BANQUE BEMO S.A.L.

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

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INDEPENDENT AUDITORS' REPORT

To the Shareholders
Banque Bemo S.A.L.
Beirut, Lebanon

Opinion

We have audited the accompanying consolidated financial statements of Banque Bemo S.A.L. (the "Bank") and its subsidiaries (the "Group") , which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017, and its consolidated financial performance and its consolidated 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 consolidated Financial Statements section of our report. We are independent of the Group 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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	How our audit addressed the key audit matter
Impairment of loans and advances	
The calculation of the impairment of the loans and advances portfolio is inherently judgmental as it involves significant subjective assumptions made by the management of the Group. Due to the significance of the loans and advances portfolio and the related uncertainty estimation associated to the impairment determination, this is considered a key audit matter. The majority of the Group's loans and advances consists of corporate loans. Management monitors and performs an impairment assessment of the loans and advances portfolio on an individual basis and provides for impaired loans; and for those loans that are considered to be unimpaired, Management performs an assessment of impairment on a collective basis after segregating the loans portfolio into groups of loans with similar characteristics. The assessment on an individual basis relies on management's knowledge of each debtor. The loan portfolios that give rise to the greatest uncertainty are typically those where impairment is derived from models for collective assessment which are subject to Management's assumptions with respect to industry risk factors, economic outlook as well as collateral fair value and shortfalls.	The risks outlined were addressed as follows: We tested the design and operating effectiveness of the relevant controls that Management has put in place to identify which loans and advances are potentially impaired on an individual basis and the impairment loss setup against these loans. These tests included testing of: • Both system-based and manual controls over the timely recognition of impaired loans and advances; • Controls over the impairment calculation models, including data inputs; and • Controls over collateral valuation estimates. For impairment allowances against collectively assessed loans and advances, we critically assessed Management's assumptions, and estimations, in particular with respect to the inputs into the impairment model, the industry risk factors, and economic factors, and historical default rates. For non-performing loans, we tested the valuation model used by Management to determine the expected recoverable amount, including testing the expected future cash flows, the collateral value and the rate used to discount these to the present. We examined a sample of loans and advances, which had not been identified by management as potentially impaired and formed our own judgement as to whether that was appropriate.

Other Information

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

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

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

The signing partners in charge of the audit resulting in this independent auditors' report are Nada Maalouf for Deloitte & Touche and Alfred Nehme for DFK Fiduciaire du Moyen Orient.

Beirut, Lebanon
May 11, 2018

DFK Fiduciaire du Moyen Orient

Deloitte & Touche

BANQUE BEMO S.A.L.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS	Notes	December 31, 2017 LBP'000	December 31, 2016 LBP'000
Cash and deposits with central banks	5	632,223,225	549,560,119
Deposits with banks and financial institutions	6	138,763,737	298,217,095
Financial assets at fair value through profit or loss	7	24,720,123	85,253,068
Loans to banks and financial institutions	8	12,838,776	17,512,310
Loans and advances to customers	9	1,148,538,468	1,037,927,223
Loans and advances to related parties	10	1,084,478	2,646,345
Investment securities	11	627,158,929	594,523,821
Customers' liability under acceptances	12	12,779,303	6,936,955
Investments in an associate	13	20,994,413	18,052,156
Assets acquired in satisfaction of loans	14	2,073,984	2,046,944
Property and equipment	15	32,957,002	23,967,744
Intangible assets	16	1,185,319	981,680
Other assets	17	11,122,554	12,924,894
Total Assets		2,666,440,311	2,650,550,354
FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK:	41		
Documentary and commercial letters of credit		14,729,004	31,295,824
Guarantees and standby letters of credit		126,423,165	90,464,323
Forward exchange contracts		284,675,052	246,224,821
FIDUCIARY DEPOSITS AND ASSETS UNDER MANAGEMENT	42	77,443,805	51,041,716

THE ACCOMPANYING NOTES 1 TO 51 FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

BANQUE BEMO S.A.L.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Continued)

LIABILITIES	Notes	December 31, 2017 LBP'000	December 31, 2016 LBP'000
Deposits and borrowings from banks and financial institutions	18	115,132,672	126,651,112
Customers' accounts at amortized cost	19	1,993,088,452	2,078,192,028
Related parties' accounts at amortized cost	20	88,217,680	110,953,534
Acceptance liability	12	12,779,303	6,936,955
Other term borrowings	21	69,534,833	9,315,863
Other liabilities	22	24,581,603	30,860,467
Provisions	23	8,427,265	7,496,647
		2,311,761,808	2,370,406,606
Subordinated bonds	24	91,830,511	37,687,500
Total liabilities		2,403,592,319	2,408,094,106
EQUITY			
Share capital	25	62,248,000	62,248,000
Treasury shares	25	(3,179,389)	(2,931,915)
Preferred shares	26	52,641,854	52,641,854
Shareholders' cash contribution to capital	27	29,104,984	29,104,984
Reserves	28	56,143,182	50,065,272
Retained earnings		36,625,566	27,384,124
Currency translation adjustment	13	450,312	-
Change in fair value of investment securities	13	1,030,666	-
Profit for the year	30	27,782,456	23,842,788
Equity attributable to the shareholders of the bank		262,847,631	242,355,107
Non-controlling interests	29	361	101,141
Total equity		262,847,992	242,456,248
Total Liabilities and Equity		2,666,440,311	2,650,550,354

THE ACCOMPANYING NOTES 1 TO 51 FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

BANQUE BEMO S.A.L.
CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	Year Ended December 31, 2017 LBP'000	Year Ended December 31, 2016 LBP'000
Interest income	32	124,311,272	116,755,051
Tax on interest	3T	(113,494)	-
Interest expense	33	(82,349,250)	(79,240,335)
Net interest income		41,848,528	37,514,716
Fee and commission income	34	9,945,639	20,175,935
Fee and commission expense	35	(363,587)	(309,957)
Net fee and commission income		9,582,052	19,865,978
Net interest and other gains on financial assets at fair value through profit or loss	36	8,407,866	4,606,999
Gain on exchange		4,405,968	2,856,686
Other operating income, (net)	37	9,422,662	6,644,722
Net financial revenues		73,667,076	71,489,101
Allowance for impairment of loans and advances and other receivables, (net)	9,17	(16,191)	(1,605,560)
Net financial revenues after net impairment charge		73,650,885	69,883,541
Staff costs	38	(24,468,539)	(22,620,527)
Administrative expenses	39	(15,559,442)	(15,684,416)
Depreciation and amortization	15,16	(1,872,522)	(1,518,618)
Other income/(expense)		443,348	(1,524,478)
		(41,457,155)	(41,348,039)
Profit before income tax		32,193,730	28,535,502
Income tax expense	22	(4,411,264)	(4,790,192)
Profit for the year	30	27,782,466	23,745,310
Attributable to:			
Equity holders of the Group		27,782,456	23,842,788
Non-controlling interests		10	(97,478)
		27,782,466	23,745,310
Basic and diluted earning per shares	40	393/1	328/28

THE ACCOMPANYING NOTES 1 TO 51 FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

BANQUE BEMO S.A.L.
CONSOLIDATED 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		27,782,466	23,745,310
Other comprehensive income ("OCI"):			
Items that may be reclassified subsequently to profit or loss:			
Gain/(loss) arising from currency translation adjustment	13	450,312	(667,529)
Change in fair value of investment securities		1,030,666	-
Net other comprehensive income/(loss) for the year		1,480,978	(667,529)
Total comprehensive income for the year		29,263,444	23,077,781
Attributable to:			
Equity holders of the Group		29,263,434	23,175,259
Non-controlling interests	29	10	(97,478)
		29,263,444	23,077,781

THE ACCOMPANYING NOTES 1 TO 51 FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

BANQUE BEMO S.A.L.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Equity Attributable to the Bank															
	Capital	Treasury Shares	Preferred Shares	Shareholders' Cash Contribution to Capital	Legal Reserve	Reserve for General Banking Risks	Other Reserves	General Reserves	Reserve for Assets Acquired in Satisfaction of Loans	Currency Translation Adjustment	Change in Fair Value of Investment Securities	Retained Earnings	Profit for the Year	Total	Non-Controlling Interest	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Balance at January 1, 2016	62,248,000	(2,696,018)	52,641,854	29,104,984	5,048,091	26,523,875	5,700,443	1,500,000	767,610	(23,440,267)	-	25,795,153	19,490,701	202,684,426	198,619	202,853,045
Total comprehensive income	-	-	-	-	-	-	-	-	-	(667,529)	-	-	23,842,788	23,175,259	(97,478)	23,077,781
Allocation of income for the year 2015	-	-	-	-	1,798,012	5,380,160	690,234	2,554,500	102,347	-	-	8,965,448	(19,490,701)	-	-	-
Dividends paid (Note 31)	-	-	-	-	-	-	-	-	-	-	-	(7,376,477)	-	(7,376,477)	-	(7,376,477)
Acquisition of treasury shares (net) (Note 25)	-	(235,897)	-	-	-	-	-	-	-	-	-	-	-	(235,897)	-	(235,897)
Offset (Note 13)	-	-	-	-	-	-	-	-	-	24,107,796	-	-	-	24,107,796	-	24,107,796
Balance at December 31, 2016	62,248,000	(2,931,915)	52,641,854	29,104,984	6,846,103	31,904,035	6,390,677	4,054,500	869,957	-	-	27,384,124	23,842,788	242,355,107	101,141	242,456,248
Total comprehensive income	-	-	-	-	-	-	-	-	-	450,312	-	-	27,782,456	28,232,768	361	28,233,129
Allocation of income for the year 2016	-	-	-	-	2,264,086	3,647,665	-	15,000	151,159	-	-	17,764,878	(23,842,788)	-	-	-
Dividends paid (Note 31)	-	-	-	-	-	-	-	-	-	-	-	(8,599,028)	-	(8,599,028)	-	(8,599,028)
Acquisition of treasury shares (net) (Note 25)	-	(247,474)	-	-	-	-	-	-	-	-	-	-	-	(247,474)	-	(247,474)
Other movements (Note 13)	-	-	-	-	-	-	-	-	-	-	-	75,592	-	75,592	-	75,592
Change in fair value of investment securities (Note 13)	-	-	-	-	-	-	-	-	-	-	1,030,666	-	-	1,030,666	-	1,030,666
Minority interest of Bemo Investment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(101,141)	(101,141)
Balance at December 31, 2017	62,248,000	(3,179,389)	52,641,854	29,104,984	9,110,189	35,551,700	6,390,677	4,069,500	1,021,116	450,312	1,030,666	36,625,566	27,782,456	262,847,631	361	262,847,992

THE ACCOMPANYING NOTES 1 TO 51 FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

BANQUE BEMO S.A.L.
CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Year Ended December 31, 2017 LBP'000	2016 LBP'000
Cash flows from operating activities:			
Profit before tax		32,193,730	28,535,502
Adjustments to reconcile profit to net cash (used in)/provided by operating activities:			
Depreciation and amortization	15,16	1,872,522	1,518,618
Provision for contingencies	23	887,725	1,976,728
Write back of provision for contingencies	23	(1,151,073)	(452,250)
Assets acquired in satisfaction of loans		(27,040)	-
Allowance for impairment of loans and advances and other receivables, (net)	9,17	(16,191)	1,605,560
Non-controlling interests		(100,790)	-
Provision for employees' end-of-service indemnities	23	1,264,184	941,970
Unrealized (gain)/loss on financial assets at fair value through profit or loss	36	(1,551,297)	2,721,584
Equity income from investment in associates	37	(1,385,715)	(1,074,343)
Gain from sale of property and equipment		(44,777)	(1,947)
(Increase)/decrease in deposits with banks and financial institutions		(80,364,427)	29,051,215
Decrease in loans to banks and financial institutions		4,673,534	31,355,173
Decrease/(increase) in trading assets at fair value through profit or loss		62,084,242	(62,274,002)
(Increase)/decrease in investment securities		(32,635,108)	44,031,843
Increase in loans and advances to customers and related parties		(109,033,187)	(23,766,024)
Net decrease/(increase) in other assets		1,815,433	(4,968,615)
Increase in non-interest earning compulsory reserve and deposits with central banks		30,161,086	2,444,170
Increase in due to banks and financial institutions		48,700,530	17,084,578
(Decrease)/increase in customers' and related parties ' deposits at amortized cost		(107,839,430)	150,194,139
Net (decrease)/increase in other liabilities		(4,319,106)	42,754,099
Net increase/(decrease) in provisions		46,946	(3,127)
Settlements of provision for contingencies	23	(108,423)	(58,755)
Settlement of employees' end-of-service indemnity	23	(21,834)	(950,444)
Taxes paid		(6,371,022)	(6,086,461)
Net cash (used in)/provided by operating activities		(161,269,460)	254,579,211
Cash flows from investing activities:			
Acquisition of treasury shares (net)		(247,474)	(235,897)
Property and equipment	15	(10,570,902)	(8,542,556)
Proceeds from sale of property and equipment		83,398	75,734
Intangible assets	16	(533,138)	(683,068)
Net cash used in investing activities		(11,268,116)	(9,385,787)
Cash flows from financing activities:			
Dividends paid	31	(8,599,028)	(7,376,477)
Subordinated bonds	24	54,143,011	-
Net cash provided by/(used in) financing activities		45,543,983	(7,376,477)
Net (decrease)/increase in cash and cash equivalents		(126,993,593)	237,816,947
Cash and cash equivalents - Beginning of year		433,378,757	195,561,810
Cash and cash equivalents - End of year	44	306,385,164	433,378,757

THE ACCOMPANYING NOTES 1 TO 51 FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Banque Bemo S.A.L. (the "Bank") is a Lebanese joint-stock company listed on the Beirut Stock Exchange and registered in the Commercial Register under Number 17837 and on the list of banks published by the Central Bank of Lebanon under Number 93. The Bank's headquarters are located in Beirut.

The Bank provides a full range of commercial, corporate and private banking activities through a network of 8 branches in Lebanon in addition to a branch in Limassol, Cyprus.

Banque Bemo S.A.L. is owned by Sharikat AL Istismarat Al Oropia Lil Shareq Al Aousat (Holding) S.A.L. to the extent of 61.06%.

These financial statements comprise the financial statements of the Bank and its subsidiaries (collectively referred to as the "Group") Refer to Note 3(A).

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 Group 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 utilise a deductible temporary difference.

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

Amendments to IAS 7 *Disclosure Initiative*

The Group 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.

Annual Improvements to IFRS Standards 2014–2016 Cycle – Amendments to IFRS 12

The Group has applied the amendments to IFRS 12 included in the Annual Improvements to IFRSs 2014-2016 Cycle for the first time in the current year. The other amendments included in this package are not yet mandatorily effective and they have not been early adopted by the Group (see note 2.2).

IFRS 12 states that an entity need not provide summarised financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests.

The application of these amendments has had no effect on the Group's consolidated financial statements as none of the Group's interests in these entities are classified, or included in a disposal group that is classified, as held for sale.

2.2 New and revised IFRS in issue but not yet effective

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

New and revised IFRSs	Effective for annual periods beginning on or after
Annual Improvements to IFRS Standards 2014 – 2016 Cycle amending IFRS 1 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*	January 1, 2018

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.

New and revised IFRSs	Effective for annual periods beginning on or after
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
IFRS 9 *Financial Instruments* (revised versions in 2010, 2013 and 2014) IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. The Group 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.	January 1, 2018
Amendments to IFRS 9 *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 amortised 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 9 Financial Instruments

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 Group plans to adopt the new standard on the required effective date.

In accordance with the transition provisions of IFRS 9 (2014), the Group 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 Group is only permitted to restate comparatives if, an only if, it is possible without the use of hindsight. The Group will not restate comparatives as it does not consider it possible to do so without the use of hindsight.

During 2017, the Group 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 Group in 2018 when the Group will adopt IFRS 9. Overall, the Group expects no significant impact on its statement of financial position and equity except for the effect of applying the impairment requirements of IFRS 9. The Group expects an increase in the loss allowance resulting in a negative impact on equity as discussed below:

Classification and measurement	The Group 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 Group 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 Group does not expect a material impact on the classification of the Group's financial assets nor their carrying values.

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 Group 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 Group 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 Group existing risk management processes.

The Group's 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. The Group has 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.
3. 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 The Group's 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 Group must consider the maximum contractual period over which the Group 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 Group 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, the Group has 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 Group's statement of financial position and equity is discussed below.

Hedge accounting

IFRS 9 also incorporates new hedge accounting rules that intend to align hedge accounting with risk management practices. IFRS 9 does not cover guidance on macro hedge accounting as IASB is working on it as a separate project. IFRS 9 includes an accounting policy choice to defer the adoption of IFRS 9 hedge accounting and to continue with IAS 39 hedge accounting. The Group, however, has elected to adopt the new hedge accounting provisions of IFRS 9.

The Group does not have hedging relationships.

Financial instruments: disclosures (IFRS 7)

The Group 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.

Furthermore, in accordance with Central Bank of Lebanon's basic circular 143 dated 7 November 2017, the Group 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 recognition of Expected Credit Losses
	LL million
Assets	
Cash and balances with central banks	2,094
Due from banks and financial institutions	365
Loans and advances to customers at amortized cost	2,098
Financial assets at amortized cost	1,128
	5,685
Liabilities	
Regulatory deferred liability	(6,328)
Loans and advances to customers at amortized cost (Unutilized)	34
Guarantees	609
	(5,685)

Management considers that there is no impact of the IFRS 9 transitional adjustments on equity.

The excess of the regulatory deferred liability in the amount of LBP4.63billion will be used according to the directives of the Intermediary Circular member 446 issued by the Central Bank of Lebanon (Refer to Note 22).

The Group 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
IFRS 15 *Revenue from Contracts with Customers*	January 1, 2018

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.

Amendments to IFRS 15 *Revenue from Contracts* with Customers to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.	January 1, 2018
IFRS 16 *Leases*	January 1, 2019

IFRS 16 specifies how an IFRS reporter will 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.

New and revised IFRSs	Effective for annual periods beginning on or after
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*	January 1, 2021
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.	

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group 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 Group in the period of initial application.

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

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

Basis of Preparation and Measurement

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

- Financial assets and liabilities at fair value through profit or loss are measured at fair value.
- Equity securities at fair value through other comprehensive income are measured at fair value.
- Derivative financial instruments are measured at fair value.

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

The principal accounting policies adopted are set out below:

A. Basis of Consolidation:

The consolidated financial statements of Banque Bemo S.A.L. incorporate the financial statements of the Bank and the entities controlled by the Bank and its subsidiaries.

Control is achieved when the Bank:

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

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

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

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

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

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

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

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

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

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

The consolidated subsidiaries as at December 31, 2017 comprise:

Company	Country of Incorporation	Date of Acquisition or Incorporation	Percentage of Ownership 2017 %	Percentage of Ownership 2016 %	Business Activities
Bemo Securitization S.A.L.	Lebanon	1998	96.00	96.00	Securitization & Structured Finance
Depository & Custody Company S.A.L.	Lebanon	2007	99.90	99.90	Depository and custody of securities
Bemo Investment Firm Ltd.	Dubai	2013	100	75.00	Investment

During December 2016, the wholly owned subsidiary, Ferticed Limited Holding was liquidated.

B. Business Combinations:

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

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

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. When the excess is negative the group re-assess whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, these the gain is recognized in profit or loss.

Non-controlling interests in the net assets (excluding goodwill) of consolidated subsidiaries and associates are identified separately from the Group's equity therein.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

C. Foreign Currencies:

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

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

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

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into U.S. Dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate). Such exchange differences are recognized in profit or loss in the period in which the foreign operation is disposed of.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognized in profit or loss.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognized in equity.

Cash flows provided by and used in foreign currencies under various activities, as included in the statement of cash flows, are converted into Lebanese Pounds at year-end exchange rates, except for cash and cash equivalents at the beginning of the year which is converted at the prior year closing exchange exchange rates and the effect of currency fluctuation, if any, is disclosed separately.

D. Financial Assets and Liabilities:

Recognition and Derecognition of Financial Assets and Liabilities:

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

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

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

On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

Upon derecognition of a financial asset that is classified as fair value through other comprehensive income, the cumulative gain or loss previously accumulated in the investments revolution reserve is not reclassified to profit or loss, but is reclassified to retained earnings.

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

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

Repurchase and Reverse Repurchase Agreements:

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

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

Offsetting:

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

Fair Value Measurement of Financial Instruments:

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

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

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

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

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

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

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

Impairment of Financial Assets:

Financial assets that are measured at amortized cost are assessed for impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the asset have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it is becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- the disappearance of an active market for that financial asset because of financial difficulties; or
- significant or prolonged decline in fair value beyond one business cycle that occurred after the initial recognition of the financial asset or group of financial assets which impacted the estimated future cash flows of the investment.

For certain categories of financial asset, such as loans and advances, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. This provision is estimated based on various factors including credit ratings allocated to a borrower or group of borrowers, the current economic conditions, the experience the Group has had in dealing with a borrower or group of borrowers and available historical default information, as well as observable changes in national or local economic conditions that correlate with default on loans and advances.

The amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows reflecting the amount of collateral and guarantee, discounted at the financial asset's original effective interest rate.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Collateral Valuation:

The Group seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, other non-financial assets and credit enhancements such as netting agreements. The fair value of collateral is generally assessed, at a minimum, at inception and periodically updated based on the Group's policies and type of collateral.

To the extent possible, the Group uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties, such as independent accredited experts and other independent sources.

E. Classification of Financial Assets:

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

Debt Instruments:

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

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

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

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

Equity Instruments:

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

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

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

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

A financial asset is held for trading if:

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

Reclassification:

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

Reclassification is not allowed where:

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

Designation at Fair Value through Profit and Loss:

The Group designates financial assets and liabilities at fair value through profit or loss when either:

- The assets or liabilities are managed, evaluated and reported internally on a fair value basis; or
- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- The asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

F. Loans and Advances:

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

G. Financial Liabilities and Equity Instruments Issued by the Group:

Classification as Debt or Equity:

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

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

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

Financial Liabilities at Fair Value Through Profit or Loss:

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

A financial liability is classified as held for trading if:

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

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

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

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

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

Financial Liabilities Subsequently Measured at Amortized Cost:

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

Financial Guarantee Contract Liabilities:

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

Financial guarantee contract liabilities are measured initially at their fair values and, if not designated at FVTPL, are subsequently measured at the higher of:

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

H. Derivative Financial Instruments:

Derivative financial instruments including foreign exchange contracts, currency and interest rate swaps, (both written and purchased) are initially measured at fair value at the date the derivative contract is entered into and are subsequently re-measured to their fair value at each statement of financial position date. All derivatives are carried at their fair value as assets where the fair value is positive and as liabilities where the fair value is negative. The resulting gain or loss is recognized in the income statement immediately unless the derivative is designated and effective as a hedge instrument in which event the timing of the recognition in the statement of profit or loss depends on the hedge relationship. The Group designates certain derivatives as either hedges of the fair value recognized assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations.

Fair values are generally obtained by reference to quoted market prices, discounted cash flow models or pricing models as appropriate as indicated under Note 3D.

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 Group makes use of derivative instruments to manage exposures to interest rate, foreign currency and credit risks, including exposures arising from forecast transactions and firm commitments. In order to manage particular risks, the Group applies hedge accounting for transactions which meet the specified criteria.

At inception of the hedge relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis and demonstrate that it was effective (retrospective effectiveness) for the designated period in order to qualify for hedge accounting. A formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item, both at inception and at each quarter end on an ongoing basis. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125% and are expected to achieve such offset in future periods. Hedge ineffectiveness is recognized in the consolidated statement of profit or loss in "Net results on financial instruments at fair value through profit or loss". For situations where that hedged item is a forecast transaction, the Group also assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the consolidated statement of profit or loss.

Fair Value Hedge

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

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

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 Group 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.

Hedges of Net Investments in Foreign Operations:

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in other comprehensive income and accumulated in the foreign currency translation reserve. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

Gains and losses accumulated in the foreign currency translation reserve are reclassified to profit or loss on disposal of the foreign operation.

I. Investments in Associates:

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries.

The results and assets and liabilities of associates, except where the Group has control over the associates' financial and operating policies, are incorporated in the consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for under IFRS 5 Non-current Assets Held-for-Sale and Discontinued Operations. Under the equity method, an investment in an associate is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate, the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

The entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or when the investment is classified as held for sale. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a Group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognized in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

The financial statements of the associates are prepared for the same reporting period of the Group.

J. Property and Equipment:

Property and equipment are stated at historical cost, less accumulated depreciation and impairment loss, if any.

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

	Rate %
Property	2.5
Furniture and fixtures	7.5 to 8
Equipment	10 to 12
Computer hardware	20
Installations and leasehold improvements	15 to 20
Vehicles	12 to 20

Leasehold improvements are depreciated over the shorter of the lease term and their useful lives estimated at five years.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal.

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

K. Intangible Assets:

Intangible assets are stated at cost less any accumulated impairment loss. Intangible assets, other than goodwill consist of computer software and are amortized over a period of 5 years and are subject to impairment testing.

L. Assets acquired in satisfaction of loans :

Policy applicable to Lebanese Group entities: Real estate properties acquired through the enforcement of collateral over loans and advances are stated at cost less any accumulated impairment losses. The acquisition of such assets is regulated by the local banking authorities which require the liquidation of these assets within 2 years from acquisition. In case of default of liquidation the regulatory authorities require an appropriation of a special reserve from the yearly profits reflected in equity.

Upon sale of repossessed assets, any gain or loss realized is recognized in the consolidated statement of profit or loss under "Other operating income, (net)". Gains resulting from the sale of repossessed assets are transferred to "Reserves from disposal of assets acquired in satisfaction of loans" starting in the following financial year.

For assets which were not disposed of within the specified period of two years, an amount computed as percentage of their gross carrying value is transferred from retained earnings to "Reserves for assets acquired in satisfaction of loans" in the following financial year.

M. Impairment of Tangible and Intangible Assets:

At each statement of financial position date, the carrying amounts of tangible and intangible assets are reviewed to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount is estimated in order to determine the extent of impairment provision required, if any.

Recoverable amount is defined as the higher of:

- Fair value that reflects market conditions at the statement of financial position date, less cost to sell, if any. To determine fair value, the Group adopts the market comparability approach using as indicators the current prices for similar assets in the same location and condition.
- Value in use: the present value of estimated future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life, only applicable to assets with cash generation units.

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

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

In this connection, the recoverable amount of the Group's owned properties and of properties acquired in satisfaction of debts, is the estimated market value, as determined by real estate appraisers on the basis of market compatibility by comparing with similar transactions in the same geographical area and on the basis of the expected value of a current sale between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale after adjustment for illiquidity and market constraints.

The impairment loss is charged to income.

N. Employees' Benefits:

Obligations for contributions to defined employees' benefits are recognized as an expense on a current basis.

Employees' End-of-Service Indemnities: (Under the Lebanese Jurisdiction)

The provision for staff termination indemnities is based on the liability that would arise if the employment of all the staff were terminated at the statement of financial position 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.

Defined Benefit Plans: (Under other jurisdictions)

Obligations in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognized past service costs and the fair value of any plan assets are deducted.

O. Provisions:

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provision is measured at the best estimate of the consideration required to settle the obligation at the statement of financial position date.

Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

P. Revenue and Expense Recognition:

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

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

- Interest on financial assets and liabilities at amortized cost.
- Fair value changes in qualifying derivatives, including hedge ineffectiveness, and related hedged items when interest rate risk is the hedged risk.

Net trading income presented in the statement of profit or loss includes:

- Interest income and expense on the trading portfolio.
- Dividend income on the trading equities.
- Realized and unrealized gains and losses on the trading portfolio.

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

Other net income from financial assets measured at fair value through profit or loss, includes:

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

Dividend income is recognized when the right to receive payment is established. Dividends on equity instruments designated as at fair value through other comprehensive income in accordance with IFRS 9, are presented in other revenue, unless the dividend clearly represents a recovery of part of the investment, in which case it is presented in other comprehensive income.

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.

Revenue from securitization contracts is recognized based on the following:

- Where the outcome of a securitization contract can be estimated reliably, revenue and costs are recognized by reference to the stage of completion of the contract activity at the financial position date. This is normally measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion.
- Where the outcome of a contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognized as expenses in the period in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately

Q. Operating Lease Agreements:

Lease agreements which do not transfer substantially all the risks and benefits incidental to ownership of the leased items are classified as operating leases. Operating lease payments are recorded in the consolidated statement of profit or loss on a straight line basis over the lease term.

R. Treasury Shares:

Treasury shares are stated at cost. Any gain or loss on sale is reflected as an adjustment to retained earnings.

S. Fiduciary Deposits:

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

T. Income Tax:

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

Current tax is the expected tax payable on the taxable profit for the year, using rates enacted at the financial position date. Income tax payable is reflected in the statement of financial position net of taxes previously settled in the form of withholding tax.

Interest earned on part of debt security was subject to withheld tax by the issuer. Up to October 26, 2017, this tax was deducted at year-end from the corporate income tax liability and accounted for as prepayment on corporate income tax and reflected as a part of income provisions. Effective October 27, 2017, and following the tax amendments to law No. 64, withheld tax on interest earned on inter-bank deposits and debt security is no more considered as prepayment on corporate income tax, and it is considered as deductible expense for the purpose of computing the corporate income tax. Withholding tax on interest was increased from 5% to 7%.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements 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.

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is possible that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in OCI or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognized subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognized in profit or loss.

U. Earnings Per Share:

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees, if applicable.

V. Cash and Cash Equivalents:

Cash and cash equivalents comprise balances with original contractual maturities of three months or less and include: cash and balances with the central banks and deposits with banks and financial institutions.

W. Dividends on Ordinary Shares:

Dividends on ordinary shares are recognized as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Group.

Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

X. Deferred Restricted Contributions

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

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

Going Concern:

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

Classification of Financial Assets:

Business Model:

The business model test requires the Group to assess whether its business objective for financial assets is to collect the contractual cash flows of the assets rather than realize their fair value change from sale before their contractual maturity. The Group considers at which level of its business activities such assessment should be made.

Generally, a business model can be evidenced by the way business is managed and the information provided to management. However the Group's business model can be to hold financial assets to collect contractual cash flows even when there are some sales of financial assets. While IFRS 9 provides some situations where such sales may or may not be consistent with the objective of holding assets to collect contractual cash flows, the assessment requires the use of judgment based on facts and circumstances.

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

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

Characteristics of the Financial Asset:

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

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

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

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

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

B. Key Sources of Estimation Uncertainty:

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the 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 Group based their assumptions and estimates on parameters available when the consolidated 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 Group. 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 and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident.

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

Impairment of investment in associates:

The Group assesses at each reporting date whether there is indication that an investment may be impaired. If any indication exists the Group estimates the investment's recoverable amount. When the cost of the investment exceeds the recoverable amount, the investment is considered impaired and a provision for impairment is setup representing the difference between the investment's recoverable amount and its carrying value. The provision is charged to the consolidated statement of profit or loss.

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 3D. 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.

5. CASH AND DEPOSITS WITH CENTRAL BANKS

	December 31,	
	2017	2016
	LBP'000	LBP'000
Cash on hand	9,242,940	9,015,076
Current accounts with Central Bank of Lebanon (of which compulsory reserves LBP22.1billion in 2017 and LBP52.1billion in 2016)	130,934,835	86,775,776
Current accounts with other central banks	416,480	368,681
Term placements with Central Bank of Lebanon	486,906,140	451,430,265
Accrued interest receivable	4,722,830	1,970,321
	632,223,225	549,560,119

Compulsory deposits with central banks are not available for use in the Group's day-to-day operations.

Cash compulsory reserves with Central Bank of Lebanon represent non-interest earning deposits in Lebanese Pounds 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 the local banking regulations.

Current accounts with other central banks include the equivalent in Euro of LBP257million as at December 31, 2017 (LBP276million as at December 31, 2016) deposited in accordance with banking laws and regulations in Cyprus which require banks to maintain at the Central Bank of Cyprus mandatory interest earning deposits in Euro to the extent of 1% (1% as at December 31, 2016) of banks' and customers' deposits maturing in less than two years, after deducting a fixed amount of Euro100,000.

Term placements with Central Bank of Lebanon include an amount of LBP283billion as at December 31, 2017 (LBP284billion as at December 31, 2016) representing the equivalent in foreign currencies of amounts deposited in accordance with local banking regulations which require banks to maintain interest earning placements in foreign currency to the extent of 15% of customers' deposits in foreign currencies, certificates of deposit and borrowings obtained from non-resident financial institutions.

As at December 31, 2017, placements with the Central Bank of Lebanon includes deposits in USD for the amount of USD30,750,000 (C/V LBP46billion) which triggered collateralized investment in Lebanese Treasury bills in LBP for the amount of LBP57billion originated through soft leverage arrangement in LBP for an equivalent amount of LBP57billion, thus significantly enhancing the yield on the initial investment in USD over coupon rate (refer to Notes 11 and 21).

6. DEPOSITS WITH BANKS AND FINANCIAL INSTITUTIONS

	December 31,	
	2017	2016
	LBP'000	LBP'000
Checks in course of collection	15,897,315	17,896,839
Current accounts	55,557,323	136,114,235
Current accounts - related parties	5,411,036	5,256,064
Term placements	16,064,708	73,562,537
Margin accounts	45,805,242	65,301,776
Accrued interest receivable	28,113	85,644
	138,763,737	298,217,095

Deposits with banks and financial institutions include deposits in the amount of LBP1.71billion subject to right of set-off by the related correspondents against trade finance and other facilities at 2017 year end (LBP12.47billion against trade finance and other facilities as at December 31, 2016).

Margin accounts and pledged deposits are blocked against trade finance and treasury transactions and banking facilities (Refer to Note 45).

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31, 2017			December 31, 2016		
	LBP Base Accounts	Foreign Currency Base Accounts	Total	LBP Base Accounts	Foreign Currency Base Accounts	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Quoted equity securities	-	10,084,754	10,084,754	-	7,099,123	7,099,123
Lebanese treasury bills	223,268	-	223,268	16,777,541	-	16,777,541
Lebanese Government bonds	-	7,033,275	7,033,275	-	20,113,835	20,113,835
Certificates of deposit issued by the Central Bank of Lebanon	-	5,907,290	5,907,290	5,910,721	31,657,500	37,568,221
Certificates of deposit issued by banks	-	-	-	-	753,750	753,750
Corporate bonds	-	1,256,366	1,256,366	-	1,885,186	1,885,186
Accrued interest receivable	5,784	209,386	215,170	321,650	733,762	1,055,412
	229,052	24,491,071	24,720,123	23,009,912	62,243,156	85,253,068

The positive change in fair value of financial assets at fair value through profit or loss in the amount of LBP1.55billion (loss of LBP2.72billion in 2016) is recorded under "Net interest and other gains/(losses) on financial assets at fair value through profit or loss" (Note 36) in the consolidated statement of profit or loss.

8. LOANS TO BANKS AND FINANCIAL INSTITUTIONS

	December 31,	
	2017	2016
	LBP'000	LBP'000
Discounted letters of credit and acceptances	12,838,776	9,974,810
Loans to a resident financial institution	-	7,537,500
	12,838,776	17,512,310

Loans to a resident financial institution outstanding as at December 31, 2016 comprised a 1 year term loan in the amount of USD5million (LBP7.54billion) originated during the year 2014 and secured by a pledged deposit in Lebanese Pounds amounting to LBP12.5billion. This term loan was subject to a fixed annual interest rate of 4.25% and was being renewed on a yearly basis at maturity under the same terms and conditions during 2015 and 2016. This term loan matured during February 2017.

Interest income for the year ended December 31, 2017 amounted to LBP42million recorded under interest income in the consolidated statement of profit or loss (LBP1.09billion for the year ended December 31, 2016) (Refer to Note 32).

9. LOANS AND ADVANCES TO CUSTOMERS

	December 31, 2017				December 31, 2016			
	Gross Amount Net of Unearned Interest LBP'000	Unrealized Interest LBP'000	Allowance for Impairment LBP'000	Carrying Amount LBP'000	Gross Amount Net of Unearned Interest LBP'000	Unrealized Interest LBP'000	Allowance for Impairment LBP'000	Carrying Amount LBP'000
Performing Retail customers:								
Mortgage loans	45,615,453	-	-	45,615,453	61,203,856	-	-	61,203,856
Personal loans	5,335,319	-	-	5,335,319	9,346,674	-	-	9,346,674
Overdrafts	42,300,862	-	-	42,300,862	32,180,224	-	-	32,180,224
Other	11,819,320	-	-	11,819,320	8,932,017	-	-	8,932,017
Performing corporate customers:								
Large enterprises	770,180,490	-	-	770,180,490	632,130,785	-	-	632,130,785
Small and medium enterprises	246,586,036	-	-	246,586,036	270,489,706	-	-	270,489,706
Non performing - Retail Customers:								
Substandard	1,576,247	(269,888)	-	1,306,359	1,604,648	(95,148)	-	1,509,500
Bad and doubtful	539,124	(350,349)	(188,775)	-	450,316	(263,113)	(187,203)	-
Non performing- Corporate Customers:								
Substandard	20,248,871	(1,843,174)	-	18,405,697	15,869,844	(347,798)	-	15,522,046
Bad and doubtful	21,785,884	(7,770,135)	(6,555,818)	7,459,931	19,857,862	(5,937,330)	(6,441,717)	7,478,815
Allowance for impairment for collectively assessed loans:								
Corporate loans	-	-	(2,095,422)	(2,095,422)	-	-	(2,095,422)	(2,095,422)
Retail loans	-	-	(34,460)	(34,460)	-	-	(34,460)	(34,460)
Accrued interest receivable	1,658,883	-	-	1,658,883	1,263,482	-	-	1,263,482
	1,167,646,489	(10,233,546)	(8,874,475)	1,148,538,468	1,053,329,414	(6,643,389)	(8,758,802)	1,037,927,223

The movement of substandard loans with related unrealized interest during 2017 and 2016 is summarized as follows:

	2017			
	Substandard Loans	Unrealized Interest	Allowance for Impairment	Net Book Value
	LBP'000	LBP'000	LBP'000	LBP'000
Balance January 1	17,474,492	(442,946)	-	17,031,546
Withdrawals on existing loans	4,067,828	-	-	4,067,828
Settlements	(1,387,338)	-	-	(1,387,338)
Additions to unrealized interest	1,674,063	(1,674,063)	-	-
Write back of unrealized interest to income statement	-	20	-	20
Write-off	(3,927)	3,927	-	-
Balance December 31	21,825,118	(2,113,062)	-	19,712,056

	2016			
	Substandard Loans	Unrealized Interest	Allowance for Impairment	Net Book Value
	LBP'000	LBP'000	LBP'000	LBP'000
Balance January 1	8,729,688	(1,031,991)	(753,750)	6,943,947
Withdrawals on existing loans	16,814,417	-	-	16,814,417
Additions to unrealized interest	397,357	(397,357)	-	-
Transfer to doubtful and bad debts	(8,466,970)	986,402	753,750	(6,726,818)
Balance December 31	17,474,492	(442,946)	-	17,031,546

The movement of doubtful and bad loans and related unrealized interest and allowance for impairment during 2017 and 2016 is summarized as follows:

	2017				2016			
	Doubtful and Bad Loans LBP'000	Unrealized Interest LBP'000	Allowance for Impairment LBP'000	Net Book Value LBP'000	Doubtful and Bad Loans LBP'000	Unrealized Interest LBP'000	Allowance for Impairment LBP'000	Net Book Value LBP'000
Balance January 1	20,308,178	(6,200,443)	(6,628,920)	7,478,815	8,670,769	(3,586,105)	(4,837,452)	247,212
Downgraded from regular loans	-	-	-	-	1,741,764	-	-	1,741,764
Withdrawals on existing doubtful loans	77,707	-	-	77,707	182,545	-	-	182,545
Settlement of loans	(435,361)	-	-	(435,361)	(282,192)	-	-	(282,192)
Additions to unrealized interest and allowance for impairment	2,060,326	(2,060,326)	(111,867)	(111,867)	2,013,980	(2,013,980)	(2,090,728)	(2,090,728)
Write-back	-	311,483	128,873	440,356	-	184,147	772,616	956,763
Write-off	-	-	-	-	(414,755)	166,005	248,750	-
Downgraded from substandard loans	-	-	-	-	8,466,970	(986,402)	(753,750)	6,726,818
Effect of exchange rates changes	314,158	(171,198)	(132,679)	10,281	(70,903)	35,892	31,644	(3,367)
Balance December 31	22,325,008	(8,120,484)	(6,744,593)	7,459,931	20,308,178	(6,200,443)	(6,628,920)	7,478,815

10. LOANS AND ADVANCES TO RELATED PARTIES

	December 31, 2017 LBP'000	December 31, 2016 LBP'000
Retail loans	1,006,336	2,085,613
Overdrafts to corporates	78,142	560,732
	1,084,478	2,646,345

Loans and advances to related parties are partially secured (Refer to Note 43).

11. INVESTMENT SECURITIES

	December 31, 2017			December 31, 2016		
	LBP	C/V of F/Cy	Total	LBP	C/V of F/Cy	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Financial assets at fair value through other comprehensive income	615,120	991,140	1,606,260	615,120	23,346	638,466
Financial assets at amortized cost(A)	258,513,883	357,377,838	615,891,721	205,374,999	381,255,394	586,630,393
Accrued interest receivable	5,368,498	4,292,450	9,660,948	3,663,165	3,591,797	7,254,962
	263,882,381	361,670,288	625,552,669	209,038,164	384,847,191	593,885,355
	264,497,501	362,661,428	627,158,929	209,653,284	384,870,537	594,523,821

During November 2017, the Group acquired 3,500 shares of La Banque Outarde in Senegal "LBO S.A" whose capital is divided into 100,000 shares of CFA100,000 each following the approval of the Central Bank of Lebanon on March 31, 2016. The total acquisition of the Group amounted to CFA350million constituting 3.5% of "LBO S.A" capital. The Group recorded the investment in Euro for the equivalent amount of EUR534,000 (C/V LBP965million) as at December 31, 2017.

A. Financial assets at amortized cost are broken down as follows:

	December 31, 2017					
	LBP Base Accounts			C/V of F/Cy Base Accounts		
	Amortized Cost	Fair Value	Accrued Interest Receivable	Amortized Cost	Fair Value	Accrued Interest Receivable
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Lebanese treasury bills	192,088,212	189,834,264	3,585,093	-	-	-
Lebanese Government bonds	-	-	-	101,452,978	88,756,612	1,932,322
Certificates of deposit issued by the Central Bank of Lebanon	64,925,671	63,653,614	1,754,724	237,628,082	233,964,000	2,117,549
Corporate bonds	1,500,000	1,500,000	28,681	18,296,778	18,801,205	242,579
	258,513,883	254,987,878	5,368,498	357,377,838	341,521,817	4,292,450

	December 31, 2016					
	LBP Base Accounts			C/V of F/Cv Base Accounts		
	Amortized Cost	Fair Value	Accrued Interest Receivable	Amortized Cost	Fair Value	Accrued Interest Receivable
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Lebanese treasury bills	149,290,331	152,536,263	2,249,737	-	-	-
Lebanese Government bonds	-	-	-	115,685,102	105,933,735	1,403,208
Certificates of deposit issued by the Central Bank of Lebanon	56,084,668	56,677,826	1,413,428	245,750,426	241,501,500	2,001,519
Corporate bonds	-	-	-	19,819,866	19,874,922	187,070
	205,374,999	209,214,089	3,663,165	381,255,394	367,310,157	3,591,797

The remaining periods to maturity of financial assets at amortized cost, denominated in **Lebanese Pounds** excluding accrued interest, is as follows:

	December 31, 2017			
	LBP Base Accounts			
Contractual Maturity	Nominal Value	Amortized Cost	Fair Value	Yield
	LBP'000	LBP'000	LBP'000	%
Lebanese treasury bills:				
Up to 3 months	6,920,000	6,921,651	7,159,440	5.58
3 months to 1 year	27,475,000	27,554,497	27,517,942	6.82
1 year to 3 years	65,510,000	65,975,447	66,872,382	6.95
3 years to 5 years	14,219,900	14,360,321	15,236,620	6.59
Beyond 5 years	72,722,050	77,276,296	73,047,880	6.07
	186,846,950	192,088,212	189,834,264	
Certificates of deposit issued by the Central Bank of Lebanon:				
3 years to 5 years	1,000,000	1,034,777	1,026,712	7.54
5 years to 10 years	58,000,000	63,890,894	62,626,902	8.02
	59,000,000	64,925,671	63,653,614	
Corporate bonds:				
3 years to 5 years	1,500,000	1,500,000	1,500,000	8.00
	1,500,000	1,500,000	1,500,000	
	247,346,950	258,513,883	254,987,878	

Contractual Maturity	December 31, 2016 LBP Base Accounts Nominal Value	Amortized Cost	Fair Value	Yield
	LBP'000	LBP'000	LBP'000	%
Lebanese treasury bills:				
Up to 1 year	36,127,480	36,417,476	38,934,035	7.77
1 year to 3 years	35,475,000	35,841,489	36,290,763	7.63
3 years to 5 years	39,700,000	40,129,662	40,870,364	7.80
Beyond 5 years	35,110,850	36,901,704	36,441,101	8.15
	146,413,330	149,290,331	152,536,263	
Certificates of deposit issued by the Central Bank of Lebanon:				
3 years to 5 years	8,000,000	8,060,153	8,174,105	7.50
5 years to 10 years	46,000,000	48,024,515	48,503,721	7.98
	54,000,000	56,084,668	56,677,826	
	200,413,330	205,374,999	209,214,089	

The remaining periods to maturity of financial assets at amortized cost, denominated in **Foreign Currencies** excluding accrued interest, is as follows:

Contractual Maturity	December 31, 2017 F/Cy Base Accounts Nominal Value	Amortized Cost	Fair Value	Yield
	LBP'000	LBP'000	LBP'000	%
Lebanese Government bonds:				
Up to 3 months	3,950,191	3,942,725	3,944,510	4.04
3 months to 1 year	37,688	37,708	37,548	5.15
1 year to 3 years	21,105,000	21,290,071	20,890,634	5.95
3 years to 5 years	7,630,965	8,271,575	7,977,382	7.59
5 years to 10 years	36,496,575	36,557,099	31,758,122	6.31
Beyond 10 years	31,793,175	31,353,800	24,148,416	6.84
	101,013,594	101,452,978	88,756,612	
Certificates of deposit issued by the Central Bank of Lebanon:				
1 year to 3 years	7,537,500	7,537,500	7,537,500	6.20
3 years to 5 years	91,957,500	91,983,161	91,957,500	6.17
5 years to 10 years	111,856,500	115,365,371	111,856,500	6.56
Beyond 10 years	22,612,500	22,742,050	22,612,500	7.20
	233,964,000	237,628,082	233,964,000	
Corporate Bonds:				
1 year to 3 years	2,261,250	2,261,250	2,261,250	7.00
3 years to 5 years	4,899,375	4,880,917	4,899,375	5.52
5 years to 10 years	11,218,679	11,154,611	11,640,580	6.85
	18,379,304	18,296,778	18,801,205	
	353,356,898	357,377,838	341,521,817	

Contractual Maturity	December 31, 2016			
	F/Cy Base Accounts			
	Nominal Value	Amortized Cost	Fair Value	Yield
	LBP'000	LBP'000	LBP'000	%
Lebanese Government bonds:				
Up to one year	3,610,463	3,627,505	3,540,486	7.31
1 year to 3 years	25,899,391	26,044,415	24,637,491	5.28
3 years to 5 years	25,627,500	26,155,564	24,725,864	6.16
5 years to 10 years	37,042,290	36,840,511	33,223,672	6.21
Beyond 10 years	22,974,300	23,017,107	19,806,222	6.65
	115,153,944	115,685,102	105,933,735	
Certificates of deposit issued by the Central Bank of Lebanon:				
3 years to 5 years	7,537,500	7,537,500	7,537,500	6.20
5 years to 10 years	226,426,500	230,535,419	226,426,500	6.36
Beyond 10 years	7,537,500	7,677,507	7,537,500	6.64
	241,501,500	245,750,426	241,501,500	
Corporate Bonds:				
Up to 1 year	7,160,625	7,136,765	7,160,625	5.99
1 year to 3 years	4,661,150	4,629,955	4,661,150	6.55
3 years to 5 years	3,153,771	3,153,771	3,153,771	7.33
5 years to 10 years	4,899,375	4,899,375	4,899,376	6.96
	19,874,921	19,819,866	19,874,922	
	376,530,365	381,255,394	367,310,157	

The movement of financial assets at amortized cost, denominated in **Lebanese Pounds** excluding accrued interest, is summarized as follows:

	2017			
	Lebanese Treasury Bills	Certificates of Deposit Issued by the Central Bank of Lebanon	Corporate Bonds	Total
	LBP'000	LBP'000	LBP'000	LBP'000
Balance January 1	149,290,331	56,084,668	-	205,374,999
Additions	85,039,900	51,000,000	1,500,000	137,539,900
Redemptions	(21,127,480)	-	-	(21,127,480)
Sales	(47,000,000)	(47,000,000)	-	(94,000,000)
Reclassification	23,521,200	1,000,000	-	24,521,200
Net variation in premium	2,364,261	3,841,003	-	6,205,264
Balance December 31	192,088,212	64,925,671	1,500,000	258,513,883

	2016		
	Lebanese Treasury Bills	Certificates of Deposit Issued by the Central Bank of Lebanon	Total
	LBP'000	LBP'000	LBP'000
Balance January 1	170,611,032	187,620,715	358,231,747
Additions	54,766,980	34,000,000	88,766,980
Swap and sales	(76,000,000)	(156,000,000)	(232,000,000)
Net variation in premium	(87,681)	(9,536,047)	(9,623,728)
Balance December 31	149,290,331	56,084,668	205,374,999

The movement of financial assets at amortized cost, denominated in **Foreign Currencies** excluding accrued interest, is summarized as follows:

	2017			
	Lebanese Government Bonds	Certificates of Deposit Issued by the Central Bank of Lebanon	Corporate Bonds	Total
	LBP'000	LBP'000	LBP'000	LBP'000
Balance January 1	115,685,102	245,750,426	19,819,866	381,255,394
Additions	84,397,388	15,075,000	2,638,126	102,110,514
Redemptions	(43,740,113)	-	(2,626,242)	(46,366,355)
Sales and exchange	(55,101,657)	(22,612,500)	(1,507,500)	(79,221,657)
Net variation in premium	212,258	(584,844)	(27,472)	(400,058)
Balance December 31	101,452,978	237,628,082	18,296,778	357,377,838

	2016			
	Lebanese Government Bonds	Certificates of Deposit Issued by the Central Bank of Lebanon	Corporate Bonds	Total
	LBP'000	LBP'000	LBP'000	LBP'000
Balance January 1	151,730,640	82,764,034	34,847,533	269,342,207
Additions	42,653,467	22,160,250	11,758,500	76,572,217
Redemptions	(17,758,350)	-	(22,107,003)	(39,865,353)
Swap and sales	(59,609,827)	140,649,750	(4,611,290)	76,428,633
Net variation in premium	(1,330,828)	176,392	(17,524)	(1,171,960)
Exchange difference	-	-	(50,350)	(50,350)
Balance December 31	115,685,102	245,750,426	19,819,866	381,255,394

Gain from derecognition of financial assets at amortized cost, (net) consists of the following:

	Year Ended December 31, 2017	2016
	LBP'000	LBP'000
Lebanese treasury bills	1,634,446	588,800
Certificates of deposit issued by the Central Bank of Lebanon	1,894,421	1,116,680
Lebanese Government bonds	(13,585)	203,527
Corporate bonds issued by banks	-	25,790
	3,515,282	1,934,797

During the year 2017, the Group entered into several sales transactions of Lebanese Treasury bills, Lebanese Government bonds, certificates of deposit issued by the Central Bank of Lebanon, and Corporate bonds of aggregate carrying value of LBP47billion, LBP49billion, LBP47billion and LBP1.5billion, respectively.

During the year 2016, the Group entered into several sales transactions of Lebanese Treasury bills, Lebanese Government bonds, and certificates of deposit issued by the Central Bank of Lebanon and by banks of aggregate carrying value of LBP33billion, LBP54.4billion, LBP64billion and LBP4.6billion, respectively.

During the year 2016, the Bank entered into sales transactions of Lebanese Treasury bills and certificates of deposit denominated in Lebanese Pounds designated between fair value through profit or loss and amortized cost securities and having a nominal value of LBP37billion and LBP80.5billion, respectively concluded in conjunction with the acquisition of certificates of deposit denominated in U.S. Dollars with longer maturity designated between fair value through profit or loss and amortized cost with a nominal value of USD21million and USD57million respectively. The resulting surplus of the inter-related transactions derived from the special and non-conventional arrangement with the regulator, in the amount of LBP41.25billion was deferred net of tax in the amount of LP6.19billion under "Regulatory deferred liability" under "Other liabilities" (Note 22).

12. CUSTOMERS' LIABILITY UNDER ACCEPTANCES

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

13. INVESTMENT IN AN ASSOCIATE

	Country of Incorporation	Interest Held	December 31, 2017 Carrying Value	2016 Carrying Value
		%	LBP'000	LBP'000
Banque Bemo Saudi Fransi S.A.	Syria	22	20,994,413	18,052,156
			20,994,413	18,052,156

The movement of investment in an associate is as follows:

	2017 LBP'000	2016 LBP'000
Balance January 1	18,052,156	17,645,342
Share in profit of an associate (Note 37)	1,385,715	1,074,343
Currency translation adjustment for the year	450,312	(667,529)
Change in fair value of investment securities	1,030,666	-
Other adjustment	75,564	-
Balance December 31	20,994,413	18,052,156

The movement of the currency translation adjustment for the years 2017 and 2016 is as follows:

	2017 LBP'000	2016 LBP'000
Balance January 1	-	23,440,267
Additions	1,480,978	667,529
Offset against surplus derived from special and non-conventional deals arrangement with the regulator (Note 22(b))	-	(24,107,796)
Balance December 31	1,480,978	-

The summarized consolidated financial statements of the associate, Banque Bemo Saudi Fransi S.A., are provided below:

	December 31,	
	2017	2016
	LBP'000	LBP'000
Total Assets	867,951,074	684,060,771
Total Liabilities	772,226,827	601,260,079
Equity of the group	95,245,403	82,344,672
Equity attributable to non controlling interests	478,844	456,020
(Loss)/profit for the year of the group	(7,133,089)	30,031,809
(Loss)/profit attributable to non controlling interests	(62,345)	98,205

Summarized consolidated statement of profit or loss:

	Year Ended December 31,	
	2017	2016
	LBP'000	LBP'000
Interest income	30,907,610	19,444,234
Interest expense	(8,869,581)	(5,251,800)
Fees and commission income	6,700,492	4,731,713
Fees and commission expense	(2,539,400)	(200,558)
Administrative expenses	(5,811,986)	(4,619,424)
Staff costs	(12,779,106)	(8,915,273)
Provision for doubtful debts	62,958	2,341,889
Other provisions	(843,500)	(4,550,565)
Depreciation and amortization expense	(1,678,798)	(1,029,939)
Others	3,609,988	4,169,343
Income tax expense	(2,706,070)	(848,625)
Unrealized (loss)/gain on capital revaluation, net	(13,248,041)	24,859,019
	(7,195,434)	30,130,014

14. ASSETS ACQUIRED IN SATISFACTION OF LOANS

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

The acquisition of assets in settlement of loans in Lebanon is regulated by the banking regulatory authorities and these assets should be liquidated within 2 years. In case of default of liquidation, a regulatory reserve should be appropriated from the yearly net profits over a period of 5 years. This reserve is reduced to 5% annually when certain conditions linked to the restructuring of non performing loans' portfolio are met. This regulatory reserve is reflected under equity. In this connection, an amount of LBP151million was appropriated in 2017 from 2016 income (LBP102million in 2016).

15. PROPERTY AND EQUIPMENT

	Land LBP'000	Buildings LBP'000	Furniture LBP'000	Computer Equipment LBP'000	Vehicles LBP'000	Installations and Leasehold Improvement LBP'000	Advances on Capital Expenditures LBP'000	Total LBP'000
Gross Amount:								
Balance, January 1, 2016	7,222,927	7,384,604	2,364,316	6,385,640	916,599	9,119,220	206,980	33,600,286
Additions	-	1,008,280	186,871	647,364	131,893	76,414	6,491,734	8,542,556
Disposals	-	-	(34,165)	(273,808)	(113,958)	(6,590)	-	(428,521)
Transfers between categories	-	52,762	-	-	-	-	(52,762)	-
Balance, December 31, 2016	7,222,927	8,445,646	2,517,022	6,759,196	934,534	9,189,044	6,645,952	41,714,321
Additions	-	-	176,966	409,386	66,523	3,386,001	6,532,026	10,570,902
Disposals	-	-	(24,637)	(232,802)	(153,871)	(961,734)	-	(1,373,044)
Balance, December 31, 2017	7,222,927	8,445,646	2,669,351	6,935,780	847,186	11,613,311	13,177,978	50,912,179
Accumulated Depreciation:								
Balance, January 1, 2016	-	1,571,441	1,972,879	4,938,645	372,046	8,047,273	-	16,902,284
Additions	-	196,442	111,927	463,401	110,579	316,678	-	1,199,027
Write-off on disposals	-	-	(32,741)	(272,694)	(42,711)	(6,588)	-	(354,734)
Balance, December 31, 2016	-	1,767,883	2,052,065	5,129,352	439,914	8,357,363	-	17,746,577
Additions	-	214,472	82,757	469,274	108,452	668,068	-	1,543,023
Disposals	-	-	(23,750)	(210,521)	(140,447)	(959,705)	-	(1,334,423)
Balance, December 31, 2017	-	1,982,355	2,111,072	5,388,105	407,919	8,065,726	-	17,955,177
Carrying Amount:								
December 31, 2017	7,222,927	6,463,291	558,279	1,547,675	439,267	3,547,585	13,177,978	32,957,002
December 31, 2016	7,222,927	6,677,763	464,957	1,629,844	494,620	831,681	6,645,952	23,967,744

The Bank's Board of Directors approved on July 20, 2016 the acquisition of 5,307m^2 of plot number 660 located in Medawar for a total consideration of USD20,945,000 (C/V LBP32billion) for the purpose of building the Bank's head quarters.

The addition to advances on capital expenditures during the year 2017 in the amount of LBP6.5billion, represents the second and third payments on plot number 660 as per acquisition contract (LBP6.5billion as first payment during the year 2016).

The addition to the installations and leasehold improvement during 2017 in the amount of LBP3.4billion relate to expansion and refurbishment works undertaken in Rabieh and Achrafieh branches.

The addition to buildings during the year 2016 in the amount of LBP1billion, fully settled during the year, represents the purchase of plot number 1331 section 5 and 6 located in Rabieh for the purpose of expanding Rabieh Branch.

16. INTANGIBLE ASSETS

	Purchased Software LBP'000
Cost:	
Balance, January 1, 2016	4,036,432
Acquisitions	683,068
Disposals	(3,789)
Balance, December 31, 2016	4,715,711
Acquisitions	533,138
Balance, December 31, 2017	5,248,849
Amortization:	
Balance, January 1, 2016	3,418,229
Amortization of the year	319,591
Disposals	(3,789)
Balance, December 31, 2016	3,734,031
Amortization of the year	329,499
Balance, December 31, 2017	4,063,530
Carrying Amount:	
December 31, 2017	1,185,319
December 31, 2016	981,680

17. OTHER ASSETS

	December 31, 2017 LBP'000	December 31, 2016 LBP'000
Exchange difference on fixed exchange position	302,578	302,578
Fair value of forward exchange contracts	-	4,425,698
Stamps	106,666	86,033
Deferred charges	1,706	13,594
Receivables from securitization operations	1,976,254	338,928
Receivables from an associate and a related party bank	1,841,946	1,135,042
Prepayments	1,018,956	1,588,510
Receivables from a financial institution – credit and operations	2,338,920	2,358,635
Receivables from National Social Security Fund (Net of provision)	1,045,225	770,744
Sundry accounts receivable	2,490,303	1,905,132
	11,122,554	12,924,894

Provision for doubtful receivables of LBP295thousand was set up during 2017 against receivables from the National Social Security Fund (LBP287.45million for the year 2016). Total provision as at December 31, 2017 amounts to LBP842.1million (LBP855million as at December 31, 2016).

Receivables from an associate and a related party bank represent amounts paid by the Group on behalf of these related entities. During 2017, the outstanding receivables became subject to interest at the annual rates of 6% and 4% respectively. Interest income earned during the year 2017 amounted to LBP185million recorded under interest income in the statement of profit or loss and other comprehensive income for the year ended December 31, 2017 (Note 32).

18. DEPOSITS AND BORROWINGS FROM BANKS AND FINANCIAL INSTITUTIONS

	December 31, 2017 LBP'000	December 31, 2016 LBP'000
Current deposits of banks and financial institutions	2,815,876	824,959
Current deposits – Related parties	62,182,609	76,822,551
Money market deposits	11,714,776	9,552,000
Money market deposits - Related parties	37,643,276	25,526,936
Pledged deposits (Note 8)	-	12,530,000
Accrued interest payable	776,135	1,394,666
	115,132,672	126,651,112

19. CUSTOMERS' ACCOUNTS AT AMORTIZED COST

	December 31, 2017	December 31, 2016
	LBP'000	LBP'000
Deposits from customers:		
Current and demand deposits	319,049,609	363,660,161
Term deposits	1,496,076,022	1,516,581,105
Collateral against loans and advances	140,087,339	163,590,275
Margins and other accounts:		
Margins for irrevocable import letters of credit	253,292	224,024
Margins on letters of guarantee	7,342,537	3,917,465
Other margins	14,325,975	12,472,042
Margins on trading transactions	6,826,159	8,573,614
Accrued interest payable:	9,127,519	9,173,342
Total	1,993,088,452	2,078,192,028

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

	December 31, 2017		
	Total Deposits	% to Total Deposits	% to Total No. of Customers
	LBP'000	%	%
Less than LBP200million	145,886,620	7.32	72.20
From LBP200million to LBP1.5billion	596,629,553	29.93	22.31
Over LBP1.5billion	1,250,572,279	62.75	5.49
	1,993,088,452	100.00	100.00

	December 31, 2016		
	Total Deposits	% to Total Deposits	% to Total No. of Customers
	LBP'000	%	%
Less than LBP200million	148,199,335	7.13	72.66
From LBP200million to LBP1.5billion	622,353,910	29.95	21.94
Over LBP1.5billion	1,307,638,783	62.92	5.40
	2,078,192,028	100.00	100.00

Term deposits as at December 31, 2017 include fiduciary deposits received from a non-resident related party bank in the amount of LBP11.40billion (LBP19.15billion as at December 31, 2016).

The average balances of customers' deposits at amortized cost, including related party deposits, and related cost of funds over the last 3 years were as follows:

	LBP Base Accounts		F/Cy Base Accounts		
	Average Balance of Deposits	Average Interest Rate	Average Balance of Deposits	Average Interest Rate	Cost of Funds
	LBP'000	%	LBP'000	%	LBP'000
2017	262,476,131	6.10	1,861,189,587	3.27	77,595,526
2016	347,215,150	6.17	1,715,030,692	3.03	73,312,232
2015	334,869,820	6.17	1,572,101,089	2.86	66,431,464

20. RELATED PARTIES' ACCOUNTS AT AMORTIZED COST

	December 31,	
	2017	2016
	LBP'000	LBP'000
Deposits from related party customers:		
Current and demand deposits	27,070,802	31,453,349
Term deposits	59,818,333	75,715,412
Margins and other accounts:		
Margins on letters of guarantee	1,131,960	3,501,730
Accrued interest payable	196,585	283,043
Total	88,217,680	110,953,534

Deposits from related parties at amortized cost are allocated by brackets of deposits as follows:

	December 31, 2017	
	Total Deposits	% to Total Deposits
	LBP'000	%
Less than LBP500million	5,622,437	6.37
From LBP500million to LBP1.5billion	12,514,040	14.19
Over LBP1.5billion	70,081,203	79.44
	88,217,680	100.00

	December 31, 2016	
	Total Deposits	% to Total Deposits
	LBP'000	%
Less than LBP500million	5,776,304	5.21
From LBP500million to LBP1.5billion	9,432,564	8.50
Over LBP1.5billion	95,744,666	86.29
	110,953,534	100.00

21. OTHER TERM BORROWINGS

	December 31,	
	2017	2016
	LBP'000	LBP'000
Term borrowings (a)	57,346,400	-
Other term borrowings (b)	11,904,958	9,315,863
Accrued interest	283,475	-
	69,534,833	9,315,863

(a) Term borrowings represent long term loans in Lebanese Pounds granted by the Central Bank of Lebanon in the amount of LBP57billion, bearing an annual interest rate of 2% and mature within a period of 5 to 10 years.

(b) Other term borrowings, represent borrowing from Central Bank of Lebanon in LBP being facilities in accordance with Central Bank of Lebanon Basic Decision No. 6116 of March 7, 1996 and its amendments by which the Group benefited from credit facilities granted against loans the Group has granted, at its own risk, to its customers, pursuant to certain conditions, rules and mechanism.

The movement of other term borrowings, excluding accrued interest, during 2017 and 2016 is summarized as follows:

	2017	2016
	LBP'000	LBP'000
Balance January 1	9,315,863	7,530,780
Additions	61,084,412	2,907,000
Settlements	(1,148,917)	(1,121,917)
Balance December 31	69,251,358	9,315,863

22. OTHER LIABILITIES

	December 31, 2017 LBP'000	December 31, 2016 LBP'000
Current tax liability (a)	2,617,096	8,889,827
Deferred tax liability	501,838	501,838
Withheld tax on salaries	674,951	539,505
Withheld tax on interest	568,151	543,241
Due to the National Social Security Fund	432,254	334,801
Checks and incoming payment orders in course of settlement	178,512	1,808,437
Accrued expenses	2,553,571	2,410,778
Payable to a related party	87,280	724,854
Sundry accounts payable	2,641,041	2,074,296
Forward exchange contracts	1,288,250	-
Regulatory deferred liability (b)	10,952,921	10,952,921
Other	2,085,738	2,079,969
	24,581,603	30,860,467

(a) The determination of income tax of the Group is presented as follows:

	2017 LBP'000	2016 LBP'000
Profit before income tax	32,193,730	28,535,502
Add: Non-deductible expenses/losses	258,549	4,420,961
Less:		
Non-taxable revenues/gains	(3,462,081)	(1,058,902)
Income of Cyprus branch and subsidiaries	(679,213)	(764,718)
Taxable income for the year	28,310,985	31,132,843
Enacted tax rate in Lebanon	15.36%	15%
	4,349,032	4,669,926
Add: Income tax provision - branches and subsidiaries	62,232	120,266
Income tax expense	4,411,264	4,790,192
Less: Tax paid during the year in the form of withholding tax	(1,754,413)	(1,992,672)
Less: Cyprus income tax paid during the year	(47,125)	(102,248)
	2,609,726	2,695,272
Brought forward balance from non-resident branch	7,370	7,370
	2,617,096	2,702,642
Tax on surplus derived from non-conventional deal arrangements with the regulator(Note 22(b))	-	6,187,185
Current tax liability	2,617,096	8,889,827

The outcome of the review of the Bank's tax returns for fiscal years 2012 and 2013 is still pending.

The Bank's tax returns for fiscal years 2014 to 2017 remain subject to review and assessment by the tax authorities. Any additional liability depends on the outcome of these reviews.

The tax returns of the Group's Lebanese subsidiaries since fiscal year 2013 remain subject to review and assessment by the tax authorities. Any additional liability depends on the outcome of these reviews.

(b) In accordance with the Central Bank of Lebanon Intermediary Circular number 446 dated December 30, 2016, banks should record the surplus derived from the sale of treasury bills 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 risks, and that in anticipation of the implementation of IFRS 9 for Impairment, as and when quantified effective January 1, 2018, in addition to appropriation to offset any impairment losses of goodwill and investments in associates.

During the year 2016, as a result of several transactions derived from the special and non-conventional deals arrangement with the Central Bank of Lebanon, the Group received a surplus of LBP41.25billion recorded under "Regulatory deferred liability", net of tax in the amount of LBP6.19billion (Note 11). Furthermore, in accordance with the above mentioned Circular, the Group appropriated an amount of LBP24.11billion to offset currency translation losses incurred from the investment in an associate (Note 13). The remaining balance of LBP10.95billion is deferred in accordance with the above-mentioned circular to be appropriated to the collective provisions for credit risks required by IFRS 9 starting January 1, 2018.

23. PROVISIONS

Provisions consist of the following:

	December 31,	
	2017	2016
	LBP'000	LBP'000
Provision for employees' end-of-service indemnities	5,408,438	4,152,995
Provision for contingencies	2,614,681	2,986,452
Provision for loss on foreign currency position	404,146	357,200
	8,427,265	7,496,647

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

	2017	2016
	LBP'000	LBP'000
Balance January 1	4,152,995	4,165,596
Additions (Note 38)	1,264,184	941,970
Settlements	(21,834)	(950,444)
Exchange difference	13,093	(4,127)
Balance December 31	5,408,438	4,152,995

The movement of the provision for contingencies was as follows:

	2017	2016
	LBP'000	LBP'000
Balance January 1	2,986,452	1,520,729
Additions	887,725	1,976,728
Write-back	(1,151,073)	(452,250)
Settlements	(108,423)	(58,755)
Balance December 31	2,614,681	2,986,452

24. SUBORDINATED BONDS

This caption consists of the following:

	December 31,	
	2017	2016
	LBP'000	LBP'000
Subordinated bonds	90,450,000	37,687,500
Accrued interest	1,380,511	-
	91,830,511	37,687,500

The exceptional general assembly of shareholders approved in its meeting held on September 5, 2017 the issuance of subordinated bonds in the amount of USD35million divided into 3,500 bonds of USD10,000 nominal value each. These bonds were issued on December 7, 2017 and mature on January 4, 2024 and are subject to an annual interest of 7% payable on June 30 and December 31 of each year.

The movement of subordinated bonds, excluding accrued interest, during 2017 and 2016 is summarized as follows:

	2017	2016
	LBP'000	LBP'000
Balance January 1,	37,687,500	37,687,500
Additions	52,762,500	-
Balance December 31,	90,450,000	37,687,500

The exceptional general assembly of shareholders approved in its meeting held on October 24, 2014 the issuance of subordinated bonds in the amount of USD25million divided into 2,500 bonds of USD10,000 nominal value each. These bonds were issued on December 15, 2014 and mature on January 4, 2021 and are subject to an annual interest rate of 6% payable on December 31 and June 30 of each year.

Interest expense on subordinated bonds for the year ended December 31, 2017 amounting to LBP2.5billion is recorded under "Interest expense" in the consolidated statement of profit or loss (LBP2.27billion for the year ended December 31, 2016) (Note 33).

In accordance with banking laws and regulations, subordinated bonds are considered as Tier II capital for the purposes of computation of Risk Based Capital Ratio, to be amortized over a period of 5 years till maturity.

25. SHARE CAPITAL

The Bank's capital as at December 31, 2017 is composed of 62,000,000 issued shares of LBP1,004 each (62,000,000 shares of LBP1,004 each as at December 31, 2016) authorized and fully paid and divided as follows:

- Listed Shares : 51,400,000
- Unlisted Shares : 10,600,000

The movement of treasury shares during 2017 and 2016 was as follows:

	2017		2016	
	# of Shares	Amount	# of Shares	Amount
		LBP'000		LBP'000
Balance - January 1	664,285	2,931,915	568,428	2,696,018
Acquisition	115,186	247,474	95,857	235,897
Balance - December 31	779,471	3,179,389	664,285	2,931,915

26. PREFERRED SHARES

On December 19, 2013, the Group issued Non-cumulative Perpetual Preferred Shares in the amount of USD35million (LBP52billion) on the basis of 350,000 shares at USD100. The Group offered discounts to preferred shares subscribers for the aggregate amount of USD80,960 (LBP122million). These preferred shares generate dividends at an annual rate of 7%.

27. SHAREHOLDERS' CASH CONTRIBUTION TO CAPITAL

This caption represents capital injection of USD19,306,789 made by shareholders, in the form of shareholders' cash contribution to capital, each to the extent of his/her shareholding in the Group's equity. Effective 2011, the General Assembly of shareholders approved to call-off interest on cash contribution to capital.

This type of equity instrument consists of non-refundable capital injection which could be converted into share capital and it has the advantage of being booked and maintained in foreign currencies which allows for hedging against national currency fluctuation.

28. RESERVES

	December 31,	
	2017	2016
	LBP'000	LBP'000
Legal reserve (a)	9,110,189	6,846,103
Reserve for general banking risks (b)	35,551,700	31,904,035
General reserve for performing loans	4,069,500	4,054,500
Reserve for assets acquired in satisfaction of loans (Note 14)	1,021,116	869,957
Reserve from disposal of assets acquired in satisfaction of loans (Note 14)	182,080	182,080
Free reserves	6,208,597	6,208,597
	56,143,182	50,065,272

(a) In accordance with the requirements of the Lebanese Money and Credit Law, the Group transfers since its inception 10% of its net income to the legal reserve account. This reserve is not available for distribution.

(b) The reserve for general banking risks is constituted according to local banking regulations from income 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 10th year (2007) and 2% at the end of the 20th year. This reserve is constituted in Lebanese Pounds and in foreign currencies to the extent of LBP3.05billion and LBP32.5billion, respectively, in proportion to the composition of the Bank's total risk weighted assets and off-balance sheet items. This reserve is not available for distribution.

29. NON-CONTROLLING INTERESTS

	December 31,	
	2017	2016
	LBP'000	LBP'000
Equity	351	198,619
Profit/(loss) for the year	10	(97,478)
	361	101,141

30. PROFIT FOR THE YEAR

The consolidated profit for the year is allocated as follows between the Bank and its subsidiaries:

	Year Ended December 31, 2017		
	Group's Share	Non-Controlling Interests	Total
	LBP'000	LBP'000	LBP'000
Profit of the Bank	27,699,060	-	27,699,060
Profit/(loss) of subsidiaries:			
Bemo Securitization S.A.L.	18,596	-	18,596
Depository and Custody Company S.A.L.	9,876	10	9,886
Bemo Investment Firm Ltd.	54,924	-	54,924
Total	27,782,456	10	27,782,466

	Year Ended December 31, 2016		
	Group's Share	Non-Controlling Interests	Total
	LBP'000	LBP'000	LBP'000
Profit of the Bank	23,752,848	-	23,752,848
Profit/(loss) of subsidiaries:			
Bemo Securitization S.A.L.	363,421	-	363,421
Depository and Custody Company S.A.L.	19,009	19	19,028
Bemo Investment Firm Ltd.	(292,490)	(97,497)	(389,987)
Total	23,842,788	(97,478)	23,745,310

31. DIVIDENDS PAID

	2017 LBP'000	2016 LBP'000
LBP80 per common share paid by the Bank in 2017 (LBP60 per share in 2016)	4,905,653	3,683,102
USD7 per preferred share paid by the Bank in 2017 (USD7 per share in 2016)	3,693,375	3,693,375
	8,599,028	7,376,477

32. INTEREST INCOME

	Year Ended December 31,	
	2017 LBP'000	2016 LBP'000
Interest income from:		
Term deposits with central banks	11,044,641	7,446,353
Deposits with banks and financial institutions	2,616,527	1,035,206
Deposits with related party banks and financial institutions	433,431	417,962
Financial assets at amortized cost	39,408,876	39,607,051
Loans to banks and financial institutions (Note 8)	41,848	1,091,513
Loans under reverse repurchase agreements (a)	256,504	271,948
Loans and advances to customers	70,147,871	66,653,265
Loans and advances to related parties	50,071	47,606
Interest realized on impaired loans and advances to customers (Note 9)	311,503	184,147
	124,311,272	116,755,051

(a) Loans under reverse repurchase agreement represent short-term loans granted to a resident financial institution, which matured during the years 2017 and 2016 respectively.

Interest income on the Group's trading portfolio is included under "net interest and other gains/(losses) on financial assets at fair value through profit or loss" (Note 36).

33. INTEREST EXPENSE

	Year Ended December 31,	
	2017	2016
	LBP'000	LBP'000
Interest expense on:		
Borrowings with Central Bank	508,419	165,554
Deposits and borrowings from banks and financial institutions	1,056,806	2,751,603
Deposits and borrowings from related party banks and financial institutions	684,397	743,501
Customers' accounts at amortized cost	75,134,615	71,110,425
Related parties' accounts at amortized cost	2,460,911	2,201,807
Subordinated bonds (Note 24)	2,504,102	2,267,445
	82,349,250	79,240,335

34. FEE AND COMMISSION INCOME

	Year Ended December 31,	
	2017	2016
	LBP'000	LBP'000
Commission on documentary credits	658,548	756,945
Commission on letters of guarantee	1,469,820	1,225,747
Commission on customers' securities transactions (a)	-	9,568,516
Commission on other customers' transactions	1,058,338	1,283,864
Service fees on customers' transactions	6,296,360	6,990,452
Other	462,573	350,411
	9,945,639	20,175,935

(a) During 2016, the Group's customers entered into sales transaction of certificates of deposit in Lebanese Pounds against purchase of Lebanese Government bonds in U.S. Dollars with the regulator and as a result, the Group recorded commissions in the amount of LBP9.57billion,

35. FEE AND COMMISSION EXPENSE

	Year Ended December 31, 2017 LBP'000	Year Ended December 31, 2016 LBP'000
Commission on transactions with banks	236,692	224,899
Other	126,895	85,058
	363,587	309,957

36. NET INTEREST AND OTHER GAINS / (LOSSES) ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Year Ended December 31, 2017 LBP'000	Year Ended December 31, 2016 LBP'000
Dividends received on equity securities	477,748	243,218
Interest received on debt securities	3,574,926	4,731,043
Unrealized gain/(loss)	1,551,297	(2,721,584)
Realized gain	2,733,030	2,279,066
Recovery of principal of financial assets at fair value through profit or loss	70,865	75,256
	8,407,866	4,606,999

37. OTHER OPERATING INCOME/(LOSS), (NET)

	Year Ended December 31, 2017 LBP'000	Year Ended December 31, 2016 LBP'000
Dividends on financial assets at fair value through other comprehensive income	53,603	53,603
Share in profit of an associate (Note 13)	1,385,715	1,074,343
Revenues and commissions from securitization operations	4,443,807	3,319,930
Gain from derecognition of assets at authorized cost, (net)	3,515,282	1,934,797
Others	24,255	262,049
	9,422,662	6,644,722

38. STAFF COSTS

	Year Ended December 31,	
	2017	2016
	LBP'000	LBP'000
Salaries and related charges	20,875,831	19,640,565
Social Security contributions	2,328,524	2,037,992
Provision for employees' end-of-service indemnities (net) (Note 23)	1,264,184	941,970
	24,468,539	22,620,527

39. ADMINISTRATIVE EXPENSES

	Year Ended December 31,	
	2017	2016
	LBP'000	LBP'000
Travel and entertainment	334,581	257,073
Advertisement and publicity	1,032,763	1,387,628
Professional fees	4,949,519	4,292,888
Maintenance and repairs	1,410,626	1,468,335
Electricity and fuel	191,181	354,564
Telephone expenses	486,815	499,021
Printing and stationary	386,298	325,626
Rent and building services	1,894,231	2,098,555
Insurance	257,322	266,995
Subscriptions	1,574,288	1,574,544
Gifts and donations	122,919	457,136
Fees and taxes	1,056,194	965,880
Other	1,862,705	1,736,171
	15,559,442	15,684,416

40. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary equity holders of the Group by the weighted average number of ordinary shares outstanding during the year.

The following table shows the income and share data used in the basic earnings per share calculation:

	2017 LBP'000	2016 LBP'000
Number of common shares outstanding during the year	62,000,000	62,000,000
Weighted average number of treasury shares	(706,082)	(621,628)
Weighted average number of common shares adjusted for the effect of treasury shares	61,293,918	61,378,372

	2017 LBP'000	2016 LBP'000
Net profit attributable to equity holders of the Group	27,782,456	23,842,788
Less dividends to preferred shares	(3,693,375)	(3,693,375)
Net profit attributable to equity holders of the Group	24,089,081	20,149,413
Basic earnings per share in LBP	393/1	328/28
Diluted earnings per share in LBP	393/1	328/28

41. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISKS

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

Forward exchange contracts outstanding as of December 31, 2017 and 2016 represent positions held for customers' accounts and at their risk. The Group entered into such instruments to serve the needs of customers.

42. FIDUCIARY DEPOSITS

	December 31,	
	2017	2016
	LBP'000	LBP'000
Fiduciary deposits from customers invested in other banks	1,591,167	11,213,442
Fiduciary deposits for wealth management	32,407,242	25,683,554
Fiduciary deposits from customers invested in loans granted to other customers	43,445,396	14,144,720
	77,443,805	51,041,716

43. BALANCES / TRANSACTIONS WITH RELATED PARTIES

In the ordinary course of its activities, the Group conducts transactions with related parties including shareholders, directors, subsidiaries and associates. Balances with related parties excluding accrued interest and balances eliminated on consolidation consist of the following:

	December 31,	
	2017	2016
	LBP'000	LBP'000
Shareholders, directors and other key management personnel and close family members:		
Direct facilities and credit balances:		
Secured loans and advances	1,000,669	602,802
Unsecured loans and advances	78,226	1,440,138
Deposits	17,323,639	42,076,774
Associated companies:		
Direct facilities and credit balances:		
Unsecured loans and advances	5,583	603,405
Deposits	70,697,456	68,876,760
Indirect facilities:		
Letters of guarantee	791,905	2,497,669

Interest rates charged on balances outstanding are the same as applicable rates that would be charged in an arm's length transaction. Secured loans and advances are covered by real estate mortgages to the extent of LBP995million as at December 31, 2017 (LBP678million as at December 31, 2016).

The remuneration of executive management amounted to LBP2.69billion during 2017 (LBP2.51billion during 2016).

44. CASH AND CASH EQUIVALENTS

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

	December 31, 2017 LBP'000	December 31, 2016 LBP'000
Cash	9,242,940	9,015,076
Current accounts with central banks (excluding compulsory reserve)	109,139,449	34,771,506
Term placements with Central Bank of Lebanon	98,547,385	161,762,500
Checks for collection and current accounts with banks and financial institutions	76,865,674	159,267,138
Term placements with banks and financial institutions	12,589,716	68,562,537
	306,385,164	433,378,757

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

45. COLLATERAL GIVEN

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

December 31, 2017	Pledged Amount LBP'000	Nature of Facility	Amount of Facility LBP'000
Deposits with banks and financial institutions	45,805,242	Forward contracts	119,780,892
		Options and swaps	35,180,455
		Acceptances less than one year	3,182,315
	45,805,242		

December 31, 2016	Pledged Amount LBP'000	Nature of Facility	Amount of Facility LBP'000
Deposits with banks and financial institutions	65,301,776	Forward contracts	57,653,925
		Options and swaps	29,874,806
		Acceptances less than one year	1,296,318
	65,301,776		

46. PARTLY - OWNED SUBSIDIARY

Bemo Invest Firm Ltd. was a partly owned subsidiary of the Group up to December 31, 2016. During September 2017, the Group acquired the remaining 25% of Bemo Invest Firm Ltd. Financial information of the subsidiary are provided below:

	2016 %
Portion of equity interests held by non-controlling interests	75

The summarized financial information of the subsidiary is provided below. This information is based on amounts before inter-company eliminations:

	December 31, 2016 LBP'000
Total Assets	1,443,075
Total Liabilities	1,039,019
Total Equity	404,056
Loss	(389,988)

	Year Ended December 31, 2016 LBP'000
Fee and commission income	353,418
Commission expense	(4,314)
Administrative expenses	(463,889)
Staff costs	(274,682)
Depreciation and amortization	(521)
	(389,988

47. CAPITAL MANAGEMENT

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

Central Bank of Lebanon requires each bank or banking group to hold a minimum level of regulatory capital of LBP10billion for the head office and LBP500million for each local branch and LBP1.5billion for each branch abroad.

Pursuant to Central Bank Decision No 10848 dated December 7, 2011, adopted with respect to the application of the Basel III regulation, all banks operating in Lebanon must gradually reach the following capital ratios:

Ratio	December 31, 2015	December 31, 2016	December 31, 2017	December 31, 2018
	%	%	%	%
Common Equity Tier 1 ratio	8.00	8.5	9	10
Tier 1 ratio	10.00	11	12	13
Total Capital ratio	12.00	14	14.5	15

The Group's capital is split as follows:

Tier I capital: Comprises share capital after deduction of treasury shares, shareholders' cash contribution to capital, non-cumulative perpetual preferred shares, reserves from appropriation of profits, retained earnings (exclusive of current year's net profit) and non-controlling interests, intangible assets and unfavorable change in fair value of investments at fair value through other comprehensive income are deducted from Tier I Capital.

Tier II capital: Comprises qualifying subordinated liabilities and 50% of the cumulative favorable change in fair value through other comprehensive income and other regulatory reserves.

Investments in associates are deducted from Tier I and Tier II capital.

Furthermore, various limits are applied to the elements of capital base: Qualifying Tier II capital cannot exceed Tier I capital and qualifying short term subordinated loan capital may not exceed 50% of Tier I capital.

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

The Group's risk based capital ratio according to Central Bank of Lebanon directives and Basel III as of December 31, 2017 and 2016, is as follows:

	December 31,	
	2017	2016
	LBP million	LBP million
Risk-weighted assets	1,862,443	1,735,782
Credit risk	1,712,042	1,544,134
Market risk	39,257	88,601
Operational risk	111,144	103,047
Common equity Tier I (net)	196,923	180,385
Tier I capital (including reserve for assets acquired in satisfaction of loans)	249,564	232,925
Tier II capital	82,912	37,688
Total capital	332,476	270,613
Capital adequacy ratio - Common Equity Tier I	10.57%	10.39%
Capital adequacy ratio - Tier I	13.40%	13.42%
Capital adequacy ratio - Tier I and Tier II	17.85%	15.59%

The Group's capital strategy is based on the following constraints:

- Comply with regulatory ratios, on individual and consolidated basis, primarily in respect of the Capital Adequacy Ratio under Central Bank of Lebanon directives and Basle III.
- Ensure a high Return on Equity for the common shareholders.
- Dividends payout policy is consistent to provide shareholders with acceptable dividend yield.

The Group's total equity funding consists of the following:

	Balances		Variation	
	December 31,			
	2017	2016	Amount	%
	LBP'000	LBP'000	LBP'000	
Equity allotted to common shares	210,205,777	189,713,253	20,492,524	10.80
Preferred shares	52,641,854	52,641,854	-	-
Subordinated bonds	91,830,511	37,687,500	54,143,011	143.66
Total equity	354,678,142	280,042,607		

48. SEGMENT INFORMATION

The Group's operating segments are organized as follows: Lebanon and subsidiaries.

Measurement of segment assets, liabilities, income and expenses is based on the Group's accounting policies.

Segment income and expenses include transfers between segments and these transfers are conducted on arm's length terms and conditions. Shared costs are included in segments on the basis of the actual recharges made, if any.

The Group has two reportable business segments which reflect the basis on which senior management reviews operations:

	December 31, 2017			December 31, 2016		
	Lebanon and Middle East LBP'000	Cyprus LBP'000	Inter-Segment LBP'000	Lebanon and Middle East LBP'000	Cyprus LBP'000	Inter-Segment LBP'000
Total Assets	2,610,683,672	83,652,028	(27,895,389)	2,604,048,920	58,745,723	(12,244,289)
Total Liabilities	2,335,548,868	68,043,451	-	2,367,034,842	43,018,731	(1,959,467)
Total Equity	275,134,804	15,608,577	(27,895,389)	237,014,078	15,726,992	(10,284,822)
Profit for the year	27,248,888	533,578	-	23,093,321	651,989	-
Assets						
Cash and central banks	631,791,864	431,361	-	549,165,457	394,662	-
Deposits with banks and financial institutions	121,010,656	45,648,470	(27,895,389)	294,335,787	16,125,597	(12,244,289)
Financial assets at fair value through profit or loss	24,616,120	104,003	-	85,164,618	88,450	-
Loans to banks and financial institutions	12,838,776	-	-	17,512,310	-	-
Loans and advances to customers	1,132,077,211	16,461,257	-	1,022,637,222	15,290,001	-
Loans and advances to related parties	1,084,478	-	-	2,627,298	19,047	-
Investment securities	606,994,237	20,164,692	-	568,891,667	25,632,154	-
Customers' liability under acceptances	12,440,191	339,112	-	6,270,234	666,721	-
Investment in associate	20,994,413	-	-	18,052,156	-	-
Assets acquired in satisfaction of loans	2,073,984	-	-	2,046,944	-	-
Property and equipment	32,535,814	421,188	-	23,520,036	447,708	-
Intangible assets	1,166,558	18,761	-	949,140	32,540	-
Other	11,059,370	63,184	-	12,876,051	48,843	-
Liabilities						
Deposits and borrowings from banks	115,132,672	-	-	126,651,112	1,959,467	(1,959,467)
Other borrowings	69,534,833	-	-	9,315,863	-	-
Customers' accounts at amortized cost	1,925,825,507	67,262,945	-	2,038,099,268	40,092,760	-
Related parties' accounts at amortized cost	88,179,701	37,979	-	110,944,857	8,677	-
Acceptance liability	12,440,191	339,112	-	6,270,234	666,721	-
Other liabilities	24,294,965	286,638	-	30,665,361	195,106	-
Provisions	8,310,488	116,777	-	7,400,647	96,000	-
Subordinated bonds	91,830,511	-	-	37,687,500	-	-

	December 31, 2017			December 31, 2016		
	Lebanon and Middle East LBP'000	Cyprus LBP'000	Inter-Segment LBP'000	Lebanon and Middle East LBP'000	Cyprus LBP'000	Inter-Segment LBP'000
Interest income	122,101,544	2,495,088	(285,360)	114,242,753	2,882,594	(370,296)
Interest expense	(81,494,546)	(1,140,064)	285,360	(78,541,791)	(1,068,840)	370,296
Tax on interest	(113,494)	-	-	-	-	-
Net interest income	40,493,504	1,355,024	-	35,700,962	1,813,754	-
Fee and commission income	9,464,220	481,419	-	19,754,188	421,747	-
Fee and commission expense	(363,119)	(468)	-	(309,340)	(617)	-
Net fee and commission income	9,101,101	480,951	-	19,444,848	421,130	-
Net interest and other gain on trading assets at fair value through profit and loss	8,153,952	253,914	-	4,548,304	58,695	-
Gain on exchange	4,405,957	11	-	2,856,741	(55)	-
Other operating income, (net)	9,621,105	(198,443)	-	6,647,503	(2,781)	-
Net financial revenues	71,775,619	1,891,457	-	69,198,358	2,290,743	-
Allowance for impairment of loans and advances and other receivables, (net)	(111,039)	94,848	-	(1,631,622)	26,062	-
Net financial revenues after net impairment charge	71,664,580	1,986,305	-	67,566,736	2,316,805	-
Staff costs	(24,076,269)	(392,270)	-	(22,264,895)	(355,632)	-
Administrative expenses	(14,614,903)	(944,539)	-	(14,550,489)	(1,133,927)	-
Depreciation and amortization	(1,817,042)	(55,480)	-	(1,460,449)	(58,169)	-
Other income/(expense)	443,348	-	-	(1,524,478)	-	-
	(40,064,866)	(1,392,289)	-	(39,800,311)	(1,547,728)	-
Profit before income tax	31,599,714	594,016	-	27,766,425	769,077	-
Income tax expense	(4,350,826)	(60,438)	-	(4,673,104)	(117,088)	-
Profit for the year	27,248,888	533,578	-	23,093,321	651,989	-

49. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Group has exposure to the following risks arising from financial instruments:

- Credit risk
- Liquidity risk
- Market risk

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established a risk management department and various committees to develop and monitor the Group's risk management policies and their implementation.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Regular review of risk management policies and systems to reflect changes in market conditions, products and services offered is the responsibility of the various committees and the Board of Directors. The Group, through its management standards and procedures, aims to develop a disciplined control environment, in which employees understand their roles and obligations.

A. Credit Risk

Credit risk is the risk of financial loss to the Group 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 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. Concentrations of credit risk indicate the relative sensitivity of the Group's performance affecting a particular industry or geographical location.

1. Management of credit risk

The Group manages credit risk by developing policies and procedures that are regularly reviewed to ensure continuous effective credit risk management in light of changes in business strategy.

Credit risk management policies and practices define lending limits, credit approval authorization matrices, and risk identification and monitoring systems. The Group applies an internal rating system that takes into account criteria related to the borrower (e.g. nature of the activity, financial performance and structure, credit history, cash flows, projected financials and management) and to the credit quality (e.g. purpose, amount, tenor, collateral presented as a second way out). The Group also sets lending limits to a single obligor or a related group of obligors.

2. *Measurement of credit risk*

(a) <u>Loans and advances</u>

The Group assesses the probability of default of individual counterparties using internal rating tools. The Group's rating scale reflects the range of default probabilities defined for each rating class as explained below:

- **Special Mention /Vulnerable**: Loans and advances rated Watch List are loans that are not impaired but for which the Group determines that they require special monitoring.
- **Past due but not impaired**: Loans past due but not impaired are loans where contractual interest or principal are past due but the Group's management believes that impairment is not appropriate on the basis of the level of collateral available and the stage of collection of amounts owed to the Group.
- **Substandard loans**: Substandard loans are loans that are inadequately protected by current sound worth and paying capacity of the obligor or by any collateral pledged in favor of the group. Exposures where an indication of the possibility that the Group will sustain a loss if certain irregularities and deficiencies are not addressed exists are classified under this category.
- **Doubtful loans**: Doubtful loans have, in addition to the weaknesses existing in substandard loans, characteristics indicating that current existing facts and figures make the collection in full highly improbable. The probability of loss is high but certain reasonable and specific pending factors which if addressed could strengthen the probability of collection, result in the deferral of the exposure as an estimated loss until a more exact status is determined.
- **Loss**: Loans classified as loss are considered as uncollectible and of such minimal value that their classification as assets is not warranted. This does not mean that the loan is absolutely unrecoverable or has no salvage value. However, the amount of loss is difficult to measure and the Group does not wish to defer the writing of the loan even partial recovery might occur in the future. Loans are charged off in the period in which they are deemed uncollectible and therefore classified as loss.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in its loan portfolio. The main component of its allowance are specific loss component that relate to individually significant exposures, and a minor part of a collective loan loss allowance established for retail and Small and Medium Enterprises (SME's) where there is objective evidence that unidentified losses exist at the reporting date. This provision is estimated based on various factors including the current economic conditions, the experience the Group has had in dealing with a borrower or group of borrowers and available historical default information.

3. ***Risk mitigation policies***

Collateral:

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

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

4. ***Financial assets with credit risk exposure and related concentrations***

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

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

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

Bracket	December 31, 2017 Total Amount LBP'000	December 31, 2017 % to Total Deposits %
Less than LBP5billion	33,850,920	24.40
From LBP5billion to LBP15billion	25,281,490	18.22
Over LBP15billion	79,603,214	57.38
	138,735,624	100.00

Bracket	December 31, 2016 Total Amount LBP'000	December 31, 2016 % to Total Deposits %
Less than LBP5billion	34,117,340	11.44
From LBP5billion to LBP15billion	90,262,477	30.28
Over LBP15billion	173,751,634	58.28
	298,131,451	100.00

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

Bracket	No. of Counter Parties	Total Amount	% to Total
	December 31, 2017		
		LBP'000	%
Less than LBP500million	937	68,435,073	5.96
From LBP500million to LBP5billion	282	471,522,998	41.04
Over LBP5billion	56	609,051,396	53.00
	1,275	1,149,009,467	100.00

Bracket	No. of Counter Parties	Total Amount	% to Total
	December 31, 2016		
		LBP'000	%
Less than LBP500million	958	67,201,149	6.47
From LBP500million to LBP5billion	272	456,868,373	43.98
Over LBP5billion	57	514,724,101	49.55
	1,287	1,038,793,623	100.00

(a.3) Loans and advances to related parties:

Bracket	Total Amount	% to Total Deposits
	December 31, 2017	
	LBP'000	%
Less than LBP500million	1,084,478	100.00
	1,084,478	100.00

Bracket	Total Amount	% to Total Deposits
	December 31, 2016	
	LBP'000	%
Less than LBP500million	2,646,345	100.00
	2,646,345	100.00

Below are the details of the Group's exposure to credit risk with respect to loans and advances to customers:

	December 31, 2017						
				Fair Value of Collateral Held			
	Gross Loans Net of Unrealized Interest	Allowance for Impairment	Net Exposure	Pledged Funds	Property	Equities	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Performing Accounts	1,122,160,592	-	1,122,160,592	139,376,336	199,910,853	26,108,996	365,396,185
Past due but not impaired:							
Between 30-60 days	-	-	-	-	-	-	-
Between 60-90 days	271,415	-	271,415	-	-	-	-
Between 90-180 days	700,988	-	700,988	-	-	-	-
Beyond 180 days	363,345	-	363,345	-	-	-	-
Impaired:							
Substandard debts	19,712,056	-	19,712,056	-	28,363,613	103,050	28,466,663
Doubtful and bad debts	14,204,547	(6,744,593)	7,459,954	-	8,050,050	-	8,050,050
Collective provision for loan impairment	-	(2,129,882)	(2,129,882)	-	-	-	-
	1,157,412,943	(8,874,475)	1,148,538,468	139,376,336	236,324,516	26,212,046	401,912,898

	December 31, 2016						
				Fair Value of Collateral Held			
	Gross Loans Net of Unrealized Interest	Allowance for Impairment	Net Exposure	Pledged Funds	Property	Equities	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Performing Accounts	1,012,555,113	-	1,012,555,113	164,506,928	156,766,732	28,754,822	350,028,482
Past due but not impaired							
Between 30-60 days	1,215,799	-	1,215,799	-	-	-	-
Between 60-90 days	407,854	-	407,854	-	-	-	-
Between 90-180 days	2,013,946	-	2,013,946	-	-	-	-
Beyond 180 days	863,532	-	863,532	-	-	-	-
Impaired:							
Substandard debts	15,522,046	-	15,522,046	-	26,403,862	138,946	26,542,808
Doubtful and bad debts	14,107,735	(6,628,920)	7,478,815	-	8,050,050	-	8,050,050
Collective provision for loan impairment	-	(2,129,882)	(2,129,882)	-	-	-	-
	1,046,686,025	(8,758,802)	1,037,927,223	164,506,928	191,220,644	28,893,768	384,621,340

(b) Concentration of financial assets by industry or sector (excluding the collective provision for loan impairment):

	December 31, 2017									
	Sovereign	Financial Services	Real Estate Development	Manufacturing	Consumer Goods Trading	Real Estate Trading	Services	Private Individuals	Other	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Balance sheet Exposure:										
Cash and deposits with central banks	632,223,225	-	-	-	-	-	-	-	-	632,223,225
Deposits with banks and financial institutions	-	138,763,737	-	-	-	-	-	-	-	138,763,737
Financial assets at fair value through profit or loss	13,358,579	9,758,479	-	273,004	23,447	1,241,937	64,677	-	-	24,720,123
Loans to banks and financial institutions	-	12,838,776	-	-	-	-	-	-	-	12,838,776
Loans and advances to customers	-	20,350,512	222,880,111	156,673,451	497,260,637	-	85,787,624	167,716,015	-	1,150,668,350
Loans and advances to related parties	-	-	-	1,639	-	-	4,189	1,078,650	-	1,084,478
Financial assets at amortized cost	605,484,631	-	-	-	13,905,013	6,163,026	-	-	-	625,552,670
Financial assets at fair value through other comprehensive income	-	1,504,838	-	-	-	101,421	-	-	-	1,606,259
Customers' Liability under acceptances	-	-	749,766	3,777,572	7,977,795	-	-	274,170	-	12,779,303
Other assets	-	-	-	-	-	-	-	-	9,692,648	9,692,648
	1,251,066,435	183,216,342	223,629,877	160,725,666	519,166,892	7,506,384	85,856,490	169,068,835	9,692,648	2,609,929,569
Off-Balance sheet Risks:										
Documentary and commercial letters of credit	-	-	182,196	6,823,554	7,723,254	-	-	-	-	14,729,004
Guarantees and standby letters of credit	-	20,776,679	33,212,142	21,037,705	14,860,264	-	35,584,981	951,394	-	126,423,165
Forward Contracts	-	250,774,571	10,336,031	7,480,670	13,699,076	-	-	2,384,704	-	284,675,052

	December 31, 2016									
	Sovereign	Financial Services	Real Estate Development	Manufacturing	Consumer Goods Trading	Real Estate Trading	Services	Private Individuals	Other	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Balance Sheet Exposure										
Cash and deposits with central banks	549,560,119	-	-	-	-	-	-	-	-	549,560,119
Deposits with banks and financial institutions	-	298,217,095	-	-	-	-	-	-	-	298,217,095
Financial assets at fair value through profit or loss	75,511,132	8,117,181	-	39,673	20,424	1,527,821	36,837	-	-	85,253,068
Loans to banks and financial institutions	-	17,512,310	-	-	-	-	-	-	-	17,512,310
Loans and advances to customers	-	6,672,532	195,780,277	147,196,726	470,397,284	-	59,888,364	158,857,983	1,263,939	1,040,057,105
Loans and advances to related parties	-	-	-	560,732	-	-	11,790	2,073,823	-	2,646,345
Financial assets at amortized cost	573,878,419	-	-	-	15,430,530	4,576,406	-	-	-	593,885,355
Financial assets at fair value through other comprehensive income	-	540,120	-	-	-	98,346	-	-	-	638,466
Customers' liability under acceptances	-	-	1,277,276	1,005,278	4,654,401	-	-	-	-	6,936,955
Other assets	-	-	-	-	-	-	-	-	10,934,179	10,934,179
	1,198,949,670	331,059,238	197,057,553	148,802,409	490,502,639	6,202,573	59,936,991	160,931,806	12,198,118	2,605,640,997
Off-Balance sheet Risks										
Documentary and commercial letters of credit	-	39,403	1,046,188	2,114,454	27,817,946	-	-	277,833	-	31,295,824
Guarantees and standby letters of credit	-	20,668,484	20,823,165	11,632,540	15,826,557	-	20,146,537	1,367,040	-	90,464,323
Forward Contracts	-	228,975,174	10,353,753	157,488	3,948,130	-	-	2,790,276	-	246,224,821

(c) *Concentration of assets and liabilities by geographical area:*

	December 31, 2017					
	Lebanon	Middle East and Africa	Europe	North America	Other	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
ASSETS						
Cash and deposits with central banks	631,791,712	-	431,361	-	152	632,223,225
Deposits with banks and financial institutions	37,033,291	4,080,670	59,063,677	37,079,232	1,506,867	138,763,737
Financial assets at fair value through profit or loss	24,227,235	-	289,826	202,906	156	24,720,123
Loans to banks and financial institutions	12,838,776	-	-	-	-	12,838,776
Loans and advances to customers	1,067,675,655	33,229,939	47,624,176	8,537	161	1,148,538,468
Loans and advances to related parties	1,084,478	-	-	-	-	1,084,478
Financial assets at amortized cost	625,552,669	-	-	-	-	625,552,669
Financial assets at fair value through other comprehensive income	615,120	-	26,421	-	964,719	1,606,260
Customers' liability under acceptances	12,322,192	457,111	-	-	-	12,779,303
Investments in associates	-	20,994,413	-	-	-	20,994,413
Assets acquired in satisfaction of loans	2,073,984	-	-	-	-	2,073,984
Property and equipment	32,535,814	-	421,188	-	-	32,957,002
Intangible assets	1,166,559	-	18,760	-	-	1,185,319
Other assets	10,790,572	-	63,185	-	268,797	11,122,554
Total Assets	2,459,708,057	58,762,133	107,938,594	37,290,675	2,740,852	2,666,440,311
LIABILITIES						
Deposits and borrowings from banks and financial institutions	41,092,690	98,071,960	(24,031,978)	-	-	115,132,672
Customers' accounts at amortized cost	1,361,789,158	472,565,152	77,586,095	65,965,520	15,182,527	1,993,088,452
Related parties' accounts at amortized cost	45,334,198	40,284,373	2,599,109	-	-	88,217,680
Acceptance liability	773,744	704,612	8,600,686	474,561	2,225,700	12,779,303
Other term borrowings	69,534,833	-	-	-	-	69,534,833
Other liabilities	24,079,545	-	286,638	-	215,420	24,581,603
Provisions	8,044,044	-	116,777	-	266,444	8,427,265
Subordinated bonds	91,830,511	-	-	-	-	91,830,511
Total liabilities	1,642,478,723	611,626,097	65,157,327	66,440,081	17,890,091	2,403,592,319
FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK						
Documentary and commercial letters of credit	11,667,431	3,061,573	-	-	-	14,729,004
Guarantees and standby letters of credit	83,243,615	14,230,625	28,947,794	1,131	-	126,423,165
Forward exchange contracts	105,759,204	38,119,049	140,796,799	-	-	284,675,052

	December 31, 2016					
	Lebanon	Middle East and Africa	North America	Europe	Other	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
ASSETS						
Cash and deposits with central banks	549,164,133	-	-	394,661	1,325	549,560,119
Deposits with banks and financial institutions	128,294,416	8,144,990	39,524,014	109,489,907	12,763,768	298,217,095
Financial assets at fair value through profit or loss	85,071,504	-	181,564	-	-	85,253,068
Loans to banks and financial institutions	17,512,310	-	-	-	-	17,512,310
Loans and advances to customers	963,385,390	33,020,867	5,357	41,282,231	233,378	1,037,927,223
Loans and advances to related parties	2,646,345	-	-	-	-	2,646,345
Financial assets at amortized cost	593,885,355	-	-	-	-	593,885,355
Financial assets at fair value through other comprehensive income	615,120	-	-	23,346	-	638,466
Customers' liability under acceptances	5,803,005	1,133,950	-	-	-	6,936,955
Investments in associates	-	18,052,156	-	-	-	18,052,156
Assets acquired in satisfaction of loans	2,046,944	-	-	-	-	2,046,944
Property and equipment	23,520,036	-	-	447,708	-	23,967,744
Intangible assets	949,140	-	-	32,540	-	981,680
Other assets	12,549,332	-	-	48,842	326,720	12,924,894
Total Assets	2,385,443,030	60,351,963	39,710,935	151,719,235	13,325,191	2,650,550,354
LIABILITIES						
Deposits and borrowings from banks and financial institutions	26,030,655	100,025,446	-	595,011	-	126,651,112
Customers' accounts at amortized cost	1,570,955,316	374,348,984	30,674,598	70,019,272	32,193,858	2,078,192,028
Related parties' accounts at amortized cost	78,892,982	32,056,213	-	4,339	-	110,953,534
Acceptance liability	1,169,233	142,896	164,318	2,823,505	2,637,003	6,936,955
Other term borrowings	9,315,863	-	-	-	-	9,315,863
Other liabilities	29,863,008	-	-	195,108	802,351	30,860,467
Provisions	7,163,979	-	-	96,000	236,668	7,496,647
Subordinated bonds	37,687,500	-	-	-	-	37,687,500
Total liabilities	1,761,078,536	506,573,539	30,838,916	73,733,235	35,869,880	2,408,094,106
FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK						
Documentary and commercial letters of credit	30,200,261	897,171	58,340	140,052	-	31,295,824
Guarantees and standby letters of Credit	71,879,791	4,617,995	12,214,209	1,752,328	-	90,464,323
Forward exchange contracts	131,333,987	56,521,450	-	58,369,384	-	246,224,821

B. Liquidity Risk

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

1. Management of liquidity risk

Liquidity risk is the Group's ability to ensure the availability of funding to meet commitments, both on-balance and off-balance sheet commitments, at a reasonable cost on time. The management of liquidity should not lead to threats to the Group's solvency.

Liquidity risk arises when in case of crisis, refinancing may only be raised at higher market rates (funding risk), or assets may only be liquidated at a discount to market rates (market liquidity risk). Liquidity risk is also caused by mismatches in the maturities of assets and liabilities (uses and sources of funds).

Residual contractual maturities of financial assets and liabilities:

The tables below show the Group's assets and liabilities in Lebanese Pounds & Foreign Currencies base accounts segregated by maturity:

	December 31, 2017							
	Accounts with no Maturity LBP'000	Up to 3 Months LBP'000	3 Months to 1 Year LBP'000	1 to 3 Years LBP'000	3 to 5 Years LBP'000	5 to 10 Years LBP'000	Over 10 Years LBP'000	Total LBP'000
Assets								
Cash and deposits with central banks	145,317,085	98,547,385	11,898,405	145,419,525	69,423,450	137,617,375	24,000,000	632,223,225
Deposits with banks and financial institutions	80,933,281	51,107,880	6,722,576	-	-	-	-	138,763,737
Financial assets at fair value through profit or loss	10,299,925	75,375	82,110	-	5,616,357	2,417,313	6,229,043	24,720,123
Loans to banks and financial institutions	-	8,628,102	4,210,674	-	-	-	-	12,838,776
Loans and advances to customers	659,040,877	434,872,924	53,494,636	1,097,258	32,773	-	-	1,148,538,468
Loans and advances to related parties	1,074,823	9,045	610	-	-	-	-	1,084,478
Financial assets at amortized cost	9,660,950	10,864,375	27,592,205	97,064,267	122,030,750	304,244,270	54,095,852	625,552,669
Financial assets at fair value through other comprehensive income	1,606,260	-	-	-	-	-	-	1,606,260
Customers' liability under acceptances	-	11,291,099	1,488,204	-	-	-	-	12,779,303
Investments in associates	20,994,413	-	-	-	-	-	-	20,994,413
Assets acquired in satisfaction of loans	2,073,984	-	-	-	-	-	-	2,073,984
Property and equipment	32,957,002	-	-	-	-	-	-	32,957,002
Intangible assets	1,185,319	-	-	-	-	-	-	1,185,319
Other assets	11,122,554	-	-	-	-	-	-	11,122,554
Total Assets	976,266,473	615,396,185	105,489,420	243,581,050	197,103,330	444,278,958	84,324,895	2,666,440,311
Liabilities								
Deposits and borrowings from banks and financial institutions	65,774,620	32,120,276	17,237,776	-	-	-	-	115,132,672
Customers' accounts at amortized cost	356,067,160	1,253,001,437	357,315,358	25,950,747	-	753,750	-	1,993,088,452
Related parties' accounts at amortized cost	29,257,279	39,787,867	19,172,534	-	-	-	-	88,217,680
Acceptance liability	-	11,291,099	1,488,204	-	-	-	-	12,779,303
Other term borrowings	385,673	520,951	1,096,092	3,090,220	4,729,030	59,309,933	402,934	69,534,833
Other liabilities	24,581,603	-	-	-	-	-	-	24,581,603
Provisions	8,427,265	-	-	-	-	-	-	8,427,265
Subordinated Bonds	1,380,511	-	-	-	37,687,500	52,762,500	-	91,830,511
Total Liabilities	485,874,111	1,336,721,630	396,309,964	29,040,967	42,416,530	112,826,183	402,934	2,403,592,319
Maturity Gap	490,392,362	(721,325,445)	(290,820,544)	214,540,083	154,686,800	331,452,775	83,921,961	262,847,992

	December 31, 2016							
	Accounts with no Maturity LBP'000	Up to 3 Months LBP'000	3 Months to 1 Year LBP'000	1 to 3 Years LBP'000	3 to 5 Years LBP'000	5 to 10 Years LBP'000	Over 10 Years LBP'000	Total LBP'000
Assets								
Cash and deposits with central banks	98,129,853	161,762,500	32,145,846	100,073,100	103,178,820	54,270,000	-	549,560,119
Deposits with banks and financial institutions	159,338,076	102,606,933	35,713,384	558,702	-	-	-	298,217,095
Financial assets at fair value through profit or loss	8,154,535	41,429	753,750	6,499,749	11,734,303	41,693,840	16,375,462	85,253,068
Loans to banks and financial institutions	-	16,066,256	1,446,054	-	-	-	-	17,512,310
Loans and advances to customers	688,079,640	328,156,169	20,704,435	882,169	104,810	-	-	1,037,927,223
Loans and advances to related parties	2,013,087	569,777	53,825	9,656	-	-	-	2,646,345
Financial assets at amortized cost	12,067,203	4,217,383	38,152,122	66,515,859	85,036,650	357,201,524	30,694,614	593,885,355
Financial assets at fair value through other comprehensive income	638,466	-	-	-	-	-	-	638,466
Customers' liability under acceptances	-	6,149,582	770,765	16,608	-	-	-	6,936,955
Investments in associates	18,052,156	-	-	-	-	-	-	18,052,156
Assets acquired in satisfaction of loans	2,046,944	-	-	-	-	-	-	2,046,944
Property and equipment	23,967,744	-	-	-	-	-	-	23,967,744
Intangible assets	981,680	-	-	-	-	-	-	981,680
Other assets	12,924,894	-	-	-	-	-	-	12,924,894
Total Assets	1,026,394,278	619,570,029	129,740,181	174,555,843	200,054,583	453,165,364	47,070,076	2,650,550,354
Liabilities								
Deposits and borrowings from banks and financial institutions	77,986,926	46,634,186	2,030,000	-	-	-	-	126,651,112
Customers' accounts at amortized cost	398,020,648	1,259,729,484	359,411,209	60,019,154	1,011,533	-	-	2,078,192,028
Related parties' accounts at amortized cost	35,238,122	42,123,789	33,591,623	-	-	-	-	110,953,534
Acceptance liability	-	6,149,582	770,765	16,608	-	-	-	6,936,955
Other term borrowings	88,596	395,949	864,477	2,315,701	2,204,529	2,850,214	596,397	9,315,863
Other liabilities	30,860,467	-	-	-	-	-	-	30,860,467
Provisions	7,496,647	-	-	-	-	-	-	7,496,647
Subordinated Bonds	-	-	-	-	37,687,500	-	-	37,687,500
Total Liabilities	549,691,406	1,355,032,990	396,668,074	62,351,463	40,903,562	2,850,214	596,397	2,408,094,106
Maturity Gap	476,702,872	(735,462,961)	(266,927,893)	112,204,380	159,151,021	450,315,150	46,473,679	242,456,248

Concentration of Liabilities by counterparty:

Information regarding the concentration of liabilities by counterparty is disclosed under the respective notes to the financial statements.

C. Market Risks

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.

1. Management of market risks:

Market risks include interest rate risk and exchange risk.

The Group has established an Assets and Liabilities Management Committee (ALCO) to manage market risks. ALCO's primary objective is to maximize interest income spread and trading income while maintaining market risks at an appropriate level through regular management and measurement of these risks.

The Group has developed policies and procedures to manage market risks and ensure compliance with regulatory requirements and limits in addition to internal risk strategies and limits.

2. Foreign exchange risk:

Foreign exchange risk is the risk that changes in foreign currency rates will affect the Group's income or the value of its holdings of financial instruments. The objective of foreign currency risk management is to manage and control foreign currency risk exposure within acceptable parameters while optimizing the return on risk.

Foreign exchange exposure arises from normal banking activities, primarily from the receipt of deposits and the placement of funds. Future open positions in any currency are managed by means of forward foreign exchange contracts. It is the policy of the Group that it will, at all times, adhere to the limits laid down by the Central Bank as referred to below. It is not the Group's intention to take open positions on its own account (proprietary trading) but rather to maintain square or near square positions in all currencies.

The treasury department is responsible for monitoring the compliance with the regulatory ratios set by the regulatory authorities. ALCO is supported by the finance department by reports of any breach of these ratios.

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

	December 31, 2017					
	LBP	USD C/V in LBP	EUR C/V in LBP	GBP C/V in LBP	Other Currencies C/V in LBP	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Assets						
Cash and deposits with central banks	86,426,958	434,096,740	111,037,515	634,820	27,192	632,223,225
Deposits with banks and financial institutions	3,627,100	69,017,706	52,885,517	8,664,081	4,569,333	138,763,737
Financial assets at fair value through profit or loss	229,052	24,108,349	135,705	247,017	-	24,720,123
Loans to banks and financial institutions	-	12,838,776	-	-	-	12,838,776
Loans and advances to customers	48,739,718	878,872,631	179,217,170	6,701,469	35,007,481	1,148,538,469
Loans and advances to related parties	2,069	1,071,559	-	10,849	-	1,084,477
Financial assets at amortized cost	263,882,381	361,670,288	-	-	-	625,552,669
Financial assets at fair value through other comprehensive income	615,120	-	991,140	-	-	1,606,260
Customers' liability under acceptances	-	6,045,468	6,297,264	-	436,571	12,779,303
Investment in associate	5,310,593	15,683,820	-	-	-	20,994,413
Assets acquired in satisfaction of loans	27,040	2,046,944	-	-	-	2,073,984
Property and equipment	32,373,224	583,778	-	-	-	32,957,002
Intangible assets	1,164,852	20,467	-	-	-	1,185,319
Other assets	3,148,926	6,870,412	1,101,629	-	1,587	11,122,554
Total Assets	445,547,033	1,812,926,938	351,665,940	16,258,236	40,042,164	2,666,440,311
Liabilities						
Deposits and borrowings from banks and financial institutions	7,366,838	62,797,923	34,298,857	4,866,871	5,802,183	115,132,672
Customers' accounts at amortized cost	214,754,330	1,564,102,065	186,202,742	22,276,060	5,753,255	1,993,088,452
Related parties' accounts at amortized cost	1,864,047	74,207,942	9,896,599	139,286	2,109,806	88,217,680
Acceptance liability	-	6,045,468	6,297,264	-	436,571	12,779,303
Other term borrowings	69,534,833	-	-	-	-	69,534,833
Other liabilities	19,463,773	133,633,888	(113,287,946)	11,101,170	(27,617,532)	23,293,353
Provisions	7,735,005	575,483	116,777	-	-	8,427,265
Subordinated bonds	-	91,830,511	-	-	-	91,830,511
Total Liabilities	320,718,826	1,933,193,280	123,524,293	38,383,387	(13,515,717)	2,402,304,069
Currencies to be delivered	-	194,466,486	58,723,054	20,380,981	11,104,531	284,675,052
Currencies to be received	-	(65,010,900)	(172,912,417)	(9,287,425)	(38,752,560)	(285,963,302)
	-	129,455,586	(114,189,363)	11,093,556	(27,648,029)	(1,288,250)
Net on-balance sheet financial position	124,828,207	9,189,244	113,952,284	(11,031,595)	25,909,852	262,847,992

	December 31, 2016					
	LBP	USD C/V in LBP	EUR C/V in LBP	GBP C/V in LBP	Other Currencies C/V in LBP	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
ASSETS						
Cash and deposits with central banks	175,643,974	282,239,383	88,774,593	2,888,830	13,339	549,560,119
Deposits with banks and financial institutions	6,637,863	157,987,863	98,469,012	23,566,997	11,555,360	298,217,095
Financial assets at fair value through profit or loss	23,009,913	62,243,155	-	-	-	85,253,068
Loans to banks and financial institutions	-	17,512,310	-	-	-	17,512,310
Loans and advances to customers	60,782,819	844,379,245	111,527,193	5,893,249	15,344,717	1,037,927,223
Loans and advances to related parties	14,907	2,576,868	54,570	-	-	2,646,345
Financial assets at amortized cost	209,038,164	384,847,191	-	-	-	593,885,355
Financial assets at fair value through other comprehensive income	615,120	-	23,346	-	-	638,466
Customers' liability under acceptances	-	3,577,187	2,892,540	-	467,228	6,936,955
Investment in associate	-	18,052,156	-	-	-	18,052,156
Assets acquired in satisfaction of loans	-	2,046,944	-	-	-	2,046,944
Property and equipment	23,520,035	447,709	-	-	-	23,967,744
Intangible assets	943,868	37,812	-	-	-	981,680
Other assets	7,095,199	(40,512,208)	53,016,089	(6,725,725)	(4,374,158)	8,499,197
Total Assets	507,301,862	1,735,435,615	354,757,343	25,623,351	23,006,486	2,646,124,657
LIABILITIES						
Deposits and borrowings from banks and financial institutions	23,424,615	59,860,207	27,366,105	4,428,923	11,571,262	126,651,112
Customers' accounts at amortized cost	328,974,592	1,489,145,482	209,801,233	31,342,129	18,928,592	2,078,192,028
Related parties' accounts at amortized cost	4,621,771	94,253,772	8,585,076	3,237,844	255,071	110,953,534
Acceptance liability	-	3,577,186	2,892,540	-	467,229	6,936,955
Other term borrowings	9,315,863	-	-	-	-	9,315,863
Other liabilities	3,408,804	8,061,042	29,912,115	(6,662,790)	(3,858,704)	30,860,467
Provisions	6,402,691	997,956	96,000	-	-	7,496,647
Subordinated bonds	-	37,687,500	-	-	-	37,687,500
Total Liabilities	376,148,336	1,693,583,145	278,653,069	32,346,106	27,363,450	2,408,094,106
Currencies to be delivered	-	139,492,237	73,829,051	16,098,677	16,804,856	246,224,821
Currencies to be received	-	(94,206,024)	(125,789,800)	(9,372,952)	(12,430,348)	(241,799,124)
	-	45,286,213	(51,960,749)	6,725,725	4,374,508	4,425,697
Net on-balance sheet financial position	131,153,526	87,138,683	24,143,525	2,970	17,544	242,456,248

3. *Interest rate risk*

Interest rate risk arises when there is a mismatch between positions, which are subject to interest rate adjustment within a specified period. The Group's lending, funding and investment activities give rise to interest rate risk. The immediate impact of variation in interest rate is on the Group's net interest income, while a long term impact is on Group's net worth since the economic value of Group's assets, liabilities and off-balance sheet exposures are affected.

Interest rate risk is the risk that changes in interest rates will affect the Group's income or the value of its holdings of financial instruments. The objective of interest rate risk management is to manage and control interest rate risk exposure within acceptable parameters while optimizing the return on risk.

Below is a summary of the Group's interest rate gap position on assets and liabilities reflected at carrying amounts at year end segregated between floating and fixed interest rate earning and bearing.

Below is a summary of the Group's interest rate gap position on assets and liabilities reflected at carrying amounts at year end segregated between floating and fixed interest rate earning or bearing:

	December 31, 2017								
			Fixed Interest Rate						
	Non-Interest Bearing	Floating Interest Rate	Over 3 Months Less than 1 Year	1 to 3 Years	3 to 5 Years	5 to 10 Years	Over 10 Years	Total	Grand Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Assets									
Cash and deposits with central banks	36,672,046	432,275,554	-	-	1,658,250	137,617,375	24,000,000	163,275,625	632,223,225
Deposits with banks and financial institutions	62,178,302	69,862,859	6,722,576	-	-	-	-	6,722,576	138,763,737
Financial assets at fair value through profit or loss	10,299,925	75,375	82,110	-	5,616,357	2,417,313	6,229,043	14,344,823	24,720,123
Loans to banks and financial institutions	12,838,776	-	-	-	-	-	-	-	12,838,776
Loans and advances to customers	1,333,725	1,092,580,076	53,494,636	1,097,258	32,773	-	-	54,624,667	1,148,538,468
Loans and advances to related parties	-	1,083,868	610	-	-	-	-	610	1,084,478
Financial assets at amortized cost	9,660,950	10,864,375	27,592,205	97,064,267	122,030,750	304,244,270	54,095,852	605,027,344	625,552,669
Financial assets at fair value through other comprehensive income	1,606,260	-	-	-	-	-	-	-	1,606,260
Customers' liability under acceptances	12,779,303	-	-	-	-	-	-	-	12,779,303
Investments in associates	20,994,413	-	-	-	-	-	-	-	20,994,413
Assets acquired in satisfaction of loans	2,073,984	-	-	-	-	-	-	-	2,073,984
Property and equipment	32,957,002	-	-	-	-	-	-	-	32,957,002
Intangible assets	1,185,319	-	-	-	-	-	-	-	1,185,319
Other assets	11,122,554	-	-	-	-	-	-	-	11,122,554
Total Assets	215,702,559	1,606,742,107	87,892,137	98,161,525	129,338,130	444,278,958	84,324,895	843,995,645	2,666,440,311
Liabilities									
Deposits and borrowings from banks and financial institutions	1,826,377	96,068,519	17,237,776	-	-	-	-	17,237,776	115,132,672
Customers' accounts at amortized cost	9,136,241	1,599,932,356	357,315,358	25,950,747	-	753,750	-	384,019,855	1,993,088,452
Related parties' accounts at amortized cost	196,585	68,848,561	19,172,534	-	-	-	-	19,172,534	88,217,680
Acceptance liability	12,779,303	-	-	-	-	-	-	-	12,779,303
Other term borrowings	385,673	520,951	1,096,092	3,090,220	4,729,030	59,309,933	402,934	68,628,209	69,534,833
Other liabilities	24,581,603	-	-	-	-	-	-	-	24,581,603
Provisions	8,427,265	-	-	-	-	-	-	-	8,427,265
Subordinated bonds	1,380,511	-	-	-	37,687,500	52,762,500	-	90,450,000	91,830,511
Total Liabilities	58,713,558	1,765,370,387	394,821,760	29,040,967	42,416,530	112,826,183	402,934	579,508,374	2,403,592,319
Interest Rate Gap Position	156,989,001	(158,628,280)	(306,929,623)	69,120,558	86,921,600	331,452,775	83,921,961	264,487,271	262,847,992

			December 31, 2016						
			Fixed Interest Rate						
	Non-Interest Bearing	Floating Interest Rate	Over 3 Months Less than 1 Year	1 to 3 Years	3 to 5 Years	5 to 10 Years	Over 10 Years	Total	Grand Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Assets									
Cash and deposits with central banks	75,233,223	420,056,896	-	-	-	54,270,000	-	54,270,000	549,560,119
Deposits with banks and financial institutions	183,976,326	77,968,683	35,713,384	558,702	-	-	-	36,272,086	298,217,095
Financial assets at fair value through profit or loss	8,154,535	41,429	753,750	6,499,749	11,734,303	41,693,840	16,375,462	77,057,104	85,253,068
Loans to banks and financial institutions	9,974,810	7,537,500	-	-	-	-	-	-	17,512,310
Loans and advances to customers	957,147	1,015,278,662	20,704,435	882,169	104,810	-	-	21,691,414	1,037,927,223
Loans and advances to related parties	-	2,582,864	53,825	9,656	-	-	-	63,481	2,646,345
Financial assets at amortized cost	12,067,203	4,217,383	38,152,122	66,515,859	85,036,650	357,201,524	30,694,614	577,600,769	593,885,355
Financial assets at fair value through other comprehensive income	638,466	-	-	-	-	-	-	-	638,466
Customers' liability under acceptances	6,936,955	-	-	-	-	-	-	-	6,936,955
Investments in associates	18,052,156	-	-	-	-	-	-	-	18,052,156
Assets acquired in satisfaction of loans	2,046,944	-	-	-	-	-	-	-	2,046,944
Property and equipment	23,967,744	-	-	-	-	-	-	-	23,967,744
Intangible assets	981,680	-	-	-	-	-	-	-	981,680
Other assets	12,924,894	-	-	-	-	-	-	-	12,924,894
Total Assets	355,912,083	1,527,683,417	95,377,516	74,466,135	96,875,763	453,165,364	47,070,076	766,954,854	2,650,550,354
Liabilities									
Deposits and borrowings from banks and financial institutions	16,041,926	108,579,186	2,030,000	-	-	-	-	2,030,000	126,651,112
Customers' accounts at amortized cost	113,561,427	1,544,188,705	359,411,209	60,019,154	1,011,533	-	-	420,441,896	2,078,192,028
Related parties' accounts at amortized cost	7,138,120	70,223,791	33,591,623	-	-	-	-	33,591,623	110,953,534
Acceptance liability	6,936,955	-	-	-	-	-	-	-	6,936,955
Other term borrowings	88,596	395,949	864,477	2,315,701	2,204,529	2,850,214	596,397	8,831,318	9,315,863
Other liabilities	30,860,467	-	-	-	-	-	-	-	30,860,467
Provisions	7,496,647	-	-	-	-	-	-	-	7,496,647
Subordinated bonds	-	-	-	-	37,687,500	-	-	37,687,500	37,687,500
Total Liabilities	182,124,138	1,723,387,631	395,897,309	62,334,855	40,903,562	2,850,214	596,397	502,582,337	2,408,094,106
Interest Rate Gap Position	173,787,946	(195,704,214)	(300,519,793)	12,131,280	55,972,201	450,315,150	46,473,679	264,372,517	242,456,249

50. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

	December 31, 2017				
	Carrying Value	Fair Value			
		Level 1	Level 2	Level 3	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Financial assets measured at fair value through profit or loss:					
Quoted equity securities	10,084,754	10,084,754	-	-	10,084,754
Lebanese treasury bills	223,268	-	223,268	-	223,268
Lebanese Government bonds	7,033,275	-	7,033,275	-	7,033,275
Certificates of deposit issued by the Central Bank of Lebanon	5,907,290	-	5,907,290	-	5,907,290
Certificates of deposit issued by banks	-	-	-	-	-
Corporate bonds	1,256,366	1,256,366	-	-	1,256,366
	24,504,953	11,341,120	13,163,833	-	24,504,953
Financial assets at amortized cost:					
Lebanese treasury bills	192,088,212	-	189,834,264	-	189,834,264
Lebanese Government bonds	101,452,978	-	88,756,612	-	88,756,612
Certificates of deposit issued by Central Bank of Lebanon	302,553,753	-	297,617,614	-	297,617,614
Corporate bonds	19,796,778	20,301,205	-	-	20,301,205
	615,891,721	20,301,205	576,208,490	-	596,509,695
Financial liabilities measured at amortized cost:					
Subordinated bonds	90,450,000	-	-	94,129,721	-
	90,450,000	-	-	94,129,721	-

	December 31, 2016				
	Carrying Value	Fair Value			
		Level 1	Level 2	Level 3	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Financial assets measured at fair value through profit or loss:					
Quoted equity securities	7,099,123	7,099,123	-	-	7,099,123
Lebanese treasury bills	16,777,541	-	16,777,541	-	16,777,541
Lebanese Government bonds	20,113,835	-	20,113,835	-	20,113,835
Certificates of deposit issued by the Central Bank of Lebanon	37,568,221	-	37,568,221	-	37,568,221
Certificates of deposit issued by banks	753,750	-	753,750	-	753,750
Corporate bonds	1,885,186	1,885,186	-	-	1,885,186
	84,197,656	8,984,309	75,213,347	-	84,197,656
Financial assets at amortized cost:					
Lebanese treasury bills	149,290,331	-	152,536,263	-	152,536,263
Lebanese Government bonds	115,685,102	-	105,933,735	-	105,933,735
Certificates of deposit issued by Central Bank	301,835,094	-	298,179,326	-	298,179,326
Corporate bonds	19,819,866	19,874,922	-	-	19,874,922
	586,630,393	19,874,922	556,649,324	-	576,524,246
Financial liabilities measured at amortized cost:					
Subordinated bonds	37,687,500	-	-	36,894,934	36,894,934
	37,687,500	-	-	36,894,934	36,894,934

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 assets and financial liabilities, are determined (Level 2 and Level 3 fair values) and significant unobservable inputs used:

	December 31, 2017	
	Date of Valuation	**Valuation Technique and key Inputs**
Financial Assets		
At fair value through profit or loss:		
Lebanese treasury bills	December 31, 2017	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bills adjusted for illiquidity
Certificates of deposit issued by the Central Bank of Lebanon - Local currency	December 31, 2017	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bills, adjusted for illiquidity
Certificates of deposit issued by the Central Bank of Lebanon - foreign currency	December 31, 2017	DCF at a discount rate based on observable yield curve at measurement date
Lebanese Government bonds	December 31, 2017	DCF at a discount rate determined based on the yield on USA treasury bills and the Credit Swap applicable to Lebanon subject to Illiquidity factor
At amortized cost:		
Lebanese treasury bills	December 31, 2017	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bills, adjusted for illiquidity
Lebanese Government bonds	December 31, 2017	DCF at a discount rate determined based on the yield on USA treasury bills and the Credit Swap applicable to Lebanon subject to illiquidity factor
Certificates of deposit issued by the Central Bank of Lebanon - Local currency	December 31, 2017	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bills, adjusted for illiquidity
Certificates of deposit issued by the Central Bank of Lebanon - foreign currency	December 31, 2017	DCF at a discount rate based on observable yield curve at measurement date
Financial Liabilities		
At amortized cost:		
Subordinated bonds	December 31, 2017	DCF at a discount rate determined based on unobservable input related to risk.

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

	December 31, 2016	
	Date of Valuation	Valuation Technique and key Inputs
Financial Assets		
At fair value through profit or loss:		
Lebanese treasury bills	December 31, 2016	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bills adjusted for illiquidity
Certificates of deposit issued by the Central Bank of Lebanon - Local currency	December 31, 2016	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bills, adjusted for illiquidity
Certificates of deposit issued by the Central Bank of Lebanon - foreign currency	December 31, 2016	DCF at a discount rate based on observable yield curve at measurement date
Certificates of deposit issued by banks	December 31, 2016	DCF at a discount rate based on observable yield curve at measurement date
Lebanese Government bonds	December 31, 2016	DCF at a discount rate determined based on the yield on USA treasury bills and the Credit Swap applicable to Lebanon subject to Illiquidity factor
At amortized cost:		
Lebanese treasury bills	December 31, 2016	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bills, adjusted for illiquidity
Lebanese Government Bonds	December 31, 2016	DCF at a discount rate determined based on the yield on USA treasury bills and the Credit Swap applicable to Lebanon subject to illiquidity factor
Certificates of deposit issued by the Central Bank of Lebanon - Local currency	December 31, 2016	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bills, adjusted for illiquidity
Certificates of deposit issued by the Central Bank of Lebanon - foreign currency	December 31, 2016	DCF at a discount rate based on observable yield curve at measurement date
Financial Liabilities		
At amortized cost:		
Subordinated bonds	December 31, 2016	DCF at a discount rate determined based on unobservable input related to risk.

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

51. 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 11, 2018.