





بنك بيروت
Bank of Beirut ^{s.a.l.}

Banking Beyond Borders

Annual Report 2016



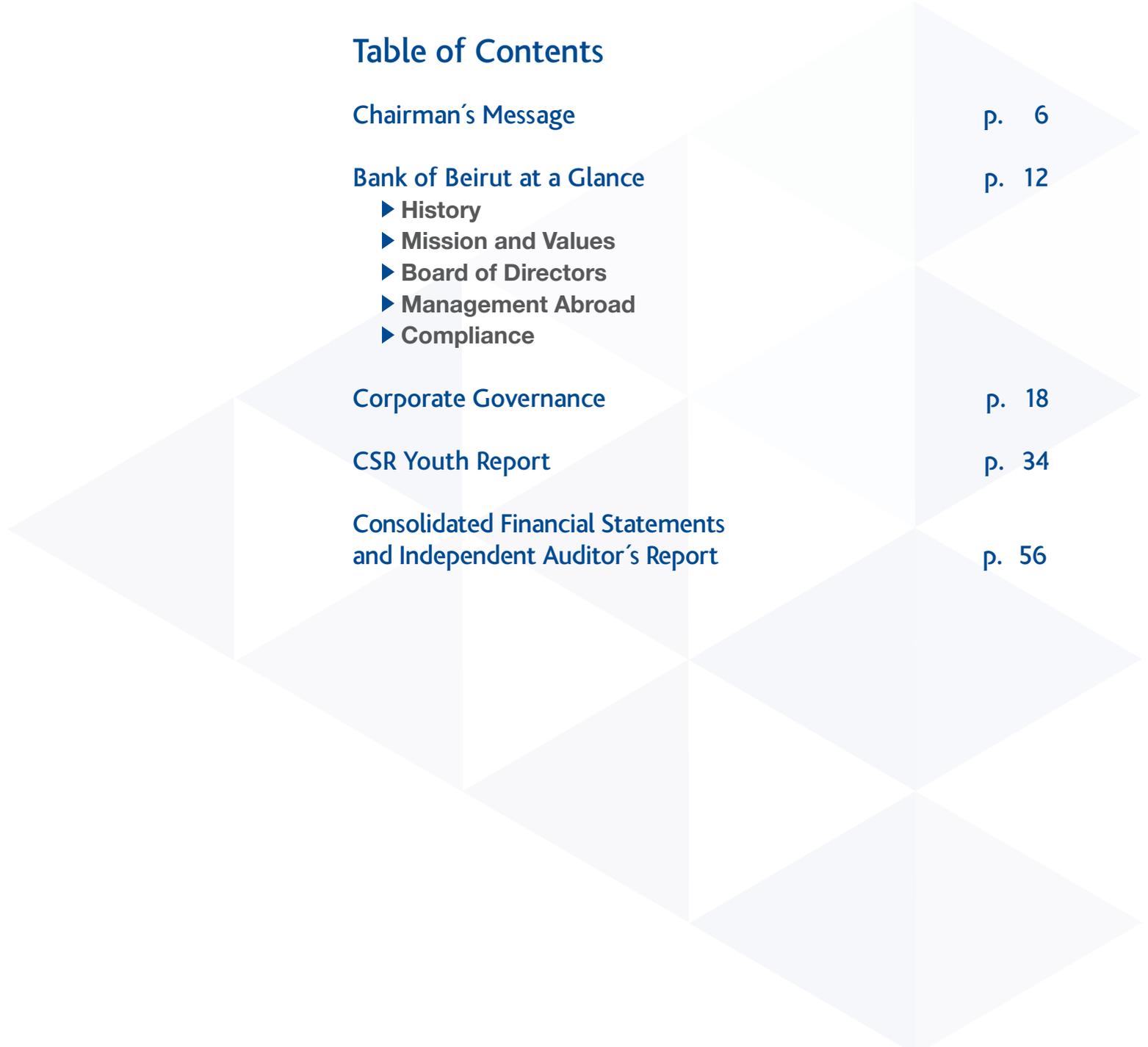




ANNUAL REPORT 2016

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Chairman's Message







Chairman's Message

Dear Stakeholders,

When it comes to creating value for our clients, we are reinventing the customer experience with new digital services. Our drive for efficiency and our care for trust have placed integrity and transparency at the core of that trust. New trends are re-defining the customer experience creating challenges for people but also offering new opportunities to serve them better. As leaders in digital banking, we are stepping up our own transformation to ensure we stay relevant to customers in this changing environment. In everything we do, we aim not only to create value for our clients, shareholders and employees, but also to meet financial and social challenges.

Dear Shareholders,

Our country is doing well and so is our Bank. Our large branch network and the diversified product range we offer our customers have lead us to securing sound profits in market shares in both commercial and retail businesses, while maintaining our position as a leader in Trade Finance. On consolidated basis, the Bank's total assets reached as at 31st December 2016 USD 17.2 billion, growing by 6.53% year-on-year. The growth in size was mainly funded by the increase in deposits and equity. Total Shareholders' equity reached around USD 2.31 billion, while profits amounted to USD 202 million.

Thus, Bank of Beirut ROAA reflecting its assets profitability and how these latter are efficiently employed is remarkably solid and stable reaching 1.21% in 2016 compared to 1.20% in 2015. Thus the dividend yield per common share is still rising to attain 3.53% in 2016 compared to 3.18% in 2015 reflecting an explicit sign of clear financial health and confidence for Bank of Beirut to pay out dividends.

Therefore, I am very pleased to report that 2016 was a year of both sound progress and continuity for the Group. Within this highly competitive environment and compressed interest rates, our local and international teams once again delivered excellent financial results; strengthening our market position while simultaneously building for the future. All our business units and regions created value for Bank of Beirut shareholders and we further fortified our capital adequacy ratios at Group level.

Dear Bank of Beirut Customers,

It is no secret that customer expectations have changed and so have Bank of Beirut. Today's online world requires new ways of banking: We are reinventing the customer experience with new digital services. This transformation is creating new challenges for our industry as innovation has always been central to the value we bring. We are working internally and externally to harness the next generation of technology; we have thus introduced the Hybrid branch concept where online and offline generations can bank together from any location they choose.

During this year of digital transformation, we used digital technology to make banking simpler, better and faster for our customers, while keeping your money safe and your data secure. This integrated approach is paving the way to a phygital future where the combination of physical and digital banking is key and where everybody remains connected for an exciting banking experience.

Dear Diaspora,

Through our expansion overseas, we keep on building bridges with our diaspora around the world to set up a global footprint for a Greater Lebanon. This is the exciting future we can create collectively through our work together as one bank, one community, and one group. Our commitment to our role as a financial institution, providing support and promoting economic, social and environmental progress has secured a better quality banking services for people in various societies, while generating adequate returns for shareholders.

Our beliefs for the years to come are for a Greater Lebanon, where as a bank, together with our stakeholders we can make a difference in a much favorable context where we can be a driver for our economy and a backbone for our country Lebanon. Our belief is that you can play an active role in this plan. We can be partners in building the greater Lebanon we look forward to and repatriate all those great minds to work for our beloved country.



Dear Youth,

Our fascinating journey of engagement with you started 10 years ago and our story together shaped who we are, where we come from and where we are going. Our initiatives record true commitment to the matters of importance to you; it is an engagement to shaping our vision, the backbone of our power. We are proud of the work we've done and the achievements we have accomplished by your side, opening closed doors, venturing into the unthinkable and investing where others do not dare to.

As a financial provider and corporate citizen, we are capturing every opportunity we have to provide you with the pulse to reach your full potential. Our focus is to connect the youth of today with a more promising tomorrow through the power of new technologies. Whether in Robotics, smart innovations, sports, education, arts and culture or any other social endeavor, you will find us there behind you because you are the essence of our country and the hope of tomorrow.

For the years to come, we will condense the scale and efforts given to you, we will be your support, your voice, your network, and most importantly ... your power.

Dear Bank of Beirut Family,

In a year when many in our sector have been reducing headcount, we have increased our talent pool, while simultaneously extending diversity in Lebanon and abroad.

We have confidence in our future, in our plan, in our foundations, and in the talented and dedicated people who bring so much to the Bank of Beirut group. We recognize we cannot do it alone, and you are part of our success all through this journey.

As always, we have been agile and adaptive, but what remains constant are the principles upon which we run our Bank. Given the current regulatory environment, our roadmap has been concerned with prudently identifying and making good choices that align with our vision. Corporate Governance and risk management always remain at the top of our agenda. But our annual report to stakeholders is about much more than compliance. Sustainability, diversity and social purpose are likewise at the center of our attention.

On behalf of our Board, we thank our customers, business partners and communities for their trust and support and promise we will always remain true to our mission and will be a compelling destination for all our stakeholders to thrive and achieve their aspirations.

Thank you

Salim G. Sfeir

Group Chairman - C





**Bank of Beirut
at a Glance**







History

With a well-targeted focus, Bank of Beirut has not only grown to become one of today's leading commercial banks in Lebanon, but has also proved to be the pioneer in more than one field. After taking the lead in "Super Affluent Net-Worth Specific Services in Lebanon" according to Euro money Private Banking and Wealth Management Survey; and receiving Zawya Funds Ranking Award for its "Beirut Golden Income Fund II and winning the "Best CSR Initiative", Bank of Beirut was recognized in 2014 as the "Fastest Growing Banking Lebanon" by "Banker Middle East" magazine. 2015 brought the Bank further recognitions: Bank of Beirut was recognized by Banker ME as "Best Transaction Bank in the Levant" and "Best Commercial Bank in Lebanon" and its Chairman-CEO was voted "Banker for the years 2015 and 2016 in the MENA Region". Bank of Beirut adopted its present name in 1970, years following its establishment as a commercial bank. In 1993, the 5-branch Bank was acquired by a group of businessmen and bankers, headed by the current Chairman - CEO, Salim G. Sfeir. Its strategic alliances with regional Arab banking institutions and acquisitions have enhanced its market position and leveraged its expertise into local and regional markets. Bank of Beirut, rating 35th bank in Lebanon in 1993, and one of Lebanon's five banks listed on the Beirut Stock Exchange since 1997, has climbed up to reach the 3rd position by equity, 3rd by profits, and 6th by assets, with 70 branches in Lebanon and 24 spanning 4 continents.

In 2005, Bank of Beirut established "BOB Finance s.a.l.", a wholly owned financial institution regulated by the Central Bank of Lebanon; in 2007, Bank of Beirut Invest s.a.l., an independent wholly owned specialized banking subsidiary, was created; in 2009, BoB Finance was appointed one of two exclusive Agents of Western Union in Lebanon; and in 2011, "Beirut Life Co.", an insurance company offering a full array of life insurance services, was initiated. In 2012, the new (corporate identity and logo) reflecting the restyled brand image were adopted, and in 2013, B-Smart, the first virtual branch, opened its doors. In 2014, the Bank initiated a new representative office in Accra, Ghana.

The primary activities of Bank of Beirut include retail banking services; commercial, corporate and correspondent banking services; as well as trade finance and asset management services targeting high net-worth customers in both domestic and regional markets. Acknowledged in the list of the "Fastest Movers" banks worldwide, Bank of Beirut is the leading provider of cash management services to commercial clients in Lebanon.

On the international level, Bank of Beirut provides commercial banking services in the United Kingdom and throughout Europe through its wholly owned subsidiary, Bank of Beirut (U.K.) Ltd, regulated by the Financial Conduct Authority (FCA). The Bank also operates a branch in Germany (Frankfurt); a branch in Cyprus (Limassol) regulated by the Central Bank of Cyprus; 5 branches in the Sultanate of Oman, regulated by the Central Bank of Oman; a Representative Office in the United Arab Emirates (Dubai) to service the Gulf region; a Representative Office in Nigeria (Lagos) and a Representative Office in Ghana (Accra), in addition to a subsidiary in Australia, Bank of Sydney LTD., with a network of 16 branches located in Sydney, Melbourne, and Adelaide, regulated by the Australian Prudential Regulatory Authority ("APRA").

Mission and Values

- Integrity and Trust are our guiding values.
- We abide by the highest ethical standards and the strictest privacy and confidentiality when conducting any kind of transaction.
- We strive to build long-lasting relationships by satisfying the evolving needs of our customers. We attempt to meet the requirements of our clients by developing first-class services and products.
- We make every effort to upgrade our services to reach the highest level of excellence.
- We offer our most valuable asset, our second-to-none dedicated staff, a congenial work environment and development opportunities.
- We strive to be a leading participant in the regional economic development of the community wherever Bank of Beirut is present.



Board of Directors

Overview of the Board of Directors

Function

Bank of Beirut s.a.l. is managed under the direction and oversight of the Board of Directors, whose main role is to supervise management, exercise business judgement, and act in good faith. Each Board Member is expected to work in the best interest of the various stakeholders.

Composition

As per the Bank's Articles of Association, the Board of Directors cannot comprise of less than three members or more than twelve, each holding a minimum of 100 shares. Board Members are elected for a period of three years by the Ordinary General Assembly. The number of terms for which an individual board member may be elected is unlimited. In pursuant to BDL Basic Circular No. 118, the Board of Directors is composed of a majority of non-executive and independent members, leaving only two executive Directors. There is no limitation regarding the membership of the Board of Directors.

Board Meetings

The Board sets formal meetings at least quarterly where the majority of Directors are expected to attend to constitute a quorum for the transaction of business, and thus constitute the act of the Board. It is the responsibility of the Chairman – Chief Executive Officer to establish an agenda for each meeting and ensure that sufficient time is allocated to address issues. It is also customary to summon board members one week in advance of the set meeting date.

Qualifications

Board Members are selected based on their ability and willingness to commit adequate time to the bank, unquestionable integrity, and a prominent professional background that will prove to be of optimal benefit to the bank.

Board of Directors Responsibilities

The Board's responsibility towards Bank of Beirut include but are not limited to:

- Setting and overseeing the implementation of the Bank's Business Objectives and Strategy;
- Ensuring compliance with applicable laws and regulations;
- Reinforcing corporate culture, values, and ethical behavior;
- Overseeing an effective Risk Governance Framework; and
- Maintaining oversight of Senior Management by enforcing adequate, effective, and independent controls.

Although the ultimate responsibility for the management of the bank lies with its Board of Directors, the board may see fit to delegate various duties to Senior Management and their respective committees. In this respect, Senior Management is responsible for managing the day-to-day operations of the bank. The Board remains responsible for approving the charters of the various committees and monitoring their performance.



Management Abroad

Subsidiaries

Chief Executive Officer
Bank of Beirut (UK) Ltd.
United Kingdom
Sophoklis Argyrou

General Manager
Bank of Beirut UK Ltd. Branch
Frankfurt
Karl-Friedrich Rieger

Chief Executive Officer
Bank of Sydney Ltd
Australia
Miltos Michaelas

Branches

Chief Executive Officer
Bank of Beirut
Sultanate of Oman
Remy Zambarakji

Country Manager
Bank of Beirut s.a.l.
Cyprus
Walid Gholmieh

Representative Offices

Chief Representative Officer
Representative Office Ltd. Nigeria
Camile Chidiac

Chief Representative Officer
Representative Office UAE
Balsam Al Khalil



Compliance

Compliance is an independent control function devised to protect the Bank, not only by managing adherence to applicable laws, regulations and other standards of conduct, but also by promoting business behavior and activities consistent with global standards.

Principal responsibility for compliance rests with each and every person in the Bank. All employees are responsible for protecting the reputation of the Bank by (i) understanding and adhering to the compliance requirements applicable to their day-to-day activities, including the Bank's Code of Conduct and other policies, standards and procedures; and (ii) seeking advice from the Compliance Function with queries regarding compliance requirements and promptly reporting violations of laws, rules, regulations, and the Bank's policies or any relevant ethical standards. Compliance risk management commences with the Bank's Board of Directors and senior management, who establish the atmosphere from the top by promoting a firm culture of ethics, compliance and control.

- Challenges: Ongoing regulatory changes result in higher regulatory and compliance risks. If implementation of the required compliance regime were not consistent with regulatory expectations or requirements, the Bank could become subject to increased compliance risks and costs, coupled with potential reputational harm. Therefore, we continue to invest in Compliance as part of our effort to ensure that our controls and processes are among the very best in the industry.

- Mission: The mission of the Compliance Function at Bank of Beirut is to ensure that the Bank is compliant with laws, regulations, rules, internal policies and procedures, and the code of conduct applicable to its banking activities. This particularly includes specific areas such as the prevention of money laundering and terrorist financing.

To achieve its mission, Compliance seeks to (i) understand the regulatory environment, requirements and expectations to which the Bank's activities are subject, (ii) assess the compliance risks of business activities and set mitigating controls, (iii) detect, report on, escalate and remediate key compliance risks and control issues, and (iv) advise and train the Bank's personnel across businesses, functions, and affiliates in what manner to comply with laws, regulations and other standards of conduct. - AML/CFT Compliance: The Bank continues to maintain a global Anti-Money Laundering (AML) Policy, designed to make certain that the Bank and all its overseas branches and subsidiaries are compliant with applicable laws, rules and regulations related to anti-money laundering and counter financing of terrorism.

The Bank maintains AML Compliance Program which mainly provides for (1) AML Procedures designed to implement the Bank's Customer Identification Program; (2) the designation of an Anti-Money Laundering Compliance Officer responsible for coordinating and monitoring day-to-day compliance with the Anti-Money Laundering Policy and applicable laws, rules and regulations; (3) recordkeeping and reporting practices in accordance with the Anti-Money Laundering Policy and applicable laws, rules and regulations; (4) appropriate methods of monitoring transactions and account relationships to identify potential suspicious activities; (5) reporting suspicious activities to competent authorities in accordance with the Anti-Money Laundering Policy and applicable laws, rules and regulations; (6) on-going training of appropriate personnel with regard to anti-money laundering and counter financing of terrorism issues and their responsibilities for compliance; and (7) independent testing to ensure that the Anti-Money Laundering Compliance Program has been implemented and continues to be appropriately maintained.

- Legal/Regulatory Compliance: The Bank has established a legal compliance function which main role is to ensure the Bank is compliant with relevant banking laws and regulations. Additionally, its mission is to track new and altered regulations; to monitor business activities and identify violations of rules through adequate tests; and to advise senior management compliance level with applicable laws and regulations.

- FATCA Compliance: The Bank is compliant with the Foreign Account Tax Compliance Act (FATCA) – the US Law enacted in 2010 to combat tax evasion – and its related policy and procedures. This includes the implementation of FATCA provisions across the Bank's Group in coordination with all stakeholders; designing, developing, and delivering training to increase overall awareness; and communicating any new FATCA requirements to all those concerned.

An aerial photograph of a busy city street, likely in London, showing a large, ornate building with a clock tower in the background. The street is filled with pedestrians, and there are yellow markings on the road. The image is overlaid with a geometric pattern of light blue and white triangles.

Corporate Governance



BUS LANE

BUS LANE

OLD WAVERLEY

HOTEL

Accessorize



1. COMMITMENT TO SOUND CORPORATE GOVERNANCE

Given the vital role of banks in the Lebanese economy and the importance of good governance for the successful operation of these institutions, the Corporate Governance guidelines were developed in adherence with the policies set forth by Banque du Liban, the Banking Control Commission and the Association of Banks in Lebanon.

Bank of Beirut's Corporate Governance is driven by the Board of Directors' principal duty to act in good faith, with prudence, and in accordance with a set of values and standards selected to safeguard stakeholders' interests.

The Governance framework of the Bank is outlined in the "Corporate Governance Guidelines" and the charters of the Board Audit Committee, the Board Risk Management Committee, the Board Compliance Committee, the Board Remuneration & Nomination Committee and the Board Credit Committee, all of which are subject to continuous review. These guidelines hinge on the evolving needs and expectations of depositors, regulators, investors and the market at large.

The Bank's Corporate Governance Framework addresses key concepts pertaining to the Board itself, in terms of its function and composition, to the individual directors, in terms of their responsibilities and qualifications, in addition to the corresponding Committees that are derived from the Board.

Bank of Beirut has been operating in Lebanon since 1963; its current management assumed responsibility in 1993. It is currently one of Lebanon's leading banks: ranked first in capitalization level, assets quality, trade finance, and asset management. The Bank targets commercial, retail and capital markets, and its rigorous corporate governance aims to ensure efficient credit, market and operational risk management. Today the Bank is present in eleven countries and conforms to strict local, regional, and international regulations.

Bank of Beirut Governance & Integrity Rating (GIR) Jumped 67 Points to an A- grade

Committed to better Corporate Governance, Bank of Beirut saw the strongest improvement in Governance & Integrity Rating, issued by Capital Concept, compared to listed Lebanese banks jumping 67 points¹ to reach A- on the grade scale for its swift responsiveness to carry out all needed disclosure improvements that led to a radical enhancement in its grading within a two-year period.

Given the vital role of banks in the Lebanese economy and the importance of good governance for the successful operation of these institutions, discussion of corporate governance has been on the rise in Lebanon and banks are getting more involved.

Bank of Beirut has been active on the issue and developed its own guidelines in adherence with the policies set forth by Banque du Liban, the Banking Control Commission and the Association of Banks in Lebanon.

Always committed to the highest ethical standards, fostering transparency and disclosure in all material matters related to the Bank's financial situation, performance, ownership and governance, Bank of Beirut's Corporate Governance is driven by the Board of Directors' principal duty to act in good faith, with prudence, and in accordance with a set of values and standards selected to safeguard stakeholders' interests.

In this regard, Bank of Beirut is aiming to sign the Investors for Governance and Integrity (IGI) declaration as a commitment to promote sound corporate governance and to preserve shareholders' rights, including minority shareholders. Per the declaration, signatories acknowledge their duty to act in the long-term interest of their beneficiaries.

2. OVERVIEW OF THE BOARD OF DIRECTORS

Function

Bank of Beirut s.a.l. is managed under the direction and oversight of the Board of Directors, whose main role is to supervise management, exercise business judgement, and act in good faith. Each Board Member is expected to work in the best interest of the various stakeholders.

Composition, Term & Election

As per the Bank's Articles of Association, the Board of Directors cannot comprise less than three members or more than twelve, each holding a minimum of 100 shares. Board Members are elected for a period of three years by the Ordinary General Assembly. The number of terms for which an individual board member may be elected is unlimited. In pursuant to BDL Basic Circular No. 118, the Board of Directors is composed of a majority of non-executive and independent members, leaving only two executive Directors. There is no limitation regarding the membership of the Board of Directors.

Board Meetings

The Board sets formal meetings at least quarterly where the majority of Directors are expected to attend to constitute a quorum. It is the

¹Assessment based on a 2-year review covering 2015-2017



responsibility of the Chairman – Chief Executive Officer to establish an agenda for each meeting and ensure that sufficient time is allocated to address issues. It is also customary to summon board members one week in advance of the set meeting date.

Qualifications

Board Members are selected based on their ability and willingness to commit adequate time to the Bank, unquestionable integrity, and a prominent professional background that will prove to be of optimal benefit to the Bank.

3. RESPONSIBILITIES OF THE BOARD OF DIRECTORS

i- Setting and overseeing the implementation of the Bank’s Business Objectives and Strategy

The Board has the ultimate responsibility for the strategy and the management of the Bank. The basic responsibility of the Directors is to exercise their business judgment to act in what they reasonably believe to be in the best interests of the Bank and its shareholders. In discharging that obligation, Directors are entitled to rely on the honesty and integrity of the Bank’s senior executives and its external advisors and auditors.

ii- Ensuring compliance with applicable laws and regulations

The Board ensures that Directors, Senior Management, and employees continuously observe and act within the applicable laws and regulations, through enforcing the Bank’s policies and practices at all times. In this respect, the Board approves and oversees the implementation of key policies at the Bank, as well as capital and liquidity plans, including the Internal Capital Adequacy Assessment Process (ICAAP), Risk Management and Compliance policies as well as maintaining a robust internal control framework, in accordance with supervisory requirements.

Moreover, the Board oversees the management of the Bank’s compliance risk through an independent Compliance function that ensures that the Bank operates with integrity and in accordance with applicable laws and regulations. The Compliance function has direct access to Senior Management and to the Board through its Risk and Compliance Committee, whereby the Board and Senior Management are kept informed with developments in Compliance risks. Furthermore, the Board, through its Board Compliance Committee, ensures that the Compliance function regularly educates employees on Compliance issues and provides them with guidance in this regard.

iii- Reinforcing corporate culture, values, and ethical behavior

In its governance approach, the Board assumes the “tone at the top” in promoting a sound corporate culture that is based on high standards of ethical behavior. The Board ensures that these standards are strictly observed by Directors, Senior Management and employees. In doing so, the Board expects Directors, Senior Management and employees to:

- Observe the highest standards of behavior and commitment to truth;
- Strive at all times to enhance the reputation and performance of the Bank through fair dealing;
- Decline acceptance of gifts of significant value;
- Conduct the business of the Bank in compliance with relevant laws and ethical standards;
- Prevent conflicts of interest; and
- Demonstrate social responsibility and contribute to the well-being of the community.

Moreover, the ethical business conduct is enforced through formal policies implemented at the Bank that comprise the “Code of Conduct” and the “Anti-Bribery & Anti-Corruption (ABC)” policies summarized here below:

Code of Conduct

The Bank adopted a Code of Conduct policy that embodies honesty, integrity, quality and trust, and other principles and standards to which management, officers, and employees are expected to adhere.

The purpose of the Code is to communicate the ethical framework within which the Bank operates and to place employees on notice that they will be held responsible for abiding by the articulated standards, including applicable laws. They are also expected to conduct themselves in order to protect and promote organization-wide integrity and to enhance the Bank’s ability to achieve its mission, as it provides practical set of guiding principles to help them make decisions in their day to day work.

Anti-Bribery & Anti-Corruption (ABC)

The Bank has an adequate ABC policy in place that will prevent bribery and corruption while ensuring commitment to high behavioral standards and integrity when conducting day-to-day operations. It also ensures that staff and associated persons comply with the relevant procedures.

iv- Overseeing an effective Risk Governance Framework

Risk Appetite

The Board is responsible for defining the Bank’s overall risk appetite and tolerance levels that are aligned with the Bank’s strategic and financial plans and objectives. In doing so, the Board ensures communicating the defined risk appetite and tolerance levels to the various Business Lines through its Board committees as well as the several Senior Management committees. Likewise, the Group Risk Management function ensures



that risk policies and methodologies are consistent with the Bank's risk appetite, and it monitors and regularly reports risk exposures to the Board through its Board Risk Management Committee.

Risk Governance Framework

Ensuring the presence of a sound Risk Management and an effective Internal Control is an essential responsibility of the Board. In this respect, the Board maintains an active role in overseeing the efficiency and effectiveness of a sound Risk Governance Framework that comprises:

- Business Lines that are responsible and accountable for the management of risk in their areas;
- Independent Risk Management and Compliance functions with sufficient authority, stature, independence, resources and access at the Board level through the Board Risk Management & the Board Compliance Committee
- An Independent Internal Audit function with direct access to the Chairman of the Board of Directors; the Internal Audit function is responsible for independently reviewing and providing an objective assurance on the quality and effectiveness of the Bank's internal control framework.

v- Maintaining oversight of Senior Management

Although the ultimate responsibility for the management of the Bank lies with its Board of Directors, the board may see fit to delegate various duties to Senior Management and their respective committees. In this respect, Senior Management is responsible for managing the day-to-day operations of the Bank, while the Directors have complete and open access to the Bank's Senior Management and other employees. Moreover, the Board plans for the succession of the Senior Management positions held within the Bank. The Board also remains responsible for approving the charters of the various committees and monitoring their performance. Board Committees and Management Committees are listed under section 4.

The current members of the Board of Directors were elected by a resolution of the Ordinary General Assembly of shareholders held on 5 May 2017 for a three year term expiring on the date of the annual Ordinary General Assembly meeting (expected to be held in April 2020) that will examine the accounts and activity of the year 2019.

4. BOARD & MANAGEMENT COMMITTEES

Board Committees

• The Board Audit Committee

The Board Audit Committee (BAC) consists of at least three non-executive Directors and is scheduled to meet at least 4 times per year. The BAC aims to promote compliance with regulatory requisites as well as integrity of financial statements and reports. The BAC also assists the Board in fulfilling oversight responsibilities for the proficiency, independence and objectivity of both external and internal auditors, internal control system effectiveness, and the review of audit reports issued by the internal audit.

• The Board Risk Management Committee (BRMC)²

The Board Risk Management Committee (BRMC) comprises at least three non-executive Directors and is scheduled to meet at least 4 times a year. The BRMC develops, oversees a sound and effective internal risk management framework and incorporates the process of risk management in the business decision making of all activities and business units of the Bank.

• The Board Credit Committee (BCC)

The Board Credit Committee (BCC) is the highest credit approval authority at the Bank, and its main function is the Approval/Ratification of all the commercial credit requests presented to it and which amount to USD 3,000,000 or more.

• The Board Remuneration & Nomination Committee

The Board Remuneration & Nomination Committee consists of at least three non-executive Directors and will typically meet on a semi-annual basis to set the overall principles and parameters of the Bank's remuneration policy and advise the Chairman and the Board on profile and credentials to consider in prospective Board Members.

• The Board Compliance Committee³

The Board Compliance Committee consists of four members appointed by the Board of Directors for its entire mandate. The committee should meet on quarterly basis to set the Bank's compliance policies and procedures. It is also responsible for overseeing the implementation of these policies, ensuring that compliance issues are resolved effectively within standards.

²Updated as at October 2017

³Added as at August 2017



Members	Independent	Board Audit Committee	Board Risk Management Committee	Board Credit Committee	Board Remuneration & Nomination Committee	Board Compliance Committee
Dr. Salim G. Sfeir				President		
Mr. Fawaz H. Naboulsi			•	•		•
Mr. Adib S. Millet		•		•	•	
Mr. Antoine A. Abdel Massih			•	•		
Emirates Bank P.J.S.C represented by Mrs. Loubna Kassem			•	•		
H.E. Anwar M. El-Khalil						
Architect Rashid El Rashed	•	•				
Mr. Krikor E. Sadikian	•	President			•	
Mr. Antoine Y. Wakim	•					President
Mr. Ramzi N. Saliba	•		•		President	
Mr. Robert K. Surssock	•	•			•	•
Mr. Pierre Gaspard	•			President		•

Management Committees

Eighteen management committees currently operate at the Bank, each functioning according to its own charter, focusing on specific day-to-day operations of the Bank:

1. Asset/Liability Management Committee
2. Credit Committee
3. Credit Committee for Financial Institutions
4. Anti-Money Laundering and Counter-Financing of Terrorism Committee
5. Asset Recovery Committee
6. Real Estate Committee
7. Foreign Affiliates Committee
8. Retail and Branches Committee
9. Marketing and Communication Committee
10. Human Resources Committee
11. Information Technology Committee
12. Procurement Committee
13. Investment Committee for Funds & Structured Products & Derivatives
14. Cross Selling Committee
15. Products & Packages Committee
16. Corporate Business Continuity

Sub-Committees

17. Operational Risk Management Committee
18. Corporate Information Security

5. THE BOARD OF DIRECTORS' OWN GOVERNANCE STRUCTURE AND PERFORMANCE

Chairman of the Board of Directors

The Chairman of the Board of Directors is appointed by the Board among its own members for a maximum period of three years, renewable without any restriction. As per the Lebanese law, the Chairman of the Board of Directors acts as the General Manager of the Bank (also referred to



as the Chief Executive Officer).

The responsibilities of the Chairman include, but are not be limited to:

- Ensuring the proper running of the Board and that all matters on the agenda are sufficiently supported;
- Ensuring the Board meets at regular intervals and minutes of meetings accurately record decisions taken;
- Providing effective leadership to formulate the Board's strategy; and
- Reviewing the performance of the Board and individual Directors.

Board Committees

The various Board Committees are included under section 4.

Board Performance

The Board recognizes its collective responsibility for ensuring the success of the Bank, which is mainly defined by its performance. To ensure optimal results, the Board conducts annual self-assessments to determine if it, as a whole, or its respective committees are functioning effectively. Similarly, Board and Senior Management committees also undergo self-evaluation to the same purpose.

Ethical Standards

As part of a Board Member's initial qualifications, various ethical standards should be met upon election and throughout the period spent serving on the Board of Directors. In terms of conflict of interest, members must avoid any action that contradicts with their duties towards the Bank. A Board Member's Duty of Care lies with respect to the actions taken with the utmost highest level of business judgement, good faith, and prudence. As a means to exercise Duty of Loyalty, a Board Member is expected to disclose any conflicts of interest to the Chairman.

Disclosure and Transparency

The Board is required to take all adequate and reasonable steps to disclose its governance structure through its annual reports and on its website to enable various stakeholders to assess the effectiveness of the Bank's management practices.

Board Education

The Board ensures that Directors are continuously kept up-to-date with the latest developments in the banking industry, including new or enhanced banking practices and advancements in the business within the Bank or regarding the industry as a whole, in addition to any changes to the legal and regulatory frameworks. Consequently, the Board takes the needed steps and is open to conducting the necessary training to Board members where it deems needed, the Board also acknowledges that this is important in particular to newly appointed Directors.

6. SHAREHOLDING STRUCTURE

The following table sets out the composition of the major holders of Common Shares as at December 31, 2016

Shareholder's Name	Ownership Percentage %
International Century Corporation S.A - Lux	24.40%
Millet & Millet Inc	8.70%
Nar Aram Khatchadourian	7.94%
Emirates NBD Bank P.J.S.C	7.56%



7. CORPORATE STRUCTURE



8. BIOGRAPHY OF BOARD MEMBERS



Salim G. Sfeir

Chairman of the Board
Chief Executive Officer

Nationality: Lebanese

Executive Director since 1993

Term expires at the 2020
Annual General Assembly
of Shareholders

Salim G. Sfeir has held the position of Chairman and Chief Executive Officer of Bank of Beirut since 1993, after acquiring a minor banking institution with 5 branches ranked 35th by assets in the Lebanese banking sector along with a group of seasoned investors. Since then, Dr. Sfeir has had an active role in leading Bank of Beirut through both prosperous and challenging times and establishing its current status as a leading and widely recognised bank in Lebanon and the region. Dr. Sfeir launched his banking career in 1971 with Bank of Nova Scotia, Beirut. He later held the position of Deputy General Manager with Banque de la Méditerranée from 1980 to 1983. In 1983, Dr. Sfeir founded Wedge Bank (M.E.) s.a.l., Beirut, and took on the role of General Manager and Board Member until 1989. In 1987, he was appointed General Manager - Chief Executive Officer at Wedge Bank (Switzerland) S.A. and remained in that position until 1991, after which he was appointed Vice Chairman in January 1992. Salim G. Sfeir holds both a Bachelor of Science Degree in Economics from the University of Montreal, in addition to a Masters of Business Administration Degree from the University of Detroit. Dr. Sfeir received several honours and awards, including, in April 2014, an Honorary Doctorate in Business and Commercial Science from the Holy Spirit University of Kaslik.



Fawaz H. Nabulsi

Deputy Chief Executive Officer
Executive Director

Nationality: Lebanese

Executive Director since 1993

Term expires at the 2020
Annual General Assembly
of Shareholders

Fawaz H. Nabulsi began his banking career in 1978 with the Fidelity Bank (USA), ultimately reaching the position of Vice President - Head of the Middle East Division. In 1989, he joined Bank of Oman as the Chief Executive Officer of their British operations in London. In 1993, Mr. Nabulsi was appointed as Deputy Chief Executive Officer of Bank of Beirut and assumes a critical part in the executive management and monitoring of the Bank's key business functions, which saw Bank of Beirut grow to become one of the leading banks in Lebanon. Mr. Nabulsi is also a Member of the Board Risk Management Committee, the Compliance Committee and the Board Credit Committee. Fawaz H. Nabulsi holds a degree in Business Administration from the University of London.



Adib S. Millet

Vice Chairman of the Board
Non-Executive Director

Nationality: Lebanese

Director since 1999

Term expires at the 2020
Annual General Assembly
of Shareholders

Adib S. Millet currently holds the position of Vice Chairman of the Board, in addition to his roles as a Member of the Bank's Board Audit Committee, Board Credit Committee, and Board Remuneration & Nomination Committee. Mr. Millet is a highly reputable industrialist who also has a vast banking experience for having held the position of the Chairman of the Board of Directors of Transorient Bank s.a.l. until November 1998, and for being a member of the Board of Bank of Beirut s.a.l. since 1999. Mr. Millet is currently the Chairman of Gimble Ltd. & Frobisher Ltd. in London, England and former Director of Millet Textiles and Sprintex, Ghana.



Antoine A. AbdelMassih

Non-Executive Director

Nationality: Lebanese

Director since 1993

Term expires at the 2020
Annual General Assembly
of Shareholders

Antoine A. Abdel-Massih has been one of the Bank's key Non-Executive Board Members since 1993, attesting to his vast expertise within the banking industry. He is also an active member of the Bank's Board Risk Management Committee and Board Credit Committee. Mr. Abdel Massih is an accomplished industrialist, founding various Formica and furniture manufacturing plants in Lebanon and the region. In 1972, he founded Puriplast s.a.l., an industry leader in the Formica manufacturing industry; and as Chairman and Chief Executive, he commands four plants that span across Lebanon, Jordan and Egypt. Mr. Abdel-Massih is also a major shareholder in LOMA S.P.A., Italy.



Emirates NBD represented by Loubna Kassem

Non-Executive Director

Director since 1998

Term expires at the 2020
Annual General Assembly
of Shareholders

Emirates Bank NBD, as represented by Mrs. Loubna Kassem, has been a non-executive member of the Board of Directors since February 1998, after acquiring a 10% stake in Bank of Beirut s.a.l. Emirates Bank NBD also sits as a member of Bank of Beirut's Board Risk Management Committee and Board Credit Committee. Emirates Bank NBD is a leading Arab commercial banking institution with principal offices located in Dubai, U.A.E. It was established in the 1980's through the mergers of several banks.



Anwar M. El Khalil

Non-Executive Director

Nationality: Lebanese

Director since 2002

Term expires at the 2020
Annual General Assembly
of Shareholders

H.E. Anwar Mohamad El Khalil was elected Member of Parliament for five consecutive terms spanning from 1992 until 2013. He was also Minister of State for Parliamentary Affairs (1992-1994), Minister of State for Administrative Reform (1994-1996), Minister of Information (1998-2000), and Minister of Displaced (1998-2000). H.E. Anwar M. El-Khalil is a well-established businessman as he owns and chairs a number of companies in Lebanon and abroad. He held the position of Managing Director of M. El-Khalil Transport Ltd., Nigeria from 1958 to 1960. He has been the Chairman of Seven-Up Bottling Co., Nigeria since 1972, the Chairman of M. El-Khalil & Sons (Properties) Ltd., Nigeria since 1960, and the Chairman of MAK Holdings Ltd. since 2002. When it comes to his career in the Banking sector, H.E. Anwar M. El Khalil held the position of Chairman - General Manager of Beirut Riyadh Bank s.a.l. from 1995 till 2002, in addition to being the President of the Union of Arab Banks for the period spanning from 1983 until 1989. H.E. Anwar M. El-Khalil is a Barrister at Law from LLM – London University and a member of the Honourable Society of the Middle Temple - London.



Rashid S. Al Rashid

Independent Director

Nationality: Saudi

Director since 2010

Term expires at the 2020
Annual General Assembly
of Shareholders

Rashid S. Al Rashid has been an Independent Member of the Board of Directors of Bank of Beirut s.a.l. since 2010, as well as a member of the Board Audit Committee. He is also a Member of Arab National Bank's Board of Directors. Arch. Rashid S. Al Rashid has been a Partner and General Manager of Real Estate and Investment Division in Al Rashid Trading & Contracting Company since 1976. He is also the Chief Executive Officer of both Rashid S. Al Rashid Sons Ltd. and Rashid S. Al Rashid Architectural Consulting Engineers. In addition to being one of the founding partners and General Manager of Arch Centre for Architectural Designing. Rashid S. Al Rashid holds a Bachelor of Architecture from Oregon University, USA.



Krikor S. Sadikian

Independent Director

Nationality: Lebanese

Director since 2011

Term expires at the 2020
Annual General Assembly
of Shareholders

Krikor S. Sadikian has been an Independent Member on the Bank's Board of Directors since 2011. As a former equity partner at Deloitte & Touche Middle East, with 42 years of experience in audit and financial advisory, Mr. Sadikian currently holds the position of Chairman of Bank of Beirut's Board Audit Committee, in addition to his role as a member of the Board Remuneration and Nomination Committee. Krikor S. Sadikian holds a Bachelor of Business Administration from the American University of Beirut.



Antoine Y. Wakim

Independent Director

Nationality: Lebanese

Director since 2011

Term expires at the 2020
Annual General Assembly
of Shareholders

Antoine Y. Wakim has been an Independent Member of the Board of Directors since 2011. He also chairs Bank of Beirut's Compliance Committee. Mr. Wakim was the General Manager of Allianz SNA from 1998 till 2007, in addition to various senior management roles in other insurance companies across Lebanon and the Middle East. Antoine Y. Wakim studied Actuary at Universite de Lausanne and completed the Advanced Management Programme at INSEAD. He is also a member of the International Actuarial Association (IAA) and the Association des Actuaries Suisses.



Ramzi N. Saliba

Independent Director

Nationality: Lebanese

Director since 2016

Term expires at the 2020
Annual General Assembly
of Shareholders

Ramzi N. Saliba lately joined Bank of Beirut s.a.l in 2016 as an Independent Board Member, Chairman of the Board Remuneration and Nomination Committee and a Member of the Board Risk Management Committee. Mr. Saliba began his banking career with Citibank N.A. in 1975 and was then assigned as Head of its Corporate Banking Group to Citibank Maghreb S.A until 1982. In 1983, he joined Bank Med s.a.l. as a Deputy General Manager but was then assigned as a Managing Director-General Manager. In 2003, Mr. Saliba joined Audi Saradar Group as an Executive Director-General Manager for Audi Saradar Investment Bank s.a.l. Mr. Ramzi Saliba also held the position of Executive Director General Manager at BIT Bank s.a.l from 2013 and until 2015. Ramzi N. Saliba holds a BA degree from Emory & Henry College, Virginia, USA.



Robert K. Sursock
Independent Director

Nationality: French

Director since 2016

Term expires at the 2020
Annual General Assembly
of Shareholders

Robert K. Sursock recently joined Bank of Beirut s.a.l in 2016 as an Independent Board Member, a Member of the Board Audit Committee, the Board Remuneration and Nomination Committee and the Compliance Committee. Robert K. Sursock spent 25 years at Banque Arabe et International d'Investissement, 12 of which as CEO. He established PrimeCorp Finance S.A. in 1997 where he held the position of Chairman and CEO. He was also the Chairman and CEO of Gazprombank Invest MENA from 2009 until May 2015. Robert K. Sursock studied Hautes Etudes Commerciales at Université de Lausanne.



Pierre A. Gaspard
Independent Director

Nationality: Lebanese

Director since 2017

Term expires at the 2020
Annual General Assembly
of Shareholders

Pierre A. Gaspard joined the Bank's Board of Directors as an Independent Director in 2017. He also chairs Bank of Beirut's Board Risk Management Committee and is a member of the Board Compliance Committee. Mr. Gaspard was formerly Advisor to the Chairman and Board Member of Saradar Bank. Throughout his 35-year career in the finance industry, Mr. Gaspard held senior executive positions in several local and international banks namely in the fields of Treasury and Capital Markets. Pierre A. Gaspard holds a Bachelor of Business Administration from the American University of Beirut and a Master of Business Administration from California State University.



9. REMUNERATION POLICY AND PRACTICES

Bank of Beirut strives to compensate its employees using a balanced mix of salaries, bonuses/incentives, and benefits (e.g. education allowances). In this respect, and based on the recommendation of its Remuneration Committee, the Board of Directors has approved a 'Compensation & Benefits Policy' and a 'Bonus & Incentive Policy' founded on the following principles:

1. Remuneration practices are consistent with Bank of Beirut's strategy, culture, risk tolerance, corporate performance, as well as legal and regulatory requirements.
2. Remuneration packages are equitable and provide all employees with a comprehensive and competitive package that is commensurate with each employee's position, grade, and performance. Business Lines employees are assessed based on the achievement of financial targets set at the beginning of the performance cycle. Support Lines employees and Senior Managers are assessed based on the achievement of set objectives and key job responsibilities, in addition to behavioral competencies.
3. The remuneration of Control Functions is determined in a way that preserves their objectivity and independence and thus are not linked to the performance of the business areas they oversee.
4. An aggregate amount of salaries, bonuses, and benefits is included in the annual budget approved by the Board of Directors. It is set in a way that does not affect the Bank's financial position.
5. The total amount of salaries, bonuses, and benefits paid annually are disclosed in accordance with the International Financial Reporting Standards and with the provisions of Article 158 of the Lebanese Code of Commerce. As reported in the Bank's consolidated financial statements for year 2016, the total staff costs, including salaries, bonuses, Executive Board remunerations, and other benefits amounted to an approximate total of 167 Billion LBP.



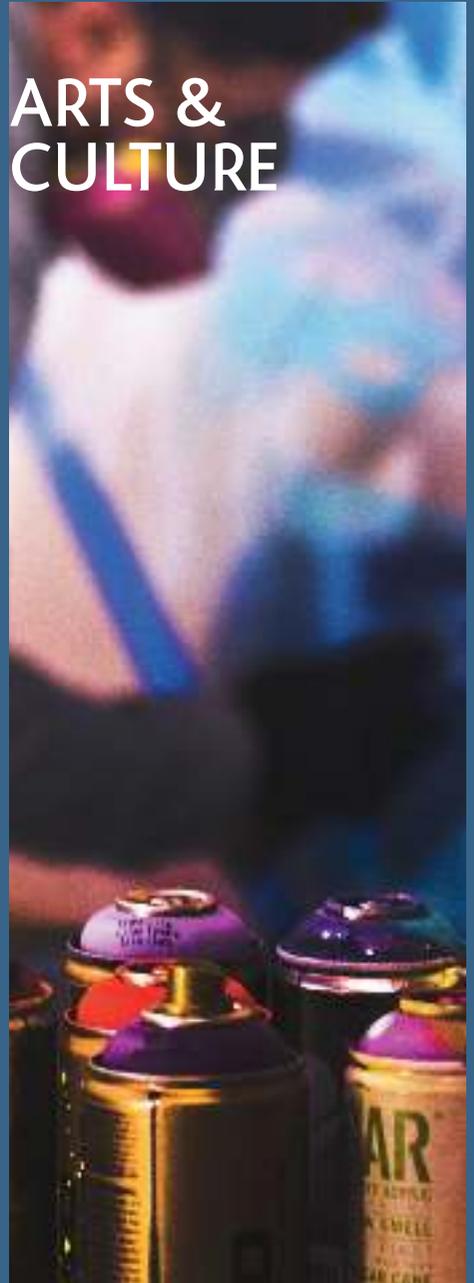
SPORTS



INNOVATION



ARTS & CULTURE



ROBOTICS



EDUCATION



SOCIAL



**CSR
YOUTH REPORT**





WE ARE THE POWER !

A Journey with the youth as seen by Bank of Beirut Social Engagement.

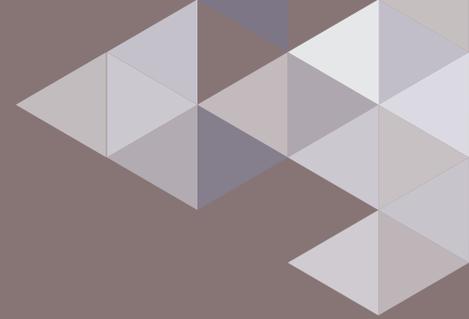
We are proud of the work we've done and the achievements we have accomplished since we first started our youth engagement 10 years ago and the meaningful progress we've made against our vision and mission.

We recognize we cannot do it alone, however: collaboration with our stakeholders, customers, partners and stakeholders in the places where we operate remains critical to achieving our mission.

As the effects of the economic and financial crisis on young people become even more severe, youth engagement is an ongoing concern for Bank of Beirut. Our aim is to build long-term relationships with the youth, whether students, fresh graduates, junior employees, or simply the young at heart to strengthen our mission and implement a dedicated, visible and authentic approach to social responsibility.

10 years of engagement with the youth





EDUCATION

Developing their capabilities and performance through targeted education and training.

Aware of the fact that our young generation needs an opportunity for the development of its potential to the fullest, we continuously seek to offer them the right learning chances and services by developing a full range of training activities aimed at encouraging them to effectively tap the job market.

U for Youth

It all started from here, with a special financial and educational bundle carefully designed to meet the needs of the youth when enrolling in university. U for youth provides a space of expression for the youth whereby they can benefit from a medium for communication and a channel for opportunities. It is an interactive platform where they can find the advice they have always sought alongside professional experts in various fields. They can also meet, compete, relay, share, inform and get informed. And to top it all, they get the opportunity to win valuable prizes to finance their scholarship.

U for Youth is the platform built for and with the youth to help them reach higher achievements and job opportunities.

SCHOLARSHIP

AFFINITY CARD

BOOTCAMP

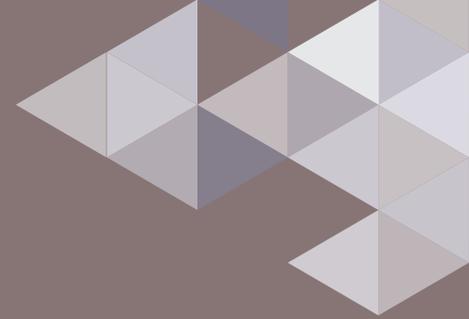
3D ACCOUNT



for Youth

uforyouth.com





EDUCATION

Bootcamp

Because the youth ultimately determine the future of our country and the success of any business, we are adamant in offering the right training options for the young generation by giving them the possibility to attend professional workshops and take professional certifications from a reputed training services provider. This 5-day tailor-made Work Success Boot Camp aims at providing the youth with an intensive program for university graduates to prepare for the workforce. In addition to the coursework, the program is augmented with dynamic initiatives which will have long-term professional rewards for participants. Candidates have the occasion to interact with guest speakers from a diverse range of public and private sector organizations and will establish networks within different companies and organizations leading to internship.

Hands on Banking

The importance of the youth and the value they add to our society has always been a drive for our initiatives. As a sound committed banking institution, we believe in the importance of qualified and talented young people and always seek to guide their choices, develop their potentials and enable their performance. For university students eager to delve into the banking industry, Hands on Banking offers important insights into the sector. Participants are coached in several sessions and by various bank representatives about banks' divisions and their mechanisms.

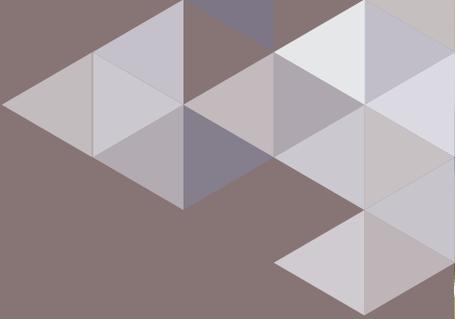
University Banking Events

Since our early banking operations, we cultivated deep and sound relationships with major universities, student organizations and alumni all over Lebanon. Stemming from our commitment to escort the youth all through their journey at university, we engaged actively with them in all the events held on campus.



University Bank of Saudi Arabia

Perhaps your future with our Youth Plan



EDUCATION

Banking events

Our presence in University Banking – focused forums and meetings alongside our competitors, gave us the opportunity to spot the youth' perspectives on the pursuit of decent work fields in changing times and to partner with them in a much modernized and educational approach.

Job Fairs

Every year, Bank of Beirut attends more than 10 job fairs in all major Lebanese universities, where students can visit our stand, discuss banking opportunities with our HR professionals, meet with banking professionals from the bank, and debate banking and financial topics.

This is not all about it, as our HR team is there to provide students with expert guidance in recruitment potentials, job opening options, and the like.

The tactics we employed to realize success at job fairs included enhancing our recruitment strategy to reach passionate and knowledge-savvy students in more engaging ways by inviting new graduates to explore careers at Bank of Beirut.

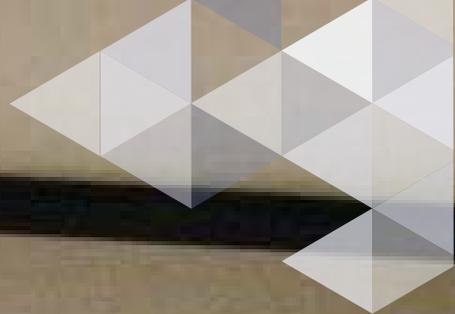
Our endeavors proved right as applications received during job fairs opened the floor to interesting recruitments and internships among fresh graduates in various fields of interest to our institution.

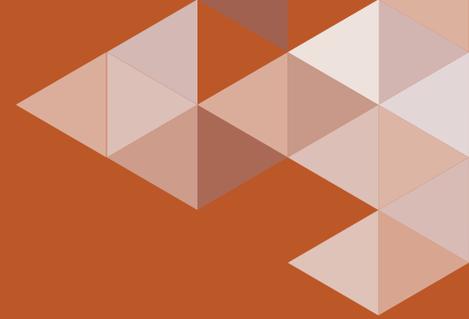
Engaging ways by inviting new graduates to explore careers at Bank of Beirut.

Our endeavors proved right as applications received during job fairs opened the floor to interesting recruitments and internships among fresh graduates in various fields of interest to our institution.

USEK Dealing Room

In a one of a kind initiative, we strived to answer student demand for professional training opportunities and used our expertise to sponsor the first university dealing room at USEK University where students can simulate stock and financial activities in a real-like environment. Our commitment made this partnership with USEK a key turning point for finance, economics, and banking students giving them tangible treasury experience at hand.





ROBOTICS

Partnering with them to leverage their potential in technology and more specifically robotics.

As a financial provider and corporate citizen, we see firsthand how access to quality education and technology can impulse people to reach their full potential.

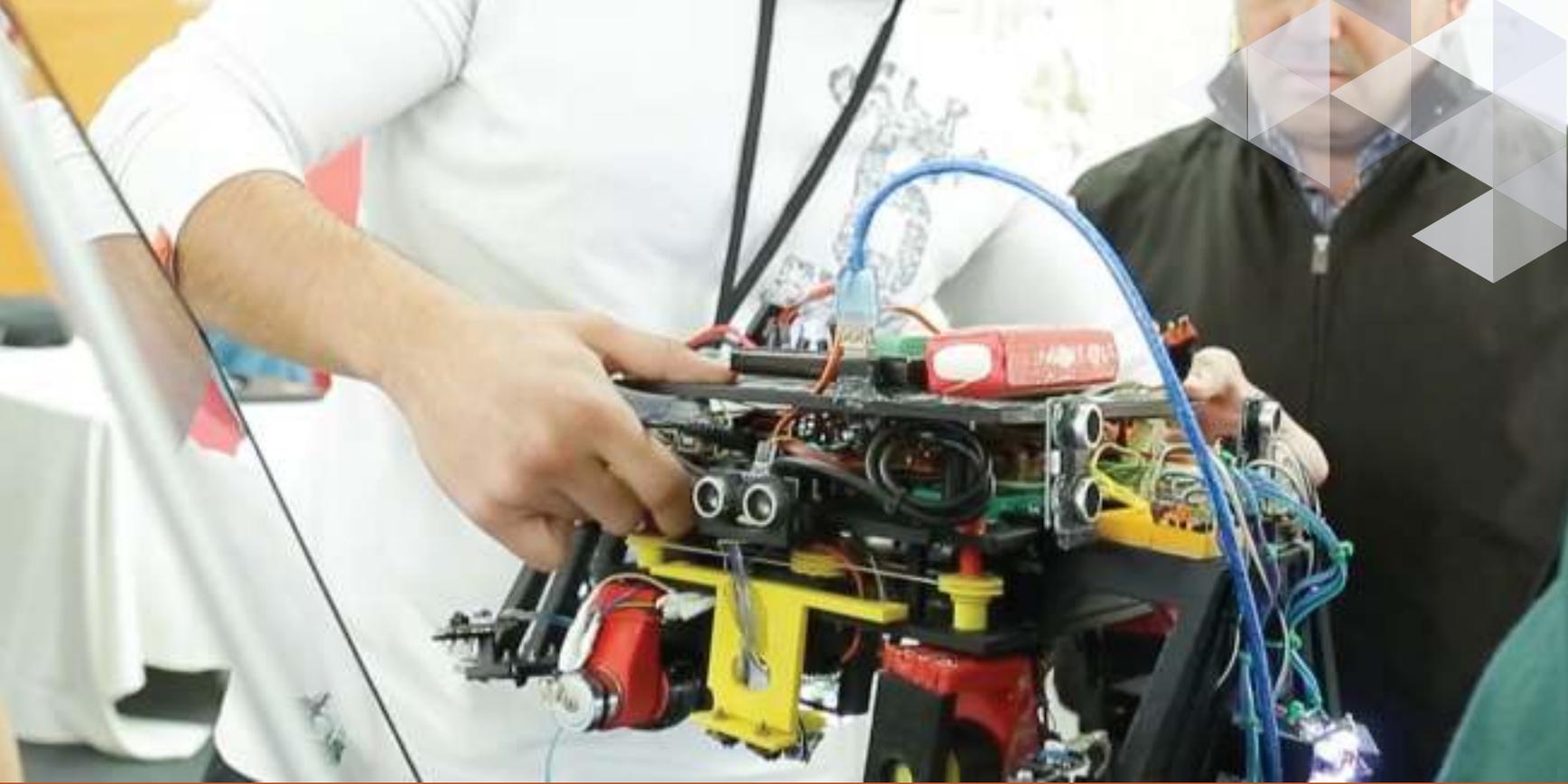
Our focus is to connect the youth of today with a more promising tomorrow through the power of technology. These aspirations deliver on our commitment to put our technology and banking expertise to work where they can be the most efficient for the young generation.

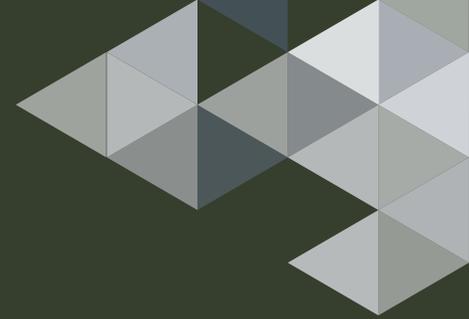
Robotics at its best

Alongside the technology we are all used to, Robotics and artificial intelligence figure at the top of any tech-savvy young person. Combining engineering, science, design and architecture, this new technology researches into the functionality and potential uses of robots and is of great appeal to the young generation. Embarking with the youth on such an adventurous and futuristic trip proved a right judgment from the part of Bank of Beirut as new technologies are the new black amongst the youth.

Studying all the opportunities, we offered our support to the innovative ideas emerging at the NDU Robotics Vex (video) and the AUB engineering Design Challenge (hyperlink), both challenges being on top of our support priorities.

On a more youngish note, we provided our financial and expert support to 3 young inventors from Notre Dame de Jamhour school, who teamed up to create a Surveillance drone that scans ski slopes for fallen skiers and transmits the information real-time to a central computer. Their creativity did not go unnoticed as they won the prestigious IEM award, a good start for their high-tech careers.





INNOVATION

Instilling a competitive edge to bring their innovation and creativity to the next level.

To assist our youth community overcome the challenges they face and thrive, we believe we have a role to play that goes beyond financial support. To drive real change, we go beyond regular funding toward offering expertise, exposure, and long term support. The window of opportunity came from the many challenges and competition students engage in during their campus life.

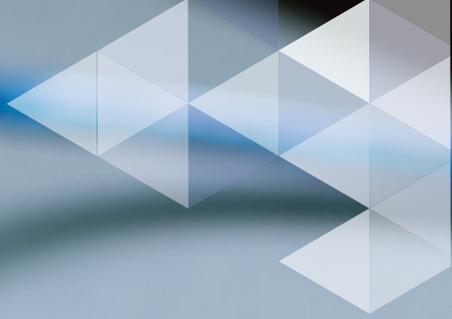
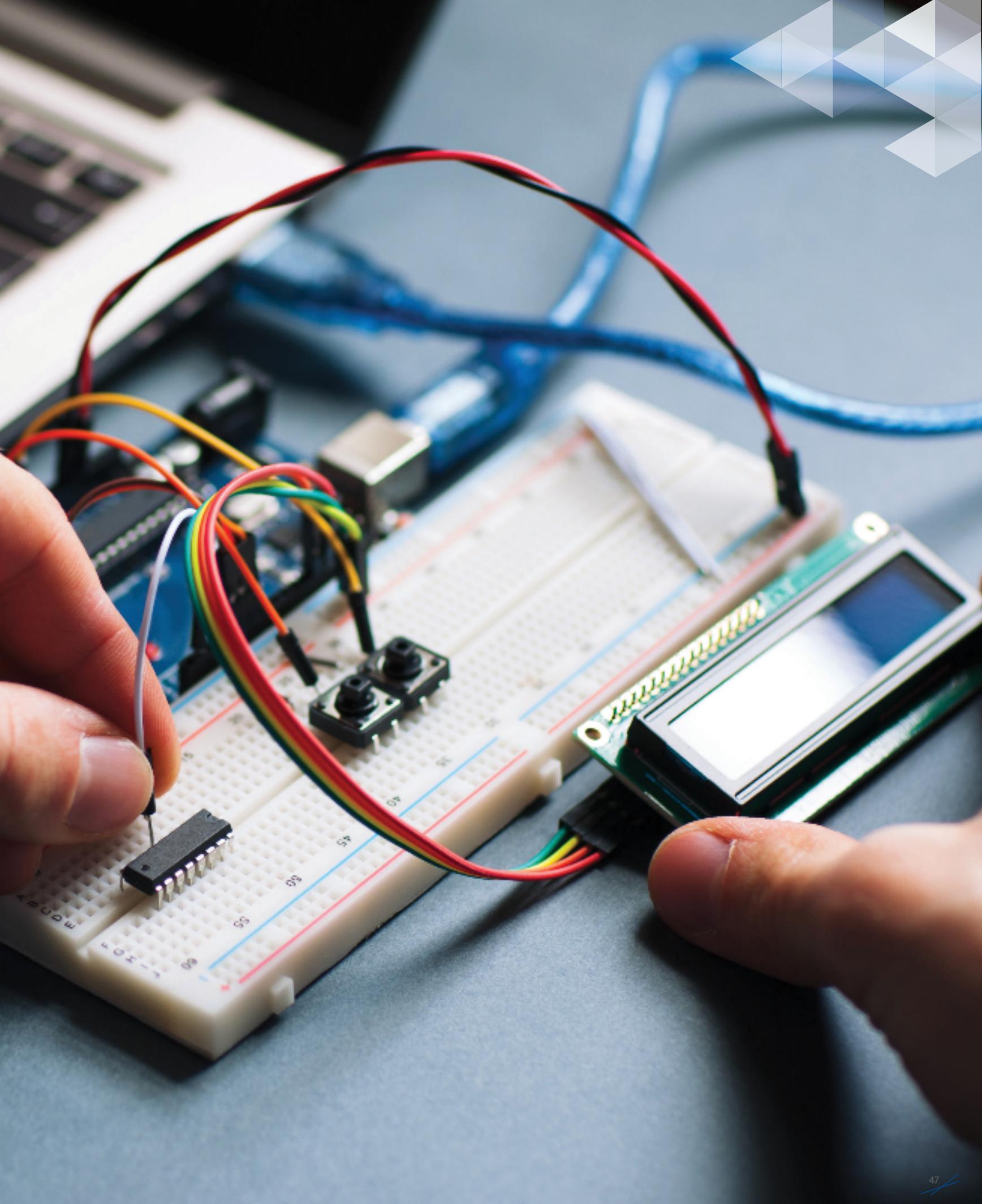
University Competitions

In our belief that competitions play a role in motivating students to perform and excel while offering more reward than just the winning prize, we anchored our name in major university competitions, offering a chance for participating students to gain substantial experience, showcase skills, analyze and evaluate outcomes, develop ideas and skills, and uncover personal attitude.

Entrepreneurship and Startups

Bank of Beirut invests a lot of value on attracting the country's best and brightest minds from around the world, as they are a source of diverse perspectives and cutting-edge skills. We found a niche interest with the young spirits striving to innovate and achieve in a business-crowded environment.

BDL accelerate, held under the initiative of the Central Bank of Lebanon, provided us with the opportunity to meet with the local minds behind some of the brightest business ideas in the country. Long-term relationships with young entrepreneurs are set to strengthen our brand through a dedicated and authentic approach to new business.





SPORTS

Growing their confidence and responsibilities by strengthening their sports abilities.

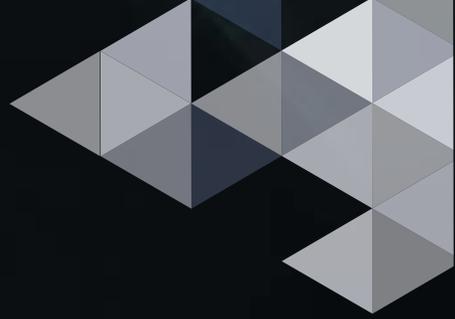
In our belief that practicing sports can be of great value to people who work as well as to people who lead a sedentary life, Bank of Beirut gives great importance to sports activities. And because sports also helps individuals identify with a group and replace the loneliness with the security of belongingness, we value any kind of activity undertaken by our young employees or by the young generation and take exciting initiatives in support of those sportive moments.

Futsal Team

For sports fans, sports are the epitome of good work, hard work, and dedication ... and to get to the pinnacle of their games, even the most naturally gifted athletes have to be dedicated, committed and to give it their all. This is our Futsal team. A team of young bank employees who play sports in the name of our bank and more than often come back with a winning trophy. A trophy they are proud to win and carry, raising high the name of the institution they belong to.

Bank of Beirut Futsal Team engages a special place in the heart of the bank's executives and staff where we all meet for the excitement and cheer for our heroes.

Created in 2013, our Futsal team groups 15 young employees from the bank, 15 skilled athletes, full of stamina and positive energy to win and carry the name of Bank of Beirut high in Lebanon and abroad.





SPORTS

Support to Sports Tournaments and Clubs

Bank of Beirut has always been a good supporter of sports and is proud of having its employees join various sports competitions/tournaments, combining teamwork, culture fitness and strategy. In a belief that joining sports events promotes good values among staff members and tightens their relationship with each other and the Bank, sustaining their belongingness to the institution they work for, Bank of Beirut promoted the development of local sports clubs in various Lebanese regions; Promoting the importance of sports and sense of competition among staff and youth is always a top priority on Bank of Beirut agenda.

Lebanese Rugby League

Bank of Beirut has always been eager to support dynamic youth. Therefore, in a different but interesting initiative, we partnered with the Lebanese Rugby League to sponsor its championship, which was re-branded "Bank of Beirut Rugby League Championship."

Our interest in Rugby stems from our belief that participation in such a game sports contributes to the improvement of physical and mental health, raises self-esteem and improves teamwork.

From Lebanese university students to people all over Lebanon and the Arab world, Rugby's popularity is growing fast, because it reflects a team spirit and cooperation and showcases Lebanon's achievements to a nationwide audience. This provides the basic social framework needed to build motivated future generations.



بنك بيروت
Bank of Beirut



ART and CULTURE

Collaborating with them and the institutions they represent to promote all forms of art and culture.

If banking is the language of business, art and culture are the language of the soul. The scale and efforts given to artistic and cultural activities are not less than any other activities. Today we are more than certain that Bank of Beirut plays a key role in promoting culture and art through the endeavors of the young generation, making thus a significant difference to the lives of the many young people involved.

Support to University Alumni Initiatives

Being an active partner in students' life, we are always represented at alumni gala events held by universities in support of the cause they are promoting and as an endorsement of our long-life commitment to their activities and fund raising initiatives. Being part of alumni event is a celebration of the journey our youth have accomplished to reach their destination and a financial support to the scholarship funds promoted.

Arts to Promote Youth Engagement

Keeping abreast of the youth' personal development, we took part in various art-related events held by universities to promote students' skills and raise funds for further university activities.

To date we can count: NDU Film Festival - NDU-Christmas Fiesta - NDU-Turath Day - AUST / Miss AUST - USJ-Stress Knock out - LAU Homecoming Event.

Young Achievers Program (YAP)

Proud to recognize and to support all the young talented achievers of Lebanon, Bank of Beirut launched the Young Achievers Program (YAP), a socially responsible initiative from "U for Youth".

The program aims at supporting the Youth of Lebanon through an interactive competition which recognizes and rewards young Lebanese individuals who have accomplished worthy achievements in all walks of life.

The Young Achievers Program partners with USJ, LAU, NDU, AUST, USEK, Antonine University and AMIDEAST.

Aired on nationwide TV within a renown weekly program under own segment "Ekher Injez", the new young talents take the stage to present their achievements to the public on-air and in front of a panel of judges. The winners are financially rewarded by Bank of Beirut based on the positive feedback received from panel.

The final top 3 achievers win substantially valuable financial prizes in recognition of their talents.





SOCIAL

Promoting youth awareness at all levels of social activities.

Being active players in the society where we operate, we run, walk, sing and dance for the cause of its youth. We volunteer and offer our support to all what matters for the youth and the generations to come. At Bank of Beirut, we are committed to making a lasting social impact in the community where we live and operate through inspired, responsible initiatives and by building strong partnerships with the people who surround us.

The sustainable development of our community is an integral part of our business and is embedded in our mission and corporate values. We are deeply concerned about social development and protecting our environment as well as improving the livelihood and wellbeing of people in our community. Our corporate social responsibility is reflected in our involvement in a wide range of projects. The focus of our civil role is our involvement in initiatives that contribute to the advancement of the communities where we operate on all levels.



Management Discussion and Analysis





783

CHANGES

debt

11

LATE



INTRODUCTION

Bank of Beirut s.a.l. ("BOB") is a full-fledged Bank which offers universal banking products and services covering Corporate, Commercial, Individual and Private Banking services to a diversified client base. The Bank operates in Lebanon, Europe, Australia, Middle East and Africa region. It was incorporated as a commercial Bank on August 19, 1963, under the name of "Realty Business Bank s.a.l.". The Bank is registered in the Beirut Commercial Register under No. 13187 and on the Banks' List at the Central Bank of Lebanon, under No. 75. Its Head Office is located in Foch Street, Bank of Beirut Building, Beirut Central District, Lebanon.

The Bank is one of the leading banks in Lebanon. At the end of 2016, it was ranked sixth among Lebanese banks as per major banking aggregates, namely in Assets, Deposits and Loans, and third in Equity and Net Profit.

The Central Bank of Lebanon is the lead supervisor of Bank of Beirut s.a.l. and its subsidiaries.

The Bank, together with its banking and other subsidiaries, is engaged in a wide range of banking and financial activities in Lebanon and a number of countries: the United Kingdom, Germany, Cyprus, the United Arab Emirates, Sultanate of Oman, Australia, Nigeria, and Ghana. Through its presence in these countries, the Bank has been able to expand and diversify its income, assets and loan portfolio outside Lebanon while broadening the sources of its deposit base.

The Bank maintains one of the largest branch networks in Lebanon, with currently 65 branches, as well as one branch in Cyprus and five branches in Sultanate of Oman ("Oman"). Bank of Beirut (U.K.) Ltd. the Bank's wholly owned subsidiary based in the United Kingdom has one branch in London and another branch in Frankfurt. Bank of Sydney, in Australia, (previously Beirut Hellenic Bank), a fully owned subsidiary, was acquired in early 2011 and currently operates 16 branches. The Bank also operates a representative office located in Dubai, United Arab Emirates, to service the Gulf region; two representative offices located in Lagos, Nigeria, and Accra, Ghana, to cater for West Africa. The Bank has currently four wholly owned subsidiaries in Lebanon, BOB Finance SAL, Bank of Beirut Invest SAL, Beirut Broker Company SARL, Cofida Holding SAL. The latter owns 90% of Beirut Life SAL.

The Bank has authorized and fully issued a total of 57,946,900 shares of common stock, out of which 53,184,900 are ordinary shares, and 4,762,000 are priority shares of common stock that benefit, for a limited period of time, from certain financial advantages. As at December 31, 2016, the number of the Bank's common stock (including the Priority Shares) listed and traded on the Beirut Stock Exchange amounted to 22,508,417 Shares (or 38.84% of the outstanding Shares).

BASIS OF PRESENTATION

The analysis that follows highlights the Bank of Beirut consolidated performance for the year ended December 31, 2016, compared to year 2015.

Financial information included in this report have, unless otherwise indicated, been derived from the Bank's draft audited consolidated financial statements as at and for the year ended December 31, 2016.

The Bank's consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") and interpretations issued by the International Financial Reporting Interpretations Committee, the regulations of the Central Bank of Lebanon ("CBL") and the Banking Control Commission ("BCC"), and include the results of the Bank and its consolidated subsidiaries. Deloitte & Touche and DFK Fiduciaire du Moyen-Orient have audited the Bank's consolidated financial statements for the year ended December 31, 2016.

The consolidated financial statements of Bank of Beirut S.A.L. incorporate the financial statements of the Bank and entities controlled by the Bank and its subsidiaries. Control is achieved when the Bank:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.



The consolidated subsidiaries consist of the following:

Subsidiary	Country of incorporation	Year of acquisition or incorporation	Percentage of Ownership	Business Activity
Bank of Beirut (UK) Ltd.	United Kingdom	2002	100%	Banking
Bank of Beirut Invest s.a.l.	Lebanon	2007	100%	Investment Banking
Beirut Broker company s.a.r.l.	Lebanon	1999	100%	Insurance brokerage
BOB Finance s.a.l.	Lebanon	2006	100%	Financial Institution
Cofida Holding s.a.l.	Lebanon	2008	100%	Holding
Beirut Life s.a.l.	Lebanon	2010	90%	Insurance (Life)
Bank of Sydney Ltd	Australia	2011	100%	Banking
Medawar 247	Lebanon	2015	100%	Real Estate
Medawar 1216	Lebanon	2015	100%	Real Estate
Optimal Investment Fund	Lebanon	2010		Mutual fund
Beirut Preferred Fund II	Cayman Island	2013	1.23%	Mutual fund
BOB LBP Growth Fund	Lebanon	2015		Mutual fund

YEAR 2016 GROUP PERFORMANCE OVERVIEW

Despite the economic slowdown in Lebanon, Bank of Beirut strengthened its franchise through good average growth in total assets and deposits underpinned by good performance of its international business and sustained growth within the Lebanese market. Over the years, the Bank has built an international presence which boosted its ability to become the leading trade finance Bank in the country and to cater to Lebanese expatriate communities.

The achieved growth has been in line with the long-term strategy adopted by the Bank which aims at diversifying its business activities towards a universal banking model through expanding regionally and internationally in profitable and relatively low-risk countries. It is worth mentioning that the Bank's long-term strategy is to attain a balanced breakdown of profits through activities in Lebanon and abroad.

The performance was characterized by remarkable growth in all main financial indicators. Capitalizing on the large branch network and the diversified product range, the Bank achieved gains in market shares in both commercial and retail businesses while maintaining its position as a leader in the Trade Finance line of business.

On consolidated basis, the Bank's total assets reached as at December 31, 2016 LBP 25,941 billion (USD 17.2 billion), growing by 6.53% year-on-year. The growth in size was mainly funded by the growth in deposits and equity.

Description (LBP billion)	Balances		Growth	
	31-Dec-15	31-Dec-16	Amount	%
Total Assets	24,350	25,941	1,591	6.53%
Customers' deposits	18,365	18,923	557	3.03%
Loans to Customers	6,407	7,192	785	12.25%
Shareholders' Equity	3,001	3,483	482	16.07%
Net profit	281	304	22	7.90%



PEER GROUP ANALYSIS

Bank of Beirut was able to sustain its peer group and market shares in most indicators and maintained its ranking:

Description %	Year 2016 Growth			BOB Group Share		Market Share		BOB Ranking	
	BOB	Peer	Sector	2015	2016	2015	2016	2015	2016
Total Assets	6.53%	6.07%	5.92%	7.91%	7.95%	7.09%	7.13%	6	6
Customers' deposits	3.03%	3.67%	3.62%	7.22%	7.18%	6.53%	6.49%	6	6
Loans to Customers	12.25%	1.39%	2.04%	6.65%	7.36%	5.85%	6.44%	6	6
Total Equity	16.07%	10.69%	10.05%	10.89%	11.41%	9.47%	9.98%	3	3
Net profit	7.90%	10.47%	12.63%	9.12%	8.91%	8.48%	8.12%	3	3

On the other hand, Bank of Beirut was able to achieve the following outstanding rankings as at December 31, 2016 within the peer group:

- Ranking 1st in "Equity to Asset ratio", indicating the high level of capitalization.
- Ranking 1st in "Leverage of total capital"
- Ranking 1st in Letters of Credit Openings, with a market share of 26.70%, evidencing the leading position in the Trade Finance business in the market.
- Ranking 1st in "Working Capital to total operating expenses"
- Ranking 2nd in "Net Operating Margin"
- Ranking 3rd in Return on Average Assets
- Ranking 2nd in loan portfolio quality ratios, namely "Doubtful loans to gross loans", denoting the conservative management of the credit risk.



A- CONSOLIDATED BALANCE SHEET MANAGEMENT

The composition and size of the balance-sheet and contingent liabilities reflect the Board of Directors' overall growth objectives and the risk appetite/tolerance for the group. The latter's strategy targets a sustainable growth and a good financial standing while adopting a conservative risk management framework and adequate corporate governance guidelines.

a- Sources and Uses of Funds

Sources of Funds

Description (LBP billion)	Balances		Growth		Breakdown	
	31-Dec-15	31-Dec-16	Amount	%	31-Dec-15	31-Dec-16
Customers' deposits	18,365	18,923	557	3.03%	75.42%	72.95%
Total Equity	3,001	3,483	482	16.07%	12.32%	13.43%
Deposits from banks & Financial institutions	1,731	2,004	273	15.79%	7.12%	7.73%
Other liabilities & provisions	352	675	324	92.10%	1.44%	2.60%
Other borrowings	608	588	(20)	-3.37%	2.50%	2.26%
Liabilities under acceptance	293	268	(25)	-8.60%	1.20%	1.03%
Total	24,350	25,941	1,591	6.53%	100.00%	100.00%

The main source of funds was generated from the customers' deposits which represented at the end of year 2016 around 72.95% of the funding sources, as compared to 75.42% at the end of 2015.

The customers' deposit base grew by LBP 557 billion in 2016 (+3.03%) while the Equity caption increased by LBP 482 billion (+16.07%) and its share increased to 13.43% at end of December 2016, compared to 12.32% at year-end 2015. The increase in "Other liabilities & provisions" caption was mainly related to a regulatory deferred income derived from the sale of Lebanese treasury bills in LBP against investment in medium-term certificates of deposits in foreign currency issued by the Central Bank of Lebanon. The funding from banks and financial institutions increased during the year by LBP 273 billion, a 15.79% year-on-year growth.

Uses of Funds

The Bank's strategy places emphasis on maintaining high asset quality and a strong investment securities' portfolio. While each entity of the group is abiding by the local regulations, and as part of the group risk management framework, the assets' structure is subject to internal limits in terms of business lines, financial instruments, counter-party concentration and geographical distribution.

Description (LBP billion)	Balances		Growth		Breakdown	
	31-Dec-15	31-Dec-16	Amount	%	31-Dec-15	31-Dec-16
Investment securities	10,113	10,603	490	4.85%	41.53%	40.87%
Loans and Advances	6,407	7,192	785	12.25%	26.31%	27.72%
Cash & deposits at Central Banks	4,803	5,671	868	18.07%	19.73%	21.86%
Deposits with banks & Financial institutions*	2,294	1,771	(523)	-22.80%	9.42%	6.83%
Customers' acceptance liability	293	267	(26)	-8.60%	1.20%	1.03%
Property and equipment	213	220	7	3.29%	0.87%	0.85%
Other assets	138	129	(9)	-6.52%	0.57%	0.50%
Goodwill	89	88	(1)	-0.11%	0.37%	0.34%
Total	24,350	25,941	1,591	6.53%	100.00%	100.00%

* Including loans to Banks

The main utilization of funds was:

Loans to customers

Growing by LBP 785 billion, a growth of 12.25%, the share of the loan portfolio represented 27.72% of total assets as at December 31, 2016,



compared to 26.31% at the end of 2015. The achieved growth was much higher than both the peer group (i.e. 1.39%) and market (i.e. 2.04%) at year-end 2016.

Cash & Central Banks

Increasing during the year by LBP 868 billion (+18.07%) and representing 21.86% of total assets as at December 31 2016, compared to 19.73% at year-end 2015. The increase was less than the peer group in 2016 (i.e. 27.05%) and the market (i.e. 25.99%).

Investment Securities

Increasing by LBP 490 billion (+4.85%) and representing 40.87% of total assets as at December 31 2016, compared to 41.53% at year-end 2015.

Due to banks and financial institutions

Decreasing during the year by LBP 523 billion (-22.80%) and representing 6.83% of total assets as at December 31, 2016, compared to 9.42% at year-end 2015.

Breakdown of funding sources as compared to peer group and sector

Description (%)	31-Dec-15			31-Dec-16		
	BOB	Peer	Sector	BOB	Peer	Sector
Customers' deposits	75.42%	82.63%	81.84%	72.95%	80.76%	80.06%
Total Equity	12.32%	8.96%	9.23%	13.43%	9.35%	9.59%
Deposits with banks & Financial Institutions*	7.11%	3.76%	4.16%	7.73%	3.80%	4.18%
Other liabilities & provisions	1.44%	1.38%	1.38%	2.60%	2.55%	2.50%
Other borrowings	2.50%	2.65%	2.73%	2.27%	2.91%	3.03%
Liabilities under acceptance	1.20%	0.61%	0.66%	1.03%	0.63%	0.64%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

*including loans to banks

Breakdown of Assets as compared to peer group and sector

Description (%)	31-Dec-15			31-Dec-16		
	BOB	Peer	Sector	BOB	Peer	Sector
Investment securities	41.53%	33.97%	33.63%	40.87%	31.62%	31.47%
Loans and Advances	26.31%	31.32%	31.88%	27.73%	29.93%	30.71%
Cash & deposits at Central Banks	19.73%	22.86%	22.27%	21.86%	27.38%	26.49%
Deposits with banks & Financial Institutions*	9.42%	8.51%	8.75%	6.83%	7.82%	7.93%
Customers' acceptance liability	1.20%	0.61%	0.66%	1.03%	0.63%	0.64%
Property and equipment	0.87%	1.23%	1.26%	0.85%	1.23%	1.29%
Other assets	0.57%	1.24%	1.30%	0.50%	1.26%	1.34%
Goodwill	0.36%	0.26%	0.25%	0.34%	0.12%	0.13%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

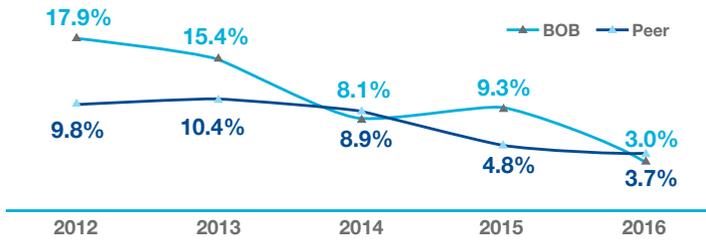
*including loans to banks

b- Customers' Deposits

Constituting the main funding source, the consolidated deposits base increased during year 2016 by LBP 557 billion, a year-on-year growth of 3.03%.

On consolidated basis, Bank of Beirut Group slightly underperformed the peer Group growth rate of 3.67% and the Sector growth rate of 3.62%. Consequently, the peer group share decreased marginally from 7.22% as at December 31, 2015 to 7.18% as at December 31, 2016.

Annual Growth Rates



Source: Bankdata publications

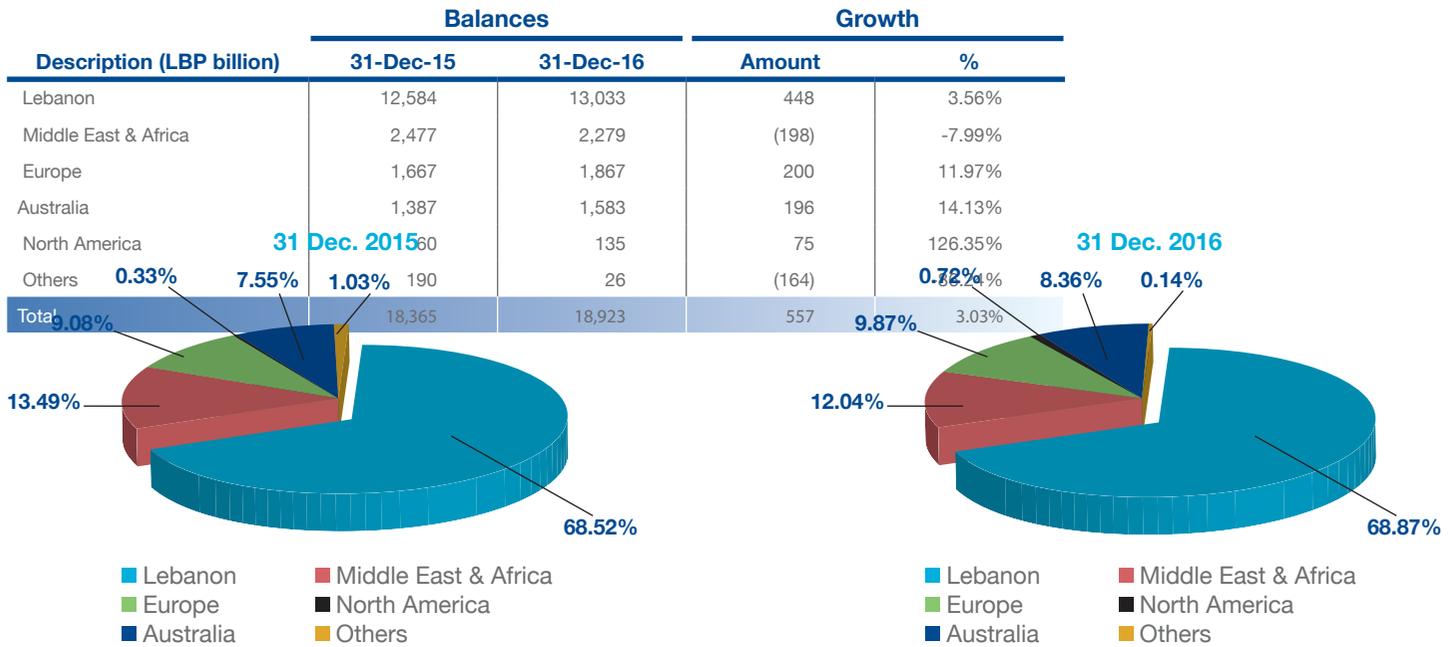
Peer Group and Market Shares



Source: Bankdata publications

Geographical distribution of deposits

An analysis of customers' deposits by geographical area distribution reveals that the growth was largely contributed to Lebanon with a LBP 441 billion (+3.50%) with a remarkable growth in Europe for 11.97% and Australia for 14.11%.



Distribution by Type of Deposits

The breakdown of deposits by type has been relatively stable in 2016, with term deposits continuing to reflect the lion's share of 81.41% of total deposits as at December 31, 2016 and the healthy level of demand deposits reflecting 10.63% of total deposits:

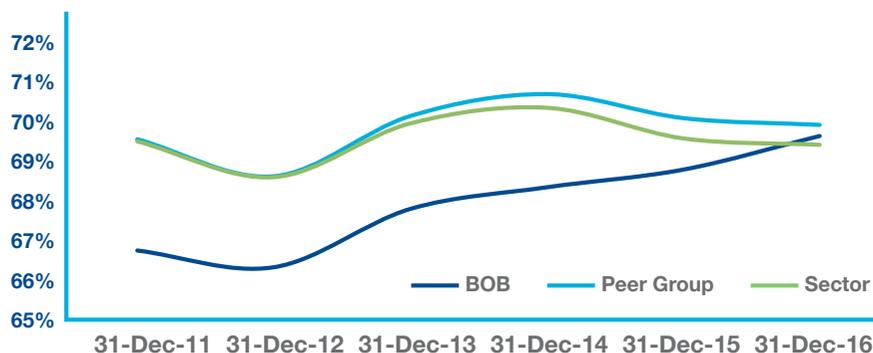


Description (LBP billion)	Balances		Growth		Breakdown	
	31-Dec-15	31-Dec-16	Amount	%	31-Dec-15	31-Dec-16
Term Deposits	15,066	15,406	340	2.25%	82.04%	81.41%
Demand deposits	1,832	2,011	179	9.78%	9.97%	10.63%
Collateral against loans	946	1,121	175	18.53%	5.15%	5.93%
Margins on LGs	328	177	(152)	-46.12%	1.79%	0.93%
Margins on LCs	44	53	9	19.77%	0.24%	0.28%
Other Margins	48	53	5	10.53%	0.26%	0.28%
Accrued interest	101	102	1	0.62%	0.55%	0.54%
Total	18,365	18,923	557	3.03%	100.00%	100.00%

Deposits Distribution by Currency

Description (LBP billion)	Balances		Growth		Breakdown	
	31-Dec-15	31-Dec-16	Amount	%	31-Dec-15	31-Dec-16
LBP	5,735	5,747	12	0.21%	31.23%	30.37%
USD	8,950	9,432	482	5.39%	48.73%	49.84%
Euro	728	793	65	8.84%	3.96%	4.19%
GBP	244	241	(3)	-0.90%	1.33%	1.28%
AUD	1,440	1,643	203	14.10%	7.84%	8.68%
Other	1,268	1,067	(202)	-15.94%	6.91%	5.64%
Total	18,365	18,923	557	3.03%	100.00%	100.00%

Deposits' dollarization Rates





The USD denominated deposits augmented by LBP 482 billion in 2016, recording an annual growth rate of 5.39% and still holding the largest share of 49.84%.

The deposits' dollarization rate is in line with both peer group and sector rates.

c- Loans to Customers

The loan to customers portfolio increased by LBP 785 billion in 2016 reaching LBP 7,192 billion, compared to LBP 6,408 billion at the end of year 2015.

Description (LBP billion)	Balances		Growth		Breakdown	
	31-Dec-15	31-Dec-16	Amount	%	31-Dec-15	31-Dec-16
Regular Loans to Customers	6,317	6,921	604	9.56%	98.59%	96.23%
Regular Loans to related parties	94	106	12	12.60%	1.47%	1.47%
Substandard Loans (net)	28	166	138	497.22%	0.44%	2.31%
Doubtful Loans (net)	47	48	1	1.46%	0.73%	0.67%
Collective Provisions	(79)	(49)	30	-37.40%	-1.23%	-0.68%

Annual Growth Rates



Peer Group and Market Shares



Distribution by Geographical Area

Description (LBP billion)	Balances		Growth		Breakdown	
	31-Dec-15	31-Dec-16	Amount	%	31-Dec-15	31-Dec-16
Lebanon	4,247	4,687	440	10.34%	66.29%	65.17%
Australia	1,147	1,386	240	20.93%	17.90%	19.27%
Middle East & Africa	899	993	94	10.51%	14.03%	13.82%
Europe	101	122	20	19.88%	1.58%	1.69%
North America	3	4	1	19.84%	0.05%	0.05%
Others	10	0	(10)	-99.89%	0.15%	0.00%
Total	6,407	7,192	785	12.25%	100.00%	100.00%

An analysis of Loans to customers by geographical area distribution reveals that the growth was largely contributed to Lebanon with a LBP 440 billion (+10.34%) and a notable increase in Australia by LBP 240 billion (+20.93%).

The share of loans outside Lebanon reached 34.83% as year-end 2016, compared to 33.71% as at December 31, 2015.



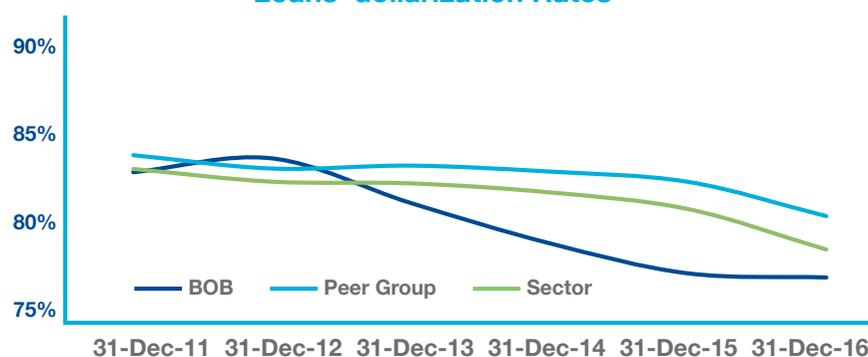
Loans Distribution by Currency

Currency (LBP billion)	Balances		Growth		Breakdown	
	31-Dec-15	31-Dec-16	Amount	%	31-Dec-15	31-Dec-16
LBP	1,468	1,664	196	13.33%	22.92%	23.14%
USD	2,994	3,222	228	7.60%	46.73%	44.80%
Euro	192	228	36	18.92%	2.99%	3.17%
GBP	23	38	15	67.99%	0.36%	0.53%
AUD	1,011	1,246	235	23.20%	15.78%	17.32%
Other	719	794	75	10.44%	11.22%	11.04%
Total	6,407	7,192	785	12.25%	100.00%	100.00%

The LBP denominated Loans augmented by LBP 196 billion in 2016, recording an annual growth rate of 13.33%, mainly derived from the increase in housing loans. On the foreign currency side, the USD continued to hold the largest share and registered a moderate increase during 2016 by LBP 228 billion.

The foreign currency denominated loans stood at 76.86% at the end of year 2016, compared to 80.16% for the peer group and 78.38% for the sector.

Loans' dollarization Rates



Loans Distribution by Type of Customer

Description (LBP billion)	Balances		Growth		Breakdown	
	31-Dec-15	31-Dec-16	Amount	%	31-Dec-15	31-Dec-16
Corporate	3,060	3,391	331	10.80%	47.76%	47.15%
Housing	1,870	2,291	421	22.54%	29.2%	31.9%
SME	896	971	75	8.34%	14.0%	13.5%
Retail	577	536	(41)	-7.12%	9.0%	7.4%
Public Institutions	4	3	(1)	-20.96%	0.1%	0.0%
Total	6,407	7,192	785	12.25%	100.0%	100.0%

As clearly shown in the table above, the main driver behind the increase in loans was the "housing" by LBP 421 billion (+22.54%), the "Corporate" by LBP 331 billion (+10.80%) and the "SME" by LBP 75 billion (+8.34%).

Consequently, Bank of Beirut was able to significantly increase its market share in Housing Loans to 12.94% as year-end 2016, compared to 11.50% as at December 31, 2015.



Description (%)	31-Dec-15		31-Dec-16		Growth	
	Peer Group	Sector	Peer Group	Sector	Peer Group	Sector
Corporate	7.94	6.86	9.02	7.67	1.08	0.82
Housing	13.45	11.50	15.05	12.94	1.60	1.45
SME	5.96	5.29	6.29	5.47	0.33	0.18
Retail	5.05	4.49	4.75	4.26	(0.30)	(0.23)
Total	6.65	5.85	7.36	6.44	0.71	0.59

Fair Value of Guarantees Against Loan Portfolio

The Bank employs collateral to mitigate credit risk, mainly over the loans and advances to customers. In addition, the Bank restricts its exposure to credit losses by entering into netting arrangements with counterparties.

Description (LBP billion)	31-Dec-15			31-Dec-16		
	Regular	NPLs	Total	Regular	NPLs	Total
Gross Balances	6,411	186	6,597	7,027	373	7,400
Unrealized Interest	-	(54)	(54)	-	(76)	(76)
Allowance for Impairment	-	(57)	(57)	-	(83)	(83)
Collective Provisions	(79)		(79)	(49)	-	(49)
Net Loans Balances	6,332	75	6,407	6,978	214	7,192
Pledged Funds	968	24	992	1,258	2	1,260
1st Degree Mortgage	5,767	74	5,841	5,743	203	5,946
Debt securities	9	-	9	13	-	13
Bank Guarantees	177	-	177	272	-	272
Vehicles	367	9	376	308	13	321
Fair Value of real guarantees received	7,288	107	7,395	7,594	218	7,812
Fair Value of other guarantees received	8,937	40	8,977	3,392	8	3,400
Real Guarantee Coverage Ratio	115.10%	142.66%	115.42%	108.82%	101.87%	108.62%

As clearly reflected in the table above, the fair value of the real guarantees, mainly Cash Collateral and Mortgages, represented 109% of the Loan portfolio, which indicates the high quality of the loan portfolio.

Distribution of Loans by Economic Sector

Sector/Industry (LBP billion)	Balances		Growth		Breakdown	
	31-Dec-15	31-Dec-16	Amount	%	31-Dec-15	31-Dec-16
Trade and Services	1,842	2,001	159	8.61%	28.75%	27.82%
Real Estate & Construction	1,744	1,968	224	12.82%	27.22%	27.36%
Manufacturing & Industry	726	705	(21)	-2.89%	11.33%	9.80%
Financial Services	252	266	14	5.75%	3.93%	3.70%
Agriculture	40	186	146	366.44%	0.62%	2.59%
Others	1,803	2,066	263	14.57%	28.15%	28.73%
Total	6,407	7,192	785	12.25%	100.00%	100.00%

The trade and service sectors remained the largest exposure during 2016 with a 27.82% share, followed by 27.36% for "Real Estate & constructions". The manufacturing and industry share decreased to 9.80% from 11.33%.



Classification of Loans and Quality

Description (LBP billion)	Balances		Growth	
	31-Dec-15	31-Dec-16	Amount	%
Regular loans	6,411	7,027	616	9.61%
Substandard Loans	28	166	138	497.22%
Gross balances	31	183	152	482.03%
Unrealized interest	(3)	(16)	(13)	398.06%
Impairment allowances	(0)	(1)	(1)	
Doubtful Loans	47	48	1	1.46%
Gross balances	155	190	35	22.58%
Unrealized interest	(51)	(60)	(9)	17.49%
Impairment allowances	(57)	(82)	(25)	44.75%
Collective Provisions	(79)	(49)	30	-37.40%
Total Net Loans	6,407	7,192	785	12.25%

As specified in the table above, the net NPLs (after deduction of specific loan loss reserves) increased by LBP 139 billion, mainly due to the increase in substandard loans.

However, the Loan KPIs ratios indicate a sustained high quality as compared to peer group and sector:

Ratio	Bank of Beirut			Peer Group		Sector	
	31-Dec-15	31-Dec-16	Variance	31-Dec-15	31-Dec-16	31-Dec-15	31-Dec-16
Regular Loans / Gross Loans	97.18%	94.96%	-2.22%	93.76%	93.19%	92.70%	91.99%
Gross SLs / Gross Loans	0.48%	2.48%	2.00%	0.73%	1.21%	0.93%	1.46%
Gross DLs / Gross Loans	2.35%	2.56%	0.22%	5.52%	5.61%	6.37%	6.55%
Gross NPLs / Gross Loans	2.83%	5.04%	2.22%	6.25%	6.82%	7.30%	8.01%
Net SLs / Net Loans	0.43%	2.31%	1.88%	0.60%	1.07%	0.80%	1.32%
Net DLs / Net Loans	0.74%	0.67%	-0.07%	1.51%	1.52%	1.66%	1.72%
Net NPLs / Net Loans	1.17%	2.98%	1.79%	2.11%	2.59%	2.46%	3.04%
Unrealized Interest on SLs / Gross SLs	11.51%	9.20%	-2.31%	21.20%	16.78%	19.28%	15.82%
Specific LLRs on DLS /Gross DLs	69.42%	74.69%	5.27%	74.04%	74.51%	75.44%	75.52%
Specific LLRs on NPLs / Gross NPLs	59.62%	42.51%	-17.12%	67.90%	64.30%	68.28%	64.63%
Total LLRs / Gross NPLS	102.02%	55.76%	-46.26%	85.10%	85.81%	82.29%	82.66%
Net NPLs / Total Assets	0.31%	0.83%	0.52%	0.66%	0.77%	0.78%	0.93%
Net NPLs / Total Shareholders' Equity	2.51%	6.16%	3.65%	7.40%	8.27%	8.51%	9.72%
Collective provisions / Net Loans	1.23%	0.69%	-0.54%	1.13%	1.56%	1.09%	1.55%

SLs: Substandard Loans, DLs: Doubtful Loans, LLRs: Loan Loss Reserves



d- Investment Securities Portfolio

The Bank's securities portfolio, which consists of both fixed and variable income securities, increased by LBP 490 billion during 2016, an annual growth rate of 4.85%, to reach LBP 10,603 billion while representing 40.87% of total assets as at December 31 2016 (compared to 41.53% in 2015).

Description (LBP billion)	Balances		Growth	
	31-Dec-15	31-Dec-16	Amount	%
Lebanese Government Eurobonds (FCY)	3,940	3,900	(40)	-1.18%
Lebanese Treasury Bills (LBP)	2,300	2,681	381	16.84%
CDs issued by BDL (LBP)	2,386	1,915	(471)	-19.77%
CDs issued by BDL (FCY)	603	1,101	498	82.69%
Financial private sector debt securities	594	632	38	6.45%
Foreign Government treasury bonds	64	136	72	114.28%
Certificates of deposit by financial sector	16	16	0	0.03%
Accrued interest fixed income securities	147	146	(1)	-0.52%
Unquoted equity securities	50	62	12	22.77%
Quoted equity securities and funds	13	14	1	6.81%
Total	10,113	10,603	490	4.85%

The Bank's investment securities portfolio growth has continuously outpaced the peer group and sector. Consequently, the market share increased significantly during the past 5 years reaching 92.6% at year-end 2016.

Annual Growth Rates



Peer Group and Market Shares





Distribution by IFRS9 Classification

Description (LBP billion)	Balances		Growth	
	31-Dec-15	31-Dec-16	Amount	%
Debt instruments at Amortized Cost	8,761	9,113	352	4.01%
Debt Instruments at FVTPL	1,289	1,414	125	9.81%
Total Debt Instruments	10,050	10,527	477	4.75%
Equity instruments at FVTPL	56	67	11	18.14%
Equity instruments at FVTOCI	7	9	2	31.21%
Total Equity Instruments	63	76	13	19.55%
Total	10,113	10,603	490	4.85%

As shown, the main increase in investment securities was the Debt instruments classified at amortized cost by LBP 352 billion. The Fair Value through Profit and Loss (FVTPL) investment securities consist mainly of securities held by the mutual funds controlled by the Bank: LBP 1,414 billion at year-end 2016 compared to LBP 1,289 billion as at December 31 2015.

The breakdown of the investment securities portfolio compared to peer group and sector is shown in the table below:

Description (LBP billion)	31-Dec-15			31-Dec-16		
	Cost*	Fair Value	Unrealized	Cost*	Fair Value	Unrealized
Debt instruments at Amortized Cost	86.64%	91.70%	91.78%	85.95%	92.31%	92.35%
Debt Instruments at FVTPL	12.74%	6.68%	6.41%	13.34%	5.81%	5.72%
Total Debt Instruments	99.38%	98.38%	98.19%	99.29%	98.12%	98.07%
Equity instruments at FVTPL	0.56%	0.57%	0.77%	0.63%	0.68%	0.69%
Equity instruments at FVTOCI	0.06%	1.05%	1.04%	0.08%	1.20%	1.24%
Total Equity Instruments	0.62%	1.62%	1.81%	0.71%	1.88%	1.93%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Fair Value of Debt Instruments Classified at Amortized Cost

Description (LBP billion)	31-Dec-15			31-Dec-16		
	Cost*	Fair Value	Unrealized	Cost*	Fair Value	Unrealized
Lebanese Treasury bills (LBP)	1,753	1,772	19	2,061	2,083	22
Lebanese Sovereign Eurobonds (FCY)	3,691	3,606	(85)	3,611	3,477	(134)
BDL certificates of deposits (LBP)	2,133	2,147	14	1,656	1,673	17
BDL certificates of deposits (FCY)	449	452	3	925	933	8
Financial sector bonds (FCY)	594	595	1	632	632	0
Financial sector CDs (FCY)	16	15	(1)	16	16	0
Foreign Government Bonds (FCY)	-	-	-	90	90	-
Total	8,636	8,587	(49)	8,991	8,904	(87)

*Excluding Accrued Interest

The valuation of the amortized cost debt securities at year-end 2016 revealed a negative variation of LBP 87 billion, compared to a negative valuation of LBP 49 billion as at December 31, 2015. This was mainly due to the decline in Lebanese Eurobonds prices.



B- PROFITABILITY

Overview

The consolidated total net profit after tax increased in 2016 by 7.90% to LBP 303.6 billion, compared to LBP 281.3 billion for the year 2015.

This growth in profitability was driven by growth in business activities, coupled with efficient management of interest rate margins, high commission base and effective cost containment policy, with a focus on consistently increasing the operating non-interest base revenues.

The positive growth in the net earnings was due to:

- Increase in "Net Interest Income" LBP 37.3 billion (+10.83%)
- Increase in "Interest income from financial assets at FVTPL" by LBP 11.2 billion (+13.72%)
- Increase in "Net fee and commission income" by LBP 3.0 billion (+2.55%)
- Decrease in "Other non-interest income" by LBP 59.6 billion (-67.28%) which resulted largely from the income decrease from sale of amortized cost investment securities.
- Decrease in "Impairment losses" by LBP 29.6 billion
- Slight increase in "Operating Expenses" by LBP 6.3 billion (+2.23%)

After accounting for the non-controlling interest (mainly the net profit from controlled mutual funds), the net profit for the equity holders registered an increase by LBP 6.1 billion (+2.75%).

Recap Comparative Consolidated Income Statements:

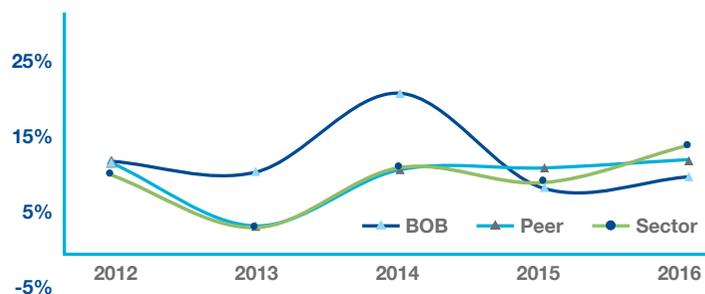
Description (LBP billion)	Balances		Growth	
	31-Dec-15	31-Dec-16	Amount	%
Interest income	1,050,695	1,136,261	85,566	8.14%
Interest expense	(705,869)	(754,103)	(48,234)	6.83%
Net interest income	344,826	382,158	37,332	10.83%
Net fee & commission income	119,434	122,475	3,041	2.55%
Interest income on FVTPL assets	81,416	92,588	11,172	13.72%
Other gains on FVTPL assets	11,577	11,310	(267)	-2.31%
Other non-interest income	88,616	28,993	(59,623)	-67.28%
Operating income	645,869	637,524	(8,345)	-1.29%
Impairment losses (net)	(32,542)	(2,987)	29,555	-90.82%
Net operating income	613,327	634,537	21,210	3.46%
Operating Expenses	(283,408)	(289,727)	(6,319)	2.23%
Operating Profit	329,919	344,810	14,891	4.51%
Income taxes	(48,574)	(41,243)	7,331	-15.09%
Net profit after tax	281,345	303,567	22,222	7.90%
Non-controlling interest	(60,123)	(76,270)	(16,147)	26.86%
Net profit (Equity holders)	221,222	227,297	6,075	2.75%

* including interest on financial assets & liabilities designated at FVTPL for better comparison



Peer Group Analysis:

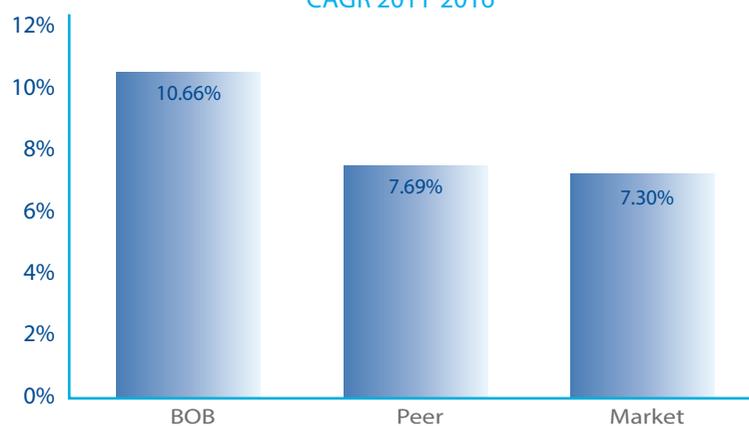
Annual Growth Rates



Peer Group and Market Shares



CAGR 2011-2016



Net profit by entity type

In 2016, the bank has registered a positive growth in each type of entity as shown in the table below. The share of net profit from foreign affiliates of net profit (equity holders) reached 18.33% in 2016, compared to 18.62% in 2015.

Description (LBP billion)	Year		Growth	
	2015	2016	Amount	%
Bank of Beirut - Lebanon	167,375	171,023	3,648	2.18%
Local Subsidiaries	29,874	34,046	4,172	13.96%
Foreign branches & Subsidiaries	41,197	41,664	468	1.14%
Investment Funds	59,774	75,921	16,147	27.01%
Eliminations & adjustments	(16,874)	(19,087)	(2,213)	13.11%
Net Profit after Tax	281,345	303,567	22,222	7.90%
o.w. non-controlling interests	60,124	76,271	16,147	26.86%
o.w. Equity Holders of the Bank	221,222	227,297	6,075	2.75%



Profitability KPIs

Ratio	Bank of Beirut		Peer Group		Sector	
	2015	2016	2015	2016	2015	2016
+ Yield on earning assets	5.15%	5.21%	5.77%	5.85%	5.71%	5.80%
- Cost of earning assets	-3.21%	-3.20%	-3.78%	-3.84%	-3.71%	-3.78%
= Interest margin	1.94%	2.01%	1.99%	2.01%	2.00%	2.02%
x Average interest earning assets / average assets	93.96%	93.76%	96.02%	96.13%	95.87%	95.96%
= Interest Spread	1.82%	1.89%	1.91%	1.93%	1.92%	1.94%
+ Net non interest income / average assets	0.94%	0.65%	0.95%	1.66%	0.95%	1.65%
= Asset Utilization Ratio	2.76%	2.54%	2.86%	3.59%	2.87%	3.59%
x Net operating margin	43.56%	47.62%	35.86%	29.97%	34.47%	29.42%
o.w. Cost to income	43.88%	45.45%	48.25%	43.02%	50.33%	44.36%
o.w. Credit Cost	4.97%	0.09%	8.01%	15.01%	7.50%	14.72%
o.w. Other provisions	0.07%	0.38%	-0.02%	1.95%	0.02%	1.75%
o.w. Tax Cost	7.52%	6.47%	7.90%	10.05%	7.68%	9.75%
= Return on average assets (ROAA)	1.20%	1.21%	1.03%	1.08%	0.99%	1.06%
x Leverage (average assets/average equity)	8.16	7.76	11.23	10.92	10.94	10.62
= Return on average equity (ROAE)	9.81%	9.36%	11.52%	11.76%	10.81%	11.21%

Ratio	Peer Group Ranking	
	2015	2016
Return on Average Assets	3	3
Net operating margin	3	2
Cost to income	4	7
Interest Spread	7	6
Cost to average assets	7	4



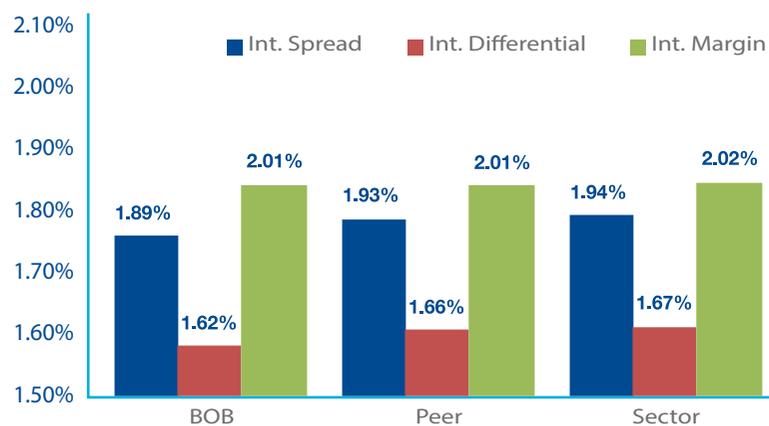
Net Interest Income

Description (LBP billion)	Years		Growth		Breakdown	
	2015	2016	Amount	%	2015	2016
Placements with Central Banks	126,750	177,754	51,004	40.56%	12.06%	15.63%
Placements with banks & Financial institutions	19,777	14,271	(5,506)	-27.84%	1.88%	1.26%
Loans to Banks	25,881	11,230	(14,651)	-56.61%	2.47%	0.99%
Financial assets at amortized cost	501,107	547,756	46,649	9.31%	47.69%	48.21%
Loans to customers	377,180	385,250	8,070	2.14%	35.90%	33.91%
Interest income	1,050,695	1,136,261	85,566	8.14%	100.00%	100.00%
Deposits from Banks and financial Institutions	21,612	22,467	855	3.96%	3.06%	2.99%
Customers' deposits at amortized cost	675,020	725,780	50,760	7.52%	95.63%	96.24%
Certificates of Deposit	15	14	(1)	-9.54%	0.00%	0.00%
Other Borrowings	9,222	5,842	(3,380)	-36.65%	1.31%	0.77%
Interest expense	705,869	754,103	48,234	6.83%	100.00%	100.00%
Net Interest Income	344,826	382,158	37,332	10.83%		
Interest income financial assets at FVTPL	81,416	92,588	11,172	13.72%	7.75%	8.15%
Net Interest Income including FVTPL	426,242	474,746	48,504	11.38%		

As reflected in the table above, the net interest income increased by 11.38% in 2016.

Bank of Beirut

Ratio	2015	2016	Variance
Interest income / average assets	4.83%	4.89%	0.05%
Interest expense / average assets	-3.01%	-3.00%	0.02%
Interest spread (net interest income / average assets)	1.82%	1.89%	0.07%
Interest income / average interest earning assets	5.15%	5.21%	0.07%
Interest expense / average interest bearing liabilities	-3.58%	-3.59%	-0.01%
Interest differential	1.57%	1.62%	0.05%
Yield on earning assets	5.15%	5.21%	0.07%
Cost of earning assets	-3.21%	-3.20%	0.01%
Interest margin	1.94%	2.01%	0.08%
Average interest earning assets / average assets	93.96%	93.76%	-0.20%
Interest expense / Interest income	62.35%	61.37%	-0.98%
Net interest income / Operating income	66.00%	74.47%	8.47%





As a result, the main spread indicators have witnessed an improvement in spite of the continuous pressure on interest margins:

Non-interest Income

Description (LBP billion)	Years		Growth	
	2015	2016	Amount	%
Net Fee and commission income	119,434	122,475	3,041	2.55%
Dividends received	4,453	4,284	(169)	-3.81%
Realized Gain from sale of AC investment securities	69,857	11,615	(58,242)	-83.37%
Realized Gain from sale of FVTPL investment securities	11,050	9,821	(1,229)	-11.12%
Change in fair value of trading portfolio	(3,694)	(2,467)	1,227	-33.22%
Net Gain on sale of foreclosed assets	498	2,734	2,236	449.24%
Net Gain on sale of property and equipment	27	306	279	1036.80%
Share in profit of an associate	3,683	1,727	(1,956)	-53.10%
Foreign exchange gain	15,867	14,819	(1,048)	-6.61%
Charge on forward contract	(2,273)	(3,152)	(879)	38.67%
Other non-interest income	725	616	(109)	-15.01%
Total	219,627	162,778	(56,849)	-25.88%

The 25.88% negative annual growth rate was mainly derived from the decrease in "Realized gain from sale of Amortized Cost investment securities" by LBP 58.2 billion.

During 2016, the Group entered with Lebanon's Central Bank into several sales transactions, including Lebanese treasury bills and certificates of deposit issued by the latter in Lebanese Pounds with a carrying value of respectively LBP 224 billion and LBP 398 billion, classified at amortized cost and concluded simultaneously with the acquisition of certificates of deposit issued by Lebanon's Central Bank in U.S. Dollars with a carrying value of LBP 477 billion, in addition to Lebanese Government bonds in U.S. Dollars with a carrying value of LBP 151 billion of which LBP 3 billion are designated at fair value through profit or loss.

Description (LBP billion)	Years		Growth	
	2015	2016	Amount	%
Certificates of deposits issued by BDL	38,954	11,447	(27,507)	-70.61%
Lebanese Treasury Bills	23,976	-	(23,976)	-100.00%
Lebanese Government Bonds	6,818	-	(6,818)	-100.00%
Bonds issued by financial sector	104	168	64	62.01%
Certificates of deposits issued by financial sector	5	-	(5)	-100.00%
Total	69,857	11,615	(58,242)	-83.37%



Other Operating Expenses

Description (LBP billion)	Years		Growth	
	2015	2016	Amount	%
Staff expenses	164,388	166,968	2,580	1.57%
General operating expenses	98,215	100,427	2,212	2.25%
Depreciation and amortization	20,805	22,332	1,527	7.34%
Total	283,408	289,727	6,319	2.23%

The main drivers behind the 2.23% year-on-year increase in the operating expenses could be summarized by the following:

- Staff count growth by 16 during 2016
- Opening of 2 new branches (one in Lebanon and one in Sultanate of Oman)
- Increased IT investment (strategic new applications e.g. Core Banking, CRM, Online Banking, Mobile Banking, etc.)

Operating Efficiency

On the operating efficiency level, cost to income ratio increased slightly to reach 45.45% due to the greater decrease in operating income.

Ratio	Unit	Bank of Beirut		
		2015	2016	Variance
Cost ratios				
Staff expenses / operating Income	%	25.45%	26.19%	0.74%
General expenses / operating income	%	15.21%	15.75%	0.55%
Depreciation / operating income	%	3.22%	3.50%	0.28%
Impairment of goodwill / operating income	%	0.00%	0.00%	0.00%
Cost to income ratio	%	43.88%	45.45%	1.57%
Cost to average assets	%	1.21%	1.15%	-0.06%
Effective tax rate	%	14.72%	11.96%	-2.76%
Operating efficiency				
Number of staff	Count	1,835	1,851	16
Number of branches and banking units	Count	85	87	2
Staff per branch	Count	21.6	21.3	(0.3)
Average assets per average staff	LBP million	13,130	13,644	514
Average deposits per average staff	LBP million	9,860	10,116	257
Staff expenses per average staff	LBP million	92	91	(2)
Operating income per average staff	LBP million	362	346	(16)
Net income per average staff	LBP million	158	165	7
Assets per branch	LBP million	286,471	298,174	11,703
Total deposits per branch	LBP million	216,064	217,503	1,440
Operating income per branch	LBP million	7,598	7,328	(271)
Net income per branch	LBP million	3,310	3,489	179



As signaled in the table above, the Bank has been able to preserve and enhance most of the operating efficiency indicators within good ranges as compared to year 2015 and to the peer group and sector as shown here below:

KPI	Unit	BOB	Peer	Sector
Cost to income ratio	%	45.45%	42.04%	43.45%
Cost to average assets	%	1.15%	1.54%	1.59%
Staff per branch	Count	21.3	25.7	25.2
Net profit per average staff	LBP million	164.7	111	104
Assets per branch	LBP million	298,174	274,746	255,548
Net profit per branch	LBP million	3,489	2,869	2,625

Profitability Indicators

Ratio	Bank of Beirut		Peer Group		Sector	
	2015	2016	2015	2016	2015	2016
+ Yield on earning assets	5.15%	5.21%	5.77%	5.85%	5.71%	5.80%
- Cost of earning assets	-3.21%	-3.20%	-3.78%	-3.84%	-3.71%	-3.78%
= Interest margin	1.94%	2.01%	1.99%	2.01%	2.00%	2.02%
x Average interest earning assets / average assets	93.96%	93.76%	96.02%	96.13%	95.87%	95.96%
= Interest Spread	1.82%	1.89%	1.91%	1.93%	1.92%	1.94%
+ Net non interest income / average assets	0.94%	0.65%	0.95%	1.66%	0.95%	1.65%
= Asset Utilization Ratio	2.76%	2.54%	2.86%	3.59%	2.87%	3.59%
x Net operating margin	43.56%	47.62%	35.86%	29.97%	34.47%	29.42%
o.w. Cost to income	43.88%	45.45%	48.25%	43.02%	50.33%	44.36%
o.w. Credit Cost	4.97%	0.09%	8.01%	15.01%	7.50%	14.72%
o.w. Other provisions	0.07%	0.38%	-0.02%	1.95%	0.02%	1.75%
o.w. Tax Cost	7.52%	6.47%	7.90%	10.05%	7.68%	9.75%
= Return on average assets (ROAA)	1.20%	1.21%	1.03%	1.08%	0.99%	1.06%
x Leverage (average assets/average equity)	8.16	7.76	11.23	10.92	10.94	10.62
= Return on average equity (ROAE)	9.81%	9.36%	11.52%	11.76%	10.81%	11.21%

* calculated as common earnings (group share) / average common equity excluding non-controlling interest

Return on Average Assets increased slightly in 2016 to 1.21% from 1.20% in 2015, due mainly to the greater increase in profit as compared to growth in assets. However, Bank of Beirut was able to be ranked 3rd among the peer group banks.

Peer Group Comparison

Ratio	Peer Group Ranking	
	2015	2016
Return on Average Assets	3	3
Net operating margin	3	2
Cost to income	4	7
Interest Spread	7	6
Cost to average assets	7	4



Calculation of Earnings per Common Share (EPS)

Description (LBP billion)	Years		Growth	
	2015	2016	Amount	%
Consolidated net profit	281,345	303,567	22,222	7.90%
(Less) Non-Controlling interests	(60,123)	(76,270)	(16,147)	26.86%
Consolidated net profit - Equity holders of the Group	221,222	227,297	6,075	2.75%
(Less) Priority Dividends on Priority Common Shares	(6,030)	(6,030)	-	0.00%
Dividends on non-cumulative Preferred Shares	(54,265)	(50,456)	3,809	-7.02%
Common Earnings	160,927	170,811	9,884	6.14%
Weighted average number of Common Shares	49,981,449	51,924,203	1,942,754	3.89%
Weighted average number of Priority Common Shares	4,601,910	4,627,377	25,467	0.55%
Total weighted average number of Common Shares	54,583,359	56,551,580	1,968,221	3.61%
Effect of dilutive Potential Common Shares	-	-	-	
Basic Earnings per Common Share LBP	2,948	3,020	72	2.44%
Basic Earnings per Priority Common Share LBP	4,259	4,323	64	1.50%
Diluted Earnings per share LBP	2,948	3,020	72	2.44%

The common earnings (net profit attributable to common shareholders) recorded a fair growth of 6.14% in 2016 after accounting for the Preferred Shares dividends and the priority dividends for Priority Common Shares. The lesser growth in the weighted average number of common shares of 3.61% pushed the Basic Earnings per Common Share (EPS) to LBP 3,020 in 2016 from LBP 2,948 for the year 2015.



C- CAPITALIZATION

The Bank's consolidated equity grew by LBP 482.4 billion, reaching LBP 3,483 billion as at December 31 2016, an increase of 16.07% compared to 2015 year-end.

Description (LBP billion)	Balances		Growth	
	31-Dec-15	31-Dec-16	Amount	%
Ordinary share capital	71,159	77,650	6,491	9.12%
Shareholders' cash contribution to capital	20,978	20,978	-	0.00%
Priority Common Shares	150,753	150,753	-	0.00%
Non-cumulative preferred shares	693,375	844,125	150,750	21.74%
Issue premium on common shares	232,108	303,519	71,411	30.77%
Reserves and Retained Earnings	665,776	761,696	95,920	14.41%
Treasury Shares	(49,015)	(56,879)	(7,864)	16.04%
Hedge Accounting & translation adjustments	(20,918)	(26,274)	(5,356)	25.60%
Net profit after tax - Group Share	221,222	227,297	6,075	2.75%
Equity attributable to the equity holders	1,985,438	2,302,865	317,427	15.99%
Non-Controlling interests	1,015,413	1,180,355	164,942	16.24%
Total Equity	3,000,851	3,483,220	482,369	16.07%

The growth in Equity was mainly derived from the following:

- Increase in reserves and retained earnings by LBP 96 billion
- Increase in non-controlling interests by LBP 165 billion due to the increase in net asset value of consolidated mutual funds
- Issuance of new common shares for a total amount of USD 50 million
- Issuance of new preferred shares series "K" for USD 100 million
- The increase in net profit – equity holders by LBP 6.1 billion.
- The redemption of Preferred Shares series "E", with total value of USD 60 million.

With the achieved level of equity, Bank of Beirut reflected the highest capitalization levels among its peer group, achieving the 1st rank, among the Alpha Group banks, with "Equity to Asset ratio" of 13.43% as at December 31 2016 compared to 9.35% for the peer group and 9.59% for the sector.

Capital Structure

The Bank's capital constitutes Common, Priority and Preferred Shares as follows:

Share Type	Number of Shares		Growth	
	31-Dec-15	31-Dec-16	Amount	%
Common shares	50,467,400	53,184,900	2,717,500	5.38%
Priority Common Shares	4,762,000	4,762,000	-	0.00%
Preferred Shares Series "G"	3,570,000	3,570,000	-	0.00%
Preferred Shares Series "H"	5,400,000	5,400,000	-	0.00%
Preferred Shares Series "I"	5,000,000	5,000,000	-	0.00%
Preferred Shares Series "J"	3,000,000	3,000,000	-	0.00%
Preferred Shares Series "K"	-	4,000,000	4,000,000	
Total	72,199,400	78,916,900	6,717,500	9.30%

As shown in the table above, the Bank has issued during 2016 new common shares (2,717,500) and new preferred shares (4,000,000) with a total value of USD 150 million.



Preferred Shares Overview

Currently, the total issue value of the outstanding Preferred Shares stands at around USD 559.95 million, representing 36.66% of total shareholders' equity – equity holders of the Bank. The main features of the outstanding Preferred Shares are as follows:

Description	Series "G"	Series "H"	Series "I"	Series "J"	Series "K"
Number of shares	3,570,000	5,400,000	5,000,000	3,000,000	4,000,000
Issue price per share	\$35.00	\$25.00	\$25.00	\$25.00	\$25.00
Issue Size (USD 000's)	\$124,950	\$135,000	\$125,000	\$75,000	\$100,000
Dividend rate p.a.	6.75%	7.00%	6.75%	6.50%	6.50%
Non-Cumulative, Perpetual, Redeemable	Yes	Yes	Yes	Yes	Yes
Convertible to Common Shares	Yes	No	No	No	No
Redemption price per share	\$35.00	\$25.00	\$25.00	\$25.00	\$25.00
Conversion exercise price	\$35.00	-	-	-	-
Redemption right holder	BOB	BOB	BOB	BOB	BOB
Conversion right holder	Holder	-	-	-	-
Conversion date	30-Dec-15	-	-	-	-
Listing on Beirut Stock Exchange	No	Yes	Yes	Yes	Yes
Issue date	29-Sep-10	30-Jun-11	19-Nov-12	17-Nov-14	26-May-16
Closing date *	29-Dec-10	28-Sep-11	28-Dec-12	26-Dec-14	25-Aug-16
First redemption exercise date	30-Dec-16	30-Dec-16	30-Dec-17	30-Dec-19	30-Dec-21
Next redemption exercise date	30-Dec-17	30-Dec-18	30-Dec-19	30-Dec-21	30-Dec-23

* Closing date: the date of the Bank's Extraordinary General Meeting of shareholders that verifies the validity and ascertains the payment of capital increase related to the issuance

Capital Adequacy

Maintaining its position as the Bank with highest capitalization level among the peer group banks, Bank of Beirut reflected a very healthy set of Capital ratios.

The high level of capital adequacy confirmed the Bank's strategy in strengthening its Capital base in order to fund its expansion strategy, in addition to complying comfortably with the Basel III requirements; taking into consideration the increasing risk weights applied on the exposure to Lebanese sovereign risk.



Capital Adequacy Ratio under Basel III

Description (LBP billion)	Balances / Ratio		Variation	
	31-Dec-15	31-Dec-16	Amount	%
Common Equity (Net)	1,142,563	1,299,446	156,883	13.73%
Additional Tier 1 Capital (Net)	693,375	844,125	150,750	21.74%
Net Tier 2 Capital	14,513	14,449	(64)	-0.44%
Total Regulatory Capital	1,850,451	2,158,020	307,569	16.62%
RWA - Credit Risk	12,603,902	13,383,464	779,562	6.19%
RWA - Market Risk	98,596	85,010	(13,586)	-13.78%
RWA - Operational Risk	897,632	973,383	75,751	8.44%
Total RWA	13,600,130	14,441,857	841,727	6.19%
Common Equity Ratio Tier 1 Ratio	8.40%	9.00%	0.60%	
Tier 1 Capital Ratio	13.50%	14.84%	1.34%	
Tier 2 Capital Ratio	13.61%	14.94%	1.33%	

NB: Calculation of capital ratios is based on consolidated financial statements after de-consolidation of the controlled investment funds.

Under Basel III, the Capital Adequacy ratio stood at year-end 2016 at 14.94%, up from 13.61% as at December 31 2015, compared to the minimum required ratio of 14.00%.

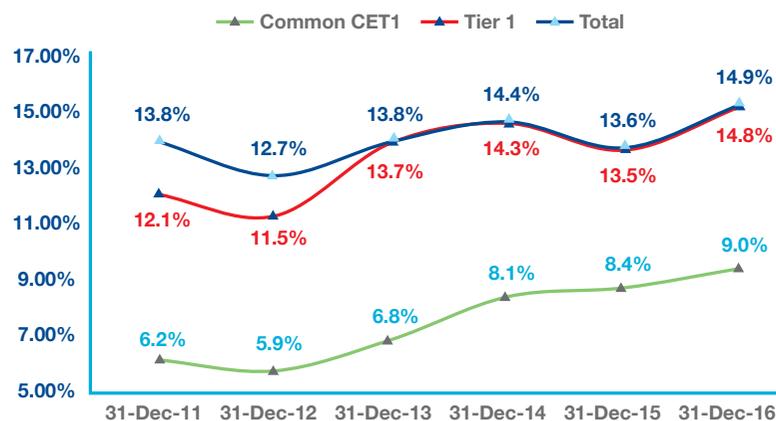
Pursuant to the Central Bank's Decision, with respect to the application of the Basel III regulation, all banks operating in Lebanon must gradually reach the following capital ratios:

Minimum Regulatory Ratios (LBP million)	Minimum Ratios			
	31-Dec-15	31-Dec-16	31-Dec-17	31-Dec-18
Common Equity Tier 1 Ratio	8.00%	8.50%	9.00%	10.00%
Tier 1 Capital Ratio	10.00%	11.00%	12.00%	13.00%
Capital Ratio	12.00%	14.00%	14.50%	15.00%

As shown in the tables below, Bank of Beirut is already compliant with Basel III capital requirements, more specifically, with a common equity ratio of 9.00% (as compared to 8.50% minimum required).

Minimum Regulatory Ratios (LBP million)	Minimum Ratios		Excess Capital	
	31-Dec-15	31-Dec-16	31-Dec-15	31-Dec-16
Common Equity Tier 1 Ratio	8.00%	8.50%	54,553	71,888
Tier 1 Capital Ratio	10.00%	11.00%	475,925	554,966
Capital Ratio	12.00%	14.00%	218,436	136,160

Evolution of Capital Adequacy Ratios



Leverage Ratios

Description (LBP billion)	Balances / Ratio		Variation	
	31-Dec-15	31-Dec-16	Amount	%
Common Equity (Net)	1,142,563	1,299,446	156,883	13.73%
Additional Tier 1 Capital (Net)	693,375	844,125	150,750	21.74%
Net Tier 2 Capital	14,513	14,449	(64)	-0.44%
Total Regulatory Capital	1,850,451	2,158,020	307,569	16.62%
On-Balance Sheet Exposure	23,366,436	24,747,869	1,381,433	5.91%
Off-Balance Sheet Exposure	2,435,550	2,427,440	(8,111)	-0.33%
Total Credit Exposure	25,801,986	27,175,308	1,373,322	5.32%
Common Equity Ratio Tier 1 Ratio	4.43%	4.78%	0.35%	
Tier 1 Capital Ratio	7.12%	7.89%	0.77%	
Tier 2 Capital Ratio	7.17%	7.94%	0.77%	



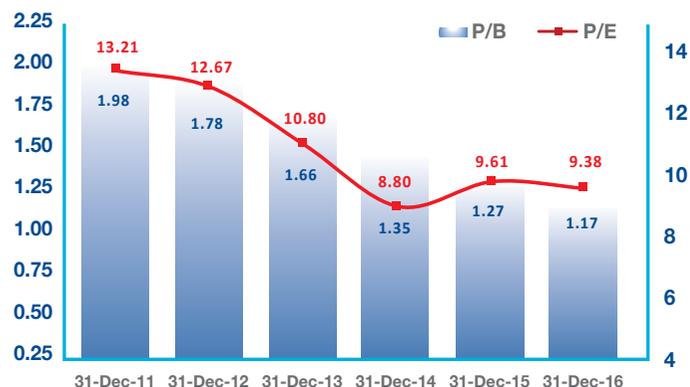
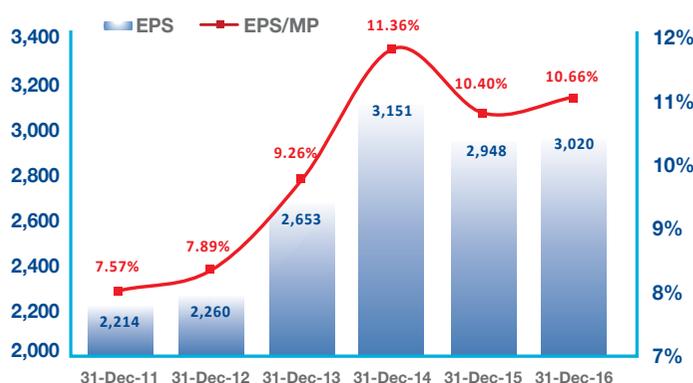
D- SHARE INFORMATION

Common Shares Performance

Indicator	Unit	31-Dec-15	31-Dec-16	Variance
Common Share market price	LBP	28,341	28,341	-
Priority Share market price	LBP	31,658	31,658	-
Total number of ordinary common shares	Count	50,467,400	53,184,900	2,717,500
Total number of priority common shares	Count	4,762,000	4,762,000	-
Common equity book value (1)	LBP million	1,231,769	1,402,254	170,486
Common Share book value	LBP	22,303	24,199	1,896
Market Capitalization (end of period)	LBP million	1,581,050	1,658,066	77,017
Market Value added	LBP million	349,281	255,812	(93,469)
Market Value added/Market capitalization	%	22.09%	15.43%	-6.66%
Basic Earnings per Share (EPS)	LBP	2,948	3,020	72
Basic EPS / Common share market price	%	10.40%	10.66%	0.25%
Price to common earnings - P/E Ratio (2)	Times	9.61	9.38	(0.23)
Price to common book value - M/B Ratio	Times	1.27	1.17	(0.10)
Price to assets	%	6.49%	6.39%	-0.10%

(1) Including the common earnings of the year & Excluding non-controlling interest (2) Calculated as basic earnings per share / common share market price

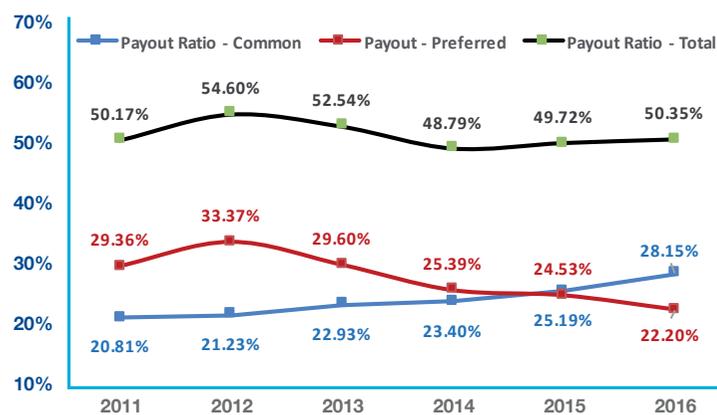
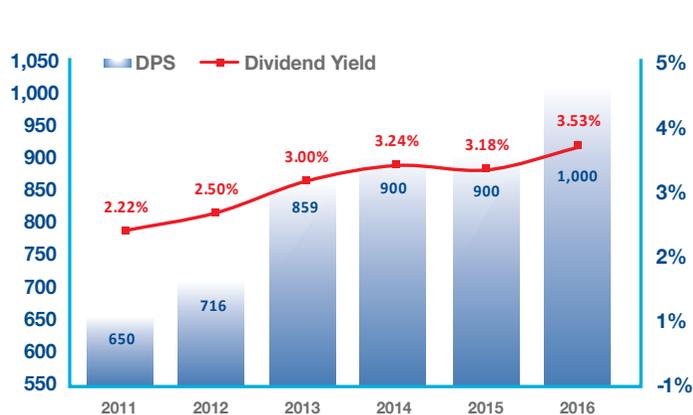
The Common Share market price was stable during 2016 at USD 18.80. However, and due to the issuance of new common shares with an issue value of USD 50 million, the market capitalization increased to LBP 1,658 billion (USD 1,100 million), and the “price to book value” decreased to 1.17 times, compared to 1.77 times at the end of year 2015. The “price to assets” ratio stood at a very healthy level of 6.39%, one of the lowest in the market.



E- DIVIDENDS

The General Assembly of the bank has resolved, during its meeting held on May 05th, 2017, the appropriation of Bank of Beirut year 2016 net profit as follows:

Description (LBP million)	Fiscal Year		Growth	
	2015	2016	Amount	%
Net profit after tax - equity holders	221,222	227,297	6,075	2.7%
Deductions				
Dividends on Preferred Shares	54,265	50,456	(3,809)	-7.0%
Priority Dividends on Priority Shares	6,030	6,030	-	0.0%
Legal Reserve	18,577	18,988	411	7.6%
Regulatory reserve for General Banking Risk	47,000	27,000	(20,000)	-42.6%
Regulator reserves on Foreclosed Assets	1,824	1,368	(456)	-25.0%
Regulatory reserves from net gain on sale foreclosed Properties	498	2,734	2,236	449.2%
Regulatory reserves from realized profit on treasury shares	-	63	63	
Regulatory reserves against performing retail loan portfolio	5,000	2,200	(2,800)	-56.0%
Total deductions	133,194	108,839	(24,355)	-17.5%
Net profit eligible for distribution	88,028	118,458	30,430	33.4%
Number of outstanding Common Shares	55,229,400	57,946,900	2,717,500	4.9%
Declared Dividend per Common Shares	900	1,000	100	11.1%
Total suggested dividends to common shareholders	49,706	57,947	8,241	16.6%
Retained Earnings & other reserves	38,322	60,512	22,189	55.3%





The Calculation of Preferred Shares Dividends is as follows:

Issue	Issue Value USD	Dividend Rate	Dividends (USD)	
			2015	2016
Preferred Shares series "E"	60,000,000	8.00%	4,800,000	-
Preferred Shares series "G"	124,950,000	6.75%	8,434,125	8,434,125
Preferred Shares series "H"	135,000,000	7.00%	9,450,000	9,450,000
Preferred Shares series "I"	125,000,000	6.75%	8,437,500	8,437,500
Preferred Shares series "J"	75,000,000	6.50%	4,875,000	4,875,000
Preferred Shares series "K" *	100,000,000	6.50%		2,273,224
			35,996,625	33,469,849

* PS series K closing date 25 August 2016

F- LIQUIDITY

The conservation of adequate liquidity has invariably been the Bank's policy to retain a high level of liquid assets and a diversified and stable funding base.

Monitored and controlled by the Asset Liability Committee (ALCO), the liquidity position of the Bank is managed on daily basis by the Treasury Department with liquidity risks being consistently measured, monitored, and scrutinized by the Risk Management Department. Ensuring low liquidity risk is evidenced by the following factors:

- Sufficient high-quality liquid assets, including high level placements with well reputed and highly rated global banks
- Diversification in the securities portfolio
- Stability in customers' deposits
- Manageable cash-flow mismatching gaps
- Non-reliance on whole-sale funding

The liquidity ratios, in both local and foreign currencies, maintained the healthy levels of 2015, while the loan to deposit ratio increased slightly to the level of 38.01%.



Description (LBP million)	LBP		FCY	
	31-Dec-15	31-Dec-16	31-Dec-15	31-Dec-16
Cash on hand	17,508	17,661	28,952	30,309
Due from Central Bank(s)	1,080,415	1,758,479	3,676,298	3,864,211
Due from Banks & Financial Institutions	79,932	36,133	1,908,717	1,471,381
(Less): Due to banks & Financial Institutions	(130,276)	(279,494)	(1,600,617)	(1,724,671)
(Less): Pledged Deposits with banks	-	-	(54,153)	(67,542)
Equity Instruments at FVTPL	-	-	56,366	66,589
Debt instruments at FVTPL	959,426	903,406	328,880	511,301
Core Liquid Assets	2,007,005	2,436,185	4,344,443	4,151,578
Debt instruments at Amortized Cost	3,958,598	3,781,874	4,802,738	5,330,877
Equity instruments at FVOCI	5,319	5,319	1,483	3,606
Loans to Banks	21,616	17,506	284,207	245,768
Other Liquid Assets	3,985,533	3,804,699	5,088,428	5,580,251
Total net liquid assets	5,992,538	6,240,884	9,432,871	9,731,829
Customers' deposits	5,735,194	5,747,038	12,630,204	13,175,745
(Less): Cash collateral & Margins	(394,855)	(408,504)	(971,272)	(995,473)
Certificates of deposits	-	-	665	565
Other Borrowings	367,514	491,533	240,630	96,131
Liabilities under acceptance	-	-	292,529	267,377
Other Liabilities	106,614	347,396	204,348	282,931
Total Financial Liabilities	5,814,467	6,177,463	12,397,104	12,827,276
Core liquidity Ratio	32.19%	39.44%	36.13%	32.37%
Total net liquidity ratio	100.74%	101.03%	77.18%	75.87%



Consolidated Financial Statements

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

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

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

Basis of Opinion

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

Emphasis of a matter

Without qualifying our opinion, we draw attention to Note 11 and Note 22 of the consolidated financial statements, concerning the regulatory restricted contribution at December 31, 2016 amounting to LBP280.9billion, originating from surplus derived from sale of treasury bills and certificates of deposit issued by the Central Bank of Lebanon, in Lebanese pounds, against investment in medium term Lebanese Government bonds and certificates of deposit issued by the Central Bank of Lebanon, in foreign currency, in compliance with Central Bank of Lebanon Circular number 446 dated December 30, 2016. According to this Circular, the restricted contribution which is regulated in nature shall be appropriated, among other things, after deducting the relevant tax liability, to collective provision for credit risks associated with the loan book at a minimum of 2% of the weighted Credit risks, and that in anticipation of the implementation of IFRS 9 for Impairment, as and when quantified effective on January 1, 2018. By virtue of this Circular, 70% of the remaining residual surplus once recognized over time shall be treated as non-distributable income designated and restricted only for appropriation to capital increase.

Key Audit Matters

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

Regulatory Restricted Contribution

During November and December of 2016, the Central Bank of Lebanon issued regulations applicable to all banks operating in Lebanon with respect to the use of the contribution derived from the special and non-conventional securities arrangement deals concluded with the regulator. This is a key audit matter in relation to the use, accounting and taxability of the benefit earned.

Impairment of loans and advances

The calculation of the impairment of the loans and advances portfolio is inherently judgmental as it involves significant subjective assumptions made by the management of the Group. Due to the significance of the loans and advances portfolio and the related uncertainty estimation associated to the impairment determination, this is considered a key audit matter.

For corporate loans portfolio which generally comprises larger loans, Management monitors and performs an impairment assessment of the loans and advances portfolio on an individual basis and provides for impaired loans. For those loans that are considered to be unimpaired, Management performs an assessment of impairment on a collective basis after segregating the loans portfolio into groups of loans with similar characteristics.

The assessment on an individual basis relies on management's knowledge of each debtor. The retail loan portfolio generally comprises much greater number of customers. Therefore, provisions for other than those that are calculated on an individual basis are determined by grouping into homogenous portfolios by product. The loan portfolios that give rise to the greatest uncertainty are typically those where impairment is derived from models for collective assessment which are subject to Management's assumptions with respect to industry risk factors, economic outlook as well as collateral fair value and shortfalls.

How our audit addressed the Key Audit Matters

We reviewed the accounting and use of the benefits associated with the regulated restricted contribution derived from the special and non-conventional securities arrangement deals with the regulator, after deducting the relevant tax, in line with the conditions for the designated purpose setup by the regulator.

The risks outlined were addressed as follows:

We tested the design and operating effectiveness of the relevant controls that Management has put in place to identify which loans and advances are potentially impaired on an individual basis and the impairment loss setup against these loans. These tests included testing of:

- Both system-based and manual controls over the timely recognition of impaired loans and advances;
- Controls over the impairment calculation models, including data inputs; and
- Controls over collateral valuation estimates.

For impairment allowances against collectively assessed loans and advances, substantially covered by the regulatory designated deferred liability set up in anticipation of IFRS 9 as referred to under **Emphasis of a matter** section of our report, we critically assessed Management's assumptions, and estimations, in particular with respect to the inputs into the impairment model, the industry risk factors, and economic factors, and historical default rates.

For non-performing loans, we tested the valuation model used by Management to determine the expected recoverable amount, including testing the expected future cash flows, the collateral value and the rate used to discount these to the present.

We examined a sample of loans and advances, which had not been identified by management as potentially impaired and formed our own judgement as to whether that was appropriate.

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

Impairment of Goodwill

As at December 31, 2016, the Group has goodwill of LBP88billion of which LBP86.6billion related the Group's acquisition of Bank of Sydney Ltd in prior years. Management performs an annual impairment test on the recoverability of the goodwill as required by International Financial Reporting Standards which is subjective in nature due to judgements made related to assumptions made by management. Due to the level of judgement and the significance to the Group's financial position, this is considered to be a key audit matter. Management performs the calculation of the impairment of goodwill using the average price-to-book ratio applicable to banks in Australia after applying a haircut to adjust for the size of the Australian subsidiary in addition to a premium of control.

Impairment of Investment in an Associate

The Group's investment in an associate in the amount of LBP40.9billion as at December 31, 2016 is considered material to the consolidated financial statements and related impairment involves considerable estimation uncertainty. The Group uses the equity method of accounting to account for the investment in the Group's consolidated financial statements. The determination of recoverable amount of the Group's investment in an associate relies on management's estimates of future cash flows and judgement with respect to the associate's performance. Due to the uncertainty of forecasting future cash flows, the level of management's judgement involved and the significance of the Group's investment in an associate this is considered to a key audit matter.

The risk of inadequate determination of the impairment of goodwill was addressed in our audit by obtaining the impairment calculation used by Management and verifying the inputs related to price to book of top banks in Australia as at December 31, 2016 by comparing these inputs with externally derived data as well as our own assessments based on our knowledge of the Group and the industry. We also assessed the reasonableness of the haircut and premium control applied by management.

Our audit procedures included the review of model used by management and assessment of the assumptions made by management with respect to forecasted future cash flows derived from the associate. Furthermore, we assessed the reasonableness of the estimated future cash flows by comparing to historical trends taking into consideration market conditions in the country of incorporation of the associate.

Other Information

Management is responsible for the Other Information included in the Annual Report. The Other Information does not include the financial statements and our auditors' report thereon. The Annual Report is expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements does not cover the Other Information and we do not express any form of assurance or conclusion thereon.

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s 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 auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

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

The partners in charge of the audit resulting in this independent auditor’s report are Nada Maalouf for Deloitte & Touche and Alfred Nehme for DFK Fiduciaire du Moyen Orient.

Beirut, Lebanon
April 24, 2017


DFK Fiduciaire du Moyen Orient


Deloitte & Touche

Consolidated statement of financial position

ASSETS

As at December 31 st - LBP'000	Notes	2016	2015
Cash and deposits at central banks	5	5,670,659,645	4,803,172,663
Deposits with banks and financial institutions	6	1,507,514,206	1,988,649,306
Financial assets at fair value through profit or loss	7	1,481,295,880	1,344,671,662
Loans to banks	8	263,273,658	305,823,338
Loans and advances to customers	9	7,086,389,206	6,313,524,138
Loans and advances to related parties	10	105,951,510	94,099,113
Investment securities	11	9,121,676,399	8,768,137,825
Customers' liability under acceptances	12	267,377,142	292,528,504
Investment in an associate	13	40,876,914	40,289,296
Assets acquired in satisfaction of loans	14	24,767,329	26,874,037
Property and equipment	15	219,599,671	212,689,834
Goodwill	16	88,429,315	88,712,217
Other assets	17	63,311,867	70,868,015
Total Assets		25,941,122,742	24,350,039,948

FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISKS

As at December 31 st - LBP'000	Notes	2016	2015
Letters of guarantee and standby letter of credit	44	780,140,390	1,513,557,669
Documentary and commercial letters of credit	44	554,346,573	659,561,028
Notional amount of interest rate swap	44	5,513,049	17,465,334
Forward exchange contracts	44	1,149,550,135	1,200,720,023
Fiduciary accounts	45	191,978,467	196,188,726

LIABILITIES

As at December 31 st - LBP'000	Notes	2016	2015
Deposits from banks and financial institutions	18	2,004,164,512	1,730,893,221
Customers' and related parties' deposits at amortized cost	19	18,922,782,997	18,365,397,609
Liabilities under acceptance	12	267,377,142	292,528,504
Other borrowings	20	587,663,688	608,143,930
Certificates of deposit	21	565,326	664,897
Other liabilities	22	630,326,673	310,962,666
Provisions	23	45,022,811	40,598,259
Total liabilities		22,457,903,149	21,349,189,086

EQUITY

As at December 31 st - LBP'000	Notes	2016	2015
Common share capital	24	77,649,954	71,159,034
Common priority shares	24	150,753,015	150,753,015
Shareholders' cash contribution to capital	26	20,978,370	20,978,370
Preferred shares	25	844,124,625	693,374,625
Retained earnings		296,905,489	270,501,418
Reserves	27	766,037,222	625,109,759
Cumulative change in fair value of fixed currency positions designated as hedging instruments	24	(50,000,712)	(44,770,905)
Cumulative change in fair value of investment securities at fair value through other comprehensive income		2,272,038	2,273,469
Treasury shares	28	(56,878,575)	(49,015,034)
Profit for the year	42	227,296,686	221,221,886
Currency translation adjustment		23,726,824	23,852,659
Equity attributable to the equity holders of the Bank		2,302,864,936	1,985,438,296
Non-controlling interests	29	1,180,354,657	1,015,412,566
Total equity		3,483,219,593	3,000,850,862
Total Liabilities and Equity		25,941,122,742	24,350,039,948

The accompanying notes 1 to 55 form an integral part of the consolidated financial statements

Consolidated statement of profit or loss

Year ended December 31 st - LBP'000	Notes	2016	2015
Interest income	31	1,136,261,446	1,050,694,535
Interest expense	32	(754,102,838)	(705,868,760)
Net interest income		382,158,608	344,825,775
Fee and commission income	33	146,757,141	142,244,678
Fee and commission expense	34	(24,282,115)	(22,810,661)
Net fee and commission income		122,475,026	119,434,017
Net interest and other gains on financial assets at fair value through profit or loss	35	103,897,939	92,992,817
Gains booked on financial assets measured at amortized cost	11	11,615,492	69,857,341
Other operating income (net)	36	17,377,265	18,758,762
Net financial revenues		637,524,330	645,868,712
Write-back of/(provision for) credit losses (net)	37	218,200	(31,759,589)
Provision for loans to banks (net)	8	(771,930)	(335,722)
Other provisions (net)	38	(2,433,215)	(475,190)
Net financial revenues after impairment charge for credit losses		634,537,385	613,298,211
Staff costs	39	(166,967,673)	(164,387,895)
General and administrative expenses	40	(100,426,910)	(98,214,828)
Depreciation and amortization	41	(22,332,023)	(20,805,251)
Write-back of provision for impairment of assets acquired in satisfaction of loans	14	-	28,931
Profit before income tax		344,810,779	329,919,168
Income tax expense	22	(38,145,434)	(45,821,652)
Profit for the year		306,665,345	284,097,516
Deferred tax on undistributed profit	22	(3,098,004)	(2,752,124)
		303,567,341	281,345,392
Attributable to:			
Non-controlling interests	29	76,270,655	60,123,506
Equity holders of the Bank		227,296,686	221,221,886
Basic earnings per share in LBP	43	LBP3,020	LBP2,948
Basic earnings per priority share in LBP		LBP4,323	LBP4,259
Diluted earnings per share in LBP	43	LBP3,020	LBP2,948

The accompanying notes 1 to 55 form an integral part of the consolidated financial statements

Consolidated statement of profit or loss and other comprehensive income

Year ended December 31 st - LBP'000	2016	2015
Profit for the year	303,567,341	281,345,392
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Foreign currency translation adjustment related to foreign operations	(125,835)	8,509,412
Change in fair value of cash flow hedge	294,441	176,023
Revaluation of fixed and special currency positions to hedge investments in foreign entities – Note 24	(5,229,807)	(14,164,428)
Net other comprehensive loss for the year	(5,061,201)	(5,478,993)
Total comprehensive income for the year	298,506,140	275,866,399
Attributable to:		
Equity holders of the Bank	222,235,485	215,742,893
Non-controlling interests	76,270,655	60,123,506
	298,506,140	275,866,399

Consolidated statement of changes in equity

LBP'000	Common Share Capital	Common Priority Shares	Shareholders' Cash Contribution to Capital	Non- Cumulative Preferred Shares	Reserves and Retained Earnings	Owned Building Revaluation Surplus
Balance January 1, 2015	71,159,034	150,753,015	20,978,370	783,824,625	780,040,620	1,668,934
Allocation of 2014 profit	-	-	-	-	218,896,206	-
Dividends paid on preferred shares (Note 30)	-	-	-	-	(55,960,849)	-
Dividends paid on common shares (Note 30)	-	-	-	-	(49,706,460)	-
Dividends paid on priority shares (Note 30)	-	-	-	-	(1,883,380)	-
Dividends paid to non-controlling interests	-	-	-	-	-	-
Dividends on treasury shares	-	-	-	-	927,092	-
Redemption of series "E" preferred shares (Note 25)	-	-	-	(90,450,000)	-	-
Write off loans special reserves	-	-	-	-	(292,577)	-
Reclassification from free reserves (Note 14)	-	-	-	-	512,325	-
Change in treasury shares	-	-	-	-	-	-
Change in net asset value of funds	-	-	-	-	-	-
Effect of transactions with funds	-	-	-	-	(151,461)	-
Effect of exchange difference	-	-	-	-	(7,123,095)	-
Total comprehensive income for 2015	-	-	-	-	176,023	-
Balance December 31, 2015	71,159,034	150,753,015	20,978,370	693,374,625	885,434,444	1,668,934
Allocation of 2015 profit	-	-	-	-	219,398,210	-
Dividends paid on preferred shares (Note 30)	-	-	-	-	(54,264,914)	-
Dividends paid on common shares (Note 30)	-	-	-	-	(49,706,460)	-
Dividends paid on priority shares (Note 30)	-	-	-	-	(6,030,121)	-
Dividends paid to non-controlling interests	-	-	-	-	-	-
Dividends on treasury shares	-	-	-	-	506,010	-
Increase and reconstitution of capital (Note 24)	2,523,370	-	-	-	(2,523,370)	-
Issuance of common shares (Note 24)	3,967,550	-	-	-	71,410,465	-
Issuance of series "K" preferred shares (Note 25)	-	-	-	150,750,000	-	-
Redemption of series "E" preferred shares (Note 25)	-	-	-	-	-	-
Write off loans special reserves	-	-	-	-	(35,715)	-
Reclassification from free reserves (Note 14)	-	-	-	-	1,964,121	-
Change in treasury shares	-	-	-	-	-	-
Change in net asset value of funds	-	-	-	-	-	-
Effect of transactions with funds	-	-	-	-	11,101	-
Effect of exchange difference	-	-	-	-	(18,765,769)	-
Other	-	-	-	-	5,213,980	-
Total comprehensive income for 2016	-	-	-	-	294,441	-
Balance December 31, 2016	77,649,954	150,753,015	20,978,370	844,124,625	1,052,906,423	1,668,934



Cumulative Change in Fair value of Fixed Positions Designated as Hedging Instruments	Cumulative Change in Fair value of Investment Securities Currency at Fair Value through Other Comprehensive Income	Reserve for Assets Acquired in Satisfaction of Loans	Treasury Shares	Currency Translation Adjustment	Profit for the year	Equity Attributable to the Equity Holders of the Group	Non-Controlling Interest	Total
(30,606,477)	2,272,355	7,484,143	(47,830,066)	15,343,247	220,432,187	1,975,519,987	759,855,615	2,735,375,602
-	-	1,535,981	-	-	(220,432,187)	-	-	-
-	-	-	-	-	-	(55,960,849)	-	(55,960,849)
-	-	-	-	-	-	(49,706,460)	-	(49,706,460)
-	-	-	-	-	-	(1,883,380)	-	(1,883,380)
-	-	-	-	-	-	-	(62,377,344)	(62,377,344)
-	-	-	-	-	-	927,092	-	927,092
-	-	-	-	-	-	(90,450,000)	-	(90,450,000)
-	-	-	-	-	-	(292,577)	-	(292,577)
-	-	(512,325)	-	-	-	-	-	-
-	-	-	(1,184,968)	-	-	(1,184,968)	-	(1,184,968)
-	-	-	-	-	-	-	253,583,494	253,583,494
-	-	-	-	-	-	(151,461)	4,227,295	4,075,834
-	1,114	-	-	-	-	(7,121,981)	-	(7,121,981)
(14,164,428)	-	-	-	8,509,412	221,221,886	215,742,893	60,123,506	275,866,399
(44,770,905)	2,273,469	8,507,799	(49,015,034)	23,852,659	221,221,886	1,985,438,296	1,015,412,566	3,000,850,862
-	-	1,823,676	-	-	(221,221,886)	-	-	-
-	-	-	-	-	-	(54,264,914)	-	(54,264,914)
-	-	-	-	-	-	(49,706,460)	-	(49,706,460)
-	-	-	-	-	-	(6,030,121)	-	(6,030,121)
-	-	-	-	-	-	-	(71,020,322)	(71,020,322)
-	-	-	-	-	-	506,010	-	506,010
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	75,378,015	-	75,378,015
-	-	-	-	-	-	150,750,000	-	150,750,000
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	(35,715)	-	(35,715)
-	-	(1,964,121)	-	-	-	-	-	-
-	-	-	(7,863,541)	-	-	(7,863,541)	-	(7,863,541)
-	-	-	-	-	-	-	155,835,812	155,835,812
-	-	-	-	-	-	11,101	3,855,946	3,867,047
-	(1,431)	-	-	-	-	(18,767,200)	-	(18,767,200)
-	-	-	-	-	-	5,213,980	-	5,213,980
(5,229,807)	-	-	-	(125,835)	227,296,686	222,235,485	76,270,655	298,506,140
(50,000,712)	2,272,038	8,367,354	(56,878,575)	23,726,824	227,296,686	2,302,864,936	1,180,354,657	3,483,219,593

Consolidated statement of cash flows

Year ended December 31 st - LBP'000	Notes	2016	2015
Cash flows from operating activities:			
Profit for the year		303,567,341	281,345,392
Adjustments for:			
Write-back of provision for impairment of assets acquired in satisfaction of loans (net)	14	-	(28,931)
Depreciation and amortization	41	22,332,023	20,805,251
(Write-back of)/Provision for credit losses (net)	37	(218,200)	31,759,589
Provision for loans to banks		771,930	335,722
Deferred tax on profits for distribution	22	3,098,004	2,752,124
Unrealized loss on assets at fair value through profit or loss	35	2,467,090	3,694,130
Gain on sale of assets acquired in satisfaction of loans	36	(2,733,594)	(497,708)
Gain on sale on property and equipment	36	(306,049)	(26,922)
Share in profits of an associate	36	(1,727,069)	(3,682,518)
Provision for end of service indemnity for employees	23	6,439,370	9,877,943
Other adjustments and effect of difference on exchange		(18,512,802)	2,034,037
		315,178,044	348,368,109
Net increase in financial assets at fair value through profit or loss		(139,091,308)	(220,115,158)
Net decrease in loans to banks		41,843,441	291,117,873
Net increase in loans and advances to customers	47	(774,776,028)	(163,279,507)
Net (increase)/decrease in loans and advances to related parties		(11,852,397)	10,633,877
Net (increase)/decrease in cash and deposits at central banks		(810,298,349)	205,982,266
Net (increase)/decrease in deposits with banks and financial institutions		(19,871,548)	67,443,824
Increase in investment securities		(353,540,005)	(1,012,393,448)
Net decrease/(increase) in other assets	47	4,575,712	(13,380,343)
Net (decrease)/increase in deposits from banks and financial institutions		(85,098,470)	414,127,230
Net increase/(decrease) in other liabilities	47	316,266,003	(61,668,592)
Net increase in provision for contingencies		2,445,867	625,706
Net increase in customers' and related parties' accounts at amortized cost		557,385,388	1,568,182,881
Change in fair value of cash flow hedge		294,441	176,023
Change in fair value of fixed currency positions designated as hedging instruments	24	(5,229,807)	(14,164,428)
Settlement of end-of-service indemnity	23	(4,460,685)	(2,868,875)
Other		5,213,980	-
Net cash (used in)/provided by operating activities		(961,015,721)	1,418,787,438
Cash flows from investing activities:			
Property and equipment		(27,175,834)	(81,397,658)
Proceeds from sale of assets acquired in satisfaction of loans		6,933,747	2,103,703
Proceeds from sale of property and equipment		1,058,868	43,159
Dividends from investment in an associate	13	1,139,451	1,072,286
Net cash used in investing activities		(18,043,768)	(78,178,510)
Cash flows from financing activities:			
Dividends paid		(180,515,318)	(169,000,941)
Issuance of common shares		75,378,015	-
Issuance of Series "K" preferred shares		150,750,000	-
Redemption of Series "E" preferred shares		-	(90,450,000)
(Decrease)/increase in other borrowings		(20,480,242)	124,534,218
Decrease in certificates of deposit		(99,571)	(17,119)
Non-controlling interest		159,702,370	257,659,328
Change in treasury shares		(7,863,541)	(1,184,968)
Net cash provided by financing activities		176,871,713	121,540,518
Net (decrease)/increase in cash and cash equivalents		(802,187,776)	1,462,149,446
Cash and cash equivalents - Beginning of year	47	2,759,366,146	1,297,216,700
Cash and cash equivalents - End of year	47	1,957,178,370	2,759,366,146

The accompanying notes 1 to 55 form an integral part of the consolidated financial statements

Notes to the consolidated financial statements

1. GENERAL INFORMATION

Bank of Beirut S.A.L. (the "Bank") is a Lebanese joint stock company listed on the Beirut stock exchange, registered under number 13187 in the Lebanese commercial register and under number 75 in the list of banks published by the Central Bank of Lebanon. The Bank was established in Lebanon in 1963 and provides a full range of banking services and operates through a network of 66 branches throughout Lebanon with a focus in the city of Beirut and its suburbs. The Bank has a branch in Cyprus and 5 branches in the Sultanate of Oman and representative offices in Dubai in the United Arab Emirates, Nigeria and Ghana. The Bank has a subsidiary bank in the UK acquired in 2002 and this subsidiary opened a branch in Frankfurt during 2010. The Bank established during 2007 a new investment subsidiary bank under the name of Bank of Beirut Invest S.A.L. The Bank acquired a subsidiary bank in Sydney – Australia named "Laiki Bank" and changed its name to Beirut Hellenic Bank and in 2013 changed the name to Bank of Sydney Ltd. Further information on the Group's structure is provided in Note 3(A). Information on other related party transactions of the Group is provided in Note 46.

The headquarters of Bank of Beirut S.A.L. are located in Fosh Street, Down Town Beirut, Lebanon.

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

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

The following new and revised IFRSs, which became effective for annual periods beginning on or after January 1, 2016, have been adopted in these financial statements. The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

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

2.2 New and revised IFRS in issue but not yet effective

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

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



Notes to the consolidated financial statements

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

• Amendments to IFRS 2 Share Based Payment regarding classification and measurement of share based payment transactions. 1 January 2018

• Amendments to IFRS 4 Insurance Contracts: Relating to the different effective dates of IFRS 9 and the forthcoming new insurance contracts standard. 1 January 2018

• Amendments to IAS 40 Investment Property: Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The paragraph has been amended to state that the list of examples therein is non-exhaustive. 1 January 2018

• Amendments to IFRS 7 Financial Instruments: Disclosures relating to disclosures about the initial application of IFRS 9. When IFRS 9 is first applied

• IFRS 7 Financial Instruments: Disclosures relating to the additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9. When IFRS 9 is first applied

• IFRS 9 Financial Instruments (revised versions in 2009, 2010, 2013 and 2014) January 1, 2018

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

A finalized version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 Financial Instruments: Recognition and Measurement. The standard contains requirements in the following areas:

- Classification and measurement: Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a "fair value through other comprehensive income" category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.

- Impairment: The 2014 version of IFRS 9 introduces an "expected credit loss" model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised.

- Hedge accounting: Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.

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

• IFRS 15 Revenue from Contracts with Customers

In May 2014, IFRS 15 was issued which established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective. January 1, 2018

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Notes to the consolidated financial statements

Under IFRS 15, an entity recognises when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15. 1 January 2018

Amendments to IFRS 15 Revenue from Contracts with Customers to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts. 1 January 2018

- IFRS 16 Leases

IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. January 1, 2019

- Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture. Effective date deferred indefinitely.

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group's financial statements as and when they are applicable and adoption of these new standards, interpretations and amendments, except for IFRS 9 will have no material impact on the financial statements of the Group in the period of initial application.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

Basis of Preparation and Measurement

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

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

Assets and liabilities are prepared according to their nature and are presented in an approximate order that reflects their relative liquidity.

Certain 2015 figures were reclassified to conform with the current year's presentation.

The principal accounting policies adopted are set out below:

A. Basis of Consolidation:

The consolidated financial statements of Bank of Beirut S.A.L. incorporate the financial statements of the Bank and entities controlled by the Bank and its subsidiaries.

Control is achieved when the Bank:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Bank has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to

Notes to the consolidated financial statements

give it the practical ability to direct the relevant activities of the investee unilaterally. The Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

- the size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Bank, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of profit or loss and other comprehensive income from the date the Bank gains control until the date the Bank ceases to control the subsidiary.

Non-controlling interest represent the portion of profit or loss and net assets of subsidiaries not owned directly or indirectly by the Bank. Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Bank and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interests;
- Derecognizes the cumulative translation differences recorded in equity;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in profit or loss; and
- Reclassifies the parent's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

The consolidated subsidiaries consist of the following:

	Country of Incorporation	Year of Acquisition or Incorporation	Percentage of Ownership		Date of Liquidation	Business Activity
			2016	2015		
Bank of Beirut UK LTD	United Kingdom	2002	100	100	-	Banking
Bank of Beirut Invest S.A.L.	Lebanon	2007	100	100	-	Investment Banking
Beirut Broker Company S.A.R.L.	Lebanon	1999	100	100	-	Insurance brokerage
BOB Finance S.A.L.	Lebanon	2006	100	100	-	Financial Institution
Cofida Holding S.A.L.	Lebanon	2008	100	100	-	Holding
Beirut Life S.A.L.	Lebanon	2010	90	90	-	Insurance (Life)
Bank of Sydney Ltd	Australia	2011	100	100	-	Banking
Optimal Investment Fund	Lebanon	2010	-	-	-	Mutual Fund
Beirut Preferred Fund II	Cayman Island	2013	1.23	1.47	-	Mutual Fund
BOB LBP Growth Fund	Lebanon	2015	-	-	-	Mutual Fund
Medawar 247 S.A.L.	Lebanon	2015	100	100	-	Real Estate
Medawar 1216 S.A.L.	Lebanon	2015	100	100	-	Real Estate

Notes to the consolidated financial statements

B. Business Combinations:

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs other than those associated with the issue of debt or equity securities are generally recognized in profit or loss as incurred.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. When the excess is negative, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.

Non-controlling interests in the net assets (excluding goodwill) of consolidated subsidiaries and associates are identified separately from the Group's equity therein.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

C. Goodwill:



Notes to the consolidated financial statements

Goodwill arising on an acquisition of a business is carried at cost. Refer to Note 3B for the measurement of goodwill at initial recognition. Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses, if any.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described under "Investments in associates and other instruments".

D. Foreign Currencies:

The consolidated financial statements are presented in Lebanese Pounds ("LBP"), which is the Group's reporting currency. However, the primary currency of the economic environment in which the Group operates (functional currency) is the U.S. Dollar ("USD"). The exchange rate of the USD against the LBP has been constant for several years.

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

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for exchange differences on transactions entered into in order to hedge certain foreign currency risks, and except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur in the foreseeable future, which are recognized in other comprehensive income, and presented in the translation reserve in equity. These are recognized in profit or loss on disposal of the net investment.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into Lebanese Pound using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate). Such exchange differences are recognized in profit or loss in the period in which the foreign operation is disposed of.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognized in profit or loss.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognized in other comprehensive income.

E. Financial Assets and Liabilities:

Recognition and Derecognition:

Notes to the consolidated financial statements

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

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

A financial asset (or a part of a financial asset, or a part of a group of similar financial assets) is derecognized when the contractual rights to the cash flows from the financial asset expire.

In instances where the Group is assessed to have transferred a financial asset, the asset is derecognized if the Group has transferred substantially all the risks and rewards of ownership. Where the Group has neither transferred nor retained substantially all the risks and rewards of ownership, the financial asset is derecognized only if the Group has not retained control of the financial asset. The Group recognizes separately as assets or liabilities any rights and obligations created or retained in the process.

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

Upon derecognition of a financial asset that is classified as fair value through other comprehensive income, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is reclassified to retained earnings.

A financial liability (or part of a financial liability) can only be derecognized when it is extinguished that is when the obligation specified in the contract is either discharged, cancelled, or expires.

The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

Offsetting:

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

Fair Value Measurement:

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

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

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair measurement as a whole:



Notes to the consolidated financial statements

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

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

Impairment of Financial Assets:

Financial assets that are measured at amortized cost are assessed for impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the asset have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- the disappearance of an active market for that financial asset because of financial difficulties; or
- significant or prolonged decline in fair value beyond one business cycle that occurred after the initial recognition of the financial asset or group of financial assets which impacted the estimated future cash flows of the investment.

For certain categories of financial asset, such as loans and advances, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. This provision is estimated based on various factors including credit ratings allocated to a borrower or group of borrowers, the current economic conditions, the experience the Group has had in dealing with a borrower or group of borrowers and available historical default information, as well as observable changes in national or local economic conditions that correlate with default on loans and advances.

The amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows reflecting the amount of collateral and guarantee, discounted at the financial asset's original effective interest rate.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Collateral Valuation:

The Group seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, other non-financial assets and credit enhancements such as netting agreements. The fair value of collateral is generally assessed, at a minimum, at inception and periodically updated based on the Group's policies and type of collateral.

To the extent possible, the Group uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties, such as independent accredited experts and other independent sources.

F. Classification of Financial Assets:

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

Debt Instruments:

Non-derivative debt instruments that meet the following two conditions are subsequently measured at amortized cost less impairment loss

Notes to the consolidated financial statements

(except for debt investments that are designated as at fair value through profit or loss on initial recognition):

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

Debt instruments which do not meet both of these conditions are measured at fair value through profit or loss ("FVTPL"). In addition, debt instruments that meet the amortized cost criteria but are designated as at FVTPL are measured at FVTPL.

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

Equity Instruments:

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

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

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

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

A financial asset is held for trading if:

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

Reclassification:

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

Reclassification is not allowed where:

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

Designation at Fair Value through Profit and Loss:

The Group designates financial assets and liabilities at fair value through profit or loss when either:

- The assets or liabilities are managed, evaluated and reported internally on a fair value basis; or
- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- The asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.



Notes to the consolidated financial statements

G. Financial Liabilities and Equity Instruments:

Classification as debt or equity:

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

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

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

Financial Liabilities at fair value through profit or loss:

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

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and the entire combined contract is designated as at FVTPL in accordance with IFRS 9.

Financial liabilities at FVTPL are stated at fair value. Any gains or losses arising on remeasurement of held-for-trading financial liabilities are recognized in profit or loss. Such gains or losses that are recognized in profit or loss incorporate any interest paid on the financial liabilities and are included in the "Net interest and other gains on liabilities at FVTPL" in the consolidated statement of profit or loss.

However, for non-held-for-trading financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognized in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognized in other comprehensive income are not subsequently reclassified to profit or loss.

Financial Liabilities Subsequently Measured at Amortised Cost:

Financial liabilities that are not held-for-trading and are not designated as at FVTPL are measured at amortized cost at the end of subsequent accounting periods. The carrying amounts of financial liabilities that are subsequently measured at amortized cost are determined based on the effective interest method.

Financial Guarantee Contract Liabilities:

Notes to the consolidated financial statements

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

Financial guarantee contract liabilities are measured initially at their fair values and, if not designated at FVTPL, are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- the amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies set out above.

H. Derivative Financial Instruments:

Derivative financial instruments including foreign exchange contracts, currency and interest rate swaps, (both written and purchased) are initially measured at fair value at the date the derivative contract is entered into and are subsequently re-measured to their fair value at each statement of financial position date. All derivatives are carried at their fair value as assets where the fair value is positive and as liabilities where the fair value is negative. The resulting gain or loss is recognized in the profit or loss immediately unless the derivative is designated and effective as a hedge instrument in which event the timing of the recognition in the statement of profit or loss depends on the hedge relationship. The Group designates certain derivatives as either hedges of the fair value recognized assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations.

Fair values are generally obtained by reference to quoted market prices, discounted cash flow models or pricing models as appropriate as indicated under Note 3E.

Embedded Derivatives

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

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

Hedge Accounting

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

At the inception of the hedge relationship, the Group formally documents the relationship between the hedged item and hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis and demonstrate that it was effective (retrospective effectiveness) for the designated period in order to qualify for hedge accounting. A formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item, both at inception and at each quarter end on an ongoing basis. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125% and are expected to achieve such offset in future periods. Hedge ineffectiveness is recognized in the consolidated statement of profit or loss in "Net results on financial instruments at fair value through profit or loss". For situations where that hedged item is a forecast transaction, the Group also assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the consolidated statement of profit or loss.

Fair Value Hedge

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



Notes to the consolidated financial statements

instrument and the change in the hedged item attributable to the hedged risk are recognized in the line of the profit or loss relating to the hedged item.

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

Cash Flow Hedge

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

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

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

Hedges of net investments in foreign operations:

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in other comprehensive income and accumulated in the foreign currency translation reserve. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

Gains and losses accumulated in the foreign currency translation reserve are reclassified to profit or loss on disposal of the foreign operation.

I. Loans and Advances

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

J. Investments in Associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries.

The results and assets and liabilities of associates, except where the Group has control over the associates' financial and operating policies, are incorporated in the consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for under IFRS 5 Non-current Assets Held-for-Sale and Discontinued Operations. Under the equity method, an investment in an associate is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate, the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

The entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment

Notes to the consolidated financial statements

loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or when the investment is classified as held for sale. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a Group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognized in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

The financial statements of the associates are prepared for the same reporting period of the Group.

K. Property and Equipment:

Property and equipment except for buildings acquired prior to 1993 are stated at historical cost, less accumulated depreciation and any impairment loss. Buildings acquired prior to 1993 are stated at their revalued amounts based on market prices prevailing during 1996 less accumulated depreciation and impairment loss, if any. Resulting revaluation surplus is reflected under "Equity".

Depreciation of property and equipment, other than land and advance payments on capital expenditures, is calculated systematically using the straight line method over the estimated useful lives of the related assets using the following annual rates:

	Rate	Years
Buildings	2%	50
Furniture and equipment	8%	12.5
Computer equipment	20%	5
Vehicles	10%	10
Installation and improvement	25%	4

The estimated useful lives and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized under "Other operating income" in the consolidated statement of profit or loss in the year the asset is derecognized.

L. Intangible Assets Other than Goodwill:



Notes to the consolidated financial statements

Intangible assets other than goodwill, are amortized on a straight-line basis at the rate of 20%. Intangible assets are subject to impairment testing. Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates all other expenditure is expressed when incurred.

M. Assets acquired in satisfaction of loans:

The Lebanese banking entities of the Group account for collateral repossessed in accordance with the Central Bank of Lebanon main circular 78 and the Banking Control Commission circulars 173 and 267. Repossessed assets should be sold within two years from the date of approval of repossession by the Banking Control Commission. These are immediately transferred to "Assets acquired in satisfaction of loans" at their fair value at the repossession date, as approved by the Banking Control Commission.

Upon sale of repossessed assets, any gain or loss realized is recognized in the consolidated statement of profit or loss under "Other operating income" or "Other operating expenses". Gains resulting from the sale of repossessed assets are transferred to "Reserves for assets acquired in satisfaction of loans" starting in the following financial year.

For assets which were not disposed of within the specified period of two years, an amount computed as percentage of their gross carrying value is transferred to "Reserves for assets acquired in satisfaction of loans" in the following financial year.

N. Impairment of Tangible and Intangible Assets (Other than Goodwill):

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

Recoverable amount is defined as the higher of:

- Fair value that reflects market conditions at the statement of financial position date, less cost to sell, if any. To determine fair value the Group adopts the market comparability approach using as indicators the current prices for similar assets in the same location and condition.
- Value in use: the present value of estimated future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life, only applicable to assets with cash generation units.

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

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

The recoverable amount of the Group's owned properties and of properties acquired in satisfaction of loans, is the estimated market value as determined by real estate appraisers on the basis of market compatibility by comparing with similar transactions in the same geographical area and on the basis of the expected value of a current sale between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale after adjustment for an illiquidity factor and market constraints.

The impairment loss is charged to the consolidated statement of profit or loss.

O. Provision for Employees' End-of-Service Indemnity / Staff Retirement Benefits:

Notes to the consolidated financial statements

Employees' End-of-service Indemnities: (Under the Lebanese Jurisdiction)

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

Defined benefit plans: (Under other Jurisdictions)

Obligations in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognized past service costs and the fair value of any plan assets are deducted.

P. Provisions:

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provision is measured at the best estimate of the consideration required to settle the obligation at the statement of financial position date.

Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably

Q. Revenue and Expense Recognition:

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

Interest income and expense presented in the income statement include:

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

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

Net trading income presented in the statement of profit or loss includes:

- Interest income and expense on the trading portfolio.
- Dividend income on the trading equities.
- Realized and unrealized gains and losses on the trading portfolio.

Other net income from financial assets measured at fair value through profit or loss, other than those held for trading, includes:

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

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



Notes to the consolidated financial statements

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

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

R. Income Tax:

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

Current tax is the expected tax payable on the taxable income for the year, using rates enacted at the statement of financial position date. Income tax payable is reflected in the consolidated statement of financial position net of taxes previously settled in the form of withholding tax.

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

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is possible that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that 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 re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

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 substantially enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in OCI or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognized subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognized in profit or loss.

Notes to the consolidated financial statements

S. Fiduciary Accounts:

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

T. 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 lease payments are recorded in the consolidated income statement on a straight line basis over the lease term.

U. Cash and Cash Equivalents:

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

V. Earnings per Share:

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

W. Dividends

Dividends paid on common, priority and preferred shares are recognized as a liability and deducted from equity when they are approved by the General Assembly of the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank.

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

X. Insurance Contracts:

The Group issues contracts that transfer insurance risk.

Recognition and measurement:

Life insurance contracts protect the Group's customers from the consequences of events (such as death or disability) that would affect on the ability of their dependents to maintain their current level of income. Long-term life insurance contracts issued by the Group insure human life events (for example death or survival). Premiums are shown before deduction of commission and are recognized as revenue when they become payable by the contract holder. Benefits are recorded as an expense when they are incurred. A liability for contractual benefits that are expected to be incurred in the future is recorded when the premiums are recognized. The liability is based on assumptions as to mortality, persistency and maintenance expenses that are established at the time the contract is issued.

Mathematical reserves for life insurance contracts:

Provisions for term life products are calculated as the difference between the actuarial present value of the Group's future liabilities and the actuarial present value of the policyholders' future premiums based on the tables of mortality and the actuarial interest rates as per the original tariffs. In case losses arise from liability adequacy tests, an additional provision is raised.

At each reporting date, an actuarial valuation of the life portfolio is carried out by a professional independent actuary and a technical assessment is performed in respect of mathematical reserves. Prevailing laws require that such actuarial valuation be carried out annually.

Outstanding claims reserves:

The outstanding claims reserves are made for all claims reported to the Group and still unpaid at the reporting date including an estimate for the cost of claims incurred but not reported (IBNR). Claims are recognized in the income statement when incurred based on estimated benefits.

Liability Adequacy Test:

Liability adequacy tests are performed to ensure the adequacy of the contract liabilities. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to profit or loss by establishing a provision for losses arising from liability adequacy tests.



Notes to the consolidated financial statements

Deferred Acquisition Cost:

Commissions that are related to securing new contracts and renewing existing contracts are capitalized as Deferred Acquisition Cost ("DAC"). All other costs are recognized as expenses when incurred. Deferred acquisition costs are subsequently amortized over the life of the contracts. The resulting change to the carrying value of the DAC is charged to the income statement.

Y. Insurance Receivables and Payables:

(a) Reinsurance contracts held

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group are classified as reinsurance contracts held. Insurance contracts entered into by the Group under which the contract holder is another insurer (inward reinsurance) are included with insurance contracts.

The benefits to which the Group is entitled under its reinsurance contracts held are recognized as reinsurance assets. These assets consist of short-term balances due from reinsurers (classified within reinsurance receivables), as well as longer-term receivables (classified as reinsurance assets) that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts.

Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognized as an expense when due.

Reinsurers' share of premiums and claims is computed on the basis of effective outwards. The reinsurers' portion towards the above outstanding claims reserves, claims incurred but not reported reserves and mathematical reserves are classified as reinsurance assets in the statement of financial position.

The Group assesses its reinsurance assets for impairment on a yearly basis. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognizes that impairment loss in the income statement.

The Group gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortized cost. The impairment loss is also calculated following the same method used for these financial assets.

(b) Receivables and payables related to insurance contracts

Receivables and payables are recognized when due. These receivables are measured at amortized cost subsequent to initial recognition, less impairment. These include amounts due to and from agents and insurance contract holders. If there is objective evidence that the insurance receivable is impaired, the Group reduces the carrying amount of the insurance receivable accordingly and recognizes that impairment loss in the income statement.

The Group gathers the objective evidence that an insurance receivable is impaired using the same process adopted for loans and receivables.

Z. Deferred Restricted Contributions:

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

Notes to the consolidated financial statements

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

Going Concern:

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

Classification of Financial Assets:

Business Model:

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

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

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

Characteristics of the Financial Asset:

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

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

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

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

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

Qualifying Hedge Relationships:

In designating financial instruments as qualifying hedge relationships, the Group has determined that it expects the hedge to be highly effective over the life of the hedging instrument.

In accounting for derivatives as cash flow hedges, the Group has determined that the hedged cash flow exposure relates to highly probable future



Notes to the consolidated financial statements

cash flows.

B. Key Sources of Estimation Uncertainty:

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

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

Allowances for Credit Losses:

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

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

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

Impairment of Goodwill:

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

Impairment of investment in an associate:

The Group assess at each reporting date whether there is an indication that an investment may be impaired. If any indication exists, the Group estimates the investment's recoverable amount. When the cost of the investment exceeds the recoverable amount, the investment is considered impaired and a provision for impairment is setup representing the difference between the investment's recoverable amount and its carrying value. The provision is charged to the consolidated statement of profit or loss.

Determining Fair Values:

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

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

Notes to the consolidated financial statements

5. CASH AND DEPOSITS AT CENTRAL BANKS

As at December 31 st - LBP'000	2016	2015
Cash on hand	47,969,789	46,459,068
Non-interest earning accounts:		
- Compulsory reserves with the Central Bank of Lebanon	423,318,769	377,360,259
Interest earning accounts:		
- Current accounts with the Central Bank of Lebanon	198,572,296	70,820,878
- Current accounts with other central banks	903,778,730	980,080,819
- Term placements with the Central Bank of Lebanon	4,066,459,004	3,302,584,675
- Term placements with other central banks	2,055,680	97,888
Accrued interest receivable	28,505,377	25,769,076
	5,670,659,645	4,803,172,663

The non-interest earning compulsory reserves with the Central Bank of Lebanon ("BDL") represent deposits in Lebanese Pounds computed on the basis of 25% and 15% of the average weekly sight and term customers' deposits in Lebanese Pounds in accordance with local banking regulations.

Current accounts with other central banks also include the equivalent in Euro of LBP1,465billion as at December 31, 2016 (LBP810million as at December 31, 2015) deposited in accordance with banking laws and regulations in Cyprus which require banks to maintain at the Central Bank of Cyprus mandatory interest earning deposits in Euro to the extent of 1% (1% as at December 31, 2015) of banks' and customers' deposits maturing in less than two years, after deducting a fixed amount of Euro100,000.

At December 31, 2016, current accounts with other central banks also include the equivalent in Omani Riyal (OMR) of LBP1.96billion (LBP1.96billion as at December 31, 2015) as minimum reserve requirements at Central Bank of Oman.

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

Term placements with the Central Bank of Lebanon include as of December 31, 2016 and 2015, the equivalent in foreign currencies of LBP1,631billion and LBP1,540billion, respectively deposited in accordance with local banking regulations which require banks to maintain interest earning placements in foreign currency to the extent of 15% of customers' deposits in foreign currencies, certificates of deposit and loans acquired from non-resident financial institutions.

6. DEPOSITS WITH BANKS AND FINANCIAL INSTITUTIONS

As at December 31 st - LBP'000	2016	2015
Checks in course of collection	72,450,965	77,274,059
Current accounts	506,960,727	1,154,319,580
Current accounts - associate bank (Note 46)	15,390,832	-
Overnight placements	211,612,500	182,329,110
Term placements	633,428,789	519,204,968
Pledged deposits	66,873,947	54,938,228
Accrued interest receivable	796,446	583,361
	1,507,514,206	1,988,649,306

The Group has deposits pledged against facilities obtained. Refer to Note 49.

The Group has as of December 31, 2016 and 2015, current accounts and term placements with banks amounting to LBP21.3billion and LBP167billion, respectively, subject to right of set-off against trade finance exposures related to financial institutions in the form of letters of credit, acceptances and letter of guarantees in the amount of LBP226million, LBP17.5billion and LBP6.9billion, respectively, as at December 31, 2016 (LBP5.2billion, LBP4.4billion and LBP7billion, respectively, as at December 31, 2015).

Notes to the consolidated financial statements

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

As at December 31 st , 2016 - LBP'000	LBP	C/V of F/Cy	Total
Quoted equity securities	-	13,623,037	13,623,037
Unquoted equity securities	-	52,966,427	52,966,427
Lebanese treasury bills	620,110,912	-	620,110,912
Lebanese Government bonds	7,000,000	282,383,914	289,383,914
Certificates of deposit issued by the Central Bank of Lebanon	258,740,729	175,492,641	434,233,370
Foreign Government treasury bills	-	46,913,165	46,913,165
Accrued interest receivable	17,554,234	6,510,821	24,065,055
	903,405,875	577,890,005	1,481,295,880

As at December 31 st , 2015 - LBP'000	LBP	C/V of F/Cy	Total
Quoted equity securities	-	12,754,113	12,754,113
Unquoted equity securities	-	43,611,721	43,611,721
Lebanese treasury bills	548,059,511	-	548,059,511
Lebanese Government bonds	7,000,000	241,196,667	248,196,667
Certificates of deposit issued by the Central Bank of Lebanon	253,018,998	153,728,067	406,747,065
Foreign Government treasury bills	-	63,699,827	63,699,827
Accrued interest receivable	16,236,506	5,366,252	21,602,758
	824,315,015	520,356,647	1,344,671,662

Net interest income, gains and losses on financial assets' portfolio are detailed under Note 35

8. LOANS TO BANKS

As at December 31 st - LBP'000	2016	2015
Loans to a resident housing bank	17,327,600	21,352,000
Discounted acceptances	163,962,202	144,439,635
Discounted acceptances - associate bank (Note 46)	-	57,301,291
Short term loans	76,851,834	77,787,885
Short term loans – associate bank (Note 46)	7,654,508	7,426,159
Accrued interest receivable	574,385	384,758
Less: Unearned interest	(2,064,689)	(2,542,447)
Less: Allowance for impairment	(1,032,182)	(325,943)
	263,273,658	305,823,338

Loans to a resident housing bank represent 12 year LBP loans granted to this bank. Interest is paid semi-annually and reset every 3 years. The loans are payable after a grace period of 2 years from the withdrawal date in 10 annual equal installments. As a guarantee for these loans, the borrower has pledged in favour of the Group bills related to the housing loans granted to its customers.

Discounted acceptances represent facilities derived from trade finance activity (discounted letters of credit) mainly granted to Middle Eastern and African banks. These balances are denominated in foreign currencies.

Short term loans represent as of December 31, 2016 and 2015 short term financing provided by the Group to an associate and other banks mainly against trade finance operations.

Notes to the consolidated financial statements

The movement of allowance for impairment during 2016 and 2015 is summarized as follows:

LBP'000	2016	2015
Balance, January 1	325,943	-
Additions	771,930	335,722
Effect of exchange rate charges	(65,691)	(9,779)
Balance, December 31	1,032,182	325,943

9. LOANS AND ADVANCES TO CUSTOMERS

As at December 31 st - LBP'000	2016				2015			
	Balance net of unearned interest	Unrealized Interest	Impairment Allowance	Carrying Amount	Balance net of unearned interest	Unrealized Interest	Impairment Allowance	Carrying Amount
Performing Retail Loans:								
Rescheduled loans	1,171,388	-	-	1,171,388	35,304	-	-	35,304
Retail loans	2,907,976,177	-	-	2,907,976,177	2,479,820,957	-	-	2,479,820,957
Unearned interest	(58,209,114)	-	-	(58,209,114)	(59,026,690)	-	-	(59,026,690)
Performing Corporate Loans:								
Rescheduled loans	437,175	-	-	437,175	437,175	-	-	437,175
Corporate loans	4,063,816,828	-	-	4,063,816,828	3,890,712,424	-	-	3,890,712,424
Unearned interest	(1,446,503)	-	-	(1,446,503)	(1,418,724)	-	-	(1,418,724)
Non-Performing Retail Loans:								
Rescheduled substandard loans	2,586,629	(434,861)	-	2,151,768	3,254,862	(498,677)	-	2,756,185
Substandard loans	12,378,247	(1,027,642)	(246,682)	11,103,923	10,548,945	(729,549)	(375,896)	9,443,500
Rescheduled doubtful and bad loans	853,627	(213,363)	(180,669)	459,595	734,855	(116,890)	(126,455)	491,510
Doubtful and bad loans	20,395,085	(3,200,532)	(9,331,220)	7,863,333	13,169,114	(2,339,818)	(7,949,059)	2,880,237
Non-Performing Corporate Loans:								
Rescheduled substandard loans	442,785	(81,155)	-	361,630	926,407	(233,935)	-	692,472
Substandard loans	167,862,566	(14,577,208)	(493,363)	152,791,995	16,758,009	(1,774,592)	(11,747)	14,971,670
Rescheduled doubtful and bad loans	940,590	(827)	(12,445)	927,318	3,488,249	(876,373)	(772,395)	1,839,481
Doubtful and bad loans	167,480,820	(56,081,277)	(72,637,742)	38,761,801	137,333,595	(47,307,489)	(47,915,097)	42,111,009
Allowance for impairment of collectively assessed loans								
Corporate loans	-	-	(37,342,700)	(37,342,700)	-	-	(57,453,616)	(57,453,616)
Retail loans	-	-	(12,074,302)	(12,074,302)	-	-	(21,488,418)	(21,488,418)
Accrued interest receivable	7,638,894	-	-	7,638,894	6,719,662	-	-	6,719,662
	7,294,325,194	(75,616,865)	(132,319,123)	7,086,389,206	6,503,494,144	(53,877,323)	(136,092,683)	6,313,524,138

Performing loans and advances to customers as at December 31, 2016, include loan balances in US Dollar aggregating to LBP18billion granted to customers against credit balances in Lebanese Pounds aggregating LBP20billion and margins in US Dollar aggregating LBP5billion reflected under "Customers' and related parties' deposits" in the statement of financial position (Note 19), (loans balances in US Dollar aggregating LBP66billion granted to customers against credit balances in Lebanese Pounds aggregating LBP70billion and margins in US Dollar aggregating LBP17billion reflected under "Customers and related parties' deposits" as at December 31, 2015).

Loans and advances to customers include creditors accidentally debtors balances aggregating to LBP8.2billion as at December 31, 2016 (LBP8.2billion in 2015).



Notes to the consolidated financial statements

Loans and advances to customers also include as at December 31, 2016 and 2015 multicurrency trading exposures amounting to LBP42million and LBP789million respectively, net of corresponding credit balances in the amount of LBP10.7billion and LBP9.7billion respectively.

Rescheduled loans represent loans with renegotiated terms.

The movement of unrealized interest on substandard loans during 2016 and 2015 is summarized as follows:

LBP'000	2016	2015
Balance, January 1	(3,236,753)	(3,853,837)
Settlements	46,123	27,409
Additions	(13,798,947)	(1,567,318)
Write-back to profit or loss	570,962	353,421
Write-off	25,955	593,638
Transfer to doubtful loans	327,934	1,263,793
Transfer from unclassified loans	(58,350)	(62,649)
Effect of exchange rate changes	2,210	8,790
Balance, December 31	(16,120,866)	(3,236,753)

The movement of allowance for impairment on substandard loans during 2016 and 2015 is summarized as follows:

LBP'000	2016	2015
Balance, January 1	(387,642)	(305,415)
Additions to allowance for impairment (Note 37)	(700,889)	(82,228)
Write-back of provisions (Note 37)	346,173	-
Effect of exchange rate changes	2,313	-
Balance, December 31	(740,045)	(387,643)

The movement of unrealized interest on doubtful loans during 2016 and 2015 is summarized as follows:

LBP'000	2016	2015
Balance, January 1	(50,640,570)	(46,554,536)
Settlements	272,396	293,669
Additions	(12,456,200)	(11,014,084)
Write-back to profit or loss	678,248	511,176
Write-off	3,429,639	7,307,845
Transfer from substandard loans	(327,934)	(1,263,793)
Transfer from unclassified loans	(450,292)	-
Effect of exchange rate changes	(1,286)	79,153
Balance, December 31	(59,495,999)	(50,640,570)

The movement of allowance for impairment on doubtful loans during 2016 and 2015 is summarized as follows:

Notes to the consolidated financial statements

LBP'000	2016	2015
Balance, January 1	(56,763,006)	(46,879,274)
Additions to provision (Note 37)	(4,747,944)	(15,248,695)
Transfer (from)/to collective provisions (Net)	(28,920,264)	23,100
Write-back of provision (Note 37)	4,830,526	2,169,913
Write-off	2,974,857	2,850,052
Transfer to sundry creditors	-	48,240
Effect of exchange rate changes	463,755	273,658
Balance, December 31	(82,162,076)	(56,763,006)

The movement of the allowance for impairment of collectively assessed loans during 2016 and 2015 is as follows:

LBP'000	2016	2015
Balance, January 1	(78,942,034)	(60,057,864)
Additions (Note 37)	(3,989,945)	(19,522,681)
Write-back (Note 37)	4,633,495	635,491
Transfer to/(from) specific provision (Net)	28,920,264	(23,100)
Difference on exchange	(38,782)	26,120
Balance, December 31	(49,417,002)	(78,942,034)

10. LOANS AND ADVANCES TO RELATED PARTIES

As at December 31 st - LBP'000	2016	2015
Performing Retail Accounts:		
Mortgage loans	7,251,956	8,562,380
Personal loans	8,636,669	1,104,872
Car loans	420,784	488,850
Credit cards	564,660	631,893
Other	16,934	16,830
Performing Corporate Accounts:		
Small and medium enterprises	88,993,519	83,252,044
Accrued interest receivable	66,988	42,244
	105,951,510	94,099,113

Loans and advances to related parties are partially covered by collaterals. Refer to Note 46.

Performing corporate accounts as at December 31, 2016 and 2015 include multicurrency trading exposures amounting to LBP16.8million and LBP20.3million respectively, net of corresponding credit balances in the amount of LBP1.9billion and LBP1.9billion, respectively.

11. INVESTMENT SECURITIES

Notes to the consolidated financial statements

As at December 31 st , 2016 - LBP'000	Fair Value through Other Comprehensive Income			Amortized Cost			Grand Total
	LBP	C/V of F/Cy	Total	LBP	C/V of F/Cy	Total	
Unquoted equity securities	5,319,359	3,606,239	8,925,598	-	-	-	8,925,598
Lebanese treasury bills	-	-	-	2,060,994,454	-	2,060,994,454	2,060,994,454
Lebanese government bonds	-	-	-	-	3,610,776,206	3,610,776,206	3,610,776,206
Foreign government bonds	-	-	-	-	89,582,004	89,582,004	89,582,004
Certificates of deposit issued by Central Bank of Lebanon	-	-	-	1,655,824,923	925,486,382	2,581,311,305	2,581,311,305
Certificates of deposit issued by financial private sector	-	-	-	-	15,974,449	15,974,449	15,974,449
Bonds issued by financial private sector	-	-	-	-	631,905,259	631,905,259	631,905,259
	5,319,359	3,606,239	8,925,598	3,716,819,377	5,273,724,300	8,990,543,677	8,999,469,275
Accrued interest receivable	-	-	-	65,053,893	57,153,231	122,207,124	122,207,124
	5,319,359	3,606,239	8,925,598	3,781,873,270	5,330,877,531	9,112,750,801	9,121,676,399

As at December 31 st , 2015 - LBP'000	Fair Value through Other Comprehensive Income			Amortized Cost			Grand Total
	LBP	C/V of F/Cy	Total	LBP	C/V of F/Cy	Total	
Unquoted equity securities	5,319,359	1,482,918	6,802,277	-	-	-	6,802,277
Lebanese treasury bills	-	-	-	1,752,629,525	-	1,752,629,525	1,752,629,525
Lebanese government bonds	-	-	-	-	3,691,461,329	3,691,461,329	3,691,461,329
Certificates of deposit issued by Central Bank of Lebanon	-	-	-	2,133,309,543	448,909,039	2,582,218,582	2,582,218,582
Certificates of deposit issued by financial private sector	-	-	-	-	15,969,156	15,969,156	15,969,156
Bonds issued by financial private sector	-	-	-	-	593,623,987	593,623,987	593,623,987
	5,319,359	1,482,918	6,802,277	3,885,939,068	4,749,963,511	8,635,902,579	8,642,704,856
Accrued interest receivable	-	-	-	72,659,306	52,773,663	125,432,969	125,432,969
	5,319,359	1,482,918	6,802,277	3,958,598,374	4,802,737,174	8,761,335,548	8,768,137,825

Financial Assets at fair value though other comprehensive income

Investments at fair value through other comprehensive income include an amount of LBP3.4billion as at December 31, 2016 representing the Group's share in startups/incubators established based on co-sharing agreements with the regulator providing the funding (LBP1.27billion as at December 31, 2015).

Financial Assets at amortized cost:

As at December 31 st , 2016 - LBP'000	LBP			F/Cy		
	Amortized Cost	Accrued Interest Receivable	Fair Value	Amortized Cost	Accrued Interest Receivable	Fair Value
Lebanese treasury bills	2,060,994,454	28,209,102	2,082,926,032	-	-	-
Lebanese government bonds	-	-	-	3,610,776,206	39,334,272	3,476,783,021
Foreign government bonds	-	-	-	89,582,004	993,461	89,582,004
Certificates of deposit issued by the Central Bank of Lebanon	1,655,824,923	36,844,791	1,673,215,768	925,486,382	13,559,130	933,334,224
Certificates of deposit issued by financial private sector	-	-	-	15,974,449	94,362	15,979,500
Bonds issued by financial private sector	-	-	-	631,905,259	3,172,006	631,928,977
	3,716,819,377	65,053,893	3,756,141,800	5,273,724,300	57,153,231	5,147,607,726

Notes to the consolidated financial statements

As at December 31 st , 2015 - LBP'000	Amortized Cost	Accrued Interest Receivable	Fair Value	Amortized Cost	Accrued Interest Receivable	Fair Value
Lebanese treasury bills	1,752,629,525	26,816,066	1,772,294,468	-	-	-
Lebanese Government bonds	-	-	-	3,691,461,329	41,516,350	3,605,809,709
Certificates of deposit issued by the Central Bank of Lebanon	2,133,309,543	45,843,240	2,147,192,397	448,909,039	7,820,464	451,830,386
Certificates of deposit issued by financial private sector	-	-	-	15,969,156	94,362	15,195,600
Bonds issued by financial private sector	-	-	-	593,623,987	3,342,487	594,586,910
	3,885,939,068	72,659,306	3,919,486,865	4,749,963,511	52,773,663	4,667,422,605

During 2016, the Group entered into several sales transactions with the Central Bank of Lebanon, of Lebanese treasury bills and certificates of deposit issued by the Central Bank of Lebanon in Lebanese Pounds with a carrying value of LBP224billion and LBP398billion, respectively and classified at amortized cost, concluded simultaneously with the acquisition of certificates of deposit issued by the Central Bank of Lebanon in U.S. Dollars with a carrying value of LBP477billion and Lebanese Government bonds in U.S. Dollars with a carrying value of LBP151billion of which LBP3billion are designated at fair value through profit or loss.

The resulting surplus of the inter-related transactions indicated above, derived from the special and non-conventional deals arrangement with the regulator, amounting to LBP239billion, net of tax in the amount of LBP42billion, was credited to "Regulatory deferred liability" under other liabilities in the consolidated statement of financial position (Note 22).

Furthermore, during 2016, the Group entered into several exchange transactions of debt securities at amortized cost issued by the Central bank of Lebanon and the Lebanese Government with an aggregate carrying value of LBP364billion and LBP316billion, respectively, against debt securities issued by the Central Bank of Lebanon and the Lebanese Government of aggregate carrying value of LBP282billion and LBP386billion, respectively.

The above transactions resulted in aggregate capital gains in the amount of LBP12.3billion which are deferred as a yield enhancement to be amortized to profit or loss over the period remaining to maturity of the acquired securities. An amount of LBP3.7billion was amortized and recorded under "Interest income" in the consolidated statement of profit or loss for the year ended December 31, 2016.

During 2016, the Group entered into several sales transactions of Lebanese Government bonds in U.S. Dollars with an aggregate carrying value of LBP130billion. These transactions resulted in a loss of LBP2billion recorded as net from the regulatory deferred liability under "Other liabilities" in the consolidated statement of financial position (Note 22).

Gains booked on financial assets at amortized cost resulted from the following:

As at December 31 st - LBP'000	2016	2015
Lebanese Government bonds	-	6,818,402
Lebanese treasury bills	-	23,975,795
Certificates of deposit issued by the Central Bank of Lebanon	11,447,130	38,954,551
Certificates of deposits issued by financial private sector	-	4,672
Bonds issued by financial private sector	168,362	103,921
	11,615,492	69,857,341

During 2016, the Group sold certificates of deposit issued by the Central Bank of Lebanon in Lebanese Pounds with a nominal value of LBP43billion and measured at amortized cost.

Furthermore, the Group sold, during 2016, bonds issued by the financial private sector in the counter value amount of LBP109billion and measured at amortized cost with a forward repurchase date, as part of a sales and repurchase agreement with a foreign central bank.

During 2015, the Group entered into several sales transactions of investment securities at amortized cost in Lebanese Pounds and foreign currencies with an aggregate nominal value of LBP43billion and LBP187billion, respectively.

Furthermore, during 2015, the Group entered into several exchange transactions of debt securities at amortized cost issued by the Central Bank of Lebanon and the Lebanese Government with an aggregate carrying value of LBP968billion and LBP1,006billion, respectively, against debt securities issued by the Central bank of Lebanon and the Lebanese Government of aggregate carrying value of LBP1,481billion and LBP642billion,

Notes to the consolidated financial statements

respectively.

In addition, the Group sold during 2015, bonds issued by the financial private sector in the counter value amount of LBP240billion and measured at amortized cost with a forward repurchase date, as part of a sales and repurchase agreement with a foreign central bank.

The sales transactions were entered into for the purpose of liquidity management upon withdrawal of earmarked deposits.

Certain investment securities at amortized cost are pledged against facilities (Refer to Note 49).

12. CUSTOMERS' LIABILITY UNDER ACCEPTANCES

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

13. INVESTMENT IN AN ASSOCIATE

The following tables illustrate summarized financial information of the Group's investment in an African bank:

As at December 31 st , 2016 - LBP'000	Total Assets	Total Liabilities	Net Assets	Net Profit	Share in Ownership %	Group's share of net Assets	Group's share of net Profit
	715,552,968	428,224,277	287,328,691	8,635,347	20	57,465,738	1,727,069

As at December 31 st , 2015 - LBP'000	Total Assets	Total Liabilities	Net Assets	Net Profit	Share in Ownership %	Group's share of net Assets	Group's share of net Profit
	736,084,298	461,440,623	274,643,675	18,412,592	20	54,928,735	3,682,518

The movement of the investment balance during 2016 and 2015 is as follows:

	2016		2015	
	USD	C/V in LBP'000	USD	C/V in LBP'000
Balance January 1,	30,184,594	45,503,276	28,453,096	42,893,044
Share in net profit (Note 36)	1,145,651	1,727,069	2,442,798	3,682,518
Distribution of dividends	(755,855)	(1,139,451)	(711,300)	(1,072,286)
Balance December 31,	30,574,390	46,090,894	30,184,594	45,503,276
Less: Allowance for impairment	(3,458,693)	(5,213,980)	(3,458,693)	(5,213,980)
Balance December 31,	27,115,697	40,876,914	26,725,901	40,289,296

14. ASSETS ACQUIRED IN SATISFACTION OF LOANS

Assets acquired in satisfaction of loans have been acquired through extinguishment and/or restructuring of debt.

Notes to the consolidated financial statements

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

LBP'000	Real Estate
Gross Amount:	
Balance January 1, 2015	24,390,310
Additions	5,109,722
Transfers from advances on fixed assets (Note 15)	6,266
Disposals	(1,605,995)
Balance December 31, 2015	27,900,303
Additions	2,093,445
Disposals	(4,200,153)
Balance December 31, 2016	25,793,595
Allowance for impairment:	
Balance January 1, 2015	(1,055,197)
Write-back to statement of profit or loss	28,931
Balance December 31, 2015	(1,026,266)
Balance December 31, 2016	(1,026,266)
Carrying Amount:	
Balance December 31, 2016	24,767,329
Balance December 31, 2015	26,874,037

During 2016, the Group sold assets acquired in satisfaction of loans with an aggregate cost of LBP4.2billion (LBP1.6billion during 2015). The sales resulted in a gain in the amount of LBP2.73billion during 2016 (LBP498million during 2015) recorded in the consolidated statement of profit or loss under "Other operating income (net)" (Note 36).

The acquisition of assets in settlement of loans in Lebanon is regulated by the banking regulatory authorities and should be liquidated within 2 years. In case of default of liquidation, a regulatory reserve should be appropriated from the yearly net profits over a period of 5 years. This reserve is reduced to 5% annually when certain conditions linked to the restructuring of non-performing loans are met. In this connection, an amount of LBP1.82billion was appropriated in 2016 (LBP1.54billion in 2015). An amount of LBP1.97million was transferred during 2016 to retained earnings upon the sale of the related foreclosed assets (LBP512million in 2015) (Note 27).

15. PROPERTY AND EQUIPMENT

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

Notes to the consolidated financial statements

2016 - LBP'000	Buildings and Real Estate	Furniture	Equipment	Vehicles
Gross Amount:				
Balance January 1, 2016	177,445,898	34,317,138	49,168,339	669,597
Additions	21,720	5,548,741	2,155,019	66,637
Disposals	(728,535)	(51,131)	(193,196)	-
Transfers between categories	5,495,997	1,119,973	1,147,075	-
Transfers to intangible assets	-	-	-	-
Transfers to prepayments	-	-	-	-
Write off to general and administrative	-	-	-	-
Exchange difference	-	(95,668)	(242,636)	(1,833)
Balance December 31, 2016	182,235,080	40,839,053	52,034,601	734,401
Accumulated Depreciation:				
Balance January 1, 2016	(24,395,436)	(19,295,459)	(35,560,989)	(406,909)
Additions (Note 41)	(2,524,220)	(2,936,078)	(4,683,541)	(80,057)
Disposal	-	25,607	187,249	-
Exchange difference	-	46,974	184,841	192
Balance December 31, 2016	(26,919,656)	(22,158,956)	(39,872,440)	(486,774)
Impairment allowance				
Balance December 31, 2016	(300,000)	-	-	-
Carrying Amount:				
December 31, 2016	155,015,424	18,680,097	12,162,161	247,627

2015 - LBP'000	Buildings and Real Estate	Furniture	Equipment	Vehicles
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Notes to the consolidated financial statements



Installations and Improvement	Advance Payments on Capital Expenditure	Total
64,524,191	15,433,063	341,558,226
721,091	21,174,152	29,687,360
(2,515,779)	-	(3,488,641)
8,855,528	(16,618,573)	-
-	(1,297,083)	(1,297,083)
-	(9,000)	(9,000)
-	(2,481,715)	(2,481,715)
(243,183)	7,083	(576,237)
71,341,848	16,207,927	363,392,910
(48,909,599)	-	(128,568,392)
(7,830,608)	-	(18,054,504)
2,502,155	-	2,715,011
182,639	-	414,646
(54,055,413)	-	(143,493,239)
-	-	(300,000)
17,286,435	16,207,927	219,599,671

Installations and Improvement	Advance Payment on Capital Expenditure	Total
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Notes to the consolidated financial statements

Gross Amount:				
Balance January 1, 2015	114,898,128	30,457,126	43,892,462	572,060
Additions	54,078,634	3,309,067	3,365,290	148,782
Disposals	-	(16,261)	(501,237)	(51,255)
Transfers between categories	8,469,136	618,525	2,985,286	-
Transfers to intangible assets	-	-	-	-
Write off to general and administrative	-	-	-	-
Exchange difference	-	(51,319)	(573,462)	10
Transfers to Foreclosed Assets	-	-	-	-
Balance December 31, 2015	177,445,898	34,317,138	49,168,339	669,597
Accumulated Depreciation:				
Balance January 1, 2015	(21,981,717)	(17,065,078)	(32,378,823)	(396,151)
Additions (Note 41)	(2,413,719)	(2,283,583)	(4,043,504)	(62,013)
Disposal	-	10,759	478,261	51,255
Exchange difference	-	42,443	383,077	-
Balance December 31, 2015	(24,395,436)	(19,295,459)	(35,560,989)	(406,909)
Impairment allowance				
Balance December 31, 2015	(300,000)	-	-	-
Carrying Amount:				
December 31, 2015	152,750,462	15,021,679	13,607,350	262,688

Additions to "furniture", "equipment" and "advance payments on capital expenditures" represent mainly costs incurred in connection with the opening and refurbishment of branches in Lebanon.

During 2015, the Group acquired two plots of land in Medawar area for a consideration of LBP52.8billion for the purpose of building a new head office. The full consideration was settled in 2015.

Notes to the consolidated financial statements

61,570,275	12,991,525	264,381,576
350,967	20,832,006	82,084,746
(1,187,341)	-	(1,756,094)
4,729,370	(16,802,317)	-
-	(530,971)	(530,971)
-	(1,035,135)	(1,035,135)
(939,080)	(15,779)	(1,579,630)
-	(6,266)	(6,266)
64,524,191	15,433,063	341,558,226
(42,902,483)	-	(114,724,252)
(7,764,186)	-	(16,567,005)
1,188,000	-	1,728,275
569,070	-	994,590
(48,909,599)	-	(128,568,392)
-	-	(300,000)
15,614,592	15,433,063	212,689,834

Notes to the consolidated financial statements

16. GOODWILL

As at December 31 st - LBP'000	2016			2015		
	LBP	C/V of F/Cy	Total	LBP	C/V of F/Cy	Total
Beirut Life S.A.L.	452,265	-	452,265	452,265	-	452,265
Bank of Sydney Ltd	-	86,582,170	86,582,170	-	86,582,170	86,582,170
Bank of Beirut (UK) Ltd	-	1,394,880	1,394,880	-	1,677,782	1,677,782
	452,265	87,977,050	88,429,315	452,265	88,259,952	88,712,217

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units that are expected to benefit from that business combination. The Group has determined that each subsidiary constitutes a single cash generating unit and tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired.

The recoverable amount of the cash generating unit is determined from value in use calculations or market comparability approach, as applicable. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to net interest margin during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the Business. The growth rates are based on industry growth forecasts. Changes in net interest margin are based on expectations of future changes in the market.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the subsidiary and extrapolates cash flows for the review period based on the assumption that the cash flows will remain relatively stable throughout the period under review.

The market average multiple of equity for acquisitions of similar sized cash generating units is used to determine the recoverable amount of the cash generating unit when using the market comparability approach.

17. OTHER ASSETS

As at December 31 st - LBP'000	2016	2015
Medical costs receivable from		
National Social Security Fund (a)	6,355,592	5,380,289
Intangible assets (b)	14,775,552	13,747,913
Fair value of derivatives assets (c)	8,714,118	7,052,266
Premium on forward deals (net)	396,000	942,832
Deferred tax asset (d)	1,675,650	1,973,611
Prepayments	11,178,372	12,546,221
Regulatory blocked deposit (e)	4,500,000	4,500,000
Advances on investments in preferred shares	-	2,261,250
Sundry accounts receivable	14,227,294	21,062,650
Other	1,489,289	1,400,983
	63,311,867	70,868,015

(a) Medical costs receivable from the National Social Security Fund represent medical expenses settled by the Group to employees and expected to be recovered within three years from the date they were incurred because of substantial settlement delays by the National Social Security Fund.

Notes to the consolidated financial statements

(b) The movement of intangible assets is disclosed as follows:

LBP'000	Software	Key Money	Payments on Purchase of Intangible Assets	Total
Cost:				
Balance, January 1, 2015	17,761,830	1,658,250	2,138,824	21,558,904
Additions	2,470,999	-	-	2,470,999
Transfers from property and equipment	530,972	-	-	530,972
Disposals	(55,488)	-	-	(55,488)
Effect of exchange rate changes	(60,288)	-	-	(60,288)
Balance, December 31, 2015	20,648,025	1,658,250	2,138,824	24,445,099
Additions	3,757,846	-	-	3,757,846
Transfers from property and equipment	1,297,083	-	-	1,297,083
Effect of exchange rate changes	(55,074)	-	-	(55,074)
Balance, December 31, 2016	25,647,880	1,658,250	2,138,824	29,444,954
Amortization:				
Balance, January 1, 2015	(6,915,322)	-	-	(6,915,322)
Amortization for the year	(3,737,901)	-	-	(3,737,901)
Effect of exchange rate changes	(43,963)	-	-	(43,963)
Balance, December 31, 2015	(10,697,186)	-	-	(10,697,186)
Amortization for the year	(3,889,985)	-	-	(3,889,985)
Effect of exchange rate changes	(82,231)	-	-	(82,231)
Balance, December 31, 2016	(14,669,402)	-	-	(14,669,402)
Net Book Value:				
Balance, December 31, 2016	10,978,478	1,658,250	2,138,824	14,775,552
Balance, December 31, 2015	9,950,839	1,658,250	2,138,824	13,747,913

(c) The fair value of derivative assets consists of the following:

As at December 31 st - LBP'000	2016	2015
Interest rate swap	171,849	-
Forward contracts	8,542,269	7,052,266
	8,714,118	7,052,266

(d) Deferred tax asset consists of deferred tax on the following:

As at December 31 st - LBP'000	2016	2015
Depreciation of property and equipment	520,695	424,492
Provisions	1,111,106	1,244,883
Other	43,849	304,236
	1,675,650	1,973,611

(e) The regulatory blocked deposit represents a non-interest earning compulsory deposit placed with the Lebanese Treasury upon the inception of investment banks in accordance with Article 132 of the Lebanese Code of Money and Credit, and is refundable in case of cease of operations.

Notes to the consolidated financial statements

18. DEPOSITS FROM BANKS AND FINANCIAL INSTITUTIONS

As at December 31 st - LBP'000	2016	2015
Current account from banks and financial institutions	350,603,151	211,581,738
Current account- associate bank (Note 46)	65,418	3,120,953
Short term deposits	1,311,363,066	1,145,682,120
Pledged deposits	332,889,423	360,081,603
Pledged deposits - associate bank (Note 46)	5,440,593	5,388,919
Accrued interest payable	3,802,861	5,037,888
	2,004,164,512	1,730,893,221

Pledged deposits represent deposits pledged by non-resident banks to the favor of the Group against trade finance activities.

Short term deposits include withdrawals from the Arab Trade Finance Program facility. The balance amounted to LBP10.4billion (USD6,897,501) as of December 31, 2016 (LBP3.9billion (USD2,615,816) in 2015). This facility was granted to the Group to finance imports and exports among Arab countries.

Short term deposits also include deposits in the amount of LBP75billion (LBP75billion in 2015) secured by pledged securities at amortized cost amounting to LBP162billion as at December 31, 2016 (LBP163billion in 2015) (Note 49).

Pledged deposits from an associate bank represent collateral received by the Group against short term loans granted (Note 8).

19. CUSTOMERS' AND RELATED PARTIES' DEPOSITS AT AMORTIZED COST

As at December 31 st , 2016 - LBP'000	LBP	F/Cy	Total
Deposits from customers:			
Current and demand deposits	291,347,792	1,696,037,633	1,987,385,425
Term deposits	4,964,373,015	10,119,406,995	15,083,780,010
Credit accounts against loans and advances - Note 9	386,272,772	664,022,018	1,050,294,790
Margins for irrevocable import letters of credit	1,652,273	28,200,285	29,852,558
Margins on letters of guarantee	9,697,939	166,907,873	176,605,812
Other margins	10,504,526	41,479,190	51,983,716
Accrued interest payable	44,235,029	56,104,507	100,339,536
Total third party customers' deposits	5,708,083,346	12,772,158,501	18,480,241,847
Deposits from related parties:			
Current and demand deposits	1,388,245	22,180,784	23,569,029
Term deposits	37,086,609	285,100,089	322,186,698
Credit accounts against loans and advances	371,910	70,770,490	71,142,400
Margins for irrevocable import letters of credit	-	22,612,500	22,612,500
Margins on letters of guarantee	4,399	29,986	34,385
Other margins	-	1,451,030	1,451,030
Accrued interest payable	103,545	1,441,563	1,545,108
Total related parties' deposits	38,954,708	403,586,442	442,541,150
Total deposits	5,747,038,054	13,175,744,943	18,922,782,997

Notes to the consolidated financial statements

As at December 31 st , 2015 - LBP'000	LBP	F/Cy	Total
Deposits from customers:			
Current and demand deposits	285,825,203	1,528,604,977	1,814,430,180
Term deposits	4,968,965,211	9,855,764,135	14,824,729,346
Credit accounts against loans and advances – Note 9	369,665,332	499,982,826	869,648,158
Margins for irrevocable import letters of credit	-	40,753,744	40,753,744
Margins on letters of guarantee	13,844,367	313,798,868	327,643,235
Other margins	7,984,269	39,772,328	47,756,597
Accrued interest payable	47,077,776	52,919,837	99,997,613
Total third party customers' deposits	5,693,362,158	12,331,596,715	18,024,958,873
Deposits from related parties:			
Current and demand deposits	1,291,305	16,010,211	17,301,516
Term deposits	33,928,510	207,625,267	241,553,777
Credit accounts against loans and advances	356,462	76,118,385	76,474,847
Margins for irrevocable import letters of credit	3,000,000	51,255	3,051,255
Margins on letters of guarantee	4,153	206,659	210,812
Other margins	-	588,341	588,341
Accrued interest payable	119,608	1,138,580	1,258,188
Total related parties' deposits	38,700,038	301,738,698	340,438,736
Total deposits	5,732,062,196	12,633,335,413	18,365,397,609

Customers' and related parties' deposits at amortized cost are allocated by brackets of deposits as follows (excluding accrued interest payable):

As at December 31 st , 2016 - LBP'000	LBP	F/Cy	% of Customers	% of Deposits
	Total Deposits	Total Deposits		
Deposits from customers:				
Less than LBP 500 million	2,647,747,927	2,936,864,916	97	30.38
From LBP 500 million to LBP 1.5 billion	1,018,377,544	1,939,028,556	1	16.09
From LBP 1.5 billion to LBP 5 billion	710,181,284	2,048,546,501	1	15.01
Over LBP 5 billion	1,287,541,562	5,791,614,021	1	38.52
	5,663,848,317	12,716,053,994	100	100.00
Deposits from related parties:				
Less than LBP 500 million	3,457,827	7,305,859	82	2.44
From LBP 500 million to LBP 1.5 billion	2,851,281	6,124,264	7	2.04
From LBP 1.5 billion to LBP 5 billion	6,125,781	17,867,425	8	5.44
Over LBP 5 billion	26,416,274	370,847,331	3	90.08
	38,851,163	402,144,879	100	100.00
	5,702,699,480	13,118,198,873		

Notes to the consolidated financial statements

As at December 31 st , 2015 - LBP'000	LBP	F/Cy	% of Customers	% of Deposits
	Total Deposits	Total Deposits		
Deposits from customers:				
Less than LBP500 million	2,484,565,738	2,837,765,660	97	29.68
From LBP500 million to LBP1.5billion	955,695,968	1,883,940,649	1	15.84
From LBP1.5 billion to LBP5billion	702,851,892	1,855,589,619	1	14.27
Over LBP5billion	1,503,170,784	5,701,380,950	1	40.21
	5,646,284,382	12,278,676,878	100	100.00
Deposits from related parties:				
Less than LBP500 million	2,236,951	5,074,036	83	2.16
From LBP500 million to LBP1.5 billion	954,805	4,155,853	5	1.51
From LBP1.5 billion to LBP5billion	12,211,140	14,856,742	8	7.98
Over LBP5billion	23,177,534	276,513,487	4	88.35
	38,580,430	300,600,118	100	100.00
	5,684,864,812	12,579,276,996		

Deposits from customers include at December 31, 2016 coded deposit accounts in the aggregate of LBP23.1billion (LBP172billion as at December 31, 2015). These accounts are subject to the provisions of Article 3 of the Banking Secrecy Law dated September 3, 1956 which provides that the Bank's management, in the normal course of business, cannot reveal the identities of these depositors to third parties, including its independent public accountants.

Deposits from customers include as at December 31, 2016 deposits of fiduciary nature received from resident and non-resident banks for a total amount of LBP237billion and LBP786billion respectively (LBP167billion and LBP703billion in 2015).

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

Year	Average Balance of Deposits	Allocation of Deposits		Cost of Funds	Average Cost of Funds
	LBP'000	LBP %	F/Cy %	LBP'000	%
Year 2016	16,665,078,049	34	66	711,280,296	4.27
Year 2015	15,922,246,128	34	66	664,127,226	4.17
Year 2014	14,809,691,136	34	66	617,540,546	4.17

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

Year	Average Balance of Deposits	Allocation of Deposits		Cost of Funds	Average Cost of Funds
	LBP'000	LBP %	F/Cy %	LBP'000	%
Year 2016	371,664,306	10	90	14,500,037	3.90
Year 2015	294,441,742	13	87	10,892,805	4.69
Year 2014	248,029,061	23	77	10,460,188	4.22

Notes to the consolidated financial statements

20. OTHER BORROWINGS

As at December 31 st - LBP'000	2016	2015
Borrowings from Central Bank of Lebanon (a)	487,309,156	364,372,131
Borrowings from other central banks (Note 49)	76,025,884	210,938,298
Borrowings from the European Investment Bank (b)	20,060,347	29,629,569
Accrued interest payable	4,268,301	3,203,932
	587,663,688	608,143,930

(a) Borrowings from Central Bank of Lebanon as of December 31, 2016 and 2015 represent facilities in accordance with Central Bank of Lebanon Basic Decision No.6116 of March 7, 1996 and its amendments by which the Group benefited from credit facilities granted against loans that the Group granted at its own risk to customers pursuant to certain conditions, rules and mechanism.

(b) Borrowings from European Investment Bank are summarized as follows:

December 31, 2016	December 31, 2015	Final Maturity Year	Average interest Rate
C/V LBP'000	C/V LBP'000		%
-	22,885,975	2016	4.15
16,476,182	1,789,018	2017	4.09
1,102,862	1,739,273	2018	4.13
816,919	1,125,220	2019	3.34
1,664,384	2,090,083	2020	4.93
20,060,347	29,629,569		

Borrowings from the European Investment Bank were obtained to finance loans granted to customers in the manufacturing sector.

21. CERTIFICATES OF DEPOSIT

As at December 31 st - LBP'000	2016		2015	
	C/V of F/Cy	Average Interest Rate %	C/V of F/Cy	Average Interest Rate %
Certificates of deposit	562,552	2.25	661,634	2.25
Accrued interest payable	2,774		3,263	
	565,326		664,897	

Notes to the consolidated financial statements

22. OTHER LIABILITIES

As at December 31 st - LBP'000	2016	2015
Checks and incoming payment orders in course of settlement	36,826,763	45,646,807
Fair value of derivative financial liabilities (a)	7,606,747	6,930,480
Payable on acquisition of non-controlling interest in a subsidiary (b)	-	1,235,979
Dividends payable	5,970,401	5,766,465
Suspense account	-	2,653
Deferred tax liability (c)	6,741,833	5,196,591
Accrued expenses	32,154,522	26,500,742
Deferred income	9,723,607	10,580,121
Income tax payable (d)	15,605,157	25,537,157
Withheld taxes	11,085,209	11,095,891
Fair value of financial guarantees	2,295,240	2,091,863
Margins on letters of credit - banks	109,287,242	104,766,811
Margins on letters of credit - associate bank (Note 46)	4,688,838	25,707,938
Margins on letters of guarantee – Banks	80,207,970	6,773,801
Sundry accounts payable	27,042,722	32,953,534
Unfavorable exchange difference on fixed currency position (Note 24)	175,833	175,833
Regulatory deferred liability (e)	238,777,401	-
Tax payable on regulatory deferred liability (e)	42,137,188	-
	630,326,673	310,962,666

(a) Fair value of derivative financial liabilities consists of the following:

As at December 31 st - LBP'000	2016	2015
Interest rate swap (Note 44)	151,046	328,913
Forward contracts	7,455,701	6,601,567
	7,606,747	6,930,480

The Group uses interest rate swaps, and forward contracts for hedging purposes only. These represent commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates.

(b) During the first half of 2013, and in accordance with the option agreement related to the share purchase agreement dated January 26, 2011, Marfin Popular Bank Public Co. Limited, former owner of Bank of Sydney (formerly Laiki Bank Australia), exercised its put option to sell the remaining share of 7.5% of the subsidiary bank's equity stake at a strike price of AUD27.56million (LBP36.85billion) as at December 31, 2013 paid during 2014 except for an amount of LBP1.38billion (AUD1.27million) held in escrow account to be paid during a period of 2 years based on agreement between the two parties. As a result, the Bank's equity share in the subsidiary bank increased to 100%. During the first half of 2016, the outstanding balance of the escrow account payable was settled in full.

(c) The deferred tax liability consists of the following:

As at December 31 st - LBP'000	2016	2015
Deferred tax liability on undistributed profits from subsidiaries	6,571,071	5,123,067
Other	170,762	73,524
	6,741,833	5,196,591

Notes to the consolidated financial statements

The movement of deferred tax liability which relates to undistributed profits from subsidiaries during 2016 and 2015 was as follows:

As at December 31 st - LBP'000	2016	2015
Opening balance	5,123,067	3,820,943
Additions	3,098,004	2,752,124
Settlements	(1,650,000)	(1,450,000)
Ending balance	6,571,071	5,123,067

During 2016, two of the Group's subsidiaries paid cash dividends in the amount of LBP16.5billion (LBP14.5billion during 2015). The related distribution tax amount of LBP1.65billion (LBP1.45billion during 2015) was settled from the deferred tax liability in 2016.

At December 31, 2016, a deferred tax liability for temporary differences related to the undistributed profits of subsidiaries was not recognized on the grounds that management has committed to retain the profits in two of its foreign subsidiaries for purpose of permanent capitalization of profits.

(d) The following table explains the relationship between taxable income and accounting income:

As at December 31 st - LBP'000	2016	2015
Income before income tax	344,810,779	329,919,168
Income from subsidiaries, associate bank, managed funds and foreign branches	(133,780,418)	(116,382,603)
	211,030,361	213,536,565
Add: Non-deductible expenses	11,454,353	33,791,294
Less: Non-taxable revenues or revenues subject to tax in previous periods	(50,737,501)	(15,183,496)
Taxable income	171,747,213	232,144,363
Income tax (15%)	25,762,082	34,821,654
Add: Income tax expense on subsidiaries and foreign branches	12,383,352	10,999,998
Tax expense for the years	38,145,434	45,821,652
Less: Tax paid during the year in the form of withholding tax	(16,164,753)	(15,152,892)
Less: Subsidiaries income tax paid	(6,375,524)	(5,131,603)
Income tax payable as at December 31,	15,605,157	25,537,157

The tax returns of the Bank and most of its Lebanese subsidiaries for the years 2012 to 2016 remain subject to examination and final tax assessment by the tax authorities. Any additional liability depends on the result of these reviews.

Oman branch's tax assessments have been finalized up to the year 2010. Tax assessments for the years 2011 to 2016 have yet to be finalized by the Secretariat General for Taxation. The management believes that additional taxes, if any, in respect of open tax assessments would not be material to the Group's results and financial position as of the reporting date.

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

During the year 2016, as a result of several transactions derived from the special and non-conventional deals arrangement with the Central Bank of Lebanon, the Group received a surplus of LBP239billion, net of tax in the amount of LBP42billion, which was credited to "Regulatory deferred liability" under other liabilities and deferred as restricted contribution in anticipation of expected loss provisions that will be deemed to be necessary along with the application of IFRS 9 in accordance with the Central Bank of Lebanon requirements as indicated above (Note 11).

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23. PROVISIONS

As at December 31 st - LBP'000	2016	2015
Provision for staff termination indemnity (a)	29,625,825	27,647,140
Provision for loss on foreign currency position	194,000	194,000
Provision for risks and charges	6,556,059	6,541,784
Provision for insurance contracts liabilities (Note 38)	8,527,875	6,094,660
Other	119,052	120,675
	45,022,811	40,598,259

(a) The movement of provision for staff termination indemnity is as follows:

As at December 31 st - LBP'000	2016	2015
Balance January 1	27,647,140	20,638,072
Additions – Note 39	6,439,372	9,877,943
Settlements	(4,460,687)	(2,868,875)
Balance December 31	29,625,825	27,647,140

24. SHARE CAPITAL

At December 31, 2016, the authorized ordinary share capital of Bank of Beirut S.A.L. was LBP77.65billion consisting of 53,184,900 fully paid shares of LBP1,460 par value each (LBP71.16billion consisting of 50,467,400 fully paid shares of LBP1,410 par value each as at December 31, 2015). The increase in the nominal value of the shares in the amount of LBP50 per share during 2016 resulted from a transfer from reserves restricted for capital increase following a decision of the Extraordinary General Assembly of Shareholders held on January 7, 2016 to reconstitute the capital which decreased by an amount of LBP2.37billion as a result of the redemption of all Series "E" preferred shares and partly for rounding the nominal value of the shares by an amount of LBP158million. The approval of the Central Bank of Lebanon for the redemption of the Series "E" preferred shares was obtained on November 18, 2015. The approval of the Central Bank of Lebanon on the reconstitution of the capital of the Bank was obtained on February 24, 2016.

In addition, the Group issued 2,717,500 common shares of which 34% were listed on the Beirut Stock Exchange at an issue price of USD18.40 per share aggregating to USD50,002,000. The par value of each share is LBP1,460. The approval of the Capital Markets Authority was obtained on February 29, 2016. The approval of the Central Bank of Lebanon was obtained on May 24, 2016.

As of December 31, 2016 and 2015, the Group had 4,762,000 Series 2014 priority shares (common shares) in the amount of USD100,002,000 with an issue price of USD21 and a par value of LBP1,460 and 1,410 each respectively. The increase in the par value of these shares in the amount of LBP50 per share resulted of the rounding of the par value discussed above. These priority shares earn non-cumulative annual dividends of 4% of the issue price. Any dividends remaining after the payment of priority dividends following the payment of preferred shares dividends, shall be shared on a prorata basis exclusively among the holders of the priority and common shares of the Bank.

Subject to the absence of the Extension Period set below, the earning by the Series 2014 Priority Shares of the Priority Dividend will, automatically and without the need to the approval of, or consultation with, the holders of the Priority Shares, finally cease immediately following the Ordinary General Meeting of the Bank's shareholders that will examine the Bank's audited financial statements for the financial year 2019; without prejudice, however, to the right of the holders of such Priority Shares to receive the distribution of the Priority Dividend, if any, resolved by the Bank's Ordinary General Meeting of shareholders for the financial year 2019. As a result, the Series 2014 Priority Shares will cease to be identified as a special class within the Common Shares of the Bank and become mere Common Shares subject to the rights and obligations devolving on all the Bank's Common Shares.

The Bank shall have the right, but not the obligation, to resolve, prior to the holding of the above mentioned General Meeting, the extension of the Priority Period for two consecutive years (the "Extension Period").

As of December 31, 2016 and 2015, the Bank's capital was partly hedged by maintaining a fixed foreign currency position to the extent of USD47.17million. The revaluation of this position resulted in unfavorable exchange difference in the amount of LBP176million recorded under "Other liabilities" (Note 22).

As of December 31, 2016 and 2015, the Group had a fixed foreign currency position for an amount of GBP13.6million to partially hedge its

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investment in a foreign subsidiary in the United Kingdom. The revaluation of this position as of December 31, 2016 resulted in unfavorable variance of LBP6.01billion (unfavorable of LBP1.8million in 2015) recorded in "cumulative change in fair value of fixed currency position designated as hedging instruments" under equity.

Moreover, as of December 31, 2016 and 2015, the Group had a fixed spot position for an amount of AUD98million to partially hedge its investment in a foreign Australian subsidiary bank. The revaluation of this position as of December 31, 2016 resulted in an unfavorable variance of LBP43.99billion (unfavorable variance of LBP42.97billion in 2015) recorded in "cumulative change in fair value of fixed currency position designated as hedging instruments" under equity.

25. PREFERRED SHARES

As at December 31 st - LBP'000	2016	2015
Non-cumulative perpetual redeemable Series "G" preferred shares	188,362,125	188,362,125
Non-cumulative perpetual redeemable Series "H" preferred shares	203,512,500	203,512,500
Non-cumulative perpetual redeemable Series "I" preferred shares	188,437,500	188,437,500
Non-cumulative perpetual redeemable Series "J" preferred shares	113,062,500	113,062,500
Non-cumulative perpetual redeemable Series "K" preferred shares	150,750,000	-
	844,124,625	693,374,625

During 2016 the Group issued 4,000,000 non cumulative perpetual redeemable Series "K" preferred shares with an aggregate amount of USD100,000,000 at an issue price of USD25 per share. The par value of each share is LBP1,460. These preferred shares earn an annual dividend of 7% of the issue price and are listed on the Beirut Stock Exchange. The approval of the Capital Markets Authority was obtained on February 29, 2016. The approval of the Central Bank of Lebanon on the issuance of the preferred shares was obtained on July 27, 2016.

The Group's issued preferred shares carry the following terms:

Non-cumulative Perpetual Redeemable Preferred Shares	No. of Shares	Share's Issue Price	Benefits	Listed on Beirut Stock Exchange
Series "E" (Redeemed)	2,400,000	USD 25	8% per year	Yes
Series "F" (Redeemed)	3,000,000	USD 25	8% per year	No
Series "G"	3,570,000	USD 35	6.75% per year	No
Series "H"	5,400,000	USD 25	7% per year	Yes
Series "I"	5,000,000	USD 25	6.75% per year	Yes
Series "J"	3,000,000	USD 25	6.5% per year	Yes
Series "K"	4,000,000	USD 25	6.5% per year	Yes

The Group has the right, at its sole discretion, to redeem on each redemption date all or part of the Series "G", "H", "I", "J" and "K" preferred shares (but not less than 25%). Redemption date means for the first time the financial year during which falls the 5th anniversary of the Extraordinary General Meeting of the Group's shareholders which ascertains the validity and payment of the capital increase by virtue of which the Preferred Shares are issued; and every consecutive 2 years thereafter.

In the event of liquidation of the Bank, holders of preferred shares Series "G", "H", "I", "J" and "K" rank senior to the holders of common and priority shares.

26. SHAREHOLDERS' CASH CONTRIBUTION TO CAPITAL

The shareholders' cash contribution to capital is for a total amount of LBP20.98billion (USD13,916,000) as at December 31, 2016 and 2015 and it is non-interest bearing.

This sort of instrument is accounted for in foreign currency and therefore allows hedging against national currency exchange fluctuation. According to local banking regulations, cash contribution to capital is considered as Tier I capital.

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27. RESERVES

As at December 31 st - LBP'000	2016	2015
Legal reserves (a)	152,656,350	132,436,497
Reserve for general banking risks (b)	262,124,212	214,897,012
Special reserves setup from net release of provision for credit losses	2,489,991	3,253,938
Reserves restricted for capital increase (c)	30,211,523	32,237,185
General reserve for performing loans (d)	5,000,000	-
Issue premiums on common shares	303,518,858	232,108,394
Owned buildings' revaluation surplus	1,668,934	1,668,934
Regulatory reserve for assets acquired in satisfaction of loans (Note 14)	8,367,354	8,507,799
	766,037,222	625,109,759

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

(b) The reserve for general banking risks is constituted according to local banking regulations, from net profit, on the basis of a minimum of 2 per mil and a maximum of 3 per mil of the total risk weighted assets, off-balance sheet risk and global exchange position as defined for the computation of the solvency ratio at year-end. This reserve is constituted in Lebanese Pounds and in foreign currencies in proportion to the composition of the Lebanese bank's total risk weighted assets and off-balance sheet items. This reserve is not available for distribution.

(c) The movement of reserves restricted for capital increase during 2016 and 2015 was as follows :

As at December 31 st - LBP'000	2016	2015
Opening balance	32,237,185	31,762,557
Additions	497,708	474,628
Transfer to share capital for increase and reconstitution of capital (Note 24)	(2,523,370)	-
Ending balance	30,211,523	32,237,185

During 2016, in compliance with BCC circular no. 173, the Group appropriated an amount of LBP498 million (LBP475 million in 2015) representing gains from disposals of assets acquired in satisfaction of debts from net income of the previous year to reserves restricted for capital increase.

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

- 0.5% of retail loans that are less than 30 days past due (subject to deductions of some guarantees received) to general reserve for the year 2014 in addition to a percentage of 0.5% yearly over a six year period starting 2015.

- 0.25% of performing corporate loans to general reserve as of end of 2014. This reserve should increase to 0.5% as of end of 2015, 1% as of end of 2016 and 1.5% as of end of 2017. The Bank is exempted from this general reserve if the balance of collective provision is not less than 0.25% of the performing corporate loans portfolio as of end of 2014, 0.5% as of end of 2015, 1% as of end of 2016 and 1.5% as of end of 2017.

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28. TREASURY SHARES

The Group is authorized to buy back up to one third of its listed shares on the Beirut Stock Exchange from its free reserves.

	2016		2015	
	No. of Shares	Value in USD	No. of Shares	Value in USD
Common Shares	108,934	2,287,614	6,378	117,354
Priority Shares	197,630	3,468,949	167,100	3,509,100
		5,756,563		3,626,454

	2016		2015	
	No. of Shares	Value in USD	No. of Shares	Value in USD
Preferred shares:				
Series "G"	482,186	17,323,119	467,414	16,790,406
Series "H"	255,014	6,074,467	233,614	5,525,217
Series "I"	307,246	7,199,500	283,276	6,572,042
Series "J"	26,750	692,475	-	-
Series "K"	27,100	684,275	-	-
		31,973,836		28,887,665
Total		37,730,399		32,514,119
Counter value in LBP'000		56,878,575		49,015,034

The preferred shares classified as treasury shares are held by the non-controlling interests related to the consolidated funds.

29. NON-CONTROLLING INTERESTS

As at December 31 st , 2016 - LBP'000	Beirut Life SAL	Managed Funds	Total
Share in:			
- Capital	225,000	1,169,054,444	1,169,279,444
- Retained earnings	1,875,232	(67,070,674)	(65,195,442)
- Profit for the year	563,260	75,707,395	76,270,655
	2,663,492	1,177,691,165	1,180,354,657

As at December 31 st , 2015 - LBP'000	Beirut Life SAL	Managed Funds	Total
Share in:			
- Capital	225,000	1,012,481,949	1,012,706,949
- Retained earnings	1,294,202	(58,712,091)	(57,417,889)
- Profit for the year	581,030	59,542,476	60,123,506
	2,100,232	1,013,312,334	1,015,412,566

Notes to the consolidated financial statements

30. DIVIDENDS PAID

The following dividends were declared and paid in 2016 and 2015 by the Group in respect to 2016 and 2015 respectively:

As at December 31 st - LBP'000	2016	2015
LBP900 (LBP900 for 2015) per ordinary share (common and priority)	49,706,460	49,706,460
LBP1,266.3 priority shares Series 2014	6,030,121	1,883,380
LBP3,015 (LBP3,015 for 2015) per preferred share Series "E"	7,236,000	7,236,000
LBP Nil (LBP3,015 for 2015) per preferred share Series "F"	-	9,045,000
LBP3,561.47 (LBP3,561.47 for 2015 per preferred share Series "G"	12,714,443	12,714,443
LBP2,638.13 (LBP2,638.13 for 2015) per preferred share Series "H"	14,245,875	14,245,875
LBP2,543.91 (LBP2,543.91 for 2015) per preferred share Series "I"	12,719,532	12,719,532
LBP2,449.69 (LBP Nil for 2015) per preferred share Series "J"	7,349,064	-
	110,001,495	107,550,690

Subsequent to the date of the consolidated statement of financial position, the following dividends were proposed by the board of directors in respect of 2016. These dividends have not been provided for in the consolidated financial statements for the year ended December 31, 2016.

LBP'000	
LBP1,000 per ordinary share (common and priority)	51,916,779
LBP1,266.3 priority shares Series 2014	6,030,121
LBP3,561.47 per preferred share Series "G"	12,714,443
LBP2,638.13 per preferred share Series "H"	14,245,875
LBP2,543.91 per preferred share Series "I"	12,719,531
LBP2,449.69 per preferred share Series "J"	7,349,063
LBP856.72 per preferred share Series "K"	3,436,274
	108,412,086

31. INTEREST INCOME

LBP'000	2016	2015
Interest income from:		
Deposits with central banks	177,754,538	126,749,615
Deposits with banks and financial institutions	14,270,968	19,776,516
Loans to banks	11,229,636	25,881,487
Financial assets at amortized cost	547,756,124	501,107,224
Loans and advances to customers	378,482,677	370,906,911
Loans and advances to related parties	4,697,773	5,037,737
Interest recognized on non-performing loans and advances to customers	2,069,730	1,235,045
	1,136,261,446	1,050,694,535

Interest income realized on non-performing loans and advances to customers represent recoveries of interest.

Interest income on financial assets at fair value through profit or loss is included under "Net interest and other gains on financial assets at fair value through profit or loss" (Note 35).

Notes to the consolidated financial statements

32. INTEREST EXPENSE

LBP'000	2016	2015
Interest expense on:		
Other borrowings	5,842,396	9,222,269
Deposits from banks and financial institutions	22,466,402	21,611,308
Customers' accounts at amortized cost	711,280,296	664,127,226
Related parties' accounts at amortized cost	14,500,037	10,892,805
Certificates of deposit issued by the Group	13,707	15,152
	754,102,838	705,868,760

33. FEE AND COMMISSION INCOME

LBP'000	2016	2015
Commissions on documentary credits	39,970,538	48,831,341
Commissions on letters of guarantee	12,376,933	11,333,223
Commissions on money transfers' transactions	7,674,757	7,650,466
Insurance brokerage and service fees	31,434,900	21,604,887
Commissions on fiduciary accounts	1,756,941	1,770,403
Commissions on banking services	26,738,535	28,659,147
Commissions on credit cards	12,907,331	12,227,290
Commissions on capital market transactions	10,815,927	7,558,733
Other	3,081,279	2,609,188
	146,757,141	142,244,678

34. FEE AND COMMISSION EXPENSE

LBP'000	2016	2015
Commissions on transactions with banks and financial institutions	1,436,546	1,366,529
Commissions on credit cards	5,588,050	5,202,055
Commissions on fiduciary deposits	1,719,250	1,800,167
Commissions on loans	2,133,481	4,123,686
Commissions on money transfers transactions	2,126,752	2,044,693
Commissions on insurance transactions	7,943,509	5,667,296
Other	3,334,527	2,606,235
	24,282,115	22,810,661



Notes to the consolidated financial statements

35. NET INTEREST AND OTHER GAINS ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

LBP'000	2016	2015
Interest income	92,588,156	81,416,140
Change in fair value (net)	(2,467,090)	(3,694,130)
Gain on sale	9,820,700	11,049,979
Dividends received	3,956,173	4,220,828
	103,897,939	92,992,817

36. OTHER OPERATING INCOME (NET)

LBP'000	2016	2015
Share in profits of an associate (Note 13)	1,727,069	3,682,518
Foreign exchange gain	14,818,708	15,866,932
Loss on forward contracts	(3,151,506)	(2,272,704)
Gain on sale of assets acquired in satisfaction of loans (Note 14)	2,733,594	497,708
Gain on sale of property and equipment	306,049	26,922
Dividends on other investments	327,284	232,511
Other (net)	616,067	724,875
	17,377,265	18,758,762

37. WRITE-BACK OF (PROVISION FOR) CREDIT LOSSES (NET)

LBP'000	2016	2015
Provision charged during the year (Note 9)	9,438,778	34,853,604
Write-back of provision during the year (Note 9)	(9,810,194)	(2,805,404)
Loss from write-off of loans/(recoveries)	153,216	(288,611)
	(218,200)	31,759,589

38. OTHER PROVISION (NET)

LBP'000	2016	2015
Provision for insurance liabilities (Note 23)	2,433,215	631,739
Other	-	(156,549)
	2,433,215	475,190

Notes to the consolidated financial statements

39. STAFF COSTS

LBP'000	2016	2015
Salaries	102,744,186	97,041,940
Social Security contributions	12,926,621	12,391,964
Executive board members remunerations	16,612,302	17,250,732
Catch up provision for end of service indemnities staff (Lebanese Jurisdiction) - Note 23	4,350,322	8,306,133
Catch up provision for end of service indemnities lawyers and executive management (Lebanese Jurisdiction) - Note 23	92,014	102,065
Pension cost - Note 23	1,997,036	1,469,745
Other staff benefits	28,245,192	27,825,316
	166,967,673	164,387,895

40. GENERAL AND ADMINISTRATIVE EXPENSES

LBP'000	2016	2015
Management fees	7,945,854	7,556,693
Cleaning	1,428,673	1,375,652
Telephone, mail and other communication expenses	5,797,056	6,006,216
Office supplies	3,909,061	3,574,094
Advertising and marketing expenses	11,629,305	9,957,083
Electricity and fuel	2,870,961	2,881,407
Maintenance and repair fees	14,374,236	13,405,761
Subscription fees	3,413,823	2,032,614
Donation and gifts	1,654,910	3,552,950
Reception and entertainment	1,587,520	1,999,770
Professional and regulatory fees	9,547,178	9,940,548
Research and development expenses	1,187,514	1,509,274
Rent expense under operating leases	10,710,579	9,872,200
Insurance expenses	2,665,253	3,067,282
Travel and related expenses	3,086,343	3,218,078
Centrale des risques	709,441	726,451
Taxes and fiscal charges	5,044,412	6,254,920
Miscellaneous expenses	12,864,791	11,283,835
	100,426,910	98,214,828

41. DEPRECIATION AND AMORTIZATION

LBP'000	2016	2015
Depreciation of property and equipment (Note 15)	18,054,504	16,567,005
Amortization of deferred advertising charges	387,534	500,345
Amortization of deferred software charges (Note 17)	3,889,985	3,737,901
	22,332,023	20,805,251

Notes to the consolidated financial statements

42. PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK

The consolidated profit for the year attributable to the equity holders of the Bank is allocated as follows:

Year-Ended December 31 st - LBP'000	2016		
	Profit before Tax	Current and Deferred Tax	Net Profit
Bank of Beirut S.A.L	216,081,040	(26,205,327)	189,875,713
Profit/(loss) of subsidiaries:			
Bank of Beirut UK LTD	13,764,467	(3,019,974)	10,744,493
Bank of Sydney Ltd	14,845,011	(4,505,026)	10,339,985
Bank of Beirut Invest S.A.L	16,563,586	(2,318,337)	14,245,249
BOB Finance S.A.L	3,658,256	(551,739)	3,106,517
Cofida Holding S.A.L	3,089,413	(5,000)	3,084,413
Beirut Broker Company S.A.L	9,406,648	(1,410,997)	7,995,651
Beirut Life S.A.L	5,761,657	(129,034)	5,632,623
Medawar 247 S.A.L	(9,204)	-	(9,204)
Medawar 1216 S.A.L	(9,205)	-	(9,205)
	283,151,669	(38,145,434)	245,006,235
Consolidation eliminations and adjustments	(14,611,545)	(3,098,004)	(17,709,549)
	268,540,124	(41,243,438)	227,296,686

Year-Ended December 31 st - LBP'000	2015		
	Profit before Tax	Current and Deferred Tax	Net Profit
Bank of Beirut S.A.L.	221,489,267	(35,717,195)	185,772,072
Profit/(loss) of subsidiaries:			
Bank of Beirut UK LTD	13,125,313	(2,632,567)	10,492,746
Bank of Sydney Ltd	12,355,231	(3,731,380)	8,623,851
Bank of Beirut Invest S.A.L.	13,135,263	(1,795,012)	11,340,251
BOB Finance S.A.L.	3,080,769	(465,115)	2,615,654
Cofida Holding S.A.L.	2,475,522	(4,985)	2,470,537
Beirut Broker Company S.A.L.	9,123,579	(1,368,537)	7,755,042
Beirut Life S.A.L.	5,917,159	(106,861)	5,810,298
Medawar 247 S.A.L.	(34,732)	-	(34,732)
Medawar 1216 S.A.L.	(82,776)	-	(82,776)
	280,584,595	(45,821,652)	234,762,943
Consolidation eliminations and adjustments	(10,788,933)	(2,752,124)	(13,541,057)
	269,795,662	(48,573,776)	221,221,886

Notes to the consolidated financial statements

43. EARNINGS PER SHARE

The computation of the basic earnings per share is based on the Group's net income before non-recurring income and the weighted average number of outstanding shares during each year, net of treasury shares held by the Group.

As at December 31 st , LBP'000	2016	2015
Earnings:		
Earnings for the purpose of basic earnings per share (net income for the year)	227,296,686	221,221,886
Less: Dividends proposed to non-cumulative preferred shares	(50,465,186)	(54,264,912)
Net income after distribution to non-cumulative preferred shares	176,831,500	166,956,974
Less: Dividends proposed to non-cumulative priority shares	(6,030,121)	(6,030,121)
Net earnings for the purpose of basic earnings per shares	170,801,379	160,926,853
Number of Shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	51,924,203	49,981,449
Weighted average number of priority shares for the purpose of basic earnings per share	4,627,377	4,601,910
Weighted average number of shares for priority and ordinary shares	56,551,580	54,583,359
Effect of dilutive potential ordinary shares, preferred shares	-	-
Weighted average number of ordinary shares for the purpose of diluted earnings per share	56,551,580	54,583,359
Basic earnings per common share	LBP3,020	LBP2,948
Basic earnings per priority common share	LBP4,323	LBP4,259
Diluted earnings per share	LBP3,020	LBP2,948

The conversion effect of Series "G" preferred shares and Series 2014 priority shares was excluded from the calculation of diluted earnings per share for 2016 and 2015 since they have anti-dilutive effect.

44. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISKS

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

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

As of December 31, 2016 and 2015, the Group had an interest rate swap outstanding to hedge cash flows detailed as follows:

	2016		2015	
	Original Currency AUD	C/V LBP'000	Original Currency AUD	C/V LBP'000
Principal amount	5,061,000	5,513,049	15,881,619	17,465,334
Fair value (Note 22)	138,661	151,046	299,088	328,913

Notes to the consolidated financial statements

45. FIDUCIARY ACCOUNTS

Fiduciary accounts are invested as follows:

As at December 31 st - LBP'000	2016	2015
Back-to-back lending	44,383,274	51,883,446
Equity securities (long position)	90,685,059	107,746,821
Derivatives	(3,082,630)	(3,451,152)
Debt leverage	59,992,764	40,009,611
	191,978,467	196,188,726

46. BALANCES / TRANSACTIONS WITH RELATED PARTIES

In the ordinary course of its activities, the Group conducts transactions with related parties including shareholders, directors, subsidiaries and associates. Balances with related parties consist of the following:

As at December 31 st - LBP'000	2016	2015
Shareholders, directors and other key management personnel and close family members and their related companies:		
Direct facilities and credit balances:		
Secured loans and advances	60,774,826	56,762,629
Unsecured loans and advances	45,109,696	37,294,239
Deposits	(440,996,042)	(339,180,548)
Accrued interest receivable	66,988	42,245
Accrued interest payable	(1,545,108)	(1,258,188)
Indirect facilities:		
Letters of guarantees	26,417,148	4,503,593
Performance bonds	-	27,328
Associates		
Direct facilities and credit balances:		
Current account – associate bank (Note 6)	15,390,832	-
Loans and discounted acceptances (Note 8)	7,654,508	64,727,450
Deposits from associate (Note 18)	(5,506,011)	(8,509,872)
Acceptances	606,231	5,684,348
Margins on letters of credit (Note 22)	(4,688,838)	(25,707,938)
Indirect facilities:		
Letters of credit	8,131,059	1,861,030

Interest rates applied on related parties' balances outstanding are the same rates that would be charged in an arm's length transaction.

Secured loans and advances are covered as of December 31, 2016 by real estate mortgages to the extent of LBP15.7billion (LBP17.4billion as of December 31, 2015), pledged deposits of the respective borrowers to the extent of LBP25.2billion (LBP11.8billion as of December 31, 2015) and pledged securities to the extent of LBP1.2billion (LBP360million as of December 31, 2015).

The remuneration of executive management amounted to LBP1.39billion during 2016 (LBP1.39million during 2015) in addition to incentives linked to performance representing 6% of profit before tax.

General and administrative expenses for the year ended December 31, 2016 included rent expenses to related parties for USD165,750 and AED102,240 (USD161,000 and AED102,240 for the year ended December 31, 2015) and management expenses to related parties for USD900,000 (USD900,000 for the year ended December 31, 2015).

Notes to the consolidated financial statements

47. CASH AND CASH EQUIVALENTS

A. Cash and cash equivalents

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

As at December 31 st - LBP'000	2016	2015
Cash	47,969,789	46,459,068
Current accounts with central banks	1,098,927,710	1,048,133,876
Time deposits with central banks	923,557,210	918,673,132
Checks for collection	72,450,965	77,274,059
Demand deposits with banks and financial institutions	522,351,559	1,154,319,580
Overnight placements	211,612,500	182,329,110
Time deposits with banks and financial institutions	495,149,842	388,648,765
Demand deposits from banks	(350,668,569)	(214,702,691)
Time deposits from banks	(1,041,211,920)	(841,768,753)
Pledge deposits	(22,960,718)	-
	1,957,178,370	2,759,366,146

Time deposits with and from central banks and banks and financial institutions represent inter-bank placements and borrowings with an original term of 90 days or less.

B. Non-cash transactions

The statement of cash flow is prepared after excluding the effect of the following material non-cash transactions:

As at December 31 st - LBP'000	2016	2015
Operating Activities:		
Loans and advances for the effect of assets acquired in satisfaction of loans	2,093,445	5,109,722
Other assets	1,297,083	530,971
Investing Activities:		
Effect of assets acquired in satisfaction of loans	2,093,445	5,115,988
Property and equipment	1,297,083	537,237

48. CONTINGENCIES

As of the date of the statement of financial position, there are lawsuits and litigations, whereby the Group is either plaintiff or defendant, pending before the competent courts and the outcome of which cannot be determined at present. One of these litigations might be sensitive with risk relatively low and not based on valid grounds according to the Group's legal advisor.

Notes to the consolidated financial statements

49. COLLATERAL GIVEN

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

As at December 31 st , 2016 - LBP'000	Pledged Amount	Corresponding Facilities			
		Nature of Facility	Amount of Facility	Nature of Facility	Amount of Facility
Pledged deposits with banks	386,417	Performance bonds	4,288,784	-	-
Pledged deposits with banks	66,487,530	Foreign currency (Bought)	453,616,203	Foreign currency (sold)	448,006,934
Pledged deposits with banks	667,702	-	-	-	-
Lebanese government bonds and bonds issued by financial private sector	161,888,164	Short term deposits	75,375,000	-	-
Securities sold under repurchase agreement	108,616,097	Borrowings from other central banks	76,025,884	-	-

As at December 31 st , 2015 - LBP'000	Pledged Amount	Corresponding Facilities			
		Nature of Facility	Amount of Facility	Nature of Facility	Amount of Facility
Pledged deposits with banks	1,266,357	Acquisition of non-controlling interest	1,239,384	-	-
Pledged deposits with banks	386,417	Performance Bonds	4,298,466	-	-
Pledged deposits with banks	52,500,491	Foreign currency (Bought)	832,672,985	Foreign currency (sold)	833,105,762
Lebanese government bonds and bonds issued by financial private sector	163,137,128	Short term deposits	75,375,000	-	-
Securities sold under repurchase agreement	232,428,004	Borrowings from other central banks	210,938,298	-	-

As at December 31, 2016, the Group had deposit in guarantee in the amount of LBP559million (LBP540million as at December 31, 2015) and Lebanese government bonds in the amount of LBP840million (LBP840million as at December 31, 2015) blocked in favor of the Ministry of Economy and Trade in guarantee of the Group's insurance activities in Lebanon.

50. CAPITAL MANAGEMENT

The Group manages its capital to comply with the capital adequacy requirements set by the Central Bank of Lebanon, the Group's lead regulator, and retain an economic capital enough to meet the Group's medium term expansion plan.

Furthermore, the Central Bank of Lebanon requires each bank or banking group to hold a minimum level of regulatory capital of LBP10billion for the head office and LBP500million for each local branch and LBP1.5billion for each branch abroad in addition to the minimum regulatory capital required by the host country.

Pursuant to Central Bank of Lebanon decisions adopted with respect to the application of the Basel III regulation, all banks operating in Lebanon must gradually reach the following capital ratios:

Ratio	December 31, 2015	December 31, 2016	December 31, 2017	December 31, 2018
	%	%	%	%
Common Equity Tier 1 ratio	8.00	8.50	9.00	10.00
Tier 1 ratio	10.00	11.00	12.00	13.00
Total Capital ratio	12.00	14.00	14.50	15.00

Notes to the consolidated financial statements

The Group's capital is split as follows:

Tier I capital: Comprises share capital (after deduction of treasury shares), shareholders' cash contribution to capital, non-cumulative perpetual preferred shares, share premium, reserves from appropriation of profits and retained earnings (inclusive of current year's net profit after deduction of proposed dividends). Goodwill and cumulative unfavorable change in fair value of securities at fair value through other comprehensive income are deducted from Tier I Capital.

Tier II capital: Comprises qualifying subordinated liabilities, 50% of cumulative favorable change in fair value of securities at fair value through other comprehensive income and revaluation surplus of owned properties.

Investments in associates are deducted from Tier I and Tier II capital.

The Group has complied with the regulatory capital requirement throughout the period.

The Group's capital adequacy ratio according to Basle II as of December 31, 2016 and 2015, is as follows:

As at December 31 st - LBP'000	2016	2015
Common equity (net)	1,299,445,706	1,142,563,541
Additional Tier I capital (net)	844,124,625	693,374,625
	2,143,570,331	1,835,938,166
Net Tier II capital	14,449,431	14,513,064
Total regulatory capital (including remaining net profit after distribution of dividends)	2,158,019,762	1,850,451,230
Credit risk	13,383,463,507	12,603,901,572
Market risk	85,010,194	98,596,397
Operational risk	973,382,998	897,631,726
Risk weighted assets and risk weighted off-balance sheet items	14,441,856,699	13,600,129,695
Common equity Tier I ratio	9.00%	8.40%
Tier I ratio	14.84%	13.50%
Risk based capital ratio – Tier I and Tier II capital	14.94%	13.61%

The Group's capital strategy is based on the following constraints:

- Comply with regulatory ratios, on individual and consolidated basis, primarily in respect of the Capital Adequacy Ratio under Basle III.
- Ensure a high return on equity for the common shareholders.
- Dividends payout policy is consistent to provide shareholders with acceptable dividend yield.

The Group's strategy is to maintain a satisfactory economic capital beyond the regulatory threshold.

Notes to the consolidated financial statements

51. SEGMENT INFORMATION

The Group classifies its operating segments by geographical location and by activity.

Measurement of segment assets, liabilities, income and expenses is based on the Group's accounting policies.

Segment income and expenses include transfers between segments and these transfers are conducted on arm's length terms and conditions. Shared costs are included in segments on the basis of the actual recharges made, if any.

The Group has three reportable business segments which reflect the basis on which senior management reviews operating activities, allocates capital and assesses performance.

The Group's operating segment information by geographical location is as follows:

As at December 31 st - LBP'000	2016				2015			
	Lebanon & Middle East	Europe	Australia	Inter-segment	Lebanon & Middle East	Europe	Australia	Inter-segment
Total Assets	24,283,546,629	1,121,132,779	2,038,056,049	(1,501,612,715)	22,816,955,352	1,035,261,637	1,965,704,981	(1,467,882,022)
Total Liabilities	20,588,142,511	967,734,264	1,757,954,347	(855,927,973)	19,607,254,189	858,735,038	1,737,647,162	(854,447,303)
Total Equity	3,695,404,118	153,398,515	280,101,702	(645,684,742)	3,209,701,163	176,526,599	228,057,819	(613,434,719)
Profit for the year	300,081,718	11,943,647	10,339,985	(95,068,664)	287,773,210	5,495,369	8,623,850	(80,670,543)
ASSETS								
Financial assets at fair value through profit or loss	1,489,776,671	46,913,165	-	(55,393,956)	1,332,214,628	63,699,827	-	(51,242,793)
Loans and advances to customers	5,498,568,758	210,803,569	1,377,016,879	-	4,962,164,736	210,305,551	1,141,053,851	-
Loans and advances to related parties	281,428,186	30,720	9,112,560	(184,619,956)	273,378,364	36,444	6,780,899	(186,096,594)
Investment securities	8,559,925,959	6,127,311	555,623,129	-	8,246,290,397	6,129,275	515,718,153	-
LIABILITIES								
Customers' deposits at amortized cost	16,627,154,835	253,552,826	1,599,534,186	-	16,345,016,137	248,060,755	1,431,881,981	-
Related parties' deposits at amortized cost	505,072,721	6,235,663	27,663,271	(96,430,505)	422,525,854	5,681,583	1,662,291	(89,430,992)

Notes to the consolidated financial statements

As at December 31 st - LBP'000	2016				2015			
	Lebanon & Middle East	Europe	Australia	Inter-segment	Lebanon & Middle East	Europe	Australia	Inter-segment
Interest income	1,056,395,305	24,751,710	78,027,307	(22,912,876)	974,617,817	24,204,119	78,796,026	(26,923,427)
Interest expense	(727,009,983)	(11,171,361)	(38,834,370)	22,912,876	(679,646,190)	(10,286,985)	(42,859,012)	26,923,427
Net interest income	329,385,322	13,580,349	39,192,937	-	294,971,627	13,917,134	35,937,014	-
Fee and commission income	135,616,492	17,497,652	8,302,653	(14,659,656)	128,163,081	19,151,778	6,717,589	(11,787,770)
Fee and commission expense	(23,543,787)	(569,326)	(169,002)	-	(22,003,820)	(669,548)	(137,293)	-
Net fee and commission income	112,072,705	16,928,326	8,133,651	(14,659,656)	106,159,261	18,482,230	6,580,296	(11,787,770)
Net interest and other gains on financial assets at fair value through profit or loss	106,551,954	207,257	-	(2,861,272)	99,269,383	351,503	-	(6,628,069)
Gain from derecognition of financial assets measured at amortized cost	11,447,130	-	168,362	-	69,742,864	-	114,477	-
Other operating income (net)	30,973,788	1,250,116	1,653,361	(16,500,000)	29,935,461	1,071,014	2,252,287	(14,500,000)
Net financial revenues	590,430,899	31,966,048	49,148,311	(34,020,928)	600,078,596	33,821,881	44,884,074	(32,915,839)
Provision for credit losses (net)	7,566,171	(7,867,282)	519,311	-	(22,614,185)	(8,489,635)	(655,769)	-
Provision for loans to banks	-	(771,930)	-	-	-	(335,722)	-	-
Other provisions (net)	(2,433,215)	-	-	-	(475,190)	-	-	-
Write-off of a bank account	-	-	-	-	-	-	-	-
Net financial revenues after impairment	595,563,855	23,326,836	49,667,622	(34,020,928)	576,989,221	24,996,524	44,228,305	(32,915,839)
Staff costs	(137,066,094)	(9,299,518)	(20,602,061)	-	(134,485,410)	(10,709,072)	(19,193,413)	-
General and administrative expenses	(97,920,884)	(5,104,787)	(12,060,895)	14,659,656	(94,301,837)	(5,132,427)	(10,568,334)	11,787,770
Depreciation and amortization	(19,743,969)	(428,399)	(2,159,655)	-	(18,201,819)	(492,104)	(2,111,328)	-
Write back of provision for impairment of assets acquired in satisfaction of loans	-	-	-	-	28,931	-	-	-
Profit before income tax	340,832,908	8,494,132	14,845,011	(19,361,272)	330,029,086	8,662,921	12,355,230	(21,128,069)
Income tax expense	(30,184,707)	(3,455,701)	(4,505,026)	-	(38,922,720)	(3,167,552)	(3,731,380)	-
Profit for the year before withholding tax on profits from subsidiaries	310,648,201	5,038,431	10,339,985	(19,361,272)	291,106,366	5,495,369	8,623,850	(21,128,069)
Deferred tax on undistributed profit	(3,098,004)	-	-	-	(2,752,124)	-	-	-
Profit for the year	307,550,197	5,038,431	10,339,985	(19,361,272)	288,354,242	5,495,369	8,623,850	(21,128,069)

Notes to the consolidated financial statements

The Group's operating segment information by activity during 2016 and 2015 was as follows:

As at December 31 st , 2016 - LBP'000	Banking & Financial Institutions	Insurance & Brokerage	Managed Funds	Inter- segment
Total Assets	25,946,493,451	58,722,696	1,437,519,310	(1,501,612,715)
Total Liabilities	23,040,400,518	20,827,935	252,602,668	(855,927,972)
Total Equity	2,906,092,933	37,894,761	1,184,916,642	(645,684,743)
Profit for the year	229,954,314	13,628,274	78,782,762	(95,068,664)
Non - controlling interest	-	563,260	75,707,395	-

As at December 31 st , 2015 - LBP'000	Banking & Financial Institutions	Insurance & Brokerage	Managed Funds	Inter- segment
Total Assets	24,520,759,792	49,015,657	1,248,146,521	(1,467,882,022)
Total Liabilities	21,959,054,920	17,248,802	227,332,668	(854,447,304)
Total Equity	2,561,704,872	31,766,855	1,020,813,853	(613,434,718)
Profit for the year	222,505,711	12,984,309	66,402,409	(80,670,543)
Non- controlling interest	-	581,030	59,542,476	-

52. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Group holds and issues financial instruments for three main purposes:

- to earn an interest margin or a fee;
- to finance its operations; and
- to manage the interest rate and currency risks arising from its operations and from its sources of finance.

The main risks arising from the Group's financial instruments are:

- Credit risk
- Liquidity risk
- Interest rate risk; and
- Foreign currency risk

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established various Committees at Group and each entity's level to develop and monitor the Group's risk management policies in their specified areas.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its management standards and procedures, aims to develop a disciplined control environment, in which employees understand their roles and obligations.

A – Credit Risk

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

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

Notes to the consolidated financial statements

1- Management of credit risk

Credit risk is the risk of loss resulting from the failure of an obligor or counterparty to meet its contractual obligations. It is a part of many of the Group's business activities and exists in the different banking products (for example loans, letters of credit, derivative contracts...) provided to customers of all sizes, from large corporate clients to individual consumers.

The risk is controlled through monitoring and enforcing compliance with the risk principles and with policies, limits and regulatory requirements, whereby the Group has developed policies and practices to preserve the independence and integrity of decision-making and ensure credit exposure beyond normal risk are identified promptly, assessed accurately, approved properly, reviewed in light of market and external developments, monitored regularly and managed actively.

The Group assesses the creditworthiness of new contracting parties before entering into any transaction giving rise to credit exposure and continuously monitors creditworthiness and exposures thereafter. It applies a well-defined system for assessing the creditworthiness of its clients on the basis of many criteria related to the borrower mainly the nature of activity, financial performance and structure, credit history, cash flows, projected financials and management quality (e.g. purpose, amount, tenor, collateral presented as a second way out).

The Group sets limits on the credit exposure to both individual and groups and applies limits in a variety of forms to portfolios or sectors where it considers appropriate to restrict credit concentrations or areas of high risk. In addition credit concentration is subject to regulatory authority constraints whereby the credit concentration to one individual or Group (a Group is defined as a group of clients that are linked to one another by any of a number of criteria established, including capital ownership, voting rights, effective control and other indications) does not exceed a maximum of 20% of regulatory equity.

In order to meet credit risk management objectives, the Group seeks to maintain a risk profile that is diverse in terms of borrower, product type, industry and geographic concentration.

Through the risk reporting, credit risk trends and limit exceptions are provided regularly and discussed with concerned committees. In this connection, the Group works continuously towards enhancing its credit risk management tools and adopting more advanced approaches.

2- Measurement of credit risk

a) Loans and advances

The Group assesses the probability of default of individual counterparties using internal rating tools. The Group's rating scale reflects the range of default probabilities defined for each rating class as explained below:

- **Watch List:** Loans and advances rated Watch List are loans that are not impaired but for which the Group determines that they require special monitoring.
- **Past due but not impaired:** Loans past due but not impaired are loans where contractual interest or principal are past due but management believes that impairment is not appropriate on the basis of the level of collateral available and the stage of collection of amounts owed to the Group.
- **Rescheduled loans:** Rescheduled loans are loans that have been restructured after they have been rated as substandard or doubtful and where the Group has made concessions that it would not otherwise consider. Once the loan is restructured it remains in its original category.
- **Substandard loans:** Substandard loans are inadequately protected by current sound worth and paying capacity of the obligor or by any collateral pledged. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Group will sustain some loss if the deficiencies are not corrected.
- **Doubtful loans:** Doubtful loans have all the weaknesses inherent in those classified as substandard, with the added characteristic that existing facts, conditions, and values make collection or liquidation in full highly improbable. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors that may work to the advantage and strengthening of the asset, its classification as an estimated loss is deferred until a more exact status may be determined. Pending factors include merger, acquisition, liquidation procedures, capital injection, additional collateral, new financing sources, or additional guarantors.
- **Loss:** Loans classified as a loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value. Rather, the amount of loss is difficult to measure and its not practical or desirable to defer writing off this basically worthless asset even if partial recovery may be obtained in the future. Loans are



Notes to the consolidated financial statements

charged off in the period in which they are deemed uncollectible.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in its loan portfolio. The main component of its allowance is the specific loss component that relates to individually significant exposures, and a minor part of a collective loan loss allowance established for retail and Small and Medium Enterprises (SME's) where there is objective evidence that unidentified losses exist at the reporting date. This provision is estimated based on various factors including credit ratings allocated to borrower or group of borrowers, the current economic conditions, the experience the Group has had in dealing with a borrower or group of borrowers and available historical default information.

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

In compliance with the basic circular no. 81 issued by the Central Bank of Lebanon, the Bank and its local banking subsidiaries are required to transfer from net profit to general reserve for performing loans the equivalent of:

- 0.5% of retail loans that are less than 30 days past due (subject to deductions of some guarantees received) to general reserve for the year 2014 in addition to a percentage of 0.5% yearly over a six year period starting 2015.

- 0.25% of performing corporate loans to general reserve as of end of 2014. This reserve should increase to 0.5% as of end of 2015, 1% as of end of 2016 and 1.5% as of end of 2017. The Bank is exempted from this general reserve if the balance of collective provision is not less than 0.25% of the performing corporate loans portfolio as of end of 2014, 0.5% as of end of 2015, 1% as of end of 2016 and 1.5% as of end of 2017.

3- Risk mitigation policies

Collateral:

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

- Pledged deposits
- Mortgages over real estate properties (land, commercial and residential properties)
- Bank guarantees
- Financial instruments (equities and debt securities)
- Business other assets (such as inventories and accounts receivable)

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

Other specific risk mitigation policies include:

Netting arrangements:

The Group further restricts its exposure to credit losses by entering into netting arrangements with counterparties. Netting arrangements reduce credit risk associated with favorable contracts to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis.

a) Exposure to credit risk and concentration by counterparty:

The tables below reflect the Group's exposure to credit risk by counterparty segregated between the categories of financial assets:

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As at December 31 st - LBP'000		2016	2015
		Gross Maximum Exposure	Gross Maximum Exposure
Deposits at central banks		5,622,689,856	4,756,713,595
Deposits with banks and financial institutions	6	1,507,514,206	1,988,649,306
Financial assets at fair value through profit or loss	7	1,481,295,880	1,344,671,662
Loans to banks	8	263,273,658	305,823,338
Loans and advances to customers	9	7,086,389,206	6,313,524,138
Loans and advances to related parties	10	105,951,510	94,099,113
Financial assets measured at amortized cost	11	9,112,750,801	8,761,335,548
Financial assets at fair value through other comprehensive income	11	8,925,598	6,802,277
Customers' acceptances liabilities	12	267,377,142	292,528,504
Other financial assets		35,286,292	41,193,066
Total		25,491,454,149	23,905,340,547
Financial instruments with off-balance sheet risk		2,489,550,147	3,389,565,660
Fiduciary accounts	45	191,978,467	196,188,726
Total		2,681,528,614	3,585,754,386
Total credit risk exposure		28,172,982,763	27,491,094,933

b) Concentration of loans by industry or sector:

As at December 31 st , 2016 - LBP'000	Agriculture	Manufacturing & Industry	Financial Services	Real Estate & Construction	Trade & Services	Others	Total
BALANCE SHEET EXPOSURE							
Loans to banks	-	-	263,273,658	-	-	-	263,273,658
Loans and advances to customers	186,035,391	704,359,695	260,417,573	1,960,871,442	1,923,918,757	2,050,786,348	7,086,389,206
Loans and advances to related parties	-	636,986	5,708,047	7,165,323	76,637,547	15,803,607	105,951,510
Total	186,035,391	704,996,681	529,399,278	1,968,036,765	2,000,556,304	2,066,589,955	7,455,614,374

As at December 31 st , 2015 - LBP'000	Agriculture	Manufacturing & Industry	Financial Services	Real Estate & Construction	Trade & Services	Others	Total
BALANCE SHEET EXPOSURE							
Loans to banks	-	-	305,823,338	-	-	-	305,823,338
Loans and advances to customers	39,883,734	725,299,889	244,770,267	1,734,642,111	1,776,244,260	1,792,683,877	6,313,524,138
Loans and advances to related parties	-	704,694	6,893,288	9,809,922	65,673,484	11,017,725	94,099,113
Total	39,883,734	726,004,583	557,486,893	1,744,452,033	1,841,917,744	1,803,701,602	6,713,446,589

Notes to the consolidated financial statements

Below are the details of the Group's exposure to credit risk with respect to loans and advances to customers:

As at December 31 st , 2016 - LBP'000	Gross Exposure Net of Unrealized Interest	Allowance for Impairment	Net Exposure	Pledged Funds
Performing loans	6,921,384,845	-	6,921,384,845	1,258,539,928
Substandard loans	167,149,361	(740,045)	166,409,316	941,077
Doubtful and Bad loans	130,174,123	(82,162,076)	48,012,047	813,969
Collective provisions	-	(49,417,002)	(49,417,002)	-
Total	7,218,708,329	(132,319,123)	7,086,389,206	1,260,294,974

As at December 31 st , 2015 - LBP'000	Gross Exposure Net of Unrealized Interest	Allowance for Impairment	Net Exposure	Pledged Funds
Performing loans	6,317,280,108	-	6,317,280,108	968,274,466
Substandard loans	28,251,469	(387,642)	27,863,827	1,353,834
Doubtful loans	104,085,244	(56,763,007)	47,322,237	22,250,640
Collective provision	-	(78,942,034)	(78,942,034)	-
Total	6,449,616,821	(136,092,683)	6,313,524,138	991,878,940

Estimates of fair value for properties held as collateral are based on the value of collateral assessed at the time of borrowing discounted for the effect of illiquidity in the range of 5% to 20% applied based on geographical distribution of mortgages held.

Notes to the consolidated financial statements

Fair Value of Collateral Received

First Degree Mortgage on Property	Dept Securities	Bank Guarantees	Vehicles	Other	Total
5,742,661,609	13,014,665	272,114,228	307,991,818	3,391,897,472	10,986,219,720
128,233,190	-	-	6,004,464	-	135,178,731
75,145,101	-	-	6,688,734	8,073,685	90,721,489
-	-	-	-	-	-
5,946,039,900	13,014,665	272,114,228	320,685,016	3,399,971,157	11,212,119,940

Fair Value of Collateral Received

First Degree Mortgage on Property	Dept Securities	Bank Guarantees	Vehicles	Other	Total
5,766,581,800	8,637,042	177,423,527	367,337,297	8,936,732,001	16,224,986,133
30,463,699	-	-	6,992,490	31,619,641	70,429,664
43,725,756	-	-	2,193,555	8,824,903	76,994,854
-	-	-	-	-	-
5,840,771,255	8,637,042	177,423,527	376,523,342	8,977,176,545	16,372,410,651

Notes to the consolidated financial statements

c) Concentration of financial assets and liabilities by geographical location:

As at December 31 st , 2016 - LBP'000	Lebanon	Middle East & Africa	Europe	North America	Australia	Others	Total
FINANCIAL ASSETS							
Cash and deposits at central banks	4,755,591,401	789,855,987	86,425,163	-	38,787,094	-	5,670,659,645
Deposits with banks and financial institutions	374,748,309	241,849,039	400,634,751	466,753,124	14,933,510	8,595,473	1,507,514,206
Financial assets at fair value through profit or loss	1,429,325,052	535,163	37,910,182	13,525,483	-	-	1,481,295,880
Loans to banks	37,850,824	219,963,980	230,893	-	-	5,227,961	263,273,658
Loans and advances to customers	4,593,097,070	990,807,059	121,575,696	3,541,996	1,377,356,971	10,414	7,086,389,206
Loans and advances to related parties	93,913,823	2,925,127	-	-	9,112,560	-	105,951,510
Investment securities	8,396,519,190	90,517,645	40,735	-	634,598,829	-	9,121,676,399
Customers' liability under acceptances	152,830,885	73,430,347	41,115,910	-	-	-	267,377,142
Other financial assets	30,805,164	597,021	39,125	1,966,370	1,878,612	-	35,286,292
	19,864,681,718	2,410,481,368	687,972,455	485,786,973	2,076,667,576	13,833,848	25,539,423,938
FINANCIAL LIABILITIES							
Deposits from banks and financial institutions	1,088,273,361	834,615,486	54,465,678	-	26,808,382	1,605	2,004,164,512
Customers' and related parties' deposits at amortized cost	13,032,512,292	2,278,949,590	1,867,017,130	135,396,469	1,582,779,147	26,128,369	18,922,782,997
Liabilities under acceptance	29,123,392	64,202,113	158,524,754	1,180,329	-	14,346,554	267,377,142
Other borrowings	495,210,579	-	16,427,225	-	76,025,884	-	587,663,688
Certificates of deposit	-	-	565,326	-	-	-	565,326
Other financial liabilities	71,855,599	190,602,483	523,085	279,632	8,233,060	-	271,493,859
	14,716,975,223	3,368,369,672	2,097,523,198	136,856,430	1,693,846,473	40,476,528	22,054,047,524
Net	5,147,706,495	(957,888,304)	(1,409,550,743)	348,930,543	382,821,103	(26,642,680)	3,485,376,414

Notes to the consolidated financial statements

As at December 31 st , 2015 - LBP'000	Lebanon	Middle East & Africa	Europe	North America	Australia	Others	Total
FINANCIAL ASSETS							
Cash and deposits at central banks	3,814,986,460	825,551,664	12,961,906	-	149,672,633	-	4,803,172,663
Deposits with banks and financial institutions	195,735,184	376,108,762	722,932,428	664,727,998	25,007,694	4,137,240	1,988,649,306
Financial assets at fair value through profit or loss	1,275,914,172	535,163	68,222,327	-	-	-	1,344,671,662
Loans to banks	56,757,489	243,563,215	5,502,634	-	-	-	305,823,338
Loans and advances to customers	4,163,680,133	895,970,106	101,417,686	2,955,549	1,139,741,125	9,759,539	6,313,524,138
Loans and advances to related parties	84,068,283	3,249,931	-	-	6,780,899	-	94,099,113
Investment securities	8,172,140,112	-	-	-	595,997,713	-	8,768,137,825
Customers' liability under acceptances	130,988,181	125,203,239	35,853,900	-	-	483,184	292,528,504
Other financial assets	31,884,530	393,038	31,560	1,122,887	7,761,051	-	41,193,066
	17,926,154,544	2,470,575,118	946,922,441	668,806,434	1,924,961,115	14,379,963	23,951,799,615
FINANCIAL LIABILITIES							
Deposits from banks and financial institutions	790,767,460	690,701,641	235,664,030	8,408	332,849	13,418,833	1,730,893,221
Customers' and related parties' deposits at amortized cost	12,584,518,723	2,476,632,280	1,667,458,760	59,817,452	1,387,040,552	189,929,842	18,365,397,609
Liabilities under acceptance	21,899,264	51,359,189	176,285,493	1,194,051	-	41,790,507	292,528,504
Other borrowings	372,675,112	-	24,530,520	-	210,938,298	-	608,143,930
Certificates of deposit	-	-	664,897	-	-	-	664,897
Other financial liabilities	80,196,919	145,436,201	273,343	144,964	3,730,388	-	229,781,815
	13,850,057,478	3,364,129,311	2,104,877,043	61,164,875	1,602,042,087	245,139,182	21,227,409,976
Net	4,076,097,066	(893,554,193)	(1,157,954,602)	607,641,559	322,919,028	(230,759,219)	2,724,389,639



Notes to the consolidated financial statements

B – Liquidity Risk

Liquidity risk is the risk that the Group will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately.

1- Management of liquidity risk

Liquidity is the “Group’s ability to ensure the availability of funds to meet commitments (including off-balance sheet commitments) at a reasonable price at all times.” In ‘business as usual’ circumstances the day-to-day cash management of a bank should not lead to any threats to its solvency.

Liquidity risk is defined as the risk of the Group’s ability to meet its current and future payment obligations in full or on time.

Liquidity risk arises when, in the case of a liquidity crisis, refinancing may only be raised at higher market rates (funding risk) or assets may only be liquidated at a discount to the market rates (market liquidity risk). It also results from the mismatches in the maturity pattern of assets and liabilities.

Liquidity Measurement

Liquidity is measured on a “business as usual basis” using:

- Balance Sheet Liquidity Ratios (purchased and stored liquidity ratios): such as immediate liquidity, loans / deposits, liquid assets ratio, interbank ratio, medium-term funding ratio, wholesale borrowing capacity, etc
- The liquidity relationship between the sub-components of the balance sheet at a particular point in time: Cash Flow Gap Scheduling which is the Gap between cash inflows and outflows determined within a series of time buckets.
- Stress testing: by stress testing “the business as usual” assumptions via standardized scenarios, the potential shortage of liquidity can be measured. This shortage needs to be covered by the Liquidity Buffer, which consists of unencumbered assets that can be reported or used as collateral at a Central Bank to generate cash.

The Bank’s objectives are to comply with the Central Bank instructions for liquidity risk monitoring and set other internal prudential limits as described hereafter. Some of the internal limits are:

- Liquidity gap ratios for Lebanese Pounds and foreign currencies (special focus on the foreign currencies): One month GAP/Tier One Capital
- Liquid assets in foreign currencies (including Placement with the Central Bank) / Total Deposits in foreign currencies.
- Placements with Non Resident Banks in foreign currencies/Total Deposits in foreign currencies
- Long-term foreign currency Funds (including equity)/Long-term Loans (above one year)

The Contingency Funding Plan

Notes to the consolidated financial statements

Liquidity problems will usually arise only when the Group encounters a crisis. In this case, there is a need to put in place a Contingency Funding Plan that both quantifies the adequacy of the Bank's resources (Liquidity Buffer) to withstand a set of potential liquidity crises and sets out an Action Plan to be activated in the event of a liquidity crisis.

A mechanism to identify stress situations ahead of time, and to plan dealing with such unusual situations in a timely and effective manner should be in existence. The Contingency Plan is reviewed regularly and tested.

The responsibilities and authorities of overseeing efficient implementation of liquidity risk mitigation is distributed in the best way to achieve proficient handling of the problems facing the Group and thus ensuring a smooth continuation of the activity without jeopardizing the business. Accordingly, officials and committees of the Group (namely ALCO, Treasury Department, Finance Department) assess the situation, decide on the activation of the contingency plan and act as follows:

- ALCO Committee is informed immediately, and quickly makes its assessment as to whether the plan should be activated.
- ALCO Committee takes all major decisions on loans or deposits, investment purchases, borrowing, whether to stop making additional loans, etc.
- ALCO Committee provides general, ongoing guidance on communicating with major depositors and other sources of funding, internal staff, and the press.
- The Treasury Department is responsible for maintaining sufficient liquidity to meet the Bank's obligations and to meet the specific liquidity requirements of the supervisory authorities. The key measure used by the Bank for managing liquidity risk is the ratio of behaviorally adjusted net liquid assets (maturing in less than one month) to total deposits.
- In the unlikely event of a liquidity crisis, the Treasury Department would immediately endeavour to sell the Group's liquid assets, or if more expedient, seek additional funds from the shareholders or borrow in the market to alleviate the shortfall.

Notes to the consolidated financial statements

Residual contractual maturities of financial assets and liabilities:

The tables below show the Group's financial assets and liabilities in Lebanese Pounds and foreign currencies base accounts segregated by maturity:

As at December 31 st , 2016 - LBP'000	LBP Base Accounts		
	With No Maturity	Up to 3 Months	3 Months to 1 Year
FINANCIAL ASSETS			
Cash and deposits at central banks	682,837,056	1,847,558,539	90,450,000
Deposits with banks and financial institutions	-	1,472,217,959	35,296,247
Financial assets at fair value through profit or loss	15,937,590	81,320,000	28,196,927
Loans to banks	574,387	185,262,641	59,437,372
Loans and advances to customers	93,522,579	1,698,496,113	2,476,102,814
Loans and advances to related parties	30,721	65,282,693	13,404,735
Investment securities	8,925,598	383,420,358	641,564,820
Customers' liability under acceptances	-	254,458,807	12,497,868
Other financial assets	34,504,496	169,831	791
	836,332,427	5,988,186,941	3,356,951,574
FINANCIAL LIABILITIES			
Deposits from banks and financial institutions	-	1,926,385,194	5,811,931
Customers' and related parties' deposits at amortized cost	1,294,481	15,020,631,297	3,000,529,239
Liabilities under acceptance	-	254,458,807	12,497,868
Other borrowings	496,122	579,653,158	3,930,244
Certificates of deposit	-	-	565,326
Other financial liabilities	160,825,495	93,925,847	15,196,325
	162,616,098	17,875,054,303	3,038,530,933
Net Maturity gap	673,716,329	(11,886,867,362)	318,420,641



LBP Base Accounts

1 to 3 Years	3 to 5 Years	5 to 10 Years	Over 10 Years	Total
877,013,700	765,348,750	1,307,451,600	100,000,000	5,670,659,645
-	-	-	-	1,507,514,206
129,022,843	190,602,347	924,383,740	111,832,433	1,481,295,880
3,363,258	14,636,000	-	-	263,273,658
1,018,157,637	455,122,378	414,124,714	930,862,971	7,086,389,206
14,113,375	4,734,290	66,194	8,319,502	105,951,510
1,500,263,566	2,120,212,827	3,462,983,499	1,004,305,731	9,121,676,399
420,467	-	-	-	267,377,142
311,023	300,151	-	-	35,286,292
3,542,665,869	3,550,956,743	6,109,009,747	2,155,320,637	25,539,423,938
71,967,387	-	-	-	2,004,164,512
655,488,233	52,463,076	41,688,316	150,688,355	18,922,782,997
420,467	-	-	-	267,377,142
1,919,780	1,664,384	-	-	587,663,688
-	-	-	-	565,326
1,546,192	-	-	-	271,493,859
731,342,059	54,127,460	41,688,316	150,688,355	22,054,047,524
2,811,323,810	3,496,829,283	6,067,321,431	2,004,632,282	3,485,376,414



Residual contractual maturities of financial assets and liabilities:

As at December 31 st , 2015 - LBP'000	LBP Base Accounts		
	With No Maturity	Up to 3 Months	3 Months to 1 Year
FINANCIAL ASSETS			
Cash and deposits at central banks	641,264,858	1,479,301,205	257,666,400
Deposits with banks and financial institutions	-	1,870,153,666	73,270,640
Financial assets at fair value through profit or loss	36,624,407	36,862,387	39,559,646
Loans to banks	-	229,140,636	54,927,652
Loans and advances to customers	15,767,738	1,648,724,405	2,192,261,555
Loans and advances to related parties	9,706	43,134,172	32,531,214
Investment securities	6,802,277	170,003,758	688,597,417
Customers' liability under acceptances	-	278,981,397	10,994,847
Other financial assets	33,432,015	-	58,846
	733,901,001	5,756,301,626	3,349,868,217
FINANCIAL LIABILITIES			
Deposits from banks and financial institutions	-	1,463,324,207	222,144,702
Customers' and related parties' deposits at amortized cost	-	14,650,130,929	2,922,955,435
Liabilities under acceptance	-	278,981,397	10,994,847
Other borrowings	3,203,932	563,109,637	5,019,964
Certificates of deposit	-	-	664,897
Other financial liabilities	18,239,594	210,461,152	-
	21,443,526	17,166,007,322	3,161,779,845
Net Maturity gap	712,457,475	(11,409,705,696)	188,088,372

C – Market Risks

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

1. Management of market risks

Interest Rate Risk

Interest rate risk arises when there is a mismatch between positions, which are subject to interest rate adjustment within a specified period. The Group's lending, funding and investment activities give rise to interest rate risk. The immediate impact of variation in interest rate is on Group's net interest income, while a long term impact is on Group's net worth since the economic value of Group's assets, liabilities and off-balance sheet exposures are affected.

Notes to the consolidated financial statements

LBP Base Accounts

1 to 3 Years	3 to 5 Years	5 to 10 Years	Over 10 Years	Total
250,824,600	912,037,500	1,262,078,100	-	4,803,172,663
-	-	-	45,225,000	1,988,649,306
191,394,884	128,051,959	677,682,753	234,495,626	1,344,671,662
403,050	8,588,800	12,763,200	-	305,823,338
1,013,886,214	358,029,093	356,802,033	728,053,100	6,313,524,138
10,995,172	590,418	1,716,091	5,122,340	94,099,113
1,519,216,111	1,733,987,273	3,245,779,279	1,403,751,710	8,768,137,825
2,552,260	-	-	-	292,528,504
7,702,205	-	-	-	41,193,066
2,996,974,496	3,141,285,043	5,556,821,456	2,416,647,776	23,951,799,615
45,424,312	-	-	-	1,730,893,221
643,486,074	16,857,453	34,786,038	97,181,680	18,365,397,609
2,552,260	-	-	-	292,528,504
3,528,291	3,215,303	-	30,066,803	608,143,930
-	-	-	-	664,897
1,081,069	-	-	-	229,781,815
696,072,006	20,072,756	34,786,038	127,248,483	21,227,409,976
2,300,902,490	3,121,212,287	5,522,035,418	2,289,399,293	2,724,389,639

Notes to the consolidated financial statements

Interest Rate Risk Measurement

Major concern is to be given to interest rates movements both in the local and international markets whenever hedging against rates rise should be undertaken as part of the Group's strategy.

Interest rate risk is the risk that changes in interest rates will affect the Group's income or the value of its holdings group of financial instruments. The objective of interest rate risk management is to manage and control interest rate risk exposure within acceptable parameters while optimizing the return on risk.

Interest rate risk originating from banking activities arises partly from the employment of non-interest bearing liabilities such as shareholders' funds and customer current accounts, but also from the gaps that arise from the normal course of business.

The policy of the Group is to price all placements / exposures at floating rates or at fixed rates for fixed periods on appropriate rollover dates that allow for matching in the market.

INTEREST GAP ANALYSIS FOR ACCOUNTS AS AT DECEMBER 31, 2016:

Interest Rate Sensitivity Balance Sheet LBP'000	Non- Interest Generating	Floating					Total
		Up to 3 Months	3 Months to 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Year	
FINANCIAL ASSETS							
Cash and deposits at central banks	960,499,469	1,227	-	-	-	-	1,227
Deposits with banks and financial institutions	119,698,940	29,519,965	-	-	-	-	29,519,965
Financial assets at fair value through profit or loss	146,732,358	-	-	-	-	-	-
Loans to Banks	(113,699)	234,338	-	-	-	-	234,338
Loans and advances to customers	89,236,587	2,006,669,364	213,438,360	124,889,048	12,304,225	774,745,171	3,132,046,168
Loans and advances to related parties	217,859	12,166,668	-	-	-	7,088,443	19,255,111
Investment securities	287,957,619	94,239,919	43,570,013	259,284,760	191,825,586	-	588,920,278
Customers' liability under acceptance	267,377,142	-	-	-	-	-	-
Other financial assets	34,483,074	191,252	790	311,026	300,150	-	803,218
	1,906,089,349	2,143,022,733	257,009,163	384,484,834	204,429,961	781,833,614	3,770,780,305
FINANCIAL LIABILITIES							
Deposits from banks and financial institutions	130,873,294	125,225,886	3,614,552	-	-	-	128,840,438
Customers' and related parties' deposits at amortized cost	731,967,290	1,416,237,358	-	-	-	-	1,416,237,358
Liabilities under acceptance	267,377,142	-	-	-	-	-	-
Other borrowings	10,712,287	-	-	-	-	-	-
Certificates of deposit	-	-	-	-	-	-	-
Other financial liabilities	118,094,306	1,810,062	20,624	130,323	-	-	1,961,009
	1,259,024,319	1,543,273,306	3,635,176	130,323	-	-	1,547,038,805
Interest Rate Swap	-	5,513,049	-	-	-	-	5,513,049
Interest rate Gap	647,065,030	605,262,476	253,373,987	384,354,511	204,429,961	781,833,614	2,229,254,549

Notes to the consolidated financial statements

Fixed

Up to 3 Months	3 Months to 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total	Grand Total
1,569,894,899	90,450,000	877,013,700	765,348,750	1,407,451,600	4,710,158,949	5,670,659,645
1,347,034,752	11,260,549	-	-	-	1,358,295,301	1,507,514,206
44,669,562	28,182,948	128,937,788	96,544,466	1,036,228,758	1,334,563,522	1,481,295,880
185,715,695	59,437,372	3,363,258	14,636,000	694	263,153,019	263,273,658
1,289,077,094	1,301,630,166	494,102,126	344,341,947	435,955,118	3,865,106,451	7,086,389,206
61,476,113	6,972,620	11,998,265	4,734,289	1,297,253	86,478,540	105,951,510
232,187,168	586,146,730	1,204,892,901	1,842,961,384	4,378,610,319	8,244,798,502	9,121,676,399
-	-	-	-	-	-	267,377,142
-	-	-	-	-	-	35,286,292
4,730,055,283	2,084,080,385	2,720,308,038	3,068,566,836	7,259,543,742	19,862,554,284	25,539,423,938
1,595,355,208	58,870,509	90,225,063	-	-	1,744,450,780	2,004,164,512
12,854,432,697	3,019,817,672	655,488,233	52,463,076	192,376,671	16,774,578,349	18,922,782,997
-	-	-	-	-	-	267,377,142
493,907,230	79,460,007	1,919,780	1,664,384	-	576,951,401	587,663,688
-	565,326	-	-	-	565,326	565,326
136,262,842	15,175,702	-	-	-	151,438,544	271,493,859
15,079,957,977	3,173,889,216	747,633,076	54,127,460	192,376,671	19,247,984,400	22,054,047,524
-	-	(5,513,049)	-	-	(5,513,049)	-
(10,349,902,694)	(1,089,808,831)	1,967,161,913	3,014,439,376	7,067,167,071	609,056,835	3,485,376,414

Notes to the consolidated financial statements

INTEREST GAP ANALYSIS FOR ACCOUNTS AS AT DECEMBER 31, 2015:

Interest Rate Sensitivity Balance Sheet LBP'000	Non- Interest Generating	Floating					Total
		Up to 3 Months	3 Months to 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Year	
FINANCIAL ASSETS							
Cash and deposits at central banks	1,029,485,622	149,672,633	-	-	-	-	149,672,633
Deposits with banks and financial institutions	156,892,633	213,097,543	25,627,471	-	-	-	238,725,014
Financial assets at fair value through profit or loss	37,783,998	-	-	-	-	-	-
Loans to Banks	(242,146)	-	7,516,700	-	-	-	7,516,700
Loans and advances to customers	7,223,116	1,761,202,016	231,691,079	119,615,115	8,544,982	575,681,522	2,696,734,714
Loans and advances to related parties	1,274,617	10,590,408	-	-	-	4,804,458	15,394,866
Investment securities	354,925,259	311,990,565	34,027,367	164,464,096	61,870,444	-	572,352,472
Customers' liability under acceptances	292,528,504	-	-	-	-	-	-
Other financial assets	41,193,066	-	-	-	-	-	-
	1,921,064,669	2,446,553,165	298,862,617	284,079,211	70,415,426	580,485,980	3,680,396,399
FINANCIAL LIABILITIES							
Deposits from banks and financial institutions	161,654,918	427,118,905	4,993,065	-	-	-	432,111,970
Customers and related parties deposits at amortized cost	796,664,467	1,441,321,057	989,432	-	-	-	1,442,310,489
Liabilities under acceptance	292,528,504	-	-	-	-	-	-
Other borrowings	3,622,749	30,066,802	-	-	-	-	30,066,802
Certificates of deposit	-	-	-	-	-	-	-
Other financial liabilities	229,781,815	-	-	-	-	-	-
	1,484,252,453	1,898,506,764	5,982,497	-	-	-	1,904,489,261
Interest Rate Swap	-	17,465,334	-	-	-	-	17,465,334
Interest rate Gap	436,812,216	565,511,735	292,880,120	284,079,211	70,415,426	580,485,980	1,793,372,472

Notes to the consolidated financial statements

Fixed

Up to 3 Months	3 Months to 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total	Grand Total
941,407,808	257,666,400	250,824,600	912,037,500	1,262,078,100	3,624,014,408	4,803,172,663
1,511,305,484	36,501,175	-	-	45,225,000	1,593,031,659	1,988,649,306
35,702,795	39,559,646	191,394,884	128,051,959	912,178,380	1,306,887,664	1,344,671,662
229,382,782	47,410,952	403,050	8,588,800	12,763,200	298,548,784	305,823,338
1,452,926,163	989,321,107	474,331,256	281,972,571	411,015,211	3,609,566,308	6,313,524,138
63,107,269	4,544,660	7,471,192	590,418	1,716,091	77,429,630	94,099,113
72,433,623	555,928,091	1,197,366,181	1,524,287,999	4,490,844,200	7,840,860,094	8,768,137,825
-	-	-	-	-	-	292,528,504
-	-	-	-	-	-	41,193,066
4,306,265,924	1,930,932,031	2,121,791,163	2,855,529,247	7,135,820,182	18,350,338,547	23,951,799,615
887,725,168	207,430,328	45,186,140	(3,215,303)	-	1,137,126,333	1,730,893,221
12,605,239,849	2,913,563,212	471,986,681	3,665,192	131,967,719	16,126,422,653	18,365,397,609
-	-	-	-	-	-	292,528,504
563,109,637	4,601,148	3,528,291	3,215,303	-	574,454,379	608,143,930
-	664,897	-	-	-	664,897	664,897
-	-	-	-	-	-	229,781,815
14,056,074,654	3,126,259,585	520,701,112	3,665,192	131,967,719	17,838,668,262	21,227,409,976
-	-	(17,465,334)	-	-	(17,465,334)	-
(9,749,808,730)	(1,195,327,554)	1,583,624,717	2,851,864,055	7,003,852,463	494,204,951	2,724,389,639

Notes to the consolidated financial statements

Foreign Exchange Risk

Foreign exchange risk is the risk that changes in foreign currency rates will affect the Group's income or the value of its holdings of financial instruments. The objective of foreign currency risk management is to manage and control foreign currency risk exposure within acceptable parameters while optimizing the return on risk.

Foreign exchange exposure arises from normal banking activities, primarily from the receipt of deposits and the placement of funds. Future open positions in any currency are managed by means of forward foreign exchange contracts. It is the policy of the Group that it will, at all times, adhere to the limits laid down by the Central Bank as referred to below. It is not the Group's intention to take open positions on its own account (proprietary trading) but rather to maintain square or near square positions in all currencies.

The Group does not currently deal, and has no plans to deal, in Foreign Exchange Futures, Foreign Exchange Options or Options on Foreign Exchange Futures.

The table shown below gives details of the Group's exposure to currency risk:

As at December 31 st , 2016 - LBP'000	LBP	USD	Euro	GBP
ASSETS				
Cash and deposits at central banks	1,776,139,995	2,646,458,610	503,762,457	3,815,674
Deposits with banks and financial institutions	36,133,108	906,233,180	146,386,151	242,849,077
Financial assets at fair value through profit or loss	903,405,875	544,494,013	-	33,395,992
Loans to banks	17,505,733	151,895,917	57,222,013	8,235,951
Loans and advances to customers	1,660,636,509	3,144,796,675	227,647,586	37,636,159
Loans and advances to related parties	3,387,629	77,410,076	370,422	340,696
Investment securities	3,787,192,629	4,608,697,977	208,060	-
Customers' liability under acceptances	-	182,089,252	45,616,134	2,362,978
Investments in an associate	-	40,876,914	-	-
Assets acquired in satisfaction of loans	963,591	23,803,738	-	-
Property and equipment	159,451,811	34,569,666	80,475	452,543
Goodwill	452,265	-	-	1,394,881
Other assets	27,650,789	17,730,629	248,908	946,705
	8,372,919,934	12,379,056,647	981,542,206	331,430,656
LIABILITIES				
Deposits from banks and financial institutions	279,493,514	1,023,099,191	263,377,038	57,233,975
Customers' and related parties' deposits at amortized cost	5,747,038,054	9,432,364,059	792,496,125	241,311,597
Liabilities under acceptance	-	182,089,252	45,616,134	2,362,978
Other borrowings	491,532,520	20,105,284	-	-
Certificates of deposit	-	-	-	565,326
Other liabilities	347,395,701	218,595,363	25,263,491	2,447,384
Provisions	35,070,733	9,271,276	512,886	-
	6,900,530,522	10,885,524,425	1,127,265,674	303,921,260
Currencies to be delivered	-	(387,164,594)	(115,601,478)	(19,055,641)
Currencies to be received	-	542,638,564	253,685,996	115,890,022
Premium (net)	-	153,119	(118)	-
	-	155,627,089	138,084,400	96,834,381
Net exchange position	1,472,389,412	1,649,159,311	(7,639,068)	124,343,777

Notes to the consolidated financial statements

Any foreign exchange forward swap transaction is either immediately covered or incorporated into the respective loan and deposit book (the banking book).

At the outset the Group's overall currency risk exposures is split into:

- Operational FX positions: The management of these risks is done via Trading books under the responsibility of the Global Markets Division.
- Structural FX positions: ALCO Committee decides on the level of the Structural FX positions to be held against the LBP denominated equity and foreign investment, to ensure proper hedging.

Treasury Department is responsible to monitor the compliance to the regulatory ratios set by the regulatory authorities. ALCO Committee is notified by the Finance department of any breach.

AUD	Other	Total
37,641,609	702,841,300	5,670,659,645
15,369,991	160,542,699	1,507,514,206
-	-	1,481,295,880
-	28,414,044	263,273,658
1,236,893,121	778,779,156	7,086,389,206
9,112,560	15,330,127	105,951,510
635,077,265	90,500,468	9,121,676,399
-	37,308,778	267,377,142
-	-	40,876,914
-	-	24,767,329
4,142,272	20,902,904	219,599,671
86,582,169	-	88,429,315
6,912,765	883,802	54,373,598
2,031,731,752	1,835,503,278	25,932,184,473
41,724,924	339,235,870	2,004,164,512
1,643,233,560	1,066,339,602	18,922,782,997
-	37,308,778	267,377,142
76,025,884	-	587,663,688
-	-	565,326
11,318,258	17,850,775	622,870,972
-	167,916	45,022,811
1,772,302,626	1,460,902,941	22,450,447,448
(245,611,613)	(381,030,241)	(1,148,463,567)
136,056,172	101,279,381	1,149,550,135
-	242,999	396,000
(109,555,441)	(279,507,861)	1,482,568
149,873,685	95,092,476	3,483,219,593

Notes to the consolidated financial statements

As at December 31 st , 2015 - LBP'000	LBP	USD	Euro	GBP
ASSETS				
Cash and deposits at central banks	1,097,923,202	2,594,436,133	229,679,988	1,589,162
Deposits with banks and financial institutions	79,931,652	1,183,700,081	78,095,126	269,337,250
Financial assets at fair value through profit or loss	959,426,314	321,545,519	-	63,699,829
Loans to banks	21,615,904	176,973,933	44,800,970	6,269,137
Loans and advances to customers	1,466,241,717	2,928,158,123	186,998,758	22,286,856
Loans and advances to related parties	2,099,193	66,378,509	4,744,625	320,373
Investment securities	3,963,917,733	4,207,038,995	214,623	-
Customers' liability under acceptances	-	207,826,362	57,966,748	290,398
Investments in an associate	-	40,289,296	-	-
Assets acquired in satisfaction of loans	1,023,436	25,850,601	-	-
Property and equipment	132,860,550	52,915,001	112,039	741,816
Goodwill	452,265	-	-	1,677,783
Other assets	26,248,078	23,801,999	513,139	146,107
	7,751,740,044	11,828,914,552	603,126,016	366,358,711
LIABILITIES				
Deposits from banks and financial institutions	130,276,496	860,497,802	299,908,077	41,837,589
Customers' and related parties' deposits at amortized cost	5,735,194,151	8,949,824,780	728,104,539	243,512,500
Liabilities under acceptance	-	207,826,362	57,966,748	290,398
Other borrowings	367,514,025	29,691,607	-	-
Certificates of deposit	-	-	-	664,897
Other liabilities	106,614,464	118,440,894	29,331,015	(591,486)
Provisions	31,988,290	1,709,232	6,675,380	-
	6,371,587,426	10,167,990,677	1,121,985,759	285,713,898
Currencies to be delivered	-	(591,355,633)	(63,400,556)	(49,108,003)
Currencies to be received	-	457,816,035	561,829,548	108,051,064
Premium (net)	-	756,407	-	40,086
	-	(132,783,191)	498,428,992	58,983,147
Net exchange position	1,380,152,618	1,528,140,684	(20,430,751)	139,627,960

53. COMPARATIVE FIGURES

Certain comparative figures were reclassified to conform with the current period's presentation.

Current Classification	Previous classification	Amount Reclassified LBP'000
Other liabilities	Customers' deposits at amortized cost	6,773,801
Other assets	Other liabilities	5,178,410
Other assets	Property and equipment	1,870,556

The changes have been made to improve the quality of information presented.

Notes to the consolidated financial statements

AUD	Other	Total
148,663,353	730,880,825	4,803,172,663
83,536,733	294,048,464	1,988,649,306
-	-	1,344,671,662
-	56,163,394	305,823,338
1,004,601,711	705,236,973	6,313,524,138
6,781,364	13,775,049	94,099,113
596,966,474	-	8,768,137,825
-	26,444,996	292,528,504
-	-	40,289,296
-	-	26,874,037
4,466,093	21,594,335	212,689,834
86,582,169	-	88,712,217
11,043,476	1,120,118	62,872,917
1,942,641,373	1,849,264,154	24,342,044,850
5,556,967	392,816,290	1,730,893,221
1,440,218,972	1,268,542,667	18,365,397,609
-	26,444,996	292,528,504
210,938,298	-	608,143,930
-	-	664,897
10,727,469	39,838,743	304,361,099
-	225,357	40,598,259
1,667,441,706	1,727,868,053	21,342,587,519
(205,730,484)	(290,674,648)	(1,200,269,324)
10,866,073	62,157,303	1,200,720,023
10,785	135,554	942,832
(194,853,626)	(228,381,791)	1,393,531
80,346,041	(106,985,690)	3,000,850,862

Notes to the consolidated financial statements

54. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The summary of the Group's classification of each class of assets and liabilities and their fair values are as follows:

As at December 31 st , 2016 - LBP'000	Note	Carrying Amount	Fair Value			Total
			Level 1	Level 2	Level 3	
Financial assets measured at:						
Fair value through profit or loss:						
Lebanese treasury bills	7	620,110,912	-	620,110,912	-	620,110,912
Lebanese Government bonds	7	289,383,914	-	289,383,914	-	289,383,914
Foreign government treasury bills	7	46,913,165	-	46,913,165	-	46,913,165
Certificates of deposit issued by the Central Bank of Lebanon	7	434,233,370	-	434,233,370	-	434,233,370
Quoted equity securities	7	13,623,037	13,623,037	-	-	13,623,037
Unquoted equity securities	7	52,966,427	-	-	52,966,427	52,966,427
		1,457,230,825	13,623,037	1,390,641,361	52,966,427	1,457,230,825
Financial assets through other comprehensive income						
Unquoted equity securities	11	8,925,598	-	8,925,598	-	8,925,598
		8,925,598	-	8,925,598	-	8,925,598
Amortized cost:						
Cash and deposits at central banks	5	5,670,659,645	-	5,670,657,707	-	5,670,657,707
Deposits with banks and financial institutions	6	1,507,514,206	-	1,493,802,965	-	1,493,802,965
Loans to banks	8	263,273,658	-	261,305,288	-	261,305,288
Loans and advances to customers	9	7,086,389,206	-	7,102,974,560	-	7,102,974,560
Loans and advances to related parties	10	105,951,510	-	105,404,457	-	105,404,457
Lebanese treasury bills	11	2,060,994,454	-	2,082,926,032	-	2,082,926,032
Lebanese Government bonds	11	3,610,776,206	-	3,476,783,021	-	3,476,783,021
Foreign Government bonds	11	89,582,004	-	89,582,004	-	89,582,004
Certificates of deposit issued by the Central Bank of Lebanon	11	2,581,311,305	-	2,606,549,992	-	2,606,549,992
Certificates of deposit issued by private sector	11	15,974,449	-	15,979,500	-	15,979,500
Bonds issued by financial private sector	11	631,905,259	-	631,928,977	-	631,928,977
Customers' liabilities under acceptances		267,377,142	-	267,377,142	-	267,377,142
Assets acquired in satisfaction of loans	14	24,767,329	-	33,106,875	-	33,106,875
Other financial assets		35,286,292	-	35,286,292	-	35,286,292
		23,951,762,665	-	23,873,664,812	-	23,873,664,812
Financial liabilities measured at:						
Amortized cost:						
Deposits from banks and financial institutions	18	2,004,164,512	-	1,975,792,479	-	1,975,792,479
Customers and related parties' deposits at amortized cost	19	18,922,782,997	-	18,940,634,391	-	18,940,634,391
Liabilities under acceptance		267,377,142	-	267,377,142	-	267,377,142
Other borrowings	20	587,663,688	-	587,663,688	-	587,663,688
Certificates of deposit	21	565,326	-	565,326	-	565,326
Other financial liabilities		271,493,859	-	271,493,859	-	271,493,859
		22,054,047,524	-	22,043,526,885	-	22,043,526,885

Notes to the consolidated financial statements

As at December 31 st , 2015 - LBP'000	Note	Carrying Amount	Fair Value			Total
			Level 1	Level 2	Level 3	
Financial assets measured at:						
Fair value through profit or loss:						
Lebanese treasury bills	7	548,059,511	-	548,059,511	-	548,059,511
Lebanese Government bonds	7	248,196,667	-	248,196,667	-	248,196,667
Foreign government treasury bills	7	63,699,827	-	63,699,827	-	63,699,827
Certificates of deposit issued by the Central Bank of Lebanon	7	406,747,065	-	406,747,065	-	406,747,065
Quoted equity securities	7	12,754,113	12,754,113	-	-	12,754,113
Unquoted equity securities	7	43,611,721	-	-	43,611,721	43,611,721
		1,323,068,904	12,754,113	1,266,703,070	43,611,721	1,323,068,904
Financial assets through other comprehensive income						
Unquoted equity securities	11	6,802,277	-	6,802,277	-	6,802,277
		6,802,277	-	6,802,277	-	6,802,277
Amortized cost:						
Cash and deposits at central banks	5	4,803,172,663	-	4,803,172,663	-	4,803,172,663
Deposits with banks and financial institutions	6	1,988,649,306	-	1,989,979,418	-	1,989,979,418
Loans to banks	8	305,823,338	-	305,823,338	-	305,823,338
Loans and advances to customers	9	6,313,524,138	-	6,349,724,978	-	6,349,724,978
Loans and advances to related parties	10	94,099,113	-	95,137,684	-	95,137,684
Lebanese treasury bills	11	1,752,629,525	-	1,772,294,468	-	1,772,294,468
Lebanese Government bonds	11	3,691,461,329	-	3,605,809,709	-	3,605,809,709
Certificates of deposit issued by the Central Bank of Lebanon	11	2,582,218,582	-	2,599,022,783	-	2,599,022,783
Certificates of deposit issued by private sector	11	593,623,987	-	594,586,910	-	594,586,910
Bonds issued by financial private sector	11	15,969,156	-	15,195,600	-	15,195,600
Customers' liabilities under acceptances		292,582,504	-	292,582,504	-	292,582,504
Assets acquired in satisfaction of loans	14	26,874,037	-	42,457,682	-	42,457,682
Other financial assets		41,193,066	-	41,193,066	-	41,193,066
		22,501,820,744	-	22,506,980,803	-	22,506,980,803
Financial liabilities measured at:						
Amortized cost:						
Deposits from banks and financial institutions	18	1,730,893,221	-	1,689,574,982	-	1,689,574,982
Customers and related parties' deposits at amortized cost	19	18,372,171,410	-	18,473,254,969	-	18,473,254,969
Liabilities under acceptance		292,582,504	-	292,582,504	-	292,582,504
Other borrowings	20	608,143,930	-	608,143,930	-	608,143,930
Certificates of deposit	21	664,897	-	664,897	-	664,897
Other financial liabilities		229,781,815	-	229,781,815	-	229,781,815
		21,234,237,777	-	21,294,003,097	-	21,294,003,097

Notes to the consolidated financial statements

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

The following table gives information about how the fair values of financial assets and financial liabilities, are determined (Level 2 and Level 3 fair values) and significant unobservable inputs used:

As at December 31 st , 2016	Date of Valuation	Valuation Technique and key Inputs
FINANCIAL ASSETS		
At fair value through profit or loss:		
Lebanese treasury bills	December 31, 2016	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bonds, adjusted for illiquidity
Lebanese Government bonds	December 31, 2016	Average market price in inactive market
Foreign government treasury bills	December 31, 2016	Average market price in inactive market
Certificates of deposit issued by the Central Bank of Lebanon in Lebanese Pounds	December 31, 2016	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bonds, adjusted for illiquidity
Certificates of deposit issued by the Central Bank of Lebanon in foreign currency	December 31, 2016	Average market price in inactive market
Unquoted equity securities	December 31, 2016	Management estimate based on unobservable input related to market volatility and liquidity treasury bonds, adjusted for illiquidity.
At fair value through other comprehensive income:		
Unquoted equity securities	December 31, 2016	Not valued
At amortized cost:		
Deposits at central banks	December 31, 2016	DCF at a discount rate determined based on the yield curve of Central Bank of Lebanon placements for maturities greater than one year and Libor based interbank rates for maturities less than one year by currency
Deposits with banks and financial institutions	December 31, 2016	DCF at a discount rate determined based on the yield curve of Central Bank of Lebanon placements for maturities greater than one year and Libor based interbank rates for maturities less than one year by currency
Loans to banks	December 31, 2016	DCF at a discount rate determined based on banks yield curve by currency
Loans and advances to customers	December 31, 2016	DCF at a discount rate extrapolated across the maturity spectrum and in line with Beirut reference rates
Loans and advances to related parties	December 31, 2016	DCF at a discount rate extrapolated across the maturity spectrum and in line with Beirut reference rates
Lebanese treasury bills	December 31, 2016	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bonds, adjusted for illiquidity.
Certificates of deposit issued by the Central Bank of Lebanon in Lebanese Pounds	December 31, 2016	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bonds, adjusted for illiquidity.
Certificates of deposit issued by the Central Bank of Lebanon in foreign currency	December 31, 2016	Average market price in inactive market
Certificates of deposit issued by the private sector	December 31, 2016	Management estimate based on observable input in inactive market
Bonds issued by financial private sector	December 31, 2016	Management estimate based on observable input in inactive market
Assets acquired in satisfaction of loans	December 31, 2016	Valuation made by bank's internal experts and/or external experts
Lebanese government bonds	December 31, 2016	Average market price in inactive market
Foreign government treasury bonds	December 31, 2016	Average market price in inactive market

Notes to the consolidated financial statements

FINANCIAL LIABILITIES		
At amortized cost:		
Deposits from banks and financial institutions	December 31, 2016	DCF at a discount rate determined base on the yield curve of Central Bank of Lebanon placements for maturities greater than one year and Libor based interbank rates for maturities less than one year by currency
Customers' and related parties' deposits at amortized cost	December 31, 2016	DCF based on market rates by currency and maturity bands extrapolated across the maturity spectrum and in line with sectorial rates published by Central Bank of Lebanon.
Other borrowings	December 31, 2016	DCF at a discount rate determined based on the yield curve of Central Bank of Lebanon placements for maturities greater than one year and Libor based interbank rates for maturities less than one year by currency
Certificates of deposit	December 31, 2016	DCF based on market rates by currency and maturity bands extrapolated across the maturity spectrum and in line with sectorial rates published by Central Bank of Lebanon

As at December 31 st , 2015	Date of Valuation	Valuation Technique and key Inputs
FINANCIAL ASSETS		
At fair value through profit or loss:		
Lebanese treasury bills	December 31, 2015	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bonds, adjusted for illiquidity
Lebanese Government bonds	December 31, 2015	Average market price in inactive market
Foreign government treasury bills	December 31, 2015	Average market price in inactive market
Certificates of deposit issued by the Central Bank of Lebanon in Lebanese Pounds	December 31, 2015	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bonds, adjusted for illiquidity
Lebanese government bonds	December 31, 2015	Average market price in inactive market
Certificates of deposit issued by the Central Bank of Lebanon in foreign currency	December 31, 2015	Average market price in inactive market
Unquoted equity securities	December 31, 2015	Management estimate based on unobservable input related to market volatility and liquidity treasury bonds, adjusted for illiquidity.
At fair value through other comprehensive income:		
Unquoted equity securities	December 31, 2015	Not valued
At amortized cost:		
Deposits at central banks	December 31, 2015	DCF at a discount rate determined based on the yield curve of Central Bank of Lebanon placements for maturities greater that one year and Libor based interbank rates for maturities less than one year by currency
Deposits with banks and financial institutions	December 31, 2015	DCF at a discount rate determined based on the yield curve of Central Bank of Lebanon placements for maturities greater than one year and Libor based interbank rates for maturities less than one year by currency
Loans to banks	December 31, 2015	DCF at a discount rate determined based on banks yield curve by currency
Loans and advances to customers	December 31, 2015	DCF at a discount rate extrapolated across the maturity spectrum and in line with Beirut reference rates

Notes to the consolidated financial statements

Loans and advances to related parties	December 31, 2015	DCF at a discount rate extrapolated across the maturity spectrum and in line with Beirut reference rates
Lebanese treasury bills	December 31, 2015	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bonds, adjusted for illiquidity.
Certificates of deposit issued by the Central Bank of Lebanon in Lebanese Pounds	December 31, 2015	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bonds, adjusted for illiquidity.
Certificates of deposit issued by the Central Bank of Lebanon in foreign currency	December 31, 2015	Average market price in inactive market
Certificates of deposit issued by the private sector	December 31, 2015	Management estimate based on observable input in inactive market
Bonds issued by financial private sector	December 31, 2015	Management estimate based on observable input in inactive market
Assets acquired in satisfaction of loans	December 31, 2015	Valuation made by bank's internal experts and/or external experts
FINANCIAL LIABILITIES		
At amortized cost:		
Deposits from banks and financial institutions	December 31, 2015	DCF at a discount rate determined base on the yield curve of Central Bank of Lebanon placements for maturities greater than one year and Libor based interbank rates for maturities less than one year by currency
Customers' and related parties' deposits at amortized cost	December 31, 2015	DCF based on market rates by currency and maturity bands extrapolated across the maturity spectrum and in line with sectorial rates published by Central Bank of Lebanon.
Other borrowings	December 31, 2015	DCF at a discount rate determined based on the yield curve of Central Bank of Lebanon placements for maturities greater than one year and Libor based interbank rates for maturities less than one year by currency
Certificates of deposit	December 31, 2015	DCF based on market rates by currency and maturity bands extrapolated across the maturity spectrum and in line with sectorial rates published by Central Bank of Lebanon

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

The Directors consider that the carrying amounts of customers' acceptance liability, other assets, acceptances payable, certificates of deposit issued and other liabilities approximate their fair values due to the short-term maturities of these instruments.

55. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements for the year ended December 31, 2016 were approved by the Board of Directors in its meeting held on April 13, 2017.

