IBL BANK SAL

Where your dreams count

ANNUAL REPORT 2016

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“THE PREREQUISITE FOR MOTIVATION AND SUCCESS IN ANY ENDEAVOR IS A BIG VISION FOR YOUR FUTURE."

B. N. Norton, Motivation Into Success

“I WOULD LIKE TO GRAB THIS OPPORTUNITY TO **THANK OUR CUSTOMERS FOR THEIR CONTINUOUS TRUST.**”

The Lebanese Economy witnessed in 2016 another difficult year, registering only an estimated 2% GDP growth, which is better than most years in the Cycle that started 5 years ago and was characterized by slow economic growth. As such, we can only be confident about the future with the boost in Confidence that started in the last quarter of 2016 thanks to the successful Presidential Elections, the formation of a new Government, the new Electoral Law, and the new Term of Governor Riad Salameh at the Head of the Central Bank.

During 2016, monetary conditions remained favorable and continued to prove their resilience, with BDL foreign currency reserves (excluding gold) reaching a new historic level of USD 40.7 billion in December 2016, with the Foreign Exchange market seeing stability on the Lebanese pound over the year. Hence, the ratio of foreign currency reserves to local currency money supply reached 74% in December 2016 (and 94% when accounting Gold reserves) showing the Central Bank’s ability to defend the local currency.

In these challenging economic conditions, the Banking Sector realized a satisfactory performance in 2016, as evidenced by the commercial banks’ balance-sheet increasing by 9.9% to reach USD 204 billion in December 2016 and total deposits of the sector increasing by USD 11 billion in 2016 to reach USD 162 billion.
In parallel, the Banks’ lending activity to the private sector continued in its growth momentum recording a USD 3 billion increase during the year to reach USD 57 billion in December 2016. This growth was driven by the stimulus extended by BDL, which consisted of incentives to commercial banks to support several productive economic sectors that lead to a growth in LBP denominated loans of USD 2 billion.

In this context, IBL Bank, that is ranked amongst the top 10 banks in Lebanon in terms of total assets according to Bankdata, registered a strong year 2016 over-performing the sector in most Key Performance Indicators, while continuing in its conservative strategy and strong risk management practices, as evidenced by IBL Bank’s total assets growing by 20% in 2016, fueled by the increase in the Bank’s total deposits by 10.5% in 2016 while the Bank’s shareholders’ Equity increased also by 20% during the year.

The strong growth in Shareholders’ Equity is imputed to two main drivers. First the solid and sustainable capacity of IBL Bank in internal capital growth thanks to healthy and steady increase of net profits over the years; and second to the issuance of IBL Bank's series 3 preferred shares amounting to USD 75 million during the year 2016.

In addition, it is important to note that thanks to its conservative approach the Bank enjoys a strong liquidity as evidenced by IBL Bank registering the second highest net primary liquidity to deposits ratio in the alpha group according to Bankdata.

As a consequence of the Bank's strategic directions, IBL Bank realized an 18% growth in Net Income during 2016, leading to the Bank enjoying the highest Return on Average Equity (ROAE) and the second highest Return on Average Assets (ROAA) in the Lebanese Banking sector according to Bankdata.

Finally, following to the Bank's healthy risk management framework, and the strong capitalization mainly constituted of core Tier 1 capital, IBL Bank is as at December 2016 fully compliant with the Basel 3 accord and more so with the ratios required in 2018 by the local regulators. In fact, as at December 2016, the Bank's Common Equity Tier I Capital Ratio was 14.8%, the Tier I Capital Ratio was 17.6%, and the Total Capital Ratio was 19.1%.

I would like to close by grabbing this opportunity to thank our customers and correspondent banks for their continuous trust and support as well as the Board of Directors and the entire Group's staff for their precious insights and efforts to push the Bank towards higher summits.

Salim Habib
Chairman General Manager

History of the Bank

1961

The Bank was incorporated as a Société Anonyme Libanaise (joint stock Company) under the name of "Development Bank SAL" with a capital of LBP 8 million for a period of 99 years.

1999

The Bank acquired the total share capital of BCP Oriel Bank, and consequently all branches of the acquired Bank are to this date operating under Intercontinental Bank of Lebanon (IBL Bank).

2005

IBL Bank was one of the first Lebanese Banks to enter the Iraqi market by opening a representative Office in Erbil.

2007

The Bank obtained a license from the Central Bank of Cyprus to operate in Limassol. A branch was subsequently instigated on Makarios III Avenue and became operational in 2008.

2010

The Bank further developed its presence in Iraq by building an additional branch in Baghdad.

2014

Basra followed, being the 3rd branch covering another potential region in Iraq.

1998

The majority of the Bank's shares were purchased by a group of Lebanese and foreign investors. And until now, this same group of shareholders is still pursuing its policy towards raising the Bank into one of the top national banks. Since then, the Bank has achieved significant growth in total assets as well as in the main components of its balance sheet.

2003

IBL Bank was the first to introduce the Smart ATM in the Lebanese Market.

2006

4 new branches were added in Lebanon to cover the whole country.

2008

Following the satisfactory results that ensued from the opening of a representative office in Erbil, Iraq, the Board of Directors leveraged the Bank's first mover advantage in Iraq by upgrading the representative office to a full branch. During 2008, the Board of Directors decided to change the Bank's name and logo from Intercontinental Bank of Lebanon to IBL Bank, in order to boost the Bank's positioning and Brand awareness.

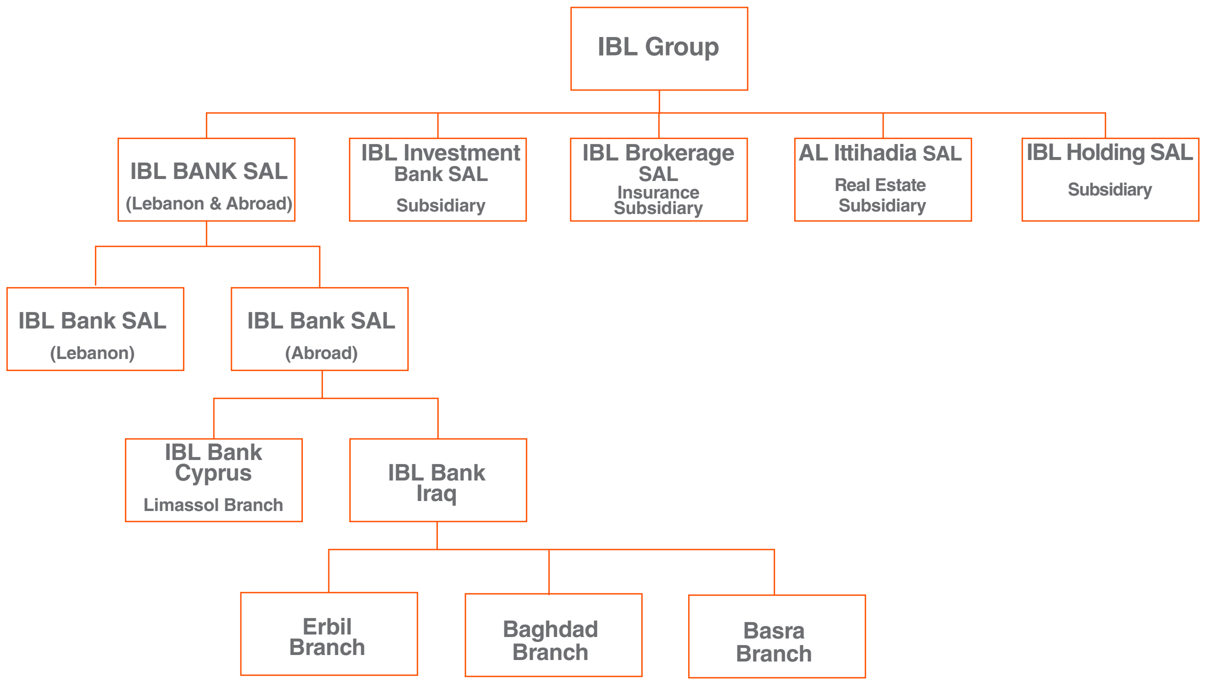
2011

6 new branches were added to the Bank's Lebanese Network strengthening its position between the top national Banks.

The strong growth that the Bank had achieved since 1998 was coupled with and fostered by continuous investments in human capital, either organically through seminars, training sessions and effective Human Resources management or externally by recruiting skilled managers and dynamic young staff. Amid its track record of solid growth, rigorous risk management and adequate Capital levels, the Bank is in the process of developing its local and regional network.

Currently, the Bank has 20 active branches spread all over Lebanon, and 4 Branches abroad: the first in Europe (Cyprus - Limassol), and 3 Branches in Iraq (Erbil, Basra and Baghdad). The Bank's Head-Office and main branch are located in Achrafieh, Beirut.

Group Structure



Knowing that the consolidated subsidiaries consist of the following:

Name of Subsidiary	Inception Date	IBL BANK Ownership %	Incorporation	Type of Business
Al-Ittihadia Real Estate S.A.L.	31-May-79	99,97	Lebanon	Real Estate Properties
IBL Holding S.A.L.	11-Nov-08	99,70	Lebanon	Holding
IBL Brokerage S.A.L.	14-Mar-06	99,80	Lebanon	Insurance Brokerage
IBL Investment Bank S.A.L.	8-Jan-11	98,00	Lebanon	Investment Bank

IBL Bank is part of the Alpha Group of Banks and is ranked 10th in terms of total assets as at December 2016.

IBL Bank main activities are focused on classical Banking services such as deposits, loans, trade finance, cash management as well as treasury via 20 Branches covering the Lebanese territory, in addition to a European Branch in Limassol/ Cyprus and three Branches in Iraq located in Baghdad, Basra and Erbil.

Being concerned by offering universal Banking services, the IBL group launched in 2011 the IBL Investment Bank, having as main activities Private Banking, Investment Banking, and Asset Management.

IBL Group Strategy is to extend a wide and diversified range of services to its customers through specialized and independent entities such as IBL Brokerage, insurance consultancy and Al Ittihadia real estate consultancy and management.

Principles of Corporate Governance

Corporate governance is defined as the process and structure used to direct and manage the business and affairs of the institution towards enhancing business prosperity and corporate accountability with the ultimate objective of realizing long-term shareholder value, taking into account the interests of other stakeholders.

The OECD principles define corporate governance as involving “a set of relationships between a company’s management, its board, its shareholders, and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined”.

As per the BIS Guidelines on “Principles for Enhancing Corporate Governance”, corporate governance involves the allocation of authority and responsibilities, i.e. the manner in which the business and affairs of a Bank are governed by its Board of Directors and senior management, including how they:

- set corporate objectives and strategy
- determine the Bank’s risk tolerance/appetite
- run the day-to-day operations;
- align corporate activities and behaviors with the expectation that the Bank will operate in a safe and sound manner, with integrity and in compliance with applicable laws and regulations; and
- Protect the interests of depositors and other stakeholders.

IBL Board of Directors has formulated its corporate governance policy, which includes guidelines covering governance structure, the role and duties of the Board of Directors, Senior Management and Board committees, code of business conduct, conflict-of-interest management, internal controls, and disclosure policy. These Guidelines set out broad principles and minimum standards as well as specific requirements for sound corporate governance, which are expected of IBL Bank SAL and its Group of companies.

The principles of corporate governance are well established in the Bank through the adoption of the Group's Corporate Governance Guidelines that were reviewed and approved by the Board of Directors in May 2016, in compliance with Regulatory Requirements. In addition, there is proper delegation of responsibilities to key managers and to executive committees with clear cut segmentation of duties between Front and Back Office departments thus enhancing accountability. Finally executive board members are present in most of the Bank's Committees.

In addition, in the Bank's structure, the Internal Audit and the Audit Committee are directly attached to the Board while the Risk Management Division is attached to the Chairman and is supervised by the Board Risk Committee. This structure allows proper independence to these two bodies in line with Corporate Governance principles. Furthermore, the Bank's Head of Risk Management and/or his deputy are members in all the Bank's committees, thus enhancing risk awareness and compliance with the risk appetite of the Bank.

Finally, specialized Committees are in place with regards to risk management, internal control, and internal audit:

- Audit Committee (Board of Directors Committee)
- Risk Committee (Board of Directors Committee)
- Remuneration Committee (Board of Directors Committee)
- AML/CFT Board Committee (Board of Directors Committee)
- Management Committee
- ALCO Committee
- Senior Credit Committee
- Junior Credit Committee
- AML/CFT Special Committee
- IT Security Committee
- IT Committee
- Procurement Committee
- Follow-up Committee for Subsidiaries Abroad
- Organization and Methods Committee
- Change Management Committee
- Business Continuity Management Committee
- Executive Committee for Iraq Activities
- Follow-Up Unit On Principles Of Banking Operations

Remuneration Policy

Being a commercial bank, IBL Bank Group ("the Group") philosophy is to build a larger, more loyal customer base. As such our revenues are derived mainly from transactions with customers, with a strong focus on service activities attracting interest margin and/or fees. Risk tolerance is minimal and strictly monitored by control functions. The Remuneration policy, being an integral part of the HR policies, is therefore based on the preservation of the bank's long-term interests, with a balanced variable compensation or "Bonus" while seeking to attract, motivate and retain outstanding individuals as Group employees.

The remuneration policy of the Group applies to all Group employees. The Board of Directors has adopted the remuneration policy at the recommendation of the Remuneration Committee.

It is important to note that, in compliance with BDL Circular 133, the Bank has put in place a Remuneration Committee in October 2015 attached directly to the Board. In addition to its main responsibilities of preparing, supervising and reviewing, at least annually, the Remuneration Policy and Remuneration System, the Remuneration Committee shall coordinate closely with the Risk Management Committee, upon assessing the remunerations and their related risks, and upon reviewing the Remuneration Policy, in order to ensure its efficiency and adequacy to "effective performance".

The policy reflects the Group's objectives towards good corporate governance for a sustainable operations, as well as sustained and long-term value creation for shareholders. In addition, to focusing on ensuring sound and effective risk management by the implementation of a fair pay scheme to gain staff loyalty and talent retention.

In managing the human capital of the Group, Management should ensure sound and effective risk management through:

- A stringent governance structure for setting goals and communicating these goals to employees
- Alignment with the Group´s business strategy, values, key priorities and long-term goals
- Alignment with the principle of consumer protection, and investors within the Group ensuring prevention of conflict of interests
- Ensuring that the total remuneration pool does not undermine the Group´s capital base
- Evaluating the total remuneration pool by the Board Remuneration Committee to ensure that the implementation of the policy is commensurate with the Group´s risks, capital and liquidity
- Measuring the performance of Senior Executive Management on the basis of the bank's long-term performance, not on the sole basis of previous year performance
- Concerning all employees, disbursed as well as non-disbursed components are subject to claw back provisions if granted on the basis of data which has subsequently proven to be manifestly misstated or inaccurate
- The compensation policy is implemented through delegation (renewed annually) given to the Management by the General Assembly based on the recommendation of the Board of Directors and the Board's remuneration Committee. It strictly follows the objectives which are pursued throughout IBL Bank Group.
- The Board's Audit Committee is regularly kept aware about annual general increase of the salaries and about the Staff cost evolution.
- The Bank's Board is periodically informed about annual general increase of the salaries and staff cost evolution.

Board of Directors

The current members of the Board of Directors of IBL Bank sal were elected at the meeting of the Ordinary General Assembly held on August 3, 2017 and serve for a term expiring on the date of the Ordinary General Assembly that will examine the accounts and activity of the financial year 2019. The Board of Directors of IBL Bank sal comprises the following Directors:

Mr. Salim Y. Habib	Chairman, General Manager
His Excellency **Mr. Elie N. Ferzli**	Independent Member of the Board Chair of the Remuneration Committee Member of the Audit Committee
His Excellency **Dr. Mohammad Abdel Hamid Baydoun**	Independent Member of the Board Member of the Audit Committee Member of the Remuneration Committee Member of the AML/CFT Board Committee
Mr. Kamal A. Abi Ghosn	Member of the Board Deputy General Manager Member of the Risk Committee Member of the AML/CFT Board Committee
Prince Sager Sultan Al Sudairy	Independent Member of the Board
MM. Bicom SAL. Holding (Represented by **Mr. Mazen El Bizri**)	Non Executive Member of the Board Member of the Risk Committee
Me. Mounir Kh. Fathallah	Independent Member of the Board Chair of the Audit Committee
Mr. Tony N. El Choueiri	Independent Member of the Board Chair of the Risk Committee Member of the Audit Committee
His Excellency **Me Abdel Latif Y. El Zein**	Independent Member of the Board Member of the Remuneration Committee
Me Rizkallah J. Makhlouf	Executive Member of the Board
Dr. Elie A.Assaf	Independent Member of the Board Chair of the AML/CFT Board Committee
Me. Ziad Ch. Fakhoury	Secretary of the Board

Legal Advisors and Auditors

Cabinet Me. Rizkallah Makhlouf **Me. Rizkallah Makhlouf**	Legal Advisor - Lebanon
Fakhoury & Fakhoury Law Firm *(Chawki Fakhoury & Associates)* **Me. Ziad Fakhoury**	Legal Advisor - Lebanon
Etude Michel Tueni **Me Michel Tueni**	Legal Advisor - Lebanon
Cabinet Me Mamoun Mahmoud Al Khadi **Me Mamoun Al Khadi**	Legal Advisor - Iraq
Airut Law Offices **Me Charles Airut**	Legal Advisor - Iraq
Chrysses Demetriades & Co LLC *Advocates Legal consultants*	Legal Advisor - Cyprus
MM. Deloitte & Touche.	External Auditors - Lebanon
MM. DFK Fiduciaire du Moyen-Orient	External Auditors - Lebanon
Mr. Fayeq Al Obaidi *Management and Banking Consulting*	External Auditors - Iraq
MM. Deloitte Limited	External Auditors - Cyprus

General Management

Mr. Salim Habib	Chairman, General Manager
Mr. Kamal Abi Ghosn	Director - Deputy General Manager
Mr. Nakhlé Khoneisser	Assistant General Manager Head of Treasury and Capital Markets
Mr. Rodolphe Atallah	Assistant General Manager Head of Operations development
Mr. Samir Tawilé	Senior Manager Head of International Banking Division
Mrs. Dolly Merhy	Senior Manager Head of Accounting & Finance Bank' Secretariat
Mrs. Tania Tayah	Senior Manager Head of Risk Management
Mr. Gaby Mezher	Senior Manager Head of Internal Audit
Mr. Habib Lahoud	Senior Manager Head of Retail Banking Division
Mr. Karim Habib	Senior Manager Head of Strategy, Finance & Network
Mr. Ghassan El Rayess	Senior Manager Head of Corporate Banking
Mr. Khalil Salameh	Manager Head of Human Resources
Mr. Antoine Achkar	Manager Head of Recovery Department
Me. Joe Boustany	Manager Head of Compliance Department
Mr. Walid El Helou	Manager Operational Development
Mr. Naim Bassil	Alternate Manager
Mr. Abdel Kader Tawil	Alternate Manager
Mr. Ramzi Dib	Manager Arab Business Development Division
Mr. Elie Hlayel	Head of Information Technology
Mr. Esber Wehbé	Head of IT Audit
Mrs Lina Abou Jaoudé	Head of IT Security
Mr. Habib Bou Merhi	Head of Operations - Trade Finance
Mr. Charbel Eid	Senior Operations manager - Iraqi branches Head of Organization and methods - HO
Mrs. Ishtar Zulfa	Manager Head of Erbil branch Iraq
Mr. Michel Assaf	Manager Head of Baghdad branch Iraq
Mr. Ramzi Chehwan	Manager Head of Basra branch Iraq
Mrs Ghada Christofides	Manager Head of Limassol branch Cyprus

The current members of the Board of Directors of IBL Investment Bank sal were elected at the meeting of the Ordinary General Assembly held on July 4, 2017 and serve for a term expiring on the date of the Ordinary General Assembly that will examine the accounts and activity of the financial year 2019. The Board of Directors of IBL Investment Bank sal comprises the following Directors:

Board of Directors

Mr. Salim Y. Habib	Chairman, General Manager
Mr. Kamal A. Abi Ghosn	Member of the Board Member of the Risk Committee
IBL Bank sal Represented by Mr. Karim S. Habib	Member of the Board Member of the Audit Committee
Mr. Tony N. El Choueiri	Independent Member of the Board Chair of the Risk Committee Chair of the Remuneration Committee Member of the Audit Committee
Mr. Habib B. Abou Sakr	Independent Member of the Board Chair of the Audit Committee Member of the Remuneration Committee
Mr. Karim B. El Bacha	Independent Member of the Board Member of the Risk Committee Member of the Remuneration Committee
Me. Ziad Ch. Fakhoury	Secretary of the Board

Legal Advisors And Auditors

Cabinet Me. Rizkallah Makhlouf **Me. Rizkallah Makhlouf**	Legal Advisor - Lebanon
Cabinet Abou Sleiman & Partners **Me Randa Abou Sleiman**	Legal Advisor - Lebanon
MM. Deloitte & Touche	External Auditors
MM. DFK Fiduciaire du Moyen-Orient	External Auditors

General Management

Mr. Salim Habib	Chairman General Manager
Mr. Rodolphe Atallah	Assistant General Manager
Mr. Moussa El Kari	Manager Head of Private Banking

The Bank operates through a number of committees, set up with clear missions, authorities and responsibilities, as follows:

1- Board of Directors Committee

Audit Committee

The Audit Committee is a Board Committee composed of four members of the Board of Directors. It ensures the existence and the regular enhancement of an adequate system of internal controls. It reinforces the internal and the external audit and ensures the compliance with International Auditing Standards. It reviews all the audit activity reports and discusses the significant recommendations and management plans for their implementation. It revaluates and recommends improvements on the measurement system for assessing the various risks of the Bank. The Audit Committee reviews also the Bank's contingency plan and ensures the implementation of the operational risk management framework.

Risk Committee

The Risk Committee's objective is to assist IBL Board of Directors in implementing the BOD mission such as planning the risk profile, setting the risk appetite and tolerance, approving and reviewing the risk framework and policies, reviewing the risk reports and overseeing the development of the risk function within the Group. The Committee is composed of one executive member of the Board of Directors and two non-executive members. The Head of Risk Management will act as coordinator and assist the Committee in planning and organizing its work. The Committee recommends to the Board the parameters of the Bank's risk management framework in line with the Committee's objective set above.

Remuneration Committee

The main role and function of the Remuneration Committee is to assist the Board of Directors in developing a fair and transparent procedure for setting policy on the overall human resources strategy of the Bank and the remuneration of Directors and senior management, and for determining their remuneration packages on the basis of their merit, qualifications and competence. The Committee includes three independent non-executive directors and will meet at the demand of its Chairman. It will be considered validly convened if attended by the three members.

AML/CFT Board Committee

In line with BDL Basic Decision No 7818 of May 18, 2001 amended by the Intermediate Decision No 12255 of May 4, 2016, the Board of Directors, in its meeting of June 7, 2017, has established an AML/CFT Board Committee composed of three of its members. The role of the AML/CFT Board Committee is to support the Board of Directors in its functions and supervisory role with respect to fighting money laundering and terrorist financing and to assist it with making the appropriate decisions in this regard, also to review the reports submitted by the Compliance Unit and the Internal Audit on adopted procedures, unusual operations and high-risk accounts, and to take the relevant decisions.

2- Management Committees

Management Committee

The Management Committee acts as an advisory body to the Chairman General Manager on all issues relating to the Bank's general policies. The Management Committee meets a least once a month. It ensures the day-to-day management of the Bank according to prevailing laws, rules, regulations, best practices as well as the effective management of operational risks arising from inadequate or failed internal processes, people and systems or from external events. It proposes to the Board of Directors the Bank's medium and long-term goals and strategies, and the business plan for achieving these goals, and recommends the improvement of the Bank's organization structure in case of need.

Asset-Liability Committee (ALCO)

The ALCO is responsible for setting up and supervising the implementation of an asset-liability management policy, which the Treasury is responsible for executing. ALCO's primary objective is to oversee the management of the balance sheet structure and liquidity, monitor the market risk levels, analyze the Bank's financial ratios and the reports on the sources and utilizations of funds, and maximize income from interest spread and trading activity within the approved risk and gap parameters. The ALCO is also responsible for assessing market conditions according to economic and political developments.

Senior Credit Committee

The Senior Credit Committee sets up the framework for credit risks, economic sectors distributions, classification and provisioning policies, subject to the Board of Directors approval. It is in charge of studying credit applications that exceed the limits of the Junior Credit Committee, loans to financial institutions, recovery processes and credit products proposals. In addition, this committee has for responsibilities to review and take decisions on cases handed over by the commercial banking department (SME, Corporate, Retail) or the recovery department, and follow up on cases handed over to the Legal Department, recommend actions on cases, approve settlements, and propose adequate provisions.

Junior Credit Committee

The Junior Credit Committee evaluates and approves all corporate and commercial loans and facilities with a tenor not exceeding one year provided that they comply with the credit strategy approved by the Board of Directors and provided that the aggregate total cumulative secured and clean facilities granted to one client or group of interrelated names through commercial association and/or through common ownership/ management control do not exceed USD 400,000.

AML/CFT Special Committee

The mission of the AML/CFT Special Committee is to ensure the application of all procedures, laws, BDL and SIC's circulars in order to aim, prevent and fight Money Laundering and Terrorist Financing, to review periodically the above-mentioned procedures and regulations, and to develop them in line with the latest employed methods.

IT Security Committee

The IT Security Committee is responsible for the human security within the Bank's premises. It works together with the Internal Audit department to make sure all IT security rules are well applied. It implements and monitors security plans and applies the used norms to ensure the correct distribution of tasks among employees. It monitors also the IT security systems and rules as well as the emergency plans. It deals with any security breach and takes appropriate measures to avoid facing it another time.

IT Committee

The mission of the IT Committee is to set the IT strategy. It should establish and apply a structured approach regarding the long-range planning process, which should take into account risk assessment results, including business, environmental technology and human resources risks.

Procurement Committee

The role of the Procurement Committee is to validate purchasing procedures; Tenders, rules and conditions of settlement, study annual budgets of material resources as fixed assets and general expenses and make recommendations to the Management Committee.

Follow-up Committee for Subsidiaries Abroad

The Follow-up Committee for Subsidiaries Abroad undertakes all tasks mentioned in Central Bank basic circular No. 110 dated August 16, 2007 in order to examine closely the abroad activities of the group, including but not limited to management, strategy, performance, results and risks levels.

Organization and Methods Committee

The role of the Organization and Methods Committee is to review the process modeling and to settle on the right solutions. It suggests the policies and procedures to be applied, optimizes the organization of the Bank, and simplifies the procedures with respect to delegations and formal controls, and reviews the structures with the new technologies and products introduced by the Bank.

Change Management Committee

The Change Management Committee has been formed to review, advice and document the proposed changes required by the IT Security Committee on IBL IT infrastructure including hardware, software and banking applications, and to report its decisions and activities to the General Management.

Business Continuity Committee

The mission of the Business Continuity Committee is to determine the Business Continuity strategy, to maintain the ongoing support and viability for the Business Continuity Plan (BCP) program, to support the change management occurring as a result of the BCP implementation and to make global decisions that affect BCP at the Bank's level. The Committee is chaired by the Deputy General Manager.

Executive Committee for Iraq Activities

The mission of the Executive Committee is to ensure the management of the activity in Iraq according to prevailing laws, rules, regulations and best practices, as well as the management of operational risks arising from inadequate or failed internal processes, people and system or from external events. The Committee is responsible for assessing market conditions according to economic and political developments. Members of the Executive Committee are entrusted by the Chairman and report directly to Him with the duty of conducting the business in general.

Follow-Up Unit on Principles of Banking Operations

The Unit is linked directly to the Chairman, General Manager and is independent from any executive responsibility. Its mission is to contribute in developing the policy and procedures to be applied in the Group, to follow-up the application of the policy and procedures by the different entities at the Bank, to contribute in elaborating a Product Key Facts statement in order to be provided to clients, to receive and study the returns from customers in order to satisfy their needs, propose training programs to the staff.

The Bank has been actively building up its domestic franchise in the last few years, as reflected by the significant rise in total assets and deposits.

The Bank's principal activities are divided into three major areas: Retail Banking; Commercial Banking and Trade finance; Treasury and Capital Market Operations.

Retail Banking

The Bank's management believes that retail banking is an efficient way to diversify earnings and risk, as well as a mean to consolidate its relationship with all its customers, and consequently emphasizes and focuses on this business line. The retail department has been consistently empowered with Human Capital and has been introducing new products ranging from bancassurance to retail loans to deposits programs, which are regarded as less risky and high yielding.

In keeping with this strategy, our number of ATMs across the country has reached 36 and 6 abroad. Our branch network is composed of 20 local branches, a branch in Limassol, Cyprus, 3 branches in Iraq: one in Erbil, one in Baghdad and one in Basra.

Commercial Banking and Trade Finance

The Bank provides its clients with a full range of commercial banking services and products, in addition to trade finance services through its network of international correspondent banks. The Bank's loans are mainly granted in Foreign Currency, and are denominated predominantly in US Dollars, having either a maturity of up to one year with the possibility of renewal, or term loans with generally an interest re-pricing period of 1 year.

Treasury and Capital Markets Operations

The Bank's Treasury operations consist of managing and placing the Bank's liquidity. The Treasury department invests those funds with prime international banks as well as with the Central Bank of Lebanon and other Lebanese banks. The Bank, in the course of its activity on the interbank market, defines individual limits per bank, and deals only with prime banks. The Bank provides its customers with securities brokerage and trading activities.

Management of risk is fundamental to the financial soundness and integrity of the Bank. All risks taken must be identified, measured, monitored and managed within a comprehensive risk management framework.

The following key principles support our approach to risk and capital management:

- The Board of Directors has the overall responsibility of determining the type of business and the level of risk appetite that the Bank is willing to undertake in achieving its objectives.

- Up-to-date policies, procedures, processes and systems to allow the execution of effective risk management.

- The relevant committees' structure enhances the approval and review of actions taken to manage risk.

The Risk Management Division proposes and reviews the overall risk policy of the Bank in anticipation of, and in compliance with, regulatory and international standards. It is responsible of monitoring and controlling all types of risk on a regular basis while the business units are responsible for the continuous management of their risk exposures in order to ensure that the risks are within the specified and acceptable limits.

The Risk Management Division is independent of other business units in the Bank which are involved in risk taking activities. It reports directly to the Chairman General Manager and the Board Risk Committee. As such, it contributes to the growth and profitability of the Bank by ensuring that the risk management framework in place is both sound and effective and complies with the Board's directives.

Acting within an authority delegated by the Board, the Board Risk Committee oversees the risk management framework and assesses its effectiveness. The Board Risk Committee reviews stress testing scenarios and results, liquidity and capital adequacy. It also approves the annual ICAAP report as well as all significant changes to Risk Management policies and Framework.

The Bank's risk management processes distinguish among four kinds of specific risks: credit risk, market risk, liquidity risk and operational risk.

A. Credit Risk Management

Credit Risk is the risk that arises from the inability of the borrowers or counterparties to meet their contractual commitments. We note three kinds of credit risk: Default Risk, Country Risk and Settlement Risk.

Various factors may affect the ability of borrowers to repay loans in full and many circumstances may have an impact on the Bank's ability to resolve non-performing loans. As a result, actual losses incurred in a problem loan recovery process may also affect the Bank's capital adequacy.

The Board of Directors, the Board Risk Committee and the Senior Credit Committee define the credit risk strategy of the Bank and approve both policy changes as well as other enhancements to the credit risk management framework.

The objective of the Bank's credit risk strategy is to quantify and manage credit risk on an aggregate portfolio basis, as well as to limit the risk of loss resulting from an individual customer default. This strategy is based on three core principles: conservatism, diversification and monitoring.

The Bank has set up clear processes for credit approval that include credit policies and procedures with clear credit concentration limits, approval limits depending on the size of business and/or the size of the credit line as well as credit risk mitigation techniques. Commercial and Corporate lending are largely centralized at Head Office and sanctioned by a Senior and a Junior credit committee depending on the exposure.

The Bank exercises, through the Credit Administration Department, an ongoing review and control of extended credit facilities and their respective guarantees. Regular monitoring and surveillance of the accounts are performed by the account officers.

IBL acquired recently a new application to automate all credit and lending processes in the bank. It also covers the entire cycle of credit analysis for corporate clients or individuals to simplify the analysis process of lending and mitigate/reduce pre-lending risks.

The system covers all documents needed for credit approval such as facilities requests, securities, credit documents, credit packages, financials, account statements, schedules of payments, and many more. It is designed for ease of use and flexibility to give bank employees and management easy access to all current as well as historical customer information used during the decision making process.

It also has a module for internal rating which generates an internal rating per obligor (ORR), calculates PD & LGD.

To sum up the system will allow us to determine at any time the commercial facilities given by the bank, their linked securities and the schedules of payment per facility as well the internal rating per obligor which are the major parts to meet IFRS 9 requirements.

B. Market Risk Management

Market Risk is the risk of loss resulting from changes in market prices and interest rates, from the correlations between these elements and from their volatility.

The Bank manages market risk through its Market Risk Management framework that specifies the global activity and individual limits, together with, but not limited to, stress testing and scenario analysis.

The Asset/Liability Committee (ALCO) manages interest rate risk, which results from mismatches or gaps in the amounts of its assets and liabilities that mature or re-price within a given period, by matching the re-pricing of assets and liabilities.

C. Liquidity Risk Management

Liquidity Risk is the risk to the Bank's earnings or capital arising from its inability to meet its financial obligations as they fall due, without incurring significant costs or losses. Liquidity is managed to address known as well as unanticipated cash funding needs.
The Bank maintains sufficient liquidity to fund its day-to-day operations, meet deposits withdrawals and loan disbursement, participations in new investments and repayment of borrowings.

Liquidity Management within the Bank focuses on both overall balance sheet structure and the control within prudent limits of risk arising from the mismatch of maturities across the balance sheet and from contingent obligations.

D. Operational Risk Management

Operational risk exists in the natural course of business activities and represents things that go wrong and which have, ultimately, a financial cost or a negative impact on the Bank's reputation and its ability to continue its operations.

IBL Bank has adopted Basel definition of operational risk which is also stipulated in BCC and BDL regulations. This definition is articulated in the below statement:

"Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events." This definition includes legal risk but excludes strategic and reputational risk.

The Bank addresses operational risk by implementing a comprehensive framework that includes different tools and methodologies used to assist in implementing the operational risk management cycle throughout IBL Bank. These tools are employed in close collaboration with all business units in the Bank and are covered by stand-alone procedures and user guides to facilitate their usage.

The below includes an overview of the major methodologies applied.

1- Loss Data Collection: The collection of loss data provides Management with a clear view on the operational risk exposure at all business lines within the Bank. Furthermore, by collecting loss data and analyzing the root causes of events, the Operational Risk Management, in collaboration with business owners and other control functions, will be able to propose and implement remedial measure to minimize the probability of events re-occurrence.

The Bank has implemented a specialized operational risk management system that supports loss data reporting by providing all Departments/Branches with a user-friendly tool to report loss events. These reported events are mapped to Basel Event Types and Business Lines categorization.

2- Risk and Control Self-Assessment (RCSA) is a methodology used to: i) Review key business objectives; ii) Identify risks involved in achieving objectives; and iii) Assess internal controls designed to manage those risks. Business owners within the Bank will be invited to review their activities and to contribute their judgment of the risks they face.

3- Key Risk Indicators (KRIs) are metrics used to monitor risk exposures at a particular instance or over a period, assisting in the monitoring and mitigation of operational risk and serving as early warning indicators for potential risk exposures.

4- Scenario Analysis (SA) is the process of developing hypothetical loss scenarios considered to be "Low-Frequency" and "High-Severity" risks. These scenarios are set by the Operational Risk Management in collaboration with business owners. Once the scenarios for each function are agreed, they are assessed and rated according to their probability of occurrence and severity to calculate the required amount of Economic Capital needed for each scenario.

5- New Products, Systems & Processes:
Identification and assessment of risks inherent to new products, systems and processes as well as to projects that have a material impact on the Bank's operational risk profile.

6 - Operational Risk Awareness Program: The development of trainings, workshops and information sessions to build up an operational risk culture within the Bank and to inform Staff about specific operational risk management tools and processes.

E. Stress Testing and ICAAP

The main drivers behind monitoring and controlling risks are the Risk Appetite and the Limits that are part of the ICAAP and are reviewed by the BRC and approved by the Board. They comprise limits to various types of risks to which the Bank is exposed.
The risk appetite indicates the maximum risk that the Bank considers acceptable to implement its business strategy in order to protect itself against events that could have an adverse effect on profitability and capital.

Stress tests are also part of the capital planning process. They contribute to the setting and monitoring of "risk appetite" and ensure adherence to regulatory requirements.

Stress tests are used to check whether the Bank can withstand specific negative events or economic changes. They examine the effect of possible unfavourable events on the capital and liquidity position of the Bank and provide insight on the vulnerability of the business lines and the portfolios.

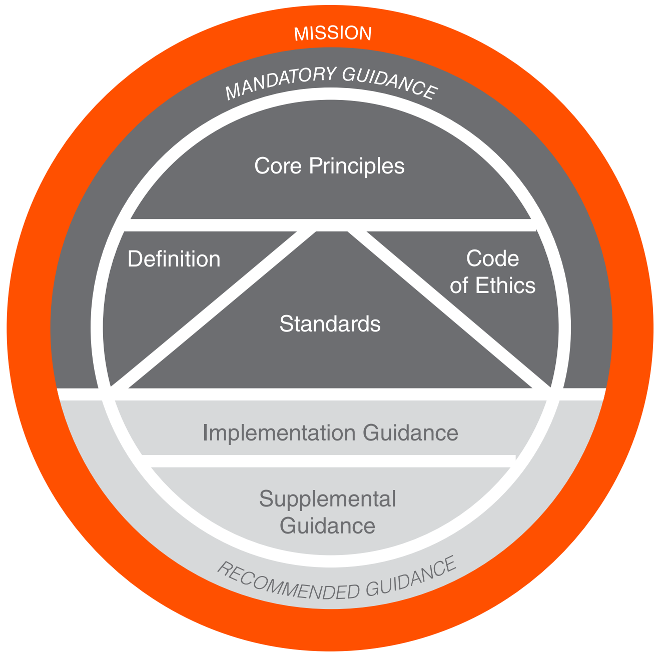
Stress testing may reveal a reduction in surplus capital or a shortfall in capital under specific scenarios. This may then serve as a leading indicator to the Bank's Board to raise additional capital, reduce capital outflows, adjust the capital structure and/or reduce its risk appetite.

CAPITAL ADEQUACY RISK MANAGEMENT

Capital Adequacy Risk is the risk that the Bank may not have enough capital and reserves to conduct normal business or to absorb unexpected losses arising from market, credit and operational risk factors.

The Bank's policy aims to ensure that it maintains an adequate level of capital to support growth strategies and to meet market expectations and regulatory requirements. As at December 31, 2016 IBL maintains a total capital ratio of 19.11% measured according to Basel III and Central Bank requirements .

THE NEW INTERNATIONAL PROFESSIONAL PRACTICE FRAMEWORK



INTERNAL AUDIT FUNCTION

Internal Auditing is an independent objective assurance and consulting activity designed to add value and improve IBL's operations.

It helps IBL accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance process.

INTERNAL AUDIT CHARACTERISTICS

- Confidential and enterprise-wide authority for its activities, aligned with the strategies, objectives, and risks of the bank.

- Demonstrating integrity, competence, and professional care.

- Objective & independent performance of its responsibilities.

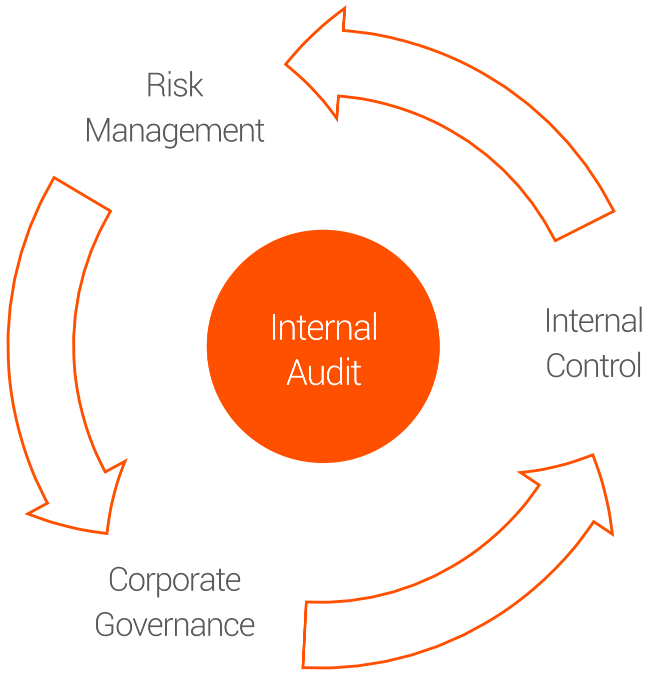
- Competent, insightful, proactive, and future-focused.

ROLE OF INTERNAL AUDIT

The role of the internal audit is to provide independent assurance that IBL's risk management, governance and internal control processes are operating effectively.

It includes the review of the internal controls and the accounting system, monitoring operations, checking compliance with the entity's policies and procedures, and recommending improvements.

The Internal Audit role has extended beyond financial controls, playing a more prominent and proactive role in non-financial reporting, risk management, & corporate governance.



INTERNAL AUDIT RESPONSIBILITIES

• Evaluates and provides reasonable assurance that risk management, control, and governance systems are functioning as intended and will enable the Bank's objectives and goals to be met.

• Reports risk management issues and internal controls deficiencies identified directly to the audit committee and provides recommendations for improving the Bank's operations, in terms of both efficient and effective performance

• Evaluates information security and associated risk exposures

• Promotes improvement, and maintains open communication with the management and the audit committee

• Follows up with management on actions taken in response to audit findings and recommendations.

INTERNAL AUDIT AND AUDIT COMMITTEE

The audit committee of the Board of Directors and the internal audit are interdependent and mutually accessible, with the internal auditors providing objective opinions, information, and support to the audit committee; and the audit committee providing validation and oversight to the internal auditors.

The internal audits provide to the audit committee objective assessment on the state of IBL's risk, control, governance, and monitoring activities.

RISK BASED INTERNAL AUDITING

It is a methodology that links internal auditing to the bank's overall risk management framework. This allows the internal audit activity to provide assurance to the board that risk management processes are managing risks effectively, in relation to the risk appetite.

The Compliance Department's ultimate goal is to ensure the application of the regulations drawn by the legislators, regulators and its board of directors; it plays an essential role in helping to preserve the integrity and reputation of the Bank.

• AML & CFT have always been a key consideration to IBL Bank. Within the Compliance Department, the AML unit bears the responsibility for ensuring that the bank's clients act within the law and don't use the bank for illegal activities, such as money laundering or funding terrorism.

AML Unit team ensures this commitment by using international automated systems regarding all types of banking transactions, filtering and screening tools.

• Since Legal/Regulatory compliance is of the utmost importance in maintaining the bank's integrity and reputation, and thus, sustain the healthy growth of business, the Legal/Regulatory Compliance Unit was established in order to ensure that IBL's activity adhere, strictly, with local and international laws and regulations.

Accordingly, the Legal/Regulatory Unit aims to monitor, control the application of laws and regulations and hence, to implement good business legal standards relevant to IBL's business and prevent legal and reputational risks that could arise as a result of failing to comply with the provisions of laws and regulations.

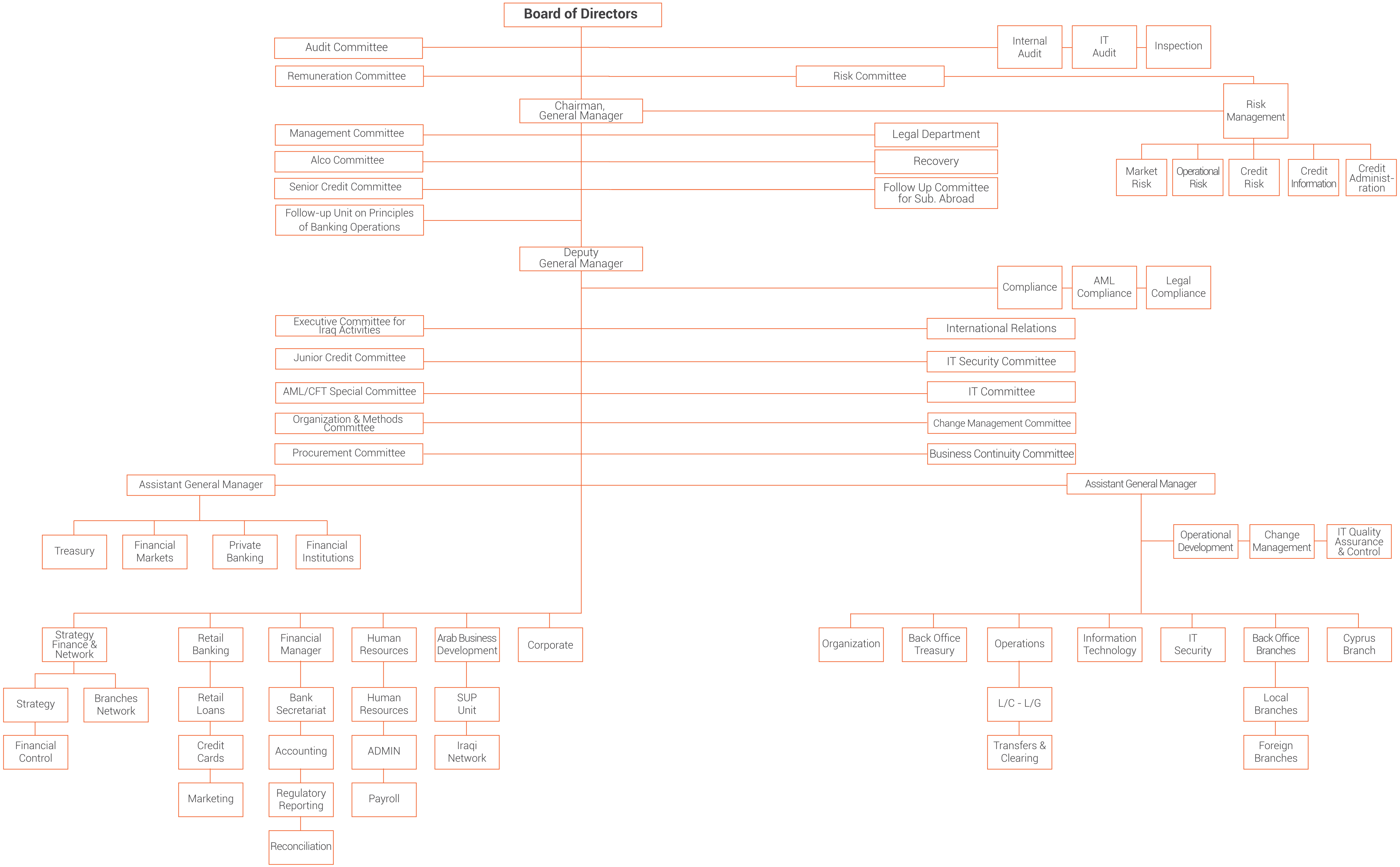
Since, the world became increasingly globalised and cross-border activities became the norm, number of substantial changes has been made by financial regulators, international bodies, governments and banks to ensure the protection and long-term safety of both the financial system and our customers' interests:

- IBL Bank is proud of its commitment to being fully FATCA-compliant in all countries where we operate.

- IBL Bank is fully CRS compliant: The Bank has implemented the Common Reporting Standard rules in its own system and started the application of its regulations by July 1, 2017.

"A Compliance department can be an expensive unit to operate, but non-compliance can be more costly."

Organizational Chart



The Bank's strategy of continuous growth not only quantitatively but also qualitatively is reflected in the following milestones:

Corporate Social Responsibility

At IBL Bank, we are driven by the belief that as being a Leading Bank, we have to be a responsible citizen. As such, the Bank has launched many CSR initiatives during the year:

Environment

IBL Bank's commitment to sustainable growth and the protection of the environment is highlighted by the Bank being the leader in financing Energy efficient projects and in the Bank's continuous support and actions to help energy efficient programs and actions.

Supporting Sports Events

Our belief that sports circulates important values in our community and strengthen its links while personalizing our motto, IBL Bank supported many events, mainly: the Champville Basket-Ball team and Tripoli Marathon

Supporting Education

Our belief that Education is the base of healthy society, IBL Bank supported many events, mainly: ALBA open door, USJ 140 years celebration, College Notre Dame de Jamhour annual dinner, and Balamand annual dinner.

Supporting NGOs

As an active member of our society, IBL Bank supported many Non-Governmental Organizations, mainly: Heartbeat, Lebanese Red Cross, Dar el Aytam el Islamiya, and Neonate fund.

Supporting Culture

Our commitment in favor of cultural, artistic and touristic events is a continuing tradition which stems from our aspiration to offer our support to affirm the cultural vocation of Lebanon. IBL Bank continued to be the main sponsor of Byblos International Festival, who is seen as the most renowned and respected Cultural Festival not only in Lebanon but also in the Middle-East. In addition, during 2016, we supported many cultural events as Batroun Festival, Ehmej Festival, Night of the Adeaters to name a few.

Accelerate 2016

IBL Bank took part in the BDL Accelerate event held in the Forum de Beyrouth. Banque du Liban Accelerate 2016 brought together over 50 startup industry veterans from around the world to put together Blueprints for Success for 1,000 international entrepreneurs, investors, and professionals. By supporting young talents and innovators, IBL Bank lives up to its motto of IBL Bank: "Where your dreams count!"

Brand Awareness

We continued during 2016 our strategy of boosting the Bank's positioning and brand awareness as we are sure you have watched on all medias in Lebanon. The results of these campaigns over the last years pushed our Brand to be ranked the 4th strongest Brand and 2nd strongest Bank Brand in Lebanon according to Communicate Magazine - Levant Edition.

Best Commercial Bank

The World Union of Arab Bankers in their Annual Arab Banks Awards and Commendations of Excellence Ceremony granted IBL Bank the award of Best Commercial Bank 2017 in Lebanon

Preferred Shares Series 3

During 2016, the Bank issued its USD 75 million Series 3 Preferred Shares after the redemption of the Series 2 Preferred Shares. The Preferred Shares will come to strengthen our Tier 1 Equity and support our growth. The issuance was many times over-subscribed showing the trust in IBL Bank.

Finally, during this year, we have continued to invest in Human Capital, as we are convinced that it is the most important form of Capital. Indeed, 2016 was rich in investments in training and the recruitment of new talents as we make sure to manage our Human Resources in the most effective and efficient manner. Consequently, given our emphasis on staff professional development, over 75 managers and staff, assisted to 184 different external seminars throughout the year in Lebanon and abroad, not counting the continuous internal effort of training and skills enhancement of our staff as specialized trainings on sales techniques and IFRS9 to name a few.

Byblos International Festival

For the 8th consecutive year, IBL Bank is proud to be the official sponsor of the Byblos International Festival 2017. This partnership comes in a natural strive to support art, talents, and the Lebanese cultural heritage along with its rich nightlife that we, Lebanese people, strive to maintain despite all challenges.

Every evening of the festival, IBL Bank welcomed its guests in its classy lounge overlooking the magnificent bay of Jbeil, with drinks and bites offered in the most delectable ambience, as well as a picture taken by the "SharingBox" machine distributed as a souvenir of the evening.

Tripoli Marathon 2017

More than 25,000 Lebanese nationals and 550 competitors from all over the world took part in the Tripoli Half Marathon held on Sunday May 14, 2017 in collaboration with IBL Bank whose colorful stand welcomed runners with refreshments and delicious bites on the house!

Mr. Salim Habib
Man of the year 2017

On Tuesday, May 16, businessmen and representatives of major Lebanese companies gathered around a lavish gala dinner held at the Phoenicia Hotel, under the patronage of the Rector of the USJ, Pr Salim Daccache.
Professor Daccache honored Mr. Salim Habib, CEO of IBL Bank, who excels in his career and shines thanks to his spirit of solidarity and continuous collaboration.
Mr. Salim Habib was thanked for his continuous support, welcoming USJ students for various internships and job opportunities within IBL Bank.

Bike for all, Jbeil

IBL BANK goes green again by being the only official sponsor of BIKE FOR ALL, the new healthy environmentally friendly bicycle project in Jbeil that was launched in spring 2017. By supporting this innovative project, IBL Bank reiterates its support to green initiatives while showcasing its ongoing care for its community.

The USJ Job Fair

On May 25th and 26th, USJ students had the opportunity to meet us and enquire about job opportunities at our well-designed modern stand greeting young talents and inviting them to join IBL Bank's family.

IBL Bank awarded
"Best Commercial Bank 2017"

IBL Bank has received the "Best Commercial Bank" award by the World Union of Arab Bankers (WUAB) at the 2017 Arab Banks Awards and Commendations of Excellence annual ceremony.

The ceremony, organized by The Banking Executive Magazine, was held at the Biel pavilion royal on the 12th of May in the presence of a score of leading bankers from international and regional institutions.

Alba open doors

IBL Bank welcomed students attending the Alba open doors event with a cute creative stand explaining about its Educational Loan as well as all other interesting accounts and innovative products.

Champville Kermesse

Kids were eager to open the cubes and see if they won one of the 250 amazing instant gifts distributed at the yearly Champville School Kermesse by IBL BANK! The whole weekend of May 27 and 28 was full of fun memorable moments and amazing surprises! No need to remind kids and their parents that with IBL Bank, you're always a winner!

LDA Dental Exhibition

IBL BANK's partnership with the Lebanese Dental Association was highlighted this year again at their Habtoor event on April 1st, as the bank set up its special booth promoting its LDA card specifically designed for Lebanese dentists, offering them a wide array of advantages and amazing benefits, free of charge.

Then again from May 11 to 13, 2017 at the Dentists Fair of the Lebanese University, Hadat, with a high tech creative stand offering specially branded laptop cases to our dear dentists.

ESIB, Mar Roukos

On the 4th of April and for 4 consecutive days, IBL Bank welcomed students with a photo booth inviting them to take a picture with the special selfie sharing box who would be shared on our facebook page to generate as many likes as possible. The picture with the highest number of likers won the amazing prize of 2000$ cash!

Mother's Day celebration

This year, IBL Bank reiterates its support to the Saints Coeur Sioufi School with a special stand welcoming every mom attending the Mother's Day Brunch held at Habtoor on the 21st of March 2017. IBL Bank's huge pink heart mascot was the star of the event, offering a rose to every mother, with the opportunity to get a special photo showcasing all our love. The Queens of our heart took home a printed picture in souvenir of the memorable day.

Farah Account TVC production

The month of March 2017 witnessed the active airing of the newest tactical TVC for the Farah Platinum Account that comes within the 360 degrees advertising plan of this amazing product after the innovative media tackling young couples about to get married last summer: the Road shows broadcasted live on Radio stations. The now famous "el bouquet" tag line has given outstanding results as the opening of FARAH ACCOUNTS has risen by 55% after the airing of the campaign.

Beirut Energy Forum

For the 6th consecutive year, IBL Bank participated in the Beirut Energy Forum, held at Le Royal Hotel for three consecutive days starting the 21st of September 2016, promoting its Green Loans in an eco-friendly white stand with a creative green touch.

Our mission at IBL Bank is to make a positive change in our local community by contributing in preserving the dream of a green Lebanon.

Accelerate: Forum de Beirut

Once again, IBL BANK was part of the BDL Accelerate event held at the Forum de Beyrouth on November 3, 2016.

Banque du Liban Accelerate 2016 brought together over 50 startup industry veterans from around the world to put together Blueprints for Success for 1,000 international entrepreneurs, investors, and professionals.

Seasoned entrepreneurs, investors, and experts gathered on the eastern shores of the Mediterranean to share experiences, insights, techniques, methods, and know-how, dishing out how-tos for newcomers, dos-and-donts for the up and coming, and inspiration for the rest.

Night of the Adeaters

On the 25^{th} and the 26^{th} of November 2016, and for the 8^{th} consecutive year as the official sponsor of this special Night, IBL Bank set up a booth offering all Adeaters the opportunity to take a photo through its high-tech “Sharing Box”. This year was special as it marked the 15th anniversary of the Night of the Adeaters, and everyone could become a star of the evening at our special booth. Within good, jovial atmosphere, each Adeater held the stardom frame in front of the camera and posed for a fun, humorous photo!

The picture was printed right on the spot and in just a minute, offered away as a fridge magnet to hang and keep as a souvenir of the evening.

Let the good times roll and see you next year!

MANAGEMENT ANALYSIS

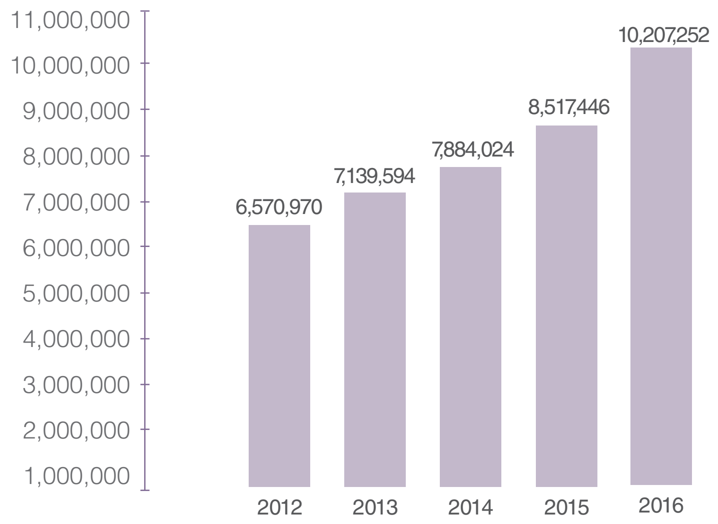
Key Figures

	As at 31 December (In Millions of LBP)			As at 31 December (In Millions of LBP)					
	2016	% GROWTH 2015/2016	2015	% GROWTH 2014/2015	2014	% GROWTH 2013/2014	2013	% GROWTH 2012/2013	2012
Total Assets	10,207,252	19.84	8,517,446	8.03	7,884,024	10.43	7,139,594	8.65	6,570,970
Customers' and Related Parties accounts	8,403,987	10.53	7,603,097	6.35	7,149,142	10.28	6,482,583	8.13	5,995,254
Shareholders' Equity	764,719	19.73	638,680	12.77	566,368	12.19	504,848	12.12	450,286
Loans & Advances to Customers & Related Parties	1,539,298	-6.28	1,642,402	5.31	1,559,565	15.06	1,355,488	3.86	1,305,121
Income for the Year	121,136	18.08	102,586	14.50	89,593	10.72	80,917	14.28	70,807
Liquidity Ratio in LBP	121.83%		103.31%		102.36%		101.69%		102.50%
Liquidity Ratio in FCY	79.76%		73.24%		72.53%		73.57%		69.87%
Liquidity Ratio in LL & FCY	99.37%		87.14%		85.43%		85.63%		84.59%
Return on Average Assets	1.29%		1.25%		1.19%		1.18%		1.15%
Return on Average Equity	17.50%		17.00%		16.70%		16.94%		16.70%

NB: Comparative figures have been reclassified to comply with the presentation in the current financial statements

Total Assets
(In Millions of LBP)

Total Assets (In millions of LBP)				
2012	2013	2014	2015	2016
6,570,970	7,139,594	7,884,024	8,517,446	10,207,252



NB: Comparative figures have been reclassified to comply with the presentation in the current financial statements

Total assets of the Bank recorded an increase of 19.84% during the year 2016 to reach LBP 10,207,252 million at the end of December 2016, compared to an increase of 8.03% during the year 2015 while the average growth in total assets of the Lebanese Banking sector stood at 9.85% during the year 2016.

This increase in total assets, particularly in liquid assets, was substantially matched by increases in funding which consisted primarily of customer deposits.

At the end of 2016, IBL Bank's presence abroad consisted of one branch in Cyprus (Limassol) and three branches in Iraq (Erbil, Baghdad and Basra).

The contribution of entities abroad to the Bank's consolidated total assets slightly decreased during the year 2016. It constituted 1.46% as at 31 December 2016 compared to 1.56% as at 31 December 2015.

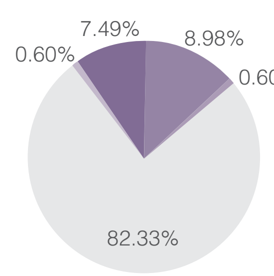
The participation of IBL Investment Bank in total consolidated assets stood at 5.78% as at 31 December 2016.

Assets denominated in foreign currencies decreased during the year 2016, they constituted 47.79% of total assets as at 31 December 2016 compared to 51.19% as at 31 December 2015.

Sources of Funds
(In Millions of LBP)

Sources of Funds (Amounts in Millions of LBP)	End of year 2016		End of year 2015	
	Amount	%	Amount	%
Deposits from banks and financial institutions	61,214	0.60%	66,864	0.79%
Customers and related parties' accounts	8,403,987	82.33%	7,603,097	89.26%
Shareholders' equity	764,719	7.49%	638,680	7.50%
Other liabilities	916,778	8.98%	148,245	1.74%
Subordinated Bonds	60,554	0.60%	60,560	0.71%
	10,207,252	**100.00%**	**8,517,446**	**100.00%**

END 2016



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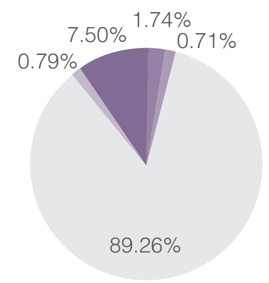


NB: Comparative figures have been reclassified to comply with the presentation in the current financial statements

Similar to all other banks in Lebanon, IBL Bank's main source of funding is customers and related parties' accounts which represented 82.33% of total sources of funds as at 31 December 2016 as compared to 89.26% as at 31 December 2015.

Other funding sources include also shareholders' equity which constituted 7.49% of total sources of funds as at 31 December 2016 and 7.50% as at 31 December 2015.

The share of banks and financial institutions accounted for 0.60% of total sources of funds as at 31 December 2016 and other liabilities comprised 8.98%.

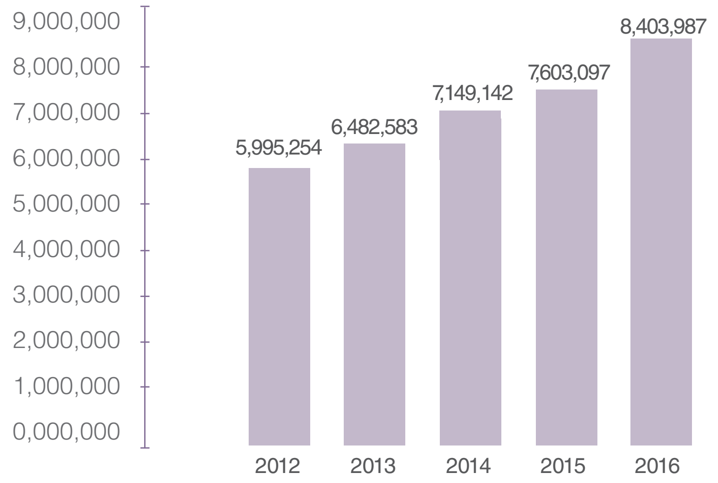
The subordinated bonds that IBL Bank has issued during 2015 constituted 0.60% of total sources of funds as at 31 December 2016

Interest-bearing liabilities as a share of total liabilities represented 83.53% as at 31 December 2016 as compared to 90.76% as at 31 December 2015.

In absolute terms, interest bearing liabilities stood at LBP 8,525,755 million as at 31 December 2016 as compared to LBP 7,730,521 million as at December 2015, registering a growth of 10.29% over the year.

Customers and Related Parties' Accounts
(In Millions of LBP)

Customer's and Related Parties' Accounts (In millions of LBP)				
2012	2013	2014	2015	2016
5,995,254	6,482,583	7,149,142	7,603,097	8,403,987



NB: Comparative figures have been reclassified to comply with the presentation in the current financial statements

Customer's and Related Parties accounts represent the major source of funds with a share of 82.33% as at 31 December 2016 compared to a share of 89.26% as at 31 December 2015. They recorded a continuous growth over the years reaching LBP 8,403,987 million as at 31 December 2016 with an increase of 10.53%

Total customers' and Related Parties accounts went up by LBP 800,890 million given the expansion of deposits denominated in foreign currencies by LBP 388,173 million and in domestic currency by LBP 412,717 million.

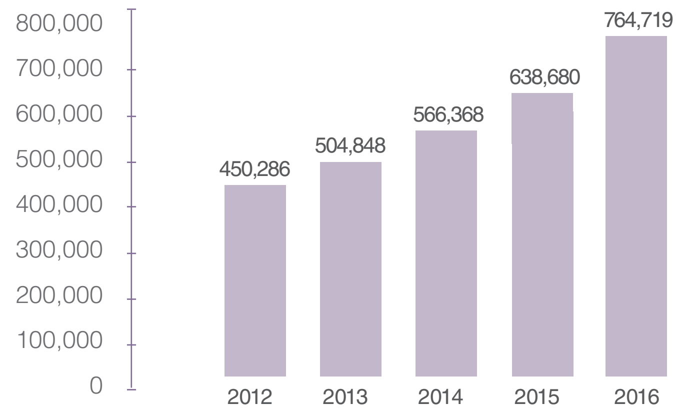
The deposit dollarization rate, measured as deposits denominated in foreign currencies to total deposits, slightly decreased from 53.71% as at December 2015 to 53.21% as at December 2016.

The composition of customers and related parties' accounts remained also unchanged. They were comprised mainly of term deposits which consisted of 83.63% of total customers and related parties accounts as at 31 December 2016 compared to 81.12% as at 31 December 2015.

As at 31 December 2016, the major part of the consolidated customers and related parties accounts were sourced by Lebanese entities.

Shareholders' Equity
(In Millions of LBP)

Shareholders' Equity (In millions of LBP)				
2012	2013	2014	2015	2016
450,286	504,848	566,368	638,680	764,719



NB: Comparative figures have been reclassified to comply with the presentation in the current financial statements

IBL Bank's Shareholders' Equity, as at 31 December 2016, stood at LBP 764,719 million compared to LBP 638,680 million as at 31 December 2015, reflecting an increase of 19.73%. Its contribution to total sources of funds remained almost stable at 7.49% as at 31 December 2016 compared to 7.50% as at 31 December 2015.

The increase in Shareholders' Equity was mainly attributed to retained profits of the year 2016 after dividend distribution, and the issuance of series 3 preferred shares for an amount of US$ 75,000,000 to replace the series 2 preferred shares that amounted to US$ 50,000,000 and redeemed during 2016.

Tier I capital which is the main source of equity comprises common shares capital, non-cumulative perpetual preferred shares, share premium, reserves from appropriation of profits, retained earnings (exclusive of expected dividends distribution) and non-controlling interests after deductions for intangible assets. Tier I capital increased by 19.86% to LBP 713,743 million by the end of 2016.

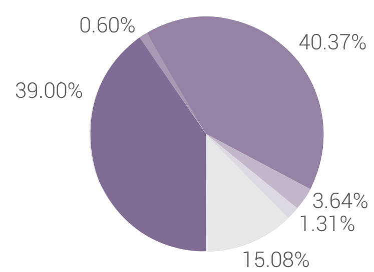
Tier II Capital is composed of asset revaluation surplus and reserves for assets acquired in satisfaction of debts .They increased from LBP 11,890 million as at 31 December 2015 to LBP 13,470 million as at 31 December 2016.

To the above Tier II capital, US$ 40 million is added after the issuance, during 2015, of IBL Bank's 10 years subordinated bonds that are classified under long term liabilities.

Uses of Funds
(In Millions of LBP)

Uses of Funds (Amounts in Millions of LBP)	End of year 2016		End of year 2015	
	Amount	%	Amount	%
Cash and Deposits with Central Banks	4,120,320	40.37%	2,007,410	23.56%
Deposits with Banks and Financial Institutions	371,833	3.64%	387,990	4.56%
Loans to Banks and Financial Institutions	61,153	0.60%	71,821	0.84%
Loans & Advances to customers & related parties	1,539,298	15.08%	1,642,402	19.28%
Investment Securities	3,981,038	39.00%	4,310,614	50.62%
Other Assets	133,610	1.31%	97,209	1.14%
	10,207,252	**100.00%**	**8,517,446**	**100.00%**

END 2016



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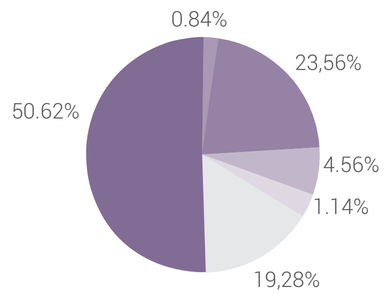


NB: Comparative figures have been reclassified to comply with the presentation in the current financial statements

Maintaining a high asset quality and a strong portfolio of investments is pivotal to IBL Bank's strategy. This is reflected in the return on average assets ratio which stood at 1.29% as at 31 December 2016 as compared to 1.25% as at 31 December 2015.

IBL Bank is ranking Second between the Alpha Group of Banks in terms of Return On Average Assets ratio according to Bank Data.

"Cash and Deposits with Central Banks" constituted 40.37% of total assets as at 31 December 2016 compared to 23.56% as at 31 December 2015.

The share of "Deposits with Banks and Financial Institutions" to total assets decreased from 4.56% as at 31 December 2015 to 3.64 % as at 31 December 2016.

"Loans to banks and Financial Institutions" as at 31 December 2016 constituted 0.60% of total assets, down from 0.84% as at 31 December 2015.

On the other hand, the share of "loans and advances to customers and related parties" to total assets decreased from 19.28 % as at 31 December 2015 to 15.08% as at 31 December 2016.

Within the overall uses of funds, the share of "Investment Securities" to total assets also decreased to 39.00% in 2016 down from 50.62% in 2015.

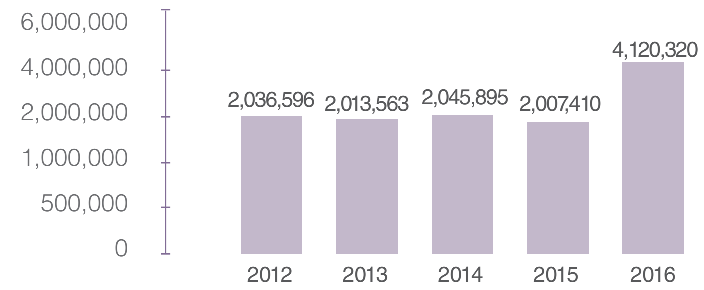
The composition of "Investment securities" portfolio changed in 2016: "Investments at Fair Value Through Profit or Loss", as a percentage of total portfolio, decreased from 31.57% as at 31 December 2015, to 16.18% as at 31 December 2016, when the "Investments at Amortized Cost" increased from 68.42% of total portfolio as at 31 December 2015 to 83.78% as at 31 December 2016.

"Other assets" share of total assets remained almost stable .They accounted for 1.31% as at 31 December 2016 as compared to 1.14% as at 31 December 2015. They are mainly constituted of "property and equipment" in a percentage of 40.18% of total "other assets" and "assets acquired in satisfaction of debts" in a percentage of 18.42% at the year ended December 2016 as compared to 57.23% and 20.35% respectively at the year ended December 2015.

Cash and Deposits with Central Banks
(In Millions of LBP)

Cash and Deposits with Central Banks (In millions of LBP)

2012	2013	2014	2015	2016
2,036,596	2,013,563	2,045,895	2,007,410	4,120,320



NB: Comparative figures have been reclassified to comply with the presentation in the current financial statements

"Cash and deposits with Central Banks" are distributed as follows:

(Amounts in Millions of LBP)	End of year 2016		End of year 2015	
	Amount	%	Amount	%
Cash on hand	44,183	1.07%	43,792	2.18%
Current accounts with Central Banks	338,185	8.21%	283,715	14.13%
Interest earning accounts	3,737,952	90.72%	1,679,903	83.69%
	4,120,320	**100.00%**	**2,007,410**	**100.00%**

As at 31 December 2016 "Cash and Deposits with Central Banks" amounted to LBP 4,120,320 million and constituted 40.37% of total assets as compared to LBP 2,007,410 million and 23.56% of total assets as at 31 December 2015, reflecting a remarkable increase of 105.25%.

Current accounts with Central banks include compulsory deposits in Lebanese Pounds with the Central Bank of Lebanon not available for use in the Bank's day-to-day operations in the amount of LBP 275.6 billion as at 31 December 2016 as compared to LBP 218.6 billion as at 31 December 2015.

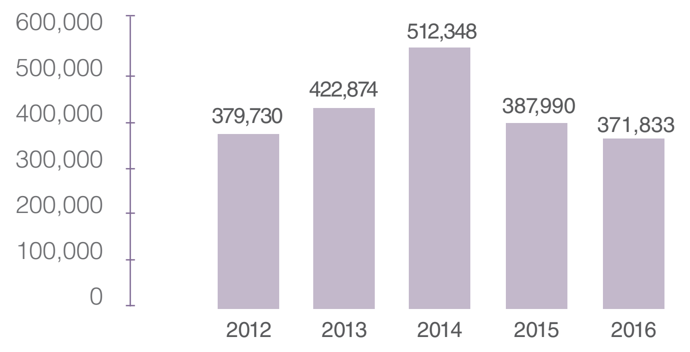
These compulsory reserves are computed on the basis of 25% and 15% of the average weekly sight and term customers' deposits in Lebanese Pound in accordance with prevailing banking regulations.

Interest earning accounts which represented 90.72% of total "Cash and Deposits with Central Banks" at the year end December 2016, are constituted of term placements with Central Banks that amounted to LBP 3,762,118 million and they include provisions for term placements held with Central Bank of Kurdistan in the aggregate amount of LBP 24,166 million.

Term placements with Central Banks also include the equivalent in foreign currencies of LBP 652 billion as at 31 December 2016 deposited with the Central Bank of Lebanon in accordance with local banking regulations which require banks to maintain interest bearing reserves in foreign currency to the extent of 15% of customers' deposits, bonds, certificates of deposits and loans acquired from Non Resident financial institutions in foreign currency.

Deposits with Banks and Financial Institutions
(In Millions of LBP)

Deposits with Banks and Financial Institutions (In millions of LBP)				
2012	2013	2014	2015	2016
379,730	422,874	512,348	387,990	371,833



NB: Comparative figures have been reclassified to comply with the presentation in the current financial statements

"Deposits with Banks and Financial Institutions " are distributed as follows:

(Amounts in Millions of LBP)	End of year 2016		End of year 2015	
	Amount	%	Amount	%
Current accounts with Banks	255,700	68.77%	235,986	60.82
Term placements with Banks	97,837	26.31%	127,170	32.78
Checks for collection	18,212	4.90%	24,820	6.40
Accrued Interest	84	0.02%	14	0.00
	371,833	**100.00%**	**387,990**	**100.00%**

As at 31 December 2016, "Deposits with banks and financial institutions" amounted to LBP 371,833 million and constituted 3.64% of total assets as compared to LBP 387,990 million and 4.56% as at 31 December 2015, reflecting a year-on-year decrease of 4.16%.

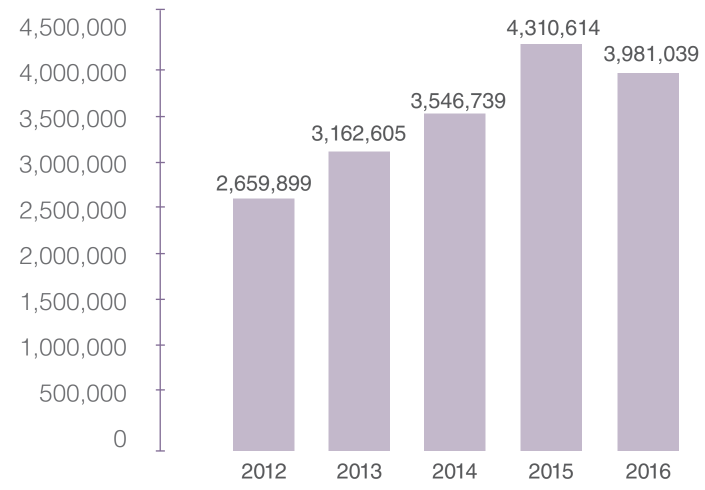
As shown on the breakdown above, term placements constituted 26.31% of total "deposits with banks and financial institutions" as at 31 December 2016 down from 32.78% as at 31 December 2015.

90.27% of the current and term deposits are denominated in foreign currencies, and all the term deposits as at 31 December 2016 have contractual maturities of less than three months.

"Deposits with banks and financial institutions" are geographically distributed as follows: 13.18% in Lebanon and 86.82% in low risk countries mainly in Europe and the USA.

Investment Securities Portfolio
(In Millions of LBP)

Investment Securities Portfolio (In millions of LBP)				
2012	2013	2014	2015	2016
2,659,899	3,162,605	3,546,739	4,310,614	3,981,039



NB: Comparative figures have been reclassified to comply with the presentation in the current financial statements

IBL Bank's investment securities portfolio decreased by LBP 329,575 million during 2016 to reach LBP 3,981,039 million as at 31 December 2016.They represented 39% of total uses of funds as compared to 50.62% as at 31 December 2015.

The breakdown of the Bank's investment securities portfolio varied during the year 2016 as shown in the figures below. 83.78% of the financial instruments are classified under debt instruments at Amortized Cost as at 31 December 2016 as compared to 68.41% as at 31 December 2015.

Lebanese treasury bills (in both LBP and foreign currencies) increased as a percentage of the Bank's total securities portfolio to 12.83% as at 31 December 2016 as compared to 8.63% as at 31 December 2015.

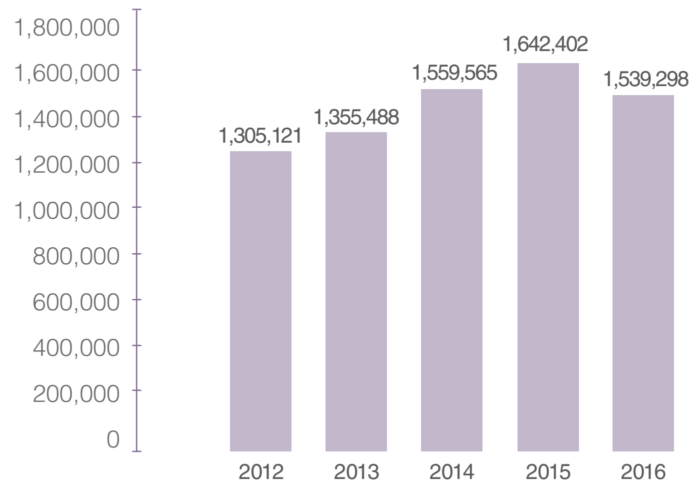
Investments in Central Bank certificates of deposits (in both LBP and foreign currencies) represented 2.93% of the Bank's portfolio as at 31 December 2016 as compared to 22.14% as at 31 December 2015 and they constituted 18.09% of total securities portfolio classified at Fair value Through Profit and Loss as compared to 70.14% as at 31 December 2015.

Investment securities at Fair Value Through Other Comprehensive Income represented 0.05% of total securities portfolio as at 31 December 2016.

A currency analysis of the investment securities portfolio reveals that the main currency is the US Dollar, as it constituted 51.54% of the total portfolio as at 31 December 2016, while 46.01% of the securities portfolio is denominated in Lebanese currency.

Loans and Advances to Customers and Related Parties
(In Millions of LBP)

Loans And Advances To Customers And Related Parties (in millions of LBP)				
2012	2013	2014	2015	2016
1,305,121	1,355,488	1,559,565	1,642,402	1,539,298



NB: Comparative figures have been reclassified to comply with the presentation in the current financial statements

As at 31 December 2016, the Bank's "Loans and advances to customers and related parties" net of provisions and unrealized interests for Non Performing Loans amounted to LBP 1,539,298 million compared to LBP 1,642,402 million as at 31 December 2015, meaning a decrease of 6.28%.

"Loans and advances to customers and related parties" constituted 15.08% of total assets as at 31 December 2016 as compared to 19.28% as at 31 December 2015.

75.31% of total loans are denominated in foreign currencies and mostly in US dollars. The high dollarization of the Bank's loan portfolio is in line with the loan portfolios of the Bank's peers, and reflects the state of the Lebanese economy for the past decades.

In order to maintain a high asset quality, IBL Bank continued to adopt a conservative loan strategy. The ratio of net loans and advances to total deposits has been maintained at relatively low levels reaching 18.32% as at 31 December 2016 as compared to 21.60% as at 31 December 2015.

The Central Bank of Lebanon continued, during 2016,to introduce stimulus packages which include incentives to support housing, renewable energy projects, innovative projects,SME's and other productive sectors of the Economy.

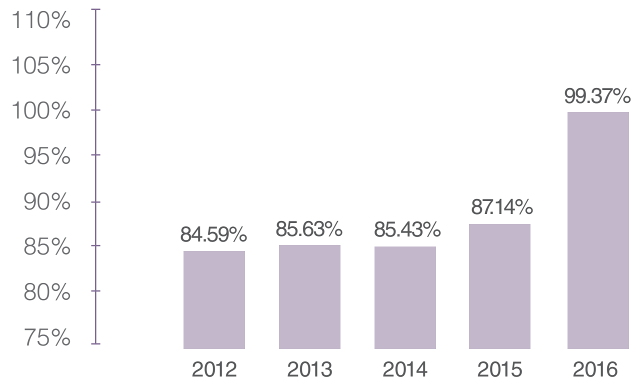
A significant proportion of the bank's loans and advances are secured by prime and enforceable guarantees which include cash collateral, prime real estate mortgages, pledge of securities and bank and personal guarantees.

Provisions and unrealized interests for impaired loans, including collective provisions amounted to LBP 73,682 million as at 31 December 2016 .

To support and reinforce the loans portfolio during the difficult economic conditions prevailing in the country, IBL bank improved the level of provisions set against NPLs, increasing those by the amount of LBP 13,770 million as allowance for risk and charges before deduction of the write-back provisions.

Liquidity Ratio

Liquidity Ratio				
2012	2013	2014	2015	2016
84.59%	85.63%	85.43%	87.14%	99.37%



NB: Comparative figures have been reclassified to comply with the presentation in the current financial statements

IBL Bank has successfully maintainted ample liquidity in 2016, where overall liquidity stood at 99.37%. As such, the Lebanese Pound Liquidity Ratio (including Lebanese governmental Treasury bills) was 121.83% as at 31 December 2016 reflecting an avaibable liquidity covering Lebanese Pounds deposits in total.

Moreover, the liquidity ratio in foreign currencies accounted to 79.76% as at 31 December 2016 as compared to 73.24% as at 31 December 2015.

Management considers the bank's liquidity position to be strong based on its liquidity ratios as at 31 December 2016 and believes that the Bank's funding capacity is sufficient to meet its On and Off-balance sheet obligations. IBL Bank's financial position structure is run in a way to maintain high diversification and a low concentration among different sources of funds.

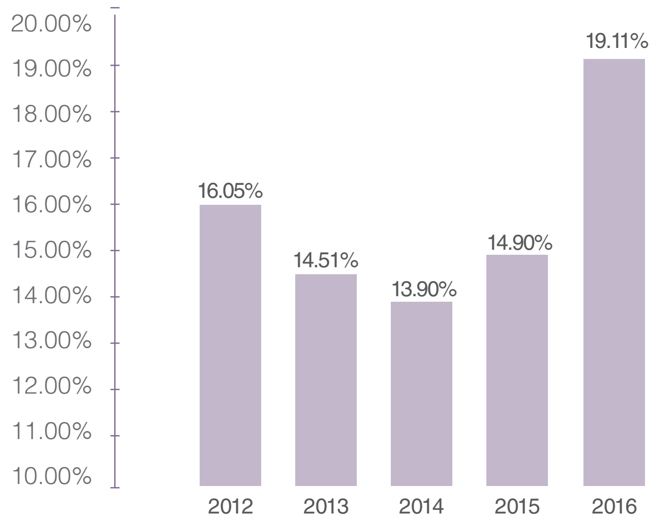
The Bank performs liquidity stress tests as part of its liquidity management. The purpose is to always ensure sufficient liquidity for the Bank under different stressconditions.The Bank has a variety of liquidity measures that are regularly monitored and include limits on maturity gaps and ratios covering the concentration ofdeposits base, the availability and concentration of liquid assets.

Maturity mismatch between assets and liabilities which characterises the Lebanese Banking sector was also present at IBL Bank. This mismatch is considered as low risk, especially that maturing deposits do not actually materialize in cash outflows and are generally automatically renewed.

The Alco (Assets and Liabilities Committee) manages the mismatches by maintaining strict liquidity criterias on investments and by following the behavior of deposits which have a proved track record of being recurring and core. All liquidity policies and procedures are subject to review and approval by Alco, the Board Risk Committee and ultimately the Board of Directors.

Capital Adequacy Ratio

Capital Adequacy Ratio				
2012	2013	2014	2015	2016
16.05%	14.51%	13.90%	14.90%	19.11%



NB: Comparative figures have been reclassified to comply with the presentation in the current financial statements

The consolidated Basel III Capital Adequacy Ratio of IBL Group reached 19.11% by the end of 2016 compared to 14.90% by the end of 2015.

Tier I capital and Capital Equity Tier I (CET1) ratios amounted to 14.81% and 17.60% respectively.These ratios are measured according to Basel III and Central Bank requirements.

The statutory minimum total capital Adequacy Ratio requested by Central Bank of Lebanon is 14% as at end of December 2016 which was raised from 12% as at end of December 2015.

Lebanese banks are required to abide by the miminum set limits for the following three capital adequacy ratios:

Ratio	"IBL Bank as at 31 Dec. 2016"	"BDL requirements as at 31 Dec. 2016"	"BDL requirements as at 31 Dec. 2017"	"BDL requirements as at 31 Dec. 2018"
NCE Tier 1	14.81%	8.50%	9.00%	10.00%
Tier 1 Capital	17.60%	11.00%	12.00%	13.00%
Total Capital	19.11%	14.00%	14.50%	15.00%

IBL Bank consolidated CAR ratios are clearly above the regulatory requirements in December 2018.

BDL required ratios are based on Intermediate circular No 436 dated 30 September 2016 (Basic circular No 44) which sets new floors for capital ratios of 10%, 13% and 15% respectively to be reached by 31 December 2018.The target ratios include a capital conservation buffer of 4.50% of the total risk weighted assets, while the Basel Committee of Banking Supervision target ratios at 1 January 2019 include a Capital conservation buffer of 2.50%.

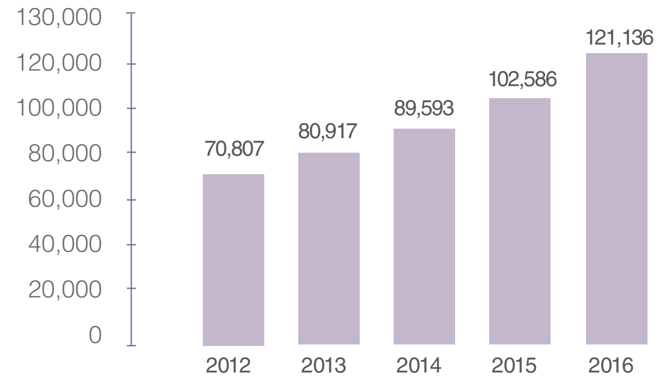
As for the leverage ratio, it reached 6.71% as at 31 December 2016 based on BDL's definition. It is calculated by dividing the Tier I over the total assets plus the off-balance sheet items. The Basel Committee on Banking Supervision (BCBS) has set the minimum leverage ratio at 3%.

Moreover, the Bank has conducted stress tests scenarios to assess the impact on capital and liquidity of higher sovereign risks, increased credit portfolio defaults, and funding outflows, and has found both the Capital buffer and the liquidity buffer to be at satisfactory levels.

The Bank performs the stress-test scenarios at least annually upon the preparation of the ICAAP document.

Profitability
(In Millions of LBP)

Profitability (In millions of LBP)				
2012	2013	2014	2015	2016
70,807	80,917	89,593	102,586	121,136



NB: Comparative figures have been reclassified to comply with the presentation in the current financial statements

IBL Bank recorded net profits of LBP 121,136 million increasing by 18.08 % compared to the year 2015 when net profits stood at LBP 102,586 million.

This growth is mainly due to the increase in net financial revenues, after impairment charge for credit losses, from LBP 204,946 million as at 31 December 2015 to LBP 235,507 million as at 31 December 2016, meaning a rise of 14.91%. IBL Bank's double digit growth in Net Profits was achieved despite the bank's conservative strategy showed by the net allowance for risk and charges and collective impairement amounting LBP 15,046 million that was provided for during 2016 as compared to LBP 17,900 million for the year 2015.

IBL's performance is also reflected in the Bank's high profitability ratios that are among the highest in the Lebanese banking sector.

In fact, IBL Bank's Return on Average Assets (ROAA) stood at 1.29% at the end of 2016 while the Bank's Return on Average Equity (ROAE) reached 17.50%, ranking first in ROAE ratio and second in ROAA ratio between the Lebanese Group Alpha according to Bankdata.

Staff and Administrative expenses reached LBP 68,358 million as at 31 December 2016 as compared to LBP 59,814 million as at 31 December 2015.

Staff expenses increased by 5.23% in 2016 to reach LBP 42,297 million. That said, IBL is still maintaining a low cost to income ratio of 29.10% as at 31 December 2016 ranking Second in the Alpha Group whose average was 47.7% as at 31 December 2016.

On the other hand, earnings per share increased to LBP 6,057 (US$ 4.02) in 2016 from LBP 5,261 (US$ 3.49) in 2015.

List of Main Correspondents

Correspondent	Currency	City	SWIFT Code
Al khaliji France SA	AED	Dubai	LICO AE AD
Bank of Sydney Ltd	AUD	Sydney	LIKI AU 2S
Citibank NA	AUD	London	CITI GB 2L
The Bank of New York Mellon	CAD	New York	IRVT US 3N
Banque Cantonale de Genève	CHF	Geneva	BCGE CH GG
Danske Bank A/S	DKK	Copenhagen	DABA DK KK
Sociéte Générale	EUR	Paris	SOGE FR PP
Commerzbank AG	EUR	Frankfurt	COBA DE FF
Intesa Sanpaolo SpA	EUR	Milano	BCIT IT MM
Citibank NA	GBP	London	CITI GB 2L
Sumitomo Mitsui Banking Corporation	JPY	Tokyo	SMBC JP JT
The Bank of New York Mellon	JPY	Tokyo	IRVT JP JX
Commercial Bank of Kuwait KPSC	KWD	Kuwait	COMB KW KW
DNB Bank ASA	NOK	Oslo	DNBA NO KK
The National Commercial Bank	SAR	Jeddah	NCBK SA JE
Skandinaviska Enskilda Banken AB	SEK	Stockholm	ESSE SE SS
Citibank NA	USD	New York	CITI US 33
The Bank of New York Mellon	USD	New York	IRVT US 3N

Main Resolutions of the Ordinary General Assembly Held on August 3, 2017

Resolution 1

The Ordinary General Assembly, after listening to the reports of the Board of Directors and the external Auditors regarding the accounts of the year 2016, and after reviewing the balance sheet and the profit and loss accounts for the same year, decided:

The ratification of the reports, the balance sheets and all other accounts of the Bank relating to the fiscal year ending on 31/12/2016.

Decision taken unanimously.

Resolution 2

The Ordinary General Assembly, after taking note of the net profits realized during 2016, which amounted to LBP 86,786 million decided:

1) The Distribution of US$ 5,625 Thousand of these profits, to the holders of series 3 preferred shares, amount which represents 7.50% of the issue price amounted to US$ 100 for each share , pursuant to the third decision (Item 4, par A) of the Extraordinary General Assembly held on September 15, 2016.

2) The distribution of LBP 39,060,000 Thousand (approximately US$ 25,900 Thousand) of these profits to the Common Shareholders in proportion of their participation in the Bank's Capital.

3) It was also decided to transfer the remaining balance of the net profits of the year 2016 to retained earnings (previous results).

Decision taken unanimously.

Resolution 6

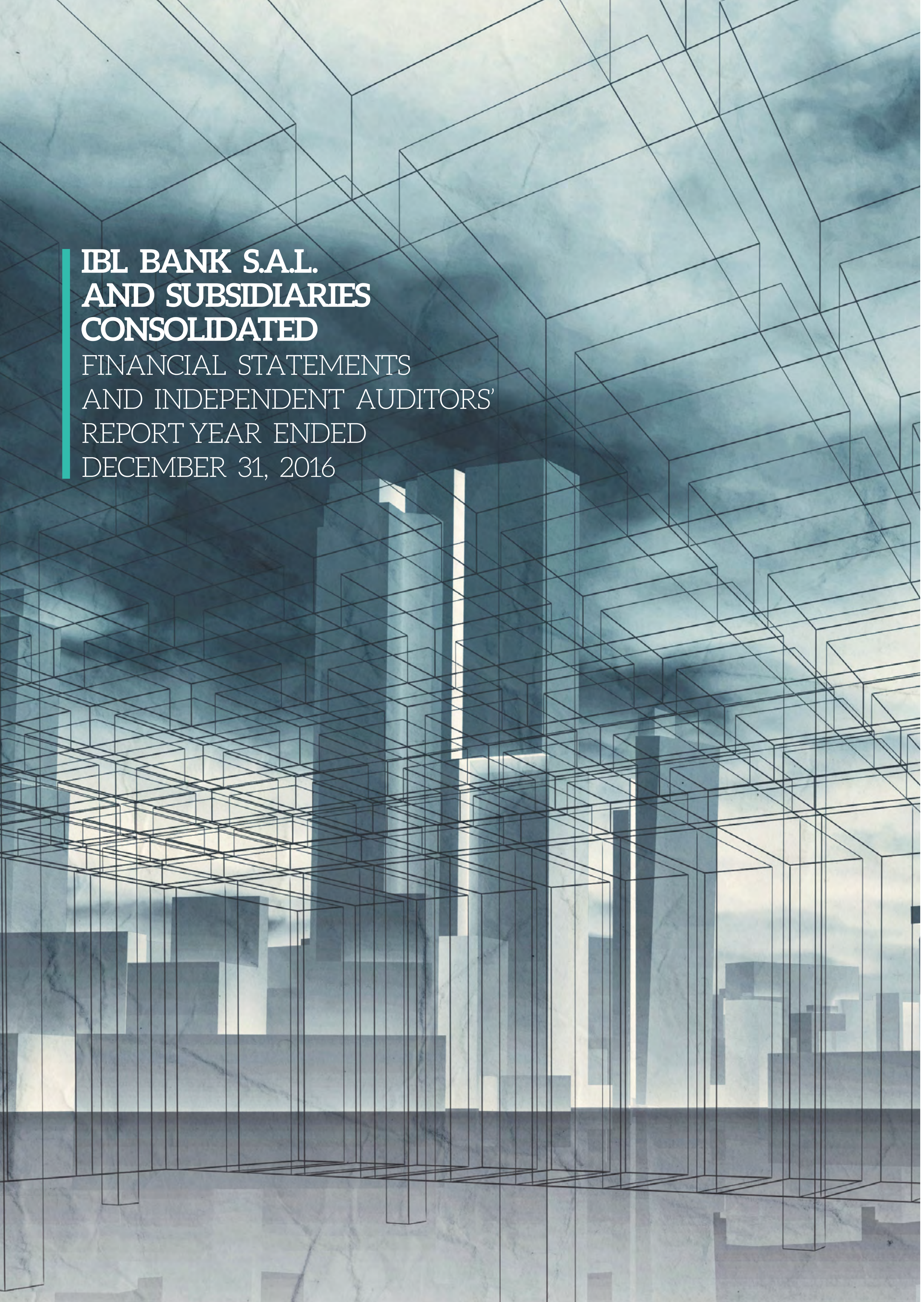
The Ordinary General Assembly, after going through the reports of the Board of Directors and the external Auditors in compliance with article 158 of the Code of Commerce And article 152 paragraph. 4 of the Code of Money and Credit, decided:

The ratification of the activities carried out in accordance to the above-mentioned laws, and renewal of the prior authorization given to the Directors to act according to those articles, in addition to the prior authorization of article 159 of the Code of Commerce.

Decision taken unanimously.

IBL BANK S.A.L. AND SUBSIDIARIES CONSOLIDATED

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT YEAR ENDED DECEMBER 31, 2016



TO THE SHAREHOLDERS
IBL BANK
BEIRUT, LEBANON

Opinion

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

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

Basis for Opinion

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

Emphasis of Matter

Without qualifying our opinion, we draw attention to Notes 12 and 21 of the consolidated financial statements, concerning the regulatory restricted contribution at December 31, 2016 amounting to LBP 671 Billion, originating from surplus derived from sale of treasury bills and Government bonds in Lebanese Pound and foreign currency against investment in medium and long term certificates of deposit in foreign currency issued by the Central Bank of Lebanon, in compliance with Central Bank of Lebanon Circular number 446 dated December 30, 2016. According to this Circular, the restricted contribution which is regulated in nature shall be appropriated, among other things, after deducting the relevant tax liability, to collective provision for credit risks associated with the loan book at a minimum of 2% of the weighted Credit risks, and that in anticipation of the implementation of IFRS 9 for Impairment, as and when quantified effective on January 1, 2018. By virtue of this Circular, 70% of the remaining residual surplus once recognized over time shall be treated as non-distributable income designated and restricted only for appropriation to capital increase.

Key Audit Matters

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

Impairment of Loans and advances to customers

Due to the inherently judgmental nature of the computation of impairment provisions for loans and advances, there is a risk that the amount of impairment may be misstated. The impairment of loans and advances is estimated by management through the application of judgment and the use of subjective assumptions. Due to the significance of loans and advances and related estimation uncertainty, this is considered a key audit risk. The corporate loan portfolio generally comprises larger loans that are monitored individually by management. The assessment of loan loss impairment is therefore based on management's knowledge of each individual borrower. However, consumer loans generally comprises much smaller value loans to a much greater number of customers. Provisions, other than those that are calculated on an individual basis, are determined by grouping by product into homogeneous portfolios.The portfolios which give rise to the greatest uncertainty are typically those where impairments are derived from collective models, are unsecured or are subject to potential collateral shortfalls.

Regulatory Restricted Contribution

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

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

How our audit addressed the key audit matters?

The risks outlined were addressed by us as follows:

We tested the design and operating effectiveness of the key controls to determine which loans and advances are impaired and provisions against those assets. These included testing:

• System-based and manual controls over the timely recognition of impaired loans and advances.

• Controls over the impairment calculation models including data inputs.

• Controls over collateral valuation estimates.

We tested a sample of loans and advances to form our own assessment as to whether impairment events had occurred and to assess whether impairments had been identified in a timely manner.

• For collective impairment allowances, substantially covered by the regulatory designated deferred liability set up in anticipation of IFRS 9 as referred to under emphasis of a matter section of our report, we critically assessed the Group's estimates and assumptions, specifically in respect to the inputs to the impairment models and the consistency of judgement applied in the use of economic factors, loss emergence periods and the observation period for historical default rates.

• For non performing customers, we tested and challenged the valuation model used by management where the expected recoverable amount from the liquidation of collateral discounted is compared to the net carrying value of the customer net exposure.

Other Information

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

• Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

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

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

• Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

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

Beirut, Lebanon
June 8, 2017

Deloitte & Touche

Deloitte & Touche

DFK Fiduciaire du Moyen Orient

ASSETS	Notes	December 31, 2016 LBP'000	December 31, 2015 LBP'000
Cash and deposits with central banks	5	4,120,319,545	2,007,409,629
Deposits with banks and financial institutions	6	371,832,675	387,989,534
Loans to banks and financial institutions	7	61,153,584	71,820,642
Loans and advances to customers	8	1,440,131,983	1,540,757,576
Loans and advances to related parties	9	99,166,198	101,644,431
Investment securities at fair value through profit or loss	10	643,865,655	1,360,503,055
Investment securities at fair value through other comprehensive income	11	1,967,790	1,084,018
Investment securities at amortized cost	12	3,335,205,209	2,949,026,977
Customers' liability under acceptances	13	45,018,919	13,291,917
Assets acquired in satisfaction of loans	14	24,612,014	19,782,769
Property and equipment	15	53,678,967	55,626,228
Intangible assets	16	733,709	887,375
Other assets	17	9,565,952	7,621,560
Total Assets		**10,207,252,200**	**8,517,445,711**
FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK:	**38**		
Documentary and commercial letters of credit		30,051,450	39,143,519
Guarantees and standby letters of credit		126,673,817	90,294,711
Forward exchange contracts		78,487,707	77,895,250

THE ACCOMPANYING NOTES 1 TO 45 FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

LIABILITIES	Notes	December 31, 2016 LBP'000	December 31, 2015 LBP'000
Deposits from banks and financial institutions	18	61,214,031	66,864,013
Customers' accounts	19	8,138,180,999	7,349,488,473
Related parties' accounts	19	265,805,684	253,608,492
Liability under acceptance	13	45,018,919	13,291,917
Other borrowings	20	97,778,129	61,657,571
Other liabilities	21	738,317,111	53,816,992
Provisions	22	35,663,850	19,477,961
		9,381,978,723	**7,818,205,419**
Subordinated bonds	23	60,554,020	60,560,199
Total liabilities		**9,442,532,743**	**7,878,765,618**
EQUITY			
Capital	24	150,000,000	146,250,000
Non-cumulative convertible preferred shares	25	113,034,375	75,356,250
Common shares premium		6,514,784	6,514,784
Reserves	26	119,879,706	98,910,498
Asset revaluation surplus		2,752,680	2,752,680
Regulatory reserve for assets acquired in satisfaction of loans	14	10,717,070	9,137,597
Retained earnings		239,345,824	196,088,110
Profit for the year		120,887,958	102,331,634
Equity attributable to equity holders of the Bank		763,132,397	637,341,553
Non-controlling interests	28	1,587,060	1,338,540
Total equity		**764,719,457**	**638,680,093**
Total Liabilities and Equity		**10,207,252,200**	**8,517,445,711**

THE ACCOMPANYING NOTES 1 TO 45 FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

IBL BANK S.A.L. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	December 31, 2016 LBP'000	December 31, 2015 LBP'000
Interest income	29	582,035,645	458,555,162
Interest expense	30	(444,713,446)	(398,498,018)
Net interest income		**137,322,199**	**60,057,144**
Fee and commission income	31	9,839,320	8,796,120
Fee and commission expense	32	(1,109,402)	(833,201)
Net fee and commission income		**8,729,918**	**7,962,919**
Other operating income	33	6,168,449	5,138,059
Net interest and other gain/(loss) on investment securities at fair value through profit or loss	34	100,149,863	131,247,924
Net financial revenues		**252,370,429**	**204,406,046**
(Allowance for impairment)/write-back of loans and advances (net)	35	(16,863,379)	539,664
Net financial revenues after impairment charge for credit losses		**235,507,050**	**204,945,710**
Allowance for risk and charges (net)	22	(15,046,234)	(17,900,000)
Staff costs	36	(42,297,187)	(40,193,434)
General and administrative expenses	37	(26,060,639)	(19,620,973)
Depreciation and amortization	15, 16	(4,488,748)	(4,737,383)
Other expenses	15, 21	(1,222,092)	(367,041)
Profit before income tax		146,392,150	122,126,879
Income tax expense	21	(25,255,672)	(19,540,726)
Profit for the year		121,136,478	102,586,153
Other comprehensive income		-	-
Total comprehensive income for the year		**121,136,478**	**102,586,153**
ATTRIBUTABLE TO:			
Equity holders of the Bank		120,887,958	102,331,634
Non-controlling interests	28	248,520	254,519
		121,136,478	**102,586,153**

THE ACCOMPANYING NOTES 1 TO 45 FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

	ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK										
	Capital LPB'000	Non-Comulative Convertible Preferred Shares LPB'000	Common Shares Premium LPB'000	Reserves LPB'000	Asset Revaluation Surplus LPB'000	Regulatory Reserve For Assets Aquired Satis-faction of Loans LPB'000	Retained Earnings LPB'000	Profit for The Year LPB'000	Total Attributable to the Equity Holders of the Bank LPB'000	Non-Controlling Interests LPB'000	Total LPB'000
Balance as at January 1, 2015	**146,250,000**	**75,356,250**	**6,514,784**	**76,678,968**	**2,752,680**	**7,502,372**	**160,792,908**	**89,436,873**	**565,284,835**	**1,083,479**	**566,368,314**
Allocation of 2014 profit	-	-	-	21,834,844	-	-	67,602,029	(89,436,873)	-	-	-
Regulatory reserve for assets acquired in satisfaction of loans	-	-	-	-	-	1,635,225	(1,635,225)	-	-	-	-
Unspecified banking risk reserve	-	-	-	400,000	-	-	(400,000)	-	-	-	-
Other movement	-	-	-	(3,314)	-	-	(63,112)	-	(66,426)	542	(65,884)
Dividends paid (Note 27)	-	-	-	-	-	-	(30,223,125)	-	(30,223,125)	-	(30,223,125)
Difference in exchange	-	-	-	-	-	-	14,635	-	14,635	-	14,635
Total comprehensive income for the year 2015	-	-	-	-	-	-	-	102,331,634	102,331,634	254,519	102,586,153
Balance as at December 31, 2015	**146,250,000**	**75,356,250**	**6,514,784**	**98,910,498**	**2,752,680**	**9,137,597**	**196,088,110**	**102,331,634**	**637,341,553**	**1,338,540**	**638,680,093**
Allocation of 2015 profit	-	-	-	24,237,220	-	-	78,094,414	(102,331,634)	-	-	-
Regulatory reserve for assets acquired in satisfaction of loans	-	-	-	-	-	1,579,473	(1,579,473)	-	-	-	-
Unspecified banking risk reserve	-	-	-	573,000	-	-	(573,000)	-	-	-	-
Other movement	-	-	-	32,488	-	-	9,850	-	42,338	-	42,338
Dividends paid (Note 27)	-	-	-	-	-	-	(32,660,625)	-	(32,660,625)	-	(32,660,625)
Difference in exchange	-	18,750	-	(123,500)	-	-	(33,452)	-	(138,202)	-	(138,202)
Redemption of preferred shares (Note 25)	3,750,000	(75,375,000)	-	(3,750,000)	-	-	-	-	(75,375,000)	-	(75,375,000)
Issuance of preferred shares (Note 25)	-	113,034,375	-	-	-	-	-	-	113,034,375	-	113,034,375
Total comprehensive income for the year 2016	-	-	-	-	-	-	-	120,887,958	120,887,958	248,520	121,136,478
Balance as at December 31, 2016	**150,000,000**	**113,034,375**	**6,514,784**	**119,879,706**	**2,752,680**	**10,717,070**	**239,345,824**	**120,887,958**	**763,132,397**	**1,587,060**	**764,719,457**

THE ACCOMPANYING NOTES 1 TO 45 FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

	Notes	Dec. 31, 2016 LBP'000	Dec. 31, 2015 LBP'000
Cash flows from operating activities:			
Net profit for the year		121,136,478	102,586,153
Adjustments for:			
Depreciation and amortization	15, 16	4,488,748	4,737,383
Unrealized loss on investment securities at fair value through profit or loss	34	58,291,667	65,329,437
Allowance for impairment/(Write-back) of loans and advances (net)	35	3,295,879	(539,664)
Allowance for risk and charges	22	15,046,234	17,900,000
Provision for loss in foreign currency		42,000	-
Other adjustments and effect of exchange difference		(122,623)	(24,635)
Provision for employees' end of service indemnities	22	2,202,463	2,082,962
Gain on disposal of property and equipment		(86,951)	(8,453)
Advances transferred to expense	15	141,223	-
Write-off of property and equipment	15	2,367	14,436
Interest expense	30	444,713,446	398,498,018
Interest income	29, 34	(651,655,224)	(581,342,244)
Income tax expense	21	25,255,672	19,540,726
		22,751,379	**28,774,119**
Net decrease in loans and advances to customers		92,798,881	9,231,995
Net decrease/(increase) in loans and advances to related parties		2,478,233	(87,534,264)
Net decrease/(increase) in investment securities		252,441,537	(815,030,054)
Net increase in compulsory reserves and deposits with central banks		(2,141,554,932)	(170,007,292)
Net decrease in loans to banks and financial institutions		10,600,000	56,206,275
Net (decrease)/increase in borrowings from banks and financial institutions		(5,930,731)	16,720,540
Net increase in customers' deposits		773,704,587	328,028,299
Net increase in related parties' deposits		12,116,333	132,684,107
Net (increase)/decrease in other assets		(1,944,392)	292,942
Net increase in other liabilities		679,919,537	1,800,517
Settlements made from provisions (net)	22	(184,557)	(185,254)
		(302,804,125)	**(499,018,070)**
Interest paid		(429,370,078)	(404,920,985)
Interest received		665,067,413	562,407,989
Income tax paid		(20,756,252)	(17,239,007)
Net cash used in operating activities		**(87,863,042)**	**(358,770,073)**
Cash flows from investing activities:			
Acquisition of property and equipment	15	(2,346,870)	(4,333,726)
Proceeds from disposal of property and equipment		95,631	13,281
Acquisition of intangible assets	16	(177,660)	(361,166)
Non-controlling interests		-	542
Net cash used in investing activities		**(2,428,899)**	**(4,681,069)**
Cash flows from financing activities:			
Dividends paid	27	(32,660,625)	(30,223,125)
Increase in subordinated bonds		-	60,300,000
Increase in other borrowings		36,120,558	24,718,544
Redemption of preferred shares		(75,375,000)	-
Issuance of preferred shares		113,034,375	-
Net cash provided by financing activities		**41,119,308**	**54,795,419**
Net decrease in cash and cash equivalents		(49,172,633)	(308,655,723)
Cash and cash equivalents - Beginning of year		527,687,030	836,342,753
Cash and cash equivalents - End of year	**40**	**478,514,397**	**527,687,030**

1. GENERAL INFORMATION

IBL Bank S.A.L. (the "Bank") is a Lebanese joint-stock company registered in the Lebanese commercial register under No. 10472 and in the Central Bank of Lebanon under No. 52. The consolidated financial statements of the Bank comprise the financial statements of the Bank and those of its subsidiaries (the "Group"). The Group is primarily involved in investment, corporate and retail banking.

The Group operates through a network consisting of 20 branches in Lebanon, 3 branches in Iraq and one branch in Limassol, Cyprus.

The Bank's headquarters are located in Beirut, Lebanon.

The consolidated subsidiaries consist of the following as at December 31:

Name of Subsidiary	Inception Date	Ownership 2016%	Ownership 2015%	Country of Inception	Business Activity
Al-Itihadiah Real Estate S.A.L.	May 31, 1979	99.97	99.97	Lebanon	Real Estate Properties
IBL Holding S.A.L.	November 11, 2008	99.70	99.70	Lebanon	Holding
IBL Brokerage S.A.L.	March 14, 2006	99.80	99.80	Lebanon	Insurance Brokerage
IBL Investment Bank S.A.L.	January 8, 2011	97.99	97.99	Lebanon	Investment Bank

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 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
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 9 Financial Instruments (revised versions in 2013 and 2014) IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments. A finalized version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 Financial Instruments: Recognition and Measurement. The standard contains requirements in the following areas: • Classification and measurement: Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk. • Impairment: The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised • Hedge accounting: Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures. • Derecognition: The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.	January 1, 2018
IFRS 15 Revenue from Contracts with Customers In May 2014, IFRS 15 was issued which established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective.	January 1, 2018

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition: • Step 1: Identify the contract(s) with a customer. • Step 2: Identify the performance obligations in the contract. • Step 3: Determine the transaction price. • Step 4: Allocate the transaction price to the performance obligations in the contract. • Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation. Under IFRS 15, an entity recognises when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.	January 1, 2018
Amendments to IFRS 15 Revenue from Contracts with Customers to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.	January 1, 2018
IFRS 16 Leases IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.	January 1, 2019
Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Effective date deferred indefinitely

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group's financial statements as and when they are applicable. Except for IFRS 9 on the provisioning for impairment, the Directors of the Group do not anticipate that the application of these amendments will have a significant effect on the Group's consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

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

Basis of Measurement

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.
- Financial instruments designated at fair value through other comprehensive income.
- Investments in equities.
- 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.

- Derivative financial instruments.

Assets and liabilities are grouped according to their nature and presented in the consolidated statement of financial position in an approximate order that reflects their relative liquidity.

Summary of significant accounting policies

Following is a summary of the most significant accounting policies applied in the preparation of these consolidated financial statements:

A. BASIS OF CONSOLIDATION

The consolidated financial statements of IBL Bank S.A.L. incorporate the financial statements of the Bank and enterprises controlled by the Bank (its subsidiaries) as at the reporting date. Control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

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

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

• The contractual arrangement with the other vote holders of the investee;
• Rights arising from other contractual arrangements;
• The Bank's voting rights and potential voting rights.

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

Consolidation of a subsidiary begins when the 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 consolidated statement of comprehensive income from the date the Bank gains control until the date the Bank ceases to control the subsidiary.

Total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where applicable, adjustments are made to the financial statements of the subsidiaries to bring their accounting policies into line with those used by the Bank.

All intra-group transactions, balances, income and expenses (except for foreign currency transaction gains or loss) are eliminated on consolidation. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

Changes in the Bank's ownership interests in subsidiaries that do not result in the Bank losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Bank's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Bank.

Upon the loss of control, the Bank derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognized in profit or loss. If the Bank retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost.

B. FOREIGN CURRENCIES

The consolidated financial statements are presented in Lebanese Pound (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. The Lebanese Pound exchange rate has been constant to the U.S. Dollar since many years.

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

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

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

C. 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.

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.

When the Group enters into transactions whereby it transfers assets recognized on its statement of financial position and retains all risks and rewards of the transferred assets, then the transferred assets are not derecognized, for example, securities lending and repurchase transactions.

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.

D. 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 using the effective interest method, less impairment loss (except for debt instruments that are designated as at fair value through profit or loss on initial recognition):

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

Debt instruments which do not meet both of these conditions are measured at fair value through profit or loss ("FVTPL").

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.

Reclassification:

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

Reclassification is not allowed where:

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

E. FINANCIAL LIABILITIES AND EQUITY INSTRUMENTS:

Classification as debt or equity:

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

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

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

The component parts of compound instruments (convertible notes) issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. A conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments is an equity instrument.

Financial Liabilities:

Financial Liabilities that are not held-for-trading and are not designated as at FVTPL are subsequently measured at amortized cost using the effective interest method.

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 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.

F. REPURCHASE AND REVERSE REPURCHASE AGREEMENTS

Securities sold under agreements to repurchase at a specified future date ("repos") are not derecognized from the consolidated statement of financial position. The corresponding cash received, including accrued interest, is recognized on the consolidated statement of financial position reflecting its economic substances as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the effective interest rate method.

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

G. OFFSETTING

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

H. 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 of an asset or a liability is measured by taking into account the characteristics of the asset or liability that if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

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.

For financial reporting purposes, fair value measurement are categorized into level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

• Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

• Level 2 - Inputs, other than quoted prices included within Level 1, that are observable for the asset and liability either directly or indirectly; and

• Level 3 - Inputs are unobservable inputs for the asset or liability.

I. 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, as a result of one or more events that occurred after the initial recognition of the asset, a loss event has occurred which has an impact on the estimated future cash flows of the financial 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 collateral and guarantees.

The Group considers evidence of impairment for assets measured at amortized cost at both specific asset and collective level.

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.

For investments in equity securities, a significant or prolonged decline in fair value below cost is objective evidence of impairment.

J. 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.

K. LOANS AND ADVANCES

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

L. FINANCIAL GUARANTEES

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

Financial guarantee liabilities are initially measured at their fair value, and subsequently carried at the higher of this amortized amount and the present value of any expected payment (when a payment under the guarantee has become probable). Financial guarantees are included within other liabilities.

M. PROPERTY AND EQUIPMENT

Property and equipment except for buildings acquired prior to 1999 are stated at historical cost, less accumulated depreciation and impairment loss, if any. Buildings acquired prior to 1999 are stated at their revalued amounts, based on market prices prevailing during 1999 less accumulated depreciation and impairment loss, if any.

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

	Rates
Buildings	2%
Freehold improvements	20%
Furniture and equipment	8%
Computer equipment	20%
Vehicles	20%

The gain or loss arising on the disposal or retirement of an item of property 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.

N. INTANGIBLE ASSETS:

Intangible assets consisting of computer software are amortized on a straight-line basis over 5 years. Intangible assets are subject to impairment testing.

O. ASSETS ACQUIRED IN SATISFACTION OF LOANS

Real estate properties acquired through the enforcement of collateral over loans and advances are measured at cost less any accumulated impairment losses. The acquisition of such assets is regulated by the local banking authorities who 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 and accumulated in equity.

P. IMPAIRMENT OF NON-FINANCIAL ASSETS

At the end of each reporting period, the Group reviews the carrying amounts of its non-financial, asset other than investment properties and deferred taxes, 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).

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.

Q. 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 voluntary terminated at the reporting date. This provision is calculated in accordance with the directives of the Lebanese Social Security Fund and Labor laws based on the number of years of service multiplied by the monthly average of the last 12 months' remunerations and less contributions paid to the Lebanese Social Security National Fund.

R. PROVISIONS

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

S. DEFERRED RESTRICTED CONTRIBUTIONS

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

T. REVENUE AND EXPENSE RECOGNITION

Interest income and expense are recognized on an accrual basis, taking account 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 the amortization of discount or premium.

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability (i.e. commissions and fees earned on the loan book) are included under interest income and expense.

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

Interest income and expense presented in the statement of profit or loss include:

- Interest on financial assets and liabilities at amortized cost.

- Changes in fair value of qualifying derivatives, including hedge ineffectiveness, and related hedged items when interest rate risk is the hedged risk.

Interest income on financial assets measured at FVTPL are presented in the statement of profit or loss under "Net Interest and Other Gain / (Loss) on financial assets at FVTPL" (See below).

Net Interest and other net gain/loss on financial assets measured at FVTPL includes:

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

Interest expense on financial liabilities designated at fair value through profit or loss are presented separately in the 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 in accordance with IFRS 9, are recognized in profit or loss, unless the dividend clearly represents a recovery of part of the investment, in which case it is presented in other comprehensive income.

U. INCOME TAX:

Income tax expense represents the sum of the tax currently payable and deferred tax. Income tax is recognized in the consolidated income statement 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 income statement 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.

V. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise balances with original contractual maturities of a period of three months including: cash and balances with the Central Bank and deposits with 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 directors are required to make judgments, estimates and assumptions about the reported amounts of revenues, expenses, assets and liabilities and the accompanying disclosures, and the disclosure of contingent liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

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

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

Going Concern:

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

Classification of Financial Assets:

Business Model

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

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

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

Characteristics of the Financial Asset:

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

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

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

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

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

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 collectively assessed for impairment are determined based on losses incurred by loans portfolios with similar characteristics.

Determining Fair Values:

When the fair values of financial instruments recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the Discounted Cash Flow (DCF) model, as described in Note 44.

The inputs in these models are taken from observable markets where possible. Where practical, the discount rate used in the mark-to-model approach included observable data collected from market participants, including risk free interest rates and credit default swap rates for pricing of credit risk (both own and counter party), and a liquidity risk factor which is added to the applied discount rate. Changes in assumptions about any of these factors could affect the reported fair value of the sovereign bonds including Central Bank of Lebanon certificates of deposit.

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. Significant unobservable inputs consist of discount factor for illiquidity applied for the investment securities portfolio classified at fair value through profit or loss and amortized cost in accordance with the Group's internal policy.

5. CASH AND DEPOSITS WITH CENTRAL BANKS

	December 31, 2016 LBP'000	December 31, 2015 LBP'000
Cash on hand	44,183,418	43,791,654
Current accounts with central banks	338,184,526	283,715,174
Term placements with central banks	3,769,242,748	1,679,382,640
Allowance for impairment	(24,166,014)	(23,540,725)
Discounts	(36,112,290)	-
Accrued interest receivable	28,987,157	24,060,886
	4,120,319,545	**2,007,409,629**

Current accounts with central banks include compulsory deposits in Lebanese Pounds with Central Bank of Lebanon not available for use in the Group's day-to-day operations in the amount of LBP275.6billion (LBP218.6billion in 2015). These compulsory reserves are computed on the basis of 25% and 15% of the average weekly sight and term customers' deposits in Lebanese Pounds in accordance with prevailing banking regulations.

Term placements with central banks include the equivalent in foreign currencies of LBP652billion (LBP591billion in 2015) deposited with Central Bank of Lebanon in accordance with the prevailing banking regulations which require banks to maintain interest earning placements in foreign currency to the extent of 15% of customers' deposits in foreign currencies, bonds, certificates of deposit and loans acquired from non-resident financial institutions.

Discounts amounting to LBP36billion as at December 31, 2016 represent the surplus of specific swap deals on Lebanese Government bonds, whereby, the proceeds were invested in term placements, knowing that subsequent to the financial position date, these discounts were allocated to newly acquired Government bonds and deferred as yield enhancement on the new security portfolio until the final maturity of these bonds.

During the years 2016 and 2015, the Group provided for term placements held with the Central Bank of Iraq - Kurdistan in the aggregate amount of LBP658million (LBP23.5billion in 2015) which was allocated from the provision for risk and charges (Note 22).

Term placements with the Central Bank of Lebanon have the following contractual maturities:

	December 31, 2016			
	LBP Base Accounts		*F/Cy Base Accounts*	
Maturity (Year)	Amount LBP'000	Average Interest Rate %	Counter Value of Amount in LBP LBP'000	Average Interest Rate %
2017	1,484,000,000	2.86	113,395,658	0.53
2019	-	-	134,175,220	0.74
2020	-	-	426,010,620	5.76
2021	796,000,000	7.71	195,096,750	6.25
2022	15,000,000	8.60	-	-
2024	-	-	230,564,500	7.25
2027	25,000,000	8.72	-	-
2046	350,000,000	8.40	-	
	2,670,000,000		**1,099,242,748**	

	December 31, 2015			
	LBP Base Accounts		*F/Cy Base Accounts*	
Maturity (Year)	Amount LBP'000	Average Interest Rate %	Counter Value of Amount in LBP LBP'000	Average Interest Rate %
2016	-	-	39,890,700	0.40
2019	-	-	137,599,020	0.79
2020	-	-	429,937,920	5.77
2021	600,000,000	8.60	198,873,000	6.25
2022	15,000,000	8.60	-	-
2024	-	-	233,082,000	7.25
2027	25,000,000	8.72	-	-
	640,000,000		**1,039,382,640**	

6. DEPOSITS WITH BANKS AND FINANCIAL INSTITUTIONS

	December 31, 2016 LBP'000	December 31, 2015 LBP'000
Checks for collection	18,211,508	24,819,593
Current accounts with banks and financial institutions	255,699,717	235,985,414
Term placements with banks and financial institutions	97,837,500	127,170,354
Accrued interest receivable	83,950	14,173
	371,832,675	**387,989,534**

Term placements with banks and financial institutions have contractual maturities less than one year. Deposits with banks and financial institutions are segregated between resident and non-resident as follows:

	December 31, 2016 LBP'000	December 31, 2015 LBP'000
Resident	49,008,777	63,222,672
Non-resident	322,823,898	324,766,862
	371,832,675	**387,989,534**

7. LOANS TO BANKS AND FINANCIAL INSTITUTIONS

Loans to banks and financial institutions are reflected at amortized cost and consist of the following:

	December 31, 2016 LBP'000	December 31, 2015 LBP'000
Regular performing loans	60,700,000	71,300,000
Accrued interest receivable	453,584	520,642
Doubtful bank accounts	74,252	77,616
Less: Allowance for impairment	(74,252)	(77,616)
	61,153,584	**71,820,642**

Loans to banks have the following contractual maturities

	December 31, 2016		December 31, 2015	
	LBP	Interest Rate %	LBP	Interest Rate %
Up to 3 months	400,000	4.35	-	-
3 months to 1 year	10,200,000	3.26	10,600,000	3.30
1 to 3 years	21,200,000	3.30	21,200,000	3.31
3 to 5 years	19,400,000	3.20	21,000,000	3.30
Above 5 years	9,500,000	3.38	18,500,000	3.26
	60,700,000		**71,300,000**	

8. LOANS AND ADVANCES TO CUSTOMERS

This caption consists of the following:

	December 31, 2016 LBP'000	December 31, 2015 LBP'000
Loans and advances to customers	555,877,204	608,564,277
Discounted bills	6,512,097	3,776,563
Long and medium term loans	854,109,939	917,449,948
Net multi-currency trading	568,133	-
Creditors accidentally debtors	6,207,228	6,717,259
Substandard loans (net of unearned interest)	27,955,622	3,701,296
Doubtful loans (net of unearned interest)	16,425,597	14,406,936
Less: Provision for doubtful loans	(10,668,547)	(10,272,677)
Allowance for collective impairment	(25,762,373)	(11,992,096)
	1,431,224,900	**1,532,351,506**
Accrued interest receivable	8,907,083	8,406,070
	1,440,131,983	**1,540,757,576**

The movement of substandard loans with related unrealized interest is summarized as follows:

	2016		
	Substandard Loans LBP'000	Unrealized Interest LBP'000	Net LBP'000
Balance January 1	4,915,168	(1,213,872)	3,701,296
Transfer from performing loans	26,615,034	-	26,615,034
Additional unrealized interest	1,322,814	(1,322,814)	-
Settlements	(297,110)	-	(297,110)
Other movement	199,394	(21,162)	178,232
Transfer from provision of doubtful and bad loans	-	(2,241,830)	(2,241,830)
Balance December 31	**32,755,300**	**(4,799,678)**	**27,955,622**

	2015		
	Substandard Loans LBP'000	Unrealized Interest LBP'000	Net LBP'000
Balance January 1	7,191,850	(1,407,948)	5,783,902
Additional unrealized interest	559,789	(559,789)	-
Settlements	(1,373,711)	75,213	(1,298,498)
Other movement	(130,734)	273,188	142,454
Transfer to doubtful and bad loans	(1,557,077)	405,464	(1,151,613)
Transfer from performing loans	225,051	-	225,051
Balance December 31	**4,915,168**	**(1,213,872)**	**3,701,296**

The movement of doubtful and bad loans and related unrealized interest and allowance for impairment is summarized as follows:

	2016			
	Doubtful & Bad Loans LBP'000	Unrealized Interest LBP'000	Allowance for Impairment LBP'000	Net LBP'000
Balance January 1	40,917,414	(26,510,478)	(10,272,677)	4,134,259
Additional unrealized interest	5,985,553	(5,985,553)	-	-
Additional allowance for impairment (Note 35)	-	-	(3,437,103)	(3,437,103)
Settlements/write-back (Note 35)	(611,315)	139	287,671	(323,505)
Write-off and other movement	(452,545)	51,451	497,985	96,891
Transfer to unrealized interest of substandard loans	-	-	2,241,830	2,241,830
Transfer from performing loans	3,044,678	-	-	3,044,678
Transfer to off-balance sheet	-	-	-	-
Effect of exchange rates changes	(6,844)	(6,903)	13,747	-
Balance December 31	**48,876,941**	**(32,451,344)**	**(10,668,547)**	**5,757,050**

	2015			
	Doubtful & Bad Loans LBP'000	Unrealized Interest LBP'000	Allowance for Impairment LBP'000	Net LBP'000
Balance January 1	42,055,744	(24,876,194)	(11,098,041)	6,081,509
Additional unrealized interest	5,073,790	(5,073,790)	-	-
Additional allowance for impairment (Note 35)	-	-	(1,501,840)	(1,501,840)
Settlements/write-back (Note 35)	(4,736,809)	861,043	2,281,546	(1,594,220)
Write-off and other movement	(2,809,018)	2,970,038	35,918	196,938
Direct write-off (Note 35)	(313,679)	-	-	(313,679)
Transfer from substandard loans	1,557,077	(405,464)	-	1,151,613
Transfer from performing loans	113,938	-	-	113,938
Effect of exchange rates changes	(23,629)	13,889	9,740	-
Balance December 31	**40,917,414**	**(26,510,478)**	**(10,272,677)**	**4,134,259**

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

	December 31, 2016 LBP'000	December 31, 2015 LBP'000
Balance January 1	11,992,096	10,234,649
Additions (Note 35)	13,567,500	-
Transfer from provision for risk and charges (Note 22)	202,601	1,836,069
Write-back (Note 35)	-	(78,272)
Effect of exchange rates changes	176	(350)
Balance December 31	**25,762,373**	**11,992,096**

9. LOANS AND ADVANCES TO RELATED PARTIES

This caption includes loans and advances granted by the Bank to its shareholders and its related companies in the amount of LBP99billion (LBP102billion in 2015) covered to the extent of LBP3.9billion by real estate guarantees and LBP98,40billion by cash collateral (LBP4.1billion by real estate guarantees and LBP87,90billion by cash collateral as of December 31, 2015).

10. INVESTMENT SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31, 2016 LBP'000	December 31, 2015 LBP'000
Quoted equity securities	4,827,011	4,081,437
Unquoted equity securities	179,222	179,222
Lebanese treasury bills	510,868,292	372,010,699
Certificates of deposit issued by Central Bank of Lebanon	116,473,484	954,320,897
Accrued interest receivable	11,517,646	29,910,800
	643,865,655	**1,360,503,055**

The Group's business model for debt securities was amended during 2016 and 2015. As a result, the Group transferred Government bonds with carrying value in the equivalent of LBP801billion (LBP218billion in 2015) from FVTPL to amortized cost portfolio based on the fact that this portfolio was held without any material trading activity and transferred from trading book to banking book to be consistent with management intent to hold to maturity.

11. INVESTMENT SECURITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Investment at fair value through other comprehensive income in the amount of LBP2billion as at December 31, 2016 (LBP1.1billion as at December 31, 2015) represents the Group's share in startup/incubators established based on co-sharing agreements with the regulator providing the funding.

12. INVESTMENT SECURITIES AT AMORTIZED COST

	December 31, 2016 LBP'000	December 31, 2015 LBP'000
Debt securities classified at amortized cost	3,263,971,871	2,877,344,601
Accrued interest receivable	71,233,338	71,682,376
	3,335,205,209	**2,949,026,977**

The movement of investment securities, exclusive of the related accrued interest, for the years 2016 and 2015 are summarized as follows:

	2016 LBP'000	2015 LBP'000
Balance January 1	2,877,344,601	2,323,690,222
Additions	598,075,204	1,045,387,089
Transfer from investment securities at fair value through profit or loss (Note 10)	800,859,219	218,179,996
Sales	-	(3,015,000)
Swaps, net	(840,995,418)	(481,410,375)
Matured	(26,305,875)	(28,561,968)
Effect of unamortized/amortized premium and discount	(141,960,594)	(186,693,989)
Effect of exchange rates changes	(3,045,266)	(10,231,374)
Balance December 31	**3,263,971,871**	**2,877,344,601**

At the beginning of year 2016, the Group entered into several swap transactions of Lebanese treasury bills in Lebanese Pound of aggregate nominal value of LBP442.9billion, concluded in conjunction with the acquisition of Government bonds in USD for an aggregate value of LBP603billion (USD400million) and therefore the premium resulting from the above inter-related transactions was deferred as yield enhancement on the new portfolio until maturity falling due between 2024 and 2028 and yielding 10.68% on average per annum. Furthermore, a surplus income amounting to LBP24.6billion was recognized and recorded under "Net interest and other gain/(loss) on investment securities at fair value through profit or loss" in the statement of the profit or loss for the period ended December 31, 2016. Moreover, and in order to facilitate the execution of the above transactions, the Group entered into several sales transactions of Lebanese Government bonds of aggregate carrying value of USD299million.

In addition to the above and after the issuance of Central Bank of Lebanon Intermediary Circular 428, the Bank entered into sales transactions of Lebanese Treasury bills and Government bonds in Lebanese Pounds designated at fair value through profit or loss having a nominal value of LBP457.5billion and LBP945 billion respectively concluded in conjunction with the acquisition of Lebanese Government bonds and certificates of deposit issued by the Central Bank of Lebanon in U.S. Dollars with longer maturity designated at amortized cost with a nominal value of USD400million and USD735million respectively.

The resulting surplus of the inter-related transaction amounted to LBP671billion was deferred under "Other liabilities" (Note 15) in anticipation of expected loss provisions that will be deemed to be necessary along with the application of IFRS 9 and other regulatory requirements.

During 2015, the Group entered into several sale transactions of Lebanese treasury bills in LBP and Government bonds in USD of aggregate nominal value of LBP609billion and LBP252billion respectively, concluded in conjunction with the acquisition of Government bonds in USD for an aggregate value of LBP678.38billion and therefore the premium resulting from the above inter-related transactions was deferred as yield enhancement on the new portfolio until maturity falling due between 2020 and 2030 and yielding 11% on average per annum. Furthermore, a surplus income amounting to LBP37.5billion was recognized and recorded under "Net interest and other gain/(loss) on investment securities at fair value through profit or loss" in the statement of the profit or loss for the year ended December 31, 2015.

Moreover, during 2015, the Group exchanged financial assets at amortized cost in the aggregate amount of LBP229.8billion against debt instruments with same risk profile but longer maturities, falling due between 2022 and 2045, which resulted in premiums deferred as yield enhancement on the new instruments, yielding 9% on average per annum.

Debt securities consist of the following:

	December 31, 2016					
	LBP Base Accounts			F/Cy Base Accounts		
	Amortized Cost LBP'000	Interest Receivable LBP'000	Fair Value LBP'000	Amortized Cost LBP'000	Interest Receivable LBP'000	Fair Value LBP'000
Lebanese treasury bills	317,495,963	4,830,241	317,311,464	-	-	-
Lebanese Government bonds	-	-	-	1,036,948,319	10,888,906	1,019,139,534
Certificates of deposit issued by Central Bank of Lebanon	836,529,925	33,871,416	840,612,198	1,072,243,914	21,587,861	1,038,320,940
Certificates of deposit issued by banks	-	-	-	753,750	54,914	733,810
	1,154,025,888	**38,701,657**	**1,157,923,662**	**2,109,945,983**	**32,531,681**	**2,058,194,284**

	December 31, 2015					
	LBP Base Accounts			F/Cy Base Accounts		
	Amortized Cost LBP'000	Interest Receivable LBP'000	Fair Value LBP'000	Amortized Cost LBP'000	Interest Receivable LBP'000	Fair Value LBP'000
Lebanese treasury bills	14,181,537	97,142	14,417,885	-	-	-
Lebanese Government bonds	-	-	-	1,412,214,523	22,130,655	1,379,481,700
Certificates of deposit issued by Central Bank of Lebanon	1,318,360,573	46,416,073	1,335,847,925	131,834,218	2,983,592	117,150,938
Certificates of deposit issued by banks	-	-	-	753,750	54,914	718,608
	1,332,542,110	**46,513,215**	**1,350,265,810**	**1,544,802,491**	**25,169,161**	**1,497,351,246**

Amortized cost investments are segregated over remaining periods to maturity as follows:

Contractual Maturity	December 31, 2016 - LBP Base Accounts Nominal Value LPB'000	Amortized Cost LPB'000	Fair Value LPB'000	Average yield to maturity LPB'000	December 31, 2016 - F/Cy Base Accounts Nominal Value LPB'000	Amortized Cost LPB'000	Fair Value LPB'000	Average yield to maturity LPB'000
Lebanese treasury bills:								
Up to one year	2,684,544	2,655,505	4,475,132	7.96	-	-	-	-
1 year to 3 years	4,781	4,048	6,827	14.24	-	-	-	-
3 years to 5 years	59,000,000	52,389,794	50,209,288	9.75	-	-	-	-
5 years to 10 years	301,446,940	262,446,616	262,620,217	9.97	-	-	-	-
	363,136,265	**317,495,963**	**317,311,464**		-	-	-	
Lebanese Government bonds:				-				
Up to one year	-	-	-	-	91,325,867	90,638,837	89,337,867	7.32
1 year to 3 years	-	-	-	-	99,647,955	98,397,024	92,446,914	6.02
3 years to 5 years	-	-	-	-	226,878,750	198,802,431	204,995,073	10.50
5 years to 10 years	-	-	-	-	341,803,013	290,444,324	286,849,059	8.84
Beyond 10 years	-	-	-		431,280,675	358,665,703	345,510,621	9.00
	-	-	-		**1,190,936,260**	**1,036,948,319**	**1,019,139,534**	
Certificates of deposit issued by Central Bank of Lebanon:								
5 years to 10 years	856,000,000	836,529,925	840,612,198	9.34	897,716,250	810,725,982	763,966,950	8,28
Above 10 years	-	-	-		339,187,500	261,517,932	274,353,990	10,06
	856,000,000	**836,529,925**	**840,612,198**		**1,236,903,750**	**1,072,243,914**	**1,038,320,940**	
Certificates of deposit issued by banks:								
1 years to 3 years	-	-	-		753,750	753,750	733,810	6.75
	-	-	-		753,750	753,750	733,810	
	1,219,136,265	**1,154,025,888**	**1,157,923,662**		**2,428,593,760**	**2,109,945,983**	**2,058,194,284**	

Contractual Maturity	December 31, 2015 - LBP Base Accounts Nominal Value LPB'000	Amortized Cost LPB'000	Fair Value LPB'000	Average yield to maturity LPB'000	December 31, 2015 - F/Cy Base Accounts Nominal Value LPB'000	Amortized Cost LPB'000	Fair Value LPB'000	Average yield to maturity LPB'000
Lebanese treasury bills:								
1 year to 3 years	2,684,544	2,608,145	2,806,938	7,96	-	-	-	-
3 years to 5 years	4,782	3,754	4,714	14,24	-	-	-	-
5 years to 10 years	12,000,000	11,569,638	11,606,233	8.58	-	-	-	-
	14,689,326	**14,181,537**	**14,417,885**			-	-	
Lebanese Government bonds:					-			
Up to one year	-	-	-	-	26,305,875	26,091,764	25,139,226	5.26
1 year to 3 years	-	-	-	-	216,677,770	211,908,150	201,156,671	6.90
3 years to 5 years	-	-	-	-	396,099,364	351,128,896	349,473,562	9.08
5 years to 10 years	-	-	-	-	548,016,953	474,383,835	463,006,760	8.57
Beyond 10 years	-	-	-		425,220,525	348,701,878	340,705,481	8.82
	-	-	-		**1,612,320,487**	**1,412,214,523**	**1,379,481,700**	
Certificates of deposit issued by Central Bank of Lebanon:								
5 years to 10 years	25,000,000	24,564,436	24,796,208	8.56	136,428,750	131,834,218	117,150,938	7.41
Above 10 years	1,330,000,000	1,293,796,137	1,311,051,717	9.35	-	-	-	-
	1,355,000,000	**1,318,360,573**	**1,335,847,925**		**136,428,750**	**131,834,218**	**117,150,938**	
Certificates of deposit issued by banks:								
4 years to 5 years	-	-	-	-	753,750	753,750	718,608	6.75
	-	-	-	-	**753,750**	**753,750**	**718,608**	
	1,369,689,326	**1,332,542,110**	**1,350,265,810**		**1,749,502,987**	**1,544,802,491**	**1,497,351,246**	

13. CUSTOMERS' LIABILITY UNDER ACCEPTANCES

Acceptances represent documentary credits which the Bank 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 balance sheet for the same amount.

14. ASSETS ACQUIRED IN SATISFACTION OF LOANS

Assets acquired in satisfaction of loans have been acquired through enforcement of security over loans and advances.

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

	Real Estate LBP'000
Cost:	
Balance, January 1, 2015	19,897,865
Additions	116,069
Balance, December 31, 2015	20,013,934
Additions	4,829,245
Balance, December 31, 2016	**24,843,179**
Allowance for Impairment:	
Balance, December 31, 2016 and 2015	**(231,165)**
Carrying Amount:	
December 31, 2016	**24,612,014**
December 31, 2015	**19,782,769**

The acquisition of assets in settlement of loans requires the approval of the banking regulatory authorities and these should be liquidated within 2 years. In case of default of liquidation within 2 years from the date of approval, the Group allocates a regulatory reserve for assets acquired in satisfaction of loans from retained earnings. During 2016, the Group allocated LBP1.58billion from retained earnings (LBP1.64million during 2015).

The fair values of the assets acquired in satisfaction of loans exceed their carrying values as at December 31, 2016 and 2015.

15. PROPERTY AND EQUIPMENT

	Buildings LPB'000	Freehold Improvements LPB'000	Furniture & Equipment LPB'000	Computer Equipment LPB'000	Vehicles LPB'000	Advances on Capital Expenditure LPB'000	Total LPB'000
Cost / Revaluation							
Balance, January 1, 2015	**34,687,825**	**23,078,648**	**5,971,915**	**5,504,721**	**575,820**	**7,495,345**	**77,314,274**
Additions	1,428,203	14,329	196,011	243,362	196,950	2,254,871	4,333,726
Disposals	-	-	(51,935)	(49,762)	-	-	(101,697)
Transfers between categories	6,343,069	1,628,587	196,927	-	-	(8,168,583)	-
Write-off	-	(11,470)	(30,730)	(235,967)	-	-	(278,167)
Effect of exchange rate changes	-	(49,380)	(18,294)	(11,335)	(8,144)	-	(87,153)
Balance, December 31, 2015	**42,459,097**	**24,660,714**	**6,263,894**	**5,451,019**	764,626	**1,581,633**	**81,180,983**
Additions	-	330,151	219,234	1,015,021	11,752	770,712	2,346,870
Disposals	-	-	(29,178)	(219,474)	(4,766)	-	(253,418)
Transfers between categories	-	138,466	116,785	-	-	(255,251)	-
Transfers to expenses	-	-	-	-	-	(141,223)	(141,223)
Write-off	-	(1,894)	(11,504)	(27,532)	-	-	(40,930)
Effect of exchange rate changes	-	23,786	(531)	2,472	(2,189)	-	23,538
Balance, December 31, 2016	**42,459,097**	**25,151,223**	**6,558,700**	**6,221,506**	**769,423**	**1,955,871**	**83,115,820**
Accumulated Depreciation							
Balance, January 1, 2015	**1,325,721**	**12,718,985**	**3,034,013**	**4,089,528**	**379,513**	-	**21,547,760**
Additions	274,776	2,972,032	563,854	531,302	85,143	-	4,427,107
Disposals	-	-	(51,059)	(45,810)	-	-	(96,869)
Write-off	-	(11,525)	(25,254)	(226,952)	-	-	(263,731)
Effect of exchange rate changes	-	(30,756)	(11,733)	(8,879)	(8,144)	-	(59,512)
Balance, December 31, 2015	**1,600,497**	**15,648,736**	**3,509,821**	**4,339,189**	**456,512**	-	**25,554,755**
Additions	296,198	2,790,759	509,411	477,198	84,347	-	4,157,913
Disposals	-	-	(29,178)	(210,794)	(4,766)	-	(244,738)
Write-off	-	(1,894)	(8,736)	(27,532)	-	-	(38,162)
Adjustments	-	-	(401)	-	-	-	(401)
Effect of exchange rate changes	-	10,027	(997)	646	(2,190)	-	7,486
Balance, December 31, 2016	**1,896,695**	**18,447,628**	**3,979,920**	**4,578,707**	**533,903**	-	**29,436,853**
Carrying Amount							
Balance, December 31, 2016	**40,562,402**	**6,703,595**	**2,578,780**	**1,642,799**	**235,520**	**1,955,871**	**53,678,967**
Balance, December 31, 2015	**40,858,600**	**9,011,978**	**2,754,073**	**1,111,830**	**308,114**	**1,581,633**	**55,626,228**

During 2016, the Bank wrote-off tangible fixed assets resulting in a loss of LBP2.8million (LBP14million during 2015) booked under "Other expenses".

Advances on capital expenditure represent mainly the renovation for several branches namely Jbeil, Jneh, Achrafieh and Basra in Iraq which was mainly allocated in years 2015 and 2016 to buildings and freehold improvements. In addition to the advance payment on the purchase of a plot for the new branch in Hamra.

16. INTANGIBLE ASSETS

	Purchased Software LBP'000
Cost:	
Balance, January 1, 2015	**3,995,090**
Acquisitions	361,166
Translation adjustment	(33,909)
Balance, December 31, 2015	**4,322,347**
Acquisitions	177,660
Translation adjustment	(5,580)
Balance, December 31, 2016	**4,494,427**
Amortization:	
Balance, January 1, 2015	**3,158,242**
Amortization for the year	310,276
Translation adjustment	(33,546)
Balance, December 31, 2015	**3,434,972**
Amortization for the year	330,835
Translation adjustment	(5,089)
Balance, December 31, 2016	**3,760,718**
Carrying Amounts:	
December 31, 2016	**733,709**
December 31, 2015	**887,375**

17. OTHER ASSETS

	December 31, 2016 LBP'000	December 31, 2015 LBP'000
Accounts receivable - credit cards	1,547,003	472,690
Prepaid expenses	2,118,938	2,070,154
Regulatory blocked fund	4,500,000	4,500,000
Sundry accounts receivable	1,400,011	578,716
	9,565,952	**7,621,560**

Regulatory blocked fund represents a non-interest earning compulsory deposit placed with the Lebanese treasury upon establishment of "IBL Investment Bank S.A.L.". This deposit is refundable in case of cease of operations according to Article 132 of the Code of Money and Credit.

18. 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 LBP'000	December 31, 2015 LBP'000
Current deposits of banks and financial institutions	32,944,053	43,806,260
Short term borrowings	27,783,621	22,852,145
Accrued interest payable	486,357	205,608
	61,214,031	**66,864,013**

Short term borrowings mature within one year.

19. CUSTOMERS' ACCOUNTS

	December 31, 2016 LBP'000	December 31, 2015 LBP'000
Deposits:		
Current/demand deposits	459,351,606	437,969,034
Term deposits	6,891,494,161	6,029,549,096
Fiduciary deposits	77,988,750	194,902,573
Collateral against speculation accounts	12,517,462	5,728,810
Cash collateral	626,997,754	631,223,624
Margins and other accounts:		
Margins for irrevocable import letters of credit	4,424,426	4,426,367
Margins on letters of guarantee	12,063,188	7,333,256
Accrued interest payable	**53,343,652**	**38,355,713**
	8,138,180,999	**7,349,488,473**

Related parties accounts at amortized cost are detailed as follows:

	December 31, 2016 LBP'000	December 31, 2015 LBP'000
Deposit:		
Demand deposits	4,306,967	3,614,192
Term deposits	136,509,524	137,441,080
Collateral against speculation account	25,503,862	23,838,690
Cash collateral	98,469,105	87,779,163
Accrued interest payable	1,016,226	935,367
	265,805,684	**253,608,492**

Deposits from customers are allocated by brackets of deposits excluding accrued interest payable as follows:

Bracket	December 31, 2016 - LBP Total Deposits	Percentage to Total Deposits	Percentage to Total No of Accounts	December 31, 2016 - Counter Value of F/Cy Total Deposits	Percentage to Total Deposits	Percentage to Total No of Accounts
	LBP'000	%	%	LBP'000	%	%
Less than LBP 50 million	146,520,220	4	79	103,906,096	2	85
From LBP 50 million to LBP 250 million	467,656,228	13	13	272,624,080	6	9
From LBP 250 million to LBP 750 million	601,195,880	16	5	383,182,344	9	3
From LBP 750 million to LBP 1.5 billion	483,455,407	13	2	364,057,976	8	1
More than LBP1.5billion	2,004,956,160	54	1	3,257,282,956	75	2
	3,703,783,895	**100**	**100**	**4,381,053,452**	**100**	**100**

Bracket	December 31, 2015 - LBP Total Deposits	Percentage to Total Deposits	Percentage to Total No of Accounts	December 31, 2015 - Counter Value of F/Cy Total Deposits	Percentage to Total Deposits	Percentage to Total No of Accounts
	LBP'000	%	%	LBP'000	%	%
Less than LBP 50 million	135,226,769	4	80	99,616,460	3	85
From LBP 50 million to LBP 250 million	422,686,154	13	13	257,214,825	6	9
From LBP 250 million to LBP 750 million	552,344,247	17	5	356,278,126	9	3
From LBP 750 million to LBP 1.5 billion	445,112,544	13	1	333,415,003	8	1
More than LBP1.5billion	1,748,819,969	53	1	2,960,418,663	74	2
	3,304,189,683	**100**	**100**	**4,006,943,077**	**100**	**100**

Deposits from customers at amortized cost include coded deposit accounts in the aggregate amount of LBP163billion (LBP230billion in 2015). These accounts are subject to the provisions of Article 3 of the Banking Secrecy Law dated September 3, 1956 which provides that the Bank's management, in the normal course of business, cannot reveal the identities of these depositors to third parties, including its independent public accountants.

Fiduciary deposits were received from resident and non-resident banks for a total amount of LBP33billion and LBP45billion (LBP34billion and LBP161billion respectively in 2015).

The average balance of customers' deposits (including related party deposits) and related cost of funds over the last three years were as follows:

Year	Average Balance of Deposits: LBP Base Accounts	Average Balance of Deposits: F/Cy Base Accounts	Cost of Funds	Average Interest Rate
	LBP'000	LBP'000	LBP'000	%
2016	**3,692,738,444**	**4,036,526,873**	**437,159,853**	**5.66**
2015	3,321,173,962	3,690,107,037	396,022,066	5.64
2014	2,912,343,986	3,528,123,497	360,490,361	5.60

20. OTHER BORROWINGS

Other borrowings represent facilities granted by Central Bank of Lebanon in the amount of LBP98billion (LBP62billion in 2015) which are made in connection with Central Bank of Lebanon intermediate Circular 313 relating to basic Decision No. 6116 of March 7, 1996 and its amendments by which the Bank benefited from credit facilities granted against loans the Bank has granted responsibility, to its customers, pursuant to certain conditions, rules and mechanism.

21. OTHER LIABILITIES

This caption consists of the following:

	December 31, 2016	December 31, 2015
	LBP'000	LBP'000
Withheld taxes and property taxes	4,331,031	4,318,566
Income tax payable	12,191,705	7,692,285
Due to the National Social Security Fund	380,212	310,124
Checks and incoming payment orders in course of settlement	38,226,476	26,199,968
Blocked capital subscriptions for companies under incorporation	845,406	2,253,299
Accrued expenses	2,521,267	2,680,970
Dividends payable	171,451	647,271
Payable to personnel and directors	862,375	839,373
Unearned revenues	1,255,124	1,698,015
Regulatory deferred liability (a)	570,408,501	-
Tax payable on regulatory deferred liability (a)	100,660,324	-
Fair value of forward exchange contracts	2,751,762	221,880
Sundry accounts payable	3,711,477	6,955,241
	738,317,111	**53,816,992**

(a) In accordance with the Central Bank of Lebanon Intermediary Circular number 446 dated December 30, 2016, banks should record the surplus derived from sale of treasury bills in Lebanese pounds against investment in medium to long term certificates of deposit in foreign currency issued by the Central Bank of Lebanon under deferred liability which is regulated in nature, and shall be appropriated, among other things, after deducting the relevant tax liability, to collective provision for credit risks associated with the loan book at a minimum of 2% of the weighted credit risks amounted to LBP20billion, and that in anticipation of implementation of IFRS 9 for Impairment, as and when quantified effective on January 1, 2018. By virtue of this Circular, 70% of the remaining residual surplus once recognized over time shall be treated as non-distributable income designated and restricted only for appropriation to capital increase.

During the year 2016, as a result of several transactions derived from the special and non-conventional deals arrangement with the Central Bank of Lebanon, the Group received a surplus of LBP570billion, net of tax in the amount of LBP101billion, which was credited to "Regulatory deferred liability" under other liabilities and deferred as restricted contribution in anticipation of expected loss provisions that will be deemed to be necessary along with the application of IFRS 9 in accordance with the Central Bank of Lebanon requirements as indicated above (Refer to Note 12).

Sundry accounts payable outstanding as at December 31, 2015 in the amount of LBP7billion include the equivalent of a guarantee to a customer dealing with Iraq branch amounted to USD2.5million (C/V LBP3.7billion) settled in the year 2016.

Income tax payable is computed as follows:

	December 31, 2016 LBP'000	December 31, 2015 LBP'000
Profit before income tax	146,392,150	122,126,879
Non-deductible expense	33,103,189	29,752,387
Non-taxable income	(16,956,175)	(24,644,476)
Taxable income	162,539,164	127,234,790
Income tax expense	25,247,065	19,540,702
Tax on capital gain	8,607	24
Total income tax expense	25,255,672	19,540,726
Less: Tax paid in advance (5%)	(12,845,269)	(12,197,469)
Tax paid on resident subsidiaries	(218,698)	(130,972)
Taxes related to non-resident branch paid subsequently	-	480,000
Income tax payable	**12,191,705**	**7,692,285**

Other expenses includes an amount of LBP878million related to taxes and penalties paid on the Bank branch in Iraq.

During 2014, the Bank was subject to tax examination for the fiscal years 2009 to 2012 (inclusive) which was finalized in year 2015. As a result, additional taxes and penalties in the amount of LBP1.3billion was paid in year 2015.

The Bank's tax returns for the years 2013 to 2016 inclusive are still subject to review by the tax authorities and any additional tax liability depends on the outcome of such reviews.

22. PROVISIONS

Provisions consist of the following:

	December 31, 2016 LBP'000	December 31, 2015 LBP'000
Provision for staff end-of-service indemnity	12,277,634	10,259,728
Provision for risk and charges	23,241,216	9,115,233
Provision for loss in foreign currency	145,000	103,000
	35,663,850	**19,477,961**

The movement of provision for staff end-of-service indemnity is as follows:

	December 31, 2016 LBP'000	December 31, 2015 LBP'000
Balance, January 1	10,259,728	8,362,020
Additions (Note 36)	2,202,463	2,082,962
Settlements	(184,557)	(185,254)
Balance, December 31	**12,277,634**	**10,259,728**

The movement of provision for risk and charges is as follows:

	December 31, 2016 LBP'000	December 31, 2015 LBP'000
Balance, January 1	9,115,233	16,659,301
Additions	15,046,234	23,608,000
Transfer to allowance for impairment on term placements (Note 5)	(658,000)	(23,540,725)
Transfer to allowance for collective impairment (Note 8)	(202,601)	(1,836,069)
Write-back	-	(5,708,000)
Effect of exchange rates changes	(59,650)	(67,274)
Balance, December 31	**23,241,216**	**9,115,233**

23. SUBORDINATED BONDS

	December 31, 2016 LBP'000	December 31, 2015 LBP'000
Subordinated bonds	60,300,000	60,300,000
Accrued interest payable	254,020	260,199
	60,554,020	**60,560,199**

The Extraordinary General Assembly of Shareholders held on August 24, 2015, authorized the issuance of non-convertible, non-callable, cumulative subordinated bonds in the amount of USD40million comprising 400,000 bonds issued in denominations of USD100 each. These bonds were issued on December 10, 2015 and mature on December 10, 2025 and are subject to an annual interest rate of 7.5% per annum.

In accordance with banking laws and regulations, subordinated bonds are considered as Tier II capital for the purpose of computation of Risk Based Capital Ratio to be decreased by 20% in a yearly basis.

In this connection, interest expense on subordinated bonds for the year ended December 31, 2016 amounted to LBP4.5billion recorded under "Interest expense" in the consolidated statement of profit or loss (LBP260million in 2015) (Note 30).

24. CAPITAL

In its meeting held on October 31, 2016, the Extraordinary General Assembly of Shareholders resolved to redeem and cancel preferred shares series 2 consisting of 500,000 shares at an issue price of USD100 per share in conjunction with the transfer from general reserves account to capital the preferred shares par value of LBP3.8billion. These shares will be distributed proportionally to all ordinary shareholders. The Extraordinary General Assembly of Shareholders held on September 15, 2016, approved the increase of capital from LBP150billion to LBP155,625billion through the issuance of 750,000 new series 3 preferred shares at an issue price of USD100 and a par value of LBP7,500.

Accordingly as at December 31, 2016, Group's share capital consisted of 20,000,000 ordinary shares and 750,000 preferred shares for a par value of LBP7,500 each and fully paid.

The Bank hedged part of its capital against fluctuations in the Lebanese currency through a fixed currency position of USD6,300,000.

25. NON-CUMULATIVE CONVERTIBLE PREFERRED SHARES

As mentioned under note 24, the Extraordinary General Assembly of Shareholders held on October 31, 2016 approved the redemption and cancelation of the 500,000 series 2 preferred shares having par value of LBP7,500 per share, in addition to a share premium in U.S. Dollar equivalent to the difference between the issue price of USD100 and the counter value of the par value mentioned above, amounting to USD50million.

In addition and as mentioned in note 24, the Extraordinary General Assembly of Shareholders held on September 15, 2016, resolved to issue 750,000 share series 3 preferred shares at an issue price of USD100 having a par value of LBP7,500 per share, in addition to a share premium amounting to USD75million equivalent to LBP113billion.

Subject to certain terms and conditions, distribution to holders of series 3 preferred shares shall be paid annually a fixed amount of USD7.5 representing a dividend yield of 7.5 percent per series 3 preferred share.

26. RESERVES

Reserves consist of the following:

	December 31, 2016 LBP'000	December 31, 2015 LBP'000
Legal reserves (a)	50,083,256	40,125,308
Reserve for general banking risks (b)	68,885,225	54,447,190
General reserve for performing loans (c)	692,000	450,000
General reserves (d)	219,225	3,888,000
	119,879,706	**98,910,498**

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

(b) The reserve for general banking risks is constituted according to local banking regulations, from net profit, on the basis of a minimum of 2 per mil and a maximum of 3 per mil of the total risk weighted assets, off-balance sheet risk and global exchange position as defined for the computation of the solvency ratio at year-end, on condition that the aggregate rate does not fall bellow 1.25% at the end of the tenth year, starting 1998, which is 2007 and 2% at the end of the twentieth year. This reserve is constituted in Lebanese Pounds and in foreign currencies in proportion to the composition of the Bank's total risk weighted assets and off-balance sheet items. This reserve is not available for distribution and to be used to cover any annual losses or unexpected losses agreed upon with the banking control commission.

(c) In compliance with the basic circular no. 81 issued by the Central Bank of Lebanon, the Bank is required to transfer from net profit to general reserve for performing loans the equivalent of:

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

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

(d) In accordance with the Extraordinary General Assembly of Shareholders decision dated October 31, 2016 an amount of LBP3,75billion was transferred from general reserve to capital account in line with the redemption of series 2 preferred shares (Notes 24 & 25).

27. DIVIDENDS PAID

The following dividends were declared and paid by the Bank:

	2016 LBP'000	2015 LBP'000
Ordinary shares	27,007,500	24,570,000
Preferred shares	5,653,125	5,653,125
	32,660,625	**30,223,125**

28. NON-CONTROLLING INTERESTS

	December 31, 2016 LBP'000	December 31, 2015 LBP'000
Capital	600,300	600,300
Retained earnings	637,803	420,204
Reserves	100,437	63,517
Profit for the year	248,520	254,519
	1,587,060	**1,338,540**

29. INTEREST INCOME

	2016 LBP'000	2015 LBP'000
Interest income on:		
Deposits with the Central Bank of Lebanon	138,430,245	113,141,522
Deposits with banks and financial institutions	1,620,212	1,196,424
Investment securities at amortized cost	319,485,561	218,391,353
Loans to banks and financial institutions	3,152,884	6,598,016
Loans and advances to customers	114,769,743	113,368,768
Loans and advances to related parties	4,576,818	4,922,823
Interest realized on non-performing loans	182	936,256
	582,035,645	**458,555,162**

Accrued interest on impaired loans and advances is not recognized until recovery/rescheduling agreements are signed with customers.

30. INTEREST EXPENSE

	2016 LBP'000	2015 LBP'000
Interest expense on:		
Deposits and borrowings from banks and financial institutions	2,331,039	1,664,578
Customers' accounts at amortized cost	420,479,306	382,411,695
Related parties' accounts at amortized cost	16,680,547	13,610,371
Subordinated bonds (Note 23)	4,516,322	260,199
Other borrowings	706,232	551,175
	444,713,446	**398,498,018**

31. FEE AND COMMISSION INCOME

	2016 LBP'000	2015 LBP'000
Commission on documentary credits	1,009,740	584,933
Commission on letters of guarantee	1,373,064	1,020,236
Service fees on customers' transactions	6,350,926	6,118,252
Asset management fees	73,604	128,533
Commission earned on insurance policies	313,568	276,186
Other	718,418	667,980
	9,839,320	**8,796,120**

32. FEE AND COMMISSION EXPENSE

	2016 LBP'000	2015 LBP'000
Commission on transactions with banks	654,218	426,219
Other	455,184	406,982
	1,109,402	**833,201**

33. OTHER OPERATING INCOME

	2016 LBP'000	2015 LBP'000
Gain on sale of investment securities at amortized cost	-	6,373
Net foreign exchange gain	4,225,655	3,243,936
Other	1,942,794	1,887,750
	6,168,449	**5,138,059**

34. NET INTEREST AND OTHER GAIN/(LOSS) ON INVESTMENT SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016 LBP'000	2015 LBP'000
Interest income	69,619,579	122,553,314
Net unrealized loss	(58,291,667)	(65,329,437)
Net realized gain	88,579,007	73,790,279
Dividend income	242,944	233,768
	100,149,863	**131,247,924**

35. ALLOWANCE FOR IMPAIRMENT /(WRITE-BACK) OF LOANS AND ADVANCES (NET)

	2016 LBP'000	2015 LBP'000
Allowance for impairment loans and advances (Note 8)	3,437,103	1,501,840
Write back (Note 8)	(287,671)	(2,281,546)
Allowance for collective impairment/(write-back) (Note 8)	13,567,500	(78,272)
Direct write-off for doubtful and bad loans (Note 8)	-	313,679
Write-off bad debt	141,702	-
Net allowance from loans booked in the off-balance sheet	4,745	4,635
	16,863,379	**(539,664)**

36. STAFF COSTS

	2016 LBP'000	2015 LBP'000
Salaries and related charges	29,285,466	28,148,864
Executive management remunerations	7,913,422	7,249,017
Social security contributions	2,895,836	2,712,591
Provision for end-of-service indemnities (Note 22)	2,202,463	2,082,962
	42,297,187	**40,193,434**

37. GENERAL AND ADMINISTRATIVE EXPENSES

	2016 LBP'000	2015 LBP'000
Professional fees	2,760,219	3,075,073
Rent	1,561,128	1,491,861
Advertising	10,664,185	5,626,107
Post and telephone	1,322,531	1,260,288
Repairs and maintenance	1,440,865	1,274,311
Travel	626,537	594,456
Printing and stationery	512,706	492,983
Water and electricity	796,287	951,692
Insurance	451,200	428,001
Gifts and donations	33,991	90,383
Subscription fees	1,190,148	576,810
Municipality and other accrued taxes and penalties	964,139	900,292
Training and seminars	286,439	124,140
Cleaning	375,382	342,950
Licenses	112,653	93,635
Credit card expenses	18,639	27,216
Transportation	404,710	346,618
Miscellaneous expenses	2,538,880	1,924,157
	26,060,639	**19,620,973**

38. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

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.

39. RELATED PARTIES

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

	December 31, 2016 LBP'000	December 31, 2015 LBP'000
Direct facilities and credit balances:		
Loans and advances	99,166,198	101,644,431
Deposits (Note 19)	265,805,684	253,608,492
Indirect facilities:		
Letters of guarantee	73,002	198,752

Loans and advances to related parties covered by real estate mortgage and cash collateral to the extent of LBP3.9billion and LBP19.95billion respectively for 2016 (Real estate mortgage of LBP4.1billion and cash collateral of LBP32.48billion for 2015).

The executive management remunerations amounted to LBP7.91billion during 2016 (LBP7.25billion in 2015).

40. CASH AND CASH EQUIVALENTS

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

	December 31, 2016 LBP'000	December 31, 2015 LBP'000
Cash on hand	44,183,418	43,791,654
Current accounts with central banks (excluding compulsory reserves)	62,582,254	65,074,315
Term placements with Central Bank of Lebanon	-	30,845,700
Checks for collection	18,211,508	24,819,593
Current accounts with banks and financial institutions	255,699,717	235,985,414
Term placements with banks and financial institutions	97,837,500	127,170,354
	478,514,397	**527,687,030**

Term deposits with the Central Bank of Lebanon and banks and financial institutions represent inter-bank placements and borrowings with an original term of 90 days or less.

The following non-cash items were excluded from the statement of cash flows:

- LBP4.8billion representing the increase in assets acquired in satisfaction of loans for the year ended December 31, 2016 (LBP116million in 2015) against decrease in loans and advances to customers for the same amount.

- LBP801billion representing the increase in investment securities at amortized cost for the year ended December 31, 2016 (LBP218billion in 2015) against decrease in investment securities at fair value through profit or loss for the same amount.

41. CAPITAL MANAGEMENT

The Group's objectives when managing capital are to comply with the capital 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 regularly capital of LBP10billion for the head office and LBP500million for each local branch and LBP1.5billion for each branch abroad (in addition to the amount imposed by the relevant authorities abroad).
The Group's capital is split as follows:

Tier I capital: Comprises share capital, non-cumulative perpetual preferred shares, share premium, reserves from appropriation of profits, retained earnings (exclusive of expected dividends distribution) and non-controlling interests after deductions for intangible assets.

Tier II capital: Comprises qualifying subordinated bonds and revaluation surplus of owned properties.

The Group's consolidated capital adequacy ratio according to Central Bank of Lebanon directions and Based III as of December 31, 2016 and 2015 was as follows:

	December 31, 2016 LBP'Million	December 31, 2015 LBP'Million
Common equity Tier 1	600,667	520,075
Additional Tier I capital	113,076	75,398
	713,743	**595,473**
Tier II capital	61,451	61,451
Total regulatory capital	**775,194**	**656,924**
Credit risk	3,368,354	3,260,751
Market risk	292,729	821,860
Operational risk	395,279	336,766
Risk-weighted assets and risk-weighted off-balance sheet items	4,056,362	4,419,377
Equity Tier I ratio	14.81%	11.77%
Tier I capital ratio	17.60%	13.47%
Risk based capital ratio-Tier I and Tier II capital	19.11%	14.86%

The Group has complied with imposed capital requirements throughout the year.

42. SEGMENT INFORMATION

The following is the financial position and the financial performance by Group entity allocated by geographical location:

Financial Position

	December 31, 2016			
	Lebanon Operations LBP'000	Cyprus Operations LBP'000	Iraq Operations LBP'000	Total LBP'000
ASSETS				
Cash and deposits with central banks	4,076,972,558	370,350	42,976,637	4,120,319,545
Deposits with banks and financial institutions	371,721,105	29,275	82,295	371,832,675
Loans to banks and financial institutions	61,153,584	-	-	61,153,584
Loans and advances to customers	1,419,298,393	1,741	20,831,849	1,440,131,983
Loans and advances to related parties	99,166,198	-	-	99,166,198
Investment securities at fair value through profit or loss	643,865,655	-	-	643,865,655
Investment securities at fair value through other comprehensive income	1,967,790	-	-	1,967,790
Investment securities at amortized cost	3,335,205,209	-	-	3,335,205,209
Customers' liability under acceptances	45,018,919	-	-	45,018,919
Assets acquired in satisfaction of loans	24,612,014	-	-	24,612,014
Property and equipment	52,049,057	57,067	1,572,843	53,678,967
Intangible assets	727,433	26	6,250	733,709
Other assets	9,184,634	18,669	362,649	9,565,952
Total Assets	**10,140,942,549**	**477,128**	**65,832,523**	**10,207,252,200**
LIABILITIES				
Deposits from banks and financial institutions	61,117,746	-	96,285	61,214,031
Customers' accounts	8,034,590,929	37,409,188	66,180,882	8,138,180,999
Related parties' accounts	265,803,687	-	1,997	265,805,684
Liability under acceptances	45,018,919	-	-	45,018,919
Other borrowings	97,778,129	-	-	97,778,129
Other liabilities	783,100,400	(38,650,876)	(6,132,413)	738,317,111
Provisions	35,663,850	-	-	35,663,850
Subordinated bonds	60,554,020	-	-	60,554,020
Total Liabilities	**9,383,627,680**	**(1,241,688)**	**60,146,751**	**9,442,532,743**

	Lebanon Operations LBP'000	December 31, 2015 Cyprus Operations LBP'000	Iraq Operations LBP'000	Total LBP'000
ASSETS				
Cash and deposits with central banks	1,956,425,790	116,247	50,867,592	2,007,409,629
Deposits with banks and financial institutions	387,948,071	16,635	24,828	387,989,534
Loans to banks and financial institutions	71,820,642	-	-	71,820,642
Loans and advances to customers	1,515,714,614	46	25,042,916	1,540,757,576
Loans and advances to related parties	101,644,431	-	-	101,644,431
Investment securities at fair value through profit or loss	1,360,503,055	-	-	1,360,503,055
Investment securities at fair value through other comprehensive income	1,084,018	-	-	1,084,018
Investment securities at amortized cost	2,949,026,977	-	-	2,949,026,977
Customers' liability under acceptances	13,291,917	-	-	13,291,917
Assets acquired in satisfaction of loans	19,782,769	-	-	19,782,769
Property and equipment	53,381,180	40,618	2,204,430	55,626,228
Intangible assets	875,841	27	11,507	887,375
Other assets	7,377,863	21,700	221,997	7,621,560
Total Assets	**8,438,877,168**	**195,273**	**78,373,270**	**8,517,445,711**
LIABILITIES				
Deposits from banks and financial institutions	66,767,728	-	96,285	66,864,013
Customers' accounts	7,261,232,735	15,525,372	72,730,366	7,349,488,473
Related parties' accounts	253,606,494	-	1,998	253,608,492
Liability under acceptances	13,291,917	-	-	13,291,917
Other borrowings	61,657,571	-	-	61,657,571
Other liabilities	70,116,532	(16,424,308)	124,768	53,816,992
Provisions	19,477,961	-	-	19,477,961
Subordinated bonds	60,560,199	-	-	60,560,199
Total Liabilities	**7,806,711,137**	**(898,936)**	**72,953,417**	**7,878,765,618**

Statement of Profit or Loss and Other Comprehensive Income

	Lebanon Operations LBP'000	Year Ended December 31, 2016 Cyprus Operations LBP'000	Iraq Operations LBP'000	Total LBP'000
Interest income	577,236,216	2,552,209	2,247,220	582,035,645
Interest expense	(443,174,312)	(1,131,150)	(407,984)	(444,713,446)
Net interest income	134,061,904	1,421,059	1,839,236	137,322,199
Fee and commission income	7,699,263	20,102	2,119,955	9,839,320
Fee and commission expense	(1,014,009)	(63,469)	(31,924)	(1,109,402)
Net fee and commission income	6,685,254	(43,367)	2,088,031	8,729,918
Other operating income	5,885,317	5,118	278,014	6,168,449
Net interest and other gain/(loss) on investment securities at fair value through profit or loss	100,149,863	-	-	100,149,863
Net financial revenues	246,782,338	1,382,810	4,205,281	252,370,429
Allowance for impairment of loans and advances (net)	(16,863,379)	-	-	(16,863,379)
Net financial revenues after impairment charge for credit losses	229,918,959	1,382,810	4,205,281	235,507,050
Allowance for risk and charges (net)	(15,046,234)	-	-	(15,046,234)
Staff costs	(41,165,027)	(382,782)	(749,378)	(42,297,187)
General and administrative expenses	(24,375,245)	(260,068)	(1,425,326)	(26,060,639)
Depreciation and amortization	(3,770,232)	(8,467)	(710,049)	(4,488,748)
Other expenses	(335,411)	-	(886,681)	(1,222,092)
Profit before income tax	145,226,810	731,493	433,847	146,392,150
Income tax expense	(24,971,973)	(73,429)	(210,270)	(25,255,672)
Profit for the year	120,254,837	658,064	223,577	121,136,478
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	**120,254,837**	**658,064**	**223,577**	**121,136,478**

	Year Ended December 31, 2015			
	Lebanon Operations LBP'000	Cyprus Operations LBP'000	Iraq Operations LBP'000	Total LBP'000
Interest income	455,306,071	484,954	2,764,137	458,555,162
Interest expense	(397,566,207)	(444,846)	(486,965)	(398,498,018)
Net interest income	57,739,864	40,108	2,277,172	60,057,144
Fee and commission income	6,884,005	20,145	1,891,970	8,796,120
Fee and commission expense	(671,959)	(60,872)	(100,370)	(833,201)
Net fee and commission income	6,212,046	(40,727)	1,791,600	7,962,919
Other operating income	5,118,066	16,005	3,988	5,138,059
Net interest and other gain/(loss) on investment securities at fair value through profit or loss	129,379,246	1,868,678	-	131,247,924
Net financial revenues	198,449,222	1,884,064	4,072,760	204,406,046
Write-back impairment of loans and advances (net)	461,392	-	78,272	539,664
Net financial revenues after impairment charge for credit losses	198,910,614	1,884,064	4,151,032	204,945,710
Allowance for risk and charges (net)	(17,900,000)	-	-	(17,900,000)
Staff costs	(39,023,157)	(393,342)	(776,935)	(40,193,434)
General and administrative expenses	(17,753,203)	(254,310)	(1,613,460)	(19,620,973)
Depreciation and amortization	(3,965,291)	(11,440)	(760,652)	(4,737,383)
Other expenses	(236,346)	-	(130,695)	(367,041)
Profit before income tax	120,032,617	1,224,972	869,290	122,126,879
Income tax expense	(19,314,166)	-	(226,560)	(19,540,726)
Profit for the year	100,718,451	1,224,972	642,730	102,586,153
Other comprehensive income	-	-	-	-
Total comprehensive income	**100,718,451**	**1,224,972**	**642,730**	**102,586,153**

43. FINANCIAL RISK MANAGEMENT

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
    - Interest rate risk
    - Foreign exchange risk

The Credit Committee, Assets and Liabilities Committee work under the mandate of the board to set up risk limits and manage the overall risk in the Group. Risk committee was established whose role is to supervise the proper implementation of risk management procedures at the Bank and all its branches aboard and subsidiaries, in compliance with the regulations issued or will be issued by the Central Bank of Lebanon and Banking Control Commission.

A. CREDIT RISK

1. Credit risk management

Credit risk represents the risk of loss due to failure of a customer or counterparty to meet its financial obligations in accordance with contractual terms. The objective of the Group credit risk strategy is to quantify and manage credit risk on an aggregate portfolio basis, as well as to limit the risk of loss resulting from an individual customer default. This strategy is based on three core principles: Conservatism, diversification and monitoring. The Group manages credit risk through underwriting, periodically reviewing and approving credit exposures based on prevailing credit policies and guidelines. Additionally the Group manages credit risk through loan portfolio diversification, limiting exposure to any single industry, risk mitigation, customer and guarantor within various geographical areas.

Corporate and Commercial Lending are largely centralized at head office and are sanctioned by relating credit committees.

2. Loan classification and monitoring

The Group loan classification and internal rating system is derived from the framework of the regulatory classification requirement, and which is consistent with best practices. The loans' classification methodology is as follows:

A. Ordinary accounts:
- Regular
- Watch, for incomplete documentation

B. Special mention accounts.

C. Substandard accounts.

D. Doubtful accounts.

E. Bad or failing accounts.

• **Ordinary Accounts:** All payments are current and full repayment of interest and principal from normal sources is not in doubt.

• **Watch List:** Loans and advances rated Watch List are loans that are not impaired nor they show any creditworthiness weakness but for which the Bank determines that they require special monitoring due to certain deficiencies in the credit file with respect to the financial statements, collaterals, profitability, or others.

• **Special Mention Accounts:** Loans past due but not impaired are loans where contractual interest or principal are past due but believes that impairment is not appropriate on the basis of the level of collateral available and the stage of collection of amounts owed to the Bank.

• **Substandard loans:** There is weakness in the borrower's creditworthiness, profitability, cash flows for a long period and collaterals or uses of the facilities for other purposes.Default has occurred or is likely to occur or the repayment schedule has been restructured.Past due for more than 90 but less than 270 days.

• **Doubtful loans:** More adverse conditions than those related to the above mentioned classification, with a greater degree of risk associated with the on going deterioration in the client position and sufficiency of collateral and the cease of deposits for greater than 270 days and less than 365 days or the cease of settlements or rescheduled payments for more than 90 days.

• **Bad or failing accounts:** It covers credits that are regarded as uncollectible, when the delay in payments exceeds 365 days.

Loan account classifications are reviewed periodically by the Credit department. Accounts' classification is monitored based on relevant facts related to the accounts' performance and are up and/or down-graded depending on the credit worthiness of the borrowers and their ability to pay back, taking into consideration the quality of the guarantees. Once Accounts are classified as less then regular, they become closely monitored for debtor's behavior, accounts performance, deterioration in the borrower's solvency, cash generation and overall financial condition.

If, however, the borrower's difficulties appear to be more fundamental and/or the collateral no longer adequately covers the facility, whether due to excessive exposure or diminution in the value of the collateral then the account is classified as Class C and interest is discontinued to be recognized in the income statement.

3. Risk mitigation policies

Collateral:

The Group mainly employs collateral to mitigate credit risk. The principal collateral types for loans and advances are:

- Pledged deposits
- Mortgages over real estate properties (land, commercial and residential properties)
- Bank guarantees
- Financial instruments (equities and debt securities)
- Business other assets (such as inventories and accounts receivable)

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and generally updated every 2 years and when a loan is individually assessed as impaired.

Generally, Collateral is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities.

A plan of action is determined in relation to each Class C account. If there is no improvement, a provision is taken in respect of the principal based on the expected debt recovery, and the account is then classified as Class D. Once recovery becomes very remote, the full outstanding balance is provided for; the account is down graded to Class E.

Impaired loans

Impaired loans are loans for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan. These loans are classified C, D and E in the Group's internal credit risk classification.

Past due but not impaired loans

Loans and securities where contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Group.

Allowances for impairment

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Write-off policy

The Group writes-off a loan or security (and any related allowances for impairment losses) when the Group's management and credit business unit determine that the loans/securities are uncollectible in whole or in part. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay its obligation in full, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardized loans, charge off decisions generally are based on a product specific past due status.

Loans and advances to customers consist of the following as at December 31:

	2016			2015		
	Gross Amount Net of Unrealized Interest LBP'000	Impairment Allowance LBP'000	Carrying Amount LBP'000	Gross Amount Net of Unrealized Interest LBP'000	Impairment Allowance LBP'000	Carrying Amount LBP'000
Performing retail loans						
Mortgage loans	217,899,036	-	217,899,036	220,666,033	-	220,666,033
Personal loans	42,062,729	-	42,062,729	37,832,824	-	37,832,824
Credit card	7,253,193	-	7,253,193	6,266,868	-	6,266,868
Overdrafts	6,351,296	-	6,351,296	19,743,066	-	19,743,066
Allowance for collective provision - performing retail	-	(1,083,873)	(1,083,873)	-	(881,097)	(881,097)
	273,566,254	**(1,083,873)**	**272,482,381**	**284,508,791**	**(881,097)**	**283,627,694**
Non-performing retail loans						
Substandard loans	35,228	-	35,228	37	-	37
Doubtful loans	2,511,430	(1,437,247)	1,074,183	2,630,654	(1,510,570)	1,120,084
	2,546,658	**(1,437,247)**	**1,109,411**	**2,630,691**	**(1,510,570)**	**1,120,121**
Performing corporate loans						
Large enterprises	717,620,260	-	717,620,260	930,503,350	-	930,503,350
Small and medium enterprises	432,088,087	-	432,088,087	321,495,908	-	321,495,908
	1,149,708,347	-	**1,149,708,347**	**1,251,999,258**	**-**	**1,251,999,258**
Non-performing corporate loans						
Substandard loans	27,920,394	-	27,920,394	3,701,259	-	3,701,259
Doubtful loans	13,914,167	(9,231,300)	4,682,867	11,776,282	(8,762,107)	3,014,175
	41,834,561	**(9,231,300)**	**32,603,261**	**15,477,541**	**(8,762,107)**	**6,715,434**
Allowance for collective impairment	-	(24,678,500)	(24,678,500)	-	(11,110,999)	(11,110,999)
Accrued interest receivable	8,907,083	-	8,907,083	8,406,070	-	8,406,070
	1,476,562,903	**(36,430,920)**	**1,440,131,983**	**1,563,022,351**	**(22,264,773)**	**1,540,757,578**

Performing corporate loans to large enterprises, outstanding at year end 2016 and 2015, include an amount of LBP226billion related to a non-resident customer which is covered by LBP234billion cash collateral. Related interest income and expense amounted to LBP30.7billion and LBP28.83billion respectively during 2016 and 2015.

Loans classified performing include overdue amounts as at December 31 as follows:

	2016 LBP'000	2015 LBP'000
Between 30-60 days	59,775	261,837
Between 60-90 days	41,467	220,056
Between 90-180 days	837	554,235
Beyond 180 days	2,110,381	109,395
	2,212,460	**1,145,523**

WITHOUT CONTINUAL GROWTH AND PROGRESS, SUCH WORDS AS IMPROVEMENT, ACHIEVEMENT, AND SUCCESS HAVE NO MEANING.

Benjamin Franklin

b) Concentration of major financial assets by industry or sector:

					December 31, 2016					
					Trading LPB'000	Services LPB'000	Individuals LPB'000	Others LPB'000	Allowance For Collective Impair-ment LPB'000	Total LPB'000
					-	-	-	-	-	4,120,319,545
Deposits with banks and financial institutions	-	371,832,675	-	-	-	-	-	-	-	371,832,675
					-	-	-	-	-	61,153,584
Loans and advances to customers	-	23,336,845	329,746,631	72,554,953	137,664,942	501,267,951	375,543,047	25,779,987	(25,762,373)	1,440,131,983
					914,831	-	8,474,088	25,278	-	99,166,198
Investment securities at fair value through profit or loss	638,859,422	5,006,233	-	-	-	-	-	-	-	643,865,655
					-	-	-	-	-	1,967,790
Investment securities at amortized cost	3,335,205,209	-	-	-	-	-	-	-	-	3,335,205,209
					138,579,773	**501,267,951**	**384,017,135**	**25,805,265**	**(25,762,373)**	**10,073,642,639**

					December 31, 2015					
					Trading LPB'000	Services LPB'000	Individuals LPB'000	Others LPB'000	Allowance For Collective Impair-ment LPB'000	Total LPB'000
					-	-	-	-	-	2,007,409,629
Deposits with banks and financial institutions	-	387,989,534	-	-	-	-	-	-	-	387,989,534
					-	-	-	-	-	71,820,642
Loans and advances to customers	-	97,955,719	335,073,234	111,911,579	114,650,504	442,765,489	424,069,458	26,323,689	(11,992,096)	1,540,757,576
					2,996,470	-	7,786,874	29,652	-	101,644,431
Investment securities at fair value through profit or loss	1,356,242,396	4,260,659	-	-	-	-	-	-	-	1,360,503,055
					-	-	-	-	-	1,084,018
Investment securities at amortized cost	2,949,026,977	-	-	-	-	-	-	-	-	2,949,026,977
					117,646,974	**442,765,489**	**431,856,332**	**26,353,341**	**(11,992,096)**	**8,420,235,862**

c) Concentration of major financial assets and liabilities by geographical area:

December 31, 2016	Lebanon LBP'000	Middle East & Africa LBP'000	North America LBP'000	Europe LBP'000	Other LBP'000	Total LBP'000
ASSETS						
Cash and Deposits with Central Banks	4,101,138,572	18,810,623	-	370,350	-	4,120,319,545
Deposits with banks and financial institutions	49,008,777	10,476,815	142,661,980	168,614,812	1,070,291	371,832,675
Loans to banks & financial Institutions	61,153,584	-	-	-	-	61,153,584
Loans and advances to customers	1,143,419,390	267,559,903	1,975,832	23,594,076	3,582,782	1,440,131,983
Loans and advances to related parties	99,166,198	-	-	-	-	99,166,198
Investment securities at fair value through profit or loss	643,865,655	-	-	-	-	643,865,655
Investment securities at fair value through other comprehensive income	1,967,790	-	-	-	-	1,967,790
Investment securities at amortized cost	3,335,205,209	-	-	-	-	3,335,205,209
	9,434,925,175	**296,847,341**	**144,637,812**	**192,579,238**	**4,653,073**	**10,073,642,639**
LIABILITIES						
Deposits from banks & financial Institutions	27,110,546	29,995,966	-	4,107,519	-	61,214,031
Customers' accounts	6,412,413,326	1,092,313,453	86,002,773	525,937,902	21,513,545	8,138,180,999
Related parties accounts	265,803,688	1,996	-	-	-	265,805,684
Other borrowings	97,778,129	-	-	-	-	97,778,129
Subordinated bonds	60,554,020	-	-	-	-	60,554,020
	6,863,659,709	**1,122,311,415**	**86,002,773**	**530,045,421**	**21,513,545**	**8,623,532,863**

December 31, 2015	Lebanon LBP'000	Middle East & Africa LBP'000	North America LBP'000	Europe LBP'000	Other LBP'000	Total LBP'000
ASSETS						
Cash and Deposits with Central Banks	1,981,920,497	25,372,885	-	116,247	-	2,007,409,629
Deposits with banks and financial institutions	63,222,672	2,047,315	135,612,866	186,778,855	327,826	387,989,534
Loans to banks & financial Institutions	71,820,642	-	-	-	-	71,820,642
Loans and advances to customers	1,141,503,383	310,455,530	-	64,712,315	24,086,348	1,540,757,576
Loans and advances to related parties	101,644,431	-	-	-	-	101,644,431
Investment securities at fair value through profit or loss	1,360,503,055	-	-	-	-	1,360,503,055
Investment securities at fair value through other comprehensive income	1,084,018	-	-	-	-	1,084,018
Investment securities at amortized cost	2,949,026,977	-	-	-	-	2,949,026,977
	7,670,725,675	**337,875,730**	**135,612,866**	**251,607,417**	**24,414,174**	**8,420,235,862**
LIABILITIES						
Deposits from banks & financial Institutions	24,170,462	37,479,606	-	5,213,945	-	66,864,013
Customers' accounts	5,585,360,729	922,796,975	37,305,624	784,275,649	19,749,496	7,349,488,473
Related parties accounts	253,608,492	-	-	-	-	253,608,492
Other borrowings	61,657,571	-	-	-	-	61,657,571
Subordinated bonds	60,560,199	-	-	-	-	60,560,199
	5,985,357,453	**960,276,581**	**37,305,624**	**789,489,594**	**19,749,496**	**7,792,178,748**

B. LIQUIDITY RISK

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations from its financial liabilities at a point of time.

1. Liquidity risk management

The Group risk management and monitoring is based on the aggregate structure of the balance sheet through mitigating risks that are directly associated to the mismatch between maturities in the balance sheet and contingent liabilities. The Group's financial position structure is run in a way aimed at maintaining diversification and lowering concentration among different sources of funds. All liquidity policies and procedures are subject to review and approval by ALCO.

The table below shows the allocation of major monetary liabilities based on the earliest possible contractual maturity (undiscounted values).

	December 31, 2016			December 31, 2016			
	Account with no Maturity LPB'Million	Up to 3 Months LPB'Million	3 Months to 1 Year LPB'Million	1 to 3 Years LPB'Million	3 to 5 Years LPB'Million	Over 5 Years LPB'Million	Total LPB'Million
Deposits from banks & financial Institutions	54,702	6,512	-	-	-	-	61,214
Customers' accounts	665,446	6,260,029	1,113,970	98,511	225	-	8,138,181
Related parties accounts	-	235,944	29,862	-	-	-	265,806
Other borrowings	-	2,173	3,921	17,426	17,970	56,288	97,778
Subordinated bonds	-	254	-	-	-	60,300	60,554
	720,148	**6,504,912**	**1,147,753**	**115,937**	**18,195**	**116,588**	**8,623,533**

	December 31, 2015			December 31, 2015			
	Account with no Maturity LPB'Million	Up to 3 Months LPB'Million	3 Months to 1 Year LPB'Million	1 to 3 Years LPB'Million	3 to 5 Years LPB'Million	Over 5 Years LPB'Million	Total LPB'Million
Deposits from banks & financial Institutions	42,673	19,308	4,883	-	-	-	66,864
Customers' accounts	623,309	5,936,862	709,098	79,839	380	-	7,349,488
Related parties accounts	-	230,574	23,034	-	-	-	253,608
Other borrowings	-	1,625	2,618	9,776	16,527	31,112	61,658
Subordinated bonds	-	260	-	-	-	60,300	60,560
	665,982	**6,188,629**	**739,633**	**89,615**	**16,907**	**91,412**	**7,792,178**

Concentration of Financial Liabilities by counterparty:

Information regarding the concentration of customers' accounts is disclosed under the respective notes.

C. MARKET RISKS

Market Risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and loan diversification.

The Group manages market risks through a framework that defines the global activity and individual limits and sensitivity analysis.

1. Interest rate risk

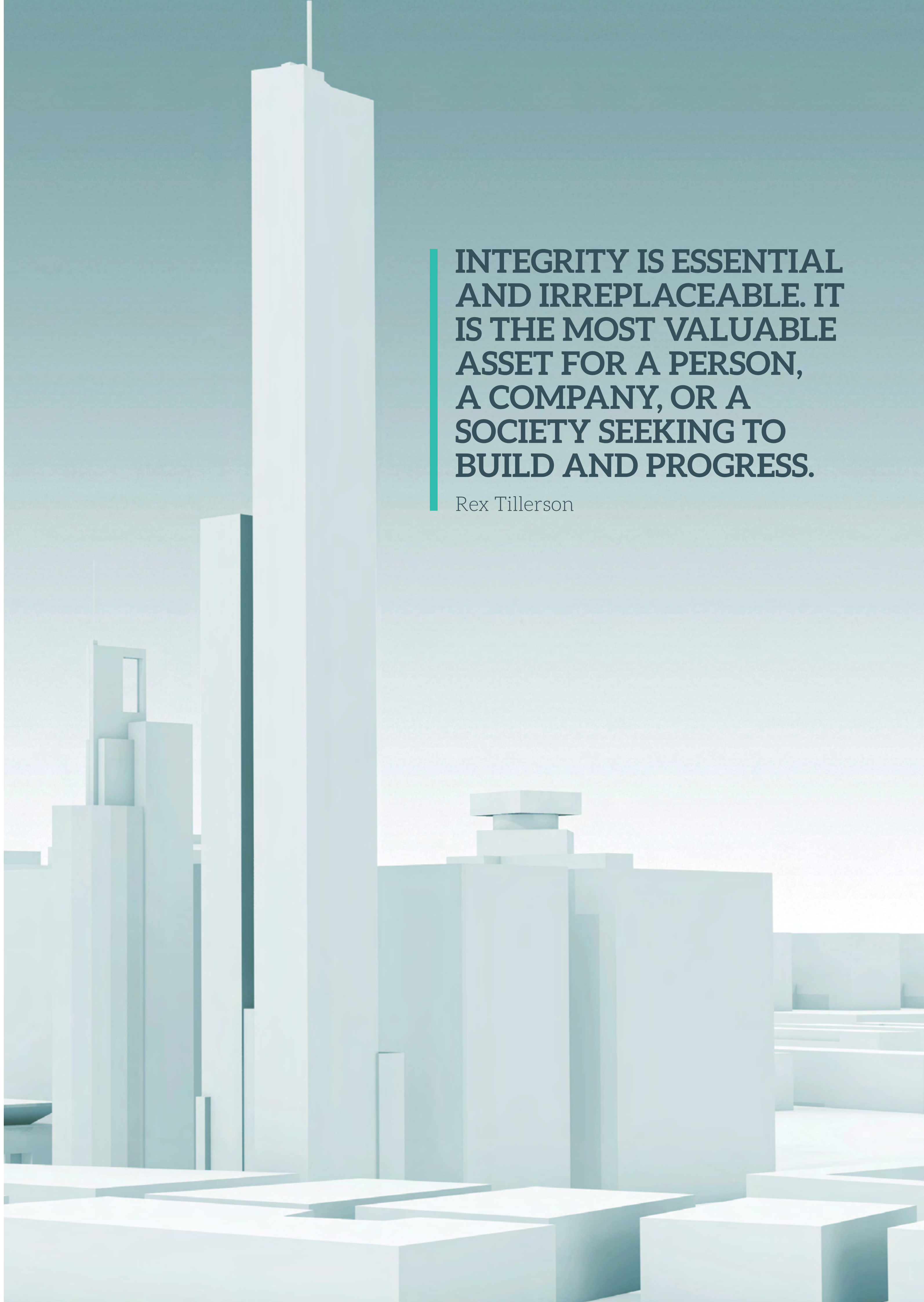
Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments or expected cash flows from income generating financial assets and liabilities. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of financial assets and liabilities.

Large amounts of the Group's financial assets, primarily investments in certificates of deposit and Lebanese government bonds in Lebanese pounds and foreign currencies, carry fixed interest rates, whereas customers' accounts and loans and advances to customers are re-priced on a regular basis which, consequently, leads to major risks from the mismatch between the sources and uses of funds, and in its turn increases interest rate risk.

Income sensitivity is the effect of the assumed changes in the interest rate on the net interest revenues for a specific year on the non-trading assets and liabilities. Analysis of various banking currency positions is made through concentrations by currencies and, resulting sensitivity is disclosed in thousands of Lebanese pounds and segregated between financial assets and liabilities subject to variable and fixed interest rates.

• Exposure to interest rate risk

Below is a summary of the Group's interest rate gap position on major financial assets and liabilities reflected at carrying amounts at year end by reprising time bands:



			December 31, 2016				
			3 Months to 1 Year LPB'Million	1 to 3 Years LPB'Million	3 to 5 Years LPB'Million	Over 5 Years LPB'Million	Total LPB'Million
FINANCIAL ASSETS							
			8,415	134,175	1,417,108	620,565	4,120,320
Deposits with banks and financial institutions	-	371,833	-	-	-	-	371,833
			10,200	21,200	19,400	9,500	61,154
Loans and advances to customers	29,176	574,143	803,506	6,809	3,397	23,101	1,440,132
			20,600	-	-	-	99,166
Investment securities at fair value through profit or loss	6,457	2,744	582	754	180,489	452,840	643,866
			-	-	-	1,968	1,968
Investment securities at amortized cost	71,075	37,099	56,195	99,161	251,205	2,820,470	3,335,205
			899,498	**262,099**	**1,871,599**	**3,928,444**	**10,073,644**
FINANCIAL LIABILITIES							
Deposits from banks and financial Institutions	54,702	6,512	-	-	-	-	61,214
			1,113,970	98,511	225	-	8,138,181
Related parties accounts	-	235,944	29,862	-	-	-	265,806
			3,921	17,426	17,970	56,288	97,778
Subordinated bonds	-	254	-	-	-	60,300	60,554
			1,147,753	**115,937**	**18,195**	**116,588**	**8,623,533**

			December 31, 2015				
			3 Months to 1 Year LPB'Million	1 to 3 Years LPB'Million	3 to 5 Years LPB'Million	Over 5 Years LPB'Million	Total LPB'Million
FINANCIAL ASSETS							
			10,025	3,015	567,537	1,071,955	2,007,410
Deposits with banks and financial institutions	-	387,990	-	-	-	-	387,990
			800	70,500	-	-	71,821
Loans and advances to customers	16,273	1,444,852	55,440	16,887	3,665	3,641	1,540,758
			-	20,600	-	-	101,644
Investment securities at fair value through profit or loss	24,483	-	-	-	4,261	1,331,759	1,360,503
			-	-	-	1,084	1,084
Investment securities at amortized cost	-	71,682	26,092	214,516	351,133	2,285,604	2,949,027
			92,357	**325,518**	**926,596**	**4,694,043**	**8,420,237**
FINANCIAL LIABILITIES							
Deposits from banks and financial Institutions	42,673	19,308	4,883	-	-	-	66,864
			709,097	79,839	380	-	7,349,488
Related parties accounts	-	230,574	23,034	-	-	-	253,608
			2,618	9,776	16,527	31,111	61,658
Subordinated bonds	-	260	-	-	-	60,300	60,560
			739,632	**89,615**	**16,907**	**91,411**	**7,792,178**

2.Foreign Exchange risk

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates.

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

	December 31, 2016			December 31, 2016		
	LBP	USD C/V in LBP	EURO C/V in LBP	GBP C/V in LBP	Other Currencies C/V in LBP	Total
	LPB'000	LPB'000	LPB'000	LPB'000	LPB'000	LPB'000
ASSETS						
Cash and deposits with central banks	2,962,355,450	703,684,959	443,931,608	248,920	10,098,608	4,120,319,545
Deposits with banks and financial institutions	36,173,479	228,204,699	17,904,923	47,686,526	41,863,048	371,832,675
Loans to banks and financial institutions	61,153,584	-	-	-	-	61,153,584
Loans and advances to customers	352,044,529	1,047,626,106	39,392,922	499,646	568,780	1,440,131,983
Loans and advances to related parties	28,003,534	71,121,571	41,093	-	-	99,166,198
Investment securities at fair value through profit or loss	639,038,645	4,827,010	-	-	-	643,865,655
Investment securities at fair value through other comprehensive income	-	1,967,790	-	-	-	1,967,790
Investment securities at amortized cost	1,192,727,545	2,044,951,405	97,526,259	-	-	3,335,205,209
Customers' liability under acceptances	-	31,057,514	13,961,405	-	-	45,018,919
Assets acquired in satisfaction of loans	5,586,299	19,025,715	-	-	-	24,612,014
Property and equipment	43,882,194	8,183,144	52,997	-	1,560,632	53,678,967
Intangible assets	727,432	-	27	-	6,250	733,709
Other assets	7,324,007	1,880,266	93,586	-	268,093	9,565,952
Total Assets	**5,329,016,698**	**4,162,530,179**	**612,904,820**	**48,435,092**	**54,365,411**	**10,207,252,200**
LIABILITIES						
Deposits from banks and financial institutions	187,620	58,536,141	1,451,257	554,069	484,944	61,214,031
Customers' accounts	3,734,721,311	3,721,813,138	590,353,862	44,418,767	46,873,921	8,138,180,999
Related parties accounts	197,213,482	39,710,029	26,658,809	2,223,364	-	265,805,684
Liability under acceptance	-	31,057,514	13,961,405	-	-	45,018,919
Other borrowings	97,778,129	-	-	-	-	97,778,129
Other liabilities	697,287,900	13,621,381	24,743,434	1,435,236	(1,501,053)	735,586,898
Provisions	19,903,142	15,760,708	-	-	-	35,663,850
Subordinated bonds	-	60,554,020	-	-	-	60,554,020
Total Liabilities	**4,747,091,584**	**3,941,052,931**	**657,168,767**	**48,631,436**	**45,857,812**	**9,439,802,530**
Currencies to be delivered	-	28,315,216	49,724,434	-	448,058	78,487,708
Currencies to be received	-	(52,890,199)	(25,843,935)	-	(2,483,787)	(81,217,921)
Net on-balance sheet financial position	-	(24,574,983)	23,880,499	-	(2,035,729)	(2,730,213)
	581,925,114	**196,902,265**	**(20,383,448)**	**(196,344)**	**6,471,870**	**764,719,457**

	December 31, 2015		December 31, 2015			
	LBP LPB'000	USD C/V in LBP LPB'000	EURO C/V in LBP LPB'000	GBP C/V in LBP LPB'000	Other Currencies C/V in LBP LPB'000	Total LPB'000
ASSETS						
Cash and deposits with central banks	902,686,482	630,061,920	462,332,616	157,108	12,171,503	2,007,409,629
Deposits with banks and financial institutions	6,367,717	263,623,352	58,843,820	31,483,736	27,670,909	387,989,534
Loans to banks and financial institutions	71,820,642	-	-	-	-	71,820,642
Loans and advances to customers	358,465,621	1,148,663,220	32,492,923	172,530	963,282	1,540,757,576
Loans and advances to related parties	28,495,205	73,135,246	13,980	-	-	101,644,431
Investment securities at fair value through profit or loss	1,356,421,618	4,081,437	-	-	-	1,360,503,055
Investment securities at fair value through other comprehensive income	-	1,084,018	-	-	-	1,084,018
Investment securities at amortized cost	1,379,055,326	1,469,888,508	100,083,143	-	-	2,949,026,977
Customers' liability under acceptances	-	3,919,035	9,372,882	-	-	13,291,917
Assets acquired in satisfaction of loans	757,054	19,025,715	-	-	-	19,782,769
Property and equipment	45,952,350	7,428,830	40,618	-	2,204,430	55,626,228
Intangible assets	875,841	-	27	-	11,507	887,375
Other assets	6,412,851	860,611	111,249	-	236,849	7,621,560
Total Assets	**4,157,310,707**	**3,621,771,892**	**663,291,258**	**31,813,374**	**43,258,480**	**8,517,445,711**
LIABILITIES						
Deposits from banks and financial institutions	8,484,772	57,780,865	585,316	9,800	3,260	66,864,013
Customers' accounts	3,328,752,554	3,324,334,536	629,956,930	29,191,968	37,252,485	7,349,488,473
Related parties accounts	190,464,431	39,481,271	23,648,750	14,040	-	253,608,492
Liability under acceptance	-	3,919,035	9,372,882	-	-	13,291,917
Other borrowings	61,657,571	-	-	-	-	61,657,571
Other liabilities	20,995,801	29,595,122	503,653	(2,660,290)	5,160,826	53,595,112
Provisions	17,767,737	1,710,224	-	-	-	19,477,961
Subordinated bonds	-	60,560,199	-	-	-	60,560,199
Total Liabilities	**3,628,122,866**	**3,517,381,252**	**664,067,531**	**26,555,518**	**42,416,571**	**7,878,543,738**
Currencies to be delivered	-	28,693,888	27,603,756	-	21,597,606	77,895,250
Currencies to be received	-	(29,200,405)	(27,979,056)	(2,678,952)	(18,258,717)	(78,117,130)
Net on-balance sheet financial position	**-**	**(506,517)**	**(375,300)**	**(2,678,952)**	**3,338,889**	**(221,880)**
	529,187,841	**103,884,123**	**(1,151,573)**	**2,578,904**	**4,180,798**	**638,680,093**

44. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The following table shows the carrying amounts and fair values of financial assets and liabilities recognized in the consolidated 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	December 31, 2016			
	Notes	Carrying Amount LPB'000	Level 1 LPB'000	Level 2 LPB'000	Level 3 LPB'000	Total LPB'000
Financial assets measured at fair value						
Investment securities held at fair value through profit or loss						
Quoted equity securities	10	4,827,011	4,827,011	-	-	4,827,011
Unquoted equity securities	10	179,222	-	-	179,222	179,222
Lebanese treasury bills	10	510,868,294	-	-	510,868,294	510,868,294
Certificates of deposit issued by the Central Bank of Lebanon	10	116,473,484	-	-	116,473,484	116,473,484
		632,348,011	**4,827,011**	-	**627,521,000**	632,348,011
Investment securities at fair value through other comprehensive income						
Unquoted equity securities	11	1,967,790	-	-	1,967,790	**1,967,990**
Financial assets not measured at fair value						
Term placements with Central Bank of Lebanon in Lebanese Pound	5	2,670,000,000	-	2,709,018,796	-	2,709,018,796
Term placements with Central Bank of Lebanon in Foreign currencies	5	1,099,242,748	-	1,016,193,309	-	1,016,193,309
Customers' loans and advances	8	1,431,224,900	-	1,487,735,175	-	1,487,735,175
Investment securities at amortized costs						
Lebanese treasury bills	12	317,495,963	-	-	317,311,464	317,311,464
Lebanese Government bonds	12	1,036,948,319	-	-	1,019,139,534	1,019,139,534
Certificates of deposit issued by Central Bank of Lebanon (in LBP)	12	836,529,925	-	-	840,612,198	840,612,198
Certificates of deposit issued by Central Bank of Lebanon (in Foreign Currencies)	12	1,072,243,914	-	-	1,038,320,940	1,038,320,940
Certificates of deposit issued by other banks	12	753,750	-	-	733,810	733,810
		8,464,439,519	-	**5,212,947,280**	**3,216,117,946**	**8,429,065,226**

	December 31, 2015		December 31, 2015			
	Notes	Carrying Amount LPB'000	Level 1 LPB'000	Level 2 LPB'000	Level 3 LPB'000	Total LPB'000
Financial assets measured at fair value						
Investment securities held at fair value through profit or loss						
Quoted equity securities	11	4,081,437	4,081,437	-	-	4,081,437
Unquoted equity securities	11	179,222	-	-	179,222	179,222
Lebanese treasury bills	11	372,010,699	-	-	372,010,699	372,010,699
Certificates of deposit issued by the Central Bank of Lebanon	11	954,320,897	-	-	954,320,897	954,320,897
		1,330,592,255	**4,081,437**	**-**	**1,326,510,818**	**1,330,592,255**
Financial assets not measured at fair value						
Term placements with Central Bank of Lebanon in Lebanese Pound	5	640,000,000	-	682,313,206	-	682,313,206
Term placements with Central Bank of Lebanon in foreign currencies	5	1,039,382,640	-	1,012,310,206	-	1,012,310,206
Customer's loans and advances	8	1,532,351,506	-	1,539,882,972	-	1,539,882,972
Investment securities at amortized costs						
Lebanese treasury bills	12	14,181,537	-	-	14,417,885	14,417,885
Lebanese Government bonds	12	1,412,214,523	-	-	1,379,481,701	1,379,481,701
Certificates of deposit issued by Central Bank of Lebanon (in LBP)	12	1,318,360,573	-	-	1,335,847,925	1,335,847,925
Certificates of deposit issued by Central Bank of Lebanon (Foreign currencies)	12	131,834,218	-	-	117,150,938	117,150,938
Certificates of deposit issued by other banks	12	753,750	-	-	718,608	718,608
		6,089,078,747	**-**	**3,234,506,384**	**2,847,617,057**	**6,082,123,441**

There have been no transfers between level 1, level 2 and level 3 during the period.

Valuation techniques, significant unobservable inputs, and sensitivity of the input to the fair value

The following table gives information about how the fair values of financial instruments included in the consolidated financial statements, are determined (Level 2 and Level 3 fair values) and significant unobservable inputs used:

Financial Instruments	Date of Valuation	Valuation Technique and Key Input	Significant Unobservable Inputs
Lebanese treasury bills	December 31, 2016 and 2015	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bills, adjusted for illiquidity using Bank's internal policy.	Illiquidity factor for instruments of long term maturities
Certificates of deposit in LBP issued by Central Bank	December 31, 2016 and 2015	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bills, adjusted for illiquidity using Bank's internal policy	Illiquidity factor for instruments of long term maturities
Certificates of deposit in foreign currencies issued by Central Bank	December 31, 2016 and 2015	DCF at discount rates based on observable yield curves at the measurement date.	N/A
Lebanese Government bonds	December 31, 2016 and 2015	DCF at discount rates determined based on the yield on USA treasury bills and the Credit Default Swap applicable to Lebanon subject to illiquidity.	Illiquidity factor ranges between 1.5% and 3%
Term deposit with Central Bank of Lebanon in Lebanese Pounds	December 31, 2016 and 2015	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bills, adjusted for illiquidity.	N/A
Term deposits with Central Bank of Lebanon in foreign currency	December 31, 2016 and 2015	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.	N/A
Loans and advances to customers	December 31, 2016 and 2015	DCF at discount rates based on average rate of return of the receivables bearing fixed interest rate for more than one year.	N/A

45. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements for the year ended December 31, 2016 were approved for issuance by the Board of Directors in its meeting held on June 7, 2017.

Lebanon

IBL Bank has developed twenty local operational branches since the opening of its Head Office in Achrafieh. Eight of those branches are located in the Greater Beirut area. The remaining branches are distributed as follows: Four in the North of Lebanon, two in the South of Lebanon, Five in the Mount Lebanon area, and one in the Bekaa region.

In its early years, the Bank greatly expanded its network by launching nine new branches, seven of which were a result of the acquisition of BCP Oriel Bank in 1999. Further developments occurred in later years. In 2002, a branch was opened in Kobayat (North Lebanon). Additionally, in 2004, a branch was opened in Tyr (South Lebanon) and another in Chtaura (Bekaa region). In 2005, a branch was initiated in Hazmieh (Baabda region).

To ensure a stronger presence on Lebanese territory, the Bank further expanded in 2008 by instigating the Verdun (Beirut) and Antelias (Mount Lebanon) branches. Moreover, in 2009, a new branch was inaugurated in Elissar (Mount Lebanon). In 2011, two branches were instated – one in each of Balamand (North Lebanon) and Byblos (Mount Lebanon). Finally, two additional branches were established in the Greater Beirut area: one in Jnah, opened in 2012, and the other in Sioufi, which became operational in the final quarter of 2014.

In addition to its vast network of branches, a sister bank, IBL Invest, was initiated in Verdun, Beirut, in 2011.

Moreover, new premises for branches are scheduled to be inaugurated throughout the outcoming year.

Abroad – Iraq and Cyprus

Following the satisfactory results that ensued from the opening of a representative office in Erbil, a city in the Kurdistan region of northern Iraq in 2006, the Board of Directors came to a decision to leverage the Bank's first mover advantage in Iraq. The representative office was promoted to a fully functioning branch that began operating in 2008. In 2010 and 2014, the Bank further developed its presence in Iraq by building an additional branch in each of Baghdad and Basra, respectively.

The success resulting from its ventures abroad led the Bank to move towards expanding in a new area: Europe. In 2007, the Bank obtained a license from the Central Bank of Cyprus to operate in Limassol, Cyprus. A branch was subsequently instigated on Makarios III Avenue, Limassol, and became operational in 2008.

To conclude, the Bank primarily sees its branches abroad as a means to diversify its stream of deposits, investments, and revenues. As part of its future expansion goals, the Bank aims to attract deposits and new business through the large and wealthy Lebanese and Arab communities in the Latin American, European, and Arab regions.

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