

ANNUAL
REPORT
2016

TABLE OF CONTENTS

CHAIRMAN'S LETTER	3
BRIEF HISTORY	4
CORPORATE GOVERNANCE FRAMEWORK	6
Board of Directors	7
Management	10
Board Committees	11
Management Committees	11
STRATEGIC OVERVIEW	12
Risk Management	13
Compliance	14
Corporate Social Responsibility	16
Human Resources	17
Information Technology	18
Retail Banking	19
Commercial Banking	19
Treasury	19
MANAGEMENT DISCUSSION AND ANALYSIS	20
Assets	22
Liabilities	25
Profitability	26
Liquidity	28
Capital Management	29
INDEPENDENT AUDITOR'S REPORT	30
CORRESPONDENT BANKS	104
LIST OF BRANCHES	104

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We invested in our human capital,
enhanced our technological capabilities
and reinforced our growth activity
organically.

”

CHAIRMAN'S LETTER

2016: THE BEGINNING OF A NEW ERA

2016 was a pivotal year for BSL BANK. A change at senior management level instilled a new direction to the organization with a commitment to meet our long-term financial objectives and deliver greater value to all our stakeholders. We invested in our human capital, enhanced our technological capabilities and reinforced our growth activity organically to capture new market segments in a rapidly evolving environment.

The key to achieving our objectives is to focus on what is best for the Bank's future and, in this respect, 2016 ended with the following realizations:

Growth in Assets

BSL BANK's total assets rose by 3.10%, to reach USD 1.149 billion. This impacted positively on our liquidity ratio, which remained at a high level of 73.80%.

Assets Quality

On another positive note and thanks to the combined efforts of our Credit and Commercial teams, we have been able to maintain the quality of our loan book. Non-Performing Gross Loans stood at 3.21% of assets at the end of 2016 as compared to 2.94% as at end of 2015.

Financial Performance

In 2016, our recurring Operating Income (Total Operating Income excluding exceptional items) increased by a significant 62.07%, to reach USD 7.73 million (2015 – USD 4.77 million), despite a growth of 9.51% in operating expenses. The positive scissor effect between our recurring Operating Income and our expenses resulted in a stronger productivity, allowing us to decrease our cost-to-banking income ratio from 78.8% in 2015 to 71.5% as at end of 2016.

Capitalization

Maintaining high levels of capitalization has always been at the forefront of our financial strategy. In 2016, our total equity grew by 5.77%, to reach USD 92 million. This growth enabled BSL BANK to reach a Tier I Capital Adequacy Ratio of 14.73% and a Total Capital Ratio of 18.22% well above the regulatory requirements.

Quality of Services

In order to maintain a sustainable performance, an improvement in our service quality is essential. By the end of the year 2016, BSL BANK embarked on a comprehensive five-year strategic plan underpinned by the following three levers: investment in both human capital and technology; increase in the Bank's capital base; and organic growth.

OUR OBJECTIVES FOR 2017

New challenges lie ahead as we remain committed to delivering ever-greater service levels to our customer base and to building a diversified foundation for future growth. It is our intention to further diversify our sources of income, to focus on improving our banking activities and to pursue new opportunities in Lebanon. This strategy will enhance the scope and scale of our businesses.

I would like to take this opportunity to express my appreciation to the family of men and women in our institution whose combined talents and commitments have maintained the Bank's financial stability over many years. I am proud that our collective capabilities have allowed us to continue delivering high quality banking services to our customers and to our communities.

A final word goes to my Board colleagues who have been instrumental in directing the Bank year after year, and without whom the achievements accomplished to date would have been much more difficult.

With confidence I look forward to a remarkable future thanks to the Bank's human capital, modern processes and systems, professionalism and fiscal strengths. I believe that there are many exciting opportunities ahead. There are no limits to what the Bank can achieve and I look forward to continuing on our journey.

Sincerely,

Ramsay A. EL KHOURY
Chairman



BRIEF HISTORY

1863

Establishment of the Ottoman Imperial Bank (OIB) with French and British shareholding.

1919

Paribas took over the OIB and renamed it Banque de Syrie (Bank of Syria).

1924

The Bank is renamed Banque de Syrie et du Grand Liban and is granted the privilege of issuing banknotes in Lebanon and Syria.

1939

The Bank is renamed Banque de Syrie et du Liban (Bank of Syria and Lebanon) and has its privilege to issue banknotes extended until 1963.



One of the oldest banks in Lebanon

BSL BANK is incorporated as a private joint stock company with limited liability (Société Anonyme Libanaise), registered in the Commercial Register under number 12510 and listed under number 68 at the Central Bank of Lebanon.

The Bank's mission is to provide its customers with a relationship-based banking experience, whilst caring for their financial well-being. This is achieved by understanding each customers' unique needs and by offering innovative products that are supported by high service levels; in addition to consultancy specifically aimed at increasing personal wealth and business success.

1963

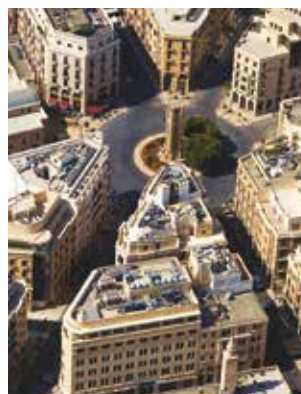
The Bank is split into Banque du Liban, Lebanon central bank, and Société Nouvelle de la Banque de Syrie et du Liban (SNBSL), a full-fledged commercial bank.

1987

After 12 years of Lebanese civil war, British and French shareholders decide to divest, and gradually sell their stakes in SNBSL to a Lebanese group headed by Mrs. Nadia El Khoury.

2012

On July 04 2012, the Bank's name is simplified and changed to BSL BANK SAL.



BSL BANK's values are the cornerstone of its dealings with customers and stakeholders. Its intrinsic values, drawn from the Bank's history and banking acumen, are built around the importance of Ethics, Professionalism, Care and Transparency.

BSL BANK promotes **Ethics** in dealing with its customers and stakeholders in a moral and rightful way.

Professionalism is defined by the Bank's courtesy, swift actions and highly efficient service.

At all times, the Bank **Cares** for its customers' financial well-being, consulting in a way that serves their long-term interests.

The Bank's **Transparency** is born out of a belief that all parties are best served through meaningful, long-term partnership with a commitment to total openness and frank communications.

BSL BANK's faith in traditional values and its track record of exceptional banking services give it durability, strength and progressive evolution.



Corporate Governance Framework



BSL BANK sees good corporate governance, robust risk management and internal control as key elements in a successful business. Furthermore, they are an important prerequisite in maintaining trust amongst customers, shareholders, authorities and other stakeholders.

The Bank defines corporate governance as the responsible management of relationships between shareholders, executive management, employees and other stakeholders.

The Board of Directors is collectively responsible for the Corporate Governance of the Bank. Its primary responsibilities are to supervise management and to exercise its corporate judgment so as to act in good faith and in the best interests of all stakeholders, achieve long-term value and a sustainable business.

In order to discharge its responsibilities effectively, the Board delegates authority to the Board Audit Committee and the Board Risk Committee to oversee specific responsibilities based on clearly defined terms stated in the charter of each committee.

BOARD OF DIRECTORS

The members of the Board of Directors serving throughout the year of 2016 were elected by a resolution of the Ordinary General Assembly of shareholders, which was held on June 30 2015, for a three-year term.

The term expires on the date of the annual Ordinary General Assembly meeting, which will examine the Bank's accounts and activities for the year 2017.

The Board of BSL BANK currently comprises eight independent and non-executive directors.



CORPORATE GOVERNANCE FRAMEWORK

DIRECTORS

The Directors serving at the date of this report are as follows:

Mr. Ramsay EL KHOURY

Chairman
Director since: 1995

Mrs. Mia EL KHOURY AYOUB

Director since: 1987

S.E Joseph CHAOUL

Director since: 2012

Mr. Riad MANSOUR

Director since: 2009

Me. Michel TUEINI

Director since: 2000

Mr. Youssef GHOSN

Director since: 2012

Mr. Elie CHARTOUNI

Director since: 2015

Mr. Henri NACHAWATI

Director since: 2006



LEGAL COUNSEL

Me. Joseph NAIM

MANAGEMENT

Mr. Elias ALOUF

General Manager

Mr. Nicolas SALIBI

Deputy General
Manager

Mr. Najib KASSIS

Chief Administration
Officer

Mr. Kamal ABI FADEL

Head of Commercial
Banking Division

Mr. Fadi ABOU DIWAN

Head of Risk
and Compliance

Mrs. Maya AZZI

Head of Treasury
and Capital Markets

Mr. Ibrahim BASSIL

Head of Operations
Division

Mr. Nabil CHOUEIRY

Head of Consumer
Banking Division

Mr. Antoine DAOUD

Head of Accounting
Department

Mrs. Huguette RAYESS

Head of Credit
Division

Mr. Charbel WATFA

Head of Financial
Control



CORPORATE GOVERNANCE FRAMEWORK

The Board of Directors formed the following Board Committees to assist in discharging its duties. The Board has approved charters for each committee.

THE BOARD AUDIT COMMITTEE

The Audit Committee of the Board comprises three independent, non-executive Board members. The Committee secretary is the Head of Internal Audit Department.

The committee assists the Board in fulfilling its corporate governance and has oversight responsibilities in relation to compliance with financial reporting, regulatory requirements and external and internal audit functions.

The Audit Committee must meet at least four times per year in scheduled meetings.

THE BOARD RISK COMMITTEE

The Risk Committee of the Board comprises three independent, non-executive Board members. The Committee secretary is the Head of Risk and Compliance Department.

The committee assists the Board in fulfilling its corporate governance and oversight responsibilities in relation to compliance with Basel requirements and the Internal Capital Adequacy Assessment Process (ICAAP) document.

It is also responsible for evaluating and managing all key business risks by administering policies and procedures.

The Risk Committee must meet at least four times per year in scheduled meetings.

MANAGEMENT COMMITTEES

The Bank's Management Committees oversee day-to-day operations.

Governed by their respective Charter's, the Management Committees are as follows:

Management Committee	Information Technology Committee	Operational Risk Management Committee
Assets and Liabilities Management Committee	Credit Committee	Information Security Committee
Human Resources Committee	Anti-Money Laundering and Compliance Committee	Loan Recovery Committee
		Retail Credit Committee



Historical artifact
(3000 B.C.) on display
at Saida branch



Strategic Overview



RISK MANAGEMENT

Strong and effective risk management is fundamental to the success of the Bank, and is recognized as one of its key strategic priorities. The primary goal of risk management is to ensure that the Bank's activities are consistent with its corporate strategies and risk appetite; and achieve an appropriate balance between risk and reward. A disciplined companywide risk management culture is another key objective, ensuring that risk management is responsibly shared by all the Bank's employees.

During the course of its operations, the Bank faces a number of risks that pose a potential threat to the Bank and its business. These include credit risk, market risk and liquidity risk, in addition to non-financial risk such as operational risk, legal risk and reputational risk.

The Bank's operations include the continual identification, measurement and assessment of risks. BSL BANK operates a conservative risk philosophy, which encourages entering into profitable investments with minimal risk. This low risk tolerance ensures the continued operations of the Bank and the protection of the shareholders wealth; and is applied across all of the Bank's strategic planning, its investments and its lending decision processes.

CREDIT RISK

Credit risk arising from the non-payment or non-performance by a contracting party is managed at both the transactional and portfolio level. BSL BANK manages credit risk at the transactional level by using practices, processes and tools that identify and measure risks before and after accepting individual credit exposures. Managing the credit risk at portfolio level involves the periodic measurement and analysis of risk embedded in the consolidated loan and investment portfolios. These measurements are reported, limits are continually monitored and stress tests are conducted under a range of different scenarios.

OPERATIONAL RISK

Operational risk refers to losses as a result of the direct or indirect failure of internal processes or systems, human error, or a failure to adequately prepare for external events. The Bank's centralized operational loss event database, which is managed and maintained by the Risk Management Department, captures key information on operational losses. This data is analyzed and then reported to the management and the Board of Directors to provide insight into operational risk exposures, appetites and trends.

MARKET RISK

Market risk is the risk of loss from changes in market prices and rates, the correlations between them and their inherent level of volatility. The principal market risks that the Bank manages are foreign currency and interest rate risks. The Bank's foreign currency exposure is controlled through the regulatory limits set by the Central Bank. Interest rate risk is managed in accordance with Board-approved policies and limits, which are designed to mitigate potential risks related to changes in interest rates. Gap analysis and sensitivity analysis are used to assess such exposures.

REPUTATIONAL RISK

Reputational risk refers to potentially damaging publicity and/or sentiment amongst stakeholders regarding the Bank's conduct and business practices, whether true or not. Damage to the Bank's reputation may adversely affect its revenues, operations or customer base, with the potential for costly litigation or other defensive measures. Reputational risk is managed and controlled throughout the Bank by strict codes of conduct and governance practices.

LIQUIDITY RISK

Liquidity risk refers to the Bank being unable to meet its financial obligations. This is managed through policies and limits that are set by the Board of Directors. The liquidity risk framework includes the daily monitoring of liquidity ratios in local and foreign currencies, and stress tests under multiple scenarios including the effect of both industry and Bank-specific disruptions on its liquidity position. In addition, the Bank operates a liquidity contingency plan, which includes clear guidelines for real-time analysis of and responses to a range of potential liquidity events. The Bank always holds a pool of highly liquid unencumbered assets, consisting mainly of government bonds that can be readily sold or pledged to secure borrowing.

LEGAL RISK

Legal risk is the risk of loss caused by penalties or sanctions due to a breach of contractual and legal obligations, or penalties and sanctions issued by the regulatory body. The Bank operates in accordance with all Lebanese laws and is fully compliant with local regulations.

STRATEGIC OVERVIEW

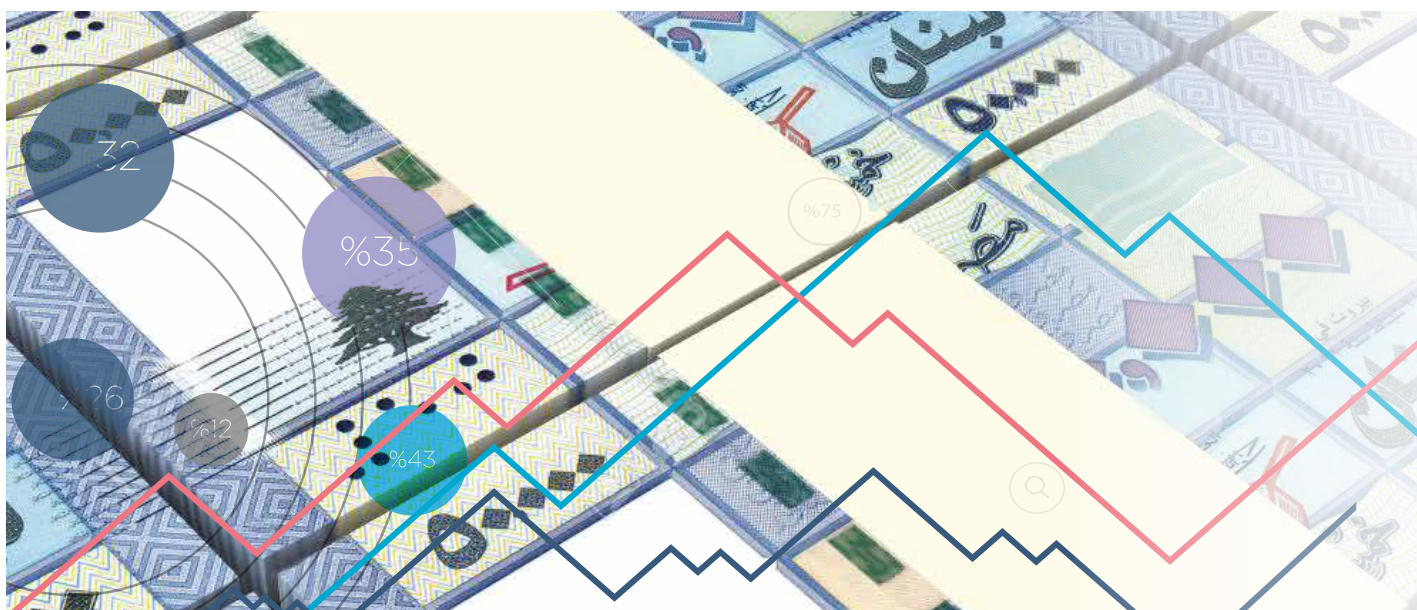
COMPLIANCE

BSL BANK has established an Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT) & Compliance Program, designed to ensure that the Bank and all its branches operate in compliance with the applicable laws, rules and regulations.

COMPLIANCE PROGRAM

The Compliance program provides for the following:

- AML/CFT procedures designed to ensure adherence to the Bank's customer identification program;
- A system of internal controls to ensure that appropriate or Enhanced Due Diligence (EDD), which includes obtaining and maintaining suitable documentation, is always conducted at account opening. These controls may be updated throughout the customer relationship as necessary;
- The designation of an AML/CFT Compliance Officer responsible for coordinating and monitoring the day-to-day adherence to the Bank's AML/CFT policy and applicable laws, rules and regulations;
- The designation of a Legal Compliance Officer especially responsible for coordinating and monitoring the Bank's day-to-day adherence to the various laws, rules and regulations set by regulators. These include the Banking Control Commission of Lebanon (BCCL), the Central Bank of Lebanon (Banque du Liban / BDL) and the Special Investigation Commission (SIC) – Lebanon's Financial Intelligence Unit.
- Record keeping and reporting practices in accordance with the Bank's AML/CFT policies; and in compliance with all Lebanese and international laws, rules and regulations;
- Appropriate methods of monitoring transactions and customer accounts to identify suspicious activity;
- Reporting of suspicious activity to competent authorities in accordance with AML/CFT policies and applicable laws, rules and regulations;
- Ongoing training of personnel with regard to AML/CFT issues and their responsibilities for compliance;
- Independent testing to ensure that the AML/CFT Program is implemented and maintained.



COMPLIANCE FRAMEWORK: CUSTOMER'S ACCEPTANCE POLICY

BSL BANK does not deal with:

- Individuals and entities that have been blocked by BDL and/or SIC
- UN/OFAC/EU Specially Designated Nationals, UN/OFAC/EU Sanctioned countries, USA Patriot Act – Section 311 (Jurisdictions of Primary Money Laundering Concern), and State Sponsors of Terrorism as determined by the UN/OFAC
- Non-face-to-face customers
- Shell banks and shell companies
- Companies with Bearer shares

The following are considered high risk:

- FATF – Non-cooperative Jurisdictions, Degree of Corruption (Countries with a transparency Index Score below 3), Offshore Financial Centre Jurisdiction (OECD Tax Haven)
- Used-car dealers
- PEPs, their Relatives and Close Associates – RCAs
- Non-profit organizations
- Jewelers
- Shipping companies
- Cash generating businesses: these include restaurants, supermarkets, petrol stations, casinos and others



Deter.
Detect.
Prevent...



STRATEGIC OVERVIEW

CORPORATE SOCIAL RESPONSIBILITY (CSR)

CSR is an integral part of BSL BANK's corporate culture and business practices.

As a socially responsible corporate entity, the Bank is committed to making an ongoing contribution to the communities where it operates and actively encourages its employees to participate in activities for a good cause.

The Bank has extended its endorsement to several organizations on different occasions and in various regions, in addition to supporting young talents across several cultural and professional fields.

BSL BANK also has a proud history of contributing to the cultural and creative scene in Lebanon by supporting annual events including the Al Bustan Festival.

In 2016, BSL BANK contributed to Lebanon's Art for Life event, where more than 100 artists participated to support Tamanna, an NGO that helps children with critical illness.

In 2016, BSL BANK endorsed the voluntary blood donor organization, Donner Sang Compter-DSC Lebanon, during the Beirut marathon to encourage blood donation drives.

Student loans and 'Green Loans' at BSL BANK increased significantly compared to 2015, reflecting the Bank's contribution to education and the environment in Lebanon.

The Bank continues to seek to partner with educational institutions in Lebanon to help young students who wish to pursue academic qualifications in the absence of financial means. It also renewed its annual tradition of supporting small independent farmers in Lebanon by purchasing organic apples as healthy gifts for its clients.



HUMAN RESOURCES

During 2016, BSL Bank implemented a new sales & retail-oriented strategy. It initiated the Human Resources Department's need to restructure the branches and commence the formation of new departments.

Throughout this period of change, the HR Department's open-door policy encouraged: **continuous open communication, feedback and discussion.**

By executing successful strategy changes, several internal promotions and transfers were made. In addition, the Human Resources Department focused on attracting and retaining a competent workforce through its recruitment and retention strategies. These have helped the Bank to continue building a team that reflects the diversity of the communities that we are operating in. The HR Department successfully hired a number of talented new professionals in 2016, increasing the overall workforce by 14% over the year.

In order to maintain and promote a highly motivated, merit-based culture, performance evaluations and employee accomplishments were aligned. Career development plans were set in place for every employee, providing them with a clear direction on their career path with BSL BANK.

In addition, compensation programs were reviewed to ensure that all employees receive packages that reflect the competitive nature of the market.

Supporting professional development across the Bank, employees attended 1030 internal and external training sessions in the year. These trainings are essential to both the Bank's growth and individual career success.



STRATEGIC OVERVIEW

INFORMATION TECHNOLOGY

Technology is a critical tool in the Bank's drive towards delivering high service levels and in retaining its competitive advantage in the marketplace. Up-to-date internal technologies and networks have helped BSL BANK to maintain the highest standards of data integrity, security, regulatory oversight and interbranch communications. Looking ahead, the adoption of new technologies will continue to be a strategic priority for the Bank as it maintains business growth and confidence from its stakeholders.

In 2016 the Bank invested in a number of new technology platforms and software solutions that add significant efficiencies to its operations, in addition to delivering greater customer satisfaction.

Investments included the upgrading of the Bank's network infrastructure, incorporating the latest technologies with advanced security and monitoring appliances and tools. New projects were implemented to improve the Bank's operational and commercial capabilities. New software was adopted, enabling BSL BANK to efficiently meet the reporting standards required by regulatory parties. The Bank's IT Department also introduced a new, advanced Backup Solution alongside additional security systems and modern replication tools. These technologies safeguard data integrity and data protection.

In line with the Bank's corporate strategy, the first phase of a new Risk Rating System was completed in 2016. The system was acquired from Standard & Poor's.

The IT Department also successfully migrated to a new advanced, secure backbone, enhancing safe communications between the head office, branches and third parties.

Investing in new technology platforms and software solutions

Efficiency • Security • Customer Satisfaction



RETAIL BANKING

In 2016, BSL BANK rolled out its new retail banking strategy, aimed at building a customer-centric and business-oriented model. These developments were accompanied by a transformation of the Bank's structure and human capital, in addition to wider training opportunities and a new sales incentive plan.

Operationally, unified systems and processes were set in place across the branch network, including new mechanisms to ensure that customer claims are handled efficiently, with equal urgency at every level. These changes feed in to the Bank's new strategy requirements. In addition, extensive product development work was carried out, allowing for the launch of a number of new products in 2017, answering the evolving needs of the Bank's customers.

BSL BANK implemented the Central Bank of Lebanon Circular 134 in 2016, which requires banks to set a culture of full transparency between the Bank and its customers.

COMMERCIAL BANKING

In today's competitive market, BSL BANK realizes the importance of customizing its approach to companies' financial needs that are specific to each economic sector and lines of business.

In 2016, the Commercial Division underwent a significant restructuring to offer an even greater range of tailor-made lending solutions, to meet the needs of SME's and large corporations.

Three new Commercial Business Centers (CBC) were created, each headed by experienced Senior Managers and supported by a team of dedicated Relationship Managers. This new structure provides a better coverage, and widens access to professional advisory services by adapting financial solutions to each and every company within its particular core activity.

Through the adoption of a nuanced approach to commercial relationship management, BSL BANK has strengthened its ability to focus on its commitment to developing long-term customer relationships, placing their businesses objectives at the heart of its operations.

Dedicated Relationship Managers now enable the Bank to create ever-greater levels of trust and provide commercial customers with a personal touchpoint, ensuring that their short, medium and long-term financial arrangements are expertly managed.

TREASURY

BSL BANK 's Treasury Division is dedicated to long-term sustainable wealth generation and retention for its clients. Therefore the Bank helps its customers to make sound investment decisions based on a deep understanding of risk and asset classes nationally, regionally and globally.

Capital market activities include brokerage and trading services on the Beirut Stock exchange, bonds issued by the Lebanese government and trading on international stock markets.

In Lebanese pounds, the Bank's securities portfolio is composed of Treasury bills issued by the Lebanese Ministry of Finance and Certificates of Deposits issued by the Central Bank of Lebanon.

In foreign currencies, the Bank's portfolio is composed of sovereign bonds (principally US Dollar) issued by the Lebanese Republic and Certificates of Deposits issued by the Central Bank of Lebanon.

In 2016, BSL BANK's consolidated securities portfolio increased by USD 30 million as of end 2016, reflecting a more aggressive investment policy. It represents 51.89% of the total customer's deposits in foreign currency.



Management Discussion & Analysis



TABLE OF CONTENTS

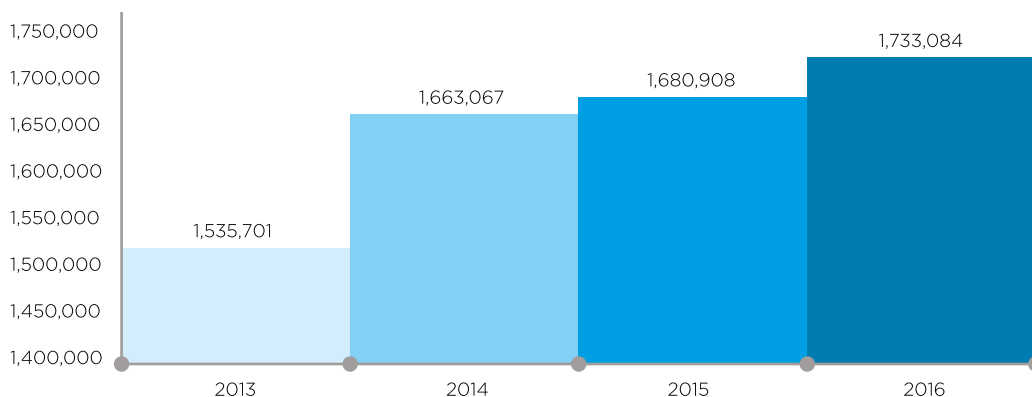
MANAGEMENT DISCUSSION AND ANALYSIS	20
Assets	22
• Asset Growth	22
• Asset Breakdown	22
• Securities Portfolio	23
• Customers' Loans Growth	23
• Loans Breakdown	24
Liabilities	25
• Liabilities Breakdown	25
• Customers' Deposits Evolution	25
Profitability	26
• Profitability Breakdown	26
• Operating Expenses Breakdown	27
Liquidity	28
• Liquid Assets to Total Assets	28
• Liquid Assets to Total Deposits	28
Capital Management	29
• Capital Adequacy Ratio	29

MANAGEMENT DISCUSSION & ANALYSIS

ASSETS

a. ASSET GROWTH

Total assets increased by 3.10% in 2016, reaching LL 1,733,084 million as of 31 December 2016. This compares to an increase of 1.07% between 2014 and 2015 and growth of 8.29% in the previous year 2013-2014. Graph 1 below shows the evolution of total assets during the past four years.



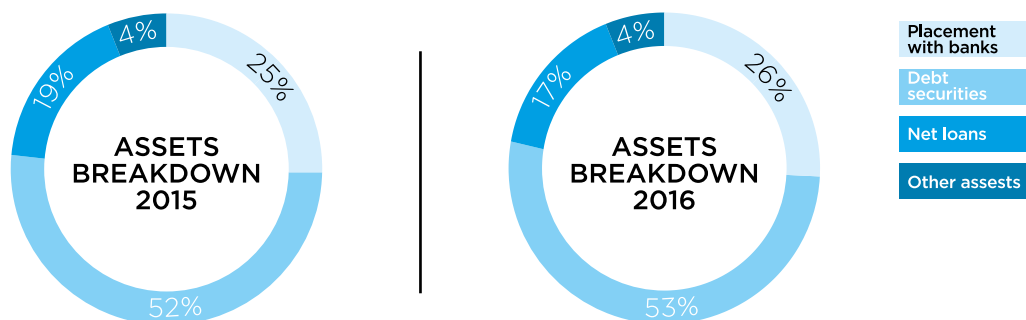
Graph 1: Total assets 2013-2016 (LL million)

b. ASSET BREAKDOWN

The table and graphs below compare the Bank's total assets as at end of December 2015 and 2016.

CATEGORIES	2015	2016
Placements with banks	416,295	444,454
Debt securities	879,125	922,974
Net loans	314,988	293,885
Other assets	70,500	71,771
TOTAL	1,680,908	1,733,084

Table 1: Total assets 2015-2016 (LL million)



Graph 2: Assets breakdown 2015

Graph 3: Assets breakdown 2016

As observed in graphs 2 and 3, the Bank's asset structure remained stable between 2015 and 2016 with only minor variances. However, the Bank aims to increase the loans portion of assets in the following years through the introduction of new loan products.

c. SECURITIES PORTFOLIO

The BSL BANK investment portfolio includes Lebanese Treasury bills/bonds, Eurobonds and Certificate of Deposits issued by the Central Bank of Lebanon, and other debt securities. In addition to the loan book, the securities portfolio constitutes a major part of the Bank's total profit in term of gains on trading and receipt of fixed income.

The table below summarizes the evolution of the Bank's financial portfolio between December 2015 and December 2016.

INVESTMENT SECURITIES	Amortized Cost		Fair Value through P/L	
	2015	2016	2015	2016
Lebanese government treasury bills/bonds	528,006	559,454	16,714	8,190
Certificate of deposits	278,971	318,172	31,501	15,177
Other debt securities	9,476	6,301		
Interest receivables	13,619	15,320	838	360
TOTAL	830,072	899,247	49,053	23,727

Table 2: Financial portfolio 2015-2016 (LL million)

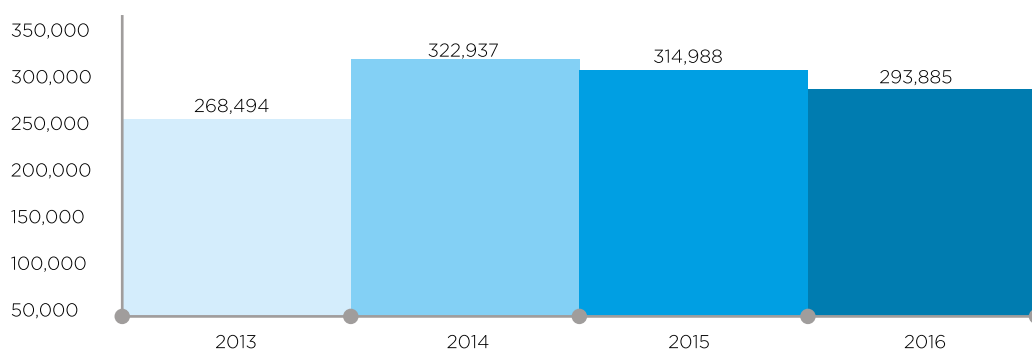
The portion of Lebanese Treasury bills/bonds held at amortized cost from the total debt securities portfolio was around 60% during the years 2015 and 2016. However, the share of Treasury bills/bonds held at Fair Value decreased from 1.90% in 2015 to 0.89% in 2016. Certificates of Deposits held at amortized cost represented 34% of the portfolio as of 31 December 2016, compared to 32% at the end of 2015. Certificates of Deposits held at Fair Value represented 1.64% of total debt securities as of the end of 2016 compared to 3.58% for 2015.

The decline in the securities held at Fair Value decreases any potential volatility that may be caused by movements in the central bank's interest rate.

d. CUSTOMER LOANS GROWTH

The net loans and advances to customers and related parties decreased by 6.70% to reach LL 293,885 million by year-end 2016. This brought the loans to deposits ratio down marginally from 21% in 2015 to 20% in 2016.

Mindful of the relatively low Loan to Deposit ratio compared to the sector's overall average, management has taken specific actions to expand the Bank's loan portfolio without compromising the quality of loans.



Graph 4: Evolution of customer loans 2013-2016 (LL million)

MANAGEMENT DISCUSSION & ANALYSIS

e. LOANS BREAKDOWN

i. LOANS BREAKDOWN BY ECONOMIC SECTOR

NET LOANS BREAKDOWN BY ECONOMIC SECTOR	2016
Trading	73,553
Construction	18,606
Industrial	10,878
Agriculture	3,107
Consumer loans	117,305
Other	70,436
TOTAL	293,885

Table 3: Loans breakdown by economic sector 2016 (LL million)

The above table shows the Bank's loan portfolio in different economic sectors. Moving forward, the Bank's strategy is to reduce real estate commercial lending, while focusing on financing other commercial activities, and increasing retail consumer lending and residential loans.

ii. LOANS BREAKDOWN BY CURRENCY

LOANS BREAKDOWN BY CURRENCY	2016
LBP	93,999
USD	182,916
EUR	14,335
Other	2,635
TOTAL	293,885

Table 4: Loans breakdown by currency 2016 (LL million)

The majority of the Bank's loans are granted in US Dollars as observed in the table above, which represent 62% of the total loan book. However, moving forward the Bank will boost lending in Lebanese pounds through the introduction of new products in the local currency.

iii. LOANS QUALITY

During 2016, global economic uncertainty and local political circumstances slowed down the Bank's lending activities. The tables below illustrate the gross and net balances of the classified loans.

GROSS LOANS	2015	% of loans	2016	% of loans
Total gross loans	361,512	100%	344,446	100%
of which substandard	4,683	1.3%	5,755	1.7%
of which doubtful	15,593	4%	15,933	5%
of which bad debt	29,232	8%	33,999	10%

Table 5: Gross loans breakdown 2015 -2016 (LL million)

NET LOANS	2015	% of loans	2016	% of loans
Total net loans	314,988	100%	293,885	100%
of which substandard	4,322	1.4%	5,141	1.7%
of which doubtful	1,416	0.4%	2,926	1.0%
of which bad debt	-	0.0%	-	0.0%

Table 6: Net loans breakdown 2015-2016 (LL million)

Loan quality declined marginally from 2015 to 2016. Substandard loans increased from 1.4% to 1.7% as a proportion of total net loans and the ratio of doubtful debt rose from 0.4% to 1%. Consequently, total non-performing loans represented 2.7%, a ratio standing below the Beta group average.

LIABILITIES

a. LIABILITIES BREAKDOWN

Customer deposits represent the primary source of funds available to the Bank for the proper conduct of its commercial, financial and fiduciary role.

The table below reflects the respective shares of the different sources of funds available.

CATEGORIES	2013	2014	2015	2016
Due to banks	39,429	50,934	41,445	88,433
Deposits from customers and related parties	1,343,806	1,453,174	1,474,969	1,448,854
Other liabilities	16,437	14,005	10,948	33,396
equity	136,029	144,954	153,546	162,401
TOTAL	1,535,701	1,663,067	1,680,908	1,733,084

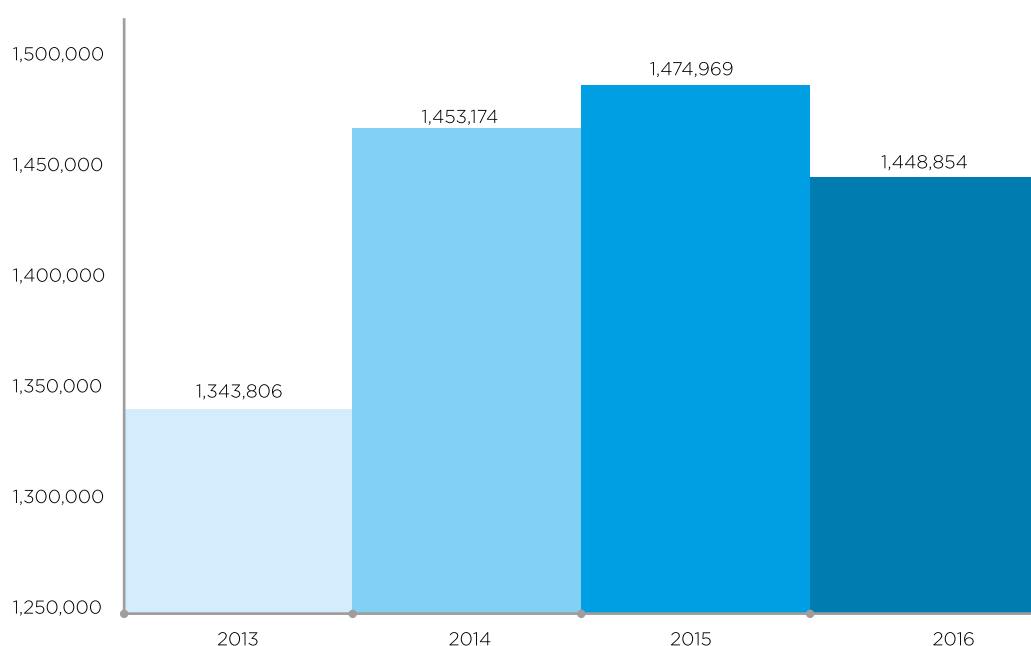
Table 7: Share of fund sources 2013-2016 (LL million)

b. CUSTOMERS' DEPOSITS EVOLUTION

Customer deposits slightly decreased from LL 1,474,969 million in 2015 to LL 1,448,854 million in 2016.

The Bank's strategy focused on diversifying its deposits portfolio and reducing the customer concentration risk by acquiring new medium and small sized deposits.

The concentration ratio dropped by 39% between 2015-2016 showing a balance of USD 90,089 in 2016 compared to USD 147,406 in 2015, for the top 10 customers.



Graph 5: Customer deposits 2013-2016 (LL million)

MANAGEMENT DISCUSSION & ANALYSIS

PROFITABILITY

a. PROFITABILITY BREAKDOWN

RECURRING INCOME/ EXPENSE	2015	2016	Growth (Vol.)	Growth (%)
Net interest income	27,043	31,304	4,261	15.76%
Net fees & commissions income	4,039	3,974	(65)	-1.61%
Net gain from investment securities at FVTPL	1,325	4,406	3,081	232.53%
Other operating income	1,513	1,241	(272)	-17.98%
Recurring personnel expenses	(14,199)	(15,219)	(1,020)	7.18%
Depreciation & amortization expenses	(2,840)	(2,893)	(53)	1.87%
Other operating expenses	(9,693)	(11,163)	(1,470)	15.17%
Income tax	(2,314)	(2,371)	(57)	2.46%
NET RECURRING INCOME	4,874	9,279	4,405	90.38%

Table 8: Recurring income and expenses 2015-2016 (LL million)

NON-RECURRING INCOME/ EXPENSE	2015	2016	Growth (Vol.)	Growth (%)
Net Release of Impairment on Loans	348	(2,301)	(2,649)	-761.21%
Net Gain in Financial Assets through OCI & at Amortized Cost	2,815	1,461	(1,354)	-48.10%
Net Gain on sale of property in settlement of debt	1,086	1,716	630	58.01%
Non-Recurring personnel expenses	(378)	(1,191)	(813)	215.08%
NET NON-RECURRING INCOME	3,871	(315)	(4,186)	-108.14%

Table 9: Non-recurring income and expenses 2015-2016 (LL million)

NET INCOME GROWTH	2015	2016	Growth (Vol.)	Growth (%)
NET INCOME	8,745	8,964	219	2.50%

Table 10: Net income growth 2015-2016 (LL million)

OTHER COMPREHENSIVE INCOME GROWTH	2015	2016	Growth (Vol.)	Growth (%)
Net unrealized gain (loss) on investment securities at Fair Value through OCI	(153)	131	284	-185.62%
TOTAL OTHER COMPREHENSIVE INCOME FOR THE YEAR	(153)	131	284	-185.62%
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	8,592	9,095	503	5.85%

Table 11: Other comprehensive income growth 2015-2016 (LL million)

PROFIT ALLOCATION	2015	2016	Growth (Vol.)	Growth (%)
Equity holders of the bank	8,706	8,927	221	2.54%
Non-Controlling Interests	39	37	(2)	-5.13%
NET PROFIT	8,745	8,964	219	2.50%

Table 12: Profit allocation 2015-2016 (LL million)

TOTAL COMPREHENSIVE INCOME ALLOCATION	2015	2016	Growth (Vol.)	Growth (%)
Equity holders of the bank	8,553	9,058	505	5.90%
Non-Controlling Interests	39	37	(2)	-5.13%
TOTAL COMPREHENSIVE INCOME	8,592	9,095	503	5.85%

Table 13: Total comprehensive income allocation 2015-2016 (LL million)

As observed in the previous tables, the quality of earnings improved during 2016 as compared to the previous year. Net recurring income recorded a healthy growth rate of 90.38% (Table 8) which highlights improvements in core banking activities.

Additionally, a decrease in non-recurring income of 108.14% (Table 9) confirms that the Bank is no longer relying on non-recurring activities to realize profits.

Total net income increased from LL 8,745 million in 2015 to LL 8,964 million as of 31 December 2016, showing a growth of 2.50% (Table 10).

b. OPERATING EXPENSES BREAKDOWN

OPERATING EXPENSES BREAKDOWN	2015	2016	Growth (Vol.)	Growth (%)
Personnel expenses	14,199	15,219	1,020	7.18%
Depreciation and amortization charges	2,840	2,893	53	1.87%
Other operating expenses	9,693	11,163	1,470	15.17%
TOTAL OPERATING EXPENSES	26,732	29,275	2,543	9.51%

Table 14: Operating expenses breakdown 2015-2016 (LL million)

Investments in human capital and operational systems increased total operating expenses compared to 2015 by 9.51%. BSL BANK is aiming to expand its activities by developing the capacities of its employees, recruiting new talent and expertise, as well as optimizing its operations by implementing new technologically advanced systems.

MANAGEMENT DISCUSSION & ANALYSIS

LIQUIDITY

BSL BANK's objective in liquidity risk management is to maintain a high level of liquidity and to ensure that the Bank has adequate funds to meet business development needs and short-term obligations, whether under normal business conditions or under stress.

The liquidity profile of the Bank is monitored on a static and a dynamic basis by using key liquidity ratios and conducting liquidity stress testing.

The Bank has prepared a liquidity risk policy in line with regulations and the Bank's asset-liability management strategy.

Periodic liquidity positions and liquidity stress results are reviewed by the Bank's ALCO. The Bank's liquidity positions as of 31 December 2016 are shown in the tables below.

a. LIQUID ASSETS TO TOTAL ASSETS

LIQUID ASSETS TO TOTAL ASSETS	2015	% of liquidity	2016	% of liquidity
Cash and central banks	243,616	14.49%	331,747	19.14%
Net due from banks	96,009	5.71%	24,274	1.40%
Financial instruments	879,125	52.30%	922,974	53.26%
TOTAL LIQUIDITY	1,218,750	72.50%	1,278,995	73.80%

Table 15: Liquid assets to total assets 2015-2016 (LL million)

b. LIQUID ASSETS TO TOTAL DEPOSITS

LIQUID ASSETS TO TOTAL DEPOSITS	2015	% of liquidity	2016	% of liquidity
Cash and central banks	243,616	16.52%	331,747	22.90%
Net due from banks	96,009	6.50%	24,274	1.66%
Financial instruments	879,125	59.60%	922,974	63.70%
TOTAL LIQUIDITY	1,218,750	82.62%	1,278,995	88.27%

Table 16: Liquid assets to total deposits 2015-2016 (LL million)

CAPITAL MANAGEMENT

BSL BANK is actively managing its assets portfolio to reach a low risk assets structure through an appropriate composition of capital and an optimal mix of investments.

The Bank has adopted Basel III capital regulations and the Banking Control Commission of Lebanon's (BCCL) requirements on minimum capital, which should reach 15% at the end of 2018.

The Bank calculated its Capital Adequacy Ratio (CAR) for 2016, in accordance with Basel and BCCL regulatory guidelines, where the capital charge for operational risk is computed under the Basic Indicator Approach, and the capital charge for credit and market risk is calculated using the Standardized Approach.

BASEL III BSL CAR RATIO	2013	2014	2015	2016
Tier 1 capital	96,948	101,837	110,695	119,329
Tier 2 capital	15,435	15,463	15,435	30,247
TOTAL CAPITAL	112,383	117,300	126,130	149,576
RWA	871,186	864,820	903,039	868,327
Tier 1 ratio	11.10%	11.78%	12.26%	13.74%
Tier 2 ratio	1.80%	1.78%	1.71%	3.49%
BSL TOTAL CAPITAL RATIO	12.90%	13.56%	13.97%	17.23%

Table 17: Capital Adequacy Ratio

As of 31 December 2016, the Bank's CAR was 17.23% (excluding profit) against the minimum regulatory requirement of 14%. The Common Equity Tier I (CET I) ratio and Tier I ratio were both 13.74% against the minimum regulatory requirement of 8.5% and 11% respectively.

BSL BANK abides by all legal and regulatory requirements related to the Capital Adequacy Ratio (CAR) either issued by the Basel Committee or required by the Central Bank of Lebanon - Banking Control Commission of Lebanon (BCCL).

The Basel reference timetable of solvency ratios has been modified by the BCCL in order to hedge, in terms of capital, for the specific circumstances within the Lebanese markets.

BASEL III MINIMUM CAR RATIO	2013	2014	2015	2016
Common Tier 1 (CET 1) ratio	6.00%	7.00%	8.00%	8.50%
Tier 1 ratio	8.50%	9.50%	10.00%	11.00%
Total capital ratio	10.50%	11.50%	12.00%	14.00%

Table 18: Capital Adequacy Ratio timetable set by BCCL



Independent Auditor's Report

31 DECEMBER 2016



TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BSL BANK SAL	32
CONSOLIDATED FINANCIAL STATEMENTS	36
Consolidated statement of financial position	36
Consolidated statement of comprehensive income	37
Consolidated statement of changes in equity	38
Consolidated statement of cash flows	40
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	41
1. Corporate information	41
2. Accounting Policies	41
3. Changes in accounting policies and disclosures	43
4. Standards issued but not yet effective	44
5. Significant accounting policies	46
6. Financial risk management	55
7. Fair values of financial instruments	82
8. Classification of financial assets and financial liabilities	85
9. Cash and balances with the central bank	86
10. Loans under reverse purchase agreements	86
11. Due from banks and financial institutions	86
12. Loans and advances to customers and related parties at amortized cost	87
13. Investment securities at fair value through profit or loss	89
14. Investment securities at amortized cost	89
15. Investment securities at fair value through other comprehensive income	90
16. Investment properties	91
17. Property and equipment	91
18. Non-current assets classified as held for sale	92
19. Other assets	93
20. Due to banks and financial institutions	93
21. Deposits from customers at amortized cost	93
22. Other liabilities	94
23. Employees benefit obligations	95
24. Share capital	95
25. Reserves	95
26. Net interest and similar income	96
27. Fee and commission income	96
28. Net gain from investment securities at fair value through profit or loss	96
29. Other operating income	97
30. Personnel expenses	97
31. Depreciation and amortization charges	97
32. Income operating expenses	98
33. Income tax expense	98
34. Cash and cash equivalents	99
35. Contingent liabilities and commitments	99
36. Related parties	99
37. Off balance sheet items	101
38. Liquidation of a subsidiary	101



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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BSL BANK SAL

Qualified opinion

We have audited the consolidated financial statements of BSL Bank SAL (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for qualified opinion

As disclosed in note 22 to the consolidated financial statements, during 2016, the Group did not recognize in the consolidated statement of profit or loss an amount of LBP 19,341 million in gains realized from certain transactions on financial instruments with Central Bank of Lebanon. The Group recognized an amount of LBP 16,706 million under "Other Liabilities" within "Deferred Surplus" in compliance with Central Bank of Lebanon's Intermediate Circular number 446 dated 30 December 2016. Furthermore, as disclosed in note 22 to the consolidated financial statements, the Group recorded excess provisions amounting to LBP 2,635 million under "Other Liabilities" within "Provisions for risk and charges" in order to comply with requirements of Central Bank of Lebanon's Intermediate Circular number 439 dated 8 November 2016. The Group's accounting for the above-mentioned transactions departs from the requirements of International Financial Reporting Standards (IFRSs). Had the Group properly accounted for these transactions, events and conditions, in accordance with International Financial Reporting Standards, the effects on the consolidated financial statements would have been as follows:

- Net income for the year ended 31 December 2016 would have increased by LBP 16,835 million through:
 - an increase in "Gain from sale of financial assets" by LBP 16,706 million;
 - an increase in "tax expenses" by LBP 2,506 million; and
 - a decrease in "Provisions for risks and charges" by LBP 2,635 million.
- Total liabilities as at 31 December 2016 would have decreased, through a decrease in "Other Liabilities" by LBP 19,341 million;
- Total assets as at 31 December 2016 would have decreased, through a decrease in "Other Assets" by LBP 2,506 million; and
- Equity as at 31 December 2016 would have increased, through an increase in net income, by LBP 16,835 million.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BSL BANK SAL (continued)

Basis for qualified opinion (continued)

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

Key audit matters

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

We have fulfilled the responsibilities described in the "*Auditors' Responsibilities for the Audit of the Consolidated Financial Statements*" section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our qualified audit opinion on the accompanying consolidated financial statements.

Impairment of loans and advances

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

- For corporate customers, we tested the key controls over the credit grading process, to assess if the risk grades allocated to the counterparties were appropriate. We then performed detailed credit assessment of all loans in excess of a defined threshold and loans in excess of a lower threshold in the watch list category and impaired category together with a selection of other loans.
- Where impairment allowance was calculated on a collective basis for performing corporate loans, we tested the completeness and accuracy of the underlying loan information used in the impairment model by agreeing details to the Group's source systems as well as re-performing the calculation of the modelled impairment allowances. For the key assumptions in the model, we assessed whether those assumptions were appropriate in the circumstances.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BSL BANK SAL (continued)

Key audit matters (continued)

Impairment of loans and advances (continued)

- For consumer loans, specific and collective impairment allowances are calculated using a simple model, which are based on a percentage of repayments due but not yet paid. We understood and critically assessed the model used and checked that no un-due changes had been made in model parameters and assumptions. We tested the completeness and accuracy of data from underlying systems that is used in this model. We also re-performed the calculation of the modelled impairment allowance.

Other information included in the Group's 2016 Annual Report

Management is responsible for the other information. Other information consists of the information included in the Group's 2016 Annual Report other than the consolidated financial statements and our auditors' report thereon. The Group's 2016 Annual Report is expected to be made available to us after the date of this auditor's report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Responsibilities of management and the audit committee for the consolidated financial statements

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

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

The audit committee is responsible for overseeing the Group's financial reporting process.

Auditors' responsibilities for the audit of the consolidated financial statements

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

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

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BSL BANK SAL (continued)

Auditors' responsibilities for the audit of the consolidated financial statements (continued)

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

The partners in charge of the audit resulting in this independent auditors' report are Nadim Dimashkieh for Ernst & Young and Wissam Safwan for KPMG.



Ernst & Young

8 June 2017
Beirut, Lebanon



KPMG

INDEPENDENT AUDITOR'S REPORT

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2016

	Notes	2016 LL million	2015 LL million
ASSETS			
Cash and balances with the Central Bank	9	331,747	243,616
Loans under reverse repurchase agreements	10	-	35,225
Due from banks and financial institutions	11	112,707	137,454
Loans and advances to customers at amortized cost	12	292,488	313,570
Loans and advances to related parties at amortized cost	12, 36	1,397	1,418
Investment securities at fair value through profit or loss	13	23,727	49,053
Investment securities at amortized cost	14	899,247	830,072
Investment securities at fair value through other comprehensive income	15	2,089	2,039
Debtors by acceptances		403	1,983
Investment properties	16	19,776	20,196
Property and equipment	17	38,363	37,030
Intangible assets		20	35
Non-current assets classified as held for sale	18	2,128	4,132
Other assets	19	8,992	5,085
TOTAL ASSETS		1,733,084	1,680,908
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks and financial institutions	20	88,433	41,445
Deposits from customers at amortized cost	21	1,393,719	1,406,752
Deposits from related parties at amortized cost	36	55,135	68,217
Engagement by acceptances		403	1,983
Current tax liabilities	33	1,659	1,491
Other liabilities	22	27,210	3,526
Employee benefit obligations	23	4,124	3,948
Total liabilities		1,570,683	1,527,362
EQUITY			
Share capital	24	54,165	54,165
Non distributable reserves	25	65,560	60,702
Distributable reserves	25	26,009	24,066
Cumulative change in fair value of securities at fair value through other comprehensive income		568	437
Retained earnings		3,235	1,570
Profit for the year		8,927	8,706
Total equity attributable to equity holders of the Parent		158,464	149,646
Non-controlling interests		3,937	3,900
Total equity		162,401	153,546
TOTAL LIABILITIES AND EQUITY		1,733,084	1,680,908

These consolidated financial statements were authorized for issuance by the Chairman of the Board of Directors on 8 June 2017.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016**

	Notes	2016 LL million	2015 LL million
Interest and similar income	26	90,300	85,508
Interest and similar expense	26	(62,008)	(61,170)
Net interest and similar income		28,292	24,338
Fee and commission income	27	4,334	4,383
Fee and commission expense		(360)	(344)
Net fee and commission income		3,974	4,039
Net gain from investment securities at fair value through profit or loss	28	7,418	4,030
Revenues from investment securities at fair value through other comprehensive income and net gain from investment securities at amortized cost	14 & 15	1,461	2,815
Net release of impairment on loans and advances to customers		334	348
Other operating income	29	2,957	2,599
Net operating income		44,436	38,169
Personnel expenses	30	(16,410)	(14,577)
Depreciation and amortization charges	31	(2,893)	(2,840)
Other operating expenses	32	(11,163)	(9,693)
Provisions for risks and charges	22	(2,635)	-
Total operating expenses		(33,101)	(27,110)
Profit before tax		11,335	11,059
Income tax expense	33	(2,371)	(2,314)
PROFIT FOR THE YEAR		8,964	8,745
Other comprehensive income			
Items not to be reclassified to profit or loss in subsequent periods:			
Net unrealized gain (loss) on investment securities at fair value through other comprehensive income	15	131	(153)
Total other comprehensive income (loss) for the year		131	(153)
Total comprehensive income for the year		9,095	8,592
Profit attributable to:			
Equity holders of the Bank		8,927	8,706
Non-controlling interests		37	39
		8,964	8,745
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Equity holders of the Bank		9,058	8,553
Non-controlling interests		37	39
		9,095	8,592

The attached notes 1 to 38 form part of these consolidated financial statements

INDEPENDENT AUDITOR'S REPORT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	Share capital	Non distributable reserves	Distributable reserves
		LL million	LL million	LL million
Balance at 1 January 2016		54,165	60,702	24,066
Profit for the year		-	-	-
Net unrealized gain on investment securities at fair value through other comprehensive income		-	-	-
TOTAL COMPREHENSIVE INCOME		-	-	-
Transfer to retained earnings		-	-	-
Liquidation of a subsidiary	38	-	-	-
Transfer from retained earnings		-	6,605	1,943
Release of reserve for non-current assets classified as held for sale	18	-	(1,747)	-
		-	4,858	1,943
BALANCE AT 31 DECEMBER 2016		54,165	65,560	26,009

	Notes	Share capital	Non distributable reserves	Distributable reserves
		LL million	LL million	LL million
Balance at 1 January 2015		54,165	56,805	19,156
Profit for the year		-	-	-
Net unrealized loss on investment securities at fair value through other comprehensive income		-	-	-
TOTAL COMPREHENSIVE INCOME		-	-	-
Transfer to retained earnings		-	-	-
Transfer from retained earnings		-	4,100	4,910
Release of reserve for non-current assets classified as held for sale	18	-	(203)	-
		-	3,897	4,910
BALANCE AT 31 DECEMBER 2015		54,165	60,702	24,066

The attached notes 1 to 38 form part of these consolidated financial statements

Cumulative change in fair value of securities at fair value through other comprehensive income	Retained earnings	Profit for the year	Total equity	Non-controlling interests	TOTAL
LL million	LL million	LL million	LL million	LL million	LL million
437	1,570	8,706	149,646	3,900	153,546
-	-	8,927	8,927	37	8,964
131	-	-	131	-	131
131	-	8,927	9,058	37	9,095
-	8,706	(8,706)	-	-	-
-	(240)	-	(240)	-	(240)
-	(8,548)	-	-	-	-
-	1,747	-	-	-	-
-	1,665	(8,706)	(240)	-	(240)
568	3,235	8,927	158,464	3,937	162,401

Cumulative change in fair value of securities at fair value through other comprehensive income	Retained earnings	Profit for the year	Total equity	Non-controlling interests	TOTAL
LL million	LL million	LL million	LL million	LL million	LL million
590	1,542	8,835	141,093	3,861	144,954
-	-	8,706	8,706	39	8,745
(153)	-	-	(153)	-	(153)
(153)	-	8,706	8,553	39	8,592
-	8,835	(8,835)	-	-	-
-	(9,010)	-	-	-	-
-	203	-	-	-	-
-	28	(8,835)	-	-	-
437	1,570	8,706	149,646	3,900	153,546

The attached notes 1 to 38 form part of these consolidated financial statements

INDEPENDENT AUDITOR'S REPORT

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016	2015
		LL million	LL million
OPERATING ACTIVITIES			
Profit for the year		8,964	8,745
Adjustment for:			
Depreciation and amortization charges	31	2,893	2,840
Net credit gain		(334)	(348)
Net gain on sale / exchange of investment securities at amortized cost	14	(1,066)	(2,715)
Net gain on sale of investment securities at fair value through profit or loss	28	(4,110)	(1,165)
Net gain on sale investment securities at FVTOCI	15	(485)	(100)
Net gain on sale of property and equipment		(7)	(6)
Net gain on sale of non-current assets classified as held for sale	29	(1,716)	(1,086)
Provision for risks and charges	22	2,635	-
Provision for employees benefit obligations, net	23	325	(32)
Net interest and similar income	26, 28	(31,304)	(27,281)
Impairment provision on receivables from NSSF		106	416
Income tax expense	33	2,371	2,314
		(21,728)	(18,418)
Change in:			
Balances with the Central Bank		(56,857)	(19,274)
Due from banks and financial institutions		(25,215)	1,700
Loans and advances to customers and related parties		20,959	8,360
Investment securities		(39,423)	(37,625)
Other assets		(3,907)	(2,341)
Due to banks and financial institutions		(13,886)	22,949
Deposits from customers and related parties		(26,610)	22,139
Other liabilities		23,444	(2,134)
		(143,223)	(24,644)
Interest received		92,100	88,507
Interest paid		(61,735)	(61,514)
Employee benefits obligations paid	23	(149)	(135)
Income tax paid	33	(2,203)	(2,672)
NET CASH USED IN OPERATING ACTIVITIES		(115,210)	(458)
INVESTING ACTIVITIES			
Acquisition of property and equipment	17	(3,792)	(3,443)
Proceeds from sale of property and equipment		8	16
Proceeds from sale of non-current assets classified as held for sale		3,720	1,289
Loans under reverse repurchase agreements		-	15,188
NET CASH (USED IN) FROM INVESTING ACTIVITIES		(64)	13,050
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(115,274)	12,592
Cash and cash equivalents at 1 January		163,102	150,510
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	34	47,828	163,102

The attached notes 1 to 38 form part of these consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

BSL Bank SAL (“the Bank”) is established in 1962 and domiciled in Lebanon. It is registered under No. 12510 in the Lebanese Commercial Register and listed under No. 68 at the Central Bank. The Bank is involved in corporate and retail Banking services through its head office located in the Bank’s street in Downtown Beirut and its network of 18 branches across Lebanon. The consolidated financial statements of the Bank comprise of the Bank and its subsidiaries (together referred to as “the Group”). The Group is involved in corporate and retail Banking services and real estate investment.

2. ACCOUNTING POLICIES

2.1. BASIS OF PREPARATION

The consolidated financial statements have been prepared on a historical cost basis except for the following:

- Land and buildings acquired prior to 1993 are measured at their revalued amounts based on market prices prevailing during 1996, to compensate for the effect of the hyperinflationary economy prevailing in the earlier years;
- Financial assets and liabilities at fair value through profit or loss are measured at fair value;
- Equity securities at fair value through other comprehensive income are measured at fair value.

The consolidated financial statements are presented in Lebanese Lira (LL) and all values are rounded to the nearest million unless otherwise indicated. Besides, the consolidated financial statements provide comparative information in respect of the previous period.

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and the regulations of the Central Bank of Lebanon and Banking Control Commission (BCC).

Presentation of consolidated financial statements

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

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore the related assets and liabilities are presented gross in the consolidated statement of financial position. Income and expense will not be offset in the consolidated statement of comprehensive income unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Group.

The consolidated financial statements comprise the financial statements of BSL Bank SAL and its subsidiaries as at 31 December 2016. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

INDEPENDENT AUDITOR'S REPORT

2. ACCOUNTING POLICIES (CONTINUED)

Presentation of consolidated financial statements (Continued)

Specifically, the Group controls an investee if and only if the Group has:

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

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

2.2. BASIS OF CONSOLIDATION

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

Non-controlling interest represent the portion of profit or loss and net assets of subsidiaries not owned directly or indirectly by the Bank. Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the noncontrolling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interests
- Derecognizes the cumulative translation differences, recorded in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

Where the Group loses control of a subsidiary, such that the former subsidiary becomes an associate accounted for under the equity method, the effect is that the Group's interest in the former subsidiary (associate) is reported:

- using the equity method from the date on which control is lost in the current reporting period; and
- using full consolidation for any earlier part of the current reporting period, and of any earlier reporting period, during which the associate was controlled.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

New and amended standards and interpretations

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

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

Amendments to IAS 1 Disclosure Initiative

The amendments provide clarifications and narrow-focus improvements on materiality, presentation of primary statements, structure of notes, disclosure of accounting policies, and presentation of OCI arising from equity accounted investments.

The amendments are designed to further encourage companies to apply professional judgment in determining what information to disclose and how to structure notes in their financial statements.

Amendments to IFRS 11 Accounting for acquisition of interests in Joint Operations

The amendments clarify that when acquiring an interest in a joint operation where the activity of the joint operation constitutes a business, all of the principles on business combinations accounting in IFRS 3, and other IFRSs, that do not conflict with the guidance in IFRS 11, are to be applied. The requirements apply to the acquisition of both the initial interest and additional interests in a joint operation but any previously held interest in the joint operation would not be re-measured.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment entities Applying the consolidation exception

The amendments define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

Amendments to IAS 16 and IAS 38 Clarification of acceptable methods of depreciation and amortization

The amendment clarifies that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate. The IASB has also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset.

IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates & Joint Ventures

The amendment clarifies the treatment of the sale or contribution of assets from an investor to its associate or joint venture, as follows:

- Require full recognition in the investor's financial statements of gains and losses arising on the sale or contribution of assets that constitute a business (as defined in IFRS 3 Business Combinations).
- Require the partial recognition of gains and losses where the assets do not constitute a business, i.e. a gain or loss is recognized only to the extent of the unrelated investors' interests in that associate or joint venture.

INDEPENDENT AUDITOR'S REPORT

4. STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

IFRS 9 (2014) Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The Group is currently assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9.

a) Classification and measurement

The Group does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value. Quoted equity shares currently held as available-for-sale with gains and losses recorded in OCI will be measured at fair value through profit or loss instead, which will increase volatility in recorded profit or loss. The AFS reserve currently presented as accumulated OCI will be reclassified to opening retained earnings. Debt securities are expected to be measured at fair value through OCI under IFRS 9 as the Group expects not only to hold the assets to collect contractual cash flows but also to sell a significant amount on a relatively frequent basis.

The equity shares in non-listed companies are intended to be held for the foreseeable future. The Group expects to apply the option to present fair value changes in OCI, and, therefore, believes the application of IFRS 9 would not have a significant impact. If the Group were not to apply that option, the shares would be held at fair value through profit or loss, which would increase the volatility of recorded profit or loss.

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Thus, the Group expects that these will continue to be measured at amortized cost under IFRS 9. However, the Group will analyze the contractual cash flow characteristics of those instruments in more detail before concluding whether all those instruments meet the criteria for amortized cost measurement under IFRS 9.

b) Classification and measurement

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses on all trade receivables. The Group expects a significant impact on its equity due to unsecured nature of its loans and receivables, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

c) Hedge accounting

The Group believes that all existing hedge relationships that are currently designated in effective hedging relationships will still qualify for hedge accounting under IFRS 9. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, the Group does not expect a significant impact as a result of applying IFRS 9. The Group will assess possible changes related to the accounting for the time value of options, forward points or the currency basis spread in more detail in the future.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted.

The Group plans to adopt the new standard on the required effective date using the full retrospective method. The Group is currently assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15. Furthermore, the Group is considering the clarifications issued by the IASB in April 2016 and will monitor any further developments.

IAS 7 Disclosure Initiative – Amendments to IAS 7

The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods.

These amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. Application of amendments will result in additional disclosure provided by the Group.

IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses – Amendments to IAS 12

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. These amendments are effective for annual periods beginning on or after 1 January 2017 with early application permitted. If an entity applies the amendments for an earlier period, it must disclose that fact. These amendments are not expected to have any impact on the Group.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

INDEPENDENT AUDITOR'S REPORT

4. STANDARDS ISSUED BUT NOT YET EFFECTIVE (CONTINUED)

c) Hedge accounting (Continued)

IFRS 16 Leases (Continued)

Lessees will be also required to re-measure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the re-measurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

In 2017, the Group plans to assess the potential effect of IFRS 16 on its consolidated financial statements.

5. SIGNIFICANT ACCOUNTING POLICIES

a) Foreign currency transactions

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

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction. Foreign currency differences arising on translation are generally recognized in profit or loss.

However, non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the spot exchange rate at the date that the fair value was determined. Foreign currency differences arising from the translation of financial assets at fair value through other comprehensive income are recognized in other comprehensive income (except on impairment) in which case foreign currency differences that have been recognized in other comprehensive income are reclassified to profit or loss.

b) Interest

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability.

When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all transaction costs and fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the consolidated statement of comprehensive income include interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest rate basis.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Group's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

c) Fees and commission

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment management fees, sales commission and placement fees, are recognized as the related services are performed.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

d) Net gain (loss) from investment securities at fair value through profit or loss

Results arising from financial instruments at fair value through profit or loss, include all gains and losses from changes in fair value and related income or expense and dividends for financial assets at fair value through profit or loss.

e) Dividends

Dividend income is recognized when the right to receive income is established. Usually, this is the ex-dividend date for quoted equity securities. Dividends are presented in net trading income, net income on investment securities at fair value through profit or loss or other revenue, based on the underlying classification of the equity investment.

f) Leasing

The determination of whether an arrangement is a lease, or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Group as a lessee

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

Group as a lessor

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

INDEPENDENT AUDITOR'S REPORT

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Income tax

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

(i) Current tax

Current tax comprises the expected tax payable on the taxable income for the year and any adjustment to tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date.

The Group's taxable profit is subject to a tax rate of 15%. In accordance with article 51 of law number 497/2003, a 5% tax is withheld at source on interest received. The Group's tax charge is determined as the higher of corporate tax and tax on interest income withheld during the year.

(ii) Tax exposures

In determining the amount of current and deferred tax, the Group considers the impact of tax exposures, including whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities would impact tax expense in the period in which such a determination is made. The Group's books and records were reviewed by the Department of Income Tax for the years 2009 to 2012. The Group is subject to tax authority examination for the years 2013, 2014, 2015 and 2016.

h) Financial assets and financial liabilities

(i) Recognition

The Group initially recognizes loans and advances and deposits on the date on which they are originated. All other financial instruments are recognized on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

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

(ii) Classification

Financial assets

The Group classifies its financial assets as measured at amortised cost or fair value. See notes 5 (i), (j), (k) and (l). A financial asset qualifies for amortized cost measurement only if it meets both of the following conditions:

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

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

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

In making an assessment of whether an asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows, the Group considers:

- management's stated policies and objectives for the portfolio and the operation of those policies in practice;
- how management evaluates the performance of the portfolio;
- whether management's strategy focuses on earning contractual interest revenues;
- the degree of frequency of any expected asset sales;
- the reason for any asset sales; and
- whether assets that are sold are held for an extended period of time relative to their contractual maturity or are sold shortly after acquisition or an extended time before maturity.

Financial assets held for trading are not held within a business model whose objective is to hold the asset in order to collect contractual cash flows.

Financial liabilities

The Group classifies its financial liabilities other than financial guarantees and loan commitments, as measured at amortized cost. See accounting policies 5(t).

(iii) De-recognition

Financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset.

On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that has been recognized in other comprehensive income is recognized in profit or loss. Any interest in such transferred financial assets that qualify for de-recognition that is created or retained by the Group is recognized as a separate asset or liability.

The Group enters into transactions whereby it transfers assets recognized on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such case, the transferred assets are not derecognized. Examples of such transactions are securities lending and sale and repurchase transactions.

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

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

Financial liabilities

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

(iv) Offsetting

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

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

INDEPENDENT AUDITOR'S REPORT

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Financial assets and financial liabilities (Continued)

(v) Amortized cost measurement

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

(vi) Fair value measurement

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 in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

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

If there is no quoted price in an active market, then the Group uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

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

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

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

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

(vii) Identification and measurement of impairment

At each reporting date the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise, indications that a borrower or issuer will enter Bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

The Group considers evidence of impairment for loans and advances and investment securities measured at amortized costs at both a specific asset and collective level. All individually significant loans and advances and investment securities measured at amortized cost are assessed for specific impairment.

Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and investment securities measured at amortized cost that are not individually significant are collectively assessed for impairment by grouping loans and advances and investment securities measured at amortized cost with similar risk characteristics.

In assessing collective impairment, the Group uses statistical analysis of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, and makes judgment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than is suggested by historical trends. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets measured at amortized cost are calculated as the difference between the carrying amount of the financial amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

Impairment losses are recognized in profit or loss and reflected in an allowance account against loans and advances or investment securities at amortized cost. If an event occurring after the impairment was recognized causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

The Group writes off certain loans and advances and investment securities either partially or in full, and any related allowance for impairment losses when Bank Non-Performing Loans Committee and ALCO determine that there is no realistic prospect of recovery after obtaining the necessary legal advice.

(viii) Designation at fair value through profit of loss

The Group has designated financial assets at fair value through profit or loss in either of the following circumstances:

- The assets are managed, evaluated and reported internally on a fair value basis.
- The designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The Group has made an election to present in other comprehensive income changes in the fair value of certain investments in equity instruments that are not held for trading – see accounting policies 5(I).

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

Note 8 sets out the amount of each class of financial asset that has been designated at fair value through profit or loss. A description of the basis for each designation is set out in the note for the relevant asset class.

INDEPENDENT AUDITOR'S REPORT

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances held with Central Bank and highly liquid financial assets and liabilities with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

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

j) Trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the Group acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking. Trading assets and liabilities are initially recognized and subsequently measured at fair value in the statement of financial position, with transaction costs recognized in profit or loss in "net gain from investment securities at fair value through profit or loss".

k) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments, that are not quoted in an active market and the Group does not intend to sell immediately or in the near term.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at amortized cost using the effective interest method.

l) Investment securities

Investment securities are initially measured at fair value plus, in the case of investment securities not at fair value through profit or loss, incremental direct transaction costs, and subsequently accounted for depending on their classification as amortized cost, fair value through profit or loss or fair value through other comprehensive income.

Investment securities are measured at amortized cost using the effective interest method, if:

- they are held within a business model with an objective to hold assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest; and
- they have not been designated previously as measured at fair value through profit or loss.

The Group elects to present changes in fair value of certain investments in equity instruments held for strategic purposes in other comprehensive income. The election is irrevocable and is made on an instrument-by instrument basis at initial recognition.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognized in profit or loss. Dividends are recognized in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognized in other comprehensive income. Cumulative gains and losses recognized in other comprehensive income are transferred to retained earnings on disposal of an investment.

Other investment securities are measured at fair value through profit or loss.

m) Investment properties

Properties held for rental or capital appreciation purposes are classified as investment properties. Investment properties are initially measured at cost, including transaction costs. Subsequent expenditure is added to the carrying value of investment properties when it is probable that future economic benefits in excess of the originally assessed standard of performance will flow to the Group. Any expenditure that results in the maintenance of property to an acceptable standard or specification is treated as repairs and maintenance expenses and is charged to the statement of comprehensive income in the period in which it is incurred.

Subsequently, investment properties are measured at cost less any accumulated depreciation and accumulated impairment losses. Depreciation is charged on a straight-line basis over the estimated useful lives. All subsequent additions are depreciated over the remaining useful lives of investment properties. Land is not depreciated.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of investment properties are recognized in the statement of comprehensive income in the year of retirement or disposal.

n) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized within other operating income / other operating expenses in profit or loss.

(ii) Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

(iii) Depreciation

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

The estimated useful lives of significant items of property and equipment are as follows:

- | | |
|--------------------------|-------------------|
| • Buildings | 50 years |
| • Leasehold improvements | 12.5 - 16.5 years |
| • Computer equipment | 5 years |
| • Office equipment | 12.5 years |
| • Furniture and fixtures | 12.5 years; and |
| • Vehicles | 10 years |

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

o) Intangible assets

Software

Software acquired by the Group is measured at cost less accumulated amortisation and any accumulated impairment losses.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Software is amortised on a straight line basis in profit or loss over its estimated useful life, from the date that it is available for use. The estimated useful life of software for the current and comparative periods is five years. Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

INDEPENDENT AUDITOR'S REPORT

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

p) Assets classified as held for sale

Properties acquired through the enforcement of security over loans and advances to customers are accounted for in accordance with the directives issued by the Banking Regulators.

These assets are initially measured at fair value at the date of enforcement of the security. A reserve is constituted for assets not disposed of within two years of the date of enforcement at a rate of 20% or 5%, depending on the date the related loan was granted. Reserves ratio for assets acquired in connection with loans granted before 30 June 2003 and in accordance with the Central Bank intermediary circular No. 41 and its amendments is 20%, whereas reserves ratio for assets acquired in connection with loans after 30 June 2003 is 5%.

The accumulated reserve is classified under "Non-distributable reserves" in equity.

q) Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than investment properties) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, based on the management's best estimate.

An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit or loss. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognized.

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

Impairment losses relating to goodwill cannot be reversed in future periods.

r) Deposits

Deposits are the Group's sources of debt funding.

Deposits are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

s) Provision

A provision is recognized if, as a result of a past event, the Group 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. Provision is determined using management's best estimates to the risk specific to the liability.

t) Financial guarantees and loan commitments

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when it is due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Liabilities arising from financial guarantees or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortized over the life of the guarantee or commitment. The liability is subsequently carried at the higher of this amortized amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable.

u) Dividends on ordinary shares

Dividends on ordinary shares are recognized in equity in the period in which they are declared by the Group's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Group.

Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

v) Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date ("repos") are derecognized from the consolidated statement of financial position. The corresponding cash received, including accrued interest, is recognized on the consolidated statement of financial position reflecting its economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the effective interest rate method.

Conversely, securities purchased under agreements to resell at a specified date are not recognized in the consolidated statement of financial position. The consideration paid, including accrued interest is recorded in the consolidated statement of financial position reflecting the transaction's economic substance as a loan by the Group. The difference between the purchase and resale prices is treated as interest income in the consolidated statement of profit or loss and is accrued over the life of the agreement using the effective interest rate method.

6. FINANCIAL RISK MANAGEMENT

a) Introduction and overview

The Group has exposure to the following risks:

- credit risk
- liquidity risk
- market risk and
- Operational risks

This note presents information about the Group's objectives, policies and processes for measuring and managing risk.

Risk management framework

The Group's Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors has established the Board Risk Committee and the Asset and Liability committee (ALCO) and the Credit committee which are directly responsible for developing and monitoring Group risk management policies.

The Group's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Group Audit and Risk Committees oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit and Risk Committees are assisted in their oversight role by Internal Audit and risk management. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

INDEPENDENT AUDITOR'S REPORT

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's loans and advances to customers, the Central Bank, other Banks, and investment debt securities. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure.

(i) Settlement risk

The Group's activities may give rise to risk at the time of settlement of transactions and trades. "Settlement risk" is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed. For certain types of transactions, the Group mitigates this risk by conducting settlements through a settlement to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations.

(ii) Management of credit risk

The Board of Directors has delegated responsibility for the oversight of credit risk to its Board Risk Committee as well as to the Bank Credit Committee. The Bank Credit Committee is responsible for managing the Bank's credit risk, including the following:

- Formulating credit policies, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities.
- Reviewing and assessing credit risk. The Credit Committee assesses all credit exposures in excess of designated limits, before facilities are committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties, geographies and sectors. The Bank's approach to controlling this concentration of exposure is by the diversification of its commitments and by setting limits at level of aggregate of products, economic sectors, region and segments.
- Developing and maintaining the Bank's risk grading to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of six grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the Credit Committee and is subject to regular reviews.
- Reviewing compliance with agreed exposure limits, including those for selected industries, country risks and product types. Regular reports are provided to Bank Credit Committee on the credit quality of local portfolios and appropriate corrective action is taken.
- Providing advice, guidance and specialised skills to promote best practice throughout the Bank in the management of credit risk.

Each Branch Manager and Credit Officer are required to implement Bank credit policies and procedures, with credit approval authorities delegated from the Bank Credit Committee. Each Branch Manager and Credit Officer report on all credit related matters to management and the Credit department.

Each Branch Manager and Credit Officer are responsible for the quality and performance of his/her credit portfolio and for monitoring and controlling all credit risks in his/her portfolios, including those subject to central approval. Regular audits of Bank credit processes are undertaken by the Internal Audit Department.

To measure the credit risk of loans and advances to customers and to banks at a counterparty level, the Group rates its counterparties according to the six rating classes defined by the Central Bank of Lebanon ("BDL") and the Banking Control Commission of Lebanon ("BCC") requirements as follows:

- Normal - type of loan is expected to be repaid on a timely and consistent basis;
- Special mention - type of loan is expected to be repaid but with lack of current financial information about the client;
- Special mention and regularisation - type of loan where the client is 60 to 90 days late in paying his/her financial obligations;
- Substandard - type of loan where the client is 90 to 180 days late in paying his/her financial obligations;
- Doubtful - type of loan where there is no movement in the clients' balance for more than 6 months;
- Bad - type of loan where the probability of repayment is low and almost nil.

INDEPENDENT AUDITOR'S REPORT

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (Continued)

(iii) Analysis of credit quality

The tables below set out information about the credit quality of financial assets and the allowance for impairment/loss held by the Group against those assets.

	Notes	Loans and advances to customers and related parties		Due from Central Bank, banks and financial institutions and loans under reserve repurchase agreements		Investment securities (debt securities)		Lending commitments and financial guarantees	
		2016	2015	2016	2015	2016	2015	2016	2015
		LL million	LL million	LL million	LL million	LL million	LL million	LL million	LL million
MAXIMUM EXPOSURE TO CREDIT RISK									
Carrying amount	12,13,14, 11,10,9	293,885	314,988	435,059	407,478	922,974	879,125	-	-
Amount committed guaranteed	37	-	-	-	-	-	-	104,336	106,179
AT AMORTIZED COST									
Sovereign debt		-	-	322,352	234,799	892,863	820,512	-	-
Grade 1: Low-fair risk Normal		255,150	256,895	112,707	172,679	6,384	9,560	-	-
Grade 2: Low-fair risk Special mention		23,058	46,155	-	-	-	-	-	-
Grade 3: Special mention & regularization		10,551	8,954	-	-	-	-	-	-
Grade 4: Substandard		5,755	4,683	-	-	-	-	-	-
Grade 5: Impaired Doubtful		15,933	15,593	-	-	-	-	-	-
Grade 6: Impaired Bad debts		33,999	29,232	-	-	-	-	-	-
Total gross amount		344,446	361,512	435,059	407,478	899,247	830,072	-	-
Allowance for impairment (individual and collective)		(50,561)	(46,524)	-	-	-	-	-	-
NET CARRYING AMOUNT		293,885	314,988	435,059	407,478	899,247	830,072	-	-
AT FAIR VALUE THROUGH PROFIT OR LOSS									
Grade 1: Low-fair risk - Normal		-	-	-	-	23,727	49,053	-	-
TOTAL CARRYING AMOUNT	13	-	-	-	-	23,727	49,053	-	-
OFF BALANCE SHEET MAXIMUM EXPOSURE									
Lending commitments and other credit related obligations									
Grade 3-1: Low- fair risk financial guarantees	37	-	-	-	-	-	-	93,720	93,464
Grade 3-1: Low -fair risk	37	-	-	-	-	-	-	10,616	12,715
TOTAL EXPOSURE		-	-	-	-	-	-	104,336	106,179

Notes	Loans and advances to customers and related parties		Due from Banks and financial institutions and loans under repurchase agreements		Investment securities (debt securities)	
	2016	2015	2016	2015	2016	2015
	LL million	LL million	LL million	LL million	LL million	LL million
NEITHER PAST DUE NOR IMPAIRED						
Grade 1: Low-fair risk – Normal	255,150	256,895	112,707	172,679	922,974	879,125
Grade 2: Low-fair risk – Special mention	23,058	46,155	-	-	-	-
Grade 3: Special mention & regularization	9,444	7,503	-	-	-	-
	287,652	310,553	112,707	172,679	922,974	879,125
PAST DUE						
30-60 days	182	291	-	-	-	-
60-90 days	75	126	-	-	-	-
90-180 days	106	270	-	-	-	-
>180 days	744	764	-	-	-	-
	1,107	1,451	-	-	-	-
INDIVIDUALLY IMPAIRED						
Grade 4: Impaired – Substandard	5,755	4,683	-	-	-	-
Grade 5: Impaired – Doubtful	15,933	15,593	-	-	-	-
Grade 6: Impaired – Bad Debts	33,999	29,232	-	-	-	-
	55,687	49,508	-	-	-	-
ALLOWANCE FOR IMPAIRMENT						
Individual	47,620	43,770	-	-	-	-
Collective	2,941	2,754	-	-	-	-
Total allowance for impairment	12	50,561	46,524	-	-	-

Impaired loans and investment debt securities

The Group regards a loan and advance or a debt security as impaired where there is objective evidence that a loss event has occurred since initial recognition and the loss event has an impact on future estimated cash flows from the asset. Loans that are subject to a collective provision for losses incurred but not yet identified are not considered impaired. Impaired loans and advances are graded 4, 5 and 6 in the Group's credit risk grading system. The Group does not have any renegotiated loans.

The impairment provision shown in the consolidated statement of financial position at year end is derived from each of the six internal rating grades. The table below shows the percentage of loans and advances and the associated impairment provision for each of the Group's credit classification.

INDEPENDENT AUDITOR'S REPORT

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (Continued)

GROUP'S RATING	Loans and advances	Impairment provision	Loans and advances	Impairment provision
	2016		2015	
Group's rating				
Grades 1-2-3 (Normal and special mention and special mention regularization)	83.83%	1.02%	86.30%	0.88%
Grade 4 (Substandard)	1.67%	10.68%	1.30%	7.71%
Grades 5-6 (Doubtful and bad debts)	14.50%	94.14%	12.40%	96.84%
	100.00%		100.00%	

The Group's policy requires the review of individual financial assets that are above materiality thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at the date of the consolidated statement of financial position on a case-by-case basis, and are applied to all individually significant accounts.

The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

Collectively assessed impairment allowances are provided for: (i) portfolios of homogenous assets that are individually below materiality thresholds; and (ii) losses that have been incurred but have not yet been identified, by using the available historical experience, experienced judgement, statistical analysis and impairment test.

Loans and advances to customers individually impaired classified by product

The breakdown of the gross amount of individually impaired loans and advances to customers by product, along with the fair value of related collateral held by the Group as a security, are as follows:

	Individual (retail customers)				Corporate Entities		TOTAL
	2016						
	Overdrafts LL million	Credit card LL million	Mortgages LL million	Other LL million	SMEs LL million	Kafalat LL million	LL million
Gross amount	2,248	107	3,716	3,434	46,082	100	55,687
Carrying amount of individually impaired loans	-	8	344	-	7,685	30	8,067
Fair value of collateral	-	-	1,407	3,272	8,953	81	13,713

	Individual (retail customers)				Corporate Entities		TOTAL
	2015						
	Overdrafts LL million	Credit card LL million	Mortgages LL million	Other LL million	SMEs LL million	Kafalat LL million	LL million
Gross amount	2,887	155	3,259	3,852	39,286	69	49,508
Carrying amount of individually impaired loans	6	-	433	-	5,270	29	5,738
Fair value of collateral	27	-	1,407	3,614	7,877	81	13,006

Write-off policy

The Group writes-off a loan balance and any related allowances for impairment losses and suspended interest when Group's Non-Performing Loans Committee determines that the loans are uncollectible and this decision requires the final approval of the Chairman of the Board of Directors. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of individually impaired assets by risk grade:

	Net loans and advances to customers and related parties	
	Gross	Net
	LL million	LL million
31 DECEMBER 2016		
Grade 4: Individually impaired – Substandard	5,755	5,141
Grade 5: Individually impaired – Doubtful	15,933	2,926
Grade 6: Individually impaired – Bad Debt	33,999	-
TOTAL	55,687	8,067

	Net loans and advances to customers and related parties	
	Gross	Net
	LL million	LL million
31 DECEMBER 2015		
Grade 4: Individually impaired – Substandard	4,683	4,322
Grade 5: Individually impaired – Doubtful	15,593	1,416
Grade 6: Individually impaired – Bad Debt	29,232	-
TOTAL	49,508	5,738

Loans and advances to customers and related parties neither past due nor impaired

The credit quality of the portfolio of loans and advances to customers that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Group.

	Normal	Special mention	Special mention & Regulariza- tion	Total	Normal	Special mention	Special mention & Regulariza- tion	TOTAL
	2016				2015			
	LL million	LL million	LL million	LL million	LL million	LL million	LL million	LL million
Individual (retail customers)								
Overdraft	32,053	-	664	32,717	24,389	-	482	24,871
Credit cards	690	-	-	690	662	-	-	662
Mortgages	78,672	-	282	78,954	75,755	-	619	76,374
Other	12,706	13,152	1,087	26,945	40,132	-	199	40,331
TOTAL	124,121	13,152	2,033	139,306	140,938	-	1,300	142,238
Corporate entities								
Large corporate customers	44,920	9,906	3,274	58,100	82,361	30,762	3,060	116,183
SMEs	81,099	-	4,098	85,197	30,453	15,393	3,143	48,989
Kafalat	5,010	-	39	5,049	3,143	-	-	3,143
TOTAL	131,029	9,906	7,411	148,346	115,957	46,155	6,203	168,315
GRAND TOTAL	255,150	23,058	9,444	287,652	256,895	46,155	7,503	310,553

INDEPENDENT AUDITOR'S REPORT

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (Continued)

Loans and advances to customers and related parties that are past due:

	Individual (retail customers)			Individual (retail customers)		
	2016			2015		
	Overdrafts LL million	Other LL million	TOTAL LL million	Overdrafts LL million	Other LL million	TOTAL LL million
Past due 30-60 days	-	105	105	-	145	145
Past due 60-90 days	-	51	51	-	75	75
Past due > 90 days	-	236	236	-	551	551
TOTAL	-	392	392	-	771	771

	Corporate entities			Corporate entities		
	2016			2015		
	Large Customers LL million	Other LL million	Total LL million	Large Customers LL million	Other LL million	TOTAL LL million
Past due 30-60 days	-	77	77	56	90	146
Past due 60-90 days	-	24	24	-	51	51
Past due > 90 days	-	614	614	-	483	483
TOTAL	-	715	715	56	624	680
GRAND TOTAL	-	1107	1107	56	1395	1451

Debt securities

Debt securities held by the Group consist of Lebanese treasury bills denominated in Lebanese Pounds and foreign currencies. These securities are rated B-based on Standard & Poor's rating.

(iv) Collateral held and other credit enhancements, and their financial effect

The Group hold collateral and other credit enhancements against certain of its credit exposures. The table below sets out the principal types of collateral held against different types of financial assets.

Type of credit exposure

	Percentage of exposure that is subject to collateral requirements		Principal type of collateral held
	2016	2015	
Loans and advances to Banks	0.00%	0.00%	
Loans and advances to customers:			
Loan and advances to individuals:			
Overdrafts	100.00%	98.81%	Cash / marketable securities
Credit Cards	0.00%	0.00%	None
Mortgages	100.00%	100.00%	Residential and commercial property
Other	19.66%	16.89%	Cash
Loans and advances to corporate entities:			
Large corporate customers	10.77%	5.14%	Cash / marketable securities / property
SMEs	55.08%	61.30%	Cash / marketable securities / property
Kafalat	91.55%	99.67%	Bank guarantees

Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are updated on a regular basis and when a loan is individually assessed as impaired.

An estimate of the fair value of collateral and other security enhancements held against loans and advances to customers is shown below:

	2016	2015
	LL million	LL million
Against impaired		
Mortgaged property	4,706	3,163
Equities	-	27
Other	3,067	3,614
Against substandard		
Mortgaged property	5,940	6,202
Against regular loans and advances		
Mortgaged property	146,163	137,006
Debt securities	1,166	2,330
Equities	399	846
Other	28,926	44,994
TOTAL	190,367	198,182

Residential mortgage lending

The tables below stratify credit exposures from mortgage loans and advances to retail customers by ranges of loan - to - value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan or the amount committed for loan commitments to the value of the collateral. The gross amounts exclude any impairment allowance. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on the collateral value at origination updated based on changes in market value.

	2016	2015
	LL million	LL million
Less than 50%	600	2,011
51% to 70%	3,794	1,644
71% to 90%	10,401	12,412
91% to 100%	16,195	12,932
More than 100%	29,855	31,309
	60,845	60,308

Loans and advance to corporate customers

The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security and the Group generally requests that corporate borrowers provide it. The Group may take collateral in the form of a first charge over real estate, floating charges over all corporate assets and other liens and guarantees.

Besides the Group's focus on corporate customer's creditworthiness, the Group does also routinely update the valuation of the collateral held against all loans to corporate customers. Valuation of collateral is also updated when the credit risk of a loan deteriorates significantly, as the loan is monitored more closely. For impaired loans, the Group obtains appraisals of collateral because current value of the collateral is an input to the impairment measurement.

INDEPENDENT AUDITOR'S REPORT

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (Continued)

(v) Concentration with credit risk - Industry sector

The Group monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk loans and advances, lending commitments, financial guarantees and investment securities is shown (in the next page).

	Notes	Banks and financial institutions	Trading	Construction	Industrial	Agriculture	Consumer Loans	Other	TOTAL
31 DECEMBER 2016									
		LL million	LL million	LL million	LL million	LL million	LL million	LL million	LL million
FINANCIAL ASSETS									
Balances with the Central Bank	9	322,352	-	-	-	-	-	-	322,352
Due from banks and financial institutions	11	112,707	-	-	-	-	-	-	112,707
Loans and advances to customers and related parties	12, 36	-	73,553	18,606	10,878	3,107	117,305	70,436	293,885
Loans and advance to individuals:									
Overdrafts		-	3,179	1,280	85	22	7,845	20,306	32,717
Credit cards		-	-	-	10	-	1,243	10	1,263
Mortgages		-	469	12,372	81	-	66,418	175	79,515
Other		-	1,693	557	297	727	24,736	-	28,010
TOTAL INDIVIDUAL LOANS		-	5,341	14,209	473	749	100,242	20,491	141,505
Loans and advances to corporate entities:									
Large corporate customers		-	31,498	-	72	-	201	26,329	58,100
SMEs		-	36,349	4,397	7,765	637	16,697	23,287	89,132
Kafalat		-	365	-	2,568	1,721	165	329	5,148
TOTAL CORPORATE LOANS		-	68,212	4,397	10,405	2,358	17,063	49,945	152,380
Investment securities - at FVTPL and amortized cost	13, 14	922,974	-	-	-	-	-	-	922,974
		1,358,033	73,553	18,606	10,878	3,107	117,305	70,436	1,651,918
Financial guarantees	37	-	3,466	854	847	-	901	4,548	10,616
Loan commitments and other credit related obligations	37	-	37,107	6,494	8,863	863	19,491	20,902	93,720

(v) Concentration with credit risk - Industry sector (Continued)

	Notes	Banks and financial institutions	Trading	Construction	Industrial	Agriculture	Consumer Loans	Other	TOTAL
31 DECEMBER 2015									
		LL million	LL million	LL million	LL million	LL million	LL million	LL million	LL million
FINANCIAL ASSETS									
Balances with the Central Bank	9	234,799	-	-	-	-	-	-	234,799
Loans under reverse repurchase agreements	10	35,225	-	-	-	-	-	-	35,225
Due from banks and financial institutions	11	137,454	-	-	-	-	-	-	137,454
Loans and advances to customers and related parties	12, 36	127	74,780	15,673	10,629	2,844	125,048	85,887	314,988
Loans and advance to individuals:									
Overdrafts		-	747	620	29	24	6,997	16,460	24,877
Credit cards		-	1	-	-	-	661	-	662
Mortgages		-	723	5,571	1,093	296	66,713	2,411	76,807
Other		1	1,400	227	288	1,031	33,822	1,579	38,348
TOTAL INDIVIDUAL LOANS		1	2,871	6,418	1,410	1,351	108,193	20,450	140,694
Loans and advances to corporate entities:									
Large corporate customers		-	49,444	-	1,862	-	12,435	52,498	116,239
SMEs		126	22,110	9,255	5,314	719	4,420	12,939	54,883
Kafalat		-	355	-	2,043	774	-	-	3,172
TOTAL CORPORATE LOANS		126	71,909	9,255	9,219	1,493	16,855	65,437	174,294
Investment securities - at FVTPL and amortized cost	13, 14	879,125	-	-	-	-	-	-	879,125
		1,286,730	74,780	15,673	10,629	2,844	125,048	85,887	1,601,591
Financial guarantees	37	107	2,685	2,179	438	-	1,039	6,267	12,715
Loan commitments and other credit related obligations	37	-	42,620	7,253	6,626	589	13,003	23,373	93,464

INDEPENDENT AUDITOR'S REPORT

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (Continued)

(vi) Concentration with credit risk - Geographical sectors

The following table breaks down the Group's main credit exposure at their carrying amounts (without taking into account any collateral held or other credit support), as categorized by geographical region as of 31 December 2016 based on the country of domicile of its counterparties.

	Notes	Lebanon	Arab Countries	United Kingdom	Other European Countries	Other Countries	TOTAL
		LL million	LL million	LL million	LL million	LL million	LL million
31 DECEMBER 2016							
Balances with the Central Bank	9	322,352	-	-	-	-	322,352
Due from banks and financial institutions	11	38,208	101	15,374	52,252	6,772	112,707
Loans and advances to customers and related parties	12, 36	293,885	-	-	-	-	293,885
Loans and advance to individuals:							
Overdrafts		32,717	-	-	-	-	32,717
Credit cards		1,263	-	-	-	-	1,263
Mortgages		79,515	-	-	-	-	79,515
Other		28,010	-	-	-	-	28,010
TOTAL INDIVIDUAL LOANS		141,505	-	-	-	-	141,505
Loans and advances to corporate entities:							
Large corporate customers		58,100	-	-	-	-	58,100
SMEs		89,132	-	-	-	-	89,132
Kafalat		5,148	-	-	-	-	5,148
TOTAL CORPORATE LOANS		152,380	-	-	-	-	152,380
Investment securities - at FVTPL and amortized cost	13, 14	922,974	-	-	-	-	922,974
		1,577,419	101	15,374	52,252	6,772	1,651,918
Financial guarantees	37	10,616	-	-	-	-	10,616
Loan commitments and other credit related obligations	37	93,720	-	-	-	-	93,720

(vi) Concentration with credit risk - Geographical sectors (Continued)

Concentration by location for loans and advances and for lending commitments and financial guarantees is based on the customers' country of domicile. Concentration by location for investments securities is based on the country of domicile of the issuer of the security.

	Notes	Lebanon	Arab Countries	United Kingdom	Other European Countries	Other Countries	TOTAL
		LL million	LL million	LL million	LL million	LL million	LL million
31 DECEMBER 2015							
Balances with the Central Bank	9	234,799	-	-	-	-	234,799
Loans under reverse repurchase agreements	10	35,225	-	-	-	-	35,225
Due from banks and financial institutions	11	36,172	344	59,744	36,282	4,912	137,454
Loans and advances to customers and related parties	12, 36	314,988	-	-	-	-	314,988
Loans and advance to individuals:							
Overdrafts		24,877	-	-	-	-	24,877
Credit cards		662	-	-	-	-	662
Mortgages		76,807	-	-	-	-	76,807
Other		38,348	-	-	-	-	38,348
TOTAL INDIVIDUAL LOANS		140,694	-	-	-	-	140,694
Loans and advances to corporate entities:							
Large corporate customers		116,239	-	-	-	-	116,239
SMEs		54,883	-	-	-	-	54,883
Kafalat		3,172	-	-	-	-	3,172
TOTAL CORPORATE LOANS		174,294	-	-	-	-	174,294
Investment securities - at FVTPL and amortized cost	13, 14	879,125	-	-	-	-	879,125
		1,500,309	344	59,744	36,282	4,912	1,601,591
Financial guarantees	37	12,715	-	-	-	-	12,715
Loan commitments and other credit related obligations	37	93,464	-	-	-	-	93,464

INDEPENDENT AUDITOR'S REPORT

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (Continued)

(vii) Lending commitments and other credit related obligations classified by type

The Group monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk loans and advances, lending commitments, financial guarantees and investment securities is shown below:

	2016	2015
	LL million	LL million
Loans and advances to individuals:		
Overdrafts	8,572	3,647
Credit cards	6,208	6,479
Mortgages	4,330	6,082
Other	2,184	1,498
TOTAL INDIVIDUAL LOANS	21,294	17,706
Loans and advances to corporate entities:		
Large corporate customers	35,592	50,022
SMEs	35,371	25,142
Kafalat	1,463	594
TOTAL CORPORATE LOANS	72,426	75,758
	93,720	93,464

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

(i) Management of liquidity risk

The Group's Board of Directors sets the Group's strategy for managing liquidity risk and delegates the responsibility for oversight of the implementation of this policy to the Board Risk Committee and ALCO. ALCO approves the Group's liquidity policies and procedures. Central Treasury manages the Group's liquidity position on a day-to-day basis and reviews daily reports covering the liquidity position of the Group. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The key elements of the Group's liquidity strategy are as follows:

- Maintaining a diversified funding base consisting of customer deposits (both retail and corporate) and maintaining contingency facilities;
- Carrying a portfolio of highly liquid assets, diversified by currency and maturity;
- Monitoring liquidity ratios, maturity mismatches, behavioural characteristics of the Group's financial assets and financial liabilities, and the extent to which the Group's assets are encumbered and so not available as potential collateral for obtaining funding;
- Carrying out stress testing of the Group's liquidity position.

In addition, the Group maintains statutory deposits with Central Banks. As per Lebanese Banking regulations, the Bank must retain non-interest bearing balances with the Central Bank of Lebanon equivalent to 25% of the sight deposits and 15% of term deposits denominated in Lebanese Pounds. As for foreign currencies, the Bank must retain with the Central Bank of Lebanon interest bearing statutory investments equivalent to 15% of all deposits regardless of their nature.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group. The Group maintains a solid ratio of highly liquid net assets in foreign currencies to deposits and commitments in foreign currencies taking market conditions into consideration. The net liquid assets consist of cash and all issued by the Central Bank of Lebanon irrespective of their maturities and deposits due from other banks that mature within one year, less deposits due to the Central Bank of Lebanon and deposits due to banks that mature within one year. Deposits are composed of total customer deposits (excluding blocked accounts) and due from financial institutions irrespective of their maturities and all certificates of deposits and acceptances and other debt instruments issued by the Bank and loans from the public sector that mature within one year.

(ii) Exposure to liquidity risk

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose, “net liquid assets” includes cash and cash equivalents and investment securities at fair value through profit or loss for which there is an active and liquid market less any deposits from Banks, debt securities issued, other borrowings and commitments maturing within the next month. A similar, but not identical, calculation is used to measure the Group’s compliance with the liquidity limit established by the Central Bank of Lebanon and the Banking Control Commission.

The reported Group ratio of net liquid assets to deposits from customers at the reporting dated and during the reporting year was as follows:

	2016	2015
At 31 December	49.30%	46.97%
Average for the year	46.37%	46.76%
Maximum for the year	49.30%	48.83%
Minimum for the year	44.28%	45.96%

INDEPENDENT AUDITOR'S REPORT

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Liquidity risk (Continued)

(ii) Exposure to liquidity risk (continued)

The tables below set out the maturities of the Group's assets and liabilities:

	Notes	Carrying amount	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	No maturity	31 DECEMBER 2016							
									LL million	LL million	LL million	LL million	LL million	LL million	LL million	LL million
Assets																
Cash and balances with the Central Bank	9	331,747	134,169	6,035	49,073	65,704	76,766	-								
Due from banks and financial institutions	11	112,707	96,889	7,553	-	4,060	4,205	-								
Loans and advances to customers at amortized cost	12	292,488	183,929	7,787	22,096	18,491	60,185	-								
Loans and advances to related parties at amortized cost	12,36	1,397	-	-	1,397	-	-	-								
Investment securities at fair value through profit or loss	13	23,727	-	2,184	-	3,032	18,511	-								
Investment securities at amortized cost	14	899,247	2,231	67,442	7,679	304,658	517,237	-								
Investment securities at fair value through other comprehensive income	15	2,089	-	-	-	-	2,089	-								
Debtors by acceptances		403	49	230	124	-	-	-								
Investment properties	16	19,776	-	-	-	-	-	19,776								
Property and equipment	17	38,363	-	-	-	-	-	38,363								
Intangible assets		20	-	-	-	-	-	20								
Non-current assets classified as held for sale	18	2,128	-	-	-	-	-	2,128								
Other assets	19	8,992	486	-	4,185	4,310	11	-								
TOTAL ASSETS		1,733,084	417,753	91,231	84,554	400,255	679,004	60,287								
Liabilities																
Due to banks and financial institutions	20	(88,433)	(68,621)	(11,502)	(8,310)	-	-	-								
Deposits from customers at amortized cost	21	(1,393,719)	(1,140,522)	(173,146)	(80,051)	-	-	-								
Deposits from related parties at amortized cost	36	(55,135)	(55,135)	-	-	-	-	-								
Engagement by acceptances		(403)	(49)	(230)	(124)	-	-	-								
Current tax liabilities		(1,659)	(1,659)	-	-	-	-	-								
Other liabilities	22	(27,210)	(842)	(258)	(25,387)	(441)	(282)	-								
Employee benefit obligations	23	(4,124)	-	-	-	-	(4,124)	-								
TOTAL LIABILITIES		(1,570,683)	(1,266,828)	(185,136)	(113,872)	(441)	(4,406)	-								
NET ASSETS / (LIABILITIES)		162,401	(849,075)	(93,905)	(29,318)	399,814	674,598	60,287								

	Notes	Carrying amount	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	No maturity
		LL million	LL million	LL million	LL million	LL million	LL million	LL million
Assets								
Cash and balances with the Central Bank	9	243,616	132,215	-	2,265	80,771	28,365	-
Loans under reverse repurchase agreements	10	35,225	35,225	-	-	-	-	-
Due from banks and financial institutions	11	137,454	119,859	7,618	-	5,071	4,906	-
Loans and advances to customers at amortized cost	12	313,570	205,512	6,832	23,971	20,825	56,430	-
Loans and advances to related parties at amortized cost	12, 36	1,418	11	-	1,398	9	-	-
Investment securities at fair value through profit or loss	13	49,053	-	-	-	-	49,053	-
Investment securities at amortized cost	14	830,072	-	-	64,077	321,140	444,855	-
Investment securities at fair value through other comprehensive income	15	2,039	-	-	-	-	2,039	-
Debtors by acceptances		1,983	1,499	484	-	-	-	-
Investment properties	16	20,196	-	-	-	-	-	20,196
Property and equipment	17	37,030	-	-	-	-	-	37,030
Intangible assets		35	-	-	-	-	-	35
Non-current assets classified as held for sale	18	4,132	-	-	-	-	-	4,132
Other assets	19	5,085	539	-	3,119	1,418	9	-
TOTAL ASSETS		1,680,908	494,860	14,934	94,830	429,234	585,657	61,393
Liabilities								
Due to banks and financial institutions	20	(41,445)	(20,921)	(11,460)	(9,064)	-	-	-
Deposits from customers at amortized cost	21	(1,406,752)	(1,174,921)	(175,611)	(55,882)	(338)	-	-
Deposits from related parties at amortized cost	36	(68,217)	(68,217)	-	-	-	-	-
Engagement by acceptances		(1,983)	(1,499)	(484)	-	-	-	-
Current tax liabilities		(1,491)	(1,491)	-	-	-	-	-
Other liabilities	22	(3,526)	-	(325)	(2,546)	(372)	(283)	-
Employee benefit obligations	23	(3,948)	-	-	-	-	(3,948)	-
TOTAL LIABILITIES		(1,527,362)	(1,267,049)	(187,880)	(67,492)	(710)	(4,231)	-
NET ASSETS / (LIABILITIES)		153,546	(772,189)	(172,946)	27,338	428,524	581,426	61,393

INDEPENDENT AUDITOR'S REPORT

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Liquidity risk (Continued)

(iii) Maturity analysis for financial assets and financial liabilities

The tables below set out the undiscounted cash flows on the Group's financial assets and financial liabilities based on their earliest possible contractual maturity.

	Notes	Carrying amount
		31 DECEMBER 2016
		LL million
FINANCIAL ASSETS		
Cash and balances with the Central Bank	9	331,747
Due from banks and financial institutions	11	112,707
Loans and advances to customers and related parties at amortized cost	12 & 36	293,885
Investment securities at fair value through profit or loss	13	23,727
Investment securities at amortized cost	14	899,247
Investment securities at fair value through other comprehensive income	15	2,089
Debtors by acceptances		403
TOTAL UNDISCOUNTED FINANCIAL ASSETS		1,663,805
FINANCIAL LIABILITIES		
Due to banks and financial institutions	20	(88,433)
Deposits from customers at amortized cost	21	(1,393,719)
Deposits from related parties at amortized cost	36	(55,135)
Engagement by acceptances		(403)
TOTAL UNDISCOUNTED LIABILITIES		(1,537,690)
NET UNDISCOUNTED FINANCIAL ASSETS / (LIABILITIES)		126,115

	Notes	Carrying amount
		31 DECEMBER 2015
		LL million
FINANCIAL ASSETS		
Cash and balances with the Central Bank	9	243,616
Loans under reverse repurchase agreements	10	35,225
Due from banks and financial institutions	11	137,454
Loans and advances to customers and related parties at amortized cost	12 & 36	314,988
Investment securities at fair value through profit or loss	13	49,053
Debtors by acceptances		1,983
Investment securities at amortized cost	14	830,072
Investment securities at fair value through other comprehensive income	15	2,039
TOTAL UNDISCOUNTED FINANCIAL ASSETS		1,614,430
FINANCIAL LIABILITIES		
Due to banks and financial institutions	20	(41,445)
Deposits from customers at amortized cost	21	(1,406,752)
Deposits from related parties at amortized cost	36	(68,217)
Engagement by acceptances		(1,983)
TOTAL UNDISCOUNTED LIABILITIES		(1,518,397)
NET UNDISCOUNTED FINANCIAL ASSETS / (LIABILITIES)		96,033

Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years
31 DECEMBER 2016				
LL million	LL million	LL million	LL million	LL million
134,169	6,035	49,073	65,704	76,766
96,889	7,553	-	4,060	4,205
183,929	7,787	23,493	18,491	60,185
-	2,184	-	3,032	18,511
2,231	67,442	7,679	304,658	517,237
-	-	-	-	2,089
49	230	124	-	-
417,267	91,231	80,369	395,945	678,993
(68,621)	(11,502)	(8,310)	-	-
(1,140,522)	(173,146)	(80,051)	-	-
(55,135)	-	-	-	-
(49)	(230)	(124)	-	-
(1,264,327)	(184,878)	(88,485)	-	-
(847,060)	(93,647)	(8,116)	395,945	678,993

Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years
31 DECEMBER 2015				
LL million	LL million	LL million	LL million	LL million
132,215	-	2,282	84,147	31,330
35,264	-	-	-	-
119,855	7,624	-	5,140	5,073
208,053	6,888	24,556	23,536	74,798
-	1,255	3,515	19,076	87,991
1,499	484	-	-	-
2,164	14,162	106,447	488,881	613,315
-	-	-	-	2,039
499,050	30,413	136,800	620,780	814,546
(19,546)	(11,512)	(9,188)	-	-
(1,179,741)	(176,559)	(56,787)	(367)	-
(68,530)	-	-	-	-
(1,499)	(484)	-	-	-
(1,269,316)	(188,555)	(65,975)	(367)	-
(770,266)	(158,142)	70,825	620,413	814,546

INDEPENDENT AUDITOR'S REPORT

(iii) Maturity analysis for financial assets and financial liabilities (Continued)

The Group's expected cash flows on some assets and liabilities vary significantly from the contractual cash flows. For example, demand deposits from customers are expected to maintain a stable or increasing balance.

As part of the management of its liquidity risk arising from financial liabilities, the Group holds liquid assets comprising cash and cash equivalents and investment securities at fair value through profit or loss for which there is an active and liquid market so that they can be readily sold to meet liquidity requirements.

The table below sets out the carrying amounts of non-derivative financial assets and liabilities expected to be recovered or settled more than 12 months after the reporting date.

	2016	2015
	LL million	LL million
FINANCIAL ASSETS		
Loans and advances to customers and related parties at amortized cost	78,676	77,264
Investment securities at fair value through profit or loss	21,543	49,053
Investment securities at amortized cost	821,895	765,995
Investment securities at fair value through other comprehensive income	2,089	2,039

(d) Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, and foreign exchange rates will affect the Group's income or the value of its holdings of financial instruments. The objective of the Group's market risk management is to manage and control market risk exposures within acceptable parameters in order to ensure the Group's solvency while optimising the return on risk.

(i) Management of market risks

The Group separates its exposure to market risks between trading and non-trading portfolios. Trading portfolios are managed on a fair value basis.

Overall authority for market risk is vested in Board Risk Committee and ALCO. Both set up limits for each type of risk in aggregate and for portfolios, with market liquidity being a primary factor in determining the level of limits set for trading portfolios. The Group Risk Management is responsible for the development of detailed risk management policies (subject to review and approval by ALCO and the Board Risk Committee) and for the day-to-day review of their implementation.

The Group employs a range of tools to monitor and limit market risk exposures.

(ii) Market risk measurement techniques

Effective identification and monitoring of market risk is essential for maintaining stable profit. This is called out by the Group's Risk Management Unit. The Group's risk management, ALCO and Treasury are responsible for managing the Group's exposure within the risk exposure limits set out in the policies as approved by the Assets and Liabilities Committee and the Board of Directors.

These policies set out the nature of the market risks that may be taken along with aggregate risk limits, and stipulates the procedures, instruments and controls to be used in managing market risk. The basic techniques used by the Risk Management Unit to assess and monitor market risk are set out below:

(a) Stress tests

Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by Group's Risk Management Unit include: risk factor stress testing, where stress movements are applied to each risk category; emerging market stress testing, where emerging market portfolios are subject to stress movements; and ad hoc stress testing, which includes applying possible stress events to specific positions or regions – for example, the stress outcome to a region following a currency peg break.

The results of the stress tests are reviewed by the Board Risk Committee, the Group Management and Assets and Liabilities Committee. The stress testing is tailored to the business and typically uses scenario analysis.

(b) Sensitivity analysis

Sensitivity analysis is a technique used to determine how different values of an independent variable will impact a particular dependent variable under a given set of assumptions. This technique is used within specific boundaries that will depend on one or more input variables, such as the effect that changes in interest rates will have on a bond's price. Sensitivity analysis is a way to predict the outcome of a decision if a situation turns out to be different compared to the key predictions.

The Group performs this analysis for each type of market risk to which the Group is exposed at each reporting date, showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date.

(iii) Exposure to market risks - non - trading portfolios

The principal risk to which non - trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having limits and is assisted by the Risk Management, ALCO and Treasury in its day-to-day monitoring activities.

The Group complies with the requirements of the Central Bank of Lebanon in respect of the management of interest rate risk. The Risk Management and Assets and Liabilities Committee monitor these risks which are measured using the gap analysis. Gap analysis depends on the earnings approach and the economic value of equity approach which measures the effect of interest rate reprising of assets and liabilities on the income.

INDEPENDENT AUDITOR'S REPORT

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

d) Market risk (Continued)

(iv) Exposure to interest rate risks - non - trading portfolios

The tables below summarise the Group's exposure to interest rate risk. This table includes the assets and liabilities categorised by the earlier of contractual re-pricing:

	Notes	Up to 1 month	1 to 3 months
		31 DECEMBER 2016	
		LL million	LL million
FINANCIAL ASSETS			
Cash and balances with the Central Bank	9	85,441	94,219
Due from banks and financial institutions	11	68,582	10,350
Loans and advances to customers and related parties	12, 36	237,512	7,787
Investment securities at fair value through profit or loss	13	-	2,130
Investment securities at amortized cost	14	46	43,301
TOTAL FINANCIAL ASSETS		391,581	157,787
FINANCIAL LIABILITIES			
Due to banks and financial institutions	20	(66,220)	(11,156)
Deposits from customers and related parties at amortized cost	21, 36	(1,098,476)	(173,146)
TOTAL FINANCIAL LIABILITIES		(1,164,696)	(184,302)
TOTAL INTEREST RE-PRICING GAP		(773,115)	(26,515)

	Notes	Up to 1 month	Carrying amount
		31 DECEMBER 2015	
		LL million	LL million
FINANCIAL ASSETS			
Cash and balances with the Central Bank	9	115,650	62,561
Loans under reverse repurchase agreements	10	35,217	-
Due from banks and financial institutions	11	88,199	11,115
Loans and advances to customers and related parties	12, 36	207,216	6,832
Investment securities at fair value through profit or loss	13	-	-
Investment securities at amortized cost	14	-	-
TOTAL FINANCIAL ASSETS		446, 282	80,508
FINANCIAL LIABILITIES			
Due to banks and financial institutions	20	(20,406)	(11,156)
Deposits from customers and related parties at amortized cost	21, 36	(1,113,146)	(189,026)
TOTAL FINANCIAL LIABILITIES		(1,133,552)	(200,182)
TOTAL INTEREST RE-PRICING GAP		(687,270)	(119,674)

3 - 12 Months	1-5 years	3 months to 1 year	Non-interest bearing	TOTAL
31 DECEMBER 2016				
LL million	LL million	LL million	LL million	LL million
61,537	-	-	90,550	331,747
4,200	-	-	29,575	112,707
23,467	14,411	280	10,428	293,885
-	3,011	18,226	360	23,727
33,382	300,572	506,626	15,320	899,247
122,586	317,994	525,132	146,233	1,661,313
(8,291)	-	-	(2,766)	(88,433)
(80,051)	-	-	(97,181)	(1,448,854)
(88,342)	-	-	(99,947)	(1,537,287)
34,244	317,994	525,132	46,286	124,026

3 - 12 Months	1-5 years	3 months to 1 year	Non-interest bearing	TOTAL
31 DECEMBER 2015				
LL million	LL million	LL million	LL million	LL million
7,538	-	-	57,867	243,616
-	-	-	8	35,225
4,900	-	-	33,240	137,454
12,685	20,834	56,430	10,991	314,988
-	-	48,215	838	49,053
62,859	316,623	436,972	13,618	830,072
87,982	337,457	541,617	116,562	1,610,408
(9,045)	-	-	(838)	(41,445)
(49,391)	(19,592)	-	(103,814)	(1,474,969)
(58,436)	(19,592)	-	(104,652)	(1,516,414)
29,546	317,865	541,617	11,910	93,994

INDEPENDENT AUDITOR'S REPORT

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

d) Market risk (Continued)

(iv) Exposure to interest rate risks - non - trading portfolios (Continued)

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 100 basis point (bp) parallel fall or rise in all yield curves. An analysis of the Group's sensitivity to an increase or decrease in market interest rates assuming no asymmetrical movement in yield curves and a constant financial position is as follows:

	1% parallel increase	1% parallel decrease
	LL million	LL million
2016 At 31 December	131	(131)
2015 At 31 December	381	(381)

(v) Exposure to foreign exchange risk

The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Central Bank of Lebanon sets limits on the level of exposure to foreign exchange risk which should not exceed 1% of Tier 1 capital and the foreign exchange position (short or long) should not exceed 40% of Tier 1 capital.

This exposure limit is related to and set out in compliance with the limits set by the BDL (basic circular number 32) as approved by the ALCO and Board of Directors and closely monitored by the Group's Risk Management and Treasury department on a daily basis.

	Notes	LL	USD	EUR	GBP	Others	TOTAL
31 DECEMBER 2016							
		LL million	LL million	LL million	LL million	LL million	LL million
FINANCIAL ASSETS							
Cash and balances with the Central Bank	9	149,362	180,431	1,234	720	-	331,747
Due from banks and financial institutions	11	20,430	84,223	4,567	1,740	1,747	112,707
Loans and advances to customers and related parties at amortized cost	12, 36	93,999	182,916	14,335	-	2,635	293,885
Investment securities at fair value through profit or loss	13	1,155	22,572	-	-	-	23,727
Investment securities at amortized cost	14	491,725	390,858	16,664	-	-	899,247
Investment securities at fair value through other comprehensive income	15	865	1,224	-	-	-	2,089
TOTAL FINANCIAL ASSETS		757,536	862,224	36,800	2,460	4,382	1,663,402
FINANCIAL LIABILITIES							
Due to banks and financial institutions	20	(22,843)	(42,814)	(22,455)	(320)	(1)	(88,433)
Deposits from customers and related parties at amortized cost	21, 36	(619,829)	(810,348)	(14,015)	(2,131)	(2,531)	(1,448,854)
TOTAL FINANCIAL LIABILITIES		(642,672)	(853,162)	(36,470)	(2,451)	(2,532)	(1,537,287)
Loan commitments and other credit related obligations	37	13,330	65,361	1,409	-	13,620	93,720
Financial guarantees	37	891	9,577	148	-	-	10,616

	Notes	LL	USD	EUR	GBP	Others	TOTAL
31 DECEMBER 2015							
		LL million	LL million	LL million	LL million	LL million	LL million
FINANCIAL ASSETS							
Cash and balances with the Central Bank	9	80,913	161,120	1,029	554	-	243,616
Loans under reverse repurchase agreements	10	-	35,225	-	-	-	35,225
Due from banks and financial institutions	11	11,479	120,324	3,402	1,041	1,208	137,454
Loans and advances to customers and related parties at amortized cost	12, 36	90,281	203,775	18,066	-	2,866	314,988
Investment securities at fair value through profit or loss	13	31,768	17,285	-	-	-	49,053
Investment securities at amortized cost	14	484,808	327,852	17,412	-	-	830,072
Investment securities at fair value through other comprehensive income	15	865	1,174	-	-	-	2,039
TOTAL FINANCIAL ASSETS		700,114	866,755	39,909	1,595	4,074	1,612,447
FINANCIAL LIABILITIES							
Due to banks and financial institutions	20	(659)	(24,187)	(16,595)	-	(4)	(41,445)
Deposits from customers and related parties at amortized cost	21, 36	(609,653)	(839,269)	(23,267)	(1,596)	(1,184)	(1,474,969)
TOTAL FINANCIAL LIABILITIES		(610,312)	(863,456)	(39,862)	(1,596)	(1,188)	(1,516,414)
Financial guarantees	37	809	11,742	164	-	-	12,715
Loan commitments and other credit related obligations	37	16,164	72,643	1,230	-	3,427	93,464

INDEPENDENT AUDITOR'S REPORT

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

d) Market risk (Continued)

(v) Exposure to foreign exchange risk (Continued)

	Short		Long	
	2016	2015	2016	2015
	LL million	LL million	LL million	LL million
Position in:				
USD	-	626	-	217
EUR	-	326	9	-
GBP	-	8	1	-
CAD	-	1	-	15
CHF	-	28	2	-
Other currencies	815	-	-	7
TOTAL SHORT / LONG POSITION	815	989	12	239
NET FOREIGN EXCHANGE POSITION		174		227

(e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and innovation. In all cases, Group policy requires compliance with all applicable legal and regulatory requirements.

The Board of Directors has delegated responsibility for operational risks to management which is responsible for the development and implementation of controls to address operational risk. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance where this is effective.

Compliance with Group standards is supported by a program of periodic reviews undertaken by the Internal Audit department. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Group. Besides that, the Risk Management Unit analyses all the operational incidents and submits a periodic report to the Management Risk Committee for further discussion.

f) Capital

By maintaining an actively managed capital base, the Group's objectives are to cover risks inherent in the business, to retain sufficient financial strength and flexibility to support new business growth, and to meet national and international regulatory capital requirements at all times. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Central Bank of Lebanon according to the provisions of Basic Circular No 44. These ratios measure capital adequacy by comparing the Group's regulatory capital with its consolidated statement of financial position assets and off-balance sheet commitments at a weighted amount to reflect their relative risk.

To satisfy Basel III capital requirements, the Central Bank of Lebanon requires maintaining the following ratios of total regulatory capital to risk-weighted assets for the year ended 31 December 2016 and thereafter:

	Common Tier 1 capital ratio	Tier 1 capital ratio	TOTAL CAPITAL RATIO
Year ended 31 December 2016	13.74%	13.74%	17.23%
Year ended 31 December 2015	12.26 %	12.26%	13.97%

Risk weighted assets

As of 31 December 2016 and 2015, risk weighted assets are as follows:

	2016	2015
	LL million	LL million
Risk weighted assets	868,327	903,039

Regulatory capital

At 31 December 2016 and 2015, regulatory capital consists of the following:

	Excluding profit for the year		Including profit for the year less proposed dividends	
	2016	2015	2016	2015
	LL million	LL million	LL million	LL million
Common Tier 1 capital	119,329	110,695	127,920	119,401
Tier 2 capital	30,247	15,435	30,247	15,435
TOTAL CAPITAL	149,576	126,130	158,167	134,836

Capital adequacy ratio

As of 31 December 2016 and 2015, capital adequacy ratio is as follows:

	Excluding profit for the year		Including profit for the year less proposed dividends	
	2016	2015	2016	2015
	LL million	LL million	LL million	LL million
Common Tier 1 capital	13.74%	12.26%	14.73%	13.22%
TOTAL TIER 1 CAPITAL RATIO	13.74%	12.26%	14.73%	13.22%
TOTAL CAPITAL RATIO	17.23%	13.97%	18.22%	14.93%

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years; however, they are under constant scrutiny of the Board.

INDEPENDENT AUDITOR'S REPORT

7. FAIR VALUES OF FINANCIAL INSTRUMENTS

The fair value of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using other valuation techniques.

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

a) Valuation model

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements

- Level 1: inputs are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted prices included within level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Group uses widely recognized valuation models for determining the fair value of common and more simple financial instruments, such as interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivations and simple over-the-counter derivatives such as interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

b) Financial instruments measured at fair value – fair value hierarchy

The table below analyses financial instruments measured at fair value at the end of the reporting year, by the level in the fair value hierarchy into which the fair value measurement is categorized:

	Level 1	Level 2	Level 3	TOTAL
	31 DECEMBER 2016			
	LL million	LL million	LL million	LL million
Investment securities at fair value through profit or loss	8,218	15,509	-	23,727
Investment securities at fair value through other comprehensive income	1,224	-	865	2,089
	9,442	15,509	865	25,816

	Level 1	Level 2	Level 3	TOTAL
	31 DECEMBER 2015			
	LL million	LL million	LL million	LL million
Investment securities at fair value through profit or loss	14,328	34,725	-	49,053
Investment securities at fair value through other comprehensive income	1,174	-	865	2,039
	15,502	34,725	865	51,092

INDEPENDENT AUDITOR'S REPORT

7. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

c) Financial instruments not measured at fair value

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in fair value hierarchy into which each fair value measurement is categorized.

	Level 1	Level 2	Level 3	Total fair values	TOTAL CARRYING AMOUNT
	LL million	LL million	LL million	LL million	LL million
31 DECEMBER 2016					
ASSETS					
Cash and balances with the Central Bank	9,395	322,352	-	331,747	331,747
Due from banks and financial institutions	-	112,707	-	112,707	112,707
Loans and advances to customers and related parties at amortized cost	-	-	294,982	294,982	293,885
<i>Investment securities at amortized cost:</i>					
Lebanese government bonds	333,389	235,844	-	569,233	567,811
Certificates of deposits	-	334,902	-	334,902	325,052
Other debt securities	-	6,384	-	6,384	6,384
TOTAL INVESTMENT SECURITIES AT AMORTIZED COST	333,389	577,130	-	910,519	899,247
LIABILITIES					
Due to banks and financial institutions	-	(88,433)	-	(88,433)	(88,433)
Deposits from customers and related parties at amortized cost	-	(1,448,854)	-	(1,448,854)	(1,448,854)

	Level 1	Level 2	Level 3	Total fair values	TOTAL CARRYING AMOUNT
	LL million	LL million	LL million	LL million	LL million
31 DECEMBER 2015					
ASSETS					
Cash and balances with the Central Bank	8,817	234,799	-	243,616	243,616
Loans under reverse repurchase agreements	-	35,225	-	35,225	35,225
Due from banks and financial institutions	-	137,454	-	137,454	137,454
Loans and advances to customers and related parties at amortized cost	-	-	327,266	327,266	314,988
<i>Investment securities at amortized cost:</i>					
Lebanese government bonds	305,798	232,428	-	538,226	535,886
Certificates of deposits	-	294,399	-	294,399	284,626
Other debt securities	-	9,560	-	9,560	9,560
TOTAL INVESTMENT SECURITIES AT AMORTIZED COST	305,798	536,387	-	842,185	830,072
LIABILITIES					
Due to banks and financial institutions	-	(41,445)	-	(41,445)	(41,445)
Deposits from customers and related parties at amortized cost	-	(1,474,969)	-	(1,474,969)	(1,474,969)

8. CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The table below provides reconciliation between line items in the consolidated statement of financial position and categories of financial instruments:

	Fair value through profit or loss	Fair value through other comprehensive income	Amortized cost	TOTAL
31 DECEMBER 2016				
	LL million	LL million	LL million	LL million
Cash and balances with the Central Bank	-	-	331,747	331,747
Due from banks and financial institutions	-	-	112,707	112,707
Loans and advances to customers and related parties	-	-	293,885	293,885
Investment securities	23,727	2,089	899,247	925,063
	23,727	2,089	1,637,586	1,663,402
Due to banks and financial institutions	-	-	(88,433)	(88,433)
Deposits from customers and related parties	-	-	(1,448,854)	(1,448,854)
	-	-	(1,537,287)	(1,537,287)

	Fair value through profit or loss	Fair value through other comprehensive income	Amortized cost	TOTAL
31 DECEMBER 2015				
	LL million	LL million	LL million	LL million
Cash and balances with the Central Bank	-	-	243,616	243,616
Loans under reverse repurchase agreements	-	-	35,225	35,225
Due from banks and financial institutions	-	-	137,454	137,454
Loans and advances to customers and related parties	-	-	314,988	314,988
Investment securities	49,053	2,039	830,072	881,164
	49,053	2,039	1,561,355	1,612,447
Due to banks and financial institutions	-	-	(41,445)	(41,445)
Deposits from customers and related parties	-	-	(1,474,969)	(1,474,969)
	-	-	(1,516,414)	(1,516,414)

INDEPENDENT AUDITOR'S REPORT

9. CASH AND BALANCES WITH THE CENTRAL BANK

	2016	2015
	LL million	LL million
Cash on hand	9,395	8,817
Balances with the Central Bank	38,854	8,675
Included in cash and cash equivalents (note 34)	48,249	17,492
Terms deposits	111,628	54,294
Interest receivable	1,475	958
CASH AND UNRESTRICTED BALANCES WITH THE CENTRAL BANK	161,352	72,744
Compulsory reserve held with the Central Bank	170,395	170,872
TOTAL CASH AND BALANCES WITH THE CENTRAL BANK	331,747	243,616

In accordance with the Central Bank's basic circular number 84, the Bank is required to constitute a compulsory reserve in Lebanese Pounds calculated on the basis of 15% of the weekly average of term deposits and 25% of the weekly average of current accounts. The Bank is also required to constitute a compulsory reserve in foreign currency calculated on the basis of 15% of foreign currency deposits.

Compulsory reserve requirements are not available for use in the Group's day-to-day operations.

The reserves comprise compulsory reserves in Lebanese Pounds amounting to LL 40,825 million (2015: LL 39,416 million) and in foreign currencies with a counter value of LL 129,750 million (2015: LL 131,456 million).

Term deposits generate fixed interest. Current accounts with the Central Bank of Lebanon do not generate interest.

10. LOANS UNDER REVERSE PURCHASE AGREEMENTS

Loans under reverse repurchase agreements represent loans granted to a financial institution. These loans are secured by Certificates of Deposits issued by the Central Bank and denominated in US Dollars amounting to LL nil as at 31 December 2016 (2015: LL 35,225 million). Interest income from loans under reverse repurchase agreements amounted to LL 203 million during the year ended 31 December 2016 (2015: LL 510 million) (note 26).

11. DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	2016	2015
	LL million	LL million
Current accounts	20,706	26,882
Checks for collection	8,792	6,072
Placements with banks (with original maturities for less than three months)	48,017	94,493
Included in cash and cash equivalents (note 34)	77,515	127,447
Placements with banks (with original maturities for more than three months)	35,115	9,900
Interest receivable	77	107
	112,707	137,454

12. LOANS AND ADVANCES TO CUSTOMERS AND RELATED PARTIES AT AMORTIZED COST

	2016	2015
	LL million	LL million
Gross loans and advances to customers	343,049	360,094
Gross loans and advances to related parties (note 36)	1,397	1,418
	344,446	361,512
Deduct:		
Individual impairment		
Unrealized interest	(41,444)	(37,033)
Specific provision	(6,176)	(6,737)
Provision based on collective assessment	(2,941)	(2,754)
	(50,561)	(46,524)
	293,885	314,988

Loans and advances to customers and related parties classified by product:

	Gross amount	Impairment allowance	Carrying amount	Gross amount	Impairment allowance	Carrying amount
	2016			2015		
	LL million	LL million	LL million	LL million	LL million	LL million
Retail customers:						
Lending secured by mortgage	82,922	(3,410)	79,512	79,633	(2,825)	76,808
Lending against cash collateral	39,064	-	39,064	30,626	-	30,626
Personal loans	26,931	(3,077)	23,854	33,355	(3,250)	30,105
Other retail lending	3,216	(2,667)	549	9,549	(3,641)	5,908
Collective impairment	-	(1,476)	(1,476)	-	(1,678)	(1,678)
	152,133	(10,630)	141,503	153,163	(11,394)	141,769
Corporate customers:						
Lending secured by mortgage	56,470	(17,376)	39,094	52,257	(16,992)	35,265
Lending against cash collateral	2,610	-	2,610	2,604	-	2,604
Other corporate lending	133,233	(21,090)	112,143	153,488	(17,062)	136,426
Collective impairment	-	(1,465)	(1,465)	-	(1,076)	(1,076)
	192,313	(39,931)	152,382	208,349	(35,130)	173,219
	344,446	(50,561)	293,885	361,512	(46,524)	314,988

INDEPENDENT AUDITOR'S REPORT

12. LOANS AND ADVANCES TO CUSTOMERS AND RELATED PARTIES AT AMORTIZED COST (CONTINUED)

Reconciliation of allowances account for losses on loans advances to customers is as follows:

	Movement of unrealized interests	
	2016	2015
	LL million	LL million
Balance at 1 January	37,033	36,243
Add / (deduct):		
Unrealized interest for the year	5,975	3,784
Recoveries	(217)	(604)
Amounts written-off	(1,347)	(2,390)
BALANCE AT 31 DECEMBER	41,444	37,033

	Movement of specific provision	
	2016	2015
	LL million	LL million
Balance at 1 January	6,737	7,068
Add / (deduct):		
Provision for the year	514	838
Recoveries	(818)	(728)
Amounts written-off	(257)	(441)
BALANCE AT 31 DECEMBER	6,176	6,737

	Movement of collective provision	
	2016	2015
	LL million	LL million
Balance at 1 January	2,754	2,382
Add / (deduct):		
Provision for the year	187	372
BALANCE AT 31 DECEMBER	2,941	2,754

Net release of impairment on loans and advances to customers recognized in the consolidated statement of comprehensive income was as follows during the year:

	2016	2015
	LL million	LL million
Specific provision during the year	514	838
Collective provision during the year	187	372
Specific provision released during the year	(818)	(847)
Recovery of unrealized interest	(217)	(711)
	(334)	(348)

13. INVESTMENT SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016	2015
	LL million	LL million
Lebanese government treasury bills	8,190	16,714
Certificates of deposit issued by the Central Bank	15,177	31,501
Interest receivable	360	838
	23,727	49,053

Investment securities at fair value through profit or loss above comprise debt securities carried at fixed interest rates. The unrealised loss due to the change in fair value of the investment securities at fair value through profit or loss in the amount of LL 546 million (2015: Unrealized loss of LL 805 million) is recorded under "net gain from investment securities at fair value through profit or loss" (note 28) in the consolidated statement of comprehensive income.

During 2016, the Group exchanged with the Central Bank of Lebanon certificates of deposits and Lebanese government bonds denominated in Lebanese pounds with an aggregate nominal value of LL 19,035 million (2015: nil) as per Intermediary Circular number 446 dated 30 December 2016 (refer to note 22).

14. INVESTMENT SECURITIES AT AMORTIZED COST

	2016	2015
	LL million	LL million
Lebanese government treasury bills	559,454	528,006
Certificates of deposit issued by the Central Bank	318,172	278,971
Other debt securities	6,301	9,476
Interest receivable	15,320	13,619
	899,247	830,072

The table below shows the movement of investment securities classified at amortized cost:

	2016	2015
	LL million	LL million
Balance at 1 January	830,072	817,672
Securities acquired	208,928	161,676
Securities sold	(30,628)	(15,075)
Securities exchanged	(24,000)	(48,567)
Securities exchanged as per Intermediary circular 446	(26,715)	-
Securities matured	(57,288)	(83,098)
Change in net unamortized premium or discount	(2,081)	177
Change in interest receivable	1,701	(744)
Foreign exchange difference	(742)	(1,969)
BALANCE AT 31 DECEMBER	899,247	830,072

INDEPENDENT AUDITOR'S REPORT

14. INVESTMENT SECURITIES AT AMORTIZED COST (CONTINUED)

During 2016 and in order to maintain and enhance liquidity position, the Group sold certificates of deposits and Lebanese Government bonds with a nominal value of LL 30,628 million (2015: LL 15,075 million). The Group recorded the net resulting (loss) gain on sale amounting to LL (177) million (2015: LL 99 million) under "Revenues from investment securities at fair value through other comprehensive income and net gain from investment securities at amortised cost" in the consolidated statement of comprehensive income.

During 2016, the Group exchanged with the Central Bank of Lebanon certificates of deposit and Lebanese Government bonds denominated in Lebanese Pounds with an aggregate nominal value of LL 24,000 million (2015: LL 48,567 million). The net difference resulting from the exchange amounted to LL 1,153 million (2015: LL 2,616 million) recorded under "Revenues from investment securities at fair value through other comprehensive income and net gain from investment securities at amortised cost" in the consolidated statement of comprehensive income.

Also during 2016, the Group exchanged with the Central Bank of Lebanon certificates of deposits and Lebanese government bonds denominated in Lebanese pounds with an aggregate nominal value of LL 26,715 million (2015: nil) as per Intermediary circular number 446 dated 30 December 2016 (refer to note 22).

15. INVESTMENT SECURITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2016	2015
	LL million	LL million
Equity securities with readily determinable fair value	1,224	1,174
Unquoted equity securities at cost	865	865
	2,089	2,039

	2016	2015
	LL million	LL million
Balance at 1 January	2,039	2,166
Securities acquired	22	26
Impairment on investments	(103)	-
Change in fair value	131	(153)
Balance at 31 December	2,089	2,039

During 2016, dividend income from investment securities at fair value through other comprehensive income amounted to LL 485 million (2015: LL 100 million) recorded under "Revenues from investment securities at fair value through other comprehensive income and net gain from investment securities at amortised cost" in the consolidated statement of comprehensive income.

16. INVESTMENT PROPERTIES

	2016	2015
	LL million	LL million
PROPERTY		
Cost:		
Balance at 1 January	26,116	26,116
BALANCE AT 31 DECEMBER	26,116	26,116
Depreciation:		
Balance at 1 January	5,920	5,500
Depreciation for the year (note 31)	420	420
BALANCE AT 31 DECEMBER	6,340	5,920
NET CARRYING AMOUNT: AT 31 DECEMBER	19,776	20,196

The fair value of investment property as determined by a registered independent appraiser having an appropriate recognized professional qualification and recent experience in the location and category of the property being valued amounted to LL 49,782 million (2015: LL 49,782 million). Fair values were determined having regard to recent market transactions for similar properties in the same location as the Group's investment properties.

17. PROPERTY AND EQUIPMENT

	Land and buildings	Leasehold improvements	Computer and office equipment	Furniture and fixtures	Vehicles	Work in progress	TOTAL
	LL million	LL million	LL million	LL million	LL million	LL million	LL million
Cost:							
Balance at 1 January 2016	31,757	21,508	9,417	1,843	102	597	65,224
Additions	-	635	319	49	-	2,789	3,792
Disposals	-	-	(3)	-	-	-	(3)
Transfers	(29)	-	1,165	-	-	(1,136)	-
AT 31 DECEMBER 2016	31,728	22,143	10,898	1,892	102	2,250	69,013
Depreciation:							
Balance at 1 January 2016	5,586	14,736	6,389	1,456	27	-	28,194
Depreciation for the year	501	920	933	94	10	-	2,458
Disposals	-	-	(2)	-	-	-	(2)
AT 31 DECEMBER 2016	6,087	15,656	7,320	1,550	37	-	30,650
NET CARRYING AMOUNT: AT 31 DECEMBER 2016	25,641	6,487	3,578	342	65	2,250	38,363

INDEPENDENT AUDITOR'S REPORT

17. PROPERTY AND EQUIPMENT (CONTINUED)

	Land and buildings	Leasehold improvements	Computer and office equipment	Furniture and fixtures	Vehicles	Work in progress	TOTAL
	LL million	LL million	LL million	LL million	LL million	LL million	LL million
Balance at 1 January 2015	27,172	21,085	8,590	1,777	57	3,146	61,827
Additions	-	423	266	27	76	2,651	3,443
Disposals	-	-	(15)	-	(31)	-	(46)
Transfers	4,585	-	576	39	-	(5,200)	-
AT 31 DECEMBER 2015	31,757	21,508	9,417	1,843	102	597	65,224
Depreciation:							
Balance at 1 January 2015	5,120	13,778	5,515	1,369	43	-	25,825
Depreciation for the year	466	958	886	87	8	-	2,405
Disposals	-	-	(12)	-	(24)	-	(36)
AT 31 DECEMBER 2015	5,586	14,736	6,389	1,456	27	-	28,194
NET CARRYING AMOUNT: AT 31 DECEMBER 2015	26,171	6,772	3,028	387	75	597	37,030

During 1995, the Group revalued its land and buildings acquired before 1993 based on an independent expert's evaluation report. In conformity with Law No. 282 dated 30 December 2003, the Group paid 1.5% on the surplus from revaluation that amounted to LBP 15,205 million. An amount of LBP 15,167 million of the revaluation was accepted by the Central Bank of Lebanon and recognized within the property and equipment and under the caption "Revaluation reserve - part of Tier II capital" in equity.

18. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

	2016	2015
	LL million	LL million
Balance at 1 January	4,132	2,475
Additions	36	1,860
Disposals during the year	(2,040)	(203)
BALANCE AT 31 DECEMBER	2,128	4,132

During 2016, the Group disposed of assets obtained in settlement of debt held for sale with carrying value of LL 2,040 million (2015: LL 203 million) and recognized a gain of LL 1,716 million (2015: LL 1,086 million) (note 29). In addition to the reserve released for non-current assets held classified as held for sale amounting to LL 1,747 million to retained earnings (2015: LL 203 million). This gain will be transferred to reserve for capital increase.

19. OTHER ASSETS

	2016	2015
	LL million	LL million
Receivable from the ("NSSF") (i)	1,969	2,018
Impairment provision on receivable from NSSF	(599)	(665)
Advances related to property acquired in settlement of debt	2,821	1,328
Prepaid expenses	1,443	1,648
Deferred tax asset (note 22)	2,506	-
Other receivables	852	756
	8,992	5,085

(i) This amount represents medical expenses reimbursed by the Group to the employees which are recoverable later from NSSF.

20. DUE TO BANKS AND FINANCIAL INSTITUTIONS

	2016	2015
	LL million	LL million
Current deposits	2,383	501
Outstanding checks	2,185	1,434
Term deposits	83,470	39,172
Interest payable	395	338
	88,433	41,445

Due to banks and financial institutions include a balance of LL 77,936 million (2015: LL 17,062 million) as current with maturities less than 3 months (note 34).

21. DEPOSITS FROM CUSTOMERS AT AMORTIZED COST

	2016	2015
	LL million	LL million
Term deposits	1,223,104	1,239,056
Sight deposits (i)	93,108	102,492
Net credit against debit accounts and margins	74,077	62,029
Interest payable	3,430	3,175
	1,393,719	1,406,752

INDEPENDENT AUDITOR'S REPORT

21. DEPOSITS FROM CUSTOMERS AT AMORTIZED COST (CONTINUED)

(i) Sight deposits

	2016	2015
	LL million	LL million
Checking and current accounts	78,765	87,425
Saving accounts – demand	8,952	10,476
Debtors accidentally creditors	4,563	3,763
Payment orders	828	828
	93,108	102,492

All deposits carry fixed interest rates.

At 31 December 2016, deposits from customers and related parties above LBP 1,500 million threshold amounted to LL 510,739 million represented 35.24% of total deposits held by 131 customers (2015: LL 554,027 million represented 37.37% of total deposits held by 129 customers).

22. OTHER LIABILITIES

	2016	2015
	LL million	LL million
Deferred surplus*	16,706	-
Tax liability	2,901	-
Provision for risks and charges	2,635	-
Accrued expenses and other payables	2,367	1,581
Withholding taxes and due to NSSF	487	356
Other liabilities	2,114	1,589
	27,210	3,526

(*) During 2016, the Central Bank of Lebanon issued Intermediate Circular number 446 dated 30 December 2016 defining the accounting treatment of the surplus realized by banks from the transactions made with the Central Bank of Lebanon. In accordance with the provision of this circular, banks should recognize in the income statement, only part of the gain net of tax, capped to the extent of the losses recorded to comply with certain regulatory provisioning requirements, the impairment losses on subsidiaries and goodwill recorded in accordance with IAS 36 and IFRS 3 respectively and the shortage needed to comply with the capital adequacy requirements, if any. Banks may further recognize up to 70% of the remaining balance of the gain realized net of tax in the income statement as non-distributable profits to be appropriated to reserves for capital increase, qualifying for inclusion with regulatory Common Equity Tier One. The remaining balance of the gain net of tax should be maintained within deferred revenue and qualifies for inclusion within regulatory Tier 2 Capital in accordance with the provisions of the circular.

During 2016, as a result of operations with the Central Bank of Lebanon consisting of sale of Treasury Bills and Certificate of Deposits denominated in Lebanese pounds with nominal value of LBP 20,750 million and LBP 25,000 million respectively and simultaneous purchase of Certificates of Deposits denominated in US Dollar with a nominal value of USD 30.5 million, the Group received a surplus of 19,341 million. An amount of LBP 16,706 million was recognized under "Other Liabilities" within "Deferred Surplus" after releasing an amount of LBP 2,635 million against provisions for risks and charges to comply with the provisioning requirements of the Central bank of Lebanon's Intermediate Circulars numbers 439 dated 8 November 2016 and 446 dated 30 December 2016. The resulting deferred tax asset amounting to LBP 2,506 million was debited to "Deferred tax" under "Other assets" (note 19) and credited to "Tax liability" under "Other Liabilities".

23. EMPLOYEES BENEFIT OBLIGATIONS

The movement in provision for employee benefit obligations is summarized as follows:

	2016	2015
	LL million	LL million
Balance at 1 January	3,948	4,115
Charge for the year (note 30)	483	106
Release of provision (note 30)	(158)	(138)
Payments during the year	(149)	(135)
BALANCE AT 31 DECEMBER	4,124	3,948

The provision for employee benefits obligations' amount recognised in the consolidated financial statements is not materially different from what would be required as per IAS 19 Employee Benefits.

24. SHARE CAPITAL

At 31 December 2016, the authorised and issued share capital comprised 3,450,000 nominal shares (2015: 3,450,000) with a par value of LL 15,700 each (2015: LL 15,700 each). All issued shares are fully paid.

The holders of ordinary shares are entitled to receive dividends as declared from time to time. All shares rank equally with regard to the Group's residual assets.

25. RESERVES

	2016	2015
	LL million	LL million
General Banking risk reserve (i)	17,208	14,499
Legal reserve (ii)	11,731	10,936
Reserve for capital increase	6,517	5,228
Reserve for assets classified as held for sale (iii)	843	999
Reserve on retail portfolio	581	360
Revaluation reserve for real estate	13,513	13,513
Revaluation reserve accepted as supplementary capital – part of Tier II capital	15,167	15,167
NON-DISTRIBUTABLE RESERVES	65,560	60,702
FREE RESERVE - DISTRIBUTABLE	26,009	24,066
TOTAL RESERVE	91,569	84,768

(i) General Banking risk reserve

In compliance with the requirements of the Central Bank of Lebanon basic circular number 50, the Group is required to set up a reserve for general banking risks at a minimum rate of 0.2% and a maximum of 0.3% of the risk weighted assets and off-balance sheet financial instruments in local and foreign currencies. This reserve should not be less than 1.25% and 2% by the end of the 2017 and the 2027, respectively. This reserve is not available for distribution.

(ii) Legal reserve

The Lebanese Code of Money and Credit and the Group's articles of association stipulate that 10% of the net annual profits be transferred to legal reserve. This reserve is not available for distribution.

(iii) Reserve for asset classified as held for sale

This reserve is related to properties held in settlement of debt and is not available for distribution (note 18).

INDEPENDENT AUDITOR'S REPORT

26. NET INTEREST AND SIMILAR INCOME

	2016	2015
	LL million	LL million
Interest and similar income		
Loans and advances to customers and related parties	19,708	20,719
Loans under reverse repurchase agreements (note 10)	203	510
Balances with the Central Bank of Lebanon	4,711	3,277
Due from banks and financial institutions	847	858
Investment securities	64,831	60,144
	90,300	85,508
Interest and similar expense		
Deposits from customers and related parties	(60,603)	(60,118)
Due to banks and financial institutions	(1,405)	(1,052)
	(62,008)	(61,170)
Net interest and similar income	28,292	24,338

27. FEE AND COMMISSION INCOME

	2016	2015
	LL million	LL million
Commissions on banking operations	3,282	3,208
Credit - related fees and commissions	563	618
Brokerage fees	173	182
Commissions on letters of credit and guarantees	316	375
	4,334	4,383

28. NET GAIN FROM INVESTMENT SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016	2015
	LL million	LL million
Interest income	3,012	2,943
Gain on exchange	842	727
Net gain on sales	4,110	1,165
Change in fair value through profit or loss (note 13)	(546)	(805)
	7,418	4,030

29. OTHER OPERATING INCOME

	2016	2015
	LL million	LL million
Rental and related income	1,227	1,491
Gain on sales of non-current assets classified as held for sale (note 18)	1,716	1,086
Other operating income	14	22
	2,957	2,599

30. PERSONNEL EXPENSES

	2016	2015
	LL million	LL million
Salaries and related benefits	13,078	12,469
Social security costs	1,773	1,710
Provision for employee benefit obligations (note 23)	483	106
Release of provision for employee benefit obligations (note 23)	(158)	(138)
Other personnel expenses	1,234	430
	16,410	14,577

31. DEPRECIATION AND AMORTIZATION CHARGES

	2016	2015
	LL million	LL million
Depreciation charge on investment properties (note 16)	420	420
Depreciation charge on property and equipment (note 17)	2,458	2,405
Amortization charge on intangible assets	15	15
	2,893	2,840

INDEPENDENT AUDITOR'S REPORT

32. OTHER OPERATING EXPENSES

	2016		2015	
	LL million		LL million	
Repairs and maintenance	2,005		1,702	
Rent	373		362	
Professional fees	1,226		1,022	
Insurance expense	1,100		991	
Office supplies	309		354	
Customer deposits insurance	741		729	
Subscription fees	588		627	
Travel expense	967		718	
Custody fees	122		119	
Utilities expense	493		449	
Taxes	1,272		569	
Software costs	35		52	
Directors' attendance fees (note 36)	256		275	
Impairment loss on receivables from NSSF	106		416	
Other expenses	1,570		1,308	
	11,163		9,693	

33. INCOME TAX EXPENSE

	2016		2015	
	LL million		LL million	
Profit for the year	8,964		8,745	
Income tax expense	2,371		2,314	
Profit before income tax	11,335		11,059	

	2016		2015	
	%	LL million	%	LL million
Income tax using domestic corporation tax rate	(15%)	1,636	(15%)	1,585
Effect of other non-deductible expenses		257		177
Real estate tax		-		57
Withholding tax on interest not reimbursable		478		495
Current income tax expense		2,371		2,314
EFFECTIVE TAX RATE	21.74%		18.96%	

The Group is subject to a withholding tax of 5% on certain interest income which is considered as a prepayment on corporate income tax due. In case this withholding tax exceeds the calculated corporate income tax expense, the excess is not reimbursable and is considered as a final income tax expense.

34. CASH AND CASH EQUIVALENTS

	2016	2015
	LL million	LL million
Cash and balances with the Central Bank (note 9)	48,249	17,492
Loans under reserve repurchase agreements (note 10)	-	35,225
Due from banks and financial institutions (note 11)	77,515	127,447
Due to banks and financial institutions (note 20)	(77,936)	(17,062)
	47,828	163,102

35. CONTINGENT LIABILITIES AND COMMITMENTS

a) Legal proceedings

There were a number of legal proceedings outstanding against the Group at 31 December 2016. No provision has been booked against these cases beyond the amounts provided for under provision for impairment of loans and advances to customers as professional advice indicates that it is unlikely that any significant loss will arise.

b) Tax and other obligations

The Group's books and records were reviewed by the Department of Income Tax for the years 2009 to 2012. Accordingly, the Department of Income Tax imposed additional taxes and penalties amounting to LBP 686 million. The Bank filed an objection against this assessment and provided for the estimated potential liabilities. The Group settled these taxes during 2016. The books and records of the Group remain subject to review by the Department of Income Tax for the years 2013, 2014, 2015 and 2016.

The Group's books have not been reviewed by the National Social Security Fund (NSSF) since 2012. The ultimate outcome of any review by the NSSF on the Bank's books for the years 2013, 2014, 2015 and 2016 cannot be currently determined.

36. RELATED PARTIES

a) Key management compensation

Some of the board members hold positions in the subsidiaries that result in having control over the financial or operating policies of these entities.

A number of these entities transacted with the Group in the reporting year. The terms and conditions of the transactions with the key management personnel and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis.

	2016	2015
	LL million	LL million
Directors' attendances fees (note 32)	256	275
Employees' benefits	1,104	1,695
	1,360	1,970

INDEPENDENT AUDITOR'S REPORT

36. RELATED PARTIES (CONTINUED)

b) Loans and advances to related parties at amortized cost

	2016	2015
	LL million	LL million
Ayoub Lebanese Industrial Company SAL ("ALICO")	782	761
Sleep Comfort Lebanon SAL	226	271
Key management personnel	389	386
	1,397	1,418

Sleep Comfort Lebanon SAL and ALICO SAL share Board members with the Group. Interest rate charged on loans and advances to related parties average to 8.5% (2015: 8.5%) on US\$ accounts.

c) Deposits from related parties at amortized cost

	2016	2015
	LL million	LL million
Deposits from related parties	55,135	68,217

Average interest rates granted on deposits from related parties average to 6.75% (2015: 6.75%) on LL accounts and 4.23% (2015: 4.23%) on US\$ accounts.

d) Transaction with a related party

	2016	2015
	LL million	LL million
Construction and maintenance expenses charged by CAT	822	975

e) Group subsidiaries

The table below provides details of the Group's subsidiaries:

	2016	2015
	%	%
Societe Immobiliere Al - Solh SAL ("SIAS")	99.99%	99.99%
BSL Finance SAL*	0.00%	99.96%
Societe Nouvelle Immobiliere SAL ("SNI")	65.63%	65.63%

* During 2014, the Group established BSL Finance SAL, the "Company". The group owned 99.96% of the subsidiary's paid in capital of 75,000 shares. The subsidiary's main operation is a financial institution.

On 17 November 2015, the Extraordinary General Assembly of BSL Finance SAL resolved to dissolve the entity. The central council of the Central Bank of Lebanon agreed to dissolve and liquidate the Company on 14 January 2016.

37. OFF BALANCE SHEET ITEMS

	2016	2015
	LL million	LL million
FINANCING COMMITMENTS		
Financing commitments given to customers	93,720	93,464
GUARANTEES		
Guarantees given to banks and financial institutions	1,181	2,817
Guarantees received from banks and financial institutions	4,850	8,647
Guarantees given to customers	10,616	12,715
Guarantees received from customers	755,838	738,909
OPERATIONS IN FOREIGN CURRENCIES		
Foreign currencies to receive	(1,454)	-
Foreign currencies to deliver	(1,445)	-
CONTINGENCIES ON LEGAL DISPUTES	55	25
BAD LOANS FULLY PROVIDED FOR	114,505	95,320
ASSETS UNDER MANAGEMENT	91,804	100,331

38. LIQUIDATION OF A SUBSIDIARY

On 17 November 2015, the Extraordinary General Assembly of BSL Finance SAL (subsidiary 99.90% owned by BSL BANK SAL) resolved to dissolve the entity. The central council of the Central Bank of Lebanon agreed to dissolve and liquidate the Company on 14 January 2016.

CORRESPONDENT BANKS

Country	City	Correspondent Bank
Australia	Sydney	Westpac Banking Corporation
Canada	Toronto	Bank of Montreal
Finland	Oslo	DNB Bank ASA
France	Paris	Bank Audi France SA
		Blom Bank France
Germany	Frankfurt am Main	Commerzbank AG
		The Bank of New York Mellon
		Bank of Beirut (UK) Ltd
Italy	Milan	Intesa Sanpaolo SPA
Japan	Tokyo	The Bank of New York Mellon
Spain	Bilbao	Banco Bilbao Vizcaya Argentaria SA
Sweden	Stockholm	Skandinavia Enskilda Banken AB
United Arab Emirates	Dubai City	Blom Bank France
United Kingdom	London	The Bank of New York Mellon
United States of America	New York	The Bank of New York Mellon

LIST OF BRANCHES

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Tel: 01-980080 • **Fax:** 01-980991 • **P.O.Box:** 11-957 • **email:** info@bsl.com.lb • **Website:** www.bslbank.com

BEIRUT & SUBURBS

Ashrafieh

Khayat Bldg, Sioufi Street
 Tel: 01-200121 / 01-337340
 Fax: 01-337340

Burj Hammoud

Jamgotchian Bldg, Armenia Street
 Tel: 01-262527 / 01-266992
 Fax: 01-262527

Dbayeh

BSL BANK Bldg, Dbayeh Highway
 Tel: 04-402420 / 1 / 2 / 04-404560
 Fax: 04-415985

Dora

United Court Bldg, Dora Highway
 Tel: 01-262090 / 01-264785
 Fax: 01-264785 / 01-264656

BEKAA

Baalbeck

BSL BANK Bldg, Khalil Moutran Square
 Tel: 08-370333 / 08-370447
 Fax: 08-371876

Zahleh

BSL BANK Bldg, Zahleh Boulevard
 Tel: 08-823287 / 08-823033
 Fax: 08-823033

Hamra

Abu El Hessen Bldg, Makdessi Street
 Tel: 01-342750 / 01-349711
 Fax: 01-353084

Hazmieh

Mallat Center, Damascus Road
 Tel: 05-457640 / 1 / 05-454686
 Fax: 05-454686

Mar Elias

Chehadeh Bldg, Mar Elias Street
 Tel: 01-818122 / 3
 Fax: 01-818122

Riad Solh

BSL BANK Bldg, Banks Street
 Tel: 01-980071 / 4 / 5 / 6
 Fax: 01-980073

NORTH LEBANON

Tripoli

BSL BANK Bldg, Tell Square
 Tel: 06-430042 / 3 / 5 / 6
 Fax: 06-430044

Zgharta

BSL BANK Bldg, Sleiman Frangieh Boulevard
 Tel: 06-662667 / 8
 Fax: 06-660856

Sami Solh

Joseph Chahine Bldg, Sami Solh Avenue
 Tel: 01-387795
 Fax: 01-389398

Saint Nicolas

Zen Bldg, Charles Malek Avenue
 Tel: 01-200340 / 1
 Fax: 01-218751

SOUTH LEBANON

Saida

BSL BANK Bldg, Riad Solh Street
 Tel: 07-720401 / 2
 Fax: 07-720404

Tyr

Assawira Bldg, Main Street
 Tel: 07-740294
 Fax: 07-740056

JBEIL

13th Street, Nobilis Center
 Tel: 09-543091 / 2 / 4
 Fax: 09-543093

KESERWAN

Jounieh

Haret Sakher, Athénée Center
 Tel: 09-913880 / 09-915517
 Fax: 09-913885