North Africa Commercial Bank S.A.L.

Beirut – Lebanon

ANNUAL REPORT

2016

North Africa Commercial Bank S.A.L.

Head Office

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Ownership, Board of Directors, General Management

Ownership

Libyan Foreign Bank	99.56%
Demoreco Holding S.A.L.	0.43%
Others	0.01%

Board of Directors

Mr. Mohamed Najib Hmida El-Jamal	**Chairman & General Manager**
Libyan Foreign Bank Rep. by *Mr. Mohamed Najib Mugber*	Member
Demoreco Holding Co. S.A.L. Rep. by *Dr. Abdusslam A. Gehawe*	Member
Mr. Mohamed Mounir Naffi	Member
Mr. Jean Paul Marcel Touma	Member
Dr. Khaled Mohamed El Kurdi	Member
Dr. Abubaker Mohamed Al Waddan	Member
Mr. Ousama Rami Alserrag	Member
Mr. Rawi Boutros Kanaan Esq.	Member
Mrs. Rania Joseph El Hage	Secretary of the board

General Management

Mr. Mohamed Najib Hmida El-Jamal	**Chairman & General Manager**
Mr. Yousef Mabrouk Ajail	Assistant General Manager for Banking Operations and Branch / Head Office Branch Manager

The Board of Directors Members of North Africa Commercial Bank S.A.L. as per Central Bank of Lebanon circulars

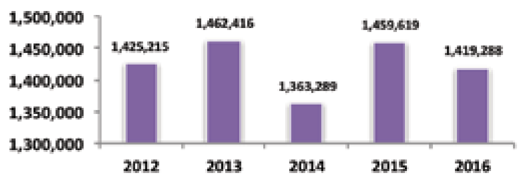
Members Name	Independent	Executive	Non Executive	Audit Committee	Risk Management Committee	Remuneration Committee	AML/ CFT Board Committee
Mr. Mohamed Najib Hmida El-Jamal		•					
Libyan Foreign Bank Member Rep. by Mr. Mohamed Najib Mugber			•		•	•	•
Demoreco Holding Co. S.A.L Member Rep. by Dr. Abdusslam A. Gehawe			•	•			•
Mr. Mohamed Mounir Naffi	•		•	President •			
Mr. Jean Paul Marcel Touma	•		•		President •		
Dr. Khaled Mohamed El Kurdi	•		•				President •
Dr. Abubaker Mohamed Al Waddan	•		•	•		•	•
Mr. Osama Rami Alserrag			•				
Mr. Rawi Boutros Kanaan Esq.	•		•		•	President •	•

Mrs. Rania El Hage	Secretary of the Board / Secretary of Remuneration Committee
Mrs. Henriette Gemayel	Secretary of Risk Committee
Mr. Hassane Mustafa Ghalayini	Secretary of Audit Committee
Mr. Shawki Ghassan Ahwash	Secretary of AML/CFT Committee

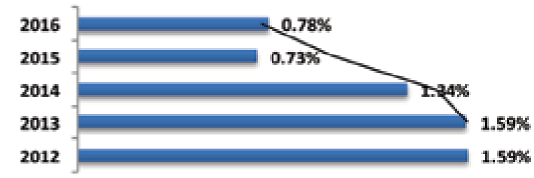
Financial Highlights

in Million of LBP

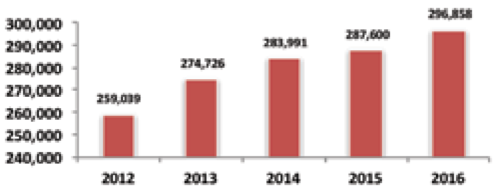
Total Assets



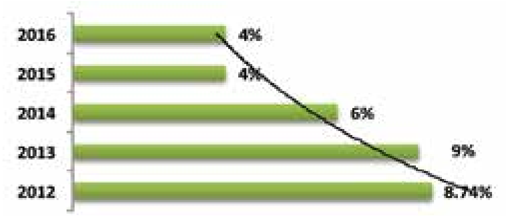
Return on Assets



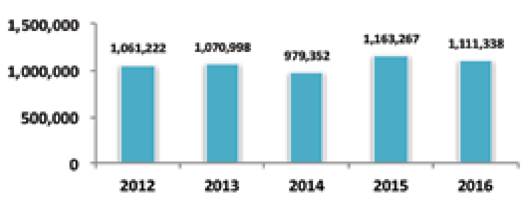
Shareholders' Equity



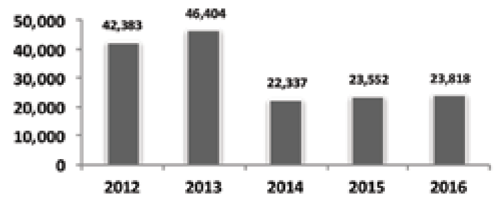
Return on Equity



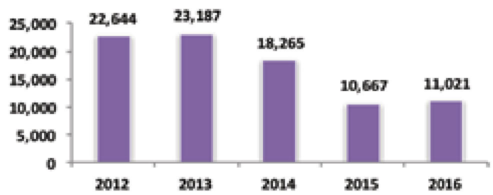
Total Deposits



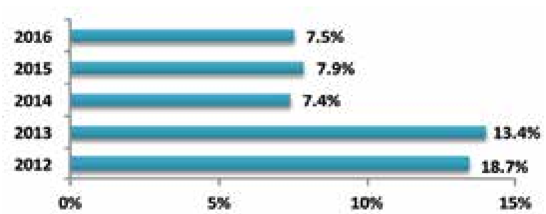
Loans and Advances to customers



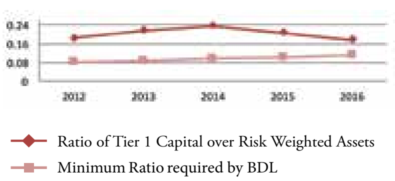
Net Profit



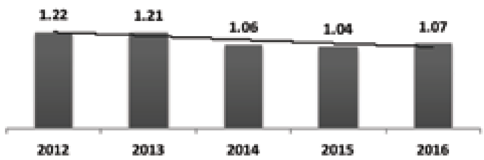
Loans and Advances to Deposits Ratio



Capital Adequacy Ratio



Gearing ratio



US Dollar exchange rate: 1507.50 LBP

Board of Directors Report

Chairman's letter

Dear Sirs,

The situation in some of the war-torn Arab countries suffering from conflicts of various forms made their economies record extreme negative indicators- an event that will affect the stability of the whole region. These events were accompanied by fluctuations in the international economy during the last years and all these factors triggered major problems in the global market.

In these complex circumstances, Lebanon, the non-petroleum state, continued working steadily to raise its economic prospects through reliance on available resources and in tandem with the effective and agile private sector whose contribution to the economic cycle reached up to 75% of the total order. With financial support from the Lebanese private banking sector and despite all the various local and regional challenges, the indicators show positive signs in the Lebanese economy for the year 2017 with the possibility of achieving an economic growth up to 2.5% compared to 2% in the year 2016. This rebound in economic growth is, however, accompanied by an augmented public governmental debt which amounted to 74.9 billion US Dollars at the end of 2016, and the deficit amounted to 4.9 billion US Dollars. Yet, all these aforementioned stringent conditions did not prohibit Central Bank of Lebanon from maintaining a resilient policy to support the Lebanese State Economy. It should be noted here that Central Bank of Lebanon through its prudent monetary policies, is regarded as an important guarantee which is highly trusted on both, the national level and on the level of Arab financial institutions as well as other international bodies.

The Lebanese banking sector maintained its distinguished performance where the assets of the Lebanese banks at the end of the year 2016 amounted to 204 billion US Dollars scoring an average growth of 10% accompanied by an increase in the private sector deposits by a proportion of 7.2% to reach the amount of 162.29 billion US Dollars. This data affirms the positive role played by the Lebanese banks in the local economy.

North Africa Commercial Bank S.A.L. continued to adopt a conservative policy, and despite its modest capital, it was able, between the year 2011 and the end of 2016, to realize cumulative profits of 74 million US Dollars capital adequacy ratio of 17.5%, and an increase in the shareholders equity by an amount of 45 million US Dollars, with distribution of profit to the shareholders of 31 million US Dollars. The attached reports and analysis for the financial year ended on 31/12/2016, show complete details, and the bank will proceed its activities in this manner pursuant to the principle of maintaining the stability and quality of its assets in the first place.

We have reached a firm conviction that the consolidation of capital bases pertaining to Arab banks and the development of these capital funds according to contemporary requirements and making them effective ultimately starts with the medium and small banks and is considered the first step for the banking sector at this stage. Accordingly, and from within the Lebanese banking sector we have constantly called upon the main shareholders to be aware of these important risks which we indicated and which are mentioned in many reports issued by the international specialized institutions, consultancy offices, and other financial and economic reports published through the mass media for many years. These publications incorporated obvious warnings that focus principally on the difficulty of small banks and institutions to thrive in a highly developed and competitive future environment. Accordingly, the decision of the Board of Directors of our Bank since the year 2012 always emphasized the need to adopt the principle of alliance and mergers with one or some banks in Lebanon, as it is the ideal choice and the only option for the small banks to confront the upcoming changes in the banking industry.

We are all aware that the wars taking place in our region imposed very hard financial, economic and political conditions, which caused a dangerous social situation for the people, and as result, the region is in dire need of radical solutions that lead to the stability and creation of comprehensive vision to tackle such situation before it is too late.

Accordingly

The financial institutions will be entrusted with advanced tasks since they are regarded as one of the main pillars for executive support and therefore, we must put together our best efforts to build robust Arab banks that can confront this complex situation and mitigate the high risks hovering over our countries, especially that the expectations indicate a heightened severity of conflict between superpowers on one hand, and the escalation of the competition level between the international and financial institutions.

Finally, we hope that our Arab countries and all nations of the region are able to reach peace and economic stability as well as create all the favorable conditions needed to achieve development and prosperity. We look forward to realizing this objective by all means and hoping that banks and financial institutions in the region will fortify and support their respective national economies since it is of prime importance, asking God to help and protect these states, restore peace, security, safety and stability, and that good prevails over our countries and the world.

Mohamed Najib Hmida El-Jamal
Chairman & General Manager

Corporate Governance

Corporate Governance sets out the basis, systems and processes by which the Bank is managed while maintaining and securing the rights and needs of stakeholders including shareholders, depositors, clients, and other related parties as well as defining the rights and responsibilities for each.

The Bank is keen on complying with, and upholding the corporate governance principles to accomplish this objective and to reinforce the trust of shareholders, depositors, clients, and other related parties as well as upholding the positive and responsible role it plays in the community and economic environment. The Bank also complies with "Banque Du Liban" and "Banking Control Commission" circulars and directives, in light of which it lays down its internal policies, decision making mechanisms, organisation structure adequately tailored to his needs as well as the internal control framework including risk management, compliance and internal audit.

In this context and in compliance with "Banque Du Liban" directives the Bank has developed a "Corporate Governance Guide" derived from common references such as Basel principles and "Association of Lebanese Banks". This guide is enforced internally on all levels and is periodically reviewed by the Board of Directors and is updated as needed.

Kindly find below Board of Director's Committees and Core decisions 'executive committees as well as some of Senior Management Committees, as follows:

Board of Directors' Committees

Audit Committee

- Ensure qualifications and independence of both external auditors and internal audit unit.
- Monitor the integrity of financial statements and review disclosures standards adopted in the Bank.
- Assure adequacy and effectiveness of systems and internal control procedures.
- Follow up the good execution of corrective suggestions presented in the reports of the internal audit unit regulatory authorities and external auditors.
- Monitor the bank's compliance to regulations and recommendations issued by the Central Bank of Lebanon and the Banking Control Commission.
- Control and supervision on the works of the Internal Audit Unit, IT Audit, as well as the perusal and follow-up on the reports of the controlling bodies.

Remuneration Committee

- Supervise the proper implementation of both the "Remuneration Policy" and "Remuneration System", and review periodically the efficiency and effectiveness of this policy.
- Submit to the Board of Directors specific proposals about the Senior Executive Management remunerations.
- Assist and support the board of directors of the bank in its controlling and supervisory tasks as per their remuneration policy for its personnel and its adherence to the bank strategy.

AML/CFT Committee

- To support the Board of Directors in its functions and supervisory role with respect to fighting money laundering and terrorist financing and understanding the related risks, and to assist it with making the appropriate decisions in this regard.
- To review, from a risk-based approach, the reports submitted by the Compliance Unit and the Internal Audit Unit on adopted procedures, unusual operations and high-risk accounts, regarding cash deposits and withdrawals, transfers, exemptions from filling Cash Transaction Slips (CTS) and the link between these operations and economic activities, and to also take the relevant decisions.
- To stay abreast of the recommendations listed in the reports of the Special Investigation Commission (SIC) and make sure they are properly and timely implemented.

Risk Committee

- Review the Risk Management strategy, as well as the risk appetite approved by the Board of Directors.
- Ensure the availability of risk management policies, frameworks, programs, and tools to do so, in parallel to the periodic revision to ensure their effectiveness and modify them if needed.
- Revise stress tests used in the analysis of credit, market, and operational risks and approve plans for emergency cases.
- Discuss the reports of risk management.
- Monitor the Bank's preparations to apply Basel II and III requirements with respect to the risk management and measurement.
- Direct supervision on the risk management systems and their good implementation within the bank.
- Review Capital Adequacy Ratio that covers all risks incurred by the bank.
- Peruse the reports of Departments and units with activities related to risk management.

Core Decisions' Executive Committees

Credit Committee

- Determines the Credit Policy of the Bank ensuring compliance with the applicable regulations and laws, and with the directives issued by Central Bank of Lebanon and the Banking Control Commission.
- Makes decisions on granting/ extending credits within its delegation as determined by the Board or Directors.
- Supervises the development of the Credit policies and procedures.

Shareholding & Participation Committee

- Make all necessary decisions related to shareholding and participation operations, as well as real estate investments.
- Put the general framework of the bank's investment policy.
- Set the appropriate strategies for Bank's free capital placements.

ALCO Committee

- Make all major decisions relating to investment processes and ensure the optimal return.
- Illustrate the general framework for market risk management policy, including interest rate risk, liquidity risk, and Forex risk.

Senior Management Committees

Information Technology Security Committee

- Periodically review ITS Policies and procedures to ensure the safety of information technology systems, and enhance any essential updates.
- Examine and assess all the information security risks.
- Review and adopt alternative plans to ensure the integrity of information systems in the Bank.

Business Continuity Plan Committee

- Provide overall governance and direction setting of the business continuity program on an ongoing basis.
- Periodically supervise business continuity plan to mitigate the risks of disasters and exceptional conditions.
- Identify alternative location and key staff to perform this task.
- Coordinate the development, maintenance, review and testing of Infrastructure Disaster Recovery Plans.

Internal Control and Risk Management Systems

The bank attaches a great importance to the internal control function due to its important role to achieve banking security and safety, as well as the integrity and credibility of financial information and what is related to processing and accounting, in addition to the compliance with legislations, regulations, and internal policies and procedures.

Internal control systems in NACB SAL are as follows:

The Internal Audit unit

Internal audit is an independent and objective assurance and consulting function aiming

to improve banking operations and help the bank in achieving its objectives. The Internal Audit Unit performs this function by adopting a methodological and organized approach in its auditing roles in order to evaluate and improve the efficiency and effectiveness of governance and internal control and risk management systems at the bank .

The unit works according to the Internal audit charter approved by the Audit Committee

and the Board of Directors; which guarantees its independence and specifies its scope work,roles and responsibilities , and its relation with the Audit Committee and the General Management.

Risk Management Department

North Africa Commercial Bank (NACB) stresses the importance of risk management which is a major component of the practical Corporate Governance Framework of the Bank.

Risk management aims at the identification and assessment of events & potential risks and measuring, monitoring and controlling risks to keep them within acceptable levels as follows:

• Risk Management monitors the compliance of the business units by the defined levels of acceptable risks.

• Risk Management periodically conducts stress-testing and scenario analysis to assess the Bank's ability to withstand the stressed situations based on guidance approved by the Board of Directors.

• Risk Management adopts a comprehensive and efficient methodology of Internal Capital Adequacy Assessment Process to determine all potential acceptable risks.

Risk Management main duties are as follows:

• Review the Bank's Risk Management Framework prior to the Board of Directors' approval.

• Develop methodologies for identification, measurement, monitoring and controlling all types of risks.

• Submit to the Board of Directors and the Senior Management information, reports and statistics of risk measurements.

• Submit to the Risk Committee periodic reports of the actual risk exposures incurred by the Bank and recommendations to mitigate them.

• Analyze all types of Bank's risk exposures (Credit risks - Market risks - Liquidity risks and Operational risks).

• Provide necessary information regarding the Bank risk's disclosures

• Promote risk awareness based on the best practices and required standards in the banking sector.

• Follow the international standards of the liquidity risk management as per the recommendations of the Basel Committee on Banking Supervision particularly the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) in order to reduce the probability of liquidity gap's event and impact on the Bank.

• Conduct a periodic review, and upon need, of the Risk Management Framework based on the Bank's volume and the extent of its operations' complexity.

The Bank is currently modifying the calculation methods for credit losses according to IFRS9 requirements, to be enforced starting January 2018. The current concept of credit losses is based on the principle of "Incurred losses", whereas the new standard presents a new model based on anticipation of the future losses, i.e., the Expected Credit Loss (ECL) which relies on three main pillars, namely Classification and Measurement of assets, Impairment, and Hedge Accounting.

Compliance Department

1- Legal Compliance Unit

The Legal Compliance Unit continues to verify that the Bank and its internal policies comply with the requirements of laws and circulars issued by the regulatory bodies and takes the required measures to mitigate these risks.

It advises Senior Management concerning compliance, keeps abreast of developments in laws and regulations, and performs the adequate tests to assess the efficiency of the procedures adopted and the extent to which employees adhere to the policies set by the bank.

2- Anti-Money Laundering and Combating Financing Terrorism Compliance Unit

In terms of effective activities of anti-money laundering and combating financing terrorism, the compliance unit ensures the continuous control of all banking operations as per the laws and instructions of BDL and the Special Investigation Commission (SIC), and international best practices and standards. Moreover, the unit has developed its work approaches and procedures; in line with BDL's Intermediate Circular No. 421 dated 04/05/2016 that amends the regulations on the control of financial and banking operations for fighting money laundering and terrorist financing (AML/CFT).The most important amendments is establishing an AML/CFT Board Committee.

3- FATCA Unit

By the joining of Lebanon to the Global Forum on Transparency and Exchange of Information for Tax Purposes, and the announcement of the Organization of Economic Cooperation and Development OECD that Lebanon has committed to the Automatic Exchange of Information under the Common Reporting Standard. That step was followed by the issuance of Law 55 by the Lebanese Parliament dated 27/10/2016 to pave the way for the implementation of the Common Reporting Standard by all Lebanese financial institutions to start obtaining the needed information from their clients in preparation for the automatic exchange which is expected to take place in September 2018.

In this regard, the FATCA Unit follows attentively all publications and news issued by Banque du Liban, the Lebanese Ministry of Finance and the OECD, making sure that all information be transmitted to the departments concerned instantly. Lectures and training sessions were also conducted to spread awareness and prepare the ground for sound implementation.

Also, the FATCA Unit continues to keep a close eye on all FATCA news and information regarding all and any updates concerning FATCA, as well as procedures and reporting carried to the IRS.

Information Security and Business Continuity Unit

The bank is committed to develop the infrastructure of IT and IT Security, and is fully committed to comply with all BDL and BCCL's circulars by applying the best practice for safety security measures to protect all IT systems and equipment in order to guarantee business continuity, to protect customers' information and to ensure the proper functioning of their business.

Bank's Financial Analysis

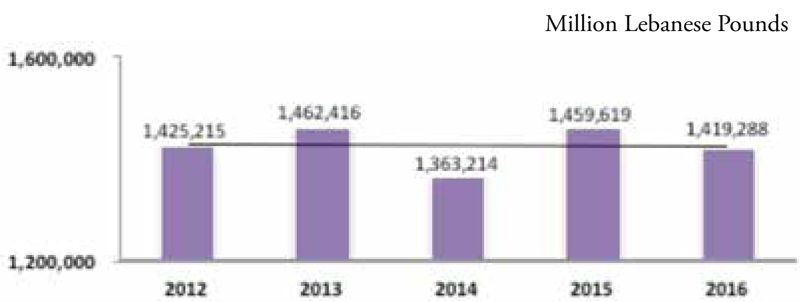
Political crises in Lebanon and the Arab region during the last years had largely affected all financial and economical indicators. Therefore, the bank works on maintaining the growth trend of its business volume. Total assets had an average growth of 3% in the last years as a result of the efforts to increase the sources of funds, especially from non-resident parties. Moreover, the bank worked on comprehensively covering non-performing loans. In line with capital support scheme as per Basel III requirements, the bank allocates the profits in a way to guarantee appropriate yield to shareholders and maintain high financial indicators in terms of financial leverage and liquidity ratios.

Below we will provide the growth of Bank's assets and liabilities, as well as the analysis of profitability, liquidity, and solvency for the past five years.

First. Assets:

The bank maintained a good level of growth in the past years, as a result of the attractiveness of the Lebanese market and the strength of its banking sector, with high interest rates applied in Lebanon compared to global interest rates, accompanied by intensive marketing efforts to support the confidence of depositors in the bank's strength.

Total Assets

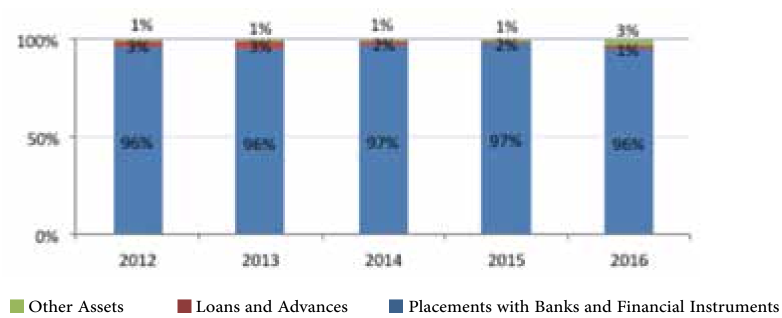


US Dollar exchange rate: 1507.50 LBP

Assets distribution ratios

In recent years, the bank has followed a conservative policy in terms of funds placements and focused on rewarding and low risk investments, such as investments with banks and investments in financial instruments. These represented in total 9% of total assets by the end of 2016, allowing the bank to maintain high liquidity ratios. This came as a result of slow economical growth in the Lebanese market that do not encourage increasing credit limits.

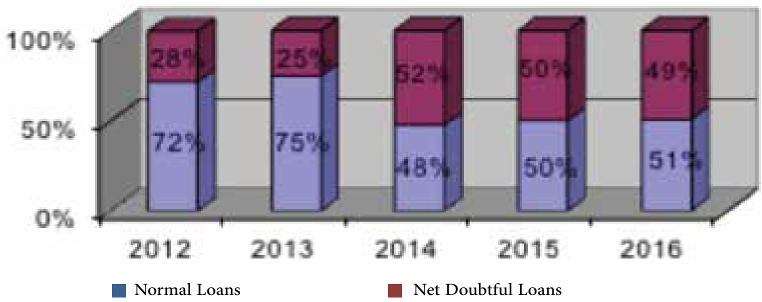
Percentage Distribution of Assets



1- Loans and advances to customers:

In the midst of political and economic situation in the region and in Lebanon, Lebanese banks took a conservative position regarding advances which were limited to specific customers and subsidized products. The bank remains conservative in terms of advances that are limited to loans and facilities granted against sufficient guarantees. The bank was able to liberate its financial position from the burden of non-performing loans by creating sufficient provisions and reserves for these debts.

Loans and Advances



US Dollar exchange rate: 1507.50 LBP

In Millions of LBP	2010	2011	2012	2013	2014	2015	2016
Normal Loans	49,178	42,902	30,326	34,690	10,630	11,845	12,111
Net Doubtful Loans*	14,286	12,310	11,971	11,714	11,707	11,707	11,707
Total Loans	63,464	55,212	42,483	46,404	22,337	23,552	23,818

* Fully covered by special reserves against doubtful loans in addition to real estate collaterals.

2- Investments with banks

Investments with banks and financial institutions portfolio is considered one of the main bank's portfolios; where it represents 49% of the bank's total assets. The bank kept short and medium term investments represented by term deposits with commercial banks in order to maintain the adequate liquidity levels. These investments include compulsory reserves and compulsory placements with BDL.

3- Financial instruments portfolio

The financial instruments portfolio represented 47% of the bank's total assets in 2016. It has witnessed a major shift in the past years towards financial instruments with variable income, composed of investment in funds and shares issued by local banks; it is worth noting that these investments are recorded at fair value. The development of these instruments was as follows:

Financial Instruments Portfolio

Million Lebanese Pounds

US Dollar exchange rate: 1507.50 LBP

Million Lebanese Pounds	2012	2013	2014	2015	2016
Investments at amortized cost	642,845	658,190	595,402	569,633	536,213
Investments at fair value through P&L	6,148	6,377	29,450	29,567	14,656
Investments at fair value through OCI	-	-	22,613	48,399	110,487
Financial Instruments Portfolio	**648,993**	**664,567**	**647,465**	**647,599**	**661,356**

Second. Liabilities and Shareholders' equity

A substantial change in the structure of the bank's sources of funds took place recently where shareholders' equity represented 21% of these sources by the end of 2016, whereas banks' deposits represented the largest part of these sources by 50%.

Percentage Distribution of Liabilities

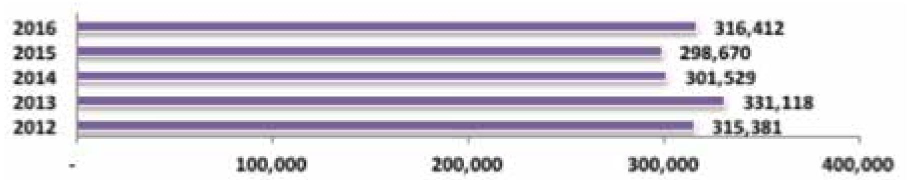
US Dollar exchange rate: 1507.50 LBP

1- Customers' deposits

The customers' deposits portfolio represented 22% of the total sources of funds by the end of 2016, and it had a growth during year 2016 by 6% in comparison with last year.

Customer Deposits

Million Lebanese Pounds

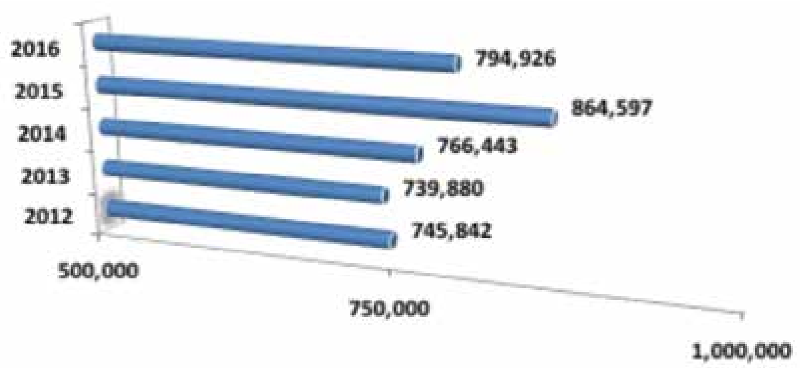


2- Deposits from Banks

The efforts made in the past years in obtaining deposits from nonresident banks and financial institutions contributed in achieving growth in deposits from banks. It represented 56% of the total sources of funds by the end of 2016, of which mother company and related parties' deposits represent the major part of these deposits.

Deposits from Banks

Million Lebanese Pounds



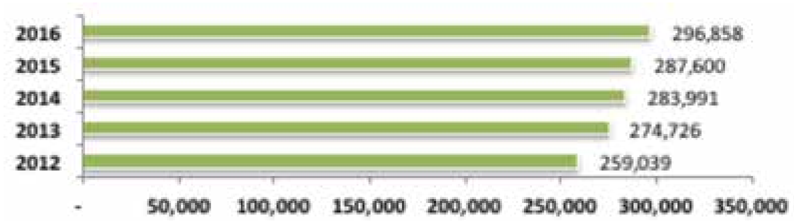
US Dollar exchange rate: 1507.50 LBP

3- Shareholders' equity

Complying with Basel III requirements, and in order to keep high solvency and liquidity ratios, the bank works annually through the capital support scheme on increasing its capital by retaining profits and taking the necessary reserves. The bank's capital is characterized by being within the Common Equity Tier1 category. Shareholders' equity in the past five years grew as follows:

Shareholder's Equity

Million Lebanese Pounds



2012	2013	2014	2015	2016
259,039	274,726	283,991	287,600	296,858

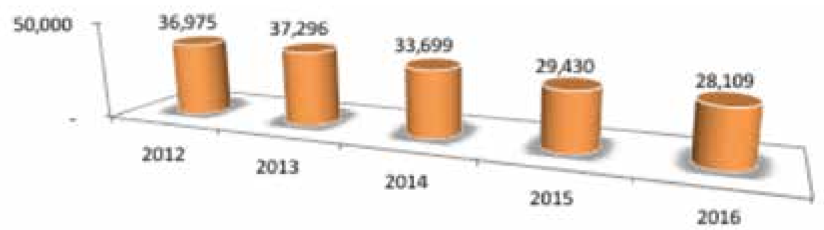
Third. Profits and Losses

1- Net interest income

Net interest income has witnessed a drop in the past years due to the conversion towards investments in financial instruments with variable income. The development of net interest income in the past five years was as follows:

Net Interest Income

Million Lebanese Pounds



US Dollar exchange rate: 1507.50 LBP

2- Net commissions and other Income

The majority of changes in this item are related to commissions received from letters of credits and guarantees. These Commissions increased in 2016 by 5% in comparison with year 2015. The net profit of commissions and other revenues in the past five years was as follows:

Net Commissions & Other Income

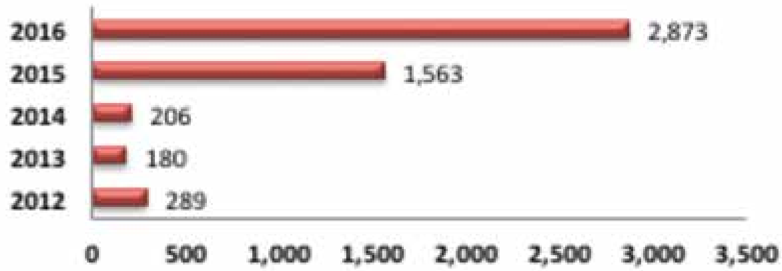
Million Lebanese Pounds

3- Return on shares

The returns from shares have witnessed a major increase through the past years due to the shift that took place lately towards investing in shares and funds issued by local banks. These returns have increased during 2016 by 84% compared with year 2015. The development of returns from shares and participations during the past five years was as follows:

Return on shares

Million Lebanese Pounds



	2012	2013	2014	2015	2016
Return on shares and participations	289	180	206	1,563	2,873

US Dollar exchange rate: 1507.50 LBP

4- Administrative and general expenses

The bank maintained the policy of rationalizing the general expenses and the operational expenses in line with the growth of bank and the adopted budget.

5- Net profits

Despite the difficult circumstances the region is facing, the bank was able to make net profits amounting to 11,021 million Lebanese Pounds by the end of 2016.

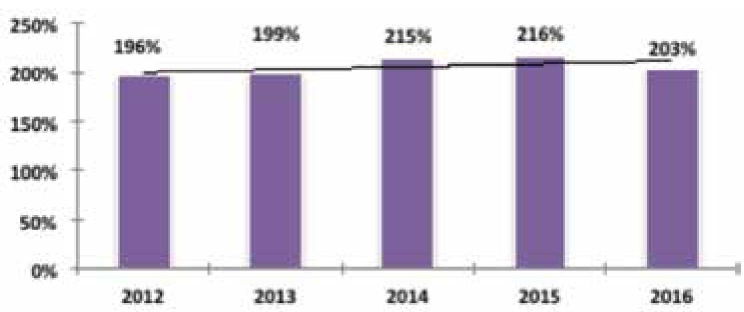
Net Profit

Million Lebanese Pounds

Fourth. Liquidity ratio (liquid assets to customers' deposits)

The bank maintains high liquidity ratios, and the ratio of liquid assets to customers' deposits reached 203% in 2016; reflecting the bank's tendency for liquid investments, which ensure the necessary liquidity and the sufficient financial flexibility of the bank to face any contingency, risks or commitments.

Liquid Assets to Deposits



US Dollar exchange rate: 1507.50 LBP

Fifth. Capital Adequacy Ratio (Basel III):

The bank maintains Capital Adequacy Ratios that exceed the minimum ratios required by Banque du Liban (BDL). Capital Adequacy Ratios in the last years were as follows:

	2012	2013	2014	2015	2016
Total Capital/Risk Weighted Assets	18,28%	21,48%	23,57%	20,52%	17,54%
Ratio required by BDL	10,00%	10,50%	11,50%	12,00%	14,00%
Tier 1 Capital/Risk Weighted Assets	18,28%	21,48%	23,57%	20,52%	17,54%
Ratio required by BDL	8,00%	8,50%	9,50%	10,00%	11,00%
Common Equity Tier 1/Risk Weighted Assets	18,28%	21,48%	23,57%	20,50%	17,39%
Ratio required by BDL	5,00%	6,00%	7,00%	8,00%	8,50%

US Dollar exchange rate: 1507.50 LBP

Shareholders Annual Meeting

The Shareholders Annual Ordinary Meeting held on 16/06/2017 approved the board of directors' report, the balance sheet and the profit and loss account for the financial year 2016 giving discharge to the members of the board.

NORTH AFRICA COMMERCIAL BANK S.A.L.

Financial statements and independent auditors' report
year ended December 31, 2016

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Independent Auditors' Report

To the Shareholders

North Africa Commercial Bank S.A.L.

Beirut, Lebanon

Opinion

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

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

Basis for Opinion

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

Other Information

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

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

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

Deloitte & Touche ***Sidani & Co.***

Beirut, Lebanon

May 13, 2017

North Africa Commercial Bank S.A.L.

Statement Of Financial Position

LBP'000

	Notes	December 31 2016	December 31 2015
Assets			
Cash and Central Bank	5	250,628,041	241,572,193
Deposits with banks and financial institutions	6	415,621,494	524,333,218
Deposits with the parent, sister and other related banks	7	29,642,347	13,927,232
Loans and advances to customers	8	23,817,936	23,552,334
Investment securities at fair value through profit or loss	9	14,656,120	29,567,409
Investment securities at fair value through other comprehensive income	9	110,486,475	48,399,075
Investment securities at amortized cost	9	536,213,118	569,632,557
Property and equipment	10	36,739,221	7,026,283
Intangible assets	11	531,463	544,557
Other assets	12	951,946	1,064,531
Total Assets		1,419,288,161	1,459,619,389
Liabilities			
Deposits from a central bank	13	78,442,528	81,705,139
Deposits from banks and financial institutions	14	35,341,332	116,882,161
Deposits from the parent, sister and other related banks	15	681,141,737	666,010,117
Customers' deposits	16	316,412,440	298,669,872
Other liabilities	17	5,647,803	3,682,390
Provisions	18	5,444,475	5,069,482
Total liabilities		1,122,430,315	1,172,019,161
Equity			
Capital	19	15,000,000	15,000,000
Cash contribution to capital	19	148,488,750	148,488,750
Reserves	20	79,718,136	76,177,130
Change in fair value of investment securities at fair value through other comprehensive income	9	3,178,845	442,007
Retained earnings		39,451,335	36,825,336
Profit for the year		11,020,780	10,667,005
Total equity		296,857,846	287,600,228
Total Liabilities and Equity		1,419,288,161	1,459,619,389
Financial instruments with off-balance Sheet risks	28		
Letters of guarantee and standby letters of credit		62,607,817	64,552,696
Letters of credit - export confirmed		29,855,517	66,953,310

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.

Statement of profit or loss

LBP'000

	Notes	2016	2015
		Year Ended December 31	
Interest income	21	48,285,766	45,895,736
Interest expense	22	(20,177,463)	(16,465,836)
Net interest income		28,108,303	29,429,900
Fee and commission income	23	2,654,144	2,407,033
Fee and commission expense		(315,698)	(335,074)
Net fee and commission income		2,338,446	2,071,959
Net gain on investment securities at fair value through profit or loss	24	3,032,951	1,651,226
Gain on difference of exchange		99,285	96,995
Realized gain on disposal of securities at amortized cost	9	-	152,861
Net financial revenues		33,578,985	33,402,941
Net (provision)/write-back of impairment loss on loans and advances	8	43,152	(22,377)
Write back of doubtful loans from off balance sheet	8	461,978	-
Net financial revenues after write-back of impairment loss		34,084,115	33,380,564
Loss on disposal of assets acquired in satisfaction of loans		-	(968,684)
Salaries and related charges	25	(14,174,923)	(13,006,065)
Depreciation and amortization	10&11	(877,717)	(869,821)
Provision for risk and charges	18	(254,940)	-
General and administrative expenses	26	(4,483,734)	(4,904,727)
Other (expense)/income		878	(7,186)
Total operating expenses		(19,790,436)	(19,756,483)
Profit before income tax		14,293,679	13,624,081
Income tax expense	17	(3,272,899)	(2,957,076)
Profit for the year		11,020,780	10,667,005

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.

LBP'000

Statement of profit or loss and other comprehensive income

	Notes	2016	2015
		Year Ended December 31	
Net profit for the year		11,020,780	10,667,005
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss			
Unrealized gain on financial assets designated at fair value through other comprehensive income	9	3,219,810	520,008
Deferred tax	17	(482,972)	(78,001)
Total other comprehensive income		2,736,838	442,007
Total comprehensive income for the year		13,757,618	11,109,012

THE ACCOMPANYING NOTES 1 TO 34 FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS.

Statement of changes in equity

LBP'000

	Capital	Cash contribution for Capital	Reserves	Changes in fair value of investment securities	Retained Earnings	Profit for the Year	Total
Balance January 1, 2015	15,000,000	148,488,750	68,616,066	-	33,621,270	18,265,130	283,991,216
Allocation of 2014 profit	-	-	7,561,064	-	10,704,066	(18,265,130)	-
Dividends paid (Note 19)	-	-	-	-	(7,500,000)	-	(7,500,000)
Total comprehensive income for the year 2015	-	-	-	442,007	-	10,667,005	11,109,012
Balance December 31, 2015	15,000,000	148,488,750	76,177,130	442,007	36,825,336	10,667,005	287,600,228
Allocation of 2015 profit	-	-	3,541,006	-	7,125,999	(10,667,005)	-
Dividends paid (Note 19)	-	-	-	-	(4,500,000)	-	(4,500,000)
Total comprehensive income for the year 2016	-	-	-	2,736,838	-	11,020,780	13,757,618
Balance December 31, 2016	15,000,000	148,488,750	79,718,136	3,178,845	39,451,335	11,020,780	296,857,846

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.

LBP'000

Statement of cash flows

		Year Ended December 31	
	Notes	2016	2015
Cash flows from operating activities			
Profit for the year before income tax		14,293,679	13,624,081
Adjustments for:			
Depreciation and amortization	10&11	877,717	869,821
Change in fair value of investment securities at fair value through profit or loss	24	(244,129)	(88,729)
Net provision/ (write back) of impairment loss on loans and advances	8	(43,152)	22,377
Provision for risk and charges	18	254,940	-
Provision for employees' end-of-service indemnities	18	1,043,727	673,170
Loss on disposal of assets acquired in satisfaction of loan		-	968,684
Loss/(Gain) on disposal of property and equipment		(878)	7,186
Dividend income	24	(2,873,475)	(1,562,573)
Interest income		(48,285,766)	(45,895,736)
Interest expense		20,177,463	16,465,836
Compulsory deposits with Central Bank of Lebanon with a maturity exceeding three months		(46,118,555)	(62,650,857)
Deposits with banks and financial institutions with a maturity exceeding three months		128,093,227	(217,663,358)
Investment securities at fair value through profit or loss	9	15,155,418	(28,216)
Investment securities at fair value through other comprehensive income	9	(59,350,562)	(25,344,591)
Investment securities at amortized cost	9	33,361,332	24,624,935
Loans and advances to customers	8	(222,450)	(1,237,641)
Other assets	12	112,585	(3,695)
Deposits from central banks	13	(3,288,166)	(6,922,544)
Deposits from banks and financial institutions	14	(81,453,143)	16,660,647
Deposits from parent, sister and other related banks	15	16,865,343	86,822,704
Customers' deposits	16	16,029,054	(2,976,710)
Other liabilities	17	1,741,212	(800,285)
Settlements made from provision for employees' end-of-service indemnities	18	(923,674)	(602,377)
		5,201,747	(205,037,871)
Income tax paid		(3,048,698)	(4,465,049)
Dividends received		2,873,475	1,562,573
Interest received		48,070,796	46,540,985
Interest paid		(20,259,803)	(14,751,431)
Net cash (used in)/ generated by operating activities		32,837,517	(176,150,793)
Cash flows from investing activities:			
Acquisition of property and equipment	10	(30,440,008)	(477,064)
Proceeds from disposal of property and equipment	10	3,000	3,015
Acquisition of intangible assets	11	(139,675)	(230,676)
Proceeds from disposal of assets acquired in satisfaction of loan		-	4,921,271
Net cash used in generated by investing activities		(30,576,683)	4,216,546
Cash flows from financing activities:			
Dividends paid	19	(4,500,000)	(7,500,000)
Net cash used in financing activities		(4,500,000)	(7,500,000)
Net decrease in cash and cash equivalents		(2,239,166)	(179,434,247)
Cash and cash equivalents beginning of year		233,282,558	412,716,805
Cash and cash equivalents end of year	27	231,043,392	233,282,558

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.

Notes to the financial statements year ended December 31, 2016

1. General information

- North Africa Commercial Bank S.A.L. is a Lebanese joint-stock company registered in the Trade Register in 1973 under Number 30199 and in the Central Bank of Lebanon list of banks under number 62.
- The Bank offers a full range of commercial banking activities in accordance with the applicable Lebanese Laws and banking regulations. The head office is situated on Justinian Street, Hamra, Beirut.
- The Bank is 99.56% owned by the Libyan Foreign Bank (parent bank).

2. Application of new and revised International Financial Reporting Standards (IFRSs)

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

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 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 amortisation
- 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 IFRSs in issue but not yet effective:

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

Effective for annual periods beginning on or after	New and revised IFRSs
The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018, the amendment to IFRS 12 for annual periods beginning on or after 1 January 2017	• Annual Improvements to IFRS Standards 2014 – 2016 Cycle amending IFRS 1, IFRS 12 and IAS 28
1 January 2017	• Amendments to IAS 12 Income Taxes relating to the recognition of deferred tax assets for unrealised losses
1 January 2017	• Amendments to IAS 7 Statement of Cash Flows to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.
1 January 2018	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 recognises 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.
1 January 2018	• Amendments to IFRS 2 Share Based Payment regarding classification and measurement of share based payment transactions

1 January 2018	• Amendments to IFRS 4 Insurance Contracts: Relating to the different effective dates of IFRS 9 and the forthcoming new insurance contracts standard.
1 January 2018	• Amendments to IAS 40 Investment Property: Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The paragraph has been amended to state that the list of examples therein is non-exhaustive.
When IFRS 9 is first applied	• Amendments to IFRS 7 Financial Instruments: Disclosures relating to disclosures about the initial application of IFRS 9
When IFRS 9 is first applied	• IFRS 7 Financial Instruments: Disclosures relating to the additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9

1 January 2018	IFRS 9 Financial Instruments (revised versions 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 finalised 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.
1 January 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. 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.

1 January 2018	• Amendments to IFRS 15 Revenue from Contracts with Customers to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.
1 January 2019	**IFRS 16 leases** • IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.
Effective date deferred indefinitely	• 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.

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

3. Significant Accounting Policies

Statement of Compliance

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

Basis of Measurement

The financial statements have been prepared on the historical cost basis except for some financial instruments measured at fair value.

Assets and liabilities are grouped according to their nature and presented in the financial statements in accordance to their relative liquidity.

The principal accounting policies are set out below:

A. Foreign Currencies:

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, which are recognized in other comprehensive income.

B.Recognition and Derecognition of Financial Assets and Liabilities:

The Bank 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 Bank 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 Bank 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 Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank 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 issuers, are derecognized as management considers that they do meet the conditions for derecognition.

The Bank 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.

Repurchase agreements

Securities sold under agreements to repurchase at a specified future date ("repos") are not derecognized from the statement of financial position. The corresponding cash received, is recognized as liability. 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. Securities purchased under agreements to resell at a specified date are not recognized in the statement of financial positon. The consideration on paid is recognized as asset. The difference between the purchase and resale prices is treated as interest income using the effective interest rate method.

C. 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 Bank 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 Bank 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 this case it is recognized in other comprehensive income. Cumulative gains and losses recognized in other comprehensive income are transferred to retained earnings on disposal of an investment.

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

A financial asset is held for trading if:

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

Reclassification:

Financial assets are reclassified between FVTPL and amortized cost or vice versa, if and only if, the Bank'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.

D. Financial Liabilities and Equity Instruments:

Classification as debt or equity:

Debt and equity instruments issued by the Bank 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, where applicable.

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 Bank are recognized at the proceeds received, net of direct issue costs, where applicable.

Repurchase of the Bank'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 Bank's own equity instruments.

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.

E. 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 Bank has a legal right to set-off the amounts or intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

F. 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 Bank 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.

International Financial Reporting Standard (IFRS 13) establishes the hierarchy of fair value 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.

G. 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 Bank 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.

H. 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.

I. Loans and Advances:

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and advances are 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.

J. Property and Equipment:

Property and equipment are stated at historical cost, 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, over the estimated useful lives of the related assets using the straight-line method as follows:

	Years
Buildings	50
Furniture	12,5
Office equipment	12,5
Computer equipment	5
Vehicles	4
Leasehold improvements	16,5

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.

K. Intangible Assets:

Other intangible assets consisting of computer software and key money are amortized over a period of 5 years and are subject to impairment testing. Subsequent expenditure on software assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

L. 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.

M. Impairment of Financial and Non-Financial Assets:

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

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

N. Provision for Employees' End-of-Service Indemnity:

The provision for staff termination indemnities is based on the liability that would arise if the employment of all the staff 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 and interest accrued by the Fund.

O. Provisions:

Provision is recognized if, as a result of a past event, the Bank 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.

P. 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.

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

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

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

Net gain and losses on financial assets measured at fair value through profit or loss includes:

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

Dividend income is recognized when the right to receive payment is established. Dividends on equity instruments designated as at fair value through other comprehensive income 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.

Q. Income Tax:

Income tax expense represents the sum of the tax currently payable and deferred tax. Income tax is recognized in the 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 (as applicable).

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because of the items that are never taxable or deductible. The Bank'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 Bank 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 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.

R. Cash and Cash Equivalents:

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

4. Critical accounting judgments and key sources of estimation uncertainty

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

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

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

Classification of Financial Assets:

Business Model:

The business model test requires the Bank 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 Bank 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 Bank'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.

Characteristics of the Financial Asset:

Once the Bank 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 Bank 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.

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.

Determining Fair Values:

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

5. Cash And Central Bank

LBP'000

	December 31	
	2016	2015
Cash on hand	1,472,280	1,427,821
Purchased checks	-	1,084,390
Current accounts with Central Bank of Lebanon (including compulsory reserves)	27,968,464	25,794,376
Term placements with Central Bank of Lebanon	220,161,250	212,522,750
Accrued interest receivable	1,026,047	742,856
	250,628,041	241,572,193

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

	December 31, 2016			
	Accounts in LBP	Average interest rate	Accounts in F/Cy	Average interest rate
Maturity	**LBP'000**	**%**	**LBP'000**	**%**
First quarter of 2017	37,000,000	2.96	94,218,750	1.02
Second quarter of 2017	-	-	51,255,000	0.91
Third quarter of 2017	-	-	2,261,250	0.97
Year 2018	-	-	12,813,750	4.75
Year 2025	-	-	7,537,500	6.04
Year 2029	-	-	15,075,000	7.50
	37,000,000	-	183,161,250	-

	December 31, 2015			
	Accounts in LBP	Average interest rate	Accounts in F/Cy	Average interest rate
Maturity	**LBP'000**	**%**	**LBP'000**	**%**
First quarter of 2016	17,000,000	2.88	145,021,500	0.18
Second quarter of 2016	-	-	15,075,000	0.22
Year 2018	-	-	12,813,750	4.75
Year 2025	-	-	7,537,500	6.04
Year 2029	-	-	15,075,000	7.5
	17,000,000	-	195,522,750	-

Current accounts with Central Bank of Lebanon include cash compulsory reserves in Lebanese Pound in the amount of LBP20.78billion (LBP16.53billion in 2015). This compulsory reserve is non-interest earning and is computed on the basis of 25% and 15% of the average weekly demand and term customers' deposits in Lebanese Pounds respectively, in accordance with the local banking regulations. Compulsory deposits are not available for use in the Bank's day-to-day operations.

Term placements with Central Bank of Lebanon include the equivalent in foreign currencies of LBP143billion (LBP153billion in 2015) deposited in accordance with local banking regulations which require banks to maintain interest earning placements in foreign currency to the extent of 15% of customers' deposits in foreign currencies, which includes all types of deposits, certificates of deposit and loans acquired from non-resident financial institutions with remaining maturities of one year or less.

6. Deposits with banks and financial institutions

LBP'000

	December 31	
	2016	**2015**
Current accounts with correspondents	8,745,969	23,458,933
Term placements	313,199,445	469,939,255
Loans under reverse repurchase agreement	92,912,527	30,161,363
Accrued interest receivable	763,553	773,667
	415,621,494	524,333,218

Deposits with banks are distributed between resident and non-resident as follows:

LBP'000

	December 31	
	2016	**2015**
Resident	394,130,886	465,223,686
Non-resident	21,490,608	59,109,532
	415,621,494	524,333,218

Term placements represent short term maturities having an average interest rate on outstanding balances of 1,43% as at December 31, 2016 (0,99% as at December 31, 2015).

Loans under reverse repurchase agreement represent short term maturities having an average interest rate on outstanding balances of 2% as at December 31, 2016 (2,49% as at December 31, 2015).

Deposits with banks and financial institutions are allocated by brackets as follows:

	December 31			
	2016		2015	
	Balance	Number of Counter Parties	Balance	Number of Counter Parties
	LBP'000		LBP'000	
Less than 5 billion LBP	10,263,293	11	5,355,731	11
Between 5 to 15 billion LBP	-	-	25,023,757	3
Between 15 to 30 billion LBP	66,818,451	3	-	-
Between 30 to 50 billion LBP	49,266,067	1	80,328,059	2
Between 50 to 100 billion LBP	-	-	148,129,214	2
Between 100 to 150 billion LBP	104,438,146	1	107,479,202	1
Between 150 to 200 billion LBP	184,835,537	1	158,017,255	1
	415,621,494	17	524,333,218	20

Refer to Note 29 for outstanding balances with related parties.

7. Deposits with the parent, sister and other related banks

LBP'000

	December 31	
	2016	2015
Current Accounts:		
Sister Banks	6,457,046	13,597,759
Parent Bank	572,299	329,473
Term placements-sister banks	22,612,500	-
Accrued interest receivable	502	-
	29,642,347	13,927,232

8. Loans and advances to customers

LBP'000

	December 31, 2016		
	Gross amount net of unrealized interest	Impairment allowance	Carrying amount
Performing Loans			
- Retail	1,094,874	-	1,094,874
- Housing loans	2,078,307	-	2,078,307
	3,173,181	-	3,173,181
Performing Loans – Companies			
- Small and medium enterprises	8,981,339	-	8,981,339
	8,981,339	-	8,981,339
Non-performing loans			
- Doubtful and bad	28,678,374	(16,970,846)	11,707,528
	28,678,374	(16,970,846)	11,707,528
Collective provision	-	(44,112)	(44,112)
	40,832,894	(17,014,958)	23,817,936

LBP'000

	December 31, 2015		
	Gross amount net of unrealized interest	Impairment allowance	Carrying amount
Performing Loans			
- Retail	806,168	-	806,168
- Housing loans	2,360,948	-	2,360,948
	3,167,116	-	3,167,116
Performing Loans – Companies			
- Small and medium enterprises	8,693,258	-	8,693,258
	8,693,258	-	8,693,258
Non-performing loans			
- Doubtful and bad	28,750,070	(17,042,542)	11,707,528
	28,750,070	(17,042,542)	11,707,528
Collective provision	-	(15,568)	(15,568)
	40,610,444	(17,058,110)	23,552,334

Performing loans include an economic group having an aggregate balance around LBP 5.5 billion as at December 31, 2016 (representing 45% of the total performing loans) (LBP 4.3 billion representing 36% of the total performing loans as of December 31, 2015) in addition to indirect facilities of LBP 3.5 billion (LBP 2.8 billion as at December 31, 2015). These facilities are covered by real estate mortgages and treasury bills up to LBP 10.4 billion and concession of the customer's cash inflows from projects with the public sector.

The movement of unrealized interest on substandard and doubtful loans is as follows:

LBP'000

	2016	**2015**
Balance – beginning of year	404,003,658	339,488,101
Additions	85,077,602	70,128,021
Transfer to off-balance sheet	-	(5,593,654)
Effect of exchange rates changes	66,688	(18,810)
Balance - end of the year	489,147,948	404,003,658

The movement of the allowance for impairment is as follows:

LBP'000

	2016	**2015**
Balance – beginning of the year	17,042,542	18,956,451
Additions	6,664	29,550
Write-back through profit or loss	(78,360)	(15,203)
Transfer to off-balance sheet	-	(1,928,256)
Balance - end of the year	16,970,846	17,042,542

The movement of collective provision is as follows:

LBP'000

	2016	**2015**
Balance – beginning of year	15,568	7,538
Additions	28,544	8,030
Balance - end of the year	44,112	15,568

During 2016, the Bank have wrote provisions for doubtful debts from off-balance sheet accounts for an amount of LBP 463 million.

9. Investment securities

LBP'000

	December 31, 2016								
	Fair value through profit or loss			Amortized Cost			Fair value through other comprehensive Income		
	Balances in LBP	Balances in Foreign currencies	Total	Balances in LBP	Balances in Foreign currencies	Total	Balances in LBP	Balances in Foreign currencies	Total
Unquoted equity securities	170,000	75,375	245,375	-	-	-	-	-	-
Quoted equity securities	-	60,759	60,759	-	-	-	-	110,486,475	110,486,475
Investment fund	-	14,349,986	14,349,986	-	-	-	-	-	-
Lebanese treasury bills	-	-	-	65,603,800	-	65,603,800	-	-	-
Lebanese Government bonds	-	-	-	-	304,250,504	304,250,504	-	-	-
Certificates of deposit issued by the Central Bank of Lebanon	-	-	-	107,336,971	28,190,250	135,527,221	-	-	-
Corporate bonds – local bank	-	-	-	-	22,612,500	22,612,500	-	-	-
	170,000	14,486,120	14,656,120	172,940,771	355,053,254	527,994,025	-	110,486,475	110,486,475
Accrued interest receivable	-	-	-	3,696,495	4,522,598	8,219,093	-	-	-
	170,000	14,486,120	14,656,120	176,637,266	359,575,852	536,213,118	-	110,486,475	110,486,475

LBP'000

	December 31, 2015								
	Fair value through profit or loss			Amortized Cost			Fair value through other comprehensive Income		
	Balances in LBP	Balances in Foreign currencies	Total	Balances in LBP	Balances in Foreign currencies	Total	Balances in LBP	Balances in Foreign currencies	Total
Unquoted equity securities	170,000	75,375	245,375	-	-	-	-	-	-
Quoted equity securities	-	60,239	60,239	-	-	-	-	48,399,075	48,399,075
Investment fund	-	29,261,795	29,261,795	-	-	-	-	-	-
Lebanese treasury bills	-	-	-	71,242,000	-	71,242,000	-	-	-
Lebanese Government bonds	-	-	-	-	348,310,607	348,310,607	-	-	-
Certificates of deposit issued by the Central Bank of Lebanon	-	-	-	91,000,000	28,190,250	119,190,250	-	-	-
Corporate bonds – local bank	-	-	-	-	22,612,500	22,612,500	-	-	-
	170,000	29,397,409	29,567,409	162,242,000	399,113,357	561,355,357	-	48,399,075	48,399,075
Accrued interest receivable	-	-	-	3,422,722	4,854,478	8,277,200	-	-	-
	170,000	29,397,409	29,567,409	165,664,722	403,967,835	569,632,557	-	48,399,075	48,399,075

The movement of investment securities during 2016 and 2015 is summarized as follows:

LBP'000

	Investment securities at fair value through profit or loss	Investment securities at amortized cost	Investment securities at fair value through other comprehensive income
Balance as at January 1, 2016	29,567,409	561,355,357	48,399,075
Additions	-	17,361,800	59,350,562
Redemption upon maturity	-	(49,210,000)	-
Sale	(15,155,418)	-	-
Unrealized gain from change in fair value (Note 24)	244,129	-	2,736,838
Amortization of discount / premium	-	(853,547)	-
Effect of exchange rates changes	-	(659,585)	-
Balance as at December 31, 2016	14,656,120	527,994,025	110,486,475
Balance as at January 1, 2015	29,450,464	585,980,292	22,612,477
Additions	28,216	20,779,500	25,344,591
Redemption upon maturity	-	(42,380,770)	-
Unrealized gain from change in fair value (Note 24)	88,729	-	442,007
Swaps (net)	-	1,055,250	-
Amortization of discount / premium	-	(1,626,202)	-
Effect of exchange rates changes	-	(2,452,713)	-
Balance as at December 31, 2015	29,567,409	561,355,357	48,399,075

During 2015, the Bank sold Lebanese Government bonds maturing in year 2015 classified at amortized cost with a carrying amount of LBP 19.6 billion in exchange of certificates of deposit issued by the Central Bank of Lebanon amounting to LBP 20.65 billion maturing on June 23, 2025. The Bank realized a gain for around LBP 152 million recorded in the statement of profit or loss.

(a) Investment Securities at fair value through profit or loss:

LBP'000

	LBP			F/CY		
	Cost	Fair Value	Cumulative change in fair value	Cost	Fair Value	Cumulative change in fair value
December 31, 2016						
Unquoted equity securities	170,000	170,000	-	150,750	75,375	(75,375)
Quoted equity securities	-	-	-	136,917	60,759	(76,158)
Investment Fund	-	-	-	13,977,131	14,349,986	372,855
	170,000	170,000	-	14,264,798	14,486,120	221,322
December 31, 2015						
Unquoted equity securities	170,000	170,000	-	150,750	75,375	(75,375)
Quoted equity securities	-	-	-	132,951	60,239	(72,712)
Investment Fund	-	-	-	28,861,541	29,261,795	400,254
	170,000	170,000	-	29,145,242	29,397,409	252,167

During 2016, the Bank liquidated its investments in investment funds from local banks for an amount of LBP 15 billion. This transaction resulted in a loss of LBP 50.4 million recorded under "Net gain on investment securities at fair value through profit or loss" in the statement of profit or loss.

Investments funds are subject to an annual return ranges between 3% to 5% of the issuing price in condition that the issuing banks have sufficient net profits to settle these returns. These securities were classified as investment securities at fair value through profit or loss under "Investment funds" section.

(b) Investment Securities at Amortized Cost:

LBP'000

	LBP			C/V of F/CY		
	Amortized Cost	Accrued interest receivable	Fair Value	Amortized Cost	Accrued interest receivable	Fair Value
December 31, 2016						
Lebanese Government bonds	-	-	-	304,250,504	4,332,241	286,358,914
Lebanese treasury bills	65,603,800	1,251,341	66,161,760	-	-	-
Certificates of deposit issued by the Central Bank of Lebanon	107,336,971	2,445,154	110,842,462	28,190,250	168,477	24,408,987
Corporate bonds – Local bank	-	-	-	22,612,500	21,880	22,405,219
	172,940,771	3,696,495	177,004,222	355,053,254	4,522,598	333,173,120
December 31, 2015						
Lebanese Government bonds	-	-	-	348,310,607	4,664,121	343,884,190
Lebanese treasury bills	71,242,000	1,373,496	72,508,345	-	-	-
Certificates of deposit issued by the Central Bank of Lebanon	91,000,000	2,049,226	94,380,803	28,190,250	168,477	27,800,452
Corporate bonds – Local bank	-	-	-	22,612,500	21,880	22,687,875
	162,242,000	3,422,722	166,889,148	399,113,357	4,854,478	394,372,517

Investments at amortized cost are segregated over remaining period to maturity as follows:

	December 31, 2016							
	Balances in LBP				Balances in Foreign Currency			
	Nominal value	Amortized Cost	Fair value	Average Coupon Rate	Nominal value	Amortized Cost	Fair value	Average Coupon Rate
	LBP'000	LBP'000	LBP'000	%	LBP'000	LBP'000	LBP'000	%
Lebanese Government bonds:								
- Up to one year	-	-	-	-	57,922,736	57,922,736	57,843,835	8.66
- 1 year to 3 years	-	-	-	-	102,617,899	102,552,483	96,561,646	5.33
- 3 years to 5 years	-	-	-	-	99,495,000	104,756,856	97,026,031	7.63
- 5 years to 10 years	-	-	-	-	39,195,000	39,018,429	34,927,402	6.08
	-	-	-	-	299,230,635	304,250,504	286,358,914	-
Corporate bonds – Local bank								
- 3 years to 5 years	-	-	-	-	15,075,000	15,075,000	15,037,313	7.00
- 5 to 10 years	-	-	-	-	7,537,500	7,537,500	7,367,906	6.50
	-	-	-	-	22,612,500	22,612,500	22,405,219	-
Lebanese treasury bills:								
- Up to one year	28,000,000	28,000,000	28,577,892	6.58	-	-	-	-
- 1 year to 3 years	16,000,000	16,000,000	16,316,472	6.84	-	-	-	-
- 3 years to 5 years	8,802,400	8,802,400	8,482,104	6.90	-	-	-	-
- 5 years to 10 years	12,801,400	12,801,400	12,785,292	8.15	-	-	-	-
	65,603,800	65,603,800	66,161,760		-	-	-	-
Certificates of deposits issued by the Central Bank of Lebanon:								
- 1 year to 3 years	4,000,000	4,000,000	4,122,910	7.90	-	-	-	-
- 3 years to 5 years	-	-	-	-	-	-	-	-
- 5 years to 10 years	83,000,000	83,000,000	86,881,765	8.26	20,652,750	20,652,750	17,859,472	6.04
- Above 10 years	20,000,000	20,336,971	19,837,787	8.47	7,537,500	7,537,500	6,549,515	6.76
	107,000,000	107,336,971	110,842,462	-	28,190,250	28,190,250	24,408,987	-
Grand Total	172,603,800	172,940,771	177,004,222	-	350,033,385	355,053,254	333,173,120	-

	December 31, 2015							
	Balances in LBP				Balances in Foreign Currency			
	Nominal value	Amortized Cost	Fair value	Average Coupon Rate	Nominal value	Amortized Cost	Fair value	Average Coupon Rate
	LBP'000	LBP'000	LBP'000	%	LBP'000	LBP'000	LBP'000	%
Lebanese Government bonds:								
- Up to one year	-	-	-	-	42,210,000	42,256,908	41,627,873	4.75
- 1 year to 3 years	-	-	-	-	115,221,470	115,221,470	114,828,893	6.95
- 3 years to 5 years	-	-	-	-	79,143,750	79,239,425	77,465,950	5.84
- 5 years to 10 years	-	-	-	-	105,525,000	111,592,804	109,961,474	7.44
	-	-	-	-	342,100,220	348,310,607	343,884,190	-
Corporate bonds – Local bank								
- 5 to 10 years	-	-	-	-	22,612,500	22,612,500	22,687,875	6.83
	-	-	-	-	22,612,500	22,612,500	22,687,875	-
Lebanese treasury bills:								
- Up to one year	7,000,000	7,000,000	7,163,538	6.18	-	-	-	-
- 1 year to 3 years	34,000,000	34,000,000	34,692,618	6.61	-	-	-	-
- 3 years to 5 years	18,402,000	18,402,000	18,429,789	6.90	-	-	-	-
- 5 years to 10 years	11,840,000	11,840,000	12,222,400	8.21	-	-	-	-
	71,242,000	71,242,000	72,508,345	-	-	-	-	-
Certificates of deposit:								
- 1 year to 3 years	4,000,000	4,000,000	4,171,055	7.90	-	-	-	-
- 3 years to 5 years	-	-	-	-	-	-	-	-
- 5 years to 10 years	73,000,000	73,000,000	76,108,088	8.23	20,652,750	20,652,750	20,051,914	6.04
- Above 10 years	14,000,000	14,000,000	14,101,660	8.47	7,537,500	7,537,500	7,748,538	6.76
	91,000,000	91,000,000	94,380,803	-	28,190,250	28,190,250	27,800,452	-
Grand Total	162,242,000	162,242,000	166,889,148	-	392,902,970	399,113,357	394,372,517	-

(c) Investment Securities at fair value through other comprehensive income

LBP'000

	Cost	Fair Value	Accumulated Change in Fair Value
December 31, 2016			
Priority shares - local bank	22,992,367	22,992,367	-
Nominal shares - local bank	83,754,290	87,494,108	3,739,818
	106,746,657	110,486,475	
Deferred Tax liability (Note 17)			(560,973)
			3,178,845

LBP'000

	Cost	Fair Value	Accumulated Change in Fair Value
December 31, 2015			
Priority shares - local bank	22,612,477	22,612,477	-
Nominal shares - local bank	25,266,590	25,786,598	520,008
	47,879,067	48,399,075	
Deferred Tax liability (Note 17)			(78,001)
			442,007

Priority shares earn an annual dividends of 4% of the issue price provided there are enough declared net profits for the issued bank to allow the payment of such dividends.

10. Property and equipment

LBP'000

	Property and buildings	Office and computer equipment	Furniture and fixtures	Vehicles	Leasehold Improvements	Advance Payments	Total
Cost:							
Balance – January 1, 2015	6,504,166	2,791,866	2,472,388	508,578	6,019,739	113,063	18,409,800
Additions	-	20,197	30,388	162,667	-	263,812	477,064
Disposals	-	-	(91,581)	-	-	-	(91,581)
Balance - December 31, 2015	6,504,166	2,812,063	2,411,195	671,245	6,019,739	376,875	18,795,283
Additions	-	577,734	42,374	-	-	29,819,000	30,440,008
Disposals	-	(3,469)	(48,446)	-	-	-	(51,915)
Balance - December 31, 2016	6,504,166	3,386,328	2,405,123	671,245	6,019,739	30,196,775	49,183,376
Accumulated depreciation:							
Balance – January 1, 2015	(2,048,685)	(2,527,661)	(1,882,926)	(367,232)	(4,310,628)	-	(11,137,132)
Additions	(130,083)	(110,428)	(83,219)	(73,230)	(316,288)	-	(713,248)
Disposals	-	-	81,380	-	-	-	81,380
Balance - December 31, 2015	(2,178,768)	(2,638,089)	(1,884,765)	(440,462)	(4,626,916)	-	(11,769,000)
Additions	(130,083)	(175,073)	(80,905)	(75,063)	(263,824)	-	(724,948)
Disposals	-	3,469	46,324	-	-	-	49,793
Balance - December 31, 2016	(2,308,851)	(2,809,693)	(1,919,346)	(515,525)	(4,890,740)	-	(12,444,155)
Net Book Value:							
December 31, 2016	4,195,315	576,635	485,777	155,720	1,128,999	30,196,775	36,739,221
December 31, 2015	4,325,398	173,974	526,430	230,783	1,392,823	376,875	7,026,283

This caption includes advance payments for the amount of USD19.9million out of the total acquisition cost of USD28million related to the purchase of the ground, first, second, third, fourth and fifth floor from block C of the constructed building on plot 1524 in Downtown Beirut having a total area of 3,854 square meter, that will be used as the Bank's head office following Board of Directors' resolution on July 5, 2015 and Central Bank of Lebanon approval on December 22, 2015.

The terms of the agreement with the seller included additional conditions under which the seller committed to deliver the acquired sections ready, equipped, furnished and fit for use as head office for the Bank within the agreed price and without any additional cost.

The above property is pledged to BLOM bank for an amount of USD17.64million, by which the latter and the owner of the property have committed in the sale agreement with North Africa Commercial Bank S.A.L. to remove the mortgage from the sold sections in the real estate register upon completion of the registration procedures in the name of the Bank.

11. Intangible assets

LBP'000

	Computer Software
Cost:	
Balance, January 1, 2015	1,492,518
Additions	230,676
Balance, December 31, 2015	1,723,194
Additions	139,675
Balance, December 31, 2016	1,862,869
Accumulated Amortization:	
Balance, January 1, 2015	1,022,064
Amortization for the year	156,573
Balance, December 31, 2015	1,178,637
Amortization for the year	152,769
Balance, December 31, 2016	1,331,406
Carrying Value:	
Balance, December 31, 2016	**531,463**
Balance, December 31, 2015	**544,557**

12. Other assets

LBP'000

	December 31	
	2016	**2015**
Receivables from the National Social Security Fund	207,249	220,556
Prepaid expenses	229,602	254,569
Sundry debtors	515,095	589,406
	951,946	1,064,531

13. Deposits from a central bank

This caption consists of deposits from foreign central bank – the ultimate parent company.

LBP'000

	December 31	
	2016	2015
Demand deposits	3,024,993	6,313,159
Term deposits	75,375,000	75,375,000
Accrued interest payable	42,535	16,980
	78,442,528	81,705,139

14. Deposits from banks and financial institutions

LBP'000

	December 31	
	2016	2015
Current accounts	32,627,719	52,702,572
Term deposits	2,713,500	64,091,790
Accrued interest payable	113	87,799
	35,341,332	116,882,161

15. Deposits from the parent, sister and other related banks

LBP'000

	December 31	
	2016	2015
Current accounts:		
Sister banks	45,529	72,600
Parent bank	1,455,729	2,066,119
	1,501,258	2,138,719
Term deposits:		
Sister banks	26,381,250	30,150,000
Parent bank	646,796,737	625,588,531
	673,177,987	655,738,531
Cash margin with parent bank	5,983,302	5,919,954
Accrued interest payable	479,190	2,212,913
	681,141,737	666,010,117

Term deposits from parent and sister banks have the following maturities:

	December 31, 2016		December 31, 2015	
	Accounts In F / CY	Average Interest Rate	Accounts In F / CY	Average Interest Rate
	LBP'000	LBP'000	LBP'000	LBP'000
First quarter of 2017	673,177,987	1.12	-	-
First quarter of 2016	-	-	392,733,335	0.43
Second quarter of 2016	-	-	263,005,196	1.23
	673,177,987		655,738,531	

16. Customers' deposits

LBP'000

	December 31, 2016		
	LBP	F / CY	Total
Deposits from customers:			
Current/demand deposits	2,888,315	1,570,277	4,458,592
Term deposits	132,519,534	175,467,422	307,986,956
Collateral against loans and advances	783,087	33,019	816,106
	136,190,936	177,070,718	313,261,654
Margins and other accounts:			
Margins on letters of guarantee	-	479,635	479,635
Accrued interest payable	713,734	1,957,417	2,671,151
Total	136,904,670	179,507,770	316,412,440

LBP'000

	December 31, 2015		
	LBP	F / CY	Total
Deposits from customers:			
Current/demand deposits	2,646,108	3,039,310	5,685,418
Term deposits	105,285,063	185,089,267	290,374,330
Collateral against loans and advances	1,025,335	61,561	1,086,896
	108,956,506	188,190,138	297,146,644
Margins and other accounts:			
Margins on letters of guarantee	-	565,591	565,591
Accrued interest payable	31,424	926,213	957,637
Total	108,987,930	189,681,942	298,669,872

Deposits from customers are allocated by brackets of deposits as follows:

	December 31, 2016					
	LBP			F/CY		
	No. of Customers	Total Deposits	% to Total Deposits	Total Deposits	% to Total Deposits	Total
		LBP'000	%	LBP'000	%	LBP'000
Less than LBP 250 million	1,354	29,789,892	22	13,109,809	7	42,899,701
Between LBP 250 million and LBP 1,5 billion	150	58,049,703	42	23,028,870	13	81,078,573
Above LBP 1,5 billion	29	49,065,075	36	143,369,091	80	192,434,166
	1,533	136,904,670	100	179,507,770	100	316,412,440

	December 31, 2015					
	LBP			F/CY		
	No. of Customers	Total Deposits	% to Total Deposits	Total Deposits	% to Total Deposits	Total
		LBP'000	%	LBP'000	%	LBP'000
Less than LBP 250 million	1,353	27,258,917	24	13,808,830	7	41,067,747
Between LBP 250 million and LBP 1,5 billion	153	61,145,111	54	21,886,928	12	83,032,039
Above LBP 1,5 billion	22	20,583,902	22	153,986,184	81	174,570,086
	1,528	108,987,930	100	189,681,942	100	298,669,872

Customers' deposits at December 31, 2016 include coded deposit accounts in the aggregate of LBP198million (LBP198million in 2015). These accounts are subject to the provisions of Article 3 of the Banking Secrecy Law dated September 3, 1956 which stipulates that the Bank's management, in the normal course of business, cannot reveal the identities of these depositors to third parties, including its Bank's independent auditors.

Customers' deposits include related party deposits in the amount of LBP4.31billion at December 31, 2016 (LBP5.15billion in 2015).

17. Other liabilities

LBP'000

	December 31	
	2016	2015
Provision for income tax	3,329,817	2,345,105
Withheld taxes payable	999,062	484,382
Deferred tax liability (Note 9)	560,973	78,001
Accrued charges	382,809	454,277
Due to the National Social Security Fund	45,721	250,500
Payable to personnel	94,038	28,110
Sundry payables	235,383	42,015
	5,647,803	3,682,390

Provision for income tax as of December 31, 2016 is presented net of amounts paid in advance and deducted at source on certain interest income amounting to LBP762million (LBP670million in 2015).

The tax returns for the years 2013 till 2016 are still subject for review and final assessment by the tax authorities.

18. Provisions

Provisions consist of the following:

LBP'000

	December 31	
	2016	2015
Provision for employees' end-of-service indemnity	5,020,535	4,900,482
Provision for loss on fixed foreign currency position	169,000	169,000
Collective provisions	254,940	-
	5,444,475	5,069,482

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

LBP'000

	2016	2015
Balance – beginning of the year	4,900,482	4,829,689
Additions (Note 25)	1,043,727	673,170
Settlements	(923,674)	(602,377)
Balance - end of the year	5,020,535	4,900,482

Collective provisions represent 2% from risk weighted assets related to credit risk attributed to loan portfolio as part of IFRS 9 requirements that will be effective starting January 1, 2018, in line with Central Bank requirements intermediate circular 439.

19. Share capital

At December 31, 2016 and 2015, the Bank's authorized ordinary share capital amounted to LBP15,000million consisting of 300,000 fully paid shares of LBP50,000 par value each.

Cash contribution to capital amounting to LBP148billion as at December 31, 2016 and 2015, represents funds injected by the bank's shareholders in order to promote, support and develop the activities of the Bank. These contributions are not subject to interest. According to local banking regulations, cash contribution to capital is considered as a core capital ratio in terms of calculating Bank's solvency.

As at 2016 year-end, the Bank has a fixed exchange position in the amount of USD3.5million, authorized by the Central Bank of Lebanon, to hedge its equity against exchange fluctuations within the limit of 60% of equity denominated in Lebanese Pound.

In its meeting held on April 22, 2016, the Ordinary General Assembly resolved to distribute dividends to shareholders of LBP4.5billion (LBP7.5billion in 2015).

20. Reserves

LBP'000

	December 31	
	2016	2015
Legal reserve (a)	15,046,296	13,979,595
Reserve for general banking risks (b)	29,319,015	26,906,943
Special reserve (c)	11,707,541	11,707,541
Free reserve for capital increase	23,558,916	23,543,415
Other reserves	86,368	39,636
	79,718,136	76,177,130

(a) The legal reserve is constituted in conformity with the requirements of the Lebanese Money and Credit Law on the basis of 10% of annual net profit. This reserve is not available for distribution. The Bank's General Assembly held on April 22, 2016 resolved to appropriate an amount of LBP1,066million from the net profit of 2015.

(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 annually 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 cumulative rate should not be less than 1.25% at the end of the tenth financial year, (starting from year 1998, i.e. 2007) and 2% at the end of the 20th year. This reserve is constituted in Lebanese Pounds and in foreign currencies in proportion to the composition of the total risk weighted assets and off-balance-sheet items. This reserve is not available for distribution, and is used to cover any annual or unpredicted losses after being communicated and approved by the Banking Central Commission. The Bank's General Assembly held on April 22, 2016 resolved to appropriate an amount of LBP2,412million from the net profit of 2015.

(c) This special reserve is made in connection with the uncovered portion of doubtful debts and impaired loans subject of item No.4 of Article II of basic decision No. 7694 and Central Bank intermediary circular No. 209.

21. Interest income

LBP'000

	Year Ended December 31	
	2016	**2015**
Interest income from:		
Deposits with the Central Bank of Lebanon	3,969,935	2,770,931
Deposits with banks and financial institutions	5,750,278	4,754,437
Loans and advances to customers	905,396	891,433
Investment securities at amortized cost	37,595,187	37,478,935
Interest realized on non-performing loans booked in off-balance sheet	64,970	-
	48,285,766	45,895,736

Refer to Note 29 for interest income from related parties.

22. Interest expense

LBP'000

	Year Ended December 31	
	2016	2015
Interest expense on:		
Deposits from banks and financial institutions	6,893,865	4,612,714
Deposits from customers	12,949,537	11,520,785
Deposits from related parties	334,061	332,337
	20,177,463	16,465,836

Refer to Note 29 for interest expense from related parties.

23. Fee and commission income

LBP'000

	Year Ended December 31	
	2016	2015
Commission on documentary credits and guarantees	2,458,612	1,990,639
Commission on banking operations	121,541	352,170
Fees and commission on credit facilities	73,991	64,224
	2,654,144	2,407,033

24. Net gains on investment securities at fair value through profit or loss

LBP'000

	Year Ended December 31	
	2016	2015
Dividends income	2,873,475	1,562,573
Unrealized gain	244,129	88,729
Realized loss	(50,441)	-
Commission expenses	(34,212)	(76)
	3,032,951	1,651,226

25. Salaries and related charges

LBP'000

	Year Ended December 31	
	2016	2015
Salaries	8,685,060	8,188,504
Vacation and other staff benefits	1,924,440	1,374,866
Provision for employees' end-of-service indemnity	1,043,727	673,170
Social Security contributions	918,723	1,025,334
Insurance expenses	592,095	594,123
School allowance	437,700	457,633
Transportation	219,987	229,260
Other allowance	353,191	463,175
	14,174,923	13,006,065

26. General and administrative expenses

LBP'000

	Year Ended December 31	
	2016	2015
Directors' remunerations attendance fees and representation allowances	1,631,869	1,607,825
Travel expenses	34,236	112,120
Maintenance and repairs	319,847	262,893
Professional fees	364,426	397,155
Water electricity and telecommunication	280,024	417,505
Rent	498,810	565,413
Municipality and other taxes	55,428	142,401
Subscription	566,979	588,385
Insurance	116,500	159,005
Other operating expenses	615,615	652,025
	4,483,734	4,904,727

27. Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents consist of the following:

LBP'000

	December 31	
	2016	2015
Cash and deposits with Central Bank (net of compulsory reserve) (a)	47,183,905	84,529,803
Term deposits with banks and financial institutions (a)	154,217,140	134,825,523
Term deposits with parent bank, sister and related banks (a)	29,642,347	13,927,232
	231,043,392	233,282,558

(a) Term deposits with banks comprise balances with original maturities of 90 days or less.

28. Financial instruments with off-balance-sheet risks

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

29. Balances and transactions with related parties

In the ordinary course of its activities, the Bank conducts transactions with related parties including shareholders, directors and related companies.

The size of these related-party transactions and outstanding balances at year-end, and relating expense and income for the year are as follows:

(a) Deposits with related banks and financial institutions (Note 6)

LBP'000

	December 31	
	2016	2015
Current accounts	410,417	361,887
Term deposits	15,075,000	-
Accrued interest receivable	1,382	-
	15,486,799	361,887

(b) Deposits with parent sister and other related banks (Note 7)

LBP'000

	December 31	
	2016	2015
Current accounts:		
Sister banks	6,457,046	13,597,759
Parent bank	572,299	329,473
Term deposits - related banks	22,612,500	-
Accrued interest	502	-
	29,642,347	13,927,232

(c) Deposits from a central bank (Foreign Central Bank - the Ultimate parent company) (Note 13)

LBP'000

	December 31	
	2016	**2015**
Current accounts	3,024,993	6,313,159
Term deposits	75,375,000	75,375,000
Accrued interest payable	42,535	16,980
	78,442,528	81,705,139

(d) Deposits from parent, sister and other related banks (Note 15)

LBP'000

	December 31	
	2016	**2015**
Current accounts:		
Sister banks	45,529	72,600
Parent bank	1,455,729	2,066,119
	1,501,258	2,138,719
Term deposits:		
Sister banks	26,381,250	30,150,000
Parent bank	646,796,737	625,588,531
	673,177,987	655,738,531
Cash margin with parent bank	5,983,302	5,919,954
Accrued interest payable	479,190	2,212,913
	681,141,737	666,010,117

(e) Customers' deposits (Note 16)

LBP'000

	December 31	
	2016	**2015**
Customers' deposits – related parties	4,312,090	5,149,145

(f) Interest income and expense:
Interest income are broken-down as follows:

LBP'000

	Year Ended December 31	
	2016	2015
Interest income on: Deposits with related banks and financial institutions	5,073	55,625
	5,073	55,625
Interest expense on: Deposits from foreign Central Bank (ultimate parent company) Deposits from parent, sister and other related banks Customers' deposits - related parties	 547,558 5,871,909 334,061	 220,007 3,821,743 332,337
	6,753,528	4,374,087

LBP'000

(g) Board of directors remunerations (Note 26)

	Year Ended December 31	
	2016	2015
Board of directors remunerations representation and attendance fees	1,631,869	1,607,825

30. Financial risk management

Risk Management Framework

The Bank is exposed to different types of risk mainly credit risk, liquidity risk, operational risk and market risk. These risks are inherent in the Bank's activities but are managed through an ongoing process of identification, measurement, monitoring and mitigation.

The Board of Directors, the Risk Management Committee and the Risk Management Division are responsible for overseeing the Bank's risks, while the Internal Audit Department has the responsibility independently to monitor the implemented risk management process to ensure adequacy and effectiveness of the risk control procedures.

The Risk Management Division ensures that the capital is adequate to cover all types of risks that the Bank is exposed to and monitors compliance with risk management policies, procedures and lending limits. The Bank assesses its risk profile to ensure that it is in line with the bank's risk strategy and goals. The Board of Directors receives quarterly risk reports on the Bank's risk profile and capital management process.

Credit Risk

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

Management of credit risk mainly includes:

- Identifying credit risk through implementing credit processes related to credit origination, analysis, approval and review.
- Measuring credit risk by ensuring that it is within the limits set by the Bank and the related authorities in addition to the assessment of guarantees taken.

The Bank manages the level of credit risk undertaken by placing limits on the amount of risk accepted in relation to one borrower, and/or groups of related borrowers and to geographical and industry segments without exceeding limits of the facilities set by the local Bank's regulations. Such risk is monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary.

Exposures to any one borrower including banks are further restricted by sub-limits covering on and off-financial position exposures. Actual exposures against limits are monitored on a regular basis.

The principal collateral types for loans and advances consist of mortgages over real estate properties and bank guarantees. The Bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

The Bank enters into netting arrangements with counterparties having a significant volume of transactions in order to restrict its exposure to credit losses. These arrangements do not generally result in an offset of assets and liabilities in the statement of financial position.

Measurement of Credit Risk

Loans and advances to customers

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

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

In accordance with Central Bank of Lebanon circular No.58 the loans and advances to customers are classified into six classifications as described below:

Classification	Description	
1	Standard monitoring	Indicates that borrowers are certainly able to honor their commitments. Some of the indicators related to this category are: continuous cash inflows, and availability of updated financial statements.
2	Follow up	Indicates that borrowers have an adequate ability to honor their commitments. Major characteristics of this category are inadequate documentation regarding borrower's activity and declining profitability.
3	Special mention	Indicates that borrowers are still able to honor their commitments with the existence of some weaknesses that may reduce ability to settle. Some indicators related to this category are delayed payments (60 to 90 days), decline in profitability and cash flows, excess over limit of more than 10%, more than one time debt rescheduling and borrower highly relying on leverage and rising conflict among shareholders.

4	Substandard	Indicates that borrowers' ability to serve their commitments is in question and depending on the improvement of financial and economic conditions on the liquidation of available collateral. The main characteristics of this category are repetitive overdues between 90 and 180 days, inability to cover interest payments for more than 6 months, remarkable decrease in cash flows and losses incurred for over three consecutive years. In this case, the Bank considers interests and commissions as unrealized but does not establish an allowance for impairment.
5	Doubtful	Indicates that Bank may not be able to recover loan in full. Major indicators are no movement for over six months and borrower is unable to settle rescheduled commitments. In this case, the Bank considers interests and commissions as unrealized and established an allowance for impairment accordingly.
6	Bad	Indicates that commitments cannot be recovered. Some signals of this category would be inexistence of collateral low value of collateral and / or, losing contact with the borrower. In this case, the bank considers interests and commissions as unrealized, ceases their accumulation, and provides the whole amount of the exposure's balance.

The Bank adopted a risk-rating system (RCMS) to provide the ability to assess the risk of customers, and is used as a practical tool during all phases of the granting facility in the Bank.

The system approved by the Board of Directors aims to rate the risk of individual institutions, small businesses and medium-sized businesses, trading companies and new projects according to a special classification (Loan Grading System), mainly in terms of identifying the risk of the portfolio of loans and advances as loans and advances granted are assessed according to the six rating classes as follows:

- 7 classes to rate performing loans;
- 3 classes to rate non-performing loans.

Debt investment securities and other bills

The risk of the debt instruments included in the investment portfolio at amortized cost relates mainly to sovereign risk (including Central bank of Lebanon) to the extent of 94% in 2016 and 2015.

Concentration of credit risk by geographical location:

The Bank distributes exposures to geographical segments based on the original country of the contracting party as follows:

LBP'000

	December 31, 2016					
	Lebanon	**Arab Countries**	**Africa**	**Europe**	**Other**	**Total**
Financial Assets						
Cash and Central Bank	250,628,041	-	-	-	-	250,628,041
Deposits with banks and financial institutions	396,655,666	347,462	-	18,538,105	80,261	415,621,494
Deposits with parent, sister and other related banks	-	-	572,300	29,070,047	-	29,642,347
Loans and advances to customers	22,951,418	548,090	114,619	-	203,809	23,817,936
Investment securities at fair value through profit or loss	14,580,745	75,375	-	-	-	14,656,120
Investment securities at fair value through other comprehensive income	110,486,475	-	-	-	-	110,486,475
Investment securities at amortized cost	536,213,118	-	-	-	-	536,213,118
Total	1,331,515,463	970,927	686,919	47,608,152	284,070	1,381,065,531
Off-balance sheet items						
Letters of guarantee and standby letters of credit	61,754,358	853,459	-	-	-	62,607,817
Letters of credit - export confirmed	-	29,855,517	-	-	-	29,855,517
	61,754,358	30,708,976	-	-	-	92,463,334

LBP'000

	December 31, 2015					
	Lebanon	Arab countries	Africa	Europe	Other	Total
Financial Assets						
Cash and Central Bank	241,572,193	-	-	-	-	241,572,193
Deposits with banks and financial institutions	465,223,685	3,056,291	-	44,160,930	11,892,312	524,333,218
Deposits with parent, sister and other related banks	-	-	329,473	13,597,759	-	13,927,232
Loans and advances to customers	22,946,912	548,090	47,862	-	9,470	23,552,334
Investment securities at fair value through profit or loss	29,492,034	75,375	-	-	-	29,567,409
Investment securities at fair value through other comprehensive income	48,399,075	-	-	-	-	48,399,075
Investment securities at amortized cost	569,632,557	-	-	-	-	569,632,557
Total	1,377,266,456	3,679,756	377,335	57,758,689	11,901,782	1,450,984,018
Off-balance sheet items						
Letters of guarantee and standby letters of credit	61,830,971	2,664,340	-	3,115	54,270	64,552,696
Letters of credit - export confirmed	-	66,953,310	-	-	-	66,953,310
	61,830,971	69,617,650	-	3,115	54,270	131,506,006

Concentration of credit risk by industry or sector:

LBP'000

	December 31, 2015							
	Sovereign Risk	Financial Institutions	Manufacturing	Construction	Trading	Other	Individual	Total
Financial Assets								
Cash and Central Bank	250,628,041	-	-	-	-	-	-	250,628,041
Deposits with banks and financial institutions	-	415,621,494	-	-	-	-	-	415,621,494
Deposits with parent, sister and other related banks	-	29,642,347	-	-	-	-	-	29,642,347
Loans and advances to customers	-	-	5,246,329	8,669,885	6,021,921	914,205	2,965,596	23,817,936
Investment securities at fair value through profit or loss	-	14,595,361	-	60,759	-	-	-	14,656,120
Investment securities at fair value through other comprehensive income	-	110,486,475	-	-	-	-	-	110,486,475
Investment securities at amortized cost	513,578,738	22,634,380	-	-	-	-	-	536,213,118
	764,206,779	592,980,057	5,246,329	8,730,644	6,021,921	914,205	2,965,596	1,381,065,531
Off-balance sheet items								
Letters of guarantee and standby letters of credit	-	57,752,662	414,525	3,591,780	15,375	129,120	704,355	62,607,817
Letters of credit - export confirmed	-	29,855,517	-	-	-	-	-	29,855,517
	-	87,608,179	414,525	3,591,780	15,375	129,120	704,355	922,463,334

LBP'000

	December 31, 2015							
	Sovereign Risk	Financial Institutions	Manufacturing	Construction	Trading	Other	Individual	Total
Financial Assets								
Cash and Central Bank	241,572,193	-	-	-	-	-	-	241,572,193
Deposits with banks and financial institutions	-	524,333,218	-	-	-	-	-	524,333,218
Deposits with parent, sister and other related banks	-	13,927,232	-	-	-	-	-	13,927,232
Loans and advances to customers	-	-	4,632,135	7,424,770	5,670,893	2,509,811	3,314,725	23,552,334
Investment securities at fair value through profit or loss	-	29,507,170	-	60,239	-	-	-	29,567,409
Investment securities at fair value through other comprehensive income	-	48,399,075	-	-	-	-	-	48,399,075
Investment securities at amortized cost	546,998,177	22,634,380	-	-	-	-	-	569,632,557
	788,570,370	638,801,075	4,632,135	7,485,009	5,670,893	2,509,811	3,314,725	1,450,984,018
Off-balance sheet items								
Letters of guarantee and standby letters of credit	-	58,360,554	504,871	2,891,831	1,450,781	617,033	727,626	64,552,696
Letters of credit - export confirmed	-	66,953,310	-	-	-	-	-	66,953,310
	-	125,313,864	504,871	2,891,831	1,450,781	617,033	727,626	131,506,006

North Africa Commercial Bank S.A.L.

Guarantees held against loans and advances to customers:

LBP'000

	December 31, 2016						
				Value of Collateral Received			
	Gross Exposure Net of Unrealized Interest	Allowance for Impairment	Net Exposure	Pledged Funds	First degree Mortgage on Properties	Personal Guarantees	Total Guarantees
Performing Loans:							
- Retail	1,094,874	-	1,094,874	617,938	-	325,135	943,073
- Housing Loans	2,078,307	-	2,078,307	-	3,210,975	-	3,210,975
Performing Loans - Corporate:							
- Small and medium enterprises	8,981,339	-	8,981,339	198,178	17,022,965	33,696	17,254,839
Doubtful and bad debts	28,678,374	(16,970,846)	11,707,528	-	37,514,138	-	37,514,138
Collective provision	-	(44,112)	(44,112)	-	-	-	-
	40,832,894	(17,014,958)	23,817,936	816,116	57,748,078	358,831	58,923,025

LBP'000

	December 31, 2015						
				Value of Collateral Received			
	Gross Exposure Net of Unrealized Interest	Allowance for Impairment	Net Exposure	Pledged Funds	First degree Mortgage on Properties	Personal Guarantees	Total Guarantees
Performing Operating Loans:							
- Retail Loans	806,168	-	806,168	902,441	486,923	574,405	1,963,769
- Housing Loans	2,360,948	-	2,360,948	-	2,907,967	-	2,907,967
Performing Loans - Corporate:							
- Small and medium enterprises	8,693,258	-	8,693,258	184,455	18,123,440	42,180	18,350,075
Doubtful and bad debts	28,750,070	(17,042,542)	11,707,528	-	37,514,138	-	37,514,138
Collective provision	-	(15,568)	(15,568)	-	-	-	-
	40,610,444	(17,058,110)	23,552,334	1,086,896	59,032,468	616,585	60,735,949

Market Risks

Market risk is defined as the risk of losses in on and off-financial position, arising from adverse movements in market prices. The risks subject to Market Risk include: Interest Rate Risk and Foreign Exchange Risk.

Foreign Exchange risk

Foreign exchange risk arises from the exposure on banking assets and liabilities, denominated in foreign currencies.

LBP'000

	December 31, 2016					
	LBP	USD	GBP	EUR	Others	Total
Assets						
Cash and Central Bank	59,459,123	190,552,171	88,749	527,998	-	250,628,041
Deposits with banks and financial institutions	2,872,242	405,692,790	112,622	5,317,075	1,626,765	415,621,494
Deposits with the parent, sister and other related banks	-	26,885,328	516,656	2,199,702	40,661	29,642,347
Loans and advances to customers	785,384	23,032,552	-	-	-	23,817,936
Investment securities at fair value through profit or loss	170,000	14,458,744	-	27,376	-	14,656,120
Investment securities at fair value through other comprehensive income	-	110,486,475	-	-	-	110,486,475
Investment securities at amortized cost	176,637,265	338,560,241	-	21,015,612	-	536,213,118
Property and equipment	6,542,445	30,196,776	-	-	-	36,739,221
Intangible assets	531,463	-	-	-	-	531,463
Other assets	390,785	559,405	-	1,756	-	951,946
Total assets	247,388,707	1,140,424,482	718,027	29,089,519	1,667,426	1,419,288,161
Liabilities						
Deposits from a Central Bank	-	77,979,136	-	463,392	-	78,442,528
Deposits from banks and financial institutions	-	25,693,257	124,662	9,521,404	2,009	35,341,332
Deposits form the parent, sister and other related banks	-	681,129,750	-	11,987	-	681,141,737
Customers' deposits	136,904,670	158,467,377	577,435	18,847,075	1,615,883	316,412,440
Other liablities	4,619,676	804,985	-	222,919	223	5,647,803
Provisions	4,384,955	1,059,520	-	-	-	5,444,475
Total liabilities	145,909,301	945,134,025	702,097	29,066,777	1,618,115	1,122,430,315
Net assets	101,479,406	195,290,457	15,930	22,742	49,311	296,857,846

LBP'000

	December 31, 2015					
	LBP	**USD**	**GBP**	**EUR**	**Others**	**Total**
Assets						
Cash and Central Bank	39,525,026	201,440,635	106,749	499,783	-	241,572,193
Deposits with banks and financial institutions	197,430	467,977,204	135,436	54,454,509	1,568,639	524,333,218
Deposits with the parent, sister and other related banks	-	484,275	537,085	12,855,704	50,168	13,927,232
Loans and advances to customers	974,609	22,577,725	-	-	-	23,552,334
Investment securities at fair value through profit or loss	170,000	29,369,169	-	28,240	-	29,567,409
Investment securities at fair value through other comprehensive income	-	48,399,075	-	-	-	48,399,075
Investment securities at amortized cost	165,664,722	382,289,351	-	21,678,484	-	569,632,557
Property and equipment	6,649,408	376,875	-	-	-	7,026,283
Intangible assets	544,557	-	-	-	-	544,557
Other assets	426,143	635,256	-	3,132	-	1,064,531
Total assets	214,151,895	1,153,549,565	779,270	89,519,852	1,618,807	1,459,619,389
Liabilities						
Deposits from a Central Bank	-	77,156,561	-	4,548,578	-	81,705,139
Deposits from banks and financial institutions	-	58,978,664	124,897	57,767,996	10,604	116,882,161
Deposits form the parent, sister and other related banks	-	665,984,311	-	25,806	-	666,010,117
Customers' deposits	108,987,930	160,310,043	633,646	27,168,213	1,570,040	298,669,872
Other liablities	3,262,348	419,841	-	-	201	3,682,390
Provisions	3,972,767	1,096,715	-	-	-	5,069,482
Total liabilities	116,223,045	963,946,135	758,543	89,510,593	1,580,845	1,172,019,161
Net assets	97,928,850	189,603,430	20,727	9,259	37,962	287,600,228

Exposure to Interest rate risk

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

LBP'000

	December 31, 2016						
	Not subject to Interest	Less than 1 Month	1 to 3 Months	3 Months to 1 Year	1 to 5 Years	Over 5 Years	Total
Financial Assets							
Cash and Central Bank	29,440,745	53,647,218	77,883,461	53,591,543	13,077,500	22,987,574	250,628,041
Deposits with banks and financial institutions	7,956,237	306,348,932	93,769,403	7,546,922	-	-	415,621,494
Deposits with the parent, sister and other related banks	7,029,345	22,613,002	-	-	-	-	29,642,347
Loans and advances to customers	12,628,185	9,212,462	10,871	331,442	1,634,976	-	23,817,936
Investment securities at fair value through profit or loss	14,656,120	-	-	-	-	-	14,656,120
Investment securities at fair value through other comprehensive income	110,486,475	-	-	-	-	-	110,486,475
Investment securities at amortized cost	-	4,644,585	67,634,256	23,862,988	248,930,878	191,140,411	536,213,118
Total Financial Assets	182,197,107	396,466,199	239,297,991	85,332,895	263,643,354	214,127,985	1,381,065,531
Financial Liabilities							
Deposits from a Central Bank	3,024,993	75,417,535	-	-	-	-	78,442,528
Deposits from banks and financial institutions	32,627,719	2,713,613	-	-	-	-	35,341,332
Deposits form parent, sister and other related banks	1,501,258	124,375,895	555,264,584	-	-	-	681,141,737
Customers' deposits	36,893,709	192,136,200	52,589,565	32,641,217	2,151,749	-	316,412,440
Total Financial Liabilities	74,047,679	394,643,243	607,854,149	32,641,217	2,151,749	-	1,111,338,037

LBP'000

	December 31, 2015						
	Not subject to Interest	**Less than 1 Month**	**1 to 3 Months**	**3 Months to 1 Year**	**1 to 5 Years**	**Over 5 Years**	**Total**
Financial Assets							
Cash and Central Bank	28,306,587	24,088,073	15,082,053	138,028,118	13,074,118	22,993,244	241,572,193
Deposits with banks and financial institutions	11,113,373	334,771,455	73,436,815	105,011,575	-	-	524,333,218
Deposits with the parent, sister and other related banks	13,927,232	-	-	-	-	-	13,927,232
Loans and advances to customers	12,345,895	8,571,448	299,912	617,089	1,717,990	-	23,552,334
Investment securities at fair value through profit or loss	29,567,409	-	-	-	-	-	29,567,409
Investment securities at fair value through other comprehensive income	48,399,075	-	-	-	-	-	48,399,075
Investment securities at amortized cost	-	5,750,307	47,448,295	4,335,506	250,862,895	261,235,554	569,632,557
Total Financial Assets	143,659,571	373,181,283	136,267,075	247,992,288	265,655,003	284,228,798	1,450,984,018
Financial Liabilities							
Due from a Central Bank	6,313,159	37,690,263	37,701,717	-	-	-	81,705,139
Deposits from banks and financial institutions	52,702,572	27,798,606	12,069,795	24,311,188	-	-	116,882,161
Deposits form related parent, sister and related banks	2,138,718	341,564,350	57,299,704	265,007,345	-	-	666,010,117
Customers' deposits	33,044,118	219,466,432	21,261,230	10,096,423	14,801,669	-	298,669,872
Total Financial Liabilities	94,198,567	626,519,651	128,332,446	299,414,956	14,801,669	-	1,163,267,289

Liquidity Risk

Liquidity risk is the risk of being unable to meet net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately. To face this risk, management distributes its sources of funding and manage its assets according to a cash policy that seeks to preserve an adequate liquidity balance and financial instruments than can be readily liquidated in the financial market.

LBP'000

	December 31, 2016			
	Up to 3 months	3 months to 1 year	1 to 3 years	Total
Financial liabilities				
Deposits from a central bank	78,442,528	-	-	78,442,528
Deposits from banks and financial institutions	35,341,332	-	-	35,341,332
Deposits from the parent, sister and other related banks	681,141,737	-	-	681,141,737
Customer deposits	281,619,474	32,641,217	2,151,749	316,412,440
	1,076,545,071	32,641,217	2,151,749	1,111,338,037

LBP'000

	December 31, 2015			
	Up to 3 months	3 months to 1 year	1 to 3 years	Total
Financial liabilities				
Deposits from a central bank	81,705,139	-	-	81,705,139
Deposits with banks and financial institutions	92,570,973	24,311,188	-	116,882,161
Deposits from the parent, sister and related banks	401,002,772	265,007,345	-	666,010,117
Customer deposits	273,771,780	10,096,423	14,801,669	298,669,872
	849,050,664	299,414,956	14,801,669	1,163,267,289

31. Capital management

The Bank manages its capital to comply with the capital adequacy requirements set by Central Bank of Lebanon, the Bank's lead regulator.

Central Bank of Lebanon requires each bank or banking group to hold a minimum level of regulatory capital of LBP10billion for the head office (in Lebanon) and LBP500million for each local branch and LBP1.5billion on each branch abroad (for Lebanese banks, in addition to the required amount by the related authorities abroad).

The Bank's capital is split as follows:

Tier I capital: Comprises share capital, cash contribution to capital, reserves from appropriation of profits, retained earnings (exclusive of profit for the year) after deductions for intangible assets.

Tier II capital: Comprises 50% of the accumulated change in fair value of Investment securities at fair value through other comprehensive income.

The bank's capital adequacy ratio was as follows:

LBP'000

	December 31	
	2016	**2015**
Tier I capital Tier II capital	186,642,854 1,589,500	241,930,000 221,000
Total regulatory capital	188,232,354	242,151,000
Credit risk Market risk Operational risk	979,984,375 29,400,000 63,755,625	1,045,879,000 65,129,845 69,329,375
Risk-weighted assets of credit, market and operational risks	1,073,140,000	1,180,338,220
Equity Tier I ratio	17.54 %	20.52 %
Tier I capital ratio	17.54 %	20.52 %
Risk based capital ratio- Tier I and Tier II capital	17.39 %	20.50 %

32. 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 financial statements, including their levels in the fair value hierarchy. It does not include financial assets and financial liabilities which are measured at amortized cost and where the directors consider that the carrying amounts of these financial assets and liabilities are reasonable approximations of their fair value:

LBP'000

			December 31, 2016			
			Fair Value			
	Notes	Carrying Amount	Level 1	Level 2	Level 3	Total
Financial assets at fair value						
Investment securities at fair value through profit or loss						
Unquoted equity securities	9	245,375	-	-	245,375	245,375
Quoted equity securities	9	60,759	60,759	-	-	60,759
Fund	9	14,349,986	-	-	14,349,986	14,349,986
		14,656,120	60,759	-	14,595,361	14,656,120
Investment securities at fair value through other comprehensive income						
Quoted equity securities	9	110,486,475	110,486,475	-	-	110,486,475
		110,486,475	110,486,475	-	-	110,486,475
Financial assets at amortized cost						
Lebanese treasury bills	9	65,603,800	-	66,161,760	-	66,161,760
Lebanese Government bonds	9	304,250,504	-	286,358,914	-	286,358,914
Certificates of deposit in LBP issued by the Central Bank	9	107,336,971	-	110,842,462	-	110,842,462
Certificates of deposit in foreign currencies issued by the Central Bank	9	28,190,250	-	24,408,987	-	24,408,987
Corporate bonds – local bank	9	22,612,500	-	22,405,219	-	22,405,219
Loans and advances to customers	8	23,817,936	-	29,133,836	-	29,133,836
		551,811,961	-	539,311,178	-	539,311,178

LBP'000

			December 31, 2015			
			Fair Value			
	Notes	Carrying Amount	Level 1	Level 2	Level 3	Total
Financial assets at fair value						
Investment securities at fair value through profit or loss						
Unquoted equity securities	9	245,375	-	-	245,375	245,375
Quoted equity securities	9	60,239	60,239	-	-	60,239
Fund	9	29,261,795	-	-	29,261,795	29,261,795
		29,567,409	60,239	-	29,507,170	29,567,409
Investment securities at fair value through other comprehensive income						
Quoted equity securities	9	48,399,075	48,399,075	-	-	48,399,075
		48,399,075	48,399,075	-	-	48,399,075
Financial assets at amortized cost						
Lebanese treasury bills	9	71,242,000	-	72,508,345	-	72,508,345
Lebanese Government bonds	9	348,310,607	-	343,884,190	-	343,884,190
Certificates of deposit in LBP issued by the Central Bank	9	91,000,000	-	94,380,803	-	94,380,803
Certificates of deposit in foreign currencies issued by the Central Bank	9	28,190,250	-	27,800,452	-	27,800,452
Corporate bonds – local bank	9	22,612,500	-	22,687,875	-	22,687,875
Loans and advances to customers	8	23,552,334	-	27,831,405	-	27,831,405
		584,907,691	-	589,093,070	-	589,093,070

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

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 financial statements, are determined (Level 2 and Level 3 fair values) and significant unobservable inputs used where applicable (Level 3):

Financial instruments	Date of valuation	Valuation technique and key inputs	Significant unobservable inputs
Unquoted equity securities	December 31,2016 & 2015	Non resident.	N/A
Investment Fund	December 31,2016 & 2015	Fair value was provided by the fund manager.	N/A
Lebanese treasury bills	December 31,2016 & 2015	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bills, adjusted for illiquidity.	N/A
Lebanese Government bonds	December 31,2016 & 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
Certificates of deposit in foreign currencies issued by the Central Bank	December 31,2016 & 2015	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bills, adjusted for illiquidity.	N/A
Corporate bonds-Local bank	December 31,2016 & 2015	Fair value was provided by the issuer.	N/A
Loans and advances to customers	December 31,2016 & 2015	DCF at a discount rate determined based on the average rate of return of the receivables bearing fixed interest rate for more than one year.	N/A

33. Contingent liabilities

There are some lawsuits filed against the bank; the bank's management and legal advisor do not expect to incur material liability as result of the disputed claims.

As stated in Note 19, the tax returns for the years from 2013 till 2016 are still subject to tax examination and final assessment by the tax authorities.

34. Approval of the financial statements

The financial statements for the year ended December 31, 2016 were approved by the Bank's Board of Directors in its meeting held on March 11, 2017.

North Africa Commercial Bank S.A.L.