisition date approval. In case of default of liquidation, the Bank should appropriate a special reserve from the yearly net profits over a period of 5 years. This statutory reserve is recorded under "Reserves" in shareholders' equity (Note 22).

During 2015, the Bank sold the assets acquired in satisfaction of loans for an amount of USD 3.3 million (LBP 4.97 billion) which resulted a loss of LBP 969 million recorded in the statement of profit or loss.

## 12. Property and equipment

LBP'000

| | Property and buildings | Office and computer equipment | Furniture and fixtures | Vehicles | Leasehold Improvements | Advance Payments | Total |
|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | |
| Balance – January 1, 2014 | 6,864,364 | 2,706,685 | 2,460,941 | 468,370 | 5,961,602 | 58,137 | 18,520,099 |
| Additions (net) | - | 97,995 | 11,447 | 132,170 | 58,137 | 54,926 | 354,675 |
| Disposals | (360,198) | (12,814) | - | (91,962) | - | - | (464,974) |
| **Balance - December 31, 2014** | 6,504,166 | 2,791,866 | 2,472,388 | 508,578 | 6,019,739 | 113,063 | 18,409,800 |
| Additions | - | 20,197 | 30,388 | 162,667 | - | 263,812 | 477,064 |
| Disposals | - | - | (91,581) | - | - | - | (91,581) |
| **Balance - December 31, 2015** | 6,504,166 | 2,812,063 | 2,411,195 | 671,245 | 6,019,739 | 376,875 | 18,795,283 |
| **Accumulated depreciation:** | | | | | | | |
| Balance – January 1, 2014 | (2,034,466) | (2,421,707) | (1,793,829) | (412,071) | (3,971,934) | - | (10,634,007) |
| Additions | (133,685) | (118,768) | (89,097) | (47,123) | (338,694) | - | (727,367) |
| Disposals | 119,466 | 12,814 | - | 91,962 | - | - | 224,242 |
| **Balance - December 31, 2014** | (2,048,685) | (2,527,661) | (1,882,926) | (367,232) | (4,310,628) | - | (11,137,132) |
| Additions | (130,083) | (110,428) | (83,219) | (73,230) | (316,288) | - | (713,248) |
| Disposals | - | - | 81,380 | - | - | - | 81,380 |
| **Balance - December 31, 2015** | (2,178,768) | (2,638,089) | (1,884,765) | (440,462) | (4,626,916) | - | (11,769,000) |
| **Net Books Value:** | | | | | | | |
| Balance - December 31, 2015 | 4,325,398 | 173,974 | 526,430 | 230,783 | 1,392,823 | 376,875 | 7,026,283 |
| Balance - December 31, 2014 | 4,455,481 | 264,205 | 589,462 | 141,346 | 1,709,111 | 113,063 | 7,272,668 |

During 2014, the Bank sold plot number 5023 in Msaytbeh which resulted a gain of LBP1.1billion recorded under other income.

The Board of Directors resolved during its meeting held on September 7, 2015, to acquire a new building to be used as the Bank's head office. The total acquisition cost amounted to USD28million.

## 13. Intangible assets

LBP'000

| | Computer Software |
|---|---|
| **Cost:** | |
| Balance, January 1, 2014 | 1,385,418 |
| Additions | 107,100 |
| **Balance, December 31, 2014** | 1,492,518 |
| Additions | 230,676 |
| **Balance, December 31, 2015** | 1,723,194 |
| **Accumulated Amortization:** | |
| Balance, January 1, 2014 | 869,943 |
| Amortization for the year | 152,121 |
| **Balance, December 31, 2014** | 1,022,064 |
| Amortization for the year | 156,573 |
| **Balance, December 31, 2015** | 1,178,637 |
| **Carrying Value:** | |
| Balance, December 31, 2015 | 544,557 |
| Balance, December 31, 2014 | 470,454 |

## 14. Other assets

LBP'000

| | December 31 | |
|---|---|---|
| | **2015** | **2014** |
| Receivables from the National Social Security Fund | 220,556 | 367,959 |
| Prepaid expenses | 254,569 | 260,594 |
| Sundry debtors | 589,406 | 432,283 |
| | 1,064,531 | 1,060,836 |

## 15. Deposits from a central bank

This caption consists of deposits from foreign central bank – the ultimate parent company.

LBP'000

| | December 31 | |
|---|---|---|
| | **2015** | **2014** |
| Demanda deposits | 6,313,159 | 13,235,703 |
| Term deposits | 75,375,000 | 75,375,000 |
| Accrued interest payable | 16,980 | 5,394 |
| | 81,705,139 | 88,616,097 |

## 16. Deposits from banks and financial institutions

LBP'000

| | December 31 | |
|---|---|---|
| | 2015 | 2014 |
| Current accounts | 52,702,572 | 48,303,645 |
| Term deposits | 64,091,790 | 51,830,070 |
| Accrued interest payable | 87,799 | 51,129 |
| | 116,882,161 | 100,184,844 |

## 17. Deposits from the parent, sister and other related banks

LBP'000

| | December 31 | |
|---|---|---|
| | 2015 | 2014 |
| Current accounts: | | |
| Sister banks | 72,600 | 277,105 |
| Parent bank | 2,066,119 | 237,309 |
| | 2,138,719 | 514,414 |
| Term deposits: | | |
| Sister banks | 30,150,000 | 4,522,500 |
| Parent bank | 625,588,531 | 566,074,737 |
| | 655,738,531 | 570,597,237 |
| Cash margin with parent bank | 5,919,954 | 5,862,849 |
| Accrued interest payable | 2,212,913 | 665,675 |
| | 666,010,117 | 577,640,175 |

Term deposits from parent and sister banks have the following maturities:

| | December 31, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| | Accounts In F / CY | Average Interest Rate | Accounts In F / CY | Average Interest Rate |
| | LBP'000 | % | LBP'000 | % |
| First quarter of 2015 | - | - | 570,597,237 | 0.49 |
| First quarter of 2016 | 392,733,335 | 0.43 | - | - |
| Second quarter of 2016 | 263,005,196 | 1.23 | - | - |
| | 655,738,531 | | 570,597,237 | |

## 18. Customers' deposits

LBP'000

| | December 31, 2015 | | |
|---|---|---|---|
| | LBP | F / CY | Total |
| **Deposits from customers:** | | | |
| Current/demand deposits | 2,646,108 | 3,039,310 | 5,685,418 |
| Term deposits | 105,285,063 | 185,089,267 | 290,374,330 |
| Collateral against loans and advances | 1,025,335 | 61,561 | 1,086,896 |
| | 108,956,506 | 188,190,138 | 297,146,644 |
| **Margins and other accounts:** | | | |
| Margins on letters of guarantee | - | 565,591 | 565,591 |
| Accrued interest payable | 31,424 | 926,213 | 957,637 |
| Total | 108,987,930 | 189,681,942 | 298,669,872 |

LBP'000

| | December 31, 2014 | | |
|---|---|---|---|
| | LBP | F / CY | Total |
| **Deposits from customers:** | | | |
| Current/demand deposits | 3,052,981 | 6,978,147 | 10,031,128 |
| Term deposits | 99,114,170 | 188,114,628 | 287,228,798 |
| Collateral against loans and advances | 1,212,162 | 88,371 | 1,300,533 |
| | 103,379,313 | 195,181,146 | 298,560,459 |
| **Margins and other accounts:** | | | |
| Margins on letters of guarantee | - | 2,128,486 | 2,128,486 |
| Accrued interest payable | 30,809 | 807,917 | 838,726 |
| Total | 103,410,122 | 198,117,549 | 301,527,671 |

Deposits from customers are allocated by brackets of deposits as follows:

| | December 31, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | LBP | | | F/CY | | |
| | No. of Customers | Total Deposits | % to Total Deposits | Total Deposits | % to Total Deposits | Total |
| | | LBP'000 | % | LBP'000 | % | LBP'000 |
| Less than LBP 250 million | 1,353 | 27,258,917 | 24 | 13,808,830 | 7 | 41,067,747 |
| Between LBP 250 million and LBP 1,5 billion | 153 | 61,145,111 | 54 | 21,886,928 | 12 | 83,032,039 |
| Above LBP 1,5 billion | 22 | 20,583,902 | 22 | 153,986,184 | 81 | 174,570,086 |
| | 1,528 | 108,987,930 | 100 | 189,681,942 | 100 | 298,669,872 |

| | December 31, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | LBP | | | F/CY | | |
| | No. of Customers | Total Deposits | % to Total Deposits | Total Deposits | % to Total Deposits | Total |
| | | LBP'000 | % | LBP'000 | % | LBP'000 |
| Less than LBP 250 million | 1,651 | 28,054,204 | 27 | 16,588,872 | 8 | 44,643,076 |
| Between LBP 250 million and LBP 1,5 billion | 134 | 53,441,405 | 52 | 21,433,879 | 11 | 74,875,284 |
| Above LBP 1,5 billion | 26 | 21,914,513 | 21 | 160,094,798 | 81 | 182,009,311 |
| | 1,811 | 103,410,122 | 100 | 198,117,549 | 100 | 301,527,671 |

Customers' deposits at December 31, 2015 include coded deposit accounts in the aggregate of LBP 198 million (LBP 216 million in 2014). These accounts are subject to the provisions of Article 3 of the Banking Secrecy Law dated September 3, 1956 which stipulates that the Bank's management, in the normal course of business, cannot reveal the identities of these depositors to third parties, including its Bank's independent auditors.

Customers' deposits include related party deposits in the amount of LBP 5.15 billion at December 31, 2015 (LBP 7.3 billion in 2014).

## 19. Other liabilities

LBP'000

| | December 31 | |
|---|---|---|
| | 2015 | 2014 |
| Provision for income tax | 2,345,105 | 4,462,293 |
| Withheld taxes payable | 484,382 | 636,470 |
| Deferred tax liability (Note 9) | 78,001 | - |
| Accrued charges | 454,277 | 336,863 |
| Due to the National Social Security Fund | 250,500 | 190,000 |
| Payable to personnel | 28,110 | 23,635 |
| Sundry payables | 42,015 | 341,387 |
| | 3,682,390 | 5,990,648 |

Provision for income tax as of December 31, 2015 is presented net of amounts paid in advance and deducted at source on certain interest income amounting to LBP 670 million (LBP 628 million in 2014).

During 2014, the tax returns for the year 2009 till 2012 were reviewed by the tax authorities. The Bank was charged additional taxes and penalties amounting to LBP 1.4 billion which were settled from the provision of income tax account. The Bank objected on these additional charges awaiting for the final verdict.

The tax returns for the years 2013 till 2015 are still subject for review and final assessment by the tax authorities.

## 20. Provisions

Provisions consist of the following:

LBP'000

| | December 31 | |
|---|---|---|
| | 2015 | 2014 |
| Provision for employees' end-of-service indemnity | 4,900,482 | 4,829,689 |
| Provision for loss on fixed foreign currency position | 169,000 | 169,000 |
| | 5,069,482 | 4,998,689 |

The movement of the provision for employees' end-of-service indemnity is summarized as follows:

LBP'000

| | 2015 | 2014 |
|---|---|---|
| Balance – beginning of the year | 4,829,689 | 4,270,124 |
| Additions (Note 27) | 673,170 | 854,206 |
| Settlements | (602,377) | (294,641) |
| Balance - end of the year | 4,900,482 | 4,829,689 |

## 21. Share capital

At December 31, 2015 and 2014, the Bank's authorized ordinary share capital amounted to LBP 15,000 million consisting of 300,000 fully paid shares of LBP 50,000 par value each.

Cash contribution to capital amounting to LBP 148 billion as at December 31, 2015 and 2014, represents funds injected by the bank's shareholders in order to promote, support and develop the activities of the Bank. These contributions are not subject to interest. According to local banking regulations, cash contribution to capital is considered as a core capital ratio in terms of calculating Bank's solvency.

As at 2015 year-end, the Bank has a fixed exchange position in the amount of USD 3.5 million, authorized by the Central Bank of Lebanon, to hedge its equity against exchange fluctuations within the limit of 60% of equity denominated in Lebanese Pound.

In its meeting held on April 27, 2015, the Ordinary General Assembly resolved to distribute dividends to shareholders of LBP 7.5 billion (LBP 9 billion in 2014).

## 22. Reserves

LBP'000

| | December 31 | |
|---|---|---|
| | 2015 | 2014 |
| Legal reserve (a) | 13,979,595 | 12,153,082 |
| Reserve for general banking risks (b) | 26,906,943 | 23,326,630 |
| Special reserve (c) | 11,707,541 | 11,914,974 |
| Free reserve for capital increase | 23,543,415 | 16,502,659 |
| Regulatory reserve for assets acquired in satisfaction of loans (d) | - | 4,706,221 |
| Other reserves | 39,636 | 12,500 |
| | 76,177,130 | 68,616,066 |

(a) The legal reserve is constituted in conformity with the requirements of the Lebanese Money and Credit Law on the basis of 10% of annual net profit. This reserve is not available for distribution. The Bank's General Assembly held on April 27, 2015 resolved to appropriate an amount of LBP 1,827 million from the net profit of 2014.

(b) The reserve for general banking risks is constituted according to local banking regulations, from net profit, on the basis of a minimum of 2 per mil annually and a maximum of 3 per mil of the total risk weighted assets, off-balance-sheet risk and global exchange position as defined for the computation of the solvency ratio at year-end, on condition that the cumulative rate should not be less than 1.25% at the end of the tenth financial year, (starting from year 1998, i.e. 2007) and 2% at the end of the 20th year. This reserve is constituted in Lebanese Pounds and in foreign currencies in proportion to the composition of the total risk weighted assets and off-balance-sheet items. This reserve is not available for distribution, and is used to cover any annual or unpredicted losses after being communicated and approved by the Banking Central Commission. The Bank's General Assembly held on April 27, 2015 resolved to appropriate an amount of LBP 3,580 million from the net profit of 2014.

(c) This special reserve is made in connection with the uncovered portion of doubtful debts and impaired loans subject of item No.4 of Article II of basic decision No. 7694 and Central Bank intermediary circular No. 209.

(d) As a result of the liquidation of the properties acquired in satisfaction of loans, the regulatory reserve for assets acquired in satisfaction of loans was transferred to free reserve for capital increase account.

## 23. Interest income

LBP'000

| | Year Ended December 31 | |
|---|---|---|
| | **2015** | **2014** |
| Interest income from: | | |
| Deposits with the Central Bank of Lebanon | 2,770,931 | 1,932,367 |
| Deposits with banks and financial institutions | 4,754,437 | 6,061,299 |
| Loans and advances to customers | 891,433 | 977,904 |
| Investment securities at amortized cost | 37,478,935 | 40,204,296 |
| | 45,895,736 | 49,175,866 |

Refer to Note 31 for interest income from related parties.

## 24. Interest expense

LBP'000

| | Year Ended December 31 | |
|---|---|---|
| | 2015 | 2014 |
| Interest expense on: | | |
| Deposits from banks and financial institutions | 4,612,714 | 3,686,045 |
| Deposits from customers | 11,520,785 | 11,519,305 |
| Deposits from related parties | 332,337 | 271,778 |
| | 16,465,836 | 15,477,128 |

Refer to Note 31 for interest expense from related parties.

## 25. Fee and commission income

LBP'000

| | Year Ended December 31 | |
|---|---|---|
| | 2015 | 2014 |
| Commission on documentary credits and guarantees | 1,990,639 | 5,653,966 |
| Commission on banking operations | 352,170 | 272,606 |
| Fees and commission on credit facilities | 64,224 | 64,936 |
| | 2,407,033 | 5,991,508 |

## 26. Net gains on investment securities at fair value through profit or loss

LBP'000

| | Year Ended December 31 | |
|---|---|---|
| | 2015 | 2014 |
| Dividends income | 1,562,573 | 205,990 |
| Unrealized gain | 88,729 | 311,557 |
| | 1,651,302 | 517,547 |

## 27. Salaries and related charges

LBP'000

| | Year Ended December 31 | |
|---|---|---|
| | 2015 | 2014 |
| Salaries | 8,188,504 | 8,086,629 |
| Vacation and other staff benefits | 1,302,174 | 1,616,403 |
| Provision for employees' end-of-service indemnity | 673,170 | 854,206 |
| Social Security contributions | 1,025,334 | 938,809 |
| Insurance expenses | 594,123 | 567,452 |
| School allowance | 457,633 | 431,650 |
| Transportation | 229,260 | 285,165 |
| Other allowance | 463,175 | 456,720 |
| | 12,933,373 | 13,237,034 |

## 28. General and administrative expenses

LBP'000

| | Year Ended December 31 | |
|---|---|---|
| | 2015 | 2014 |
| Directors' remunerations attendance fees and representation allowances | 1,607,825 | 1,470,566 |
| Travel expenses | 184,812 | 159,105 |
| Maintenance and repairs | 262,893 | 380,753 |
| Professional fees | 397,155 | 606,084 |
| Water electricity and telecommunication | 417,505 | 365,434 |
| Rent | 565,413 | 402,059 |
| Municipality and other taxes | 142,401 | 263,160 |
| Subscription | 588,385 | 562,346 |
| Insurance | 159,005 | 152,640 |
| Other operating expenses | 652,025 | 659,687 |
| | 4,977,419 | 5,021,834 |

## 29. Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents consist of the following:

LBP'000

| | December 31 | |
|---|---|---|
| | 2015 | 2014 |
| Cash and deposits with Central Bank (net of compulsory reserve) (a) | 84,529,803 | 128,738,952 |
| Term deposits with banks and financial institutions (a) | 134,825,523 | 253,891,723 |
| Term deposits with parent bank, sister and related banks (a) | 13,927,232 | 30,086,130 |
| | 233,282,558 | 412,716,805 |

(a) Term deposits with banks comprise balances with original maturities of 90 days or less.

## 30. Financial instruments with off-balance-sheet risks

Guarantees and standby letters of credit and documentary letters of credit represent financial instruments with contractual amounts that carry credit risk. The guarantees and standby letters of credit represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties and are not different from loans and advances on the balance sheet. However, documentary letters of credit, which represent written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipment documents of goods to which they relate and, therefore, have significantly less risks.

## 31. Balances and transactions with related parties

In the ordinary course of its activities, the Bank conducts transactions with related parties including shareholders, directors and related companies.

The size of these related-party transactions and outstanding balances at year-end, and relating expense and income for the year are as follows:

### (a) Deposits with related banks and financial institutions (Note 6)

LBP'000

| | December 31 | |
|---|---|---|
| | **2015** | **2014** |
| Current accounts | 361,887 | 549,862 |
| Term deposits | - | 50,501,250 |
| Accrued interest receivable | - | 24,044 |
| | 361,887 | 51,075,156 |

### (b) Deposits with parent sister and other related banks (Note 7)

LBP'000

| | December 31 | |
|---|---|---|
| | **2015** | **2014** |
| Current accounts: | | |
| Sister banks | 13,597,759 | 1,663,653 |
| Parent bank | 329,473 | 528,444 |
| | 13,927,232 | 2,192,097 |

### (c) Deposits from a central bank (Foreign Central Bank Ultimate parent company) (Note 15)

LBP'000

| | December 31 | |
|---|---|---|
| | 2015 | 2014 |
| Current accounts | 6,313,159 | 13,235,703 |
| Term deposits | 75,375,000 | 75,375,000 |
| Accrued interest payable | 16,980 | 5,394 |
| | 81,705,139 | 88,616,097 |

### (d) Deposits from parent, sister and other related banks (Note 17)

LBP'000

| | December 31 | |
|---|---|---|
| | 2015 | 2014 |
| Current accounts: | | |
| Sister banks | 72,600 | 277,105 |
| Parent bank | 2,066,119 | 237,309 |
| | 2,138,719 | 514,414 |
| Term deposits: | | |
| Sister banks | 30,150,000 | 4,522,500 |
| Parent bank | 625,588,531 | 566,074,737 |
| | 655,738,531 | 570,597,237 |
| Cash margin with parent bank | 5,919,954 | 5,862,849 |
| Accrued interest payable | 2,212,913 | 665,675 |
| | 666,010,117 | 577,640,175 |

### (e) Customers' deposits (Note 18)

LBP'000

| | December 31 | |
|---|---|---|
| | 2015 | 2014 |
| Customers' deposits – related parties | 5,149,145 | 7,229,609 |

### (f) Interest income and expense:
### Interest income are broken-down as follows:

LBP'000

| | Year Ended December 31 | |
|---|---|---|
| | 2015 | 2014 |
| Interest income on:<br>Deposits with related banks and financial institutions<br>Loans and advances to related companies | <br>55,625<br>- | <br>81,275<br>38,678 |
| | 55,625 | 119,953 |
| Interest expense on:<br>Deposits from foreign Central Bank (ultimate parent company)<br>Deposits from parent, sister and other related banks<br>Customers' deposits - related parties | <br>220,007<br>3,821,743<br>332,337 | <br>113,268<br>2,736,354<br>271,778 |
| | 4,374,087 | 3,121,400 |

### (g) Board of directors remunerations (Note 28)

LBP'000

| | Year Ended December 31 | |
|---|---|---|
| | 2015 | 2014 |
| Board of directors remunerations representation and attendance fees | 1,607,825 | 1,470,566 |

## 32. Financial risk management

### Risk Management Framework

The Bank is exposed to different types of risk mainly credit risk, liquidity risk, operational risk and market risk. These risks are inherent in the Bank's activities but are managed through an ongoing process of identification, measurement, monitoring and mitigation.

The Board of Directors, the Risk Management Committee and the Risk Management Division are responsible for overseeing the Bank's risks, while the Internal Audit Department has the responsibility independently to monitor the implemented risk management process to ensure adequacy and effectiveness of the risk control procedures.

The Risk Management Division ensures that the capital is adequate to cover all types of risks that the Bank is exposed to and monitors compliance with risk management policies, procedures and lending limits. The Bank assesses its risk profile to ensure that it is in line with the bank's risk strategy and goals. The Board of Directors receives quarterly risk reports on the Bank's risk profile and capital management process.

## Credit Risk

Credit risk is the risk of financial loss to the Bank if a counterparty to a financial instrument fails to meet its obligations. Financial assets that are mainly exposed to credit risk are deposits with banks, loans and advances to customers and investment securities. Credit risk also arises from off-balance sheet financial instruments such as documentary letters of credit and letters of guarantee.

Management of credit risk mainly includes:

- Identifying credit risk through implementing credit processes related to credit origination, analysis, approval and review.
- Measuring credit risk by ensuring that it is within the limits set by the Bank and the related authorities in addition to the assessment of guarantees taken.

The Bank manages the level of credit risk undertaken by placing limits on the amount of risk accepted in relation to one borrower, and/or groups of related borrowers and to geographical and industry segments without exceeding limits of the facilities set by the local Bank's regulations. Such risk is monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary.

Exposures to any one borrower including banks are further restricted by sub-limits covering on and off-financial position exposures. Actual exposures against limits are monitored on a regular basis.

The principal collateral types for loans and advances consist of mortgages over real estate properties and bank guarantees. The Bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

The Bank enters into netting arrangements with counterparties having a significant volume of transactions in order to restrict its exposure to credit losses. These arrangements do not generally result in an offset of assets and liabilities in the statement of financial position.

### Measurement of Credit Risk

*Loans and advances to customers*

In measuring credit risk of loans and advances, the Bank considers the following:

- Ability of the counterparty to honor its contractual obligations based on the account's performance, recurring overdues and related reasons, the counterparty's financial position and effect thereto of the economic environment and market conditions;
- Exposure levels of the counterparty and unutilized credit limits granted;
- Exposure levels of the counterparty with other banks;
- Purpose of the credit facilities granted to the counterparty and conformity of utilization by the counterparty.

In accordance with Central Bank of Lebanon circular No.58 the loans and advances to customers are classified into six classifications as described below:

| Classification | Description | |
|---|---|---|
| 1 | Standard monitoring | Indicates that borrowers are certainly able to honor their commitments. Some of the indicators related to this category are: continuous cash inflows, and availability of updated financial statements. |
| 2 | Follow up | Indicates that borrowers have an adequate ability to honor their commitments. Major characteristics of this category are inadequate documentation regarding borrower's activity and declining profitability. |
| 3 | Special mention | Indicates that borrowers are still able to honor their commitments with the existence of some weaknesses that may reduce ability to settle. Some indicators related to this category are delayed payments (60 to 90 days), decline in profitability and cash flows, excess over limit of more than 10%, more than one time debt rescheduling and borrower highly relying on leverage and rising conflict among shareholders. |

| | | |
|---|---|---|
| 4 | Substandard | Indicates that borrowers' ability to serve their commitments is in question and depending on the improvement of financial and economic conditions on the liquidation of available collateral. The main characteristics of this category are repetitive overdues between 90 and 180 days, inability to cover interest payments for more than 6 months, remarkable decrease in cash flows and losses incurred for over three consecutive years. In this case, the Bank considers interests and commissions as unrealized but does not establish an allowance for impairment. |
| 5 | Doubtful | Indicates that Bank may not be able to recover loan in full. Major indicators are no movement for over six months and borrower is unable to settle rescheduled commitments. In this case, the Bank considers interests and commissions as unrealized and established an allowance for impairment accordingly. |
| 6 | Bad | Indicates that commitments cannot be recovered. Some signals of this category would be inexistence of collateral low value of collateral and / or, losing contact with the borrower. In this case, the bank considers interests and commissions as unrealized, ceases their accumulation, and provides the whole amount of the exposure's balance. |

The Bank adopted a risk-rating system (RCMS) to provide the ability to assess the risk of customers, and is used as a practical tool during all phases of the granting facility in the Bank.

The system approved by the Board of Directors aims to rate the risk of individual institutions, small businesses and medium-sized businesses, trading companies and new projects according to a special classification (Loan Grading System), mainly in terms of identifying the risk of the portfolio of loans and advances as loans and advances granted are assessed according to the six rating classes as follows:

- 7 classes to rate performing loans;
- 3 classes to rate non-performing loans.

*Debt investment securities and other bills*

The risk of the debt instruments included in the investment portfolio at amortized cost relates mainly to sovereign risk (including Central bank of Lebanon) to the extent of 95% in 2015 and 2014.

### *Concentration of credit risk by geographical location:*

The Bank distributes exposures to geographical segments based on the original country of the contracting party as follows:

LBP'000

| | December 31, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | **Lebanon** | **Arab countries** | **Africa** | **Europe** | **Other** | **Total** |
| **Financial Assets** | | | | | | |
| Cash and Central Bank | 241,572,193 | - | - | - | - | 241,572,193 |
| Deposits with banks and financial institutions | 465,223,685 | 3,056,291 | - | 44,160,930 | 11,892,312 | 524,333,218 |
| Deposits with parent, sister and other related banks | - | - | 329,473 | 13,597,759 | - | 13,927,232 |
| Loans and advances to customers | 23,552,334 | - | - | - | - | 23,552,334 |
| Investment securities at fair value through profit or loss | 29,492,034 | 75,375 | - | - | - | 29,567,409 |
| Investment securities at fair value through other comprehensive income | 48,399,075 | - | - | - | - | 48,399,075 |
| Investment securities at amortized cost | 569,632,557 | - | - | - | - | 569,632,557 |
| Total | 1,377,871,878 | 3,131,666 | 329,473 | 57,758,689 | 11,892,312 | 1,450,984,018 |
| **Off-balance sheet items** | | | | | | |
| Letters of guarantee and standby letters of credit | 61,830,971 | 2,664,340 | - | 3,115 | 54,270 | 64,552,696 |
| Letters of credit - export confirmed | - | 66,953,310 | - | - | - | 66,953,310 |
| | 61,830,971 | 69,617,650 | - | 3,115 | 54,270 | 131,506,006 |

LBP'000

| | December 31, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | **Lebanon** | **Arab countries** | **Africa** | **Europe** | **Other** | **Total** |
| **Financial Assets** | | | | | | |
| Cash and Central Bank | 222,893,129 | - | - | - | - | 222,893,129 |
| Deposits with banks and financial institutions | 297,945,165 | 2,358,145 | - | 108,136,212 | 44,928,728 | 453,368,250 |
| Deposits with parent, sister and other related banks | - | - | 528,444 | 1,663,653 | - | 2,192,097 |
| Loans and advances to customers | 22,337,057 | 13 | - | - | - | 22,337,070 |
| Investment securities at fair value through profit or loss | 29,375,089 | 75,375 | - | - | - | 29,450,464 |
| Investment securities at fair value through other comprehensive income | 22,612,477 | - | - | - | - | 22,612,477 |
| Investment securities at amortized cost | 595,401,940 | - | - | - | - | 595,401,940 |
| Customers' liability under acceptances | - | 264,994 | - | - | - | 264,994 |
| | 1,190,564,857 | 2,698,527 | 528,444 | 109,799,865 | 44,928,728 | 1,348,520,421 |
| **Off-balance sheet items** | | | | | | |
| Letters of guarantee and standby letters of credit | 65,211,851 | 1,354,142 | - | - | 75,475 | 66,641,468 |
| Letters of credit – import | - | 2,310,901 | - | - | - | 2,310,901 |
| Letters of credit - export confirmed | - | 41,492,864 | - | - | - | 41,492,864 |
| | 65,211,851 | 45,157,907 | - | - | 75,475 | 110,445,233 |

## *Concentration of credit risk by industry or sector:*

LBP'000

| | December 31, 2015 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Sovereign Risk | Financial Institutions | Manufacturing | Construction | Trading | Other | Individual | Total |
| **Financial Assets** | | | | | | | | |
| Cash and Central Bank | 241,572,193 | - | - | - | - | - | - | 241,572,193 |
| Deposits with banks and financial institutions | - | 524,333,218 | - | - | - | - | - | 524,333,218 |
| Deposits with parent, sister and other related banks | - | 13,927,232 | - | - | - | - | - | 13,927,232 |
| Loans and advances to customers | - | - | 4,632,135 | 7,424,770 | 5,670,893 | 2,509,811 | 3,314,725 | 23,552,334 |
| Investment securities at fair value through profit or loss | - | 29,507,170 | - | 60,239 | - | - | - | 29,567,409 |
| Investment securities at fair value through other comprehensive income | - | 48,399,075 | - | - | - | - | - | 48,399,075 |
| Investment securities at amortized cost | 546,998,177 | 22,634,380 | - | - | - | - | - | 569,632,557 |
| | 788,570,370 | 638,801,075 | 4,632,135 | 7,485,009 | 5,670,893 | 2,509,811 | 3,314,725 | 1,450,984,018 |
| **Off-balance sheet items** | | | | | | | | |
| Letters of guarantee and standby letters of credit | - | 58,360,554 | 504,871 | 2,891,831 | 1,450,781 | 617,033 | 727,626 | 64,552,696 |
| Letters of credit - export confirmed | - | 66,953,310 | - | - | - | - | - | 66,953,310 |
| | - | 125,313,864 | 504,871 | 2,891,831 | 1,450,781 | 617,033 | 727,626 | 131,506,006 |

LBP'000

| | December 31, 2014 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Sovereign Risk | Financial Institutions | Manufacturing | Construction | Trading | Other | Individual | Total |
| **Financial Assets** | | | | | | | | |
| Cash and Central Bank | 222,893,129 | - | - | - | - | - | - | 222,893,129 |
| Deposits with banks and financial institutions | - | 453,368,250 | - | - | - | - | - | 453,368,250 |
| Deposits with parent, sister and other related banks | - | 2,192,097 | - | - | - | - | - | 2,192,097 |
| Loans and advances to customers | - | 17,674 | 5,339,630 | 5,903,975 | 5,802,684 | 837,516 | 4,435,591 | 22,337,070 |
| Investment securities at fair value through profit or loss | - | 29,388,809 | - | 61,655 | - | - | - | 29,450,464 |
| Investment securities at fair value through other comprehensive income | - | 22,612,477 | - | - | - | - | - | 22,612,477 |
| Investment securities at amortized cost | 572,767,560 | 22,634,380 | - | - | - | - | - | 595,401,940 |
| Customers' liability under acceptances | - | 264,994 | - | - | - | - | - | 264,994 |
| | 795,660,689 | 530,478,681 | 5,339,630 | 5,965,630 | 5,802,684 | 837,516 | 4,435,591 | 1,348,520,421 |
| **Off-balance sheet items** | | | | | | | | |
| Letters of guarantee and standby letters of credit | - | 61,379,750 | 1,034,250 | 3,232,730 | 47,033 | 121,831 | 825,874 | 66,641,468 |
| Letters of credit – import | - | - | 1,423,240 | - | 887,661 | - | - | 2,310,901 |
| Letters of credit - export confirmed | - | 41,492,864 | - | - | - | - | - | 41,492,864 |
| | - | 102,872,614 | 2,457,490 | 3,232,730 | 934,694 | 121,831 | 825,874 | 110,445,233 |

Guarantees held against loans and advances to customers:

LBP'000

| | December 31, 2015 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | Value of Collateral Received | | | |
| | Gross Exposure Net of Unrealized Interest | Allowance for Impairment | Net Exposure | Pledged Funds | First degree Mortgage on Properties | Personal Guarantees | Total Guarantees |
| Performing Operating Loans: | | | | | | | |
| Retail Loans | 806,168 | - | 806,168 | 1,086,896 | 486,923 | 574,405 | 2,148,224 |
| Housing Loans | 2,360,948 | - | 2,360,948 | - | 2,907,967 | - | 2,907,967 |
| Performing Loans - Corporate: | | | | | | | |
| Corporate | - | - | - | - | 18,123,440 | 42,180 | 18,165,620 |
| Small and medium enterprises | 8,693,258 | - | 8,693,258 | - | - | - | - |
| Doubtful and bad debts | 28,750,070 | (17,042,542) | 11,707,528 | - | 37,514,138 | - | 37,514,138 |
| Collective provision | - | (15,568) | (15,568) | - | - | - | - |
| | 40,610,444 | (17,058,110) | 23,552,334 | 1,086,896 | 59,032,468 | 616,585 | 60,735,949 |

LBP'000

| | December 31, 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | Value of Collateral Received | | | |
| | Gross Exposure Net of Unrealized Interest | Allowance for Impairment | Net Exposure | Pledged Funds | First degree Mortgage on Properties | Personal Guarantees | Total Guarantees |
| Performing Loans: | | | | | | | |
| Retail | 2,611,607 | - | 2,611,607 | 1,300,533 | 4,037,840 | 1,691,170 | 7,029,543 |
| Housing Loans | 2,700,464 | - | 2,700,464 | - | 3,399,413 | - | 3,399,413 |
| Performing Loans - Corporate: | | | | | | | |
| Corporate | 3,985,260 | - | 3,985,260 | - | 12,587,625 | - | 12,587,625 |
| Small and medium enterprises | 1,339,749 | - | 1,339,749 | - | 3,860,227 | 63,003 | 3,923,230 |
| Doubtful and bad debts | 30,663,979 | (18,956,451) | 11,707,528 | - | 38,534,715 | - | 38,534,715 |
| Collective provision | - | (7,538) | (7,538) | - | - | - | - |
| | 41,301,059 | (18,963,989) | 22,337,070 | 1,300,533 | 62,419,820 | 1,754,173 | 65,474,526 |

## Market Risks

Market risk is defined as the risk of losses in on and off-financial position, arising from adverse movements in market prices. The risks subject to Market Risk include: Interest Rate Risk and Foreign Exchange Risk.

*Foreign Exchange risk*

Foreign exchange risk arises from the exposure on banking assets and liabilities, denominated in foreign currencies.

LBP'000

| | December 31, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | LBP | USD | GBP | Euro | Other | Total |
| **Assets** | | | | | | |
| Cash and Central Bank | 39,525,026 | 201,440,635 | 106,749 | 499,783 | - | 241,572,193 |
| Deposits with banks and financial institutions | 197,430 | 467,977,204 | 135,436 | 54,454,509 | 1,568,639 | 524,333,218 |
| Deposits with the parent sister and other related banks | - | 484,275 | 537,085 | 12,855,704 | 50,168 | 13,927,232 |
| Loans and advances to customers | 974,609 | 22,577,725 | - | - | - | 23,552,334 |
| Investment securities at fair value through profit or loss | 170,000 | 29,369,169 | - | 28,240 | - | 29,567,409 |
| Investment securities at fair value throug other comprehensive income | - | 48,399,075 | - | - | - | 48,399,075 |
| Investment securities at amortized cost | 165,664,722 | 382,289,351 | - | 21,678,484 | - | 569,632,557 |
| Property and equipment | 6,649,408 | 376,875 | - | - | - | 7,026,283 |
| Intangible assets | 544,557 | - | - | - | - | 544,557 |
| Other assets | 426,143 | 635,256 | - | 3,132 | - | 1,064,531 |
| Total assets | 214,151,895 | 1,153,549,565 | 779,270 | 89,519,852 | 1,618,807 | 1,459,619,389 |
| **Liabilities** | | | | | | |
| Deposits from a Central Bank | - | 77,156,561 | - | 4,548,578 | - | 81,705,139 |
| Deposits from banks and financial institutions | - | 58,978,664 | 124,897 | 57,767,996 | 10,604 | 116,882,161 |
| Deposits form the parent sister and other related banks | - | 665,984,311 | - | 25,806 | - | 666,010,117 |
| Customers' deposits | 108,987,930 | 160,310,043 | 633,646 | 27,168,213 | 1,570,040 | 298,669,872 |
| Other liablities | 3,262,348 | 419,841 | - | - | 201 | 3,682,390 |
| Provisions | 3,972,767 | 1,096,715 | - | - | - | 5,069,482 |
| **Total liabilities** | 116,223,045 | 963,946,135 | 758,543 | 89,510,593 | 1,580,845 | 1,172,019,161 |
| **Net assets** | 97,928,850 | 189,603,430 | 20,727 | 9,259 | 37,962 | 287,600,228 |

North Africa Commercial Bank S.A.L.

LBP'000

| | December 31, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | LBP | USD | GBP | Euro | Other | Total |
| **Assets** | | | | | | |
| Cash and Central Bank | 33,093,800 | 189,035,792 | 67,976 | 695,561 | - | 222,893,129 |
| Deposits with banks and financial institutions | 574,283 | 408,469,309 | 305,961 | 42,209,157 | 1,809,540 | 453,368,250 |
| Deposits with the parent sister and other related banks | - | 1,175,314 | 450,894 | 512,555 | 53,334 | 2,192,097 |
| Loans and advances to customers | 1,069,238 | 21,267,832 | - | - | - | 22,337,070 |
| Investment securities at fair value through profit or loss | 170,000 | 29,280,464 | - | - | - | 29,450,464 |
| Investment securities at fair value throug other comprehensive income | - | 22,612,477 | - | - | - | 22,612,477 |
| Investment securities at amortized cost | 167,382,564 | 403,875,955 | - | 24,143,421 | - | 595,401,940 |
| Customers' liability under acceptances | - | - | - | 264,994 | - | 264,994 |
| Assets acquired in satisfaction of loans | 5,889,955 | - | - | - | - | 5,889,955 |
| Property and equipment | 7,272,668 | - | - | - | - | 7,272,668 |
| Intangible assets | 470,454 | - | - | - | - | 470,454 |
| Other assets | 1,060,836 | - | - | - | - | 1,060,836 |
| Total assets | 216,983,798 | 1,075,717,143 | 824,831 | 67,825,688 | 1,862,874 | 1,363,214,334 |
| **Liabilities** | | | | | | |
| Deposits from a Central Bank | - | 82,985,725 | - | 5,630,372 | - | 88,616,097 |
| Deposits from banks and financial institutions | - | 60,365,519 | 112,484 | 39,696,214 | 10,627 | 100,184,844 |
| Deposits form the parent sister and other related banks | - | 577,401,246 | - | 238,929 | - | 577,640,175 |
| Customers' deposits | 103,410,122 | 173,717,799 | 670,792 | 21,946,926 | 1,782,032 | 301,527,671 |
| Liability under acceptances | - | - | - | 264,994 | - | 264,994 |
| Other liablities | 5,400,761 | 589,457 | - | - | 430 | 5,990,648 |
| Provisions | 4,003,819 | 994,870 | - | - | - | 4,998,689 |
| **Total liabilities** | 112,814,702 | 896,054,616 | 783,276 | 67,777,435 | 1,793,089 | 1,079,223,118 |
| **Net assets** | 104,169,096 | 179,662,527 | 41,555 | 48,253 | 69,785 | 283,991,216 |

## Exposure to Interest rate risk

Below is a summary of the Bank's interest rate gap position on major financial assets and liabilities reflected at carrying amounts at year end by repricing time bands:

LBP'000

| | December 31, 2015 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Not subject to Interest | Less than 1 Month | 1 to 3 Months | 3 Months to 1 Year | 1 to 5 Years | Over 5 Years | Total |
| **Financial Assets** | | | | | | | |
| Cash and Central Bank | 28,306,587 | 44,904,560 | 30,332,928 | 138,028,118 | - | - | 241,572,193 |
| Deposits with banks and financial institutions | 11,113,373 | 334,771,455 | 73,436,815 | 105,011,575 | - | - | 524,333,218 |
| Deposits with the parent sister and related banks | 13,927,232 | - | - | - | - | - | 13,927,232 |
| Loans and advances to customers | 20,917,289 | 54 | 299,912 | 617,089 | 1,717,990 | - | 23,552,334 |
| Investment securities at fair value through profit or loss | 29,567,409 | - | - | - | - | - | 29,567,409 |
| Investment securities at fair value through other comprehensive income | 48,399,075 | - | - | - | - | - | 48,399,075 |
| Investment securities at amortized cost | - | 5,750,307 | 47,448,295 | 4,335,506 | 250,862,895 | 261,235,554 | 569,632,557 |
| **Total Financial Assets** | 152,230,965 | 385,426,376 | 151,517,950 | 247,992,288 | 252,580,885 | 261,235,554 | 1,450,984,018 |
| **Financial Liabilities** | | | | | | | |
| Due from a Central Bank | 6,313,159 | 37,690,263 | 37,701,717 | - | - | - | 81,705,139 |
| Deposits from banks and financial institutions | 52,702,572 | 27,798,606 | 12,069,795 | 24,311,188 | - | - | 116,882,161 |
| Deposits form related parent, sister and related banks | 2,138,718 | 341,564,350 | 57,299,704 | 265,007,345 | - | - | 666,010,117 |
| Customers' deposits | 33,044,118 | 219,466,432 | 21,261,230 | 10,096,423 | 14,801,669 | - | 298,669,872 |
| **Total Financial Liabilities** | 94,198,567 | 626,519,651 | 128,332,446 | 299,414,956 | 14,801,669 | - | 1,163,267,289 |

LBP'000

| | December 31, 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Not subject to Interest | Less than 1 Month | 1 to 3 Months | 3 Months to 1 Year | 1 to 5 Years | Over 5 Years | Total |
| **Financial Assets** | | | | | | | |
| Cash and Central Bank | 27,226,379 | 95,194,927 | 72,407,198 | 175,875 | 12,813,750 | 15,075,000 | 222,893,129 |
| Deposits with banks and financial institutions | 24,691,863 | 288,036,350 | 92,075,839 | 48,564,198 | - | - | 453,368,250 |
| Deposits with the parent sister and related banks | 2,192,097 | - | - | - | - | - | 2,192,097 |
| Loans and advances to customers | 15,718,284 | 3,678,225 | 3,942 | 155,813 | 2,780,806 | - | 22,337,070 |
| Investment securities at fair value through profit or loss | 29,450,464 | - | - | - | - | - | 29,450,464 |
| Investment securities at fair value through other comprehensive income | 22,612,477 | - | - | - | - | - | 22,612,477 |
| Investment securities at amortized cost | - | 9,442,890 | 2,043,890 | 52,320,984 | 266,314,252 | 265,279,924 | 595,401,940 |
| | 121,891,564 | 396,352,392 | 166,530,869 | 101,216,870 | 281,908,808 | 280,354,924 | 1,348,255,427 |
| **Financial Liabilities** | | | | | | | |
| Deposits from a Central Bank | 13,235,703 | 52,764,922 | 22,615,402 | - | - | - | 88,616,097 |
| Deposits from banks and financial institutions | 48,303,645 | 16,934,516 | 7,547,466 | 27,399,217 | - | - | 100,184,844 |
| Deposits form the parent sister and related banks | 514,414 | 352,956,654 | 224,169,107 | - | - | - | 577,640,175 |
| Customers' deposits | 39,517,387 | 225,623,130 | 16,343,627 | 20,043,527 | - | - | 301,527,671 |
| | 101,571,149 | 648,279,292 | 270,675,602 | 47,442,744 | - | - | 1,067,968,787 |

### Liquidity Risk

Liquidity risk is the risk of being unable to meet net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately. To face this risk, management distributes its sources of funding and manage its assets according to a cash policy that seeks to preserve an adequate liquidity balance and financial instruments than can be readily liquidated in the financial market.

Financial liabilities based on the earliest possible contractual maturity:

LBP'000

| | December 31, 2015 | | | |
|---|---|---|---|---|
| | Up to 3 months | 3 months to 1 year | 1 to 3 years | Total |
| **Financial liabilities** | | | | |
| Deposits from a central bank | 81,705,139 | - | - | 81,705,139 |
| Deposits from banks and financial institutions | 92,570,973 | 24,311,188 | - | 116,882,161 |
| Deposits from the parent, sister and related banks | 401,002,772 | 265,007,345 | - | 666,010,117 |
| Customer deposits | 273,771,780 | 10,096,423 | 14,801,669 | 298,669,872 |
| | 849,050,664 | 299,414,956 | 14,801,669 | 1,163,267,289 |

LBP'000

| | December 31, 2014 | | |
|---|---|---|---|
| | Up to 3 months | 3 months to 1 year | Total |
| **Financial liabilities** | | | |
| Deposits from a central bank | 88,616,097 | - | 88,616,097 |
| Deposits from banks and financial institutions | 72,785,627 | 27,399,217 | 100,184,844 |
| Deposits from the parent, sister and related banks | 577,640,175 | - | 577,640,175 |
| Customer deposits | 281,484,144 | 20,043,527 | 301,527,671 |
| | 1,020,526,043 | 47,442,744 | 1,067,968,787 |

## 32. Capital management

The Bank manages its capital to comply with the capital adequacy requirements set by Central Bank of Lebanon, the bank's lead regulator.

Central Bank of Lebanon requires each bank or banking group to hold a minimum level of regulatory capital of LBP 10 billion for the head office (in Lebanon) and LBP 500 million for each local branch and LBP 1.5 billion on each branch abroad (for Lebanese banks, in addition to the required amount by the related authorities abroad).

The Bank's capital is split as follows:

**Tier I capital**: Comprises share capital, cash contribution to capital, reserves from appropriation of profits, retained earnings (exclusive of profit for the year) after deductions for intangible assets.

**Tier II capital:** Comprises 50% of the accumulated change in fair value of Investment securities at fair value through other comprehensive income.

The bank's capital adequacy ratio was as follows:

LBP'000

| | December 31 | |
|---|---|---|
| | **2015** | **2014** |
| Tier I capital<br>Tier II capital | 241,930,000<br>221,000 | 248,634,438<br>- |
| Total regulatory capital | 242,151,000 | 248,634,438 |
| Credit risk<br>Market risk<br>Operational risk | 1,045,879,000<br>65,129,845<br>69,329,375 | 916,422,000<br>64,196,646<br>74,376,875 |
| Risk-weighted assets of credit, market and operational risks | 1,180,338,220 | 1,054,995,521 |
| Equity Tier I ratio | 20.52 % | 23.57 % |
| Tier I capital ratio | 20.52 % | 23.57 % |
| Risk based capital ratio- Tier I and Tier II capital | 20.50 % | 23.57 % |

## 33. Fair value of financial assets and liabilities

The following table shows the carrying amounts and fair values of financial assets and liabilities recognized in the financial statements, including their levels in the fair value hierarchy. It does not include financial assets and financial liabilities which are measured at amortized cost and where the directors consider that the carrying amounts of these financial assets and liabilities are reasonable approximations of their fair value:

LBP'000

| | | December 31, 2015 | | | | |
|---|---|---|---|---|---|---|
| | | | Fair Value | | | |
| | Notes | Carrying Amount | Level 1 | Level 2 | Level 3 | Total |
| **Financial assets at fair value** | | | | | | |
| Investment securities at fair value through profit or loss | | | | | | |
| Unquoted equity securities | 9 | 245,375 | - | - | 245,375 | 245,375 |
| Quoted equity securities | 9 | 60,239 | 60,239 | - | - | 60,239 |
| Fund | 9 | 29,261,795 | - | - | 29,261,795 | 29,261,795 |
| | | 29,567,409 | 60,239 | - | 29,507,170 | 29,567,409 |
| **Investment securities at fair value through other comprehensive income** | | | | | | |
| Quoted equity securities | 9 | 48,399,075 | 48,399,075 | - | - | 48,399,075 |
| | | 48,399,075 | 48,399,075 | - | - | 48,399,075 |
| **Financial assets at amortized cost** | | | | | | |
| Lebanese treasury bills | 9 | 71,242,000 | - | 72,508,345 | - | 72,508,345 |
| Lebanese Government bonds | 9 | 348,310,607 | - | 343,884,190 | - | 343,884,190 |
| Certificates of deposits in LBP issued by Central Bank | 9 | 91,000,000 | - | 94,380,803 | - | 94,380,803 |
| Certificates of deposits in foreign currencies issued by Central Bank | 9 | 28,190,250 | - | 27,800,452 | - | 27,800,452 |
| Corporate bonds – local bank | 9 | 22,612,500 | - | 22,687,875 | - | 22,687,875 |
| Loans and advances to customers | 8 | 23,552,334 | - | 27,831,405 | - | 27,831,405 |
| | | 584,907,691 | - | 589,093,070 | - | 589,093,070 |

LBP'000

| | Notes | Carrying Amount | Fair Value – December 31, 2014 Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|---|---|
| **Financial assets at fair value** | | | | | | |
| Investment securities at fair value through profit or loss | | | | | | |
| Unquoted equity securities | 9 | 245,375 | - | - | 245,375 | 245,375 |
| Quoted equity securities | 9 | 61,655 | 61,655 | - | - | 61,655 |
| Investment fund | 9 | 29,143,434 | - | - | 29,143,434 | 29,143,434 |
| | | 29,450,464 | 61,655 | - | 29,388,809 | 29,450,464 |
| **Investment securities at fair value through other comprehensive income** | | | | | | |
| Quoted equity securities | | 22,612,477 | 22,612,477 | - | - | 22,612,477 |
| | | 22,612,477 | 22,612,477 | - | - | 22,612,477 |
| **Financial assets at amortized cost** | | | | | | |
| Investment securities at amortized cost | | | | | | |
| Lebanese treasury bills | 9 | 76,890,000 | - | 77,303,495 | - | 77,303,495 |
| Lebanese Government bonds | 9 | 378,314,370 | - | 376,189,636 | - | 376,189,636 |
| Certificates of deposits in LBP issued by Central Bank | 9 | 87,000,000 | - | 85,467,326 | - | 85,467,326 |
| Certificates of deposits in foreign currencies issued by Central Bank | 9 | 21,162,422 | - | 21,349,245 | - | 21,349,245 |
| Corporate bonds – local bank | 9 | 22,612,500 | - | 22,763,250 | - | 22,763,250 |
| Loans and advances to customers | 8 | 22,337,070 | - | 26,612,320 | - | 26,612,320 |
| | | 608,316,362 | - | 609,685,272 | - | 609,685,272 |

There have been no transfers between Level 1 and Level 2 during the year.

*Valuation techniques, significant unobservable inputs, and sensitivity of the input to the fair value*

The following table gives information about how the fair values of financial instruments included in the financial statements, are determined (Level 2 and Level 3 fair values) and significant unobservable inputs used where applicable (Level 3):

| **Financial instruments** | **Date of valuation** | **Valuation technique and key inputs** | **Significant unobservable inputs** |
|---|---|---|---|
| Unquoted equity securities | December 31,2015 & 2014 | Non resident. | N/A |
| Investment Fund | December 31,2015 & 2014 | Fair value was provided by the fund manager. | N/A |
| Lebanese treasury bills | December 31,2015 & 2014 | DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bills, adjusted for illiquidity. | N/A |
| Lebanese Government bonds | December 31,2015 & 2014 | DCF at a discount rate determined based on the yield on USA treasury bills and the Credit Default Swap applicable to Lebanon subject to illiquidity factor. | N/A |
| Certificates of deposits in foreign currencies issued by Central Bank | December 31,2015 & 2014 | DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bills, adjusted for illiquidity. | N/A |
| Corporate bonds-Local bank | December 31,2015 & 2014 | Fair value was provided by the issuer. | N/A |
| Loans and advances to customers | December 31,2015 & 2014 | DCF at a discount rate determined based on the average rate of return of the receivables bearing fixed interest rate for more than one year. | N/A |

## 34. Contingent liabilities

There are some lawsuits filed against the bank; the bank's management and legal advisor do not expect to incur material liability as result of the disputed claims.

As stated in Note 19, the tax returns for the years from 2013 till 2015 remain subject to tax examination and final assessment by the tax authorities.

## 35. Approval of the financial statements

The financial statements for the year ended December 31, 2015 were approved by the Bank's Board of Directors in its meeting held on March 19, 2016.

North Africa Commercial Bank S.A.L.