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Chairman's Letter

The year 2016 did not witness remarkable progress from the previous recent years in terms of political instability, regional war and economic slowdown. It was remarked with a drop in oil prices leading to decrease in investment and demand in many Arab countries. Domestically, Lebanon continued to suffer from the ramifications of the Syrian war and refugees; however, the election of the President in the last quarter of 2016 is expected to have positive impact on different sectors of the Lebanese economy. The Banking sector, guided by the Central Bank of Lebanon, remained resilient and it could withstand unstable operating conditions. As to BBAC, the year 2016 was a good year in terms of profitability and performance. Once again the Bank has shown its dedication to attain its strategic goals of maintaining profitability, expanding its branch network and preserving the integrity of the financial system among many others. These goals are reached through sound business and financial performance and good management decisions.

BBAC always strives to increase its diversified asset base; as a result, consolidated assets as of December 2016 reached LBP 9,767 billion increasing by LBP 587 billion or 6.39% from 2015. Loans and advances to customers increased from LBP 2,473 billion to LBP 2,654 billion reaching a growth of 7.33%. Net loans and advances to customers increased by 2.37% in 2016 to reach LBP 2,531 billion, due to the build-up of provisions on its loan portfolio. It is worth mentioning that 40.19% of the Bank's net loans are granted to Small and Medium Enterprises (SME). Through its prudent management of its liquid assets, BBAC's liquidity ratio stood at 79.86% in 2016 against 76.87% in 2015, mainly caused by 10.98% increase in net liquid assets. The growth in assets is supported by a growth of 6.83% in total deposits from LBP 8,052 billion in 2015 to LBP 8,602 billion in 2016. BBAC has a loyal and well diversified customer base contributing to its deposits' growth. This is attributed to the Bank's reputation and transparent dealing with customers.

As to capitalization, BBAC issued five million non-cumulative redeemable preferred shares "C" worth USD fifty million in the last quarter of 2016; thus, supporting the rise in total equity from LBP 721 billion in 2015 to LBP 856 billion in 2016 at a growth rate of 18.63%. In addition, BBAC's total regulatory capital reached LBP 786 billion in 2016 reinforcing its capital adequacy ratio at 15.01%.

In 2016, BBAC achieved a growth rate of 15.3% in net profit which stood at LBP 77.53 billion, the highest figure from 2013. This is partially due to the capital gains from the special SWAP deals with the Central Bank of Lebanon. It is worthy to note that following its conservative policy, BBAC was extremely committed to the International Financial Reporting Standards (IFRS9) in accounting for the SWAP capital gains. Return on average assets (ROAA) and Return on average equity (ROAE) increased to 0.82% and 9.83% respectively due to the growth in net profit.

BBAC celebrated its 60th anniversary in 2016 marking its journey with success, progress and commitment to render the best service that creates value to its clients and the community as a whole. The Bank has always adopted innovations in the international banking and financial system to adhere to customers' current and future needs and aspirations. As a result, the World Union of Arab Bankers (WUAB) awarded BBAC for being the "Best Customer Service Bank" for 2016; thus, reaffirming its goal as "Your Caring Bank" in providing premium and tailored services to customers.

Being a leading Lebanese bank in Iraq, and in the process of expanding its presence and market share and grasping new investment and business opportunities, BBAC has officially launched its operations in the newly opened branch in Sulaymaniyah adding to its two branches in Erbil and Baghdad. Moreover, the Bank is in a preparatory phase of opening a new branch in Bechara El Khoury region in Beirut in 2017 to further strengthen its presence in Beirut area; thus, increasing its branch network in the Capital.

BBAC is aware that its role is not confined to providing financial services and solutions to clients, but also extends to the welfare of the society at large. In that context, BBAC is actively contributing to the Corporate Social Responsibility providing ongoing support to the enhancement of the community in its different aspects including charitable donations, environment protection, and art and culture advancement.

The Bank looks positively towards the future. It is in continuous search for new markets and clients to serve in the region and worldwide. The loyalty and trust of its customers, dedication, motivation and competence of its employees, and vision, prudence and professionalism of its management form the basis of BBAC's success and growth. To our stakeholders, we extend our gratitude and appreciation for their support to the Bank's objectives and strategic goals.

Sincerely,

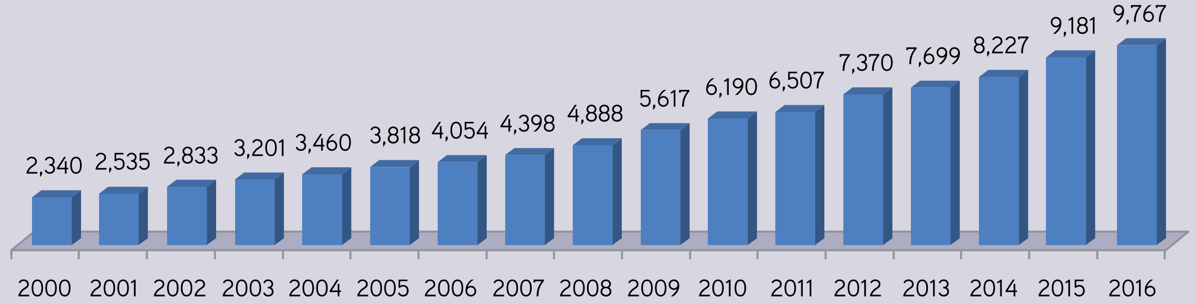
Ghassan T. Assaf
Chairman and General Manager

Management

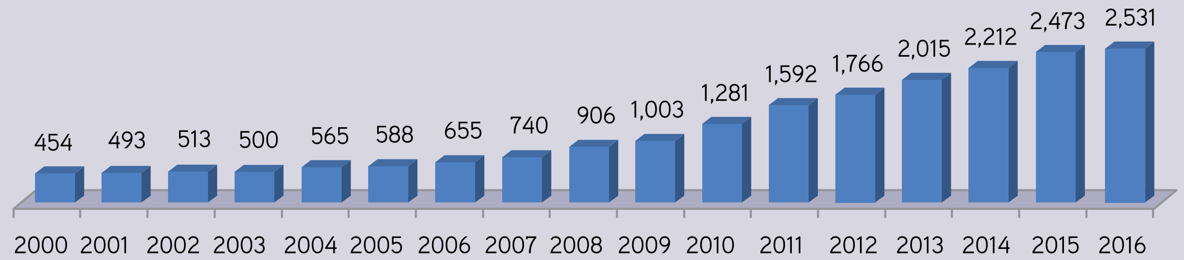
Financial Highlights

Evolution of Key Indicators (LBP billion)

Assets



Loans to Customers and Related Parties



Deposits from Customers and Related Parties

Shareholders' Equity

Net Profit

Selected Financial Data

	2016 (LBP million)	2015 (LBP million)	Growth 2016 /2015
Total Assets	9,767,339	9,180,741	6.39 %
Total Loans	2,531,380	2,472,772	2.37%
Total Deposits[1]	8,602,048	8,051,972	6.83%
Net Liquid Assets[2]	6,869,290	6,189,585	10.98%
Shareholders' Equity	855,684	721,299	18.63%
Net Profit	77,532	67,264	15.27%

1- Exclude financial liabilities held at fair value through profit or loss (FVTPL)
2- "Liquid Assets" less "Deposits from Banks and Financial Institutions"

Loan Quality: Loans and Advances by BDL Classification	2016 (LBP million)	2015 (LBP million)	Growth 2016 /2015
Net Regular Loans [(1)]	**2,536,915**	**2,445,431**	**3.74%**
Add Collective Impairment on Loans and Advances	101,503	32,154	215.68%
Gross Regular Loans [(2)]	**2,638,418**	**2,477,585**	**6.49%**
Net Substandard Loans [(3)]	**26,193**	**3,635**	**620.58%**
Add Unrealized Interest	3,029	1,304	132.29%
Gross Substandard Loans [(4)]	**29,222**	**4,939**	**491.66%**
Net Doubtful and Bad Loans [(5)]	**(31,728)**	**23,706**	**-233.84%**
Add Unrealized Interest	43,801	36,492	20.03%
Add Provisions	130,084	53,286	144.12%
Gross Doubtful and Bad Loans [(6)]	**142,157**	**113,484**	**25.27%**
Net Non-Performing Loans [(3+5)]	**(5,535)**	**27,341**	**-120.24%**
Net Loans	**2,531,380**	**2,472,772**	**2.37%**
Gross Loans	**2,809,797**	**2,596,008**	**8.24%**
Net Non-Performing to Gross Loans [(3+5)/(2+4+6)]	**-0.20%**	**1.05%**	**-1.25 %**

Asset Quality

Gross regular loans increased by 6.49% in 2016 compared to 11.66% in 2015. Net regular loans for 2016 grew by only 3.74% due to the substantial increase of 215.68% in collective impairment. Net substandard loans increased by 620.58% in 2016 and net doubtful and bad loans decreased by -233.84% compared to -68.61% and 79.01% in 2015 respectively. As a result, net non-performing to gross loans ratio decreased from 1.05% in 2015 to -0.2% in 2016. Moreover, the ratio of non-performing loans to gross loans also increased from 4.56% in 2015 to 6.10% in 2016.

Gross loans recorded a growth of 8.24% in 2016 compared to 11.44% in 2015. This growth is mainly supported by the growth in gross regular loans. Total impairment for 2016 increased significantly by 215.68% as a result of the provision taken on gains on special swap deals with the Central Bank of Lebanon.

Key Ratios

Liquidity Ratios (%)	2016	2015
Net LBP Liquidity	93.16%	87.61%
Net FC (Foreign Currency) Liquidity	71.08%	69.51%
Net Liquidity (Total)	79.86%	76.87%
Loans / Deposits (LBP)	17.65%	20.44%
Loans / Deposits (FC)	37.20%	37.74%
Loans / Deposits (Total)	29.43%	30.71%
Liquid Assets / Total Assets	71.44%	70.54%
Asset Quality Ratios[1] (%)	**2016**	**2015**
Gross Doubtful and Bad Loans / Gross Loans	5.06%	4.37%
Gross Non-Performing Loans / Gross Loans	6.10%	4.56%
Provisions for Doubtful and Bad Loans / Gross Doubtful and Bad Loans	122.32%	79.11%
Provisions for Loans / Gross Loans	9.91%	4.75%
Net Doubtful and Bad / Total Assets	-0.32%	0.26%
Net Non-Performing Loans / Total Assets	-0.06%	0.30%
Capital Adequacy Ratios (%)	**2016**	**2015**
Capital Adequacy Ratio According to Basel II	15.01%	13.59%
Profitability	**2016**	**2015**
Average Assets	9,474,040	8,703,691
Average Equity	788,492	696,993
Return on Average Assets ROAA after Tax (%)	0.82%	0.77%
Return on Average Equity ROAE after Tax (%)	9.83%	9.65%
Number of Common Shares Outstanding (million)	144	144
Number of Preferred Shares “B” Outstanding (million)	8	8
Number of Preferred Shares “C” Outstanding (million)	5	
Earnings per Common Share (EPS) in LBP[2]	538	467
Earnings per Common Share (EPS) in LBP[3]	473	408
Dividends per Common Share (DPS) in LBP[4]	70	70
Dividends per Preferred Share “B” in LBP	1,055	1,055
Dividends per Preferred Share “C” in LBP	1,055	
Dividends Payout Ratio	25.21%	27.54%
Retention Ratio	74.79%	72.46%
Book Value per Common Share in LBP[5]	4,581	4,170

Management Efficiency Ratios (%)	2016	2015
Interest Paid / Interest Received	70.13%	70.96%
Net Commissions / Income[6]	14.33%	19.75%
Cost / Income[6]	51.32%	56.88%
Cost per Average Branch (LBP million)	3,085	2,568

1 Non-accrual interest is included in non-performing loans; unrealized interest is included in provisions
2 Before allocation of any dividends
3 After the allocation of dividends on Preferred Shares
4 An interest payment of LBP 1.4 million was made on Cash Contributions for the year 2015
5 Before distribution of dividends
6 Income before “Operating Expenses” and “Taxes”

Sources of Funds

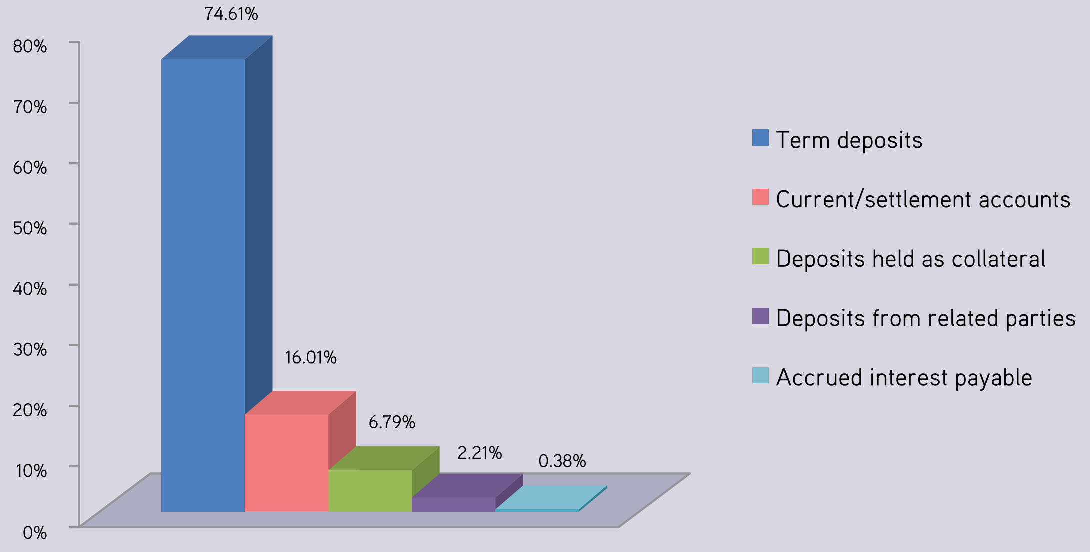
Since deposits constitute the largest and most significant source of funds for banks, BBAC has always worked on receiving deposits to support its growth and development. For 2016, deposits showed a growth of 6.83% compared to 12.68% in 2015. Among various types, term deposits, which grew by 8.65% in 2016, constitute 74.61% of total deposits compared to 73.37% in 2015.

Approximately 95% of customers’ deposits are denominated in LBP and USD. USD deposits constitute 55.21% of total deposits followed by 39.75% for LBP. In terms of growth, USD deposits grew by 7.76%, while LBP deposits grew by 4.46% in 2016. As to maturity, 87.90% of the Bank’s deposits are current maturing within a 12-month period compared to 89.53% in 2015. This decrease comes in favor of longer term maturities.

In the last quarter of 2016, BBAC issued preferred shares “C” for USD 50 million. This has contributed to the growth in both shareholders’ equity and regulatory capital. Equity has increased from LBP 721,299 million in 2015 to LBP 855,684 million in 2016 reaching a growth of 18.63%. This growth is the result of internally generated substantial growth of 14.91% in retained earnings, which form 35.35% of equity. As a result, book value per common share increased from LBP 4,172 in 2015 to LBP 4,581 in 2016.

Breakdown of Customers' Deposits by Type and Currency Mix

Customers' Deposits by Type and Currency Mix			Structure		% Change
	2016 (LBP million)	2015 (LBP million)	2016	2015	2016/2015
Term Deposits	6,418,408	5,907,565	74.61%	73.37%	8.65%
Current / Settlement Accounts	1,376,863	1,389,272	16.01%	17.25%	-0.89%
Deposits Held as Collateral	583,934	537,368	6.79%	6.67%	8.67%
Deposits from Related Parties	190,006	183,421	2.21%	2.28%	3.59%
Accrued Interest Payable	32,837	34,346	0.38%	0.43%	-4.39%
Total	**8,602,048**	**8,051,972**	**100%**	**100%**	**6.83%**
Of which Current	8,247,390	7,806,144	-	-	-
Of which Non-Current	354,658	245,828	-	-	-
Denominated as Follows					
LBP	39.75%	40.66%	-	-	-
Foreign Currencies	60.25%	59.34%	-	-	-



Liquidity

Liquidity is a very crucial element for a bank's success and continuity. The bank should be able to maintain high liquidity levels because shortfalls in liquidity will ultimately give rise to liquidity risk that leads to losses and penalties due to the bank's inability to fulfill its obligations and to fund increases in assets.

BBAC achieved the highest liquidity ratio of 79.86% in 2016 over a 4-year period (2013-2016). The Bank's LBP liquidity remarkably stood at 93.16% in 2016 compared to 87.61% in 2015 and its foreign currency liquidity recorded 71.08% in 2016 against 69.51% in 2015. This increase in liquidity is mainly driven by a 10.98% growth in net liquid assets versus a 6.83% growth in customers' deposits.

Total liquid assets increased by 7.76% from their 2015 figures. 57.43% of liquid assets are comprised of financial assets at fair value through profit and loss and amortized cost, which in their turn increased by 8.05% during 2016. The Bank still maintains stronger liquidity position in foreign currency with 54% of its total liquid assets denominated in foreign currency against 46% in LBP. The ratio of liquid assets to total assets rose from 70.54% in 2015 to 71.44% in 2016, affirming the Bank's ability to maintain high quality liquid assets, thus, minimizing liquidity risk.

Loans to deposits ratio decreased from 30.71% in 2015 to 29.43% in 2016 due to slight increase in loans of 2.37% against a larger increase of 6.83% in deposits. Liquid assets to deposits ratio increased from 80.42% to 81.12% in 2016, confirming the Bank's strong liquidity levels.

Profitability Ratios

BBAC achieved the highest net profit over a 4-year period (2013-2016) of LBP 77,532 million making a growth of 15.3% over the 2015 net profit of LBP 67,264 million. This is mainly the result of 33.18% growth in net operating income against 20.15% growth in operating expenses.

Despite the notable growth in net loan impairment charges and the shortfall in net fee and commission income, the growth in net trading income, net gain on investment securities and net gain from special swaps with the Central Bank elevated net operating income and contributed the most to net profit.

Return on Average Assets (ROAA) increased from 0.77% in 2015 to 0.82% in 2016, while Return on Average Equity (ROAE) increased from 9.65% in 2015 to 9.83% in 2016. The increase in both ratios is attributed to the 15.3% growth in net profit, which could offset the growth in average assets and equity.

Dividend payout ratio decreased from 27.54% in 2015 to 25.21% in 2016 as a result of the growth in net profit in spite the fact that dividends increased due to the issuance of preferred shares C in the fourth quarter of 2016. Consequently, retention ratio increased to reach 74.79% from the 2015 figure of 72.46%.

Board of Directors

Chairman-General Manager
Sheikh Ghassan T. Assaf

Vice Chairman
Judge Abbas El Halabi

Mr. Walid T. Assaf	Member
Mr. Ali Assaf	Member
Mr. Marc Maamary	Member
Mr. Ali Ghandour	Member
Assaf Holding Company S.A.L.	Member
Mr. Farouk Mahfouz	Member
Mr. Michel Tueni	Member
Me. Amine Rizk	Secretary of the Board

Major Shareholders and General Management

Major Shareholders

Assaf Family	54.453%
Fransabank s.a.l.	37.068%
Other Shareholders	8.479%

Legal Affairs Office

Judge Abbas El Halabi

Solicitors

Me. Chafic Khalaf
Me. Amine Rizk
Me. Ramzi Haikal
Me. Assaad Najm
S.E. Samir Jisr
Me. Paul Morcos
Me. Mazen Tajeddine
Bât. Bassam Daye
Me. Adnan Jisr

Auditors

PricewaterhouseCoopers – KPMG

Executive Advisors to the Chairman-General Manager

Mr. Georges Mirza	Credit Affairs
Dr. Amalia Azoury	Economic Affairs

General Management

Mr. Nadim Hamadeh	Assistant General Manager - Banking
Mr. Chawki Bader	Assistant General Manager - External Expansion
Mr. Marwan Abou Assi	Assistant General Manger - Finance and Administration
Mrs. Lina Makarem	Assistant General Manager - Treasury
Mr. Anwar Abou Ghaida	Accounting and Financial Control Division
Mr. Raja Makarem	Project Finance and SME Division
Mr. Camille Moujaes	Branch Network Division
Mrs. Wafaa Abed	Group Internal Audit
Mr. Bachir Yakzan	Risk Management Department – CRO
Ms. Najwa Kaedbey	Human Resources Department
Mr. Ali Al Danaf	Recovery and Restructuring Department
Mr. Wissam Maroun	Compliance Department
Mr. Francois Balaa	Information Technology Department
Mrs. Sabah Khatounian	Administration Department
Mr. Tarek Bilal	Marketing Department
Ms. Nahed Zeid	Cards and Electronic Banking Operations Department
Mrs. Hilda Ashkar	Operations Department
Mr. Elias Moukayed	Branch Management and Support Department
Mr. Marwan Abou Ibrahim	Corporate Credit Department
Mr. Maher Rahhal	Subsidized and Kafalat Loans Department
Mr. Salah Saab	Market Intelligence Department
Mrs. Joyce Abdelnour	Consumer Credit Department
Mr. Fadi Barakeh	Organization and Methods Department
Ms. Nawal Aziz	Project Finance Department
Mr. Salim Karam	Insurance Unit
Mr. Ibrahim Itani	Private Banking Unit
Mr. Wissam Al Aridi	Project Management Unit
Mrs. Hiam Halabi	Management Information System Unit
Mr. Labib Abou Dehn	Customers’ Rights Protection Unit

Corporate Governance

BBAC believes in the importance of sound Corporate Governance that guides the Bank forward while promoting the highest standards of conduct. Corporate governance is a set of laws, regulations, and policies that define the functions of the Board of Directors (BOD) and the top management of the Bank. These policies also govern the relationship between the BOD, senior management, shareholders, and other related parties.

BBAC recognizes that the key to its long-term success is to sustain public trust in the Bank which is accomplished through serving the Bank's clients and communities in the best way with the right values. Holding the highest standards of corporate governance and ethical conduct requires a set of strong corporate governance practices that allocate rights and responsibilities among the Bank's stockholders, BOD, and management in a manner that enhances shareholder value.

The Bank's management's processes, structures, and policies help ensure compliance with laws and regulations and provide clear lines of responsibility, decision-making and accountability. Accordingly, corporate governance practices are designed not just to satisfy regulatory requirements, but also to provide effective oversight and management of the Bank as a trustee for all stakeholders.

BBAC builds and protects its culture by aggressively promoting its core values and Code of Conduct to employees. Moreover, the Bank's current organizational structure aims to divide the different functions and responsibilities between the BOD, Executive Management, Operating Management, Board Committees, and Management Committees, which are involved in decision making; by setting clear grounds for control, separation of authorities, job specialization, responsibility and accountability. These functions ensure that the values of the clients and shareholders are preserved and that the resources are utilized in the most effective and appropriate manner.

Excerpts from BBAC's Ordinary General Assembly of Shareholders

Held on May 29, 2017

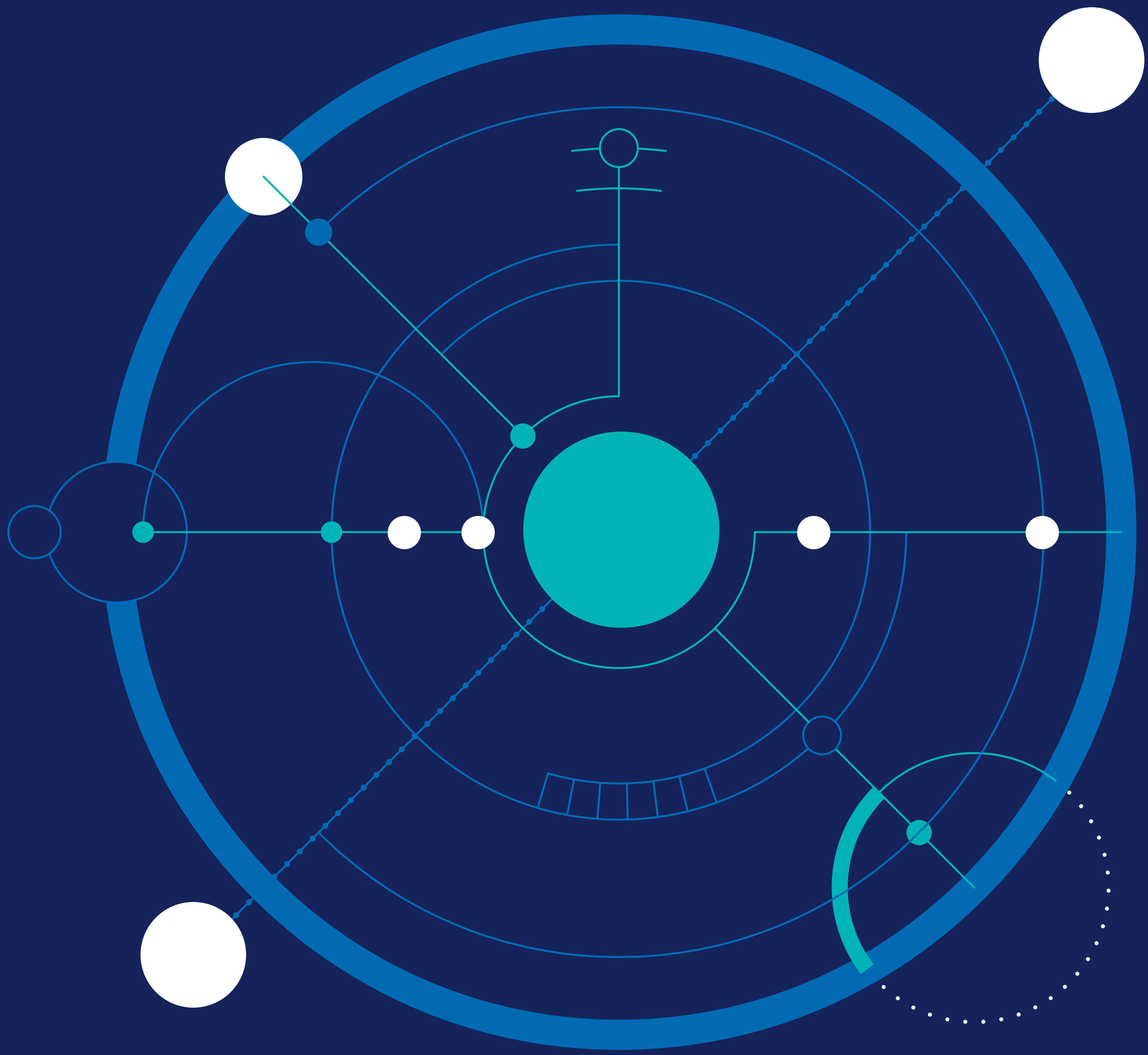
Resolution No. ١

The Ordinary General Assembly of BBAC Shareholders approved the activities, accounts, balance sheet and the profit and loss statements for the year ending December 31, 2016.

Resolution No. ٢

The Ordinary General Assembly of BBAC Shareholders resolved the appropriation of the profits for the year 2016 as follows:

(LBP thousand)	2016
Profits for the Year 2016	77,531,568
Less: Appropriation of Reserves for "General Banking Risks"	9,000,000
Appropriation of Reserves for "Legal Reserves"	7,858,142
Appropriation of Reserves for "Property in Settlement of Debt"	1,488,749
Appropriation of Reserves for "Retail Portfolio"	1,405,491
Unrealized Gain on Financial Instruments Held at Fair Value through Profit or Loss	9,134,917
Profits after Allocations	48,644,269
Add: Retained Earnings - December 2016	253,882,595
Total Retained Earnings - December 2016	302,526,863
Less: Dividends on Preferred Shares B	8,442,000
Less: Dividends on Preferred Shares C	1,024,000
Dividends on Common Shares	10,080,000
Interest on Cash Contribution	1,405
Retained Earnings Carried Forward	282,979,458



Management Discussion and Analysis

Basis of Presentation

The discussion and analysis that follows have been prepared by the management and are based on the audited financial statements of the Bank as at December 31, 2016.

The Bank's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

This analysis highlights the performance of BBAC in 2016.

Any reference to "BBAC" or the "Bank" stands for BBAC s.a.l. and its international branches and any reference to "BDL" signifies the Central Bank of Lebanon. Any reference to "Central Banks" implies BDL as well as the Central Banks, in countries where BBAC's branches operate.

Unless otherwise indicated, all figures are expressed in Lebanese Pounds, whereas all US Dollar amounts have been translated at the closing exchange rate which is published by BDL at the relevant dates, which remained at LBP 1507.50/USD.

Corporate Profile

BBAC s.a.l. was established as a commercial bank in 1956 under the name of "Bank of Beirut and the Arab Countries" by a group of prominent investors headed by Sheikh Toufic Assaf, Mr. Nashaat Sheiklard, and Mr. Jamal Shehaiber. Currently, 54.453% of the Bank's shares are owned by the Assaf family, 37.068% are owned by Fransabank s.a.l., and the remaining 8.479% are held by other shareholders.

BBAC offers a broad range of commercial and personal financial services including Retail Capital Markets, and Insurance Products.

BBAC currently has 39 branches spread over the Lebanese territories and it always aims to launch new branches to strengthen its presence locally, regionally and internationally. In addition to its existing three international branches – one in Limassol, Cyprus, and two in Iraq (Erbil and Baghdad) – the Bank opened a branch in Sulaymaniyah, Iraq. The opening of the Sulaymaniyah branch comes in line with BBAC's expansion strategy in Iraq, where the Bank has been crowned with success, encouraging it to invest and expand in order to earn a bigger share of the local market. The Bank is also aiming at opening a new branch in Bechara El Khoury, Beirut in 2017; thus, following its strategy of expansion and growth.

Mission Statement

Integrity

BBAC believes that a sound banking relationship is built on integrity and trust. Trust is achieved by conducting clients' personal and business transactions efficiently and with strict confidentiality.

Service

BBAC constantly strives to recognize and satisfy evolving customers' needs by developing services, products and solutions tailored to meet their requirements.

Growth

BBAC is committed to being a leading participant in the economic development of the community where it is present. The extent of the Bank's success in attaining this objective is reflected positively in the measure of its growth.

Business Overview

BBAC offers clients a wide range of financial products and services that varies from the traditional banking activities to the most recent financially engineered products. These are providedthrough:

Corporate and Commercial Banking

Fulfilling its role in stimulating the growth of the Lebanese economy, BBAC continuously seeks to provide existing and potential participants in the economy with optimum solutions for their business needs. By supporting and funding clients' business plans, whether they are business-oriented individuals or organizations, BBAC is able to capitalize on development opportunities.

BBAC continued to expand its credit portfolio benefiting from its high liquidity and its excess in deposits. In this regard, 2016 witnessed an increase in Commercial and Corporate portfolio, mainly due to the extension of new loans to corporate clients as well as to Small and Medium Enterprises (SMEs), whilst preserving the conservative credit practices of the Bank.

Despite the continuing economic challenges and political conditions prevailing in several key markets that triggered a slowdown in new lending in some markets and a decrease of exposure in other markets, BBAC managed to sustain a solid growth of lending which was the outcome of a strategy followed by the corporate and commercial banking department to maintain a strong relationship with customers during those challenging times and provide them with suitable solutions across the Bank's network.

In fulfilling the diverse needs of its clients, BBAC offers short and long-term loans as well as a variety of fixed and variable repayment loans. In addition, the range of facilities at BBAC extends from simple lines of credit and term loans to the more advanced forms of financing. These products are granted to entities in numerous industries, such as real estate development, construction, manufacturing, trading, among many others.

Moreover, as a way to support SMEs, BBAC presents various types of specialized loans, such as Kafalat Loans and Subsidized Loans for non-costly financing. These loans benefit from interest rate subsidies and expand to industries, such as tourism and agriculture, which are considered key players in increasing Lebanon's GDP and providing job opportunities to the population.

BBAC extended new loans covering a variety of sectors including fertilizer production, retail and commercial development, construction and contracting, real estate, and is currently processing to mandate and participate in several syndicated loans to finance oil drill and gas projects.

High expertise, integrity and quality of service represent the basis of the Corporate and Commercial Banking department's philosophy, whilst strictly adhering to the regulatory environment and internal policies governing project finance activities.

Retail Banking

BBAC offers a wide variety of innovative products and services, including retail loans, credit cards, mortgages and savings and term deposit accounts to serve the various financial needs of customers and help them reach their goals and aspirations.

BBAC is committed to building long-term relationships with its customers, and aims at making daily banking and financial decisions easier and creating the best experience for its customers across all touch points.

BBAC has tailored a collection of secure electronic banking services (Online Banking for personal and business customers, Mobile Banking and Mobile Payment) to provide supreme comfort and satisfaction to its customers, as well as accelerate and facilitate the completion of banking operations wherever they are and at any time. BBAC has also taken every precaution necessary to ensure a climate of trust and to protect the confidentiality and the security of its customers' financial and payment information.

In order to match the customers' needs and preferences, BBAC recommends customized banking accounts and products to clients who wish to control their payments, save money or make future plans. These particular accounts and products are comprised of Domiciliation Accounts, Current Accounts, Savings Accounts and Fixed Term Accounts, in addition to the direct debit of service bills.

BBAC also offers a number of personal loans, such as Public Sector Loans, Private Sector Loans, Small Business Loans, Educational Loans and Outlet Loans to meet consumers' different plans easily. With a strong emphasis on providing unparalleled customer service, the Bank continually invests in evolving its products and services to meet the changing needs of its customers.

Moreover, BBAC strives to meet the increasing financial demands of the Lebanese housing sector through various mortgage offers, including the Iskan Housing Loan, Military Housing Loan, Internal & General Security Forces Housing Loan, BDL Housing Loan, Displaced Housing Loan, Expatriate Housing Loan and BBAC's own housing loan program.

In 2016, Housing Loans backed by mortgages made approximately 65% of the consolidated total consumer loan portfolio, followed by Personal Loans with 21%, Car Loans with 12% and Credit Cards with 2%.

BBAC has always demonstrated its commitment to women through an array of products and services designed to cater to their banking and financial needs. Through the 'Mother Account', BBAC became the first bank in Lebanon to welcome and allow mothers to open an account for their children independent of the father's legal consent. Moreover, BBAC dedicates each year the whole month of March to honor and celebrate women by presenting exclusive offers on a uniquely arranged bouquet of banking products that suit their tastes and meet their financial needs. In parallel, the Bank also offers the 'Diamond Card', which is designed exclusively for women and offered to them free of charge for life with a chance to win valuable prizes of jewelry and diamonds.

In light of the growing payment services, BBAC also offers a diversified payment cards portfolio such as the 'Classic', 'Gold' and 'Platinum' Credit Cards designed to offer financial flexibility and purchasing power relative to need and lifestyle. Other credit cards are also available, such as the 'Euro Card' for travel enthusiasts, which help avoid the hassle of exchange rates when travelling to Europe.

BBAC also provides its elite customers with the 'Visa Infinite Card', which offers a range of exclusive services that fall in line with their distinctive and luxurious lifestyle. For customers looking for a secure online shopping experience, BBAC offers the 'Internet Card', which is a charge card designed to provide a sense of confidence and flexibility when making purchases over the Internet.

Always keeping in mind the responsibility it bears as a Lebanese institution, BBAC offers its clients an opportunity to contribute to humanitarian causes through the following two credit cards: the 'CCCL Card' that donates 1% of the purchases made to the Children's Cancer Center of Lebanon (CCCL) to help treat children with cancer; and the 'Kunhadi Card' that grants 1% of the purchases made to the Kunhadi Association for youth awareness on road safety.

In 2016, BBAC launched its new loyalty program 'MyRewards'. The program rewards the Bank's cardholders with points they collect automatically when they use their BBAC credit cards for purchases at any point of sale, in Lebanon and abroad, and which can be redeemed for a variety of rewards that scopes from cash, travel, and electronics to gift vouchers, leisure and donations, of which value is determined according to the number of points accumulated.

With 'MyRewards' program, cardholders can combine the points earned on BBAC's different credit cards in one account, and benefit from a higher point balance and more valuable rewards, as well as redeem lesser points for valuable rewards online, by following easy steps on the program's website: www.bbacmyrewards.com .

The Bank is also working on introducing new types of cards, focusing particularly on the needs of the young demographic.

BBAC was awarded "Best Customer Service Bank" for 2016 by the World Union of Arab Bankers (WUAB), recognizing the Bank's commitment to its customers, by providing the best banking services and products, and constantly working on developing practical and efficient solutions that contribute positively to the lives of its clients, and meet their future aspirations whether locally or abroad.

Private Banking

The Private Banking unit offers personal financial and investment services to the Bank's high-net-worth clients through a dedicated professional team. The timely services are rendered with confidentiality and trust and include trade execution, portfolio administration and advice on investment opportunities and market insights.

The Private Banking team performs global market research to identify new active markets in financial services; in addition to monitoring Money and Capital markets and carrying out market studies and technical analysis. The Private Banking unit offers a wide variety of trading services in several simple and sophisticated financial products such as derivatives, futures, options, equities, and commodities.

The Private Banking Unit has a wide client base and it is continuously targeting for high-net-worth individuals by promoting the Bank's financial products and wealth management services, which allows the Bank to constantly improve its profitability and financial stability.

Treasury and Capital Markets

The main function of the Treasury department is to manage the Bank's liquidity and cash position by evaluating the daily liquidity report and interest rate fluctuations. Through its various sections, the Treasury department engages in several foreign exchanges, money market and capital market operations guided by the regulatory authorities' rules and regulations and the policies and procedures set by concerned committees such as the BOD and Asset Liability Management Committee (ALCO).

When conducting its transactions, the Treasury department aims at maximizing the Bank's return and profit by seeking suitable market opportunities and investments given the Bank's risk exposure limits.

The Treasury department manages a diversified investment portfolio with various asset classes including equities and fixed income securities, aiming at investing excess liquidity to generate high returns in compliance with ALCO and the BOD decisions. The Treasury department also identifies placements and borrowing needs in line with the Bank's policies in order to maintain strong liquidity position.

The Treasury department performs its trading and investment activities through Beirut Stock Exchange, regional and international exchanges and major Correspondent banks. It provides the Bank's clients with round-the-clock services in FX spots, forwards and financial instruments, among others. The transactions are executed in a fast and accurate manner ensuring high quality customer service.

Insurance Services

BBAC differentiates itself by providing its clients with ultimate customer care and a broad portfolio of products and services that address the entire range of its clients' financial well-being objectives. Accordingly, the Bank offers insurance services as well as savings plans throughout its branch network in partnership with insurers known for their solidity, security, and expertise.

In collaboration with The Capital Insurance and Reinsurance Co. s.a.l., a subsidiary of BBAC, the Bank offers flexible and competitive insurance products that are especially designed to satisfy all clients' requirements in terms of premium, cover, security, and services. These products include: (1) Term Life Insurance & Personal Accidents; (2) Private Car Insurance (All Risk, TPL, Total Loss, Orange Card); (3) Cargo & Marine Insurance (Sea Freight, Air Freight, Hull & Machinery); (4) Public Liability; (5) Workmen's Compensation (Employer's Liability); (6) Money Insurance & Financial Risks (Cash in Safe, Cash in Transit, Fidelity Guarantee); (7) Foreign Domestic Helper Insurance (Life and Medical Expenses Covering Domestic Workers); (8) Home Insurance (Burglary, Fire, Neighbors, Earthquake & Allied Perils); (9) Travel Insurance; (10) Engineering Risks (C.A.R., E.A.R., Machinery Breakdown, Electronic Equipment All Risks).

BBAC offers two investment plans, JANA Retirement Plan and NAJAH Education Plan, in partnership with Allianz SNA s.a.l., that were certified by the Lebanese Capital Markets Authority under resolution No. 6/5/15 for JANA and 7/5/15 for NAJAH issued on March 10, 2015. These plans are designed to give BBAC's clients and their families' protection and guaranteed benefits, offering the opportunity to safeguard their financial future.

Information Technology

The Information Technology (IT) department continuously works on updating the foundation of the business applications. This ensures proper alignment with the Bank's strategy of having a platform that is able to undertake the digital transformation program and reply to future development and capabilities.

The IT department's strategy is to follow the digital banking trend with respect to data availability, confidentiality and security, as well as to deliver innovative products and services in-line with evolving technologies.

The Bank invested in an integrated solution based on Service Oriented Architecture (SOA), which enables easier streamlined integration across systems/channels and ensures a fast time-to-market.

The Bank also introduced a new loyalty system that is not only linked to cards but it also covers a wider scope where it tracks all customer activities and translates them into points, in addition to the introduction of "Online Redemption" that is available through an advanced portal with the aim of facilitating the redemption of loyalty points.

The IT department's existing information system infrastructure allows the Bank to easily introduce new products and services to its clients across multiple channels. This infrastructure is being frequently improved regarding agility, reliability and high availability based on enterprise storage consolidation, servers and desktop virtualization.

On the other hand, the IT department is highly committed to maintaining and enhancing the security of the IT infrastructure in order to protect customer channels and services that are provided online, as well as improving the hardening of internal application platforms.

Regarding Business Continuity, disaster recovery sites and data protection technologies, the IT department provides a robust infrastructure through the implementation of a three-site data center replication setup that links together the Bank's primary, high availability and remote disaster recovery data centers.

The Bank successfully tested IT continuity drill scenarios, covering the critical operations in Lebanon and overseas branches. This test is repeated on a yearly basis.

Compliance

As part of the regulatory effort in combating financial crime, BBAC has established its Compliance department in accordance with law 44 and BDL circular No. 83.

The Compliance department functions are independent from any other business or control activity within the Bank, as it reports all noted deviations and Compliance issues to the Bank's assigned Compliance Committees at the level of the Board and Senior Management. The Compliance team plays a major role in assisting Senior Management in identifying and mitigating Compliance risks and threats.

The Compliance tone is set by the BOD and Senior Management, who ensure that the Bank is endowed with the necessary tools and resources needed in order to comply with all applied laws and regulations, as well as protect the integrity and reputation of the Bank and its relationship with all its stakeholders, including that of its correspondent banks, against all financial crime threats. Accordingly, BBAC has set an effective compliance program that promotes the highest level of professional and ethical standards when conducting its business.

The Bank's compliance program is subject to an annual review from external auditors, in addition to periodical reviews conducted by the Bank's Internal Audit department to ensure compliance with the latest laws and regulations.

As part of its continuous effort in fighting financial crime, and in compliance with law 44 and its related BDL circulars, BBAC has established the below mentioned three sections within the Compliance department and has equipped them with the necessary qualified officers:

AML/CFT and Sanctions

The role of the AML/CFT and Sanctions section is to ensure that the Bank is operating in compliance with the applicable laws related to fighting money laundering and terrorism financing. The section plays a major role in enhancing the level of awareness among staff with respect to the financial crime risks, and in setting the appropriate guidelines that help in identifying the Bank's customers, detecting and reporting suspicious activity, and maintaining a healthy business growth.

Legal Compliance

The Legal Compliance section plays a major role in tracking and communicating new or amended regulations. Furthermore, the section monitors the Bank's business activity in order to ensure compliance with the applicable laws and regulations, to detect and to report violations, and to support Senior Management in setting the necessary corrective measures.

FATCA and CRS

As part of the International effort in combating tax evasion, and in compliance with the FATCA and Common Reporting Standard requirements, the Bank has established the FATCA and CRS section within the Compliance department, which is responsible for coordinating with all the stakeholders in order to design and develop an effective program for the implementation of the FATCA and CRS rules, as well as to enhance the level of awareness among the involved staff through regular trainings and continuous follow-up of the latest guidelines associated with this area.

Risk Management

BBAC continues to improve its risk management practices through updating its policies and procedures, enhancing its controls, and developing various risk measurement techniques.

BBAC regularly updates its Code of Corporate Governance, which clearly segregates the functions and responsibilities between the BOD and the executive management. In line with the Bank's Code of Corporate Governance, the Chief Risk Officer (CRO) heads the Risk Management Department and reports directly to the Chairman-General Manager and to the Board Risk Committee.

The role of the Board Risk Committee reflects the constructive Board engagement in actively exercising judgment as to any change in the risk profile of the Bank. The committee meets regularly to discuss the different risk reports; study and approve risk management policies, risk limits and methodologies, ICAAP reports; and give directions and recommendations on risk related issues to the executive management.

The Bank adopts the three lines of defense model where a clear separation of functions exists between front office, control, and support functions. The relationship between these functions is clearly defined and responsibilities are properly assigned.

The Bank regularly reviews and updates its well-structured authorization matrix to keep it aligned with the Bank strategy and organizational changes.

The department deploys risk management beyond compliance activities to achieve organizational objectives and protect enterprise value, while having a clear grasp on business risks and controls and binding risk to return.

Risk Management Framework

BBAC has a main objective to maintain an effective risk management framework. Accordingly, all risk management policies are aligned with the Bank's risk appetite, and risks are properly monitored against the set limits. Risk Management procedures were designed to identify, measure, monitor and manage the principal risks the Bank assumes in conducting its activities.

During ٢٠١٦, the Bank has developed a stress-testing framework. Idiosyncratic as well as systemic stress tests are regularly conducted to measure the impact of stressful scenarios on the Bank capital adequacy, profitability and liquidity.

In support of the IFRS٩ implementation, the Bank has enhanced its methodologies in measuring credit risk and started developing its internal models and in-house programs to calculate the Expected Credit Losses as per the new standard.

Credit Risk

Credit Risk Appetite and prudent credit risk policy are in place. The credit policy is supported by a well-controlled yet quick and efficient credit granting and underwriting processes with clear approval limits. Credit processes ensure credit exposures are regularly monitored, exposures with counterparties adhere to the set limits and credit worthiness of counterparties is continually assessed. Approval limits are monitored on an ongoing basis and are reviewed on annual basis. The overall effectiveness in managing credit risk is reflected by the relatively high quality of the loan portfolio.

BBAC uses Moody's Risk Analyst as an internal rating system for rating its Corporate and Commercial borrowers. The internal rating system supports the Bank in assessing the quality of its portfolio and sets the plan to adopt internal rating-based approaches under Basel II accord. In addition, the Bank conducts regular impairment tests assessing all credit facilities for objective evidence of impairment.

In relation to Retail Credit Risk, the Bank benefits from an in-house developed application scorecard to assess the creditworthiness of its borrowers; this scorecard is being back-tested and updated on annual basis to ensure more accurate representation of credit risk.

Market Risk

The Market Risk Management policy developed by BBAC details the roles and responsibilities and sets clear limits for the allowed investments. The Bank maintains a relatively small trading portfolio (FVTPL) that does not have a substantial impact on the overall performance of the Bank or on its capital adequacy. The Bank's financial securities are mainly held at amortized cost.

In its preparation for IFRS 9 standard adoption, the Bank is considering changing its business model to establish a portfolio of Fair Value through other Comprehensive Income (FVTOCI) securities.

During 2016, the Bank acquired an Asset Liability Management System and started working on implementing it. This software will help the bank in managing different types of risks such as Interest Rate in the Banking Book, Liquidity Risk and Market Risk in a dynamic way; and supports the application of advanced techniques introduced by the recent Basel documents.

Liquidity Risk

BBAC's Liquidity Risk policy defines internal liquidity risk limits and early warning indicators in addition to a Contingency Funding Plan.

The Bank maintains a high level of liquidity reflected by internal ratios that considerably exceed the regulatory minimum set by the local regulations. Liquidity Coverage Ratio and Net Stable Funding Ratio are above the minimum requirements after applying major cuts on High Quality Liquid Assets.

Interest Rate Risk in the Banking Book

Interest Rate Risk in the Banking Book is managed through limits set for the impact on the Net Interest Income and the Economic Value of the Equities. The impact of changes in market on Interest Rate Risk in the Banking Book is captured by stress tests, which are carried out on a regular basis.

Operational Risk

Operational risk is managed through periodic risk and control assessments across BBAC, a detailed Loss Incidents database, which is supported by well-applied event capturing procedures and continuous awareness sessions. In addition, thorough operational risk assessments are being conducted on all new and updated products and services applied by the Bank before launching them. Key risk indicators are being defined for key risks identified.

The risks identified are assessed against the impact they may cause (whether financial or non-financial) and the frequency of their occurrence. Action plans are triggered to reduce the impact and frequency of risks to an acceptable level through enhancements of the control environment.

During 2016, the Bank has acquired an operational risk software to integrate all operational risk functionalities in a centralized role based application and started implementing it.

Information Security and Business Continuity

BBAC is continuously enhancing its management information systems and information security systems by investing in new solutions that serve in adopting advanced risk management methodologies and help in establishing a more controlled environment. Necessary IT measures are also taken to keep improving and refining the quality of data. Security Policies and Procedures have been updated and comprehensive IT Risk assessments have been conducted along with physical security visits and reporting to all local and foreign branches.

Information security monitoring is being performed on daily basis along with security reviews, hardening for the IT infrastructure and necessary security testing for all applications supporting the launching of its new e-services.

Strategically, the Bank is following the ISO27001 international standard as an Information Security Management System and practicing it in its day-to-day business in an aim to reach full compliance and be certified in the short term.

The Bank is yearly covering all recurring recommended security testing (internal/external penetration testing and IT Risk assessment) for its foreign branches (Cyprus and Iraq), which became mandatory now by the local Central Bank in each country.

To preserve high quality of service to its customer and ensure the continuity of its business operations, the Bank has established a disaster recovery site along with a detailed business continuity plan. The plan is tested regularly. In addition, to ensure the safety of its personnel, the Bank has put in place an evacuation procedure that was tested through repeated fire drills.

Other Risks

BBAC continuously monitors its exposure driven by other types of risks and takes the necessary measures to properly mitigate them. All material risks such as concentration, legal, compliance and others are routinely identified, assessed, measured. As a result, proper controls are added to ensure optimum mitigation of these risks.

Internal Capital Adequacy Assessment Process

BBAC strictly complies with local regulatory requirements and follows Basel guidelines when assessing its capital needs on an ongoing basis.

Following regulatory requirements, the Bank addressed Pillar 1 risks through standardized measurement approaches for Credit and Market risks and Basic Indicator approach for Operational Risks. Pillar 2 risks are addressed through the Internal Capital Adequacy Assessment Process (ICAAP). The ICAAP is conducted on a yearly basis to ensure the available capital is aligned with the assumed risks.

The Bank considers the ICAAP as an integral part of the capital planning process and complements it by a set of stress tests that are applied to ensure the adequacy of the capital base in stressful situations.

Capital Adequacy

BBAC aims at maintaining a strong capital base that will ensure the adequate level of capital needed to support the development of its business while complying with regulatory requirements.

The composition of the Bank capital is summarized as follows:

Capital Funds as per Basel III (LBP million)		
As of December 31	2016	2015
Total CET1	565,983	535,467
Total Tier 1	761,984	656,331
Total Capital (Tier 1 +Tier 2)	786,089	666,331

By the end of 2016, the three capital adequacy ratios were well above the regulatory requirements set by BDL (circular No.44), as shown below:

Capital Adequacy Ratio	BBAC		BDL Circular No. 44	
As of December 31	2016	2015	2016	2015
Common Equity Tier 1 Ratio	10.81%	10.92%	8.5%	8%
Tier 1 Capital Ratio	14.56%	13.38%	11%	10%
Total Capital Ratio	15.01%	13.59%	14%	12%

The major exposure of the Bank is the credit risk with 90.9% of total risk weighted assets. Credit risk weighted assets mainly include the sovereign risk exposures in the form of Central Bank Placements, Certificates of Deposits and Eurobonds issued by the Lebanese government. They constitute 36% of credit risk weighted assets. The corporate portfolio reached up to 15% while the remaining portfolio of SME, Retail, Housing and Claims Secured by Commercial Real Estate represents 31% of Credit Risk weighted assets.

Risk Weighted Assets (LBP million)				
As of December 31	2016	% of total RWA	2015	% of total RWA
Credit Risk	4,756,066	90.9%	4,439,849	90.5%
Market Risk	126,361	2.4%	151,593	3.1%
Operational Risk	352,410	6.7%	313,132	6.4%
Total Risk Weighted Assets (RWA)	5,234,837	100%	4,904,574	100%

Human Resources Management

By the end of 2016, BBAC had a total workforce of 833 employees; 50% of which falling under the age of 40 years and 76% of which are university degree holders.

The gender distribution was similar to 2015 with Males constituting 56% of the staff and Females 44% of the total staff population.

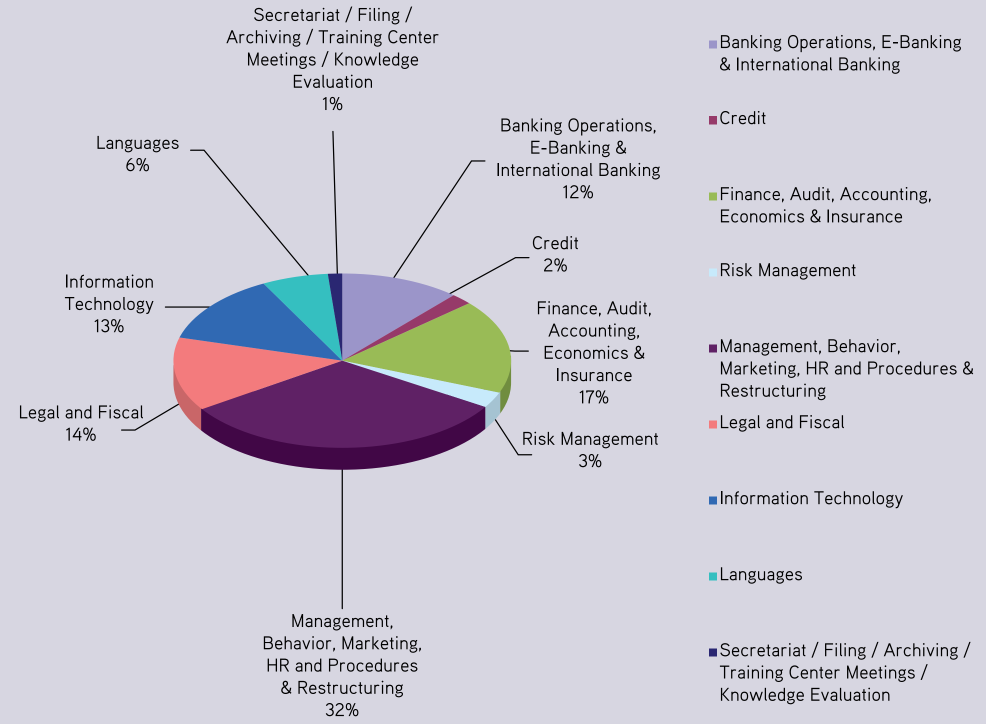
At BBAC, we are very keen on providing equal career and growth opportunities for all employees regardless of gender and this is clearly reflected in the high percentage of females currently occupying managerial positions at the Bank.

BBAC has always been committed to developing its workforce and encouraging its employees to evolve both on a professional and personal level by offering them the financial support needed to pursue post graduate studies or certifications.

Throughout 2016, BBAC took part in the annual job fairs of major universities such as the American University of Beirut (AUB), Lebanese American University (LAU), École Supérieure des Affaires (ESA), Sagesse University and Modern University for Business and Science (MUBS), in an effort to continuously connect with graduating students and attract potential talent for various positions.

BBAC also offered summer internships at its different branches during which interns were given the opportunity to learn about the various banking operations and activities offered by the Bank.

Distribution of Training Hours According to Training Subjects for ٢٠١٦



Corporate Social Responsibility

Since its inception in 1956, BBAC has been committed to serving the financial needs of its customers, while still upholding the highest ethical standards, and remaining supportive and engaged in local communities. As one of the leading banks in Lebanon, BBAC is cognizant that a responsible approach to business is a decisive factor in determining the long-term viability and success of the Bank. For this reason, BBAC's dedication to sustaining a sound financial standing and performance, providing the best banking solutions to its customers and practicing responsible employment comes in concurrence with a commitment to preserve the common interests of all its stakeholders through a best practice corporate governance framework that sets the tone and provides the foundation for all its banking and Corporate Social Responsibility (CSR) activities.

For BBAC, CSR is not a choice; it is a central business need. The Bank believes that its core responsibility as a corporation goes beyond having a purely financial impact and must also have a social impact. The two go hand in hand because it is only by delivering social and economic value today that the Bank can create long-term sustainable benefits for tomorrow. Over the course of 60 years, BBAC has consistently enhanced its ethical standards and has balanced social and economic imperatives to address the concerns and expectations of all its stakeholders. Today, it is advancing on its sustainable journey by setting CSR commitments across the whole business because BBAC understands that it is only through its own exemplary actions that it can continue to prove its reputation as Lebanon's 'Caring Bank'.

As part of its community development and strategic philanthropy efforts, BBAC actively engages in a range of well-selected and tailored CSR initiatives. Among some of its most prominent areas of engagement are health and the environment, economic affairs, humanitarian and social issues in addition to contributions in the arenas of culture and arts, sports, education and youth programs.

In addition to having a positive impact in the communities it serves through a spectrum of donations and sponsorships, BBAC relies on the valuable volunteering and fundraising efforts of its employees. It also engages in various types of partnerships with leading Lebanese non-governmental organizations (NGOs) and initiatives to maximize its reach and impact on the country's most vulnerable and disadvantaged community groups.

In another dimension, BBAC aims to contribute to economic growth and revitalization through varied and multiple contributions and targeted initiatives that help stimulate entrepreneurship and job creation. BBAC is specifically keen on assisting small and medium-sized enterprises (SMEs), which are considered the backbone of the national economy.

In this context, BBAC continued to promote various loans that possess socially responsible attributes, thus, offering borrowers favorable conditions such as interest rate subsidies. The Kafalat loan is one example, which is offered to SMEs operating throughout Lebanon in sectors such as tourism, agriculture, industry, high technology and crafts. These loans also encourage environmentally friendly investments and empower startups by committing the Bank's investments directly into different venture capital funds. The ultimate goal is to energize Lebanon's future economic development by creating an ecosystem that promotes investment and production in the country.

BBAC also supports the local economy in other ways, including meeting people's financial needs at the various stages of their business and personal life cycles and helping them reach their goals, whether they want to buy a home, expand their business, pay for college or plan for retirement.

BBAC is making steady progress with regard to social and economic responsibilities; however, it still has much work ahead before making sustainability a mainstream component of its business. The continued growth and sustainability journey is sure to present challenges as well as opportunities especially amid the still-difficult economic, social, environmental and political climate facing Lebanon. But whatever lies ahead, BBAC's commitment to responsible banking and its caring nature for the community will remain solid. That's BBAC's responsibility, that's its promise and the mission that inspires it to succeed.

Financial Activities and Performance Highlights

Overview of the Lebanese Economy and Banking Sector

Despite the social and geopolitical tensions caused by the Syrian war, and the uncertainty that continues to loom over the surrounding region, confidence in the Lebanese economy and in the Lebanese Pound remains solid, especially with the election of the new president in October 2016.

In 2016, Lebanon's real GDP growth accelerated slightly to reach 1.8% compared to 1.3% in 2015, this was mainly tied to the improvement in real estate sector and the continued increase in tourist arrival.

Moreover, the Lebanese banking sector continued to exhibit in the year 2016 a strong ability to weather domestic shocks and withstand risks initiated by regional developments. This ability can be attributed to several factors, particularly to the financial engineering launched by BDL with its main objectives to preserve economic steadiness, protect the Lebanese currency and maintain a stable interest rate structure.

The performance of the banking sector in Lebanon remains solid, with a growth of total banking activity of 9%, total assets grew to reach USD 204 billion by the end of 2016. Customers' deposits rose by 8%, reaching USD 172 billion. Growth of lending activity registered 5.4%, with total credit to private sector exceeding USD 58 billion, a growth of capital base by 9% to reach more than USD 18 billion; thus, complying with the IFRS requirements and the new international capital procedures.

Lebanese banks sustain their high level of liquidity, which allows them to support and finance the government and the private sector needs; in addition to the policies undertaken by BDL which have proven to be major drivers of the Lebanese economy with a positive outlook for the coming years.

Breakdown of Assets and Liabilities

Throughout the years, BBAC has managed its assets efficiently to generate the highest possible return. This is reflected in the fact that approximately 91% of the Bank's assets are interest earning and have grown by 6.95% in 2016. Trading and investment securities and loans and advances to customers and related parties comprise 72.88% of interest earning assets (44.77% for the former and 28.12% for the latter) and 66.15% of total assets. They made a growth of 5.82% over their 2015 figures and they contribute the most to interest and similar income by about 88%.

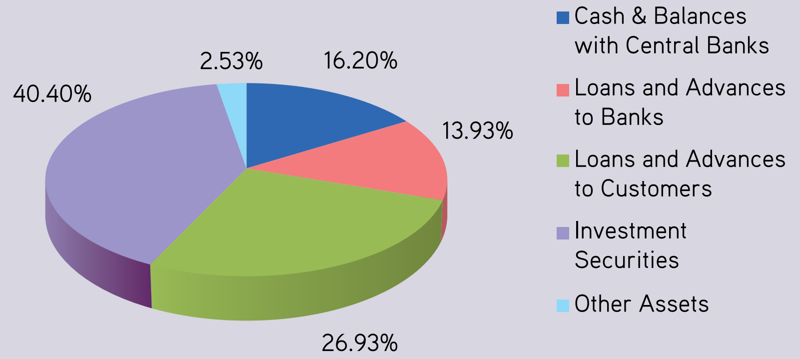
Breakdown of Assets by Interest-Earning and Non-Interest Earning Accounts

Interest and Non-Interest Earning Assets			Structure		% Change
	2016 (LBP million)	2015 (LBP million)	2016	2015	2016 / 2015
Balances with Central Banks	1,604,560	1,081,022	16.43%	11.77%	48.43%
Due from Banks and Financial Institutions	799,342	1,102,553	8.18%	12.01%	-27.50%
Trading and Investment Securities	3,968,806	3,668,671	40.63%	39.96%	8.18%
Loans and Advances to Customers and Related Parties	2,492,600	2,437,279	25.52%	26.55%	2.27%
Total Interest Earning Assets	**8,865,308**	**8,289,525**	**90.76%**	**90.29%**	**6.95%**
Total Non-Interest Earning Assets	**902,031**	**891,216**	**9.24%**	**9.71%**	**1.21%**
Total Assets	**9,767,339**	**9,180,741**	**100.00%**	**100.00%**	**6.39%**

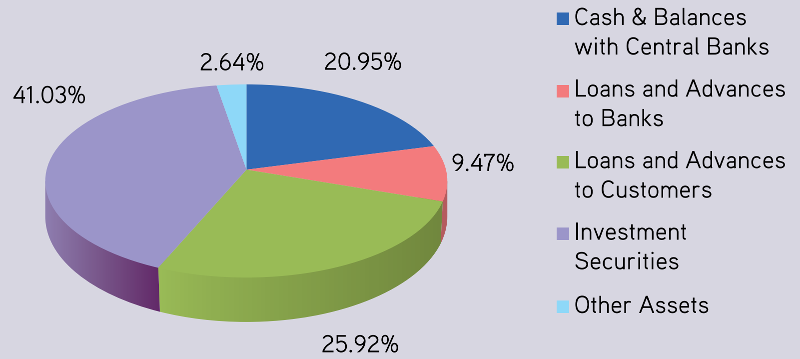
Asset and Liability Management

1. Use of Funds

2015



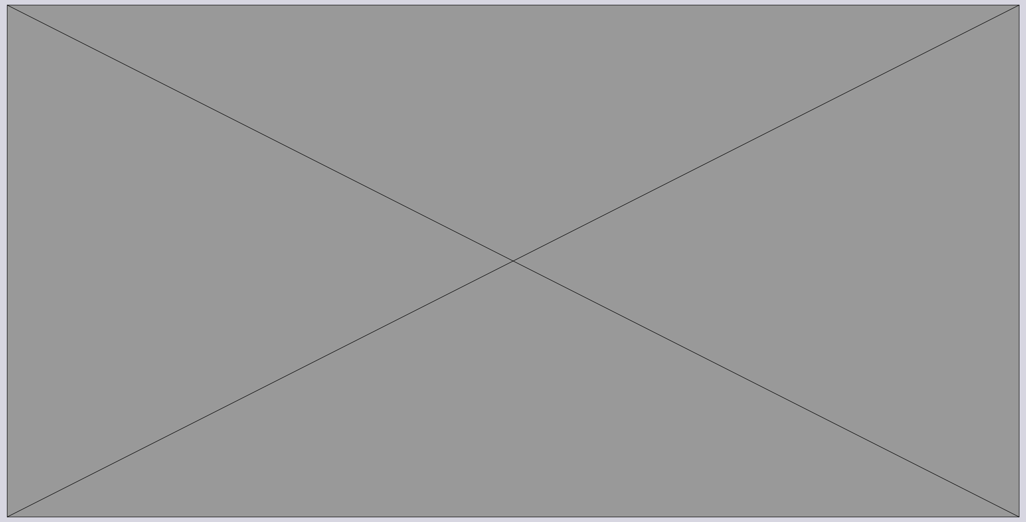
2016



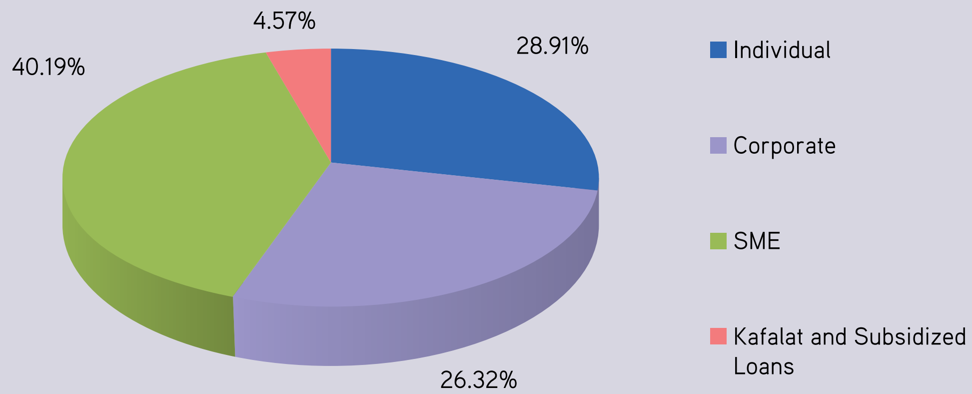
In 2016, BBAC's assets grew by 6.39% with a remarkable growth rate of 37.51% scored by cash and balances with central banks compared to 8.07% growth in 2015. This growth came at the expense of loans and advances to banks. Investment securities comprise 41.03% of total assets followed by loans and advances to customers, which comprise 25.92% of total assets. The growth rates in investment securities and loans and advances to customers are 8.05% and 2.37% respectively. 6.14% of investment securities are invested at fair value through profit or loss and 93.86% at amortized cost with no significant changes from 2015 levels.

2. Loans and Advances by Currency/Type

By Currency



By Type-2016



BBAC's loans and advances to customers for 2016 were LBP 2,531,380 million of which 71.70% are denominated in USD, 23.84% in LBP and 4.46% in other foreign currencies, including EUR and GBP compared to 67.58%, 27.07% and 5.35% respectively in 2015. The highest growth rate was in USD loans for 8.61%. This is supported by the fact that the highest proportion of deposits (55.21%) is denominated in USD. 90.90% of the Bank's total gross loans are performing and the remaining 9.10% are non-performing loans.

Loans and advances are divided into four major categories. Individual and Kafalat and Subsidized Loans form about 33.5% of the total loan portfolio with no significant change from their 2015 ratios. On the other hand, there was a slight shift in loans from corporate to SME, where SME to total loans ratio increased from 38.42% in 2015 to 40.19% in 2016.

3. Interest-Earning Loans by Geography

LBP 2,188,000 million of total loans of LBP 2,531,380 million, which form 86.44%, are concentrated in Lebanon compared to 87.03% in 2015. Loans to Arab countries form 10.23% of total loans against 9.46% in 2015. The percentage of loans granted to USA, Europe and other countries did not show material shifts from 2015.

Profitability and Efficiency

1. Interest Margin Analysis

	2016	2015
	(LBP million)	(LBP million)
Average Interest Earning Assets	8,577,417	7,812,099
Interest Paid	345,296	314,821
Interest Received	492,398	443,663
Net Interest Received	147,102	128,842
Cost of Average Interest Earning Assets (in %)	4.03%	4.03%
Return on Average Interest Earning Assets (in %)	5.74%	5.68%
Gross Interest Margin (in %)	**1.71%**	**1.65%**
Net Releases (Provisions) on Loans and Advances	(26,607)	(7,572)
Net Interest Margin (in %)	**1.40%**	**1.55%**
Average Interest Earning Assets to Average Assets (in %)	90.54%	89.76%
Gross Spread (in %)	1.55%	1.48%
Net Spread (in %)	1.27%	1.39%

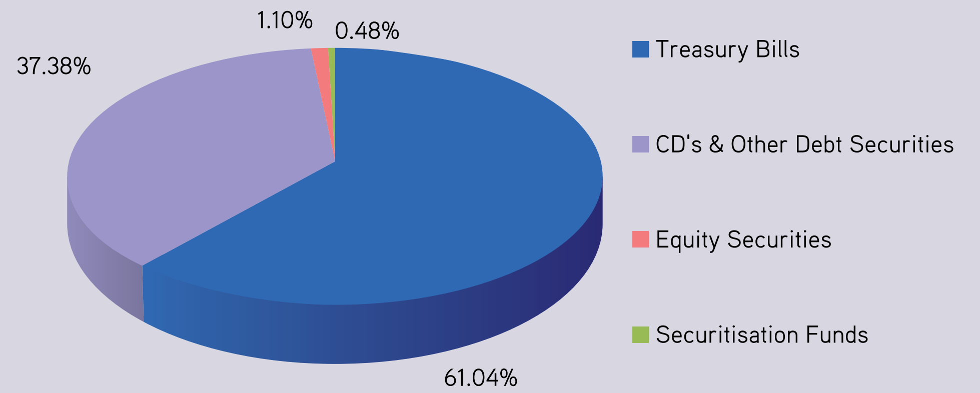
Net interest received in 2016 increased by 14.17% compared to only 2.76% increase in 2015. This was the result of 10.98% growth in interest received surpassing the 9.68% growth in interest paid.

Although cost of average interest earning assets did not change from the 2015 ratio of 4.03%, gross interest margin increased from 1.65% in 2015 to 1.71% in 2016 due to higher return on average interest earning assets in 2016 of 5.74%.

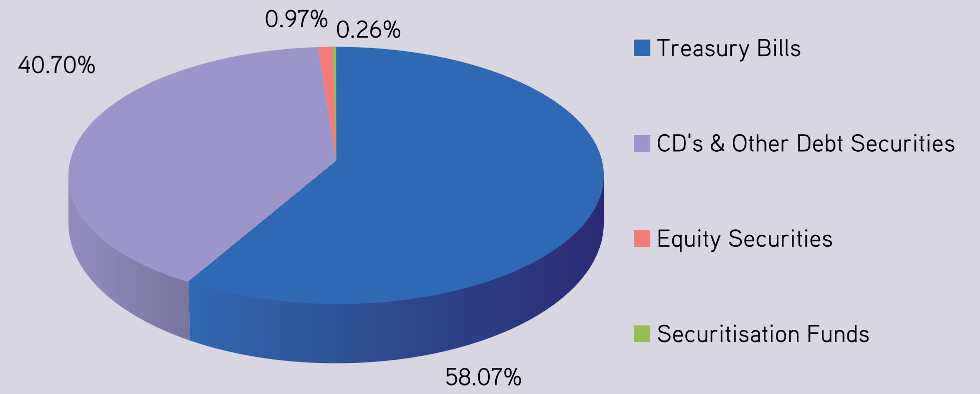
Net interest margin declined from 1.55% in 2015 to 1.40% in 2016 mainly due to the 251.39% growth in net provisions on loans and advances and high average interest earning assets. The high credit provision on loans in 2016 caused net spread to decline to 1.27% in 2016.

Breakdown of Investment Securities by Type

2015



2016



2. Profit Before Income Tax

Total operating income in 2016 scored a growth rate of 24.87% (excluding net gains from special swaps with BDL) compared to 7.68% in 2015. This huge growth is attributed to the 13.41% growth in net interest and similar income and 135.55% growth in net gain on securities at amortized cost compared to the growth of 3.11% and 33.53% in 2015 respectively.

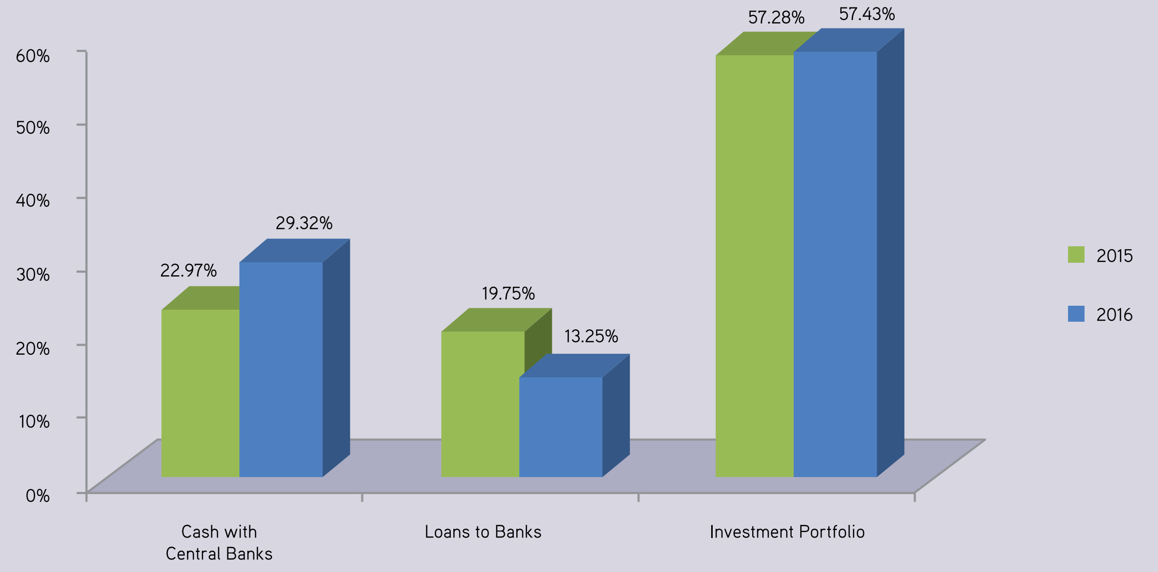
Taking net gain from special swaps with BDL into consideration, growth rate, in total operating income, rose to 41.56%. On the other hand, net operating income grew by 15.82% in 2016 due to the substantial growth of 251.39% in net credit impairment charges and by 33.18% if net gains from special swaps with BDL are taken into consideration.

Total operating expenses increased by 20.15% in 2016 versus only 4.76% in 2015, resulting from 13.70% growth in personnel expenses and 32.81% growth in other operating expenses. As a result, profit before income tax amounting to LBP 122,940 million in 2016 increased by 50.37% from 2015 figure of LBP 81,758 million.

3. Management Efficiency Ratios

In 2016, interest paid to interest received ratio declined slightly from 70.96% to 70.13% due to the 10.98% growth in interest received surpassing 9.68% growth in interest paid. Net commissions to income ratio decreased largely from 19.75% in 2015 to 14.33% in 2016 due to the 33.18% growth in income. This same principle explains the decline in cost to income ratio from 56.88% in 2015 to 51.32% in 2016.

Distribution of Liquid Assets



Net Interest and Similar Income

Interest and similar income witnessed a growth in 2016 of 10.98% against 10% in 2015. Interest from loans and advances comprises 47.95% of total interest and similar income, and it rose by 14.15% in 2016 against 11.80% in 2015, mainly driven by 8.33% growth in interest from loans to customers and 35.73% growth in interest from loans to banks and financial institutions.

52.05% of interest and similar income comes from financial assets at fair value through profit or loss and amortized cost, and it increased by 8.22% compared to 8.47% in 2015. Interest income from financial assets at fair value through profit or loss reached LBP 13,420 million in 2016 growing by 11.11% over LBP 12,078 million in 2015.

Auditors’ Report

CONTENTS

Independent Auditors' Report to the Shareholders of BBAC S.A.L.

Our opinion

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

What we have audited

The Bank´s separate financial statements comprise:

- The balance sheet as at 31 December 2016;
- The statement of comprehensive income for the year then ended;
- The statement of changes in equity for the year then ended;
- The statement of cash flows for the year then ended; and
- The notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor´s Responsibilities for the Audit of the Financial Statements* section of our report.

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

Independence

We are independent of the Bank in accordance with the *International Ethics Standards Board for Accountants´ Code of Ethics for Professional Accountants (IESBA Code)*, together with ethical requirements relevant to our audit of the separate financial statements in Lebanon. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our audit approach

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the separate financial statements as a whole, taking into account the structure of the entity, the accounting processes and controls, and the industry in which the entity operates.

Key audit matters

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

Area of focus	*How our audit addressed the key audit matter*
Impairment of loans and advances to customers	
At 31 December, 2016, the gross loans and advances to customers together with the impairment provision thereon amounted to LL 2.81 trillion and LL 278 billion respectively (refer to note 7). Impairment provisions represent management's best estimate of the losses incurred within the loan portfolio at the end of each reporting period. They are calculated on a collective basis for portfolios of performing loans of similar credit characteristics ("collective allowance for impairment") and on an individual basis for non-performing loans ("specific allowance for impairment"). We considered this a key audit area because the calculation of both collective and specific impairment provisions is inherently judgmental and dependent on assumptions determined by management and the provisions are considered to be material. Specific impairment allowances are dependent on the identification of impairment events, which differ based upon the type of lending product and customer. Judgement is required to determine whether and when a loss has been incurred.	We understood and evaluated key processes and controls that addressed: - The timely and proper identification of impairment events; - Whether the impairment models are being calibrated in a way which is appropriate for the impairment risks in the loan portfolios; - The transfer of data between underlying source systems and the impairment models; - The internal credit rating of counterparty facilities; and - The review and approval procedures that management has in place for the output of the impairment models. We performed detailed testing on the models used in calculating both identified and unidentified impairment. This testing typically included testing of the extraction of data used in the models, assessing the appropriateness of the assumptions used and re-performance of the impairment calculation for a sample of loans.

Collective impairment allowances are calculated using models that generally take account of the historical loss experience, the impact of current economic and credit conditions on portfolios of similar loans. The input to these models are subject to management judgement.

Judgement is applied by management to determine appropriate parameters and assumptions used to calculate impairment.
For example, the assumption of whether a default has occurred, the valuation of collateral for secured lending and the future cash flows of corporate and SME loans (for the computation of the specific allowance for impairment). Judgement is also required to consider whether historic experience is appropriate when assessing the likelihood of incurred losses in the portfolios (for the computation of the collective allowance for impairment).

Information on credit risk and the Bank's credit risk management is provided in note 3. The use of estimates and judgements in respect of impairment of loans and advances to customers is disclosed in note 4.

Disclosure of the impairment provisions and net credit impairment charges is given in notes 7 and 24.

Where impairment was identified, we selected a sample of loans and examined the forecasts of future cash flows prepared by management to support the calculation of the impairment, including those related to collateral values, challenging the assumptions and comparing estimates to external evidence where available. Where impairment has not been identified by management, we selected a sample of loans and formed our own judgement as to whether that was appropriate, including using external evidence in respect of the relevant counterparties.

We have also assessed the adequacy of the Bank´s disclosure on the allowance for impairment of loans and advances to customers and the related credit risk disclosures.

"Special swaps" with Central Bank

As explained in note 27C, the Bank availed itself of the special swap programme with the Central Bank of Lebanon which resulted in the recognition of an exceptional gain of LL 205 billion. In accordance with Central Bank intermediary circular no. 446 dated 31 December, 2016, adequate individual and collective impairment provisions (''loan loss provisions'') must be established and offset against the equivalent amount of the gain. In addition, the circular also requires that the residual amount of the gain, net of impairment provisions, is deferred until such time as the Central Bank of Lebanon approves its release and recognition in the profit or loss.

We checked a sample of individual transactions comprising the special swaps to supporting documents. In addition we checked the following:

(i) the detailed calculation performed by management illustrating the total gain arising on the special swaps, as well as the identification of the element of gain which would have been realised under normal market conditions;

(ii) compliance with the Central Bank circular with respect to the manner in which the gains were applied, specifically with respect to loan loss provisions;

We have focused on this transaction because we consider it to be both (i) a significant event and (ii) material to the financial statements.

Professional judgement was also required to determine the appropriate accounting treatment of the exceptional gain in accordance with International Financial Reporting Standards ("IFRS").

(iii) that both the gain and the loan loss provisions were properly accounted for in the income statement and netted off where appropriate in accordance with IFRS;

(iv) that the deferred portion of the gain which is subject to the Central Bank of Lebanon approval for final release is properly calculated and accounted for within other liabilities; and

(v) that the disclosure note adequately describes the accounting treatment of the gain on the special swaps.

Other information

Management is responsible for the other information. The other information of the Annual Report which includes the separate financial statements and our auditors' report thereon.
The Bank's 2016 Annual Report is expected to be made available to us after the date of our auditors' report.

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

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

When we read the 2016 Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate that fact.

Responsibilities of management and those charged with governance for the separate financial statements

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

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

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

Auditor's responsibilities for the audit of the separate financial statements

Our objectives are to obtain reasonable assurance about whether the separate 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 will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

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

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

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

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

- Conclude on the appropriateness of the managements' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate 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 Bank to cease to continue as a going concern;

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

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

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

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

The partners in charge of the audit resulting in this independent auditors' report are Andre Rohayem for PricewaterhouseCoopers and Wissam Safwan for KPMG.

PricewaterhouseCoopers

KPMG

PricewaterhouseCoopers

٩ June, ٢٠١٧
Beirut, Lebanon

Balance sheet at 31 December, 2016

	Note	2016 LL Million	2015 LL Million
ASSETS			
Cash and balances with Central Banks	5	**2,045,777**	1,487,683
Deposits with banks and financial institutions	6	**924,531**	1,278,673
Loans and advances to customers	7	**2,531,380**	2,472,772
Debtors by acceptances	8	**78,146**	63,525
Financial assets:			
- Fair value through profit or loss	9	**246,115**	229,358
- Amortised cost	10	**3,761,722**	3,480,039
Investment in subsidiaries	11	**3,524**	3,524
Investment properties	12	**7,338**	7,338
Property and equipment	13	**81,654**	84,941
Intangible assets	14	**2,362**	2,966
Other assets	15	**51,894**	39,648
		9,734,443	9,150,467
Non-current assets classified as held for sale	16	**32,896**	30,274
Total assets		**9,767,339**	9,180,741
LIABILITIES			
Deposits from banks and financial institutions	17	**108,855**	286,168
Current income tax liabilities	32	**35,556**	4,348
Deposits from customers	18	**8,602,048**	8,051,972
Engagements by acceptances	8	**78,146**	63,525
Other liabilities	19	**54,608**	26,991
Retirement benefit obligations	20	**32,442**	26,438
Total liabilities		**8,911,655**	8,459,442
EQUITY			
Share capital - common shares	21	**148,752**	148,752
Share capital - preferred shares	21	**13,429**	8,264
Share premium reserve - preferred shares	21	**182,547**	112,336
Cash contributions to capital	21	**36**	36
Other reserves	22	**208,394**	188,640
Retained earnings	22	**302,526**	263,271
Total equity		**855,684**	721,299
Total equity and liabilities		**9,767,339**	9,180,741

The financial statements on pages 52 to 125 were authorised for issue by the directors on 9 June, 2017, and were signed on their behalf by:

Mr. Ghassan Assaf
Chairman and General Manager

The notes on pages 57 to 125 are an integral part of these financial statements.

Statement of comprehensive income for the year ended 31 December, 2016

	Note	2016 LL Million	2015 LL Million
Interest and similar income	23	**492,398**	443,663
Interest and similar expenses	23	**(345,296)**	(314,821)
Net interest and similar income		**147,102**	128,842
Net loan impairment charges	24	**(26,607)**	(7,572)
Net interest and similar income after credit impairment charges		**120,495**	121,270
Fee and commission income	25	**44,032**	42,534
Fee and commission expense	25	**(7,855)**	(5,092)
Net fee and commission income		**36,177**	37,442
Dividend income		**3,407**	3,867
Net trading income	26	**14,451**	8,509
Net gain on investment securities at fair value through profit or loss	27a	**13,449**	3,830
Net gain on investment securities at amortised cost	27b	**30,021**	12,745
Net gains from "special swaps" with the Central Bank of Lebanon	27c	**32,913**	-
Other operating income	28	**1,613**	1,951
Personnel expenses	29	**(68,983)**	(60,669)
Depreciation and amortisation charges	30	**(7,266)**	(7,026)
Other operating expenses	31	**(53,337)**	(40,161)
Profit before income tax		**122,940**	81,758
Income tax expense	32	**(45,408)**	(14,494)
Profit for the year		**77,532**	67,264
Other comprehensive income		**-**	-
Total comprehensive income for the year		**77,532**	67,264

The notes on pages 57 to 125 are an integral part of these financial statements.

Statement of changes in equity for the year ended 31 December, 2016

	Share Capital						
	common shares LL Million	preferred shares LL Million	Share premium reserve LL Million	Cash contributions to capital LL Million	Other reserves LL Million	Retained earnings LL Million	Total equity LL Million
At 1 January, 2015	148,752	8,264	112,336	36	170,342	232,957	672,687
Total comprehensive income for the year	-	-	-	-	-	67,264	67,264
Transactions with owners of the Bank:							
Appropriations of retained earnings (note 22)	-	-	-	-	18,305	(18,305)	-
Dividends declared relating to 2014 (note 33)	-	-	-	-	-	(18,522)	(18,522)
Interest paid on cash contributions to capital (note 33)	-	-	-	-	-	(1)	(1)
Other	-	-	-	-	(7)	(122)	(129)
At 31 December, 2015	**148,752**	**8,264**	**112,336**	**36**	**188,640**	**263,271**	**721,299**
At 1 January, 2016	148,752	8,264	112,336	36	188,640	263,271	721,299
Total comprehensive income for the year	-	-	-	-	-	77,532	77,532
Transactions with owners of the Bank:							
Issuance of preferred shares "C" (note 21)	-	5,165	70,211	-	-	-	75,376
Appropriations of retained earnings (note 22)	-	-	-	-	19,754	(19,754)	-
Dividends declared relating to 2015 (note 33)	-	-	-	-	-	(18,522)	(18,522)
Interest paid on cash contributions to capital (note 33)	-	-	-	-	-	(1)	(1)
At 31 December 2016	**148,752**	**13,429**	**182,547**	**36**	**208,394**	**302,526**	**855,684**

The notes on pages 57 to 125 are an integral part of these financial statements.

Statement of cash flows for the year ended 31 December, 2016

	Note	2016 LL Million	2015 LL Million
Cash flows from operating activities			
Profit before income tax		**122,940**	81,758
Adjustments for non-cash-items:			
Net loan impairment charges	24	**26,607**	629
Loan impairment charges taken specifically against the exceptional gain and charged to income statement	27c	**122,660**	-
Allowance on impairment of balances with central Bank of Iraq (Kurdistan) charges	24	**-**	6,943
Depreciation charge	13	**6,198**	5,813
Amortisation charge	14	**1,068**	1,213
Loss on disposal of property and equipment	28	**47**	61
Gain on disposal of assets classified as held for sale	28	**-**	(156)
Net gain on investment securities at fair value through profit or loss		**(6,079)**	(3,050)
Net gain on investment securities at amortised cost	27	**(30,021)**	(12,745)
Dividends income		**(3,407)**	(3,867)
Provision for retirement benefit obligations	20	**8,036**	2,560
Other		**-**	(129)
		248,049	79,030
Change in operating assets and liabilities:			
Balances with Central Banks	5	**(274,173)**	(18,875)
Deposits with banks and financial institutions	6	**71,198**	(76,119)
Investment securities at fair value through profit or loss	9	**(10,678)**	(65,517)
Loans and advances to customers	7	**(210,636)**	(261,593)
Investment securities at amortised cost	10	**(251,662)**	(151,042)
Other assets	15	**(12,246)**	(6,414)
Deposits from banks and financial institutions	17	**(177,313)**	2,605
Deposits from customers	18	**550,076**	906,273
Other liabilities	19	**27,616**	5,358
Dividends received		**3,407**	3,867
Employee benefits paid	20	**(2,032)**	(2,528)
Income taxes paid	32	**(14,200)**	(15,486)
Net cash (used in) generated from operating activities		**(52,594)**	399,559
Cash flows from investing activities			
Purchase of intangible assets	14	**(464)**	(245)
Purchase of property and equipment	13	**(3,450)**	(5,651)
Proceeds from disposal of property and equipment		**492**	1,121
Proceeds from disposal of assets classified as held for sale		**140**	616
Net cash used in investing activities		**(3,282)**	(4,159)

The notes on pages 57 to 125 are an integral part of these financial statements.

Statement of cash flows (continued) for the year ended 31 December, 2016

	Note	2016 LL Million	2015 LL Million
Cash flows from financing activities			
Issuance of preferred shares ("C")	21	**75,376**	-
Interest paid on cash contributions to capital		**(1)**	(1)
Dividends paid	33	**(18,522)**	(18,522)
Net cash generated from (used in) financing activities		**56,853**	(18,523)
Cash and cash equivalents at beginning of year	34	**1,414,475**	1,037,598
Net cash (used in) generated from operating activities		**(52,594)**	399,559
Net cash used in investing activities		**(3,282)**	(4,159)
Net cash generated from (used in) financing activities		**56,853**	(18,523)
Cash and cash equivalents at end of year	34	**1,415,452**	1,414,475

The principal non-cash transactions for the year ended 31 December, 2016, consist mainly of transfers of LL 20 billion from retained earnings to reserves.

The notes on pages 57 to 125 are an integral part of these financial statements.

Notes to the financial statements for the year ended 31 December, 2016

1 General information

BBAC S.A.L. ("the Bank") provides retail, private and corporate banking services through its head office in Beirut and its network of thirty nine branches across Lebanon, in addition to a branch in Cyprus and three branches in Iraq (Erbil, Baghdad, and Sulaymaniah).

The Bank was incorporated in Lebanon in 1956 and registered at the Commercial Court in Beirut under No. 6196. It is registered under number 28 on the list of Lebanese banks at the Central Bank of Lebanon. The address of its registered office is as follows:
P.O. Box: 11-1536, Clemenceau, Beirut - Lebanon.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements relate to the Bank and are presented on a non-consolidated basis. The Bank also separately prepares consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") and IFRS Interpretations Committee (IFRS IC) for the Bank and its subsidiaries ("the Group").

The consolidated financial statements can be obtained from the BBAC S.A.L. registered office: P.O. Box: 11-1536, Clemenceau, Beirut - Lebanon.

Users of the separate financial statements should read them together with the Group's consolidated financial statements for the year ended 31 December, 2016, in order to obtain full information on the balance sheet, results of operations and changes in balance sheet of the Group as a whole.

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss.

The disclosures on risks from financial instruments are presented in the financial risk management report contained in note 3.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank´s accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed.
Management believes that the underlying assumptions are appropriate and that the Bank's financial statements therefore present the balance sheet and results fairly. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

2.1.1 Changes in accounting policy and disclosures

(a) *New and amended standards adopted by the Bank for the financial year beginning on 1 January, 2016* There are no IFRS´s or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January, 2016, that would be expected to have a material impact on the Bank's financial statements.

(b) *New standards, amendments and interpretations issued but not effective for the financial year beginning on or after 1 January, 2016, and not early adopted by the Bank:*

- IFRS 9, ´Financial instruments´ was issued in July 2016. The banks are currently required to apply phase I of IFRS 9 issued in November 2009, which only addressed the classification and measurement of financial assets. This version of the standard established only two primary measurement categories for debt instruments. The complete version issued in 2016 establishes three primary measurement categories for financial assets that are debt instruments: amortised cost, fair value through OCI, and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities, the only change was the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. The IFRS 9 complete version relaxes the requirements for hedge effectiveness. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. The complete version of the standard is effective for accounting periods beginning on or after 1 January 2018 with early adoption permitted. The Bank is assessing the potential impact on its financial statements resulting from the application of IFRS 9.

- IFRS 15, ´Revenue from contracts with customers´ establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 ´Revenue´, IAS 11 ´Construction contracts´ and IFRIC 13 ´Customer loyalty programmes´. IFRS 15 is effective for annual reporting periods beginning on or after 1 January, 2017, with early adoption permitted. The Bank is assessing the potential impact on its financial statements resulting from the application of IFRS 15.

- IFRS 16, ´Leases´, (effective 1 January, 2019), replaces the current standard on leasing, IAS 17. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the authorisation to control the use of an identified asset for a period of time in exchange for consideration. For lessors, the accounting stays almost the same. However, as the IASB has updated the definition of a lease, lessors will be affected by the new standard. For lessees, the changes are more far-reaching. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a corresponding asset for the ability to use the asset for virtually all lease contracts. The standard includes an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees, not the lessors. The Bank is assessing the potential impact on its financial statements resulting from the application of IFRS 16.

  There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Bank.

2.2 Investment in subsidiaries

Subsidiaries are all entities over which the Bank has control. The Bank controls an entity when the Bank is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated on the date on which control is transferred to the Bank. They are deconsolidated from the date that control ceases.

The Bank has elected to account for its investments in subsidiaries under the cost method, and accordingly:

If the ownership interest in the subsidiary is reduced but significant influence/control is retained, the difference between the carrying value of the portion sold and the amount received on sale is recognised in profit or loss as ´gain/loss on sale of shares in subsidiary´ within ´other operating income/loss´.

The Bank determines at each reporting date whether there is any objective evidence that the investment in the subsidiary is impaired. If this is the case, the Bank calculates the amount of impairment as the difference between the recoverable amount of the subsidiary and its carrying value and accordingly the loss is recognised in the profit or loss as 'impairment loss on investment in subsidiary' within 'other operating income/loss'. The Bank does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the subsidiary.

Dividend income is recognised when the right to receive payment is established. A listing of the Bank's subsidiaries is shown in note 11.

2.3 Foreign currency

(a) Functional and presentation currency

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Lebanese pounds, which is the Bank's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured.

Monetary items denominated in foreign currency are translated with the closing rate as at the reporting date. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition; non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss.

2.4 Financial assets and liabilities

2.4.1 Classification and measurement

In accordance with IFRS 9, all financial assets and liabilities - which include derivative financial instruments - have to be recognised in the balance sheet and measured in accordance with their assigned category.

(a) Debt investments

(i) Investment securities at amortised cost

A debt investment is classified as 'amortised cost' only if both of the following criteria are met: the objective of the Bank's business model is to hold the asset to collect the contractual cash flows; and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. The nature of any derivatives embedded in the debt investment are considered in determining whether the cash flows of the investment are solely payment of principal and interest on the principal outstanding and are not accounted for separately.

(ii) Investment securities at fair value

If either of the two criteria above is not met, the debt instrument is classified as 'fair value through profit or loss'.

(b) Equity investments

All equity investments are measured at fair value. Equity investments that are held for trading are measured at fair value through profit or loss. For all other equity investments, the Bank can make an irrevocable election at initial recognition to recognise changes in fair value through other comprehensive income rather than profit or loss.

(c) Recognition, measurement and reclassification

Regular purchases and sales of financial assets are recognised on the trade-date, the date when the rights to receive cash flows from the investments have expired or have been transferred and the Bank has transferred substantially all risks and rewards of ownership. At initial recognition, the Bank measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

Transaction costs of financial assets held at fair value though profit or loss is expensed in the profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value and is not part of a hedging relationship is recognised in profit or loss and presented in the statement of comprehensive income within ´Net gain on investment securities at fair value through profit or loss´ in the period in which they arise.

A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the financial asset is derecognised or impaired and through the amortisation process using the effective interest rate method.

The Bank subsequently measures all equity investments at fair value. Where the Bank's management has elected to present unrealised and realised fair value gains and losses on equity investments in other comprehensive income, there is no subsequent recycling of fair value gains and losses to profit or loss. Dividends from such investments continue to be recognised in profit or loss as long as they represent a return on investment.

The Bank is required to reclassify all affected debt investments when and only when its business model for managing those assets changes.

2.4.2 Financial liabilities

The Bank's holding in financial liabilities is in financial liabilities at amortised cost. Financial liabilities are derecognised when extinguished.

Financial liabilities measured at amortised cost are deposits from banks or customers (even those deposits with embedded derivatives, where the derivative was separated from the host contract and accounted for as a trading derivative), debt securities in issue for which the fair value option is not applied, convertible bonds and subordinated debts.

2.4.3 Determination of fair value

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using widely recognised models to estimate the present value of expected future cash flows or other valuation techniques, using inputs (for example, LIBOR yield curve, FX rates, credit default swap spreads) existing at the dates of the balance sheet.

2.4.4 Derecognition

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Bank tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition).

Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

2.5 Reclassification of financial assets

When and only when, an entity changes its business model for managing financial assets it shall reclassify all affected financial assets. An entity shall not reclassify any financial liability nor equity instruments.

If an entity reclassifies financial assets, it shall apply the reclassification prospectively from the reclassification date. The entity shall not restate any previously recognised gains, losses or interest.

If an entity reclassifies a financial asset so that it is measured at fair value, its fair value is determined at the reclassification date. Any gain or loss arising from a difference between the previous carrying amount and fair value is recognised in profit or loss.

If an entity reclassifies a financial asset so that it is measured at amortised cost, its fair value at the reclassification date becomes its new carrying amount.

2.6 Classes of financial instruments

The Bank classifies the financial instruments into classes that reflect the nature of information and take into account the characteristics of those financial instruments.

The classification made can be seen in the table below:

<table>
<tr><th colspan="2">Category</th><th colspan="2">Class</th><th rowspan="2">Subclass</th></tr>
<tr><th colspan="2">(as defined by IFRS 9)</th><th colspan="2">(as determined by the Bank)</th></tr>
<tr><td rowspan="9">Financial Assets</td><td rowspan="8">At amortised cost</td><td colspan="3">Deposits with banks and financial institutions</td></tr>
<tr><td rowspan="6">Loans and advances to customers</td><td rowspan="4">Loans to individuals</td><td>- Overdrafts</td></tr>
<tr><td>- Credit cards</td></tr>
<tr><td>- Personal loans</td></tr>
<tr><td>- Housing loans</td></tr>
<tr><td rowspan="2">Loans to corporate entities</td><td>- SMEs</td></tr>
<tr><td>- Large corporate entities</td></tr>
<tr><td colspan="2">Investment securities - debt instruments</td><td>Unlisted and listed</td></tr>
<tr><td>At fair value through profit or loss</td><td colspan="2">Investment securities:
Equity instruments
Debt securities</td><td>Unlisted and listed</td></tr>
<tr><td rowspan="2">Financial liabilities</td><td rowspan="2">Financial liabilities at amortised cost</td><td colspan="3">Deposits from banks</td></tr>
<tr><td colspan="3">Deposits from customers and financial institutions</td></tr>
<tr><td rowspan="2">Off balance sheet financial instruments</td><td colspan="4">Loan commitments</td></tr>
<tr><td colspan="4">Guarantees and other financial facilities</td></tr>
</table>

2.7 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Bank or the counterparty.

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

2.8 Impairment of financial assets

(a) Assets carried at amortised cost

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

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

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Impairment charges relating to deposits with banks and financial institutions and customers are classified in 'Net loan impairment charges' whilst impairment charges relating to investment securities are classified in 'Net gains on investment securities at amoritsed cost'. 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 recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of comprehensive income.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of comprehensive income.

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 recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the statement of comprehensive income.

(b) Renegotiated loans

If the terms of a financial asset are renegotiated or modified (mainly applicable on facilities provided to clients, who are facing financial difficulties), then an assessment is made of whether the financial asset should be derecognised. If the cash flows of the renegotiated asset are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and the new financial asset is recognised at fair value. The impairment loss before an expected restructuring is measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the estimated cash flows arising from the modified financial asset are included in the measurement of the existing asset based on their expected timing and amounts discounted at the original effective interest rate of the existing financial asset.

- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as final cash flow from the existing financial asset at the time of derecognition. This amount is discounted using the original effective interest rate of the existing financial asset.

2.9 Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised within "interest and similar income" and "interest and similar expenses" in the statement of comprehensive income using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.10 Fees and commissions

Fees and commissions are generally recognised on an accrual basis when the service has been provided.

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis.

2.11 Dividend income

Dividends are recognised in the statement of comprehensive income when the Bank's right to receive payment is established. Usually, this is the ex-dividend date for quoted equity securities.

2.12 Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units).

The impairment test also can be performed on a single asset when the fair value less cost to sell or the value in use can be determined reliably. Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date. No non-financial assets were impaired in 2016 and 2015.

2.13 Cash and cash equivalents

Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.14 Repossessed property

In certain circumstances, property is repossessed following the foreclosure on loans that are in default. Repossessed properties are measured at the lower of carrying amount and fair value less costs to sell and reported within 'non-current assets classified as held for sale'.

2.15 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit or loss on a straight-line basis over the period of the lease. These charges are recorded within 'other operating expenses'.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

2.16 Investment properties

Properties that are held for long-term rental yields or for capital appreciation or both, and that are not occupied by the Bank, are classified as investment properties. Investment properties comprise office buildings and retail parks leased out under operating lease agreements.

Some properties may be partially occupied by the Bank, with the remainder being held for rental income or capital appreciation. If that part of the property occupied by the Bank can be sold separately, the Bank accounts for the portions separately. The portion that is owner-occupied is accounted for under IAS 16, and the portion that is held for rental income or capital appreciation or both is treated as investment property under IAS 40.

When the portions cannot be sold separately, the whole property is treated as investment property only if an insignificant portion is owner-occupied. The Bank considers the owner-occupied portion as insignificant when the property is more than 5% held to earn rental income or capital appreciation. In order to determine the percentage of the portions, the Bank uses the size of the property measured in square meter. Recognition of investment properties takes place only when it is probable that the future economic benefits that are associated with the investment property will flow to the entity and the cost can be measured reliably. This is usually the day when all risks are transferred.

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing parts of an existing investment property at the time the cost has incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and impairment, if any.

Land is not depreciated. Depreciation on buildings is calculated using the straight line method to allocate the residual values over their estimated useful lives.

Subsequent expenditure is included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably.

All other repairs and maintenance costs are charged to the profit or loss during the financial period in which they are incurred.

2.17 Property and equipment

Land and buildings comprise mainly branches and offices and are accounted for using the cost model. All other items in property and equipment are accounted for using the cost model (i.e. at historical cost less accumulated depreciation and net of impairment charges, if any).

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to other operating expenses during the financial period in which they are incurred.

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

	Years
Buildings	50
Computer equipment	5
Furniture, fixtures and equipment	12 - 13
Vehicles	10
Leasehold improvements	5 - 8

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2.12).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within 'other operating income' in the statement of comprehensive income.

When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

2.18 Intangible assets

Intangible assets comprise separately identifiable intangible items arising mainly from computer software licences. Intangible assets are recognised at cost. These intangible assets have a definite useful life and are amortised using the straight-line method over their estimated useful economic life, generally not exceeding 5 years.

2.19 Non-current assets classified as held for sale

Non-current assets held for sale represent properties acquired from customers in settlement of their debt. The Bank exercises its ownership rights over the real estate collateral or acquires the customer's real estate property when it exhausts all other reasonable means for collecting non-performing loans.

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less cost to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use.

2.20 Income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Bank operates and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Deferred income tax is provided in full, using the asset and liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the date of the balance sheet and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when (i) there is a legally enforceable right to offset current tax assets against current tax liabilities and (ii) when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority and (iii) where there is an intention to settle the balances on a net basis.

2.21 Employee benefits

The Bank is subscribed to the compulsory defined benefit plan of the National Social Security Fund.

IAS 19 'Employee benefits' requirements

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service or compensation. The liability recognised in the balance sheet in respect of the defined benefit plan is the present value of the defined benefit obligation at the balance sheet date less contributions to the NSSF. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government securities that have terms to maturity approximating the terms of the related pension liability and are denominated in the currency in which the benefits will be paid.

Statutory requirements

With reference to the directives of the National Social Security Fund and labour laws, the Bank is required to record a provision for staff termination indemnities as if the employment of all staff were to be terminated at the balance sheet date. This provision is calculated as the difference between total indemnities due (a factor of number of years of service and the average monthly salary, based on the last 12 months remunerations) and the total monthly contributions paid to the NSSF (which represents 8.5% of the paid employee benefits).

The difference between the two bases set out above tends not to be significant. The Bank is therefore materially in compliance with the requirements IAS 19.

2.22 Provisions

Provisions for restructuring costs and legal claims are recognised when: the Bank has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. The Bank recognises no provisions for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.23 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure banking facilities and/or commercial transactions.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation.

The fee income earned is recognised on a straight-line basis over the life of the guarantee. No receivable for the future premiums is recognised. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the amortised amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of management.

2.24 Share capital

(a) Share issue costs

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.
Preference shares are redeemable at the sole discretion of the issuer and are classified as equity instruments.

(b) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Bank's shareholders. Dividends for the year that are declared after the date of the balance sheet are dealt with in the subsequent events note.

(c) Cash contributions to capital

Cash contributions to capital are classified as equity. A part of these cash contributions generates interest charges paid to the respective shareholders.

2.25 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Bank will comply with all attached conditions. Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate (notes 19 and 27b).

2.26 Comparatives

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information.

3 Financial risk management

The Bank's business involves taking on risks in a targeted manner and managing them professionally. The core functions of the Bank's risk management are to identify all key risks for the Bank, measure these risks, manage the risk positions and determine capital allocations. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and best market practice.

The Bank's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

The Bank's board of directors provides written principles for overall risk management, as well as guidance covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative and non-derivative financial instruments.

The Bank has established the Risk Committee to assist the Board in assessing the different types of risk to which the Bank is exposed, as well as its risk management structure, organisation and processes.

The Board's Risk committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank.

The Board Audit Committee is assisted in its oversight role by the Internal Audit Unit. The Internal Audit Unit undertakes both regular and ad hoc reviews over risk management controls and procedures, the results of which are reported to the Audit Committee.

The Bank defines risk as the possibility of losses or profits foregone, which may be caused by internal or external factors.

The risks arising from financial instruments to which the Bank is exposed are financial risks, which include credit risk, liquidity risk, market risk and operational risk.

3.1 Credit risk

Credit risk is the risk of suffering financial loss, should any of the Bank's customers, clients or market counterparties fail to fulfill their contractual obligations to the Bank. Credit risk arises mainly from corporate and consumer loans and advances, credit cards, and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, financial guarantees, letters of credit, and acceptances.

The Bank is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities ("trading exposures"), including non-equity trading portfolio assets, derivatives, settlement balances with market counterparties and repurchase agreements.

Credit risk is the single largest risk for the Bank's business; management therefore carefully manages its exposure to credit risk.

3.1.1 Credit risk measurement

(a) Loans and advances to customers (including loan commitments and guarantees)

With respect to loans and advances to customers, the Bank rates its counterparties based on its internal rating system (established by reference to the Supervisory Rating Model set by the Central Bank of Lebanon):

Performing loans:

- Normal - the loan is expected to be repaid on a timely and consistent basis;
- Follow-up - the loan is expected to be repaid but the client's file is not complete;
- Special mention - the loan is expected to be repaid but current conditions lead to believe that the probability of repayment would be lowered.

Non-performing loans:

- Sub-standard - client's ability to repay is dependent on the amelioration of financial position or liquidation of collateral(s) on hand;
- Doubtful - probability of loss upon settlement of loan even after taking into consideration liquidation of collateral(s) in place; and
- Bad - the probability of repayment is low and almost nil.
These credit risk classifications are taken into consideration when measuring the impairment allowances required under IAS 39. Impairment losses are based on losses that have been incurred at the balance sheet date (the 'incurred loss model').

(b) Debt securities

For debt securities, external rating such as Standard & Poor's rating or their equivalents are used by the Asset and Liability Committee for managing the credit risk exposures.

3.1.2 Risk limit control and mitigation policies

The Bank manages, limits and controls concentrations of credit risk wherever they are identified - in particular, to individual borrowers, groups, industries, countries and types of facilities.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, industry sector and country are set by the Board of Directors, (in compliance with the requirements of BDL basic circulars no. 48, 62 and 81). In addition, the exposure to any one borrower or related borrowers is further restricted by sub-limits covering on and off-balance sheet exposures, in compliance with the requirement of BDL basic circular no. 48.

Lending limits are reviewed in the light of changing market and economic conditions and yearly credit reviews of outstanding facilities to clients.

Some other specific control and mitigation measures are outlined below:

(a) Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties (housing loans);
- Mortgages over commercial properties (corporate loans);
- Cash collaterals;
- Bank and public sector guarantees;
- Pledged assets such as premises, inventory, accounts receivable, commercial bills, machinery, vehicles, trade rights; and
- Pledged financial instruments such as debt securities and equities.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss the Bank will seek additional collateral from the counterparty as soon as impairment indicators are identified for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances to customers is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured. Reverse repurchase agreements are collateralised by the Central Bank of Lebanon Certificates of Deposit (note 6) for the period of the facility.

(b) Master netting arrangements

The Bank further controls its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis.

(c) Financial covenants (for credit related commitments and loan books)

The primary purpose of these conditions is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit - which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions - are collateralised by the underlying shipments of goods to which they relate in addition to a cash collateral as set by the credit committee (based on the credit rating of the customer, usually a margin of no less than 15% is requested in compliance with BDL basic circular no. 52) and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments.

The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

3.1.3 Impairment and provisioning policies

Impairment allowances are only recognised for losses that have been incurred at the date of the balance sheet based on objective evidence of impairment (refer to note 2.8). Accordingly, the internal and external rating systems described in note 3.1.1 are used as indicators for impairment.

The impairment allowance shown in the separate financial statements at year-end is derived from each of the six internal supervisory rating grades of loans. The largest component of impairment allowance comes from the doubtful grade. The table below shows the percentage of loans and advances and the associated impairment provision for each of the Bank's internal rating categories:

Bank's rating (based on the Supervisory Grading System)

	2016		2015	
	Credit risk exposure %	**Impairment provision %[1]**	Credit risk exposure %	Impairment provision %[1]
1. Performing (normal, follow up & special mention)	**94%**	**7%**	95%	1%
2. Sub-standard	**1%**	**10%**	1%	26%
3. Doubtful	**4%**	**62%**	3%	71%
4. Bad	**1%**	**100%**	1%	100%
	100%		100%	

The total impairment constitutes 10% (2015 - 5%) of the total gross loans portfolio.

[1] The impairment provision is shown above as a percentage of gross loans in their respective categories.

3.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements

Credit risk exposures relating to on-balance sheet assets are as follows:

	Maximum exposure	
	2016 LL Million	2015 LL Million
Assets		
Balances with Central Banks	1,908,408	1,377,507
Deposits with banks and financial institutions	924,531	1,278,673
Loans and advances to customers		
Loans to individuals		
- Mortgages	446,684	435,293
- Personal	112,417	112,634
- Car	85,815	101,590
- Other Retail	86,952	51,586
Loans to corporate entities		
- Large corporate customers	666,290	700,780
- Small and medium size enterprises ("SMEs")	1,017,453	950,060
- Subsidised loans	90,976	98,734
- Kafalat loans	24,793	22,095
Debtors by acceptances	78,146	63,525
Investment securities at fair value through profit or loss (debt securities)	207,084	188,632
Investment securities at amortised cost	3,761,722	3,480,039
Other assets	31,657	23,750
At 31 December	9,442,928	8,884,898

Credit risk exposures relating to off-balance sheet items are as follows:

	2016 LL Million	2015 LL Million
Loan commitment (unused facilities)	531,761	472,733
Letters of guarantee	280,922	190,160
Letters of credit	122,726	120,447
	935,409	783,340

The above table represents a worst case scenario of credit risk exposure to the Bank at 31 December, 2016 and 2015, without taking account of any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

The above table shows the split between large corporate and SME loans based on the intermediate BDL circular no. 396 issued on 8 September, 2015.

As shown above, 42% of the total maximum exposure is derived from investment securities (2015 - 41%); 27% is derived from loans and advances to customers (2015 - 28%) and 20% is derived from balances with Central Banks (2015 - 16%).

Management is confident in its ability to continue to control and sustain acceptable exposure of credit risk to the Bank resulting from both its loans and advances portfolio and debt securities based on the following:

- 58% of the Bank's debt securities portfolio is allocated to Lebanese treasury bills (2015 - 61%), of which 63% is denominated in Lebanese pounds (2015 - 61%), whose risk of default is considered nil, and
- 40% of the Bank's debt securities portfolio classified at amortised cost is allocated to certificates of deposits issued by the Central Bank of Lebanon (2015 - 35%), of which 54% is denominated in Lebanese pounds (2015 - 80%), whose risk of default is considered nil.
- 94% of the loans and advances portfolio is categorised in the top two grades of the internal rating system i.e. classified as performing (2015 - 95%);
- 49% of the gross loans and advances portfolio is fully collateralised and the net exposure (gross loan amount less provisions and collaterals) represents 1% of the total gross loans and advances portfolio;
- 83% of the loans and advances portfolio are considered to be neither past due nor impaired (2015 - 90%);
- 41% of balances with Central Banks are placed in local currency, whose risk of default is considered nil (2015 - 30%).

Concentration of risks of financial assets with credit risk exposure

The following table breaks down the Bank's credit exposure at their carrying amounts (without taking into account any collateral held or other credit support), as categorised by geographical region as at 31 December, 2016, and as at 31 December, 2015. For this table, the Bank has allocated exposures to regions based on the destination of use of funds.

	Lebanon LL Million	Arab countries LL Million	United States LL Million	European countries LL Million	Other countries LL Million	Total LL Million
Financial assets						
Balances with Central Banks	1,805,703	102,040	-	665	-	1,908,408
Deposits with banks and financial institutions	435,944	113,321	242,308	127,793	5,165	924,531
Loans and advances to customers	2,188,000	259,079	1,218	52,638	30,445	2,531,380
Debtors by acceptances	62,373	14,526	-	111	1,136	78,146
Investment securities at fair value through profit or loss (debt securities)	207,084	-	-	-	-	207,084
Investment securities at amortised cost	3,701,422	3,015	15,075	36,180	6,030	3,761,722
Other assets	31,053	45	-	559	-	31,657
At 31 December, 2016	**8,431,579**	**492,026**	**258,601**	**217,946**	**42,776**	**9,442,928**
Financial assets						
Balances with Central Banks	1,298,145	78,781	-	581	-	1,377,507
Deposits with banks and financial institutions	659,091	208,049	261,998	143,200	6,335	1,278,673
Loans and advances to customers	2,152,007	233,912	790	57,922	28,141	2,472,772
Debtors by acceptances	50,202	6,705	-	5,355	1,263	63,525
Investment securities at fair value through profit or loss (debt securities)	188,632	-	-	-	-	188,632
Investment securities at amortised cost	3,391,396	7,707	25,509	47,779	7,648	3,480,039
Other assets	23,608	8	-	134	-	23,750
At 31 December 2015	**7,763,081**	**535,162**	**288,297**	**254,971**	**43,387**	**8,884,898**

3.1.5 Loans and advances

Loans and advances are summarised as follows:

	2016		2015	
	Loans and advances to customers LL Million	**Loans and advances to banks LL Million**	Loans and advances to customers LL Million	Loans and advances to banks LL Million
Neither past due nor impaired	**2,323,753**	924,531	2,330,207	1,278,673
Past due but not impaired	**314,665**	-	147,380	-
Individually impaired	**171,379**	-	118,421	-
Gross	**2,809,797**	924,531	2,596,008	1,278,673
Less: allowance for impairment	**(278,417)**	-	(123,236)	-
Net	**2,531,380**	**924,531**	2,472,772	1,278,673
Individually impaired	**(176,914)**	-	(91,082)	-
Collective allowance	**(101,503)**	-	(32,154)	-
Total	**(278,417)**	-	(123,236)	-

The total impairment charge for loans and advances is LL 278.42 billion (2015 - LL 123.24 billion) of which LL 176.91 billion (2015 - LL 91.08 billion) represents the individually impaired loans and the remaining amount of LL 101.50 billion (2015 - LL 32.15 billion) represents the collective allowance. Further information of the impairment allowance for loans and advances with banks and financial institutions and to customers is provided in notes 6 and 7.

During the year ended 31 December, 2016, the Bank's total loans and advances decreased by 8% mainly due to the decrease in deposits with banks and financial institutions.

(a) Loans and advances neither past due nor impaired

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

	Individuals (retail customers)				Corporate entities				
	Mortgages LL Million	Personal LL Million	Car LL Million	Other Retail LL Million	Large corporate customers LL Million	Small and medium enterprises LL Million	Subsidised LL Million	Kafalat LL Million	Total LL Million
Grades:									
1. Normal	431,664	109,260	84,703	50,048	417,664	724,529	89,132	22,763	1,929,763
2. Follow-up	1	12	114	267	58,693	119,729	814	-	179,630
3. Special mention	2,645	148	262	939	113,168	95,858	1,030	310	214,360
At 31 December, 2016	**434,310**	**109,420**	**85,079**	**51,254**	**589,525**	**940,116**	**90,976**	**23,073**	**2,323,753**
Grades:									
1. Normal	420,094	102,268	96,270	48,269	546,012	776,185	81,770	18,973	2,089,841
2. Follow-up	6,573	677	144	711	48,282	26,012	5,084	827	88,310
3. Special mention	2,522	440	377	191	72,676	75,850	-	-	152,056
At 31 December, 2015	**429,189**	**103,385**	**96,791**	**49,171**	**666,970**	**878,047**	**86,854**	**19,800**	**2,330,207**

(b) Loans and advances past due but not impaired

Late processing and other administrative delays on the side of the borrower can lead to a financial asset being past due but not impaired. Therefore, loans and advances past due are not usually considered impaired, unless other information is available to indicate the contrary. Gross amount of loans and advances to customers that were past due but not impaired broken down by class were as follows:

	Individuals (retail customers)				Corporate entities				
	Mortgages LL Million	Personal LL Million	Car LL Million	Other Retail LL Million	Large corporate customers LL Million	Small and medium enterprises LL Million	Subsidised LL Million	Kafalat LL Million	Total LL Million
Past Due:									
1. Up to 30 Days	24,558	9,086	4,983	22,623	17,781	413	-	-	79,444
2. 30-60 Days	10,171	134	332	15,157	-	8	252	-	26,054
3. 60-90 Days	3,794	69	101	110	11,776	70,812	-	20	86,682
4. Above 90 Days	4,805	301	612	4,255	88,095	23,809	567	41	122,485
At 31 December, 2016	**43,328**	**9,590**	**6,028**	**42,145**	**117,652**	**95,042**	**819**	**61**	**314,665**
Fair Value of Collateral	**60,168**	**13,290**	**8,371**	**69,151**	**129,974**	**131,767**	**1,137**	**85**	**413,943**
Past Due:									
1. Up to 30 Days	10,350	10,110	4,694	2,462	38,373	17,481	9,100	645	93,215
2. 30-60 Days	-	259	483	368	4,413	26,124	-	418	32,065
3. 60-90 Days	-	67	75	69	-	4,859	400	-	5,470
4. Above 90 Days	-	142	536	172	698	14,090	834	158	16,630
At 31 December, 2015	**10,350**	**10,578**	**5,788**	**3,071**	**43,484**	**62,554**	**10,334**	**1,221**	**147,380**
Fair Value of Collateral	**14,271**	**7,453**	**31,712**	**3,060**	**74,066**	**105,009**	**26,867**	**1,514**	**263,952**

Upon initial recognition of loans and advances, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is assessed by reference to market price or by using valuation techniques with updated market data.

(c) Loans and advances individually impaired

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

(i) Loans and advances to customers

	Individuals (retail customers)				Corporate entities				
	Mortgages LL Million	Personal LL Million	Car LL Million	Other Retail LL Million	Large corporate customers LL Million	Small and medium enterprises LL Million	Subsidised LL Million	Kafalat LL Million	Total LL Million
At 31 December, 2016									
Gross amount	**3,775**	**2,141**	**1,379**	**1,357**	**4,613**	**149,763**	**4,770**	**3,582**	**171,379**
Fair Value of Collateral	**2,858**	**1,621**	**1,044**	**822**	**4,742**	**113,380**	**3,611**	**2,712**	**130,790**
At 31 December, 2015									
Gross amount	2,549	1,418	1,078	462	-	104,556	5,388	2,970	118,421
Fair Value of Collateral	3,586	12	3,284	339	-	62,415	4,383	2,048	76,067

The above table shows the split between large corporate and SME loans based on the intermediate BDL circular no. 396 issued on 8 September, 2015.

(ii) Loans and advances to banks and financial institutions

The total amount of individually impaired balances with banks and financial institutions as at 31 December, 2016, was nil (2015 - nil). No collateral is held by the Bank, except for loans and advances to a financial institutions and for reverse repo transactions which are fully secured. No impairment provision has been recognised.

(d) Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria that, in the judgement of management, indicate that payment will most likely continue. Restructuring is most commonly applied to term loans. As shown below, restructuring is not proving to be effective as the asset continues to be impaired:

	2016	2015
	LL Million	LL Million
Loans and advances to customers - individuals		
Term loans - performing loans	**2,422**	1,715
Term loans - non-performing loans	**4,608**	4,206
	7,030	5,921

3.1.6 Debt securities

The table below presents an analysis of debt securities by rating agency designation at 31 December, 2016 and 2015, based on Standard & Poor's ratings:

	From AAA+ to AAA- LL Million	From AA+ to AA- LL Million	From A+ to A- LL Million	From BBB+ to BBB- LL Million	From BB+ to BB- LL Million	From B+ to B- LL Million	Total LL Million
Investment securities at fair value through profit or loss (debt securities)	-	-	-	-	-	207,084	207,084
Investment securities at amortised cost	-	-	18,198	39,429	3,033	3,701,062	3,761,722
At 31 December, 2016	**-**	**-**	**18,198**	**39,429**	**3,033**	**3,908,146**	**3,968,806**
Investment securities at fair value through profit or loss (debt securities)	-	-	-	-	-	188,632	188,632
Investment securities at amortised cost	-	-	56,253	28,232	3,044	3,392,510	3,480,039
At 31 December, 2015	**-**	**-**	**56,253**	**28,232**	**3,044**	**3,581,142**	**3,668,671**

3.1.7 Repossessed collateral

The Bank obtained assets by taking possession of collateral held as security, as follows:

	2016	2015
	LL Million	LL Million
Nature of assets		
Residential property- carrying amount	2,760	431

Under the requirements of the Central Bank of Lebanon, repossessed properties (against facilities provided locally) should be sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. Repossessed property is classified in the balance sheet within assets classified as held for sale (note 16).

3.2 Market risk

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates and equity prices. The Bank separates exposures to market risk into either trading or non-trading portfolios.

The Board of Directors sets limits for the acceptable level of risks that can be assumed on the trading book. ALCO is responsible of managing the Bank's exposure to the various market risk and to ensure that risks are within acceptable limits.

Trading portfolios include those positions arising from market-making transactions where the Bank acts as principal with clients or with the market. Non-trading portfolios primarily arise from the interest rate management of the entity's retail and commercial banking assets and liabilities. Non-trading portfolios also consist of foreign exchange and equity risks arising from the Bank's investment securities.

3.2.1 Market risk measurement techniques

The major measurement technique used to measure and control market risk is outlined below.

Sensitivity analysis

A technique used to determine how different values of an independent variable will impact a particular dependent variable under a given set of assumptions. This technique is used within specific boundaries that will depend on one or more input variables, such as the effect that changes in interest rates will have on a bond's price. Sensitivity analysis is a way to predict the outcome of a decision if a situation turns out to be different compared to the key predictions. The Bank performs this analysis for each type of market risk to which the Bank is exposed at each reporting date, showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date.

Interest rate risk

If the interest rate increases/decreases by 2%, the net effect [gain/(loss)] is as follows:

	2016		2015	
	USD LL Million	LBP LL Million	USD LL Million	LBP LL Million
Effect on profit	6,972	7,097	5,940	5,260

There is no impact on Lebanese denominated financial instruments as they are held at amortised cost and carry fixed interest rates.

3.2.2 Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its balance sheet and cash flows. The Board of Directors sets limits on the level of exposure by currency as follows:

- Net exposure by currencies should not exceed 1% of Tier I capital.
- Gross exposure (in absolute terms) by currencies should not exceed 40% of Tier I capital (with reference to BDL circular no. 43).

The above mentioned limits are set with reference to BDL basic circular no. 32. These limits are closely monitored on a daily basis by the Bank's Treasury department on a daily basis.

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2016 and 2015. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

At 31 December, 2016	LBP LL Million	USD LL Million	EUR LL Million	GBP LL Million	Other LL Million	Total LL Million
Financial assets						
Cash and balances with Central Banks	847,341	1,018,900	88,128	650	90,758	2,045,777
Deposits with banks and financial institutions	18,774	775,859	81,986	20,995	26,917	924,531
Loans and advances to customers	603,442	1,814,963	62,363	47,212	3,400	2,531,380
Debtors by acceptances	-	72,948	3,170	207	1,821	78,146
Investment securities at fair value through profit or loss (debt securities)	180,072	18,838	8,174	-	-	207,084
Investment securities at amortised cost	2,160,978	1,529,441	71,303	-	-	3,761,722
Other assets	8,053	23,237	299	-	68	31,657
Total financial assets	**3,818,660**	**5,254,186**	**315,423**	**69,064**	**122,964**	**9,580,297**
Financial liabilities						
Deposits from banks and financial institutions	22,073	43,229	43,509	1	43	108,855
Deposits from customers	3,419,720	4,749,503	261,878	73,665	97,282	8,602,048
Engagements by acceptances	-	72,948	3,170	206	1,822	78,146
Other liabilities	25,274	3,647	1,175	281	1,488	31,865
Total financial liabilities	**3,467,067**	**4,869,327**	**309,732**	**74,153**	**100,635**	**8,820,914**
Net on-balance sheet financial position	**351,593**	**384,859**	**5,691**	**(5,089)**	**22,329**	**759,383**

At 31 December, 2015	LBP LL Million	USD LL Million	EUR LL Million	GBP LL Million	Other LL Million	Total LL Million
Financial assets						
Cash and balances with Central Banks	449,710	909,525	90,203	730	37,515	1,487,683
Deposits with banks and financial institutions	69,127	1,084,710	78,751	24,181	21,904	1,278,673
Loans and advances to customers	669,279	1,671,097	70,037	49,144	13,215	2,472,772
Debtors by acceptances	-	48,922	10,254	-	4,349	63,525
Investment securities at fair value through profit or loss (debt securities)	161,304	18,897	8,431	-	-	188,632
Investment securities at amortised cost	2,254,392	1,146,785	74,193	4,669	-	3,480,039
Other assets	10,685	11,999	144	-	922	23,750
Total financial assets	**3,614,497**	**4,891,935**	**332,013**	**78,724**	**77,905**	**8,995,074**
Financial liabilities						
Deposits from banks and financial institutions	67,951	136,778	81,396	1	42	286,168
Deposits from customers	3,273,621	4,407,499	243,019	75,959	51,874	8,051,972
Engagements by acceptances	-	48,922	10,254	-	4,349	63,525
Other liabilities	9,908	1,690	806	-	83	12,487
Total financial liabilities	**3,351,480**	**4,594,889**	**335,475**	**75,960**	**56,348**	**8,414,152**
Net on-balance sheet financial position	**263,017**	**297,046**	**(3,462)**	**2,764**	**21,557**	**580,922**

3.2.3 Interest rate risk

There is no cash flow interest rate risk on Lebanese denominated financial instruments as they are held at amortised cost and carry fixed interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily by the Treasury department.

The table below summarises the Bank's exposure to interest rate risks. It includes the Bank's financial instruments at carrying amounts, categorised by the earlier of contractual repricing (for example for floating rate notes) or maturity dates.

At 31 December, 2016	Up to 1 month LL Million	1 - 3 months LL Million	3 - 12 months LL Million	1 - 5 years LL Million	Over 5 years LL Million	Non-interest bearing LL Million	Total LL Million
Financial assets							
Cash and balances with Central Banks	274,100	125,732	386,200	344,557	473,971	441,217	2,045,777
Deposits with banks and financial institutions	508,725	206,459	82,955	1,203	-	125,189	924,531
Loans and advances to customers	785,232	220,268	901,560	515,724	69,816	38,780	2,531,380
Debtors by acceptances	-	-	-	-	-	78,146	78,146
Investment securities at fair value through profit or loss (debt securities)	-	-	-	76,391	130,693	-	207,084
Investment securities at amortised cost	30,915	137,716	377,490	1,875,805	1,339,796	-	3,761,722
Other assets	-	-	-	-	-	31,657	31,657
Total financial assets	**1,598,972**	**690,175**	**1,748,205**	**2,813,680**	**2,014,276**	**714,989**	**9,580,297**
Financial liabilities							
Deposits from banks and financial institutions	68,598	6,405	5,985	27,553	-	314	108,855
Deposits from customers	6,100,226	632,418	828,723	345,166	9,915	685,600	8,602,048
Engagements by acceptances	-	-	-	-	-	78,146	78,146
Other liabilities	-	-	-	-	-	31,865	31,865
Total financial liabilities	**6,168,824**	**638,823**	**834,708**	**372,719**	**9,915**	**795,925**	**8,820,914**
Total interest repricing gap	**(4,569,852)**	**51,352**	**913,497**	**2,440,961**	**2,004,361**		

At 31 December, 2015	Up to 1 month LL Million	1 - 3 months LL Million	3 - 12 months LL Million	1 - 5 years LL Million	Over 5 years LL Million	Non-interest bearing LL Million	Total LL Million
Financial assets							
Cash and balances with Central Banks	135,349	91,034	62,207	515,278	277,154	406,661	1,487,683
Deposits with banks and financial institutions	658,912	237,372	204,666	1,603	-	176,120	1,278,673
Loans and advances to customers	861,494	229,578	806,298	461,205	78,704	35,493	2,472,772
Debtors by acceptances	-	-	-	-	-	63,525	63,525
Investment securities at fair value through profit or loss (debt securities)	-	5,143	-	20,134	163,355	-	188,632
Investment securities at amortised cost	17,177	41,447	203,355	1,748,402	1,469,658	-	3,480,039
Other assets	-	-	-	-	-	23,750	23,750
Total financial assets	**1,672,932**	**604,574**	**1,276,526**	**2,746,622**	**1,988,871**	**705,549**	**8,995,074**
Financial liabilities							
Deposits from banks and financial institutions	185,977	50,213	41,918	6,628	-	1,432	286,168
Deposits from cus-tomers	5,798,384	648,572	761,637	240,887	4,940	597,552	8,051,972
Engagements by acceptances	-	-	-	-	-	63,525	63,525
Other liabilities	-	-	-	-	-	12,487	12,487
Total financial liabilities	**5,984,361**	**698,785**	**803,555**	**247,515**	**4,940**	**674,996**	**8,414,152**
Total interest repricing gap	**(4,311,429)**	**(94,211)**	**472,971**	**2,499,107**	**1,983,931**		

3.3 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its obligations when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows, such as debt maturities. Such outflows would deplete available cash resources for client lending, trading activities and investments. In extreme circumstances, lack of liquidity could result in reductions in the balance sheet and sales of assets, or potentially an inability to fulfill lending commitments. The risk that the Bank will be unable to do so is inherent in all banking operations and can be affected by a range of institution-specific and market-wide events including, but not limited to, credit events, merger and acquisition activity, systemic shocks and natural disasters.

3.3.1 Liquidity risk management process

The Bank's liquidity management process, as carried out within the Bank and monitored by the Treasury department, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers. The Bank maintains an active presence in global money markets to enable this to happen;
- Maintaining a portfolio of highly marketable assets that can be easily liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring the liquidity ratios of the balance sheet against internal and regulatory requirements (BDL basic circulars no. 72, 73, 84, 86 and 87); and
- Managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management.
The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets (note 3.3.3).

3.3.2 Non-derivative financial liabilities and assets held for managing liquidity risk

The table below presents the cash flows payable by the Bank under non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the date of the balance sheet. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Bank manages the liquidity risk based on a different basis (see note 3.3.1), not resulting in a significantly different analysis.

At 31 December, 2016	Up to 1 month LL Million	1 - 3 months LL Million	3 - 12 months LL Million	1 - 5 years LL Million	Over 5 years LL Million	Total LL Million
Assets						
Cash and balances with Central Banks	719,747	125,288	390,389	378,080	1,257,098	2,870,602
Deposits with banks and financial institutions	632,473	206,714	83,485	1,335	-	924,007
Investment securities at fair value through profit or loss (debt securities)	615	1,087	10,183	118,915	158,810	289,610
Investment securities at amortised cost	47,909	170,545	554,233	2,483,439	1,619,653	4,875,779
Total financial assets	**1,400,744**	**503,634**	**1,038,290**	**2,981,769**	**3,035,561**	**8,959,998**
Liabilities						
Deposits from banks and financial institutions	68,492	6,374	5,995	29,064	-	109,925
Deposits from customers	6,770,266	634,797	849,190	384,669	16,690	8,655,612
Engagement by acceptances	78,146	-	-	-	-	78,146
Other liabilities	31,865	-	-	-	-	31,865
Total liabilities	**6,948,769**	**641,171**	**855,185**	**413,733**	**16,690**	**8,875,548**
Net financial (liabilities) / assets	**(5,548,025)**	**(137,537)**	**183,105**	**2,568,036**	**3,018,871**	**84,450**

At 31 December, 2015	Up to 1 month LL Million	1 - 3 months LL Million	3 - 12 months LL Million	1 - 5 years LL Million	Over 5 years LL Million	Total LL Million
Assets						
Cash and balances with Central Banks	541,165	90,494	61,920	530,847	478,607	1,703,033
Deposits with banks and financial institutions	833,825	237,492	206,179	1,859	-	1,279,355
Investment securities at fair value through profit or loss (debt securities)	373	6,126	11,892	70,927	217,546	306,864
Investment securities at amortised cost	31,269	81,898	376,552	2,384,360	1,770,603	4,644,682
Total financial assets	**1,406,632**	**416,010**	**656,543**	**2,987,993**	**2,466,756**	**7,933,934**
Liabilities						
Deposits from banks and financial institutions	186,970	50,156	41,925	6,953	-	286,004
Deposits from customers	6,378,578	650,995	781,393	273,400	8,821	8,093,187
Engagement by acceptances	63,525	-	-	-	-	63,525
Other liabilities	12,487	-	-	-	-	12,487
Total liabilities	**6,641,560**	**701,151**	**823,318**	**280,353**	**8,821**	**8,455,203**
Net financial (liabilities) / assets	**(5,234,928)**	**(285,141)**	**(166,775)**	**2,707,640**	**2,457,935**	**(521,269)**

3.3.3 Assets held for managing liquidity risk

The Bank holds a diversified portfolio of cash and high-quality liquid securities to support payment obligations and contingent funding in a stressed market environment. The Bank's assets held for managing liquidity risk comprises:

- Cash and balances with Central Banks;
- Lebanese treasury bills denominated in foreign currency that are easily liquidated in the secondary markets;
- Secondary sources of liquidity in the form of current accounts and short-term placements (with maturities less than 3 months) with foreign banks;
- Lebanese Treasury bills denominated in local currency that are easily absorbed by the Central Bank of Lebanon in case of exceptional deposits withdrawals.

3.4 Fair value of financial instruments

The fair values of financial instruments that are traded in active markets are based on quoted market prices or dealer price quotations.

(a) Valuation models

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

Quoted market prices - Level 1

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

This category includes liquid government and corporate bonds actively traded through an exchange or clearing house, and actively traded listed equities.

Valuation technique using observable inputs - Level 2

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

This category includes liquid treasury and corporate bonds, certificates of deposits and balances with banks and the Central Banks.

Valuation technique using significant unobservable inputs - Level 3

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). A valuation input is considered observable if it can be directly observed from transactions in an active market, or if there is compelling external evidence demonstrating an executable exit price. An input is deemed significant if it is shown to contribute more than 10% to the valuation of a financial instrument.

Unobservable input levels are generally determined based on observable inputs of a similar nature, historical observations or other analytical techniques.

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

Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determining fair values.

(b) Financial instruments not measured at fair value

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorized at 31 December, 2016.

	Level 1 LL Million	Level 2 LL Million	Total fair values LL Million	Total carrying amount LL Million
At 31 December, 2016				
Assets				
Balances with Central Banks (i)	-	2,131,942	2,131,942	1,908,408
Deposits with banks and financial institutions (i)	-	924,531	924,531	924,531
Loans and advances to customers (ii)	-	2,575,566	2,575,566	2,531,380
Investment securities at amortised cost (iii)	1,572,532	2,396,705	3,969,237	3,761,722
Total financial assets	**1,572,532**	**8,028,744**	**9,601,276**	**9,126,041**
Liabilities				
Deposits from banks and financial institutions (iv)	-	109,870	109,870	108,855
Deposits from customers (iv)	-	8,622,576	8,622,576	8,602,048
Total financial liabilities	**-**	**8,732,446**	**8,732,446**	**8,710,903**

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorized at 31 December, 2015.

	Level 1 LL Million	Level 2 LL Million	Total fair values LL Million	Total carrying amount LL Million
At 31 December, 2015				
Assets				
Balances with Central Banks (i)	-	1,484,029	1,484,029	1,377,507
Deposits with banks and financial institutions (i)	-	1,279,325	1,279,325	1,278,673
Loans and advances to customers (ii)	-	2,516,052	2,516,052	2,472,772
Investment securities at amortised cost (iii)	1,195,003	2,182,351	3,377,354	3,480,039
Total financial assets	**1,195,003**	**7,461,757**	**8,656,760**	**8,608,991**
Liabilities				
Deposits from banks and financial institutions (iv)	-	286,168	286,168	286,168
Deposits from customers (iv)	-	8,068,247	8,068,247	8,051,972
Total financial liabilities	**-**	**8,354,415**	**8,354,415**	**8,338,140**

The fair value of financial assets and liabilities reflects the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Financial assets and liabilities are classified according to a hierarchy that reflects the significance of observable market inputs.

(i) Balances with Central Banks and deposits with banks and financial institutions

The carrying amount of floating rate placements, overnight deposits, items in the course of collection, and current accounts (i.e. maturity less than 1 year) is a reasonable approximation of fair value. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

(ii) Loans and advances to customers

Loans and advances are net of charges for impairment. The estimated fair value of loans and advances excluding overdrafts and impaired loans represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value. The carrying amount of overdrafts is a reasonable approximation of fair value. For collateraldependent impaired loans, the fair value is measured based on the value of the underlying collateral.

(iii) Investment securities at amortised cost

The fair value is based on market prices or broker/dealer price quotations. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity, and yield characteristics. For more information, refer to step (ii) above.

(iv) Deposits from banks and financial institutions and deposits from customers

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

(c) Financial instruments measured at fair value

	Level 1 LL Million	Level 2 LL Million	Total LL Million
At 31 December, 2016			
Investment securities at fair value through profit or loss:			
- Debt securities	27,011	180,073	207,084
- Equity securities	2,320	36,711	39,031
Total assets measured at fair value	**29,331**	**216,784**	**246,115**
At 31 December, 2015			
Investment securities at fair value through profit or loss:		**(52,594)**	399,559
- Debt securities	27,327	161,305	188,632
- Equity securities	6,043	34,683	40,726
Total assets measured at fair value	**33,370**	**195,988**	**229,358v**

3.5 Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, systems failure, human error, or from external events. When controls fail to perform, it can lead to legal or regulatory implications, or financial/reputational loss. The Bank has set its policies and procedures to identify, assess, monitor, control and mitigate operational risk in addition to other types of risks relating to the banking and financial activities of the Bank as part of overall risk management activities.

Within the risk management framework the operational risk section, performs its functions in accordance with BCC circular no. 252. This section is continuously working on the following areas:

- Update of the comprehensive loss events database and creation of risk registers;
- Risk and controls self-assessments;
- Thorough assessment for all new products introduced by the Bank;
- Business continuity planning; and
- Training and awareness sessions.

Compliance with the Bank's policies and procedures and regulatory requirements are supported by a program of periodic reviews undertaken by the internal audit department.
The results of Internal Audit reviews are discussed with the Audit Committee and senior management of the Bank and action plans are set for resolution of any issues. Insurance coverage is used as an external mitigation and is set in line with the Bank's depth of operations.

3.6 Capital management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of the Balance sheet, are:

- To comply with the capital requirements set by the regulators of the banking markets where the Bank operates;
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are regularly managed by the Bank's management, employing techniques, as requested by the Central Bank of Lebanon, (based on the guidelines developed by the Basel Committee). The required information is filed with the regulator on a semi-annual basis.

As per the Central Bank of Lebanon directives, all banks are required to hold a minimum level of regulatory capital of LL 10 billion for the head office and LL 500 million per local branch and LL 1.5 billion per foreign branch. In addition all the Bank's branches located outside Lebanon are subject to capital requirements of their respective jurisdiction (i.e. Cyprus and Iraq).

The regulatory capital requirements are strictly observed when managing economic capital. The Bank complied with all capital ratios requirements throughout the period.

The table below summarises the composition of regulatory capital ratios for the years ended 31 December 2016 and 2015. The computation of the capital adequacy ratio was performed in accordance with the directives issued by the Banking Control Commission of Lebanon (BCCL memo no. 5/2016).

	2016	2015
	LL Million	LL Million
Common Equity Tier 1 ("CET 1")		
Share capital and contributions to capital	**149,439**	149,439
Reserves (excluding profit for the year)	**168,717**	161,166
Retained earnings	**251,531**	229,821
Less: regulatory adjustments		
Intangible assets	**(3,704)**	(4,959)
Total CET 1	**565,983**	535,467
Additional Tier 1 Capital ("AT 1")		
Non-cumulative preferred shares and similar financial instruments	**196,001**	120,864
Total qualifying Tier 1 Capital	**761,984**	656,331
Deferred government grant	**14,105**	-
Real estate revaluation reserve	**10,000**	10,000
Tier 2 Capital	**24,105**	10,000
Total regulatory capital (Tier 1 + Tier 2)	**786,089**	666,331

	2016	2015
	LL Million	LL Million
Risk-weighted assets		
Credit risk	**4,756,066**	4,439,849
Market risk	**126,361**	151,593
Operational risk	**352,410**	313,132
Total risk-weighted assets	**5,234,837**	4,904,574

The Bank's capital adequacy ratios as compared to supervisory requirements are shown below:

	BBAC		Supervisory		Basel III
	2016	2015	2016	2015	2016
Common Equity Tier 1 Ratio	**10.81%**	10.92%	8.5%	8%	8%
Tier 1 Capital Ratio	**14.56%**	13.38%	11%	10%	10%
Total Capital Ratio	**15.01%**	13.59%	14%	12%	12%

4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Bank makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Impairment losses on loans and advances to clients

The Bank reviews its loan portfolios to assess impairment at least on semi-annual basis. Specific impairment provisions are determined by assessing each client facility individually. The factors taken into consideration for the individual assessment 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 provisions should be established due to incurred loss events for which there is objective evidence but whose effects are not yet evident. In assessing the need for collective provision, the Bank considers factors such as credit quality, portfolio size, concentrations and economic factors.

To estimate the required allowance, assumptions are made to define how inherent losses are modeled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the collective provisions depends on the model assumptions and parameters used in determining the collective allowance.

Fluctuations in the net present value of estimated cash flows of +/- 5%, would give rise to an increase/decrease in impairment loss of LL 10.4 billion.

(b) Fair value of financial instruments

The fair values of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using discounted cash flow model. These cash flow models are based on underlying market prices for interest rates. Changes in market rates could affect the reported fair value of financial instruments.

(c) Income taxes

Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions.

(d) Pension benefits

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Bank determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Bank considers the interest rates of Lebanese government securities that have terms to maturity approximating the terms of the related liability.

Fluctuations in the discount rate of +/- 0.5% would give rise to an increase/decrease in pension obligation by approximately LL 1.3 billion.

4.2 Critical judgements in applying the Bank's accounting policies

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

Business model

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

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

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

5 Cash and balances with Central Banks

	2016	2015
	LL Million	LL Million
Cash in hand	133,456	95,075
Other money market placements	311,075	111,920
Balances with Central Banks other than mandatory reserve deposits	307,842	261,457
Included in cash and cash equivalents (note 34)	752,373	468,452
Mandatory reserve deposits with Central Banks	919,488	898,543
Mandatory reserve - cash in hand (Central Bank of Iraq)	3,913	15,101
Placements with BDL other than mandatory reserves	367,890	105,590
Less: allowance for impairment (note 24)	(6,943)	(6,943)
Accrued interest receivable - BDL	9,056	6,940
	1,293,404	1,019,231
	2,045,777	1,487,683
Current	1,295,214	700,339
Non-current	750,563	787,344
	2,045,777	1,487,683

The Lebanon operations (i.e. the Head office and the branches operating in Lebanon) along with the foreign branches (i.e. Iraq and Cyprus) are subject to mandatory reserve requirements as applied in each individual jurisdiction. Mandatory reserves are not available for use in the Bank's day to day operations.

In accordance with the Banking Control Commission (BCC) directive, an allowance for impairment of LL 6.9 billion was recorded against the outstanding balance (sight deposits) with the Central Bank of Iraq (Kurdistan branch).

Cash in hand is interest free, other money market placements are floating rate assets, and placements with BDL (other than mandatory reserves) are at fixed rates.

6 Deposits with banks and financial institutions

	2016	2015
	LL Million	LL Million
Current accounts	346,168	352,950
Placements with other banks (with original maturities of less than 3 months) (see below)	287,532	485,160
Reverse repurchase agreements with a financial institution (with original maturities of less than 3 months)	-	68,632
Items in course of collection from other banks	29,379	39,281
Included in cash and cash equivalents (note 34)	663,079	946,023
Deposits with banks and financial institutions	3,612	28,364
Reverse repurchase agreements with a financial institution	255,453	301,919
Interest receivable	2,387	2,367
	261,452	332,650
	924,531	1,278,673
Current	923,331	1,277,073
Non-current	1,200	1,600
	924,531	1,278,673

Placements with other banks include an amount of LL 11 billion which is fully collateralised against Lebanese treasury bills denominated in Lebanese pounds.

7 Loans and advances to customers

	2016	2015
	LL Million	LL Million
Performing loans		
Medium and long term loans	2,132,680	1,978,565
Overdrafts	385,672	375,291
Short term loans	57,421	65,498
Scheduled loans	18,589	39,081
Discounted bills	23,493	4,365
Loans and advances to related parties (note 36)	8,025	6,013
Net debit against credit accounts - speculation accounts	-	279
Creditors accidentally debtors	1,556	1,146
Unpaid bills	2,567	932
Interest receivable	8,415	6,415
Non-performing loans		
- Substandard	29,222	4,939
- Doubtful	111,084	82,569
- Bad	31,073	30,915
Gross loans and advances to customers	2,809,797	2,596,008
Less: allowance for impairment (i)	(278,417)	(123,236)
Net loans and advances to customers	2,531,380	2,472,772
Current	1,631,431	1,932,863
Non-current	899,949	539,909
	2,531,380	2,472,772
(i) Allowance for impairment is broken down as follows:		
Unrealised interest		
Facilities rated substandard	3,029	1,304
Facilities rated doubtful	30,733	24,200
Facilities rated bad	13,068	12,292
	46,830	37,796
Specific provision	130,084	53,286
Total specific allowance	176,914	91,082
Collective allowance		
Facilities provided by the Lebanon branches	92,116	26,087
Facilities provided by foreign branches ("Iraq")	6,400	3,080
Facilities provided to clients operating in Syria	2,040	2,040
Other	947	947
Total collective allowance	101,503	32,154
	278,417	123,236

Reconciliation of allowance account for loans and advances to customers is as follows:

	2016		2015	
	Specific allowance for impairment LL Million	Collective allowance for impairment LL Million	Specific allowance for impairment LL Million	Collective allowance for impairment LL Million
At 1 January	91,082	32,154	85,849	31,440
Charge for the year (note 24)	9,115	21,277	4,674	714
Charge for the year netted off against exceptional gain (note 27 (c))	74,420	48,240	-	-
Unrealised interest	11,924	-	7,801	-
Reversal of impairment (note 24)	(3,785)	-	(4,759)	-
Other	-	(168)	-	-
Write-off of non-performing loans	(5,842)	-	(2,483)	-
At 31 December	176,914	101,503	91,082	32,154

8 Debtors and engagements by acceptances

	2016	2015
	LL Million	LL Million
Customers' acceptances	78,146	63,525

Customers' acceptances represent term documentary credits which the Bank has committed to settle on behalf of its customers against commitments provided by them, which are stated as a liability in the balance sheet under caption entitled 'Engagements by acceptances'. Debtors and engagements by acceptances are considered as current assets and liabilities.

9 Financial assets at fair value through profit or loss

	2016	2015
	LL Million	LL Million
Listed debt securities		
Lebanese treasury bills (Eurobonds)	27,012	27,328
Unlisted debt securities		
- Lebanese treasury bills	146,901	103,279
- Certificates of deposit - BDL	33,171	58,025
	180,072	161,304
Total debt securities at fair value through profit or loss	207,084	188,632
Equity securities		
- Listed	2,254	6,043
- Unlisted	36,777	34,683
Total equity securities at fair value through profit or loss	39,031	40,726
Total investment securities at fair value through profit or loss	246,115	229,358

All debt securities have fixed coupons.

10 Financial assets at amortised cost

	2016	2015
	LL Million	LL Million
Listed debt securities		
- Lebanese treasury bills (denominated in USD)	828,877	841,144
- Other debt securities	60,986	87,618
	889,863	928,762
Unlisted debt securities		
- Lebanese treasury bills	1,324,499	1,292,615
- Certificates of deposit - BDL (denominated in LL)	824,580	970,565
- Certificates of deposit - BDL (denominated in USD)	679,068	236,981
- Certificates of deposit - commercial banks	15,095	15,079
- Securitisation funds	10,287	17,707
- Other debt securities	18,330	18,330
	2,871,859	2,551,277
Total financial assets at amortised cost	3,761,722	3,480,039
Current	510,598	309,048
Non-current	3,251,124	3,170,991
	3,761,722	3,480,039

All debt securities have fixed coupons.

The movement in financial assets at amortised cost is summarised as follows:

	2016	2015
	LL Million	LL Million
At 1 January	**3,480,039**	3,316,252
Additions	**1,426,951**	917,676
Sales	**(832,658)**	(358,276)
Redemptions	**(309,660)**	(388,350)
Exchange differences on financial assets	**(2,950)**	(7,263)
At 31 December	**3,761,722**	3,480,039

Special swaps with BDL

The Bank availed itself of the special swaps with the Central Bank of Lebanon ("BDL").
These involved the sale on highly preferential terms of LL treasury bills and BDL certificates of deposit classified at amortised cost and at fair value through profit or loss amounting to LL 419 billion and LL 137 billion respectively, and a simultaneous purchase of USD denominated treasury bills and BDL certificates of deposit of an equivalent total amount.
An exceptional gain was realised on these swaps amounting to LL 205 billion. The accounting treatment for the gain is explained in note 27c.

11 Investment in subsidiaries

	%	2016	2015
	Ownership	LL Million	LL Million
The Capital for Insurance and Reinsurance Company S.A.L. (i)	80%	**3,524**	3,524
Informatics Co. S.A.R.L. (ii)	84%	**-**	-
Société Libanaise de Service S.A.R.L. (iii)	91%	**-**	-
		3,524	3,524

(i) The Capital for Insurance and Reinsurance Company S.A.L. provides life and general insurance services for the local Lebanese market. The Company's equity amounted to LL 23.2 billion (2015 - LL 21.4 billion).

(ii) Informatics Co. S.A.R.L. was established to provide information technology services to the Bank. However, the Company ceased its operations in 1999 and is now only managing its cash balances. The Company's equity amounted to LL 2.2 billion (2015 - LL 2.1 billion).

(iii) Société Libanaise de Service S.A.R.L. manages the properties of the Bank and third parties and provides security and maintenance services. The Company's equity amounted to LL 5.6 billion (2015 - LL 5.5 billion).

12 Investment properties

	2016	2015
	LL Million	LL Million
Land	**5,747**	5,747
Building	**1,591**	1,591
	7,338	7,338

The fair value of this property was assessed in 2015 at an amount of LL 10.28 billion as determined by market prices for similar plots. This is considered as a level 2 fair valuation, as the most significant input into the valuation model is the price per square meter of comparable plots in close proximity. Management believe market prices in 2016 are not significantly different from the corresponding prices in 2015.

The following amounts have been recognised in the statement of comprehensive income:

	2016	2015
	LL Million	LL Million
Rental income (note 28)	**91**	79
Maintenance expense (note 31)	**(160)**	(146)
	(69)	(67)

13 Property and equipment

	Land and buildings LL Million	Construction in progress LL Million	Computer equipment LL Million	Furniture, fixtures and equipment LL Million	Vehicles LL Million	Leasehold improve-ments LL Million	Total LL Million
At 1 January, 2015							
Cost	64,493	16,844	15,805	11,410	592	29,042	138,185
Accumulated depreciation	(18,785)	-	(10,667)	(6,968)	(202)	(15,278)	(51,900)
Net book amount	**45,708**	**16,844**	**5,138**	**4,442**	**390**	**13,764**	**86,285**
Year ended 31 December, 2015							
Opening net book amount	45,708	16,844	5,138	4,442	389	13,764	86,285
Additions	1,054	24	1,591	732	68	2,182	5,651
Disposals	-	-	(927)	-	-	(255)	(1,182)
Transfers	14,714	(14,996)	-	4	-	278	-
Depreciation charge (note 30)	(2,217)	-	(1,501)	(760)	(67)	(1,268)	(5,813)
Closing net book amount	**59,259**	**1,872**	**4,301**	**4,418**	**390**	**14,701**	**84,941**
At 31 December, 2015							
Cost	80,262	1,872	15,574	11,882	659	31,247	141,496
Accumulated depreciation	(21,003)	-	(11,273)	(7,464)	(269)	(16,546)	(56,555)
Net book amount	**59,259**	**1,872**	**4,301**	**4,418**	**390**	**14,701**	**84,941**

	Land and buildings LL Million	Construction in progress LL Million	Computer equipment LL Million	Furniture, fixtures and equipment LL Million	Vehicles LL Million	Leasehold improve-ments LL Million	Total LL Million
Year ended 31 December, 2016							
Opening net book amount	59,259	1,872	4,301	4,418	390	14,701	84,941
Additions	243	365	883	691	73	1,195	3,450
Disposals	-	-	(397)	(112)	(30)	-	(539)
Depreciation charge (note 30)	(2,281)	-	(1,455)	(847)	(90)	(1,525)	(6,198)
Closing net book amount	**57,221**	**2,237**	**3,332**	**4,150**	**343**	**14,371**	**81,654**
At 31 December, 2016							
Cost	80,505	2,237	15,946	12,234	702	32,442	144,066
Accumulated depreciation	(23,284)	-	(12,614)	(8,084)	(359)	(18,071)	(62,412)
Net book amount	**57,221**	**2,237**	**3,332**	**4,150**	**343**	**14,371**	**81,654**

The different levels for valuation of land and buildings have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly (that is, as prices) or indirectly (that is derived from prices (Level 2);
- Inputs for the assets or liability that are not based on observable market data (that is unobservable inputs) (Level 3).

At 31 December, 2016, the fair value of land and building as determined by independent licensed valuers (appointed by the Bank) shows a revaluation surplus of approximately LL 70 billion (gross of applicable capital gains tax). This revaluation surplus is not reflected in the financial statements since the Bank's accounting policy for property and equipment is historical cost.

14 Intangible assets

	Computer software licenses LL Million
At 1 January, 2015	
Cost	11,109
Accumulated amortisation	(7,175)
Net book amount	**3,934**
Year ended 31 December, 2015	
Opening net book amount	3,934
Additions	245
Amortisation charge (note 30)	(1,213)
Closing net book amount	**2,966**
At 31 December, 2015	
Cost	11,349
Accumulated amortisation	(8,383)
Net book amount	**2,966**
Year ended 31 December, 2016	
Opening net book amount	2,966
Additions	464
Amortisation charge (note 30)	(1,068)
Closing net book amount	**2,362**
At 31 December, 2016	
Cost	11,813
Accumulated amortisation	(9,451)
Net book amount	**2,362**

15 Other assets

	2016	2015
	LL Million	LL Million
Advances on purchases of property and equipment (i)	17,966	12,695
Electronic card facilities - not yet allocated to client accounts (ii)	9,752	7,342
Prepaid expenses	2,271	3,203
Receivable from National Social Security Fund (iii)	3,014	2,776
Other receivables	11,369	6,309
Doubtful receivables (iv)	15,303	15,104
Less: allowance for impairment	(7,781)	(7,781)
	51,894	39,648
Current	25,082	23,240
Non-current	26,812	16,408
	51,894	39,648

(i) Advances on purchases of property and equipment include an amount of LL 5.4 billion (2015 - LL 5.4 billion) paid to a contractor in respect of the construction of a branch in Beirut Central District. The project was substantially completed at the end of 2015. The property has not yet been delivered to the Bank pending finalisation of negotiations around the contractual price. The increase in LL 5 billion is mainly due to advances on purchases of new branches.

(ii) This account represents transactions executed by the clients on their electronic cards but not yet allocated to their accounts.

(iii) This account represents medical expenses advanced by the Bank to the employees prior to collection from the National Social Security Fund.

(iv) This account is broken down as follows: (a) receivable balances due from a money dealer of LL 2.9 billion (2015 - LL 2.9 billion). Management recorded a provision of LL 1.8 billion (2015 - LL 1.8 billion) to cover the expected loss. (b) An amount of LL 3.2 billion (2015 - LL 3.2 billion) that is fully provided for to cover losses incurred in connection with contentious depositors' claims in one of the Bank's branches. (c) Amounts receivable from two previous employees of LL 9.2 billion (2015 - LL 8.9 billion), who were involved in fraudulent activities. Management recorded a provision of LL 2.5 billion (2015 - LL 2.5 billion) against the uncovered exposure.

16 Non-current assets classified as held for sale

The movement of non-current assets classified as held for sale is as follows:

	2016	2015
	LL Million	LL Million
At 1 January	30,274	30,303
Acquisitions during the year	2,761	431
Disposals during the year	(139)	(460)
At 31 December	32,896	30,274

These assets represent properties acquired against settlement of defaulting clients' facilities. As stipulated by the code of money and credit, banks have two years (from date of acquisition) to liquidate those assets, otherwise they are required to constitute reserves (through appropriation from retained earnings) against these assets, prior to distribution of dividends (note 22).

In 2014, the Bank appointed licensed independent valuers to revalue the above mentioned assets. The fair value has been measured using observable inputs, being the prices for recent sales of similar properties, and is therefore within level 2 of the fair value hierarchy. The fair value of the above mentioned properties was estimated at LL 37.24 billion. Management believe the prices are still valid and current.

17 Deposits from banks and financial institutions

	2016	2015
	LL Million	LL Million
Deposits from banks	82,424	267,063
Deposits from financial institutions	25,675	18,351
Interest payable	756	754
	108,855	286,168
Current	81,493	279,558
Non-current	27,362	6,610
	108,855	286,168

Deposits from banks and financial institutions are classified as liabilities at amortised cost and are set at fixed rates.

18 Deposits from customers

	2016	2015
	LL Million	LL Million
Term deposits	**6,418,408**	5,907,565
Current/settlement accounts (a)	**1,376,863**	1,389,272
Deposits held as collateral (b)	**583,934**	537,368
Deposits from related parties (note 36)	**190,006**	183,421
Accrued interest payable	**32,837**	34,346
Total deposits from customers	**8,602,048**	8,051,972
Current	**8,247,390**	7,806,144
Non-current	**354,658**	245,828
	8,602,048	8,051,972
(a) Current/settlement accounts:		
Checking and current accounts	**951,213**	962,468
Saving accounts - demand	**373,121**	353,220
Debtors accidentally creditors	**31,656**	40,530
Payment orders	**20,445**	32,826
Public sector deposits	**428**	228
	1,376,863	1,389,272
(b) Deposits held as collateral:		
Blocked accounts against credit facilities	**461,946**	468,647
Margins against issuance of documentary credits	**81,188**	39,795
Margins against issuance of letters of guarantee	**39,446**	26,953
Margins on speculation accounts	**1,354**	1,973
	583,934	537,368

Deposits from customers only include financial instruments classified as liabilities at amortised cost. All deposits are at fixed interest rates.

19 Other liabilities

	2016	2015
	LL Million	LL Million
Gain on 'special swaps' with BDL - deferred portion (note 27c)	**14,105**	-
Due to credit card institution (see below)	**6,978**	5,479
Accrued expenses	**3,676**	2,137
Withholding taxes and other charges	**3,673**	3,306
Due to employees	**2,980**	2,744
Penalty on currency auctions - Central Bank of Iraq (Baghdad)	**690**	2,315
Due to National Social Security Fund	**687**	690
Dividends payable and interest payable on cash contribution to capital	**254**	248
Other provisions	**17,694**	8,195
Other liabilities	**3,871**	1,877
	54,608	26,991

The amount due to credit card institution of LL 6.98 billion represents transactions executed by the clients through their credit cards and not yet settled by the Bank.

Other liabilities are expected to be settled within no more than 12 months of the date of the balance sheet.

20 Retirement benefit obligations

Provision for retirement benefit obligations comprises the following:

	2016	2015
	LL Million	LL Million
Provision for retirement benefit obligations	**32,442**	26,643
Advances against retirement benefit obligations	**-**	(205)
	32,442	26,438

The movement in provision for retirement benefit obligations can be summarised as follows:

	2016	2015
	LL Million	LL Million
At 1 January	**26,643**	26,611
Charge for the year (note 29)	**8,036**	2,560
Payments during the year	**(2,237)**	(2,528)
At 31 December	**32,442**	26,643

The principal assumptions used were as follows:

	2016	2015
Discount rate	**9%**	9%
Future salary increases	**6%**	6%

21 Share capital and cash contributions to capital

	2016	2015
	LL Million	LL Million
Common shares (i)	**148,752**	148,752
Preferred shares B (par value) (ii)	**8,264**	8,264
Preferred shares C (par value) (iii)	**5,165**	-
Total preferred shares (ii +iii)	**13,429**	8,264
Total share capital (i) + (ii) + (iii)	**162,181**	157,016
Preferred shares B (share premium)	**112,336**	112,336
Preferred shares C (share premium)	**70,211**	-
Share premium reserve (iv)	**182,547**	112,336
Cash contributions to capital		
Interest bearing (5.5% per annum)	**36**	36

(i) The Bank's common shares consist of 144,000,000 fully paid shares with a nominal value of LL 1,033 each.

(ii) The Bank's preferred shares consist of 8,000,000 shares (preferred shares 'B') with a nominal value of LL 1,033 each and an issue price of LL 15,075 (USD 10 per share).

(iii) On 2 September, 2016, an extraordinary general assembly was held to issue 5,000,000 non-cumulative redeemable preferred shares 'C' with a nominal value of LL 1,033 each at an issue price of LL 15,075 (USD 10 per share). These shares were fully issued and paid. Preferred shares (B) and (C) are (a) redeemable at the sole discretion of the issuer (after 5 years from issuance date) (b) are non-cumulative (c) distribution of returns to the holders is contingent on the distribution of dividends to the common stocks and adequacy of regulatory reserves and retained earnings. Under these conditions, the preferred shares are deemed to be equity instruments. BDL circular no. 44 treats such preferred shares as 'Additional Tier One Capital' for the purposes of computing the regulatory capital adequacy ratio.

(iv) The share premium reserve of LL 183 billion represents the premium on issuance of preferred shares (B) and (C).

22 Other reserves and retained earnings

	2016	2015
	LL Million	LL Million
Reserves		
Real estate revaluation reserve (a)	**21,061**	21,061
Legal reserve (b)	**84,859**	77,000
Reserve for unidentified banking risks (c)	**84,969**	75,969
Reserve for capital increase (d)	**3,407**	3,377
Reserve for liquidation of assets classified as held for sale (e)	**8,689**	7,288
Reserve against retail portfolio (f)	**3,943**	2,538
Other reserves	**1,466**	1,407
	208,394	188,640
Retained earnings (g)		
Retained earnings - portion that is available for distribution	**253,409**	251,535
Retained earnings - portion that is not available for distribution (BDL circular no. 66) (h)	**32,913**	-
Retained earnings - portion not available for distribution (BCC circular no. 270) (i)	**16,204**	11,736
	302,526	263,271

(a) Real estate revaluation reserve

The revaluation reserve arose from the revaluation of investment properties and property and equipment. The revaluation was performed by an independent valuer under the provisions of fiscal law 282/93 based on the market values of 31 December, 1993. This reserve is not available for distribution.

(b) Legal reserve

In compliance with the requirements of Code of Commerce and Code of Money and Credit article number 132, banks are required to appropriate 10% of their annual profits as legal reserve. This reserve is not available for distribution.

(c) Reserve for unidentified banking risks

In compliance with the Central Bank of Lebanon basic circular no. 50, banks are required to appropriate from annual profits an amount between 2 per mil and 3 per mil of risk-weighted assets (on and off balance sheet) as a reserve for unspecified banking risks. In addition, this reserve should not be less than 1.25% of the denominator at the end of the tenth financial years (i.e. 31 December, 2007) and 2% of the denominator at the end of the twentieth financial years (i.e. 31 December, 2017). This reserve is considered part of Tier I capital and is not available for distribution.

(d) Reserve for capital increase

In compliance with Banking Control Commission circular no. 173, all gains recognised on the sale of properties acquired in settlement of debt (note 16) should be appropriated from retained earnings and recorded as 'Reserve for capital increase'.

(e) *Reserve for liquidation of assets classified as held for sale*

In compliance with BDL basic circular no. 78, banks are required to deduct from annual profits an amount of 5% or 20% of the carrying value of its properties acquired in settlement of debt (note 16), in case the Bank failed to liquidate the properties within 2 years from the date of acquisition. And, in accordance with the Banking Control Commission memo 4/2008 and 10/2008, the required reserves are established through appropriation of retained earnings. This reserve is not considered as part of the Bank's Tier Capital nor is available for distribution. Upon disposal of these properties this reserve is transferred to a reserve specifically restricted to future increases in share capital.

(f) *Reserve against retail loans portfolio*

BCC circular no. 280 introduced the requirement to establish a reserve of 1.5% for performing portfolio (i.e. where late settlements do not exceed 30 days) at 31 December, 2016. Additional appropriations of 0.5% per annum are required to be set to reach 3.5% of the total performing loans (as defined above) by 31 December, 2021.

(g) *Retained earnings*

	2016	2015
	LL Million	LL Million
At 1 January	**263,271**	232,957
Profit for the year	**77,532**	67,264
Dividends declared (note 33)	**(18,522)**	(18,522)
Interest on cash contributions to capital (note 33)	**(1)**	(1)
Other	**-**	(122)
Transfers to:		
Legal reserve	**(7,859)**	(6,726)
Unidentified banking risks	**(9,000)**	(9,000)
Reserve for liquidation of assets classified as held for sale	**(1,458)**	(1,068)
Reserve for capital increase (note 28)	**-**	(156)
Reserve for performing retail portfolio	**(1,405)**	(1,355)
	(32)	-
	(19,754)	(18,305)
At 31 December	**302,526**	263,271

The general assembly meeting held on 23 May, 2016, approved the distribution of dividends amounting to LL 18.52 billion (LL 70 per common share and LL 1,055 per preferred share). The annual appropriation of retained earnings at 31 December, 2016, to specific reserves is not reflected in the financial statements, awaiting the holding of the general assembly in 2017 to approve the 2016 financial statements and pass the necessary resolutions for the appropriation of reserves. These are estimated to be in the region of LL 48 billion.

(h) *Retained earnings - portion that is not available for distribution under BDL circular no. 66*

These represent part of the exceptional gain on 'special swaps' recognised in the income statement amounting to LL 32.9 billion (net of specific and collective provision of LL 123 billion and excluding the fair value gains of LL 35 billion which would have been realised under normal market conditions and without the preferential terms of the special swaps). This gain is not considered to be distributable under BDL circular no. 446 dated 30 December, 2016.

(i) *Retained earnings - portion that is not available for distribution under BCC 270*

Cumulative unrealised gains (gross of losses) on revaluation of financial assets at fair value through profit or loss are not available for distribution until their disposal.

Movement on the undistributable portion of retained earnings under BCC 270 is summarised as follows:

	2016	2015
	LL Million	LL Million
At 1 January	**11,736**	7,357
Unrealised gain on investment securities at fair value through profit or loss (note 27a)	**9,135**	4,628
Revaluation gains related to investment securities subsequently sold transferred to realised	**(4,667)**	(249)
At 31 December	**16,204**	11,736

23 Net interest and similar income

	2016	2015
	LL Million	LL Million
Interest and similar income		
Loans and advances:		
- Customers	**177,053**	163,439
- Banks and financial institutions	**49,058**	36,144
- Reverse repos	**9,614**	6,974
- Loans and advances to related parties (note 36)	**388**	296
	236,113	206,853
Financial assets at fair value through profit or loss	**13,420**	12,078
Financial assets at amortised cost	**242,865**	224,732
	492,398	443,663
Interest and similar expenses		
Deposits from customers	**(334,536)**	(306,699)
Deposits from banks and financial institutions	**(1,902)**	(1,822)
Deposits from related parties (note 36)	**(8,858)**	(6,300)
	(345,296)	(314,821)

24 Net loan impairment charges

	2016	2015
	LL Million	LL Million
Reversal of impairment (note 7)	3,785	4,759
Increase in impairment allowance - specific (note 7)	(9,115)	(4,674)
Increase in impairment allowance - collective (note 7)	(21,277)	(714)
Increase in impairment allowance - Central Bank of Iraq (Kurdistan) (note 5)	-	(6,943)
	(26,607)	(7,572)

The above charges exclude the additional specific and collective provisions taken against the exceptional gain on special swaps and which were netted off against such gain (note ٢٧c).

25 Net fee and commission income

	2016	2015
	LL Million	LL Million
Fee and commission income		
Commissions on banking operations	16,439	13,361
Credit-related fees and commissions	11,524	12,038
Commissions on letters of credit and guarantees	7,958	7,108
Commissions on transfers	4,935	5,938
Brokerage fees	3,031	3,535
Other	145	554
	44,032	42,534
Fee and commission expense		
Commissions on banking operations	(4,391)	(3,029)
Brokerage fees paid	(2,902)	(1,956)
Other	(562)	(107)
	(7,855)	(5,092)
Net fee and commission income	36,177	37,442

26 Net trading income

	2016	2015
	LL Million	LL Million
Net gains on foreign exchange transactions (realised)	9,661	3,268
Net gains on foreign exchange translation (unrealised)	4,790	5,241
	14,451	8,509

27a Net gain on investments at fair value through profit or loss

	2016	2015
	LL Million	LL Million
Unrealised loss on revaluation	(3,056)	(1,578)
Unrealised gain on revaluation (note 22)	9,135	4,628
Net unrealised gain	6,079	3,050
Realised gain on sale of investment securities	1,162	780
Realised gain on 'special swaps' with BDL - treasury bills (note 27c)	6,208	-
	7,370	780
Realised gain	13,449	3,830

27b Net gain on investment securities at amortised cost

	2016	2015
	LL Million	LL Million
Gain on 'special swaps' with BDL - certificates of deposit (27c)	14,861	-
Gain on 'special swaps' with BDL - treasury bills (27c)	14,157	-
Gain on sale of investment securities at amortised cost (see below)	1,003	12,745
	30,021	12,745

2015

During 2015, the Bank sold investment securities from its amortised cost portfolio. Management justifications are as follows:

- In May 2015, the Bank performed an exchange transaction with a local bank on a portion of its certificates of deposit and treasury bills portfolio with a nominal value of LL 165 billion. This transaction consisted of exchanging long term certificates of deposit and treasury bills with shorter term certificates of deposit and was made formaturity gap management purposes. This transaction generated a profit of LL 6.2 billion.
- In June 2015, the Bank performed an exchange transaction with a local bank on a portion of its certificates of deposit and treasury bills portfolio with a nominal value of LL 70 billion. This transaction included certificates of deposit and treasury bills with different maturities and was made for the purposes of maintaining the required liquidity. This transaction generated a profit of LL 3.5 billion.
- In June 2015, the Bank performed an exchange transaction with a local bank on a portion of its treasury bills portfolio with a nominal value of LL 55.5 billion. This transaction consisted of exchanging short term treasury bills with treasury bills having longer maturities and was made for maturity gap management purposes. This transaction generated a profit of LL 300 million.
- In August and November 2015, the Bank performed an exchange transaction with a local bank on a portion of its treasury bills portfolio with a nominal value of LL 62.6 billion. This consisted of exchanging treasury bills with treasury bills having longer maturities and higher yields and was made for maturity gap management purposes. This transaction generated a profit of LL 2.7 billion.

27c Net gain from 'special swaps' with the Central Bank of Lebanon

The exceptional gain of LL 205 billion arising from the special swaps entered into with the Central Bank has been treated as akin to a government grant due to its exceptional one-off nature. Accordingly, the grant together with the credit losses which it is intended to cover have been fully accounted for and netted off against each other in the income statement, in accordance with IAS 20. However, part of the gain that is still conditional upon the ultimate clearance of and release by the Central Bank and amounting to LL 14.1 billion has been deferred within other liabilities. This part of the gain is considered to be unearned as at the balance sheet date.

The gain on special swaps and the related provisions that were netted off, are shown below:

	2016
	LL Million
Securities at fair value through profit or loss ("FVTPL") - treasury bills	36,117
Commissions on banking operations Securities at fair value through profit or loss ("FVTPL") - certificates of deposit ("CDs")	9,755
Securities at amortised cost - certificates of deposit ("CDs")	76,685
Securities at amortised cost - treasury bills	82,347
Total gains on special swaps	204,904
Less: fair value gains which would have been realised under normal market conditions:	
Gains on securities at FVTPL - treasury bills (note 27a)	6,208
Gains on securities at amortised cost - CDs (note 27b)	14,861
Gains on securities at amortised cost - treasury bills (note 27b)	14,157
Accounted for in the income statement	35,226
	169,678
Less: provisions netted off against exceptional gains:	
Specific impairment allowance taken specifically against the above exceptional gain and charged to income statement (note 7)	74,420
Collective impairment allowance taken specifically against the above exceptional gain and charged to income statement (note 7)	48,240
Total provisions	122,660
	47,018
Dealt with as follows:	
Portion of the gain that is deferred within other liabilities as unearned (note 19)	14,105
Net gain recognised on the face of the income statement	32,913
	47,018

28 Other operating income

	2016	2015
	LL Million	LL Million
Release from provision for liabilities and charges	806	1,120
Gain on disposal of assets classified as held for sale (note 22)	-	156
Rental income (note 12)	91	79
Loss on disposal of property and equipment	(47)	(61)
Other	763	657
	1,613	1,951

29 Personnel expenses

	2016	2015
	LL Million	LL Million
Wages and salaries	45,370	42,859
Pension costs - defined benefit plan (note 20)	8,036	2,560
Social security costs	5,754	5,651
Scholarship	3,020	3,023
Medical expenses	1,900	1,597
Transportation	1,877	1,940
Training expenses	284	326
Other employee benefits	2,742	2,713
	68,983	60,669

30 Depreciation and amortisation charges

	2016	2015
	LL Million	LL Million
Depreciation charge (note 13)	6,198	5,813
Amortisation charge (note 14)	1,068	1,213
	7,266	7,026

31 Other operating expenses

	2016	2015
	LL Million	LL Million
Provision for risk and charges	10,485	1,336
Professional fees (note 36)	5,768	4,769
Office supplies and utilities	4,671	5,180
Deposit guarantee premiums	3,808	3,370
Advertising	3,593	2,218
Software costs	3,570	2,175
Municipality and other taxes	3,140	2,698
Travel expense and entertainment	2,628	1,981
Security	2,113	1,736
Operating leases	2,043	1,359
Repairs and maintenance	1,945	2,163
Transportation	1,680	1,349
Subscriptions	1,561	874
Directors' remuneration (note 36)	1,346	1,350
Insurance (note 36)	1,123	1,470
Donations	740	728
Directors' attendance fees (note 36)	654	654
Maintenance on investment properties (note 12)	160	146
Penalty on currency auctions - Central Bank of Iraq (Baghdad) (see below)	-	2,604
Other	2,309	2,001
	53,337	40,161

2015
During 2015, the Bank was subject to a fine of LL 2.6 billion imposed by the Central Bank of Iraq (Baghdad) relating to currency auctions in prior years.

32 Income tax expense

	2016	2015
	LL Million	LL Million
Lebanon branches ("Head Office")	42,472	12,902
Foreign branches (Cyprus and Iraq)	2,936	1,592
Tax charge for the year	45,408	14,494

Proof of tax is determined as follows:

	2016	2015
	LL Million	LL Million
Profit before income tax	122,940	81,757
Less: foreign entities	(18,181)	(11,094)
Profit before income tax - local entity	104,760	70,663
Tax using the local corporation tax rate of 15%	15,714	10,599
Effect of expenses not deductible for tax purposes:		
Differences between accounting and fiscal depreciation	893	148
Net unrealised gain on investment securities and financial liabilities	(912)	(462)
Impairment allowance - specific	800	-
Impairment allowance - specific netted off against exceptional gain	3,192	-
Impairment allowance - collective	11,163	-
Impairment allowance - collective netted off against exceptional gain	7,236	-
Deferred gain	2,116	-
Pension costs - defined benefit plan	1,205	-
Other provisions	1,573	-
Donations and other provisions	110	213
Other	(618)	1,059
Income tax - local entity	42,472	12,902
Income tax - foreign entities	2,936	1,592
Total income tax expense	45,408	14,494

The movement in the current income tax liability is as follows:

	2016	2015
	LL Million	LL Million
At 1 January	4,348	5,340
Charge for the year	45,408	14,494
Payments during the year	(14,200)	(15,486)
At 31 December	35,556	4,348

The breakdown in the current income tax liability is as follows:

	2016	2015
	LL Million	LL Million
Lebanon entity	32,397	2,646
Foreign entities (Cyprus and Iraq)	3,159	1,702
At 31 December	35,556	4,348

The fiscal years from 2012 till 2016 for the local entity remain subject to examination by the income tax authorities.

33 Dividends per share and interest on cash contributions

Dividends declared by the Bank have been accounted for in the financial years as follows:

The general assembly meeting held on 23 May, 2016, approved the distribution of dividends of LL 18,522 million (LL 70 per common share and LL 1,055 per preferred share) and interest on cash contributions to capital of LL 1.4 million in respect of the financial year ended 31 December, 2015.

	2016	2015
	LL Million	LL Million
LL 70 (2015 - LL 70) per common share	10,080	10,080
LL 1,055 (2015- LL 1,055) per preferred share (designated "B")	8,442	8,442
	18,522	18,522

In addition, the Bank paid interest on a cash contribution of LL 1.4 million (2015 - 1 million).

34 Cash and cash equivalents

Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, deposits held at call with banks.

	2016	2015
	LL Million	LL Million
Cash and balances with Central Banks (note 5)	752,373	468,452
Deposits with banks and financial institutions (note 6)	663,079	946,023
	1,415,452	1,414,475

35 Contingent liabilities and commitments

(a) Legal proceedings

There were a number of lawsuits involving claims by and against the Bank at 31 December, 2016, which arose in the ordinary course of business. The Bank does not expect these claims to give rise to any significant liability on the Bank.

(b) Loan commitments, guarantees and other financial facilities

At 31 December, 2016, the following table indicates the contractual amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit to customers, guarantees and other facilities as follows:

	2016	2015
	LL Million	LL Million
Loan commitment (unused facilities)	531,761	472,733
Letters of guarantee (see below)	280,922	190,160
Letters of credit	122,726	120,447
	935,409	783,340

The nature and the amounts of the letters of guarantee are as follows:

	2016	2015
	LL Million	LL Million
Guarantees given to customers	140,412	111,863
Guarantees against bank facilities	140,510	78,297
	280,922	190,160

36 Related-party transactions

The Bank is controlled by Assaf Holding S.A.L. (incorporated in Lebanon), which owns 46% of the ordinary shares, and Fransabank S.A.L. (incorporated in Lebanon), which owns 37% of the ordinary shares. The remaining 17% of the shares are widely held.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and other financial facilities (i.e. loan commitments, guarantees, etc.).

The volumes of related party transactions, outstanding balances at the year end, and related expenses and income for the year are as follows:

(a) Loans and advances to related parties

	Directors and other key management personnel (and close family members)		Related companies (associated companies and subsidiaries)	
	2016	2015	**2016**	2015
	LL Million	LL Million	**LL Million**	LL Million
Loans and advances to customers (note 7)	**8,025**	6,013	**-**	-
Interest income (note 23)	**388**	296	**-**	-

No provisions have been recognised in respect of loans given to related parties (2015 - nil).

Loans and advances to related parties comprise loans with fixed rates. The majority of these loans are secured by real estate mortgages.

As stipulated by Code of Money and Credit article 152, loans and advances to related parties are subject to general assembly approval on yearly basis.

(b) Deposits from related parties

	Directors and other key management personnel (and close family members)		Related companies (associated companies and subsidiaries)	
	2016	2015	**2016**	2015
	LL Million	LL Million	**LL Million**	LL Million
Deposits (note 18)	**44,744**	62,161	**145,262**	121,260
Interest expense (note 23)	**3,247**	2,623	**5,610**	3,677

Deposits from related parties are unsecured and comprise deposits with variable rates (repayable on demand), and fixed rates (repayable at maturity) of LL 27 billion (2015 - LL 26 billion) and LL 161 billion (2015 - LL 157 billion) respectively.

(c) Letters of guarantee

	2016	2015
	LL Million	LL Million
The Capital Insurance and Reinsurance Company S.A.L.	**290**	290

(d) Other transactions with related parties

	2016	2015
	LL Million	LL Million
The Capital Insurance and Reinsurance Company S.A.L.		
Commission income	**2,466**	3,109
Dividend income	**1,600**	1,800
Insurance expense - Bank (note 31)	**(1,123)**	(1,470)
Insurance expense - staff	**(284)**	(260)
Other		
Cost of other services received and commission paid	**(599)**	(635)

(e) Key management compensation

	2016	2015
	LL Million	LL Million
Directors' remuneration (note 31)	**1,346**	1,350
Directors' attendance fees (note 31)	**654**	654
Other key management compensation	**3,676**	3,596

(f) Professional fees

Professional fees include remunerations to the audit and risk board members amounting to LL 570 million (2015 - LL 570 million).

Network

Correspondent Banks

Abu Dhabi
National Bank of Abu Dhabi

Amman
Jordan Ahli Bank Plc

Colombo
Bank of Ceylon

Copenhagen
Danske Bank A/S

Doha
Qatar National Bank SAQ

Dubai
MashreqBank PSC

Frankfurt
Deutsche Bank AG
Commerzbank AG

Geneva
The Bank of New York Mellon, London

Hong Kong
Standard Chartered Bank

Kuwait
National Bank of Kuwait SAK

London
Barclays Bank Plc
Standard Chartered Bank

Madrid
BBVA SA

Milano
Intesa Sanpaolo SpA
Unicredit Bank

New York
The Bank of New York Mellon
Citibank N.A.
JPMorgan Chase Bank N.A.
Standard Chartered Bank

Oslo
DNB Nor Bank ASA

Paris
Société Générale

Riyadh
Banque Saudi Fransi

Stockholm
Skandinaviska Enskilda Banken AB

Sydney
Westpac Banking Corporation

Tokyo
The Bank of New York Mellon, London

Toronto
Bank of Montreal

Vienna
Unicredit Bank Austria AG

Subsidiaries

- **Informatics Co. s.a.r.l.**

It is a software company that offers commercial and technical services. It was established in 1980 and is chaired by Sheikh Ghassan Assaf. BBAC owns 84% of the company's shares.

- **Société Libanaise de Service s.a.r.l.**

The company is active in real estate management. It was established in 1980 and is chaired by Sheikh Ghassan Assaf. BBAC owns 91% of the company's shares.

- **The Capital Insurance and Reinsurance Co. s.a.l.**

The company provides a full-range of insurance and reinsurance services. It is chaired by Mr. Assad G. Merza. BBAC owns 80% of the company's shares.

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