
ANNUAL REPORT

2017

TABLE OF CONTENT

1. STRATEGIC REPORT

PAGE 4

- 1.1 Chairman Statement
- 1.2 Strategy
- 1.3 Correspondent Banks
- 1.4 Network
- 1.5 Risk Profile

2. CORPORATE GOVERNANCE

PAGE 12

- 2.1 Corporate Governance Landscape
- 2.2 Board Governance Framework
- 2.3 Corporate Governance Approach
- 2.4 Ownership Breakdown
- 2.5 Composition of the Board of Directors
- 2.6 Board Biographies
- 2.7 Board Committees
- 2.8 High Level Structure
- 2.9 Remuneration Policy
- 2.10 Communicating with the Board
- 2.11 Organization Chart

3. FINANCIAL STATEMENTS 2017

PAGE 28

- 3.1 Financial Snapshots
- 3.2 Independent Auditor's Report
- 3.3 Consolidated Financial Statements
- 3.4 Notes to the Consolidated Financial Statements

1

STRATEGIC REPORT

1.1 Chairman Statement

1.2 Strategy

1.3 Correspondent Banks

1.4 Network

1.5 Risk Profile

1.1 CHAIRMAN STATEMENT

2017 was a rather turbulent year for the Lebanese banking sector, which continued to operate within a challenging geopolitical context. This turmoil had a direct impact on the Lebanese economy, which remains heavily driven by the banking sector. Banks recorded modest growth throughout the year, facing increased regulatory pressure to raise capital levels and further improve their corporate governance. Through it all, we have not wavered in our dedication to our clients and community, and we have continued to deliver real value to our shareholders.

The story of Saradar Bank in 2017 was one of strategic, incremental progress. As indicated last year, we laid out our strategic plan to build a Bank that is fit for the future. Today, our momentum has allowed us to successfully deliver on our ambitious plans thus far. Additionally, with technology and artificial intelligence continuously disrupting the banking sector worldwide, the need to stay ahead of the curve with our digital agenda was keenly felt.

Notwithstanding these market pressures, we achieved a milestone in reaching Alpha status well ahead of schedule with customer deposits exceeding USD 2 billion in December 2017, a significant 26% increase year-over-year. The progress we made is commendable as we registered the fastest growth rate of any Bank in the Alpha group. We earned net profits of USD 10.1 million in 2017 vs. USD 3.155 million in 2016, a record 205% increase. Total assets grew by a record 25.3% to USD 2.534 billion. The loan portfolio increased by 27.3% or USD 167 million, exceeding the target set at USD 135 million for 2017 and reaching a new high of USD 777 million. Overall, the Bank further strengthened its capital and shareholder equity to USD 246 million.

2017 was a breakthrough year for Saradar Bank, however it was not without its share of challenges. Another key achievement was the successful transition from two core-banking systems to a single one in a record 24-month period. This key milestone will be all-important in our next phase of growth as we now have strong foundations to properly implement our strategy, deliver strong operating performance and enhance our cost efficiencies. Our goal is to provide easy, fast



and adaptive banking: this means being digital to the core, designing optimal customer journeys, becoming more data-driven and creating a more agile mindset to support the ambitions of our customers.

Being truly digital entails a deep, ongoing transformation of the Bank and its processes. To be successful in our endeavour and continue to deliver value to our clients and shareholders, we must invest in our people and skills differently, reshaping mindsets from front to backend.

While much remains to be done, our results reflect a strategy that is working and a solid foundation for sustained growth. We now have the opportunity to accelerate our momentum and build on our strengths. The outstanding talent, dynamic spirit, hard work, commitment, energy and dedication of our people have propelled our transformation thus far and remain the cornerstones of our success story. I have great confidence that we will continue to rise together and fulfill the promise of tomorrow.

A handwritten signature in blue ink that reads "Mario Saradar". The signature is written in a cursive, slightly stylized font.

Mario Saradar
Chairman and Chief Executive Officer

1.2 STRATEGY

Despite a challenging market context, Saradar Bank officially joined the list of Alpha Banks in Lebanon in 2017. In this light, the list grew from 14 to 15 Alpha Banks to include Saradar Bank.

2017 was a turning point for our Bank as it embarked on its transformation journey and was able to record an exceptional YoY growth (fastest growing bank among the Alpha Group):

- Assets grew by 26% vs. market rate of 6%
- Customer deposits grew by 26% vs. market rate of 3.5%, surpassing USD ~2 Bn and achieving the Alpha status
- We realized ~USD 10mn of net profits
- We revamped our infrastructure including: retail branches; core banking system (migrated to a new core banking system); and digital channels
- We restructured our human capital and filled-up specialized positions in line with our strategy
- We set our aspirations, targets and strategic plan for the next 3 years to build a sustainable business model based on digital and agile principles
- We enhanced our organization structure and governance to improve control, checks and balances

Moving forward, Saradar Bank will defend its distinctive positioning in Private and Corporate Banking, and will increasingly focus on developing its retail offering based on digital principles. Accordingly, Saradar Bank's positioning in retail will focus on specialization and differentiation rather than massive scale. The key differentiation for Saradar Bank will revolve around its target segments and operating model rather than offering (which all banks are aspiring to compete for at par). Digital will allow us to enable such a differentiation, namely:

- Target new segments and make banking products accessible to them
- Reinforce our retail offering and channels, and propose new disruptive models to access and acquire customers
- Improve efficiencies and effectiveness, and serve our customers faster and at lower cost

1.3 CORRESPONDENT BANKS 2017

CURRENCY	CORRESPONDENT BANK	CITY	COUNTRY
AED	Standard Chartered Bank	Dubai	United Arab Emirates
AUD	Standard Chartered Bank	London	United Kingdom
CAD	Bank Of Montreal	Toronto	Canada
CHF	Standard Chartered Bank	London	United Kingdom
EUR	Al Khaliji France S.A.	Paris	France
EUR	Banco De Sabadell S.A.	Sabadell	Spain
EUR	Intesa Sanpaolo Spa	Milano	Italy
EUR	Commerzbank	Frankfurt	Germany
EUR	J.P. Morgan Ag	Frankfurt	Germany
EUR	Standard Chartered Bank	Frankfurt	Germany
GBP	JPMorgan Chase Bank National Association	London	United Kingdom
GBP	Standard Chartered Bank	London	United Kingdom
JOD	Arab Bank Plc	Amman	Jordan
JPY	Standard Chartered Bank	Tokyo	Japan
QAR	International Bank Of Qatar	Doha	Qatar
USD	JPMorgan Chase Bank National Association	New York	United States
USD	Standard Chartered Bank	New York	United States

CUSTODIANS 2017

UBP
Credit Suisse
Midclear

1.4 OUR NETWORK

SARADAR BANK BRANCHES & ATMS

1. Ashrafieh - Charles Malek (Main Branch) (ATM)

Saradar Building, Charles Malek Avenue
Phone & Fax: +961 1 339 000
Manager: Inas Sleiman

2. Beit Mery (ATM)

Al Bustan Hotel, Beit Mery Main Road
Phone: +961 4 972 127
Fax: +961 4 972 127 ext. 1
Manager: Michel Abillama

3. Dbayeh (ATM)

Zeidan 867 Center, Le Royal Hotel bridge
Phone & Fax: +961 4 541 930
Manager: Gilbert Bou Nader

4. Furn El Chebbak (ATM)

Elias Wakim Building, Damascus Road
Phone: +961 1 283 672/3 - +961 1 285 120/1
Fax: +961 1 284 712
Manager: Milad Mitri

5. Gefinor (ATM)

Gefinor Center, Bloc E, Clemenceau Street
Phone: +961 1 739 051/2/4
Fax: +961 1 739 067
Manager: Charles Wazen

6. Verdun (ATM)

Verdun Heights, Rashid Karamah Street
Phone & Fax: +961 1 800 998
Manager: Ghada Arabi

7. Jal El-Dib (ATM)

Abou Jaoudeh Building, Main Road
Phone: +961 4 712 539/41/42
Fax: +961 4 712 540
Manager: Jocelyne Samaha

8. Dora (ATM)

Cebaco Center, Block B, Dora Highway
Phone & Fax: +961 1 269 950
Manager: Gloria Saade

9. Jounieh (ATM)

La Cité Center, Block A, Jounieh
Phone: +961 9 830 219 - +961 9 910 612
Fax: +961 9 830 218
Manager: Carlos Jreisati

10. Okaibeh (ATM)

Chalfoun Center, Nahr Ibrahim
Phone & Fax: +961 9 444 545
Manager: Ghassan Ghanem

11. Rabieh (ATM)

Square Center, Rabieh Main Road
Phone & Fax: +961 4 525 968
Phone 2: +961 81 725999
Manager: Sherine Massoud

12. Saida (ATM)

Al Saiid Center, Housam Hariri Street
Phone: +961 7 734 437
Fax: +961 7 734 437 ext.111
Manager: Omar El Nachef

13. Saifi (ATM)

CAT Building, Al Arz Street
Phone: +961 1 445 210/1/2
Fax: +961 1 581 182
Manager: Rita Abi Hatem

14. Sin El Fil (ATM)

Sin El Fil Boulevard, Horsh Tabet
Phone: +961 1 500 830 -+961 1 481 277/593
Fax: +961 1 482 950
Manager: Rabih Zein

15. Tripoli

Nahas Building, El Tall, Muhamad El Jisr Street
Phone: +961 6 627 747
Fax: +961 6 441 456

16. Zouk (ATM)

Town Center, Zouk Mosbeh Main Road
Phone: +961 9 222 856/857/859
Fax: +961 9 222 659
Manager: Lara Achkar

Off Branches ATMs

ATCL, Kaslik
Beirut Harbor, Beirut
Middle East Institute of Health, Bsalim Street, Jal El Dib
Saint Charbel Bldg, Saint Louis Street, Ashrafieh
Sinno Bldg, Mar Elias Street, Mar Elias
Le Montagnou, Oyoum El Siman, Kfardebian
1866 Court & Suites, Bliss Street, Hamra
Developers Tower Center, New Jdeideh Street, Jdeideh

REGIONAL MANAGERS:

Lubna El Masri
Senior Regional Manager Beirut West
& South Lebanon

Roula Abou Ghazaly
Regional Manager Metn & Kesrouan

Inas Sleiman
Regional Manager Beirut



1.5 RISK PROFILE

We consider Risk Management to be an integral part of our Bank's business and decision-making process and hence we are committed to implement a sound Risk Management process.

At Saradar Bank, we are committed to upholding the highest standards of corporate governance and integrity.

In view of this, a framework has been developed to comply with the standards of Risk Management practices set out by the regulator. Such framework covers the process of identifying, assessing, measuring and controlling of risks associated with Saradar Bank's activities.

The Risk Management policies and procedures address the following key banking risks:

1. Risk Management Framework:

Covering the roles and responsibilities of all parties involved in the management risks within the organization, starting from the Board of Directors, the General Management Committees, the various Management Committees, as well as the others control functions (Compliance, Internal Control, Internal Audit ...)

2. Credit Risk:

The potential for financial losses where a customer fails to meet his/her financial obligations. This risk is controlled on a regular basis by assessing the risk level of borrowers and by setting limits for each borrower and groups of affiliated borrowers. It also concerns counterparty risk related to the financial instruments in the bank's balance sheet (Treasury Bills and Eurobonds mainly).

3. Market Risk and Liquidity Risk:

The risk for losses caused by changes in prices of financial instruments or change in available liquidity. The Market Risk control is carried out in accordance with the Treasury and Capital Markets policies and procedures.

4. Operational Risk:

It is associated with losses resulting from inadequate or failed processes, people and systems, breaches in internal controls or from external events. The Operational Risk is controlled by incidents logging and follow-up, by conducting Risk and Control Self-Assessment workshops, as well as reviewing all products, services and procedures throughout the Bank.

The Risk Management department is responsible for analyzing and reporting to the Board Risk Committee on the status of risks in various areas of the Bank as well as providing recommendations in compliance with new rules, regulations and international standards.

The approach adopted for the management of each type of risks is as follows:

A. CREDIT RISK MANAGEMENT

The Bank is exposed to Credit Risk from its operating activities (primarily from loans and facilities to customers) and from its financing activities, including deposits with banks & financial institutions and its sovereign portfolio (Treasury Bills and Eurobonds).

The Credit Risk is managed through a Credit Risk policy and Credit manual procedures. The Credit Risk policy is derived from the risk appetite of the Bank. It provides the guidelines for approving credit risk (limits) and, the prudential norms for managing concentration risk and the mechanism for monitoring and control. The Credit Risk policy also covers the following:

- Ensures the implementation of a sound Credit Granting process;
- Ensures that the Credit Administration manages Credit Risk in accordance with the procedures and guidelines as expressed in i) the credit manual in terms of credit approval procedures, documentation standards & procedures, credit processing procedures, and in ii) the credit strategy and policy that dictate the target markets, risk limits, monitoring and controlling mechanism;
- Ensures that the core banking system is capable of monitoring and controlling individual and aggregate credit limits and exposures;
- Sets prudential limits to avert concentration risk, such as single and group borrowers, large exposures, various industries or economic sectors, in line with the Risk Appetite Statement approved by the Board of Directors.

B. MARKET RISK MANAGEMENT

1. Interest Rate Risk

Effects on Interest Rate Risk are monitored by Interest Sensitive Gap Report, which measures risk to net interest income, and by the Duration Gap Report that considers the Equity value change.

Stress testing is being carried out using ± 200 basis points and ± 50 basis points scenarios to test the resilience of the balance sheet. Extreme case scenarios are tested on request.

2. Foreign Exchange Risk

In order to prevent any excessive losses to the Bank due to un-hedged foreign exchange positions, the Bank has set exchange position limits, trading loss limits, dealer limits and transaction limits.

3. Liquidity Risk

The objective of the Bank's liquidity management is to ensure adequate liquidity to meet its projected cash flow needs.

In this respect, the liquidity is managed by monitoring future cash flows to ensure that requirements can be met and by maintaining highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow.

The ALCO observes the deposit stability, concentration issues, and liquidity profile of the investment portfolio.

Stress testing exercises on various scenarios of liquidity are run to measure the degree of discrepancy between the maturity structures of assets and liabilities and help the Bank evaluating its resilience towards the fall in liquid liabilities. Therefore, Saradar Bank's liquidity management is built on gap analysis for maturity mismatches, stress testing exercises and on a contingency funding plan.

C. OPERATIONAL RISK MANAGEMENT

A key principle underlying the Bank's Operational Risk Management is that operational risks are best managed within the departments in which they arise, and therefore are mitigated by tightening control procedures, training, segregation of duties and delegated authorities.

In this respect, the various departments' managers focus on key risks in their respective areas and the Risk Department has put in place the exercise of self-assessment of various processes (RCSA) to determine the strength and application of internal controls in the Bank. An Operational Risk procedure defines the key operational risk areas, key control standards and key risk indicators in line with the Basel III recommendations.

The Bank has developed a Business Continuity and Disaster Recovery Plan intended to deal with unusual conditions and consequently ensure continuity of essential services in the event of a severe business disruption.

The Business Continuity Policy and the Business Continuity Plan were achieved and approved by the Senior Management and by the Board of Directors, and then tested under different scenarios and proved to be efficient. The Business Continuity Plan is continuously updated and enhanced to reflect the various changes of the organizational structure, the reporting lines as well as the relocations.

Reporting line

The Board of Directors guides the Risk Management initiatives in the Bank. A Board Risk Committee was formed in compliance with the Banque Du Liban requirements and the Head of Risk reports independently to this Committee.

The Risk Committee holds at least quarterly meetings and whenever it is considered necessary by its members.

2

CORPORATE GOVERNANCE

- 2.1 Corporate Governance Landscape
- 2.2 Board Governance Framework
- 2.3 Corporate Governance Approach
- 2.4 Ownership Breakdown
- 2.5 Composition of the Board of Directors
- 2.6 Board Biographies

- 2.7 Board Committees
- 2.8 High Level Structure
- 2.9 Remuneration Policy
- 2.10 Communicating with the Board
- 2.11 Organization Chart

2.1 CORPORATE GOVERNANCE LANDSCAPE

Good governance is vital in any sector. In the banking industry, it forms the bedrock of a financially sound and well-run institution.

INTRODUCTION

At Saradar Bank, we are committed to upholding the highest standards of corporate governance and integrity.

We believe that effective board and management oversight, combined with solid corporate governance practices, drive the long-term success of our Bank. We continuously seek to enhance and promote exemplary core values and strong ethics throughout the organization.

Our systems, processes, and policies are aligned with industry-leading standards to ensure full compliance with laws and regulations. We continuously monitor our structures to identify potential improvements, and implement international best practices with regards to transparency and corporate governance.

We seek to lead by example: we have established high standards at all levels and make every effort to meet them. We understand that trust, confidence and engagement with our clients, employees, shareholders and the wider community are at the heart of our business; achievements are a source of pride when reached through the right set of values.

HOW WE OPERATE

At Saradar Bank, the Board sets the tone at the top, working in close collaboration with management to ensure the proper conduct of business. The Board promotes integrity and corporate values, through a sound corporate governance framework.

OUR BOARD IN 2017

NUMBER OF BOARD
MEMBERS

10

NUMBER OF
INDEPENDENT
BOARD MEMBERS

2

COMMITTEES OF THE BOARD
AND NUMBER OF MEETINGS

4 Full Board

1 Strategy Retreat

4 Audit Committee

5 Remuneration Committee

4 Risk Committee

1 AML/CFT Committee

We are very proud of the Bank's leadership in corporate governance. Indeed, Saradar Bank received CFI.co's Best Bank Governance Award in Lebanon for 2016. We continued to build on these strong foundations to properly implement our strategy, deliver a strong performance and sustained growth.

2.2 BOARD GOVERNANCE FRAMEWORK

Saradar Bank boasts a clear, well-structured governance framework to support the Board in achieving its long-term strategic goals and generating sustainable returns for shareholders. This framework defines the role of the Board and management by setting out their respective priorities and ensuring all critical concerns are addressed.



2.3 CORPORATE GOVERNANCE APPROACH

The Board of Directors of the Bank is composed of highly qualified, independent and diverse members with a strong blend of experience and diverse expertise. They are leaders in their fields, bringing a wealth of knowledge to their role.

The Board is composed of a number of Directors sufficient for it to exercise its duties and responsibilities, and function efficiently. This number may vary between three and 12 members, and currently, stands at 10.

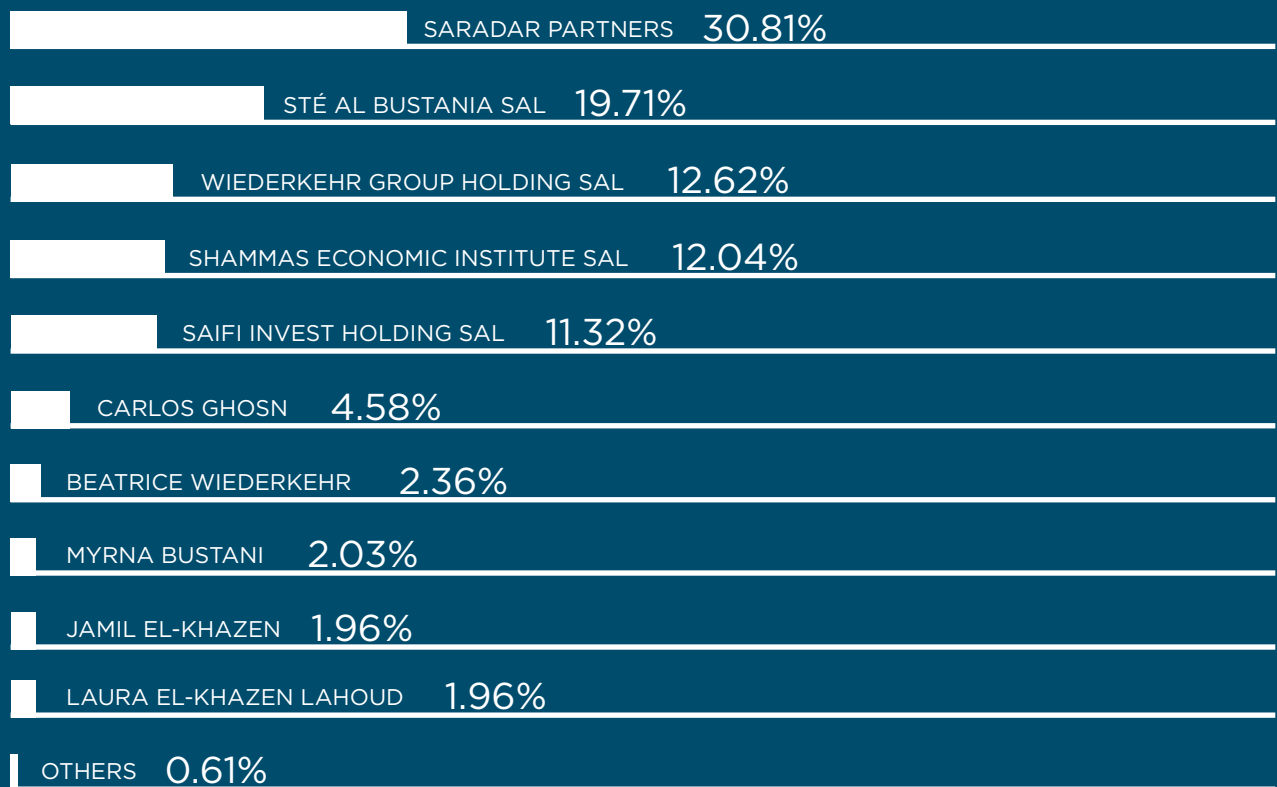
The Directors' deep commitment is essential to the Bank's successful performance. It is ultimately responsible for ensuring the proper conduct of business and for overseeing the management of the Bank. The Board is primarily responsible for improving the Bank's value to its shareholders by defining strategic direction and objectives, providing leadership and guidance, putting in place a sound corporate governance framework, promoting corporate values and ensuring that effective internal control processes are in place.

In order to preserve its necessary independence from management, the Board aims to increase its number of independent non-executive Directors in future exercises. The Corporate Governance standards set forth herein reflect best practices in the industry. In light of changing circumstances, the Board reevaluates governance principles from time to time and where deemed necessary, to ensure the Bank remains at the vanguard of leading corporate governance practices.

2.4 OWNERSHIP BREAKDOWN

The Bank's shareholders are local and international visionaries, including global leaders such as Carlos Ghosn, the Wiederkehr Group, and prominent figures on the Lebanese scene, including the Saradars, Bustanis, Mecattafs, Mikatis, El-Khazens and Shammass.

SHAREHOLDERS



2.5 COMPOSITION OF THE BOARD OF DIRECTORS

A minimum of four Board meetings are scheduled per year, two of which should be held in Lebanon. Board members are required to attend all Board meetings, with exceptions made for extraordinary extenuating circumstances.

HONORARY POSITIONS

SHEIKH FOUAD EL-KHAZEN	Honorary Chairman
DR. ALFRED WIEDERKEHR	Honorary Vice-Chairman

BOARD MEMBERS

MR. MARIO SARADAR	Chairman-CEO	Executive
SHEIKH JAMIL EL-KHAZEN	Member	Non-executive
MRS. LAURA EL-KHAZEN LAHOUD	Member	Non-executive
SHEIKH MICHEL EL-KHOURY	Member	Independent, Non-executive
MR. MICHEL FERNEINI	Member	Independent, Non-executive <i>(pending BDL approval)</i>
MR. PIERRE GASPARD	Member	Non-executive (until July 2017)
MR. CARLOS GHOSN	Member	Non-executive
MR. JOE ISSA-EL-KHOURY	Member	Non-executive
MR. ALEXANDRE NAJJAR	Member	Non-executive (until July 2017)
MR. JOSEPH SADDI	Member	Independent, Non-executive
MR. CHRISTIAN STEINFELS	Member	Non-executive
SAIFI INVEST HOLDING SAL represented by Mr. Nabil Moukattaf	Member	Non-executive
SHAMMAS ECONOMIC INSTITUTE SAL represented by Mr. Nizam Shammās	Member	Non-executive

SECRETARY OF THE BOARD

MS. DINA SFEIR	Corporate Secretary
----------------	---------------------

2.6 BOARD BIOGRAPHIES



MARIO SARADAR
Chairman-CEO

Mr. Mario Saradar is Chairman-CEO of Saradar Bank sal. He is also Chairman-CEO of Marius Saradar Holding SAL - SARADAR Group and other affiliates of the Group since 1992, when he was appointed Chairman and General Manager of Banque Saradar. Following the merger between Banque Saradar and Bank Audi in 2004 and until December 2010, he held the role of Chairman and General Manager of Audi Saradar Private Bank. During the same period, Mr. Saradar was appointed Chairman of Bank Audi Suisse.

A graduate of London's University College with a B.S. in Economics, Mr. Saradar also holds a diploma in Financial Instruments from "Institut des Techniques de Marché", and a diploma in Portfolio Management from "Institut de la Bourse et du Titre", both in Paris. He has repeatedly been elected to the Board of the Lebanese Banks Association, and is currently a member of the "Rassemblement des Dirigeants et des Chefs d'Entreprise Libanais" International Chamber of Commerce, and of the Young Presidents' Organization.



JAMIL EL-KHAZEN
Member

In addition to being a board member of several institutions, Mr. El-Khazen is active in the Real Estate and Financial Investment fields.

He holds a Bachelor of Science in International Business from the University of Evansville, Indiana, USA.



LAURA EL-KHAZEN LAHOUD
Member

Mrs. Laura Lahoud is involved in different family businesses, mainly the management of Al Bustan Hotel and the organisation of Al Bustan Festival.

She holds a Master's in Science in Mathematics & Operational research from the London School of Economics (London, UK).



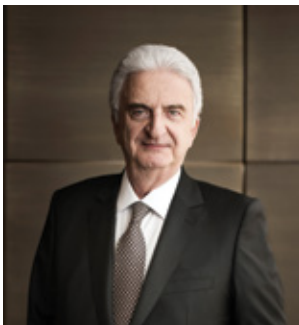
MICHEL EL-KHOURY

Member

H.E. Mr. Michel El Khoury was twice Governor of the Central Bank of Lebanon (1978 – 1985, 1991 – 1993). He also held two ministerial positions in the Government of Lebanon between 1965 and 1968 and was a founding-member of the National Council of Tourism, which he chaired from 1964 and 1971. As personal representative of the President of the Republic, he paid a number of official visits to Arab Heads of State.

He holds Law degrees from Université Saint-Joseph in Beirut and from the Université de Paris, Faculty of Law in France.

His rich and diversified career began in journalism with the daily “Le Jour”. Mr. El-Khoury also participated in a number of official Lebanese Missions to foreign capitals including London, Paris, the Vatican and Cairo as Attaché to the Political Department of the Ministry of Foreign Affairs. He joined the Lebanese Bar Association in 1948 and practiced law until 1953. While being actively involved in managing various companies, he published numerous articles and studies, and delivered conferences at the “Cénacle Libanais” amongst other cultural institutions. He co-founded Banque Libano-Française and served as its Vice-Chairman for several years while consulting for a number of European firms.



MICHEL FERNEINI

Member

Mr. Michel Ferneini is the Chairman-General Manager of Société Financière du Liban, a financial group composed of 34 banks, providing Treasury Bills, certificates of deposit trading and interbank brokerage in the Lebanese market, as well as other financial structures in collaboration with the Central Bank of Lebanon.

Mr. Ferneini brings extensive banking experience including over 20 years with Merrill Lynch in their Beirut, Brussels and Paris offices. He is a Board member of several institutions including: Intra Investment Company, Jammal Trust Bank, Fenicia Bank, Société Immobilière du Port de Beyrouth, Société Générale d'Entreprises Touristiques and Vitas. He was awarded the Medal of the French National Assembly as a recognition of his outstanding contribution to cultural projects.

Mr. Ferneini holds a Bachelor's degree in Business Administration from the American University of Beirut.



PIERRE GASPARD

Member, *until July 2017*

Mr. Pierre Gaspard was Advisor to the Chairman of Saradar Group.

Prior to joining Saradar Group, he was an independent financial consultant specialising in the structuring of investment products for institutional clients as well as private wealth management for HNW clients. From 1994 to 2003, he was Assistant General Manager of Banque Saradar sal where he headed Treasury, Capital Markets and Private Banking. Until 1993, he was part of the Risk Management team of Bank of Montreal (Canada).

Pierre Gaspard holds an MBA from California State University and a BBA from the American University of Beirut.



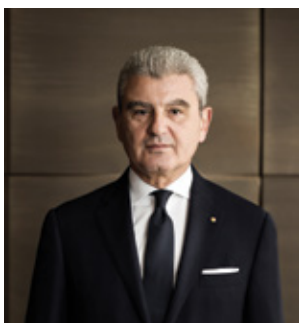
CARLOS GHOSN

Member

Mr. Carlos Ghosn is the Chairman and CEO of Nissan Motor Corp., Chairman and CEO of the Renault Group, Chairman and CEO of Renault-Nissan Alliance BV. Following Nissan's acquisition of a 34% stake in Mitsubishi Motors in October 2016, Mr. Ghosn became the Chairman of Mitsubishi Motors.

He joined Renault in 1996 as Executive Vice President of the Group and Nissan in 1999 as its Chief Operating Officer. He was appointed Chief Executive Officer in June 2001. From June 2013 to June 2016, Mr. Ghosn was also the Chairman of AvtoVAZ, a Russian car manufacturer. Mr. Ghosn spent 15 years with Michelin in various capacities from 1981 to 1996.

A national of Brazil, France and Lebanon, Mr. Ghosn holds Engineering Degrees from France's École Polytechnique and École des Mines de Paris."



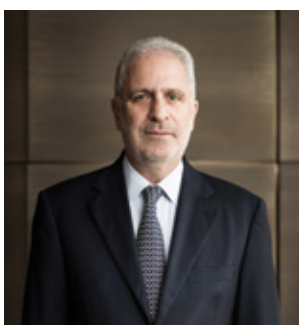
JOE ISSA-EL-KHOURY

Member

Following a degree in Civil Engineering from the American University of Beirut and an MBA from INSEAD, Mr. Issa-El-Khoury spent several years at Merrill Lynch in Paris, after which he joined the Méditerranée Group in Lebanon as advisor to the Chairman and Deputy General Manager of Méditerranée Investment Bank. For many years, he served as Chairman-General Manager of Saradar Investment House, the investment banking arm of Saradar Group.

His multi-disciplined assignments covered areas in portfolio and wealth management, project finance, corporate finance, mergers and acquisitions, capital markets as well as real estate investment. In Lebanon, Mr. Issa-El-Khoury was a pioneer in leading the first Euro Deposit program issued by a bank, the first convertible bond issued by an industrial group and the first REIT-like structure issued by a real estate company.

Currently an Executive Director and a member of the Investment Committee at M1 Group, he is a prominent leader in Business Development. Mr. Issa-El-Khoury is also the CEO of M1 Investments while holding board representations at institutions such as Saradar Bank, LibanPost, Hope Construction Materials, Jetscape, ITCC, Façonnable and Pepe Jeans Group.



NABIL MOUKATTAF

Member, *representing Saifi Invest Holding sal*

Mr. Nabil Moukattaf has a significant international experience in Gold and Foreign Exchange trading activities as well as Private Banking. He is a graduate of L'École des Hautes Etudes Commerciales in Paris (France).



ALEXANDRE NAJJAR

Member, *until July 2017*

Mr. Alexandre Najjar holds a Law degree from the Ecole de Droit, Université Panthéon-Assas Paris II (France) and a Master's of Law from Université Saint-Joseph (Lebanon). He holds a post-graduate degree in Banking Law and Finance from the Sorbonne University in Paris (France). He is also a professor of Business Law at Ecole Supérieure des Affaires (ESA) and a member of the French Institute of Directors.

In addition to being an Attorney at Law, one of the Bank's lawyers, and Advisor to the Minister of Culture, Mr. Najjar has won several prestigious awards in recognition for his achievements and outstanding contributions to literature by publishing over 30 books translated into twelve languages.



JOSEPH SADDI

Member

Mr. Joseph Saddi is a Partner and Chairman of Strategy&'s (formerly Booz & Company) Middle East business, with over 30 years of consulting experience in strategic, organizational, and restructuring services.

Over the years, he has led major privatization programs in such sectors as oil and gas, mining, steel and electricity; advised Middle East governments on sector deregulation and sector policy; and led the reorganization of national oil companies and large corporations. He also works closely with large family-owned companies to help design governance and portfolio strategies.

Mr. Saddi holds an MBA from Cornell University, New York, USA, and a Bachelor of Business Administration from ESSEC in France.



NIZAM SHAMMAS

Member, *representing Shammam Economic Institute sal*

Mr. Nizam Shammam is a seasoned engineer and businessman involved in construction with The C.A.T. Group (MEA), industry with STAL (LB), tourism with New Forest Hotels (UK) and St. Raphael Resort & Marina (CY), real-estate development through Rabieh Co. (LB) and Shammam Investment (LB), and banking as a MD of Shammam Economic Institute (LB) and shareholder in Saradar Bank (LB).

He holds a B.Sc. in Civil Engineering from the American University of Beirut (Beirut, LB), MBA from Brunel University (London, UK), and an Advanced Management Program from Cornell University (New York, USA).



CHRISTIAN STEINFELS

Member

Mr. Christian Steinfels holds a Bachelor of Arts and an MBA degree. He has held various positions in banking in the USA, London, Frankfurt and Switzerland.

In addition, he has been a member of the Supervisory Boards of ASEA AB, ABB AG, Voest-Alpine AG and Böhler-Uddeholm AG.

He has acted as an independent financial advisor since 1996.

2.7 BOARD COMMITTEES

The composition of each Committee is approved by the Board, in line with applicable rules and procedures and any other relevant consideration. In endorsing suitable membership on Committees, the Board makes every effort to compose each Committee with Directors who strike the right balance of know-how, experience, and diversity of perceptions.

BOARD COMMITTEES	CHAIRPERSON	MEMBERS
Audit Committee	Mr. Joseph Saddi	Mrs. Laura El-Khazen Lahoud Saifi Invest Holding SAL represented by Mr. Christian Mecattaf Mr. Joe Issa-El-Khoury Mr. Christian Steinfels
Remuneration Committee	Mr. Joseph Saddi	Shammas Economic Institute represented by Mr. Nizam Shammas Saifi Invest Holding SAL represented by Mr. Nabil Moukattaf Sheikh Michel El-Khoury Mr. Pierre Gaspard (until July 2017) Mr. Joe Issa-El-Khoury
Risk Committee	Sheikh Michel El-Khoury	Saifi Invest Holding SAL represented by Mr. Christian Mecattaf Sheikh Jamil El-Khazen Mr. Pierre Gaspard (until July 2017)
AML/CFT Committee	Mr. Michel Ferneini	Mrs. Laura El-Khazen Lahoud Mr. Joe Issa-El-Khoury

SARADAR BANK BOARD

BOARD AUDIT COMMITTEE

Assists the Board in fulfilling its duties and supervisory roles regarding the requirements of internal control, internal audit, external audit and compliance with regulations.

Monitors the internal control efficiency and effectiveness.

Follows up on the implementation of remedial measures.

Oversees the internal audit department and supervises its performance.

Verifies that Senior Management tackles recommendations raised in the reports.

Approves the internal audit charter, the audit cycle, and the annual audit plan.

Assesses the external auditors' performance, autonomy and objectivity.

Discusses with Senior Management and external auditors the financial statements to be published.

Reviews the effectiveness of the system for monitoring compliance with laws and regulations and follows up on any instances of non-compliance.

BOARD RISK COMMITTEE

Assists the Board in fulfilling its oversight responsibilities with regards to risks inherent to the Bank's strategy and activity.

Monitors overall risk framework.

Reviews and monitors risk policies in line with the Bank's strategy and business plan.

Reviews and monitors the Risk appetite and tolerance statement.

Ensures that risks are identified, measured, monitored and managed in line with the Bank's risk appetite and the risk strategy.

BOARD REMUNERATION COMMITTEE

Advises the Board in defining and overseeing the Bank's policy on remuneration, bonuses and incentives.

Ensures that compensation measures support the strategic goals of the Bank and allow for the recruitment, motivation and retention of senior executives.

Oversees the establishment, maintenance and administration of the Bank's remuneration programs and employee benefit plans.

Ensures that the Bank's compensation practices are consistent with the Bank's vision, values and overall corporate objectives.

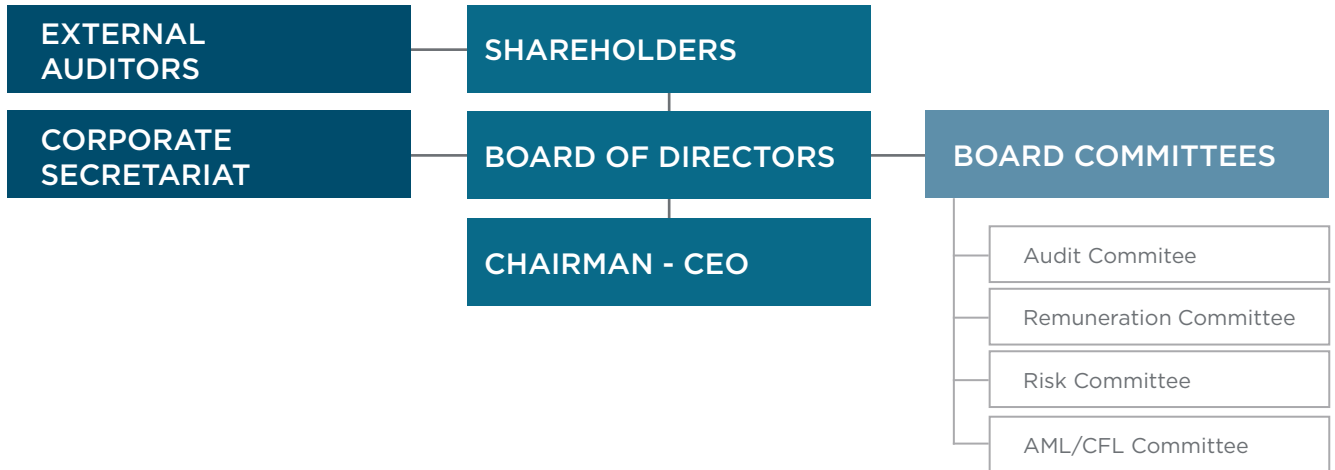
BOARD AML/CFT COMMITTEE

Assists the Board in exercising its functions and supervisory role, and in taking appropriate action to fight money laundering and terrorist financing.

Reviews Compliance and Internal Audit reports on adopted procedures, unusual operations and high risk accounts, and regulators and external auditors on the Bank's compliance with the AML/CFT regulations.

Identifies, assesses and mitigates AML/CFT risks.

2.8 HIGH LEVEL STRUCTURE



Legal Advisors

El Khoury & Partners Law Firm
Roger Najjar Law Firm
Hachem Law Firm

Auditors

Deloitte
Ernst & Young

2.9 REMUNERATION POLICY

The purpose of the remuneration policy is to reward competent and responsible, and independent behavior, to promote integrity, and to support productivity and job satisfaction.

It establishes clear and transparent remuneration and benefits practices aligned with the Bank's culture, long-term business objectives, risk strategy, performance, and legislative and regulatory frameworks. The policy and general incentive structures reflect the Bank's goals for sound Corporate Governance and allow the Bank to strike a sustainable balance between short and long-term value creation and responsibility for its employees, shareholders and communities. It also ensures that employees are offered a competitive remuneration package in line with the market, encouraging them to generate sustainable results and aligning their interests with those of shareholders, clients and colleagues.

The Bank makes every effort to ensure that compensation packages are commensurate with the relevant duties and responsibilities of each individual, are fair and equitable, and integrate incentives clearly and measurably linked to performance both on an individual and corporate basis. Remuneration is designed to be sustainable in the long-term.

STRUCTURE

In the first quarter of every year, the Remuneration Committee examines the Bank's remuneration strategy and plans in light of the Bank's performance, local industry practices and market conditions.

The Board reviews, assesses and endorses the remuneration and incentive schemes for the coming year based on the recommendations of the Remuneration Committee. The total bonus amount to be paid is reviewed by the Remuneration Committee and approved by the Board. The cumulative consolidated remuneration disbursed by the Bank is incorporated in the Bank's budget and endorsed by the Board.

PERFORMANCE EVALUATION

The Bank believes that its main strength is its human capital. The professional growth of its employees is central to attaining the Bank's vision, mission and strategy. The Bank established a general assessment of its employees to systematically analyze the strong and weaker aspects of individual performance.

Annual performance evaluations are central to the development of employees and the determination of remuneration. Performance evaluations are designed to ensure transparency, and have well-defined, pre-determined KPIs in line with the Bank's overall remuneration and incentive strategy.

REMUNERATION COMPONENTS

FIXED REMUNERATION

In the first quarter of every year, the Remuneration Committee examines the Bank's remuneration strategy and plans in light of the Bank's performance, local industry practices and market conditions.

The Board reviews, assesses and endorses the remuneration and incentive schemes for the coming year based on the recommendations of the Remuneration Committee. The total bonus amount to be paid is reviewed by the Remuneration Committee and approved by the Board. The cumulative consolidated remuneration disbursed by the Bank is incorporated in the Bank's budget and endorsed by the Board.

PERFORMANCE-BASED INCENTIVES

Performance-based incentives are designed to motivate and recognize high performers depending on their contribution to the Bank's results, performance in line with defined expectations and clear KPIs. Incentives are awarded based on the Bank's overall financial results, the performance of the business line and/or unit, and individual performance. Both financial and behavioural criteria are taken into account when defining the individual's bonus.

EMPLOYEE BENEFITS

The Bank meets or exceeds benefits described in the Collective Labour Agreement. Various allowances are awarded to employees covering mainly individual and family medical coverage, family and education allowances, housing and transportation in addition to other auxiliary benefits.

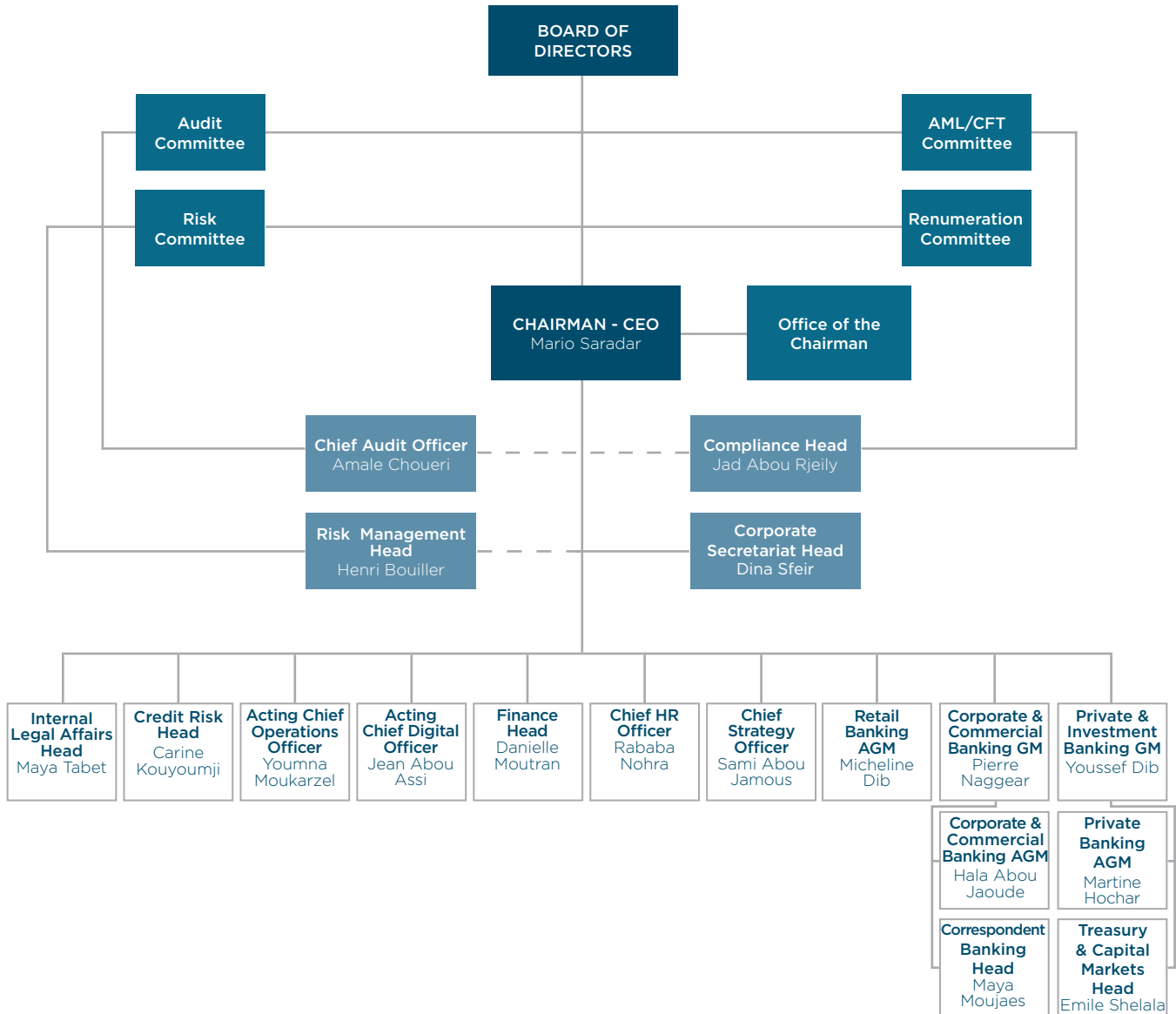
2.10 COMMUNICATING WITH THE BOARD

Shareholders, staff and other interested parties may communicate with the Board or any of its Committees through the Corporate Secretary. Depending on the content of the correspondence, the message will be either transmitted to the Director's attention or routed to the appropriate party if the subject matter is not related to Directors' responsibilities.

Correspondence may be addressed to:

Corporate Secretary
Saradar Bank sal
Saradar Building, Charles Malek Avenue
Ashrafieh, P.O. Box: 16-5677
Beirut, Lebanon

2.11 ORGANIZATION CHART



3

FINANCIAL STATEMENTS

3.1 Financial Snapshots

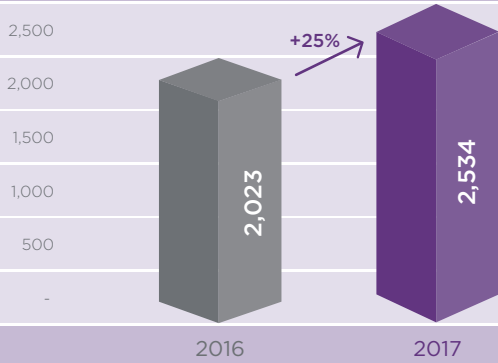
3.2 Independent Auditors' Report

3.3 Consolidated Financial Statements

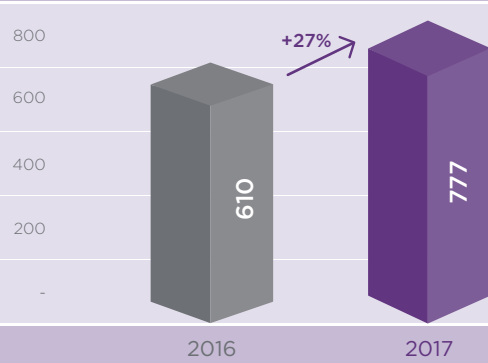
3.4 Notes to the Consolidated Financial Statements

3.1 FINANCIAL SNAPSHOTS

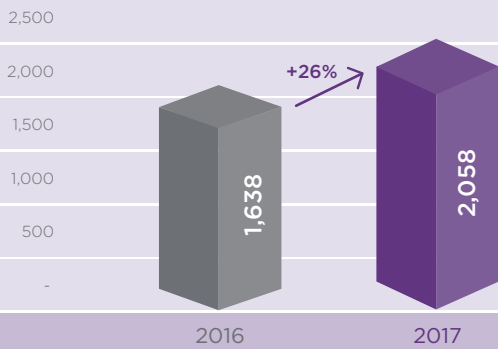
ASSETS (USD Million)



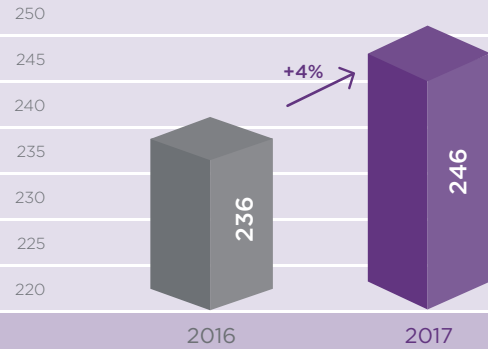
LOANS TO CUSTOMERS (USD Million)



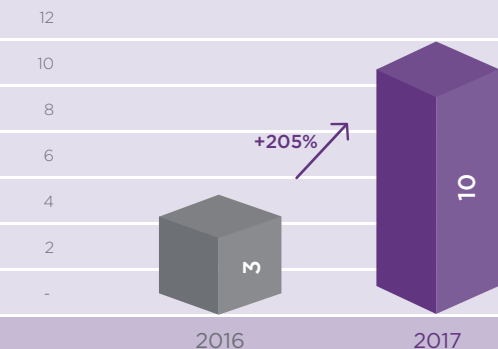
TOTAL DEPOSITS (USD Million)



SHAREHOLDER EQUITY (USD Million)



PROFIT FOR THE YEAR (USD Million)



3.2 INDEPENDENT AUDITORS' REPORT

Deloitte.

Deloitte & Touche
Arabia House
131 Phoenicia Street
Ain Mreisseh, Beirut
P.O. Box: 11-961
Lebanon

Tel: +961 (0) 1 364 700
Fax: +961 (0) 1 367 087
www.deloitte.com



Ernst & Young p.c.c.
Starco Building
South Block B - 9th Floor
Mina El Hosn, Omar Daouk Street
P.O. Box: 11-1639, Riad El Solh
Beirut - 1107 2090, Lebanon

Tel: +961 1 760 800
Fax: +961 1 760 822/3
beirut@b.ey.com
ey.com/mena
C.R. 61

INDEPENDENT AUDITORS' REPORT

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

Qualified Opinion

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

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion" section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Qualified Opinion

As more fully described in Note 9 to the financial statements, during 2016, the Group generated a surplus as a result of special transactions entered with the Central Bank of Lebanon involving the sale of Lebanese Government bonds and certificates of deposit denominated in Lebanese Pounds, concluded simultaneously with the acquisition of Lebanese Government bonds and certificates of deposit issued by the Central Bank of Lebanon denominated in US Dollars. The surplus resulting from these transactions amounted to LBP65.4billion, net of related taxes, of which LBP23billion were recorded in profit and loss during the year ended December 31, 2016.

Besides, on December 30, 2016, the Central Bank of Lebanon issued Intermediate Circular number 446 which required the surplus to be used in anticipation of implementing the provisioning requirements of IFRS 9 which becomes effective on January 1, 2018 and any remaining balance to be appropriated to the reserve for capital increase, and qualifying for inclusion within regulatory Common Equity Tier One.

Deloitte.



In 2016, and in view of the above, the Group reported under “Reserve for capital increase” directly in shareholders’ equity an amount of LBP40billion, net of tax, from the generated surplus, that will be appropriated on January 1, 2018 to meet the requirements of IFRS 9, which departs from the requirements of the currently applicable reporting standards.

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 ethical requirements that are relevant to our audit of the financial statements in Lebanon, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Other Information Included in The Group’s 2017 Annual Report

Other information consists of the information included in the Annual Report, other than the consolidated financial statements and our auditors’ report thereon. Management is responsible for the other information. The Group’s 2017 Annual Report is expected to be made available to us after the date of this auditor’s report.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended 31 December 2017. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have fulfilled the responsibilities described in the “Auditors’ Responsibilities for the Audit of the Financial Statements” section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying financial statements.



Key Audit Matter

Impairment of Loans and Advances

Due to the inherently judgmental nature of the computation of impairment provisions for loans and advances, there is a risk that the amount of impairment may be misstated. The impairment of loans and advances is estimated by Management through the application of judgement and the use of subjective assumptions. Due to the significance of loans and advances and related estimation uncertainty, this is considered a key audit risk. The corporate loan portfolio generally comprises larger loans that are monitored individually by management. The assessment of loan loss impairment is therefore based on management's knowledge of each individual borrower. This includes the analysis of the financial performance of the borrower, historic experience when assessing the likelihood of incurred losses in the portfolios and the adequacy of collateral for secure lending. However, consumer loans generally comprise much smaller value loans to a much greater number of customers. Provisions are not calculated on an individual basis, but are determined by grouping by product into homogeneous portfolios. The portfolios are then monitored through delinquency statistics, which drive the assessment of loan loss provision.

How our audit addresses the key audit matter

The risks outlined herein were addressed by us as follows:

- For corporate customers, we tested the key controls over the credit grading process, to assess if the risk grades allocated to the counterparties were appropriate. We then performed detailed credit assessment of all loans in excess of a defined threshold and loans in excess of a lower threshold in the watch list category and impaired category together with a selection of other loans.
- Where the impairment allowance was calculated on a collective basis for performing corporate loans, we tested the completeness and accuracy of the underlying loan information used in the impairment model by agreeing details to the Group's source systems as well as re-performing the calculation of the modelled impairment allowances. For the key assumptions in the model, we assessed whether those assumptions were appropriate in the circumstances.
- For consumer loans, specific and collective impairment allowances are calculated using a simple model, which are based on a percentage of outstanding amounts. We understood and critically assessed the model used and checked that no undue changes had been made in model parameters and assumptions. We tested the completeness and accuracy of data from underlying systems that is used in this model. We also re-performed the calculation of the modelled impairment allowance.

Deloitte.



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

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

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

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

Auditors' Responsibilities for the Audit of the 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 judgement 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Deloitte.



- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

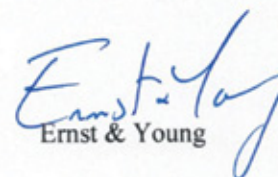
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

Beirut, Lebanon
June 21, 2018


Deloitte & Touche


Ernst & Young

3.3 CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Year Ended December 31

ASSETS	Notes	2017	2016
		LBP'Million	LBP'Million
Cash and deposits with Central Bank of Lebanon	5	1,090,849	642,781
Deposits with banks and financial institutions	6	191,636	210,885
Financial assets at fair value through profit or loss	7	2,764	25,147
Loans and advances to customers	8	1,170,711	919,520
Financial assets at amortized cost	9	1,210,467	1,116,419
Financial assets at fair value through other comprehensive income	10	6,384	6,379
Customers' liability under acceptances	11	1,101	1,502
Investment in an associate	12	10,863	-
Goodwill	13	1,988	1,988
Assets acquired in satisfaction of loans	14	40,952	40,976
Property and equipment	15	65,698	63,283
Intangible assets	16	13,623	7,293
Other assets	17	13,299	12,752
Total Assets		3,820,335	3,048,925
FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISKS:			
Documentary and commercial letters of credit	37	13,701	3,854
Guarantees and standby letters of credit	37	84,855	69,457
FIDUCIARY ASSETS	38	15,020	23,098
ASSETS UNDER MANAGEMENT	38	319,394	727,820
LIABILITIES			
Deposits from banks and financial institutions	18	27,989	29,170
Customers' deposits and credit balances at amortized cost	19	2,936,346	2,335,827
Related parties' deposits and credit balances at amortized cost	20	165,915	132,835
Customers' acceptance liability	11	1,101	1,502
Income tax liability	21	154	12,540
Deferred tax liability	10	826	825
Borrowings from the Central Bank of Lebanon	22	249,349	112,017
Other liabilities	21	56,785	63,715
Provisions	23	11,518	4,930
Total Liabilities		3,449,983	2,693,361
EQUITY			
Share capital	24	10,600	10,600
Share premium	24	34,980	34,980
Shareholders' cash contribution to capital	25	202,937	202,937
Reserves	26	51,986	51,447
Owned buildings revaluation surplus	27	50,503	51,226
Cumulative change in fair value of financial assets at fair value through other comprehensive income	10	4,681	4,677
Accumulated losses		(1,902)	(6,662)
Profit for the year		14,997	4,785
Equity attributable to the owners of the Bank		368,782	353,990
Non-controlling interests		1,570	1,574
Total Equity		370,352	355,564
Total Liabilities and Equity		3,820,335	3,048,925

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year Ended December 31

	Notes	2017	2016
		LBP'Million	LBP'Million
Interest income, net of tax	28	187,747	139,751
Interest expense	29	(146,525)	(101,799)
Net interest income		41,222	37,952
Fee and commission income	30	23,345	18,142
Fee and commission expense		(1,736)	(1,444)
Net fee and commission income		21,609	16,698
Income from financial assets at fair value through profit or loss	31	776	479
Gain on derecognition of financial assets at amortized cost	9	5,528	9,444
Other operating income	32	2,126	1,651
Net financial revenues		71,261	66,224
Allowance for impairment of loans and advances (net)	8	17,693	(27,851)
Direct write-off of doubtful debts		(67)	(12)
Net financial revenues after allowance for impairment		88,887	38,361
Staff costs	33	(46,888)	(50,346)
General and administrative expenses	34	(27,492)	(21,032)
Depreciation and amortization	15,16	(3,186)	(2,598)
Gain on sale of assets acquired in satisfaction of loans	14	71	2,782
Provisions	35	(2,671)	-
Other income	36	8,965	44,935
Profit before income tax		17,686	12,102
Income tax expense	21	(2,522)	(7,127)
Profit for the year		15,164	4,975
Net profit attributable to:			
The owners of the Bank		14,997	4,785
Non-controlling interests		167	190
		15,164	4,975

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year Ended December 31

	Notes	2017 LBP'Million	2016 LBP'Million
Profit for the year		15,164	4,975
Other comprehensive income ("OCI"):			
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
(Loss)/gain on revaluation of properties	14 & 26	(211)	34,043
Gain on financial assets at fair value through other comprehensive income	10	4	76
Tax liability		-	(3,404)
		(207)	30,715
Total comprehensive income for the year		14,957	35,690
Attributable to:		14,790	35,500
The owners of the Bank		167	190
Non-controlling interests		14,957	35,600

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share Capital	Share Premium	Shareholders' Cash Contribution to Capital	Reserves	Owned Buildings Revaluation Surplus	Cumulative Change in Fair Value of Investment Securities
	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million
Balance January 1, 2016	10,600	44,025	202,937	11,447	20,587	4,739
Allocation of 2015 profit	-	-	-	-	-	-
Total comprehensive loss for the year 2016	-	-	-	-	30,639	(62)
Distribution to shareholders-Note 24	-	(9,045)	-	-	-	-
Surplus from special transactions with Central Bank of Lebanon (Note 9)	-	-	-	40,000	-	-
Other movements	-	-	-	-	-	-
Balance December 31, 2016	10,600	34,980	202,937	51,447	51,226	4,677
Allocation of 2016 profit	-	-	-	539	-	-
Total comprehensive income for year 2017	-	-	-	-	(211)	4
Transfer to retained earnings upon disposal of property	-	-	-	-	(513)	-
Distribution to non-controlling shareholders	-	-	-	-	-	-
Other movements	-	-	-	-	1	-
Balance, December 31, 2017	10,600	34,980	202,937	51,986	50,503	4,681

	Accumulated Losses/ Retained Earnings Brought Forward	(Loss)/ Profit for the Year	Total Equity Attributable to Owners of the Bank	Non- Controlling Interests	Total Equity
	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million
Balance January 1, 2016	658	(7,394)	287,599	1,540	289,139
Allocation of 2015 profit	(7,394)	7,394	-	-	-
Total comprehensive loss for the year 2016	138	4,785	35,500	190	35,690
Distribution to shareholders-Note 24	-	-	(9,045)	(156)	(9,201)
Surplus from special transactions with Central Bank of Lebanon (Note 9)	-	-	40,000	-	40,000
Other movements	(64)	-	(64)	-	(64)
Balance December 31, 2016	(6,662)	4,785	353,990	1,574	355,564
Allocation of 2016 profit	4,246	(4,785)	-	-	-
Total comprehensive income for year 2017	-	14,997	14,790	167	14,957
Transfer to retained earnings upon disposal of property	513	-	-	-	-
Distribution to non-controlling shareholders	-	-	-	(171)	(171)
Distribution to non-controlling shareholders	1	-	2	-	2
Other movements	(1,902)	14,997	368,782	1,570	370,352
Balance, December 31, 2017	(1,902)	14,997	368,782	1,570	370,352

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended December 31

	Notes	2017 LBP'Million	2016 LBP'Million
Cash flows from operating activities:			
Profit for the year before tax		17,686	12,102
Adjustments for:			
Interest income		(187,747)	(139,751)
Interest expense		146,525	101,799
Depreciation and amortization		3,186	2,598
Allowance for impairment of loans and advances (net)	8	(17,983)	(27,851)
Write-off of doubtful debts	8	67	12
Recognition of deferred income-subsidy	36	(5,144)	(17,317)
Recognition of regulatory deferred liability	36	(2,856)	(27,033)
Gain on derecognition of financial assets measured at amortized cost		(5,528)	(8,282)
Share of profits of an associate	36	(567)	-
Unrealized loss on financial assets at fair value through profit or loss		(766)	(451)
Gain on sale of property and equipment	15	34	-
Provision for employees' end-for-service indemnity, net	23	4,525	222
Provision for contingencies, net	23	2,111	117
Other provisions	23	560	-
Write off intangible assets	16	-	234
Write off of property and equipment	15	396	-
Gain on disposal of assets acquired in satisfaction of loans	14	(71)	(2,782)
Gain on sale of financial assets at fair value through profit or loss		-	(28)
Other changes		-	(296)
		(45,582)	(51,005)
Net increase in compulsory reserves and term placements with Central Bank of Lebanon and other banks			
		(390,460)	(230,428)
Net change in financial assets at fair value through profit or loss			
		23,159	(8,719)
Net increase in loans and advances to customers			
		(230,073)	(256,274)
Net increase in other assets			
		(863)	(2,241)
Net increase in deposits and borrowings from banks and financial institutions			
		106,069	151,460
Net increase in customers' deposits and credit balances			
		582,994	504,117
Net increase/(decrease) in related parties' deposits and credit balances			
		32,269	(5,875)
Net (decrease)/ increase in other liabilities			
		(11,316)	25,566
Settlements of provision for employee's end-for-service indemnity	23	(556)	(936)
Settlements of provision for contingencies	23	(52)	-
Cash flows from operations			
		65,589	125,665
Interest received			
		143,585	118,651
Interest paid			
		(121,578)	(86,302)
Income tax paid			
		(2,522)	(7,127)
Net cash generated by operating activities			
		85,074	150,887
Cash flows from investing activities:			
Purchase of property and equipment	15	(6,462)	(3,574)
Proceeds from sale of property and equipment	15	645	270
Increase in intangible assets	16	(6,753)	(2,592)
Proceeds from sale of assets acquired in satisfaction of loans	14	411	3,294
Net change in investment securities other than trading		(71,593)	(123,823)
Increase in investment in associate		(10,296)	-
Change in non-controlling interests		(171)	(156)
Net cash used in investing activities			
		(94,219)	(126,581)
Net (decrease) increase in cash and cash equivalents			
		(9,145)	24,306
Cash and cash equivalents at the beginning of the year	40	262,515	238,209
Cash and cash equivalents at the end of the year	40	253,370	262,515

3.4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

1. GENERAL INFORMATION

Saradar Bank S.A.L. (the “Bank”) (Formerly Banque de l’Industrie et du Travail S.A.L. or “BIT”) was established in 1960 and registered in the Lebanese Commercial Register under No. 9849 and in the list of banks published by the Central Bank of Lebanon under No. 48. The Bank provides banking services through a network of 16 branches in the different regions of Lebanon. The Bank’s headquarters are located Ashrafieh, Beirut, Lebanon .

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

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

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

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

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

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

Amendments to IAS 7 Disclosure Initiative

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

Annual Improvements Cycle - 2014-2016: Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity’s interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale. As at 31 December 2017, the Group had no interest in a subsidiary, joint venture or associate classified as held for sale, and as such, these amendments did not affect the Group’s financial statements.

2.2 New and revised IFRS in issue but not yet effective

Certain new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December, 2017, with the Group not opting for early adoption. These have, therefore, not been applied in preparing these financial statements.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments and all previous versions of IFRS 9 (2009, 2010 and 2013). The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. The new version, IFRS 9 (2014) is effective for annual periods beginning on or after January 1, 2018. The Group plans to adopt the new standard on the required effective date, along with the provisions of the Central Bank of Lebanon basic circular No. 143 and the Banking Control Commission circular No. 293.

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

Estimated impact of the adoption of IFRS 9 on the opening equity at 1 January 2018:

During 2017, the Group has performed an impact assessment of all three aspects of IFRS 9. Overall, the Group expects no significant impact on its statement of financial position and equity except for applying the impairment requirements of IFRS 9. Based on the assessment undertaken to date, the anticipated increase in impairment allowances when measured in accordance with IFRS 9 expected credit losses model (see II below) compared to IAS 39 incurred loss model is estimated at approximately LBP14.2 billion which will reduce the Group's equity as of January 1, 2018.

The above assessment is preliminary because not all transition work has been finalised. The actual impact of adopting IFRS 9 on January 1, 2018 may change because:

- IFRS 9 will require the Group to revise its accounting processes and internal controls and these changes are not yet complete;
- This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group when the Group will adopt IFRS 9;
- The Group has not finalised the testing and assessment of control over its new IT systems and changes to its governance framework;
- The Group is refining and finalising its models for ECL calculations; and
- The new accounting policies, assumptions, judgments and estimation techniques employed are subject to change until the Group finalises its first financial statements that include the date of initial application.

Classification and measurement

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

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

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

The Group does not expect a material impact on the classification of the Group's financial assets nor their carrying values, which, at the date of initial application, will continue to be measured on the same basis as is currently adopted.

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

Key Considerations

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

Assessment of Significant Increase in Credit Risk

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

Our assessment of significant increases in credit risk will be performed at least semi-annually for each individual exposure based on the qualitative and quantitative factors summarized below. 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.

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

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

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

Scenarios will be probability-weighted according to our best estimate of their relative likelihood based on historical frequency and current trends and conditions. Probability weights will be updated on a semi-annual basis.

Definition of default

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

Expected Life

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

Governance

In addition to the existing risk management framework, we extended the role of the Non-Performing Loans Committee (now known as the Non-Performing Loans / IFRS 9 Committee) to provide oversight to the IFRS 9 implementation. An internal specialized committee comprised of senior representatives from Finance and Risk Management will also be established and will be responsible for reviewing and approving staging of financial assets and other key inputs and assumptions used in our expected credit loss estimates. It also assesses the appropriateness of the overall allowance to be provided for Expected Credit Losses. The expected impact on the Group's statement of financial position and equity is discussed above.

Hedge accounting

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

Financial instruments: disclosures (IFRS 7)

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

In accordance with Central Bank of Lebanon's basic circular 143 dated 7 November 2017, the Group may use certain non-distributable reserves and deferred liabilities previously appropriated for regulatory purposes, to cover additional required stock of impairment provisions under IFRS 9.

Other Standards Issued but not Yet Effective

New and revised IFRSs	Effective for annual periods beginning on or after
Annual Improvements to IFRS Standards 2014 - 2016 Cycle amending IFRS 1 and IAS 28.	January 1, 2018
Annual Improvements to IFRS Standards 2015-2017 Cycle amending IFRS 3, IFRS 11, IAS 12 and IAS 23.	January 1, 2019
<p>IFRIC 22 <i>Foreign Currency Transactions and Advance Consideration</i> The interpretation addresses foreign currency transactions or parts of transactions where:</p> <ul style="list-style-type: none"> • there is consideration that is denominated or priced in a foreign currency; • the entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and • the prepayment asset or deferred income liability is non-monetary. 	January 1, 2018
<p>IFRIC 23 <i>Uncertainty over Income Tax Treatments</i> 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:</p> <ul style="list-style-type: none"> • Whether tax treatments should be considered collectively; • Assumptions for taxation authorities' examinations; • The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and • The effect of changes in facts and circumstances. 	January 1, 2019
Amendments to IFRS 2 Share Based Payment regarding classification and measurement of share based payment transactions.	January 1, 2018
Amendments to IFRS 4 Insurance Contracts: Relating to the different effective dates of IFRS 9 and the forthcoming new insurance contracts standard.	January 1, 2018

New and revised IFRSs

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 15 *Revenue from Contracts with Customers*

In May 2014, IFRS 15 was issued which established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

January 1, 2018

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

January 1, 2018

IFRS 16 *Leases*

IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

January 1, 2019

Amendments to IAS 28 *Investment in Associates and Joint Ventures*: Relating to long-term interests in associates and joint ventures. These amendments clarify that an entity applies IFRS 9 *Financial Instruments* to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

January 1, 2019

Amendments to IFRS 7 *Financial Instruments*: Disclosures relating to disclosures about the initial application of IFRS 9.

When IFRS 9 is first applied

IFRS 7 *Financial Instruments*: Disclosures relating to the additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9.

When IFRS 9 is first applied

IFRS 17 *Insurance Contracts*

IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 *Insurance Contracts* as of January 1, 2021.

January 1, 2021

Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011) relating to the treatment of the sale or contribution of assets from an investor to its associate or joint venture.

Effective date deferred indefinitely. Adoption is still permitted.

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

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

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

Basis of Preparation

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

- Financial instruments designated at fair value through profit or loss,
- Investments in equity securities designated at fair value through other comprehensive income,
- Other financial assets not held in a business model whose objective is to hold assets to collect contractual cash flows or whose contractual terms do not give rise solely to payments of principal and interest,
- Land and buildings under property and equipment,
- Derivative financial instruments.

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

The principal accounting policies applied are set out below:

A. Basis of Consolidation:

The consolidated financial statements of Saradar Bank S.A.L. incorporate the financial statements of the Bank and entities which the bank controls. Control is achieved when the Bank:

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

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

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

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

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

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

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

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

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

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

The consolidated subsidiaries of the Bank as of December 31, 2017 and 2016 consisted of the following:

		Ownership December 31	
Business Activity		2017	2016
		%	%
United Group Brokers S.A.R.L. - (Lebanon)	Insurance Brokerage	81.37	81.37
Société Immobilière pour la Construction S.A.L. (Lebanon)	Real Estate	99.99	99.99
CashUnited S.A.L. (Lebanon) Services	Money Transfer Services	70.00	70.00

B. Business Combinations:

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

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

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. When the

excess is negative, a bargain purchase gain is recognized immediately in profit or loss. Where applicable, adjustments are made to provisional values of recognized assets and liabilities related to facts and circumstances that existed at the acquisition date. These are adjusted to the provisional goodwill amount. All other adjustments including above adjustments made after one year are recognized in profit and loss except to correct an error in accordance with IAS 8.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Non-controlling interests in business acquisitions transacted so far by the Group were initially measured at the non-controlling interests' proportionate share of net assets acquired.

Any contingent consideration payable is recognized at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognized in profit or loss.

C. Goodwill:

Goodwill arising on an acquisition of a business is carried at cost. Refer to Note 3B for the measurement of goodwill at initial recognition. Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses, if any.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

D. Foreign Currencies:

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

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

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

E. Recognition and Derecognition of Financial Assets and Liabilities:

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

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

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

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

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

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

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

F. Classification of Financial Assets:

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

Debt Instruments:

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

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

Financial assets that comprise factoring facilities granted to clients are recognised net of guarantee account held as a margin in case of arrangement with recourse.

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

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

Equity Instruments:

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

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

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

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

A financial asset is held for trading if:

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

Reclassification:

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

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.

G. Financial Liabilities and Equity Instruments:

Classification as debt or equity:

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

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

H. Financial Liabilities at fair value through profit or loss:

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

A financial liability is classified as held for trading if:

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

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

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

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

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

Financial Liabilities Subsequently Measured at Amortized Cost:

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

Financial Guarantee Contract Liabilities:

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

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

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

I. Offsetting:

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

J. Fair Value Measurement of Financial Instruments:

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

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

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

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

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

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

K. 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 a loss event has occurred and which will impact the recoverability of the 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 collaterals and guarantees.

The Group considers evidence of impairment for assets measured at amortized cost at either the individual asset level or collective level for assets with similar characteristics that are not impaired individually.

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.

L. 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.

Fair Value Hedge

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

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

M. Loans and Advances

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

N. Investments in Associates:

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

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

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

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

of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

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

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

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

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

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

O. Property and Equipment:

Land and buildings are stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Any revaluation increase arising on the revaluation of such land and buildings is recognized in other comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognized in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such land and buildings is recognized in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Properties in the course of construction for administrative purposes are carried at cost, less any recognized impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation on revalued buildings is recognized in profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings

Fixtures and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

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

	Years
Buildings	50
Office improvements and installations	16,6
Computer equipment	5
Furniture, equipment and machinery	12,5
Vehicles	10

The estimated useful lives and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant 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.

P. Intangible Assets:

Intangible assets consisting of purchased software, are amortized on a straight-line basis over their useful lives (i.e. 5 years). Intangible assets are subject to impairment testing.

Q. Assets acquired in satisfaction of loans:

Real estate properties acquired through the enforcement of collateral over loans and advances, in accordance with the Central Bank of Lebanon main circular 78 and the Banking Control Commission circulars 173 and 267, are initially recognized at their fair value as approved by Banking Control Commission and are subsequently measured at cost less any accumulated impairment losses. The acquisition of such assets is regulated by the local banking authorities that require the liquidation of these assets within 2 years from acquisition. In case of default of liquidation, the regulatory authorities require an appropriation of a special reserve from the yearly profits reflected in equity.

Upon sale of repossessed assets, any gain or loss realized is recognized as a separate line item in the consolidated statement of profit or loss.

R. Impairment of Tangible and Intangible Assets (Other than Goodwill):

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets 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.

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

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

The impairment loss is charged to income.

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

The provision for employees' termination indemnities is based on the liability that would arise if the employment of all the employees were voluntarily 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 total of the last monthly salary paid plus the monthly average of the last 12 months' other benefits and less contributions paid to the Lebanese Social Security National Fund.

T. Provisions:

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

U. Leasing:

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

V. Revenue and Expense Recognition:

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

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, dividend income, realized and unrealized gains or losses, and exchange gain or loss on trading assets measured at fair value through profit or loss are presented separately in the consolidated statement of profit or loss.

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

W. Income Tax:

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of profit or loss because of the items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Up to October 26, 2017, part of the debt securities invested by the Group is subject to withheld tax by the issuer. This tax is deducted at year-end from the corporate tax liability not eligible for deferred tax benefit, and therefore, accounted for as prepayment on corporate income tax and reflected as a part of income tax provision.

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 consolidated statement of financial position and the corresponding tax base used in the computation of taxable profit. 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.

X. Fiduciary Accounts and Assets Under Management:

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

Y. Cash and Cash Equivalents:

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the management is 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 Group to assess whether its business objective for financial assets is to collect the contractual cash flows of the assets rather than realize their fair value change from sale before their contractual maturity. The Group considers at which level of its business activities such assessment should be made. Generally, a business model can be evidenced by the way business is managed and the information provided to management. However the Group's business model can be to hold financial assets to collect contractual cash flows even when there are some sales of financial assets. While IFRS 9 provides some situations where such sales may or may not be consistent with the objective of holding assets to collect contractual cash flows, the assessment requires the use of judgment based on facts and circumstances.

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

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

Characteristics of the Financial Asset:

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

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

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

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

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

B. Key Sources of Estimation Uncertainty:

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

Allowances for Credit Losses - Loans and Advances to Customers:

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

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident.

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

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

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

Impairment of Goodwill:

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy under Note 3C. The recoverable amount is deemed to be the value in use using a discounted cash flow model. This requires the directors to estimate the future cash flows and a suitable discount rates.

Going concern:

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

5. CASH AND DEPOSITS WITH CENTRAL BANK OF LEBANON

This caption consists of the following:

December 31

	2017	2016
	LBP'Million	LBP'Million
Cash on hand	17,037	16,406
Current accounts with Central Bank of Lebanon	116,471	75,107
Term placements with Central Bank of Lebanon	940,106	547,721
Blocked deposits with Central Bank of Lebanon	6,232	295
Accrued interest receivable	11,003	3,252
	1,090,849	642,781

Current accounts with the Central Bank of Lebanon (BDL) include non-interest earning cash compulsory reserves in Lebanese Pounds totaling LBP35billion as of December 31, 2017 (LBP39.6billion in 2016) computed on the basis of 25% and 15% of the average weekly sight and term customers' and related parties' deposits in Lebanese Pounds, respectively in accordance with local banking regulations.

Term placements with the Central Bank of Lebanon include the equivalent in foreign currencies of LBP370billion as of December 31, 2017 (LBP292.7billion in 2016) deposited in accordance with local banking regulations which require banks to maintain, as compulsory reserves, interest earning placements in foreign currency to the extent of 15% of customers' and related parties' deposits in foreign currencies, certificates of deposit and loans acquired from non-resident financial institutions with remaining maturities of one year or less.

Compulsory reserves with Central Bank of Lebanon are not available for use in the Group's day-to-day operations and are reflected at amortized cost.

Term placements with the Central Bank of Lebanon as of December 31, 2017 include the equivalent in USD of LBP100billion (USD66.45million) placed against benefiting from long term borrowings from the Central Bank of Lebanon for LBP124.46billion denominated in Lebanese Pounds and subject to fixed interest rate at 2% per annum, invested in pledged Lebanese Treasury Bills (Refer to Note 9 and Note 22).

6. DEPOSITS WITH BANKS AND FINANCIAL INSTITUTIONS

This caption consists of the following:

December 31

	2017	2016
	LBP'Million	LBP'Million
Current accounts with banks and financial institutions	136,600	82,910
Term placements with banks and financial institutions	8,588	69,734
Reverse repurchase agreements with a financial institution (a)	36,470	45,798
Pledged deposits with banks and financial institutions (b)	273	-
Checks in course of collection from banks	9,674	12,123
Accrued interest receivable	31	320
	191,636	210,885

(a) During 2017 and 2016, the Bank entered into reverse repurchase agreements representing loans granted to a local financial institution against received certificates of deposit issued by the Central Bank of Lebanon ("CDs") which are to be sold back to the financial institution at a specific price. All these loans mature during December 2018 (January 2017 as of December 31, 2016). These agreements are secured by the received CDs as well as by additional CDs issued by the Central Bank and denominated in U.S. Dollar amounting to LBP3.6billion (LBP4.5billion as of December 31, 2016).

(b) Pledged deposits as at December 31, 2017 are blocked against banking facilities to finance documentary credit transactions and money market deposits.

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss consist of the following:

December 31

	2017	2016
	LBP'Million	LBP'Million
BLOM Money Market fund	-	23,293
Other funds	2,764	1,854
	2,764	25,147

During 2017, the positive change in fair value of financial assets at fair value though profit or loss amounting to LBP776million (LBP451million in 2016) is recorded under "Income from financial assets at fair value through profit or loss" (Note 31)

8. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers are reflected at amortized cost and consist of the following:

December 31

	2017	2016
	LBP'Million	LBP'Million
Performing loans and advances - Retail:		
Housing loans	99,061	98,712
Personal loans	15,864	6,721
Overdrafts	7,681	7,133
Speculative accounts	-	409
Other	8,834	11,658
	<u>131,440</u>	<u>124,633</u>
Performing loans - Corporate customers:		
Factoring facilities (i)	199,424	172,565
Corporate, small and medium enterprises, and commercial bills	805,431	611,694
	<u>1,004,855</u>	<u>784,259</u>
Allowances allocated to performing loans	(2,795)	(21,173)
Allowance for collectively assessed loans	(7,245)	(7,253)
	<u>(10,040)</u>	<u>(28,426)</u>
Total performing loans, net	<u>1,126,255</u>	<u>880,466</u>
Non-Performing loans:		
Substandard loans	19,599	15,722
Doubtful and bad loans	114,110	105,269
Unrealized interest	(69,799)	(62,607)
	<u>63,910</u>	<u>58,384</u>
Allowance for impairment of doubtful and bad loans	(10,280)	(10,040)
Pledged guarantee funds allocated to doubtful and bad loans	(12,376)	(12,376)
Total non-performing loans, net	<u>41,254</u>	<u>35,968</u>
Accrued interest receivable	3,202	3,086
	<u>1,170,711</u>	<u>919,520</u>

Loans and advances to customers include loans to related parties in the aggregate of LBP28.4billion as of December 31, 2017 (LBP25.9billion in 2016).

The movement of unrealized interest on non-performing loans during 2017 and 2016 is summarized as follows:

2017
Unrealized Interest

	Doubtful and Bad Loans	Substandard Loans	Total
	LBP'Million	LBP'Million	LBP'Million
Balance at January 1	61,144	1,463	62,607
Additions	5,814	1,519	7,333
Recoveries	(57)	-	(57)
Write-offs	(84)	-	(84)
Balance at December 31	<u>66,817</u>	<u>2,982</u>	<u>69,799</u>

2016
Unrealized Interest

	Doubtful and Bad Loans	Substandard Loans	Total
	LBP'Million	LBP'Million	LBP'Million
Balance at January 1	67,196	441	67,637
Additions	4,111	1,220	5,331
Recoveries	(1)	(6)	(7)
Write-offs	(10,348)	(6)	(10,354)
Reclassification	186	(186)	-
Balance at December 31	<u>61,144</u>	<u>1,463</u>	<u>62,607</u>

The movement of the allowance for impairment of loans and advances to customers during 2017 and 2016 was as follows:

December 31, 2017

	Collective Allowance for Impairment	Specific Allowance for Impairment	Total
	LBP'Million	LBP'Million	LBP'Million
Balance at January 1	7,253	31,213	38,466
Additions	-	949	949
Recoveries	-	(18,642)	(18,642)
Reclassification	(8)	8	-
Write-offs	-	(453)	(453)
Balance at December 31	<u>7,245</u>	<u>13,075</u>	<u>20,320</u>

December 31, 2016

	Collective Allowance for Impairment	Specific Allowance for Impairment	Total
	LBP'Million	LBP'Million	LBP'Million
Balance at January 1	2,754	8,250	11,004
Additions	5,071	23,020	28,091
Recoveries	-	(240)	(240)
Reclassification	(572)	572	-
Write-offs	-	(389)	(389)
Balance at December 31	<u>7,253</u>	<u>31,213</u>	<u>38,466</u>

The majority of doubtful and bad loans has been delinquent for many years and is subject to various lawsuits pending before the courts and there is reasonable doubt regarding their collection.

Pledged guarantee funds amounting to LBP12.4billion as at December 31, 2017 and 2016 were deposited by the shareholders of the Bank in order to cover any shortfall in the amount of provisions set up for loans and advances to certain customers.

I. Factoring Facilities:

	December 31,	
	2017	2016
	LBP'Million	LBP'Million
Performing loans and advances - Retail:		
Factoring facilities:		
With recourse	246,268	208,658
Without recourse	15,921	20,014
	262,189	228,672
Less: Guarantee account (a)	(41,565)	(35,290)
Reserves against factoring facilities (b)	(15,679)	(13,052)
Checks for collection	(5,521)	(7,765)
	199,424	172,565

(a) Guarantee account:

The factoring financing granted to clients represents a proportion of the receivables outstanding approved balances ranging between 70% and 95% depending on the clients' line of business, invoicing cycle and credit risk assessment as evaluated by the Group which manages the credit risk originating from factoring arrangements through setting financing limits representing up to 70% of the financed receivables. Accordingly, guarantee reserves are not available for clients and are only released upon collection of the related receivables.

(b) Reserves against factoring facilities:

The Group established three types of reserves against factoring facilities as part of the credit risk management as illustrated below. These reserves are withdrawn from the clients' available balances in the current accounts, and consequently are not at the disposal of the clients for financing:

- "Unpaid balances reserve", it represents the value of past due receivables (purchased with recourse) for a period exceeding the waiting period agreed with the clients.
- "Awaiting surplus reserve", it represents the value of receivables transferred by the clients in excess to the authorized limit by debtor.
- "Ordinary reserve", only applicable in case the Group financed receivables maturing after the contractually approved financing period or showing any form discrepancies.

9. FINANCIAL ASSETS AT AMORTIZED COST

The financial assets at amortized cost consist of the following:

December 31, 2017

	LBP Base Accounts			F/Cy Base Accounts			Total Amortized Cost Including Accrued Interest Receivable
	Amortized Cost	Fair Value	Accrued Interest Receivable	Amortized Cost	Fair Value	Accrued Interest Receivable	
	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million
Lebanese treasury bills	133,173	131,242	2,535	-	-	-	135,708
Lebanese treasury bills pledged against Central Bank of Lebanon borrowings	269,634	265,924	4,151	-	-	-	273,785
Lebanese government bonds	-	-	-	463,984	441,343	4,665	468,649
Lebanese Corporate bonds	-	-	-	1,508	1,496	2	1,510
Certificates of deposit issued by Central Bank of Lebanon	26,566	26,632	407	298,675	299,426	5,167	330,815
	429,373	423,798	7,093	764,167	742,265	9,834	1,210,467

December 31, 2016

	LBP Base Accounts			F/Cy Base Accounts			Total Amortized Cost Including Accrued Interest Receivable
	Amortized Cost	Fair Value	Accrued Interest Receivable	Amortized Cost	Fair Value	Accrued Interest Receivable	
	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million
Lebanese treasury bills	158,819	159,279	2,184	-	-	-	161,003
Lebanese treasury bills pledged against Central Bank of Lebanon borrowings	138,500	139,647	1,024	-	-	-	139,524
Lebanese government bonds	-	-	-	485,187	471,266	4,854	490,041
Lebanese Corporate bonds	-	-	-	1,507	1,504	3	1,510
Certificates of deposit issued by Central Bank of Lebanon	70,118	72,352	1,678	247,846	247,919	4,699	324,341
	367,437	371,278	4,886	734,540	720,689	9,556	1,116,419

(a) During the year 2016, the Group entered into special sale transactions offered to the market by the Central Bank of Lebanon in relation to Lebanese Government bonds in LBP having an aggregate nominal value of LBP130.5billion and certificates of deposit issued by the Central Bank of Lebanon in LBP having an aggregate nominal value of LBP96billion and classified at either amortized cost or at fair value through profit or loss, concluded simultaneously with the acquisition of USD Lebanese Government bonds with an aggregate nominal value of USD30million and certificates of deposit issued by the Central Bank of Lebanon in USD with an aggregate nominal value of USD121million that were classified at amortized cost. The resulting surplus of the inter-related transactions above amounted to LBP76.95billion and attracted tax of LBP11.5billion.

On December 30, 2016, the Central Bank of Lebanon issued the Intermediate Circular number 446 which required the banks to record the surplus derived from the above special sale transactions under deferred liability which is regulated in nature, and shall be appropriated, among other things, after deducting the relevant tax liability, to collective provision for credit risks associated with the loan book at a minimum of 2% of the weighted Credit risks, and that in anticipation of implementation of IFRS 9 for Impairment, effective on January 1, 2018. By virtue of this Circular, 70% of the remaining residual surplus shall be treated as non-distributable income designated and restricted only for appropriation to capital increase, and qualifying for inclusion within Regulatory Common Equity Tier One.

In light with the above, the Group recognized in 2016 an amount of LBP23billion, net of tax, out of this surplus in the statement of profit or loss under "Other income" and transferred LBP40billion directly to "reserve for capital increase" under shareholders' equity that will be appropriated on January 1, 2018 to meet the requirements of IFRS 9 and retained an amount of LBP2.4billion as "regulatory deferred liability" under "other liabilities".

During the year 2017, the Group recognized the remaining amount of LBP2.4billion, net of tax, in the statement of profit or loss under "Other income".

The movement and balance of the surplus as of December 31, 2017 and 2016 were as follows:

	Gross	Tax	Net
	LBP'Million	LBP'Million	LBP'Million
Surplus generated from BDL trades	76,948	(11,542)	65,406
Recorded as other income (Note 36)	(27,033)	4,055	(22,978)
Recorded under reserve for capital increase (Note 26)	(47,059)	7,059	(40,000)
Balance as at December 31, 2016 (Note 21)	2,856	(428)	2,428
Recorded as other income (Note 36)	(2,856)	428	(2,428)
Balance as at December 31, 2017 (Note 21)	-	-	-

(b) During 2017, the Bank sold the following financial instruments which had several maturities resulting in gains recognized in the statement of profit or loss under “Gain from derecognition of financial assets at amortized cost”.

	December 31, 2017		December 31, 2016	
	Sales Price	Gain	Sales Price	Gain
	LBP'Million	LBP'Million	LBP'Million	LBP'Million
Certificates of deposit	56.8	2.4	121	8.2
Lebanese Government Bonds	148.6	3	-	-
Lebanese Treasury Bills	17.4	0.1	-	-

The Group entered into the above transactions for the purpose of liquidity gap management, exchange of certificates of deposit for longer maturities, and currency risk management as a result of change in the currency base of client deposits.

(c) Lebanese treasury bills maturing on November 17, 2022 and amounting to LBP138.5billion have been pledged against soft loan from the Central Bank of Lebanon with similar maturity and face amount (Note 22).

(d) During 2017, the Bank pledged Lebanese treasury bills amounting to LBP124.46billion against soft leverage agreements entered into with the Central Bank of Lebanon (Notes 5 and 22).

Financial assets at amortized cost are segregated over remaining periods to maturity as follows:

December 31, 2017

REMAINING PERIOD TO MATURITY	LBP Base Accounts				F/Cy Base Accounts			
	Redemption Value	Amortized Cost	Fair Value	Interest Rate	Redemption Value	Amortized Cost	Fair Value	Interest Rate
	LBP'Million	LBP'Million	LBP'Million	%	LBP'Million	LBP'Million	LBP'Million	%
Lebanese Treasury Bills:								
Up to 1 year	67,791	67,908	68,257	7.25	-	-	-	-
From 1 to 3 years	7,131	7,212	7,319	6.82	-	-	-	-
From 3 to 5 years	186,508	186,509	186,031	6.04	-	-	-	-
More than 5 years	134,480	141,178	135,559	7.35	-	-	-	-
	<u>395,910</u>	<u>402,807</u>	<u>397,166</u>		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Lebanese Government Bonds:								
Up to 1 year	-	-	-	-	1,789	1,792	1,785	5.15
From 1 to 3 years	-	-	-	-	69,315	70,464	68,782	5.97
From 3 to 5 years	-	-	-	-	28,925	29,124	28,102	6.12
More than 5 years	-	-	-	-	361,019	362,604	342,674	6.44
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>461,048</u>	<u>463,984</u>	<u>441,343</u>	
Corporate Bonds:								
From 3 to 5 years	-	-	-	-	1,507	1,508	1,496	7.00
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,507</u>	<u>1,508</u>	<u>1,496</u>	
Certificates of Deposit Issued by Central Bank of Lebanon								
From 3 to 5 years	-	-	-	-	18,090	18,404	18,796	6.25
More than 5 years	25,000	26,566	26,632	8.42	279,491	280,271	280,630	6.76
	<u>25,000</u>	<u>26,566</u>	<u>26,632</u>		<u>297,581</u>	<u>298,675</u>	<u>299,426</u>	
	<u>420,910</u>	<u>429,373</u>	<u>423,798</u>		<u>760,136</u>	<u>764,167</u>	<u>742,265</u>	

December 31, 2016

REMAINING PERIOD TO MATURITY	LBP Base Accounts				F/Cy Base Accounts			
	Redemption Value	Amortized Cost	Fair Value	Interest Rate	Redemption Value	Amortized Cost	Fair Value	Interest Rate
	LBP'Million	LBP'Million	LBP'Million	%	LBP'Million	LBP'Million	LBP'Million	%
Lebanese Treasury Bills:								
Up to 1 year	57,000	57,265	58,005	7.32	-	-	-	-
From 1 to 3 years	76,280	76,972	77,770	7.16	-	-	-	-
From 3 to 5 years	16,136	16,136	15,054	6.16	-	-	-	-
More than 5 years	146,946	146,946	148,097	7.31	-	-	-	-
	<u>296,362</u>	<u>297,319</u>	<u>298,926</u>		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Lebanese Government Bonds:								
Up to 1 year	-	-	-	-	4,297	4,301	4,270	4.98
From 1 to 3 years	-	-	-	-	76,404	76,397	75,717	5.38
From 3 to 5 years	-	-	-	-	88,955	91,860	89,118	6.88
More than 5 years	-	-	-	-	311,648	312,629	302,161	6.37
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>481,304</u>	<u>485,187</u>	<u>471,266</u>	
Lebanese Corporate Bonds:								
From 3 to 5 years	-	-	-	-	1,507	1,507	1,504	7.00
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,507</u>	<u>1,507</u>	<u>1,504</u>	
Certificates of Deposit Issued by Central Bank of Lebanon								
Up to 1 year	6,000	6,022	6,051	7.94	-	-	-	-
From 3 to 5 years	4,000	4,072	4,165	7.80	-	-	-	-
More than 5 years	58,000	60,024	62,136	8.38	247,230	247,846	247,919	6.62
	<u>68,000</u>	<u>70,118</u>	<u>72,352</u>		<u>247,230</u>	<u>247,846</u>	<u>247,919</u>	
	<u>364,362</u>	<u>367,437</u>	<u>371,278</u>		<u>730,041</u>	<u>734,540</u>	<u>720,689</u>	

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

This caption consists of the following:

December 31, 2017

	Cost	Carrying Fair Value	Cumulative Change in Fair Value
	LBP'Million	LBP'Million	LBP'Million
Unquoted equity securities	877	6,384	5,507
Deferred tax liability			(826)
			4,681

December 31, 2016

	Cost	Carrying Fair Value	Cumulative Change in Fair Value
	LBP'Million	LBP'Million	LBP'Million
Unquoted equity securities	877	6,379	5,502
Deferred tax liability			(825)
			4,677

The movement of financial assets at fair value through other comprehensive income during 2017 and 2016 was as follows:

	2017	2016
	LBP'Million	LBP'Million
Balance at January 1	6,379	6,460
Disposal	-	(64)
Change in fair value	5	(17)
Balance at December 31	6,384	6,379

11. CUSTOMERS' LIABILITY UNDER ACCEPTANCES

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

12. INVESTMENT IN ASSOCIATE

In August 2017, the Group acquired 49% equity interests in Vitas S.A.L., a micro-lending financial institution, incorporated in Lebanon, for a total consideration of LBP10.3billion.

The summarized financial information of the associate as of December 31, 2017 is provided below:

	Total Assets	Total Liabilities	Net Assets	Net Profit for year	Group's Share of Net Assets	Group's Share of Net Profit
	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million
Vitas S.A.L.	59,486	43,284	16,202	2,976	7,876	567

13. GOODWILL

Goodwill in the amount of LBP1,988million resulting from the acquisition of the entire shares of Near East Commercial Bank (NECB) during 2015 and includes an amount of LBP748 million relating to CashUnited S.A.L..

14. ASSETS ACQUIRED IN SATISFACTION OF LOANS

Assets acquired in satisfaction of loans represent real estate and shares acquired through enforcement of security over loans and advances to customers.

The movement of assets acquired in satisfaction of loans during 2017 and 2016 was as follows:

Cost:

Balance at January 1, 2016	33,482	8,006	41,488
Disposals	(512)	-	(512)
Balance at December 31, 2016	32,970	8,006	40,976
Transfer from other assets	316	-	316
Disposals	(340)	-	(340)
Balance at December 31, 2017	32,946	8,006	40,952

	Land	Shares	Total
	LBP'Million	LBP'Million	LBP'Million
Balance at January 1, 2016	33,482	8,006	41,488
Disposals	(512)	-	(512)
Balance at December 31, 2016	32,970	8,006	40,976
Transfer from other assets	316	-	316
Disposals	(340)	-	(340)
Balance at December 31, 2017	32,946	8,006	40,952

The acquisition of assets in settlement of loans in Lebanon is regulated by the banking regulatory authorities and these should be liquidated within 2 years. In case of default of liquidation, a regulatory reserve should be appropriated from the yearly net profits over a period of 5 years. This reserve is reduced to 5% of the gross cost for certain assets when the Group meets certain conditions linked to the restructuring of non-performing loans' portfolio. This regulatory reserve is reflected in "Reserves" under equity (Note 26).

The proceeds from sale of assets acquired in satisfaction of loans during the year ended December 31, 2017 amounted to LBP412million (LBP3.3billion in 2016) which

was collected in full. The resulting gain on disposal of assets acquired in satisfaction of loans amounted to LBP71million (LBP2.8billion in 2016) and was recognized in the consolidated statement of profit or loss.

The fair value of the Group's assets acquired in satisfaction of loans amounted to approximately LBP69billion as at December 31, 2017 (LBP69billion as at December 31, 2016) which has been arrived at on the basis of a valuation carried out in November 2015 and February 2016 by licensed independent real estate appraisers not related to the Group and have appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The fair value was determined based on the market comparable approach that reflects recent transaction prices for similar properties, and which is categorized under level 2 in the fair value hierarchy.

During 2014, the Group entered into a settlement agreement with one of its debtors. As a result, the Group acquired shares in a real estate development company in satisfaction of a loan balance in the amount of LBP7.67billion (USD5.1million), which was approved by the banking regulator on February 27, 2014. The approval was subject to the Group setting up impairment allowance against the full acquisition cost of the shares over a period of 2 years ending December 31, 2015. Some of the Group's shareholders agreed to purchase the shares at carrying value as at initial acquisition date as part of the merger deal between the BIT and NECB completed on June 1, 2016 and thus no impairment allowance was set up as at December 31, 2017 and 2016.

15. PROPERTY AND EQUIPMENT

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

	Land and Buildings	Furniture, Fixtures and Motor Vehicles	Computer Equipment	Installations and Improvement	Office Equipment	Work-in Progress	Electrical and Industrial Equipment	Total
	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million
Cost:								
Balance at January 1, 2016	26,647	2,223	3,220	10,961	6,982	495	609	51,137
Additions	-	157	93	1,504	291	1,521	8	3,574
Revaluation surplus	34,043	-	-	-	-	-	-	34,043
Disposals	-	-	-	-	-	-	-	-
Write offs	-	(22)	-	(248)	-	-	-	(270)
Balance at December 31, 2016	60,690	2,358	3,313	12,217	7,273	2,016	617	88,484
Additions	-	260	5,398	331	474	-	-	6,463
Disposals	(832)	(79)	(61)	-	(100)	-	-	(1,072)
Write offs	-	-	-	(702)	(120)	-	-	(822)
Balance at December 31, 2017	59,858	2,539	8,650	11,846	7,527	2,016	617	93,053
Accumulated Depreciation:								
Balance at January 1, 2016	(6,778)	(1,267)	(2,522)	(6,664)	(5,181)	-	(609)	(23,021)
Depreciation	(597)	(146)	(218)	(655)	(556)	-	(8)	(2,180)
Balance at December 31, 2016	(7,375)	(1,413)	(2,740)	(7,319)	(5,737)	-	(617)	(25,201)
Depreciation	(1,350)	(165)	(508)	(567)	(173)	-	-	(2,763)
Disposals	20	77	61	-	26	-	-	184
Related to write offs	-	-	-	350	75	-	-	425
Balance at December 31, 2017	(8,705)	(1,501)	(3,187)	(7,536)	(5,809)	-	(617)	(27,355)
Net Carrying Value:								
At December 31, 2017	51,153	1,038	5,463	4,310	1,718	2,016	-	65,698
At December 31, 2016	53,315	945	573	4,898	1,536	2,016	-	63,283

During 2017, the Group sold a plot located in Tripoli, Lebanon with a book value of LBP813million inclusive of a revaluation surplus of LBP724million for a total consideration of LBP603million. Upon disposal, a revaluation adjustment amounting to LBP211million was recorded in other comprehensive income; remaining surplus amounting to LBP513million was transferred to retained earnings.

During 2016, the Group revalued its owned real estate properties which resulted in a revaluation surplus of LBP34billion recorded under "owned buildings revaluation surplus" under equity, net of applicable tax. The fair value of the revalued properties has been arrived at on the basis of a valuation carried out in 2016 by licensed independent real estate appraisers not related to the Group and have appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The fair value was determined based on the market comparable approach that reflects recent transaction prices for similar properties. The revaluation was approved by the Central Bank of Lebanon in May 2016. Tax on revaluation surplus amounting to LBP1billion was reflected under "Other liabilities" in 2016 and settled in 2017 (Note 21).

16. INTANGIBLE ASSETS

The movement of intangible assets which represent purchased software during 2017 and 2016 was as follows:

	Purchased Software	Software Under Development	Total
	LBP'Million	LBP'Million	LBP'Million
Cost:			
Balance at January 1, 2016	3,964	4,153	8,117
Effect of acquisition of a subsidiary	559	2,033	2,592
Acquisitions	(234)	-	(234)
Balance at December 31, 2016	4,289	6,186	10,475
Acquisitions	6,753	-	6,753
Balance at December 31, 2017	11,042	6,186	17,228
Amortization:			
Balance at January 1, 2016	(2,764)	-	(2,764)
Amortization	(418)	-	(418)
Balance at December 31, 2016	(3,182)	-	(3,182)
Amortization	(423)	-	(423)
Balance at December 31, 2017	(3,605)	-	(3,605)
Net Carrying Value:			
December 31, 2017	<u>7,437</u>	<u>6,186</u>	<u>13,623</u>
December 31, 2016	<u>1,107</u>	<u>6,186</u>	<u>7,293</u>

This caption consists of the following:

17. OTHER ASSETS

December 31

	2017	2016
	LBP'Million	LBP'Million
Prepayments	4,803	3,929
Medical costs due from National Social Security Fund (a)	3,477	3,083
Assets in process of acquisition in settlement of loans (b)	248	564
Salaries paid in advance	613	263
Sundry account receivables	4,158	4,913
	13,299	12,752

(a) Medical costs receivable from the National Social Security Fund represent medical expenses settled by the Group to its employees.

(b) Assets in process of acquisition in settlement of loans represent the value of loans written-off against enforcement of real estate security held and will be reallocated to "Assets acquired in satisfaction of loans" once the registration in the name of the Group is completed. Properties in the amount of LBP316million were transferred to assets acquired in satisfaction of loans during 2017 (Note 14).

18. DEPOSITS FROM BANKS AND FINANCIAL INSTITUTIONS

Deposits from banks and financial institutions are reflected at amortized cost and consist of the following:

December 31

	2017	2016
	LBP'Million	LBP'Million
Term deposits	24,906	27,198
Current deposits	2,971	1,952
Accrued interest payable	112	20
	27,989	29,170

19. CUSTOMERS' DEPOSITS AND CREDIT BALANCES

Customers' deposits and credit balances are reflected at amortized cost and consist of the following:

	December 31, 2017			December 31, 2016		
	Interest Bearing	Non-Interest Bearing	Total	Interest Bearing	Non-Interest Bearing	Total
	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million
Deposits from customers:						
Current / demand deposits	-	167,369	167,369	-	202,760	202,760
Term deposits	2,595,662	-	2,595,662	2,012,747	-	2,012,747
Deposits from factoring activities	12,138	-	12,138	8,574	-	8,574
Collateral against loans and advances	135,192	-	135,192	86,441	-	86,441
	<u>2,742,992</u>	<u>167,369</u>	<u>2,910,36</u>	<u>2,107,762</u>	<u>202,760</u>	<u>2,310,522</u>
Margin and other accounts:						
Margins for irrevocable import letters of credit	-	307	307	-	4,909	4,909
Margins on letters of guarantee	-	3,022	3,022	-	7,658	7,658
Other margins	-	5,131	5,131	-	1,338	1,338
	<u>-</u>	<u>8,460</u>	<u>8,460</u>	<u>-</u>	<u>13,905</u>	<u>13,905</u>
Accrued interest payable	<u>17,525</u>	<u>-</u>	<u>17,525</u>	<u>11,400</u>	<u>-</u>	<u>11,400</u>
	<u>2,760,517</u>	<u>175,829</u>	<u>2,936,346</u>	<u>2,119,162</u>	<u>216,665</u>	<u>2,335,827</u>

Deposits from customers (excluding accrued interest payable) are allocated in terms of amounts to the following brackets:

	December 31, 2017		
	Total Deposits	% of Total Deposits	No. of Customers
	LBP'Million	%	
Less than LBP250million	477,415	16	14,286
From LBP250million to LBP750million	449,465	15	1,000
From LBP750million to LBP1.5billion	437,701	15	410
More than LBP1.5billion	1,554,240	54	353
	<u>2,918,821</u>	<u>100</u>	<u>16,049</u>

December 31, 2016

	Total Deposits	% of Total Deposits	No. of Customers
	LBP'Million	%	
Less than LBP250million	459,083	20	12,926
From LBP250million to LBP750million	410,060	18	935
From LBP750million to LBP1.5billion	393,502	17	365
More than LBP1.5billion	1,061,782	45	281
	2,324,427	100	14,507

Deposits from customers and related parties include as at December 31, 2016 coded deposit accounts in the aggregate of LBP580million (LBPNil in 2017). These accounts are subject to the provisions of Article 3 of the Banking Secrecy Law dated September 3, 1956 which provides unconditional privacy over the identity of the account holders.

The average balance of deposits (including related parties) were as follows:

YEAR	LBP Base Accounts		F/Cy Base Accounts	
	Average Balance of Deposits	Average Interest Rate	Average Balance of Deposits	Average Interest Rate
	LBP'Million	%	LBP'Million	%
2017	524,245	6.25	1,858,026	4.91
2016	553,117	5.98	1,781,946	4.59

20. RELATED PARTIES' DEPOSITS AND CREDIT BALANCES

Related parties' deposits and credit balances are reflected at amortized cost and consist of the following:

	December 31, 2017			December 31, 2016		
	Interest Bearing	Non-Interest Bearing	Total	Interest Bearing	Non-Interest Bearing	Total
	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million
Deposits from customers:						
Current / demand deposits	23	15,582	15,605	-	2,595	2,595
Term deposits	122,132	-	122,132	101,984	-	101,984
Collateral against loans and advances	27,335	-	27,335	27,806	-	27,806
	<u>149,490</u>	<u>15,582</u>	<u>165,072</u>	<u>129,790</u>	<u>2,595</u>	<u>132,385</u>
Margin and other accounts:						
Margins on letters of guarantee	-	32	32	-	-	-
	<u>-</u>	<u>32</u>	<u>32</u>	<u>-</u>	<u>-</u>	<u>-</u>
Accrued interest payable	811	-	811	450	-	450
	<u>150,301</u>	<u>15,614</u>	<u>165,915</u>	<u>130,240</u>	<u>2,595</u>	<u>132,835</u>

21. OTHER LIABILITIES

This caption consists of the following:

December 31

	2017	2016
	LBP'Million	LBP'Million
Deferred income- Subsidy from the Central Bank of Lebanon (a)	19,900	25,044
Accrued bonuses	8,649	5,709
Accrued expenses	3,328	3,626
Withheld taxes payable	4,600	3,169
Due to the National Social Security Fund	406	355
Tax on revaluation of properties (Note 15)	-	3,404
Checks and incoming payment orders in course of settlement	-	56
Deposits and guaranties	-	401
Regulatory deferred liability (Note 9)	-	2,428
Due to shareholders (Note 24)	8,141	8,141
Sundry creditors	11,761	11,382
	56,785	63,717

(a) The Central Bank of Lebanon granted the Bank a subsidy equivalent to USD28.1million or LBP42.36billion in lieu of a) the value of the merged bank's license to be cancelled due to the merger, b) the additional compensations paid to the merged bank's employees whose employment contracts have been terminated capped at the limit specified in Law 192/93, and c) a lump sum compensation for costs resulting from the merger operation computed per Article 2 of Decree 1423. The subsidy was granted by way of granting the Bank a soft loan at an annual rate of 1.41% earmarked to be invested in treasury bills yielding 7.08%.

The Group is recognizing deferred income on a systematic and rational basis against merger expenses incurred. During the year ended December 31, 2017, the Group recognized LBP5.14billion reflected in the consolidated statement of profit or loss under "Other income" (Note 36) to match merger related costs in the amount of LBP5.14billion (17.3billion during the year ended December 31, 2016 to match termination benefits and merger related costs in the amount of LBP14.3billion and the write off of the license of Near East Commercial Bank SAL in the amount of LBP3billion).

(b) The reconciliations between average effective tax rate and enacted tax rates is summarized as follows:

	2017	2016
	LBP'Million	LBP'Million
Profit before tax (Bank)	17,686	12,102
Non-deductible expenses	16,082	37,387
Non-taxable income	(29,225)	(5,068)
Taxable income	4,543	44,421
Income tax based on enacted rate- 15.36% (15% in 2016)	698	6,663
Income tax paid by NECB for the period from January 1, 2016 to May 31, 2016 (Date of Merger)	-	398
Excess tax paid on interest (5%) (Non-refundable)	1,779	-
	2,477	7,061
Property tax (subsidiary)	45	66
Total income tax expense	2,522	7,127
Tax paid during the year	(2,368)	(2,074)
Tax on surplus resulting from BDL special trades	-	7,487
Tax payable as at December 31	154	12,540

(i) The tax on surplus resulting from BDL special trades represent the income tax on the surplus recorded directly under shareholders' equity and the surplus retained under other liabilities in the amount of LBP7,059million and LBP428million, respectively (Note 9).

The tax returns of Near East Commercial Bank S.A.L., for the years 2014 and up to May 31, 2016 (merger date) are currently being examined by the tax authorities. Any additional tax liability depends on the result of this review and will be borne by the Bank.

The tax returns of Saradar Bank S.A.L. since year 2014 (inclusive) remains subject to examination and final review by the tax authorities. Any additional tax liability depends on the results of these reviews.

The tax returns of the remaining subsidiaries for the years 2013 until 2016 remain subject to examination and final assessment by the tax authorities.

The Group's social security declarations are still subject to review by the National Social Security Fund since 1997.

Management believes that the effect of reviews to be conducted by regulatory authorities on open years will not have a significant effect on the consolidated financial statements.

22. BORROWINGS FROM THE CENTRAL BANK OF LEBANON

This caption consists of the following:

	December 31	
	2017	2016
	LBP'Million	LBP'Million
Central Bank of Lebanon - Soft loan (a)	138,500	138,500
Discount on below market loan	(32,298)	(38,798)
	106,202	99,702
Soft leverage arrangement with Central Bank of Lebanon (b)	124,460	-
Loan as per BDL circular 313 (c)	15,051	10,870
Loan as per BDL circular 331 (d)	2,073	1,381
Other current accounts	903	-
Accrued interest payable	660	64
	249,349	112,017

(a) On June 16, 2016, and as a result of the merger with NECB, the Bank was granted a soft loan denominated in Lebanese Pound in the amount of LBP138.5billion from Central Bank of Lebanon for a period of 6.5 years maturing on November 17, 2022, carrying interest at the rate of circa. 1.41%. The loan was earmarked to purchase, Lebanese Treasury Bills of the same face amount and maturity and which are pledged as security against the loan (Note 9).

The soft loan is presented net of a discount resulting from the present value of net future cash flows derived from the difference between interest income realizable on purchased LBP Treasury Bills of 7.08% per annum and the above-mentioned cost of the soft loan. The discount represents the subsidy granted by BDL through the soft loan pursuant to article 6 of law 192/93 and related decree 1423 dated 23 February 2009 (Note 21). The Group is amortizing this discount using the effective interest rate method over the period of the soft loan. Amortization charge of LBP6.5billion for the year ended December 31, 2017 (LBP3.56billion for the year ended December 31, 2016) is treated as a yield adjustment to the interest expense of the soft loan.

(b) During 2017, The Bank entered into a soft leverage arrangement with Central Bank of Lebanon whereby the Bank placed the equivalent in USD of LBP100billion (USD66.45million) with BDL against long term borrowings for LBP124.46billion at the fixed rate of 2% per annum, fully invested in blocked Lebanese Treasury Bills pledged against those borrowings (Note 5 and 9).

(c) The Central Bank of Lebanon granted the Bank pursuant to BDL Intermediate Circular 313 facilities in Lebanese Pounds in the amount of LBP10.68billion and in US Dollars in the amount of USD2.9 million (C/V LBP4.37billion) as of December 31, 2017 (LBP10.87billion as of December 31, 2016) to be granted to its customers pursuant to certain conditions, rules and mechanism. These facilities bear interest at the rate of 1% computed annually and paid monthly. These facilities have maturities beyond 5 years and their repayment depend on the underlying assets settlement.

(d) The Central Bank of Lebanon granted the Bank facilities in the aggregate amount of LBP2.07billion as of December 31, 2017 (LBP1.38billion as of December 31, 2016) following Central Bank of Lebanon Intermediate Circular 331 by which the Bank benefited from credit facilities granted against investment in start-up companies pursuant to certain conditions, rules and mechanism.

Provisions consist of the following:

23. PROVISIONS

	December 31	
	2017	2016
	LBP'Million	LBP'Million
Provision for employees' end-of-service indemnity (a)	8,724	4,755
Provision for loss on foreign currency position (b)	45	45
Provision for contingencies (c)	2,137	78
Provision for lawyers' indemnity (d)	612	52
	11,518	4,930

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

	2017	2016
	LBP'Million	LBP'Million
Balance at January 1	4,755	5,469
Additions (Note 33)	3,520	1,052
Additions - Severance (Note 33)	1,206	-
Write-backs (Note 33)	(201)	(830)
Settlements	(556)	(936)
Balance at December 31	8,724	4,755

(b) Provision for loss on foreign currency position represents the provision set up by the Bank for foreign currency fluctuation on the exchange position at year end in conformity with Banking Control Commission Circular No. 197.

(c) The movement of the provision for contingencies is summarized as follows:

	2017	2016
	LBP'Million	LBP'Million
Balance at January 1	78	78
Additions (Note 35)	2,111	-
Settlements	(52)	-
Balance at December 31	2,137	78

The provision for contingencies is set up to cover possible claims and charges in connection with the Group's activities and includes amounts to cover the likelihood of additional levies.

(d) The movement of the provision for lawyers' indemnity is summarized as follows:

	2017	2016
	LBP'Million	LBP'Million
Balance at January 1	52	52
Additions (Note 35)	560	-
Balance at December 31	612	52

24. SHARE CAPITAL

The capital of the Bank amounting to LBP10.6billion as at December 31, 2016 and 2015 is composed of 10,600,000 shares of LBP1,000 par value each, authorized, issued and fully paid.

In its meeting held on September 28, 2015, the Extraordinary General Assembly decided to increase the share capital of the Bank from LBP5.2billion to LBP10.6billion through the issuance of 5,400,000 nominal ordinary shares at a par value of LBP1,000 per share subscribed to by the shareholders of Near East Commercial Bank S.A.L. as a result of the merger by acquisition undergoing with the latter.

In its meeting held on March 18, 2011, the Extraordinary General Assembly decided to increase the share capital of the Bank from LBP4billion to LBP5.2billion through the issuance of 1,200,000 nominal ordinary shares in two equal stages, at a subscription price of USD25 per share, divided between the par value of LBP1,000 per share and a share premium of USD24.3392 per share. Accordingly, this increase resulted in a total share premium of LBP44billion (USD29,204,000). In its meeting held on July 14, 2016, the Ordinary General Assembly resolved to distribute to shareholders an amount of USD6million (C/VLBP9billion) from share premium (Note 21).

25. SHAREHOLDERS' CASH CONTRIBUTION TO CAPITAL

Shareholders' cash contribution to capital amounting to LBP202.9billion (USD134,618,679) as at December 31, 2016 and 2015 increased by LBP166.4billion (C/V USD110,393,679) during 2015 as a result of the merger by acquisition with Near East Commercial Bank S.A.L.

The contribution is interest free and was made by the shareholders to support the Bank in developing its activities. According to local banking laws and regulations, shareholders' cash contribution to capital is considered as Tier I capital for the purpose of computation of the risk-based capital ratio.

26. RESERVES

The movement of reserves during 2017 and 2016 was as follows:

	Reserve for Unspecified Banking Risk	Legal Reserve	General Reserves	Regulatory Reserves for Profit on Sale of Assets Acquired in Satisfaction of Loans	Regulatory Reserves for Assets Acquired in Satisfaction of Loans	Reserve or Capital Increase	Total
	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million
Balance at January 1, 2016	9,188	1,451	11	581	216	-	11,447
Surplus from special transactions with BDL (Note 9)	-	-	-	-	-	40,000	40,000
Balance at December 31, 2016	9,188	1,451	11	581	216	40,000	51,447
Appropriation of 2016 profit	-	539	-	-	-	-	539
Balance at December 31, 2017	9,188	1,990	11	581	216	40,000	51,986

Reserve for unspecified banking risks:

The reserve for unspecified banking risks is constituted according to local banking regulations, from net profit, on the basis of a minimum of 2 per mil and a maximum of 3 per mil of the total risk weighted assets, off-balance sheet risk and global exchange position as defined for the computation of the solvency ratio at year-end, the consolidated ratio should not be less than 2% by end of year 2017. This reserve is constituted in Lebanese Pound and in foreign currencies in proportion to the composition of the Group's total risk weighted assets and off-balance sheet items. This reserve is not available for distribution.

Legal reserve:

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

Regulatory reserve for assets acquired in satisfaction of loans:

In compliance with the Central Bank of Lebanon basic circular no. 78, banks are required to appropriate from retained earnings an amount of 5% or 20% of the carrying value of its properties acquired in settlement of debt, in case the Group failed to liquidate the properties within 2 years from the date of acquisition. This reserve is not considered as part of the Group's Tier Capital and is not available for distribution (Note 14).

No appropriation took place in 2017 and 2016 as the Group had insufficient profits for the years ended December 31, 2016 and 2015.

**27. OWNED BUILDINGS
REVALUATION SURPLUS**

	December 31	
	2017	2016
	LBP'Million	LBP'Million
Bank premises	14,665	15,388
Subsidiary owned properties (SIPC)	35,838	35,838
	50,503	51,226

During 2017, the Group sold a plot located in Tripoli, Lebanon resulting in a decrease in revaluation surplus by LBP723million of which LBP513million was transferred to retained earnings.

During 2016, revaluation surplus reserve in the amount of LBP30.6billion, net of tax, was recorded after the revaluation of some of the Bank's premises and the subsidiary's owned properties after obtaining the approval of the Central Bank of Lebanon.

According to local banking regulations the revaluation surplus of owned premises is eligible to be incorporated in Tier II capital for the purpose of computation of the risk based capital ratio.

28. INTEREST INCOME

This caption consists of interest income on:

	2017	2016
	LBP'Million	LBP'Million
Deposits with Central Bank of Lebanon	33,992	12,552
Deposits with banks and financial institutions	2,299	1,135
Financial assets at amortized cost	74,477	68,842
Loans and advances to customers	61,292	44,909
Loans and advances to related parties	594	944
Interest realized on non-performing loans and advances to customers	57	7
Factoring activities	15,812	11,362
	188,523	139,751
Withheld tax on interest	(776)	-
	187,747	139,751

29. INTEREST EXPENSE

This caption consists of interest expense on:

	2017	2016
	LBP'Million	LBP'Million
Borrowing from Central Bank of Lebanon	9,353	4,626
Deposits and borrowings from banks and financial institutions	2,965	2,910
Customers' accounts at amortized cost	129,226	89,793
Related parties' accounts at amortized cost	4,981	4,470
	146,525	101,799

30. FEE AND COMMISSION INCOME

This caption consists of the following:

	2017	2016
	LBP'Million	LBP'Million
Service fees on customers' transactions	13,232	8,433
Factoring fees	6,039	4,578
Commission on documentary credits	200	371
Commission on letters of guarantee	1,239	939
Asset management fees	2,635	3,821
	23,345	18,142

31. INCOME FROM FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This caption consists of the following:

	2017	2016
	LBP'Million	LBP'Million
Gain from change in fair value	776	451
Gain on sale of financial assets at fair value through profit or loss	-	28
	776	479

32. OTHER OPERATING INCOME

This caption consists of the following:

	2017	2016
	LBP'Million	LBP'Million
Dividends on financial assets at fair value through other comprehensive income	52	75
Net foreign exchange gains	2,074	1,467
Other	-	109
	2,126	1,651

33. STAFF COSTS

This caption consists of the following:

	2017	2016
	LBP'Million	LBP'Million
Basic salaries	22,550	21,726
Bonuses	8,670	7,667
Termination indemnities (a)	768	13,019
Schooling allowances	945	865
Transportation	950	834
Social security contribution	3,788	3,282
Provision for staff indemnity costs (Note 23)	4,525	222
Chairman and Board of Directors remuneration fees	2,892	1,285
Representation fees	552	313
Other benefits	1,248	1,133
	46,888	50,346

(a) Compensations paid to terminated and existing employees as a result of the merger transaction amounted to LBP12billion during 2016.

34. GENERAL AND ADMINISTRATIVE EXPENSES

This caption consists of the following:

	2017	2016
	LBP'Million	LBP'Million
Rent and rental expenses	6,730	4,778
Fines and taxes	1,136	820
Advertising fees	512	482
Professional and consultancy fees	5,169	3,632
Telecommunication expenses	743	814
Maintenance and repairs	2,158	2,921
Electricity and fuel	478	582
Printings, subscriptions and stationery	2,297	2,238
Transportation and travel	371	610
IT outsourcing expense	2,766	486
Insurance	1,317	865
Other expenses	3,815	2,804
	27,492	21,032

35. PROVISIONS

	2017	2016
	LBP'Million	LBP'Million
Provision for contingencies (Note 23)	2,111	-
Provision for lawyers' indemnity (Note 23)	560	-
	2,671	-

36. OTHER INCOME

This caption consists of the following:

	2017	2016
	LBP'Million	LBP'Million
Recognition of surplus from special transactions with Central Bank of Lebanon (Note 9)	2,856	27,033
Recognition of deferred income - subsidy from Central Bank of Lebanon (Note 21)	5,144	17,317
Share in profit of associate (Note 12)	567	-
Other income, net	398	585
	8,965	44,935

37. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISKS

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

38. FIDUCIARY ASSETS AND ASSETS UNDER MANAGEMENT

Back-to-back lending
Assets under management

December 31, 2017

Customers' Base Accounts

	Resident	Non-Resident	Total
	LBP'Million	LBP'Million	LBP'Million
Back-to-back lending	15,020	-	15,020
Assets under management	281,077	38,317	319,394
	296,097	38,317	334,414

December 31, 2016

Customers' Base Accounts

Back-to-back lending
Assets under management

	Resident	Non-Resident	Total
	LBP'Million	LBP'Million	LBP'Million
Back-to-back lending	21,440	1,658	23,098
Assets under management	229,116	498,704	727,820
	250,556	500,362	750,918

39. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

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

	December 31	
	2017	2016
	LBP'Million	LBP'Million
Shareholders, directors and other key management personnel and close family members:		
<i>Direct facilities and credit balances:</i>		
Unsecured loans and advances	6,950	658
Loans and advances against cash collateral	7,267	10,834
Deposits	94,073	78,450
<i>Indirect facilities:</i>		
Letters of guarantee	6	5
Related companies:		
<i>Direct facilities and credit balances:</i>		
Unsecured loans and advances	274	265
Loans and advances against cash collateral	13,904	14,159
Deposits	57,664	54,385
<i>Indirect facilities:</i>		
Letters of guarantee	515	554

Secured loans and advances are covered by pledged deposits to the extent of LBP27.3billion in 2017 (LBP27.8billion in 2016).

Executive Management and the Board of Directors benefits for the year was as follows:

	2017	2016
	LBP'Million	LBP'Million
Short term benefits	9,107	4,590
End of service benefits	1,056	23
	10,163	4,613

Advisory commission income received from Sarinvest Holding Limited amounted to LBP69million during the year ended December 31, 2017 (LBP49million during the year ended December 31, 2016).

During 2017, dividends received from CashUnited SAL amounted to LBP359million (LBP327million during 2016).

Related party expenses incurred during the year were as follows:

		2017	2016
		LBP'Million	LBP'Million
Clover Building S.A.L.	Rent expense	2,700	2,458
Immobilière Saradar S.A.L.	Rent expense	145	123
Societe Immobilière pour la Construction S.A.L.	Rent expense	476	615
Societe Hôtelière de Tourisme S.A.L.	Rent expense	23	11
Societe Hôtelière de Tourisme S.A.L.	Building charges	7	-
Ms. Mirna Bustany	Rent expense	53	48
Shammas Economic Institute S.A.L.	Rent expense	59	48
Contracting and Trading Company S.A.L.	Rent expense	7	7
Contracting and Trading Company S.A.L.	Building charges	7	7
Sports Company S.A.L. (SClub)	Subscription fees	250	226
S Signature Luxury Services S.A.L.	Membership fees	61	43
S Signature Luxury Services S.A.L.	Travel expenses	301	228
LibanPost S.A.L.	Office aid services	164	115
Saradar Family Office S.A.L.	Financial Advisory services	166	83

During the year 2017, the Bank made an advance payment to Conseil et Gestion Immobilière S.A.L. (a related party) for construction and renovation services amounting to LBP 2,160 million, out of which 364 million were expensed during the year (2016: LBP 58million).

During the year 2017, the Bank paid Saradar Family Office S.A.L. commission fees amounting to LBP 254million related to the acquisition of Vitas S.A.L..

On January 16, 2014, the Group signed a rent contract with Clover Building S.A.L. (an entity under common control) to rent sections 14 to 19 and portion of section 22 of Clover Building property, Rmeil, plot number 144, for the period from January 16, 2014 to January 15, 2024. The annual rental fees were subject to (i) a fixed increase of 3% in the second and third years, (ii) 5% increase for the remaining 7 years. The contract can be terminated by the lessee at the end of the third year.

40. CASH AND CASH EQUIVALENTS

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

	December 31	
	2017	2016
	LBP'Million	LBP'Million
Cash on hand	17,037	16,406
Current accounts with Central Bank of Lebanon (excluding compulsory reserve)	81,471	35,544
Reverse repurchase agreements with a financial institution	-	45,798
Current accounts with banks and financial institutions	136,600	82,910
Term placements with banks and financial institutions	8,588	69,734
Checks in course of collection	9,674	12,123
	253,370	262,515

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

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

- The transfer of LBP316million from other assets to assets acquired in satisfaction of loans during 2017.
- The transfer of LBP40billion from "Other liabilities" to "Reserve for capital increase" during 2016.
- Increase in the cumulative change in fair value of financial assets at fair value through other comprehensive income by LBP4million (LBP17million in 2016) against investment securities by LBP5million (LBP14million in 2016) and deferred tax liability by LBP1million (LBP3million in 2016).

41. CAPITAL MANAGEMENT

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

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

The Bank's capital is split as follows:

Tier I capital: Comprises share capital, shareholders' cash contribution to capital, share premium, reserves from appropriation of profits, and retained earnings (exclusive of current year's net profit).

Tier II capital: Comprises 50% of the cumulative change in fair value of investment securities at fair value through other comprehensive income and revaluation surplus of owned properties approved by the Central Bank of Lebanon.

Various limits are applied to the elements of capital base such as Qualifying Tier II capital cannot exceed Tier I capital.

During 2016, the Central Bank of Lebanon issued intermediary circular no. 436 by which it amended Basic Circular 44 related to the minimum Capital Adequacy Ratios (CAR). These ratios are set to increase gradually between December 2016 and December 2018 as shown in following table:

	Common Tier 1 Capital Ratio	Tier 1 Capital Ratio	Total Capital Ratio
	%	%	%
Year ended 31 December 2016	8.5	11.0	14.0
Year ended 31 December 2017	9.0	12.0	14.5
Year ended 31 December 2018	10.0	13.0	15.0

The Group's consolidated capital adequacy ratio was as follows:

	December 31	
	2017	2016
	LBP'Million	LBP'Million
Common equity Tier I	279,711	269,196
Tier II capital	29,184	32,444
Total regulatory capital (Tier I + Tier II)	308,895	301,640
Credit risk	2,332,799	1,853,219
Market risk	20,079	67,378
Operational risk	91,791	72,093
Risk-weighted assets and risk-weighted off-balance sheet items	2,444,669	1,992,690
Tier I Ratio	11.44%	13.51%
Risk based capital adequacy ratio- Tier I and Tier II capital	12.64%	15.14%

42. FINANCIAL RISK MANAGEMENT

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

- Credit risk
- Liquidity risk
- Market risk

The risk management framework is briefly outlined as follows:

The Board of Directors

The Board of Directors, through the Management Committee is responsible for establishing the Group's goals and objectives and overseeing the establishment, implementation and review of the Group's risk management system.

The Chairman of the Board and the Managing Director are responsible for the efficient functioning of the corporate governance structure and for developing the Group's risk strategies that direct the Group's ongoing activities to achieve goals and objectives.

The Risk Management Unit

The Risk Management Unit is responsible for drawing a risk management strategy that addresses identified risks such as credit risk on a portfolio level, liquidity risk and interest rate risk in the banking book and operational risk. It cooperates with the Group's managers at all levels across the organization namely, the Credit Risk Management Department, the Capital Market, the Treasury Department, the Financial Department and the Internal Audit Department and the Information Technology Department.

A. Credit Risk

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

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

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

- Ability of the counterparty to honor its contractual obligations based on the account's performance, recurring overdue and related reasons and the counterparty's financial position;
- 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 the Central Bank of Lebanon directives, the Group's customers are categorized into 5 classifications as described below:

Classification	Description	
1	Standard monitoring	Indicates that borrowers are able to honor their commitments and there is no reason to doubt their ability to repay principal and interest in full and in a timely manner. Some of the indicators related to this category are: continuous cash inflows, timely submission of financial statements and/or sufficient collateral.
2	Special monitoring (Watch list)	Indicates that borrowers are able to honor their current commitments, although repayment may be adversely affected by specific factors. Such borrowers are subject to special monitoring. Major characteristics of this category are: inadequate loan information such as annual financial statements availability, condition of and control over collateral held is questionable and / or declining profitability.
3	Substandard	Indicates that borrowers' ability to serve their commitments is in question. In this context, borrowers cannot depend on their normal business revenues to pay back principal and interest, i.e. losses may occur. The main characteristics of this category are severe decline in profitability and in cash inflows. In this case, the Group considers interests and commissions as unrealized but does not establish an allowance for impairment.
4	Doubtful	Indicates that borrowers cannot honor their commitments in full and on time. Significant losses will be incurred even collateral held is invoked due to payment overdues. The net realizable value of collateral held is insufficient to cover payment of principal and interest. In this case, the Group considers interests and commissions as unrealized and established an allowance for impairment accordingly.
5	Bad	Indicates that commitments cannot be covered even after taking all possible measures and resorting to necessary legal procedures. 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.

Financial assets with credit risk exposure and related concentrations

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

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

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

December 31, 2017			
Bracket	Balance	% of Total	No. of Counter Parties
	LBP'Million		
Less than LBP5billion	14,660	8	30
From LBP5billion to LBP15billion	35,085	18	5
More than LBP15billion	140,760	74	3
	190,505	100	38

December 31, 2016			
Bracket	Balance	% of Total	No. of Counter Parties
	LBP'Million		
Less than LBP5billion	111,137	53	32
From LBP5billion to LBP15billion	33,816	16	1
More than LBP15billion	65,612	31	4
	210,565	100	37

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

December 31, 2017			
Bracket	Balance	% of Total	No. of Counter Parties
	LBP'Million		
Less than LBP1.5billion	264,827	22	4,349
From LBP1.5billion to LBP5billion	211,934	18	18
From LBP5billion to LBP10billion	183,091	16	26
From LBP10billion to LBP15billion	120,221	10	10
More than LBP15billion	409,852	34	16
	1,189,925	100	4,479
Less:			
Allowances allocated to performing loans	(2,795)		
Allowance for collectively assessed loans	(7,245)		
Pledged guarantee funds allocated to non-performing loans	(12,376)		
	1,167,509		

December 31, 2016

Bracket	Balance	% of Total	No. of Counter Parties
	LBP'Million		
Less than LBP1.5billion	205,833	21	3,278
From LBP1.5billion to LBP5billion	190,917	20	65
From LBP5billion to LBP10billion	149,998	16	22
From LBP10billion to LBP15billion	98,697	10	8
More than LBP15billion	311,791	33	12
	957,236	100	3,385
<u>Less:</u>			
Allowances allocated to performing loans	(21,173)		
Allowance for collectively assessed loans	(7,253)		
Pledged guarantee funds allocated to non-performing loans	(12,376)		
	916,434		

(b) Below are the details of the Group's exposure to credit risk with respect to loans and advances to customers (excluding accrued interest receivables):

December 31, 2017

	Gross Exposure Net of Unrealized Interest	Fair Value of Collateral Received		
		Cash Collateral	Mortgage of Property	Total
		LBP'Million	LBP'Million	LBP'Million
Performing loans and advances - Retail				
Housing loans	99,061	16,621	68,431	85,052
Personal loans	15,864	-	3,962	3,962
Overdrafts	7,682	1,897	-	1,897
Speculative accounts	-	-	-	-
Other	8,831	-	-	-
	131,438	18,518	72,393	90,911
Performing loans - Corporate customers:				
Factoring facilities	199,424	-	-	-
Corporate, small and medium enterprises and commercial bills	805,433	52,044	182,638	234,682
	1,004,857	52,044	182,638	234,682
Non-performing loans:				
Substandard loans	19,599	-	20,453	20,453
Doubtful and bad loans	114,110	12,376	1,144	13,520
Unrealized interest	(69,799)	-	-	-
	63,910	12,376	21,597	33,973
Allowance allocated to performing loans	(2,795)	-	-	-
Allowance for collectively assessed loans	(7,245)	-	-	-
Allowance for impairment of doubtful and bad loans	(10,280)	-	-	-
	(20,320)	-	-	-
	1,179,885	82,938	276,628	359,566

December 31, 2016

	Gross Exposure Net of Unrealized Interest	Fair Value of Collateral Received		
		Cash Collateral	Mortgage of Property	Total
		LBP'Million	LBP'Million	LBP'Million
Performing loans and advances - Retail				
Housing loans	98,712	4,573	71,975	76,548
Personal loans	6,721	2,543	832	3,375
Overdrafts	7,133	1,368	209	1,577
Speculative accounts	409	102	119	221
Other	11,658	2,809	212	3,021
	124,633	11,395	73,347	84,742
Performing loans - Corporate customers:				
Factoring facilities	172,565	-	-	-
Corporate, small and medium enterprises and commercial bills	611,694	73,181	200,081	273,262
	784,259	73,181	200,081	273,262
Non-performing loans:				
Substandard loans	15,722	-	15,287	15,287
Doubtful and bad loans	105,269	12,969	13,852	26,821
Unrealized interest	(62,607)	-	-	-
	58,384	12,969	29,139	42,108
Allowances allocated to performing loans	(21,173)	-	-	-
Allowance for collectively assessed loans	(7,253)	-	-	-
Allowance for impairment of doubtful and bad loans	(10,040)	-	-	-
	(38,466)	-	-	-
	928,810	97,545	302,567	400,112

(c) Concentration of major financial assets by industry or sector:

December 31, 2017

	Sovereign	Financial Services	Real Estate Development and Trading	Consumer Goods Trading and Services	Private Individuals	Other	Total	Accrued Interest	Grand Total
	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million
Financial Assets									
Cash and deposits with Central Bank of Lebanon	1,062,809	-	-	-	-	17,037	1,079,846	11,003	1,090,849
Deposits with banks and financial institutions	-	190,505	-	-	-	-	190,505	31	190,536
Financial assets at fair value through profit or loss	-	2,764	-	-	-	-	2,764	-	2,764
Loans and advances to customers	-	60,479	347,084	79,146	131,496	549,304	1,167,509	3,202	1,170,711
Financial assets at amortized cost	1,192,032	1,508	-	-	-	-	1,193,540	16,927	1,210,467
Customers' Liabilities under acceptances	-	-	38	696	-	367	1,101	-	1,101
	2,254,841	255,256	347,122	79,842	131,496	566,708	3,641,649	31,163	3,666,428

December 31, 2016

	Sovereign	Financial Services	Real Estate Development and Trading	Consumer Goods Trading and Services	Private Individuals	Other	Total	Accrued Interest	Grand Total
	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million
Financial Assets									
Cash and deposits with Central Bank of Lebanon	639,529	-	-	-	-	-	639,529	3,252	642,781
Deposits with banks and financial institutions	-	210,565	-	-	-	-	210,565	320	210,885
Loans and advances to customers	-	56,646	250,446	361,093	123,040	125,209	916,434	3,086	919,520
Financial assets at fair value through profit or loss	-	23,307	-	1,840	-	-	25,147	-	25,147
Financial assets at amortized cost	1,114,912	1,507	-	-	-	-	1,116,419	-	1,116,419
Customers' Liabilities under acceptances	-	-	-	1,502	-	-	1,502	-	1,502
	1,754,441	292,025	250,446	364,435	123,040	125,209	2,935,588	6,658	2,916,254

(d) Concentration of major financial assets by geographical area:

	December 31, 2017		
	Lebanon	Overseas	Total
	LBP'Million	LBP'Million	LBP'Million
Financial Assets			
Cash and deposits with Central Bank of Lebanon	1,080,572	10,277	1,090,849
Deposits with banks and financial institutions	57,450	133,086	190,536
Financial assets at fair value through profit or loss	2,764	-	2,764
Loans and advances to customers	1,116,690	54,021	1,170,711
Financial assets at amortized cost	1,210,467	-	1,210,467
Customers' Liabilities under acceptances	501	600	1,101
	3,468,444	197,984	3,666,428

	December 31, 2016		
	Lebanon	Overseas	Total
	LBP'Million	LBP'Million	LBP'Million
Financial Assets			
Cash and deposits with Central Bank of Lebanon	642,781	-	642,781
Deposits with banks and financial institutions	121,924	88,961	210,885
Financial assets at fair value through profit or loss	25,147	-	25,147
Loans and advances to customers	908,214	11,306	919,520
Financial assets at amortized cost	1,116,419	-	1,116,419
Customers' Liabilities under acceptances	1,502	-	1,502
	2,815,987	100,267	2,916,254

B. Liquidity Risk

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

The Group manages the liquidity risk through a well-defined policy and procedure set by the Assets and Liabilities Management Committee (ALCO). The objective is to monitor the maturity profile of the Group's financial assets and liabilities and enable management to ensure that the liquidity ratio is in compliance with the required limit set by the regulatory authorities. Management follows up on liquidity by reviewing, on weekly basis, the amount of obligatory reserve and the expected liquidity situation for the week. Moreover, on a monthly basis the liquidity ratio is calculated in accordance with circular No. 236 of the Banking Control Commission and No. 72 of Central Bank of Lebanon.

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

December 31, 2017

	Up to 3 Months	3 Months 1 Year	1 to 5 Years	Over 5 Years	Total
	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million
Financial Liabilities					
Deposits from banks and financial institutions	7,808	20,181	-	-	27,989
Customers' and related parties' deposits and credit balances	1,110,879	1,858,315	133,067	-	3,102,261
Customers' acceptance liability	1,101	-	-	-	1,101
Borrowings from Central Bank of Lebanon	660	18,028	106,201	124,460	249,349
	1,120,448	1,896,524	239,268	124,460	3,380,700

December 31, 2016

	Up to 3 Months	3 Months 1 Year	1 to 5 Years	Over 5 Years	Total
	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million
Financial Liabilities					
Deposits from banks and financial institutions	27,218	1,952	-	-	29,170
Customers' and related parties' deposits and credit balances	222,428	2,245,613	621	-	2,468,662
Customers' acceptance liability	1,502	-	-	-	1,502
Borrowings from Central Bank of Lebanon	1,445	-	10,870	99,702	112,017
	252,593	2,247,565	11,491	99,702	2,611,351

C. Market Risk

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

The non-availability of assets for trading in the banking book renders the market risk limited to the foreign exchange risk and interest rate risk. The Group covers the exchange risk that might affect its financial position and its profitability. In this respect, the exchange position limits are set and authorized by the ALCO. Furthermore, the Group hedges its capital against currency fluctuation by maintaining a fixed position in foreign currency in line with the regulatory authorized limits.

Currency risk:

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

December 31, 2017

	LBP	USD	EUR	Other	Total
	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million
Financial Assets					
Cash and deposits with Central Bank of Lebanon	305,141	759,185	25,883	640	1,090,849
Deposits with banks and financial institutions	2,899	166,416	12,563	8,658	190,536
Financial assets at fair value through profit or loss	-	2,764	-	-	2,764
Loans and advances to customers	776,617	310,764	65,342	17,988	1,170,711
Financial assets at amortized cost	436,466	774,001	-	-	1,210,467
Financial assets at fair value through other comprehensive income	6,384	-	-	-	6,384
Customers' Liabilities under acceptances	-	934	38	129	1,101
	1,527,507	2,014,064	103,826	27,415	3,672,812
Financial Liabilities					
Deposits and borrowings from banks	9,039	18,262	76	612	27,989
Customers' and related parties' deposits and credit balance	593,508	2,364,721	116,625	27,407	3,102,261
Customers' acceptance liability	-	934	38	129	1,101
Borrowings from Central Bank of Lebanon	248,646	703	-	-	249,349
	851,193	2,384,620	116,739	28,148	3,380,700
Net exchange position	676,314	(370,556)	(12,913)	(733)	292,112

December 31, 2016

	LBP	USD	EUR	Other	Total
	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million
Financial Assets					
Cash and deposits with Central Bank of Lebanon	238,977	327,932	72,537	3,335	642,781
Deposits with banks and financial institutions	26,520	138,015	30,789	15,561	210,885
Financial assets at fair value through profit or loss	-	17,160	7,987	-	25,147
Loans and advances to customers	169,979	681,097	52,099	16,345	919,520
Financial assets at amortized cost	372,322	737,543	6,554	-	1,116,419
Financial assets at fair value through other comprehensive income	6,379	-	-	-	6,379
Customers' Liabilities under acceptances	-	976	526	-	1,502
	814,177	1,902,723	170,492	35,241	2,922,633
Financial Liabilities					
Deposits from banks and financial institutions	7,567	20,801	262	540	29,170
Customers' and related parties' deposits and credit balance	563,889	1,701,287	168,549	34,937	2,468,662
Customers' acceptance liability	-	976	526	-	1,502
Borrowings from Central Bank of Lebanon	112,017	-	-	-	112,017
	683,473	1,723,064	169,337	35,477	2,611,351
Net exchange position	130,704	179,659	1,155	(236)	311,282

Interest rate risk

The Group is exposed to various risks associated with the effects of fluctuations in interest rates on its financial position and cash flows. Interest rate risk arises as a result of mismatches or gaps in the amounts of assets and liabilities that mature or are subject to interest rate change on a given date. The Group manages this risk by monitoring the effect of the changes in interest rates on interest earning assets and liabilities. As reflected in the maturity and interest sensitivity analysis, the structure of the financial statements in Lebanese Pounds and foreign currencies reflects a mismatch between short term deposits with floating interest rates against medium and long term investments with fixed interest rates.

Financial instruments with off-balance-sheet risk do not include accounts that carry interest rate risk.

Below is the distribution of financial assets and liabilities by re-pricing time bands:

December 31, 2017

	Non-Interest Bearing	Up to 1 Year	1 to 5 Years	Over 5 Years	Total Interest Bearing	Grand Total
	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million
Financial Assets						
Cash and deposits with Central Bank of Lebanon	139,740	469,321	36,321	445,467	951,109	1,090,849
Deposits with banks and financial institution	10,880	170,979	8,677	-	179,656	190,536
Financial assets at fair value through profit or loss	2,764	-	-	-	-	2,764
Loans and advances to customers	44,071	763,831	217,600	145,209	1,126,640	1,170,711
Financial assets at amortized cost	-	71,217	389,172	750,078	1,210,467	1,210,467
Financial assets at fair value through other comprehensive income	6,384	-	-	-	-	6,384
Customers' liability under acceptances	-	1,101	-	-	1,101	1,101
Total financial assets	203,839	1,476,449	651,770	1,340,754	3,468,973	3,672,812
Financial Liabilities						
Deposits from banks and financial institutions	7,808	20,181	-	-	20,181	27,989
Customers' and related party deposits and credit balances	41,771	2,927,423	133,067	-	3,060,490	3,102,261
Customers' acceptance liability	-	1,101	-	-	1,101	1,101
Borrowings from Central Bank of Lebanon	660	18,028	106,201	124,460	138,512	249,349
Total financial liabilities	50,239	2,966,733	239,268	124,460	3,330,461	3,380,700
Net Gap position	153,600	(1,490,284)	412,502	1,216,294	248,689	292,112

December 31, 2016

	Non-Interest Bearing	Up to 1 Year	1 to 5 Years	Over 5 Years	Total Interest Bearing	Grand Total
	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million
Financial Assets						
Cash and deposits with Central Bank of Lebanon	91,807	276,756	89,830	184,388	550,974	642,781
Deposits with banks and financial institution	119,009	74,386	15,057	2,433	91,876	210,885
Loans and advances to customers	15,947	703,178	139,095	61,300	903,573	919,520
Financial assets at fair value through profit or loss	25,147	-	-	-	-	25,147
Financial assets at amortized cost	-	68,474	270,442	777,503	1,116,419	1,116,419
Financial assets at fair value through other comprehensive income	6,379	-	-	-	-	6,379
Customers' liability under acceptances	-	1,502	-	-	1,502	1,502
Total financial assets	258,289	1,124,296	514,424	1,025,624	2,664,344	2,922,633
Financial Liabilities						
Deposits from banks and financial institutions	1,888	27,282	-	-	27,282	29,170
Customers' and related party deposits and credit balances	218,399	2,250,263	-	-	2,250,263	2,468,662
Customers' acceptance liability	-	1,502	-	-	1,502	1,502
Borrowings from Central Bank of Lebanon	1,445	-	10,870	99,702	110,572	112,017
Total financial liabilities	221,732	2,279,047	10,870	99,702	2,389,619	2,611,351
Net Gap position	36,557	(1,154,751)	503,554	925,922	274,725	311,282

43. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

December 31, 2017

	Fair Value				Valuation Technique and Key Inputs	
	Carrying Amount	Level 1	Level 2	Level 3		Total
	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	
Financial assets at fair value through profit or loss						
BLOM Money Market Fund	-	-	-	-	-	Listed in active market
Other funds - Unlisted	2,764	-	2,764	-	2,764	Net asset value
	2,764	-	2,764	-	2,764	
Financial assets that are measured at fair value through other comprehensive income:						
Unquoted equity securities	6,384	-	-	6,384	6,384	Net book value
	6,384	-	-	6,385	6,384	
Financial assets that are measured at amortized cost:						
Lebanese treasury bills	402,807	-	397,166	-	397,166	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bills, adjusted for illiquidity
Lebanese Government bonds in foreign currency	463,984	-	441,343	-	441,343	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
Certificates of deposit issued by Central Bank of Lebanon in Lebanese Pounds	26,566	-	26,632	-	26,632	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bills, adjusted for illiquidity
Certificates of deposit issued by Central Bank of Lebanon in foreign currency	298,675	-	299,426	-	299,426	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
Lebanese corporate bonds	1,508	-	1,496	-	1,496	DCF utilizing a risk adjusted discount rate
	1,193,540	-	1,166,063	-	1,166,063	

December 31, 2016

	Fair Value				Valuation Technique and Key Inputs	
	Carrying Amount	Level 1	Level 2	Level 3		Total
	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	
Financial assets at fair value through profit or loss						
BLOM Money Market Fund	23,306	23,306	-	-	23,306	Listed in active market
Other funds - Unlisted	1,841	-	1,841	-	1,841	Net asset value
	25,147	23,306	1,841	-	25,147	
Financial assets that are measured at fair value through other comprehensive income:						
Unquoted equity securities	6,379	-	-	6,379	6,379	Net book value
	6,379	-	-	6,379	6,379	
Financial assets that are measured at amortized cost:						
Lebanese treasury bills	297,319	-	298,926	-	298,926	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bills, adjusted for illiquidity
Lebanese Government bonds in foreign currency	485,187	-	471,266	-	471,266	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
Certificates of deposit issued by Central Bank of Lebanon in Lebanese Pounds	70,118	-	72,352	-	72,352	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bills, adjusted for illiquidity
Certificates of deposit issued by Central Bank of Lebanon in foreign currency	247,846	-	247,919	-	247,919	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
Lebanese corporate bonds	1,507	-	1,504	-	1,504	DCF utilizing a risk adjusted discount rate
	1,101,977	-	1,091,967	-	1,091,967	

There has been no transfers between Level 1, Level 2 and Level 3 during the year.

44. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors and authorized for issue on June 21, 2018.



saradarbank.com