2016 ANNUAL REPORT

SARADARBANK
BIT-NECB GROUP

2016 ANNUAL REPORT

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1.

MESSAGE FROM **THE CHAIRMAN**

2016: **RESHAPING THE FUTURE**

2016 was a critical and challenging year for us at Saradar Bank. It was also a breakthrough year: we rolled out our strategic agenda with our clients at its heart, demonstrating our resilience and evolving to become a new powerhouse in the vanguard of the industry. Operating in a complex environment, we reaffirmed through our achievements our collective ability to deliver on an ambitious vision to reshape banking.

As the year drew to a close, economic growth remained tepid, with profound political and economic turmoil continuing to take its toll. The banking sector also faced increased regulatory pressure to raise capital levels and further improve corporate governance and culture. Despite this backdrop, we have been steadfast in our dedication to our clients and community, while delivering real value to our shareholders.

In May 2016, the Bank reached a major milestone when the Central Bank provided its final approval of the merger. This, in conjunction with the Bank's rebranding, generated significant goodwill and positive publicity in the market, substantially boosting business. A review of the Bank's structure was conducted, and waves of improvements were brought about to further enhance our performance, while ensuring compliance with the market's best practices and corporate governance requirements.

Amidst the twists and turns of a challenging merger, the Bank's leadership fostered a corporate culture of integrity, unwavering ethics, and transparency closely aligned with global best practices. The Board set the tone at the top and worked in collaboration with management to promote integrity and reach its objectives, while balancing long run growth with more immediate goals to uphold the interests of all stakeholders. Indeed, Capital Finance International awarded Saradar Bank its Best Bank Governance Award for 2016 in Lebanon.

The progress we made is commendable. The Bank registered the fastest growth rates in the Lebanese banking industry: we earned net profits of USD 3.30 million. Total assets grew by a record 32.63% to USD 2.023 billion, raising the Bank to the first place in its group. Customer deposits increased by 26.04%, reaching a new high of USD 1.638 billion. As for the loan portfolio, it increased by a whopping 33.65% attaining a total of USD 610 million. Overall, the Bank further strengthened its capital and shareholder equity to USD 236 million.

With the launching of the digital strategy and the implementation of a new core banking system, we are setting strong foundations for sustained future growth. Becoming a truly digital bank entails a complete transformation of the Bank and its processes, going beyond mere interfaces. We believe that operational and technological prowess are critical competitive advantages to survive in the banking landscape of tomorrow. By heavily investing in building one of the top performing and most highly integrated IT platforms, we seek to carve a leading position among online banks in the region. This foundation will reinforce the Bank's core processes, putting forward customer journeys and increasing our ability to be data-driven. This will allow the Bank to forge ahead with its pursuit to redefine banking in innovative ways while delivering outstanding customer experience and shareholder value.

Our strongest asset is undeniably our human capital and our exceptional employee culture. With our motivated and empowered staff, we are committed to excellence and dedicated to delivering extraordinary customer experiences. In addition to our remarkable shareholders, our highly experienced Board and exceptionally qualified management provide the Bank with outstanding leadership striving together towards excellence.

I am proud and grateful of what we have accomplished this year. We will continue to build on our heritage by reaching greater milestones with an unyielding focus on innovation and creativity. Looking ahead to 2017, we have the confidence and the momentum to grow towards a promising future.

Mario Saradar

Mario Saradar
Chairman and Chief Executive Officer

2.

CORPORATE **GOVERNANCE**

2.1 CORPORATE GOVERNANCE LANDSCAPE

Good governance is vital in any sector. In the banking industry, it forms the bedrock of a financially sound and well-run institution.

INTRODUCTION

At Saradar Bank, we are committed to upholding the highest standards of corporate governance and integrity.

We believe that effective Board and management oversight, combined with solid corporate governance practices, drive the long-term success of our Bank. We continuously seek to enhance and promote exemplary core values and strong ethics throughout the organization.

Our systems, processes, and policies are aligned with industry-leading standards to ensure full compliance with laws and regulations. We continuously monitor our structures to identify potential improvements, and implement international best practices with regards to transparency and corporate governance.

We seek to lead by example: we have established high standards at all levels and make every effort to meet them. We understand that trust, confidence and engagement with our clients, employees, shareholders and the wider community are at the heart of our business; achievements are a source of pride when reached through the right set of values.

HOW WE OPERATE

At Saradar Bank, the Board sets the tone at the top, working in close collaboration with management to ensure the proper conduct of business. The Board promotes integrity and corporate values, through a sound corporate governance framework.

OUR BOARD IN 2016		
Number of Board members	12	
Number of independent Board members	2	
Committees of the Board and number of meetings	Full Board	4
	Board Strategy	1
	Audit Committee	4
	Remuneration Committee	4
	Risk Committee	4

We are very proud of the Bank's leadership in corporate governance. Indeed, Saradar Bank received CFI.co's Best Bank Governance Award in Lebanon for 2016.

With dedicated retail, commercial, and private banking divisions, Lebanon's Saradar Bank is set to help the country regain its prominence as a regional financial services hub. Saradar Bank is the product of the merger between the Near East Commercial Bank (NECB) and the Banque de l'Industrie et du Travail (BIT), both owned by the Saradar Group. Saradar Bank has hired a team of seasoned professionals to ensure both operational excellence and optimum service delivery.

The new bank leverages the heritage of its parents and their vast reservoirs of knowhow. As such, Saradar Bank comes onto the buoyant local market already boasting a well-established track record. Saradar Bank's management feels confident that Lebanon's financial services sector has plenty of room for a new entity committed to delivering a wide range of customisable products and services.

Saradar Bank squarely aims to embark on a path of rapid and sustainable growth – both organic and powered by future acquisitions. The new entity has adopted a full suite of governance processes – closely aligned to global best practices – to ensure transparency, integrity and performance optimisation. Both the bank's board of directors and management are committed to lead by example and to promote exemplary core values and strong ethics throughout the organisation. A balanced governance structure and sound practices have been carefully designed and implemented to safeguard the interests of all stakeholders.

The CFI.co judging panel is excited to see a new bank arise in Lebanon – one that includes the experience and expertise of two well-respected institutions. As such, Saradar Bank is declared winner of the 2016 Best Bank Governance Award Lebanon Award.

CFI.co | Capital Finance International

2.2 BOARD GOVERNANCE FRAMEWORK

Saradar Bank boasts a clear, well-structured governance framework to support the Board in achieving its long-term strategic goals and generating sustainable returns for shareholders. This framework defines the role of the Board and management by setting out their respective priorities and ensuring all critical concerns are addressed.

SHAREHOLDERS > BOARD OF DIRECTORS > MANAGEMENT

ELECT

APPOINT

Responsible for:

- Governance
- Strategy
- Performance
- Risk Control
- Integrity
- Culture & Values

APPOINT

External Auditors

REPORT

APPOINT

Audit Commitee

Remuneration Committee

Risk Committee

AML/CFT Committee
In progress

2.3 CORPORATE GOVERNANCE APPROACH

The Board of Directors of the Bank is composed of highly qualified, independent and diverse members with a strong blend of experience and diverse expertise. They are leaders in their fields, bringing a wealth of knowledge to their role.

The Board is composed of a number of Directors sufficient for it to exercise its duties and responsibilities, and function efficiently. This number may vary between 3 and 12 members, and currently, stands at 12.

The Directors' deep commitment is essential to the Bank's successful performance. It is ultimately responsible for ensuring the proper conduct of business and for overseeing the management of the Bank. The Board is primarily responsible for improving the Bank's value to its shareholders by defining strategic direction and objectives, providing leadership and guidance, putting in place a sound corporate governance framework, promoting corporate values and ensuring that effective internal control processes are in place.

In order to preserve its necessary independence from management, the Board aims to increase its number of independent non-executive Directors in future exercises. The Corporate Governance standards set forth herein reflect best practices in the industry. In light of changing circumstances, the Board reevaluates governance principles from time to time and where deemed necessary, to ensure the Bank remains at the vanguard of leading corporate governance practices.

2.4 OWNERSHIP BREAKDOWN

The Bank's shareholders are local and international visionaries, including global leaders such as Carlos Ghosn, the Wiederkehr Group, and prominent figures on the Lebanese scene, including the Saradars, Bustanis, Mecattafs, Mikatis, El-Khazens and Shammas.

SHAREHOLDERS

- SARADAR PARTNERS 30.81%
- STÉ AL BUSTANIA SAL 19.71%
- WIEDERKEHR GROUP HOLDING SAL, 12.62%
- SHAMMAS ECONOMIC INSTITUTE SAL 12.04%
- SAIFI INVEST HOLDING SAL 11.32%
- CARLOS GHOSN 4.58%
- BEATRICE WIEDERKEHR 2.36%
- MYRNA BUSTANI 2.03%
- JAMIL EL-KHAZEN 1.96%
- LAURA EL-KHAZEN LAHOUD 1.96%
- OTHERS 0.61%

2.5 COMPOSITION OF THE **BOARD OF DIRECTORS**

A minimum of four Board meetings are scheduled per year, two of which should be held in Lebanon.

Board members are required to attend all Board meetings, with exceptions made for extraordinary extenuating circumstances.

The Board of Directors of Saradar Bank was elected by the General Assembly held on October 6, 2015.

HONORARY POSITIONS

SHEIKH FOUAD EL-KHAZEN	Honorary Chairman
DR. ALFRED WIEDERKEHR	Honorary Vice-Chairman

BOARD MEMBERS

MR. MARIO SARADAR	Chairman-CEO	Executive
SHEIKH JAMIL EL-KHAZEN	Member	Non-executive
MRS. LAURA EL-KHAZEN LAHOUD	Member	Non-executive
SHEIKH MICHEL EL-KHOURY	Member	Independent, Non-executive
MR. PIERRE GASPARD (until July 2017)	Member	Non-executive
MR. CARLOS GHOSN	Member	Non-executive
MR. JOE ISSA-EL-KHOURY	Member	Non-executive
MR. ALEXANDRE NAJJAR (until July 2017)	Member	Non-executive
MR. JOSEPH SADDI	Member	Independent, Non-executive
MR. CHRISTIAN STEINFELS	Member	Non-executive
SAIFI INVEST HOLDING SAL represented by Mr. Nabil Moukattaf	Member	Non-executive
SHAMMAS ECONOMIC INSTITUTE SAL represented by Mr. Nizam Shammas	Member	Non-executive

SECRETARY OF THE BOARD

MS. DINA SFEIR	Corporate Secretary

2.6 BOARD BIOGRAPHIES

MARIO SARADAR
Chairman-CEO

Mr. Mario Saradar is Chairman-CEO of Saradar Bank sal. He is also Chairman-CEO of Marius Saradar Holding sal – Saradar Group and other affiliates of the Group since 1992, when he was appointed Chairman and General Manager of Banque Saradar. Following the merger between Banque Saradar and Bank Audi in 2004 and until December 2010, he held the role of Chairman and General Manager of Audi Saradar Private Bank. During the same period, Mr. Saradar was appointed Chairman of Bank Audi Suisse.

A graduate of London's University College with a B.S. in Economics, Mr. Saradar also holds a diploma in Financial Instruments from "Institut des Techniques de Marché", and a diploma in Portfolio Management from "Institut de la Bourse et du Titre", both in Paris. He has repeatedly been elected to the Board of the Lebanese Banks Association, and is currently a member of the "Rassemblement des Dirigeants et des Chefs d'Entreprise Libanais", International Chamber of Commerce, and of the Young Presidents' Organization.

JAMIL EL-KHAZEN
Member

In addition to being a board member of several institutions, Mr. El-Khazen is active in the Real Estate and Financial Investment fields.

He holds a Bachelor of Science in International Business from the University of Evansville, Indiana, USA.

LAURA EL-KHAZEN LAHOUD
Member

Mrs. Laura Lahoud is involved in different family businesses, mainly the management of Al Bustan Hotel and the organisation of Al Bustan Festival.

She holds a Master's in Science in Mathematics & Operational research from the London School of Economics (London, UK).

MICHEL EL-KHOURY
Member

H.E. Mr. Michel El Khoury was twice Governor of the Central Bank of Lebanon (1978 – 1985, 1991 – 1993). He also held two ministerial positions in the Government of Lebanon between 1965 and 1968 and was a founding-member of the National Council of Tourism, which he chaired from 1964 and 1971. As personal representative of the President of the Republic, he paid a number of official visits to Arab Heads of State.

He holds Law degrees from Université Saint-Joseph in Beirut and from the Université de Paris, Faculty of Law in France.

His rich and diversified career began in journalism with the daily "Le Jour".
Mr. El-Khoury also participated in a number of official Lebanese Missions to foreign capitals including London, Paris, the Vatican and Cairo as Attaché to the Political Department of the Ministry of Foreign Affairs. He joined the Lebanese Bar Association in 1948 and practiced law until 1953. While being actively involved in managing various companies, he published numerous articles and studies, and delivered conferences at the "Cénacle Libanais" amongst other cultural institutions. He co-founded Banque Libano-Française and served as its Vice-Chairman for several years while consulting for a number of European firms.

PIERRE GASPARD
Member (until July 2017)

Mr. Pierre Gaspard is Advisor to the Chairman of Saradar Group.

Prior to joining Saradar Group, he was an independent financial consultant specialising in the structuring of investment products for institutional clients as well as private wealth management for High Net Worth clients. From 1994 to 2003, he was Assistant General Manager of Banque Saradar sal where he headed Treasury, Capital Markets and Private Banking. Until 1993, he was part of the Risk Management team of Bank of Montreal (Canada).

Pierre Gaspard holds an MBA from California State University (1983) and a BBA from the American University of Beirut (1981).

CARLOS GHOSN
Member

Mr. Carlos Ghosn is the Chairman and CEO of Nissan Motor Corp., Chairman and CEO of the Renault Group, Chairman and CEO of Renault-Nissan Alliance BV. Following Nissan's acquisition of a 34% stake in Mitsubishi Motors in October 2016, Mr. Ghosn became the Chairman of Mitsubishi Motors.

He joined Renault in 1996 as Executive Vice President of the Group and Nissan in 1999 as its Chief Operating Officer. He was appointed Chief Executive Officer in June 2001. From June 2013 to June 2016, Mr. Ghosn was also the Chairman of AvtoVAZ, a Russian car manufacturer. Mr. Ghosn spent 15 years with Michelin in various capacities from 1981 to 1996.

A national of Brazil, France and Lebanon, Mr. Ghosn holds Engineering Degrees from France's École Polytechnique (1974) and École des Mines de Paris (1978).

JOE ISSA-EL-KHOURY
Member

Following a degree in Civil Engineering from the American University of Beirut and an MBA from INSEAD, Mr. Issa-El-Khoury spent several years at Merrill Lynch in Paris, after which he joined the Méditerranée Group in Lebanon as advisor to the Chairman and Deputy General Manager of Méditerranée Investment Bank. For many years, he served as Chairman-General Manager of Saradar Investment House, the investment banking arm of Saradar Group.

His multi-disciplined assignments covered areas in portfolio and wealth management, project finance, corporate finance, mergers and acquisitions, capital markets as well as real estate investment. In Lebanon, Mr. Issa-El-Khoury was a pioneer in leading the first Euro Deposit program issued by a bank, the first convertible bond issued by an industrial group and the first REIT-like structure issued by a real estate company.

Currently an Executive Director and a member of the Investment Committee at M1 Group, he is a prominent leader in Business Development. Mr. Issa-El-Khoury is also the CEO of M1 Investments while holding board representations at institutions such as Saradar Bank, LibanPost, Hope Construction Materials, Jetscape, ITCC, Façonnable and Pepe Jeans Group.

NABIL MOUKATTAF
Member, representing Saifi Invest Holding sal

Mr. Nabil Moukattaf has a significant international experience in Gold and Foreign Exchange trading activities as well as Private Banking.

He is a graduate of L'Ecole des Hautes Etudes Commerciales in Paris (France).

ALEXANDRE NAJJAR
Member (until July 2017)

Mr. Alexandre Najjar holds a Law degree from the Ecole de Droit, Université Panthéon-Assas Paris II (France) and a Master's of Law from Université Saint-Joseph (Lebanon). He holds a post-graduate degree in Banking Law and Finance from the Sorbonne University in Paris (France). He is also a professor of Business Law at Ecole Supérieure des Affaires (ESA) and a member of the French Institute of Directors.

In addition to being an Attorney at Law, one of the Bank's lawyers, and Advisor to the Minister of Culture, Mr. Najjar has won several prestigious awards in recognition for his achievements and outstanding contributions to literature by publishing over 30 books translated into 12 languages.

JOSEPH SADDI
Member

Mr. Joseph Saddi is a Partner and Chairman of Strategy&'s (formerly Booz & Company) Middle East business, with over 30 years of consulting experience in strategic, organizational, and restructuring services.

Over the years, he has led major privatization programs in such sectors as oil and gas, mining, steel and electricity; advised Middle East governments on sector deregulation and sector policy; and led the reorganization of national oil companies and large corporations. He also works closely with large family-owned companies to help design governance and portfolio strategies.

Mr. Saddi holds an MBA from Cornell University in New York (USA), and a Bachelor of Business Administration from ESSEC in France.

NIZAM SHAMMAS
Member, representing Shammas Economic Institute sal

Mr. Nizam Shammas is a seasoned engineer and businessman involved in construction with The C.A.T. Group (MEA), industry with STAL (LB), tourism with New Forest Hotels (UK) and St. Raphael Resort & Marina (CY), real-estate development through Rabieh Co. (LB) and Shammas Investment (LB), and banking as MD of Shammas Economic Institute (LB) and shareholder in Saradar Bank (LB).

He holds a B.Sc. in Civil Engineering from the American University of Beirut (Beirut, LB), MBA from Brunel University (London, UK), and an Advanced Management Program from Cornell University (New York, USA).

CHRISTIAN STEINFELS
Member

Mr. Christian Steinfels holds a Bachelor of Arts and an MBA degree. He has held various positions in banking in the US, London, Frankfurt and Switzerland.

In addition, he has been a member of the Supervisory Boards of ASEA AB, ABB AG, Voest-Alpine AG and Böhler-Uddeholm AG.

He has acted as an independent financial advisor since 1996.

2.7 BOARD COMMITTEES

The composition of each Committee is approved by the Board in line with applicable rules and procedures and any other relevant considerations. In endorsing suitable membership on Committees, the Board makes every effort to compose each Committee with Directors who strike the right balance of know-how, experience, and diversity of perceptions.

BOARD COMMITTEES	CHAIRPERSON	MEMBERS
Audit Committee	Mr. Joseph Saddi	Mrs. Laura El-Khazen Lahoud Saifi Invest Holding SAL represented by Mr. Christian Mecattaf Mr. Joe Issa-El-Khoury Mr. Christian Steinfels
Remuneration Committee	Mr. Joseph Saddi	Shammas Economic Institute represented by Mr. Nizam Shammas Saifi Invest Holding SAL represented by Mr. Nabil Moukattaf Sheikh Michel El-Khoury Mr. Pierre Gaspard Mr. Joe Issa-El-Khoury
Risk Committee	Sheikh Michel El-Khoury	Saifi Invest Holding SAL represented by Mr. Christian Mecattaf Sheikh Jamil El-Khazen Mr. Pierre Gaspard

SARADAR BANK BOARD

BOARD AUDIT COMMITTEE

Assists the Board in fulfilling its duties and supervisory roles regarding the requirements of internal control, internal audit, external audit and compliance with regulations.

Monitors the internal control efficiency and effectiveness. Follows up on the implementation of remedial measures.

Oversees the internal audit department and supervises its performance. Verifies that the Senior Management tackles the recommendations raised in the reports. Approves the internal audit charter, the audit cycle, and the annual audit plan.

Assesses the external auditors' performance, autonomy and objectivity. Discusses with the Senior Management and external auditors the financial statements to be published.

Reviews the effectiveness of the system for monitoring compliance with laws and regulations and follows up of any instances of noncompliance.

BOARD REMUNERATION COMMITTEE

Advises the Board in defining and overseeing the Bank's policy on remuneration, bonuses and incentives.

Ensures that compensation measures support the strategic goals of the Bank and allow for the recruitment, motivation and retention of senior executives.

Oversees the establishment, maintenance and administration of the Bank's remuneration programs and employee benefit plans.

Ensures that the Bank's compensation practices are consistent with the Bank's vision, values and overall corporate objectives.

BOARD RISK COMMITTEE

Assists the Board in fulfilling its oversight responsibilities with regards to risks inherent to the Bank's strategy and activity.

Monitors overall risk framework.

Reviews and monitors risk policies in line with the Bank's strategy and business plan.

Reviews and monitors the Risk appetite and tolerance statement.

Ensures that risks are identified, measured, monitored and managed in line with the Bank's risk appetite and the risk strategy.

2.8 HIGH LEVEL **STRUCTURE**

EXTERNAL AUDITORS

SHAREHOLDERS

CORPORATE SECRETARIAT

BOARD OF DIRECTORS

BOARD COMMITTEES

- Audit Commitee
- Remuneration Committee
- Risk Committee

CHAIRMAN - CEO

BUSINESS LINES

- Retail Banking
- Private Banking
- Investments
- Treasury & Capital Markets
- Corporate & Commercial Banking
- Factoring

Management Committees

- General Management Committee
- Assets & Liabilities Committee
- AML/CFT Committee
- Credit Committee
- Fiduciary Committee
- Information Security Committee
- Organization and Compliance Committee
- Control and Risks Committee
- Purchasing and Procurement Committee
- Non-Performing Loans Committee
- Digital and Transformation Committee

SUPPORT FUNCTIONS

- Risk Management
- Credit Risk
- Internal Audit
- Legal
- Compliance
- Finance
- Operations
- Information Technology

Legal Advisors

El Khoury & Partners Law Firm
Roger Najjar Law Firm
Hachem Law Firm

Auditors

Deloitte
Ernest & Young

2.9 REMUNERATION POLICY

The purpose of the remuneration policy is to reward competent and responsible colleagues, to promote integrity, and to support productivity and job satisfaction.

It establishes clear and transparent remuneration and benefits practices aligned with the Bank's culture, long-term business objectives, risk strategy, performance, and legislative and regulatory frameworks. The policy and general incentive structures reflect the Bank's goals for sound Corporate Governance and allow the Bank to strike a sustainable balance between short and long-term value creation and responsibility for its employees, shareholders and communities. It also ensures that employees are offered a competitive remuneration package in line with the market, encouraging them to generate sustainable results and aligning their interests with those of shareholders, clients and colleagues.

The Bank makes every effort to ensure that compensation packages are commensurate with the relevant duties and responsibilities of each individual, are fair and equitable, and integrate incentives clearly and measurably linked to performance both on an individual and corporate basis. Remuneration is designed to be sustainable in the long-term.

STRUCTURE

In the first quarter of every year, the Remuneration Committee examines the Bank's remuneration strategy and plans in light of the Bank's performance, local industry practices and market conditions.

The Board reviews, assesses and endorses the remuneration and incentive schemes for the coming year based on the recommendations of the Remuneration Committee. The total bonus amount to be paid is reviewed by the Remuneration Committee and approved by the Board. The cumulative consolidated remuneration disbursed by the Bank is incorporated in the Bank's budget and endorsed by the Board.

PERFORMANCE EVALUATION

The Bank believes that its main strength is its human capital. The professional growth of its employees is central to attaining the Bank's vision, mission and strategy. The Bank established a general assessment of its employees to systematically analyze the strong and weaker aspects of individual performance.
Annual performance evaluations are central to the development of employees and the determination of remuneration. Performance evaluations are designed to ensure transparency, and have well-defined, pre-determined Key Performance Indicators (KPIs) in line with the Bank's overall remuneration and incentive strategy.

REMUNERATION COMPONENTS

FIXED REMUNERATION

Fixed remuneration is established based on the position held by each employee, including but not limited to assigned responsibilities, professional experience, job complexity, seniority, expertise, skills, education, budgetary considerations, and local economic conditions. Fixed remuneration is a monthly salary payable 16 times per year in accordance with the Collective Labour Agreement.

PERFORMANCE-BASED INCENTIVES

Performance-based incentives are designed to motivate and recognize high performers depending on their contribution to the Bank's results, performance in line with defined expectations and clear KPIs. Incentives are awarded based on the Bank's overall financial results, the performance of the business line and/or unit, and individual performance. Both financial and behavioural criteria are taken into account when defining the individual's bonus.

EMPLOYEE BENEFITS

The Bank meets or exceeds benefits described in the Collective Labour Agreement. Various allowances are awarded to employees covering mainly individual and family medical coverage, family and education allowances, housing and transportation in addition to other auxiliary benefits.

2.10 COMMUNICATING WITH THE BOARD

Shareholders, staff and other interested parties may communicate with the Board or any of its Committees through the Corporate Secretary.

Depending on the content of the correspondence, the message will be either transmitted to the Director's attention or routed to the appropriate party if the subject matter is not related to Directors' responsibilities.

Correspondence may be addressed to:

Corporate Secretary
Saradar Bank sal
Saradar Building, Charles Malek Avenue
Ashrafieh, P.O. Box: 16-5766
Beirut, Lebanon

2.11 MANAGEMENT **LIST**

HEAD OFFICE

MR. MARIO SARADAR	Chairman-CEO
MR. PIERRE NAGGEAR	General Manager-Corporate & Commercial Banking
MR. YOUSSEF DIB	General Manager-Private & Investment Banking
MR. KHALIL DAOUD	General Manager-Retail Banking (Until December 2016)
MRS. MARTINE HOCHAR	Assistant General Manager-Private Banking
MRS. HALA ABOU JAOUDÉ	Assistant General Manager-Corporate & Commercial Banking
MRS. MICHELINE DIB	Assistant General Manager - Retail Banking (Since November 2016)
MRS. CLAUDINE SELOUAN	Chief Human Resources Officer
MS. AMALE CHOUERI	Chief Audit Executive
MR. CHARBEL BOUHABIB	Chief Information Officer (Acting)
MR. EMILE SHALALA	Head of Treasury and Capital Markets
MS. YOUMNA MOUKARZEL	Head of Operations (Since December 2016)
MRS. MAYA MOUJAES	Head of Correspondent Banking
MS. DANIELLE MOUTRAN	Head of Finance (Since October 2016)
MR. JAD ABOU RJEILY	Head of Compliance
MR. HENRI BOUILLER	Head of Risk Management
MS. CARINE KOUYOUMJI	Head of Credit Risk
MS. HALA CABBABÉ	Head of Communication
MRS. CALINE CHAHINE	Head of Organization and Administrative
ME MAYA TABET CHIDIAC	Head of Internal Legal Affairs
MS. DINA SFEIR	Corporate Secretary

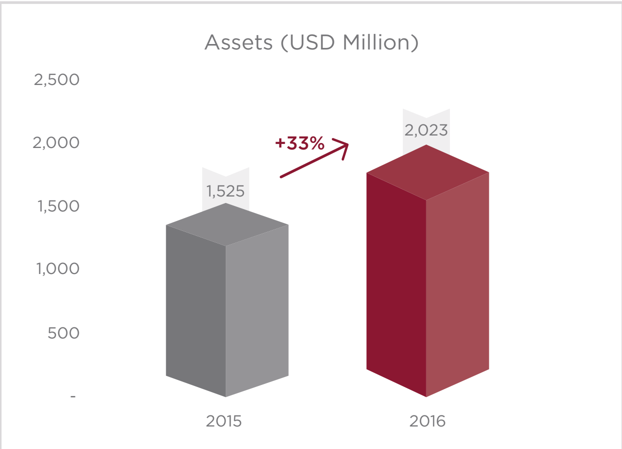
REGIONAL MANAGEMENT:

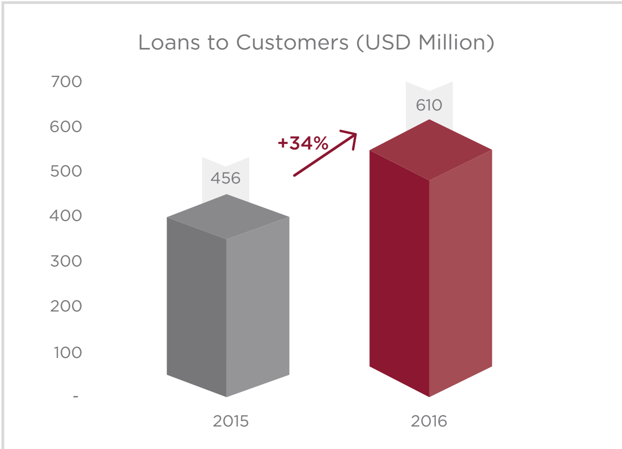
MRS. LUBNA EL MASRI	Regional Management - Beirut West and South Lebanon
MRS. ROULA ABOU GHAZALY	Regional Management - Metn and Kesrouan
MRS. INAS SLEIMAN	Regional Management - Beirut

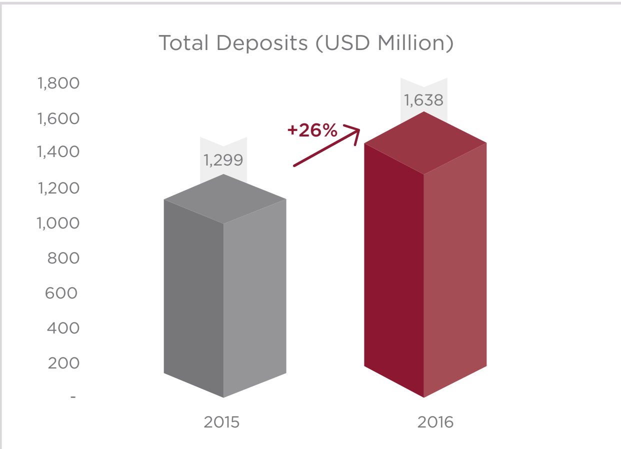
3.

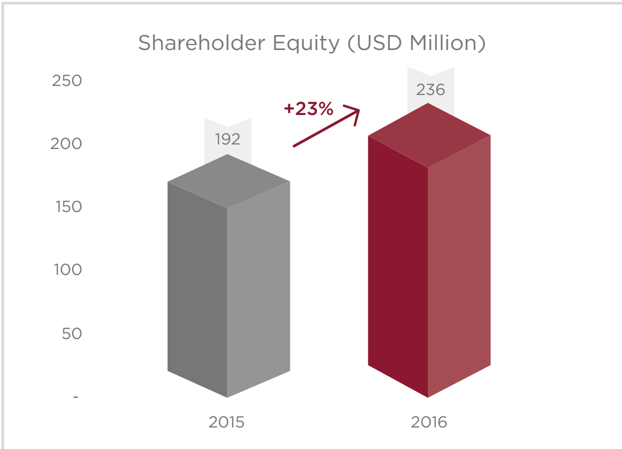
FINANCIAL STATEMENTS 2016

3.1 FINANCIAL **SNAPSHOTS**









3.2 INDEPENDENT AUDITOR'S REPORT

Deloitte.

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BT 4803/DTT

INDEPENDENT AUDITORS' REPORT

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

Qualified Opinion

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

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

Basis for Qualified Opinion

As more fully described in Note 9 to the financial statements, during 2016, the Bank generated a surplus as a result of special transactions entered with the Central Bank of Lebanon involving the sale of Lebanese Government bonds and certificates of deposit denominated in Lebanese Pounds, concluded simultaneously with the acquisition of Lebanese Government bonds and certificates of deposit issued by the Central Bank of Lebanon denominated in US Dollars. The surplus resulting from these transactions amounted to LBP65.4billion, net of related taxes, of which LBP23billion were recorded in profit and loss during the year ended December 31, 2016.

Besides, on December 30, 2016, the Central Bank of Lebanon issued Intermediate Circular number 446 which required the surplus to be used in anticipation of implementing the provisioning requirements of IFRS 9 which become effective on January 1, 2018 and any remaining balance to be appropriated to the reserve for capital increase, and qualifying for inclusion within regulatory Common Equity Tier One.

In view of the above, the Bank reported under "Reserve for capital increase" directly in shareholders' equity an amount of LBP40billion, net of tax, from the generated surplus, that will be appropriated on January 1, 2018 to meet the requirements of IFRS 9, which departs from the requirements of the currently applicable reporting standards.

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 are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements that are relevant to our audit of the financial statements in Lebanon, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended 31 December 2016. 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.

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

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

The risks outlined above were addressed by us as follows:

- For corporate customers, we tested the key controls over the credit grading process, to assess if the risk grades allocated to the counterparties were appropriate. We then performed detailed credit assessment of all loans in excess of a defined threshold and loans in excess of a lower threshold in the watch list category and impaired category together with a selection of other loans.
- Where the impairment allowance was calculated on a collective basis for performing corporate loans, we tested the completeness and accuracy of the underlying loan information used in the impairment model by agreeing details to the Bank's source systems as well as re-performing the calculation of the modelled impairment allowances. For the key assumptions in the model, we assessed whether those assumptions were appropriate in the circumstances.
- For consumer loans, specific and collective impairment allowances are calculated using a simple model, which are based on a percentage of outstanding amounts. We understood and critically assessed the model used and checked that no undue changes had been made in model parameters and assumptions. We tested the completeness and accuracy of data from underlying systems that is used in this model. We also re-performed the calculation of the modelled impairment allowance.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

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

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

Beirut, Lebanon
June 29, 2017

Deloitte & Touche

Ernst & Young

3.3 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		December 31	
ASSETS	Note	2016	2015
		LBP'Million	LBP'Million
Cash and deposits with Central Bank of Lebanon	5	642,781	414,484
Deposits with banks and financial institutions	6	210,885	180,876
Financial assets at fair value through profit or loss	7	25,147	15,949
Loans and advances to customers	8	919,520	688,023
Financial assets at amortized cost	9	1,116,419	903,829
Financial assets at fair value through other comprehensive income	10	6,379	6,460
Customers' liability under acceptances	11	1,502	1,118
Goodwill	12	1,988	1,760
Assets acquired in satisfaction of loans	13	40,976	41,488
Property and equipment	14	63,283	28,116
Intangible assets	15	7,293	5,353
Other assets	16	12,752	11,415
Total Assets		**3,048,925**	**2,298,871**
FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISKS:			
Documentary and commercial letters of credit	35	3,854	34,742
Guarantees and standby letters of credit	35	69,457	58,093
FIDUCIARY ASSETS	36	23,098	27,082
ASSETS UNDER MANAGEMENT	36	727,820	765,951
LIABILITIES			
Deposits from banks and financial institutions	17	29,234	32,004
Customers' deposits and credit balances at amortized cost	18	2,335,827	1,820,310
Related parties' deposits and credit balances at amortized cost	19	132,835	138,260
Customers' acceptance liability	11	1,502	1,118
Income tax payable	20	12,540	91
Deferred tax liability	10	825	837
Borrowings from the Central Bank of Lebanon	21	111,953	-
Other liabilities	20	63,767	11,637
Provisions	22	4,878	5,475
Total Liabilities		2,693,361	2,009,732

EQUITY	Notes	December 31 2016 LBP'Million	December 31 2015 LBP'Million
Share capital	23	10,600	10,600
Share premium	23	34,980	44,025
Shareholders' cash contribution to capital	24	202,937	202,937
Reserves	25	51,447	11,447
Owned buildings revaluation surplus	26	51,226	20,587
Cumulative change in fair value of financial assets at fair value through other comprehensive income	10	4,677	4,739
(Accumulated losses)/retained earnings		(6,662)	658
Profit/(loss) for the year		4,785	(7,394)
Equity attributable to the owners of the Bank		353,990	287,599
Non controlling interests		1,574	1,540
Total Equity		355,664	289,139
Total Liabilities and Equity		**3,048,925**	**2,298,871**

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	Year Ended December 31 2016 LBP'Million	2015 LBP'Million
Interest income	27	136,188	71,061
Interest expense	28	(98,236)	(51,214)
Net interest income		37,952	19,847
Fee and commission income	29	18,142	7,286
Fee and commission expense		(1,444)	(676)
Net fee and commission income		16,698	6,610
Interest income and gains on financial assets at fair value through profit or loss	30	479	131
Gain on derecognition of financial assets at amortized cost	9	9,444	2,461
Other operating income	31	1,651	668
Net financial revenues		66,224	29,717
Allowance for impairment of loans and advances (net)	8	(27,851)	(2,396)
Direct write-off of doubtful debts		(12)	-
Net financial revenues after allowance for impairment		38,361	27,321
Staff costs	32	(50,346)	(20,894)
General and administrative expenses	33	(21,032)	(10,007)
Depreciation and amortization	14,15	(2,598)	(1,851)
Gain on disposal of assets acquired in satisfaction of loans	13	2,782	-
Other income	34	44,935	123
Profit/(loss) before income tax		12,102	(5,308)
Income tax expense	20	(7,127)	(1,921)
Profit/(loss) for the year		**4,975**	**(7,229)**
Net profit/(loss) attributable to:			
The owners of the Bank		4,785	(7,394)
Non controlling interests		190	165
		4,975	**(7,229)**

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Year Ended December 31 2016 LBP'Million	Year Ended December 31 2015 LBP'Million
Profit /(loss) for the year		4,975	(7,229)
Other comprehensive income ("OCI"):			
Items that will not be reclassified subsequently to profit or loss:			
Gain on revaluation of properties	14&26	34,043	-
Unrealized (loss)/gain on financial assets at fair value through other comprehensive income	10	(17)	359
Tax liability		(3,401)	(54)
		30,625	305
Total profit/(loss) and other comprehensive income for the year		**35,600**	**(6,924)**
Attributable to:			
The owners of the Bank		35,410	(7,089)
Non-controlling interests		190	165
		35,600	**(6,924)**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share Capital	Share Premium	Shareholders' Cash Contribution to Capital	Reserves	Owned Buildings Revaluation Surplus	Cumulative Change in Fair Value of Investment Securities
	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million
Balance January 1, 2015	5,200	44,025	36,519	10,468	20,587	4,434
Transfer to reserves	-	-	-	979	-	-
Total comprehensive loss for the year 2015	-	-	-	-	-	305
Capital increase - Note 23	5,400	-	-	-	-	-
Additional cash contribution to capital- Note 24	-	-	166,418	-	-	-
Effect of acquisition of a subsidiary - Note 12	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	-
Balance December 31, 2015	10,600	44,025	202,937	11,447	20,587	4,739
Transfer to retained earnings	-	-	-	-	-	-
Total comprehensive income for the year 2016	-	-	-	-	30,639	(14)
Distribution to shareholders -Note 23	-	(9,045)	-	-	-	-
Surplus from special transactions with BDL– Note 9	-	-	-	40,000	-	-
Gain on sale of financial assets at fair value through other comprehensive income	-	-	-	-	-	(48)
Other movements	-	-	-	-	-	-
Balance December 31, 2016	10,600	34,980	202,937	51,447	51,226	4,677

	Accumulated Losses/ Retained Earnings Brought Forward	(Loss)/ Profit for the Year	Total Equity Attributable to Owners of the Bank	Non-Controlling Interests	Total Equity
	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million
Balance January 1, 2015	641	996	122,870	-	122,870
Transfer to reserves	17	(996)	-	-	-
Total comprehensive loss for the year 2015	-	(7,394)	(7,089)	165	(6,924)
Capital increase - Note 23	-	-	5,400	-	5,400
Additional cash contribution to capital- Note 24	-	-	166,418	-	166,418
Effect of acquisition of a subsidiary - Note 12	-	-	-	1,599	1,599
Dividends paid	-	-	-	(224)	(224)
Balance December 31, 2015	658	(7,394)	287,599	1,540	289,139
Transfer to retained earnings	(7,394)	7,394	-	-	-
Total comprehensive income for the year 2016	-	4,785	35,410	190	35,600
Distribution to shareholders -Note 23	-	-	(9,045)	(156)	(9,201)
Surplus from special transactions with BDL– Note 9	-	-	40,000	-	40,000
Gain on sale of financial assets at fair value through other comprehensive income	138	-	90	-	90
Other movements	(64)	-	(64)	-	64
Balance December 31, 2016	(6,662)	4,785	353,990	1,574	355,564

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Year Ended December 31 2016	2015
		LBP'Million	LBP'Million
Cash flows from operating activities:			
Profit/(loss) for the year before tax		12,102	(5,308)
Adjustments for:			
Interest income		(136,188)	(71,286)
Interest expense		98,236	51,214
Depreciation and amortization		2,598	1,851
Allowance for impairment of loans and advances (net)		27,851	2,396
Write-off of doubtful debts		12	-
Recognition of deferred income- subsidy	34	(17,317)	-
Recognition of regulatory deferred liability	34	(27,033)	-
Unrealized loss on financial assets at fair value through profit or loss	30	451	10
Provision for employees' end-for-service indemnity, net	22	222	352
Provision for loss on foreign currency position and contingencies, net	22	117	(6)
Write off of intangible assets		234	-
Gain on disposal of assets acquired in satisfaction of loans		(2,782)	-
(Gain)/loss on sale of financial assets at fair value through profit or loss	30	(28)	84
Other changes		(296)	-
		(41,821)	(20,693)
Net increase in compulsory reserves and term placements with Central Bank of Lebanon and other banks		(196,705)	(141,735)
Net (increase)/decrease in trading assets held at fair value through profit or loss		(9,621)	11,562
Net increase in loans and advances to customers		(256,274)	(71,646)
Net (increase)/decrease in other assets		(2,241)	662
Net increase in deposits from banks and financial institutions		151,460	4,589
Net increase in customers' deposits and credit balances		504,117	175,401
Net decrease in related parties' deposits and credit balances		(5,875)	(17,264)
Net increase/(decrease) in other liabilities		25,566	(5,865)
Settlements of provision for employee's end-for-service indemnity	22	(936)	(250)
Cash flows from operations		167,670	(65,239)
Interest received		118,651	62,508
Interest paid		(86,302)	(54,499)
Income tax paid		(7,127)	(1,930)
Net cash generated by/ (used in) operating activities		192,892	(59,160)
Cash flows from investing activities:			
Purchase of property and equipment	14	(3,574)	(1,798)
Proceeds from sale of property and equipment	14	270	136
Increase in intangible assets	15	(2,592)	(390)
Proceeds from sale of assets acquired in satisfaction of loans	13	3,294	-
Net change in investment securities other than trading		(132,105)	(236,899)
Net cash flow on acquisition of a subsidiary - Note 12		-	455,057
Change in non-controlling interests		(156)	(223)
Net cash (used in)/ generated by investing activities		(134,863)	215,883
Net increase in cash and cash equivalents		58,029	156,723
Cash and cash equivalents at the beginning of the year		238,209	81,486
Cash and cash equivalents at the end of the year	**38**	**296,238**	**238,209**

3.4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016

1. GENERAL INFORMATION

Saradar Bank sal (the "Bank") (Formerly Banque de l'Industrie et du Travail sal or "BIT") was established in 1960 and registered in the Lebanese Commercial Register under No. 9849 and in the List of Banks published by the Central Bank of Lebanon under No. 48. The Bank provides banking services through a network of 20 branches in the different regions of Lebanon. During 2016, the Bank's headquarters were relocated from Riad El Solh Street in Down Town Beirut to Charles Malek Avenue in Ashrafieh, Beirut, Lebanon.

During 2014, the shareholders of BIT signed an MOU, then a share purchase and merger agreement with the shareholders of Near East Commercial Bank sal (NECB) for the purpose of undergoing a merger by acquisition. During 2015, BIT acquired the entire shares of NECB' s shareholders, who in turn, simultaneously subscribed into the capital increase of BIT effective October 1, 2015, in addition to an increase in cash contribution to capital. The increase of capital and cash contribution to capital was approved by the Central Bank of Lebanon on September 21, 2015 and the General Assembly of the Bank's shareholders on September 28, 2015.

Consequently, the Group acquired CashUnited sal which is owned by NECB to the extent of 70%.

On April 21, 2016, BIT obtained the final approval of the Central Council of the Central Bank of Lebanon to:

a) Purchase the assets, liabilities, rights and obligations of NECB in accordance with Article 10 of the merger law No.192/93 and related amendments,
b) Cancel the license of NECB from the List of Banks,
c) Change the name of the Bank to "Saradar Bank sal",
d) Grant the merging bank a one-year grace period starting January 1, 2016 to resolve the excess in its foreign currency position as a result of the merger.

The purchase of the assets, liabilities, rights and obligations of NECB and the change of the name of the Bank to "Saradar Bank sal" were accomplished on June 1, 2016.

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

2.1 NEW AND REVISED IFRSs APPLIED WITH NO MATERIAL EFFECT ON THE CONSOLIDATED FINANCIAL STATEMENTS:

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

- IFRS 14 Regulatory Deferral Accounts.
- Amendments to IAS 1 Presentation of Financial Statements relating to Disclosure initiative.
- Amendments to IFRS 11 Joint arrangements relating to accounting for acquisitions of interests in joint operations.
- Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets relating to clarification

of acceptable methods of depreciation and amortization.

- Amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture: Bearer Plants.

- Amendments to IAS 27 Separate Financial Statements relating to accounting investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements.

- Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investment in Associates and Joint Ventures relating to applying the consolidation exception for investment entities.

- Annual Improvements to IFRSs 2012 – 2014 Cycle covering amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34.

2.2 NEW AND REVISED IFRS IN ISSUE BUT NOT YET EFFECTIVE:

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

New and Revised IFRSs	Effective for Annual Periods Beginning on or After
Annual Improvements to IFRS Standards 2014-2016 Cycle amending IFRS 1, IFRS 12 and IAS 28.	The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after January 1, 2018, the amendment to IFRS 12 for annual periods beginning on or after January 1, 2017
Amendments to IAS 12 Income Taxes relating to the recognition of deferred tax assets for unrealized losses.	January 1, 2017
Amendments to IAS 7 Statement of Cash Flows to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.	January 1, 2017
IFRIC 22 Foreign Currency Transactions and Advance Consideration. The interpretation addresses foreign currency transactions or parts of transactions where: • there is consideration that is denominated or priced in a foreign currency; • the entity recognizes a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and • the prepayment asset or deferred income liability is non-monetary.	January 1, 2018
Amendments to IFRS 2 Share Based Payment regarding classification and measurement of share based payment transactions.	January 1, 2018
Amendments to IFRS 4 Insurance Contracts: Relating to the different effective dates of IFRS 9 and the forthcoming new insurance contracts standard.	January 1, 2018

New and Revised IFRSs	Effective for Annual Periods Beginning on or After
Amendments to IAS 40 Investment Property: Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The paragraph has been amended to state that the list of examples therein is non- exhaustive.	January 1, 2018
IFRS 7 Financial Instruments: Disclosures relating to the additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9.	January 1, 2018
IFRS 9 Financial Instruments (revised versions in 2013 and 2014).	January 1, 2018
IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments. The IFRS 9 version issued in November 2009 and amended in October 2010 was early adopted by the Group effective January 1, 2011.	

New and Revised IFRSs	Effective for Annual Periods Beginning on or After
A finalized version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 Financial Instruments: Recognition and Measurement. The standard contains requirements in the following areas:	January 1, 2018

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

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

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

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

IFRS 15 Revenue from Contracts with Customers

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

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

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

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

New and Revised IFRSs	Effective for Annual Periods Beginning on or After
Amendments to IFRS 15 Revenue from Contracts with Customers to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.	January 1, 2018
IFRS 16 Leases	January 1, 2019
IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.	
Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Effective date deferred indefinitely

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group's consolidated financial statements as and when they are applicable and adoption of these new standards, interpretations and amendments, except for IFRS 9, IFRS 15 and IFRS 16, may have no material impact on the consolidated financial statements of the Group in the period of initial application.

Management anticipates that IFRS 15 and IFRS 9 will be adopted in the Group's consolidated financial statements for the annual period beginning January 1, 2018 and that IFRS 16 will be adopted in the Group's consolidated financial statements for the annual period beginning January 1, 2019. The application of IFRS 15 and IFRS 9 may have significant impact on amounts reported and disclosures made in the Group's consolidated financial statements in respect of revenue from contracts with customers and the Group's financial assets and financial liabilities and the application of IFRS 16 may have significant impact on amounts reported and disclosures made in the Group's consolidated financial statements in respect of its leases.

However, it is not practicable to provide a reasonable estimate of effects of the application of these standards until the Group performs a detailed review.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

Basis of Preparation

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

- Financial instruments designated at fair value through profit or loss,
- Investments in equity securities designated at fair value through other comprehensive income,
- Other financial assets not held in a business model whose objective is to hold assets to collect contractual cash flows or whose contractual terms do not give rise solely to payments of principal and interest,
- Land and buildings under property and equipment,
- Derivative financial instruments.

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

The principal accounting policies applied are set out below:

A. BASIS OF CONSOLIDATION

The consolidated financial statements of Saradar Bank sal incorporate the financial statements of the Bank and entities which the bank controls. Control is achieved when the Bank:

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

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

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

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

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

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

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

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

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

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

The consolidated subsidiaries of the Bank as of December 31, 2016 and 2015 consisted of the following:

	Business Activity	December 31, 2016 Ownership	December 31, 2015 Ownership
		%	%
Near East Commercial Bank sal (Lebanon)	Commercial Banking	-	99.99
United Group Brokers sarl (Lebanon)	Insurance Brokerage	81.37	81.37
Société Immobilière pour la Construction sal (Lebanon)	Real Estate	99.99	99.99
CashUnited sal (Lebanon)	Money Transfer Services	70.00	70.00

B. BUSINESS COMBINATIONS

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

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

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss. Where applicable, adjustments are made to provisional values of recognized assets and liabilities related to facts and circumstances that existed at the acquisition date. These are adjusted to the provisional goodwill amount. All other adjustments including above adjustments made after one year are recognized in profit and loss except to correct an error in accordance with IAS 8.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Non-controlling interests in business acquisitions transacted so far by the Group were initially measured at the non-controlling interests' proportionate share of net assets acquired.

Any contingent consideration payable is recognized at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognized in profit or loss.

C. GOODWILL

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

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash- generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

D. FOREIGN CURRENCIES

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

Transactions in currencies other than Lebanese Pounds (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

E. RECOGNITION AND DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

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

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

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.
Upon derecognition of a financial asset that is classified as fair value through other comprehensive income, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is reclassified to retained earnings.

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

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

F. CLASSIFICATION OF FINANCIAL ASSETS

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

Debt Instruments

Non-derivative debt instruments that meet the following two conditions are subsequently measured at amortized cost, less impairment loss (except for debt investments that are designated as at fair value through profit or loss on initial recognition):

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

Financial assets that comprise factoring facilities granted to clients are recognized net of guarantee account held as a margin in case of arrangement with recourse.

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

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

Equity Instruments

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

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

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

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

A financial asset is held for trading if:

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

Reclassification

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

Reclassification is not allowed where:

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

G. FINANCIAL LIABILITIES AND EQUITY INSTRUMENTS

Classification as debt or equity

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

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

H. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

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

A financial liability is classified as held for trading if:

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

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

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

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

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

Financial Liabilities Subsequently Measured at Amortized Cost

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

Financial Guarantee Contract Liabilities

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

Financial guarantee contract liabilities are measured initially at their fair values and, if not designated at

FVTPL, are subsequently measured at the higher of:

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

I. OFFSETTING

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

J. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

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

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

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

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

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

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

K. IMPAIRMENT OF FINANCIAL ASSETS

Financial assets carried at amortized cost are assessed for indicators of impairment at the reporting date. Financial assets are impaired where there is objective evidence that a loss event has occurred and which will impact the recoverability of the asset.

Objective evidence that an impairment loss related to financial assets has been incurred can include information about the debtors' or issuers' liquidity, solvency and business and financial risk exposures and levels of and trends in delinquencies for similar financial assets, taking into account the fair value of collaterals and guarantees.

The Group considers evidence of impairment for assets measured at amortized cost at either the individual asset level or collective level for assets with similar characteristics that are not impaired individually.

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial assets and the corresponding estimated recoverable amounts. Losses are recognized in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortized cost would have been, had the impairment not been recognized.

L. DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Fair Value Hedge

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

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

M. LOANS AND ADVANCES

Loans and advances are non-derivative financial assets with fixed or determinable payments, other than investment securities, that are not held for trading. Loans and advances are measured at amortized cost net of unearned interest and provision for credit losses where applicable. Bad and doubtful debts are carried on a cash basis because of doubts and the probability of non-collection of principal and/or interest.

N. PROPERTY AND EQUIPMENT

Land and buildings are stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Any revaluation increase arising on the revaluation of such land and buildings is recognized in other comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease

for the same asset previously recognized in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such land and buildings is recognized in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.
Properties in the course of construction for administrative purposes are carried at cost, less any recognized impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation on revalued buildings is recognized in profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

Fixtures and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognized so as to write off the cost or valuation of property and equipment (other than advance payments on capital expenditures) less their residual values, if any, over their useful lives, using the straight-line method over the estimated useful lives of the related assets as follows:

	Years
Buildings	40
Office improvements and installations	5
Computer equipment	5
Furniture, equipment and machinery	11.11
Vehicles	6.67

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

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

O. INTANGIBLE ASSETS

Intangible assets consisting of purchased software, are amortized on a straight-line basis over their useful lives (i.e. 5 years). Intangible assets are subject to impairment testing.

P. ASSETS ACQUIRED IN SATISFACTION OF LOANS

Real estate properties acquired through the enforcement of collateral over loans and advances, in accordance with the Central Bank of Lebanon main circular 78 and the Banking Control Commission circulars 173 and 267, are initially recognized at their fair value as approved by Banking Control Commission and are subsequently measured at cost less any accumulated impairment losses. The acquisition of such assets is regulated by the local banking authorities that require the liquidation of these assets within 2 years from acquisition. In case of default of liquidation, the regulatory authorities require an appropriation of a special reserve from the yearly profits reflected in equity.

Upon sale of repossessed assets, any gain or loss realized is recognized as a separate line item in the consolidated statement of profit or loss.

Q. IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS (OTHER THAN GOODWILL)

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

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

The impairment loss is charged to income.

R. PROVISION FOR EMPLOYEES’ END-OF-SERVICE INDEMNITY

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

S. PROVISIONS

Provisions are recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

T. LEASING

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

U. REVENUE AND EXPENSE RECOGNITION

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

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

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

Interest income, dividend income, realized and unrealized gains or losses, and exchange gain or loss on trading assets measured at fair value through profit or loss are presented separately in the consolidated statement of profit or loss.

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

V. INCOME TAX

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss because of the items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Part of debt securities invested in by the Group is subject to withheld tax by the issuer. This tax is deducted at year-end from the corporate tax liability not eligible for deferred tax benefit, and therefore, accounted for as prepayment on corporate income tax and reflected as a part of income tax provision.

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

W. FIDUCIARY ACCOUNTS AND ASSETS UNDER MANAGEMENT

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

X. CASH AND CASH EQUIVALENTS

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

A. CRITICAL ACCOUNTING JUDGMENTS IN APPLYING THE GROUP'S ACCOUNTING POLICIES

Classification of Financial Assets

Business Model

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

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

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

Characteristics of the Financial Asset

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

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

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

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

• Leverage (i.e. options, forwards and swaps);
• Conversion options;

- Inverse floaters;
- Variable rate coupons that reset periodically;
- Triggers that result in a significant reduction of principal, interest or both.

B. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Allowances for Credit Losses - Loans and Advances to Customers

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

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

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

Determining Fair Values

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

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

Impairment of Goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy under Note 3C. The recoverable amount is deemed to be the value in use using a discounted cash flow model. This requires the directors to estimate the future cash flows and suitable discount rates.

Going Concern

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

5. CASH AND DEPOSITS WITH CENTRAL BANK OF LEBANON

This caption consists of the following:

	December 31	
	2016	2015
	LBP'Million	LBP'Million
Cash on hand	16,406	15,412
Current accounts with Central Bank of Lebanon	75,107	55,428
Term placements with Central Bank of Lebanon	547,721	341,852
Blocked deposits with Central Bank of Lebanon	295	-
Accrued interest receivable	3,252	1,792
	642,781	414,484

Current accounts with the Central Bank of Lebanon include non-interest earning cash compulsory reserves in Lebanese Pounds totaling LBP 5.84billion as of December 31, 2016 (LBP 40billion in 2015) computed on the basis of 25% and 15% of the average weekly sight and term customers' and related parties' deposits in Lebanese Pounds, respectively in accordance with local banking regulations.

Term placements with the Central Bank of Lebanon include the equivalent in foreign currencies of LBP 292.7billion as of December 31, 2016 (LBP 211billion in 2015) deposited in accordance with local banking regulations which require banks to maintain interest earning placements in foreign currency to the extent of 15% of customers' and related parties' deposits in foreign currencies, certificates of deposit and loans acquired from non-resident financial institutions with remaining maturities of one year or less.

Compulsory deposits with the Central Bank of Lebanon are not available for use in the Group's day-to- day operations and are reflected at amortized cost.

6. DEPOSITS WITH BANKS AND FINANCIAL INSTITUTIONS

This caption consists of the following:

	December 31	
	2016	2015
	LBP'Million	LBP'Million
Current accounts with banks and financial institutions	82,910	70,279
Term placements with banks and financial institutions	69,734	74,414
Reverse repurchase agreements with a financial institution (a)	45,798	24,271
Pledged deposits with banks and financial institutions (b)	-	3,115
Checks in course of collection from banks	12,123	7,915
Net debit against credit accounts - speculation accounts	-	759
Accrued interest receivable	320	123
	210,885	180,876

(a) During 2016, the Group entered into reverse repurchase agreements representing loans granted to a local financial institution against received certificates of deposit issued by the Central Bank of Lebanon ('CDs') which are to be sold back to the financial institution at a specific price. All four loans mature during January 2017. These agreements are secured by the received CDs as well as by additional CDs issued by the Central Bank and denominated in U.S. Dollar amounting to LBP 4.5billion.

(b) Pledged deposits as at December 31, 2015 are blocked against banking facilities to finance documentary credit transactions and money market deposits.

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss consist of the following:

	December 31	
	2016	2015
	LBP'Million	LBP'Million
BLOM Money Market fund	23,293	15,241
Other funds	1,854	708
	25,147	15,949

During 2016, the positive change in fair value of financial assets at fair value though profit or loss amounting to LBP 451million (negative change in fair value of LBP 10million in 2015) is recorded under "Interest income and gains on financial assets at fair value through profit or loss" (Note 30).

The interest income amounting to LBP 225million for the year ended December 31, 2015 (nil in 2016) was reflected under "Interest income and gains on financial assets at fair value through profit or loss (Note 30).

8. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers are reflected at amortized cost and consist of the following:

	December 31	
	2016	2015
	LBP'Million	LBP'Million
PERFORMING LOANS AND ADVANCES - RETAIL		
Housing loans	98,712	70,253
Personal loans	6,721	14,086
Overdrafts	7,133	2,884
Speculative accounts	409	6,041
Other	11,658	11,613
	124,633	104,877
PERFORMING LOANS - CORPORATE CUSTOMERS		
Consortium loan	-	13,450
Factoring facilities (i)	172,565	124,040
Corporate, small and medium enterprises, and commercial bills	611,694	432,247
	784,259	569,737
Allowances allocated to performing loans	(21,173)	(898)
Allowance for collectively assessed loans	(7,253)	(2,754)
Total performing loans, net	880,466	670,962
NON-PERFORMING LOANS		
Substandard loans	15,722	1,824
Doubtful and bad loans	105,269	100,497
Unrealized interest	(62,607)	(67,637)
	58,384	34,684
Allowance for impairment of doubtful and bad loans	(10,040)	(7,352)
Pledged guarantee funds allocated to doubtful and bad loans	(12,376)	(12,376)
Total non-performing loans, net	35,968	14,956
Accrued interest receivable	3,086	2,105
	919,520	**688,023**

Loans and advances to customers include loans to related parties in the aggregate of LBP 25.9billion as of December 31, 2016 (LBP 22.9billion in 2015) which are secured by pledged funds to the extent of LBP 27.8billion (LBP 22.4billion in 2015).

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

	2016		
	Unrealized Interest on:		
	Doubtful and Bad Loans	Substandard Loans	Total
	LBP'Million	LBP'Million	LBP'Million
Balance at January 1	67,196	441	67,637
Additions	4,111	1,220	5,331
Recoveries	(1)	(6)	(7)
Write-offs	(10,348)	(6)	(10,354)
Reclassification	186	(186)	-
Balance at December 31	**61,114**	**1,463**	**62,607**

	2015		
	Unrealized Interest on:		
	Doubtful and Bad Loans	Substandard Loans	Total
	LBP'Million	LBP'Million	LBP'Million
Balance at January 1	61,247	223	61,470
Effect of acquisition of a subsidiary	4,953	39	4,992
Additions	2,401	198	2,599
Recoveries	(289)	-	(289)
Write-offs	(1,116)	(19)	(1,135)
Balance at December 31	**67,196**	**441**	**67,637**

The movement of the allowance for impairment of loans and advances to customers during 2016 and 2015 was as follows:

	December 31,2016			December 31,2015		
	Collective Allowance for Impairment	Specific Allowance for Impairment	Total	Collective Allowance for Impairment	Specific Allowance for Impairment	Total
	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million
Balance at January 1	2,754	8,250	11,004	203	4,875	5,078
Effect of acquisition of a subsidiary	-	-	-	232	3,339	3,571
Additions	5,071	23,020	28,091	2,247	544	2,791
Recoveries	-	(240)	(240)	-	(395)	(395)
Reclassification	(572)	572	-	72	(72)	-
Write-offs	-	(389)	(389)	-	(41)	(41)
Balance at December 31	**7,253**	**31,213**	**38,466**	**2,754**	**8,250**	**11,004**

The majority of doubtful and bad loans has been delinquent for many years and is subject to various lawsuits pending before the courts and there is reasonable doubt regarding their collection.

Pledged guarantee funds amounting to LBP 12.4billion as at December 31, 2016 and 2015 were deposited by the shareholders of the Bank in order to cover any shortfall in the amount of provisions set up for loans and advances to customers.

(i) Factoring Facilities:

	December 31	
	2016	2015
	LBP'Million	LBP'Million
PERFORMING LOANS AND ADVANCES - RETAIL		
Factoring facilities:		
With recourse	208,658	137,274
Without recourse	20,014	18,083
	228,672	155,357
Less:		
Guarantee account (a)	(35,290)	(17,413)
Reserves against factoring facilities (b)	(13,052)	(9,717)
Checks for collection	(7,765)	(4,187)
	172,565	**124,040**

(a) Guarantee account

The factoring financing granted to clients represents a proportion of the receivables outstanding approved balances ranging between 70% and 95% depending on the clients' line of business, invoicing cycle and credit risk assessment as evaluated by the Group which manages the credit risk originating from factoring arrangements through setting financing limits representing up to 70% of the financed receivables. Accordingly, guarantee reserves are not available for clients and are only released upon collection of the related receivables.

(b) Reserves against factoring facilities

The Group established three types of reserves against factoring facilities as part of the credit risk management as illustrated below. These reserves are withdrawn from the clients' available balances in the current accounts, and consequently are not at the disposal of the clients for financing:

- "Unpaid balances reserve", it represents the value of past due receivables (purchased with recourse) for a period exceeding the waiting period agreed with the clients.

- "Awaiting surplus reserve", it represents the value of receivables transferred by the clients in excess to the authorized limit by debtor.

- "Ordinary reserve", only applicable in case the Group financed receivables maturing after the contractually approved financing period or showing any form discrepancies.

9. FINANCIAL ASSETS AT AMORTIZED COST

The financial assets at amortized cost consist of the following:

	December 31, 2016						
	LBP Base Accounts			F/Cy Base Accounts			
	Amortized Cost	Fair Value	Accrued Interest Receivable	Amortized Cost	Fair Value	Accrued Interest Receivable	Total Amortized Cost including Accrued Interest Receivable
	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million
Lebanese treasury bills	158,819	159,279	2,184	-	-	-	161,003
Lebanese treasury bills pledged against Central Bank of Lebanon soft loan	138,500	139,647	1,024	-	-	-	139,524
Lebanese government bonds	-	-	-	485,187	471,266	4,854	490,041
Lebanese corporate bonds	-	-	-	1,507	1,504	3	1,510
Certificates of deposit issued by Central Bank of Lebanon	70,118	72,352	1,678	247,846	247,919	4,699	324,341
	367,437	**371,278**	**4,886**	**734,540**	**720,689**	**9,556**	**1,116,419**

	December 31, 2015						
	LBP Base Accounts			F/Cy Base Accounts			
	Amortized Cost	Fair Value	Accrued Interest Receivable	Amortized Cost	Fair Value	Accrued Interest Receivable	Total Amortized Cost including Accrued Interest Receivable
	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million
Lebanese treasury bills	284,549	284,605	4,991	-	-	-	289,540
Lebanese government bonds	13,228	15,202	46	343,829	336,911	3,289	360,392
Lebanese corporate bonds	-	-	-	2,262	2,349	3	2,265
Certificates of deposit issued by Central Bank of Lebanon	180,778	182,043	4,086	65,501	67,291	1,267	251,632
	478,555	**481,850**	**9,123**	**411,592**	**406,551**	**4,559**	**903,829**

(a) During the year 2016, the Group entered into special sale transactions offered to the market by the Central Bank of Lebanon in relation to Lebanese Government bonds in LBP having an aggregate nominal value of LBP 130.5billion and certificates of deposit issued by the Central Bank of Lebanon in LBP having an aggregate nominal value of LBP 96billion and classified at either amortized cost or at fair value through profit or loss, concluded simultaneously with the acquisition of USD Lebanese Government bonds with an aggregate nominal value of USD 30million and certificates of deposit issued by the Central Bank of Lebanon in USD with an aggregate nominal value of USD 121million that were classified at amortized cost. The resulting surplus of the inter-related transactions above amounted to LBP 76.95billion and attracted tax of LBP 11.5billion.

On December 30, 2016, the Central Bank of Lebanon issued the Intermediate Circular number 446 which required the banks to record the surplus derived from the above special sale transactions under deferred liability which is regulated in nature, and shall be appropriated, among other things, after deducting the relevant tax liability, to collective provision for credit risks associated with the loan book at a minimum of 2% of the weighted credit risks, and that in anticipation of implementation of IFRS 9 for Impairment, effective on January 1, 2018. By virtue of this Circular, 70% of the remaining residual surplus shall be treated as non-distributable income designated and restricted only for appropriation to capital increase, and qualifying for inclusion within regulatory Common Equity Tier One.

In light with the above, the Group recognized LBP 23billion, net of tax, out of this surplus in the statement of profit or loss under “Other income” and transferred LBP 40billion directly to “reserve for capital increase” under shareholders’ equity that will be appropriated on January 1, 2018 to meet the requirements of IFRS 9 and retained an amount of LBP 2.4billion as “regulatory deferred liability” under “other liabilities”.

The movement and balance of the surplus as of December 31, 2016 were as follows:

	Gross	Tax	Net
	LBP’Million	LBP’Million	LBP’Million
Surplus generated from BDL trades	76,948	(11,542)	65,406
Recorded as other income - Note 34	(27,033)	4,055	(22,978)
Recorded under reserve for capital increase - Note 25	(47,059)	7,059	(40,000)
Balance retained under other liabilities - Note 20	**2,856**	**(428)**	**2,428**

(b) During 2016, the Group sold certificates of deposit classified at amortized cost and with several maturities for an amount of LBP 121billion, resulting in a gain of LBP 9.4billion recognized in the consolidated statement of profit or loss under “Gain on derecognition of financial assets at amortized cost”.

During 2015, the Group sold Lebanese government bonds (Eurobonds) classified at amortized cost for an amount of LBP 25.6billion and maturing in 2016, 2019 and 2020 which resulted in a gain of LBP 243million recognized in the consolidated statement of profit or loss under “Gain on derecognition of financial assets at amortized cost”.

Also, during 2015, the Group sold Lebanese treasury bills classified at amortized cost maturing in 2018, resulting in a gain of LBP 2.2billion recognized in the consolidated statement of profit or loss under “Gain on derecognized of financial assets at amortized cost”.

The Group entered into the above transactions for the purpose of liquidity gap management: Exchange of certificates of deposit for longer maturities; and currency risk management as a result of change in the currency base of client deposits.

(c) Lebanese treasury bills maturing on November 17, 2022 and amounting to LBP 138.5billion have been pledged against soft loan from the Central Bank of Lebanon with similar maturity and face amount (Note 21).

Financial assets at amortized cost are segregated over remaining periods to maturity as follows:

	December 31, 2016							
	LBP Base Accounts				F/Cy Base Accounts			
Remaining Period to Maturity	Redemption Value	Amortized Cost	Fair Value	Interest Rate	Redemption Value	Amortized Cost	Fair Value	Interest Rate
	LBP'Million	LBP'Million	LBP'Million	%	LBP'Million	LBP'Million	LBP'Million	%
Lebanese Treasury Bills:								
Up to 1 year	57,000	57,265	58,005	7.32	-	-	-	-
From 1 to 3 years	76,280	76,972	77,770	7.16	-	-	-	-
From 3 to 5 years	16,136	16,136	15,054	6.16	-	-	-	-
More than 5 years	146,946	146,946	148,097	7.31	-	-	-	-
	296,362	297,319	298,926	-	-	-	-	-
Lebanese Government Bonds:								
Up to 1 year	-	-	-	-	4,297	4,301	4,270	4.98
From 1 to 3 years	-	-	-	-	76,404	76,397	75,717	5.38
From 3 to 5 years	-	-	-	-	88,955	91,860	89,118	6.88
More than 5 years	-	-	-	-	311,648	312,629	302,161	6.37
	-	-	-	-	481,304	485,187	471,266	
Lebanese Corporate Bonds:								
From 3 to 5 years	-	-	-	-	1,507	1,507	1,504	7.00
	-	-	-		1,507	1,507	1,504	
Certificates of Deposit Issued by Central Bank of Lebanon:								
Up to 1 year	6,000	6,022	6,051	7.94	-	-	-	-
From 3 to 5 years	4,000	4,072	4,165	7.80	-	-	-	-
More than 5 years	58,000	60,024	62,136	8.38	247,230	247,846	247,919	6.62
	68,000	70,118	72,352		247,230	247,846	247,919	
	364,362	**367,437**	**371,278**		**730,041**	**734,540**	**720,689**	

	December 31, 2015							
	LBP Base Accounts				F/Cy Base Accounts			
Remaining Period to Maturity	Redemption Value	Amortized Cost	Fair Value	Interest Rate	Redemption Value	Amortized Cost	Fair Value	Interest Rate
	LBP'Million	LBP'Million	LBP'Million	%	LBP'Million	LBP'Million	LBP'Million	%
Lebanese Treasury Bills:								
Up to 1 year	34,700	34,698	34,768	6.24	-	-	-	-
From 1 to 3 years	125,591	126,838	127,241	7.25	-	-	-	-
From 3 to 5 years	46,389	48,274	45,974	6.99	-	-	-	-
More than 5 years	75,156	74,739	76,622	7.98	-	-	-	-
	281,836	284,549	284,605		-	-	-	
Lebanese Government Bonds:								
Up to 1 year	-	-	-	-	2,600	2,605	2,565	4.75
From 1 to 3 years	13,000	13,228	15,202	7.90	29,441	29,423	29,128	5.35
From 3 to 5 years	-	-	-	-	114,369	116,535	113,698	6.16
More than 5 years	-	-	-	-	191,870	195,266	191,520	6.51
	13,000	13,228	15,202		338,280	343,829	336,911	
Lebanese Corporate Bonds:								
Up to 1 year	-	-	-	-	754	754	754	6.50
From 3 to 5 years	-	-	-	-	1,508	1,508	1,595	7.00
	-	-	-		2,262	2,262	2,349	
Certificates of Deposit Issued by Central Bank of Lebanon:								
From 1 to 3 years	8,000	8,062	8,176	7.93	-	-	-	-
More than 5 years	166,000	172,716	173,867	8.43	64,822	65,501	67,291	6.55
	174,000	180,778	182,043		64,822	65,501	67,291	
	468,836	**478,555**	**481,850**		**405,364**	**411,592**	**406,551**	

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

This caption consists of the following:

	December 31, 2016		
	Cost	Carrying Fair Value	Cumulative Change in Fair value
	LBP'Million	LBP'Million	LBP'Million
Unquoted equity securities	877	6,379	5,502
Deferred tax liability			(825)
			4,677

	December 31, 2015		
	Cost	Carrying Fair Value	Cumulative Change in Fair value
	LBP'Million	LBP'Million	LBP'Million
Unquoted equity securities	884	6,460	5,576
Deferred tax liability			(837)
			4,739

The movement of financial assets at fair value through other comprehensive income during 2016 and 2015 was as follows:

	2016	2015
	LBP'Million	LBP'Million
Balance at January 1	6,460	6,101
Disposal	(64)	-
Change in fair value	(17)	359
Balance at December 31	6,379	6,460

11. CUSTOMERS' LIABILITY UNDER ACCEPTANCES

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

12. GOODWILL

During 2015, BIT acquired the entire shares of NECB' s shareholders, for the purpose of undergoing a merger by acquisition within the framework of the merger law in Lebanon, for a total consideration of LBP 171.8billion (C/V of USD113,975,769), who in turn, simultaneously subscribed into the capital increase of BIT by LBP5.4billion, and the increase in cash contribution to capital by LBP 166.4billion (C/V of USD110,393,679).

Consequently, the Group acquired CashUnited sal which is owned by NECB to the extent of 70%. The acquisition of NECB and its subsidiary resulted in a provisional goodwill of LBP 11.4billion before purchase price allocation, in particular relating to the fair value of properties and foreclosed assets acquired at the closing date, pending the completion of the merger transactions.

During the year ended December 31, 2016, and as a result of the completion of the merger transaction with NECB on June 1, 2016, the Bank recognized an increase in the provisional values of the assets acquired in satisfaction of loans and the property and equipment in the amount of LBP 7.8billion and LBP 1.9billion respectively. Accordingly, the comparative information for the year ended December 31, 2015 is adjusted retrospectively to increase the fair value of the items of assets acquired in satisfaction of loans and property and equipment at the acquisition date by LBP 7.8billion and LBP 1.9billion respectively, offset by a decrease in goodwill of LBP 9.7billion.

The statement of the consolidated financial position of NECB as at September 30, 2015 before and after purchase price allocation was as follows:

	Before Purchase Price Allocation	Purchase Price Allocation	After Purchase Price Allocation
ASSETS	LBP'Million	LBP'Million	LBP'Million
Cash and deposits with Central Bank of Lebanon	352,568	-	352,568
Deposits with banks and financial institutions	102,489	-	102,489
Loans and advances to customers	309,960	-	309,960
Financial assets at fair value through profit or loss	15,123	-	15,123
Financial assets at amortized cost	231,980	-	231,980
Customers' liability under acceptances	3,133	-	3,133
Assets acquired in satisfaction of loans	6,879	7,775	14,654
Property and equipment	6,802	1,906	8,708
Intangible assets	4,741	-	4,741
Other assets	8,058	-	8,058
Total Assets	1,041,733	9,681	1,051,414
LIABILITIES			
Deposits from banks and financial institutions	13,754	-	13,754
Customers' deposits and credit balance	793,613	-	793,613
Related parties' deposits and credit balances	52,567	-	52,567
Customers' acceptance liability	3,133	-	3,133
Other liabilities	13,743	-	13,743
Provisions	2,947	-	2,947
Total Liabilities	879,757	-	879,757
Net assets	161,976	9,681	171,657
Less: Non-controlling interests	(1,599)	-	(1,599)
Net assets acquired	160,377	9,681	170,058
Total consideration paid	171,818	228	172,046
Goodwill	**11,441**	**(9,453)**	**1,988**

13. ASSETS ACQUIRED IN SATISFACTION OF LOANS

Assets acquired in satisfaction of loans represent real estate and shares acquired through enforcement of security over loans and advances to customers.

The movement of assets acquired in satisfaction of loans during 2016 and 2015 was as follows:

	Land	Shares	Total
	LBP'000	LBP'000	LBP'000
Cost:			
Balance at January 1, 2015	17,918	7,668	25,586
Effect of acquisition of a subsidiary - Note 12	6,879	-	6,879
Additions	910	338	1,248
Balance at December 31, 2015 (before restatement)	25,707	8,006	33,713
Fair value adjustments of acquired subsidiary – Note 12	7,775	-	7,775
Balance at December 31, 2015 (restated)	33,482	8,006	41,488
Disposals	(512)	-	(512)
Balance at December 31, 2016	**32,970**	**8,006**	**40,976**

The acquisition of assets in settlement of loans in Lebanon is regulated by the banking regulatory authorities and these should be liquidated within 2 years. In case of default of liquidation, a regulatory reserve should be appropriated from the yearly net profits over a period of 5 years. This reserve is reduced to 5% of the gross cost for certain assets when the Group meets certain conditions linked to the restructuring of non-performing loans' portfolio. This regulatory reserve is reflected in "Reserves" under equity (Note 25).

The proceeds from sale of assets acquired in satisfaction of loans during the year ended December 31, 2016 amounted to LBP 3.3billion which was collected in full. The resulting gain on disposal of assets acquired in satisfaction of loans amounted to LBP 2.8billion and was recognized in the consolidated statement of profit or loss.

The fair value of the Group's assets acquired in satisfaction of loans amounted to approximately LBP 69billion as at December 31, 2016 (LBP 72.3billion as at 31 December 2015) which has been arrived at on the basis of a valuation carried out in November 2015 and February 2016 by licensed independent real estate appraisers not related to the Group and have appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The fair value was determined based on the market comparable approach that reflects recent transaction prices for similar properties, and which is categorized under level 2 in the fair value hierarchy.

During 2014, the Group entered into a settlement agreement with one of its debtors. As a result, the Group acquired shares in a real estate development company in satisfaction of a loan balance in the amount of LBP 7.67billion (USD 5.1million), which was approved by the banking regulator on February 27, 2014. The approval was subject to the Group setting up impairment allowance against the full acquisition cost of the shares over a period of 2 years ending December 31, 2015. Some of the Group's shareholders agreed to purchase the shares at carrying value as at initial acquisition date as part of the merger deal between the BIT and NECB completed on June 1, 2016 and thus no impairment allowance was set up as at December 31, 2016 and 2015.

14. PROPERTY AND EQUIPMENT

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

	Land and Buildings	Furniture, Fixtures and Motor Vehicles	Computer Equipment	Installations and Improvement	Office Equipment	Work in Progress	Electrical and Industrial Equipment	Total
	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million
Cost:								
Balance at January 1, 2015	22,601	1,010	2,800	5,299	1,442	-	609	33,761
Effect of acquisition of a subsidiary - Note 12	2,140	1,268	-	4,571	5,402	495	-	13,876
Additions	-	66	495	1,091	146	-	-	1,798
Disposals	-	(121)	(75)	-	(8)	-	-	(204)
Balance at December 31, 2015 (before restatement)	24,741	2,223	3,220	10,961	6,982	495	609	49,231
Fair value adjustments of acquired subsidiary – Note 12	1,906	-	-	-	-	-	-	1,906
Balance at December 31, 2015 (restated)	26,647	2,223	3,220	10,961	6,982	495	609	51,137
Revaluation surplus	34,043	-	-	-	-	-	-	34,043
Additions	-	157	93	1,504	291	1,521	8	3,574
Disposals	-	(22)	-	(248)	-	-	-	(270)
Balance at December 31, 2016	60,690	2,358	3,313	12,217	7,273	2,016	617	88,484
Accumulated Depreciation:								
Balance at January 1, 2015	(5,548)	(607)	(2,315)	(4,281)	(1,100)	-	(609)	(14,460)
Effect of acquisition of a subsidiary - Note 12	(737)	(605)	-	(1,934)	(3,798)	-	-	(7,074)
Depreciation	(493)	(116)	(207)	(449)	(290)	-	-	(1,555)
Write off upon disposals	-	61	-	-	7	-	-	68
Balance at December 31, 2015	(6,778)	(1,267)	(2,522)	(6,664)	(5,181)	-	(609)	(23,021)
Depreciation	(597)	(146)	(218)	(655)	(556)	-	(8)	(2,180)
Balance at December 31, 2016	(7,375)	(1,413)	(2,740)	(7,319)	(5,737)	-	(617)	**(25,201)**
Net Carrying Value:								
At December 31, 2016	**53,315**	**945**	**573**	**4,898**	**1,536**	**2,016**	**-**	**63,283**
At December 31, 2015 (restated)	**19,869**	**956**	**698**	**4,297**	**1,801**	**495**	**-**	**28,116**

During 2016, the Group revalued its owned real estate properties which resulted in a revaluation surplus of LBP 34billion recorded under "Owned buildings revaluation surplus" under equity. The fair value of the revalued properties has been arrived at on the basis of a valuation carried out in 2016 by licensed independent real estate appraisers not related to the Group and have appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The fair value was determined based on the market comparable approach that reflects recent transaction prices for similar properties. The revaluation was approved by the Central Bank of Lebanon in May 2016. Tax on revaluation surplus amounting to LBP 3.4billion is reflected under "Other liabilities" (Note 20).

15. INTANGIBLE ASSETS

The movement of intangible assets which represent purchased software during 2016 and 2015 was as follows:

	Purchased Software	Software Under Development	Total
	LBP'Million	LBP'Million	LBP'Million
Cost:			
Balance at January 1, 2015	1,254	-	1,254
Effect of acquisition of a Subsidiary-Note 12	2,320	4,153	6,473
Acquisitions	390	-	390
Balance at December 31, 2015	3,964	4,153	8,117
Acquisitions	559	2,033	2,592
Write off	(234)	-	(234)
Balance at December 31, 2016	4,289	6,186	10,475
Amortization:			
Balance at January 1, 2015	(736)	-	(736)
Effect of acquisition of a Subsidiary-Note 12	(1,732)	-	(1,732)
Amortization	(296)	-	(296)
Balance at December 31, 2015	(2,764)	-	(2,764)
Amortization	(418)	-	(418)
Balance at December 31, 2016	(3,182)	-	(3,182)
Net Carrying Value:			
December 31, 2016	**1,107**	**6,186**	**7,293**
December 31, 2015	**1,200**	**4,153**	**5,353**

16. OTHER ASSETS

This caption consists of the following:

	December 31	
	2016	2015
	LBP'Million	LBP'Million
Prepayments	3,001	3,051
Medical costs due from National Social Security Fund (a)	3,083	2,741
Assets in process of acquisition in settlement of loans (b)	564	564
Salaries paid in advance	263	570
Deferred charges (c)	928	24
Foreign exchange position against subsidiary bank's equity (d)	-	469
Sundry account receivables	4,913	3,996
	12,752	**11,415**

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

(b) Assets in process of acquisition in settlement of loans represent the value of loans written-off against enforcement of real estate security held and will be reallocated to "Assets acquired in satisfaction of loans" once the registration in the name of the Group is completed.

(c) Deferred charges as at December 31, 2016 include an eight-year prepayment to rent a property under construction.

(d) The foreign exchange position balance of LBP 469million as at December 31, 2015 against Near East Commercial Bank sal equity represented the revaluation of the latter's fixed position in U.S. Dollar. As per BCC circular no. 197 and as the revaluation resulted in a loss, a provision against these exchange losses was recognized and recorded within other liabilities (Note 20). These balances under other assets and other liabilities were offset as a result of the merger.

17. DEPOSITS FROM BANKS AND FINANCIAL INSTITUTIONS

Deposits from banks and financial institutions are reflected at amortized cost and consist of the following:

	December 31	
	2016	2015
	LBP'Million	LBP'Million
Term deposits	27,198	31,477
Current deposits	1,952	519
Accrued interest payable	84	8
	29,234	**32,004**

18. CUSTOMERS' DEPOSITS AND CREDIT BALANCES

Customers' deposits and credit balances are reflected at amortized cost and consist of the following:

	December 31,2016			December 31,2015		
	Interest Bearing	Non-Interest Bearing	Total	Interest Bearing	Non-Interest Bearing	Total
	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million
Deposits from customers:						
- Current/demand deposits	-	202,760	202,760	5,309	230,291	235,600
- Term deposits	2,012,747	-	2,012,747	1,479,842	4,024	1,483,866
- Deposits from factoring activities	8,574	-	8,574	5,757	-	5,757
- Collateral against loans and advances	86,441	-	86,441	77,127	-	77,127
	2,107,762	202,760	2,310,522	1,568,035	234,315	1,802,350
Margin and other accounts:						
- Margins for irrevocable import letters of credit	-	4,909	4,909	-	4,889	4,889
- Margins on letters of guarantee	-	7,658	7,658	-	4,582	4,582
- Other margins	-	1,338	1,338	-	765	765
	-	13,905	13,905	-	10,236	10,236
Accrued interest payable	11,400	-	11,400	7,724	-	7,724
	2,119,162	**216,665**	**2,335,827**	**1,575,759**	**244,551**	**1,820,310**

Deposits from customers (excluding accrued interest payable) are allocated in terms of amounts to the following brackets:

	December 31, 2016		
	Total Deposits	% of Total Deposits	No. of Customers
	LBP'Million	%	
Less than LBP 250million	459,083	20	12,926
From LBP 250million to LBP 750million	410,060	18	935
From LBP 750million to LBP 1.5billion	393,502	17	365
More than LBP 1.5billion	1,061,782	45	281
	2,324,427	**100**	**14,507**

	December 31, 2015		
	Total Deposits	% of Total Deposits	No. of Customers
	LBP'Million	%	
Less than LBP 250million	367,461	20	15,296
From LBP 250million to LBP 750million	343,756	19	393
From LBP 750million to LBP 1.5billion	266,878	15	152
More than LBP 1.5billion	834,491	46	141
	1,812,586	**100**	**15,982**

Deposits from customers and related parties include as at December 31, 2016 coded deposit accounts in the aggregate of LBP 580million (LBP 7.5billion in 2015). These accounts are subject to the provisions of Article 3 of the Banking Secrecy Law dated September 3, 1956 which precludes the Group's management, in the normal course of business, from revealing the identities of these depositors to third parties, including its independent public accountants.

The average balance of deposits (including related parties) and related cost of funds were as follows:

	LBP Base Accounts		F/Cy Base Accounts		
Year	Average Balance of Deposits	Average Interest Rate	Average Balance of Deposits	Average Interest Rate	Cost of Funds
	LBP'Million	%	LBP'Million	%	LBP'Million
2016	553,117	5.98	1,781,946	4.59	94,263
2015	296,256	5.80	590,071	3.74	50,880

19. RELATED PARTIES' DEPOSITS AND CREDIT BALANCES

Related parties' deposits and credit balances are reflected at amortized cost and consist of the following:

	December 31,2016			December 31,2015		
	Interest Bearing	Non-Interest Bearing	Total	Interest Bearing	Non-Interest Bearing	Total
	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million
Deposits from customers:						
- Current/demand deposits	-	2,595	2,595	3	13,057	13,060
- Term deposits	101,984	-	101,984	106,932	-	106,932
- Collateral against loans and advances	27,806	-	27,806	8,296	9,457	17,753
	129,790	2,595	132,385	115,231	22,514	137,745
Margin and other accounts:						
- Margins on letters of guarantee	-	-	-	-	54	54
	-	-	-	-	54	54
Accrued interest payable	450	-	450	461	-	461
	130,240	**2,595**	**132,835**	**115,692**	**22,568**	**138,260**

20. OTHER LIABILITIES

This caption consists of the following:

	December 31	
	2016	2015
	LBP'Million	LBP'Million
Deferred income- Subsidy from the Central Bank of Lebanon (a)	25,044	-
Regulatory deferred liability - Note 9	2,428	-
Accrued bonuses	5,709	-
Accrued expenses	3,678	3,497
Withheld taxes payable	3,169	2,823
Tax on revaluation of properties – Note 14	3,404	-
Due to the National Social Security Fund	355	436
Checks and incoming payment orders in course of settlement	56	193
Provision against loss on revaluation of fixed position - Note 16	-	469
Deposits and guarantees	401	515
Due to shareholders – Note 23	8,141	-
Sundry creditors	11,382	3,704
	63,767	**11,637**

(a) The Central Bank of Lebanon granted the Bank a subsidy equivalent to USD 28.1million or LBP 42.36billion in lieu of a) the value of the merged bank's license to be cancelled due to the merger, b) the additional compensations paid to the merged bank's employees whose employment contracts have been terminated capped at the limit specified in Law 192/93, and c) a lump sum compensation for costs resulting from the merger operation computed per Article 2 of Decree 1423. The subsidy was granted by way of granting the Bank a soft loan at an annual rate of 1.41% earmarked to be invested in treasury bills yielding 7.08%.

The Group is recognizing deferred income on a systematic and rational basis against merger expenses incurred. During the year ended December 31, 2016, the Group recognized LBP 17.3billion reflected in the consolidated statement of profit or loss under "Other income" (Note 34) to match termination benefits and merger related costs in the amount of LBP 14.3billion and the write off of the license of Near East Commercial Bank sal in the amount of LBP 3billion.

(b) The reconciliations between average effective tax rate and enacted tax rates is summarized as follows:

	2016	2015
	LBP'Million	LBP'Million
Profit/(loss) before tax (Bank)	12,102	(5,308)
Non-deductible expenses	37,387	3,108
Non-taxable income	(5,068)	(2,516)
Taxable income	44,421	(4,716)
Income tax based on enacted rate (15%)	6,663	-
Income tax paid by NECB for the period from		
January 1, 2016 to May 31, 2016 (Date of Merger)	398	-
Excess tax paid on interest (5%) (Non-refundable)	-	1,850
	7,061	1,850
Property tax (subsidiary)	66	91
Total income tax expense	7,127	1,921
Tax paid during the year	(2,074)	(1,850)
Tax on surplus resulting from BDL special trades	7,487	-
Tax payable as at December 31	**12,540**	**91**

The tax on surplus resulting from BDL special trades represent the income tax on the surplus recorded directly under shareholders' equity and the surplus retained under other liabilities in the amount of LBP 7,059million and LBP 428million, respectively (Note 9).

During 2015, the tax returns of the Bank and its subsidiary Near East Commercial Bank sal, were examined by the tax authorities up to year 2013 (inclusive), which resulted in additional tax liabilities amounting to LBP 1.03billion that was charged to income and recorded under "Fines and taxes" included in "General and administrative expenses" in the consolidated statement of profit or loss.

The tax returns of Near East Commercial Bank sal, for the years 2014 and up to May 31, 2016 (merger date) are currently being examined by the tax authorities. Any additional tax liability depends on the result of this review and will be borne by the Bank.

The tax returns of Saradar Bank sal since year 2014 (inclusive) remains subject to examination and final review by the tax authorities. Any additional tax liability depends on the results of these reviews.

The tax returns of the remaining subsidiaries for the years 2012 until 2016 remain subject to examination and final assessment by the tax authorities.

The Group's social security declarations are still subject to review by the National Social Security Fund since 1997.

Management believes that the effect of reviews to be conducted by regulatory authorities on open years will not have a significant effect on the consolidated financial statements.

21. BORROWINGS FROM THE CENTRAL BANK OF LEBANON

This caption consists of the following:

	December 31	
	2016	2015
	LBP'Million	LBP'Million
Central Bank of Lebanon - Soft loan	138,500	-
Discount on below market loan	(38,798)	-
	99,702	-
Central Bank of Lebanon - Other loans	12,251	-
	111,953	**-**

On June 16, 2016, and as a result of the merger with NECB, the Bank was granted a soft loan denominated in Lebanese Pounds in the amount of LBP 138.5billion from Central Bank of Lebanon for a period of 6.5 years maturing on November 17, 2022, carrying interest at the rate of circa. 1.41%. The loan was earmarked to purchase, Lebanese Treasury Bills of the same face amount and maturity and which are pledged as security against the loan (Note 9).

The soft loan is presented net of a discount resulting from the present value of net future cash flows derived from the difference between interest income realizable on purchased LBP Treasury Bills of 7.08% per annum and the above-mentioned cost of the soft loan. The discount represents the subsidy granted by BDL through the soft loan pursuant to article 6 of law 192/93 and related decree 1423 dated 23 February 2009 (Note 20). The Bank is amortizing this discount using the effective interest rate method over the period of the soft loan. Amortization charge of LBP 3.56billion for the year ended December 31, 2016 is treated as a yield adjustment to the interest expense of the soft loan.

During 2016, the Central Bank of Lebanon granted the Bank pursuant to Central Bank of Lebanon Intermediate Circular number 313 facilities in Lebanese Pounds in the amount of LBP 10.87billion to be granted to its customers pursuant to certain conditions, rules and mechanism. These facilities bear interest at the rate of 1% computed annually and paid monthly. These facilities have maturities beyond 5 years and their repayment depend on the underlying assets settlement.

Other loans from Central Bank of Lebanon include also facilities in the aggregate amount of LBP 1.38billion as of December 31, 2016 following Central Bank of Lebanon Intermediate Circular number 331 by which the Bank benefited from credit facilities granted against investment in start-up companies pursuant to certain conditions, rules and mechanism.

22. PROVISIONS

Provisions consist of the following:

	December 31	
	2016	2015
	LBP'Million	LBP'Million
Provision for employees' end-of-service indemnity (a)	4,755	5,469
Provision for contingencies	70	3
Provision for loss on foreign currency position (b)	53	3
	4,878	**5,475**

(a) The movement of the provision for employees' end-of-service indemnity is as follows:

	2016	2015
	LBP'Million	LBP'Million
Balance at January 1	5,469	2,420
Effect of acquisition of a Subsidiary - Note 12	-	2,947
Additions - Note 32	1,052	404
Write-backs - Note 32	(830)	(52)
Settlements	(936)	(250)
Balance at December 31	**4,755**	**5,469**

(b) Provision for loss on foreign currency position represents the provision set up by the Bank for foreign currency fluctuation on the exchange position at year end in conformity with Banking Control Commission Circular No. 197.

23. SHARE CAPITAL

The capital of the Bank amounting to LBP 10.6billion as at December 31, 2016 and 2015 is composed of 10,600,000 shares of LBP 1,000 par value each, authorized, issued and fully paid.

In its meeting held on September 28, 2015, the Extraordinary General Assembly decided to increase the share capital of the Bank from LBP 5.2billion to LBP 10.6billion through the issuance of 5,400,000 nominal ordinary shares at a par value of LBP 1,000 per share subscribed to by the shareholders of Near East Commercial Bank sal as a result of the merger by acquisition undergoing with the latter (See notes 1 and 12).

In its meeting held on March 18, 2011, the Extraordinary General Assembly decided to increase the share capital of the Bank from LBP 4billion to LBP 5.2billion through the issuance of 1,200,000 nominal ordinary shares in two equal stages, at a subscription price of USD 25 per share, divided between the par value of LBP 1,000 per share and a share premium of USD 24.3392 per share. Accordingly, this increase resulted in a total share premium of LBP 44billion (USD 29,204,000). In its meeting held on July 14, 2016, the Ordinary General Assembly resolved to distribute to shareholders an amount of USD 6million (C/VLBP 9billion) from share premium.

24. SHAREHOLDERS' CASH CONTRIBUTION TO CAPITAL

Shareholders' cash contribution to capital amounting to LBP 202.9billion (USD 134,618,679) as at December 31, 2016 and 2015 increased by USD 110,393,679 during 2015 as a result of the merger by acquisition with Near East Commercial Bank sal (See Note 12).

The contribution is interest free and was made by the shareholders to support the Bank in developing its activities. This sort of equity instrument has the advantage of being booked and maintained in foreign currency thus providing a natural hedge against the national currency fluctuation. According to local banking laws and regulations, shareholders' cash contribution to capital is considered as Tier I capital for the purpose of computation of the risk-based capital ratio.

25. RESERVES

The movement of reserves during 2016 and 2015 was as follows:

	Reserve for Unspecified Banking Risk	Legal Reserve	General Reserves	Regulatory Reserves for Profit on Sale of Assets Acquired in Satisfaction of Loans	Regulatory Reserve for Assets Acquired in Satisfaction of Loans	Reserve for Capital Increase	Total
	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million
Balance at January 1, 2015	8,307	1,353	11	581	216	-	10,468
Appropriation of 2014 profit	881	98	-	-	-	-	979
Balance at December 31, 2015	9,188	1,451	11	581	216	-	11,447
Surplus from special transactions with BDL - Note 9	-	-	-	-	-	40,000	40,000
Balance at December 31, 2016	**9,188**	**1,451**	**11**	**581**	**216**	**40,000**	**51,444**

Reserve for unspecified banking risks

The reserve for unspecified banking risks is constituted according to local banking regulations, from net profit, on the basis of a minimum of 2 per mil and a maximum of 3 per mil of the total risk weighted assets, off-balance sheet risk and global exchange position as defined for the computation of the solvency ratio at year-end. The consolidated ratio should not be less than 2% by end of year 2017. This reserve is constituted in Lebanese Pounds and in foreign currencies in proportion to the composition of the Group's total risk weighted assets and off-balance sheet items. This reserve is not available for distribution.

Legal reserve

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

Regulatory reserve for assets acquired in satisfaction of loans

In compliance with the Central Bank of Lebanon Basic Circular number 78, banks are required to appropriate from retained earnings an amount of 5% or 20% of the carrying value of its properties acquired in settlement of debt, in case the Group failed to liquidate the properties within 2 years from the date of acquisition. This reserve is not considered as part of the Group's Tier Capital and is not available for distribution (Note 13).

No appropriation to reserves took place in 2016 as the Group incurred losses for the year ended December 31, 2015.

26. OWNED BUILDINGS REVALUATION SURPLUS

	December 31	
	2016	2015
	LBP'Million	LBP'Million
Bank premises	15,389	5,874
Subsidiary owned properties (SIPC)	35,837	14,713
	51,226	**20,587**

During 2016, revaluation surplus reserve in the amount of LBP 30.6billion, net of tax, was recorded after the revaluation of some of the Bank's premises and the subsidiary's owned properties after obtaining the approval of the Central Bank of Lebanon.

According to local banking regulations the revaluation surplus of owned premises is eligible to be incorporated in Tier II capital for the purpose of computation of the risk based capital ratio.

27. INTEREST INCOME

This caption consists of interest income on:

	2016	2015
	LBP'Million	LBP'Million
Deposits with Central Bank of Lebanon	12,552	10,288
Deposits with banks and financial institutions	1,135	505
Financial assets at amortized cost	65,279	32,644
Loans and advances to customers	44,909	24,709
Loans and advances to related parties	944	546
Interest realized on non-performing loans and advances to customers	7	289
Factoring activities	11,362	2,080
	136,188	**71,061**

28. INTEREST EXPENSE

This caption consists of interest expense on:

	2016	2015
	LBP'Million	LBP'Million
Borrowing from Central Bank of Lebanon	1,063	-
Deposits and borrowings from banks and financial institutions	2,910	334
Customers' accounts at amortized cost	89,793	47,360
Related parties' accounts at amortized cost	4,470	3,520
	98,236	**51,214**

29. FEE AND COMMISSION INCOME

This caption consists of the following:

	2016	2015
	LBP'Million	LBP'Million
Service fees on customers' transactions	8,433	4,379
Factoring fees	4,578	939
Commission on documentary credits	371	210
Commission on letters of guarantee	939	583
Asset management fees	3,821	1,175
	18,142	**7,286**

30. INTEREST INCOME AND GAINS ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This caption consists of the following:

	2016	2015
	LBP'Million	LBP'Million
Change in fair value gain/(loss)	451	(10)
Interest income	-	225
Gain/(loss) on sale of financial assets at fair value through profit or loss	28	(84)
	479	**131**

31. OTHER OPERATING INCOME

This caption consists of the following:

	2016	2015
	LBP'Million	LBP'Million
Dividends on financial assets at fair value through other comprehensive income	75	75
Net foreign exchange gains	1,467	563
Other	109	30
	1,651	**668**

32. STAFF COSTS

This caption consists of the following:

	2016	2015
	LBP'Million	LBP'Million
Basic salaries	21,726	13,014
Bonuses	7,667	1,851
Termination indemnities (a)	13,019	754
Schooling allowances	865	624
Transportation	834	652
Social Security contribution	3,282	1,977
Provision for staff indemnity costs- Note 22	222	352
Chairman and Board of Directors remuneration fees	1,285	840
Representation fees	313	34
Other benefits	1,133	796
	50,346	**20,894**

(a) Compensations paid to terminated and existing employees as a result of the merger transaction amounted to LBP 12billion during 2016.

33. GENERAL AND ADMINISTRATIVE EXPENSES

This caption consists of the following:

	2016	2015
	LBP'Million	LBP'Million
Rent and rental expenses	4,778	1,677
Fines and taxes (Note 20)	820	1,823
Advertising fees	482	-
Professional and consultancy fees	3,632	1,028
Telecommunication expenses	814	446
Maintenance and repairs	2,921	882
Electricity and fuel	582	577
Printings, subscriptions and stationery	2,238	810
Transportation and travel	610	400
IT outsourcing expenses	486	-
Insurance	865	359
Other expenses	2,804	2,005
	21,032	**10,007**

34. OTHER INCOME

This caption consists of the following:

	2016	2015
	LBP'Million	LBP'Million
Recognition of special transactions with BDL -Note 20	27,033	-
Recognition of deferred income – subsidy from BDL-Note 20	17,317	-
Gain on sale of equipment	9	-
Other income	576	123
	44,935	**123**

35. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISKS

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

36. FIDUCIARY ASSETS AND ASSETS UNDER MANAGEMENT

	December 31, 2016		
	Customers' Base Accounts		
	Resident	Non-Resident	Total
	LBP'Million	LBP'Million	LBP'Million
Back-to-back lending	21,440	1,658	23,098
Assets under management	229,116	498,704	727,820
	250,556	**500,362**	**750,918**

	December 31, 2015		
	Customers' Base Accounts		
	Resident	Non-Resident	Total
	LBP'Million	LBP'Million	LBP'Million
Back-to-back lending	27,082	-	27,082
Assets under management	157,575	608,376	765,951
	184,657	**608,376**	**793,033**

37. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

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

	December 31	
	2016	2015
	LBP'Million	LBP'Million
Shareholders, directors and other key management personnel and close family members:		
Direct facilities and credit balances:		
- Unsecured loans and advances	658	5,213
- Loans and advances against cash collateral	10,834	4,349
- Deposits	78,450	110,340
Indirect facilities:		
- Letters of guarantee	5	55
Related companies:		
Direct facilities and credit balances:		
- Unsecured loans and advances	265	-
- Loans and advances against cash collateral	14,159	13,324
- Deposits	54,385	27,920
- Sundry payables	-	334
Indirect facilities:		
- Letters of guarantee	554	556

Secured loans and advances are covered by pledged deposits to the extent of LBP 27.8billion in 2016 (LBP 17.8billion in 2015).

Executive management and the Board of Directors short-term benefits amounted to LBP 4.6billion during 2016 (LBP 1.9billion during 2015).

Advisory commission income received from Sarinvest Holding Limited amounted to LBP 49million during the year ended December 31, 2016.

Related party expenses incurred during the year were as follows:

		December 31	
		2016	2015
		LBP'Million	LBP'Million
Clover Building sal	Rent expense	2,458	-
Immobilière Saradar sal	Rent expense	123	-
Société Hotelière de Tourisme sal	Rent expense	11	11
Ms. Mirna Bustany	Rent expense	48	-
Shammas Economic Institute sal	Rent expense	48	-
Contracting and Trading Company sal	Rent expense	7	145
Contracting and Trading Company sal	Building charges	7	-
Sports Company sal (S/Club)	Subscription fees	226	-
S Signature Luxury Services sal	Membership fees	43	-
S Signature Luxury Services sal	Travel expenses	228	-
LibanPost sal	Office aid services	115	-
Conseil et Gestion Immobilière sal	Construction services	58	-
Saradar Family Office sal	Financial Advisory services	83	-

The Bank signed a rent contract with Clover Building sal (an entity under common control) to rent sections 14 to 19 and portion of section 22 of Clover Building property, Rmeil, plot number 144, for the period from January 16, 2014 to January 15, 2024. The annual rental fees were subject to (i) a fixed increase of 3% in the second and third years, (ii) 5% increase for the remaining 7 years. The contract can be terminated by the lessee at the end of the third year.

38. CASH AND CASH EQUIVALENTS:

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

	December 31	
	2016	2015
	LBP'Million	LBP'Million
Cash on hand	16,406	11,736
Current accounts with Central Bank of Lebanon (excluding compulsory reserve)	69,267	39,025
Term placements with banks and financial institutions	69,734	137,033
Reverse repurchase agreements with a financial institution	45,798	24,271
Speculation accounts	-	759
Current accounts with banks and financial institutions	82,910	17,470
Checks in course of collection	12,123	7,915
	296,238	**238,209**

Term placements with banks and financial institutions represent inter-bank placements with an original term of 90 days or less.

The following activities that represent non-cash items were excluded from the statement of cash flows during 2016 and 2015:

- The acquisition of NECB against increase in capital and shareholders' cash contribution to capital (see note 12).
- The transfer of LBP 40billion from "Other liabilities" to "Reserve for capital increase" during 2016.
- Increase in the cumulative change in fair value of financial assets at fair value through other comprehensive income by LBP 17million (LBP 305million in 2015) against investment securities by LBP 14million (LBP 251million in 2015) and deferred tax liability by LBP 3million (LBP 54million in 2015).

39. CAPITAL MANAGEMENT

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

The Central Bank of Lebanon requires each bank or banking group to hold a minimum level of regulatory capital of LBP 10billion for the head office and LBP 500million for each local branch and LBP 1.5billion for each foreign branch.

The Bank's capital is split as follows:

Tier I capital: Comprises share capital, shareholders' cash contribution to capital, share premium, reserves from appropriation of profits, and retained earnings (exclusive of current year's net profit).

Tier II capital: Comprises 50% of the cumulative change in fair value of investment securities at fair value through other comprehensive income and revaluation surplus of owned properties approved by the Central Bank of Lebanon.

Various limits are applied to the elements of capital base such as Qualifying Tier II capital cannot exceed Tier I capital.
The Group has complied with imposed capital requirements throughout the year.
The Group's consolidated capital adequacy ratio was as follows:

	December 31	
	2016	2015
	LBP'Million	LBP'Million
Common Equity Tier I	269,196	248,524
Tier II Capital	32,444	20,422
Total Regulatory Capital (Tier I + Tier II)	301,640	268,946
Credit risk	1,853,219	1,367,909
Market risk	67,378	82,663
Operational risk	72,093	35,730
Risk-weighted assets and risk-weighted off-balance **Sheet items**	**1,992,692**	**1,486,302**
Tier I Ratio	**13.51%**	**16.72%**
Risk based Capital Adequacy Ratio- Tier I and Tier II Capital	**15.14%**	**18.09%**

40. FINANCIAL RISK MANAGEMENT

The Group has exposure to the following risks from its use of financial instruments:
- Credit risk
- Liquidity risk
- Market risk

The risk management framework is briefly outlined as follows:

The Board of Directors

The Board of Directors, through the Management Committee is responsible for establishing the Group's goals and objectives and overseeing the establishment, implementation and review of the Group's risk management system.

The Chairman of the Board and the Managing Director are responsible for the efficient functioning of the corporate governance structure and for developing the Group's risk strategies that direct the Group's ongoing activities to achieve goals and objectives.

The Risk Management Unit

The Risk Management Unit is responsible for drawing a risk management strategy that addresses identified risks such as credit risk on a portfolio level, liquidity risk and interest rate risk in the banking book and operational risk. It cooperates with the Group's managers at all levels across the organization namely, the Credit Risk Management Department, the Capital Market, the Treasury Department, the Financial Department, the Internal Audit Department and the Information Technology Department.

A. CREDIT RISK

Credit risk is the risk of financial loss to the Group if the counterparty to a financial instrument fails to discharge an obligation. Financial assets that are mainly exposed to credit risk are deposits with banks, loans and advances to customers and other banks and investment securities. Credit risk also arises from off-balance sheet financial instruments such as letters of credit and letters of guarantee.

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

In measuring credit risk of loans and advances the Group considers the following:

- Ability of the counterparty to honor its contractual obligations based on the account's performance, recurring overdue and related reasons and the counterparty's financial position;
- Exposure levels of the counterparty and unutilized credit limits granted;
- Exposure levels of the counterparty with other banks;
- Purpose of the credit facilities granted to the counterparty and conformity of utilization by the counterparty.

In accordance with the Central Bank of Lebanon directives, the Group's customers are categorized into 5 classifications as described below:

Classification	Description	
1	Standard monitoring	Indicates that borrowers are able to honor their commitments and there is no reason to doubt their ability to repay principal and interest in full and in a timely manner. Some of the indicators related to this category are: continuous cash inflows, timely submission of financial statements and/or sufficient collateral.
2	Special monitoring (Watch list)	Indicates that borrowers are able to honor their current commitments, although repayment may be adversely affected by specific factors. Such borrowers are subject to special monitoring. Major characteristics of this category are: inadequate loan information such as annual financial statements availability, condition of and control over collateral held is questionable and / or declining profitability.
3	Substandard	Indicates that borrowers' ability to serve their commitments is in question. In this context, borrowers cannot depend on their normal business revenues to pay back principal and interest, i.e. losses may occur. The main characteristics of this category are severe decline in profitability and in cash inflows. In this case, the Group considers interests and commissions as unrealized but does not establish an allowance for impairment.
4	Doubtful	Indicates that borrowers cannot honor their commitments in full and on time. Significant losses will be incurred even collateral held is invoked due to payment overdues. The net realizable value of collateral held is insufficient to cover payment of principal and interest. In this case, the Group considers interests and commissions as unrealized and established an allowance for impairment accordingly.
5	Bad	Indicates that commitments cannot be covered even after taking all possible measures and resorting to necessary legal procedures. Some signals of this category would be inexistence of collateral low value of collateral and / or, losing contact with the borrower. In this case, the bank considers interests and commissions as unrealized, ceases their accumulation, and provides the whole amount of the exposure's balance.

Financial assets with credit risk exposure and related concentrations

The tables below reflect the Group's exposure to credit risk by counterparty for the different categories of financial assets:

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

(a.1) Deposits with banks and financial institutions (excluding accrued interest receivable):

	December 31, 2016		
Bracket	Balance	% of Total	No. of Counter Parties
	LBP'Million	LBP'Million	
Less than LBP 5billion	111,137	53	32
From LBP 5billion to LBP 15billion	33,816	16	1
More than LBP 15billion	65,612	31	4
	210,565	**100**	**37**

	December 31, 2015		
Bracket	Balance	% of Total	No. of Counter Parties
	LBP'Million	LBP'Million	
Less than LBP 5billion	48,964	27	49
From LBP 5billion to LBP 15billion	90,272	50	11
More than LBP 15billion	41,517	23	2
	180,753	**100**	**62**

(a.2) Loans and advances to customers (excluding accrued interest receivable):

	December 31, 2016		
Bracket	Balance	% of Total	No. of Counter Parties
	LBP'Million	LBP'Million	
Less than LBP 1.5billion	205,833	21	3,278
From LBP 1.5billion to LBP 5billion	190,917	20	65
From LBP 5billion to LBP 10billion	149,998	16	22
From LBP 10billion to LBP 15billion	98,697	10	8
More than LBP 15billion	311,791	33	12
	957,236	**100**	**3,385**
Less:			
Allowances allocated to performing loans	(21,173)		
Allowances for collectively assessed loans	(7,253)		
Pledged guarantee funds allocated to non-performing loans	(12,376)		
	916,434		

Bracket	December 31, 2015 Balance	% of Total	No. of Counter Parties
	LBP'Million	LBP'Million	
Less than LBP 1.5billion	202,840	29	3,271
From LBP 1.5billion to LBP 5billion	149,352	21	52
From LBP 5billion to LBP 10billion	152,946	22	23
From LBP 10billion to LBP 15billion	44,088	6	5
More than LBP 15billion	152,720	22	7
	701,946	**100**	**3,358**
Less:			
Allowances allocated to performing loans	(898)		
Allowances for collectively assessed loans	(2,754)		
Pledged guarantee funds allocated to non-performing loans	(12,376)		
	685,918		

(b) Below are the details of the Group's exposure to credit risk with respect to loans and advances to customers (excluding accrued interest receivables):

	December 31, 2016			
		Fair Value of Collateral Received		
	Gross Exposure Net of Unrealized Interest	Cash Collateral	Mortgage of Property	Total
	LBP'Million	LBP'Million	LBP'Million	LBP'Million
Performing loans and advances - Retail				
Housing loans	98,712	4,573	71,975	76,548
Personal loans	6,721	2,543	832	3,375
Overdrafts	7,133	1,368	209	1,577
Speculative accounts	409	102	119	221
Other	11,658	2,809	212	3,021
	124,633	11,395	73,347	84,742
Performing loans - Corporate customers				
Factoring facilities	172,565	-	-	-
Corporate, small and medium enterprises and commercial bills	611,694	73,181	200,081	273,262
	784,259	73,181	200,081	273,262
Non-Performing loans				
Substandard loans	15,722	-	15,287	15,287
Doubtful and bad loans	105,269	593	13,852	14,445
Unrealized interest	(62,607)	-	-	-
	58,384	593	29,139	29,732

	December 31, 2016			
		Fair Value of Collateral Received		
	Gross Exposure Net of Unrealized Interest	Cash Collateral	Mortgage of Property	Total
	LBP'Million	LBP'Million	LBP'Million	LBP'Million
Allowances allocated to performing loans	(21,173)	-	-	-
Allowances for collectively assessed loans	(7,253)	-	-	-
Allowances for impairment of doubtful and bad loans	(10,040)	-	-	-
Pledged guarantee fund allocated to doubtful and bad loans	(12,376)	-	-	-
	(50,842)	-	-	-
	916,434	**85,169**	**302,567**	**387,736**

	December 31, 2015			
		Fair Value of Collateral Received		
	Gross Exposure Net of Unrealized Interest	Cash Collateral	Mortgage of Property	Total
	LBP'Million	LBP'Million	LBP'Million	LBP'Million
Performing loans and advances - Retail				
Housing loans	70,253	9,238	52,737	61,975
Personal loans	14,086	7,830	1,498	9,328
Overdrafts	2,884	770	-	770
Speculative accounts	6,041	-	-	-
Other	11,613	1,150	240	1,390
	104,877	18,988	54,475	73,463
Performing loans - Corporate customers				
Consortium loan	13,450	-	15,135	15,135
Factoring facilities	124,040	-	-	-
Corporate, small and medium enterprises and commercial bills	432,247	61,041	182,237	243,278
	569,737	61,041	197,372	258,413
Non-Performing loans				
Substandard loans	1,824	-	2,154	2,154
Doubtful and bad loans	100,497	90	27,473	27,563
Unrealized interest	(67,637)	-	-	-
	34,684	90	29,627	29,717
Allowances allocated to performing loans	(898)	-	-	-
Allowances for collectively assessed loans	(2,754)	-	-	-
Allowances for impairment of doubtful and bad loans	(7,352)	-	-	-
Pledged guarantee fund allocated to doubtful and bad loans	(12,376)	-	-	-
	(23,380)	-	-	-
	685,918	**80,119**	**281,474**	**361,593**

(c) Concentration of major financial assets by industry or sector:

	December 31, 2016								
Financial Assets	Sovereign	Financial Services	Real Estate Development and Trading	Consumer Goods Trading and Services	Private Individuals	Other	Total	Accrued Interest	Grand Total
	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million
Cash and deposits with Central Bank of Lebanon	639,529	-	-	-	-	-	639,529	3,252	642,781
Deposits with banks and financial institutions	-	210,565	-	-	-	-	210,565	320	210,885
Loans and advances to customers	-	56,646	250,446	361,093	123,040	125,209	936,047	3,086	919,520
Financial assets at fair value through profit or loss	-	23,307	-	1,840	-	-	25,147	-	25,147
Financial assets at amortized cost	1,114,912	1,507	-	-	-	-	1,116,419	-	1,116,419
Financial assets at fair value through other comprehensive income	-	6,379	-	-	-	-	6,379	-	6,379
Customers' Liabilities under acceptances	-	-	-	1,502	-	-	1,502	-	1,502
	1,754,441	**298,404**	**250,446**	**364,435**	**123,040**	**125,209**	**2,935,588**	**6,658**	**2,922,633**

	December 31, 2015								
Financial Assets	Sovereign	Financial Services	Real Estate Development and Trading	Consumer Goods Trading and Services	Private Individuals	Other	Total	Accrued Interest	Grand Total
	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million
Cash and deposits with Central Bank of Lebanon	412,692	-	-	-	-	-	412,692	1,792	414,484
Deposits with banks and financial institutions	-	180,753	-	-	-	-	180,753	123	180,876
Loans and advances to customers	-	31,318	270,433	216,294	120,760	47,113	685,918	2,105	688,023
Financial assets at fair value through profit or loss	-	15,949	-	-	-	-	15,949	-	15,949
Financial assets at amortized cost	887,885	2,262	-	-	-	-	890,147	13,682	903,829
Financial assets at fair value through other comprehensive income	-	6,460	-	-	-	-	6,460	-	6,460
Customers' Liabilities under acceptances	-	-	775	343	-	-	1,118	-	1,118
	1,300,577	**236,742**	**271,208**	**216,637**	**120,760**	**47,113**	**2,193,037**	**17,702**	**2,210,739**

(d) Concentration of major financial assets by geographical area:

Financial Assets	Lebanon	Overseas	Total
	December 31, 2016		
	LBP'Million	LBP'Million	LBP'Million
Cash and deposits with Central Bank of Lebanon	642,781	-	642,781
Deposits with banks and financial institutions	121,924	88,961	210,885
Financial assets at fair value through profit or loss	25,147	-	25,147
Loans and advances to customers	908,214	11,306	919,520
Financial assets at amortized cost	1,116,419	-	1,116,419
Financial assets at fair value through other comprehensive income	6,379	-	6,379
Customers' liability under acceptances	1,502	-	1,502
	2,822,366	**100,267**	**2,922,633**

Financial Assets	Lebanon	Overseas	Total
	December 31, 2015		
	LBP'Million	LBP'Million	LBP'Million
Cash and deposits with Central Bank of Lebanon	408,529	5,955	414,484
Deposits with banks and financial institutions	80,649	100,227	180,876
Financial assets at fair value through profit or loss	15,949	-	15,949
Loans and advances to customers	632,877	55,146	688,023
Financial assets at amortized cost	903,829	-	903,829
Financial assets at fair value through other comprehensive income	6,460	-	6,460
Customers' liability under acceptances	1,118	-	1,118
	2,049,411	**161,328**	**2,210,739**

B. LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately.

The Group manages the liquidity risk through a well-defined policy and procedure set by the Assets and Liabilities Management Committee (ALCO). The objective is to monitor the maturity profile of the Group's financial assets and liabilities and enable management to ensure that the liquidity ratio is in compliance with the required limit set by the regulatory authorities. Management follows up on liquidity by reviewing, on weekly basis, the amount of obligatory reserve and the expected liquidity situation for the week. Moreover, on a monthly basis the liquidity ratio is calculated in accordance with circular No. 236 of the Banking Control Commission and No. 72 of Central Bank of Lebanon.

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

	December 31, 2016				
FINANCIAL LIABILITIES	Up to 3 Months	3 Months 1 year	1 to 5 Years	Over 5 Years	Total
	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million
Deposits from banks and financial institutions	27,282	1,952	-	-	29,234
Customers' and related parties' deposits and credit balances	222,428	2,245,613	621	-	2,468,662
Customers' acceptance liability	1,502	-	-	-	1,502
Borrowings from Central Bank of Lebanon	1,381	-	10,870	99,702	111,953
	252,593	**2,247,565**	**11,491**	**99,702**	**2,611,351**

	December 31, 2015				
FINANCIAL LIABILITIES	Up to 3 Months	3 Months 1 year	1 to 5 Years	Over 5 Years	Total
	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million
Deposits from banks and financial institutions	16,618	12,291	1,926	1,169	32,004
Customers' and related parties' deposits and credit balances	1,695,846	262,724	-	-	1,958,570
Customers' acceptance liability	716	402	-	-	1,118
	1,713,180	**275,417**	**1,926**	**1,169**	**1,991,692**

C. MARKET RISK

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

The non-availability of assets for trading in the banking book renders the market risk limited to the foreign exchange risk and interest rate risk. The Group covers the exchange risk that might affect its financial position and its profitability. In this respect, the exchange position limits are set and authorized by the ALCO. Furthermore, the Group hedges its capital against currency fluctuation by maintaining a fixed position in foreign currency in line with the regulatory authorized limits.

Currency risk

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

	December 31, 2016				
FINANCIAL ASSETS	LBP	USD	EUR	Other	Total
	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million
Cash and deposits with Central Bank of Lebanon	238,977	327,932	72,537	3,335	642,781
Deposits with banks and financial institutions	26,520	138,015	30,789	15,561	210,885
Financial assets at fair value through profit or loss	-	17,160	7,987	-	25,147
Loans and advances to customers	169,979	681,097	52,099	16,345	919,520
Financial assets at amortized cost	372,322	737,543	6,554	-	1,116,419
Financial assets at fair value through other comprehensive income	6,379	-	-	-	6,379
Customers' liability under acceptances	-	976	526	-	1,502
	814,177	1,902,723	170,492	35,241	2,922,633
FINANCIAL LIABILITIES					
Deposits from banks and financial institutions	7,631	20,801	262	540	29,234
Customers' and related parties' deposits and credit balances	563,889	1,701,287	168,549	34,937	2,468,662
Customers' acceptance liability	-	976	526	-	1,502
Borrowings from Central Bank of Lebanon	111,953	-	-	-	111,953
	683,473	1,723,064	169,337	35,477	2,611,351
Net exchange position	**230,406**	**179,659**	**1,155**	**(236)**	**410,984**

FINANCIAL ASSETS	December 31, 2015				
	LBP	USD	EUR	Other	Total
	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million
Cash and deposits with Central Bank of Lebanon	84,640	280,792	37,683	11,369	414,484
Deposits with banks and financial institutions	1,044	87,337	55,589	36,906	180,876
Financial assets at fair value through profit or loss	-	15,949	-	-	15,949
Loans and advances to customers	115,136	508,191	47,999	16,697	688,023
Financial assets at amortized cost	487,969	409,102	6,758	-	903,829
Financial assets at fair value through other comprehensive income	6,460	-	-	-	6,460
Customers' liability under acceptances	-	992	126	-	1,118
	695,249	**1,302,363**	**148,155**	**64,972**	**2,210,739**

FINANCIAL LIABILITIES					
Deposits from banks and financial institutions	30,534	1,518	98	(146)	32,004
Customers' and related parties' deposits and credit balances	531,315	1,215,672	146,931	64,652	1,958,570
Customers' acceptance liability	-	992	126	-	1,118
	561,849	**1,218,182**	**147,155**	**64,506**	**1,991,692**
Net exchange position	**133,400**	**84,181**	**1,000**	**466**	**219,047**

Interest rate risk

The Group is exposed to various risks associated with the effects of fluctuations in interest rates on its financial position and cash flows. Interest rate risk arises as a result of mismatches or gaps in the amounts of assets and liabilities that mature or are subject to interest rate change on a given date. The Group manages this risk by monitoring the effect of the changes in interest rates on interest earning assets and liabilities. As reflected in the maturity and interest sensitivity analysis, the structure of the financial statements in Lebanese Pounds and foreign currencies reflects a mismatch between short term deposits with floating interest rates against medium and long term investments with fixed interest rates.

Financial instruments with off-balance-sheet risk do not include accounts that carry interest rate risk.

Below is the distribution of financial assets and liabilities by re-pricing time bands:

	December 31, 2016					
FINANCIAL ASSETS	Non-Interest Bearing	Up to 1 Year	1 to 5 Years	Over 5 Years	Total Interest Bearing	Grand Total
	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million
Cash and deposits with Central Bank of Lebanon	91,807	276,756	89,830	184,388	550,974	642,781
Deposits with banks and financial institutions	119,009	74,386	15,057	2,433	91,876	210,885
Loans and advances to customers	15,947	703,178	139,095	61,300	903,573	919,520
Financial assets at fair value through profit or loss	25,147	-	-	-	-	25,147
Financial assets at amortized cost	-	68,474	270,442	777,503	1,116,419	1,116,419
Financial assets at fair value through other comprehensive income	6,379	-	-	-	-	6,379
Customers' Liabilities under acceptances	-	1,502	-	-	1,502	1,502
Total Financial Assets	258,289	1,124,296	514,424	1,025,624	2,664,344	2,922,633
FINANCIAL LIABILITIES						
Deposits from banks and financial institutions	1,952	27,282	-	-	27,282	29,234
Customers' and related parties' deposits and credit balances	218,399	2,250,263	-	-	2,250,263	2,468,662
Customers' acceptance liability	-	1,502	-	-	1,502	1,502
Borrowings from Central Bank of Lebanon	1,381	-	10,870	99,702	110,572	111,953
Total Financial Liabilities	221,732	2,279,047	10,870	99,702	2,389,619	2,611,351
Net Gap position	**36,557**	**(1,154,751)**	**503,554**	**925,922**	**274,725**	**311,282**

	December 31, 2015					
FINANCIAL ASSETS	Non-Interest Bearing	Up to 1 Year	1 to 5 Years	Over 5 Years	Total Interest Bearing	Grand Total
	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million
Cash and deposits with Central Bank of Lebanon	43,606	170,915	91,580	108,383	370,878	414,484
Deposits with banks and financial institutions	6,675	170,906	5	3,290	174,201	180,876
Loans and advances to customers	2,754	515,381	93,898	75,990	685,269	688,023
Financial assets at fair value through profit or loss	-	15,949	-	-	15,949	15,949
Financial assets at amortized cost	6,699	37,379	342,550	517,201	897,130	903,829
Financial assets at fair value through other comprehensive income	6,460	-	-	-	-	6,460
Customers' Liabilities under acceptances	-	1,118	-	-	1,118	1,118
Total Financial Assets	66,194	911,648	528,033	704,864	2,144,545	2,210,739
FINANCIAL LIABILITIES						
Deposits from banks and financial institutions	12,177	16,732	1,926	1,169	19,827	32,004
Customers' and related parties' deposits and credit balances	72,365	1,886,205	-	-	1,886,205	1,958,570
Customers' acceptance liability	-	1,118	-	-	1,118	1,118
Total Financial Liabilities	84,542	1,904,055	1,926	1,169	1,907,150	1,991,692
Net Gap position	**(18,348)**	**(992,407)**	**526,107**	**703,695**	**237,395**	**219,047**

41. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES:

The following table shows the carrying amounts and fair values of financial assets and liabilities (excluding accrued interest receivables) recognized in the financial statements, including their levels in the fair value hierarchy. It does not include financial assets and financial liabilities which are not measured at fair value and where the directors consider that the carrying amounts of these financial assets and liabilities are reasonable approximations of their fair value:

	December 31, 2016					
		Fair Value				
	Carrying Amount	Level 1	Level 2	Level 3	Total	Valuation Technique and Key Inputs
	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	
Financial assets at fair value through profit or loss						
BLOM Money Market Fund	23,306	23,306	-	-	23,306	Listed in active market Net asset value
Other funds - Unlisted	1,841	-	1,841	-	1,841	
	25,147	**23,306**	**1,841**	**-**	**25,147**	
Financial assets that are measured at fair value through other comprehensive income						
Unquoted equity securities	6,379	-	-	6,379	6,379	Net book value
	6,379	**-**	**-**	**6,379**	**6,379**	
Financial assets that are measured at amortized cost						
Lebanese Treasury Bills	297,319	-	298,926	-	298,926	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bills, adjusted for illiquidity
Lebanese Government Bonds in foreign currency	485,187	-	471,266	-	471,266	DCF at a discount rate determined based on the yield on USA treasury bills and the Credit Default Swap applicable to Lebanon subject to illiquidity factor
Certificates of deposit issued by Central Bank of Lebanon in Lebanese Pounds	70,118	-	72,352	-	72,352	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bills, adjusted for illiquidity
Certificates of deposit issued by Central Bank of Lebanon in foreign currency	247,846	-	247,919	-	247,919	DCF at a discount rate determined based on the yield on USA treasury bills and the Credit Default Swap applicable to Lebanon subject to illiquidity factor
Lebanese Corporate Bonds	1,507	-	1,504	-	1,504	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bills, adjusted for illiquidity
	1,101,977	**-**	**1,091,967**	**-**	**1,091,967**	

	December 31, 2015					
		Fair Value				
	Carrying Amount	Level 1	Level 2	Level 3	Total	Valuation Technique and Key Inputs
	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	
Financial assets at fair value through profit or loss						
BLOM Money Market Fund	15,241	15,241	-	-	15,241	Listed in active market Net asset value
Other funds	708	-	708	-	708	
	15,949	15,241	708	-	15,949	
Financial assets that are measured at fair value through other comprehensive income						
Unquoted equity securities	6,460	-	-	6,460	6,460	Net book value
	6,460	**-**	**-**	**6,460**	**6,460**	
Financial assets that are measured at amortized cost						
Lebanese Treasury Bills	284,549	-	284,605	-	284,605	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bills, adjusted for illiquidity
Lebanese Government Bonds in Lebanese Pounds	13,228	-	15,202	-	15,202	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bills, adjusted for illiquidity
Lebanese Government Bonds in foreign currency	343,829	-	336,911	-	336,911	DCF at a discount rate determined based on the yield on USA treasury bills and the Credit Default Swap applicable to Lebanon subject to illiquidity factor
Certificates of deposit issued by Central Bank of Lebanon in Lebanese Pounds	180,778	-	182,043	-	182,043	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bills, adjusted for illiquidity
Certificates of deposit issued by Central Bank of Lebanon in foreign currency	65,501	-	67,291	-	67,291	DCF at a discount rate determined based on the yield on USA treasury bills and the Credit Default Swap applicable to Lebanon subject to illiquidity factor
Lebanese Corporate Bonds	2,262	-	2,349	-	2,349	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bills, adjusted for illiquidity
	890,147	**-**	**888,401**	**-**	**888,401**	

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

42. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors and authorized for issue on June 20, 2017.

4.

CORRESPONDENT **BANKS**

CURRENCY	BANK	COUNTRY	CITY
AED	Standard Chartered Bank	United Arab Emirates	Dubai
AUD	Standard Chartered Bank	United Kingdom	London
CAD	Bank of Montreal	Canada	Toronto
CHF	Standard Chartered Bank	United Kingdom	London
EUR	Al Khaliji France s.a.	France	Paris
EUR	Banco De Sabadell s.a.	Spain	Madrid
EUR	Commerzbank	Germany	Frankfurt
EUR	Intesa Sanpaolo spa	Italy	Milano
EUR	J.P. Morgan AG	Germany	Frankfurt
EUR	Standard Chartered Bank	Germany	Frankfurt
GBP	JPMorgan Chase Bank National Association	United Kingdom	London
GBP	Standard Chartered Bank	United Kingdom	London
JOD	Arab Bank plc	Jordan	Amman
JPY	Standard Chartered Bank	Japan	Tokyo
QAR	International Bank of Qatar	Qatar	Doha
USD	JPMorgan Chase Bank National Association	United States	New York
USD	Standard Chartered Bank	United States	New York

5.

SARADAR BANK **NETWORK**

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