BLC BANK S.A.L.

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
YEAR ENDED DECEMBER 31, 2016

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TABLE OF CONTENTS

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INDEPENDENT AUDITORS' REPORT

To the Shareholders
BLC Bank S.A.L.
Beirut, Lebanon

Opinion

We have audited the accompanying financial statements of BLC Bank S.A.L. (the Bank), which comprise the statement of financial position as at December 31, 2016, and the statement of profit or loss, statement of profit or loss and other comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Emphasis of Matter

Without qualifying our opinion, we draw attention to Notes 9 and 20 of the financial statements concerning deferred contribution as at December 31, 2016 amounting to LBP138billion originating from surplus derived from redemption of treasury bills and certificates of deposit in Lebanese pounds against investment in medium and long term certificates of deposit in foreign currency issued by the Central Bank, in compliance with Central Bank Intermediary Circular number 446 dated December 30 2016. According to this circular, the deferred liability which is regulated in nature shall be appropriated, among other things, after deducting the relevant tax liability, to collective provision for credit risks associated with the loan book at a minimum of 2% of the weighted credit risks, and that in anticipation of implementation of IFRS 9 for impairment, as and when quantified effective on January 1, 2018. By virtue of this circular, 70% of the remaining residual surplus once recognized over time shall be treated as non-distributable income designated and restricted only for appropriation to capital increase.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	How our audit addressed the key audit matters?
Impairment of Loans and advances to customers Due to the inherently judgmental nature of the computation of impairment provisions for loans and advances, there is a risk that the amount of impairment may be misstated. The impairment of loans and advances is estimated by management through the application of judgment and the use of subjective assumptions. Due to the significance of loans and advances and related estimation uncertainty, this is considered a key audit risk. The corporate loan portfolio generally comprises larger loans that are monitored individually by management. The assessment of loan loss impairment is therefore based on management's knowledge of each individual borrower. However, consumer loans generally comprises much smaller value loans to a much greater number of customers. Provisions, other than those that are calculated on an individual basis, are determined by grouping by product into homogeneous portfolios. The portfolios which give rise to the greatest uncertainty are typically those where impairments are derived from collective models, are unsecured or are subject to potential collateral shortfalls.	The risks outlined were addressed by us as follows: We tested the design and operating effectiveness of the key controls to determine which loans and advances are impaired and provisions against those assets. These included testing: • System-based and manual controls over the timely recognition of impaired loans and advances. • Controls over the impairment calculation models including data inputs. • Controls over collateral valuation estimates. We tested a sample of loans and advances to form our own assessment as to whether impairment events had occurred and to assess whether impairments had been identified in a timely manner. • For impairment allowances against collectively assessed loans and advances, substantially covered by the regulatory designated deferred liability set up in anticipation of IFRS 9 as referred to under ***Emphasis of Matter*** section of our report, we critically assessed the Group's estimates and assumptions, specifically in respect to the inputs to the impairment models and the consistency of judgement applied in the use of economic factors, loss emergence periods and the observation period for historical default rates. • For non performing customers, we tested and challenged the valuation model used by management where the expected recoverable amount from the liquidation of collateral discounted is compared to the net carrying value of the customer net exposure.
Carrying value of deferred assets The Bank's financial position includes deferred assets principally arising from historical business acquisition and carried over losses of USB Bank PLC in Cyprus. The risk is that the book value of the outstanding deferred assets exceeds its recoverable amount, and therefore this asset is impaired and should be written down in value. These deferred assets are offset against future economic benefits derived from the low yield funding provided by the Central Bank of Lebanon and major part has been offset in fiscal 2016 from the yield earned on investments funded from the release of compulsory reserve exemption. Due to the inherent uncertainty involved in forecasting and discounting future cash flows, which are the basis of the assessment of recoverability, this is a key audit matter.	Our procedures included assessing the key assumptions applied by the Bank in determining the recoverable amount. We also considered whether the amortization methodology adopted best represented the profile of expected future economic benefits. Moreover, during 2016, the low yield funding provided by the Central Bank of Lebanon matured and was replaced by an exemption for the compulsory reserves up to USD200million. Proceeds of the loan and subsequently the compulsory reserves are invested in fixed income securities. We assessed appropriation and calculation of these fixed income securities against deferred assets account.
Regulatory Restricted Contribution During November and December of 2016, the Central Bank of Lebanon issued regulations applicable to all banks operating in Lebanon with respect to the use of the contribution derived from the special and non-conventional securities arrangements deals concluded in relation to the use, accounting and taxability of the benefit earned.	We reviewed the accounting and use of the benefit associated with the regulated restricted contribution derived from the special and non-conventional securities arrangement deals with the regulator, after deducting the relevant tax, in line with the conditions for the designated purpose setup by the regulator.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs, within the framework of local banking laws, will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

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

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

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

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

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

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

Beirut, Lebanon
June 6, 2017

DFK Fiduciaire du Moyen Orient

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BLC BANK S.A.L.
STATEMENT OF FINANCIAL POSITION

ASSETS	Notes	December 31, 2016 LBP'000	December 31, 2015 LBP'000
Cash and Central Bank	5	1,199,067,440	992,601,473
Deposits with banks and financial institutions	6	407,145,664	387,388,573
Loan to a bank	7	4,233,915	4,939,568
Investment securities at fair value through profit or loss	9	98,747,661	189,660,511
Loans and advances to customers	8	2,270,161,093	2,291,310,925
Investment securities at amortized cost	9	3,318,749,775	3,425,909,276
Investment securities at fair value through other comprehensive income	9	17,260,682	16,415,311
Customers' liability under acceptances	10	33,886,385	29,599,306
Investments in subsidiaries	11	146,940,243	112,515,459
Assets acquired in satisfaction of loans	12	85,966,183	89,800,699
Property and equipment	13	70,096,902	67,295,642
Intangible assets	14	1,740,708	1,923,902
Deferred assets	15	26,935,864	62,972,190
Other assets	16	20,983,244	22,824,353
Total Assets		7,701,915,759	7,695,157,188
FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISKS:	35		
Letters of guarantee and standby letters of credit		204,093,597	202,922,355
Letters of credit		10,582,619	28,211,332
Forward exchange contracts		43,253,088	135,675,710
FIDUCIARY ACCOUNTS	36	17,553,630	13,154,163
ASSETS UNDER MANAGEMENT	37	16,994,355	17,302,456

THE ACCOMPANYING NOTES 1 TO 46 FORM AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

BLC BANK S.A.L.
STATEMENT OF FINANCIAL POSITION

(Continued)

LIABILITIES	Notes	December 31, 2016 LBP'000	December 31, 2015 LBP'000
Deposits from banks	17	81,786,152	42,688,622
Customers' accounts	18	6,101,060,771	5,943,649,368
Liability under acceptances	10	33,886,385	29,599,306
Other borrowings	19	411,374,820	848,034,636
Other liabilities	20	212,673,874	74,116,131
Provisions	21	7,756,718	8,711,687
Total liabilities		6,848,538,720	6,946,799,750

EQUITY

Capital	22	213,100,000	152,700,000
Preferred shares	23	248,737,501	195,975,001
Reserves	24	127,266,703	167,985,167
Regulatory reserve for assets acquired in satisfaction of loans	24	46,864,450	37,436,066
Brought forward retained earnings		142,891,356	120,488,240
Cumulative change in fair value of investments at fair value through other comprehensive income	9	7,584,912	6,864,585
Net profit for the year		66,932,117	66,908,379
Total equity		853,377,039	748,357,438
Total Liabilities and Equity		7,701,915,759	7,695,157,188

THE ACCOMPANYING NOTES 1 TO 46 FORM AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

BLC BANK S.A.L.
STATEMENT OF PROFIT OR LOSS

	Notes	Year Ended December 31, 2016 LBP'000	2015 LBP'000
Interest income	26	436,278,074	427,156,608
Interest expense	27	(281,155,094)	(270,691,162)
Net interest income		155,122,980	156,465,446
Fee and commission income	28	27,258,569	26,432,693
Fee and commission expense	29	(2,631,701)	(2,744,213)
Net fee and commission income		24,626,868	23,688,480
Net interest and other gain /(loss) on investments securities at fair value through profit or loss	30	8,534,320	7,708,664
Gain from derecognition of financial assets measured at amortized cost	9	23,705,819	2,996,538
Other operating income	31	6,256,370	6,887,631
Net financial revenues		218,246,357	197,746,759
Allowance for impairment of loans and advances (net)	8	(2,007,670)	(4,966,692)
Direct write-off on loans and advances, net		11,857	17,634
Write-back of discount on purchased loan portfolio	8	610,503	352,865
Net financial revenues after net impairment loss/ write-back		216,861,047	193,150,566
Write down of deferred assets	15	(35,051,351)	(15,495,266)
Net gain on disposal of property and equipment and properties acquired in satisfaction of loans	12,13	1,388,928	532,942
Dividend income from subsidiaries	11	-	1,370,838
Write-back of/(allowance for) contingencies (net)	21	381,768	(489,938)
Staff costs	32	(59,343,028)	(58,145,228)
General and administrative expenses	33	(31,889,124)	(32,847,340)
Depreciation and amortization	13, 14	(7,387,651)	(6,851,289)
Other non-operating income		-	139,007
Profit before income tax		84,960,589	81,364,292
Income tax expense	20	(18,028,472)	(14,455,913)
Profit for the year		66,932,117	66,908,379

THE ACCOMPANYING NOTES 1 TO 46 FORM AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

BLC BANK S.A.L.
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Year Ended December 31, 2016 LBP'000	2015 LBP'000
Profit for the year		66,932,117	66,908,379
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss:			
Net change in fair value of investments at fair value through other comprehensive income	9	847,444	704,417
Deferred tax liability	20	(127,117)	(105,663)
Total other comprehensive income for the year		720,327	598,754
Total comprehensive income for the year		67,652,444	67,507,133

THE ACCOMPANYING NOTES 1 TO 46 FORM AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

BLC BANK S.A.L.
STATEMENT OF CHANGES IN EQUITY

	Capital LBP'000	Preferred Shares and Premiums LBP'000	Legal Reserve LBP'000	Free Reserves LBP'000	Reserve for General Banking Risks LBP'000	Special Reserves for Loans and Advances LBP'000	Regulatory Reserve for Assets Acquired in Satisfaction of Loans LBP'000	Cumulative Change in Fair Value of Investment Securities LBP'000	Retained Earnings LBP'000	Profit for the Year LBP'000	Total LBP'000
Balance - January 1, 2015	152,700,000	195,975,001	38,291,066	62,243,434	45,777,173	1,778,478	29,750,043	6,265,831	115,089,118	66,417,502	714,287,646
Allocation of 2014 profit	-	-	6,641,750	945,000	10,990,343	925,000	8,078,946	-	38,836,463	(66,417,502)	-
Dividends Paid									(19,851,000)		(19,851,000)
Dividends paid to preferred shares (Note 25)	-	-	-	-	-	-	-	-	(13,586,341)	-	(13,586,341)
Transfer to free reserves	-	-	-	392,923	-	-	(392,923)	-	-	-	-
Total comprehensive income for the year 2015	-	-	-	-	-	-	-	598,754	-	66,908,379	67,507,133
Balance - December 31, 2015	152,700,000	195,975,001	44,932,816	63,581,357	56,767,516	2,703,478	37,436,066	6,864,585	120,488,240	66,908,379	748,357,438
Allocation of 2015 profit	-	-	6,690,838	2,055,000	8,022,770	700,000	11,641,312	-	37,798,459	(66,908,379)	-
Capital increase (Note 22)	60,400,000	-	(45,000,000)	(15,400,000)	-	-	-	-		-	-
Dividends paid to preferred shares (Note 25)	-	-	-	-	-	-	-	-	(15,395,343)	-	(15,395,343)
Transfer to free reserves	-	-	-	2,212,928	-	-	(2,212,928)	-	-	-	-
Redemption of preferred shares A (Note 23)	-	(60,300,000)	-	-	-	-	-	-	-	-	(60,300,000)
Issuance of preferred shares D (Note 23)	-	113,062,500	-	-	-	-	-	-	-	-	113,062,500
Total comprehensive income for the year 2016	-	-	-	-	-	-	-	720,327	-	66,932,117	67,652,444
Balance - December 31, 2016	213,100,000	248,737,501	6,623,654	52,449,285	64,790,286	3,403,478	46,864,450	7,584,912	142,891,356	66,932,117	853,377,039

THE ACCOMPANYING NOTES 1 TO 46 FORM AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

BLC BANK S.A.L.
STATEMENT OF CASH FLOWS

	Notes	Year Ended December 31, 2016 LBP'000	2015 LBP'000
Cash flows from operating activities:			
Profit for the year		66,932,117	66,908,379
Adjustments for:			
Impairment of loans and advances to customers, net of write-back	8	1,397,167	4,613,827
Depreciation and amortization	13,14	7,387,651	6,851,289
Income originated from contractual future cash flows		-	(139,007)
Write down of deferred assets	15	35,051,351	15,495,266
(Write-back of)/provision for contingencies, (net)	21	(381,768)	489,938
Provision for staff end-of-service indemnities, (net)	21	699,072	391,607
Provision/(write-back) for loss on foreign currency position	21	83,071	(61,620)
Effect of foreign currency fluctuations		4,183,977	16,307,797
Unrealized gain/(loss) on investments at fair value through profit or loss	30	(533,597)	1,663,009
Income tax expense		18,028,472	14,455,913
Loss/(gain) on disposal of property and equipment	13	29,427	(1,690)
Gain on disposal of property acquired in satisfaction of loans	12	(1,418,355)	(531,252)
Dividend income		(1,219,047)	(2,510,807)
Interest expense	27	281,155,094	270,691,162
Interest income	26, 30	(445,603,815)	(436,374,315)
		(34,209,183)	(41,750,504)
Net decrease /(increase) in loans and advances to customers		22,202,246	(87,263,763)
Net decrease /(increase) in investments at fair value through profit or loss	38	27,008,859	(84,599,566)
Net decrease /(increase) in investments at amortized cost	38	168,833,534	(255,328,983)
Net increase in investments at fair value through other comprehensive income	9, 38	(127,117)	(60,323)
Net increase in customers' deposits		155,619,270	586,834,453
Net increase in compulsory deposits with Central Bank		(18,555,710)	(43,076,266)
Net decrease /(increase) in term deposits with Central Bank		63,465,000	(75,375,000)
Net decrease /(increase) in term deposits with banks and financial institutions		754,312	(754,312)
Net increase in term deposit with related banks		(31,106,453)	-
Net decrease in margin with correspondents		-	768,825
Net decrease in blocked deposits with a subsidiary		-	1,727,268
Net increase /(decrease) in deposits from banks		38,870,493	(64,682,409)
Net decrease in other assets		1,841,109	1,358,366
Net increase in other liabilities	38	133,648,574	6,818,888
Proceeds from disposal of properties acquired in satisfaction of loans		2,501,016	2,115,423
Settlements made from provisions	21	(1,334,745)	(490,849)
		529,411,205	(53,758,752)
Income tax paid		(13,119,303)	(14,585,900)
Dividends received from subsidiaries	11	-	1,370,838
Dividends received from investments at fair value through profit or loss	30	102,016	121,115
Dividends received from investments at fair value through other comprehensive income	31	1,117,031	1,018,854
Interest paid		(283,292,073)	(264,968,369)
Interest received		444,151,256	435,842,922
Net cash generated from operating activities		678,370,132	105,040,708
Cash flows from investing activities:			
Investments in subsidiaries	11, 38	(38,670,130)	(9,909,595)
Acquisition of property and equipment	13	(6,351,523)	(3,806,877)
Proceeds from disposal of property and equipment		78,680	4,161
Acquisition of intangible assets	14	(631,957)	(327,187)
Net cash used in investing activities		(45,574,930)	(14,039,498)
Cash flows from financing activities:			
Net decrease in loan to a bank		700,000	700,000
Net (decrease) /increase in other borrowings		(432,503,667)	128,832,906
Issuance of preferred shares D	23	113,062,500	-
Redemption of preferred shares series A	23	(60,300,000)	-
Dividends paid	25	(15,395,343)	(33,437,341)
Net cash (used in) /generated from financing activities		(394,436,510)	96,095,565
Net increase in cash and cash equivalents		238,358,692	187,096,775
Cash and cash equivalents beginning of year	38	544,397,261	357,300,486
Cash and cash equivalents end of year	38	782,755,953	544,397,261

THE ACCOMPANYING NOTES 1 TO 46 FORM AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

1. FORMATION AND ACTIVITIES

BLC Bank S.A.L., (the "Bank"), is a Lebanese joint stock company registered in the Commercial Register under No. 1952 and in the Central Bank of Lebanon list of banks under No. 11. The principal activities of the Bank consist of a wide range of commercial banking activities carried on through forty-one branches in Lebanon including Head Office.

The Bank issues separate consolidated financial statements with its subsidiaries.

The Bank's headquarters are located in Beirut, Lebanon.

Fransabank SAL is the ultimate parent of the Bank.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

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

The following new and revised IFRSs, which became effective for annual periods beginning on or after January 1, 2016, 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.

- IFRS 14 *Regulatory Deferral Accounts*
- Amendments to IAS 1 *Presentation of Financial Statements* relating to Disclosure initiative
- Amendments to IFRS 11 *Joint arrangements* relating to accounting for acquisitions of interests in joint operations
- Amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* relating to clarification of acceptable methods of depreciation and amortization
- Amendments to IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture*: Bearer Plants
- 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
- Amendments to IFRS 10 *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
- Annual Improvements to IFRSs 2012 – 2014 Cycle covering amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34

2.2 New and revised IFRS 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:

New and revised IFRSs	Effective for Annual Periods Beginning on or After
Annual Improvements to IFRS Standards 2014-2016 Cycle amending IFRS 1, IFRS 12 and IAS 28	The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after January 1, 2018, the amendment to IFRS 12 for annual periods beginning on or after January 1, 2017
Amendments to IAS 12 *Income Taxes* relating to the recognition of deferred tax assets for unrealized losses	January 1, 2017
Amendments to IAS 7 *Statement of Cash Flows* to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.	January 1, 2017
IFRIC 22 *Foreign Currency Transactions and Advance Consideration*	January 1, 2018

The interpretation addresses foreign currency transactions or parts of transactions where:

- there is consideration that is denominated or priced in a foreign currency;
- the entity recognizes a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and
- the prepayment asset or deferred income liability is non-monetary.

Amendments to IFRS 2 *Share Based Payment* regarding classification and measurement of share based payment transactions	January 1, 2018
Amendments to IFRS 4 *Insurance Contracts*: Relating to the different effective dates of IFRS 9 and the forthcoming new insurance contracts standard.	January 1, 2018

New and Revised IFRSs	Effective for Annual Periods Beginning on or After
Amendments to IAS 40 *Investment Property*: Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The paragraph has been amended to state that the list of examples therein is non-exhaustive.	January 1, 2018
IFRS 9 *Financial Instruments (revised versions in 2013 and 2014)* 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.	January 1, 2018

New and Revised IFRSs	**Effective for Annual Periods Beginning on or After**

A finalized 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:

- **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.

- **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

- **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.

- **Derecognition**: The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

IFRS 15 *Revenue from Contracts with Customers* — January 1, 2018

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.

New and Revised IFRSs	**Effective for Annual Periods Beginning on or After**
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: • Step 1: Identify the contract(s) with a customer. • Step 2: Identify the performance obligations in the contract. • Step 3: Determine the transaction price. • Step 4: Allocate the transaction price to the performance obligations in the contract. • Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.	
Under IFRS 15, an entity recognizes 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.	
Amendments to IFRS 15 *Revenue from Contracts* with Customers to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.	January 1, 2018
IFRS 16 *Leases*	January 1, 2019
IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise 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.	
Amendments to IFRS 10 *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.	Effective date deferred indefinitely

Management anticipates that these new standards, interpretations and amendments will be adopted in the Bank's financial statements as and when they are applicable. Except for IFRS 9 on the provisioning for impairment, the Directors of the Bank do not anticipate that the application of these amendments will have a significant effect 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 Preparation and Measurement

The financial statements have been prepared on the historical cost basis except for the following that are measured at revalued amounts or fair values at the end of each reporting period as explained in the accounting policies below:

- Land and buildings acquired prior to 1999 are measured at their revalued amounts based on market prices prevailing during 1999, to compensate for the effect of the hyper-inflationary economy prevailing in the earlier years.
- Financial instruments designated as at fair value through profit or loss.
- Equity securities at fair value through other comprehensive income.
- Derivative financial instruments.

Assets and liabilities are grouped according to their nature and presented in the statement of financial position in an approximate order that reflects their relative liquidity.

Summary of significant accounting policies

Following is a summary of the most significant accounting policies applied in the preparation of these financial statements:

A. Foreign Currencies:

The financial statements are presented in Lebanese Pound (LBP) which is the reporting currency. The primary currency of the economic environment in which the Bank operates (functional currency) is the U.S. Dollar. The Lebanese Pound exchange rate has been constant to the U.S. Dollar since many years. Transactions in currencies other than the Lebanese Pound (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 into Lebanese Pound at the rates prevailing at the reporting 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 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 that 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.

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.

Debt securities exchanged against securities with longer maturities with similar risks, and issued by the same issuer, are not derecognized because they do not meet the conditions for derecognition. Premiums and discounts derived from the exchange of said securities are deferred to be amortized as a yield enhancement on a time proportionate basis, over the period of the extended maturities.

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.

The Bank derecognizes financial liabilities when, and only when, the Bank'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.

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

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.

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.

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.

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.

The component parts of compound instruments (convertible notes) issued by the Bank are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. A conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Banks own equity instruments is an equity instrument.

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.

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability other than a financial liability held for trading 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; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and the entire combined contract is designated as at FVTPL in accordance with IFRS 9.

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 currently enforceable legal right to set-off the recognized 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.

For financial reporting purposes, fair value measurement are categorized into level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described 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.

For investments in equity securities, a significant or prolonged decline in fair value below cost is objective evidence of impairment.

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.

Embedded Derivatives

Derivatives embedded in other financial instruments or other host contracts with embedded derivatives are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contract:

- is not measured at fair value with changes in fair value recognized in profit or loss.
- is not an asset within the scope of IFRS 9.

Hedge Accounting

The Bank designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the Bank documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Bank documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Fair Value Hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit or loss immediately, together with any changes in the fair value of the hedged item that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in the line of the income statement relating to the hedged item.

Hedge accounting is discontinued when the Bank revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to profit or loss from that date.

Cash Flow Hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognized in profit or loss, in the same line of the income statement as the recognized hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognized in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Bank revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognized in other comprehensive income and accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

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. Investments in Subsidiaries:

Investments in subsidiaries are accounted for in the separate financial statements of the Bank using the "cost method".

K. **Financial Guarantees:**

Financial guarantees contracts are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. These contracts can have various judicial forms (guarantees, letters of credit, and credit-insurance contracts).

Financial guarantee liabilities are initially measured at their fair value, and subsequently carried at the higher of this amortized amount and the present value of any expected payment (when a payment under the guarantee has become probable). Financial guarantees are included within other liabilities.

L. **Property and Equipment:**

Property and equipment except for buildings acquired prior to 1999 are stated at historical cost, less accumulated depreciation and impairment loss, if any. Buildings acquired prior to 1999 are stated at their revalued amounts, based on market prices prevailing during 1999 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, using the straight-line method over the useful lives estimated as follows:

	Years
Buildings	50
Office improvements and installations	5
Furniture, equipment and machines	12.5
Computer equipment	5
Vehicles	10

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.

M. **Intangible Assets:**

Intangible assets consist mainly of computer software and are amortized on a straight-line basis at the rate of 20%. Intangible assets are subject to impairment testing.

N. **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.

O. Impairment of Non-Financial Assets:

At the end of each reporting period, the Bank reviews the carrying amounts of its non-financial assets, other than deferred taxes, 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).

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

P. Deferred Assets:

Deferred assets on business acquisition and against contractual projected cash flows are stated at amortized cost. Such deferred assets are amortized over the period of related benefits deriving from the net return of the invested funds funded through committed structured medium term debt and major part in fiscal 2016 from the yield earned on investments funded from the release of compulsory reserve, the purpose of which is to offset exceptional impairment losses.

Q. 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.

R. 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. Provisions are discounted when the impact is material.

S. Deferred Restricted Contribution:

Restricted contributions derived from special and non-conventional deals arrangement with the regulator are deferred until designated conditions for recognition are met. At the time income is received, it is deferred under "regulatory deferred liability" and applied to the designated purpose according to the regulator's requirements.

T. 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 discounts or premiums.

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability (i.e. commissions and fees earned on the loan book) are included under interest income and expense.

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

Interest income and expense presented in the statement of profit or loss include:

- Interest on financial assets and liabilities at amortized cost.
- Changes in fair value of qualifying derivatives, including hedge ineffectiveness, and related hedged items when interest rate risk is the hedged risk.

Interest income on financial assets measured at FVTPL are presented in the statement of profit or loss under "Net interest and other gain / (loss) on financial assets at FVTPL" (See below).

Net interest and other net gain / loss on financial assets measured at FVTPL includes:

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

Interest expense on financial liabilities designated as at fair value through profit or loss are presented separately in the statement of profit or loss.

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.

U. Income Tax:

Income tax expense represents the sum of the tax currently payable and deferred tax. Income tax is recognized in the statement profit or loss 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.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of profit or loss 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 the debt securities invested 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.

V. Fiduciary Accounts:

Fiduciary assets held or invested on behalf of the Bank's customers on a non-discretionary basis and related risks and rewards belong to the account holders. Accordingly, these deposits are reflected as off-balance sheet accounts.

W. Cash and Cash Equivalents:

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

X. Earnings per Share:

The Bank presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees, if applicable.

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 reported amounts of revenues, expenses, assets and liabilities and the accompanying disclosures, and the disclosure of contingent 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 Bank's accounting policies:

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

Going Concern:

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

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.

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

- The frequency and volume of sales;
- The reasons for any sales;
- How management evaluates the performance of the portfolio;
- The objectives for the portfolio.

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.

Features considered by the Bank that would be consistent with amortized cost measurement include:

- Fixed and / or floating interest rate;
- Caps, floors, collars;
- Prepayment options.

Features considered by the Bank that would be inconsistent with amortized cost measurement include:

- Leverage (i.e. options, forwards and swaps);
- Conversion options;
- Inverse floaters;
- Variable rate coupons that reset periodically;
- Triggers that result in a significant reduction of principal, interest or both.

B. Key Sources of Estimation Uncertainty:

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

The Bank based their assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Bank. Such changes are reflected in the assumptions when they occur.

Allowances for credit losses:

Specific impairment for credit losses is determined by assessing each case individually. This method applies to classified loans and advances, balances placed with banks and other accounts receivable 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 the advances and the value of collateral and potential repossession.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident.

The collective assessment takes account of data from the loan portfolio (such as credit quality, levels of arrears, credit utilization, loan to collateral ratios, etc...), concentrations of risks, economic data and the performance of different individual groups.

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 3F. For financial instruments that traded infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Unobservable inputs are used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective should remain the same; that is, an exit price from the perspective of market participants. Unobservable inputs are developed based on the best information available in the circumstances, which may include the reporting entity's own data.

Impairment of deferred assets:

The Bank tests annually whether the outstanding deferred asset account has suffered any impairment in accordance with the accounting policy under Note 3(P). The recoverable amount is expected to be offset against contractual projected cash flows. This requires the directors to estimate the recoverability through forecasting and discounting future cash flows.

5. CASH AND CENTRAL BANK

This caption consists of the following:

	December 31, 2016		December 31, 2015	
	Balance	of which Compulsory/ Regulatory Deposits	Balance	of which Compulsory/ Regulatory Deposits
	LBP'000	LBP'000	LBP'000	LBP'000
Cash on hand	36,646,157	-	36,220,931	-
Blocked accounts with Central Bank of Lebanon under Intermediary Circular No.313	81,585,869	-	70,563,203	-
Current accounts with Central Bank of Lebanon	242,993,059	158,095,390	169,842,104	139,539,680
Term placements with Central Bank of Lebanon	828,972,500	80,714,701	709,490,000	385,506,914
Accrued interest receivable	8,869,855	-	6,485,235	-
	1,199,067,440	238,810,091	992,601,473	525,046,594

Compulsory deposits under current accounts with Central Bank of Lebanon are in Lebanese Pounds and non-interest earning. These deposits are computed on the basis of 25% and 15% of the average weekly sight and term customers' deposits in Lebanese Pounds subject to certain exemptions, in accordance with local banking regulations. These deposits are not available for use in the Bank's day-to-day operations.

Regulatory deposits under term placements with Central Bank of Lebanon are made 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, certificates of deposit and borrowings acquired from non-resident financial institutions.

Blocked accounts with the Central Bank of Lebanon under Intermediate Circular No. 313 represent transitory deposits to be granted to the Bank's customers, pursuant to certain conditions, rules and mechanism following Central Bank of Lebanon Basic Decision No. 6116 of March 7, 1996 and its amendments against facilities granted from the Central Bank of Lebanon (Note 19). These deposits and facilities earn/bear a 1% interest rate that is computed annually.

During 2016, the Bank was exempted from compulsory reserves in foreign currency, for one year, up to USD200million. Subsequent to the financial position date, the exemption was renewed for additional one and a half year to offset the remaining outstanding deferred assets (Refer to Notes 9 and 15).

6. DEPOSITS WITH BANKS AND FINANCIAL INSTITUTIONS

This caption consists of the following:

	December 31,	
	2016	2015
	LBP'000	LBP'000
Purchased checks	14,370,671	31,640,387
Current accounts with banks and financial institutions	196,173,173	134,813,971
Current accounts with the parent bank	3,888,936	3,539,254
Current accounts with related banks and financial institutions	12,442,655	20,428,431
	226,875,435	190,422,043
Term placements with banks and financial institutions	145,803,322	193,642,972
Term placements with related banks and financial institutions	31,106,453	-
Blocked margins with banks and financial institutions	3,292,003	3,292,003
	180,201,778	196,934,975
Accrued interest receivable	68,451	31,555
	407,145,664	387,388,573

During the years 2016 and 2015, the Bank entered in repurchase agreements with a resident financial institution. The agreement consists of loans granted to the resident financial institution, backed by Lebanese Government Bonds in US. Dollar and Lebanese Treasury Bills in LBP. The loans are short term in nature and matured during the year. Interest income for the year 2016 amounted to LBP368million (LBP533million during 2015) recorded under "Interest income from deposits with banks and financial institutions" in the statement of profit or loss (Note 26).

Deposits with banks and financial institutions are distributed between resident and non-resident as follows:

	December 31,	
	2016	2015
	LBP'000	LBP'000
Resident	58,360,151	101,938,210
Non-resident	348,785,513	285,450,363
	407,145,664	387,388,573

7. LOAN TO A BANK

This caption consists of the following:

	December 31,	
	2016	2015
	LBP'000	LBP'000
Regular performing account	4,200,000	4,900,000
Accrued interest receivable	33,915	39,568
	4,233,915	4,939,568

As a guarantee of the above loan, the borrower has pledged in favor of the Bank regular and performing notes receivable against housing loans granted to its customers. The loan principal balance matures over 10 yearly payments of LBP700million each with final payment in year 2022.

8. LOANS AND ADVANCES TO CUSTOMERS

This caption consists of the following:

	December 31, 2016					December 31, 2015				
	Gross Amount	Unrealized Interest	Discount on Purchased Loan Book	Impairment Allowance	Carrying Amount	Gross Amount	Unrealized Interest	Discount on Purchased Loan Book	Impairment Allowance	Carrying Amount
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Regular and Watch List Retail Customers:										
- Housing loans	539,199,585	-	-	-	539,199,585	499,538,768	-	-	-	499,538,768
- Personal loans	237,753,855	-	-	-	237,753,855	228,761,618	-	-	-	228,761,618
- Car loans	141,236,168	-	-	-	141,236,168	155,816,708	-	-	-	155,816,708
- Educational loans	16,377,480	-	-	-	16,377,480	17,485,493	-	-	-	17,485,493
- Credit cards	16,656,368	-	-	-	16,656,368	15,673,478	-	-	-	15,673,478
- Staff loans	8,604,810	-	-	-	8,604,810	8,791,742	-	-	-	8,791,742
	959,828,266	-	-	-	959,828,266	926,067,807	-	-	-	926,067,807
Regular and Watch List Corporate Customers:										
- Corporate	900,818,631	-	-	-	900,818,631	942,631,411	-	-	-	942,631,411
- Small and medium enterprises	306,554,648	-	-	-	306,554,648	350,814,848	-	-	-	350,814,848
	1,207,373,279	-	-	-	1,207,373,279	1,293,446,259	-	-	-	1,293,446,259
Accrued interest receivable	17,426,700	-	-	-	17,426,700	14,598,629	-	-	-	14,598,629
Allowance for Collectively Assessed Loans:										
- Regular and watch list loans	-	-	-	(5,674,477)	(5,674,477)	-	-	-	(12,990,886)	(12,990,886)
Total regular and watch list	2,184,628,245	-	-	(5,674,477)	2,178,953,768	2,234,112,695	-	-	(12,990,886)	2,221,121,809
Non-Performing Loans and Advances:										
- Purchased loan book	2,148,399	-	-	-	2,148,399	2,226,266	-	-	-	2,226,266
- Substandard	35,164,759	(2,288,769)	-	-	32,875,990	32,784,094	(1,322,480)	-	-	31,461,614
- Doubtful	523,849,111	(431,043,484)	(3,488,513)	(32,947,548)	56,369,566	457,379,125	(389,417,913)	(4,490,488)	(26,782,858)	36,687,866
- Bad	113,394,011	(69,508,484)	(2,225,526)	(41,660,001)	-	105,891,965	(64,652,937)	(2,255,634)	(38,983,394)	-
Allowance for collectively Assessed Loans:										
- Doubtful and bad	-	-	-	(186,630)	(186,630)	-	-	-	(186,630)	(186,630)
Total non-performing	674,556,280	(502,840,737)	(5,714,039)	(74,794,179)	91,207,325	598,281,450	(455,393,330)	(6,746,122)	(65,952,882)	70,189,116
	2,859,184,525	(502,840,737)	(5,714,039)	(80,468,656)	2,270,161,093	2,832,394,145	(455,393,330)	(6,746,122)	(78,943,768)	2,291,310,925

The carrying value of loans and advances to customers include accidentally temporary debtors with carrying values amounting to LBP3.1billion as at December 31, 2016 (LBP3.4billion as at December 31, 2015).

Loans granted to related parties amounted to LBP10.3billion as at December 31, 2016 (LBP9.5billion as at December 31, 2015).

In previous years, the Bank acquired a loan portfolio from a local bank. The difference between the original amount of the allocated portion of the purchased loan portfolio and the consideration paid is reflected under discount on purchased loan book.

The movement of unrealized interest was as follows:

	2016 LBP'000	2015 LBP'000
Balance January 1	(455,393,330)	(589,487,241)
Additions	(62,405,792)	(68,869,526)
Write back through profit or loss (Note 26)	4,938,101	6,529,273
Write-off	10,005,050	196,172,028
Transfer to allowance for impairment	15,075	-
Effect of exchange rates changes	159	262,136
Balance December 31	(502,840,737)	(455,393,330)

The movement of the allowance for impairment of loans and advances was as follows:

	2016 LBP'000	2015 LBP'000
Balance January 1	(65,766,252)	(72,830,564)
Additions through profit or loss	(13,317,960)	(10,278,776)
Write-back through profit or loss	3,995,631	2,965,222
Transfer to off-balance sheet	1,899	4,964
Transfer from unrealized interest	(15,075)	-
Write-off	477,411	14,310,284
Effect of exchange rates changes	16,797	62,618
Balance December 31	(74,607,549)	(65,766,252)

The movement of the collectively assessed allowance for impairment of loans and advances was as follows:

	2016 LBP'000	2015 LBP'000
Balance January 1	(13,177,516)	(15,535,686)
Additions through profit or loss	-	(2,170,800)
Write-back	7,314,659	4,517,662
Write-off	-	11,308
Effect of exchange rates changes	1,750	-
Balance December 31	(5,861,107)	(13,177,516)

The movement of the discount on purchased loan book was as follows:

	2016 LBP'000	2015 LBP'000
Balance January 1	(6,746,121)	(7,209,597)
Additions	(38,227)	-
Write back through profit or loss	610,503	352,865
Write-off	459,806	110,610
Balance December 31	(5,714,039)	(6,746,122)

9. INVESTMENT SECURITIES

This caption consists of the following:

	December 31, 2016			
	Fair Value Through Profit or Loss LBP'000	Amortized Cost LBP'000	Fair Value Through Other Comprehensive Income LBP'000	Total LBP'000
Quoted equity securities	4,290,845	-	-	4,290,845
Unquoted equity securities	1,874,477	-	17,260,682	19,135,159
Lebanese Treasury bills	-	780,142,807	-	780,142,807
Lebanese Government bonds	21,500,253	1,291,302,340	-	1,312,802,593
Foreign bonds	8,298,348	-	-	8,298,348
Asset-backed securities	-	7,333,961	-	7,333,961
Mutual Fund	4,788,870	-	-	4,788,870
Certificates of deposit issued by Central Bank of Lebanon	56,164,795	1,188,128,497	-	1,244,293,292
	96,917,588	3,266,907,605	17,260,682	3,381,085,875
Accrued interest receivable	1,830,073	51,842,170	-	53,672,243
	98,747,661	3,318,749,775	17,260,682	3,434,758,118

	December 31, 2015			
	Fair Value Through Profit or Loss	Amortized Cost	Fair Value Through Other Comprehensive Income	Total
	LBP'000	LBP'000	LBP'000	LBP'000
Quoted equity securities	4,702,753	-	-	4,702,753
Unquoted equity securities	915,436	-	16,415,311	17,330,747
Lebanese Treasury bills	10,534,092	1,165,314,480	-	1,175,848,572
Lebanese Government bonds	84,218,154	956,075,791	-	1,040,293,945
Foreign Government bonds	-	358,785	-	358,785
Foreign bonds	29,589,789	-	-	29,589,789
Asset-backed securities	-	31,817,268	-	31,817,268
Certificates of deposit issued by Central Bank of Lebanon	56,370,751	1,219,236,690	-	1,275,607,441
	186,330,975	3,372,803,014	16,415,311	3,575,549,300
Accrued interest receivable	3,329,536	53,106,262	-	56,435,798
	189,660,511	3,425,909,276	16,415,311	3,631,985,098

A Investments at Fair Value through Profit or Loss:

	December 31, 2016			
	Fair Value	Accrued Interest Receivable	Total Carrying Value	Cumulative Unrealized Gain/(Loss)
	LBP'000	LBP'000	LBP'000	LBP'000
Quoted equity securities	4,290,845	-	4,290,845	(3,854,663)
Unquoted equity securities	1,874,477	-	1,874,477	-
Lebanese Government bonds	21,500,253	330,426	21,830,679	(827,532)
Foreign bonds	8,298,348	39,188	8,337,536	1,900
Mutual fund	4,788,870	-	4,788,870	-
Certificates of deposit issued by Central Bank of Lebanon	56,164,795	1,460,459	57,625,254	1,895,653
	96,917,588	1,830,073	98,747,661	(2,784,642)

	December 31, 2015			
	Fair Value	Accrued Interest Receivable	Total Carrying Value	Cumulative Unrealized Gain/(Loss)
	LBP'000	LBP'000	LBP'000	LBP'000
Quoted equity securities	4,702,753	-	4,702,753	(3,435,643)
Unquoted equity securities	915,436	-	915,436	-
Lebanese Treasury bills	10,534,092	182,459	10,716,551	317,218
Lebanese Government bonds	84,218,154	1,544,514	85,762,668	(1,855,290)
Foreign Eurobonds	29,589,789	165,542	29,755,331	(76,388)
Certificates of deposit issued by Central Bank of Lebanon	56,370,751	1,437,021	57,807,772	2,054,706
	186,330,975	3,329,536	189,660,511	(2,995,397)

The movement of investments at fair value through profit or loss during 2016 and 2015 was as follows:

	2016		
	LBP	F/CY	Total
	LBP'000	LBP'000	LBP'000
Balance January 1	67,129,493	119,201,482	186,330,975
Acquisition	620,307	5,164,960	5,785,267
Swaps	(10,521,678)	-	(10,521,678)
Sale	-	(347,363)	(347,363)
Transfer to amortized cost	-	(62,938,125)	(62,938,125)
Redemption upon maturity	-	(21,135,243)	(21,135,243)
Unrealized (loss)/gain (Note 30)	(159,052)	692,648	533,596
Amortization of discount/premium	(59,318)	(730,523)	(789,841)
Other adjustments	(62,263)	62,263	-
Balance December 31	56,947,489	39,970,099	96,917,588

	2015		
	LBP	F/CY	Total
	LBP'000	LBP'000	LBP'000
Balance January 1	51,262,414	52,132,004	103,394,418
Acquisition	31,483,991	46,765,471	78,249,462
Swaps	-	43,650,629	43,650,629
Sale	(1,000,000)	(2,282,241)	(3,282,241)
Redemption upon maturity	(15,000,000)	(18,090,000)	(33,090,000)
Unrealized gain/(loss) (Note 30)	413,020	(2,076,029)	(1,663,009)
Amortization of discount/premium	(29,932)	(835,877)	(865,809)
Effect of exchange rates changes	-	(62,475)	(62,475)
Balance December 31	67,129,493	119,201,482	186,330,975

Investments at fair value through profit or loss include an amount of LBP1.9billion (LBP914million during 2015) representing the Bank's share in startups established based on co-sharing agreement with the regulator providing the funding. Moreover, and in order to rebalance the fair value through profit or loss portfolio at Group level, securities in the aggregate amount of LBP63billion were classified to amortized cost portfolio.

B Investments at Amortized Cost:

	December 31, 2016				
	Amortized Cost LBP'000	Accrued Interest Receivable LBP'000	Carrying Value LBP'000	Fair Value LBP'000	Change in Fair Value LBP'000
Lebanese Treasury bills	780,142,807	12,635,098	792,777,905	799,469,635	6,691,730
Lebanese Government bonds	1,291,302,340	16,851,244	1,308,153,584	1,176,449,845	(131,703,739)
Asset-backed securities	7,333,961	50,092	7,384,053	6,588,263	(795,790)
Certificates of deposit issued by Central Bank of Lebanon	1,188,128,497	22,305,736	1,210,434,233	1,178,555,284	(31,878,949)
	3,266,907,605	51,842,170	3,318,749,775	3,161,063,027	(157,686,748)

	December 31, 2015				
	Amortized Cost LBP'000	Accrued Interest Receivable LBP'000	Carrying Value LBP'000	Fair Value LBP'000	Change in Fair Value LBP'000
Lebanese Treasury bills	1,165,314,480	18,915,532	1,184,230,012	1,199,964,865	15,734,853
Lebanese Government bonds	956,075,791	12,711,282	968,787,073	974,525,351	5,738,278
Asset-backed securities	31,817,268	120,358	31,937,626	30,342,934	(1,594,692)
Certificates of deposit issued by Central Bank of Lebanon	1,219,236,690	21,359,090	1,240,595,780	1,248,634,234	8,038,454
Foreign Government bonds	358,785	-	358,785	358,785	-
	3,372,803,014	53,106,262	3,425,909,276	3,453,826,169	27,916,893

Lebanese treasury bills amounting to LBP356billion (LBP402billion in 2015) are pledged against soft loans and credit facilities funded by the Central Bank of Lebanon (Note 19).

Lebanese Government bonds amounting to LBP302billion are pledged against the release of the compulsory reserve (Note 5) (LBP174.3billion as at December 31, 2015 were pledged against a stand-by line facility funded by the Central bank of Lebanon (Note 19)).

Debt securities at amortized cost are segregated over the remaining period to maturity as follows:

	December 31, 2016							
	LBP				C/V of F/Cy			
Remaining Period to Maturity	Nominal Value LBP'000	Amortized Cost LBP'000	Fair Value (Excluding Accrued Interest Receivable) LBP'000	Average Rate %	Nominal Value LBP'000	Amortized Cost LBP'000	Fair Value (Excluding Accrued Interest Receivable) LBP'000	Average Rate %
Lebanese Treasury bills:								
Up to one year	115,984,000	116,048,566	122,093,066	7.41	-	-	-	-
1 year to 3 years	434,147,074	436,130,917	439,809,273	7.52	-	-	-	-
3 years to 5 years	154,145,000	154,335,221	152,882,806	7.24	-	-	-	-
5 years to 10 years	73,333,020	73,628,103	72,049,392	7.48	-	-	-	-
	777,609,094	780,142,807	786,834,537		-	-	-	-
Lebanese Government bonds:								
Up to one year	-	-	-	-	95,094,479	95,098,179	95,177,207	9.00
1 year to 3 years	-	-	-	-	101,954,482	101,935,993	96,101,679	5.56
3 years to 5 years	-	-	-	-	196,075,244	196,966,526	188,904,995	7.20
5 years to 10 years	-	-	-	-	399,567,398	401,413,377	349,776,099	6.35
Beyond 10 years	-	-	-	-	495,159,480	495,888,265	429,638,621	6.97
	-	-	-		1,287,851,083	1,291,302,340	1,159,598,601	
Asset-backed securities:								
3 years to 5 years	-	-	-		105,461	105,461	101,406	7.00
5 years to 10 years	1,500,000	1,500,000	1,500,000	7.50	5,728,500	5,728,500	4,936,765	6.21
	1,500,000	1,500,000	1,500,000		5,833,961	5,833,961	5,038,171	
Certificates of deposit issued by Central Bank of Lebanon:								
Up to one year	165,000,000	165,089,315	166,291,262	7.91	-	-	-	-
1 year to 3 years	-	-	-	-	57,888,000	57,147,702	54,273,665	5.30
3 years to 5 years	91,000,000	90,233,650	92,066,853	7.71	-	-	-	-
5 years to 10 years	339,000,000	340,312,221	348,047,345	8.31	91,203,750	90,224,174	81,096,768	6.12
Beyond 10 years	175,000,000	175,429,685	178,776,308	8.94	269,691,750	269,691,750	235,697,347	6.79
	770,000,000	771,064,871	785,181,768		418,783,500	417,063,626	371,067,780	

Remaining Period to Maturity	December 31, 2015							
	LBP				C/V of F/Cy			
	Nominal Value	Amortized Cost	Fair Value (Excluding Accrued Interest Receivable)	Average Rate	Nominal Value	Amortized Cost	Fair Value (Excluding Accrued Interest Receivable)	Average Rate
	LBP'000	LBP'000	LBP'000	%	LBP'000	LBP'000	LBP'000	%
Lebanese Treasury bills:								
Up to one year	87,765,500	87,764,191	87,941,158	6.18	-	-	-	-
1 year to 3 years	378,784,000	380,443,504	389,749,446	7.66	-	-	-	-
3 years to 5 years	257,447,074	259,038,625	257,916,698	7.37	-	-	-	-
5 years to 10 years	433,950,000	438,068,160	445,442,031	8.50	-	-	-	-
	1,157,946,574	1,165,314,480	1,181,049,333		-	-	-	
Lebanese Government bonds:								
Up to one year	-	-	-	-	56,388,038	57,085,083	57,407,183	11.63
1 year to 3 years	-	-	-	-	139,556,684	139,447,544	140,836,578	7.77
3 years to 5 years	-	-	-	-	139,353,659	140,811,393	137,916,516	6.14
5 years to 10 years	-	-	-	-	332,866,553	334,392,009	336,685,741	6.79
Beyond 10 years	-	-	-	-	282,380,378	284,339,762	288,968,051	6.72
	-	-	-		950,545,312	956,075,791	961,814,069	
Asset-backed securities:								
3 years to 5 years	-	-	-	-	308,063	308,063	313,900	7.00
5 years to 10 years	-	-	-	-	31,509,205	31,509,205	29,908,676	5.57
	-	-	-		31,817,268	31,817,268	30,222,576	
Certificates of deposit issued by Central Bank of Lebanon:								
Up to one year	171,000,000	172,639,306	173,820,680	7.91	-	-	-	-
1 year to 3 years	257,000,000	257,638,632	262,174,740	7.91	-	-	-	-
3 years to 5 years	42,000,000	41,693,158	42,287,698	7.60	57,888,000	56,839,242	55,982,051	5.30
5 years to 10 years	347,000,000	345,305,897	353,596,367	8.20	45,978,750	44,843,395	44,456,798	5.80
Beyond 10 years	285,000,000	286,860,310	281,482,956	8.87	13,416,750	13,416,750	13,473,854	6.50
	1,102,000,000	1,104,137,303	1,113,362,441		117,283,500	115,099,387	113,912,703	
Foreign Government bonds:								
5 years to 10 years	-	-	-	-	358,785	358,785	358,785	5.00
	-	-	-		358,785	358,785	358,785	

The movement of investments classified at amortized cost during the years 2016 and 2015 is as follows:

	2016		
	LBP	F/CY	Total
	LBP'000	LBP'000	LBP'000
Balance January 1	2,269,451,783	1,103,351,231	3,372,803,014
Acquisition	120,118,443	329,912,035	450,030,478
Swaps	(291,264,252)	301,500,000	10,235,748
Redemption upon maturity	(242,766,809)	(82,371,345)	(325,138,154)
Sale of pledged Lebanese Treasury bills	(299,714,629)	-	(299,714,629)
Sale	-	(358,785)	(358,785)
Transfer from fair value through profit or loss	-	62,938,125	62,938,125
Amortization of discount/premium	(3,116,858)	(771,334)	(3,888,192)
Balance December 31	1,552,707,678	1,714,199,927	3,266,907,605

	2015		
	LBP	F/CY	Total
	LBP'000	LBP'000	LBP'000
Balance January 1	2,274,672,239	842,696,071	3,117,368,310
Acquisition	269,865,577	318,990,887	588,856,464
Swaps	-	(39,663,349)	(39,663,349)
Redemption upon maturity	(272,000,000)	(11,841,504)	(283,841,504)
Sale	-	(4,670,171)	(4,670,171)
Amortization of discount/premium	(3,086,033)	(2,160,703)	(5,246,736)
Balance December 31	2,269,451,783	1,103,351,231	3,372,803,014

During 2015, the Bank executed sales transactions from the amortized cost securities portfolio in foreign currencies, resulting in a total gain of LBP3billion recorded under "Gain from derecognition of financial assets measured at amortized cost" in the statement of profit or loss.

During 2016, the Bank entered into sale transactions of Lebanese treasury bills in Lebanese Pound having a nominal value of LBP80billion and LBP10billion classified at amortized cost and fair value through profit or loss, respectively, and certificates of deposit issued by Central Bank of Lebanon in Lebanese Pounds having a nominal value of LBP210billion classified at amortized cost, concluded simultaneously with the acquisition of certificates of deposit issued by Central Bank of Lebanon in U.S. Dollar with a nominal value of USD200million maturing in years between 2023 and 2029 that were classified at amortized cost funded from the Bank's treasury in foreign currencies.

The resulting surplus of the inter-related transactions indicated above, derived from the special and non-conventional deals arrangement with the regulator, amounting to LBP118billion, net of tax in the amount of LBP20.7billion, was credited to "Regulatory deferred liability" under other liabilities in the statement of financial position. (Refer to Note 20).

At the beginning of 2016, the Bank sold the pledged Lebanese treasury bills in Lebanese Pound, having a nominal value of LBP297billion, to settle the revolving loan in the amount of LBP300billion which matured on January 10, 2016 (Refer to Note 15). This transaction resulted in a gain on sale of LBP23.7billion recorded under "Gain from derecognition of financial assets measured at amortized cost" in the statement of profit of loss. In line with the above and following Central Council decision dated January 26, 2016, the Bank was exempted from compulsory reserves in foreign currency up to USD200million. This reserve was invested in Lebanese Government bonds and were pledged against it.

C. Investments at Fair Value through Other Comprehensive Income:

The Bank has designated investments in equity securities as at fair value through other comprehensive income. This classification was chosen as the investments are expected to be held for a long time.

	December 31, 2016			
	Cost	Allowance for Impairment	Carrying Fair Value	Cumulative Change in Fair Value
	LBP'000	LBP'000	LBP'000	LBP'000
Unquoted equity securities	8,337,555	(300)	17,260,682	8,923,427
Deferred tax liability				(1,338,515)
				7,584,912

	December 31, 2015			
	Cost	Allowance for Impairment	Carrying Fair Value	Cumulative Change in Fair Value
	LBP'000	LBP'000	LBP'000	LBP'000
Unquoted equity securities	8,339,628	(300)	16,415,311	8,075,983
Deferred tax liability				(1,211,398)
				6,864,585

The movement of investments at fair value through other comprehensive income during the years 2016 and 2015 is as follows:

	2016		
	LBP	F/CY	Total
	LBP'000	LBP'000	LBP'000
Balance January 1	15,576,126	839,185	16,415,311
Change in fair value	833,772	13,672	847,444
Effect of exchange rates changes	-	(2,073)	(2,073)
Balance December 31	16,409,898	850,784	17,260,682

	2015		
	LBP	F/CY	Total
	LBP'000	LBP'000	LBP'000
Balance January 1	15,084,212	567,929	15,652,141
Additions	-	60,323	60,323
Change in fair value	491,914	212,503	704,417
Effect of exchange rates changes	-	(1,570)	(1,570)
Balance December 31	15,576,126	839,185	16,415,311

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 stated as a liability in the statement of financial position for the same amount.

11. INVESTMENTS IN SUBSIDIARIES

December 31, 2016

Name	Country of Incorporation	Interest Held	Carrying Value	Bank's Interest in: Assets	Liabilities	Revenues	Equity	Net Profit/(Loss)
		%	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
BLC Finance S.A.L.	Lebanon	98.99	7,610,110	8,492,788	50,935	234,252	8,441,853	155,536
BLC Services S.A.L.	Lebanon	90.67	27,200	3,353,983	2,188,313	4,788,705	1,165,670	648,699
BLC Invest SAL	Lebanon	99.97	29,990,000	40,488,330	6,794,705	1,523,645	33,693,625	39,326
USB Bank PLC	Cyprus	99.25	109,312,933	1,088,029,790	973,183,010	56,956,776	114,846,780	3,463,240
			146,940,243	1,140,364,891	982,216,963	63,503,378	158,147,928	4,306,801

December 31, 2015

Name	Country of Incorporation	Interest Held	Carrying Value	Bank's Interest in: Assets	Liabilities	Revenues	Equity	Net Profit/(Loss)
		%	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
BLC Finance S.A.L.	Lebanon	98.99	7,610,110	8,342,237	55,920	247,288	8,286,317	143,767
BLC Services S.A.L.	Lebanon	90.67	27,200	3,274,492	2,757,521	4,675,407	516,971	308,212
BLC Invest SAL	Lebanon	99.97	29,990,000	38,386,630	4,866,874	1,515,207	33,519,756	609,674
USB Bank PLC	Cyprus	98.83	74,888,149	1,045,083,015	968,447,545	68,401,445	76,635,470	(11,856,943)
			112,515,459	1,095,086,374	976,127,860	74,839,347	118,958,514	(10,795,290)

Dividends received from BLC Finance S.A.L. and BLC Services S.A.L. in 2015 amounted to LBP1.15billion and LBP225million respectively.

During the current year, the Bank signed an agreement with BLC Invest S.A.L. whereby both parties have agreed to merge by virtue of acquisition of assets, liabilities and activities of the merger entity which in this case would be BLC Invest S.A.L. This agreement was approved by both Banks' Board of Directors and Extraordinary General Assembly shareholders' in their meeting held on August 5, 2016, and January 27th, 2017 respectively, and by the regulator on April 12, 2017.

The adverse economic situation to which Cyprus was exposed and which severely affected its banking system has impacted the financial position and results of operations of the Bank's subsidiary in Cyprus with significant impact on its loan portfolio and investment properties. Accordingly, during 2015, the Bank wrote down its investment in USB Bank PLC in the amount of Euro7million (equivalent to LBP11.86billion which were booked against deferred assets (Notes 15 and 19).

In addition during 2016 and 2015, the Bank increased USB Bank Plc. capital in the amount of Euro23million (C/V LBP38.67billion) and Euro10.2million (C/V LBP16.98billion), respectively.

The movement of investments in subsidiaries during 2016 and 2015 was as follows:

	2016	2015
	LBP'000	LBP'000
Balance January 1	112,515,459	104,474,144
Capital increase - USB Bank PLC	38,670,130	16,978,206
Additional investment - USB Bank PLC	-	125,507
Adjustment to investment in USB Bank PLC(Note 15)	-	10,083,886
Write down investment in USB Bank PLC (Note 15)	-	(11,856,950)
Adjustment (Note 21)	-	(299,799)
Effect of foreign investment currency exchange difference	(4,245,346)	(6,989,535)
Balance December 31	146,940,243	112,515,459

12. ASSETS ACQUIRED IN SATISFACTION OF LOANS

This section represents foreclosed real estate properties acquired through enforcement of security over loans and advances to customers. According to the Lebanese banking regulations, the acquisition of assets in settlement of loans requires the approval of the banking regulatory authorities and these should be liquidated within 2 years. In case of default of liquidation, a regulatory reserve should be appropriated from the yearly net profits over a period of 5 or 20 years as applicable. These assets are carried at cost less impairment allowance.

The movement of assets acquired in satisfaction of loans was as follows:

	Cost	Impairment Allowance	Carrying Value
	LBP'000	LBP'000	LBP'000
Balance January 1, 2015	97,981,057	(9,093,538)	88,887,519
Foreclosures	2,497,352	-	2,497,352
Disposals	(1,591,640)	7,468	(1,584,172)
Balance December 31, 2015	98,886,769	(9,086,070)	89,800,699
Foreclosures	378,490	-	378,490
Disposals	(1,121,654)	38,993	(1,082,661)
Transfer to fixed asset	(3,130,345)	-	(3,130,345)
Balance December 31, 2016	95,013,260	(9,047,077)	85,966,183

During 2016, Mdawar Plot No 657 amounting to LBP3billion was transferred from assets acquired in satisfaction of loans to property and equipment, to be used as additional offices for the Bank's head office management, after getting Central Bank's approval dated October 27, 2016.

Gain on disposals of assets acquired in satisfaction of loans amounted to LBP1.4billion (LBP532million in 2015).

The fair values of the assets acquired in satisfaction of loans exceed their carrying value as at December 31, 2016 and 2015 which have been determined on the basis of real estate market values carried by independent real estate experts.

13. PROPERTY AND EQUIPMENT

The movement of property and equipment was as follows during 2016 and 2015:

	Balance January 1, 2016	Additions	Disposals	Transfer Between Accounts	Transfer from assets acquired in satisfaction of debts	Balance December 31, 2016
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Cost/Revaluation:						
Owned properties	57,640,566	1,626,443	-	-	3,130,345	62,397,354
Computer hardware	14,556,558	718,452	-	89,628	-	15,364,638
Machinery and equipment	5,429,020	515,568	(60,133)	(1,741)	-	5,882,714
Furniture and fixtures	5,518,520	225,460	(16,580)	2,387	-	5,729,787
Vehicles	542,038	490,774	(238,712)	-	-	794,100
Freehold and leasehold improvements	21,744,385	2,235,788	-	669,864	-	24,650,037
	105,431,087	5,812,485	(315,425)	760,138	3,130,345	114,818,630
Accumulated depreciation	(39,401,057)	(6,572,500)	207,317	-	-	(45,766,240)
Allowance for impairment of owned properties	(65,308)	-	-	-	-	(65,308)
	(39,466,365)	(6,572,500)	207,317	-	-	(45,831,548)
Advance payments	1,330,920	539,038	-	(760,138)	-	1,109,820
Carrying value	67,295,642			-		70,096,902

	Balance January 1, 2015	Additions	Disposals	Transfer Between Accounts	Transfer to Intangible Assets	Balance December 31, 2015
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Cost/Revaluation:						
Owned properties	57,640,566	-	-	-	-	57,640,566
Computer hardware	13,379,914	1,012,545	-	164,099	-	14,556,558
Machinery and equipment	4,879,447	440,470	(26,560)	135,663	-	5,429,020
Furniture and fixtures	5,047,178	129,750	-	341,592	-	5,518,520
Vehicles	542,038	-	-	-	-	542,038
Freehold and leasehold improvements	18,391,598	1,131,182	-	2,221,605	-	21,744,385
	99,880,741	2,713,947	(26,560)	2,862,959	-	105,431,087
Accumulated depreciation	(33,459,941)	(5,965,205)	24,089	-	-	(39,401,057)
Allowance for impairment of owned properties	(65,308)	-	-	-	-	(65,308)
	(33,525,249)	(5,965,205)	24,089	-	-	(39,466,365)
Advance payments	3,135,096	1,092,930	-	(2,862,959)	(34,147)	1,330,920
Carrying value	69,490,588			-		67,295,642

14. INTANGIBLE ASSETS

The movement of intangible assets was as follows during 2016 and 2015:

	Carrying Value January 1, 2016	Additions	Amortization for the Year	Carrying Value December 31, 2016
	LBP'000	LBP'000	LBP'000	LBP'000
Computer software	1,884,707	631,957	(811,131)	1,705,533
Key money	39,195	-	(4,020)	35,175
	1,923,902	631,957	(815,151)	1,740,708

	Carrying Value January 1, 2015	Additions	Transfer from Advance Payments under Property and Equipment	Amortization for the Year	Carrying Value December 31, 2015
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Computer software	2,405,437	327,187	34,147	(882,064)	1,884,707
Key money	43,215	-	-	(4,020)	39,195
	2,448,652	327,187	34,147	(886,084)	1,923,902

15. DEFERRED ASSETS

This caption consists of the following:

	December 31, 2016	December 31, 2015
	LBP'000	LBP'000
Deferred assets on business acquisition (a)	-	1,027,819
Deferred assets against future cash flows (b)	26,935,864	61,944,371
	26,935,864	62,972,190

(a) The movement during the years 2016 and 2015 of deferred assets on business acquisition, which resulted in previous years from acquiring the shares of Lati Bank S.A.L., was as follows:

	LBP'000
Balance, January 1, 2015	2,629,333
Amortization for the year	(1,601,514)
Balance, December 31, 2015	1,027,819
Amortization for the year	(1,027,819)
Balance, December 31, 2016	-

(b) Net outstanding deferred assets against future cash flows amounting to LBP27billion correspond to the Bank's Cypriot subsidiary's carried over losses incurred since the crisis in Cyprus occurred up to December 31, 2015. These deferred assets are offset against future economic benefits derived from the low yield funding amounting to LBP300million provided by the Central Bank of Lebanon referred to in Note 19, which was redeemed and replaced by exemption from compulsory reserves up to USD200million during 2016. Proceeds of the loan and the compulsory reserves are invested in fixed income securities.

The movement of deferred assets against future cash flows during the years 2016 and 2015 was as follows:

	2016 Counter value in LBP LBP'000	2015 Counter value in LBP LBP'000
Net carrying value as at January 1,	61,944,371	84,954,950
Deferred assets originated with offset to present value of contracted future cash flow	-	11,995,957
Write-back of provision on recovered debt (Note 8)	-	(10,083,886)
Write down during the year	(35,051,351)	(15,495,266)
Effect of foreign currency exchange differences	42,844	(9,427,384)
Net carrying value as at December 31,	26,935,864	61,944,371

16. OTHER ASSETS

This caption consists of the following:

	December 31,	
	2016	2015
	LBP'000	LBP'000
Prepaid charges	11,601,267	12,269,829
Sundry debtors (Net)	9,357,249	10,554,524
Fair value of forward exchange contracts	24,728	-
	20,983,244	22,824,353

Sundry debtors are stated net of impairment allowance of LBP3.24billion as at December 31, 2016 and 2015 against advances made in previous years for renovation of the Bank's branches.

17. DEPOSITS FROM BANKS

This caption consists of the following:

	December 31,	
	2016	2015
	LBP'000	LBP'000
Current deposits of banks and financial institutions	1,598,757	1,127,706
Current deposits - subsidiaries	14,213,512	12,788,718
Short term deposits	37,687,657	157
Short term deposits - subsidiaries	28,000,000	28,712,852
Cash margins - subsidiaries	25,000	25,000
Accrued interest payable	261,226	34,189
	81,786,152	42,688,622

18. CUSTOMERS' ACCOUNTS

Customer accounts at amortized cost are detailed as follows:

	December 31,	
	2016	2015
	LBP'000	LBP'000
Deposits:		
Current/demand deposits	640,387,401	583,912,504
Term deposits	5,114,640,326	4,983,033,786
Collateral against loans and advances	198,132,687	233,430,875
Margins and other accounts:		
Margins for irrevocable import letters of credit	4,997,441	2,655,076
Margins on letters of guarantee	30,251,297	27,717,368
Other margins	71,120,622	71,828,512
Blocked accounts	4,827,444	6,159,827
Accrued interest payable	36,703,553	34,911,420
Total	6,101,060,771	5,943,649,368

Customers' deposits include related party deposits detailed as follows:

	December 31,	
	2016	2015
	LBP'000	LBP'000
Demand deposits	3,538,205	2,439,040
Term deposits	26,486,459	21,295,205
Collateral against loans and advances	48,010	1,497,395
Margins on letters of guarantee	11,450	11,450
Accrued interest payable	425,893	176,113
	30,510,017	25,419,203

Brackets of deposits were as follows:

	December 31, 2016				
	LBP		F/Cy		
	Deposits	Total Deposits	Deposits	Total Deposits	Total
	LBP'000	%	LBP'000	%	LBP'000
Less than LBP250million	763,346,273	30	527,987,405	15	1,291,333,678
Between LBP250million and LBP1,5billion	797,816,217	32	821,435,459	23	1,619,251,676
Above LBP1,5billion	944,635,391	38	2,245,840,026	62	3,190,475,417
	2,505,797,881	100	3,595,262,890	100	6,101,060,771

	December 31, 2015				
	LBP		F/Cy		
	Deposits	Total Deposits	Deposits	Total Deposits	Total
	LBP'000	%	LBP'000	%	LBP'000
Less than LBP250million	756,961,481	30	509,427,408	15	1,266,388,889
Between LBP250million and LBP1,5billion	805,973,176	32	741,558,470	22	1,547,531,646
Above LBP1,5billion	988,450,088	38	2,141,278,745	63	3,129,728,833
	2,551,384,745	100	3,392,264,623	100	5,943,649,368

Deposits from customers include coded deposit accounts in the aggregate amount of LBP89billion as at December 31, 2016 (LBP92billion as at December 31, 2015). 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 independent public accountants.

Deposits from customers include fiduciary deposits received from resident and non-resident banks for a total amount of LBP41billion and LBP485billion respectively as at December 31, 2016 (LBP40billion and LBP374billion respectively as at December 31, 2015).

The average balance of deposits and related cost of funds over the last 3 years were as follows:

	Deposits in LBP		Deposits in F/Cy		
Year	Average Balance of Deposits	Average Interest Rate	Average Balance of Deposits	Average Interest Rate	Cost of Funds LBP
	LBP'000	%	LBP'000	%	LBP'000
2016	2,535,000,000	5.69	3,413,000,000	3.75	272,901,708
2015	2,535,000,000	5.70	3,095,000,000	3.53	253,368,271
2014	2,429,000,000	5.70	2,839,000,000	3.29	232,014,338

19. OTHER BORROWINGS

	December 31,	
	2016	2015
	LBP'000	LBP'000
Soft loans from Central Bank of Lebanon (a)	17,734,000	66,499,500
Borrowings from Central Bank of Lebanon (b)	387,050,712	474,949,740
Revolving loan from Central Bank of Lebanon (c)	-	300,000,000
Other borrowings (d)	6,422,111	2,261,250
Accrued interest payable	167,997	4,324,146
	411,374,820	848,034,636

(a) On August 18, 2011 the Bank was granted a soft loan in the amount of LBP48.8billion from the Central Bank of Lebanon for a period of 5 years matured on August 11, 2016.

On March 29, 2012, the Bank was granted another soft loan in the amount of LBP17.7billion from the Central Bank of Lebanon for a period of 7 years maturing on March 21, 2019. This loan is collateralized by Lebanese treasury bills (Note 9).

(b) On July 13, 2011 the Bank obtained a Stand-by Line facility from the Central Bank of Lebanon with a limit reaching USD200million out of which USD110million (C/V LBP165.8billion) have been utilized as at December 31, 2015. The facility was collateralized by Lebanese government bonds and during the year 2016, the outstanding balance was settled by the Bank and the facility was closed.

Outstanding facilities granted from the Central Bank of Lebanon in the amount of LBP387billion (LBP309billion as at December 31, 2015) are in accordance with Central Bank of Lebanon Basic Decision No. 6116 of March 7, 1996 and its amendments by which the Bank benefited from credit facilities granted against loans the Bank has granted, on its own responsibility, to its customers, pursuant to certain conditions, rules and mechanism. This facility is collateralized by Lebanese treasury bills (Note 9).

(c) On December 30, 2013, the Bank obtained a revolving loan from the Central Bank of Lebanon in the amount of LBP300billion for a period of one year maturing on December 31, 2014 and renewable for one additional year. This loan bears an average interest rate of 2.5% per annum and is collateralized by Lebanese treasury bills (Note 9). The purpose of this loan is to provide low cost funding that allows the Bank to generate positive spread over short term facilities expandable at the request of the borrower. This revolving loan matured and was settled in January 2016.

(d) Other borrowings include a loan for USD5million (C/V LBP7.54billion) obtained from a non-resident specialized investment fund on December 28, 2011. The proceeds of the loan are destined to fund micro, small, and medium enterprises in Lebanon and it is repaid over 5 years through 10 semi-annual payments of USD500,000 each, starting July 2012. USD500,000 was outstanding as at December 31, 2016 (USD1.5million as at December 31, 2015).

Other borrowings also include a facility granted by the Arab Trade Financing Program (ATFP) on January 7, 2011 with a limit of USD4million for unconfirmed line of credit. This facility was granted to enhance trade between Arab countries.

The remaining contractual maturities of all above borrowings are as follows:

	2016 LBP'000	2015 LBP'000
Up to 1 year	6,590,108	520,422,146
1 to 3 years	17,734,000	753,750
3 to 5 years	-	17,734,000
Over 5 years	387,050,712	309,124,740
	411,374,820	848,034,636

20. OTHER LIABILITIES

This caption consists of the following:

	December 31,	
	2016	2015
	LBP'000	LBP'000
Withheld taxes	2,692,133	2,800,401
Deferred tax liability on accrued interest receivable	1,822,720	2,100,868
Deferred tax liability on other comprehensive income	1,338,515	1,211,398
Other deferred tax liabilities	29,250	21,840
Due to the National Social Security Fund	662,047	633,106
Checks and incoming payment orders in course of settlement	14,801,715	17,750,575
Blocked capital subscriptions for companies under incorporation	619,764	402,194
Accrued expenses	13,994,879	14,440,634
Financial guarantees	628,900	534,530
Payable to personnel and directors	6,459,082	6,841,742
Sundry accounts payable	18,632,396	19,926,257
Income tax liability (b)	12,092,759	7,183,590
Deferred income	650,916	147,198
Regulatory deferred liability (a)	117,511,478	-
Tax payable on deferred contribution (a)	20,737,320	-
Fair value of forward exchange contracts	-	121,798
	212,673,874	74,116,131

(a) In accordance with the Central Bank of Lebanon Intermediary Circular number 446 dated December 30, 2016, banks should record the surplus derived from sale of treasury bills and certificates of deposit in Lebanese Pound against investment in medium and long term certificates of deposit in foreign currency issued by the Central Bank of Lebanon under deferred liability which is regulated in nature, and shall be appropriated, among other things, after deducting the relevant tax liability, to collective provision for credit risks associated with the loan book at a minimum of 2% of the weighted credit risks, and that in anticipation of implementation of IFRS 9 for Impairment, as and when quantified effective on January 1, 2018. By virtue of this Circular, 70% of the remaining residual surplus once recognized over time shall be treated as non-distributable income designated and restricted only for appropriation to capital increase.

During the year 2016, as a result of several transactions derived from the special and non-conventional deals arrangement with the Central Bank of Lebanon, the Bank received a surplus of LBP118billion, net of tax in the amount of LBP20.7billion, which was credited to "Regulatory deferred liability" under other liabilities and deferred as restricted contribution in anticipation of expected loss provisions that will be deemed to be necessary along with the application of IFRS 9 in accordance with the Central Bank of Lebanon requirements as indicated above (Refer to note 9).

(b) Below is the reconciliation of income tax expense:

	2016 LBP'000	2015 LBP'000
Profit before tax	84,960,589	81,364,292
Income tax on enacted applicable rates	17,270,417	14,493,556
Effect of non-deductible expense and non-taxable income	758,055	(37,643)
Income tax expense	18,028,472	14,455,913
Less: Tax paid in advance	(8,741,930)	(9,836,537)
Other	2,806,217	2,564,214
Income tax liability	12,092,759	7,183,590

21. PROVISIONS

Provisions consist of the following:

	December 31,	
	2016 LBP'000	2015 LBP'000
Provision for staff end-of-service indemnity (a)	5,873,455	5,630,206
Provision for contingencies (b)	1,778,204	3,059,493
Provision for loss on foreign currency position	105,059	21,988
	7,756,718	8,711,687

(a) The movement of the provision for staff end-of-service indemnity was as follows:

	2016 LBP'000	2015 LBP'000
Balance, January 1	5,630,206	5,429,649
Additions - net (Note 32)	699,072	342,985
Additions - legal expenses and sundry charges	-	48,622
Settlements	(455,823)	(191,050)
Balance, December 31	5,873,455	5,630,206

Additions are netted by LBP976million representing estimated interest income accumulated by the Lebanese National Social Security Fund (LBP900million during 2015).

(b) The movement of the provision for contingencies was as follows:

	2016 LBP'000	2015 LBP'000
Balance January 1	3,059,493	2,980,047
Additions	271,350	489,938
Settlements	(878,922)	-
Write-back	(653,118)	-
Write-off against devaluation in investments (Note 11)	-	(299,799)
Effect of exchange rates changes	(20,599)	(110,693)
Balance December 31	1,778,204	3,059,493

22. SHARE CAPITAL

On June 3, 2016, the Extraordinary General Assembly of shareholders resolved to increase the Bank's capital by LBP60billion through issuing common shares having a par value of LBP1,000 each which was subscribed through transferring LBP45billion and LBP15billion from legal reserves and free reserves, respectively. This capital increase was approved by the Central Council of the Central Bank of Lebanon on July 20, 2016.

At December 31, 2016, the Bank's ordinary share capital consists of 213,100,000 fully paid shares of LBP1,000 par value each (152,700,000 fully paid shares of LBP1,000 as at December 31, 2015).

As at 2016 year-end, the Bank has a fixed exchange position in the amount of USD122,508,656, 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 (USD58,426,898 as at 2015 year-end).

23. PREFERRED SHARES

	Tier I Non-Cumulative Perpetual Redeemable preferred shares				
	Issued Date Year	Number of Shares	Expected Annual Return %	December 31, 2016 LBP'000	December 31, 2015 LBP'000
Series "A"	2010	400,000	7.00	-	60,300,000
Series "B"	2011	550,000	7.00	82,912,500	82,912,500
Series "C"	2013	350,000	6.75	52,762,501	52,762,5015
Series "D"	2016	750,000	6.75	113,062,500	-
				248,737,501	195,975,001

The above shares are Tier I Non-Cumulative Perpetual Redeemable preferred shares at an issue price of USD100 per share with a nominal value of LBP1,000 each.

The preferred shares may be redeemed during the 60 days period following the annual general meeting held to approve the financial statements after 5 years for the related issue date for Series A, B, C and D respectively and each subsequent year thereafter.

24. RESERVES

This caption consists of the following:

	December 31,	
	2016	2015
	LBP'000	LBP'000
Legal reserve (a)	6,623,654	44,932,817
Reserve for general banking risks (b)	64,790,286	56,767,516
Special reserve for loans and advances (c)	3,403,478	2,703,478
Free reserves	49,449,285	62,636,356
General reserve for performing loans (d)	3,000,000	945,000
	127,266,703	167,985,167
Regulatory reserve for assets acquired in satisfaction of loans (Note 12)	46,864,450	37,436,066
	174,131,153	205,421,233

(a) The legal reserve is constituted in conformity with the requirements of the Lebanese Money and Credit Law on the basis of 10% of the yearly net profits. This reserve is not available for distribution.

(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 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. The cumulative reserve should not be less than 1.25% at the end of the 10^{th} year (2007) and 2% at the end of the 20^{th} year.

(c) Based on Central Bank of Lebanon circular 73 and Banking Control Commission memo 12/2010 relating to reserve allocation for doubtful debts, the Bank has allocated an amount of LBP3.4billion to special reserve for the uncovered portion of its doubtful debts outstanding as at June 30, 2003 and not yet resolved.

(d) In compliance with the basic circular no. 81 issued by the Central Bank of Lebanon, the Bank is required to transfer from net profit to general reserve for performing loans the equivalent of:

- 0.5% of retail loans that are less than 30 days past due (subject to deductions of some guarantees received) to general reserve for the year 2014 in addition to a percentage of 0.5% yearly over a six year period starting 2015.
- 0.25% of performing corporate loans to general reserve as of end of 2014. This reserve should increase to 0.5% as of end of 2015, 1% as of end of 2016 and 1.5% as of end of 2017. The Bank is exempted from this general reserve if the balance of collective provision is not less than 0.25% of the performing corporate loans portfolio as of end of 2014, 0.5% as of end of 2015, 1% as of end of 2016 and 1.5% as of end of 2017.

25. DIVIDENDS PAID

The Bank's General Assembly held on June 3, 2016 resolved to distribute preferred shares earnings in the amount of LBP15.4billion.

The Bank's General Assembly held on May 12, 2015 resolved to distribute preferred and regular shares earnings in the amount of LBP13.6billion and LBP19.9billion respectively.

26. INTEREST INCOME

This caption consists of the following:

	2016 LBP'000	2015 LBP'000
Interest income from:		
Deposits with Central Bank	23,893,249	21,966,479
Deposits with banks and financial institutions	2,266,689	1,736,559
Deposits with Parent Bank and subsidiaries	101,500	5,649
Loan to a bank	112,257	130,008
Investment securities (excluding FVTPL)	246,368,209	234,556,623
Loans and advances to customers	158,321,447	161,927,277
Loans and advances to related parties	267,760	298,731
Interest realized on non-performing loans and advances to customers (Note 8)	4,938,101	6,529,273
Other	8,862	6,009
	436,278,074	427,156,608

Interest income realized on non-performing loans and advances to customers represents recoveries of interest. Accrued interest on impaired loans and advances is not recognized until recovery/rescheduling agreements are signed with customers.

27. INTEREST EXPENSE

This caption consists of the following:

	2016	2015
	LBP'000	LBP'000
Interest expense on:		
Deposits and borrowings from banks	309,419	173,310
Soft loans from Central Bank of Lebanon	785,395	1,285,513
Revolving loan and facilities granted from Central Bank of Lebanon	5,392,616	13,944,453
Deposits and borrowings from Parent Bank and subsidiaries	1,647,363	1,755,402
Customers' accounts	271,938,913	251,930,144
Customers' accounts – related parties	962,795	1,438,127
Other borrowings	118,593	164,213
	281,155,094	270,691,162

28. FEE AND COMMISSION INCOME

This caption consists of the following:

	2016	2015
	LBP'000	LBP'000
Commission on documentary credits	1,046,136	1,321,790
Commission on letters of guarantee	2,299,811	2,003,123
Commission on transactions with banks	111,254	77,832
Service fees on customers' transactions	12,154,960	10,531,754
Commission on loans and advances	7,013,421	8,034,197
Commission earned on insurance policies	3,240,912	3,184,937
Commission earned on capital market customer's transactions	962,885	840,669
Other	429,190	438,391
	27,258,569	26,432,693

29. FEE AND COMMISSION EXPENSE

This caption consists of the following:

	2016	2015
	LBP'000	LBP'000
Brokerage fees	1,089,576	1,350,282
Commission on transactions with banks and financial institutions	688,215	661,591
Other	853,910	732,340
	2,631,701	2,744,213

30. NET INTEREST AND OTHER GAIN / (LOSS) ON INVESTMENT SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

This caption consists of the following:

	2016 LBP'000	2015 LBP'000
Interest income	9,325,741	9,217,707
Dividends received	102,016	121,115
Net unrealized gain/(loss) (Note 9)	533,597	(1,663,009)
Net realized (loss)/gain	(1,427,034)	32,851
	8,534,320	7,708,664

31. OTHER OPERATING INCOME

This caption consists of the following:

	2016 LBP'000	2015 LBP'000
Dividend income from investments at fair value through other comprehensive income	1,117,031	1,018,854
Foreign exchange gain	2,414,738	3,364,038
Miscellaneous income	2,724,601	2,504,739
	6,256,370	6,887,631

32. STAFF COSTS

This caption consists of the following:

	2016 LBP'000	2015 LBP'000
Salaries	36,425,786	34,684,238
Board of directors remunerations	3,802,255	5,102,262
Social security contributions	5,427,872	5,261,267
Provision for end-of-service indemnities (Note 21)	699,072	342,985
Other staff benefits and costs	12,988,043	12,754,476
	59,343,028	58,145,228

33. GENERAL AND ADMINISTRATIVE EXPENSES

This caption consists of the following:

	2016 LBP'000	2015 LBP'000
Fees and taxes	1,466,897	1,144,339
Rent and building services	3,486,853	3,368,193
Legal and professional fees	3,188,738	4,528,673
Telephone and postage	1,215,392	1,230,481
Maintenance and repairs	5,605,450	5,950,161
Electricity and water	830,478	691,223
Heat, light and power	567,960	693,956
Insurance	521,540	621,633
Advertising and publicity	4,755,242	4,808,951
Public relations and entertainment	707,067	318,655
Printing and stationary	847,972	1,029,794
Subscriptions	2,062,502	1,710,210
Travel	492,673	385,789
Donations	43,488	52,718
Software implementation fees	71,529	103,789
Credit card expenses	1,305,037	1,290,586
Money Transport	1,194,084	1,341,718
Cleaning	765,436	781,525
Guards Expenses	527,557	516,883
Miscellaneous expenses	2,233,229	2,278,063
	31,889,124	32,847,340

Legal and professional fees include an amount of LBP226million representing various services provided by the parent bank during 2016 and 2015.

34. EARNINGS PER SHARE

The computation of the basic earnings per share is based on the Bank's net profit before non-recurring income, net of dividends to preferred shareholders and the weighted average number of outstanding shares during each year held by the Bank. Following current year capital increase, the weighted average number of shares used for the purpose of computing basic and diluted earnings per share is 187,616,164 shares in 2016 (152,700,000 shares in 2015).

Basic and diluted earnings per share are LBP275 in 2016 (LBP339 in 2015).

35. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISKS

The guarantees and standby letters of credit and the documentary and commercial letters of credit represent financial instruments with contractual amounts representing 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 statement of financial position. However, documentary and commercial 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.

Forward exchange contracts outstanding as of December 31, 2016 and 2015 represent positions held for customers' accounts. The Bank entered into such instruments to serve the needs of customers, and these contracts are fully hedged by the Bank.

36. FIDUCIARY ACCOUNTS

Fiduciary deposits include deposits invested in back-to-back lending and are related to resident lenders and borrowers in addition to fiduciary deposits held or invested on behalf of the Bank's customers on a non-discretionary basis. The risks and rewards of the related operations belong to the account holders.

37. ASSETS UNDER MANAGEMENT

Assets under management represents BLC Income Fund 1 whose total assets outstanding as at December 31, 2016 amount to LBP17.6billion whereby the Bank acts as the fund manager. Management fees equivalent to 1% of the average net asset value of the fund paid during 2016 amounted to LBP129million are recorded under "Commissions on capital market transactions" (Note 28).

38. CASH AND CASH EQUIVALENTS

Cash and cash equivalents for the purpose of the statement of cash flows consist of the following:

	December 31,	
	2016	2015
	LBP'000	LBP'000
Cash on hand	36,646,157	36,220,931
Deposits with Central Bank of Lebanon (excluding compulsory deposits)	166,483,539	100,865,627
Term placements with Central Bank of Lebanon (with original maturity of less than 3 months)	206,947,500	24,000,000
Purchased checks	14,370,671	31,640,387
Current accounts with correspondents	196,173,173	134,813,971
Current accounts with the parent bank	3,888,936	3,539,254
Current accounts with related banks and financial institutions	12,442,655	20,428,431
Term placements with correspondents (with original maturity of less than 3 months)	145,803,322	192,888,660
	782,755,953	544,397,261

Major non-cash transactions excluded from the statement of cash flows for the years ended December 31, 2016 and 2015 are summarized as follows:

(a) Positive change in fair value of investments at fair value through other comprehensive income of LBP847million and related deferred tax liability of LBP127million during 2016 (Positive change in fair value of investments of LBP704million and related deferred tax liability of LBP106million during 2015).

(b) Assets acquired in satisfaction of loans in the amount of LBP400million (LBP2.5billion in 2015).

(c) Capital increase of USB Bank PLC in the amount of LBP17billion against decrease in blocked account with a subsidiary in 2015.

(d) Write-down of investment in USB Bank PLC of LBP11.86billion against deferred assets during 2015.

(e) Transfer of LBP34million from property and equipment to intangible assets in 2015.

(f) Transfer of LBP3.1billion from assets acquired in satisfaction of loans to property and equipment in 2016.

(g) Transfer of LBP63billion from investments at fair value through profit or loss to investments held at amortized cost during 2016.

39. SEGMENT INFORMATION

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

The Bank's reportable segments are as follows:

(c) Corporate banking - Includes services provided in relation to loans and other credit facilities and deposits and current accounts for corporate and institutional customers.

(d) Retail banking - includes retail lending and deposits, banking services, insurance brokerage services, overdrafts, credit card facilities, and funds transfer facilities.

(e) Treasury - includes treasury management, correspondent banking, proprietary trading, managing reserve and capital requirements, asset/liability management, and foreign exchange transactions.

(f) Private banking - includes the operations with private banking clients including fiduciary deposits, equities and bonds trading and others.

(g) Others -includes Bank's capital, income from sale of assets, soft loans and revolving loan from Central Bank of Lebanon, depreciation, and other income and expenses.

Distribution of assets and liabilities by segment:

	December 31, 2016						
	Corporate Banking LBP'000	Retail Banking LBP'000	Treasury LBP'000	Private Banking LBP'000	Others LBP'000	Elimination LBP'000	Total LBP'000
ASSETS							
Cash and banks	-	36,646,158	1,569,566,946	-	-	-	1,606,213,104
Loan to a bank	-	-	4,233,915	-	-	-	4,233,915
Investment securities at FVTPL	-	-	98,747,661	-	-	-	98,747,661
Loans and advances to customers	1,025,366,557	1,231,638,583	-	13,155,953	-	-	2,270,161,093
Investment securities at amortized cost	7,384,053	2,564,239,666	-	729,060,406	18,065,650	-	3,318,749,775
Investment securities at FVTOCI	-	-	-	-	17,260,682	-	17,260,682
Customers' liability under acceptances	33,836,057	50,328	-	-	-	-	33,886,385
Investments in subsidiaries	-	27,200	-	7,610,110	139,302,933	-	146,940,243
Other assets	-	-	-	-	205,722,901	-	205,722,901
Inter – segments	-	713,872,110	-	538,066,934	711,326,835	(1,963,265,879)	-
Total Assets	1,066,586,667	4,546,474,045	1,672,548,522	1,287,893,403	1,091,679,001	(1,963,265,879)	7,701,915,759
LIABILITIES							
Deposits from banks	-	-	81,786,152	-	-	-	81,786,152
Customers' accounts	514,600,497	4,298,566,871	-	1,287,893,403	-	-	6,101,060,771
Liability under acceptances	33,886,385	-	-	-	-	-	33,886,385
Other borrowings	145,596,276	247,907,174	-	-	17,871,370	-	411,374,820
Other liabilities and provisions	-	-	-	-	220,430,592	-	220,430,592
Inter-segments	372,503,509	-	1,590,762,370	-	-	(1,963,265,879)	-
Total Liabilities	1,066,586,667	4,546,474,045	1,672,548,522	1,287,893,403	238,301,962	(1,963,265,879)	6,848,538,720

	December 31, 2015						
	Corporate Banking	Retail Banking	Treasury	Private Banking	Others	Elimination	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
ASSETS							
Cash and banks	-	36,220,931	1,343,769,115	-	-	-	1,379,990,046
Loan to a bank	-	-	4,939,568	-	-	-	4,939,568
Investment securities at FVTPL	-	-	189,660,511	-	-	-	189,660,511
Loans and advances to customers	1,105,789,430	1,154,621,868	-	19,855,302	11,044,325	-	2,291,310,925
Investment securities at amortized cost	31,937,626	2,502,467,260	-	519,395,866	372,108,524	-	3,425,909,276
Investment securities at FVTOCI	-	-	-	-	16,415,311	-	16,415,311
Customers' liability under acceptances	29,599,306	-	-	-	-	-	29,599,306
Investments in subsidiaries	-	27,200	-	7,610,110	104,878,149	-	112,515,459
Other assets	-	-	-	-	244,816,786	-	244,816,786
Inter – segments	-	653,079,126	-	588,943,735	452,700,219	(1,694,723,080)	-
Total Assets	1,167,326,362	4,346,416,385	1,538,369,194	1,135,805,013	1,201,963,314	(1,694,723,080)	7,695,157,188
LIABILITIES							
Deposits from banks	-	-	42,688,622	-	-	-	42,688,622
Customers' accounts	598,956,978	4,208,887,377	-	1,135,805,013	-	-	5,943,649,368
Liability under acceptances	29,599,306	-	-	-	-	-	29,599,306
Other borrowings	173,902,570	137,529,008	165,825,000	-	370,778,058	-	848,034,636
Other liabilities and provisions	-	-	-	-	82,827,818	-	82,827,818
Inter-segments	364,867,508	-	1,329,855,572	-	-	(1,694,723,080)	-
Total Liabilities	1,167,326,362	4,346,416,385	1,538,369,194	1,135,805,013	453,605,876	(1,694,723,080)	6,946,799,750

The geographical distribution of assets and liabilities is disclosed in Note 41.

Distribution of profit or loss by segment:

	Year Ended December 31, 2016					
	Corporate Banking	Retail Banking	Treasury	Private Banking	Others	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Net interest income	50,032,426	67,741,491	22,714,992	(4,367,911)	19,001,982	155,122,980
Net commission income	6,262,528	17,245,306	(560,070)	1,805,901	(126,797)	24,626,868
Net interest and other gain /(loss) on investments at FVTPL	-	-	8,534,320	-	-	8,534,320
Other operating and non-operating income	50,709	34,651	28,434,531	776,409	665,889	29,962,189
Net impairment on loans and advances to customers	(979,359)	(568,806)	-	-	162,855	(1,385,310)
Other (expense) / income - Net	(21,759,296)	(75,057,058)	(5,412,221)	(3,703,281)	(25,968,602)	(131,900,458)
Income tax expense	-	-	-	-	(18,028,472)	(18,028,472)
	33,607,008	9,395,584	53,711,552	(5,488,882)	(24,293,145)	66,932,117
Inter-segment	(6,703,658)	(4,463,135)	(10,896,664)	(1,544,641)	23,608,098	-
Residual net income	26,903,350	4,932,449	42,814,888	(7,033,523)	(685,047)	66,932,117

	Year Ended December 31, 2015					
	Corporate Banking	Retail Banking	Treasury	Private Banking	Others	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Net interest income	62,841,740	71,668,030	15,510,441	(13,873,461)	20,318,696	156,465,446
Net commission income	6,934,149	16,520,093	(569,127)	888,976	(85,611)	23,688,480
Net interest and other gain /(loss) on investments at FVTPL	-	-	7,708,664	-	-	7,708,664
Other operating and non-operating income	111,854	60,048	9,237,111	1,005,511	979,490	11,394,014
Net impairment on loans and advances to customers	(637,377)	(5,057,856)	-	-	1,099,040	(4,596,193)
Other (expense) / income - Net	(16,319,039)	(72,800,145)	(5,131,494)	(3,590,891)	(15,454,550)	(113,296,119)
Income tax expense	(4,500,393)	(2,467,922)	(1,050,142)	48,214	(6,485,670)	(14,455,913)
	48,430,934	7,922,248	25,705,453	(15,521,651)	371,395	66,908,379
Inter-segment	(28,253,745)	2,209,589	(23,557,429)	15,796,288	33,805,297	-
Residual net income	20,177,189	10,131,837	2,148,024	274,637	34,176,692	66,908,379

40. COLLATERAL GIVEN

The carrying values of financial assets given as collateral are as follows:

	December 31,				
	2016				2015
		Corresponding Facilities			
	Amount of Pledged Assets LBP'000	Maturity Date LBP'000	Amount of Facility LBP'000	Nature of Facility	Amount of Pledged Assets LBP'000
Lebanese treasury bills	-	-	-	Revolving loan from Central Bank of Lebanon	300,000,000
Lebanese treasury bills	-	-	-	Soft loan from Central Bank of Lebanon	48,765,500
Lebanese treasury bills	17,734,000	March 21, 2019	17,734,000	Soft loan from Central Bank of Lebanon	17,734,000
Lebanese Government bonds	301,500,000	July 1, 2018	301,500,000	Exemption of regulatory Reserve with Central Bank of Lebanon	174,267,000
Lebanese treasury bills	338,437,440	Revolving	387,050,712	Facilities from Central Bank of Lebanon	35,744,910

41. FINANCIAL RISK MANAGEMENT

In the ordinary course of business, the Bank is exposed to various risks which are managed and maintained by applying its own processes of identification, measurement and monitoring.

A. Credit Risk

Credit risk is the risk of financial loss to the Bank if a counterparty to a financial instrument fails to discharge an obligation. 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 letters of credit and letters of guarantee.

Concentration of credit risk arises when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentration of credit risk indicates the relative sensitivity of the Bank's performance affecting a particular industry or geographical location.

1. Management of Credit Risk

The Board of Directors has the responsibility to approve the general credit policy as recommended by the Credit Committee.

The Credit Committee has the responsibility for the development of the credit function strategy and implementing principles, frameworks, policies and limits.

2. *Measurement of Credit Risk*

(a) **Loans and advances to customers**

The commercial and consumer credit extension divisions manage credit risk based on the risk profile of the borrower, repayment source and the nature of the underlying collateral given current events and conditions.

Assessment of the credit risk profile of an individual counterparty is based on an analysis of the borrower's financial position in conjunction with current industry, economic and macro geopolitical trends. As part of the overall credit risk assessment of a borrower, each credit exposure or transaction is assigned a risk rating and is subject to the Credit Committee's approval based on defined credit approval standards. Subsequent to loan origination, risk ratings are adjusted on an ongoing basis, if necessary, to reflect changes in the obligor's financial condition, cash flows or ongoing financial viability.

The Bank assesses the probability of default of individual counterparties and classifies these commitments to reflect the probability of default as listed below:

Watch List: Debts that are not impaired but for which management determines that they require special monitoring due to a deficiency in the credit file regarding collateral, financial position or profitability.

Past due but not impaired: Debts where contractual interest or principal are past due but management believes that classification as impaired is not appropriate on the basis of the level of collateral available and the stage of collection of amounts owed.

Rescheduled debts: Debts that have been restructured after they have been classified as substandard or doubtful and where the Bank has made concessions that it would not otherwise consider. Once a loan is restructured, the last classification as substandard or doubtful does not change.

Substandard debts: Debts that have characteristics such as significant deterioration in profitability and cash flows for a long period and in collateral, the occurrence of recurring delays in settlement of maturing payments, or which facilities are not utilized for the purpose they were intended for.

Doubtful or bad debts: Debts that have the characteristics of substandard debts, in addition to being considered to be at a higher degree of risk due to the continued deterioration of the debtor's situation and the adequacy of collateral, the discontinuity of deposit movement or repayment, or no respect of the maturities of the rescheduling of the debt for a period exceeding 3 months from maturity date. The debt becomes bad when the expected amount to be collected is nil or negligible.

The Bank establishes an allowance for impairment that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures and a collective loan loss allowance established in respect of losses that management considers have been increased but not been identified as loans subject to individual assessment for impairment.

The Bank writes off a loan / security balance (and any related allowances for impairment losses) when it determines it will not be collectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower issuer's financial position such as the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure or financial instrument.

(b) Debt securities

The risk of the debt instruments included in the investment portfolio relates mainly to sovereign risk.

3. Risk Mitigation Policies

The Bank mainly employs collateral to mitigate credit risk. The principal collateral types for loans and advances are:

- Pledged deposits
- Mortgages over real estate properties (land, commercial and residential properties)
- Bank guarantees

Collateral generally is not held over loans and advances to banks, except when securities are held as part of a reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities.

4. Financial assets with credit risk exposure and related concentrations

(a) Exposure to credit risk and concentration by counterparty:

The tables below reflect the Bank's exposure to credit risk by counterparty segregated between the categories of deposits with banks and financial institutions and loans and advances:

(a.1) Distribution of deposits with banks and financial institutions by brackets:

	December 31,					
	2016			2015		
	Balance	% to Total	No. of Counterparties	Balance	% to Total	No. of Counterparties
	LBP'000	%		LBP'000	%	
Less than LBP5billion	15,778,587	4	26	26,987,386	7	27
From LBP5billion to LBP15billion	75,347,436	18	8	49,774,754	13	6
From LBP15billion to LBP30billion	51,411,950	13	3	135,407,039	35	8
From LBP30billion to LBP50billion	264,607,691	65	5	175,219,394	45	4
	407,145,664	100	42	387,388,573	100	45

(a.2) Distribution of performing loans and advances to customers by brackets (regular and watch list):

	December 31,					
	2016			2015		
	Balance	% to Total	No. of Counterparties	Balance	% to Total	No. of Counterparties
	LBP'000	%		LBP'000	%	
Less than LBP0.5billion	1,122,536,767	51	48,181	1,077,725,116	48	50,418
From LBP0.5billion to LBP1.5billion	214,805,030	10	265	214,943,332	10	269
More than LBP1.5billion	847,286,448	39	145	941,444,247	42	150
	2,184,628,245	100	48,591	2,234,112,695	100	50,837

(a.3) Details of the Bank's exposure to credit risk with respect to loans and advances to customers:

	December 31, 2016			Carrying Values of Collaterals Received							
	Gross Exposure Net of Unrealized Interest and Discount	Allowance for Impairment	Net Exposure	Pledged Funds	Bank Guarantees	First and Second Degree Mortgage on Properties	Equity Securities	Debt Securities	Others	Total Guarantees	Lesser of Individual Exposure or Total Guarantees
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Regular loans and advances	2,184,628,245	-	2,184,628,245	299,074,231	69,599,669	1,169,419,619	3,587,850	211,050	524,428,547	2,066,320,966	1,490,226,233
Substandard	32,875,990	-	32,875,990	158,282	1,141,686	23,150,750	-	-	7,733,042	32,183,760	26,513,511
Doubtful	89,317,114	(32,947,548)	56,369,566	60,390	3,726,844	75,143,410	-	-	10,571,247	89,501,891	80,629,954
Loss	41,660,001	(41,660,001)	-	78,776	1,448,756	2,330,927	-	-	25,838,280	29,696,739	11,857,428
Loan portfolio purchased	2,148,399	-	2,148,399	-	-	-	-	-	-	-	2,148,399
Collective provision	-	(5,861,107)	(5,861,107)	-	-	-	-	-	-	-	-
	2,350,629,749	(80,468,656)	2,270,161,093	299,371,679	75,916,955	1,270,044,706	3,587,850	211,050	568,571,116	2,217,703,356	1,611,375,525

	December 31, 2015			Carrying Values of Collaterals Received							
	Gross Exposure Net of Unrealized Interest and Discount	Allowance for Impairment	Net Exposure	Pledged Funds	Bank Guarantees	First and Second Degree Mortgage on Properties	Equity Securities	Debt Securities	Others	Total Guarantees	Lesser of Individual Exposure or Total Guarantees
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Regular loans and advances	2,234,112,695	-	2,234,112,695	209,761,515	74,254,595	1,116,472,782	2,668,305	211,050	413,428,104	1,816,796,351	1,488,795,556
Substandard	31,461,614	-	31,461,614	36,853	1,540,682	25,790,415	-	-	4,415,525	31,783,475	28,452,382
Doubtful	63,470,724	(26,782,858)	36,687,866	139,271	2,279,914	64,408,704	-	-	8,317,694	75,145,583	69,077,417
Loss	38,983,394	(38,983,394)	-	34,529	1,634,762	2,066,336	-	-	12,042,920	15,778,547	9,904,990
Loan portfolio purchased	2,226,266	-	2,226,266	-	-	-	-	-	-	-	2,226,266
Collective provision	-	(13,177,516)	(13,177,516)	-	-	-	-	-	-	-	-
	2,370,254,693	(78,943,768)	2,291,310,925	209,972,168	79,709,953	1,208,738,237	2,668,305	211,050	438,204,243	1,939,503,956	1,598,456,611

Overdue but not impaired loans as at December 31, 2016 and 2015 are as follows:

	December 31, 2016	December 31, 2015
	LBP'000	LBP'000
Between 60 and 90 days	14,788,000	63,833,000
Between 90 and 180 days	25,467,000	16,527,000
Between 180 and 360 days	41,623,000	3,578,000
Over 360 days	524,000	103,000
	82,402,000	84,041,000

(a.4) Concentration of major financial assets and liabilities by geographical location:

	December 31, 2016					
	Lebanon	Middle East and Africa	North America	Europe	Other	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
ASSETS						
Cash and Central Bank	1,199,067,440	-	-	-	-	1,199,067,440
Deposits with banks and financial institutions	58,360,151	1,128,089	95,569,974	249,700,723	2,386,727	407,145,664
Loan to a bank	4,233,915	-	-	-	-	4,233,915
Investments at fair value through profit or loss	90,410,124	-	-	8,337,537	-	98,747,661
Loans and advances to customers	2,199,389,211	50,681,622	4,017,049	13,845,992	2,227,219	2,270,161,093
Investments at amortized cost	3,318,749,775	-	-	-	-	3,318,749,775
Investments at fair value through other comprehensive income	17,260,682	-	-	-	-	17,260,682
Total	6,887,471,298	51,809,711	99,587,023	271,884,252	4,613,946	7,315,366,230
LIABILITIES						
Deposits from banks	42,890,915	38,548,325	8,458	338,454	-	81,786,152
Customers' accounts	4,752,798,926	580,697,028	95,195,647	614,216,573	58,152,597	6,101,060,771
Other borrowings	404,922,082	5,681,939	-	770,799	-	411,374,820
Total	5,200,611,923	624,927,292	95,204,105	615,325,826	58,152,597	6,594,221,743

	December 31, 2015					
	Lebanon	Middle East and Africa	North America	Europe	Other	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
ASSETS						
Cash and Central Bank	992,601,473	-	-	-	-	992,601,473
Deposits with banks and financial institutions	101,938,210	96,943,937	39,266,174	146,829,694	2,410,558	387,388,573
Loan to a bank	4,939,568	-	-	-	-	4,939,568
Investments at fair value through profit or loss	159,905,181	-	-	29,755,330	-	189,660,511
Loans and advances to customers	2,219,510,194	51,566,874	3,749,730	13,508,637	2,975,490	2,291,310,925
Investments at amortized cost	3,425,550,491	-	-	358,785	-	3,425,909,276
Investments at fair value through other comprehensive income	16,415,311	-	-	-	-	16,415,311
Total	6,920,860,428	148,510,811	43,015,904	190,452,446	5,386,048	7,308,225,637
LIABILITIES						
Deposits from banks	40,906,701	490,918	9,202	1,281,801	-	42,688,622
Customers' accounts	4,779,026,104	545,363,009	42,047,406	518,182,936	59,029,913	5,943,649,368
Other borrowings	845,727,797	-	-	2,306,839	-	848,034,636
Total	5,665,660,602	545,853,927	42,056,608	521,771,576	59,029,913	6,834,372,626

B. Liquidity Risk

Liquidity risk is the risk that the Bank will be unable to meet its 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.

1. Management of liquidity risk

Liquidity management involves maintaining ample and diverse funding capacity, liquid assets and other sources of cash to accommodate fluctuations in asset and liability levels due to changes in their business operations or unanticipated events. Through Assets and Liabilities Committee, the Board of Directors is responsible for establishing the liquidity policy as well as approving operating and contingency procedures and monitoring liquidity on an ongoing basis. The treasury department is responsible for planning and executing their funding activities and strategy.

Liquidity management and business unit activities are managed consistent with a strategy of funding stability, flexibility and diversity. It includes:

- Day-to-day funding managed by monitoring future cash flows to ensure that requirements can be met;
- Maintenance of a portfolio of liquid and marketable assets;
- Daily and forecast cash flow management;
- Implementation of long-term funding strategies.

The cumulative impact of these various elements is monitored on at least a monthly basis by ALCO. Monitoring and reporting take the form of cash flow measurement and projections. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection data of the financial assets.

2. Exposure to liquidity risk

Regulatory requirements

The Bank ensures that it is in compliance with the liquidity limits in Lebanese Pound and foreign currencies as established by Central Bank of Lebanon.

The table below shows the allocation of major monetary liabilities based on the earliest possible contractual maturity (undiscounted values). The expected maturities vary significantly from the contractual maturities namely with regard to customers' accounts:

	December 31, 2016					
	Up to 3 Months	3 to12 Months	1 to 3 Years	3 to 5 Years	Over 5 Years	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Deposits from banks	57,860,351	23,925,801	-	-	-	81,786,152
Customers' accounts	5,103,039,829	996,471,986	1,548,956	-	-	6,101,060,771
Other borrowings	921,748	5,668,360	17,734,000	-	387,050,712	411,374,820
	5,161,821,928	1,026,066,147	19,282,956	-	387,050,712	6,594,221,743

	December 31, 2015					
	Up to 3 Months	3 to12 Months	1 to 3 Years	3 to 5 Years	Over 5 Years	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Deposits from banks	37,140,489	5,548,133	-	-	-	42,688,622
Customers' accounts	5,321,466,645	618,236,345	3,207,703	738,675	-	5,943,649,368
Other borrowings	5,077,896	515,344,250	753,750	17,734,000	309,124,740	848,034,636
	5,363,685,030	1,139,128,728	3,961,453	18,472,675	309,124,740	6,834,372,626

C. Market Risk

The market risk is the risk that the fair value or future cash flows of a financial instrument will be affected because of changes in market prices such as interest rate, equity prices, foreign exchange and credit spreads.

Currency risk

Foreign exchange risk represents exposures to changes in the values of current holdings and future cash flows denominated in other currencies. The types of instruments exposed to this risk include investments in foreign currency-denominated loans, foreign currency-denominated securities, future cash flows in foreign currencies arising from foreign exchange transactions, and foreign-currency denominated debt.

Exposure to foreign exchange risk:

Below is the carrying value of assets and liabilities segregated by major currencies to reflect the Bank's exposure to foreign currency exchange risk at year end:

	December 31, 2016					
	LBP	USD	Euro	GBP	Other	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
ASSETS						
Cash and Central Bank	878,405,713	317,791,500	2,207,853	662,374	-	1,199,067,440
Deposits with banks and financial institutions	29,190,264	236,801,553	127,045,278	6,571,272	7,537,297	407,145,664
Loan to a bank	4,233,915	-	-	-	-	4,233,915
Investments at fair value through profit or loss	58,407,948	35,550,843	4,788,870	-	-	98,747,661
Loans and advances to customers	817,503,161	1,444,200,067	8,538,095	249,206	(329,436)	2,270,161,093
Investments at amortized cost	1,582,215,267	1,736,534,508	-	-	-	3,318,749,775
Investments at fair value through other comprehensive income	16,409,999	784,980	65,703	-	-	17,260,682
Customers' liability under acceptances	453,229	18,495,519	13,767,361	-	1,170,276	33,886,385
Investments in subsidiaries	37,627,310	-	109,312,933	-	-	146,940,243
Assets acquired in satisfaction of loans	13,177,917	72,788,266	-	-	-	85,966,183
Property and equipment	70,096,902	-	-	-	-	70,096,902
Intangible assets	1,740,708	-	-	-	-	1,740,708
Deferred assets	-	26,935,864	-	-	-	26,935,864
Other assets	11,436,607	9,483,896	9,834	11,584	16,595	20,958,516
Total Assets	3,520,898,940	3,899,366,996	265,735,927	7,494,436	8,394,732	7,701,891,031
LIABILITIES						
Deposits from banks	38,721,508	42,822,874	233,312	-	8,458	81,786,152
Customers' accounts	2,505,797,880	3,330,493,957	250,894,908	7,467,277	6,406,749	6,101,060,771
Liability under acceptances	453,229	18,495,519	13,767,361	-	1,170,276	33,886,385
Other borrowings	404,922,082	6,452,738	-	-	-	411,374,820
Other liabilities	187,680,181	24,525,380	411,773	54,049	2,491	212,673,874
Provisions	6,665,306	1,091,412	-	-	-	7,756,718
Total Liabilities	3,144,240,186	3,423,881,880	265,307,354	7,521,326	7,587,974	6,848,538,720
Currency to be received	-	17,401,277	13,709,627	-	12,142,184	43,253,088
Currency to be delivered	-	(17,396,472)	(13,709,420)	-	(12,122,468)	(43,228,360)
	-	4,805	207	-	19,716	24,728
Net assets	376,658,754	475,489,921	428,780	(26,890)	826,474	853,377,039

	December 31, 2015					
	LBP	USD	Euro	GBP	Other	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
ASSETS						
Cash and Central Bank	451,705,570	535,714,548	3,051,555	2,129,800	-	992,601,473
Deposits with banks and financial institutions	47,271,251	223,227,371	96,817,613	9,483,653	10,588,685	387,388,573
Loan to a bank	4,939,568	-	-	-	-	4,939,568
Investments at fair value through profit or loss	68,748,976	120,911,535	-	-	-	189,660,511
Loans and advances to customers	721,056,154	1,566,844,621	6,238,269	477,635	(3,305,754)	2,291,310,925
Investments at amortized cost	2,307,923,885	1,117,985,391	-	-	-	3,425,909,276
Investments at fair value through other comprehensive income	15,576,227	771,308	67,776	-	-	16,415,311
Customers' liability under acceptances	150,000	16,150,966	6,952,148	276,921	6,069,271	29,599,306
Investments in subsidiaries	37,627,310	-	74,888,149	-	-	112,515,459
Assets acquired in satisfaction of loans	13,466,167	76,334,532	-	-	-	89,800,699
Property and equipment	67,295,642	-	-	-	-	67,295,642
Intangible assets	1,923,902	-	-	-	-	1,923,902
Deferred assets	1,027,819	54,470,155	7,474,216	-	-	62,972,190
Other assets	12,963,680	9,819,468	7,995	17,231	15,979	22,824,353
Total Assets	3,751,676,151	3,722,229,895	195,497,721	12,385,240	13,368,181	7,695,157,188
LIABILITIES						
Deposits from banks	37,408,694	4,124,289	387,688	-	767,951	42,688,622
Customers' accounts	2,551,384,745	3,134,373,456	239,401,324	11,379,213	7,110,630	5,943,649,368
Liability under acceptances	150,000	16,150,966	6,952,148	276,921	6,069,271	29,599,306
Other borrowings	679,880,485	168,154,151	-	-	-	848,034,636
Other liabilities	43,776,421	28,871,238	202,657	1,110,487	33,530	73,994,333
Provisions	6,770,367	1,267,602	673,718	-	-	8,711,687
Total Liabilities	3,319,370,712	3,352,941,702	247,617,535	12,766,621	13,981,382	6,946,677,952
Currency to be received	-	29,962,785	66,659,046	2,623,141	36,430,738	135,675,710
Currency to be delivered	1,514,000	82,535,995	14,443,266	2,232,460	35,071,787	135,797,508
	(1,514,000)	(52,573,210)	52,215,780	390,681	1,358,951	(121,798)
Net assets	430,791,439	316,714,983	95,966	9,300	745,750	748,357,438

Interest rate risk

Interest rate risk represents exposures to instruments whose values vary with the level of volatility of interest rates. These instruments include, but are not limited to, loans, debt securities, certain trading - related assets and liabilities, deposits, borrowings and derivative instruments. Interest rate repricing gap is used to estimate the impact on earnings of an adverse movement in interest rates.

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:

	Weighted Average Interest Rate	December 31, 2016						
		Not Subject to Interest	Less than 3 Months	3 Months to 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total
	%	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
ASSETS								
Cash and Central Bank	2.84	288,509,071	426,487,364	22,731,005	-	35,290,000	426,050,000	1,199,067,440
Deposits with banks and financial institutions	0.65	230,235,889	176,909,775	-	-	-	-	407,145,664
Loan to a bank	2.66	33,915	4,200,000	-	-	-	-	4,233,915
Investments at fair value through profit or loss	6.43	13,854,287	7,029,417	6,034,461	4,867,308	51,217,381	15,744,807	98,747,661
Loans and advances to customers	7.33	75,075,372	2,093,135,123	18,685,146	83,265,452	-	-	2,270,161,093
Investments at amortized cost	7.26	59,176,132	197,864,527	178,371,532	595,214,612	441,535,397	1,846,587,575	3,318,749,775
Investments at fair value through other comprehensive income		17,260,682	-	-	-	-	-	17,260,682
		684,145,348	2,905,626,206	225,822,144	683,347,372	528,042,778	2,288,382,382	7,315,366,230
LIABILITIES								
Deposits from banks and financial institutions	3.69	7,518,923	51,654,729	22,612,500	-	-	-	81,786,152
Customers' accounts	4.57	455,383,117	5,006,052,697	638,076,001	1,548,956	-	-	6,101,060,771
Other borrowings	1.42	167,998	18,487,750	392,719,072	-	-	-	411,374,820
		463,070,038	5,076,195,176	1,053,407,573	1,548,956	-	-	6,594,221,743

	Weighted Average Interest Rate	December 31, 2015					
		Not Subject to Interest	Less than 3 Months	3 Months to 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total
	%	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
ASSETS								
Cash and Central Bank	2.66	212,548,271	534,083,669	60,969,533	-	-	185,000,000	992,601,473
Deposits with banks and financial institutions	0.80	193,745,602	193,642,971	-	-	-	-	387,388,573
Loan to a bank	2.63	39,568	-	4,900,000	-	-	-	4,939,568
Investments at fair value through profit or loss	4.42	8,947,727	-	21,308,343	17,846,078	39,801,562	101,756,801	189,660,511
Loans and advances to customers	7.30	70,189,355	2,109,809,136	111,312,434	-	-	-	2,291,310,925
Investments at amortized cost	6.95	53,465,047	-	317,488,580	777,529,680	498,690,481	1,778,735,488	3,425,909,276
Investments at fair value through other comprehensive income		16,415,311	-	-	-	-	-	16,415,311
		555,350,881	2,837,535,776	515,978,890	795,375,758	538,492,043	2,065,492,289	7,308,225,637
LIABILITIES								
Deposits from banks and financial institutions	3.23	5,548,134	37,140,488	-	-	-	-	42,688,622
Customers' accounts	4.40	402,875,176	4,918,591,469	618,236,345	3,207,703	738,675	-	5,943,649,368
Other borrowings	1.88	4,324,146	535,079,731	308,630,759	-	-	-	848,034,636
		412,747,456	5,490,811,688	926,867,104	3,207,703	738,675	-	6,834,372,626

42. COMMITMENTS AND CONTINGENCIES

The Bank is defendant in lawsuits filed by different parties amounting to around USD3.3million. According to the Bank's legal advisors, the outcome of these claims cannot be reliably assessed at present.

The Bank's tax returns for the years 2011 to 2016 and social security declarations for the years 2007 to 2016 are still subject to review by the relevant tax and social security authorities. Any additional tax liability depends on the outcome of such reviews.

43. CAPITAL MANAGEMENT

The Bank manages its capital to comply with the capital adequacy requirements set by Central Bank of Lebanon.

Central Bank of Lebanon requires each bank or banking Bank to hold a minimum level of regulatory capital of LBP10billion for the head office and LBP500million for each local branch.

The Bank's capital is split as follows:

Tier I capital : Comprises share capital (common and preferred), premium on preferred shares, reserves from appropriation of profits, retained earnings after deductions for intangible assets and other regulatory adjustments.

Tier II capital : Comprises 50% cumulative change in fair value for investments classified at fair value through other comprehensive income and other regulatory reserves.

The Bank's capital adequacy ratio was as follows:

	December 31,	
	2016	**2015**
	LBPmillion	**LBPmillion**
Common equity Tier I	525,818	478,329
Additional Tier I capital	249,754	196,359
	775,572	674,688
Tier II capital	75,575	4,848
Total regulatory capital	851,147	679,536
Credit risk	4,334,286	4,005,737
Market risk	418,250	178,039
Operational risk	436,093	429,385
Risk-weighted assets and risk-weighted off-balance sheet items	5,188,629	4,613,161
Equity Tier I ratio	10.13%	10.37%
Tier I capital ratio	14.95%	14.62%
Risk based capital ratio- Tier I and Tier II capital	16.40%	14.73%

44. 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 not measured at fair value and where the directors consider that the carrying amounts of these financial assets and liabilities are reasonable approximations of their fair value:

		December 31, 2016				
			Fair Value			
	Notes	Carrying Amount LBP'000	Level 1 LBP'000	Level 2 LBP'000	Level 3 LBP'000	Total LBP'000
Financial assets measured at fair value						
Investments at fair value through profit or loss						
Quoted equity securities	9	4,290,845	4,290,845	-	-	4,290,845
Unquoted equity securities	9	1,874,477	-	-	1,874,477	1,874,477
Lebanese Government bonds	9	21,500,253	-	21,500,253	-	21,500,253
Foreign Eurobonds	9	8,298,348	-	8,298,348	-	8,298,348
Certificates of deposit issued by the Central Bank of Lebanon	9	56,164,795	-	56,164,795	-	56,164,795
Mutual fund	9	4,788,870	-	-	4,788,870	4,788,870
Unquoted equities at fair value through other comprehensive income						
Bancassurance S.A.L.	9	9,596,040	-	-	9,596,040	9,596,040
Other investments	9	7,664,642	-	-	7,664,642	7,664,642
		114,178,270	4,290,845	85,963,396	23,924,029	114,178,270
Financial assets measured at amortized cost						
Term placements with Central Bank of Lebanon		426,050,000	-	416,854,811	-	416,854,811
Loans and advances (net of allowances)	8	2,270,161,093	-	2,267,017,972	-	2,267,017,972
Lebanese Treasury bills	9	780,142,807	-	786,834,537	-	786,834,537
Lebanese Government bonds	9	1,291,302,340	-	1,159,598,601	-	1,159,598,601
Asset-backed securities	9	7,333,961	-	6,538,171	-	6,538,171
Certificates of deposit issued by the Central Bank of Lebanon	9	1,188,128,497	-	1,156,249,548	-	1,156,249,548
		5,963,118,698	-	5,793,093,640	-	5,793,093,640
Financial liabilities not measured at fair value						
Other borrowings		17,734,000	-	15,204,701	-	15,204,701
		17,734,000	-	15,204,701	-	15,204,701

		December 31, 2015				
			Fair Value			
	Notes	Carrying Amount	Level 1	Level 2	Level 3	Total
		LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Financial assets measured at fair value						
Investments at fair value through profit or loss						
Quoted equity securities	9	4,702,753	4,702,753	-	-	4,702,753
Unquoted equity securities	9	915,436	-	-	915,436	915,436
Lebanese Treasury bills	9	10,534,092	-	10,534,092	-	10,534,092
Lebanese Government bonds	9	84,218,154	-	84,218,154	-	84,218,154
Foreign Eurobonds	9	29,589,789	-	29,589,789	-	29,589,789
Certificates of deposit issued by the Central Bank of Lebanon	9	56,370,751	-	56,370,751	-	56,370,751
Unquoted Equities at fair value through other comprehensive income						
Bancassurance S.A.L.	9	8,530,000	-	-	8,530,000	8,530,000
Other investments	9	7,885,311	-	-	7,885,311	7,885,311
		202,746,286	4,702,753	180,712,786	17,330,747	202,746,286
Financial assets measured at amortized cost						
Term placements with Central Bank of Lebanon		185,000,000	-	192,951,248	-	192,951,248
Loans and advances (net of allowances)	8	2,291,310,925	-	2,300,495,573	-	2,300,495,573
Lebanese Treasury bills	9	1,165,314,480	-	1,181,049,333	-	1,181,049,333
Lebanese Government bonds	9	956,075,791	-	961,814,069	-	961,814,069
Foreign Government bonds	9	358,785	-	-	358,785	358,785
Asset-backed securities	9	31,817,268	-	-	30,222,576	30,222,576
Certificates of deposit issued by the Central Bank of Lebanon	9	1,219,236,690	-	1,227,275,144	-	1,227,275,144
		5,849,113,939	-	5,863,585,367	30,581,361	5,894,166,728
Financial liabilities not measured at fair value						
Other borrowings		17,734,000	-	14,371,649	-	14,371,649
		17,734,000	-	14,371,649	-	14,371,649

There have been no transfers between Level 1, Level 2 and Level 3 during the period.

The directors consider that the carrying amounts of cash, compulsory and other short term deposits with Central Bank, deposits from banks and accounts payable approximate their fair values due to the short-term maturities of these instruments. For customers' accounts, this is largely due to their short-term contractual maturities.

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:

Financial instruments	Date of valuation	Valuation technique and Key input	Significant unobservable inputs
Lebanese treasury bills	31-Dec-15&16	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bills, adjusted for illiquidity.	N/A
Foreign Eurobonds	31-Dec-15&16	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bills, adjusted for illiquidity.	N/A
Certificates of deposit in LBP issued by Central Bank of Lebanon	31-Dec-15&16	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bills, adjusted for illiquidity.	N/A
Certificates of deposit in foreign currencies issued by Central Bank of Lebanon	31-Dec-15&16	DCF at discount rates determined based on observable yield curves at the measurement date.	N/A
Lebanese Government bonds	31-Dec-15&16	DCF at discount rates determined based on the yield on USA treasury bills and the Credit Default Swap applicable to Lebanon subject to illiquidity factor	N/A
Term placements with Central Bank of Lebanon	31-Dec-15&16	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
Mutual fund	31-Dec-16	Net earnings of the fund	Net earnings
Foreign Government Bonds	31-Dec-15	Quoted prices for similar assets in active markets	N/A
Bancassurance S.A.L.	31-Dec-15&16	Multiple earnings	4.5 times earnings
Other unquoted equities at fair value through other comprehensive income	31-Dec-15&16	N/A	N/A
Other borrowings	31-Dec-15&16	DCF at discount rates determined based on the average rate of return of the payables bearing fixed interest rate for more than one year	N/A

45. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank carries on transactions with subsidiaries and related parties, balances of which are disclosed in the statement of financial position and in Notes 6, 8, 9, 11, 17 and 18 and in the statement of profit or loss in Notes 26, 27, 33, and 34.

Remuneration to executive management paid during 2016 amounted to LBP4.4billion (LBP5.16billion in 2015).

46. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements for the year ended December 31, 2016 were approved by the Board of Directors in its meeting held on June 6, 2017.