

**NATIONAL BANK OF KUWAIT
(LEBANON) SAL**

FINANCIAL STATEMENTS

31 DECEMBER 2016

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF NATIONAL BANK OF KUWAIT (LEBANON) SAL

Qualified Opinion

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

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

Basis for Qualified Opinion

As disclosed in note 23 to the financial statements, the Bank recorded excess provisions amounting to LL 1,670 million under "Provisions for risks and charges" in order to comply with the provisioning requirements of Central Bank of Lebanon's Intermediate Circular number 439 dated 8 November 2016. The Bank's accounting for the above-mentioned transactions departs from the requirements of International Financial Reporting Standards (IFRSs). Had the Bank properly accounted for this provision in accordance with International Financial Reporting Standards, the financial statements would have been affected by an increase in equity as at 31 December 2016 through an increase in net income by the amount of LL 1,670 million, against a decrease in total liabilities through a decrease in "Provisions for risks and charges" by the same amount.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the 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 financial statements of the year ended 31 December 2016. Except for the matter described in the "Basis for Qualified Opinion" section of our report, we have determined that there are no other key audit matters to communicate in our report.

Responsibilities of Management and the Audit Committee for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

We communicate with 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.

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

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's 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.

Ernst & Young

18 April 2017
Beirut, Lebanon

National Bank of Kuwait (Lebanon) SAL

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	<i>Notes</i>	2016 <i>LL million</i>	<i>2015</i> <i>LL million</i>
Interest and similar income	3	13,657	14,367
Interest and similar expense	4	(1,429)	(1,430)
Net interest income		12,228	12,937
Fee and commission income		2,069	2,250
Fee and commission expenses		(234)	(254)
Net fee and commission income	5	1,835	1,996
Net gain from foreign exchange	6	735	799
Other operating income	7	524	759
Total operating income		15,322	16,491
Net credit (losses) gains	14	(81)	3
Net operating income		15,241	16,494
Personnel expenses	8	(13,772)	(8,952)
Administrative and other operating expenses	9	(6,603)	(4,421)
Depreciation of property and equipment	16	(653)	(648)
Total operating expenses		(21,028)	(14,021)
(Loss) Profit before tax		(5,787)	2,473
Income tax expense	10	(228)	(302)
Net (loss) profit for the year		(6,015)	2,171
Other comprehensive income for the year		-	-
TOTAL COMPREHENSIVE (LOSS) INCOME FOR THE YEAR		(6,015)	2,171

The attached notes 1 to 35 form part of these financial statements.

National Bank of Kuwait (Lebanon) SAL

STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	<i>Notes</i>	<i>2016</i> <i>LL million</i>	<i>2015</i> <i>LL million</i>
Assets			
Cash and balances with the Central Bank	11	108,428	96,677
Due from banks and financial institutions	12	19,895	31,316
Due from head office, branches and affiliates	13	7,090	6,310
Loans and advances to customers at amortized cost	14	100,410	120,497
Loans and advances to related parties at amortized cost	28	1,093	1,042
Debtors by acceptances		230	-
Financial assets at amortized cost	15	134,210	138,010
Property and equipment	16	12,139	12,309
Derivative financial instruments	20	244	367
Other assets	18	1,188	1,463
Total assets		384,927	407,991
Liabilities and shareholders' equity			
Liabilities			
Due to banks and financial institutions	19	12	18
Due to head office, branches and affiliates	13	28	186
Customers' deposits at amortized cost	21	287,458	311,505
Related parties' deposits at amortized cost	28	846	570
Engagements by acceptances		230	-
Other liabilities	22	4,944	4,280
Provisions for risks and charges	23	10,356	4,350
Total liabilities		303,874	320,909
Shareholders' equity			
Share capital – common shares	24	40,020	40,020
Non-distributable reserves (legal and obligatory)	25	15,075	14,407
Distributable reserves	26	31,973	30,484
Net results of the financial year – (loss) profit		(6,015)	2,171
Total shareholders' equity		81,053	87,082
Total liabilities and shareholders' equity		384,927	407,991

The financial statements were authorized for issue in accordance with a resolution of the Board of Directors on 18 April 2017.

National Bank of Kuwait (Lebanon) SAL

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	<i>Non-distributable reserves (legal and obligatory)</i>					<i>Distributable free reserve</i>		<i>Total LL million</i>
	<i>Share capital – common shares LL million</i>	<i>Statutory reserve LL million</i>	<i>Reserve for capital increase LL million</i>	<i>Reserve for general banking risks LL million</i>	<i>Total LL million</i>	<i>General reserve LL million</i>	<i>Results of the financial year -profit LL million</i>	
Balance at 1 January 2016	40,020	4,772	3,421	6,214	14,407	30,484	2,171	87,082
Results of the financial year – loss	-	-	-	-	-	-	(6,015)	(6,015)
Total comprehensive loss for the year	-	-	-	-	-	-	(6,015)	(6,015)
Appropriation of 2015 profit (Notes 25 and 26)	-	217	-	464	681	1,490	(2,171)	-
Adjustments	-	-	(2)	(11)	(13)	(1)	-	(14)
Balance at 31 December 2016	40,020	4,989	3,419	6,667	15,075	31,973	(6,015)	81,053
Balance at 1 January 2015	40,020	4,591	3,356	5,709	13,656	29,420	1,815	84,911
Results of the financial year – profit	-	-	-	-	-	-	2,171	2,171
Total comprehensive income for the year	-	-	-	-	-	-	2,171	2,171
Appropriation of 2014 profit (Notes 25 and 26)	-	181	65	505	751	1,064	(1,815)	-
Balance at 31 December 2015	40,020	4,772	3,421	6,214	14,407	30,484	2,171	87,082

The attached notes 1 to 35 form part of these financial statements.

National Bank of Kuwait (Lebanon) SAL

STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	<i>Notes</i>	<i>2016</i> <i>LL million</i>	<i>2015</i> <i>LL million</i>
OPERATING ACTIVITIES			
Net (loss) profit before income tax		(5,787)	2,473
Adjustments for:			
Depreciation of property and equipment	16	653	648
Gain on sale of property and equipment		(2)	-
Provision for retirement benefits obligations	23	4,362	225
Provision (Write-back of provision) for credit losses	14	81	(3)
Net provisions for risks and charges	23	1,899	29
		1,206	3,372
Working capital changes:			
Cash and balances with the Central Bank – Maturities of more than 3 months		15,950	8,901
Loans and advances to customers at amortized cost		20,006	(4,126)
Loans and advances to related parties at amortized cost		(51)	187
Other assets		275	702
Customers' deposits at amortized cost		(24,047)	(37,531)
Related parties' deposits at amortized cost		276	(828)
Other liabilities		605	(1,063)
Cash from (used) in operations		14,220	(30,386)
Retirement benefits obligations paid	23	(226)	(124)
Allocation of reserve risk charge		(43)	(89)
Taxes paid	10	(169)	(248)
Net cash from (used in) operating activities		13,782	(30,847)
INVESTING ACTIVITIES			
Purchase of financial assets at amortized cost		(81,470)	(68,125)
Purchase of property and equipment	16	(483)	(259)
Proceeds from redemption of financial assets at amortized cost		85,393	85,520
Proceeds from sale of property and equipment		2	-
Net cash from investing activities		3,442	17,136
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		17,224	(13,711)
Cash and cash equivalents at 1 January		87,999	101,710
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	27	105,223	87,999
OPERATING CASH FLOWS			
Interest received		13,820	14,379
Interest paid		1,428	1,453

The attached notes 1 to 35 form part of these financial statements.

1 CORPORATE INFORMATION

The Bank is a shareholding company registered in Beirut, Lebanon. It was registered during 1963 under the name of RIF Bank SAL under commercial registration number 13188 and number 73 on the list of banks published by the Central Bank of Lebanon. In 1996, the name of the Bank was changed to National Bank of Kuwait (Lebanon) SAL. The Bank provides a full range of commercial banking activities. Its main branch is at Sanayeh and it operates through three branches.

National Bank of Kuwait S.A.K. owns directly and indirectly 72.66% of the Bank's shares. The main address of National Bank of Kuwait S.A.K. is P.O.Box 95 Safat 13001, Kuwait.

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements are prepared under the historical cost convention as modified for the measurement at fair value of derivative financial instruments.

The financial statements have been presented in millions of Lebanese Lira (LL million).

Statement of compliance

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

Presentation of financial statements

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

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

2.2 Changes in accounting policies and disclosures

The following new and revised IFRSs have been applied in the current period in these financial statements. Their adoption had no significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

Standard	Description	Effective date
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.	1 January 2016
	The amendments are designed to further encourage companies to apply professional judgement in determining what information to disclose and how to structure notes in their financial statements.	

2 SIGNIFICANT ACCOUNTING POLICIES

2.3 Changes in accounting policies and disclosures (continued)

Standard	Description	Effective date
Amendments to IFRS 11 – Accounting for acquisition of interests in Joint Operations	The amendments clarify that when acquiring an interest in a joint operation where the activity of the joint operation constitutes a business, all of the principles on business combinations accounting in IFRS 3, and other IFRSs, that do not conflict with the guidance in IFRS 11, are to be applied. The requirements apply to the acquisition of both the initial interest and additional interests in a joint operation but any previously held interest in the joint operation would not be remeasured.	1 January 2016
Amendments to IFRS 10, IFRS 12 and IAS 28 Investment entities – Applying the consolidation exception	The amendments define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.	1 January 2016
Amendments to IAS 16 and IAS 38 – Clarification of acceptable methods of depreciation and amortization	The amendment clarifies that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate. The IASB has also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset.	1 January 2016
IFRS 10 Consolidated Financial Statements and IAS 28 - Investments in Associates & Joint Ventures	The amendment clarifies the treatment of the sale or contribution of assets from an investor to its associate or joint venture, as follows: (a) require full recognition in the investor's financial statements of gains and losses arising on the sale or contribution of assets that constitute a business (as defined in IFRS 3 Business Combinations). (b) require the partial recognition of gains and losses where the assets do not constitute a business, i.e. a gain or loss is recognized only to the extent of the unrelated investors' interests in that associate or joint venture.	1 January 2016
IFRS 15, 'Revenue from contracts with Customers'	This is the converged standard on revenue recognition. It replaces IAS 11, 'Construction contracts', IAS 18,'Revenue' and related interpretations. Revenue is recognized when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service. The core principle of IFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 also includes a cohesive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.	1 January 2018

2 SIGNIFICANT ACCOUNTING POLICIES**2.3 Changes in accounting policies and disclosures (continued)**

Certain new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2016, with the Bank not opting for early adoption. These have, therefore, not been applied in preparing these financial statements.

Standard	Description	Effective date
IAS 7, "Statement of cash flows"	<p>The amendments issued are as follows:</p> <p>(a) introduce additional disclosure requirements intended to address investors' concerns as currently they are not able to understand the management of an entity's financing activities;</p> <p>(b) require disclosure of information enabling users to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes;</p> <p>(c) do not prescribe a specific format for disclosures but indicates that we can fulfil the requirement by providing a reconciliation between opening and closing balances for liabilities arising from financing activities; and</p> <p>(d) are also applicable to financial assets that hedge liabilities arising from financing activities</p>	1 January 2017
IFRS 9, 'Financial instruments'	<p>In prior years the company has early adopted IFRS 9 (2010) which includes the requirements for the classification and measurement. In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments (IFRS 9 (2014)) which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.</p> <p>Classification and measurement Debt instruments held within a business model in which assets are managed both in order to collect contractual cash flows and for sale should be measured at fair value through OCI but only if they pass the contractual characteristics assessment.</p> <p>Impairment There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. IFRS 9 requires the Bank to record expected credit losses on all of its debt securities, loans and receivables, either on a 12-month or lifetime basis.</p> <p>Hedging IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes.</p> <p>Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.</p>	1 January 2018

2 SIGNIFICANT ACCOUNTING POLICIES**2.3 Changes in accounting policies and disclosures (continued)**

Standard	Description	Effective date
IFRS 16, 'Leases'	<p>The IASB issued the new standard for accounting for leases in January 2016.</p> <p>(a) The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognize most leases on their balance sheets as lease liabilities, with the corresponding right-of-use assets.</p> <p>(b) Lessees must apply a single model for all recognized leases, but will have the option not to recognize 'short-term' leases and leases of 'low-value' assets.</p> <p>(c) Generally, the profit or loss recognition pattern for recognized leases will be similar to today's finance lease accounting, with interest and depreciation expense recognized separately in the statement of profit or loss.</p> <p>Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date.</p> <p>Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach.</p>	1 January 2019

The Bank is in the process of analyzing the impact of IFRS 9, IFRS 15 and IFRS 16. The Bank has assessed the impact of other standards, amendments to standards, revisions and interpretations. Based on the assessment, the above standards, amendments to standards, revisions and interpretations have no material impact on the financial statements of the Bank as at the reporting date.

2.4 Summary of significant accounting policies**(1) Foreign currency translation**

Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the statement of financial position date. All differences are taken to "Net gain (loss) from financial instruments at fair value through profit or loss" in the income statement.

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

(A) Date of recognition

All financial assets and liabilities are initially recognized on the trade date, i.e. the date that the Bank becomes a party to the contractual provisions of the instrument. This includes purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

(B) Classification and measurement of financial instruments**1. Financial assets**

The classification of financial assets depends on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Assets are initially measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, particular transaction costs. Assets are subsequently measured at amortized cost or at fair value.

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

2 SIGNIFICANT ACCOUNTING POLICIES

2.4 Summary of significant accounting policies (continued)

(1) Foreign currency translation (continued)

(B) Classification and measurement of financial instruments (continued)

1. Financial assets (continued)

Debt instruments at amortized cost

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

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

These financial assets are initially recognized at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributed to the acquisition are also included in the cost of investment. After initial measurement, these financial assets are measured at amortized cost using the effective interest rate method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortization is included in "Interest and similar income" in the income statement. The losses arising from impairment are recognized in the income statement in "Impairment losses on other financial assets".

Although the objective of an entity's business model may be to hold financial assets in order to collect contractual cash flows, the entity need not hold all of those instruments until maturity. Thus an entity's business model can be to hold financial assets to collect contractual cash flows even when sales of financial assets occur. However, if more than an infrequent number of sales are made out of a portfolio, the entity needs to assess whether and how such sales are consistent with an objective of collecting contractual cash flows. If the objective of the entity's business model for managing those financial assets changes, the entity is required to reclassify financial assets.

Gains and losses arising from the derecognition of financial assets measured at amortized cost are reflected under "net gain (loss) on derecognition of debt instruments at amortized cost" in the income statement.

Debt instruments and other financial assets at fair value through profit or loss

Included in this category are those debt instruments that do not meet the conditions in "Debt instruments at amortized cost" above, and debt instruments designated at fair value through profit or loss upon initial recognition.

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

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

Equity instruments at fair value through profit or loss

Investments in equity instruments are classified at fair value through profit or loss, unless the Bank designates at initial recognition an investment that is not held for trading as at fair value through other comprehensive income.

These financial assets are recorded in the statement of financial position at fair value. Changes in fair value and dividend income are recorded under "net gain on financial assets at fair value through profit or loss" in the income statement. Gains and losses arising from derecognition of equity instruments at fair value through profit or loss are also reflected under "net gain from financial assets at fair value through profit or loss" in the income statement.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

(1) Foreign currency translation (continued)

(B) Classification and measurement of financial instruments (continued)

1. Financial assets (continued)

Due from banks and financial institutions and loans and advances to customers and related parties – at amortized cost

After initial measurement, amounts “Due from banks and financial institutions”, “Loans and advances to customers at amortized cost and loans and advances to related parties at amortized cost” are subsequently measured at amortized cost using the effective interest rate method (EIR), less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in ‘Interest and similar income’ in the income statement. The losses arising from impairment are recognized in the income statement in “Credit loss expense”

2. Financial liabilities

The Bank classifies all financial liabilities as subsequently measured at amortized cost using the effective interest method, except for:

- financial liabilities at fair value through profit or loss (including derivatives);
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.
- financial guarantee contracts and commitments to provide a loan at a below-market interest rate which after initial recognition are subsequently measured at the higher of the amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with IAS 18 Revenue.

Financial liabilities consist of due to banks and financial institutions, and customers’ and related parties’ deposits at amortized cost.

Due to banks and financial institutions, customers’ deposits and related parties deposits

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

3. Derivatives recorded at fair value through profit or loss

The Bank uses derivatives such as interest rate swaps and forward foreign exchange contracts.

Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are recognized in “net gain on financial assets at fair value through profit and loss” in the income statement.

An embedded derivative is separated from the host and accounted for as a derivative if, and only if:

- (a) the hybrid contract contains a host that is not an asset within the scope of IFRS 9
- (b) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host
- (c) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- (d) the hybrid contract is not measured at fair value with changes in fair value recognized in profit or loss

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

(1) Foreign currency translation (continued)

(C) *Reclassification of financial assets*

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

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

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

(2) De-recognition of financial assets and financial liabilities

(a) *Financial assets*

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

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

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

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

(b) *Financial liabilities*

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

(3) Fair values

For investments and derivatives quoted in an active market, fair value is determined by reference to quoted market prices. Bid prices are used for assets and offer prices are used for liabilities.

For unquoted financial instruments, fair value is determined by reference to the market value of similar investments, or is based on the expected discounted cash flows, or by using other techniques.

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount payable on demand.

(4) Impairment of financial assets

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

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganization, default or delinquency in interest or principal payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(a) Financial assets carried at amortized cost

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

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

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (EIR).

If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. If the Bank has reclassified trading assets to loans and advances, the discount rate for measuring any impairment loss is the new EIR determined at the reclassification date. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

(4) Impairment of financial assets (continued)

(a) Financial assets carried at amortized cost (continued)

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

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

(b) Renegotiated loans

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

(5) Derivatives

Derivatives are stated at fair value.

For the purposes of hedge accounting, hedges are classified into two categories:

- (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; and
- (b) cash flow hedges which hedge exposure to variability in cash flows of a recognised asset or liability or a forecasted transaction.

In relation to effective fair value hedges any gain or loss from remeasuring the hedging instrument to fair value, as well as related changes in fair value of the item being hedged, are recognised immediately in the income statement.

In relation to cash flow hedges, the gain or loss on the hedging instrument is recognised initially in equity to the extent that the hedge is effective and either transferred to the income statement in the period in which the hedged transaction impacts the income statement, or included as part of the cost of the related asset or liability.

For those derivatives which do not qualify for hedge accounting, any gains or losses arising from changes in the fair value of the hedging instrument are taken directly to the income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. For fair value hedges of financial instruments with fixed maturities any adjustment arising from hedge accounting is amortized over the remaining term to maturity. For cash flow hedges, any cumulative gain or loss on the hedging instrument recognised in equity remains in shareholders' equity until the hedged transaction occurs. If the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in shareholders' equity is transferred to the income statement.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

(6) Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and the Bank intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

(7) Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured.

(a) Interest and similar income and expense

For all financial instruments measured at amortized cost, interest bearing financial assets classified as available-for-sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the effective interest rate method, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying value is recognized as interest income or interest expense in the income statement.

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

(b) Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers.

Fees earned for the provision of services over a period of time are accrued over that period. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the effective interest rate on the loan. When it is unlikely that a loan be drawn down, the loan commitment fees are recognized over the commitment period on a straight line basis.

(8) Cash and cash equivalents

Cash and cash equivalents comprise of those balances whose original maturities are three months or less from the date of acquisition: cash and balances with the Central Bank, due from banks and other financial institutions, deposits with head office, branches and affiliates, deposits due to banks and other financial institutions, deposits due to head office, branches and affiliates, and treasury bills.

(9) Property and equipment

Property and equipment are stated at cost. Depreciation is calculated on a straight line basis to write down the cost of property and equipment to their residual values over their estimated useful lives. Freehold land is not depreciated. The estimated useful lives are as follows:

Buildings	50 years
Furniture, fixtures and equipments	From 4 to 12.5 years
Installations and decoration	5 years
Transportation vehicles	4 years
Computer equipment	5 years

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

(9) Property and equipment (continued)

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of property and equipment. All other expenditure is recognised in the income statement as the expense is incurred.

(10) Fixed assets taken in recovery of debt

The Bank occasionally acquires real estate in settlement of certain loans and advances. Such real estate is stated at the lower of the amount of the related loans and advances and the current fair value of such assets based on the instructions of the Control Authorities. Gains or losses on disposal, and revaluation losses, are recognized in the income statement for the year.

(11) Customers' deposits

All customer deposits are carried at the fair value of the consideration received, less amounts repaid.

(12) Impairment of non-financial assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

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

(13) Taxation

(a) Current tax

Taxation is provided for in accordance with the fiscal regulations in Lebanon.

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the statement of financial position date.

The Bank's profits from operations in Lebanon are subject to a tax rate of 15% after deducting the 5% tax on interest received according to Law no. 497/2003 dated 30 January 2003. Profits distributed to shareholders are subject to a flat 10% tax.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

(13) Taxation (continued)

(b) Deferred tax

Deferred tax is provided using the liability method on temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

Current tax and deferred tax relating to items recognized directly in equity are also recognized in equity and not in the income statement.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each statement of financial position date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

(14) Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and can be reliably measured.

(15) Operating lease agreements

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

(16) Retirement benefits obligations

The retirement benefits obligations are provided for based on 8.5% of the employees' salaries. The benefits are calculated upon completion of 20 years of services, or when the employee reaches retirement age, or resigns permanently, on the basis of the last salary multiplied by years of service. The Bank is obliged to pay the difference between the paid contribution (calculated at 8% basis) and the provisions for retirements benefits payable to the National Social Security Fund. The Bank provides for employees' retirement benefit obligations on this basis.

(17) Fiduciary assets

Assets held in a fiduciary capacity are not treated as assets of the Bank and are recorded as off financial position items.

2.5 Significant accounting judgments and estimates

In the process of applying the Bank's accounting policies, management has exercised judgment and estimates in determining the amounts recognized in the financial statements. The most significant uses of judgment and estimates are as follows:

Going concern

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Significant accounting judgments and estimates (continued)

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position, cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The valuation of financial instruments is described in more detail in note 34.

Impairment losses on loans and advances

The Bank reviews its individually significant loans and advances at each statement of financial position date to assess whether an impairment loss should be recorded in the income statement. In particular, management judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as levels of arrears, credit utilization, loan to collateral ratios, etc.) and judgments to the effect of concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

The impairment loss on loans and advances is disclosed in more detail in note 14.

Deferred tax assets

Deferred tax assets are recognized in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

Business model

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

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

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

Contractual cash flows of financial assets

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

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3 INTEREST AND SIMILAR INCOME

	<i>2016</i> <i>LL million</i>	<i>2015</i> <i>LL million</i>
Deposits and similar accounts with banks and financial institutions	882	562
Deposits with head office, branches and affiliates	7	11
Loans and advances to customers at amortized cost	5,280	5,868
Loans and advances to related parties at amortized cost	44	67
Financial assets at amortized cost	7,444	7,859
	<u>13,657</u>	<u>14,367</u>

4 INTEREST AND SIMILAR EXPENSE

	<i>2016</i> <i>LL million</i>	<i>2015</i> <i>LL million</i>
Deposits from customers and other credit balances at amortized cost	1,426	1,427
Deposits from related parties at amortized cost	3	3
	<u>1,429</u>	<u>1,430</u>

5 NET FEE AND COMMISSION INCOME

	<i>2016</i> <i>LL million</i>	<i>2015</i> <i>LL million</i>
Commission income		
Letters of credit, guarantees and acceptances	246	283
Loans and advances to customers	172	189
Credit cards	169	195
Commissions on real estate	94	81
Special banking services	2	4
Other services	1,386	1,498
	<u>2,069</u>	<u>2,250</u>
Commission expenses		
Commission of clearance room and accounts management	(167)	(201)
Credit cards	(37)	(31)
Commissions and other fees	(30)	(22)
	<u>(234)</u>	<u>(254)</u>
Net commission income	<u>1,835</u>	<u>1,996</u>

6 NET GAIN FROM FOREIGN EXCHANGE

This account represents the profit generated from exchange operations that are mainly in Euros, Kuwaiti Dinars and US Dollars.

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7 OTHER OPERATING INCOME

	<i>2016</i> <i>LL million</i>	<i>2015</i> <i>LL million</i>
Income recognized from operating leases	170	348
Net gain on sale of property and equipment	2	-
Write back of provisions	248	282
Other income	104	129
	<u>524</u>	<u>759</u>

8 PERSONNEL EXPENSES

	<i>2016</i> <i>LL million</i>	<i>2015</i> <i>LL million</i>
Salaries and wages	6,557	6,172
Social security contribution	750	758
Provision for retirement benefits obligations (note 23)	4,362	225
Other employees' benefits	1,502	1,518
Contractual employees' salaries	601	279
	<u>13,772</u>	<u>8,952</u>

9 ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	<i>2016</i> <i>LL million</i>	<i>2015</i> <i>LL million</i>
Net provision for risks and charges (note 23)	1,899	27
Taxes and fees	954	547
Expenses and computer services	852	912
Rent	378	386
Professional fees	368	372
Electricity, fuel and telecommunication expenses	356	379
Maintenance and repairs	345	345
Cleaning	262	275
Guarding fees	238	251
Guarantee of deposits fee	176	176
Building expenses	140	140
Subscriptions	87	81
Insurance fees	87	77
Office supplies	82	90
Travel, transport and similar expenses	66	51
Other expenses	313	312
	<u>6,603</u>	<u>4,421</u>

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10 INCOME TAX EXPENSE

	2016 <i>LL million</i>	2015 <i>LL million</i>
Profit before tax	(5,787)	2,473
5% tax on interest income received from banks	(228)	(237)
	<u>(6,015)</u>	<u>2,236</u>

The relationship between income tax expense and the accounting profit is as follows:

	2016 <i>LL million</i>	2015 <i>LL million</i>
Net (loss) profit before income tax	(6,015)	2,236
Non-deductible expenses and non-taxable income in determining taxable profit:		
Net provision for risks and charges non deductible	1,871	-
Provision for retirement benefits obligations non deductible	672	-
Other non deductible taxes	144	165
Additional general provisions	51	102
Other expenses non- tax deductible	423	29
Write back of provisions previously taxable	(248)	(215)
Income tax deductible	(54)	(143)
5% tax on interest income received from banks	228	237
Taxable (loss) income	<u>(2,928)</u>	<u>2,411</u>
Effective income tax rate	<u>15%</u>	<u>15%</u>
Income tax expense	<u>-</u>	<u>362</u>
Tax on profit from sale of fixed assets	-	-
Write back of provision for additional tax	-	(60)
Total tax	<u>-</u>	<u>302</u>
5% tax on interest income received from banks	<u>(228)</u>	<u>(237)</u>
	<u>-</u>	<u>65</u>

The movement of income tax expense is as follows:

	2016 <i>LL million</i>	2015 <i>LL million</i>
Balance at 1 January	139	145
Tax paid during the year	(169)	(248)
Write back of provisions from previous years	(163)	(60)
Provisions for the year	228	302
Balance at 31 December	<u>35</u>	<u>139</u>

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11 CASH AND BALANCES WITH THE CENTRAL BANK

	<i>2016</i> <i>LL million</i>	<i>2015</i> <i>LL million</i>
Cash on hand	5,954	7,372
Central Bank		
Current accounts	46,174	38,539
Time deposits	56,300	50,766
	<u>108,428</u>	<u>96,677</u>

Current accounts at the Central Bank include an amount of LL million 9,711 (2015: LL million 9,680) to cover the monetary regulatory reserve requirement on Lebanese Lira deposits, according to Lebanese banking laws and regulations.

Time deposits at the Central Bank include two placements of US\$ 8 million and US\$ 20 million (2015: US\$ 7 million and US\$ 20 million) with interest rates of 0.498% and 1.78 % respectively to cover the regulatory reserve of 15% on foreign currency deposits and amounting to LL million 35,504 (2015: LL million 36,420). The placements mature on 30 January 2017 and on 4 November 2019 respectively.

12 DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	<i>2016</i> <i>LL million</i>	<i>2015</i> <i>LL million</i>
Current accounts	7,835	11,718
Time deposits	12,060	19,598
	<u>19,895</u>	<u>31,316</u>

13 HEAD OFFICE, BRANCHES AND AFFILIATES

	<i>2016</i> <i>LL million</i>	<i>2015</i> <i>LL million</i>
Due from head office, branches and affiliates		
Current accounts	7,090	6,310
Due to head office, branches and affiliates		
Current accounts	28	186

14 LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST

	<i>2016</i> <i>LL million</i>	<i>2015</i> <i>LL million</i>
Gross commercial loans	62,277	79,918
Gross consumer loans	39,300	41,630
	<u>101,577</u>	<u>121,548</u>
Unrealized interest	(52)	(17)
Provision for doubtful loans	(1,115)	(1,034)
	<u>100,410</u>	<u>120,497</u>

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14 LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST (continued)

The movement of provision for loans and advances to customers during the year was as follows:

	<i>2016</i> <i>LL million</i>	<i>2015</i> <i>LL million</i>
Provision at 1 January	1,034	1,037
Charge for the year	81	4
Amounts written off	-	(2)
Amounts written back	-	(5)
Provision at 31 December	<u>1,115</u>	<u>1,034</u>
Individual impairment	81	-
Collective impairment	1,034	1,034
	<u>1,115</u>	<u>1,034</u>

According to the Central Bank instructions, the Bank transferred to off-financial position all bad debts satisfying certain criteria and their related provision and interest in suspense.

15 FINANCIAL ASSETS AT AMORTIZED COST

	<i>2016</i> <i>LL million</i>	<i>2015</i> <i>LL million</i>
Quoted:		
US treasury bills	2,869	2,858
Lebanese Euro Bonds	55,196	55,630
	<u>58,065</u>	<u>58,488</u>
Unquoted:		
Lebanese treasury bills	76,389	79,889
Effect of hedging interest rate risk (note 31)	(244)	(367)
	<u>134,210</u>	<u>138,010</u>

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16 PROPERTY AND EQUIPMENT

	<i>Advances on purchase of fixed assets LL million</i>	<i>Land LL million</i>	<i>Buildings LL million</i>	<i>Furniture, fixtures and equipment LL million</i>	<i>Leasehold improvements and decorations LL million</i>	<i>Vehicles LL million</i>	<i>Computer equipment LL million</i>	<i>Total LL million</i>
Cost:								
At 1 January 2016	-	1,478	15,394	2,918	1,460	312	2,621	24,183
Additions	8	-	-	20	98	97	260	483
Write-offs	-	-	-	(264)	(16)	-	(362)	(642)
Disposals	-	-	-	-	-	-	(7)	(7)
At 31 December 2016	<u>8</u>	<u>1,478</u>	<u>15,394</u>	<u>2,674</u>	<u>1,542</u>	<u>409</u>	<u>2,512</u>	<u>24,017</u>
Depreciation:								
At 1 January 2016	-	-	5,536	2,723	1,353	171	2,091	11,874
Charge for the year	-	-	308	60	45	48	192	653
Relating to write-offs	-	-	-	(264)	(16)	-	(362)	(642)
Relating to disposals	-	-	-	-	-	-	(7)	(7)
At 31 December 2016	<u>-</u>	<u>-</u>	<u>5,844</u>	<u>2,519</u>	<u>1,382</u>	<u>219</u>	<u>1,914</u>	<u>11,878</u>
Net carrying amount:								
At 31 December 2016	<u>8</u>	<u>1,478</u>	<u>9,550</u>	<u>155</u>	<u>160</u>	<u>190</u>	<u>598</u>	<u>12,139</u>

	<i>Advances on purchase of fixed assets LL million</i>	<i>Land LL million</i>	<i>Buildings LL million</i>	<i>Furniture, fixtures and equipment LL million</i>	<i>Leasehold improvements and decorations LL million</i>	<i>Vehicles LL million</i>	<i>Computer equipment LL million</i>	<i>Total LL million</i>
Cost:								
At 1 January 2015	-	1,478	15,394	2,908	1,430	227	2,606	24,043
Additions	-	-	-	18	30	85	126	259
Disposals	-	-	-	(8)	-	-	(111)	(119)
At 31 December 2015	<u>-</u>	<u>1,478</u>	<u>15,394</u>	<u>2,918</u>	<u>1,460</u>	<u>312</u>	<u>2,621</u>	<u>24,183</u>
Depreciation:								
At 1 January 2015	-	-	5,228	2,632	1,308	143	2,034	11,345
Charge for the year	-	-	308	99	45	28	168	648
Relating to disposals	-	-	-	(8)	-	-	(111)	(119)
At 31 December 2015	<u>-</u>	<u>-</u>	<u>5,536</u>	<u>2,723</u>	<u>1,353</u>	<u>171</u>	<u>2,091</u>	<u>11,874</u>
Net carrying amount:								
At 31 December 2015	<u>-</u>	<u>1,478</u>	<u>9,858</u>	<u>195</u>	<u>107</u>	<u>141</u>	<u>530</u>	<u>12,309</u>

17 NON CURRENT ASSETS HELD FOR SALE

	2016 LL million	2015 LL million
Cost	121	121
Provision for impairment	(121)	(121)
	<u>-</u>	<u>-</u>

18 OTHER ASSETS

	2016 LL million	2015 LL million
Deferred expenses	363	420
Prepaid expenses	204	339
Staff receivables	289	399
Sundry debtors	242	208
Exchange difference on structural foreign exchange position	74	74
Stamps	16	23
	<u>1,188</u>	<u>1,463</u>

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18 OTHER ASSETS (continued)

The Bank has accounted for an amount of LL million 17,345 in prior years as structural foreign exchange position with the approval of the Banking Control Commission. The exchange difference arising on this position amounting to LL million 74 was recorded in the income statement, in prior years.

19 DUE TO BANKS AND FINANCIAL INSTITUTIONS

	<i>2016</i> <i>LL million</i>	<i>2015</i> <i>LL million</i>
Current accounts	<u>12</u>	<u>18</u>

20 DERIVATIVE FINANCIAL INSTRUMENTS

	<i>2016</i> <i>LL million</i>	<i>2015</i> <i>LL million</i>
Positive fair value on swap contracts (note 31)	<u>244</u>	<u>367</u>

21 CUSTOMERS' DEPOSITS AT AMORTIZED COST

	<i>2016</i> <i>LL million</i>	<i>2015</i> <i>LL million</i>
Current accounts	216,246	239,256
Time deposits	3,942	2,614
Saving accounts	66,932	69,308
Accrued interest payable	338	327
	<u>287,458</u>	<u>311,505</u>

Customers' deposits include coded deposits amounting to LL million 259 (2015: LL million 257). These accounts were opened under the provisions of Article 3 of the Banking Secrecy Law dated 3 September 1956.

Customers' deposit accounts include blocked accounts amounting to LL million 3,649 (2015: LL million 2,313) representing cash collateral pledged in favor of the Bank as a guarantee for the credit facilities and guarantees issued in favor of the customers.

22 OTHER LIABILITIES

	<i>2016</i> <i>LL million</i>	<i>2015</i> <i>LL million</i>
Income tax liability	35	139
Other taxes	218	187
Margin against documentary credits	50	52
Sundry creditors	3,193	2,278
National Social Security Fund	88	88
Accrued expenses	1,360	1,536
	<u>4,944</u>	<u>4,280</u>

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23 PROVISIONS FOR RISKS AND CHARGES

	<i>2016</i> <i>LL million</i>	<i>2015</i> <i>LL million</i>
Retirement benefits obligation	7,300	3,186
Provision for risks and charges	3,056	1,164
	<u>10,356</u>	<u>4,350</u>

The movement in the provision of retirement benefits obligations included in the statement of financial position is as follows:

	<i>2016</i> <i>LL million</i>	<i>2015</i> <i>LL million</i>
Provision at 1 January	3,186	3,085
Provided during the year (note 8) (a)	4,362	225
Provision paid during the year	(226)	(124)
Difference of exchange	(22)	-
Provision at 31 December	<u>7,300</u>	<u>3,186</u>

The movement of the provisions for risks and charges during the year was as follows:

	<i>2016</i> <i>LL million</i>	<i>2015</i> <i>LL million</i>
Balance at 1 January	1,164	1,224
Excess provisions to comply with the Central Bank of Lebanon Intermediate Circulars number 439 dated 8 November 2016 (b)	1,670	-
Additional provisions during the year	555	29
Write-off of provision during the year	(7)	-
Write back of provision during the year	(326)	(89)
Balance at 31 December	<u>3,056</u>	<u>1,164</u>

(a) The Board of Directors decided on 19 February 2016 to close 4 branches (Achrafieh, Jounieh, Dora and Shiah). Accordingly, a number of employees became redundant. The Bank provided for the amount of LL million 4,362 as final settlements for those employees.

(b) During 2016, the Central Bank of Lebanon issued Intermediate Circular number 439 dated 8 November 2016 requesting banks operating in Lebanon to book a 2% provision on risk-weighted loans in preparation for the implementation of the impairment of International Financial Reporting Standards (IFRS 9) effective 1 January 2018. In order to comply with the regulatory requirement, the Bank recorded excess provisions under "provisions for risks and charges" amounting to LL million 1,670 as at 31 December 2016.

24 SHARE CAPITAL – COMMON SHARES

The authorized, issued and fully paid share capital as of 31 December 2016 comprised of 5,800,000 shares of nominal value LL 6,900 per share (2015: the same).

25 NON DISTRIBUTABLE RESERVES*1. Statutory reserve*

As required by Article 132 of the Lebanese Code of Money and Credit, 10% of the net profit after tax should be transferred to a statutory reserve. This reserve is not distributable. The Bank appropriated LL million 217 of prior year net profit to this reserve during the current year (2015: LL million 181).

2. Reserve for capital increase

In compliance with circular 167 issued by the Banking Control Commission on 24 January 1994 which states the requirement to transfer the recovery of provisions for doubtful debts to a special free reserve for capital increase limited by the net income. The Bank did not appropriate any amount from prior year net profit to this reserve during the current year (2015: LL million 65).

3. Reserve for general banking risks

In compliance with main circular no. 50 issued by the Central Bank dated 15 October 1998, the Bank should transfer from net profit for the year a minimum amount of 2 per thousand and a maximum of 3 per thousand from the total risk weighted assets and off financial position items based on rates specified by the Central Bank as a reserve for general banking risks. The accumulated balance of this reserve should not be less than 1.25% of the total risks at the end of the financial year ten (year 2017) and 2% at the end of the financial year twenty (year 2027). This reserve is used to cover the losses of the annual financial cycle or any unforeseen losses around is compatibility with the Banking Control Commission and be fully configured, priority, from the profits realized in subsequent fiscal years. The Bank appropriated LL million 464 of prior year net profit to this reserve during the current year (2015: LL million 505).

26 DISTRIBUTABLE RESERVES*General reserve*

After all transfers to other reserves, the remaining profits are transferred to the general reserve. This reserve can be distributed. The Bank appropriated LL million 1,490 of prior year net profit to this reserve during the current year (2015: LL million 1,064).

The appropriation to the above reserves has been made in accordance with the resolution of the ordinary general assembly of shareholders dated 5 April 2016 (the appropriation of 2014 net profits to the above reserves has been made in accordance with the resolution of the ordinary general assembly of shareholders dated 12 June 2015).

27 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the statement of cash flows consist of the following:

	<i>2016</i>	<i>2015</i>
	<i>LL million</i>	<i>LL million</i>
Cash and balances with the Central Bank	78,278	50,577
Due from banks and financial institutions	19,895	31,316
Due to banks and financial institutions	(12)	(18)
Due from head office, branches and affiliates	7,090	6,310
Due to head office, branches and affiliates	(28)	(186)
	105,223	87,999

28 RELATED PARTY TRANSACTIONS

Related parties of the Bank include subsidiaries, key management personnel and their close family members, as well as entities controlled or jointly controlled by them.

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

Entities under common directorship are defined as those entities over which the Bank's key management personnel have similar authority and responsibility to those they have in the Bank.

Terms and conditions of transactions with related parties

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

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

	2016	
	<i>Outstanding balance LL million</i>	<i>Interest income (expense) LL million</i>
Key Management Personnel and their Family members		
Net loans and advances	1,093	37
Deposits	304	(3)
Banks under common directorships		
Debit balances	4,689	5
Credit balances	28	-
Shareholders		
Deposits	2,401	2
Guarantees received	21,825	-
Other related parties		
Deposits	510	-
Board Members		
Deposit	32	-
2015		
Key Management Personnel and their Family members		
Net loans and advances	1,042	56
Deposits	119	(2)
Banks under common directorships		
Debit balances	4,074	7
Credit balances	186	-
Guarantees given	13	-
Shareholders		
Deposits	2,261	(1)
Guarantees received	21,809	-
Other related parties		
Deposits	421	-
Board Members		
Deposit	30	-

29 COMMITMENTS AND CONTINGENT LIABILITIES (continued)**Credit-related commitments and contingent liabilities (continued)***Guarantees*

Guarantees are given as security to support the performance of a customer to third parties. The main types of guarantees provided are:

- Financial guarantees given to banks and financial institutions on behalf of customers to secure loans, overdrafts, and other banking facilities; and
- Non financial guarantees provided include mainly performance guarantees and retention guarantees.

Documentary credits

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

Undrawn credit lines

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

Legal claims

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Bank has formal controls and policies for managing legal claims. Based on advice from legal counsel, management believes that legal claims will not result in any financial loss to the Bank.

Claims resulting from Judicial disputes are detailed as follows:

	2016 <i>LL million</i>	2015 <i>LL million</i>
Claims' value raised against the Bank	192	192

Lease arrangements

Future minimum lease payments are as follows:

	2016 <i>LL million</i>	2015 <i>LL million</i>
Within one year	62	356
After one year but not more than five years	-	322
	62	678

Other contingencies

The Bank's books are still subject to review by the Department of Income Tax for the years 2012 to 2016 (inclusive).

The Bank's books are still subject to review by the National Social Security Fund for the years 2002 to 2016 (inclusive).

The ultimate outcome of any review by the Department of Income Tax and National Social Security Fund inspectors that may take place cannot presently be determined.

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30 ASSETS UNDER MANAGEMENT

The Bank has fiduciary assets as follows:

	<i>2016</i>	<i>2015</i>
	<i>LL million</i>	<i>LL million</i>
Lebanese Treasury bills denominated in LL	6,948	8,357
Lebanese Eurobonds	9,880	9,729
Financial notes	7,317	7,384
	24,145	25,470

The above Lebanese treasury bills, Eurobonds and financial notes are stated at nominal value.

31 DERIVATIVES

The table below shows the positive and negative fair values of derivative financial instruments, which are equivalent to the market values, together with the notional amounts analyzed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured.

	<i>2016</i>			<i>2015</i>		
	<i>Positive fair values</i>	<i>Negative fair value</i>	<i>Total Notional amount</i>	<i>Positive fair values</i>	<i>Negative fair value</i>	<i>Total Notional amount</i>
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
Derivatives used for hedging purposes:						
Interest rate swaps	244	-	19,974	367	-	19,974

Swaps are contractual agreements between two parties to exchange interest or foreign currency differentials based on a specific notional amount. For interest rate swaps, counterparties generally exchange fixed and floating interest rate payments based on a notional value in a single currency.

The Bank has entered into the above interest rate swaps to hedge the treasury bills in US Dollars (Eurobonds) at amortized cost and revalued at fair value to hedge interest rate risk. These hedges are effective fair value hedges, accordingly losses that resulted from the change of the fair value of the interest rate swaps have been directly charged to the income statement.

32 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values in this note are stated at a specific date and may be different from the amounts which will actually be paid on the maturity or settlement dates of the instrument. In many cases, it would not be possible to realize immediately the estimated fair values given the size of the portfolios measured. Accordingly, these fair values do not represent the value of these instruments to the Bank as a going concern. Financial assets and liabilities are classified according to a hierarchy that reflects the significance of observable market inputs. The three levels of the fair value hierarchy are defined below.

Quoted market prices – Level 1

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

32 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**Valuation technique using observable inputs – Level 2**

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

Valuation technique using significant unobservable inputs – Level 3

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). A valuation input is considered observable if it can be directly observed from transactions in an active market, or if there is compelling external evidence demonstrating an executable exit price. Unobservable input levels are generally determined based on observable inputs of a similar nature, historical observations or other analytical techniques.

Fair value measurement hierarchy of the Bank's financial assets and liabilities carried at fair value.

	<i>2016</i>	<i>2015</i>
	<i>Level 2</i>	<i>Level 2</i>
	<i>LL million</i>	<i>LL million</i>
Financial liabilities		
Derivative financial instruments		
Interest rate swaps	(244)	(367)
	<hr/> <hr/>	<hr/> <hr/>

No transfers between levels were made during the years 2016 and 2015.

Assets and Liabilities carried at fair value using valuation techniques that include significant observable inputs (Level 2)*Derivatives*

Derivative products are valued using valuation techniques with market observable inputs. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Government bonds, certificates of deposits and other debt securities

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

Assets and liabilities carried at fair value using a valuation technique with significant unobservable inputs (Level 3)*Comparison of carrying and fair values for financial assets and liabilities not held at fair value:*

The fair values included in the table below were calculated for disclosure purposes only. The fair valuation techniques and assumptions described below relate only to the fair value of the Bank financial instruments not measured at fair value. Other institutions may use different methods and assumptions for their fair value estimations, and therefore such fair value disclosures cannot necessarily be compared from one institution to another.

32 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**Assets and liabilities carried at fair value using a valuation technique with significant unobservable inputs (Level 3) (continued)**

Comparison of carrying and fair values for financial assets and liabilities not held at fair value: (continued)

The fair value of financial instruments that are listed at amortized cost as of 31 December 2016 and 31 December 2015 is as follows:

	2016			2015		
	Carrying value LL million	Fair value LL million	Unrealized gains (losses) in the statement of financial position LL million	Carrying value LL million	Fair value LL million	Unrealized gains (losses) in the statement of financial position LL million
Financial assets						
Cash and balances with the Central Bank	108,428	108,428	-	96,677	96,677	-
Due from banks and financial institutions	19,895	19,895	-	31,316	31,316	-
Due from head office, branches and affiliates	7,090	7,090	-	6,310	6,310	-
Loans and advances to customers at amortized cost	100,410	97,110	(3,300)	120,497	116,838	(3,659)
Loans and advances to related parties at amortized cost	1,093	1,049	(44)	1,042	982	(60)
Debtors by acceptances	230	230	-	-	-	-
Financial assets at amortized cost	134,210	132,686	(1,524)	138,010	137,644	(366)
	<u>371,356</u>	<u>366,488</u>	<u>(4,868)</u>	<u>393,852</u>	<u>389,767</u>	<u>(4,085)</u>
Financial liabilities						
Due to banks and financial institutions	12	12	-	18	18	-
Due to head office, branches and affiliates	28	28	-	186	186	-
Customers' deposits at amortized cost	287,458	287,470	12	311,505	311,489	(16)
Related parties' deposits at amortized cost	846	846	-	570	570	-
Engagement by acceptances	230	230	-	-	-	-
	<u>288,574</u>	<u>288,586</u>	<u>12</u>	<u>312,279</u>	<u>312,263</u>	<u>(16)</u>

Assets and liabilities for which fair value is disclosed using a valuation technique with significant observable inputs (Level 2) and / or significant unobservable inputs (Level 3)*Deposits with banks, the Central Bank, and with the Head office, branches and affiliates*

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

Government bonds and other debt securities

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

Loans and advances to customers

For the purpose of this disclosure, fair value of loans and advances to customers is estimated using discounted cash flows by applying current rates for new loans granted during 2016 with similar remaining maturities and to counterparties with similar credit quality.

Deposits from banks and customers

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

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33 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continue)

31 December 2016

	<i>Less than One year LL million</i>	<i>More than One year LL million</i>	<i>Total LL million</i>
ASSETS			
Cash and balances with the Central Bank	78,191	30,237	108,428
Due from banks and financial institutions	19,895	-	19,895
Due from head office, branches and affiliates	7,090	-	7,090
Loans and advances to customers at amortized cost	50,890	49,520	100,410
Loans and advances to related parties at amortized cost	50	1,043	1,093
Debtors by acceptances	230	-	230
Financial assets at amortized cost	64,076	70,134	134,210
Property and equipment	-	12,139	12,139
Derivative financial Instruments	244	-	244
Other assets	1,188	-	1,188
TOTAL ASSETS	221,854	163,073	384,927
LIABILITIES			
Due to banks and financial institutions	12	-	12
Due to head office, branches and affiliates	28	-	28
Customers' deposits at amortized cost	287,280	178	287,458
Related parties' deposits at amortized cost	846	-	846
Engagements by acceptances	230	-	230
Other liabilities	4,944	-	4,944
Provisions for risks and charges	-	10,356	10,356
TOTAL LIABILITIES	293,340	10,534	303,874
NET	(71,486)	152,539	81,053

31 December 2015

	<i>Less than One year LL million</i>	<i>More than One year LL million</i>	<i>Total LL million</i>
ASSETS			
Cash and balances with the Central Bank	66,467	30,210	96,677
Due from banks and financial institutions	31,316	-	31,316
Due from head office, branches and affiliates	6,310	-	6,310
Loans and advances to customers at amortized cost	66,298	54,199	120,497
Loans and advances to related parties at amortized cost	69	973	1,042
Financial assets at amortized cost	58,668	79,342	138,010
Property and equipment	-	12,309	12,309
Derivative financial Instruments	367	-	367
Other assets	1,463	-	1,463
TOTAL ASSETS	230,958	177,033	407,991
LIABILITIES			
Due to banks and financial institutions	18	-	18
Due to head office, branches and affiliates	186	-	186
Customers' deposits at amortized cost	311,368	137	311,505
Related parties' deposits at amortized cost	570	-	570
Other liabilities	4,280	-	4,280
Provisions for risks and charges	-	4,350	4,350
TOTAL LIABILITIES	316,422	4,487	320,909
NET	(85,464)	172,546	87,082

34 RISK MANAGEMENT

34.1 INTRODUCTION

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

The Bank is exposed to credit risk, liquidity risk, market risk and operating risks.

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

The risk management committee undertakes its responsibilities and helps executive management in controlling and actively managing the Bank overall risk. The department mainly ensures that:

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

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

In respect of Basel 2 capital adequacy ratio calculations, risk management started, since December 2004, to issue internal reports to executive management and the board revealing multiple scenarios of capital adequacy calculations for credit and market risks under the standardized approaches and for operational risk under the basic indicator approach.

34.2 CREDIT RISK

Credit risk is the risk that the Bank will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits. In addition, the Bank obtains securities where appropriate.

Origination of loans and maintenance

There are consistent standards across the Bank for the origination, documentation and maintenance of extensions of credit. For customers whose loans were extended, there is a standard approach used by the Bank to determine the debt's position, credit rating exposure, and adoption of the corrective procedure.

Loan portfolio management

The Bank has a large portfolio of assets subject to risk due to the amount of capital funds that supports this portfolio. Limits to credit risk are set and distributed over the various business sectors.

In order to control its risk exposure, the Bank reviews its credit risk reports in a precise and complete manner at the appropriate time, which is taken into consideration in the review process.

Credit quality per class of financial assets

The Bank's credit risk rating processes are designed in a manner to highlight those cases that require special attention by management in case of defaults and incurring losses. Risk ratings are reviewed on a regular basis and amended when necessary. Unimpaired loans are assessed based on the Bank's credit rating system consisting of five grades. Credit exposures classified as "Grade 1" quality are those facilities with good financial condition, risk indicators and capacity to repay which are considered to be good to excellent. Credit exposures classified as "Grade 2" comprise all other facilities whose payment performance is fully compliant with contractual conditions and which are not "impaired" and do not require a provision. Credit exposures classified as "Grade 3" are related to loans that require special attention and follow up. Credit exposures classified as "Grade 4" and "Grade 5" represent doubtful and bad loans.

34 RISK MANAGEMENT (continued)

34.2 CREDIT RISK (continued)

Credit quality per class of financial assets (continued)

The Bank attempts to control credit risk by monitoring credit risk exposures, limiting transactions with specific counterparties, and continuously assessing the creditworthiness of counterparties. The Bank's risk management policies were designed to set appropriate risk limits, to monitor risks, and to abide by the specified ceilings. Actual risk exposures are monitored regularly against ceilings. In addition, the Bank prepares reports that show possible credit risk exposures in each of corporate loans, commercial loans, and consumer loans. The Bank also monitors its concentration level with respect to loans' type, clients' distribution among different segments and economic sectors and the percentage of loans' guarantees coverage. The Bank also monitors non-performing loans and books required provisions when necessary.

Individually assessed allowances

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

Collective assessed allowances

Allowances are assessed collectively for losses on loans and advances that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans and advances that have been assessed individually and found not to be impaired.

The Bank generally bases its analyses on historical experience. However, when there are significant market developments, regional and/or global, such as the market turmoil in 2007/2008, the Bank would include macro-economic factors within its assessments. These factors include, depending on the characteristics of the individual or collective assessment: unemployment rates, current levels of bad debts, changes in laws, changes in regulations, bankruptcy trends, and other consumer data. The Bank may use the aforementioned factors as appropriated to adjust the impairment allowances. Allowances are evaluated separately at each reporting date with each portfolio.

Based on the Banking Control Commission No. 280 dated 02/01/2015, the collective assessment is made for groups of assets with similar risk characteristics, in order to determine whether provision should be made due to incurred loss events for which there is objective evidence but the effect of which are not yet evident in the individual loans assessments. The collective assessment takes account of data from the loan portfolio (such as historical losses on the portfolio, levels of arrears, credit utilization, loan to collateral ratios and expected receipts and recoveries once impaired) or economic data (such as current economic conditions, unemployment levels and local or industry specific problems). The approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance is also taken into consideration. Local management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Bank's overall policy.

Financial guarantees and letters of credit are assessed and provisions are made in a similar manner as for loans.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded on the statement of financial position. With gross-settled derivatives, the Bank is also exposed to a settlement risk, being the risk that the Bank honors its obligation but the counterparty fails to deliver the counter-value.

Credit-related commitments and financial guarantee risks

The Bank makes available to its customers guarantees which may require that the Bank makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Such commitments expose the Bank to similar risks as loans and are mitigated by the same assessment processes and policies.

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34 RISK MANAGEMENT (continued)

34.2 CREDIT RISK (continued)

Analysis of maximum exposure to credit risk and collateral and other credit enhancements

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

	2016						Net credit exposure LL million	
	Maximum exposure LL million	Cash collateral and margins LL million		Letters of guarantees LL million	Real estate guarantees LL million	Personal guarantees LL million		Other guarantees LL million
Balances with the central banks	102,474	-	-	-	-	-	102,474	
Due from banks and financial institutions	19,895	-	-	-	-	-	19,895	
Due from head office, branches and affiliates	7,090	-	-	-	-	-	7,090	
Loans and advances to customers at amortized cost:	100,410	681	13,080	36,914	8,609	24,096	17,030	
Commercial loans	62,277	78	13,080	4,094	8,457	20,439	16,129	
Consumer loans	38,133	603	-	32,820	152	3,657	901	
Loans and advances to related parties at amortized cost	1,093	10	-	981	-	-	102	
Debtors by acceptances	230	-	-	-	-	-	230	
Financial assets at amortized cost	134,210	-	-	-	-	-	134,210	
Financial guarantees	10,617	35	-	-	-	-	10,582	
Documentary credits	101	-	-	-	-	-	101	
Undrawn credit lines	14,834	-	-	-	-	-	14,834	
Other commitments	30	-	-	-	-	-	30	
Total	390,984	726	13,080	37,895	8,609	24,096	306,578	
Utilized collateral		726	13,080	37,895	8,609	24,096	84,406	
Surplus of collateral before undrawn credit lines		2,923	11,291	45,485	132,987	58,845	251,531	
Total collateral		3,649	24,371	83,380	141,596	82,941	335,937	

	2015						Net credit exposure LL million	
	Maximum exposure LL million	Cash collateral and margins LL million		Letters of guarantees LL million	Real estate guarantees LL million	Personal guarantees LL million		Other guarantees LL million
Balances with the central banks	89,305	-	-	-	-	-	89,305	
Due from banks and financial institutions	31,316	-	-	-	-	-	31,316	
Due from head office, branches and affiliates	6,310	-	-	-	-	-	6,310	
Loans and advances to customers at amortized cost:	120,497	454	17,686	36,948	12,633	27,502	25,274	
Commercial loans	79,918	19	17,686	5,626	12,328	19,463	24,796	
Consumer loans	40,579	435	-	31,322	305	8,039	478	
Loans and advances to related parties at amortized cost	1,042	9	-	957	-	-	67	
Debtors by acceptances	-	-	-	-	-	-	-	
Financial assets at amortized cost	138,010	-	-	-	-	-	138,010	
Financial guarantees	16,547	804	-	-	-	-	15,743	
Documentary credits	347	-	-	-	-	-	347	
Undrawn credit lines	4,944	-	-	-	-	-	4,944	
Other commitments	30	-	-	-	-	-	30	
Total	408,348	1,267	17,686	37,905	12,633	27,502	311,355	
Utilized collateral		1,267	17,686	37,905	12,633	27,502	96,993	
Surplus of collateral before undrawn credit lines		1,046	6,676	54,562	171,799	79,980	314,063	
Total collateral		2,313	24,362	92,467	184,432	107,482	411,056	

The surplus of collateral mentioned above is presented before offsetting additional credit commitments given to customers amounting to LL million 14,834 as of 31 December 2016 (2015: LL million 4,944).

34 RISK MANAGEMENT (continued)**34.2 CREDIT RISK (continued)****Collateral and other credit enhancements**

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

Management monitors the market value of collateral in order to request additional collateral in case of a decline in market value and to estimate the recoverable amount during its review of the adequacy of the allowance for impairment losses.

The main types of collateral obtained are as follows:

Letters of credit / guarantees:

The Bank holds in some cases guarantees, letters of credit and similar instruments from banks and financial institutions which enable it to claim settlement in the event of default on the part of the counterparty. The balances shown represent the notional amount of these types of guarantees held by the Bank.

Real estate

The Bank holds in some cases a first degree mortgage over residential property (for housing loans) and commercial property (for commercial loans). The value shown above reflects the fair value of the property limited to the related mortgaged amount.

34.2.1 Credit quality by class of financial assets

In managing its portfolio, the Bank utilizes ratings and other measures and techniques which seek to take account of all aspects of perceived risk. Credit exposures classified as “High” quality are those where the ultimate risk of financial loss from the obligor’s failure to discharge its obligation is assessed to be low. These include facilities to corporate entities with financial condition, risk indicators and capacity to repay which are considered to be good to excellent. Credit exposures classified as “Standard” quality comprise all other facilities whose payment performance is fully compliant with contractual conditions and which are not “impaired”. The ultimate risk of possible financial loss on “Standard” quality is assessed to be higher than that for the exposures classified within the “High” quality range.

The credit quality of financial assets is managed by the Bank using internal credit ratings. The table below shows the credit quality by class of asset for all financial assets exposed to credit risk, based on the Bank’s internal credit rating system.

	<i>2016</i>				<i>Total LL million</i>
	<i>Neither past due nor impaired</i>		<i>Past due but not impaired</i>	<i>Past due and impaired</i>	
	<i>High grade LL million</i>	<i>Standard grade LL million</i>	<i>LL million</i>	<i>LL million</i>	
Balances with the Central Bank	-	102,474	-	-	102,474
Due from banks and financial institutions	19,895	-	-	-	19,895
Loans and advances to customers at amortized cost:					
Commercial loans	33,079	25,028	4,170	-	62,277
Consumer loans	37,371	1,092	-	837	39,300
	<u>70,450</u>	<u>26,120</u>	<u>4,170</u>	<u>837</u>	<u>101,577</u>
Loans and advances to related parties at amortized cost	<u>1,093</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,093</u>
Financial assets at amortized cost:					
Government debt securities	2,869	131,341	-	-	134,210
Total	<u><u>94,307</u></u>	<u><u>259,935</u></u>	<u><u>4,170</u></u>	<u><u>837</u></u>	<u><u>359,249</u></u>
Moody’s equivalent	Aaa – Baa3*	Ba1 – B1*	Not rated	Not rated	

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34 RISK MANAGEMENT (continued)

34.2 CREDIT RISK (continued)

	2015				
	<i>Neither past due nor impaired</i>		<i>Past due but not impaired</i>	<i>Past due and impaired</i>	<i>Total</i>
	<i>High grade</i>	<i>Standard grade</i>			
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
Balances with the Central Bank	-	89,305	-	-	89,305
Due from banks and financial institutions	31,200	116	-	-	31,316
Loans and advances to customers at amortized cost:					
Commercial loans	66,956	12,000	962	-	79,918
Consumer loans	40,344	808	79	399	41,630
	107,300	12,808	1,041	399	121,548
Loans and advances to related parties at amortized cost	1,042	-	-	-	1,042
Financial assets at amortized cost:					
Government debt securities	2,857	135,153	-	-	138,010
Total	142,399	237,382	1,041	399	381,221
Moody's equivalent	Aaa – Baa3*	Ba1 – B1*	Not rated	Not rated	

* The high and standard grades include commercial loans, consumer loans and banks which are not rated by Moody's.

34.2.2 Aging analysis of past due but not impaired financial assets by class of financial asset

	2016				
	<i>Less than 30 days</i>	<i>31 to 60 days</i>	<i>61 to 90 days</i>	<i>More than 90 days</i>	<i>Total</i>
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
Commercial loans	-	-	-	4,170	4,170
Consumer loans	-	-	-	-	-
	-	-	-	4,170	4,170
	2015				
	<i>Less than 30 days</i>	<i>31 to 60 days</i>	<i>61 to 90 days</i>	<i>More than 90 days</i>	<i>Total</i>
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
Commercial loans	261	-	-	701	962
Consumer loans	-	79	-	-	79
	261	79	-	701	1,041

The provision for loans and advances to customers were disclosed under note 14.

The classification of loans and advances to customers and related parties at amortized cost as in accordance with the ratings of Central Bank of Lebanon circular 58 are as follows:

	2016			
	<i>Gross balance</i>	<i>Unrealized interest</i>	<i>Impairment allowances</i>	<i>Net balance</i>
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
Good	97,663	-	-	97,663
Watch	4,170	-	-	4,170
Substandard	589	29	-	560
Doubtful	240	23	73	144
Bad	8	-	8	-
	102,670	52	81	102,537
Collective impairment				(1,034)
				101,503

34 RISK MANAGEMENT (continued)**34.2 CREDIT RISK (continued)****34.2.2 Aging analysis of past due but not impaired financial assets by class of financial asset (continued)**

	2015			
	<i>Gross balance LL million</i>	<i>Unrealized interest LL million</i>	<i>Impairment allowances LL million</i>	<i>Net balance LL million</i>
Good	121,148	-	-	121,148
Watch	1,041	-	-	1,041
Substandard	401	17	-	384
Doubtful	-	-	-	-
Bad	-	-	-	-
	122,590	17	-	122,573
Collective impairment				(1,034)
				121,539

34.2.3 Renegotiated Loans

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

Restructuring policies and practices are based on indicators or criteria, which, in the judgment of local management, indicate that repayment will probably continue. The application of these policies varies according to the nature of the market and the type of the facility.

The table below shows the renegotiated loans by type:

	2016 <i>LL million</i>	2015 <i>LL million</i>
Commercial loans	556	688

34.2.4 Concentrations of assets and liabilities and off financial position items

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

The distribution of assets, liabilities, and off-financial position items by geographic region and industry sector was as follows:

	2016		2015	
	<i>Assets LL million</i>	<i>Liabilities LL million</i>	<i>Assets LL million</i>	<i>Liabilities LL million</i>
Geographic region:				
Domestic (Lebanon)	333,103	172,051	328,071	178,772
Middle East countries	23,301	19,935	39,656	129,211
Europe	14,306	2,946	24,942	3,504
North America	14,214	6,989	15,314	8,158
Other	3	1,953	8	1,264
	384,927	303,874	407,991	320,909
Industry sector:				
Trading and manufacturing	38,380	41,039	62,382	34,769
Banks and financial institutions	135,413	15,465	134,303	13,974
Construction and real estate	11,515	16,517	14,036	17,221
Other	199,619	230,853	197,270	254,945
	384,927	303,874	407,991	320,909

34 RISK MANAGEMENT (continued)**34.2.5 Analysis of risk concentration (Geographic Analysis)**

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

	<i>2016</i>		
	<i>Domestic LL million</i>	<i>International LL million</i>	<i>Total LL million</i>
Cash and balances with the Central Bank	104,256	4,172	108,428
Due from banks and financial institutions	-	19,895	19,895
Due from head office, branches and affiliates	-	7,090	7,090
Loans and advances to customers at amortized cost	58,180	42,230	100,410
Loans and advances to related parties at amortized cost	1,093	-	1,093
Financial assets at amortized cost	131,341	2,869	134,210
Total credit exposure	294,870	76,256	371,126
	<i>2015</i>		
	<i>Domestic LL million</i>	<i>International LL million</i>	<i>Total LL million</i>
Cash and balances with the Central Bank	92,181	4,496	96,677
Due from banks and financial institutions	-	31,316	31,316
Due from head office, branches and affiliates	-	6,310	6,310
Loans and advances to customers at amortized cost	77,306	43,191	120,497
Loans and advances to related parties at amortized cost	1,042	-	1,042
Financial assets at amortized cost	135,153	2,857	138,010
Total credit exposure	305,682	88,170	393,852

34.3 LIQUIDITY RISK

Liquidity risk is defined as the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Bank might be unable to meet its payment obligations when they fall due under both normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind and of monitoring future cash flows and liquidity on a regular basis. The Bank has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

As per Lebanese banking regulations, the Bank must retain obligatory reserves with the Central Bank of Lebanon calculated on the basis of 25% of the sight deposits and 15% of term deposits denominated in Lebanese Pounds, in addition to interest bearing placements equivalent to 15% of all deposits in foreign currencies regardless of their nature.

34 RISK MANAGEMENT (continued)**34.3 LIQUIDITY RISK (continued)**

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank. The Bank maintains a solid ratio of highly liquid net assets in foreign currencies to deposits and commitments in foreign currencies taking market conditions into consideration. In accordance with the Central Bank of Lebanon circulars, the ratio of net liquid assets to deposits in foreign currencies should not be less than 10% and the ratio of liquid assets to net tier 1 Capital and in Lebanese Lira should not be less than 40%. The liquid assets consist of cash and balances with the Central Bank of Lebanon, due from banks and financial institutions, due from Head Office, affiliates and branches, Certificates of deposits issued by the Central Bank of Lebanon and treasury bills less due from banks and financial institutions and due from Head Office, affiliates and branches that mature within one year. Deposits and commitments comprise of total customer deposits in addition to acceptances and loans that mature within one year.

34.3.1 Analysis of financial assets and liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Bank's financial assets and liabilities based on contractual undiscounted repayment obligations. As the special commission payments up to contractual maturity are included in the table, totals do not match with the statement of financial position. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the statement of financial position date to the contractual maturity date and do not take into account the effective expected maturities.

Repayments which are subject to notice are treated as if notice were being given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

	2016					Total LL million
	Up to 1 month LL million	1 to 3 months LL million	3 to 12 months LL million	1 to 5 years LL million	Over 5 years LL million	
Financial assets						
Cash and balances with the Central bank	78,191	88	410	31,152	-	109,841
Due from banks and financial institutions	19,895	-	-	-	-	19,895
Due from head office, branches, and affiliates	7,090	-	-	-	-	7,090
Loans and advances to customers at amortized cost	27,548	3,163	30,899	33,573	15,133	110,316
Loans and advances to related parties at amortized cost	182	25	114	525	407	1,253
Financial assets at amortized cost	15,182	7,103	41,852	73,034	4,901	142,072
Other assets	1,188	-	-	-	-	1,188
Total undiscounted financial assets	149,276	10,379	73,275	138,284	20,441	391,655
Financial liabilities						
Due to banks and financial institutions	12	-	-	-	-	12
Due to head office, branches and affiliates	28	-	-	-	-	28
Customer's deposits at amortized cost	255,621	10,973	21,078	198	-	287,870
Related parties' deposits at amortized cost	846	-	-	-	-	846
Total undiscounted financial liabilities	256,507	10,973	21,078	198	-	288,756
	2015					
	Up to 1 month LL million	1 to 3 months LL million	3 to 12 months LL million	1 to 5 years LL million	Over 5 years LL million	Total LL million
Financial assets						
Cash and balances with the Central bank	66,467	95	285	31,266	-	98,113
Due from banks and financial institutions	31,316	-	-	-	-	31,316
Due from head office, branches, and affiliates	6,310	-	-	-	-	6,310
Loans and advances to customers at amortized cost	25,176	21,389	32,670	35,851	17,299	132,385
Loans and advances to related parties at amortized cost	70	25	83	499	531	1,208
Financial assets at amortized cost	9,196	9,313	41,206	90,075	5,122	154,912
Other assets	1,463	-	-	-	-	1,463
Total undiscounted financial assets	139,998	30,822	74,244	157,691	22,952	425,707
Financial liabilities						
Due to banks and financial institutions	18	-	-	-	-	18
Due to head office, branches and affiliates	186	-	-	-	-	186
Customer's deposits at amortized cost	277,928	11,225	22,276	146	-	311,575
Related parties' deposits at amortized cost	570	-	-	-	-	570
Total undiscounted financial liabilities	278,702	11,225	22,276	146	-	312,349

34 RISK MANAGEMENT (continued)**34.3 LIQUIDITY RISK (continued)****34.3.1 Analysis of financial assets and liabilities by remaining contractual maturities (continued)**

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments:

	2016						Total LL million
	On demand LL million	Up to 1 month LL million	1 to 3 months LL million	3 to 12 months LL million	1 to 5 years LL million	Over 5 years LL million	
Financing commitments given to banks and financial institutions	-	20	81	-	-	-	101
Guarantees given to customers	9	113	119	10,287	119	-	10,647
Foreign currencies to deliver	-	757	-	-	-	-	757
Undrawn credit lines	14,834	-	-	-	-	-	14,834
Total	14,843	890	200	10,287	119	-	26,339

	2015						Total LL million
	On demand LL million	Up to 1 month LL million	1 to 3 months LL million	3 to 12 months LL million	1 to 5 years LL million	Over 5 years LL million	
Financing commitments given to banks and financial institutions	-	62	285	-	-	-	347
Guarantees given to customers	4	3,316	466	12,672	119	-	16,577
Foreign currencies to deliver	-	530	-	-	-	-	530
Undrawn credit lines	4,944	-	-	-	-	-	4,944
Total	4,948	3,908	751	12,672	119	-	22,398

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

34.4 MARKET RISK

Market risk arises from fluctuations in interest rates, foreign exchanges rates and equity prices. The board of directors has set limits on the value of risk that may be accepted. This is monitored on a monthly basis by the Assets and Liabilities Committee in Kuwait.

34.5 INTEREST RATE RISK

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches of interest rate re-pricing of assets, liabilities and financial instruments presented as off-financial position items. The Bank has established levels of interest rate risk by setting limits on the interest rate gaps for stipulated periods.

The effective interest rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortized cost and a current market rate for a floating rate instrument or an instrument carried at fair value.

The fluctuation of 10 basis points with all other variables held constant has the following effect on the income statement:

Currency	Changes in basis points	2016 Net (loss) profit LL million	2015 Net (loss) profit LL million
Lebanese Lira	+10	25	2
US Dollars	+10	(46)	(109)

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34 RISK MANAGEMENT (continued)

34.5 INTEREST RATE RISK (continued)

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

31 December 2016

	<i>Up to 3 months LL million</i>	<i>3 to 6 Months LL million</i>	<i>6 months to 1 year LL million</i>	<i>1 to 3 years LL million</i>	<i>Over 3 years LL million</i>	<i>Non interest bearing items LL million</i>	<i>Total LL million</i>
ASSETS							
Cash and balances with the Central Bank	20,064	-	-	-	30,237	58,127	108,428
Due from banks and financial institutions	12,060	-	-	-	-	7,835	19,895
Due from head office, branches and affiliates	1,392	-	-	-	-	5,698	7,090
Loans and advances to customers at amortized cost	17,684	20,049	11,359	21,823	29,108	387	100,410
Loans and advances to related parties at amortized cost	-	-	8	64	975	46	1,093
Debtors by acceptances	-	-	-	-	-	230	230
Financial assets at amortized cost	21,908	11,275	30,378	35,139	34,673	837	134,210
Property and equipment	-	-	-	-	-	12,139	12,139
Derivative financial instruments	-	-	-	-	-	244	244
Other assets	-	-	-	-	-	1,188	1,188
TOTAL	73,108	31,324	41,745	57,026	94,993	86,731	384,927
LIABILITIES							
Due to banks and financial institutions	-	-	-	-	-	12	12
Due to head office, branches and affiliates	-	-	-	-	-	28	28
Customers' deposits at amortized cost	45,987	8,964	12,098	176	-	220,233	287,458
Related parties' deposits at amortized cost	-	-	-	-	-	846	846
Engagements by acceptances	-	-	-	-	-	230	230
Other liabilities	-	-	-	-	-	4,944	4,944
Provisions for risks and charges	-	-	-	-	-	10,356	10,356
Equity	-	-	-	-	-	81,053	81,053
TOTAL	45,987	8,964	12,098	176	-	317,702	384,927
Total interest rate sensitivity gap	27,121	22,360	29,647	56,850	94,993	(230,971)	-
Accumulated total interest rate sensitivity gap	27,121	49,481	79,128	135,978	230,971	-	-

31 December 2015

	<i>Up to 3 months LL million</i>	<i>3 to 6 Months LL million</i>	<i>6 months to 1 year LL million</i>	<i>1 to 3 years LL million</i>	<i>Over 3 years LL million</i>	<i>Non interest bearing items LL million</i>	<i>Total LL million</i>
ASSETS							
Cash and balances with the Central Bank	10,566	-	-	-	30,210	55,901	96,677
Due from banks and financial institutions	19,598	-	-	-	-	11,718	31,316
Due from head office, branches and affiliates	2,233	-	-	-	-	4,077	6,310
Loans and advances to customers at amortized cost	29,626	27,025	9,218	22,098	32,101	429	120,497
Loans and advances to related parties at amortized cost	-	9	11	16	957	49	1,042
Financial assets at amortized cost	18,416	18,628	21,284	32,609	46,733	340	138,010
Tangible fixed assets	-	-	-	-	-	12,309	12,309
Derivative financial instruments	-	-	-	-	-	367	367
Other assets	-	-	-	-	-	1,463	1,463
TOTAL	80,439	45,662	30,513	54,723	110,001	86,653	407,991
LIABILITIES							
Due to banks and financial institutions	-	-	-	-	-	18	18
Due to head office, branches and affiliates	-	-	-	-	-	186	186
Customers' deposits at amortized cost	46,014	10,299	11,570	137	-	243,485	311,505
Related parties' deposits at amortized cost	-	-	-	-	-	570	570
Other liabilities	-	-	-	-	-	4,280	4,280
Provisions for risks and charges	-	-	-	-	-	4,350	4,350
Equity	-	-	-	-	-	87,082	87,082
TOTAL	46,014	10,299	11,570	137	-	339,971	407,991
Total interest rate sensitivity gap	34,425	35,363	18,943	54,586	110,001	(253,318)	-
Accumulated total interest rate sensitivity gap	34,425	69,788	88,731	143,317	253,318	-	-

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34 RISK MANAGEMENT (continued)

34.6 CURRENCY RISK

Foreign exchange risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Banks are allowed to maintain a net trading position, debit or credit, of less than 1% of shareholders' equity provided that the total foreign currencies position should not exceed 40% of the equity (Central Bank of Lebanon main circular 32).

The Bank views itself as a Lebanese entity with the Lebanese Lira as its functional currency.

The table below analyses the effect of a reasonably possible movement of the currency rate against the Lebanese Lira, with all other variables held constant on the income statement and equity.

A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase:

	<i>Change in currency rate in %</i>	<i>2016 Effect on statement of comprehensive income LL million</i>	<i>2015 Effect on statement of comprehensive income LL million</i>
Currency			
US Dollars	5%	731	735
Euros	5%	2	1

The following statement of financial position as of 31 December 2016 is detailed in Lebanese Lira (LL) and foreign currencies (mainly in US dollars):

	<i>Lebanese Lira</i>	<i>Foreign currencies</i>		<i>Total</i>
	<i>LL million</i>	<i>In US Dollars (000)</i>	<i>Equivalent to LL million</i>	<i>in LL million</i>
ASSETS				
Cash and balances with the Central Bank	27,811	53,477	80,617	108,428
Due from banks and financial institutions	-	13,197	19,895	19,895
Due from head office, branches and affiliates	-	4,703	7,090	7,090
Loans and advances to customers at amortized cost	300	66,408	100,110	100,410
Loans and advances to related parties at amortized cost	-	725	1,093	1,093
Debtors by acceptances	-	153	230	230
Financial assets at amortized cost	76,389	38,356	57,821	134,210
Property and equipment	12,139	-	-	12,139
Derivative financial instruments	-	162	244	244
Other assets	1,019	112	169	1,188
TOTAL ASSETS	117,658	177,293	267,269	384,927
LIABILITIES AND SHAREHOLDERS' EQUITY				
Due to banks and financial institutions	-	8	12	12
Due to head office, branches and affiliates	-	19	28	28
Customers' deposits at amortized cost	52,095	156,128	235,363	287,458
Related parties' deposits at amortized cost	409	290	437	846
Engagements by acceptances	-	153	230	230
Other liabilities	2,906	1,352	2,038	4,944
Provisions for risks and charges	5,208	3,415	5,148	10,356
Share capital – common shares	40,020	-	-	40,020
Non-distributable reserves (legal and obligatory)	15,075	-	-	15,075
Distributable reserves	26,053	3,927	5,920	31,973
Results of the financial year - profit	(6,015)	-	-	(6,015)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	135,751	165,292	249,176	384,927

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34 RISK MANAGEMENT (continued)

34.6 CURRENCY RISK (continued)

The following statement of financial position as of 31 December 2015 is detailed in Lebanese Lira (LL) and foreign currencies (mainly in US dollars):

	<i>Lebanese Lira</i>	<i>Foreign currencies</i>		<i>Total in LL million</i>
	<i>LL million</i>	<i>In US Dollars (000)</i>	<i>Equivalent to LL million</i>	
ASSETS				
Cash and balances with the Central Bank	27,663	45,780	69,014	96,677
Due from banks and financial institutions	-	20,773	31,316	31,316
Due from head office, branches and affiliates	-	4,186	6,310	6,310
Loans and advances to customers at amortized cost	336	79,709	120,161	120,497
Loans and advances to related parties at amortized cost	-	691	1,042	1,042
Financial assets at amortized cost	79,889	38,554	58,121	138,010
Property and equipment	12,309	-	-	12,309
Derivative financial instruments	-	244	367	367
Other assets	1,315	98	148	1,463
TOTAL ASSETS	121,512	190,035	286,479	407,991
LIABILITIES AND SHAREHOLDERS' EQUITY				
Due to banks and financial institutions	-	12	18	18
Due to head office, branches and affiliates	-	123	186	186
Customers' deposits at amortized cost	51,001	172,805	260,504	311,505
Related parties' deposits at amortized cost	251	212	319	570
Other liabilities	2,833	960	1,447	4,280
Provisions for risks and charges	3,748	399	602	4,350
Share capital – common shares	40,020	-	-	40,020
Non-distributable reserves (legal and obligatory)	14,407	-	-	14,407
Distributable reserves	24,984	3,649	5,500	30,484
Results of the financial year - profit	2,171	-	-	2,171
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	139,415	178,160	268,576	407,991

34.7 PREPAYMENT RISK

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

34.8 OPERATIONAL RISK

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

35 CAPITAL MANAGEMENT

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Central Bank of Lebanon and the Banking Control Commission.

The primary objectives of the Bank's capital management policy are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholder value.

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:

	<i>Common Tier 1 capital ratio</i>	<i>Tier 1 capital ratio</i>	<i>Total capital ratio</i>
For the year ended 31 December 2016	8	10	12
For the year ended 31 December 2017	8	10	12

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

	<i>2016 LL million</i>	<i>2015 LL million</i>
Tier 1 capital	81,053	84,911
Of which: Common Tier 1 capital	40,020	40,020
Total capital	81,053	84,911

	<i>2016 LL million</i>	<i>2015 LL million</i>
Risk weighted assets		
Credit risk	192,839	203,375
Market risk	251	217
Operational risk	28,761	28,543
Total risk weighted assets	221,851	232,135

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

	<i>2016</i>	<i>2015</i>
Capital adequacy ratio – Tier 1	36,54%	36,57%
Capital adequacy ratio – Common Tier	18,04%	17,24%
Capital adequacy ratio – Total capital	36,54%	36,57%

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank 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 during the years ended 31 December 2016 and 2015.