ANNUAL REPORT 2017

North Africa Commercial Bank S.A.L.

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North Africa Commercial Bank S.A.L.

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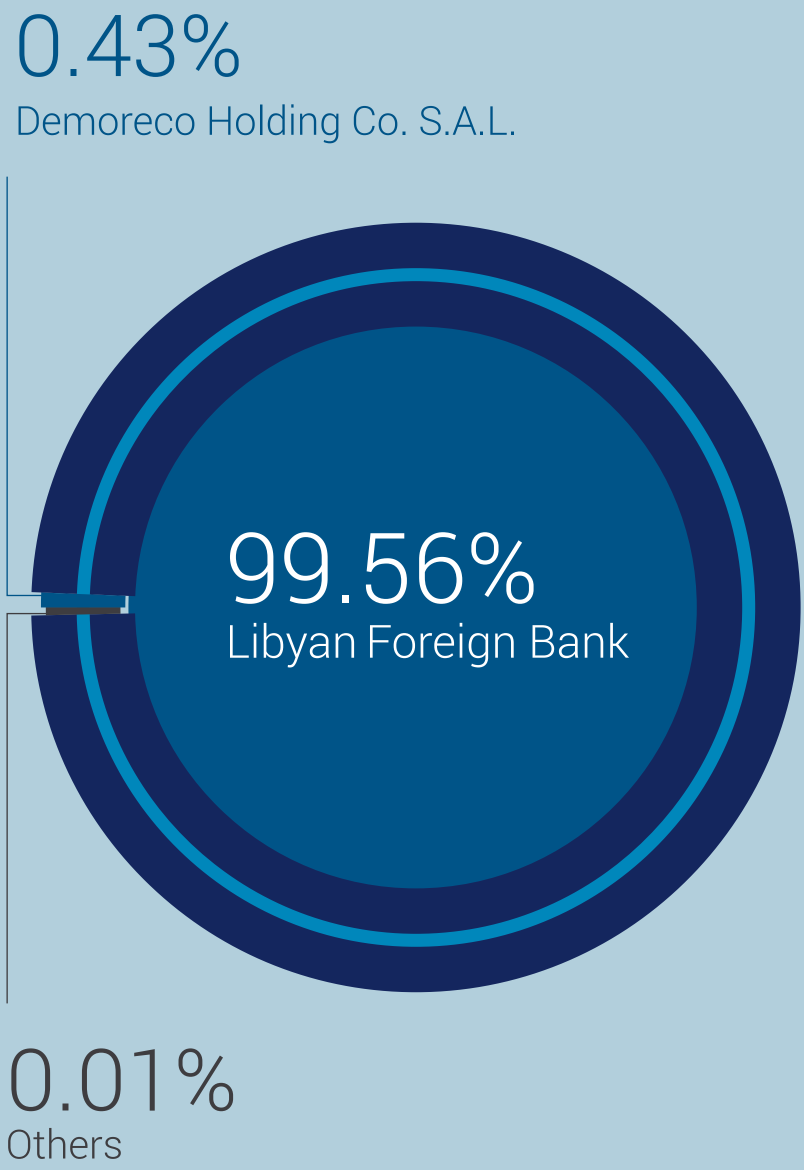

01

Board of Directors

Mr. Mohamed Najib Hmida El-Jamal
Chairman & General Manager

Libyan Foreign Bank
Rep. by Mr. Mohamed Najib Mugber
Member

Demoreco Holding Co. SAL
Rep. by Dr. Abdusslam A. Gehawe
Member

Mr. Mohamed Mounir Naffi
Member

Mr. Jean Paul Marcel Touma
Member

Dr. Khaled Mohamed El Kurdi
Member

Dr. Abubaker Mohamed Al Waddan
Member

Mr. Ousama Rami Alserrag
Member

Rawi Boutros Kanaan Esq.
Member

Mrs. Rania Joseph El Hage
Secretary of the board

General Management

Mr. Mohamed Najib Hmida El-Jamal
Chairman & General Manager

Mr. Yousef Mabrouk Ajail
Assistant General Manager for Banking Operations & Branches

The performance of the banking sector remained outstanding, despite the difficult internal and external conditions, with banks continuing to provide financing for the economy

Members of the Board of Directors and Board Committees

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

Mrs. Rania Joseph El Hage
Secretary of the board / Secretary of Remuneration Committee

Mrs. Henriette Gemayel
Secretary of Risk Committee

Mr. Hassane Mustafa Ghalayini
Secretary of Audit Committee

Mr. Shawki Ghassan Ahwash
Secretary of AML/CFT Committee

Financial Highlights

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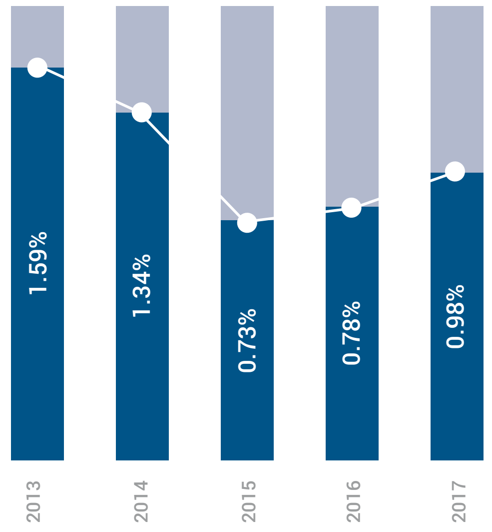
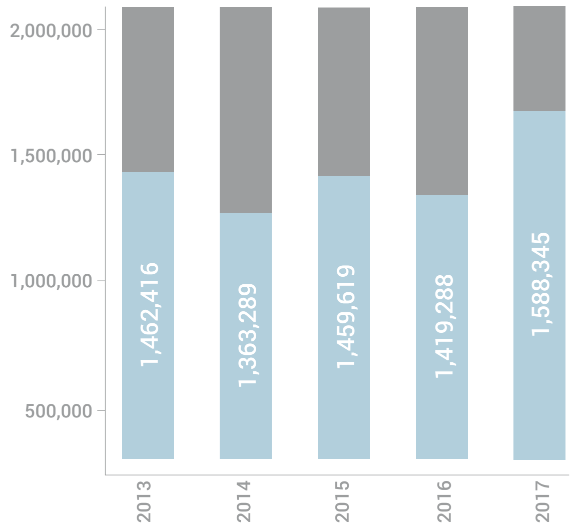
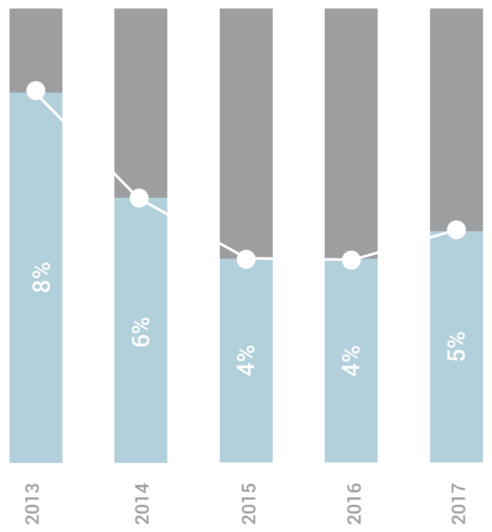
Return on Assets



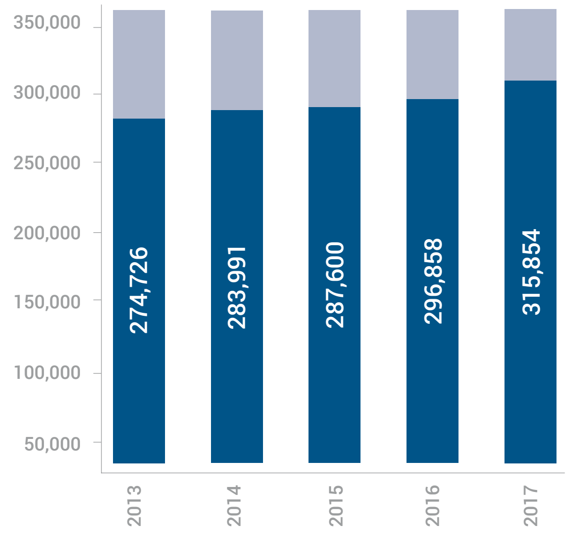
Total Assets



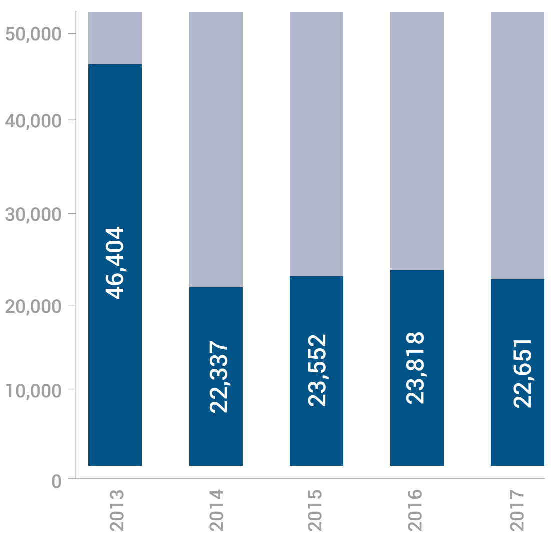
Return on Equity



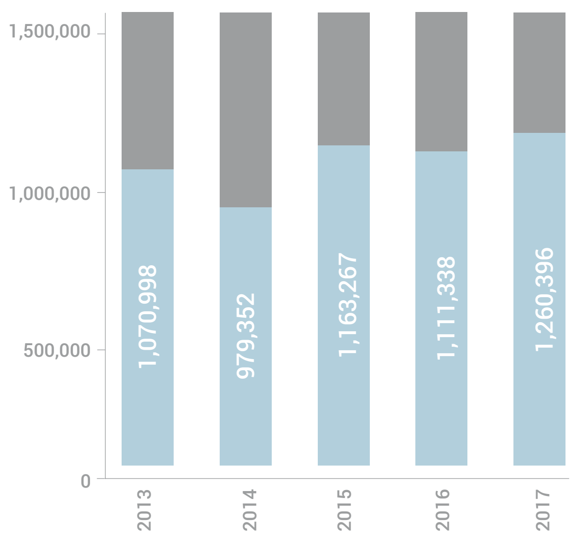
Shareholders' Equity



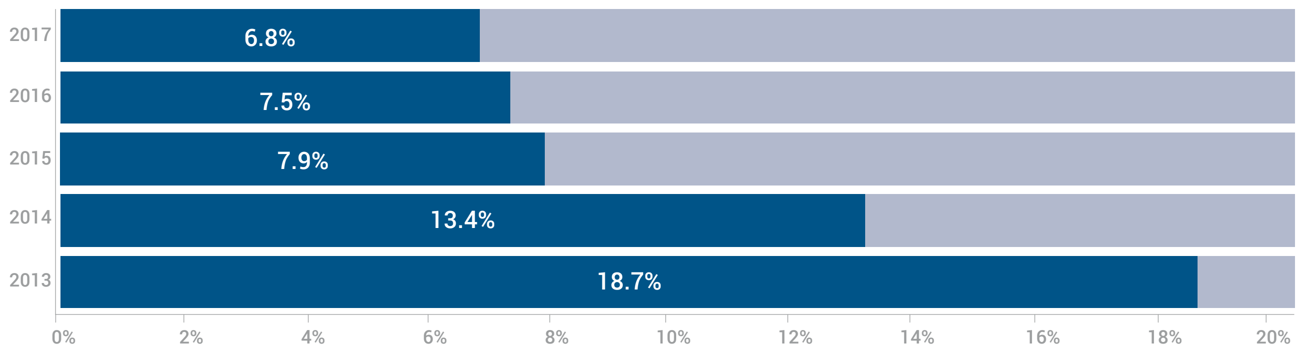
Loans & Advances to Customers



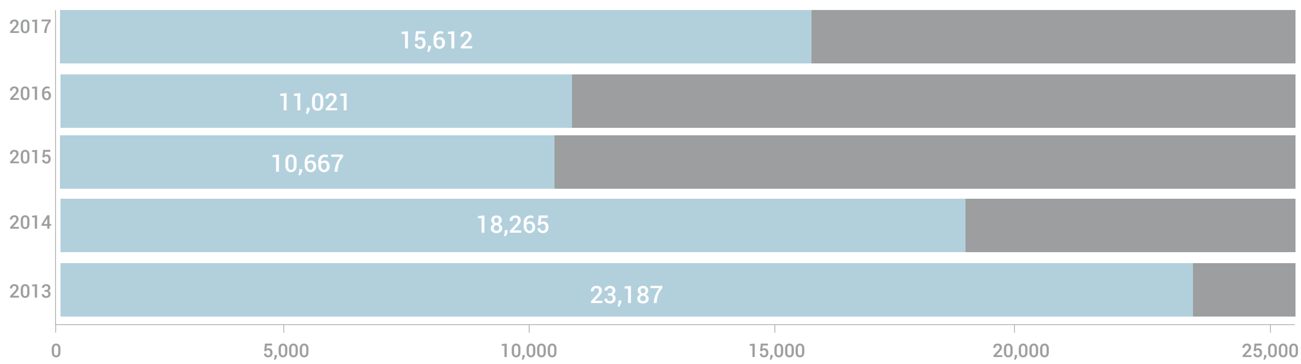
Total Deposits



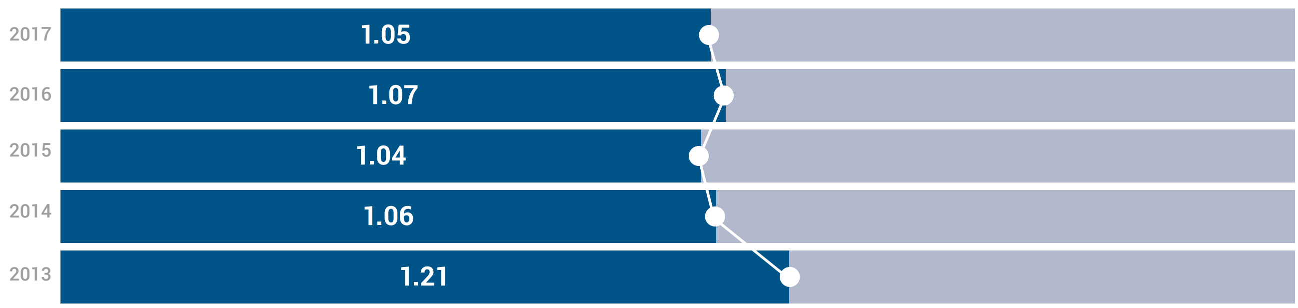
Loans & Advances to Deposits Ratio



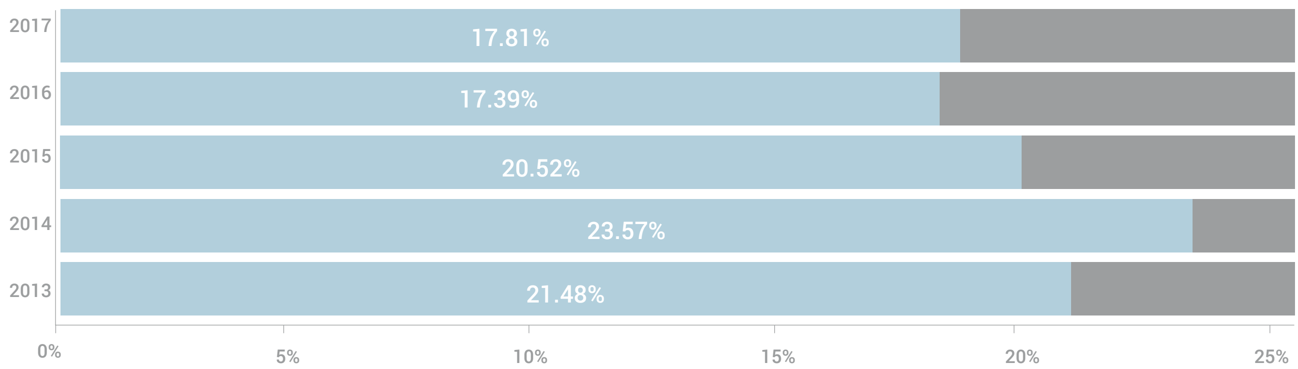
Net Profit



Gearing Ratio



Capital Adequancy Ratio



Board of Directors Report

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Board of Directors Report

Chairman's Letter

"The challenges facing our Arab world today are not only economical and political but also existential."

Dear Sirs,

We are still experiencing for more than six years the ripple effects of wars in our Arab region and Arab World which in turn is suffering from critical political and security conditions adversely impacting the Arab economies. Despite this grim outlook, some Arab countries including Lebanon, enjoy a relatively stable situation, where banks are functioning under an appropriate economic situation, achieving good profitability ratios and adequate liquidity percentages as the banking sector plays a vital and fundamental role in the development and advancement of societies.

The recorded figures show the significant contribution by the Arab banking sector in financing Arab economies despite the sharp drop in oil prices and the ongoing security threats, as well as the economic turbulance and social disorders in some Arab countries.

The consolidated assets amounted to 3.45 trillion US Dollars at the end of year 2017, and thus forms 140% of Arab GDP, which is a very high percentage. Further, the consolidated deposits amounted to 2.2 trillion US Dollars approximately, which is equivalent to about 90% of the Arab economy. Reports indicate that the size of credit pumped by the Arab banking sector reached 1.9 trillion US Dollars at the end of the year 2017, which is about 77% of total Arab GDP. Amidst the presence of these pressures and challenges, the Lebanese economy recorded a growth rate of about 1.5% in the year 2017, with an inflation rate of 4.5% according to the "Central Administration of Statistics". The public debt in 2017 showed a negative development, and increased to 151% of GDP. Eventually, these figures require a remedial financial program to stabilize the level of indebteness in hope of decreasing it in the near future.

However, the proactive and remedial financial operations and wise monetary policy adopted by the Central Bank of Lebanon must be underscored here, especially that it had resulted in the attraction of additional funds enabling the Central Bank to sustain its assets in foreign currencies and Eurobonds which reached 42 billion US Dollars at the end of the year 2017.

The interest rates in Lebanon have reasonably increased and this is mainly due to a number of factors. Possibly, the most important is the ambigious political outlook accompanied by a global hike in interest rates, which negatively affects the economic conditions leading to an increase in sovereign risk as per the classification of international rating agencies.

The Lebanese banking sector adopts a relatively conservative and well-monitored Business Model in terms of compliance and adherence to international financial legislations and regulations. In addition, Lebanese banks have sound quality assets and high liquidity ratios. We note, as well, that the important development achieved by Lebanon on the financial and modern banking legislations levels aims at developing and improving the banking industry, financial and business environment in Lebanon.

The performance of the banking sector remained outstanding, despite the difficult internal and external conditions, with banks continuing to provide financing for the economy. The best evidence is the size of loans to the resident and non-resident private sector, which exceeded 60 billion US Dollars at the end of last year, forming 115% of GDP. Bank deposits remain the main driver of growth in banking activity. At the end of 2017, these deposits amounted to 173 billion US Dollars, recording an annual increase of about 4%. Shareholders equity in banks attained a record high of 19.1 billion US Dollars, forming approximately 8.7% of the total consolidated assets. These equities are of great importance in enhancing the confidence of the local and foreign depositors in the Lebanese banking sector. It also strengthens and fortifies the financial positions of banks which are able to maintain a capital adequacy ratio of 16% according to Basel III accord at the end of 2017.

North Africa Commercial Bank S.A.L. has continued to adopt a conservative policy based on the quality of its assets, the adequacy of its equity and the strength of its financial position, noting that it realized during the years 2011 until end of 2017, cumulative profits of 84 million US Dollars and solvency ratio of 17.5% with increase in equity of 58 million US Dollars and dividend distribution of 31 million US Dollars representing more than 300% of the paid-up capital share. The attached reports for the financial year ended in December 31, 2017 provide a complete detailed description. The Bank will continue its activities in line with the principle of maintaining the quality and robustness of its assets and strengthening its financial position.

We reiterate our firm conviction that the banks capital bases need to be combined to ensure their continuity and enable them to face a myriad of technical challenges and deal with the extra-territorial reach of regualtory requirements amidst a fierce competition in the financial markets which seem to be moving towards digitization at high pace.

This is what we have continually emphasized to the main shareholder of our bank, where the strategic plan of our Board of Directors since 2012 has been the adoption of the principle of combination and agglomeration with one or some banks in Lebanon as an ideal option to face current and future changes, a choice we will continue to pursue in all cases.

Accordingly, in addition to operational challenges facing Arab Banks under the prevailing circumstances, financial institutions in the Arab world are undergoing the necessary preparations to implement the Automatic Exchange of Information (AEOI) Act for tax purposes in 2018, which is expected to increase the burden of compliance and audit. Furthermore, the adoption of accounting standard IFRS 9 is expected to incur additional burdens and restrictions on banks reflected mainly in allocating more provisions; such measures may result in limiting the ability of banks to finance some economic sectors and thus may curb or stifle economic growth.

Having said that, the challenges facing our Arab world today are not only economical and political but also existential. Amidst the re-shuffling of cards and drastic change in the well-established principles that used to govern the banking and business landscape. Therefore, our leaders and officials in the Arab region are invited to work together on political, economical, social and even environmental reforms, and to exert unprecedented effort to build robust financial institutions that will serve as a necessary pillar to meet all the challenges on one hand and mitigate high risks threatening our countries on the other.

Asking Almighty God to grant all our Arab countries security and stability.

God bless,

Mohamed Najib Hmida El-Jamal
Chairman of the Board of Directors/General Manager

Corporate Governance, Internal Control & Risk Management

"The bank is keen on complying with the corporate governance principles on all levels."

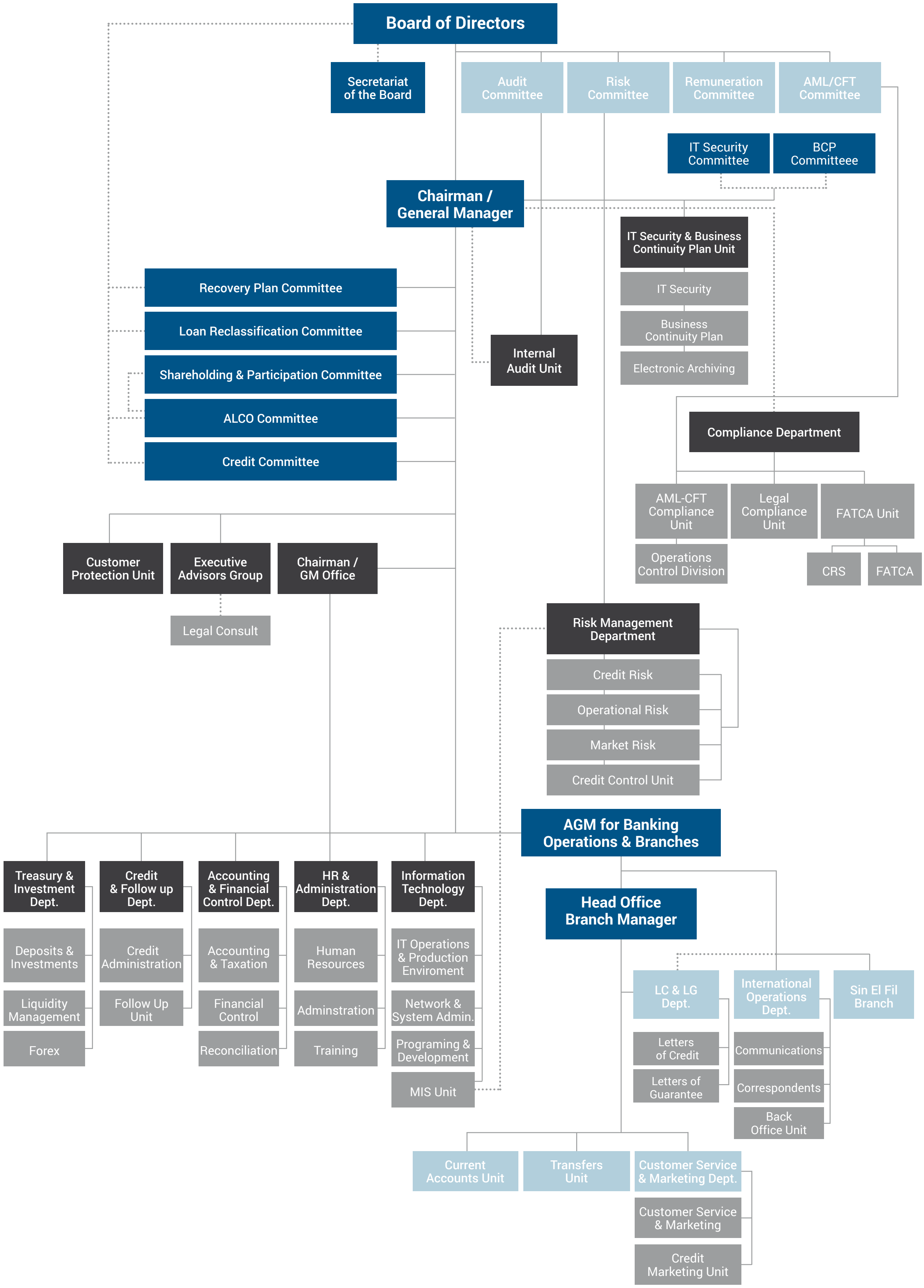
Corporate Governance sets out the basis, systems and processes by which the Bank is managed while maintaining and securing the rights and needs of stakeholders including shareholders, depositors, clients, and other related parties as well as defining the rights and responsibilities for each.

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

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

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

Organizational Chart



Board of Directors' Committees

Remuneration Committee

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

Risk Committee

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

Audit Committee

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

AML/CFT Committee

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

Core Decisions' Executive Committees

Credit Committee

- Determines the Bank's Credit Policy while taking into consideration compliance with the applicable laws & regulations and the directives issued by Central Bank of Lebanon and the Banking Control Commission.
- Makes decisions on granting/ extending credits within its delegation as determined by the Board of Directors or issuing its recommendations to the board regarding credits that are beyond its delegation limits.
- Supervises the development of the credit policies & procedures.

Shareholding & Participation Committee

- Making decisions regarding the shareholding and participation operations, mergers & acquisitions, and real-estate investments, according to the strategies set by the BOD & within its risk tolerance criteria
- Diversification of the bank use of its Equity specifically the bank's free capital

ALCO Committee

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

Senior Management Committees

Information Technology Security Committee

- Periodically review ITS Policies and procedures to ensure the safety of information technology systems, and enhance any essential updates.
- Examines and assesses all the information security risks.
- Reviews and adopts alternative plans to ensure the integrity of information systems in the Bank.

Business Continuity Plan Committee

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

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS

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

Internal control systems in NACB are as follows:

THE INTERNAL AUDIT UNIT

Internal Audit is an assurance and consulting function aiming to add value and improve banking operations and help the bank in achieving its objectives through its independent and objective assessment of all bank functions and activities. The Internal Audit Unit performs this function by adopting a methodological and organized approach in its auditing roles in order to evaluate and improve the efficiency and effectiveness of governance, risk management and internal control systems at the bank.

The unit works according to the Internal audit charter approved by the Audit Committee and the Board of Directors; which guarantees its independence and specifies its scope of work, roles and responsibilities, and its relation with the Audit Committee and the General Management.

RISK MANAGEMENT DEPARTMENT

THE BANK RISK APPETITE

The Bank determines the level of acceptable risk through roles and responsibilities, functions, limits and ceilings approved by the Board of Directors on the recommendation of the Risk Committee in addition to the limits imposed by the regulatory authorities.
The Bank's Risk Management Department prepares periodic reports on current and potential levels of risk exposures and their control methods, and the extent to which these levels deviate from preset values.

RISK MANAGEMENT IN THE BANK

The Bank has adopted comprehensive risk management policies and mechanisms to identify, assess, monitor, control and mitigate risks.

Risk Management Department at the Bank is a fundamental control pillar in the practical framework of the Bank Corporate Governance. Its main function is to identify the quantitative and qualitative risks that the Bank faces or might face, and their classifications based on the possibility of controlling and dealing with these risks appropriately. In addition, to the enhancement of strategic objectives and risk strategy ensuring their application and monitoring, in order to protect The Bank Long-term interests and safety.

The Bank continuously comply with local and international standards of corporate governance and best practices. The Bank ensures the transparency regarding information systems, informing the shareholders about the Board of Directors decision-making methods and the reasons for these decisions, and applying international accounting standards by developing internal frameworks and regulations related to Corporate Governance in accordance with international established rules and recommendations (Basel Committee) and the regulatory authorities in Lebanon.

The Risk Management Department at North Africa Commercial Bank S.A.L. is an independent entity and reports directly to the Risk Committee.
Risk management Department identifies, evaluates, measures, manages and responds appropriately to mitigate and reduce these risks to achieve a balance between the acceptable and tolerable risk levels and profitability levels, and to monitor and control these risks as follows:

- Prepare and review the Bank's Risk Management Framework prior based on the Bank's volume and the extent of its operations' complexity.
- Provide necessary information regarding the Bank risk's disclosures.
- Promote risk awareness based on the best practices and required standards in the banking sector.
- Analyze all types of Bank's risk exposures and set limits and controls to diversify these risks.
- Prepare the risk management policy within the limits of the Risk Tolerance/Appetite approved by the Board of Directors.

- Prepare policy and procedures based on the results of risk identification and assessment process.

- Monitor the compliance of the business units by the defined levels of acceptable risks.

- Perform periodic stress testing and scenario analysis to assess the Bank's ability to withstand the stressed situations.

- Participate in the preparation of the strategy and business plan.

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

Banks are exposed to different types of risks mainly credit risk, market risk and operational risk. The Risks Management Department continuously monitors risks associated with operations and banking activities to ensure compliance with limits and preset risk levels as follows:

I. CREDIT RISK

The Bank complies with the approved credit policy, monitors and controls the credit granting process and the credit portfolio by:

- Ensuring compliance with the approved credit policy.

- Assessing the credit portfolio to control and monitor the credit products.

- Performing periodic credit portfolio stress tests.

- Classification and evaluation of the credit risk.

- Analyzing credit risk concentration by economic sectors and types of credit portfolios.

- Performing the risk analysis of new products.

II. MARKET RISK

Market Risk Management assesses new products, their rewards, and the analysis of the additional funding requirements to cover stressed scenarios and emergency plan.

North Africa Commercial Bank SAL is committed to apply the Market Risk policies and procedures regarding the Interest Rate Risk Policy, Liquidity Risk Policy and Forex Risk policy as per the guidelines set by ALCO Committee. Market Risk Policy assesses the capital adequacy requirement to meet the market risks as per regulatory authorities' guidelines.

1. INTEREST RATE RISK AND FOREX RISK

The Bank is committed to apply the policies set by the Board regarding the limits and risk tolerance through:

- Monitoring of the foreign exchange positions in all currencies to ensure compliance within accepted thresholds.

- Maturity Gap analysis by applying stress tests for specific scenarios.

2. LIQUIDITY RISK

The Bank is committed to apply the policies set by the Board regarding liquidity risk through:

- Analyzing the inherent risks in the sources and uses of funds.

- Assessing the additional funding requirements to cover stressed scenarios and emergency plan.

- Diversification in sources of funds.

- Maintaining adequate Liquidity Cover Ratio.

III. OPERATIONAL RISK MANAGEMENT

The Bank is committed to the Operational Risk Management Framework and the best practices, which is managed by the Risk and Control Self-Assessment and reporting of Operational Loss Data Collection process.

Risk Management Department analyses and monitors operational risks, which includes:

- Participating in the planning and testing of Business Continuity Plan.
- Preparing a database for all operational events and related operational losses.

CALCULATION OF THE CAPITAL ADEQUACY RATIOS

North Africa Commercial Bank SAL is committed to all requirements of the capital adequacy related to minimum capital and Leverage ratios, liquidity ratios and total prudential control indicators to minimize the potential volatility in economic cycles.
The Bank calculates the Capital Adequacy Ratio quarterly, in accordance with Basel International Committee's standards and the directives of the Banque du Liban and the Banking Control Commission.

ICAAP- INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS

As per ICAAP requirements, North Africa Commercial Bank SAL performs workshops to assess capital requirements to meet all potential risks related to Pillar I & Pillar II to ensure its capacity to absorb any potential loss and to monitor it.

THE IFRS9 FRAMEWORK

The Bank is committed to the effective application of IFRS9 to determine the expected credit loss calculation and classifying financial assets and liabilities.

THE RECOVERY PLAN

Risk management Department is involved in the preparation of the recovery plan to address any potential difficulties in times of crisis. The recovery plan of North Africa Commercial Bank SAL. Identifies credible options to survive a range of severe but plausible stressed scenarios as per the guidelines of Banque du Liban and Banking Control Commission.

The recovery plan covers the governance & decision-making, the continuity of critical economic functions, the specification of trigger points to activate recovery options as well as the internal and external communications.

COMPLIANCE DEPARTMENT

1. LEGAL COMPLIANCE UNIT

The Bank recognizes that the legal landscape is changing rapidly and that the expectations of both clients and regulatory bodies are on the rise.

In this context the Legal Compliance Unit continually verifies that the Bank and its internal policies comply with the requirements of laws and circulars issued by the regulatory bodies and takes the required measures to mitigate non-compliance risks, promotes and develops its own monitoring methodologies, advises Senior Management concerning compliance, keeps abreast of developments in laws and regulations, and performs the adequate tests to assess the efficiency of the procedures adopted and the extent to which employees adhere to the policies set by the bank.

2. ANTI-MONEY LAUNDERING AND COMBATING FINANCING TERRORISM COMPLIANCE UNIT

In terms of taking effective measures to combat money laundering and terrorism financing, the AML/CFT compliance unit ensures the continuous control of all banking operations as per international guidance and recommendations issued by Financial Action Task Force (FATF) and the laws and instructions of BDL and the Special Investigation Commission (SIC). Moreover, the unit has developed its policies and procedures in line with BDL's pertinent circulars especially with regard to the "regulations on the control of financial and banking operations for fighting money laundering and terrorist financing (AML/CFT)" in order to maintain a high compliance standard.

Finally, the bank is keen on fighting cybercrime and has taken strict measures in this regard to mitigate associated risks and protect the financial integrity of our institution and our valuable customers.

3. FATCA UNIT

Over the last few years, a number of initiatives have been undertaken to improve global cross border tax compliance, which led to the development of various reporting regimes relating to the exchange of taxpayer information. Such initiatives include the Foreign Account Tax Compliance Act ("FATCA"), which focuses on the reporting of financial account information with respect to U.S. taxpayers, and the OECD Common Reporting Standard ("CRS"), a global standard for the automatic exchange of financial account information accredited in Lebanon by Law No. 55 dated 27/10/2016.

The exchange of taxpayer information under FATCA and CRS is effectively achieved at NACB. The FATCA Unit monitor that the relevant Bank's units collect, review and report information about account holders to the tax authorities of the country(ies) of tax residence of each account holder.

INFORMATION SECURITY AND BUSINESS CONTINUITY UNIT

The Bank abides by the local regulations and international corporate security practices and is continuously improving its policies, procedures, processes and its security systems to ensure that all areas related to technology risks are properly covered.

The Bank is committed to provide the highest degrees of governance based on assessments made, and through several security solutions adopted and acquired to protect and safeguard the bank assets as well as to detect any abnormal behaviour.

Moreover, NACB is continuously upgrading its network infrastructure and renovating its internal physical appliances using the latest technologies to ensure smooth business continuity, and to cope with the market changes and challenges.

"The bank is keen on fighting cybercrime and has taken strict measures in this regard to mitigate associated risks and protect the financial integrity of our institution and our valuable customers. "

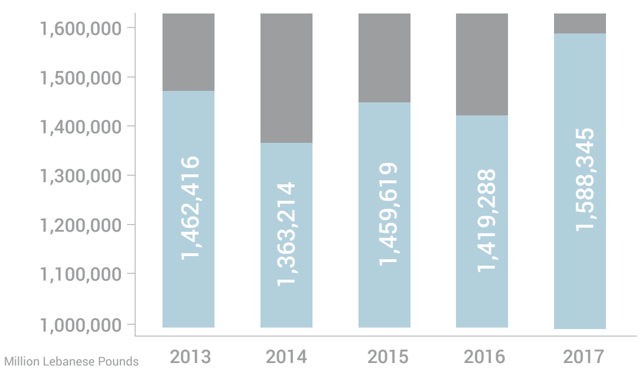
Financial Review of the Bank

Political crises in Lebanon and the Arab region during the last years had largely affected all financial and economic indicators. Accordingly, the bank works on maintaining the growth trend of its business volume. Total assets had an average growth of 2% in the last five years as a result of the efforts to increase the sources of funds, especially from non-resident parties. Moreover, the bank worked on comprehensively covering non-performing loans and establishing additional provisions and reserves to meet IFRS9 requirements. In line with capital support scheme as per Basel III requirements, the bank allocates the profits in a way to guarantee appropriate yield to shareholders and maintain high financial indicators in terms of financial leverage and liquidity ratios.

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

I. Assets

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

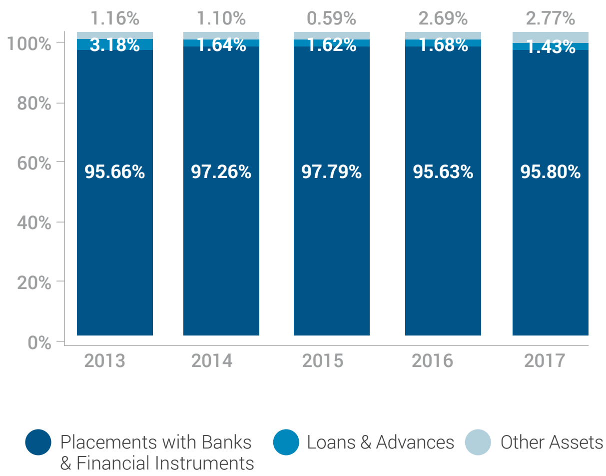


Assets Distribution Ratios

In recent years, the bank has followed a conservative policy in terms of funds placements and focused on rewarding and low risk investments, such as investments with banks and in financial instruments. These represented 96% of total assets by the end of 2017, allowing the bank to maintain high liquidity ratios.

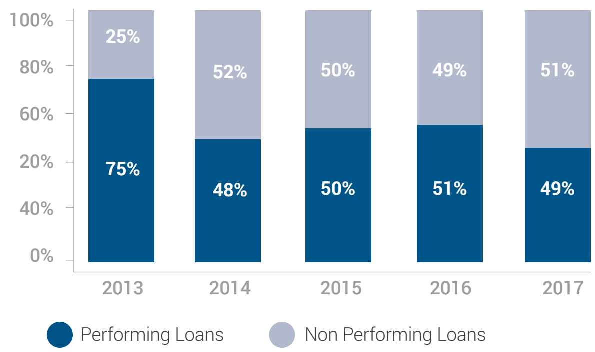
This came as a result of slow economic growth in the Lebanese market that do not encourage increasing credit limits.

PERCENTAGE DISTRIBUTION OF ASSETS



1. LOANS AND ADVANCES TO CUSTOMERS

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



In Millions LBP	2013	2014	2015	2016	2017
Performing Loans	34,690	10,630	11,845	12,111	11,145
*Non Performing Loans	11,714	11,707	11,707	11,707	11,506
Loans & Advances	**46,404**	**22,337**	**23,552**	**23,818**	**22,651**

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

2. PLACEMENT WITH BANKS

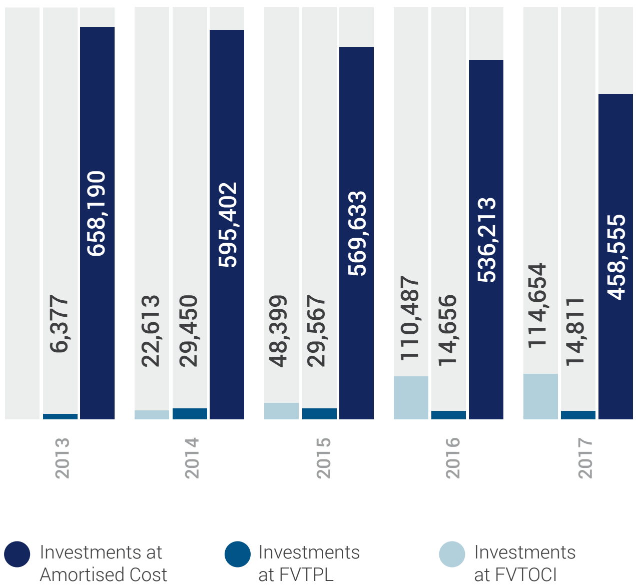
Placement with banks and financial institutions portfolio is considered one of the main bank's portfolios; where it represents 59% of the bank's total assets. The bank kept short and medium term investments represented by term deposits with commercial banks in order to maintain the adequate liquidity levels. These investments include compulsory reserves and compulsory placements with BDL.

3. FINANCIAL INSTRUMENTS PORTFOLIO

The financial instruments portfolio represented 37% of the bank's total assets in 2017. It has witnessed a major shift in the past years towards financial instruments with variable income, composed of investment in funds and shares issued by local banks; it is worth noting that these investments are recorded at fair value. The development of these instruments was as follows:

FINANCIAL INSTRUMENTS PORTFOLIO

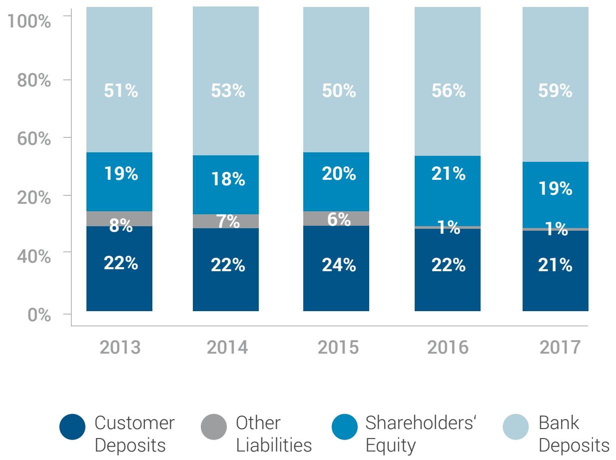
Million Lebanese Pounds



In Millions LBP	2013	2014	2015	2016	2017
Investments at Amortized Cost	658,190	595,402	569,633	536,213	458,555
Investments at FVTPL	6,377	29,450	29,567	14,656	14,811
Investments at FVTOCI	–	22,613	48,399	110,487	114,654
Financial Instruments Portfolio	**664,567**	**647,465**	**647,599**	**661,356**	**588,020**

II. Liabilities and Shareholders' equity

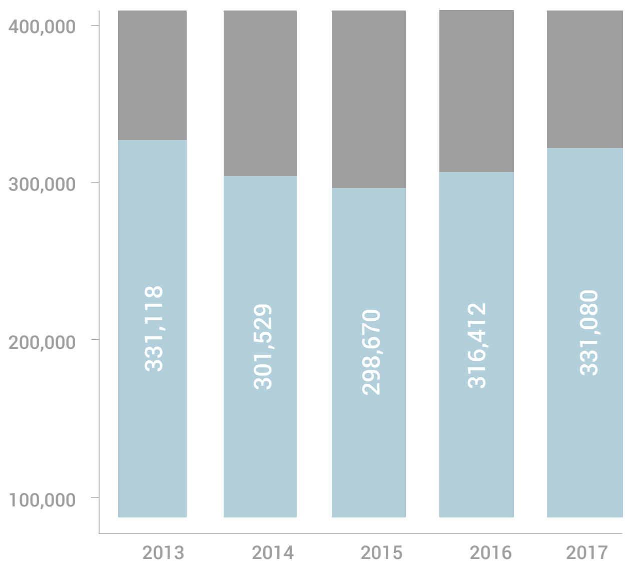
A substantial change in the structure of the bank's sources of funds took place recently where shareholders' equity represented 20% of these sources by the end of 2017, whereas banks' deposits represented the largest part of these sources by 59%.



1. CUSTOMERS' DEPOSITS

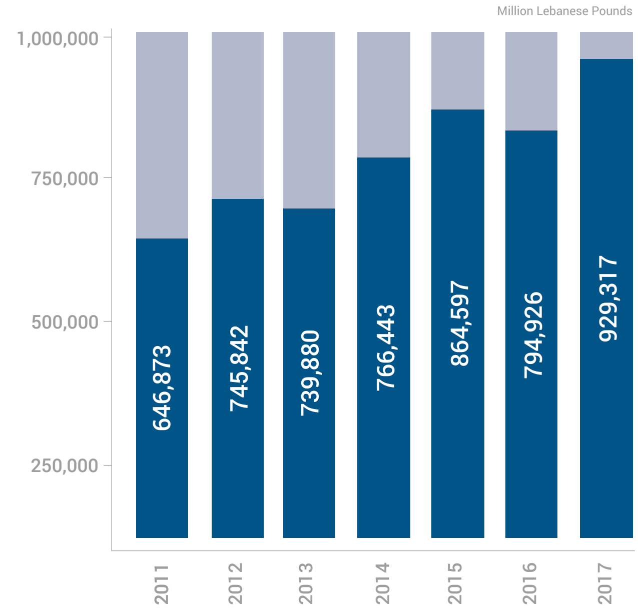
The customers' deposits portfolio represented 21% of the total sources of funds by the end of 2017.

Million Lebanese Pounds



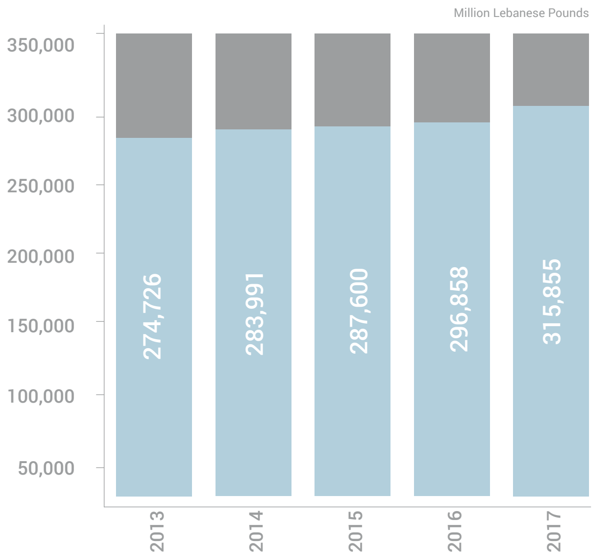
2. BANKS DEPOSITS

The efforts made in the past years in obtaining deposits from nonresident banks and financial institutions contributed in achieving growth in deposits from banks. It represented 59% of the total sources of funds by the end of 2017, of which Parent Bank and related parties' deposits represent the major part of these deposits.



3. SHAREHOLDERS' EQUITY

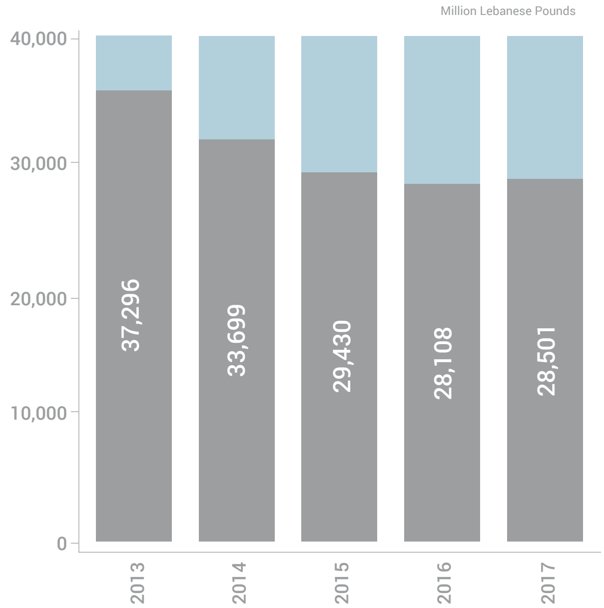
Complying with Basel III requirements, and in order to keep high solvency and liquidity ratios, the bank works annually through the capital support scheme on increasing its capital by retaining profits and taking the necessary reserves. The bank's capital is characterized by being within the Common Equity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



III. Profits and Losses

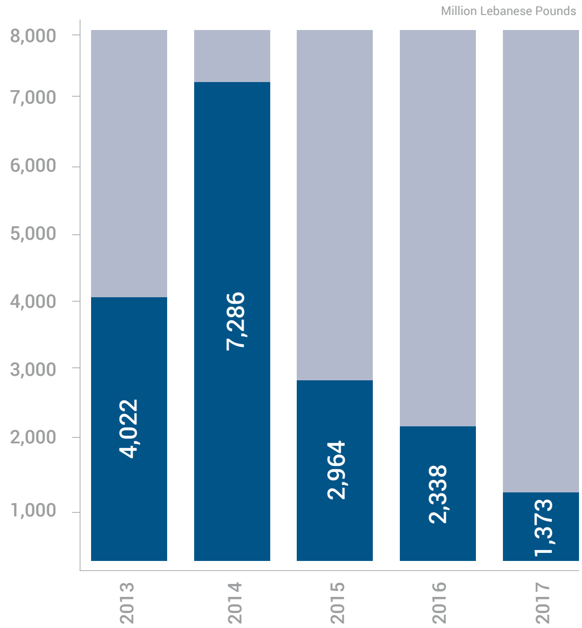
1. NET INTEREST INCOME

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



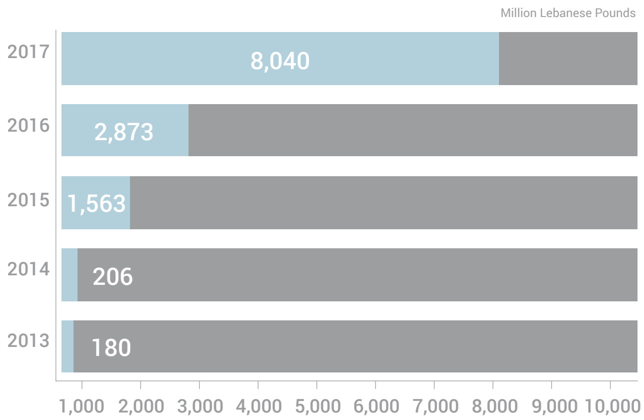
2. NET COMMISSIONS AND OTHER INCOME

The majority of changes in this item are related to commissions received from letters of credits and guarantees. The net profit of commissions and other revenues in the past five years was as follows:



3. INCOME FROM SHARES AND PARTICIPATIONS

Income from shares and participations have witnessed a major increase through the past years due to the shift that took place lately towards investing in shares and funds issued by local banks. These returns have increased during 2017 by 180% compared with year 2016. The development of income from shares and participations during the past five years was as follows:

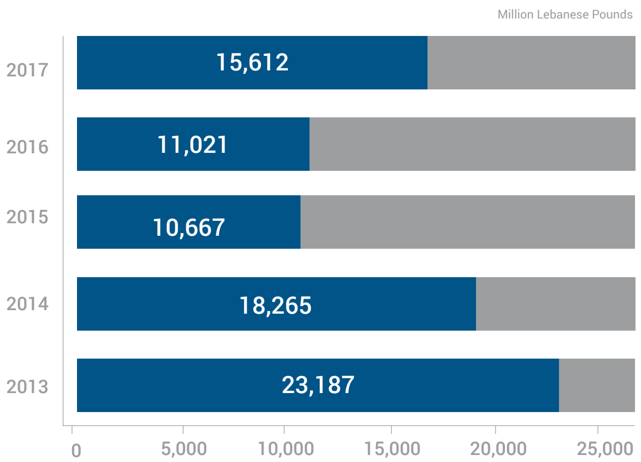


4. ADMINISTRATIVE AND GENERAL EXPENSES

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

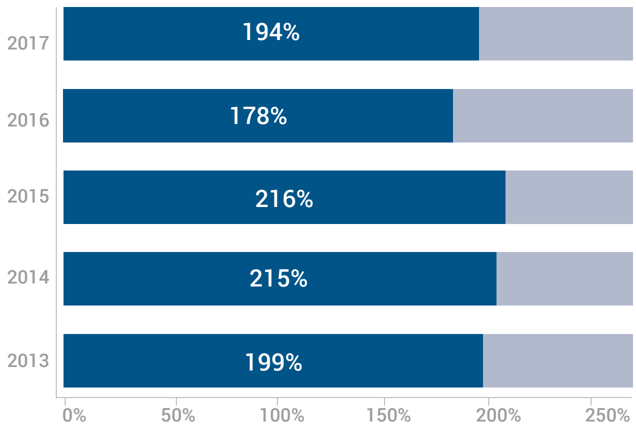
5. NET PROFIT

Despite the difficult circumstances the region is facing, the bank was able to make net profits amounting to 15,612 million Lebanese Pounds by the end of 2017.



IV. Liquidity Ratio (Liquid Assets to Customers' Deposits)

The bank maintains high liquidity ratios, and the ratio of liquid assets to customers' deposits reached 194% in 2017; reflecting the bank's tendency for liquid investments, which ensure the necessary liquidity and the sufficient financial flexibility of the bank to face any contingency, risks or commitments.



V. Capital Adequacy Ratio (Basel III)

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

	2013	2014	2015	2016	2017
Total Capital/ Risk Weighted Assets	21.48%	23.57%	20.52%	17.54%	18.12%
Ratio required by BDL	10.50%	11.50%	12.00%	14.00%	14.50%
Tier1 Capital/ Risk Weighted Assets	21.48%	23.57%	20.52%	17.54%	17.81%
Ratio required by BDL	8.50%	9.50%	10.00%	11.00%	12.00%
Common Equity Tier1/ Risk Weighted Assets	21.48%	23.57%	20.50%	17.39%	17.81%
Ratio required by BDL	6.00%	7.00%	8.00%	8.50%	9.00%

Shareholders' Annual Meeting

The Shareholders Annual Ordinary Meeting held on 27/10/2018 approved the board of directors' report, the balance sheet and the profit and loss account for the financial year 2017 giving this charge to the members of the board.

04

Financial Statements & Independent Auditor's Report

Year Ended December 31, 2017

05

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Independent Auditors' Report

02

Financial Statements

Independent Auditors' Report

To the Shareholders
North Africa Commercial Bank S.A.L.
Beirut, Lebanon

OPINION

We have audited the accompanying financial statements of North Africa Commercial Bank S.A.L., which comprise the statement of financial position as at December 31, 2017, and the statement of profit or loss, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

BASIS FOR OPINION

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

OTHER INFORMATION

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

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

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

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

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

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

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs, within the framework of local banking laws, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

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

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

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

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

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

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

Deloitte & Touche **Sidani & Co.**

Beirut, Lebanon
May 21, 2018

Statement of Financial Position

Assets	Notes	December 31, 2017	December 31, 2016
		LBP'000	LBP'000
Cash and central bank	5	411,785,184	250,628,041
Deposits with banks and financial institutions	6	501,702,991	415,621,494
Deposits with the parent, sister and other related banks	7	20,166,814	29,642,347
Loans and advances to customers	8	22,650,814	23,817,936
Investment securities at fair value through profit or loss	9	14,810,611	14,656,120
Investment securities at fair value through other comprehensive income	9	114,654,712	110,486,475
Investment securities at amortized cost	9	458,555,157	536,213,118
Property and equipment	10	42,612,424	36,739,221
Intangible assets	11	435,073	531,463
Other assets	12	971,824	951,946
Total assets		**1,588,345,604**	**1,419,288,161**
Liabilities			
Deposits from a central bank	13	78,852,841	78,442,528
Deposits from banks and financial institutions	14	127,069,235	35,341,332
Deposits from the parent, sister and other related banks	15	674,500,650	681,141,737
Customers' deposits	16	331,079,834	316,412,440
Borrowings from central bank of lebanon	17	48,893,575	-
Other liabilities	18	7,551,356	5,647,803
Provisions	19	4,543,275	5,444,475
Total liabilities		**1,272,490,766**	**1,122,430,315**
Equity			
Capital	20	15,000,000	15,000,000
Cash contribution to capital	20	148,488,750	148,488,750
Reserves	21	83,792,911	79,718,136
Change in fair value of investment securities at fair value through other Comprehensive income	9	6,563,686	3,178,845
Retained earnings		46,397,340	39,451,335
Profit for the year		15,612,151	11,020,780
Total equity		**315,854,838**	**296,857,846**
Total liabilities and equity		**1,588,345,604**	**1,419,288,161**
Financial instruments with off-balance sheet risks			
Letters of guarantee and standby letters of credit	29	62,376,728	62,607,817
Letters of credit - export confirmed		8,288,009	29,855,517

The accompanying notes form an integral part of the Financial statements

Statement of Profit or Loss

		Year Ended December 31,	
	Notes	2017	2016
		LBP'000	LBP'000
Interest income		55,395,911	48,285,766
Less: withholding tax on interest		(209,353)	–
Interest income, net of withholding tax	22	55,186,558	48,285,766
Interest expense	23	(26,685,925)	(20,177,463)
• Net interest income		28,500,633	28,108,303
Fee and commission income	24	1,554,466	2,654,144
Fee and commission expense		(181,566)	(315,698)
• Net fee and commission income		1,372,900	2,338,446
Net gain on investment securities at fair value through profit or loss	25	8,186,330	3,032,951
Gain on difference of exchange		99,889	99,285
• Net financial revenues		38,159,752	33,578,985
Net write-back/(provision) of impairment loss on loans and advances	8	(31,399)	43,152
Write back of doubtful loans from off balance sheet	8	–	461,978
• Net financial revenues after write-back of impairment loss		38,128,353	34,084,115
Salaries and related charges	26	(12,911,025)	(14,134,118)
Depreciation and amortization	10 & 11	(1,008,960)	(877,717)
Provision for risk and charges	19	(231,000)	(254,940)
General and administrative expenses	27	(5,008,638)	(4,426,551)
Other income/(expense)		(213,297)	(97,110)
• Total operating expenses		(19,372,920)	(19,790,436)
Profit before income tax		18,755,433	14,293,679
Income tax expense	18	(3,143,282)	(3,272,899)
Profit for the year		**15,612,151**	**11,020,780**

The accompanying notes form an integral part of the Financial statements

Statement of Profit or Loss & Other Comprehensive Income

	Notes	2017	2016
		Year Ended December 31,	
		LBP'000	LBP'000
Net profit for the year		**15,612,151**	**11,020,780**
Other comprehensive income: Items that will not be reclassified subsequently to profit or loss:			
• Unrealized gain on financial assets designated at fair value through other comprehensive income	9	4,168,237	3,219,810
• Deferred tax	18	(783,396)	(482,972)
Total other comprehensive income		3,384,841	2,736,838
Total comprehensive income for the year		**18,996,992**	**13,757,618**

Statement of Changes in Equity

	Capital	Cash contribution for capital	Reserves	Change in fair value of Investment securities	Retained earnings	Profit for the year	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Balance January 1, 2016	15,000,000	148,488,750	76,177,130	442,007	36,825,336	10,667,005	287,600,228
Allocation of 2015 profit	–	–	3,541,006	–	7,125,999	(10,667,005)	–
Dividends paid (Note 19)	–	–	–	–	(4,500,000)	–	(4,500,000)
Total comprehensive income for the year 2016	–	–	–	2,736,838	–	11,020,780	13,757,618
Balance December 31, 2016	**15,000,000**	**148,488,750**	**79,718,136**	**3,178,845**	**39,451,335**	**11,020,780**	**296,857,846**
Allocation of 2016 profit	–	–	4,074,775	–	6,946,005	(11,020,780)	–
Total comprehensive income for the year 2017	–	–	–	3,384,841	–	15,612,151	18,996,992
Balance December 31, 2017	**15,000,000**	**148,488,750**	**83,792,911**	**6,563,686**	**46,397,340**	**15,612,151**	**315,854,838**

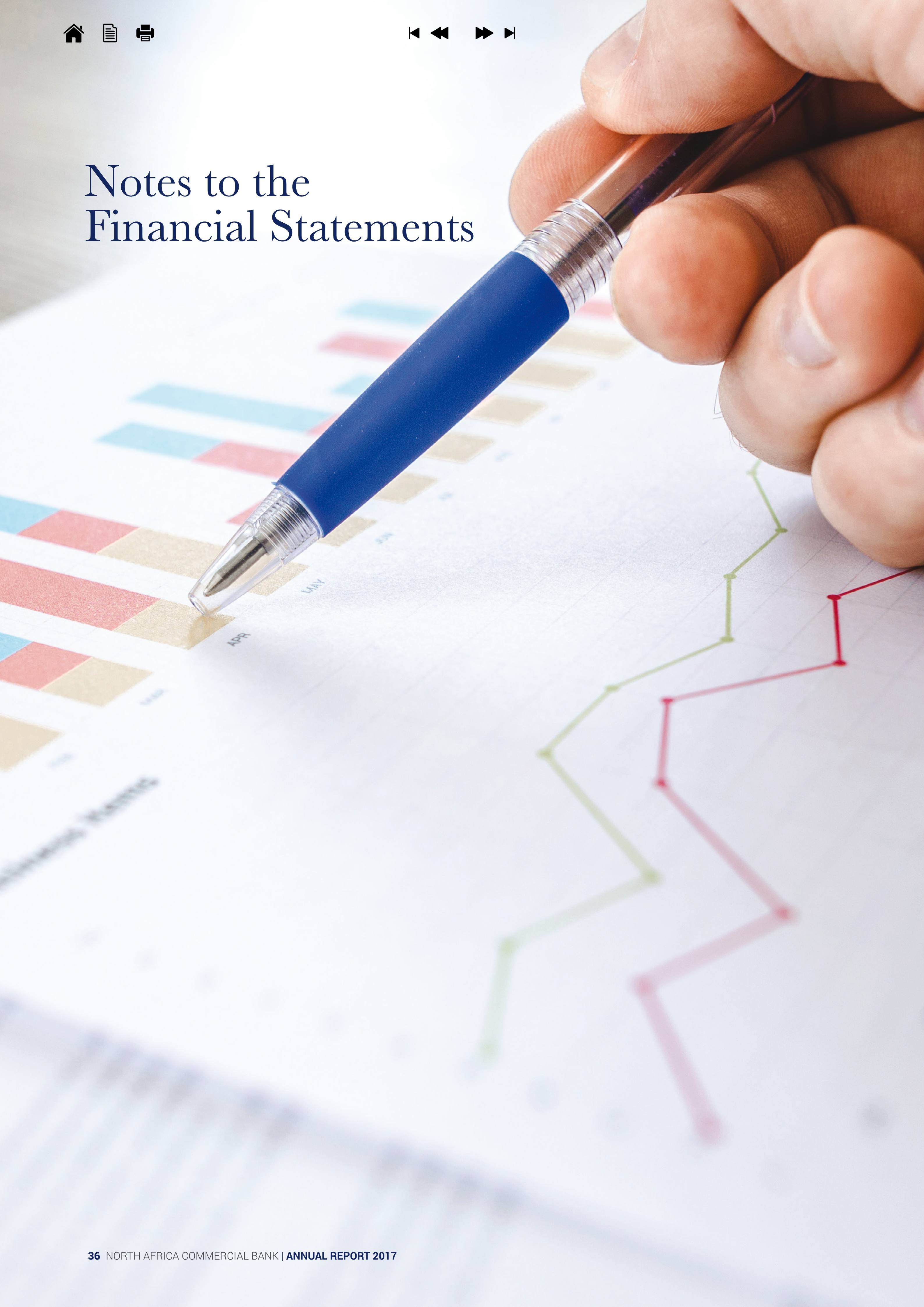
The accompanying notes form an integral part of the Financial statements

Statement of Cash Flows

	Notes	Year Ended December 31, 2017	2016
		LBP'000	LBP'000
Cash flows from operating activities			
Profit for the year before income tax		18,755,433	14,293,679
Adjustments for:			
• Depreciation and amortization	10 & 11	1,008,960	877,717
• Change in fair value of investment securities at fair value through profit or loss	25	(150,885)	(244,129)
• Effect of change in exchange rate		(3,606)	–
• Net (write back)/provision of impairment loss on loans and advances	8	31,399	(43,152)
• Provision for risk and charges	19	231,000	254,940
• Provision for employees' end-of-service indemnities	19	379,368	1,043,727
• (Gain)/loss on disposal of property and equipment		542	(878)
• Dividend income	25	(8,039,911)	(2,873,475)
• Interest income		(55,395,911)	(48,285,766)
• Interest expense		26,685,925	20,177,463
Compulsory deposits with central bank of lebanon with a maturity exceeding 3 months		(103,022,028)	(46,118,555)
Deposits with banks and financial institutions with a maturity exceeding three months		(59,510,075)	128,093,227
Investment securities at fair value through profit or loss	9	–	15,155,418
Investment securities at fair value through other comprehensive income	9	–	(59,350,562)
Investment securities at amortized cost	9	75,782,148	33,361,332
Loans and advances to customers	8	1,135,723	(222,450)
Other assets	12	(19,878)	112,585
Deposits from banks and financial institutions	14	91,625,150	(81,453,143)
Customers' deposits	16	13,992,405	16,029,054
Other liabilities	18	2,202,332	1,741,212
Settlements made from provision for employees' end-of-service indemnities	19	(1,511,568)	(923,674)
		4,176,523	**(8,375,430)**
Income tax paid		(4,225,457)	(3,048,698)
Dividends received		8,039,911	2,873,475
Interest received		51,829,874	48,070,796
Interest paid		(22,334,163)	(20,259,803)
Net cash generated by operating activities		**37,486,688**	**19,260,340**
Cash flows from investing activities			
• Acquisition of property and equipment	10	(6,715,623)	(30,440,008)
• Proceeds from disposal of property and equipment	10	12,062	3,000
• Acquisition of intangible assets	11	(82,754)	(139,675)
Net cash used in investing activities		**(6,786,315)**	**(30,576,683)**
Cash flows from financing activities			
• Increase in borrowing from central bank	17	48,669,040	–
• Deposits from central banks	13	406,817	(3,288,166)
• Deposits from parent, sister and other related banks	15	(9,987,076)	16,865,343
• Dividends paid	20	–	(4,500,000)
Net cash used in financing activities		**39,088,781**	**9,077,177**
Net increase/(decrease) in cash and cash equivalents		69,789,154	(2,239,166)
cash and cash equivalents beginning of year		231,043,392	233,282,558
Cash and cash equivalents end of year	**28**	**300,832,546**	**231,043,392**

The accompanying notes form an integral part of the Financial statements

Notes to the Financial Statements



1. General Information

North Africa Commercial Bank S.A.L. is a Lebanese joint-stock company registered in the Trade Register in 1973 under Number 30199 and in the Central Bank of Lebanon list of banks under number 62.

The Bank offers a full range of commercial banking activities in accordance with the applicable Lebanese Laws and banking regulations. The head office is situated on Justinian Street, Hamra, Beirut. The Bank is 99.56% owned by the Libyan Foreign Bank (parent bank).

"The Bank offers a full range of commercial banking activities in accordance with the applicable Lebanese Laws and banking regulations."

2. Application of New and Revised International Financial Reporting Standards (IFRS)

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

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

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

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

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

Amendments to IAS 7 Disclosure Initiative

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

The Bank's liabilities arising from financing activities consist of deposits from a Central Bank, deposits from the parent, sister and other related banks and borrowings from Central Bank of Lebanon. A reconciliation between the opening and closing balances of these items is provided in Notes 13, 15 and 17. Consistent with the transition provisions of the amendments, the Bank has not disclosed comparative information for the prior period. Apart from the additional disclosure in Notes 13, 15 and 17, the application of these amendments has had no impact on the Bank's financial statements.

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

2.2. New and revised IFRS in issue but not yet effective

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

Effective for Annual Periods Beginning on or After	New and Revised IFRSs
January 1, 2018	Annual Improvements to IFRS Standards 2014-2016 Cycle amending IFRS 1 and IAS 28.
January 1, 2019	Annual Improvements to IFRS Standards 2015-2017 Cycle amending IFRS 3, IFRS 11, IAS 12 and IAS 23.
January 1, 2018	**IFRIC 22 Foreign Currency Transactions and Advance Consideration** The interpretation addresses foreign currency transactions or parts of transactions where: • there is consideration that is denominated or priced in a foreign currency; • the entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and • the prepayment asset or deferred income liability is non-monetary.
January 1, 2019	**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, 2018	Amendments to IFRS 2 Share Based Payment regarding classification and measurement of share based payment transactions.
January 1, 2018	**Amendments to IFRS 4 Insurance Contracts** Relating to the different effective dates of IFRS 9 and the forthcoming new insurance contracts standard.
January 1, 2018	**Amendments to IAS 40 Investment Property** Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The paragraph has been amended to state that the list of examples therein is non-exhaustive.
January 1, 2018	**IFRS 9 Financial Instruments (revised versions in 2010, 2013 and 2014)** IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. The Bank early adopted IFRS 9 (version 2009) effective January 1, 2011. IFRS 9 was subsequently amended in October 2010 to includerequirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting.

Effective for Annual Periods Beginning on or After	New and Revised IFRSs
January 1, 2019	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 amortized cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments. In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments and all previous versions of IFRS 9 (2009, 2010 and 2013). The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. The new version, IFRS 9 (2014) is effective for annual periods beginning on or after 1 January 2018. The Bank plans to adopt the new standard on the required effective date. In accordance with the transition provisions of IFRS 9 (2014), the Bank will apply this standard retrospectively. The changes in measures arising on initial application will be incorporated through an adjustment to opening retained earnings or reserves (as applicable) as at 1 January 2018. Although IFRS 9 will be retrospectively applied, the Bank is only permitted to restate comparatives if, an only if, it is possible without the use of hindsight. The Bank will not restate comparatives as it does not consider it possible to do so without the use of hindsight. During 2017, the Bank has performed a detailed impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Bank in 2018 when the Bank will adopt IFRS 9. Overall, the Bank expects no significant impact on its statement of financial position and equity except for the effect of the loss allowance which will be covered by equity as discussed below. In addition, the Bank does not expect any change in equity as a result of not implementing any changes in classification of certain financial instrumvents. **Classification and measurement** The Bank has early adopted classification and measurement requirements as issued in IFRS 9 (2009) and IFRS 9 (2010). In the July 2014 publication of IFRS 9, the new measurement category FVOCI was introduced for financial assets that satisfy the contractual cash flow characteristics (SPPI test). This category is aimed at portfolio of debt instruments for which amortized cost information, as well as fair value information is relevant and useful. This will be the case if these assets are held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets. At the date of application of IFRS 9 (2014), the Bank reassessed the classification and measurement category for all financial assets debt instruments that satisfy the contractual cash flow characteristics (SPPI test) and classified them within the category that is consistent with the business model for managing these financial assets on the basis of facts and circumstances that existed at that date. The classification and measurement requirements for financial assets that are equity instruments or debt instruments that do not meet the contractual cash flow characteristics (SPPI test) and financial liabilities remain unchanged from previous versions of IFRS 9. The bank does not expect any impact on the classification of financial assets and their carrying values.

Effective for Annual Periods Beginning on or After	New and Revised IFRSs
	Impairment The standard introduces a new single model for the measurement of impairment losses on all financial assets including loans and debt securities measured at amortized cost or at fair value through OCI. The IFRS 9 expected credit loss (ECL) model replaces the current incurred loss model of IAS 39. The ECL model contains a three-stage approach, which is based on the change in credit quality of financial assets since initial recognition. The ECL model is forward looking and requires the use of reasonable and supportable forecasts of future economic conditions in the determination of significant increases in credit risk and measurement of ECL. **Stage 1** 12 month ECL applies to all financial assets that have not experienced a significant increase in credit risk (SICR) since origination and are not credit impaired. The ECL will be computed using a factor that represents the Probability of Default (PD) occurring over the next 12 months. **Stage 2** Under Stage 2, where there has been a significant increase in credit risk since initial recognition but the financial instruments are not considered credit impaired, an amount equal to the default probability weighted lifetime ECL will be recorded. Provisions are expected to be higher in this stage because of an increase in risk and the impact of a longer time horizon being considered compared to 12 months in Stage 1. **Stage 3** Under the Stage 3, where there is objective evidence of impairment at the reporting date these financial instruments will be classified as credit impaired and an amount equal to the lifetime ECL will be recorded for the financial assets. **Key Considerations** Some of the key concepts in IFRS 9 that have the most significant impact and require a high level of judgment, as considered by the Bank while determining the impact assessment, are: **Assessment of Significant Increase in Credit Risk** The assessment of a significant increase in credit risk is done on a relative basis. To assess whether the credit risk on a financial asset has increased significantly since origination, the Bank compares the risk of default occurring over the expected life of the financial asset at the reporting date to the corresponding risk of default at origination, using key risk indicators that are used in the Bank existing risk management processes. Our assessment of significant increases in credit risk will be performed at least quarterly for each individual exposure based on three factors. If any of the following factors indicates that a significant increase in credit risk has occurred, the instrument will be moved from Stage 1 to Stage 2: 1. We have established thresholds for significant increases in credit risk based on movement in PDs relative to initial recognition. 2. Additional qualitative reviews will be performed to assess the staging results and make adjustments, as necessary, to better reflect the positions which have significantly increased in risk. 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.

Effective for Annual Periods Beginning on or After	New and Revised IFRSs
	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 withcredit losses in the relevant portfolio. Each macroeconomic scenario used in our expected credit loss calculation will have forecasts of the relevant macroeconomic variables. Scenarios will be probability-weighted according to our best estimate of their relative likelihood based on historical frequency and current trends and conditions. Probability weights will be updated on a quarterly basis. All scenarios considered will be applied to all portfolios subject to expected credit losses with the same probabilities. **Definition of default** The definition of default used in the measurement of expected credit losses and the assessment to determine movement between stages will be consistent with the definition of default used for internal credit risk management purposes. IFRS 9 does not define default, but contains a rebuttable presumption that default has occurred when an exposure is greater than 90 days past due. **Expected Life** When measuring ECL, the Bank must consider the maximum contractual period over which the Bank is exposed to credit risk. All contractual terms should be considered when determining the expected life, including prepayment options and extension and rollover options. For certain revolving credit facilities that do not have a fixed maturity, the expected life is estimated based on the period over which the Bank is exposed to credit risk and where the credit losses would not be mitigated by management actions. **Governance** In addition to the existing risk management framework, we have established an internal Committee to provide oversight to the IFRS 9 implementation. The Committee is comprised of senior representatives from Finance and Risk Management and will be responsible for reviewing and approving staging of financial assets and other key inputs and assumptions used in our expected credit loss estimates. It also assesses the appropriateness of the overall allowance to be provided for Expected Credit Losses. The expected impact on the Bank's statement of financial position and equity is discussed below. **Hedge accounting** The Bank has early adopted hedge accounting requirements as issued in IFRS 9 (2013). These requirements were first published in November 2013 and remain unchanged in the July 2014 publication of IFRS 9, except to reflect the addition of the FVOCI measurement category to IFRS 9. The Bank does not expect an impact on its financial statements as the Bank does not have hedged items measured at FVOCI.

Effective for Annual Periods Beginning on or After	New and Revised IFRSs
	Financial instruments: disclosures (IFRS 7) The Bank will be amending the disclosures for 2018 to include more extensive qualitative and quantitative disclosure relating to IFRS 9 such as new classification categories, three stage impairment model, new hedge accounting requirements and transition provisions. In addition to the adjustments described above, on adoption of IFRS 9, in accordance with Central Bank of Lebanon's basic circular 143 dated 7 November 2017, the Bank may use certain non-distributable reserves previously appropriated for regulatory purposes, to cover additional required stock of impairment provisions under IFRS 9. The estimated impact of IFRS adoption will be as follows:

Assets	Expected Credit Losses	LBP' Million
Deposits with Central Bank	1,534	
Deposits with banks and financial institutions	5,481	
Deposits with the parent, sister and other related banks	101	
Loans and advances to customer	593	
Financial assets at amortized cost	2,985	
	10,694	
Liabilities		
Loans and advances – off-balance sheet commitments	184	
Collective provisions	(486)	
	(302)	
Net impact on Equity	**10,392**	

January 1, 2018	**IFRS 15 Revenue from Contracts with Customers** In May 2014, IFRS 15 was issued which established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective. The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition: • Step 1: Identify the contract(s) with a customer. • Step 2: Identify the performance obligations in the contract. • Step 3: Determine the transaction price. • Step 4: Allocate the transaction price to the performance obligations in the contract. • Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation. Under IFRS 15, an entity recognises when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.
January 1, 2018	Amendments to IFRS 15 Revenue from Contracts with Customers to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.

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

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

3. Significant Accounting Policies

Statement of Compliance

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

Basis of Measurement

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

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

The principal accounting policies are set out below:

A. Foreign Currencies

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

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for exchange differences on transactions entered into in order to hedge certain foreign currency risks, which are recognized in other comprehensive income.

B. Recognition and Derecognition of Financial Assets and Liabilities

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

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

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

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

Debt securities exchanged against securities with longer maturities with similar risks, and issued by the same 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 Bank derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

Repurchase Agreements

Securities sold under agreements to repurchase at a specified future date ("repos") are not derecognized from the statement of financial position. The corresponding cash received, is recognized as liability. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the effective interest rate method. Securities purchased under agreements to resell at a specified date are not recognized in the statement of financial positon.

The consideration on paid is recognized as asset. The difference between the purchase and resale prices is treated as interest income using the effective interest rate method.

C. Classification of Financial Assets

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

Debt Instruments

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

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

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

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

Equity Instruments

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

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

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

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

A financial asset is held for trading if:

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

Reclassification

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

Reclassification is not allowed where:

- the other comprehensive income option has been exercised for a financial asset, or

- the fair value option has been exercised in any circumstance for a financial instrument.

D. Financial Liabilities and Equity Instruments

Classification as debt or equity

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

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

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

Financial Liabilities

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

E. Offsetting

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

F. Fair Value Measurement of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

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

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

International Financial Reporting Standard (IFRS 13) establishes the hierarchy of fair value as follows:

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

G. Impairment of Financial Assets

Financial assets carried at amortized cost are assessed for indicators of impairment at the reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the asset, a loss event has occurred which has an impact on the estimated future cash flows of the financial asset.

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

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

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

H. Derivative Financial Instruments

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

I. Loans and Advances

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

J. Property and Equipment

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

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

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

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

K. Intangible Assets

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

L. Assets acquired in satisfaction of loans

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

M. Impairment of Financial and Non-Financial Assets

At the end of each reporting period, the Bank reviews the carrying amounts of its financial and non-financial, asset to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

The provision for staff termination indemnities is based on the liability that would arise if the employment of all the staff were voluntary terminated at the reporting date. This provision is calculated in accordance with the directives of the Lebanese Social Security Fund and Labor laws based on the number of years of service multiplied by the monthly average of the last 12 months' remunerations and less contributions paid to the Lebanese Social Security National Fund and interest accrued by the Fund.

O. Provisions

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

P. Revenue and Expense Recognition

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

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

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

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

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

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

Q. Income Tax

Income tax expense represents the sum of the tax currently payable and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in other comprehensive income, in which case it is recognized in other comprehensive income (as applicable).
The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because of the items that are never taxable or deductible.

The Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

During 2017, Lebanese tax amendments and new taxes and duties were issued as per Law No. 64 dated October 26, 2017. These amendments include, but are not limited to, an increase in the Lebanese corporate income tax from 15% to 17% to be applied effective on October 27, 2017 onwards. In addition, the above mentioned withheld tax by the issuer is not allowed anymore to be deducted from the annual corporate income tax amount and is considered as a deductible expense for the purpose of calculating the corporate taxable income.
Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the statement of financial position and the corresponding tax base used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

R. Cash and Cash Equivalents

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

4. Critical Accounting Judgments and Key Sources of Estimation Uncertainty

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

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

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

Classification of Financial Assets

Business Model

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

Characteristics of the Financial Asset

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

B. Key Sources of Estimation Uncertainty

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

Allowances for Credit Losses - Loans and Advances to Customers

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

Determining Fair Values

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

5. Cash and Central Bank

	December 31,	
	2017	2016
	LBP'000	LBP'000
Cash on hand	2,032,249	1,472,280
Purchased checks	23,455	–
Current accounts with Central Bank of Lebanon (including compulsory reserves)	50,551,900	27,968,464
Term placements with Central Bank of Lebanon	355,794,020	220,161,250
Accrued interest receivable	3,383,560	1,026,047
	411,785,184	**250,628,041**

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

	December 31, 2017			
Maturity	**Accounts in LBP**	**Average interest rate**	**Accounts in F/Cy**	**Average interest rate**
	LBP'000	%	LBP'000	%
First quarter of 2018	25,000,000	2.86	120,743,520	1.59
Second quarter of 2018	–	–	21,858,750	1.33
Third quarter of 2018	–	–	10,552,500	1.44
Year 2019	–	–	24,120,000	1.92
Year 2021	–	–	7,537,500	2.23
Year 2022	–	–	753,750	5.50
Year 2024	–	–	3,241,125	6.00
Year 2025	–	–	7,537,500	6.04
Year 2027	–	–	56,757,375	6.69
Year 2029	–	–	15,075,000	7.50
Year 2047	62,617,000	10.55	–	–
	87,617,000		**268,177,020**	

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

Current accounts with Central Bank of Lebanon include cash compulsory reserves in Lebanese Pound in the amount of LBP 21.92 billion (LBP 20.78 billion in 2016). This compulsory reserve is non-interest earning and is computed on the basis of 25% and 15% of the average weekly demand and term customers' deposits in Lebanese Pounds respectively, in accordance with the local banking regulations. Compulsory deposits are not available for use in the Bank's day-to-day operations.

Term placements with Central Bank of Lebanon include the equivalent in foreign currencies of LBP 153 billion (LBP 143 billion in 2016) deposited in accordance with local banking regulations which require banks to maintain interest earning placements in foreign currency to the extent of 15% of customers' deposits in foreign currencies, which includes all types of deposits, certificates of deposit and loans acquired from non-resident financial institutions with remaining maturities of one year or less.

During 2017, the Bank deposited term placements with the Central Bank of Lebanon for an amount of USD 26.4 million that matures in 2027 and in return soft leverage arrangement was given to the Bank in Lebanese Pound to be invested in Lebanese treasury bills and mortgaged against these facilities, thus enhancing the yield on the initial investment in U.S. Dollar (refer to notes 9 and 17).

6. Deposits with Banks and Financial Institutions

	December 31, 2017	December 31, 2016
	LBP'000	LBP'000
Current accounts with correspondents	8,611,850	8,745,969
Term placements	365,150,680	313,199,445
Loans under reverse repurchase agreement	124,092,571	92,912,527
Accrued interest receivable	3,847,890	763,553
	501,702,991	**415,621,494**

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

	December 31, 2017	December 31, 2016
	LBP'000	LBP'000
Resident	496,701,318	394,130,886
Non-resident	5,001,673	21,490,608
	501,702,991	**415,621,494**

Term placements represent short term maturities having an average interest rate on outstanding balances of 3.19% as at December 31, 2017 (1.43% as at December 31, 2016).

Loans under reverse repurchase agreement represent short term maturities having an average interest rate on outstanding balances of 2.57% as at December 31, 2017 (2% as at December 31, 2016).

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

	December 31, 2017	
	Balance	Number of Counter Parties
	LBP'000	
Less than 5 billion LBP	2,899,163	6
Between 5 to 15 billion LBP	27,066,355	3
Between 15 to 30 billion LBP	–	–
Between 30 to 50 billion LBP	–	–
Between 50 to 100 billion LBP	168,433,180	3
Between 100 to 150 billion LBP	–	–
Between 150 to 200 billion LBP	–	–
Between 200 to 350 billion LBP	303,304,293	1
	501,702,991	**13**

	December 31, 2016	
	Balance	Number of Counter Parties
	LBP'000	
Less than 5 billion LBP	10,263,293	11
Between 5 to 15 billion LBP	–	–
Between 15 to 30 billion LBP	66,818,451	3
Between 30 to 50 billion LBP	49,266,067	1
Between 50 to 100 billion LBP	–	–
Between 100 to 150 billion LBP	104,438,146	1
Between 150 to 200 billion LBP	184,835,537	1
Between 200 to 350 billion LBP	–	–
	415,621,494	**17**

Refer to Note 30 for outstanding balances with related parties.

7. Deposits with the Parent, Sister and Other Related Banks

	December 31, 2017	December 31, 2016
	LBP'000	LBP'000
Current Accounts		
Sister banks	9,840,870	6,457,046
Parent Bank	526,173	572,299
Term placements-sister banks	9,798,750	22,612,500
Accrued interest receivable	1,021	502
	20,166,814	**29,642,347**

8. Loans and Advances to Customers

Performing loans include an economic group having an aggregate balance around LBP 5.2 billion as at December 31, 2017 (representing 46% of the total performing loans) (LBP5.5 billion representing 45% of the total performing loans as of December 31, 2016) in addition to indirect facilities of LBP2.8billion (LBP3.5 billion as at December 31, 2016). These facilities are covered by real estate mortgages and treasury bills up to LBP 10.5 billion and concession of the customer's cash inflows from projects with the public sector.

	December 31, 2017		
	Gross amount net of unrealized interest	Impairment allowance	Carrying amount
	LBP'000	LBP'000	LBP'000
Performing Loans			
Retail	1,072,699	–	1,072,699
Housing loans	1,814,204	–	1,814,204
	2,886,903		**2,886,903**
Performing Loans– Companies			
Small & medium enterprises	8,302,391	–	8,302,391
	8,302,391	–	8,302,391
Non-performing loans			
Doubtful and bad	28,507,877	(17,002,245)	11,505,632
	28,507,877	(17,002,245)	11,505,632
Collective provision	–	(44,112)	(44,112)
	39,697,171	**(17,046,357)**	**22,650,814**

	December 31, 2016		
	Gross amount net of unrealized interest	Impairment allowance	Carrying amount
	LBP'000	LBP'000	LBP'000
Performing Loans			
Retail	1,094,874	–	1,094,874
Housing loans	2,078,307	–	2,078,307
	3,173,181		**3,173,181**
Performing Loans–Companies			
Small & medium enterprises	8,981,339	–	8,981,339
	8,981,339	–	8,981,339
Non-performing loans			
Doubtful and bad	28,678,374	(16,970,846)	11,707,528
	28,678,374	(16,970,846)	11,707,528
Collective provision	–	(44,112)	(44,112)
	40,832,894	**(17,014,958)**	**23,817,936**

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

	2017	2016
	LBP'000	LBP'000
Balance – beginning of the year	489,147,948	404,003,658
Additions	102,866,767	85,077,602
Write-back (Note 22)	(266,030)	–
Effect of exchange rates changes	83,788	66,688
Balance – end of the year	**591,832,473**	**489,147,948**

The movement of the allowance for impairment is as follows:

	2017	2016
	LBP'000	LBP'000
Balance – beginning of the year	16,970,846	17,042,542
Additions	64,822	6,664
Write-back through profit or loss	(33,423)	(78,360)
Balance – end of the year	**17,002,245**	**16,970,846**

The movement of collective provision is as follows:

	2017	2016
	LBP'000	LBP'000
Balance – beginning of the year	44,112	15,568
Additions	–	28,544
Balance – end of the year	**44,112**	**44,112**

During 2016, the Bank wrote back provisions for doubtful debts from off-balance sheet accounts for an amount of LBP 462 million.

9. Investment Securities

December 31, 2017

	Fair value through profit or loss			Amortized Cost			Fair value through other comprehensive Income		
	Balances in LBP	Balances in Foreign currencies	Total	Balances in LBP	Balances in Foreign currencies	Total	Balances in LBP	Balances in Foreign currencies	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Unquoted equity securities	170,000	75,375	245,375	–	–	–	–	–	–
Quoted equity securities	–	77,855	77,855	–	–	–	–	114,654,712	114,654,712
Investment funds	–	14,487,381	14,487,381	–	–	–	–	–	–
Lebanese treasury bills	–	–	–	83,316,820	–	83,316,820	–	–	–
Lebanese Government bonds	–	–	–	–	247,902,840	247,902,840	–	–	–
Certificate of deposit issued by the Central Bank of Lebanon	–	–	–	70,189,467	28,190,250	98,379,717	–	–	–
Corporate bonds - local bank	–	–	–	–	22,612,500	22,612,500	–	–	–
	170,000	**14,640,611**	**14,810,611**	**153,506,287**	**298,705,590**	**452,211,877**	**–**	**114,654,712**	**114,654,712**
Accrued interest receivable	–	–	–	3,213,938	3,129,342	6,343,280	–	–	–
	170,000	**14,640,611**	**14,810,611**	**156,720,225**	**301,834,932**	**458,555,157**	**–**	**114,654,712**	**114,654,712**

December 31, 2016

	Fair value through profit or loss			Amortized Cost			Fair value through other comprehensive Income		
	Balances in LBP	Balances in Foreign currencies	Total	Balances in LBP	Balances in Foreign currencies	Total	Balances in LBP	Balances in Foreign currencies	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Unquoted equity securities	170,000	73,375	245,375	–	–	–	–	–	–
Quoted equity securities	–	60,759	60,759	–	–	–	–	110,486,475	110,486,475
Investment funds	–	14,349,986	14,349,986	–	–	–	–	–	–
Lebanese treasury bills	–	–	–	65,603,800	–	65,603,800	–	–	–
Lebanese Government bonds	–	–	–	–	304,250,504	304,250,504	–	–	–
Certificate of deposit issued by the Central Bank of Lebanon	–	–	–	107,336,971	28,190,250	135,527,221	–	–	–
Corporate bonds - local bank	–	–	–	–	22,612,500	22,612,500	–	–	–
	170,000	**14,486,120**	**14,656,120**	**172,940,771**	**355,053,254**	**527,994,025**	**–**	**110,486,475**	**110,486,475**
Accrued interest receivable	–	–	–	3,696,495	4,522,598	8,219,093	–	–	–
	170,000	**14,486,120**	**14,656,120**	**176,637,266**	**359,575,852**	**536,213,118**	**–**	**110,486,475**	**110,486,475**

The movement of investment securities during 2017 and 2016 is summarized as follows:

	2017		
	Investment securities at fair value through profit or loss	Investment securities at amortized cost	Investment securities at fair value through other comprehensive income
	LBP'000	LBP'000	LBP'000
Balance as at January 1	14,656,120	527,994,025	110,486,475
Additions	–	50,160,430	–
Redemption upon maturity	–	(89,922,736)	–
SWAP	–	(40,000,000)	–
Unrealized gain from change in fair value (Note 24)	150,885	–	4,168,237
Amortization of discount/premium	–	1,225,228	–
Effect of exchange rates changes	3,606	2,754,930	–
Balance as at December 31	**14,810,611**	**452,211,877**	**114,654,712**

	2016		
	Investment securities at fair value through profit or loss	Investment securities at amortized cost	Investment securities at fair value through other comprehensive income
	LBP'000	LBP'000	LBP'000
Balance as at January 1	29,567,409	561,355,357	48,399,075
Additions	–	17,361,800	58,867,590
Redemption upon maturity	–	(49,210,000)	–
SWAP	(15,155,418)	–	–
Unrealized gain from change in fair value (Note 24)	244,129	–	3,219,810
Amortization of discount/premium	–	(853,547)	–
Effect of exchange rates changes	–	(659,585)	–
Balance as at December 31	**14,656,120**	**527,994,025**	**110,486,475**

Investment securities include treasury bills in the amount of LBP 37,65 billion pledged against borrowings from Central Bank of Lebanon (Refer to notes 5 and 17).

During 2017, the Bank entered into a swap transaction of treasury bills in Lebanese Pounds of aggregate nominal value of LBP 40 billion falling due on 2023, 2024, 2030 and 2031 subject to interest ranges between 7.9% and 8.24% concluded in conjunction with the acquisition of a term placement with Central Bank of Lebanon for an amount of LBP 42.87 billion maturing on November 14, 2047 and subject to interest rate of 10.58%.

a. Investment Securities at fair value through profit or loss

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

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

	December 31, 2017					
	LBP			F/CY		
	Cost	Fair Value	Cumulative change in fair value	Cost	Fair Value	Cumulative change in fair value
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Unquoted equity securities	170,000	170,000	–	150,750	75,375	(75,375)
Quoted equity securities	–	–	–	136,917	77,855	(59,062)
Investment funds	–	–	–	13,977,131	14,487,381	510,250
	170,000	**170,000**	–	**14,264,798**	**14,640,611**	**375,813**

	December 31, 2016					
	LBP			F/CY		
	Cost	Fair Value	Cumulative change in fair value	Cost	Fair Value	Cumulative change in fair value
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Unquoted equity securities	170,000	170,000	–	150,750	75,375	(75,375)
Quoted equity securities	–	–	–	136,917	60,759	(76,158)
Investment funds	–	–	–	13,977,131	14,349,986	372,855
	170,000	**170,000**	–	**14,264,798**	**14,486,120**	**221,322**

b. Investment Securities at amortized cost

	December 31, 2017					
	LBP			F/CY		
	Amortized Cost	Accrued interest receivable	Fair value	Amortized Cost	Accrued interest receivable	Fair value
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Lebanese Government bonds	–	–	–	247,902,840	2,938,985	235,977,981
Lebanese treasury bills	83,316,820	1,450,851	76,856,557	–	–	–
Certificate of deposit issued by the Central Bank of Lebanon	70,189,467	1,763,087	66,683,595	28,190,250	168,477	25,224,243
Corporate bonds - local bank	–	–	–	22,612,500	21,880	22,160,250
	153,506,287	**3,213,938**	**143,540,152**	**298,705,590**	**3,129,342**	**283,362,474**

	December 31, 2016					
	LBP			F/CY		
	Amortized Cost	Accrued interest receivable	Fair value	Amortized Cost	Accrued interest receivable	Fair value
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Lebanese Government bonds	–	–	–	304,250,504	4,332,241	286,358,914
Lebanese treasury bills	65,603,800	1,251,341	66,161,760	–	–	–
Certificate of deposit issued by the Central Bank of Lebanon	107,336,971	2,445,154	110,842,462	28,190,250	168,477	24,408,987
Corporate bonds - local bank	–	–	–	22,612,500	21,880	22,405,219
	172,940,771	**3,696,495**	**177,004,222**	**355,053,254**	**4,522,598**	**333,173,120**

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

December 31, 2017								
	Balances In LBP				Balances In Foreign Currency			
	Nominal Value	Amortized Cost	Fair Value	Average Coupon Rate	Nominal Value	Amortized Cost	Fair Value	Average Coupon Rate
	LBP'000	LBP'000	LBP'000	%	LBP'000	LBP'000	LBP'000	%
Lebanese Government Bonds								
Up to One Year	–	–	–	–	59,394,079	59,394,079	57,913,068	5.23
1 Year to 3 Years	–	–	–	–	79,143,750	79,195,346	75,742,445	5.84
3 Years to 5 Years	–	–	–	–	96,480,000	100,408,991	94,091,844	7.58
5 Years to 10 Years	–	–	–	–	9,045,000	8,904,424	8,230,624	6.00
	–	–	–		**244,062,829**	**247,902,840**	**235,977,981**	
Corporate Bonds - Local Bank								
3 Years to 5 Years	–	–	–	–	22,612,500	22,612,500	22,160,250	6.83
	–	–	–		**22,612,500**	**22,612,500**	**22,160,250**	
Lebanese Treasury Bills								
Up to One Year	6,000,000	6,000,000	6,003,890	6.74	–	–	–	–
1 Year to 3 Years	18,402,000	18,402,000	18,113,840	6.90	–	–	–	–
3 Years to 5 Years	4,405,440	4,405,440	4,261,352	7.52	–	–	–	–
5 Years to 10 Years	52,956,790	54,509,380	48,477,475	7.64	–	–	–	–
	81,764,230	**83,316,820**	**76,856,557**		–	–	–	
Certificates of Deposits Issued by the Central Bank of Lebanon								
5 Years to 10 Years	55,000,000	55,000,000	54,091,480	8.24	20,652,750	20,652,750	18,518,205	6.04
Above 10 Years	14,000,000	15,189,467	12,592,115	8.78	7,537,500	7,537,500	6,706,038	6.76
	69,000,000	**70,189,467**	**66,683,595**		**28,190,250**	**28,190,250**	**25,224,243**	
Grand Total	**150,764,230**	**153,506,287**	**143,540,152**		**294,865,579**	**298,705,590**	**283,362,474**	

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

c. Investment Securities at fair value through other comprehensive income

	December 31, 2017		
	Cost	Fair Value	Cumulative Change in Fair Value
	LBP'000	LBP'000	LBP'000
Priority shares – local bank	22,992,367	22,992,367	–
Nominal shares – local bank	83,754,290	91,662,345	7,908,055
Deferred tax liability (Note 18)	106,746,657	114,654,712	–
			(1,344,369)
			6,563,686

	December 31, 2016		
	Cost	Fair Value	Cumulative Change in Fair Value
	LBP'000	LBP'000	LBP'000
Priority shares – local bank	22,992,367	22,992,367	–
Nominal shares – local bank	83,754,290	87,494,108	3,739,818
Deferred tax liability (Note 18)	106,746,657	110,486,475	–
			(560,973)
			3,178,845

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

10. Property and Equipment

	Property & Buildings	Office & Computer Equipment	Furniture & fixtures	Vehicles	Leasehold Improvements	Advance Payments	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Cost							
Balance January 1, 2016	6,504,166	2,812,063	2,411,195	671,245	6,019,739	376,875	18,795,283
Additions	–	577,734	42,374	–	–	29,819,900	30,440,008
Disposal	–	(3,469)	(48,446)	–	–	–	(51,915)
Balance December 31, 2016	6,504,166	3,386,328	2,405,123	671,245	6,019,739	30,196,775	49,183,376
Additions	–	17,345	–	5,436	–	6,692,842	6,715,623
Disposal	–	–	(783,704)	(97,206)	(18,132)	–	(899,042)
Balance December 31, 2017	6,504,166	3,403,673	1,621,419	579,475	6,001,607	36,889,617	54,999,957
Accumulated Depreciation							
Balance January 1, 2016	(2,178,768)	(2,638,089)	(1,884,765)	(440,462)	(4,626,916)	–	(11,769,000)
Additions	(130,083)	(175,073)	(80,905)	(75,063)	(263,824)	–	(724,948)
Disposal	–	3,469	46,324	–	–	–	49,793
Balance December 31, 2016	(2,308,851)	(2,809,693)	(1,919,346)	(515,525)	(4,890,740)	–	(12,444,155)
Additions	(130,083)	(168,275)	(204,135)	(75,436)	(251,887)	–	(829,816)
Disposal	–	–	783,704	97,206	5,528	–	886,438
Balance December 31, 2017	(2,438,934)	(2,977,968)	(1,339,777)	(493,755)	(5,137,099)	–	(12,387,533)
Net Book Value							
December 21, 2017	4,065,232	425,705	281,642	85,720	864,508	36,889,617	42,612,424
December 21, 2016	4,195,315	576,635	485,777	155,720	1,128,999	30,196,775	36,739,221

This caption includes advance payments for the amount Vof USD 24.2 million out of the total acquisition cost of USD 28 million related to the purchase of the ground, first, second, third, fourth and fifth floor from block C of the constructed building on plot 1524 in Downtown Beirut having a total area of 3,854 square meter, that will be used as the Bank's head office following Board of Directors' resolution on July 5, 2015 and Central Bank of Lebanon approval on December 22, 2015.

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

The above property is pledged to BLOM bank for an amount of USD 17.64 million, by which the latter and the owner of the property have committed in the sale agreement with North Africa Commercial Bank S.A.L. to remove the mortgage from the sold sections in the real estate register upon completion of the registration procedures in the name of the Bank.

11. Intangible Assets

	Computer Software
	LBP'000
Cost	
Balance, January 1, 2016	1,723,194
Additions	139,675
Balance, December 31, 2016	1,862,869
Additions	82,754
Balance, December 31, 2017	1,945,623
Accumulated Amortization	
Balance, January 1, 2016	1,178,637
Amortization for the year	152,769
	1,331,406
Balance, December 31, 2016	179,144
Amortization for the year	1,510,550
Balance, December 31, 2017	
Carrying Value	
Balance, December 31, 2017	435,073
Balance, December 31, 2016	531,463

12. Other Assets

	December 31, 2017	December 31, 2016
	LBP'000	LBP'000
Receivables from the National Social Security Fund	185,792	207,249
Prepaid expenses	420,274	229,602
Sundry debtors	365,758	515,095
	971,824	**951,946**

13. Deposits from a Central Bank

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

	December 31, 2017	December 31, 2016
	LBP'000	LBP'000
Demand deposits	3,431,810	3,024,993
Term deposits	75,375,000	75,375,000
	78,806,810	78,399,993
Accrued interest payable	46,031	42,535
	78,852,841	**78,442,528**

The movement of deposits from a central bank is summarized as follows:

	December 31, 2017
	LBP'000
Balance – beginning of the year	78,399,993
Additions	406,817
Balance – end of the year	**78,806,810**

14. Deposits from Banks and Financial Institutions

	December 31, 2017	December 31, 2016
	LBP'000	LBP'000
Current accounts	21,441,369	32,627,719
Term deposits	105,525,000	2,713,500
Accrued interest payable	102,866	113
	127,069,235	**35,341,332**

15. Deposits from the Parent, Sister and Other Related Banks

	December 31, 2017	December 31, 2016
	LBP'000	LBP'000
Current accounts		
Sister banks	45,789	45,529
Parent Bank	169,377	1,455,729
	215,166	**1,501,258**
Term deposits		
Sister banks	34,049,400	26,381,250
Parent Bank	630,351,256	646,796,737
	664,400,656	**673,177,987**
Cash margin with Parent Bank	6,059,649	5,983,302
Accrued interest payable	3,825,179	479,190
	674,500,650	**681,141,737**

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

	December 31, 2017		December 31, 2016	
	LBP'000		LBP'000	
	Accounts in F/CY	Average Interest Rate	Accounts in F/CY	Average Interest Rate
First quarter of 2017	–	–	673,177,987	1.12
First quarter of 2018	575,375,706	1.63	–	–
Second quarter 2018	58,744,300	1.45	–	–
Fourth quarter 2018	30,280,650	3.00	–	–
	664,400,656		**673,177,987**	

The movement of deposits from parent, sister and other related banks is summarized as follows:

	2017
	LBP'000
Balance – beginning of the year	673,177,987
Additions	81,525,781
Settlements	(90,303,112)
Balance – end of the year	**664,400,656**

16. Customers' Deposits

	December 31,2017		
	LBP	F/CY	Total
	LBP'000	LBP'000	LBP'000
Deposits from customers			
Current/demand deposits	3,373,955	2,793,998	6,167,953
Term deposits	142,029,828	178,416,643	320,446,471
Collateral against loans and advances	468,287	151,111	619,398
	145,872,070	**181,361,752**	**327,233,822**
Margins and other accounts			
Margins on letters of guarantee	–	499,872	499,872
Accrued interest payable	1,149,414	2,196,726	3,346,140
Total	**147,021,484**	**184,058,350**	**331,079,834**

	December 31,2016		
	LBP	F/CY	Total
	LBP'000	LBP'000	LBP'000
Deposits from customers			
Current/demand deposits	2,888,315	1,570,277	4,458,592
Term deposits	132,519,534	175,467,422	307,986,956
Collateral against loans and advances	783,087	33,019	816,106
	136,190,936	**177,070,718**	**313,261,654**
Margins and other accounts			
Margins on letters of guarantee	–	479,635	479,635
Accrued interest payable	713,734	1,957,417	2,671,151
Total	**136,904,670**	**179,507,770**	**316,412,440**

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

	December 31, 2017					
		LBP		F/Cy		
	No. of Customers	Total Deposits	% to Total Deposits	Total Deposits	% to Total Deposits	Total
		LBP'000	%	LBP'000	%	LBP'000
Less than LBP 250 million	1,255	28,325,509	19	13,285,121	7	41,610,630
Between LBP 250 million & LBP 1.5 billion	153	63,454,119	43	20,893,704	11	84,347,823
Above LBP 1.5 billion	23	55,241,856	38	149,879,525	82	205,121,381
	1,431	**147,021,484**	**100**	**184,058,350**	**100**	**331,079,834**

	December 31, 2016					
		LBP		F/Cy		
	No. of Customers	Total Deposits	% to Total Deposits	Total Deposits	% to Total Deposits	Total
		LBP'000	%	LBP'000	%	LBP'000
Less than LBP 250 million	1,354	29,789,892	22	13,109,809	7	42,899,701
Between LBP 250 million & LBP 1.5 billion	150	58,049,703	42	23,028,870	13	81,078,573
Above LBP 1.5 billion	29	49,065,075	36	143,369,091	80	192,434,166
	1,533	**136,904,670**	**100**	**179,507,770**	**100**	**316,412,440**

Customers' deposits at December 31, 2017 include coded deposit accounts in the aggregate of LBP 198 million (LBP 198 million in 2016). These accounts are subject to the provisions of Article 3 of the Banking Secrecy Law dated September 3, 1956 which stipulates that the Bank's management, in the normal course of business, cannot reveal the identities of these depositors to third parties, including its Bank's independent auditors.

Customers' deposits include related party deposits in the amount of LBP 5.66 billion at December 31, 2017 (LBP 4.31 billion in 2016).

17. Borrowings from Central Bank of Lebanon

This caption consists of borrowings from Central Bank of Lebanon detailed as follows:

	December 31, 2017	December 31, 2016
	LBP'000	LBP'000
Current/demand deposits	18,168,810	–
Term deposits	30,500,230	–
	48,669,040	–
Accrued interest payable	224,535	–
	48,893,575	–

The movement of borrowings from the Central Bank of Lebanon is summarized as follows:

	2017
	LBP'000
Balance – beginning of the year	–
Additions (note 9)	55,818,810
Settlements	(7,149,770)
Balance – end of the year	**48,669,040**

These borrowings are subject to a 2% annual interest rate covered by Lebanese treasury bills (Refer to Notes 5 and 9).

18. Other Liabilities

	December 31, 2017	December 31, 2016
	LBP'000	LBP'000
Provision for income tax	4,545,543	3,329,817
Withheld taxes payable	961,208	999,062
Deferred tax liability (Note 9)	1,344,369	560,973
Accrued charges	309,795	382,809
Due to the National Social Security Fund	45,721	45,721
Payable to personnel	86,977	94,038
Sundry payables	257,743	235,383
	7,551,356	**5,647,803**

Provision for income tax as of December 31, 2017 is presented net of amounts paid in advance and deducted at source on certain interest income amounting to LBP7 22 million (LBP 762 million in 2016).

The tax returns for the years 2013 till 2017 are still subject for review and final assessment by the tax authorities.

19. Provisions

Provisions consist of the following:

	December 31, 2017	December 31, 2016
	LBP'000	LBP'000
Provision for employees' end-of-service indemnity	3,888,335	5,020,535
Collective provisions	485,940	254,940
Provision for loss on fixed foreign currency position	169,000	169,000
	4,543,275	**5,444,475**

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

	December 31, 2017	December 31, 2016
	LBP'000	LBP'000
Balance - beginning of the year	5,020,535	4,900,482
Additions (Note 26)	379,368	1,043,727
Settlements	(1,511,568)	(923,674)
Balance - end of the year	**3,888,335**	**5,020,535**

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

20. Share Capital

At December 31, 2017 and 2016, the Bank's authorized ordinary share capital amounted to LBP 15,000 million consisting of 300,000 fully paid shares of LBP 50,000 par value each.

Cash contribution to capital amounting to LBP 148 billion as at December 31, 2017 and 2016, represents funds injected by the bank's shareholders in order to promote, support and develop the activities of the Bank. These contributions are not subject to interest. According to local banking regulations, cash contribution to capital is considered as a core capital ratio in terms of calculating Bank's solvency.

As at 2017 year-end, the Bank has a fixed exchange position in the amount of USD 3.5 million, authorized by the Central Bank of Lebanon, to hedge its equity against exchange fluctuations within the limit of 60% of equity denominated in Lebanese Pound.

In its meeting held on April 22, 2016, the Ordinary General Assembly resolved to distribute dividends to shareholders of LBP 4.5 billion.

21. Reserves

	December 31, 2017	December 31, 2016
	LBP'000	LBP'000
Legal reserve (a)	16,148,371	15,046,296
Reserve for general banking risks (b)	31,580,175	29,319,015
Special reserve (c)	11,707,541	11,707,541
Free reserve for capital increase	24,098,601	23,558,916
Other reserves	258,223	86,368
	83,792,911	**79,718,136**

a. The legal reserve is constituted in conformity with the requirements of the Lebanese Money and Credit Law on the basis of 10% of annual net profit. This reserve is not available for distribution. The Bank's General Assembly held on June 16, 2017 resolved to appropriate an amount of LBP1,102million from the net profit of 2016.

b. The reserve for general banking risks is constituted according to local banking regulations, from net profit, on the basis of a minimum of 2 per mil annually and a maximum of 3 per mil of the total risk weighted assets, off-balance-sheet risk and global exchange position as defined for the computation of the solvency ratio at year-end, on condition that the cumulative rate should not be less than 1.25% at the end of the tenth financial year, (starting from year 1998, i.e. 2007) and 2% at the end of the 20th year. This reserve is constituted in Lebanese Pounds and in foreign currencies in proportion to the composition of the total risk weighted assets and off-balance-sheet items. This reserve is not available for distribution, and is used to cover any annual or unpredicted losses after being communicated and approved by the Banking Central Commission. The Bank's General Assembly held on June 16, 2017 resolved to appropriate an amount of LBP2,261million from the net profit of 2016.

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

22. Interest Income

	Year Ended December 31,	
	2017	2016
	LBP'000	LBP'000
Interest income from		
Deposits with the Central Bank of Lebanon	8,067,333	3,969,935
Deposits with banks and financial institutions	13,763,188	5,750,278
Loans and advances to customers	926,617	905,396
Investment securities at amortized cost	32,372,743	37,595,187
Interest realized on non-performing loans booked in off-balance sheet	–	64,970
	55,395,911	**48,285,766**
Interest received on doubtful loans and advances to customers (Note 8)	266,030	–
Withholding tax on interest	(209,353)	–
Interest income (net)	**55,186,558**	**48,285,766**

Refer to Note 30 for interest income from related parties.

23. Interest Expense

	Year Ended December 31,	
	2017	2016
	LBP'000	LBP'000
Interest expense on		
Deposits from banks and financial institutions	11,693,062	6,893,865
Deposits from customers	14,438,441	12,949,537
Deposits from related parties	283,272	334,061
Borrowings from Central Bank of Lebanon	271,150	–
	26,685,925	**20,177,463**

Refer to Note 30 for interest income from related parties.

24. Fee and Commission Income

	Year Ended December 31,	
	2017	2016
	LBP'000	LBP'000
Commission on documentary credits and guarantees	1,345,700	2,458,612
Commission on banking operations	135,314	121,541
Fees and commission on credit facilities	73,452	73,991
	1,554,466	**2,654,144**

25. Net Gains on Investment Securities at Fair Value Through Profit or Loss

	Year Ended December 31,	
	2017	2016
	LBP'000	LBP'000
Dividends income	8,039,911	2,873,475
Unrealized gain	150,885	244,129
Realized loss	–	(50,441)
Commission expenses	(4,466)	(34,212)
	8,186,330	**3,032,951**

26. Salaries and Related Charges

	Year Ended December 31,	
	2017	2016
	LBP'000	LBP'000
Salaries	8,264,166	8,685,060
Vacation and other staff benefits	1,741,944	1,883,635
Provision for employees' end-of-service indemnity	379,368	1,043,727
Social Security contributions	923,597	918,723
Insurance expenses	520,145	592,095
School allowance	462,200	437,700
Transportation	220,586	219,987
Other allowance	399,019	353,191
	12,911,025	**14,134,118**

27. General and Administrative Expenses

	Year Ended December 31,	
	2017	2016
	LBP'000	LBP'000
Directors' remunerations, attendance fees and representation allowances	1,716,289	1,631,869
Travel expenses	155,552	34,236
Maintenance and repairs	434,254	319,847
Professional fees	768,129	364,426
Water, electricity and telecommunication	244,664	280,024
Rent	463,876	498,810
Municipality and other taxes	64,146	55,428
Subscription	582,182	566,979
Insurance	80,075	116,500
Other operating expenses	499,471	558,432
	5,008,638	**4,426,551**

28. Cash and Cash Equivalents

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

	Year Ended December 31,	
	2017	2016
	LBP'000	LBP'000
Cash and deposits with Central Bank (net of compulsory reserve) (a)	102,961,507	47,183,905
Term deposits with banks and financial institutions (a)	177,704,225	154,217,140
Term deposits with parent bank, sister and related banks (a)	20,166,814	29,642,347
	300,832,546	**231,043,392**

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

29. Financial Instruments with Off-Balance-Sheet Risks

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

30. Balances and Transactions with Related Parties

In the ordinary course of its activities, the Bank conducts transactions with related parties including shareholders, directors and related companies. The size of these related-party transactions and outstanding balances at year-end, and relating expense and income for the year are as follows:

	December 31, 2017	December 31, 2016
	LBP'000	LBP'000
a. Deposits with related banks and financial institutions (Note 6)		
Current accounts	2,634	410,417
Term deposits	–	15,075,000
Accrued interest receivable	–	1,382
	2,634	**15,486,799**

	December 31, 2017	December 31, 2016
	LBP'000	LBP'000
b. Deposits with parent, sister and other related banks (Note 7)		
Current accounts		
Sister banks	9,840,870	6,457,046
Parent Bank	526,173	572,299
Term deposits – related banks	9,798,750	22,612,500
Accrued interest	1,021	502
	20,166,814	**29,642,347**
c. Deposits from a central bank (Foreign Central Bank –Ultimate parent company) (Note 13)		
Current accounts	3,431,810	3,024,993
Term deposits	75,375,000	75,375,000
Accrued interest payable	46,031	42,535
	78,852,841	**78,442,528**
d. Deposits from parent, sister and other related banks (Note 15)		
Current accounts		
Sister banks	45,789	45,529
Parent Bank	169,377	1,455,729
	215,166	**1,501,258**
Term deposits		
Sister banks	34,049,400	26,381,250
Parent Bank	630,351,256	646,796,737
	664,400,656	**673,177,987**
Cash margin with Parent Bank	6,059,649	5,983,302
Accrued interest payable	3,825,179	479,190
	674,500,650	**681,141,737**
e. Customers' deposits (Note 16)		
Customers' deposits – related parties	5,658,556	4,312,090

f. Interest income and expense		
	Year Ended December 31,	
	2017	2016
	LBP'000	LBP'000
Interest income on		
Deposits with related banks and financial institutions	5,208	5,073
	5,208	**5,073**
Interest expense on		
Deposits from foreign Central Bank (ultimate parent company)	876,471	547,558
Deposits from parent, sister and other related banks	9,202,776	5,871,909
Customers' deposits – related parties	283,272	334,061
	10,362,519	**6,753,528**
g. Board of directors remunerations (Note 27)		
Board of directors remunerations, representation and attendance fees		
	1,716,289	**1,631,869**

31. Financial Risk Management

RISK MANAGEMENT FRAMEWORK

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

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

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

CREDIT RISK

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

Management of credit risk mainly includes:

a. Identifying credit risk through implementing credit processes related to credit origination, analysis, approval and review.

b. Measuring credit risk by ensuring that it is within the limits set by the Bank and the related authorities in addition to the assessment of guarantees taken.

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

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

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

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

MEASUREMENT OF CREDIT RISK

LOANS AND ADVANCES TO CUSTOMERS

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

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

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

Classification	Description	
1	Standard monitoring	Indicates that borrowers are certainly able to honor their commitments. Some of the indicators related to this category are: continuous cash inflows, and availability of updated financial statements.
2	Follow up	Indicates that borrowers have an adequate ability to honor their commitments. Major characteristics of this category are inadequate documentation regarding borrower's activity and declining profitability.
3	Special mention	Indicates that borrowers are still able to honor their commitments with the existence of some weaknesses that may reduce ability to settle. Some indicators related to this category are delayed payments (60 to 90 days), decline in profitability and cash flows, excess over limit of more than 10%, more than one time debt rescheduling and borrower highly relying on leverage and rising conflict among shareholders.
4	Substandard	Indicates that borrowers' ability to serve their commitments is in question and depending on the improvement of financial and economic conditions on the liquidation of available collateral. The main characteristics of this category are repetitive overdues between 90 and 180 days, inability to cover interest payments for more than 6 months, remarkable decrease in cash flows and losses incurred for over three consecutive years. In this case, the Bank considers interests and commissions as unrealized but does not establish an allowance for impairment.
5	Doubtful	Indicates that Bank may not be able to recover loan in full. Major indicators are no movement for over six months and borrower is unable to settle rescheduled commitments. In this case, the Bank considers interests and commissions as unrealized and established an allowance for impairment accordingly.
6	Bad	Indicates that commitments cannot be recovered. Some signals of this category would be inexistence of collateral low value of collateral and / or, losing contact with the borrower. In this case, the bank considers interests and commissions as unrealized, ceases their accumulation, and provides the whole amount of the exposure's balance.

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

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

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

DEBT INVESTMENT SECURITIES AND OTHER BILLS

The risk of the debt instruments included in the investment portfolio at amortized cost relates mainly to sovereign risk (including Central bank of Lebanon) to the extent of 95% in 2017 and 96% in 2016.

CONCENTRATION OF CREDIT RISK BY GEOGRAPHICAL LOCATION

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

	December 31, 2017					
	Lebanon	Arab Countries	Africa	Europe	Other	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Financial Assets						
Cash and Central Bank	411,785,184	–	–	–	–	411,785,184
Deposits with banks and financial institutions	496,701,318	2,144	–	4,996,895	2,634	501,702,991
Deposits with parent, sister and other related banks	–	342,122	526,174	19,298,518	–	20,166,814
Loans and advances to customers	21,720,683	548,102	142,014	–	240,015	22,650,814
Investment securities at fair value through profit or loss	14,735,236	75,375	–	–	–	14,810,611
Investment securities at fair value through comprehensive income	114,654,712	–	–	–	–	114,654,712
Investment securities at amortized cost	458,555,157	–	–	–	–	458,555,157
	1,518,152,290	**967,743**	**668,188**	**24,295,413**	**242,649**	**1,544,326,283**
Off-balance sheet items						
Letters of guarantee and standby letters of credit	61,987,766	–	388,862	100	–	62,376,728
Letters of credit - export confirmed	–	–	8,288,009	–	–	8,288,009
	61,987,766	–	**8,676,871**	**100**	–	**70,664,737**

	December 31, 2016					
	Lebanon	Arab Countries	Africa	Europe	Other	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Financial Assets						
Cash and Central Bank	250,628,041	–	–	–	–	250,628,041
Deposits with banks and financial institutions	396,655,666	347,462	–	18,538,105	80,261	415,621,494
Deposits with parent, sister and other related banks	–	–	572,300	29,070,047	–	29,642,347
Loans and advances to customers	22,951,418	548,090	114,619	–	203,809	23,817,936
Investment securities at fair value through profit or loss	14,580,745	75,375	–	–	–	14,656,120
Investment securities at fair value through comprehensive income	110,486,475	–	–	–	–	110,486,475
Investment securities at amortized cost	536,213,118	–	–	–	–	536,213,118
	1,331,515,463	**970,927**	**686,919**	**47,608,152**	**284,070**	**1,381,065,531**
Off-balance sheet items						
Letters of guarantee and standby letters of credit	61,754,358	853,459	–	–	–	62,607,817
Letters of credit - export confirmed	–	29,855,517	–	–	–	29,855,517
	61,754,358	**30,708,976**	–	–	–	**92,463,334**

CONCENTRATION OF CREDIT RISK BY INDUSTRY OR SECTOR

	December 31, 2017							
	Sovereign Risk	Financial Institutions	Manufacturing	Construction	Trading	Other	Individual	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000		
Financial Assets								
Cash and Central Bank	411,785,184	–	–	–	–	–	–	411,785,184
Deposits with banks and financial institutions	–	501,702,991	–	–	–	–	–	501,702,991
Deposits with parent, sister and other related banks	–	20,166,814	–	–	–	–	–	20,166,814
Loans and advances to customers	–	–	4,615,795	8,442,616	6,054,216	891,353	2,646,834	22,650,814
Investment securities at fair value through profit or loss	–	14,763,739	–	46,872	–	–	–	14,810,611
Investment securities at fair value through comprehensive income	–	114,654,712	–	–	–	–	–	114,654,712
Investment securities at amortized cost	435,960,370	22,594,787	–	–	–	–	–	458,555,157
	847,745,554	**673,883,043**	**4,615,795**	**8,489,488**	**6,054,216**	**891,353**	**2,646,834**	**1,544,326,283**
Off-balance sheet items								
Letters of guarantee and standby letters of credit	–	58,384,164	200	2,826,842	449,262	139,741	576,519	62,376,728
Letters of credit - export confirmed	–	8,288,009	–	–	–	–	–	8,288,009
	–	**66,672,173**	**200**	**2,826,842**	**449,262**	**139,741**	**576,519**	**70,664,737**

	December 31, 2016							
	Sovereign Risk	Financial Institutions	Manufacturing	Construction	Trading	Other	Individual	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Financial Assets								
Cash and Central Bank	250,628,041	–	–	–	–	–	–	250,628,041
Deposits with banks and financial institutions	–	415,621,494	–	–	–	–	–	415,621,494
Deposits with parent, sister and other related banks	–	29,642,347	–	–	–	–	–	29,642,347
Loans and advances to customers	–	–	5,246,329	8,669,885	6,021,921	914,205	2,965,596	23,817,936
Investment securities at fair value through profit or loss	–	14,595,361	–	60,759	–	–	–	14,656,120
Investment securities at fair value through comprehensive income	–	110,486,475	–	–	–	–	–	110,486,475
Investment securities at amortized cost	513,578,738	22,634,380	–	–	–	–	–	536,213,118
	764,206,779	**592,980,057**	**5,246,329**	**8,730,644**	**6,021,921**	**914,205**	**2,965,596**	**1,381,065,531**
Off-balance sheet items								
Letters of guarantee and standby letters of credit	–	57,752,662	414,525	3,591,780	15,375	129,120	704,355	62,607,817
Letters of credit - export confirmed	–	29,855,517	–	–	–	–	–	29,855,517
	–	**87,608,179**	**414,525**	**3,591,780**	**15,375**	**129,120**	**704,355**	**92,463,334**

GUARANTEES HELD AGAINST LOANS AND ADVANCES TO CUSTOMERS

December 31, 2017							
				Value of Collateral Received			
	Gross Exposure Net of Unrealized Interest	Allowance for Impairment	Net Exposure	Pledged Funds	First Degree Mortgage on Properties	Personal Guarantees	Total Guarantees
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	
Performing Loans							
Retail	1,072,699	–	1,072,699	462,434	–	226,683	689,117
Housing loans	1,814,204	–	1,814,204	71,563	3,135,600	–	3,207,163
Performing loans – corporate							
Small and medium enterprises	8,302,391	–	8,302,391	85,401	17,022,965	17,856	17,126,222
Doubtful and bad debts	28,507,877	(17,002,245)	11,505,632	–	37,061,888	–	37,061,888
Collective provision	–	(44,112)	(44,112)	–	–	–	–
	39,697,171	**(17,046,357)**	**22,650,814**	**619,398**	**57,220,453**	**244,539**	**58,084,390**

December 31, 2016							
				Value of Collateral Received			
	Gross Exposure Net of Unrealized Interest	Allowance for Impairment	Net Exposure	Pledged Funds	First Degree Mortgage on Properties	Personal Guarantees	Total Guarantees
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	
Performing Loans							
Retail	1,094,874	–	1,094,874	523,654	–	325,135	848,789
Housing loans	2,078,307	–	2,078,307	94,274	3,210,975	–	3,305,249
Performing loans – corporate							
Small and medium enterprises	8,981,339	–	8,981,339	198,178	17,022,965	33,696	17,254,839
Doubtful and bad debts	28,678,374	(16,970,846)	11,707,528	–	37,514,138	–	37,514,138
Collective provision	–	(44,112)	(44,112)	–	–	–	–
	40,832,894	**(17,014,958)**	**23,817,936**	**816,106**	**57,748,078**	**358,831**	**58,923,015**

MARKET RISKS

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

FOREIGN EXCHANGE RISK

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

	December 31, 2017					
	LBP	USD	GBP	Euro	Others	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Financial Assets						
Cash and Central Bank	132,404,389	273,168,584	97,335	6,114,876	–	411,785,184
Deposits with banks and financial institutions	25,529,632	436,400,188	21,758	38,073,100	1,678,313	501,702,991
Deposits with parent, sister and other related banks	–	10,974,995	351,650	8,798,066	42,103	20,166,814
Loans and advances to customers	1,077,206	21,573,608	–	–	–	22,650,814
Investment securities at fair value through profit or loss	170,000	14,609,628	–	30,983	–	14,810,611
Investment securities at fair value through comprehensive income	–	114,654,712	–	–	–	114,654,712
Investment securities at amortized cost	156,720,025	278,050,860	–	23,784,272	–	458,555,157
Property and equipment	5,900,121	36,712,303	–	–	–	42,612,424
Intangible assets	435,073	–	–	–	–	435,073
Other assets	411,299	526,237	15,899	18,389	–	971,824
Total Assets	**322,647,745**	**1,186,671,115**	**486,642**	**76,819,686**	**1,720,416**	**1,588,345,604**
Liabilities						
Deposits from a Central Bank	–	77,971,508	–	881,333	–	78,852,841
Deposits from banks and financial institutions	–	117,928,775	22,831	9,115,540	2,089	127,069,235
Deposits from the parent, sister and other related banks	–	638,189,680	–	36,310,970	–	674,500,650
Customers' deposits	147,021,485	151,681,204	460,508	30,246,361	1,670,276	331,079,834
Borrowings from Central Bank of Lebanon	48,893,575	–	–	–	–	48,893,575
Other liabilities	5,719,830	1,579,236	3	252,287	–	7,551,356
Provisions	4,122,958	420,317	–	–	–	4,543,275
Total Liabilities	205,757,848	987,770,720	483,342	76,806,491	1,672,365	1,272,490,766
Net assets	**116,889,897**	**198,900,395**	**3,300**	**13,195**	**48,051**	**315,854,838**

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

EXPOSURE TO INTEREST RATE RISK

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

	December 31, 2017						
	Not Subject to Interest	Less than 1 Month	1 to 3 Months	3 Months to 1 Year	1 to 5 Years	Over 5 Years	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Financial Assets							
Cash and Central Bank	52,970,210	90,579,153	57,604,658	32,991,914	32,411,250	145,227,999	411,785,184
Deposits with banks and financial institutions	8,126,118	261,403,442	69,963,028	41,610,402	120,600,001	–	501,702,991
Deposits with parent, sister and other related banks	10,367,043	9,799,771	–	–	–	–	20,166,814
Loans and advances to customers	12,497,164	9,058,498	7,917	427,734	659,501	–	22,650,814
Investment securities at fair value through profit or loss	14,810,611	–	–	–	–	–	14,810,611
Investment securities at fair value through comprehensive income	114,654,712	–	–	–	–	–	114,654,712
Investment securities at amortized cost	–	4,502,327	5,081,946	62,153,087	217,385,794	169,432,003	458,555,157
	213,425,858	**375,343,191**	**132,657,549**	**137,183,137**	**371,056,546**	**314,660,002**	**1,544,326,283**
Financial Liabilities							
Due from a Central Bank	3,431,810	15,090,787	60,330,244	–	–	–	78,852,841
Deposits from banks and financial institutions	21,441,369	105,627,866	–	–	–	–	127,069,235
Deposits from related parent, sister and related banks	215,166	269,153,343	315,814,172	89,317,969	–	–	674,500.650
Customers' deposits	36,967,642	151,827,586	24,514,327	108,528,487	9,241,792	–	331,079,834
Borrowings from Central Bank of Lebanon	18,304,808	–	35,290	53,247	199,040	30,301,190	48,893,575
	80,360,795	**541,699,582**	**400,694,033**	**197,899,703**	**9,440,832**	**30,301,190**	**1,260,396,135**

	December 31, 2016						
	Not Subject to Interest	Less than 1 Month	1 to 3 Months	3 Months to 1 Year	1 to 5 Years	Over 5 Years	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Financial Assets							
Cash and Central Bank	29,440,745	53,647,218	77,883,461	53,591,543	13,077,500	22,987,574	250,628,041
Deposits with banks and financial institutions	7,956,237	306,348,932	93,769,403	7,546,922	–	–	415,621,494
Deposits with parent, sister and other related banks	7,029,345	22,613,002	–	–	–	–	29,642,347
Loans and advances to customers	12,628,185	9,212,462	10,871	331,442	1,634,976	–	23,817,936
Investment securities at fair value through profit or loss	14,656,120	–	–	–	–	–	14,656,120
Investment securities at fair value through comprehensive income	110,486,475	–	–	–	–	–	110,486,475
Investment securities at amortized cost	–	4,644,585	67,634,256	23,862,988	248,930,878	191,140,411	536,213,118
	182,197,107	**396,466,199**	**239,297,991**	**85,332,895**	**263,643,354**	**214,127,985**	**1,381,065,531**
Financial Liabilities							
Due from a Central Bank	3,024,993	75,417,535	–	–	–	–	78,442,528
Deposits from banks and financial institutions	32,627,719	2,713,613	–	–	–	–	35,341,332
Deposits from related parent, sister and related banks	1,501,258	124,375,895	555,264,584	–	–	–	681,141,737
Customers' deposits	36,893,709	192,136,200	52,589,565	32,641,217	2,151,749	–	316,412,440
	74,047,679	**394,643,243**	**607,854,149**	**32,641,217**	**2,151,749**	–	**1,111,338,037**

LIQUIDITY RISK

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

MATURITIES OF FINANCIAL LIABILITIES

	December 31, 2017				
	Up to 3 Months	3 Months to 1 Year	1 to3 Years	More than 5 Years	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Financial Liabilities					
Deposits from a Central Bank	78,852,841	–	–	–	78,852,841
Deposits from banks and financial institutions	127,069,235	–	–	–	127,069,235
Deposits from related parent, sister and related banks	585,182,681	89,317,969	–	–	674,500,650
Customers' deposits	213,309,555	108,528,487	9,241,792	–	331,079,834
Borrowings from Central Bank of Lebanon	18,340,098	53,247	199,040	30,301,190	48,893,575
	1,022,754,410	**197,899,703**	**9,440,832**	**30,301,190**	**1,260,396,135**

	December 31, 2016			
	Up to 3 Months	3 Months to 1 Year	1 to 3 Years	Total
	LBP'000	LBP'000	LBP'000	LBP'000
Financial Liabilities				
Deposits from a Central Bank	78,442,528	–	–	78,442,528
Deposits from banks and financial institutions	35,341,332	–	–	35,341,332
Deposits from related parent, sister and related banks	681,141,737	–	–	681,141,737
Customers' deposits	281,619,474	32,641,217	2,151,749	316,412,440
	1,076,545,071	**32,641,217**	**2,151,749**	**1,111,338,037**

32. Capital Management

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

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

The Bank's capital is split as follows:

Tier I capital

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

Tier II capital

Comprises 50% of the cumulative change in fair value of Investment securities at fair value through other comprehensive income. The bank's capital adequacy ratio was as follows:

	December 31, 2017	December 31, 2016
	LBP'000	LBP'000
Tier I capital	194,935,425	186,642,854
Tier II capital	3,361,000	1,589,500
Total regulatory capital	**198,296,425**	**188,232,354**
Credit risk	1,001,734,675	979,984,375
Market risk	34,965,390	29,400,000
Operational risk	57,852,500	63,755,625
Risk-weighted assets of credit, market and operational risks	**1,094,552,565**	**1,073,140,000**
Equity Tier I ratio	**18.12%**	**17.54%**
Tier I capital ratio	**17.81%**	**17.39%**
Risk based capital ratio- Tier I and Tier II capital	**17.81%**	**17.39%**

33. Fair Value of Financial Assets and Liabilities

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

		December 31, 2017				
			Fair Value			
	Notes	Carrying Amount	Level 1	Level 2	Level 3	Total
		LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Financial assets at fair value						
Investment securities at fair value through profit or loss						
Unquoted equity securities	9	245,375	–	–	245,375	245,375
Quoted equity securities	9	77,855	77,855	–	–	77,855
Fund	9	14,487,381	–	–	14,487,381	14,487,381
		14,810,611	**77,855**	–	**14,732,756**	**14,810,611**
Investment securities at fair value through other comprehensive income						
Quoted equity securities	9	114,654,712	114,654,712	–	–	114,654,712
		114,654,712	**114,654,712**	–	–	**114,654,712**
Financial assets at amortized cost						
Lebanese Treasury bills	9	83,316,820	–	76,856,557	–	76,856,557
Lebanese Government bond	9	247,902,840	–	235,977,981	–	235,977,981
Certificate of deposits in LBP issued by the Central Bank	9	70,189,467	–	66,683,595	–	66,683,595
Certificate of deposits in foreign currencies issued by the Central Bank	9	28,190,250	–	25,224,243	–	25,224,243
Corporate bonds - local Bank	9	22,612,500	–	22,160,250	–	22,160,250
Loans and advances to customers	8	22,650,814	–	27,412,321	–	27,412,321
		474,862,691	–	**454,314,947**	–	**454,314,947**

December 31, 2016

	Notes	Carrying Amount	Fair Value			
			Level 1	Level 2	Level 3	Total
		LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Financial assets at fair value						
Investment securities at fair value through profit or loss						
Unquoted equity securities	9	245,375	–	–	245,375	245,375
Quoted equity securities	9	60,759	60,759	–	–	60,759
Fund	9	14,349,986	–	–	14,349,986	14,349,986
		14,656,120	**60,759**	–	**14,595,361**	**14,656,120**
Investment securities at fair value through other comprehensive income						
Quoted equity securities	9	110,486,475	110,486,475	–	–	110,486,475
		110,486,475	**110,486,475**	–	–	**110,486,475**
Financial assets at amortized cost						
Lebanese Treasury bills	9	65,603,800	–	66,161,760	–	66,161,760
Lebanese Government bond	9	304,250,504	–	286,358,914	–	286,358,914
Certificate of deposits in LBP issued by the Central Bank	9	107,336,971	–	110,842,462	–	110,842,462
Certificate of deposits in foreign currencies issued by the Central Bank	9	28,190,250	–	24,408,987	–	24,408,987
Corporate bonds - local Bank	9	22,612,500	–	22,405,219	–	22,405,219
Loans and advances to customers	8	23,817,936	–	29,133,836	–	29,133,836
		551,811,961	–	**539,311,178**	–	**539,311,178**

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

VALUATION TECHNIQUES, SIGNIFICANT UNOBSERVABLE INPUTS, AND SENSITIVITY OF THE INPUT TO THE FAIR VALUE

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

Financial instruments	Date of valuation	Valuation technique and key inputs	Significant unobservable inputs
Unquoted equity securities	December 31, 2017 and 2016	Non resident	N/A
Investment fund	December 31, 2017 and 2016	Fair value was provided by the fund manager	N/A
Lebanese treasury bills	December 31, 2017 and 2016	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bills, adjusted for illiquidity ranging between 0.75% and 1.5%.	N/A
Lebanese Government bonds	December 31, 2017 and 2016	DCF at a discount rate determined based on the yield on USA treasury bills and the Credit Default Swap applicable to Lebanon subject to illiquidity factor.	N/A
Certificates of deposit in foreign currencies issued by Central Bank	December 31, 2017 and 2016	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bills, adjusted for illiquidity.	N/A
Corporate bonds - Local bank	December 31, 2017 and 2016	Fair value was provided by the issuer	N/A
Loans and advances to customers	December 31, 2017 and 2016	DCF at a discount rate determined based on the average rate of return of the receivables bearing fixed interest rate for more than one year.	N/A

34. Contingent Liabilities

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

As stated in Note 18, the tax returns for the years 2013 till 2017 are still subject to tax examination and final assessment by the tax authorities.

35. Approval of the Financial Statements

The financial statements for the year ended December 31, 2017 were approved by the Bank's Board of Directors in its meeting held on February 24, 2018.


التجاري ش.م.ب
North Africa


Bank S.A.L.