BLC BANK S.A.L.

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
YEAR ENDED DECEMBER 31, 2017

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TABLE OF CONTENTS

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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying financial statements of BLC Bank S.A.L. (the Bank), which comprise the statement of financial position as at December 31, 2017, 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 Bank as at December 31, 2017, 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 *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the *International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code)* together with the *Code of Ethics of the Lebanese Association of Certified Public Accountants* that are relevant to our audit of the 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.

Key Audit Matters

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

Key audit matters	How our audit addressed the key audit matters
<u>Impairment of loans and advances to customers</u>	
Due to the inherently judgmental nature of the computation of impairment provisions for loans and advances, there is a risk that the amount of impairment may be misstated. The impairment of loans and advances is estimated by management through the application of judgment and the use of subjective assumptions. Due to the significance of loans and advances and related estimation uncertainty, this is considered a key audit risk. The corporate loan portfolio generally comprises larger loans that are monitored individually by management. The assessment of loan loss impairment is therefore based on management's knowledge of each individual borrower. However, consumer loans generally comprises much smaller value loans to a much greater number of customers. Provisions, other than those that are calculated on an individual basis, are determined by grouping by product into homogeneous portfolios. The portfolios which give rise to the greatest uncertainty are typically those where impairments are derived from collective models, are unsecured or are subject to potential collateral shortfalls.	The risks outlined were addressed by us as follows: We tested the design and operating effectiveness of the key controls to determine which loans and advances are impaired and provisions against those assets. These included testing: • System-based and manual controls over the timely recognition of impaired loans and advances. • Controls over the impairment calculation models including data inputs. • Controls over collateral valuation estimates. We tested a sample of loans and advances to form our own assessment as to whether impairment events had occurred and to assess whether impairments had been identified in a timely manner. • For impairment allowances against collectively assessed loans and advances, substantially covered by the regulatory designated deferred liability set up in anticipation of IFRS 9, we critically assessed the Bank's estimates and assumptions, specifically in respect to the inputs to the impairment models and the consistency of judgement applied in the use of economic factors, loss emergence periods and the observation period for historical default rates. • For non-performing customers, we tested and challenged the valuation model used by management where the expected recoverable amount from the liquidation of collateral discounted is compared to the net carrying value of the customer net exposure.

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

In preparing the 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 auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Beirut, Lebanon
May 21, 2018

DFK Fiduciaire du Moyen Orient

Deloitte & Touche

BLC BANK S.A.L.
STATEMENT OF FINANCIAL POSITION

ASSETS	Notes	December 31, 2017 LBP'000	December 31, 2016 LBP'000
Cash and Central Bank	5	1,373,505,926	1,199,067,440
Deposits with banks and financial institutions	6	156,870,470	407,145,664
Loan to a bank	7	3,528,263	4,233,915
Investment securities at fair value through profit or loss	9	130,568,469	98,747,661
Loans and advances to customers	8	2,412,843,769	2,270,161,093
Investment securities at amortized cost	9	3,117,312,491	3,318,749,775
Investment securities at fair value through other comprehensive income	9	15,438,093	17,260,682
Customers' liability under acceptances	10	55,659,396	33,886,385
Investments in subsidiaries	11	124,701,057	146,940,243
Assets acquired in satisfaction of loans	12	82,496,873	85,966,183
Property and equipment	13	80,941,511	70,096,902
Intangible assets	14	1,474,990	1,740,708
Deferred assets	15	7,821,948	26,935,864
Other assets	16	22,778,413	20,983,244
Total Assets		7,585,941,669	7,701,915,759
FINANCIAL INSTRUMENTS WITH OFF- BALANCE SHEET RISKS:	34		
Letters of guarantee and standby letters of credit		153,795,420	204,093,597
Letters of credit		25,883,531	10,582,619
Forward exchange contracts		218,928,810	43,253,088
FIDUCIARY ACCOUNTS	35	16,981,988	17,553,630
ASSETS UNDER MANAGEMENT	36	15,646,005	16,994,355

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

LIABILITIES	Notes	December 31, 2017 LBP'000	December 31, 2016 LBP'000
Deposits from banks	17	80,427,448	81,786,152
Customers' accounts	18	5,908,204,095	6,101,060,771
Liability under acceptances	10	55,659,396	33,886,385
Other borrowings	19	511,348,740	411,374,820
Other liabilities	20	196,883,888	212,673,874
Provisions	21	10,384,329	7,756,718
Total liabilities		6,762,907,896	6,848,538,720
EQUITY			
Capital	22	213,650,000	213,100,000
Preferred shares	23	165,825,001	248,737,501
Reserves	24	161,343,009	127,266,703
Regulatory reserve for assets acquired in satisfaction of loans	24	58,517,962	46,864,450
Brought forward retained earnings		149,605,768	142,891,356
Cumulative change in fair value of investments at fair value through other comprehensive income	9	5,689,720	7,584,912
Net profit for the year		68,402,313	66,932,117
Total equity		823,033,773	853,377,039
Total Liabilities and Equity		7,585,941,669	7,701,915,759

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

BLC BANK S.A.L.
STATEMENT OF PROFIT OR LOSS

	Notes	Year Ended December 31, 2017 LBP'000	2016 LBP'000
Interest Income		463,673,928	436,278,074
Less: Tax on interest		(282,420)	-
Interest income, net of tax	26	463,391,508	436,278,074
Interest Expense	27	(294,638,857)	(281,155,094)
Net interest income		168,752,651	155,122,980
Fee and commission income	28	28,283,824	27,258,569
Fee and commission expense	29	(2,602,910)	(2,631,701)
Net fee and commission income		25,680,914	24,626,868
Net interest and other gain/(loss) on investment securities at fair value through profit or loss	30	4,969,576	8,534,320
Gain from derecognition of financial assets measured at amortized cost	9	-	23,705,819
Other operating income	31	4,606,774	6,256,370
Net financial revenues		204,009,915	218,246,357
Allowance for impairment of loans and advances (net)	8	(3,177,342)	(2,007,670)
Direct write-off on loans and advances, net		69,400	11,857
Write-back of discount on purchased loan portfolio	8	92,197	610,503
Net financial revenues after net impairment loss/write-back		200,994,170	216,861,047
Write down of deferred assets	15	(15,773,541)	(35,051,351)
Net gain on disposal of property and equipment and properties acquired in satisfaction of loans	12,13	6,076,850	1,388,928
(Allowance for)/write-back of contingencies (net)	21	(3,624,488)	381,768
Staff costs	32	(63,638,875)	(59,343,028)
General and administrative expenses	33	(31,243,227)	(31,889,124)
Depreciation and amortization	13,14	(7,610,155)	(7,387,651)
Profit before income tax		85,180,734	84,960,589
Income tax expense	20	(16,778,421)	(18,028,472)
Profit for the year		68,402,313	66,932,117

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

BLC BANK S.A.L.
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Year Ended December 31, 2017 LBP'000	Year Ended December 31, 2016 LBP'000
Profit for the year		68,402,313	66,932,117
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss:			
Net change in fair value of investments at fair value through other comprehensive income	9	(2,068,343)	847,444
Deferred tax asset/(liability)	20	173,196	(127,117)
Total other comprehensive (loss)/income for the year		(1,895,147)	720,327
Total comprehensive income for the year		66,507,166	67,652,444

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

BLC BANK S.A.L.
STATEMENT OF CHANGES IN EQUITY

	Capital LBP'000	Preferred Shares and Premiums LBP'000	Legal Reserve LBP'000	Free Reserves LBP'000	Reserve for General Banking Risks LBP'000	Special Reserves for Loans and Advances LBP'000	Regulatory Reserve for Assets Acquired in Satisfaction of Loans LBP'000	Cumulative Change in Fair Value of Investment Securities LBP'000	Retained Earnings LBP'000	Profit for the Year LBP'000	Total LBP'000
Balance - January 1, 2016	152,700,000	195,975,001	44,932,816	63,581,357	56,767,516	2,703,478	37,436,066	6,864,585	120,488,240	66,908,379	748,357,438
Allocation of 2015 profit	-	-	6,690,838	2,055,000	8,022,770	700,000	11,641,312	-	37,798,459	(66,908,379)	-
Capital increase (Note 22)	60,400,000	-	(45,000,000)	(15,400,000)	-	-	-	-	-	-	-
Dividends paid to preferred shares (Note 25)	-	-	-	-	-	-	-	-	(15,395,343)	-	(15,395,343)
Transfer to free reserves	-	-	-	2,212,928	-	-	(2,212,928)	-	-	-	-
Redemption of preferred shares A (Note 23)	-	(60,300,000)	-	-	-	-	-	-	-	-	(60,300,000)
Issuance of preferred shares D (Note 23)	-	113,062,500	-	-	-	-	-	-	-	-	113,062,500
Total comprehensive income for the year 2016	-	-	-	-	-	-	-	720,327	-	66,932,117	67,652,444
Balance - December 31, 2016	213,100,000	248,737,501	6,623,654	52,449,285	64,790,286	3,403,478	46,864,450	7,584,912	142,891,356	66,932,117	853,377,039
Allocation of 2016 profit	-	-	6,693,212	13,000,000	10,827,982	700,000	15,058,624	-	20,652,299	(66,932,117)	-
Capital increase (Note 22)	550,000	-	-	(550,000)	-	-	-	-	-	-	-
Dividends paid to preferred shares (Note 25)	-	-	-	-	-	-	-	-	(13,937,887)	-	(13,937,887)
Transfer to free reserves	-	-	-	3,405,112	-	-	(3,405,112)	-	-	-	-
Redemption of preferred shares B (Note 23)	-	(82,912,500)	-	-	-	-	-	-	-	-	(82,912,500)
Other	-	-	-	-	-	-	-	(45)	-	-	(45)
Total comprehensive income for the year 2017	-	-	-	-	-	-	-	(1,895,147)	-	68,402,313	66,507,166
Balance - December 31, 2017	213,650,000	165,825,001	13,316,866	68,304,397	75,618,268	4,103,478	58,517,962	5,689,720	149,605,768	68,402,313	823,033,773

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

BLC BANK S.A.L.
STATEMENT OF CASH FLOWS

	Notes	Year Ended December 31, 2017 LBP'000	Year Ended December 31, 2016 LBP'000
Cash flows from operating activities:			
Profit for the year		68,402,313	66,932,117
Adjustments for:			
Impairment of loans and advances to customers, net of write-back	8	(3,085,145)	1,397,167
Depreciation and amortization	13,14	7,610,155	7,387,651
Write down of deferred assets	15	15,773,541	35,051,351
Provision for/(write-back of) contingencies, (net)	21	3,624,488	(381,768)
Provision for staff end-of-service indemnities, (net)	21	742,004	699,072
Provision for loss on foreign currency position	21	183,834	83,071
Effect of foreign currency fluctuations		(14,370,842)	4,183,977
Unrealized gain/(loss) on investments at fair value through profit or loss	30	709,081	(533,597)
Income tax expense		16,778,421	18,028,472
(Gain)/loss on disposal of property and equipment	13	(985,373)	29,427
Gain on disposal of property acquired in satisfaction of loans	12	(5,091,477)	(1,418,355)
Dividend income	31	(1,428,880)	(1,219,047)
Interest expense	27	294,638,857	281,155,094
Interest income	26, 30	(469,069,825)	(445,603,815)
		(85,568,848)	(34,209,183)
Net (increase)/decrease in loans and advances to customers		(137,445,508)	22,202,246
Net (increase)/decrease in investments at fair value through profit or loss	37	(32,492,242)	27,008,859
Net decrease in investments at amortized cost	37	199,516,467	168,833,534
Net increase in investments at fair value through other comprehensive income	9	(237,098)	(127,117)
Net (decrease)/increase in customers' deposits		(195,506,538)	155,619,270
Net decrease/(increase) in compulsory deposits with Central Bank		77,437,861	(18,555,710)
Net (increase)/decrease in term deposits with Central Bank		(453,029,499)	63,465,000
Net decrease in term deposits with banks and financial institutions		-	754,312
Net decrease/(increase) in term deposit with related banks		8,309,664	(31,106,453)
Net (decrease)/increase in deposits from banks		(1,266,442)	38,870,493
Net (increase)/decrease in other assets		(1,795,169)	1,841,109
Net increase in other liabilities	37	46,617,192	133,648,574
Proceeds from disposal of properties acquired in satisfaction of loans		8,951,332	2,501,016
Settlements made from provisions	21	(1,925,635)	(1,334,745)
		(568,434,463)	529,411,205
Income tax paid		(39,098,294)	(13,119,303)
Dividends received from investments at fair value through profit or loss	30	-	102,016
Dividends received from investments at fair value through other comprehensive income	31	1,428,880	1,117,031
Interest paid		(291,574,520)	(283,292,073)
Interest received		469,928,972	444,151,256
Net cash (used in)/generated from operating activities		(427,749,425)	678,370,132
Cash flows from investing activities:			
Investments in subsidiaries	11, 37	-	(38,670,130)
Acquisition of property and equipment	13	(19,117,239)	(6,351,523)
Proceeds from disposal of property and equipment		2,227,009	78,680
Acquisition of intangible assets	14	(313,443)	(631,957)
Net cash used in investing activities		(17,203,673)	(45,574,930)
Cash flows from financing activities:			
Net decrease in loan to a bank		700,000	700,000
Net increase/(decrease) in other borrowings		99,467,183	(432,503,667)
Issuance of preferred shares D	23	-	113,062,500
Redemption of preferred shares series A and B	23	(82,912,500)	(60,300,000)
Dividends paid	25	(13,937,887)	(15,395,343)
Net cash generated from/(used in) financing activities		3,316,796	(394,436,510)
Net (decrease)/increase in cash and cash equivalents		(441,636,302)	238,358,692
Cash and cash equivalents beginning of year	37	782,755,953	544,397,261
Cash and cash equivalents end of year	37	341,119,651	782,755,953

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

1. FORMATION AND ACTIVITIES

BLC Bank S.A.L., (the "Bank"), is a Lebanese joint stock company registered in the Commercial Register under No. 1952 and in the Central Bank of Lebanon list of banks under No. 11. The principal activities of the Bank consist of a wide range of commercial banking activities carried on through forty-one branches in Lebanon including Head Office.

The Bank issues separate consolidated financial statements with its subsidiaries.

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

Fransabank SAL is the ultimate parent of the Bank.

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

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

The following new and revised IFRSs, which became effective for annual periods beginning on or after January 1, 2017, have been adopted in these financial statements.

Amendments to IAS 12 *Income Taxes* Recognition of Deferred Tax Assets for Unrealised Losses

The Bank has applied these amendments for the first time in the current year. The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilize a deductible temporary difference.

The application of these amendments has had no impact on the Bank's financial statements.

Amendments to IAS 7 *Disclosure Initiative*

The Bank has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

The Bank's liabilities arising from financing activities consist of other borrowings, redemption of preferred shares and dividends distribution to shareholders. A reconciliation between the opening and closing balances of these items is provided in Note 19 and in the statement of changes in equity. Consistent with the transition provisions of the amendments, the Bank has not disclosed comparative information for the prior period. Apart from the additional disclosure in Note 19, the application of these amendments has had no impact on the Bank's financial statements.

2.2 New and revised IFRS 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:

<u>**New and revised IFRSs**</u>	**Effective for Annual Periods** <u>**Beginning on or After**</u>
Annual Improvements to IFRS Standards 2014-2016 Cycle amending IFRS 1 and IAS 28.	January 1, 2018
Annual Improvements to IFRS Standards 2015-2017 Cycle amending IFRS 3, IFRS 11, IAS 12 and IAS 23.	January 1, 2019
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.	January 1, 2018
IFRIC 23 *Uncertainty over Income Tax Treatments* The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers: • Whether tax treatments should be considered collectively; • Assumptions for taxation authorities' examinations; • The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and • The effect of changes in facts and circumstances.	January 1, 2019
Amendments to IFRS 2 *Share Based Payment* regarding classification and measurement of share based payment transactions.	January 1, 2018
Amendments to IFRS 4 *Insurance Contracts*: Relating to the different effective dates of IFRS 9 and the forthcoming new insurance contracts standard.	January 1, 2018
Amendments to IAS 40 *Investment Property*: Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The paragraph has been amended to state that the list of examples therein is non-exhaustive.	January 1, 2018

New and revised IFRSs	Effective for Annual Periods Beginning on or After
IFRS 9 *Financial Instruments* (revised versions in 2010, 2013 and 2014)	January 1, 2018

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. The Bank early adopted IFRS 9 (version 2009) effective January 1, 2011. 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.

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments and all previous versions of IFRS 9 (2009, 2010 and 2013). The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. The new version, IFRS 9 (2014) is effective for annual periods beginning on or after 1 January 2018. The Bank plans to adopt the new standard on the required effective date.

In accordance with the transition provisions of IFRS 9 (2014), the Bank will apply this standard retrospectively. The changes in measures arising on initial application will be incorporated through an adjustment to opening retained earnings or reserves (as applicable) as at 1 January 2018. Although IFRS 9 will be retrospectively applied, the Bank is only permitted to restate comparatives if, an only if, it is possible without the use of hindsight. The Bank will not restate comparatives as it does not consider it possible to do so without the use of hindsight.

During 2017, the Bank has performed a detailed impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Bank in 2018 when the Bank will adopt IFRS 9. Overall, the Bank expects no significant impact on its statement of financial position and equity except for the effect of the change in fair value resulting from the classification of a portfolio of debt securities to fair value through other comprehensive income and applying the impairment requirements of IFRS 9. The Bank expects an increase in the loss allowance which will be covered mainly by the regulatory designated deferred liability set up in anticipation of IFRS 9 as discussed below. In addition, the Bank expects an increase in equity as a result of implementing changes in classification of certain financial instruments.

Classification and measurement

The Bank has early adopted classification and measurement requirements as issued in IFRS 9 (2009) and IFRS 9 (2010). In the July 2014 publication of IFRS 9, the new measurement category FVOCI was introduced for financial assets that satisfy the contractual cash flow characteristics (SPPI test). This category is aimed at portfolio of debt instruments for which amortized cost information, as well as fair value information is relevant and useful. This will be the case if these assets are held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets.

At the date of application of IFRS 9 (2014), the Bank reassessed the classification and measurement category for all financial assets debt instruments that satisfy the contractual cash flow characteristics (SPPI test) and classified them within the category that is consistent with the business model for managing these financial assets on the basis of facts and circumstances that existed at that date.

The classification and measurement requirements for financial assets that are equity instruments or debt instruments that do not meet the contractual cash flow characteristics (SPPI test) and financial liabilities remain unchanged from previous versions of IFRS 9.

The expected impact on the classification of the Bank's financial assets and their carrying values and on equity is discussed below.

Impairment

The standard introduces a new single model for the measurement of impairment losses on all financial assets including loans and debt securities measured at amortized cost or at fair value through OCI. The IFRS 9 expected credit loss (ECL) model replaces the current incurred loss model of IAS 39.

The ECL model contains a three-stage approach, which is based on the change in credit quality of financial assets since initial recognition. The ECL model is forward looking and requires the use of reasonable and supportable forecasts of future economic conditions in the determination of significant increases in credit risk and measurement of ECL.

Stage 1

12-month ECL applies to all financial assets that have not experienced a significant increase in credit risk (SICR) since origination and are not credit impaired. The ECL will be computed using a factor that represents the Probability of Default (PD) occurring over the next 12 months.

Stage 2

Under Stage 2, where there has been a significant increase in credit risk since initial recognition but the financial instruments are not considered credit impaired, an amount equal to the default probability weighted lifetime ECL will be recorded. Provisions are expected to be higher in this stage because of an increase in risk and the impact of a longer time horizon being considered compared to 12 months in Stage 1.

Stage 3

Under the Stage 3, where there is objective evidence of impairment at the reporting date these financial instruments will be classified as credit impaired and an amount equal to the lifetime ECL will be recorded for the financial assets.

Key Considerations

Some of the key concepts in IFRS 9 that have the most significant impact and require a high level of judgment, as considered by the Bank while determining the impact assessment, are:

Assessment of Significant Increase in Credit Risk

The assessment of a significant increase in credit risk is done on a relative basis. To assess whether the credit risk on a financial asset has increased significantly since origination, the Bank compares the risk of default occurring over the expected life of the financial asset at the reporting date to the corresponding risk of default at origination, using key risk indicators that are used in the Bank existing risk management processes.

Our assessment of significant increases in credit risk will be performed at least quarterly for each individual exposure based on three factors. If any of the following factors indicates that a significant increase in credit risk has occurred, the instrument will be moved from Stage 1 to Stage 2:

(1) We have established thresholds for significant increases in credit risk based on movement in PDs relative to initial recognition.

(2) Additional qualitative reviews will be performed to assess the staging results and make adjustments, as necessary, to better reflect the positions which have significantly increased in risk.

IFRS 9 contains a rebuttable presumption that instruments which are 30 days past due have experienced a significant increase in credit risk. Movements between Stage 2 and Stage 3 are based on whether financial assets are credit-impaired as at the reporting date. The determination of credit-impairment under IFRS 9 will be similar to the individual assessment of financial assets for objective evidence of impairment under IAS 39.

Macroeconomic Factors, Forward Looking Information (FLI) and Multiple Scenarios

The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk must consider information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information will require significant judgment.

PD, Loss Given Default (LGD) and Exposure At Default (EAD) inputs used to estimate Stage 1 and Stage 2 credit loss allowances are modelled based on the macroeconomic variables (or changes in macroeconomic variables) that are most closely correlated with credit losses in the relevant portfolio. Each macroeconomic scenario used in our expected credit loss calculation will have forecasts of the relevant macroeconomic variables.

Scenarios will be probability-weighted according to our best estimate of their relative likelihood based on historical frequency and current trends and conditions. Probability weights will be updated on a quarterly basis. All scenarios considered will be applied to all portfolios subject to expected credit losses with the same probabilities.

Definition of default

The definition of default used in the measurement of expected credit losses and the assessment to determine movement between stages will be consistent with the definition of default used for internal credit risk management purposes. IFRS 9 does not define default, but contains a rebuttable presumption that default has occurred when an exposure is greater than 90 days past due.

Expected Life

When measuring ECL, the Bank must consider the maximum contractual period over which the Bank is exposed to credit risk. All contractual terms should be considered when determining the expected life, including prepayment options and extension and rollover options. For certain revolving credit facilities that do not have a fixed maturity, the expected life is estimated based on the period over which the Bank is exposed to credit risk and where the credit losses would not be mitigated by management actions.

Governance

In addition to the existing risk management framework, we have established an internal Committee to provide oversight to the IFRS 9 implementation. The Committee is comprised of senior representatives from Finance and Risk Management and will be responsible for reviewing and approving staging of financial assets and other key inputs and assumptions used in our expected credit loss estimates. It also assesses the appropriateness of the overall allowance to be provided for Expected Credit Losses.

The expected impact on the Bank's statement of financial position and equity is discussed below.

New and revised IFRSs	Effective for Annual Periods Beginning on or After

Hedge accounting

The Bank has early adopted hedge accounting requirements as issued in IFRS 9 (2013). These requirements were first published in November 2013 and remain unchanged in the July 2014 publication of IFRS 9, except to reflect the addition of the FVOCI measurement category to IFRS 9.

The Bank does not expect an impact on its financial statements as the Bank does not have hedged items measured at FVOCI.

Financial instruments: disclosures (IFRS 7)

The Bank will be amending the disclosures for 2018 to include more extensive qualitative and quantitative disclosure relating to IFRS 9 such as new classification categories, three stage impairment model, new hedge accounting requirements and transition provisions.

In addition to the adjustments described above, on adoption of IFRS 9, other items of the primary financial statements such as deferred taxes will be adjusted. Furthermore, in accordance with Central Bank of Lebanon's basic circular 143 dated 7 November 2017, the Bank may use certain non-distributable reserves and deferred liabilities previously appropriated for regulatory purposes, to cover additional required stock of impairment provisions under IFRS 9.

In summary, the impact of IFRS 9 adoption is expected to be, as follows:

	Estimated Impact from Classification and measurement LBP'Million	Change in Fair Value LBP'Million	Estimated Impact from Recognition of Expected Credit Losses LBP'Million	Estimated Total Impact LBP'Million
Cash and balances with central bank	-	-	(4,841)	(4,841)
Deposits with banks and financial institutions	-	-	(935)	(935)
Financial assets at fair value through profit or loss	79,691	1,557	-	81,248
Loans and advances to customers at amortized cost	-	-	(46,822)	(46,822)
Financial assets at amortized cost	(200,011)	-	(25,488)	(225,499)
Financial assets at fair value through other comprehensive income	120,320	125	-	120,445
Loans and advances- unutilized limits and commitments	-	-	(1,000)	(1,000)
	-	1,682	(79,086)	(77,404)
Allocation from the regulatory designated deferred liability under "Other Liabilities"	-	-	(79,086)	(79,086)
	-	-	(79,086)	(79,086)
Net Impact on Equity	-	1,682	-	1,682

The combined impact of the IFRS 9 transitional adjustments on equity is expected to be less than that generated by the quarterly profit and is not considered significant by the management.

The Bank continues to refine the impairment models and related processes leading up to 30 June 2018 reporting.

New and revised IFRSs	Effective for Annual Periods Beginning on or After
Amendments to IFRS9 *Financial Instruments*: Relating to prepayment features with negative compensation. This amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortized cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.	January 1, 2019
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.	January 1, 2018
Amendments to IFRS 15 *Revenue from Contracts* with Customers to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.	January 1, 2018

New and revised IFRSs	Effective for Annual Periods Beginning on or After
IFRS 16 *Leases* IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.	January 1, 2019
Amendments to IAS 28 *Investment in Associates and Joint Ventures*: Relating to long-term interests in associates and joint ventures. These amendments clarify that an entity applies IFRS 9 *Financial Instruments* to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.	January 1, 2019
Amendments to IFRS 7 *Financial Instruments: Disclosures* relating to disclosures about the initial application of IFRS 9.	When IFRS 9 is first applied
IFRS 7 *Financial Instruments: Disclosures* relating to the additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9.	When IFRS 9 is first applied
IFRS 17 *Insurance Contracts* IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 *Insurance Contracts* as of January 1, 2021.	January 1, 2021
Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Effective date deferred indefinitely. Adoption is still permitted.

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

Management anticipates that IFRS 15 and IFRS 9 will be adopted in the Bank's financial statements for the annual period beginning January 1, 2018 and that IFRS 16 will be adopted in the Bank's financial statements for the annual period beginning January 1, 2019.

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 issuer, are not derecognized because they do not meet the conditions for derecognition. Premiums and discounts derived from the exchange of said securities are deferred to be amortized as a yield enhancement on a time proportionate basis, over the period of the extended maturities.

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

The Bank derecognizes financial liabilities when, and only when, the Bank'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.

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

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

Reclassification:

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

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.

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.

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.

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

Financial Liabilities:

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

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

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

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

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

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 currently enforceable legal right to set-off the recognized amounts or intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

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.

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

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 - Inputs, other than quoted prices included within Level 1, that are observable for the asset and liability either directly or indirectly; and
- Level 3 - Inputs are unobservable inputs for the asset or liability.

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.

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

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.

Embedded Derivatives

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

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

Hedge Accounting

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

At the inception of the hedge relationship, the Bank documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Bank documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Fair Value Hedge

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

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

Cash Flow Hedge

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

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

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

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. Investments in Subsidiaries:

Investments in subsidiaries are accounted for in the separate financial statements of the Bank using the "cost method".

K. Financial Guarantees:

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

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

L. Property and Equipment:

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

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

	Years
Buildings	50
Office improvements and installations	5
Furniture, equipment and machines	12.5
Computer equipment	5
Vehicles	10

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.

M. Intangible Assets:

Intangible assets consist mainly of computer software and are amortized on a straight-line basis at the rate of 20%. Intangible assets are subject to impairment testing.

N. 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.

O. Impairment of Non-Financial Assets:

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

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

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

P. Deferred Assets:

Deferred assets on business acquisition and against contractual projected cash flows are stated at amortized cost. Such deferred assets are amortized over the period of related benefits deriving from the net return of the invested funds funded through committed structured medium term debt and major part in fiscal 2017 and 2016 from the yield earned on investments funded from the release of compulsory reserve, the purpose of which is to offset exceptional impairment losses.

Q. 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.

R. 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. Provisions are discounted when the impact is material.

S. Deferred Restricted Contribution:

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

T. Revenue and Expense Recognition:

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

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

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

During 2017, Lebanese tax amendments and new taxes and duties were issued as per Law No. 64 dated October 26, 2017. These amendments include, but not limited to, an increase in the Lebanese corporate income tax from 15% to 17% to be applied effective on October 27, 2017 onwards. In addition, the above mentioned withheld tax by the issuer is not allowed anymore to be deducted from the annual corporate income tax amount and considered as deductible expense for the purpose of calculating the corporation taxable income.

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.

V. Fiduciary Accounts:

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

W. Cash and Cash Equivalents:

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

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

Going Concern:

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

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.

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

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

Characteristics of the Financial Asset:

Once the 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.

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

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

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

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

B. Key Sources of Estimation Uncertainty:

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

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

Allowances for credit losses:

Specific impairment for credit losses is determined by assessing each case individually. This method applies to classified loans and advances, balances placed with banks and other accounts receivable 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 the advances and the value of collateral and potential repossession. Loans collectively assessed for impairment are determined based on losses incurred by loans portfolios with similar characteristics, substantially covered by the regulatory designated deferred liability set up in anticipation of IFRS 9.

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 3F. For financial instruments that traded infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

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

Impairment of deferred assets:

The Bank tests annually whether the outstanding deferred asset account has suffered any impairment in accordance with the accounting policy under Note 3P. The recoverable amount is expected to be offset against contractual projected cash flows. This requires the directors to estimate the recoverability through forecasting and discounting future cash flows.

5. CASH AND CENTRAL BANK

This caption consists of the following:

	December 31, 2017		December 31, 2016	
	Balance LBP'000	of which Compulsory/ Regulatory Deposits LBP'000	Balance LBP'000	of which Compulsory/ Regulatory Deposits LBP'000
Cash on hand	37,772,770	-	36,646,157	-
Current accounts with Central Bank of Lebanon	96,458,747	80,657,529	242,993,059	158,095,390
Blocked accounts with Central Bank of Lebanon under Intermediate Circular No. 313	44,520,984	-	81,585,869	-
Short term placement with Central Bank of Lebanon	43,141,110	-	-	-
Term Placements with Central Bank of Lebanon	1,144,234,499	54,135,104	828,972,500	80,714,701
Accrued interest receivable	7,377,816	-	8,869,855	-
	1,373,505,926	134,792,633	1,199,067,440	238,810,091

Compulsory deposits under current accounts with Central Bank of Lebanon are in Lebanese Pounds and non-interest earning. These deposits are computed on the basis of 25% and 15% of the average weekly sight and term customers' deposits in Lebanese Pounds subject to certain exemptions, in accordance with local banking regulations. These deposits are not available for use in the Bank's day-to-day operations.

Regulatory deposits under term placements with Central Bank of Lebanon are made in accordance with local banking regulations which require banks to maintain interest earning placements in foreign currency to the extent of 15% of customers' deposits in foreign currencies, certificates of deposit and borrowings acquired from non-resident financial institutions.

Blocked accounts with the Central Bank of Lebanon under Intermediate Circular No. 313 represent transitory deposits to be granted to the Bank's customers, pursuant to certain conditions, rules and mechanism following Central Bank of Lebanon Basic Decision No. 6116 of March 7, 1996 and its amendments against facilities granted from the Central Bank of Lebanon (Note 19). These deposits and facilities earn/bear a 1% interest rate that is computed annually.

During 2016, the Bank was exempted from compulsory reserves in foreign currency, for one year, up to USD200million. In 2017, the exemption was renewed for additional one and a half year to offset remaining outstanding deferred assets (refer to notes 9 and 15).

As at December 31, 2017, placements with the Central Bank of Lebanon include deposits in U.S. Dollar which triggered equivalent investment in collateralized deposits with the Central Bank in Lebanese Pound and collateralized investment in Lebanese Treasury bills in Lebanese Pound originated through soft leverage arrangement in Lebanese Pound for an equivalent amount of LBP91billion (Note 19), thus significantly enhancing the yield on the initial investment in U.S. Dollar over coupon rate (refer to note 9).

6. DEPOSITS WITH BANKS AND FINANCIAL INSTITUTIONS

This caption consists of the following:

	December 31,	
	2017	2016
	LBP'000	LBP'000
Purchased checks	5,538,192	14,370,671
Current accounts with banks and financial institutions	115,554,294	196,173,173
Current accounts with the parent bank	4,395,963	3,888,936
Current accounts with related banks and financial institutions	215,120	12,442,655
	125,703,569	226,875,435
Term placements with banks and financial institutions	5,000,000	145,803,322
Term placements with related banks and financial institutions	22,796,789	31,106,453
Blocked margins with banks and financial institutions	3,292,003	3,292,003
	31,088,792	180,201,778
Accrued interest receivable	78,109	68,451
	156,870,470	407,145,664

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

	December 31,	
	2017	2016
	LBP'000	LBP'000
Resident	15,787,593	58,360,151
Non-resident	141,082,877	348,785,513
	156,870,470	407,145,664

During the years 2017 and 2016, the Bank entered in repurchase agreements with a resident financial institution. The agreement consists of loans granted to the resident financial institution, backed by Lebanese Government Bonds in US. Dollar and Lebanese Treasury Bills in LBP. The loans are short term in nature and matured during the year. Interest income for the year 2017 amounted to LBP731million (LBP368million during 2016) recorded under "Interest income from deposits with banks and financial institutions" in the statement of profit or loss (Note 26).

7. LOAN TO A BANK

This caption consists of the following:

	December 31,	
	2017	2016
	LBP'000	LBP'000
Regular performing account	3,500,000	4,200,000
Accrued interest receivable	28,263	33,915
	3,528,263	4,233,915

As a guarantee of the above loan, the borrower has pledged in favor of the Bank regular and performing notes receivable against housing loans granted to its customers. The loan principal balance matures over 10 yearly payments of LBP700million each with final payment in year 2022.

8. LOANS AND ADVANCES TO CUSTOMERS

This caption consists of the following:

	December 31, 2017					December 31, 2016				
	Gross Amount LBP'000	Unrealized Interest LBP'000	Discount on Purchased Loan Book LBP'000	Impairment Allowance LBP'000	Carrying Amount LBP'000	Gross Amount LBP'000	Unrealized Interest LBP'000	Discount on Purchased Loan Book LBP'000	Impairment Allowance LBP'000	Carrying Amount LBP'000
Regular and Watch List - Retail Customers:										
Housing loans	588,007,913	-	-	-	588,007,913	539,199,585	-	-	-	539,199,585
Personal loans	261,269,348	-	-	-	261,269,348	237,753,855	-	-	-	237,753,855
Car loans	127,920,420	-	-	-	127,920,420	141,236,168	-	-	-	141,236,168
Educational loans	17,701,065	-	-	-	17,701,065	16,377,480	-	-	-	16,377,480
Credit cards	15,200,123	-	-	-	15,200,123	16,656,368	-	-	-	16,656,368
Staff loans	9,231,930	-	-	-	9,231,930	8,604,810	-	-	-	8,604,810
	1,019,330,799	-	-	-	1,019,330,799	959,828,266	-	-	-	959,828,266
Regular and Watch List - Corporate Customers:										
Corporate	953,182,672	-	-	-	953,182,672	900,818,631	-	-	-	900,818,631
Small and medium enterprises	320,580,428	-	-	-	320,580,428	306,554,648	-	-	-	306,554,648
	1,273,763,100	-	-	-	1,273,763,100	1,207,373,279	-	-	-	1,207,373,279
Accrued interest receivable	19,969,268	-	-	-	19,969,268	17,426,700	-	-	-	17,426,700
Allowance for impairment of collectively assessed Loans:										
Regular and watch list	-	-	-	-	-	-	-	-	(5,674,477)	(5,674,477)
Total regular and watch list	2,313,063,167	-	-	-	2,313,063,167	2,184,628,245	-	-	(5,674,477)	2,178,953,768
Non-performing loans and advances:										
Purchased loan book	2,153,152	-	-	-	2,153,152	2,148,399	-	-	-	2,148,399
Substandard	29,690,021	(2,362,114)	-	-	27,327,907	35,164,759	(2,288,769)	-	-	32,875,990
Doubtful	578,539,442	(466,179,518)	(3,468,731)	(38,407,202)	70,483,991	523,849,111	(431,043,484)	(3,488,513)	(32,947,548)	56,369,566
Bad	143,042,731	(96,861,910)	(1,562,502)	(44,616,137)	2,182	113,394,011	(69,508,484)	(2,225,526)	(41,660,001)	-
Allowance for impairment of collectively assessed loans:										
Doubtful and bad	-	-	-	(186,630)	(186,630)	-	-	-	(186,630)	(186,630)
Total non-performing	753,425,346	(565,403,542)	(5,031,233)	(83,209,969)	99,780,602	674,556,280	(502,840,737)	(5,714,039)	(74,794,179)	91,207,325
	3,066,488,513	(565,403,542)	(5,031,233)	(83,209,969)	2,412,843,769	2,859,184,525	(502,840,737)	(5,714,039)	(80,468,656)	2,270,161,093

The carrying value of loans and advances to customers include accidentally temporary debtors with carrying values amounting to LBP8.6billion as at December 31, 2017 (LBP3.1billion as at December 31, 2016).

Loans granted to related parties amounted to LBP11.8billion as at December 31, 2017 (LBP10.3billion as at December 31, 2016).

In previous years, the Bank acquired a loan portfolio from a local bank. The difference between the original amount of the allocated portion of the purchased loan portfolio and the consideration paid is reflected under discount on purchased loan book.

The movement of unrealized interest was as follows:

	2017 LBP'000	2016 LBP'000
Balance January 1	(502,840,737)	(455,393,330)
Additions	(71,072,519)	(62,405,792)
Write back through profit or loss (Note 26)	5,482,810	4,938,101
Write-off	3,027,062	10,005,050
Transfer to allowance for impairment	-	15,075
Effect of exchange rates changes	(158)	159
Balance December 31	(565,403,542)	(502,840,737)

The movement of the allowance for impairment of loans and advances was as follows:

	2017 LBP'000	2016 LBP'000
Balance January 1	(74,607,549)	(65,766,252)
Additions through profit or loss	(15,105,713)	(13,317,960)
Write-back through profit or loss	6,253,894	3,995,631
Transfer to off-balance sheet	1,925	1,899
Transfer from unrealized interest	-	(15,075)
Write-off	505,622	477,411
Effect of exchange rates changes	(71,518)	16,797
Balance December 31	(83,023,339)	(74,607,549)

The movement of the allowance for impairment of collectively assessed loans and advances was as follows:

	2017 LBP'000	2016 LBP'000
Balance January 1	(5,861,107)	(13,177,516)
Write-back through profit or loss	5,674,477	7,314,659
Effect of exchange rates changes	-	1,750
Balance December 31	(186,630)	(5,861,107)

The movement of the discount on purchased loan book was as follows:

	2017 LBP'000	2016 LBP'000
Balance January 1	(5,714,039)	(6,746,121)
Additions	(15,515)	(38,227)
Write back through profit or loss	92,197	610,503
Write-off	606,124	459,806
Balance December 31	(5,031,233)	(5,714,039)

9. INVESTMENT SECURITIES

This caption consists of the following:

	December 31, 2017			
	Fair Value Through Profit or Loss LBP'000	Amortized Cost LBP'000	Fair Value through Other Comprehensive Income LBP'000	Total LBP'000
Quoted equity securities	3,527,270	-	-	3,527,270
Unquoted equity securities	2,384,355	-	15,438,093	17,822,448
Lebanese treasury bills	-	835,857,894	-	835,857,894
Lebanese Government bonds	20,614,069	1,335,669,051	-	1,356,283,120
Foreign bonds	39,924,436	-	-	39,924,436
Certificates of deposit issued by Central Bank of Lebanon	52,157,336	885,785,693	-	937,943,029
Mutual Funds	10,123,796	-	-	10,123,796
Corporate bonds and asset backed securities	-	10,078,500	-	10,078,500
	128,731,262	3,067,391,138	15,438,093	3,211,560,493
Accrued interest receivable	1,837,207	49,921,353	-	51,758,560
	130,568,469	3,117,312,491	15,438,093	3,263,319,053

	December 31, 2016			
	Fair Value Through Profit or Loss	Amortized Cost	Fair Value through Other Comprehensive Income	Total
	LBP'000	LBP'000	LBP'000	LBP'000
Quoted equity securities	4,290,845	-	-	4,290,845
Unquoted equity securities	1,874,477	-	17,260,682	19,135,159
Lebanese Treasury bills	-	780,142,807	-	780,142,807
Lebanese Government bonds	21,500,253	1,291,302,340	-	1,312,802,593
Foreign bonds	8,298,348	-	-	8,298,348
Asset-backed securities	-	7,333,961	-	7,333,961
Mutual Funds	4,788,870	-	-	4,788,870
Certificates of deposit issued by Central Bank of Lebanon	56,164,795	1,188,128,497	-	1,244,293,292
	96,917,588	3,266,907,605	17,260,682	3,381,085,875
Accrued interest receivable	1,830,073	51,842,170	-	53,672,243
	98,747,661	3,318,749,775	17,260,682	3,434,758,118

A. Investments at Fair Value through Profit or Loss:

	December 31, 2017			
	Fair Value	Accrued Interest Receivable	Total Carrying Value	Cumulative Unrealized Gain/(Loss)
	LBP'000	LBP'000	LBP'000	LBP'000
Quoted equity securities	3,527,270	-	3,527,270	(4,626,177)
Unquoted equity securities	2,384,355	-	2,384,355	-
Lebanese Government bonds	20,614,069	311,124	20,925,193	(583,269)
Foreign Eurobonds	39,924,436	201,490	40,125,926	(276,572)
Certificates of deposit issued by Central Bank of Lebanon	52,157,336	1,324,593	53,481,929	1,841,491
Mutual Funds	10,123,796	-	10,123,796	201,401
	128,731,262	1,837,207	130,568,469	(3,443,126)

	December 31, 2016			
	Fair Value	Accrued Interest Receivable	Total Carrying Value	Cumulative Unrealized Gain/(Loss)
	LBP'000	LBP'000	LBP'000	LBP'000
Quoted equity securities	4,290,845	-	4,290,845	(3,854,663)
Unquoted equity securities	1,874,477	-	1,874,477	-
Lebanese Government bonds	21,500,253	330,426	21,830,679	(827,532)
Foreign bonds	8,298,348	39,188	8,337,536	1,900
Mutual fund	4,788,870	-	4,788,870	-
Certificates of deposit issued by Central Bank of Lebanon	56,164,795	1,460,459	57,625,254	1,895,653
	96,917,588	1,830,073	98,747,661	(2,784,642)

The movement of investments at fair value through profit or loss during 2017 and 2016 was as follows:

	2017		
	LBP	F/CY	Total
	LBP'000	LBP'000	LBP'000
Balance, January 1	56,947,489	39,970,099	96,917,588
Acquisition	7,461,747	41,263,966	48,725,713
Swaps	-	211,050	211,050
Sale	(2,773,600)	(211,050)	(2,984,650)
Redemption upon maturity	(4,006,668)	(9,045,000)	(13,051,668)
Unrealized gain/(loss) (Note 30)	(38,691)	(670,390)	(709,081)
Amortization of discount/premium	53,371	(461,574)	(408,203)
Effects of exchange rates changes	-	30,513	30,513
Balance, December 31	57,643,648	71,087,614	128,731,262

	2016		
	LBP	F/CY	Total
	LBP'000	LBP'000	LBP'000
Balance January 1	67,129,493	119,201,482	186,330,975
Acquisition	620,307	5,164,960	5,785,267
Sale	-	(347,363)	(347,363)
Swaps	(10,521,678)	-	(10,521,678)
Transfer to amortized cost	-	(62,938,125)	(62,938,125)
Redemption upon maturity	-	(21,135,243)	(21,135,243)
Unrealized (loss)/gain (Note 30)	(159,052)	692,648	533,596
Amortization of discount/premium	(59,318)	(730,523)	(789,841)
Other adjustments	(62,263)	62,263	-
Balance December 31	56,947,489	39,970,099	96,917,588

Investments at fair value through profit or loss include an amount of LBP2.4billion (LBP1.9billion during 2016) representing the Bank's share in startups established based on co-sharing agreement with the regulator providing the funding.

During 2017, the Bank acquired an investment fund regulated by the Central Bank of Lebanon in the amount of LBP4.5billion from BLC Invest S.A.L. (under liquidation).

B. Investments at Amortized Cost:

	December 31, 2017				
	Amortized Cost	Accrued Interest Receivable	Carrying Value	Fair Value	Change in Fair Value
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Lebanese Treasury bills	835,857,894	15,594,648	851,452,542	828,110,207	(23,342,335)
Lebanese Government bonds	1,335,669,051	16,870,851	1,352,539,902	1,237,359,195	(115,180,707)
Certificates of deposit issued by Central Bank of Lebanon	885,785,693	17,309,544	903,095,237	842,518,657	(60,576,580)
Corporate bonds and asset - backed securities	10,078,500	146,310	10,224,810	9,577,627	(647,183)
	3,067,391,138	49,921,353	3,117,312,491	2,917,565,686	(199,746,805)

	December 31, 2016				
	Amortized Cost	Accrued Interest Receivable	Carrying Value	Fair Value	Change in Fair Value
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Lebanese Treasury bills	780,142,807	12,635,098	792,777,905	799,469,635	6,691,730
Lebanese Government bonds	1,291,302,340	16,851,244	1,308,153,584	1,176,449,845	(131,703,739)
Certificates of deposit issued by Central Bank of Lebanon	1,188,128,497	22,305,736	1,210,434,233	1,178,555,284	(31,878,949)
Asset-backed securities	7,333,961	50,092	7,384,053	6,588,263	(795,790)
	3,266,907,605	51,842,170	3,318,749,775	3,161,063,027	(157,686,748)

Lebanese treasury bills amounting to LBP404billion (LBP356billion in 2016) are pledged against soft loans, credit facilities, and soft leverage arrangement funded by the Central Bank of Lebanon (Note 19).

Lebanese Government bonds amounting to LBP302billion as at December 31, 2017 and 2016 are pledged against the release of the compulsory reserve (Note 5).

Debt securities at amortized cost are segregated over the remaining period to maturity as follows:

	December 31, 2017							
	LBP				C/V of F/Cy			
Remaining Period to Maturity	Nominal Value LBP'000	Amortized Cost LBP'000	Fair Value (Excluding Accrued Interest Receivable) LBP'000	Average Coupon Rate %	Nominal Value LBP'000	Amortized Cost LBP'000	Fair Value (Excluding Accrued Interest Receivable) LBP'000	Average Coupon Rate %
Lebanese Treasury Bills:								
Up to one year	262,800,000	263,069,732	263,999,928	7.77	-	-	-	-
1 year to 3 years	275,181,074	276,070,596	273,915,184	7.31	-	-	-	-
3 years to 5 years	180,568,873	180,473,057	169,287,991	6.51	-	-	-	-
5 years to 10 years	114,103,960	116,244,509	105,312,456	7.58	-	-	-	-
	832,653,907	835,857,894	812,515,559		-	-	-	
Lebanese Government Bonds:								
Up to one year	-	-	-	-	62,635,118	62,687,681	61,104,862	5.15
1 year to 3 years	-	-	-	-	158,961,343	159,365,547	153,002,553	6.10
3 years to 5 years	-	-	-	-	135,308,678	135,264,553	132,090,316	7.60
5 years to 10 years	-	-	-	-	400,826,160	403,319,931	360,240,845	6.42
Beyond 10 years	-	-	-	-	574,793,168	575,031,339	514,049,768	7.00
	-	-	-		1,332,524,467	1,335,669,051	1,220,488,344	
Certificates of Deposit Issued by Central Bank of Lebanon:								
1 year to 3 years	42,000,000	41,831,484	41,220,256	7.60	57,888,000	57,474,224	55,596,819	5.30
3 years to 5 years	49,000,000	48,587,728	48,737,753	7.80	45,978,750	45,164,624	41,307,947	5.80
5 years to 10 years	379,000,000	384,714,877	375,010,562	8.37	90,450,000	90,450,000	68,258,266	6.57
Beyond 10 years	110,000,000	114,902,006	102,743,043	9.02	102,660,750	102,660,750	92,334,467	6.81
	580,000,000	590,036,095	567,711,614		296,977,500	295,749,598	257,497,499	
Corporate Bonds and Asset Backed Securities:								
5 years to 10 years	4,350,000	4,350,000	4,350,000	7.67	5,728,500	5,728,500	5,081,317	6.21
	4,350,000	4,350,000	4,350,000		5,728,500	5,728,500	5,081,317	

	December 31, 2016							
	LBP				C/V of F/Cy			
Remaining Period to Maturity	Nominal Value LBP'000	Amortized Cost LBP'000	Fair Value (Excluding Accrued Interest Receivable) LBP'000	Average Coupon Rate %	Nominal Value LBP'000	Amortized Cost LBP'000	Fair Value (Excluding Accrued Interest Receivable) LBP'000	Average Coupon Rate %
Lebanese Treasury Bills:								
Up to one year	115,984,000	116,048,566	122,093,066	7.41	-	-	-	-
1 year to 3 years	434,147,074	436,130,917	439,809,273	7.52	-	-	-	-
3 years to 5 years	154,145,000	154,335,221	152,882,806	7.24	-	-	-	-
5 years to 10 years	73,333,020	73,628,103	72,049,392	7.48	-	-	-	-
	777,609,094	780,142,807	786,834,537		-	-	-	
Lebanese Government Bonds:								
Up to one year	-	-	-	-	95,094,479	95,098,179	95,177,207	9.00
1 year to 3 years	-	-	-	-	101,954,482	101,935,993	96,101,679	5.56
3 years to 5 years	-	-	-	-	196,075,244	196,966,526	188,904,995	7.20
5 years to 10 years	-	-	-	-	399,567,398	401,413,377	349,776,099	6.35
Beyond 10 years	-	-	-	-	495,159,480	495,888,265	429,638,621	6.97
	-	-	-		1,287,851,083	1,291,302,340	1,159,598,601	
Asset-Backed Securities:								
3 years to 5 years	-	-	-	-	105,461	105,461	101,406	7.00
5 years to 10 years	1,500,000	1,500,000	1,500,000	7.50	5,728,500	5,728,500	4,936,765	6.21
	1,500,000	1,500,000	1,500,000		5,833,961	5,833,961	5,038,171	
Certificates of Deposit Issued by Central Bank of Lebanon:								
Up to one year	165,000,000	165,089,315	166,291,262	7.91	-	-	-	-
1 year to 3 years	-	-	-	-	57,888,000	57,147,702	54,273,665	5.30
3 years to 5 years	91,000,000	90,233,650	92,066,853	7.71	-	-	-	-
5 years to 10 years	339,000,000	340,312,221	348,047,345	8.31	91,203,750	90,224,174	81,096,768	6.12
Beyond 10 years	175,000,000	175,429,685	178,776,308	8.94	269,691,750	269,691,750	235,697,347	6.79
	770,000,000	771,064,871	785,181,768		418,783,500	417,063,626	371,067,780	

The movement of investments classified at amortized cost during the years 2017 and 2016 is as follows:

	2017		
	LBP	F/CY	Total
	LBP'000	LBP'000	LBP'000
Balance, January 1	1,552,707,678	1,714,199,927	3,266,907,605
Acquisition	255,134,267	19,978,426	275,112,693
Swaps	(95,000,000)	(211,050)	(95,211,050)
Redemption upon maturity	(281,137,881)	(95,098,179)	(376,236,060)
Sale	-	(1,763,711)	(1,763,711)
Amortization of discount/premium	(1,460,075)	41,736	(1,418,339)
Balance, December 31	1,430,243,989	1,637,147,149	3,067,391,138

	2016		
	LBP	F/CY	Total
	LBP'000	LBP'000	LBP'000
Balance January 1	2,269,451,783	1,103,351,231	3,372,803,014
Acquisition	120,118,443	329,912,035	450,030,478
Swaps	(291,264,252)	301,500,000	10,235,748
Redemption upon maturity	(242,766,809)	(82,371,345)	(325,138,154)
Sale of pledged Lebanese treasury bills	(299,714,629)	-	(299,714,629)
Sale	-	(358,785)	(358,785)
Transfer from fair value through profit or loss	-	62,938,125	62,938,125
Amortization of discount/premium	(3,116,858)	(771,334)	(3,888,192)
Balance December 31	1,552,707,678	1,714,199,927	3,266,907,605

During 2017, the Bank exchanged certificates of deposit in Lebanese Pound with the Central Bank of Lebanon having a nominal value of LBP95billion classified as amortized cost (Note 9), against a time deposit with the Central Bank of Lebanon in U.S. Dollar amounting to USD63million maturing in years 2027, 2032 and 2037 (refer to notes 5 and 19).

Also, during 2017, the Bank entered into swap transactions of certificates of deposit issued by Central Bank of Lebanon in U.S. Dollar with a nominal value of USD81million (c/v LBP121.9billion) concluded simultaneously with the acquisition of Lebanese Government bonds in U.S. Dollar with a nominal value of USD81million maturing in years between 2027 and 2037. The Bank classified USD80.66million at amortized cost and USD140thousand at fair value through profit or loss.

During 2016, the Bank entered into sale transactions of Lebanese treasury bills in Lebanese Pound having a nominal value of LBP80billion and LBP10billion classified at amortized cost and fair value through profit or loss, respectively, and certificates of deposit issued by Central Bank of Lebanon in Lebanese Pounds having a nominal value of LBP210billion classified at amortized cost, concluded simultaneously with the acquisition of certificates of deposit issued by Central Bank of Lebanon in U.S. Dollar with a nominal value of USD200million maturing in years between 2023 and 2029 that were classified at amortized cost funded from the Bank's treasury in foreign currencies.

The resulting surplus of the inter-related transactions indicated above, derived from the special and non-conventional deals arrangement with the regulator, amounting to LBP118billion, net of tax in the amount of LBP20.7billion, was credited to "Regulatory deferred liability" under other liabilities in the statement of financial position (Refer to Note 20). The above tax was settled during 2017.

During 2016, the Bank sold the pledged Lebanese treasury bills in Lebanese Pound, having a nominal value of LBP297billion, to settle the revolving loan in the amount of LBP300billion which matured on January 10, 2016 (Refer to Note 15). This transaction resulted in a gain on sale (net of tax) of LBP20billion. In line with the above and following Central Council decision dated January 26, 2016, the Bank was exempted from compulsory reserves in foreign currency up to USD200million. This reserve was invested in Lebanese Government bonds and were pledged against it. Interest income on these bonds during 2017 amounted to LBP13billion (net of tax) which was offset together with the above gain on sale, against the deferred assets account (Note 15).

C. Investments at Fair Value through Other Comprehensive Income:

The Bank has designated investments in equity securities as at fair value through other comprehensive income. This classification was chosen as the investments are expected to be held for a long time.

	December 31, 2017			
	Cost	Allowance for Impairment	Carrying Fair Value	Cumulative Change in Fair Value
	LBP'000	LBP'000	LBP'000	LBP'000
Unquoted equity securities	8,583,309	(300)	15,438,093	6,855,084
Deferred tax liability				(1,165,364)
				5,689,720

	December 31, 2016			
	Cost	Allowance for Impairment	Carrying Fair Value	Cumulative Change in Fair Value
	LBP'000	LBP'000	LBP'000	LBP'000
Unquoted equity securities	8,337,555	(300)	17,260,682	8,923,427
Deferred tax liability				(1,338,515)
				7,584,912

The movement of investments at fair value through other comprehensive income during the years 2017 and 2016 is as follows:

	2017		
	LBP	F/CY	Total
	LBP'000	LBP'000	LBP'000
Balance, January 1	16,409,898	850,784	17,260,682
Transfer from BLC Invest SAL	-	237,098	237,098
Change in fair value	(2,091,868)	23,525	(2,068,343)
Effect of exchange rates changes	-	8,656	8,656
Balance, December 31	14,318,030	1,120,063	15,438,093

	2016		
	LBP	F/CY	Total
	LBP'000	LBP'000	LBP'000
Balance January 1	15,576,126	839,185	16,415,311
Change in fair value	833,772	13,672	847,444
Effect of exchange rates changes	-	(2,073)	(2,073)
Balance December 31	16,409,898	850,784	17,260,682

10. CUSTOMERS' LIABILITY UNDER ACCEPTANCES

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

11. INVESTMENTS IN SUBSIDIARIES

December 31, 2017

Name	Country of Incorporation	Interest Held	Carrying Value	Bank's Interest in: Assets	Liabilities	Revenues	Equity	Net profit/(loss)
		%	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
BLC Finance S.A.L.	Lebanon	98.99	7,610,110	8,678,590	73,634	238,297	8,604,955	163,099
BLC Services S.A.L.	Lebanon	90.67	27,200	4,157,259	2,285,398	4,691,597	1,871,860	706,190
BLC Invest S.A.L. (under liquidation)	Lebanon	99.97	-	-	-	-	-	-
USB Bank PLC (held for sale)	Cyprus	99.25	117,063,747	1,369,915,893	1,239,673,949	52,216,159	130,241,944	393,278
			124,701,057	1,382,751,742	1,242,032,981	57,146,053	140,718,759	1,262,567

December 31, 2017

Name	Country of Incorporation	Interest Held	Carrying Value	Bank's Interest in: Assets	Liabilities	Revenues	Equity	Net profit/(loss)
		%	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
BLC Finance S.A.L.	Lebanon	98.99	7,610,110	8,492,788	50,935	234,252	8,441,853	155,536
BLC Services S.A.L.	Lebanon	90.67	27,200	3,353,983	2,188,313	4,788,705	1,165,670	648,699
BLC Invest SAL	Lebanon	99.97	29,990,000	40,488,330	6,794,705	1,523,645	33,693,625	39,326
USB Bank PLC	Cyprus	99.25	109,312,933	1,088,029,790	973,183,010	56,956,776	114,846,780	3,463,240
			146,940,243	1,140,364,891	982,216,963	63,503,378	158,147,928	4,306,801

During 2017, a term sheet was signed between the Bank's major shareholders, namely Fransabank S.A.L. and Sehnoui Group, whereby the Bank's investment in USB Bank PLC will be sold to Sehnoui Group who in turn will exit their investment at BLC Bank S.A.L. subject to certain terms and conditions including securing the regulators' approval in Cyprus and Lebanon which is still in progress.

Based on the above, IFRS 5 "Non-current assets held for sale and discontinued operations" has been applied for the Cypriot entity in the preparation of the 2017 year-end consolidated financial statements.

During 2016, the Bank signed an agreement with BLC Invest S.A.L. whereby both parties have agreed to merge by virtue of acquisition of assets, liabilities and activities of the merged entity which in this case would be BLC Invest S.A.L. This agreement was approved by both banks' Boards of Directors and Extraordinary General Assembly shareholders' in their meeting held on August 5, 2016, and January 27th, 2017 respectively, and by the regulator on April 12, 2017.

The movement of investments in subsidiaries during 2017 and 2016 was as follows:

	2017 LBP'000	2016 LBP'000
Balance January 1	146,940,243	112,515,459
Capital increase - USB Bank PLC	-	38,670,130
Derecognition of investment in BLC Invest S.A.L.	(29,990,000)	-
Provision for devaluation in investment in USB Bank PLC against regulatory deferred liability (Note 20)	(6,580,859)	-
Effect of foreign investment currency exchange difference	14,331,673	(4,245,346)
Balance December 31	124,701,057	146,940,243

12. ASSETS ACQUIRED IN SATISFACTION OF LOANS

This section represents foreclosed real estate properties acquired through enforcement of security over loans and advances to customers. According to the Lebanese banking regulations, the acquisition of assets in settlement of loans requires the approval of the banking regulatory authorities and these should be liquidated within 2 years. In case of default of liquidation, a regulatory reserve should be appropriated from the yearly net profits over a period of 5 or 20 years as applicable. These assets are carried at cost less impairment allowance.

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

	Cost LBP'000	Impairment Allowance LBP'000	Carrying Value LBP'000
Balance January 1, 2016	98,886,769	(9,086,070)	89,800,699
Foreclosures	378,490	-	378,490
Disposals	(1,121,654)	38,993	(1,082,661)
Transfer to fixed asset	(3,130,345)	-	(3,130,345)
Balance December 31, 2016	95,013,260	(9,047,077)	85,966,183
Foreclosures	390,545	-	390,545
Disposals	(4,263,166)	403,311	(3,859,855)
Balance December 31, 2017	91,140,639	(8,643,766)	82,496,873

During 2016, Mdawar Plot No 657 amounting to LBP3billion was transferred from assets acquired in satisfaction of loans to property and equipment, to be used as additional offices for the Bank's head office management, after getting Central Bank's approval dated October 27, 2016.

Gain on disposals of assets acquired in satisfaction of loans amounted to LBP5billion (LBP1.4million in 2016).

13. PROPERTY AND EQUIPMENT

The movement of property and equipment was as follows during 2017 and 2016:

	Balance January 1, 2017 LBP'000	Additions LBP'000	Disposals LBP'000	Reclass/ Transfer Between Accounts LBP'000	Transfer to Intangible Assets LBP'000	Balance December 31, 2017 LBP'000
Cost:						
Owned properties	62,397,354	-	(1,202,877)	-	-	61,194,477
Computer hardware	15,364,638	434,011	(585,685)	108,718	-	15,321,682
Machines and equipment	5,882,714	294,003	(171,507)	(28,036)	-	5,977,174
Furniture and fixtures	5,729,787	123,400	(159,427)	2,231	-	5,695,991
Vehicles	794,100	43,130	(33,979)	-	-	803,251
Freehold and leasehold improvements	24,650,037	2,665,622	(4,816)	426,440	-	27,737,283
	114,818,630	3,560,166	(2,158,291)	509,353	-	116,729,858
Accumulated depreciation	(45,766,240)	(6,707,065)	916,655	-	-	(51,556,650)
Allowance for impairment of owned properties	(65,308)	-	-	-	-	(65,308)
	(45,831,548)	(6,707,065)	916,655	-	-	(51,621,958)
Advance payments	1,109,820	15,557,073	-	(509,353)	(323,929)	15,833,611
Carrying value	70,096,902			-		80,941,511

Advance payments as at December 31, 2017 include an amount of LBP13billion paid on account for the acquisition of Plots 4731 and 4732 in Achrafieh to be used for the purpose of expanding the head office.

	Balance January 1, 2016 LBP'000	Additions LBP'000	Disposals LBP'000	Reclass/ Transfer Between Accounts LBP'000	Transfer from assets acquired in Satisfaction of Debts LBP'000	Balance December 31, 2016 LBP'000
Cost:						
Owned properties	57,640,566	1,626,443	-	-	3,130,345	62,397,354
Computer hardware	14,556,558	718,452	-	89,628	-	15,364,638
Machinery and equipment	5,429,020	515,568	(60,133)	(1,741)	-	5,882,714
Furniture and fixtures	5,518,520	225,460	(16,580)	2,387	-	5,729,787
Vehicles	542,038	490,774	(238,712)	-	-	794,100
Freehold and leasehold improvements	21,744,385	2,235,788	-	669,864	-	24,650,037
	105,431,087	5,812,485	(315,425)	760,138	3,130,345	114,818,630
Accumulated depreciation	(39,401,057)	(6,572,500)	207,317	-	-	(45,766,240)
Allowance for impairment of owned properties	(65,308)	-	-	-	-	(65,308)
	(39,466,365)	(6,572,500)	207,317	-	-	(45,831,548)
Advance payments	1,330,920	539,038	-	(760,138)	-	1,109,820
Carrying value	67,295,642			-		70,096,902

14. INTANGIBLE ASSETS

The movement of intangible assets was as follows during 2017 and 2016:

	Carrying Value January 1, 2017	Additions	Transfer from Advance Payments under Property and Equipment	Amortization for the Year	Carrying Value December 31, 2017
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Computer software	1,705,533	313,443	323,929	(867,915)	1,474,990
Key money	35,175	-	-	(35,175)	-
	1,740,708	313,443	323,929	(903,090)	1,474,990

	Carrying Value January 1, 2016	Additions	Amortization for the Year	Carrying Value December 31, 2016
	LBP'000	LBP'000	LBP'000	LBP'000
Computer software	1,884,707	631,957	(811,131)	1,705,533
Key money	39,195	-	(4,020)	35,175
	1,923,902	631,957	(815,151)	1,740,708

15. DEFERRED ASSETS

This caption consists of the following:

	December 31,	
	2017	2016
	LBP'000	LBP'000
Deferred assets against future cash flows	7,821,948	26,935,864
	7,821,948	26,935,864

Net outstanding deferred assets against future cash flows amounting to LBP8billion correspond to the Bank's Cypriot subsidiary's carried over losses incurred since the crisis in Cyprus occurred up to December 31, 2015. These deferred assets are offset against future economic benefits derived from the low yield funding amounting to LBP300million provided by the Central Bank of Lebanon which was redeemed and replaced by exemption from compulsory reserves up to USD200million during 2016. Proceeds of the loan and the compulsory reserves are invested in fixed income securities. The return on these debt securities is appropriated to deferred assets.

The movement of deferred assets against future cash flows during the years 2017 and 2016 was as follows:

	2017 Counter Value in LBP LBP'000	2016 Counter Value in LBP LBP'000
Net carrying value as at January 1,	26,935,864	61,944,371
Write down during the year	(15,773,541)	(35,051,351)
Write-off against regulatory deferred liability (Note 20)	(3,340,375)	-
Effect of foreign currency exchange differences	-	42,844
Net carrying value as at December 31,	7,821,948	26,935,864

16. OTHER ASSETS

This caption consists of the following:

	December 31,	
	2017 LBP'000	2016 LBP'000
Prepaid charges	8,573,986	11,601,267
Sundry debtors (Net)	9,477,860	9,357,249
Regulatory blocked deposits	4,500,000	-
Fair value of forward exchange contracts	226,567	24,728
	22,778,413	20,983,244

Sundry debtors are stated net of impairment allowance of LBP3.24billion as at December 31, 2017 and 2016 against advances made in previous years for renovation of the Bank's branches.

Regulatory blocked deposit represents a non-interest earning compulsory deposit placed with the Lebanese Treasury upon the establishment of BLC Invest S.A.L. that is in the process of liquidation. This deposit will be refunded upon finalizing the liquidation of the subsidiary, according to article 132 of the Lebanese Code of Money and Credit.

17. DEPOSITS FROM BANKS

This caption consists of the following:

	December 31,	
	2017	2016
	LBP'000	LBP'000
Current deposits of banks and financial institutions	1,404,837	1,598,757
Current deposits - subsidiaries	12,908,304	14,213,512
Current deposits - related bank	5,654	-
Short term deposits	28,227,189	37,687,657
Short term deposits - subsidiaries	-	28,000,000
Short term deposits with parent bank	37,687,500	-
Cash margins - subsidiaries	25,000	25,000
Accrued interest payable	168,964	261,226
	80,427,448	81,786,152

18. CUSTOMERS' ACCOUNTS

Customers' accounts at amortized cost are detailed as follows:

	December 31,	
	2017	2016
	LBP'000	LBP'000
Deposits:		
Current/demand deposits	617,276,248	640,387,401
Term deposits	4,934,211,037	5,114,640,326
Collateral against loans and advances	201,678,740	198,132,687
Margins and other accounts:		
Margins for irrevocable import letters of credit	7,545,473	4,997,441
Margins on letters of guarantee	25,732,900	30,251,297
Other margins	52,707,786	71,120,622
Blocked accounts	14,754,457	4,827,444
Time deposit escrow account (a)	14,944,039	-
Accrued interest payable	39,353,415	36,703,553
Total	5,908,204,095	6,101,060,771

(a) During 2017, the Bank offered 400,000 Tier I Non-Cumulative Perpetual Redeemable "Series E" preferred shares, at an issue price of USD100 per share with a nominal value of LBP1,000 each expected to be issued during 2018. As at December 31, 2017, LBP15billion were subscribed by customers and booked under term deposits escrow account.

Customers' deposits include related party deposits detailed as follows:

	December 31, 2017 LBP'000	December 31, 2016 LBP'000
Demand deposits	2,474,541	3,538,205
Term deposits	36,412,484	26,486,459
Collateral against loans and advances	49,718	48,010
Margins on letters of guarantee	11,450	11,450
Accrued interest payable	500,439	425,893
	39,448,632	30,510,017

Brackets of deposits were as follows:

December 31, 2017	LBP		F/Cy		
	Total Deposits LBP'000	% to Total Deposits %	Total Deposits LBP'000	% to Total Deposits %	Total LBP'000
Less than LBP250million	744,662,834	32	569,022,903	16	1,313,685,737
Between LBP250million and LBP1.5billion	774,541,763	33	961,005,310	27	1,735,547,073
Above LBP1.5billion	826,375,273	35	2,032,596,012	57	2,858,971,285
	2,345,579,870	100	3,562,624,225	100	5,908,204,095

December 31, 2016	LBP		F/Cy		
	Total Deposits LBP'000	% to Total Deposits %	Total Deposits LBP'000	% to Total Deposits %	Total LBP'000
Less than LBP250million	763,346,273	30	527,987,405	15	1,291,333,678
Between LBP250million and LBP1.5billion	797,816,217	32	821,435,459	23	1,619,251,676
Above LBP1.5billion	944,635,390	38	2,245,840,027	62	3,190,475,417
	2,505,797,880	100	3,595,262,891	100	6,101,060,771

Deposits from customers include coded deposit accounts in the aggregate amount of LBP87billion as at December 31, 2017 (LBP89billion as at December 31, 2016). 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 independent public accountants.

Deposits from customers include fiduciary deposits received from resident and non-resident banks for a total amount of LBP7billion and LBP184billion respectively as at December 31, 2017 (LBP41billion and LBP485billion respectively as at December 31, 2016).

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

Year	Deposits in LBP Average Balance of Deposits	Average Interest Rate	Deposits in F/Cy Average Balance of Deposits	Average Interest Rate	Cost of Funds LBP
	LBP'000	%	LBP'000	%	LBP'000
2017	2,457,000,000	5.71	3,555,000,000	3.96	282,176,577
2016	2,535,000,000	5.69	3,413,000,000	3.75	272,901,708
2015	2,535,000,000	5.70	3,095,000,000	3.53	253,368,271

19. OTHER BORROWINGS

	December 31, 2017	December 31, 2016
	LBP'000	LBP'000
Soft loans from Central Bank of Lebanon (a)	17,734,000	17,734,000
Borrowings from Central Bank of Lebanon (b)	396,163,236	387,050,712
Soft leverage arrangement from Central Bank of Lebanon (c)	90,979,500	-
Other borrowings (d)	5,797,270	6,422,111
	510,674,006	411,206,823
Accrued interest payable	674,734	167,997
	511,348,740	411,374,820

(a) On March 29, 2012, the Bank was granted a soft loan in the amount of LBP17.7billion from the Central Bank of Lebanon for a period of 7 years maturing on March 21, 2019. This loan is collateralized by Lebanese treasury bills (Note 9).

(b) Outstanding facilities granted from the Central Bank of Lebanon in the amount of LBP396billion (LBP387billion as at December 31, 2016) are in accordance with Central Bank of Lebanon Basic Decision No. 6116 of March 7, 1996 and its amendments by which the Bank benefited from credit facilities granted against loans the Bank has granted, on its own responsibility, to its customers, pursuant to certain conditions, rules and mechanism. This facility is collateralized by Lebanese treasury bills (Note 9).

(c) Soft leverage arrangement from Central Bank of Lebanon represents facilities granted against the purchase of Lebanese treasury bills. This loan is collateralized by Lebanese treasury bills of LBP48billion as at December 31, 2017(Note 9), and by term placement with Central Bank of Lebanon in the amount of LBP43billion (Note 5).

(d) Other borrowings also include a facility granted by the Arab Trade Financing Program (ATFP) on January 7, 2011 with a limit of USD4million for unconfirmed line of credit. This facility was granted to enhance trade between Arab countries.

The remaining contractual maturities of all above borrowings are as follows:

	2017 LBP'000	2016 LBP'000
Up to 1 year	49,613,114	6,590,108
1 to 3 years	17,734,000	17,734,000
3 to 5 years	13,101,450	-
Over 5 years	430,900,176	387,050,712
	511,348,740	411,374,820

The movement of other borrowings is detailed as follows:

	2017 LBP'000
Balance, beginning of year	411,206,823
Additions	106,792,053
Settlements	(7,324,870)
Balance, end of year	510,674,006

20. OTHER LIABILITIES

This caption consists of the following:

	December 31,	
	2017	2016
	LBP'000	LBP'000
Withheld taxes	3,194,205	2,692,133
Deferred tax liability on accrued interest receivable	1,711,492	1,822,720
Deferred tax liability on other comprehensive income	1,165,364	1,338,515
Other deferred tax liabilities	1,639,606	29,250
Due to the National Social Security Fund	744,130	662,047
Checks and incoming payment orders in course of settlement	23,982,388	14,801,715
Blocked capital subscriptions for companies under incorporation	419,764	619,764
Accrued expenses	10,440,839	13,994,879
Financial guarantees	634,793	628,900
Payable to personnel and directors	6,516,885	6,459,082
Sundry accounts payable	27,420,424	18,632,396
Income tax liability (b)	10,510,206	12,092,759
Deferred income	913,548	650,916
Regulatory deferred liability (a)	107,590,244	117,511,478
Tax payable on deferred contribution (a)	-	20,737,320
	196,883,888	212,673,874

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

During the year 2016, as a result of several transactions derived from the special and non-conventional deals arrangement with the Central Bank of Lebanon, the Bank received a surplus of LBP118billion, net of tax in the amount of LBP20.7billion, which was credited to "Regulatory deferred liability" under other liabilities and deferred as restricted contribution in anticipation of expected loss provisions that will be deemed to be necessary along with the application of IFRS 9 in accordance with the Central Bank of Lebanon requirements as indicated above (Refer to Note 9). During 2017, tax payable on deferred contribution was settled.

Below is the movement of deferred contribution for the year:

	2017 LBP'000
Balance January 1	117,511,478
Write off against deferred assets (Note 15)	(3,340,375)
Write off against investments in subsidiaries (Note 11)	(6,580,859)
Balance December 31	107,590,244

(b) Below is the reconciliation of income tax expense:

	2017 LBP'000	2016 LBP'000
Profit before tax	85,180,734	84,960,589
Income tax on enacted applicable rates	15,398,613	17,270,417
Effect of non-deductible expense and non-taxable income	1,379,808	758,055
Income tax expense	16,778,421	18,028,472
Less: Tax paid in advance	(7,169,983)	(8,741,930)
Other	901,768	2,806,217
Income tax liability	10,510,206	12,092,759

21. PROVISIONS

Provisions consist of the following:

	December 31,	
	2017 LBP'000	2016 LBP'000
Provision for staff end-of-service indemnity (a)	6,231,478	5,873,455
Provision for contingencies (b)	3,863,958	1,778,204
Provision for loss on foreign currency position	288,893	105,059
	10,384,329	7,756,718

(a) The movement of the provision for staff end-of-service indemnity was as follows:

	2017 LBP'000	2016 LBP'000
Balance, January 1	5,873,455	5,630,206
Additions - net (Note 32)	742,004	699,072
Transfer from BLC Invest S.A.L. (under liquidation)	2,920	-
Settlements	(386,901)	(455,823)
Balance, December 31	6,231,478	5,873,455

Additions are netted by LBP1.1billion representing estimated interest income accumulated by the Lebanese National Social Security Fund (LBP976million during 2016).

(b) The movement of the provision for contingencies was as follows:

	2017 LBP'000	2016 LBP'000
Balance January 1	1,778,204	3,059,493
Additions	3,624,488	271,350
Settlements (Note 41)	(1,538,734)	(878,922)
Write-back	-	(653,118)
Effect of exchange rates changes	-	(20,599)
Balance December 31	3,863,958	1,778,204

22. SHARE CAPITAL

On September 12, 2017, the Extraordinary General Assembly of shareholders resolved to increase the Bank's capital by LBP550million through issuing 550,000 common shares having a par value of LBP1,000 each which was subscribed through transferring LBP550million from general reserves as a result of the redemption of all series "B" preferred shares (Note 23). This capital increase was approved by the Central Council of the Central Bank of Lebanon on November 29, 2017. Hence, at December 31, 2017, the Bank's ordinary share capital consist of 213,650,000 fully paid share of LBP1,000 per value each (213,100,000 fully paid shares of LBP1,000 as at December 31, 2016).

On June 3, 2016, the Extraordinary General Assembly of shareholders resolved to increase the Bank's capital by LBP60billion through issuing common shares having a par value of LBP1,000 each which was subscribed through transferring LBP45billion and LBP15billion from legal reserves and free reserves, respectively. This capital increase was approved by the Central Council of the Central Bank of Lebanon on July 20, 2016.

As at December 31, 2017 and 2016, the Bank has a fixed exchange position in the amount of USD122,508,656, 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.

23. PREFERRED SHARES

	Issue Date	Number of Shares	Expected Annual Return	December 31, 2017	December 31, 2016
	Year		%	LBP'000	LBP'000
Series "B"	2011	550,000	7.00	-	82,912,500
Series "C"	2013	350,000	6.75	52,762,501	52,762,501
Series "D"	2016	750,000	6.75	113,062,500	113,062,500
				165,825,001	248,737,501

Columns from "Issue Date" through "December 31, 2016" are grouped under: Tier I Non-Cumulative Perpetual Redeemable preferred shares

The above shares are Tier I Non-Cumulative Perpetual Redeemable preferred shares at an issue price of USD100 per share with a nominal value of LBP1,000 each.

The preferred shares may be redeemed during the 60 days period following the annual general meeting held to approve the financial statements after 5 years for the related issue date for Series C and D respectively and each subsequent year thereafter.

On September 12, 2017, the Extraordinary General Assembly of shareholders allowed holders of Series "B" preferred shares to redeem their shares.

24. RESERVES

This caption consists of the following:

	December 31, 2017	December 31, 2016
	LBP'000	LBP'000
Legal reserve (a)	13,316,866	6,623,654
Reserve for general banking risks (b)	75,618,268	64,790,286
Special reserve for loans and advances (c)	4,103,478	3,403,478
Free reserves	52,304,397	49,449,285
General reserve for performing loans (d)	16,000,000	3,000,000
	161,343,009	127,266,703
Regulatory reserve for assets acquired in satisfaction of loans (Note 12)	58,517,962	46,864,450
	219,860,971	174,131,153

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

(b) The reserve for general banking risks is constituted according to local banking regulations, from net profit, on the basis of a minimum of 2 per mil and a maximum of 3 per mil of the total risk weighted assets, off-balance sheet risk and global exchange position as defined for the computation of the solvency ratio at year-end. The cumulative reserve should not be less than 1.25% at the end of the 10^{th} year (2007) and 2% at the end of the 20^{th} year.

(c) Based on Central Bank of Lebanon Circular 73 and Banking Control Commission memo 12/2010 relating to reserve allocation for doubtful debts, the Bank has allocated an amount of LBP4.1billion (LBP3.4billion as at December 31, 2016) to special reserve for the uncovered portion of its doubtful debts outstanding as at June 30, 2003 and not yet resolved.

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

- 0.5% of retail loans that are less than 30 days past due (subject to deductions of some guarantees received) to general reserve for the year 2014 in addition to a percentage of 0.5% yearly over a six year period starting 2015.
- 0.25% of performing corporate loans to general reserve as of end of 2014. This reserve should increase to 0.5% as of end of 2015, 1% as of end of 2016 and 1.5% as of end of 2017. The Bank is exempted from this general reserve if the balance of collective provision is not less than 0.25% of the performing corporate loans portfolio as of end of 2014, 0.5% as of end of 2015, 1% as of end of 2016 and 1.5% as of end of 2017.

In accordance with BDL Basic Circular # 143 issued in November 2017, banks are no longer required by the end of the year 2017 to set up reserves for general banking risks and other reserves for credit risks. Banks are required to appropriate the excess after implementation of IFRS 9 on January 1, 2018, to general reserves designated for capital increase.

25. DIVIDENDS PAID

The Bank's General Assembly held on June 29, 2017 resolved to distribute preferred shares earnings in the amount of LBP14billion.

The Bank's General Assembly held on June 3, 2016 resolved to distribute preferred shares earnings in the amount of LBP15.4billion.

26. INTEREST INCOME

This caption consists of the following:

	2017 LBP'000	2016 LBP'000
Interest income from:		
Deposits with Central Bank	60,265,567	23,893,249
Deposits with banks and financial institutions	2,730,749	2,266,689
Deposits with Parent Bank and subsidiaries	459,489	101,500
Loan to a bank	93,812	112,257
Investment securities(excluding FVTPL)(net of withheld tax)	226,022,209	246,368,209
Loans and advances to customers	167,848,990	158,402,812
Loans and advances to related parties	461,874	186,395
Interest realized on non-performing loans and advances to customers (Note 8)	5,482,810	4,938,101
Other	26,008	8,862
	463,391,508	436,278,074

Interest income realized on non-performing loans and advances to customers represents recoveries of interest. Accrued interest on impaired loans and advances is not recognized until recovery/rescheduling agreements are signed with customers.

27. INTEREST EXPENSE

This caption consists of the following:

	2017 LBP'000	2016 LBP'000
Interest expense on:		
Deposits and borrowings from banks	4,185,237	309,419
Soft loans from Central Bank of Lebanon	-	785,395
Revolving loan and facilities granted from Central Bank of Lebanon	4,449,816	5,392,616
Deposits and borrowings from Parent Bank and subsidiaries	3,683,794	1,647,363
Customers' accounts	280,088,235	271,938,913
Customers' accounts - related parties	2,088,342	962,795
Other borrowings	143,433	118,593
	294,638,857	281,155,094

28. FEE AND COMMISSION INCOME

This caption consists of the following:

	2017 LBP'000	2016 LBP'000
Commission on documentary credits	1,237,192	1,046,136
Commission on letters of guarantee	1,620,095	2,299,811
Commission on transactions with banks	107,850	111,254
Service fees on customers' transactions	9,459,324	8,846,641
Commission on loans and advances	10,906,725	10,321,740
Commission earned on insurance policies	3,166,541	3,240,912
Commission earned on capital market customers' transactions (Note 36)	747,377	962,885
Other	1,038,720	429,190
	28,283,824	27,258,569

29. FEE AND COMMISSION EXPENSE

This caption consists of the following:

	2017 LBP'000	2016 LBP'000
Brokerage fees	1,132,323	1,089,576
Commission on transactions with banks and financial institutions	682,091	688,215
Other	788,496	853,910
	2,602,910	2,631,701

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

This caption consists of the following:

	2017 LBP'000	2016 LBP'000
Interest income (net of withheld tax)	5,678,317	9,325,741
Dividends received	-	102,016
Net unrealized (loss)/gain (Note 9)	(709,081)	533,597
Net realized gain/(loss)	340	(1,427,034)
	4,969,576	8,534,320

31. OTHER OPERATING INCOME

This caption consists of the following:

	2017 LBP'000	2016 LBP'000
Dividend income from investments at fair value through other comprehensive income	1,428,880	1,117,031
Foreign exchange gain	2,191,541	2,414,738
Miscellaneous income	986,353	2,724,601
	4,606,774	6,256,370

32. STAFF COSTS

This caption consists of the following:

	2017 LBP'000	2016 LBP'000
Salaries	39,166,083	36,425,786
Board of directors' remunerations	3,950,756	3,802,255
Social security contributions	5,994,574	5,427,872
Provision for end-of-service indemnities (Note 21)	742,004	699,072
Other staff benefits and costs	13,785,458	12,988,043
	63,638,875	59,343,028

33. GENERAL AND ADMINISTRATIVE EXPENSES

This caption consists of the following:

	2017 LBP'000	2016 LBP'000
Fees and taxes	1,135,861	1,466,897
Rent and building services	3,777,132	3,486,853
Legal and professional fees	2,630,712	3,188,738
Telephone and postage	1,415,808	1,215,392
Maintenance and repairs	5,238,626	5,605,450
Electricity and water	909,769	830,478
Heat, light and power	626,044	567,960
Insurance	697,540	521,540
Advertising and publicity	4,923,191	4,755,242
Public relations and entertainment	724,906	707,067
Printing and stationery	576,105	847,972
Subscriptions	2,290,320	2,062,502
Travel	568,008	492,673
Donations	146,999	43,488
Software implementation fees	119,810	71,529
Credit card expenses	957,830	1,305,037
Money transport	1,178,346	1,194,084
Cleaning	781,790	765,436
Guards expenses	593,553	527,557
Miscellaneous expenses	1,950,877	2,233,229
	31,243,227	31,889,124

Legal and professional fees include an amount of LBP226million representing various services provided by the parent bank during 2017 and 2016.

34. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISKS

The guarantees and standby letters of credit and the documentary and commercial letters of credit represent financial instruments with contractual amounts representing credit risk. The guarantees and standby letters of credit represent irrevocable assurances that the 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 statement of financial position. However, documentary and commercial 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.

Forward exchange contracts outstanding as of December 31, 2017 and 2016 represent positions held for customers' accounts. The Bank entered into such instruments to serve the needs of customers, and these contracts are fully hedged by the Bank.

35. FIDUCIARY ACCOUNTS

Fiduciary deposits include deposits invested in back-to-back lending and are related to resident lenders and borrowers in addition to fiduciary deposits held or invested on behalf of the Bank's customers on a non-discretionary basis. The risks and rewards of the related operations belong to the account holders.

36. ASSETS UNDER MANAGEMENT

Assets under management represents BLC Income Fund 1 whose total assets outstanding as at December 31, 2017 amount to LBP15.6billion whereby the Bank acts as the fund manager. Management fees equivalent to 1% of the average net asset value of the fund paid during 2017 amounted to LBP124million (LBP129million in 2016) are recorded under "Commissions on capital market transactions" (Note 28).

37. CASH AND CASH EQUIVALENTS

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

	December 31,	
	2017	2016
	LBP'000	LBP'000
Cash on hand	37,772,770	36,646,157
Deposits with Central Bank of Lebanon (excluding compulsory deposits)	60,322,202	166,483,539
Short term placement with Central Bank of Lebanon	43,141,110	-
Term placements with Central Bank of Lebanon (with original maturity of less than 3 months)	69,180,000	206,947,500
Purchased checks	5,538,192	14,370,671
Current accounts with correspondents	115,554,294	196,173,173
Current accounts with the parent bank	4,395,963	3,888,936
Current accounts with related banks and financial institutions	215,120	12,442,655
Term placements with correspondents (with original maturity of less than 3 months)	5,000,000	145,803,322
	341,119,651	782,755,953

B. Liquidity Risk

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

1- Management of liquidity risk

Liquidity management involves maintaining ample and diverse funding capacity, liquid assets and other sources of cash to accommodate fluctuations in asset and liability levels due to changes in their business operations or unanticipated events. Through Assets and Liabilities Committee, the Board of Directors is responsible for establishing the liquidity policy as well as approving operating and contingency procedures and monitoring liquidity on an ongoing basis. The treasury department is responsible for planning and executing their funding activities and strategy.

Liquidity management and business unit activities are managed consistent with a strategy of funding stability, flexibility and diversity. It includes:

- Day-to-day funding managed by monitoring future cash flows to ensure that requirements can be met;
- Maintenance of a portfolio of liquid and marketable assets;
- Daily and forecast cash flow management;
- Implementation of long-term funding strategies.

The cumulative impact of these various elements is monitored on at least a monthly basis by ALCO. Monitoring and reporting take the form of cash flow measurement and projections. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection data of the financial assets.

2- Exposure to liquidity risk

Regulatory requirements

The Bank ensures that it is in compliance with the liquidity limits in Lebanese Pound and foreign currencies as established by Central Bank of Lebanon.

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

	December 31, 2017					
	Up to 3 Months LBP'000	3 to12 Months LBP'000	1 to 3 Years LBP'000	3 to 5 Years LBP'000	Over 5 Years LBP'000	Total LBP'000
Deposits from banks	51,661,999	28,765,449	-	-	-	80,427,448
Customers' accounts	4,820,700,639	1,057,136,132	30,367,324	-	-	5,908,204,095
Other borrowings	5,543,481	44,069,633	17,734,000	13,101,450	430,900,176	511,348,740
	4,877,906,119	1,129,971,214	48,101,324	13,101,450	430,900,176	6,499,980,283

	December 31, 2016					
	Up to 3 Months LBP'000	3 to12 Months LBP'000	1 to 3 Years LBP'000	3 to 5 Years LBP'000	Over 5 Years LBP'000	Total LBP'000
Deposits from banks	57,860,351	23,925,801	-	-	-	81,786,152
Customers' accounts	5,103,039,829	996,471,986	1,548,956	-	-	6,101,060,771
Other borrowings	921,748	5,668,360	17,734,000	-	387,050,712	411,374,820
	5,161,821,928	1,026,066,147	19,282,956	-	387,050,712	6,594,221,743

C. Market Risk

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

Currency risk

Foreign exchange risk represents exposures to changes in the values of current holdings and future cash flows denominated in other currencies. The types of instruments exposed to this risk include investments in foreign currency-denominated loans, foreign currency-denominated securities, future cash flows in foreign currencies arising from foreign exchange transactions, and foreign-currency denominated debt.

Exposure to foreign exchange risk:

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

	December 31, 2017					
	LBP	USD	Euro	GBP	Other	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
ASSETS						
Cash and Central Bank	911,961,988	457,277,157	3,438,524	828,257	-	1,373,505,926
Deposits with banks and financial institutions	6,367,027	73,717,827	63,967,630	4,280,713	8,537,273	156,870,470
Loan to a bank	3,528,263	-	-	-	-	3,528,263
Investments at fair value through profit or loss	58,968,240	66,022,551	5,577,678	-	-	130,568,469
Loans and advances to customers	999,138,866	1,404,541,865	10,804,514	113,593	(1,755,069)	2,412,843,769
Investments at amortized cost	1,460,556,046	1,656,756,445	-	-	-	3,117,312,491
Investments at fair value through other comprehensive income	14,318,030	1,045,704	74,359	-	-	15,438,093
Customers' liability under acceptances	170,213	33,621,336	20,563,077	-	1,304,770	55,659,396
Investments in subsidiaries	7,637,310	-	117,063,747	-	-	124,701,057
Assets acquired in satisfaction of loans	12,497,800	69,999,073	-	-	-	82,496,873
Property and equipment	80,941,511	-	-	-	-	80,941,511
Intangible assets	1,474,990	-	-	-	-	1,474,990
Deferred assets	-	7,821,948	-	-	-	7,821,948
Other assets	16,079,389	6,418,713	19,055	18,765	15,927	22,551,849
Total Assets	3,573,639,673	3,777,222,619	221,508,584	5,241,328	8,102,901	7,585,715,105
LIABILITIES						
Deposits from banks	11,303,618	68,874,918	239,383	-	9,529	80,427,448
Customers' accounts	2,345,579,870	3,277,069,164	274,155,993	5,060,163	6,338,905	5,908,204,095
Liability under acceptances	170,213	33,621,336	20,563,077	-	1,304,770	55,659,396
Other borrowings	505,487,517	5,861,223	-	-	-	511,348,740
Other liabilities	166,751,308	29,363,513	676,160	63,571	29,336	196,883,888
Provisions	9,353,214	1,031,115	-	-	-	10,384,329
Total Liabilities	3,038,645,740	3,415,821,269	295,634,613	5,123,734	7,682,540	6,762,907,896
Currency to be received	-	121,543,368	74,702,511	-	22,682,931	218,928,810
Currency to be delivered	(120,600,000)	(74,788,957)	(632,307)	-	(22,680,982)	(218,702,246)
	(120,600,000)	46,754,411	74,070,204	-	1,949	226,564
Net assets	414,393,933	408,155,761	(55,825)	117,594	422,310	823,033,773

	December 31, 2016					
	LBP	USD	Euro	GBP	Other	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
ASSETS						
Cash and Central Bank	878,405,713	317,791,500	2,207,853	662,374	-	1,199,067,440
Deposits with banks and financial institutions	29,190,264	236,801,553	127,045,278	6,571,272	7,537,297	407,145,664
Loan to a bank	4,233,915	-	-	-	-	4,233,915
Investments at fair value through profit or loss	58,407,948	35,550,843	4,788,870	-	-	98,747,661
Loans and advances to customers	817,503,161	1,444,200,067	8,538,095	249,206	(329,436)	2,270,161,093
Investments at amortized cost	1,582,215,267	1,736,534,508	-	-	-	3,318,749,775
Investments at fair value through other comprehensive income	16,409,998	784,981	65,703	-	-	17,260,682
Customers' liability under acceptances	453,229	18,495,519	13,767,361	-	1,170,276	33,886,385
Investments in subsidiaries	37,627,310	-	109,312,933	-	-	146,940,243
Assets acquired in satisfaction of loans	13,177,917	72,788,266	-	-	-	85,966,183
Property and equipment	70,096,902	-	-	-	-	70,096,902
Intangible assets	1,740,708	-	-	-	-	1,740,708
Deferred assets	-	26,935,864	-	-	-	26,935,864
Other assets	11,436,608	9,483,895	9,834	11,584	16,595	20,958,516
Total Assets	3,520,898,940	3,899,366,996	265,735,927	7,494,436	8,394,732	7,701,891,031
LIABILITIES						
Deposits from banks	38,721,508	42,822,874	233,312	-	8,458	81,786,152
Customers' accounts	2,505,797,880	3,330,493,957	250,894,908	7,467,277	6,406,749	6,101,060,771
Liability under acceptances	453,229	18,495,519	13,767,361	-	1,170,276	33,886,385
Other borrowings	404,922,082	6,452,738	-	-	-	411,374,820
Other liabilities	187,680,181	24,525,380	411,773	54,049	2,491	212,673,874
Provisions	6,665,306	1,091,412	-	-	-	7,756,718
Total Liabilities	3,144,240,186	3,423,881,880	265,307,354	7,521,326	7,587,974	6,848,538,720
Currency to be received	-	17,401,277	13,709,627	-	12,142,184	43,253,088
Currency to be delivered	-	(17,396,472)	(13,709,420)	-	(12,122,468)	(43,228,360)
	-	4,805	207	-	19,716	24,728
Net assets	376,658,754	475,489,921	428,780	(26,890)	826,474	853,377,039

Interest rate risk

Interest rate risk represents exposures to instruments whose values vary with the level of volatility of interest rates. These instruments include, but are not limited to, loans, debt securities, certain trading - related assets and liabilities, deposits, borrowings and derivative instruments. Interest rate repricing gap is used to estimate the impact on earnings of an adverse movement in interest rates.

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:

	Weighted Average Interest Rate	December 31, 2017						
		Not Subject to Interest	Less than 3 Months	3 Months to 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total
	%	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
ASSETS								
Cash and central banks	4.98	133,743,207	331,527,919	43,147,925	-	21,155,500	843,931,375	1,373,505,926
Deposits with banks and financial institutions	0.89	129,073,681	27,796,789	-	-	-	-	156,870,470
Loan to a bank	2.67	28,263	3,500,000	-	-	-	-	3,528,263
Investment securities at fair value through profit or loss	4.57	18,854,278	4,844,493	60,054,576	-	31,138,292	15,676,830	130,568,469
Loans and advances to customers	7.51	99,780,603	388,778,792	239,521,715	330,075,704	425,668,208	929,018,747	2,412,843,769
Investment securities at amortized cost	6.52	59,999,853	59,019,624	266,737,789	534,741,852	409,489,962	1,787,323,411	3,117,312,491
Investment securities at fair value through other comprehensive income	-	15,438,093	-	-	-	-	-	15,438,093
		456,917,978	815,467,617	609,462,005	864,817,556	887,451,962	3,575,950,363	7,210,067,481
FINANCIAL LIABILITIES								
Deposits from banks and financial institutions	10.15	5,787,923	46,412,493	28,227,032	-	-	-	80,427,448
Customer's deposits and credit balances	4.70	459,184,726	4,640,083,724	778,568,308	30,367,337	-	-	5,908,204,095
Other borrowings	1.01	674,734	4,868,747	44,069,633	17,734,000	13,101,450	430,900,176	511,348,740
		465,647,383	4,691,364,964	850,864,973	48,101,337	13,101,450	430,900,176	6,499,980,283

	Weighted Average Interest Rate	December 31, 2016						
		Not Subject to Interest	Less than 3 Months	3 Months to 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total
	%	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
ASSETS								
Cash and Central Bank	2.84	288,509,071	426,487,364	22,731,005	-	35,290,000	426,050,000	1,199,067,440
Deposits with banks and financial institutions	0.65	230,235,889	176,909,775	-	-	-	-	407,145,664
Loan to a bank	2.66	33,915	4,200,000	-	-	-	-	4,233,915
Investments at fair value through profit or loss	6.43	13,854,287	7,029,417	6,034,461	4,867,308	51,217,381	15,744,807	98,747,661
Loans and advances to customers	7.33	75,075,372	2,093,135,123	18,685,146	83,265,452	-	-	2,270,161,093
Investments at amortized cost	7.26	59,176,132	197,864,527	178,371,532	595,214,612	441,535,397	1,846,587,575	3,318,749,775
Investments at fair value through other comprehensive income		17,260,682	-	-	-	-	-	17,260,682
		684,145,348	2,905,626,206	225,822,144	683,347,372	528,042,778	2,288,382,382	7,315,366,230
LIABILITIES								
Deposits from banks and financial institutions	3.69	7,518,923	51,654,729	22,612,500	-	-	-	81,786,152
Customers' accounts	4.57	455,383,117	5,006,052,697	638,076,001	1,548,956	-	-	6,101,060,771
Other borrowings	1.42	167,998	18,487,750	392,719,072	-	-	-	411,374,820
		463,070,038	5,076,195,176	1,053,407,573	1,548,956	-	-	6,594,221,743

41. COMMITMENTS AND CONTINGENCIES

The Bank is defendant in a lawsuit, whereby the amount claimed by the plaintiff is LBP2.26billion. Subsequent to the financial position date, the Court of First instance issued a decision to pay the plaintiff the full amount in addition to legal interest and expenses. The decision will be appealed by the Bank and final outcome cannot be assessed at present.

In 2017, the Bank's accounts and tax returns for the years 2012 till 2014 (inclusive) were subject to examination by the tax authorities which resulted in a preliminary assessment of LBP2.99billion. A final decision was reached subsequent to the financial position date where the Bank settled LBP2.8billion. The Bank's tax returns for the years 2015 till 2017 inclusive are still subject to review by the relevant tax authorities. Any additional tax liability depends on the outcome of such reviews.

Moreover, in 2017, the Bank's social security declarations for the years 2013 till October 2017 were reviewed resulting in an additional liability of LBP1billion which was settled during 2017 against provision for contingencies (Note 21). The Bank's social security declarations for the remaining period is still subject to review by the relevant social security authorities. Any additional social security liability depends on the outcome of such reviews.

42. CAPITAL MANAGEMENT

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

Central Bank of Lebanon requires each bank or banking group to hold a minimum level of regulatory capital of LBP10billion for the head office and LBP500million for each local branch.

The B's capital is split as follows:

Tier I capital : Comprises share capital (common and preferred), premium on preferred shares, reserves from appropriation of profits, retained earnings after deductions for goodwill and intangible assets and other regulatory adjustments.

Tier II capital : Comprises 50% cumulative change in fair value for investments classified at fair value through other comprehensive income and other regulatory reserves.

The Bank's capital adequacy ratio was as follows:

	December 31,	
	2017	**2016**
	LBPmillion	**LBPmillion**
Common equity Tier I	576,878	525,818
Additional Tier I capital	165,825	249,754
	742,703	775,572
Tier II capital	63,475	75,575
Total regulatory capital	806,178	851,147
Credit risk	3,807,122	4,334,286
Market risk	97,005	418,250
Operational risk	372,782	436,093
Risk-weighted assets and risk-weighted off-balance sheet items	4,276,909	5,188,629
Equity Tier I ratio	13.49%	10.13%
Tier I capital ratio	17.37%	14.95%
Risk based capital ratio - Tier I and Tier II capital	18.85%	16.40%

43. 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 not measured at fair value and where the directors consider that the carrying amounts of these financial assets and liabilities are reasonable approximations of their fair value:

		December 31, 2017				
			Fair Value			
	Note	Carrying amount LBP'000	Level 1 LBP'000	Level 2 LBP'000	Level 3 LBP'000	Total LBP'000
Financial assets measured at fair value						
Investments at fair value through profit or loss:						
Quoted equity securities	9	3,527,270	3,527,270	-	-	3,527,270
Unquoted equity securities	9	2,384,355	-	-	2,384,355	2,384,355
Lebanese Government bonds	9	20,614,069	-	20,614,069	-	20,614,069
Foreign Eurobonds	9	39,924,436	-	39,924,436	-	39,924,436
Certificates of deposit issued by the Central Bank of Lebanon	9	52,157,336	-	52,157,336	-	52,157,336
Mutual Funds	9	10,123,796	-	-	10,123,796	10,123,796
Unquoted equities at fair value through other comprehensive income:						
Bancassurance S.A.L.	9	9,899,308	-	-	9,899,308	9,899,308
Other investments	9	5,538,785	-	-	5,538,785	5,538,785
		144,169,355	3,527,270	112,695,841	27,946,244	144,169,355
Financial assets measured at amortized cost						
Term placements with Central Bank of Lebanon		865,086,875	-	810,063,457	-	810,063,457
Loans and advances (net of allowances)	8	2,412,843,769	-	2,407,714,889	-	2,407,714,889
Lebanese Treasury bills	9	835,857,894	-	812,515,559	-	812,515,559
Lebanese Government bonds	9	1,335,669,051	-	1,220,488,344	-	1,220,488,344
Certificates of deposit issued by the Central Bank of Lebanon	9	885,785,693	-	825,209,113	-	825,209,113
Assets-backed securities	9	10,078,500	-	9,431,317	-	9,431,317
		6,345,321,782	-	6,085,422,679	-	6,085,422,679
Financial Liabilities not measured at fair value						
Other borrowings		65,572,390	-	46,556,399	-	46,556,399
		65,572,390	-	46,556,399	-	46,556,399

			December 31, 2016			
			Fair Value			
	Notes	Carrying Amount LBP'000	Level 1 LBP'000	Level 2 LBP'000	Level 3 LBP'000	Total LBP'000
Financial assets measured at fair value						
Investments at fair value through profit or loss						
Quoted equity securities	9	4,290,845	4,290,845	-	-	4,290,845
Unquoted equity securities	9	1,874,477	-	-	1,874,477	1,874,477
Lebanese Government bonds	9	21,500,253	-	21,500,253	-	21,500,253
Foreign Eurobonds	9	8,298,348	-	8,298,348	-	8,298,348
Certificates of deposit issued by the Central Bank of Lebanon	9	56,164,795	-	56,164,795	-	56,164,795
Mutual fund	9	4,788,870	-	-	4,788,870	4,788,870
Unquoted equities at fair value through other comprehensive income						
Bancassurance S.A.L.	9	9,596,040	-	-	9,596,040	9,596,040
Other investments	9	7,664,642	-	-	7,664,642	7,664,642
		114,178,270	4,290,845	85,963,396	23,924,029	114,178,270
Financial assets measured at amortized cost						
Term placements with Central Bank of Lebanon		426,050,000	-	416,854,811	-	416,854,811
Loans and advances (net of allowances)	8	2,270,161,093	-	2,267,017,972	-	2,267,017,972
Lebanese Treasury bills	9	780,142,807	-	786,834,537	-	786,834,537
Lebanese Government bonds	9	1,291,302,340	-	1,159,598,601	-	1,159,598,601
Asset-backed securities	9	7,333,961	-	6,538,171	-	6,538,171
Certificates of deposit issued by the Central Bank of Lebanon	9	1,188,128,497	-	1,156,249,548	-	1,156,249,548
		5,963,118,698	-	5,793,093,640	-	5,793,093,640
Financial liabilities not measured at fair value						
Other borrowings		17,734,000	-	15,204,701	-	15,204,701
		17,734,000	-	15,204,701	-	15,204,701

Major non-cash transactions excluded from the statement of cash flows for the years ended December 31, 2017 and 2016 are summarized as follows:

(a) Negative change in fair value of investments at fair value through other comprehensive income of LBP2billion and related deferred tax liability of LBP173million during 2017 (Positive change in fair value of investments of LBP847million and related deferred tax liability of LBP127million during 2016).

(b) Assets acquired in satisfaction of loans in the amount of LBP391million (LBP378million in 2016).

(c) Write-off of LBP30billion of investments in subsidiaries against regulatory deferred liability.

(d) Transfer of LBP324million from property and equipment to intangible assets in 2017.

(e) Transfer of LBP3.1billion from assets acquired in satisfaction of loans to property and equipment in 2016.

(f) Transfer of LBP63billion from investments at fair value through profit or loss to investments held at amortized cost during 2016.

(g) Write-off of deferred charges in the amount of LBP3billion and investments in subsidiaries in the amount of LBP6.58billion against regulatory deferred liability.

38. SEGMENT INFORMATION

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

The Bank's reportable segments are as follows:

(a) Corporate banking - Includes services provided in relation to loans and other credit facilities and deposits and current accounts for corporate and institutional customers.

(b) Retail banking - includes retail lending and deposits, banking services, insurance brokerage services, overdrafts, credit card facilities, and funds transfer facilities.

(c) Treasury - includes treasury management, correspondent banking, proprietary trading, managing reserve and capital requirements, asset/liability management, and foreign exchange transactions.

(d) Private banking - includes the operations with private banking clients including fiduciary deposits, equities and bonds trading and others.

(e) Others - includes Bank's capital, income from sale of assets, soft loans and facilities from Central Bank of Lebanon, depreciation, and other income and expenses.

Distribution of assets and liabilities by segment:

	December 31, 2017						
	Corporate Banking	Retail Banking	Treasury	Private Banking	Others	Elimination	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
ASSETS							
Cash and banks	-	38,534,257	1,491,842,139	-	-	-	1,530,376,396
Loan to a bank	-	-	3,528,263	-	-	-	3,528,263
Investment securities at FVTPL	-	-	130,568,469	-	-	-	130,568,469
Loans and advances to customers	1,013,392,755	1,389,875,373	-	9,575,641	-	-	2,412,843,769
Investment securities at amortized cost	10,224,809	2,307,376,890	-	498,210,792	301,500,000	-	3,117,312,491
Investment securities at FVTOCI	-	-	-	-	15,438,093	-	15,438,093
Customers' liability under acceptances	55,362,579	296,817	-	-	-	-	55,659,396
Investments in subsidiaries	-	-	-	-	124,701,057	-	124,701,057
Other assets	-	-	-	-	195,513,735	-	195,513,735
Inter-segments	-	1,066,788,877	-	423,648,046	411,493,886	(1,901,930,809)	-
Total Assets	1,078,980,143	4,802,872,214	1,625,938,871	931,434,479	1,048,646,771	(1,901,930,809)	7,585,941,669
LIABILITIES							
Deposits from banks	-	-	80,427,448	-	-	-	80,427,448
Customers' accounts	427,172,809	4,549,596,807	-	931,434,479	-	-	5,908,204,095
Liability under acceptances	55,659,396	-	-	-	-	-	55,659,396
Other borrowings	148,749,051	253,275,407	90,979,501	-	18,344,781	-	511,348,740
Other liabilities and provisions	-	-	-	-	207,268,217	-	207,268,217
Inter-segments	447,398,887	-	1,454,531,922	-	-	(1,901,930,809)	-
Total Liabilities	1,078,980,143	4,802,872,214	1,625,938,871	931,434,479	225,612,998	(1,901,930,809)	6,762,907,896

	December 31, 2016						
	Corporate Banking	Retail Banking	Treasury	Private Banking	Others	Elimination	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
ASSETS							
Cash and banks	-	36,646,158	1,569,566,946	-	-	-	1,606,213,104
Loan to a bank	-	-	4,233,915	-	-	-	4,233,915
Investment securities at FVTPL	-	-	98,747,661	-	-	-	98,747,661
Loans and advances to customers	1,025,366,557	1,231,638,583	-	13,155,953	-	-	2,270,161,093
Investment securities at amortized cost	7,384,053	2,564,239,666	-	729,060,406	18,065,650	-	3,318,749,775
Investment securities at FVTOCI	-	-	-	-	17,260,682	-	17,260,682
Customers' liability under acceptances	33,836,057	50,328	-	-	-	-	33,886,385
Investments in subsidiaries	-	27,200	-	7,610,110	139,302,933	-	146,940,243
Other assets	-	-	-	-	205,722,901	-	205,722,901
Inter-segments	-	713,872,110	-	538,066,934	711,326,835	(1,963,265,879)	-
Total Assets	1,066,586,667	4,546,474,045	1,672,548,522	1,287,893,403	1,091,679,001	(1,963,265,879)	7,701,915,759
LIABILITIES							
Deposits from banks	-	-	81,786,152	-	-	-	81,786,152
Customers' accounts	514,600,497	4,298,566,871	-	1,287,893,403	-	-	6,101,060,771
Liability under acceptances	33,886,385	-	-	-	-	-	33,886,385
Other borrowings	145,596,276	247,907,174	-	-	17,871,370	-	411,374,820
Other liabilities and provisions	-	-	-	-	220,430,592	-	220,430,592
Inter-segments	372,503,509	-	1,590,762,370	-	-	(1,963,265,879)	-
Total Liabilities	1,066,586,667	4,546,474,045	1,672,548,522	1,287,893,403	238,301,962	(1,963,265,879)	6,848,538,720

The geographical distribution of assets and liabilities is disclosed in Note 41.

Distribution of profit or loss by segment:

	Year Ended December 31, 2017					
	Corporate Banking	Retail Banking	Treasury	Private Banking	Others	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Net interest income	48,711,338	56,890,734	69,322,130	(11,815,446)	5,643,895	168,752,651
Net commission income	5,261,559	19,017,008	(582,443)	1,420,419	564,371	25,680,914
Net interest and other gain /(loss) on investments at FVTPL	-	-	4,969,576	-	-	4,969,576
Other operating and non-operating income	45,255	92,812	2,932,624	628,972	907,111	4,606,774
Net impairment on loans and advances to customers	(7,508,295)	(3,227,238)	-	-	7,719,788	(3,015,745)
Other (expense) / income - Net	(12,141,414)	(81,199,843)	(21,185,462)	(3,734,922)	2,448,205	(115,813,436)
Income tax expense	(3,069,115)	(2,484,040)	-	(1,549,979)	(9,675,287)	(16,778,421)
	31,299,328	(10,910,567)	55,456,425	(15,050,956)	7,608,083	68,402,313
Inter-segment	(6,703,658)	(4,463,135)	(10,896,664)	(1,544,641)	23,608,098	-
Residual net income	24,595,670	(15,373,702)	44,559,761	(16,595,597)	31,216,181	68,402,313

	Year Ended December 31, 2016					
	Corporate Banking	Retail Banking	Treasury	Private Banking	Others	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Net interest income	50,032,426	67,741,491	22,714,992	(4,367,911)	19,001,982	155,122,980
Net commission income	6,262,528	17,245,306	(560,070)	1,805,901	(126,797)	24,626,868
Net interest and other gain /(loss) on investments at FVTPL	-	-	8,534,320	-	-	8,534,320
Other operating and non-operating income	50,709	34,651	28,434,531	776,409	665,889	29,962,189
Net impairment on loans and advances to customers	(979,359)	(568,806)	-	-	162,855	(1,385,310)
Other (expense) / income - Net	(21,759,296)	(75,057,058)	(5,412,221)	(3,703,281)	(25,968,602)	(131,900,458)
Income tax expense	-	-	-	-	(18,028,472)	(18,028,472)
	33,607,008	9,395,584	53,711,552	(5,488,882)	(24,293,145)	66,932,117
Inter-segment	(6,703,658)	(4,463,135)	(10,896,664)	(1,544,641)	23,608,098	-
Residual net income	26,903,350	4,932,449	42,814,888	(7,033,523)	(685,047)	66,932,117

1- Management of Credit Risk

The Board of Directors has the responsibility to approve the general credit policy as recommended by the Credit Committee.

The Credit Committee has the responsibility for the development of the credit function strategy and implementing principles, frameworks, policies and limits.

2- Measurement of Credit Risk

(a) Loans and advances to customers

The commercial and consumer credit extension divisions manage credit risk based on the risk profile of the borrower, repayment source and the nature of the underlying collateral given current events and conditions.

Assessment of the credit risk profile of an individual counterparty is based on an analysis of the borrower's financial position in conjunction with current industry, economic and macro geopolitical trends. As part of the overall credit risk assessment of a borrower, each credit exposure or transaction is assigned a risk rating and is subject to the Credit Committee's approval based on defined credit approval standards. Subsequent to loan origination, risk ratings are adjusted on an ongoing basis, if necessary, to reflect changes in the obligor's financial condition, cash flows or ongoing financial viability.

The Bank assesses the probability of default of individual counterparties and classifies these commitments to reflect the probability of default as listed below:

Watch List: Debts that are not impaired but for which management determines that they require special monitoring due to a deficiency in the credit file regarding collateral, financial position or profitability.

Past due but not impaired: Debts where contractual interest or principal are past due but management believes that classification as impaired is not appropriate on the basis of the level of collateral available and the stage of collection of amounts owed.

Rescheduled debts: Debts that have been restructured after they have been classified as substandard or doubtful and where the Bank has made concessions that it would not otherwise consider. Once a loan is restructured, the last classification as substandard or doubtful does not change.

Substandard debts: Debts that have characteristics such as significant deterioration in profitability and cash flows for a long period and in collateral, the occurrence of recurring delays in settlement of maturing payments, or which facilities are not utilized for the purpose they were intended for.

Doubtful or bad debts: Debts that have the characteristics of substandard debts, in addition to being considered to be at a higher degree of risk due to the continued deterioration of the debtor's situation and the adequacy of collateral, the discontinuity of deposit movement or repayment, or no respect of the maturities of the rescheduling of the debt for a period exceeding 3 months from maturity date. The debt becomes bad when the expected amount to be collected is nil or negligible.

39. COLLATERAL GIVEN

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

	December 31,				
	2017				2016
		Corresponding Facilities			
	Amount of Pledged Assets LBP'000	Maturity Date LBP'000	Amount of Facility LBP'000	Nature of Facility	Amount of Pledged Assets LBP'000
Lebanese treasury bills	17,734,000	March 21, 2019	17,734,000	Soft loan from Central Bank of Lebanon	17,734,000
Lebanese Government bonds	301,500,000	July 1, 2018	301,500,000	Exemption of regulatory Reserve with Central Bank of Lebanon	301,500,000
Lebanese treasury bills	338,512,320	Revolving	396,163,236	Facilities from Central Bank of Lebanon	387,050,712
Term placement with Central Bank of Lebanon	43,141,110	Revolving	43,141,110	Soft leverage arrangement from Central Bank of Lebanon	-
Lebanese treasury bills	47,838,390	Revolving	47,838,390	Soft leverage arrangement from Central Bank of Lebanon	-

40. FINANCIAL RISK MANAGEMENT

In the ordinary course of business, the Bank is exposed to various risks which are managed and maintained by applying its own processes of identification, measurement and monitoring.

A. Credit Risk

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

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

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

The Bank writes off a loan / security balance (and any related allowances for impairment losses) when it determines it will not be collectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower issuer's financial position such as the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure or financial instrument.

(b) Debt securities

The risk of the debt instruments included in the investment portfolio relates mainly to sovereign risk.

3- Risk Mitigation Policies

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

- Pledged deposits
- Mortgages over real estate properties (land, commercial and residential properties)
- Bank guarantees

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

(a) Financial assets with credit risk exposure and related concentrations

Exposure to credit risk and concentration by counterparty:

The tables below reflect the Bank's exposure to credit risk by counterparty segregated between the categories of deposits with banks and financial institutions and loans and advances:

(a.1) Distribution of deposits with banks and financial institutions by brackets:

	December 31,					
	2017			2016		
	Balance	% to Total	No. of Counterparties	Balance	% to Total	No. of Counterparties
	LBP'000	%		LBP'000	%	
Less than LBP5billion	30,395,741	20	34	15,778,587	4	26
From LBP5billion to LBP15billion	45,243,916	29	6	75,347,436	18	8
From LBP15billion to LBP30billion	38,121,643	24	2	51,411,950	13	3
From LBP30billion to LBP50billion	43,109,170	27	1	264,607,691	65	5
	156,870,470	100	43	407,145,664	100	42

(a.2) Distribution of performing loans and advances to customers by brackets (regular and watch list):

	December 31,					
	2017			2016		
	Balance	% to Total	No. of Counterparties	Balance	% to Total	No. of Counterparties
	LBP'000	%		LBP'000	%	
Less than LBP0.5billion	1,184,971,965	52	47,693	1,122,536,767	51	48,181
From LBP0.5billion to LBP1.5billion	238,655,481	10	287	214,805,030	10	265
More than LBP1.5billion	889,435,721	38	144	847,286,448	39	145
	2,313,063,167	100	48,124	2,184,628,245	100	48,591

(a.3) Details of the Bank's exposure to credit risk with respect to loans and advances to customers:

	December 31, 2017			Carrying Values of Collaterals Received							
	Gross Exposure Net of Unrealized Interest and Discount LBP'000	Allowance for Impairment LBP'000	Net Exposure LBP'000	Pledged Funds LBP'000	Bank Guarantees LBP'000	First and Second Degree Mortgage on Properties LBP'000	Equity Securities LBP'000	Debt Securities LBP'000	Others LBP'000	Total Guarantees LBP'000	Lesser of Individual Exposure or Total Guarantees LBP'000
Performing	2,313,063,167	-	2,313,063,167	279,610,809	62,776,873	1,229,506,900	2,819,025	286,425	604,975,884	2,179,975,916	1,548,923,830
Substandard	27,327,907	-	27,327,907	303,833	516,746	21,203,541	-	-	5,867,702	27,891,822	24,069,321
Doubtful	108,891,193	(38,407,202)	70,483,991	285,744	4,616,744	56,651,950	-	-	5,673,495	67,227,933	62,128,877
Loss	44,618,319	(44,616,137)	2,182	52,619	1,399,700	274,898	-	-	16,299,831	18,027,048	10,255,766
Loan portfolio purchased	2,153,152	-	2,153,152	-	-	-	-	-	-	-	2,153,152
Collective provision	-	(186,630)	(186,630)	-	-	-	-	-	-	-	-
	2,496,053,738	(83,209,969)	2,412,843,769	280,253,005	69,310,063	1,307,637,289	2,819,025	286,425	632,816,912	2,293,122,719	1,647,530,946

	December 31, 2016			Carrying Values of Collaterals Received							
	Gross Exposure Net of Unrealized Interest and Discount LBP'000	Allowance for Impairment LBP'000	Net Exposure LBP'000	Pledged Funds LBP'000	Bank Guarantees LBP'000	First and Second Degree Mortgage on Properties LBP'000	Equity Securities LBP'000	Debt Securities LBP'000	Others LBP'000	Total Guarantees LBP'000	Lesser of Individual Exposure or Total Guarantees LBP'000
Regular loans and advances	2,184,628,245	-	2,184,628,245	299,074,231	69,599,669	1,169,419,619	3,587,850	211,050	524,428,547	2,066,320,966	1,490,226,233
Substandard	32,875,990	-	32,875,990	158,282	1,141,686	23,150,750	-	-	7,733,042	32,183,760	26,513,511
Doubtful	89,317,114	(32,947,548)	56,369,566	60,390	3,726,844	75,143,410	-	-	10,571,247	89,501,891	80,629,954
Loss	41,660,001	(41,660,001)	-	78,776	1,448,756	2,330,927	-	-	25,838,280	29,696,739	11,857,428
Loan portfolio purchased	2,148,399	-	2,148,399	-	-	-	-	-	-	-	2,148,399
Collective provision	-	(5,861,107)	(5,861,107)	-	-	-	-	-	-	-	-
	2,350,629,749	(80,468,656)	2,270,161,093	299,371,679	75,916,955	1,270,044,706	3,587,850	211,050	568,571,116	2,217,703,356	1,611,375,525

Overdue but not impaired loans as at December 31, 2017 and 2016 are as follows:

	December 31, 2017 LBP'000	December 31, 2016 LBP'000
Between 60 and 90 days	27,352,000	14,788,000
Between 90 and 180 days	44,006,000	25,467,000
Between 180 and 360 days	7,570,000	41,623,000
Over 360 days	1,450,000	524,000
	80,378,000	82,402,000

(a.4) Concentration of major financial assets and liabilities by geographical location:

December 31, 2017	Lebanon LBP'000	Middle East and Africa LBP'000	North America LBP'000	Europe LBP'000	Other LBP'000	Total LBP'000
FINANCIAL ASSETS						
Cash and Central Bank	1,373,505,926	-	-	-	-	1,373,505,926
Deposits with banks and financial institutions	15,787,593	3,820,329	25,575,088	110,697,796	989,664	156,870,470
Loan to a bank	3,528,263	-	-	-	-	3,528,263
Loans and advances to customers	2,332,431,803	61,029,832	5,482,148	11,939,337	1,960,649	2,412,843,769
Investments at fair value through profit or loss	98,725,319	-	-	31,843,150	-	130,568,469
Investments at amortized cost	3,117,312,491	-	-	-	-	3,117,312,491
Investments at fair value through other comprehensive income	15,438,093	-	-	-	-	15,438,093
Total	6,956,729,488	64,850,161	31,057,236	154,480,283	2,950,313	7,210,067,481
FINANCIAL LIABILITIES						
Deposits from banks	51,721,255	23,654,049	9,097	5,043,047	-	80,427,448
Customers' accounts	4,855,042,983	595,260,713	93,820,838	313,229,423	50,850,138	5,908,204,095
Other borrowings	505,487,517	5,861,223	-	-	-	511,348,740
Total	5,412,251,755	624,775,985	93,829,935	318,272,470	50,850,138	6,499,980,283

December 31, 2016	Lebanon LBP'000	Middle East and Africa LBP'000	North America LBP'000	Europe LBP'000	Other LBP'000	Total LBP'000
ASSETS						
Cash and Central Bank	1,199,067,440	-	-	-	-	1,199,067,440
Deposits with banks and financial institutions	58,360,151	1,128,089	95,569,974	249,700,723	2,386,727	407,145,664
Loan to a bank	4,233,915	-	-	-	-	4,233,915
Investments at fair value through profit or loss	90,410,124	-	-	8,337,537	-	98,747,661
Loans and advances to customers	2,199,389,211	50,681,622	4,017,049	13,845,992	2,227,219	2,270,161,093
Investments at amortized cost	3,318,749,775	-	-	-	-	3,318,749,775
Investments at fair value through other comprehensive income	17,260,682	-	-	-	-	17,260,682
Total	6,887,471,298	51,809,711	99,587,023	271,884,252	4,613,946	7,315,366,230
LIABILITIES						
Deposits from banks	42,890,915	38,548,325	8,458	338,454	-	81,786,152
Customers' accounts	4,752,798,926	580,697,028	95,195,647	614,216,573	58,152,597	6,101,060,771
Other borrowings	404,922,082	5,681,939	-	770,799	-	411,374,820
Total	5,200,611,923	624,927,292	95,204,105	615,325,826	58,152,597	6,594,221,743

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

The directors consider that the carrying amounts of cash, compulsory and other short term deposits with Central Bank, deposits from banks and accounts payable approximate their fair values due to the short-term maturities of these instruments. For customers' accounts, this is largely due to their short-term contractual maturities.

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:

Financial instruments	Date of valuation	Valuation technique and Key input	Significant unobservable inputs
Lebanese treasury bills	31-Dec-16&17	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bills, adjusted for illiquidity.	N/A
Foreign Eurobonds	31-Dec-16&17	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bills, adjusted for illiquidity.	N/A
Certificates of deposit in LBP issued by Central Bank of Lebanon	31-Dec-16&17	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bills, adjusted for illiquidity.	N/A
Certificates of deposit in foreign currencies issued by Central Bank of Lebanon	31-Dec-16&17	DCF at discount rates determined based on observable yield curves at the measurement date.	N/A
Lebanese Government bonds	31-Dec-16&17	DCF at discount rates determined based on the yield on USA treasury bills and the Credit Default Swap applicable to Lebanon subject to illiquidity factor	N/A
Term placements with Central Bank of Lebanon	31-Dec-16&17	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
Mutual fund	31-Dec-16&17	Net earnings of the fund	Net earnings
Bancassurance S.A.L.	31-Dec-16&17	Multiple earnings	4.5 times earnings
Other unquoted equities at fair value through other comprehensive income	31-Dec-16&17	N/A	N/A
Other borrowings	31-Dec-16&17	DCF at discount rates determined based on the average rate of return of the payables bearing fixed interest rate for more than one year	N/A

44. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank carries on transactions with subsidiaries and related parties, balances of which are disclosed in the statement of financial position and in Notes 6, 8, 11, 17 and 18 and in the statement of profit or loss in Notes 26, 27, 32, and 33.

Remuneration to executive management paid during 2017 amounted to LBP4.3billion (LBP4.4billion in 2016).

45. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements for the year ended December 31, 2017 were approved by the Board of Directors in its meeting held on May 8, 2018.