

ANNUAL REPORT 2017 | 1



بنك بيروت

Bank of Beirut ^{s.a.l.}

Banking Beyond Borders



ANNUAL REPORT 2017





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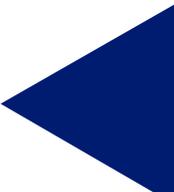
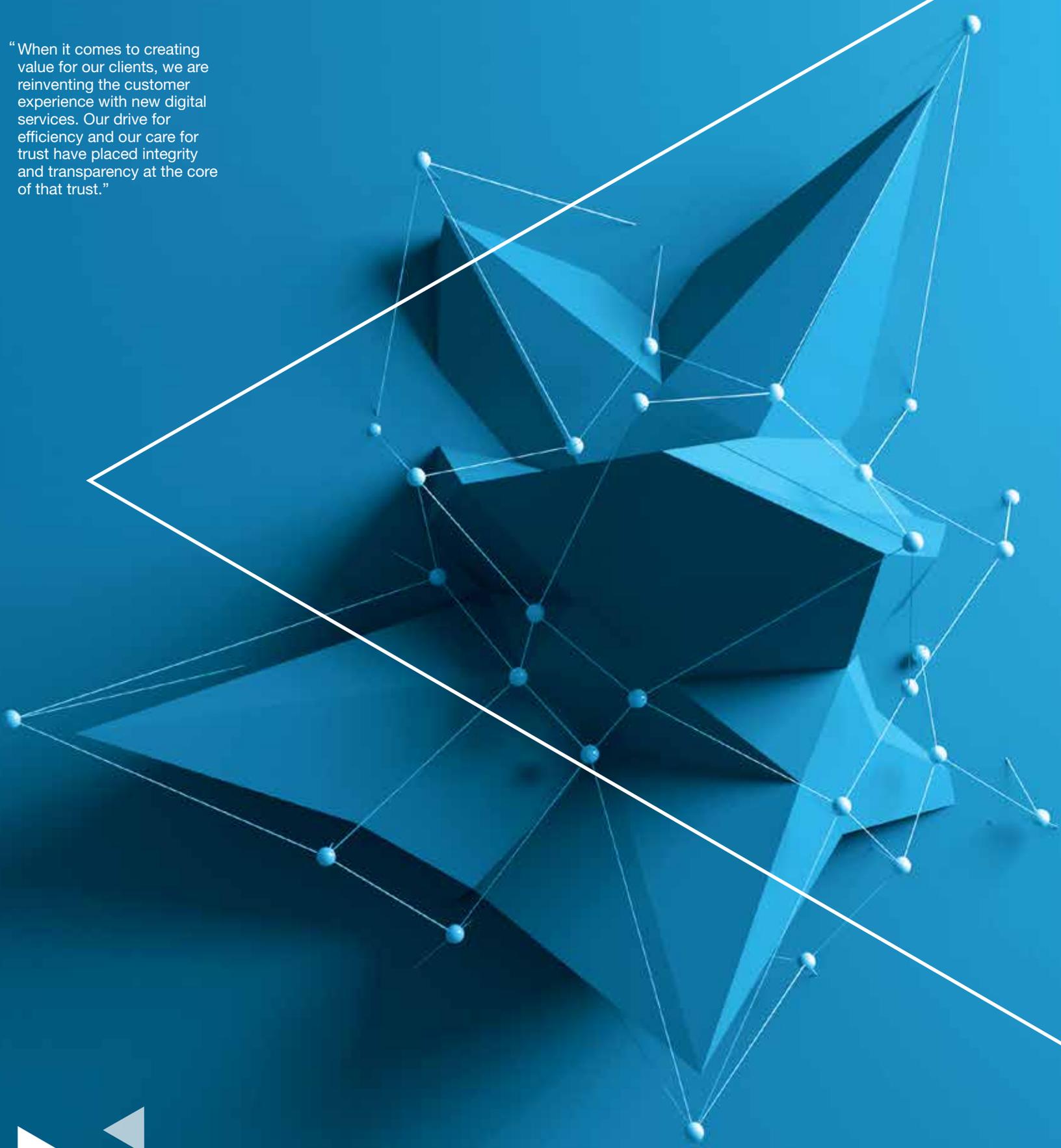
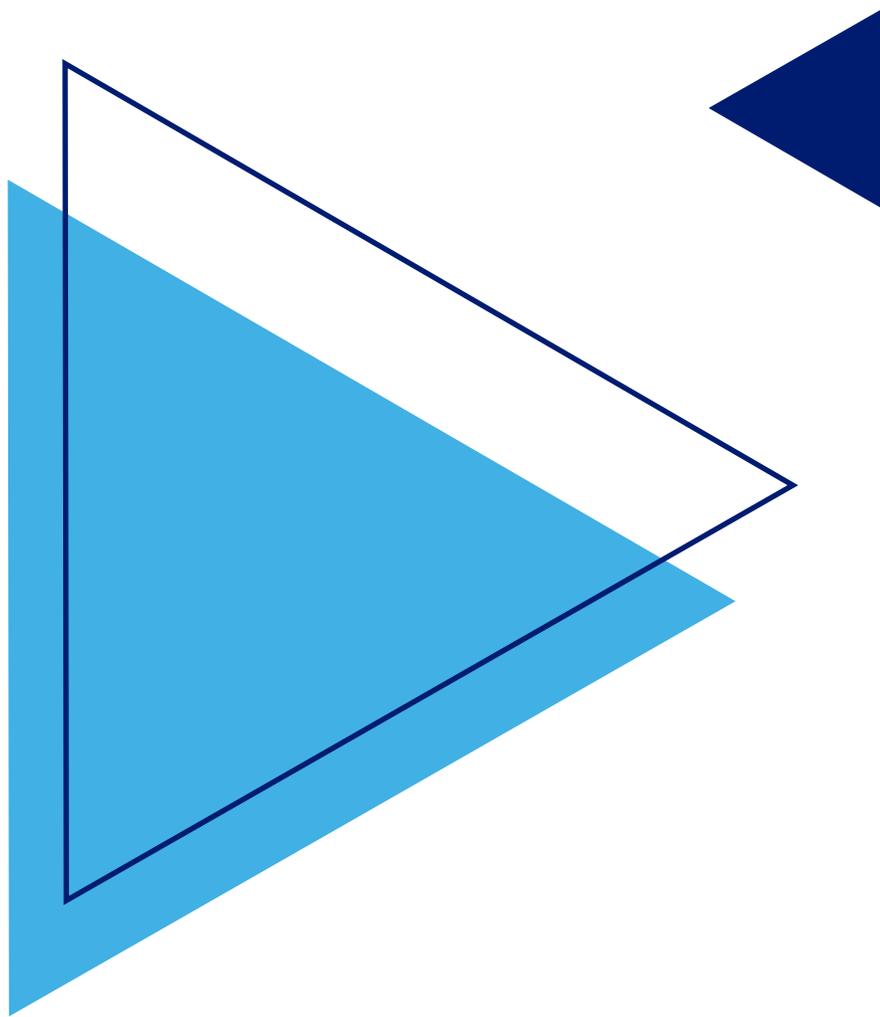


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“When it comes to creating value for our clients, we are reinventing the customer experience with new digital services. Our drive for efficiency and our care for trust have placed integrity and transparency at the core of that trust.”





CHAIRMAN'S MESSAGE



2017 was a year of continuing progress. Bank of Beirut's strong performance reflects the first-rate execution of our growth strategy.

While remaining true to our traditional banking values, focusing on earnings and building trust, we have significantly expanded our investment in the emerging digital economy, extending our reach to serve valued customers in new and innovative ways.

The key specific highlights of our performance in financial year 2017 include:

On a consolidated level, as at 31st December 2017, the Bank's total assets reached USD 18.40 billion, growing by 6.73% year-on-year. This growth was mainly funded by increases in deposits and equity. Total Shareholders' equity reached USD 2.352 billion, while profits amounted to USD 204.4 million.

Even with strong asset growth, we achieved a 1.15% Return On Average Assets (ROAA) in 2017. Dividend yield per common share is still rising, attaining 4.06% in 2017, compared to 3.53% in 2016, a clear sign of the bank's financial health, and Bank of Beirut's confidence to disburse dividends to our stakeholders.

Risk management continues to be a priority. Continuing our strong performance in 2016 and 2017, we remain resolute in maintaining a responsible, diversified growth strategy. Responding effectively to our home market's political and economic challenges has helped Bank of Beirut to build an exceptional culture of commitment, resilience and a passion for positive outcomes, even in adversity. We are well prepared to withstand both external impacts from unpredictable changes in the markets and evolving banking laws and regulations, driven by political and economic factors.

In this respect, we are committed to conducting business within the effective and prudent regulations overseen by the Central Bank of Lebanon and the Banking Control Commission of Lebanon as a lead regulator which we view as crucial for the protection and soundness of the entire Lebanese financial sector.

At the same time, these social and economic challenges provide opportunities to serve our communities. That sustainability, durability and commitment to serve, is built into our group DNA.

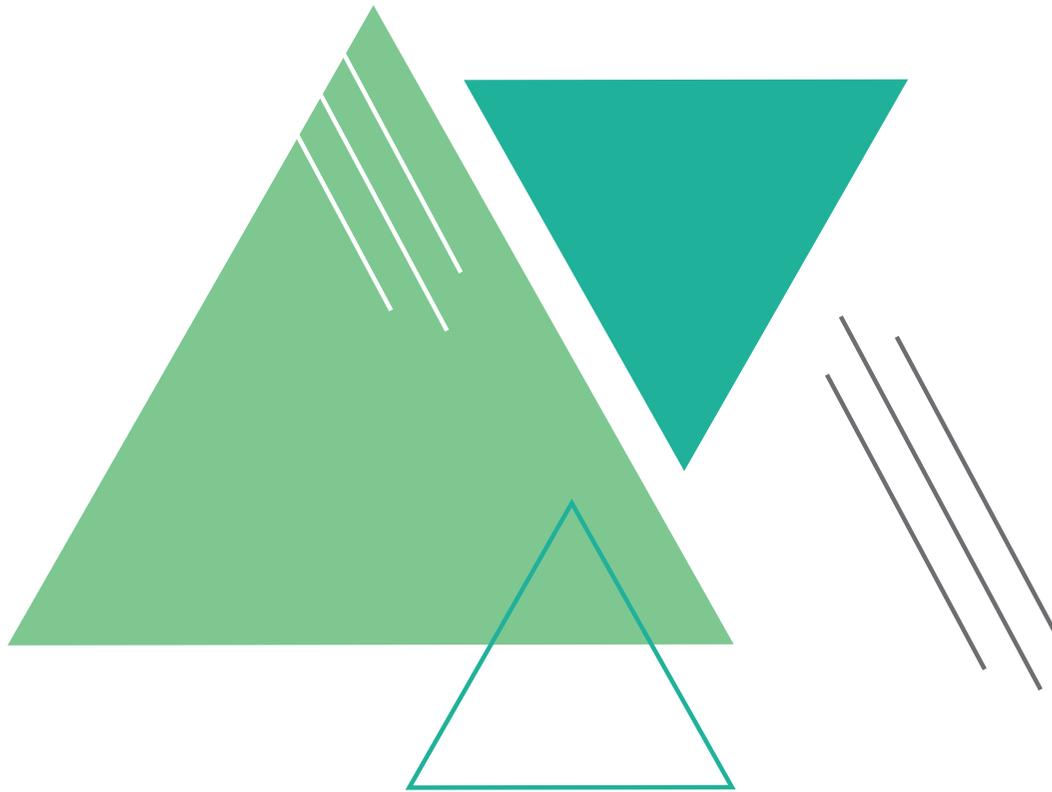
We continue our investment in professional development and talent acquisition. With business units in nine countries, increasing our diversity and inclusion helps to build a responsive, relevant and empathetic culture. On behalf of our shareholders and board of directors, my heartfelt gratitude to our number one asset; the Bank of Beirut family around the world. Your dedication and support are treasured. Thank you.

Together, serving great customers with continuously improving service and management disciplines, I am confident in our ability to deliver sustainable and profitable growth, "Beyond Borders".

A handwritten signature in black ink, reading "Salim G. Sfeir". The signature is fluid and cursive, with a period at the end.

Salim G. Sfeir
Group Chairman – CEO





BANK OF BEIRUT
AT A GLANCE

HISTORY

With a well-targeted focus, Bank of Beirut has not only grown to become one of today's leading commercial banks in Lebanon, but has also proved to be the pioneer in more than one field. Bank of Beirut was recognized in 2018* and 2014 as the "Fastest Growing Banking Lebanon" by "Banker Middle East" magazine after taking the lead in "Super Affluent Net-Worth Specific Services in Lebanon" according to Euro money Private Banking and Wealth Management Survey; receiving Zawya Funds Ranking Award for its "Beirut Golden Income Fund II and winning the "Best CSR Initiative",. 2018* brought the Bank further recognitions: Bank of Beirut was recognized by Banker ME as "Best Transaction Bank", "Best Retail Bank" and "Best Commercial Bank" in Lebanon, and its Chairman-CEO was voted "Banker for the years 2015 and 2016 in the MENA Region".

Bank of Beirut adopted its present name in 1970, years following its establishment as a commercial bank. In 1993, the 5-branch Bank was acquired by a group of businessmen and bankers, headed by the current Chairman - CEO, Salim G. Sfeir. Its strategic alliances with regional Arab banking institutions and acquisitions have enhanced its market position and leveraged its expertise into local and regional markets. Bank of Beirut, rating 35th bank in Lebanon in 1993, and one of Lebanon's five banks listed on the Beirut Stock Exchange since 1997, has climbed up to reach the 3rd position by equity, 4th by profits, and 6th by assets, with 73 branches in Lebanon and 24 spanning 4 continents.

In 2005, Bank of Beirut established "BOB Finance s.a.l.", a wholly owned financial institution regulated by the Central Bank of Lebanon; in 2007, Bank of Beirut Invest s.a.l., an independent wholly owned specialized banking subsidiary, was created; in 2009, BoB Finance was appointed one of two exclusive Agents of Western Union in Lebanon; and in 2011, "Beirut Life Co.", an insurance company offering a full array of life insurance services, was initiated. In 2012, the new (corporate identity and logo) reflecting the restyled brand image were adopted, and in 2013, B-Smart, the first virtual branch, opened its doors. In 2014, the Bank initiated a new representative office in Accra, Ghana.

The primary activities of Bank of Beirut include retail banking services; commercial, corporate and correspondent banking services; as well as trade finance and asset management services targeting high net-worth customers in both domestic and regional markets. Acknowledged in the list of the "Fastest Movers" banks worldwide, Bank of Beirut is the leading provider of cash management services to commercial clients in Lebanon.

On the international level, Bank of Beirut provides commercial banking services in the United Kingdom and throughout Europe through its wholly owned subsidiary, Bank of Beirut (U.K.) Ltd, regulated by the Financial Conduct Authority (FCA). The Bank also operates a branch in Germany (Frankfurt); a branch in Cyprus (Limassol) regulated by the Central Bank of Cyprus; 5 branches in the Sultanate of Oman, regulated by the Central Bank of Oman; a Representative Office in the United Arab Emirates (Dubai) to service the Gulf region; a Representative Office in Nigeria (Lagos) and a Representative Office in Ghana (Accra), in addition to a subsidiary in Australia, Bank of Sydney LTD., with a network of 16 branches located in Sydney, Melbourne, and Adelaide, regulated by the Australian Prudential Regulatory Authority ("APRA").

** These awards were granted to Bank of Beirut in 2018, at the time of issuance of this annual report.*

MISSION AND VALUES

- Integrity and Trust are our guiding values.
- We abide by the highest ethical standards and the strictest privacy and confidentiality when conducting any kind of transaction.
- We strive to build long-lasting relationships by satisfying the evolving needs of our customers. We attempt to meet the requirements of our clients by developing first-class services and products.
- We make every effort to upgrade our services to reach the highest level of excellence.
- We offer our most valuable asset, our second-to-none dedicated staff, a congenial work environment and development opportunities.
- We strive to be a leading participant in the regional economic development of the community wherever Bank of Beirut is present.

BOARD OF DIRECTORS

Overview of the Board of Directors

Function

Bank of Beirut s.a.l. is managed under the direction and oversight of the Board of Directors, whose main role is to supervise management, exercise business judgment, and act in good faith. Each Board Member is expected to work in the best interest of the various stakeholders.

Composition

As per the Bank's Articles of Association, the Board of Directors may not comprise of less than three members or more than twelve, with each holding a minimum of 100 shares. Board Members are elected for a period of three years by the Ordinary General Assembly. The number of terms for which an individual board member may be elected is unlimited. Pursuant to Central Bank of Lebanon Basic Circular No. 118, the Board of Directors is composed of a majority of non-executive and independent members, leaving only two Executive Directors. There is no limitation regarding the membership of the Board of Directors.

Board Meetings

The Board sets formal meetings at least quarterly where the majority of Directors are expected to attend to constitute a quorum for the transaction of business, and thus, constitute the act of the Board. It is the responsibility of the Chairman – Chief Executive Officer to establish an agenda for each meeting and to ensure that sufficient time is allocated to address issues. It is also customary to summon Board Members one week in advance of the set meeting date.

Qualifications

Board Members are selected based on their ability and willingness to commit adequate time to the Bank, unquestionable integrity, and a prominent professional background that will prove to be of optimal benefit to the Bank.

Board of Directors Responsibilities

The Board's responsibility towards Bank of Beirut includes, but is not limited to:

- Setting and overseeing the implementation of the Bank's Business Objectives and Strategy;
- Ensuring compliance with applicable laws and regulations;
- Reinforcing corporate culture, values, and ethical behavior;
- Overseeing an effective Risk Governance Framework; and
- Maintaining oversight of Senior Management by enforcing adequate, effective, and independent controls.

Although the ultimate responsibility for the Management of the Bank lies with its Board of Directors, the Board may see fit to delegate certain duties to Senior Management and their respective committees. In this respect, Senior Management is responsible for managing the day-to-day operations of the Bank. The Board remains responsible for approving the charters of the various committees and monitoring their performance.

MANAGEMENT ABROAD

Subsidiaries

Chief Executive Officer and CEO
Bank of Beirut (UK) Ltd.
United Kingdom
Sophoklis Argyrou

General Manager
Bank of Beirut UK Ltd. Branch
Frankfurt
Karl-Friedrich Rieger

Chief Executive Officer
Bank of Sydney Ltd
Australia
Miltos Michaelas

Branches

Chief Executive Officer
Bank of Beirut
Sultanate of Oman
Remy Zambarakji

Country Manager
Bank of Beirut s.a.l.
Cyprus
Walid Gholmieh

Representative Offices

Chief Representative Officer
Representative Offices Nigeria & Ghana
Camille Chidiac

Chief Representative Officer
Representative Offices UAE & Qatar
Balsam Al Khalil

COMPLIANCE

Compliance is an independent control function devised to protect the Bank, not only by managing adherence to applicable laws, regulations and other standards of conduct, but also by promoting business behavior and activities consistent with global standards. Principal responsibility for compliance rests with each and every person in the Bank. All employees are responsible for protecting the reputation of the Bank by (i) understanding and adhering to the compliance requirements applicable to their day-to-day activities, including the Bank's Code of Conduct and other policies, standards and procedures; and (ii) seeking advice from the Compliance Function with queries regarding compliance requirements and promptly reporting violations of laws, rules, regulations, and the Bank's policies, or any relevant ethical standards. Compliance risk management commences with the Bank's Board of Directors and Senior Management, who establish the atmosphere from the top by promoting a firm culture of ethics, compliance and control.

- **Challenges:** Ongoing regulatory changes result in higher regulatory and compliance risks. If implementation of the required compliance regime were not consistent with regulatory expectations or requirements, the Bank could become subject to increased compliance risks and costs, including potential reputational harm. Therefore, we continue to invest in Compliance as part of our effort to ensure that our controls and processes are among the very best in the industry.

- **Mission:** The mission of the Compliance Function at Bank of Beirut is to ensure that the Bank is compliant with laws, regulations, rules, internal policies and procedures, as well as the code of conduct applicable to its banking activities. This particularly includes specific areas, such as, the prevention of money laundering and terrorist financing.

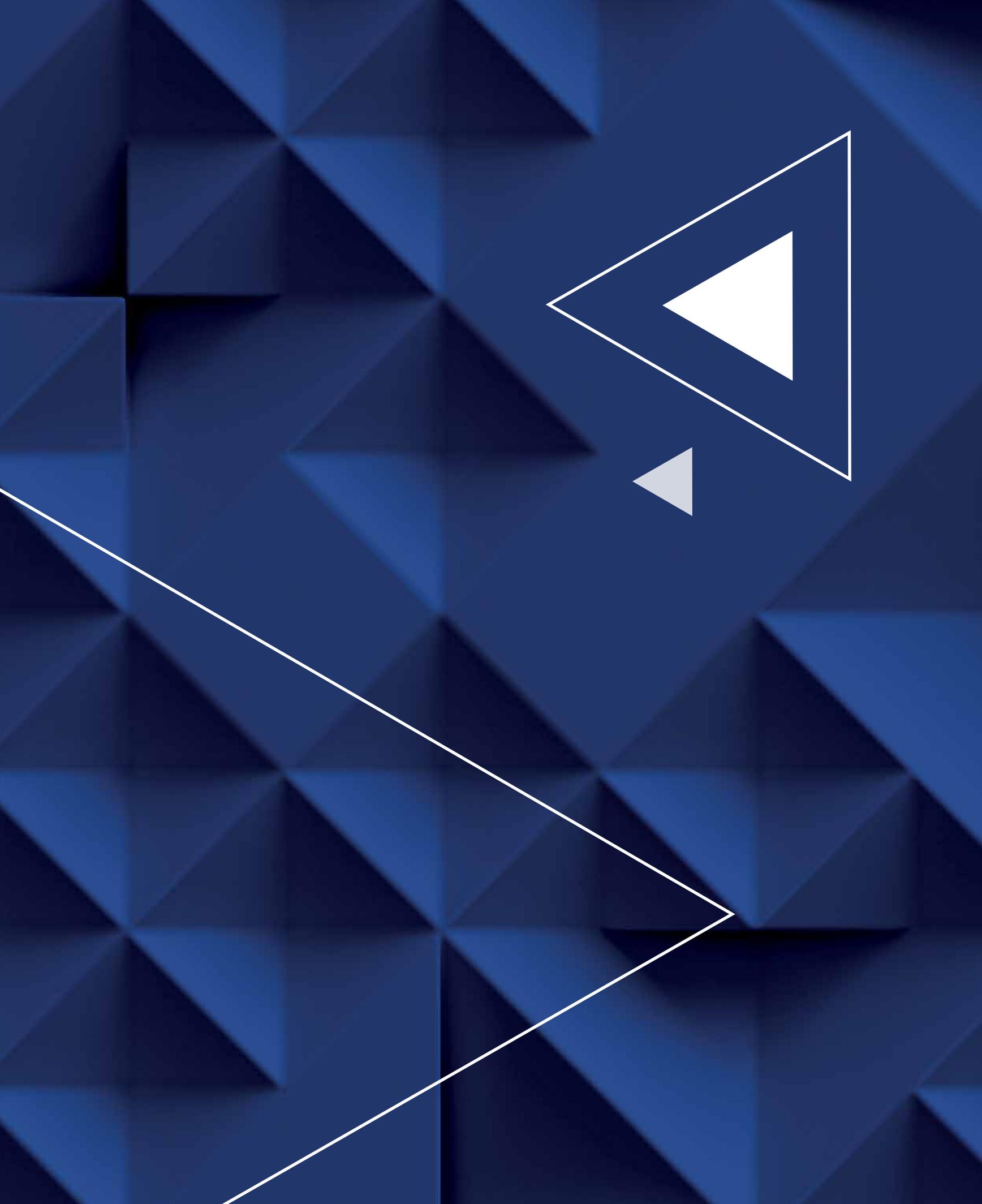
To achieve its mission, Compliance seeks to (i) understand the regulatory environment, requirements and expectations to which the Bank's activities are subject, (ii) assess the compliance risks of business activities and set mitigating controls, (iii) detect, report on, escalate and remediate key compliance risks and control issues, and (iv) advise and train the Bank's personnel across businesses, functions, and affiliates in what manner to comply with laws, regulations and other standards of conduct.

- **AML/CFT Compliance:** The Bank continues to maintain a global Anti-Money Laundering (AML) Policy, designed to make certain that the Bank and all its overseas branches and subsidiaries are compliant with applicable laws, rules and regulations related to anti-money laundering and counter financing of terrorism.

The Bank maintains AML Compliance Program which mainly provides for ⁽¹⁾ AML Procedures designed to implement the Bank's Customer Identification Program; ⁽²⁾ the designation of an Anti-Money Laundering Compliance Officer responsible for coordinating and monitoring day-to-day compliance with the Anti-Money Laundering Policy and applicable laws, rules and regulations; ⁽³⁾ record keeping and reporting practices in accordance with the Anti-Money Laundering Policy and applicable laws, rules and regulations; ⁽⁴⁾ appropriate methods of monitoring transactions and account relationships to identify potential suspicious activities; ⁽⁵⁾ reporting suspicious activities to competent authorities in accordance with the Anti-Money Laundering Policy and applicable laws, rules and regulations; ⁽⁶⁾ on-going training of appropriate personnel with regard to anti-money laundering and counter financing of terrorism issues and their responsibilities for compliance; and ⁽⁷⁾ independent testing to ensure that the Anti-Money Laundering Compliance Program has been implemented and continues to be appropriately maintained.

- **Legal/Regulatory Compliance:** The Bank has established a legal compliance function which main role is to ensure the Bank is compliant with relevant banking laws and regulations. Additionally, its mission is to track new and altered regulations; to monitor business activities and identify violations of rules through adequate tests; and to advise Senior Management compliance level with applicable laws and regulations.

- **FATCA/CRS Compliance:** The Bank continues to conform to the provisions of the Foreign Account Tax Compliance Act (FATCA) – the US Law enacted in 2010 to combat tax evasion – and its related policy and procedures. Also, the Bank complies with the Common Reporting Standard (CRS) which is a global framework issued by the Organization for Economic Cooperation and Development (OECD) for the automatic exchange of financial information between jurisdictions, in addition to compliance with relevant local laws and regulations related to CRS. This includes the implementation of CRS provisions across the Bank's Group in coordination with all stakeholders; designing, developing, and delivering training to increase overall awareness; and communicating any new CRS requirements to all concerned parties.





CORPORATE
GOVERNANCE

1. COMMITMENT TO SOUND CORPORATE GOVERNANCE

Given the vital role of banks in the Lebanese economy and the importance of good governance for the successful operation of these institutions, the Corporate Governance guidelines were developed in adherence with the policies set forth by the Central Bank of Lebanon (CBL), the Banking Control Commission and the Association of Banks in Lebanon.

Bank of Beirut's Corporate Governance is driven by the Board of Directors' principal duty to act in good faith, with prudence, and in accordance with a set of values and standards selected to safeguard stakeholders' interests.

The Governance framework of the Bank is outlined in the "Corporate Governance Guidelines" and the charters of the Board Audit Committee, the Board Risk Management Committee, the Board Compliance Committee, the Board Remuneration & Nominations Committee and the Board Credit Committee, all of which are subject to continuous review. These guidelines hinge on the evolving needs and expectations of depositors, regulators, investors and the market at large.

The Bank's Corporate Governance Framework addresses key concepts pertaining to the Board itself, in terms of its function and composition, to the individual Directors, in terms of their responsibilities and qualifications, in addition to the corresponding Committees that are derived from the Board.

Bank of Beirut has been operating in Lebanon since 1963; its current Management assumed responsibility in 1993. It is currently one of Lebanon's leading banks: ranks first in capitalization level, assets quality, trade finance, and asset management. The Bank targets commercial, retail and capital markets, and its rigorous corporate governance aims to ensure efficient credit, market and operational risk management. Today the Bank is present in ten countries and conforms to strict local, regional, and international regulations.

Bank of Beirut Governance & Integrity Rating (GIR) Jumped 67 Points to an A- grade

Committed to better Corporate Governance, Bank of Beirut witnessed the strongest improvement in Governance & Integrity Rating, issued by Capital Concept, compared to listed Lebanese banks jumping 67 points to reach A- on the grade scale which entails a total of five grades and 12 sub-grades for its prompt responsiveness to carry out all needed disclosure improvements that led to a radical enhancement in its grading within a two-year period.

Given the vital role of banks in the Lebanese economy and the importance of good governance for the successful operation of these institutions, discussion of corporate governance has been on the rise in Lebanon and banks are getting more involved. Bank of Beirut has been active on the issue and developed its own guidelines in adherence with the policies set forth by the Central Bank of Lebanon (CBL), the Banking Control Commission and the Association of Banks in Lebanon.

Always committed to the highest ethical standards, fostering transparency and disclosure in all pertinent matters related to the Bank's financial situation, performance, ownership and governance, Bank of Beirut's Corporate Governance is driven by the Board of Directors' principal duty to act in good faith, with prudence, and in accordance with a set of values and standards selected to safeguard stakeholders' interests.

In this regard, Bank of Beirut is aiming to sign the Investors for Governance and Integrity (IGI) declaration as a commitment to promote sound corporate governance and to preserve shareholders' rights, including minority shareholders. As per the declaration, signatories acknowledge their duty to act in the long-term interest of their beneficiaries.

2. OVERVIEW OF THE BOARD OF DIRECTORS

Function

Bank of Beirut s.a.l. is managed under the direction and oversight of the Board of Directors, whose main role is to supervise management, exercise business judgment, and act in good faith. Each Board Member is expected to work in the best interest of the various stakeholders.

Composition, Term & Election

As per the Bank's Articles of Association, the Board of Directors may not comprise less than three members or more than twelve, with each holding a minimum of 100 shares. Board Members are elected for a period of three years by the Ordinary General Assembly. The number of terms for which an individual Board Member may be elected is unlimited. Pursuant to Central Bank of Lebanon (CBL) Basic Circular No. 118, the Board of Directors is composed of a majority of non-executive and independent members, leaving only two executive Directors. There is no limitation regarding the membership of the Board of Directors.

Board Meetings

The Board sets formal meetings at least quarterly where the majority of Directors are expected to attend to constitute a quorum. It is the responsibility of the Chairman – Chief Executive Officer to establish an agenda for each meeting and to ensure that sufficient time is allocated to address issues. It is also customary to summon Board Members one week in advance of the set meeting date.

Qualifications

Board Members are selected based on their ability and willingness to commit adequate time to the Bank, unquestionable integrity, and a prominent professional background that will prove to be of optimal benefit to the Bank.

3. RESPONSIBILITIES OF THE BOARD OF DIRECTORS

Setting and overseeing the implementation of the Bank's Business Objectives and Strategy

The Board has the ultimate responsibility for the strategy and the Management of the Bank. The basic responsibility of the Directors is to exercise their business judgment to act in what they reasonably believe to be in the best interests of the Bank and its shareholders. In discharging that obligation, Directors are entitled to rely on the honesty and integrity of the Bank's Senior Executives and its external advisors and auditors.

Ensuring compliance with applicable laws and regulations

The Board ensures that Directors, Senior Management, and employees continuously observe and act within the applicable laws and regulations, through enforcing the Bank's policies and practices at all times. In this respect, the Board approves and oversees the implementation of key policies at the Bank, as well as capital and liquidity plans, including the Internal Capital Adequacy Assessment Process (ICAAP), Risk Management and Compliance policies as well as maintaining a robust internal control framework, in accordance with supervisory requirements.

Moreover, the Board oversees the management of the Bank's compliance risk through an independent Compliance function that ensures that the Bank operates with integrity and in accordance with applicable laws and regulations. The Compliance function has direct access to Senior Management and to the Board through its Risk and Compliance Committee, whereby the Board and Senior Management are kept informed with developments in Compliance risks. Furthermore, the Board, through its Board Compliance Committee, ensures that the Compliance function regularly educates employees on Compliance issues and provides them with guidance in this regard.

Reinforcing corporate culture, values, and ethical behavior

In its governance approach, the Board assumes the "tone at the top" in promoting a sound corporate culture that is based on high standards of ethical behavior. The Board ensures that these standards are strictly observed by Directors, Senior Management and employees. In doing so, the Board expects Directors, Senior Management and employees to:

- Observe the highest standards of behavior and commitment to truth;
- Strive at all times to enhance the reputation and performance of the Bank through fair dealing;
- Decline acceptance of gifts of significant value;
- Conduct the business of the Bank in compliance with relevant laws and ethical standards;
- Prevent conflicts of interest; and
- Demonstrate social responsibility and contribute to the well-being of the community.

Moreover, the ethical business conduct is enforced through formal policies implemented at the Bank that comprise the "Code of Conduct" and the "Anti-Bribery & Anti-Corruption (ABC)" policies summarized here below:

Code of Conduct

The Bank adopted a Code of Conduct policy that embodies honesty, integrity, quality and trust, and other principles and standards to which Management, officers, and employees are expected to adhere to.

The purpose of the Code is to communicate an ethical framework within which the Bank operates and to place employees on notice that they will be held responsible for abiding by the articulated standards, including applicable laws. They are also expected to conduct themselves in order to protect and promote organization-wide integrity and to enhance the Bank's ability to achieve its mission, as it provides a practical set of guiding principles to help them make decisions in their day-to-day business.

Anti-Bribery & Anti-Corruption (ABC)

The Bank has an adequate ABC policy in place that will prevent bribery and corruption while ensuring commitment to high behavioral standards and integrity when conducting day-to-day operations. It also ensures that staff and associated persons comply with the relevant procedures.

*Overseeing an effective Risk Governance Framework***Risk Appetite**

The Board is responsible for defining the Bank's overall risk appetite and tolerance levels that are aligned with the Bank's strategic and financial plans and objectives. In doing so, the Board ensures communicating the defined risk appetite and tolerance levels to the various Business Lines through its Board Committees as well as the several Senior Management Committees. Likewise, the Group Risk Management function ensures that risk policies and methodologies are consistent with the Bank's risk appetite, and it monitors and regularly reports risk exposures to the Board through its Board Risk Management Committee.

Risk Governance Framework

Ensuring the presence of a sound Risk Management and an effective Internal Control is an essential responsibility of the Board. In this respect, the Board maintains an active role in overseeing the efficiency and effectiveness of a sound Risk Governance Framework that comprises:

- Business Lines that are responsible and accountable for the management of risk in their areas;
- Independent Risk Management and Compliance functions with sufficient authority, stature, independence, resources and access at the Board level through the Board Risk Management & the Board Compliance Committee.
- An Independent Internal Audit function with direct access to the Chairman of the Board of Directors; the Internal Audit function is responsible for independently reviewing and providing an objective assurance on the quality and effectiveness of the Bank's internal control framework.

Maintaining oversight of Senior Management

Although the ultimate responsibility for the Management of the Bank lies with its Board of Directors, the Board may see fit to delegate various duties to Senior Management and their respective committees. In this respect, Senior Management is responsible for managing the day-to-day operations of the Bank, while the Directors have complete and open access to the Bank's Senior Management and other employees. Moreover, the Board plans for the succession of the Senior Management positions held within the Bank. The Board also remains responsible for approving the charters of the various committees and monitoring their performance. Board Committees and Management Committees are listed under section 4.

The current members of the Board of Directors were elected by a resolution of the Ordinary General Assembly of shareholders held on May 5th, 2017 for a three year term expiring on the date of the annual Ordinary General Assembly meeting (expected to be held in April 2020) that will examine the accounts and activities for the year 2019.

4. BOARD & MANAGEMENT COMMITTEES**Board Committees****The Board Audit Committee**

The Board Audit Committee (BAC) consists of at least three non-executive Directors and is scheduled to meet at least 4 times per year. The BAC aims to promote compliance with regulatory requisites as well as integrity of financial statements and reports. The BAC also assists the Board in fulfilling oversight responsibilities for the proficiency, independence and objectivity of both external and internal auditors, internal control system effectiveness, and the review of audit reports issued by the internal audit.

The Board Risk Management Committee (BRMC)

The Board Risk Management Committee (BRMC) comprises at least three non-executive Directors and is scheduled to meet at least 4 times a year. The BRMC develops, oversees a sound and effective internal risk management framework, and incorporates the process of risk management in the business decision making of all activities and business units of the Bank.

The Board Credit Committee (BCC)

The Board Credit Committee (BCC) is the highest credit approval authority at the Bank, and its main function is the Approval/Ratification of all the commercial credit requests presented to it and which amount to USD 3,000,000 or more.

The Board Remuneration & Nominations Committee

The Board Remuneration & Nominations Committee consists of at least three non-executive Directors and will typically meet on a semi-annual basis to set the overall principles and parameters of the Bank's remuneration policy and advise the Chairman and the Board on profile and credentials to consider in prospective Board Members.

The Board Compliance Committee

The Board Compliance Committee consists of four members appointed by the Board of Directors for its entire mandate. The committee should meet on quarterly basis to set the Bank's compliance policies and procedures. It is also responsible for overseeing the implementation of these policies, ensuring that compliance issues are resolved effectively within standards.

Members	Independent	Board Audit Committee	Board Risk Management Committee	Board Credit Committee	Board Remuneration & Nomination Committee	Board Compliance Committee
Dr. Salim G. Sfeir				President		
Mr. Fawaz H. Naboulsi			•	•		•
Mr. Adib S. Millet		•		•	•	
Mr. Antoine A. Abdel Massih			•	•		
H.E. Anwar M. El-Khalil						
Architect Rashid S. El Rashid	•	•				
Mr. Krikor S. Sadikian	•	President			•	
Mr. Antoine Y. Wakim	•					President
Mr. Ramzi N. Saliba	•		•		President	
Mr. Robert K. Sursock	•	•			•	•
Mr. Pierre A. Gaspard	•		President			•

Management Committees

Eighteen management committees currently operate at the Bank, each functioning according to its own charter, focusing on specific day-to-day operations of the Bank:

1. Asset/Liability Management Committee
2. Credit Committee
3. Credit Committee for Financial Institutions
4. Anti-Money Laundering and Counter-Financing of Terrorism Committee
5. Asset Recovery Committee
6. Real Estate Committee
7. Foreign Affiliates Committee
8. Consumer Banking Committee
9. Marketing and Communication Committee
10. Human Resources Committee
11. Information Technology Committee
12. Procurement Committee
13. Investment Committee for Funds & Structured Products & Derivatives
14. Cross Selling Committee
15. Products & Packages Committee
16. Corporate Business Continuity

Sub-Committees

17. Operational Risk Management Committee
18. Corporate Information Security

5. THE BOARD OF DIRECTORS' GOVERNANCE STRUCTURE AND PERFORMANCE

Chairman of the Board of Directors

The Chairman of the Board of Directors is appointed by the Board among its own members for a maximum period of three years, renewable without any restriction. As per the Lebanese law, the Chairman of the Board of Directors acts as the General Manager of the Bank (also referred to as the Chief Executive Officer).

The responsibilities of the Chairman include, but are not be limited to:

- Ensuring the proper running of the Board and that all matters on the agenda are sufficiently supported;
- Ensuring the Board meets at regular intervals and minutes of meetings accurately record decisions adopted;
- Providing effective leadership to formulate the Board's strategy; and
- Reviewing the performance of the Board and individual Directors.

Board Committees

The various Board Committees are included under section 4.

Board Performance

The Board recognizes its collective responsibility for ensuring the success of the Bank, which is mainly defined by its performance. To ensure optimal results, the Board conducts annual self-assessments to determine if it, as a whole, or its respective committees are functioning effectively. Similarly, Board and Senior Management committees also undergo self-evaluation for the same purpose.

Ethical Standards

As part of a Board Member's initial qualifications, various ethical standards should be met upon election and throughout the period spent serving on the Board of Directors. In terms of conflict of interest, members must avoid any action that contradicts with their duties towards the Bank. A Board Member's Duty of Care lies with respect to the actions taken with the utmost highest level of business judgment, good faith, and prudence. As a means to exercise Duty of Loyalty, a Board Member is expected to disclose any conflicts of interest to the Chairman.

Disclosure and Transparency

The Board is required to take all adequate and reasonable steps to disclose its governance structure through its annual reports and on its website to enable various stakeholders to assess the effectiveness of the Bank's management practices.

Board Education

The Board ensures that Directors are continuously kept up-to-date with the latest developments in the banking industry, including new or enhanced banking practices and advancements in the business within the Bank or regarding the industry as a whole, in addition to any changes to the legal and regulatory frameworks. Consequently, the Board takes the needed steps and is open to conducting the necessary training to Board Members where it deems needed; the Board also acknowledges that this is important in particular to newly appointed Directors.

6. SHAREHOLDING STRUCTURE

The following table sets out the composition of the major holders of Common Shares as at February 28, 2018

Shareholder's Name	Ownership Percentage %
International Century Corporation S.A - Lux	24.40%
Millet & Millet Inc	8.70%
Nar Aram Khatchadourian	7.94%
Solpro S.A.L. Holding	4.75%
Rashid Bin Saad Bin Abdul Rahman Al Rashid	4.32%
International Century Corporation Lebanon S.A.L. - Holding	4.20%
Sfeir bancorp Limited	4.06%
FSHN Limited	4.03%

7. CORPORATE STRUCTURE



8. BIOGRAPHY OF BOARD MEMBERS



SALIM G. SFEIR

**Chairman of the Board
Chief Executive Officer**

Nationality: Lebanese

Executive Directors since 1993

Term expires at the 2020 Annual General Assembly of Shareholders

Salim G. Sfeir has held the position of Chairman and Chief Executive Officer of Bank of Beirut since 1993; after acquiring a minor banking institution with 5 branches ranked 35th by assets in the Lebanese banking sector along with a group of seasoned investors.

Since then, Dr. Sfeir has had an active role in leading Bank of Beirut through both prosperous and challenging times and establishing its current status as a leading and widely recognised bank in Lebanon and the region. Dr. Sfeir launched his banking career in 1971 with Bank of Nova Scotia, Beirut. He later held the position of Deputy General Manager with Banque de la Méditerranée from 1980 to 1983. In 1983, Dr. Sfeir founded Wedge Bank (M.E.) s.a.l., Beirut, and took on the role of General Manager and Board Member until 1989. In 1987, he was appointed General Manager - Chief Executive Officer at Wedge Bank (Switzerland) S.A. and remained in that position until 1991, after which he was appointed Vice Chairman in January 1992. Salim G. Sfeir holds both a Bachelor of Science Degree in Economics from the University of Montreal, in addition to a Masters of Business Administration Degree from the University of Detroit. Dr. Sfeir received several honours and awards, including, in April 2014, an Honorary Doctorate in Business and Commercial Science from the Holy Spirit University of Kaslik and in 2017 an Honorary Doctorate in Humane Letters Honoris Causa from the Lebanese American University (LAU).



FAWAZ H. NABULSI

**Deputy Chief Executive Officer
Executive Director**

Nationality: Lebanese

Executive Directors since 1993

Term expires at the 2020 Annual General Assembly of Shareholders

Fawaz H. Nabulsi began his banking career in 1978 with the Fidelity Bank (USA), ultimately reaching the position of Vice President - Head of the Middle East Division. In 1989, he joined Bank of Oman as the Chief Executive Officer of their British operations in London. In 1993, Mr. Nabulsi was appointed as Deputy Chief Executive Officer of Bank of Beirut and assumes a critical part in the executive management and monitoring of the bank's key business functions, which saw Bank of Beirut grow to become one of the leading banks in Lebanon. Mr. Nabulsi is also a Member of the Board Risk Management Committee, the Compliance Committee and the Board Credit Committee. Fawaz H. Nabulsi holds a degree in Business Administration from the University of London.



ADIB S. MILLET
 Vice Chairman of The Board
 Non-Executive Director

Nationality: Lebanese

Director since 1999

Term expires at the 2020 Annual General Assembly of Shareholders

Adib S. Millet currently holds the position of Vice Chairman of the Board, in addition to his roles as a Member of the Bank's Board Audit Committee, Board Credit Committee, and Board Remuneration & Nomination Committee. Mr. Millet is a highly reputable industrialist who also has a vast banking experience for having held the position of the Chairman of the Board of Directors of Transorient Bank s.a.l. until November 1998, and for being a member of the Board of Bank of Beirut s.a.l. since 1999. Mr. Millet is currently the Chairman of Gimble Ltd. & Frobisher Ltd. in London, England and former Director of Millet Textiles and Sprintex, Ghana.



ANTOINE A. ABDELMASSIH
 Non-Executive Director

Nationality: Lebanese

Director since 1993

Term expires at the 2020 Annual General Assembly of Shareholders

Antoine A. Abdel-Massih has been one of the Bank's key Non-Executive Board Members since 1993, attesting to his vast expertise within the banking industry. He is also an active member of the Bank's Board Risk Management Committee and Board Credit Committee. Mr. Abdel Massih is an accomplished industrialist, founding various Formica and furniture manufacturing plants in Lebanon and the region. In 1972, he founded Puriplast s.a.l., an industry leader in the Formica manufacturing industry; and as Chairman and Chief Executive, he commands four plants that span across Lebanon, Jordan and Egypt. Mr. Abdel-Massih is also a major shareholder in LOMA S.P.A., Italy.



ANWAR M. EL KHALIL
Non-Executive Director

Nationality: Lebanese

Director since 2002

Term expires at the 2020 Annual General Assembly of Shareholders

H.E. Anwar Mohamad El Khalil was elected Member of Parliament for five consecutive terms spanning from 1992 until 2013. He was also Minister of State for Parliamentary Affairs (1992-1994), Minister of State for Administrative Reform (1994-1996), Minister of Information (1998-2000), and Minister of Displaced (1998-2000). H.E. Anwar M. El-Khalil is a well-established businessman as he owns and chairs a number of companies in Lebanon and abroad. He held the position of Managing Director of M. El-Khalil Transport Ltd., Nigeria from 1958 to 1960. He has been the Chairman of Seven-Up Bottling Co., Nigeria since 1972, the Chairman of M. El-Khalil & Sons (Properties) Ltd., Nigeria since 1960, and the Chairman of MAK Holdings Ltd. since 2002. When it comes to his career in the Banking sector, H.E. Anwar M. El Khalil held the position of Chairman - General Manager of Beirut Riyadh Bank s.a.l. from 1995 till 2002, in addition to being the President of the Union of Arab Banks for the period spanning from 1983 until 1989. H.E. Anwar M. El-Khalil is a Barrister at Law from LLM – London University and a member of the Honourable Society of the Middle Temple - London.



RASHID S. AL RASHID
Independent Director

Nationality: Saudi

Director since 2010

Term expires at the 2020 Annual General Assembly of Shareholders

Rashid S. Al Rashid has been an Independent Member of the Board of Directors of Bank of Beirut s.a.l. since 2010, as well as a member of the Board Audit Committee. He is also a Member of Arab National Bank's Board of Directors. Arch. Rashid S. Al Rashid has been a Partner and General Manager of Real Estate and Investment Division in Al Rashid Trading & Contracting Company since 1976. He is also the Chief Executive Officer of both Rashid S. Al Rashid Sons Ltd. and Rashid S. Al Rashid Architectural Consulting Engineers. In addition to being one of the founding partners and General Manager of Arch Centre for Architectural Designing. Rashid S. Al Rashid holds a Bachelor of Architecture from Oregon University, USA.



KRIKOR S. SADIKIAN
Independent Director

Nationality: Lebanese

Director since 2011

Term expires at the 2020 Annual General Assembly of Shareholders

Krikor S. Sadikian has been an Independent Member on the Bank's Board of Directors since 2011. As a former equity partner at Deloitte & Touche Middle East, with 42 years of experience in audit and financial advisory, Mr. Sadikian currently holds the position of Chairman of Bank of Beirut's Board Audit Committee, in addition to his role as a member of the Board Remuneration and Nomination Committee. Krikor S. Sadikian holds a Bachelor of Business Administration from American University of Beirut.



ANTOINE Y. WAKIM
Independent Director

Nationality: Lebanese

Director since 2011

Term expires at the 2020 Annual General Assembly of Shareholders

Antoine Y. Wakim has been an Independent Member of the Board of Directors since 2011. He also chairs Bank of Beirut's Compliance Committee. Mr. Wakim was the General Manager of Allianz SNA from 1998 till 2007, in addition to various senior management roles in other insurance companies across Lebanon and the Middle East. Antoine Y. Wakim studied actuary at Universite de Lausanne and completed the Advanced Management Programme at INSEAD. He is also a member of the International Actuarial Association (IAA) and the Association des Actuaries Suisses.



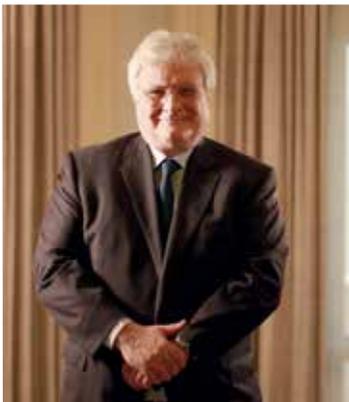
RAMZI N. SALIBA
Independent Director

Nationality: Lebanese

Director since 2016

Term expires at the 2020 Annual General Assembly of Shareholders

Ramzi N. Saliba lately joined Bank of Beirut s.a.l in 2016 as an Independent Board Member, Chairman of the Board Remuneration and Nomination Committee and a Member of the Board Risk Management Committee. Mr. Saliba began his banking career with Citibank N.A. in 1975 and was then assigned as Head of its Corporate Banking Group to Citibank Maghreb S.A until 1982. In 1983, he joined Bank Med s.a.l. as a Deputy General Manager but was then assigned as a Managing Director General Manager. In 2003, Mr. Saliba joined Audi Saradar Group as an Executive Director General Manager for Audi Saradar Investment Bank s.a.l. Mr. Ramzi Saliba also held the position of Executive Director General Manager at BIT Bank s.a.l from 2013 and until 2015. Ramzi N. Saliba holds a BA degree from Emory & Henry College, Virginia, USA.



ROBERT K. SURSOCK
Independent Director

Nationality: French

Director since 2016

Term expires at the 2020 Annual General Assembly of Shareholders

Robert K. Sursock recently joined Bank of Beirut s.a.l in 2016 as an Independent Board Member, a Member of the Board Audit Committee, the Board Remuneration and Nomination Committee and the Compliance Committee. Robert K. Sursock spent 25 years at Banque Arabe et International d'Investissement, 12 of which as CEO. He established PrimeCorp Finance S.A. in 1997 where he held the position of Chairman and CEO. He was also the Chairman and CEO of Gazprombank Invest MENA from 2009 until May 2015. Robert K. Sursock studied Hautes Etudes Commerciales at Université de Lausanne.



PIERRE A. GASPARD
Independent Director

Nationality: Lebanese

Director since 2017

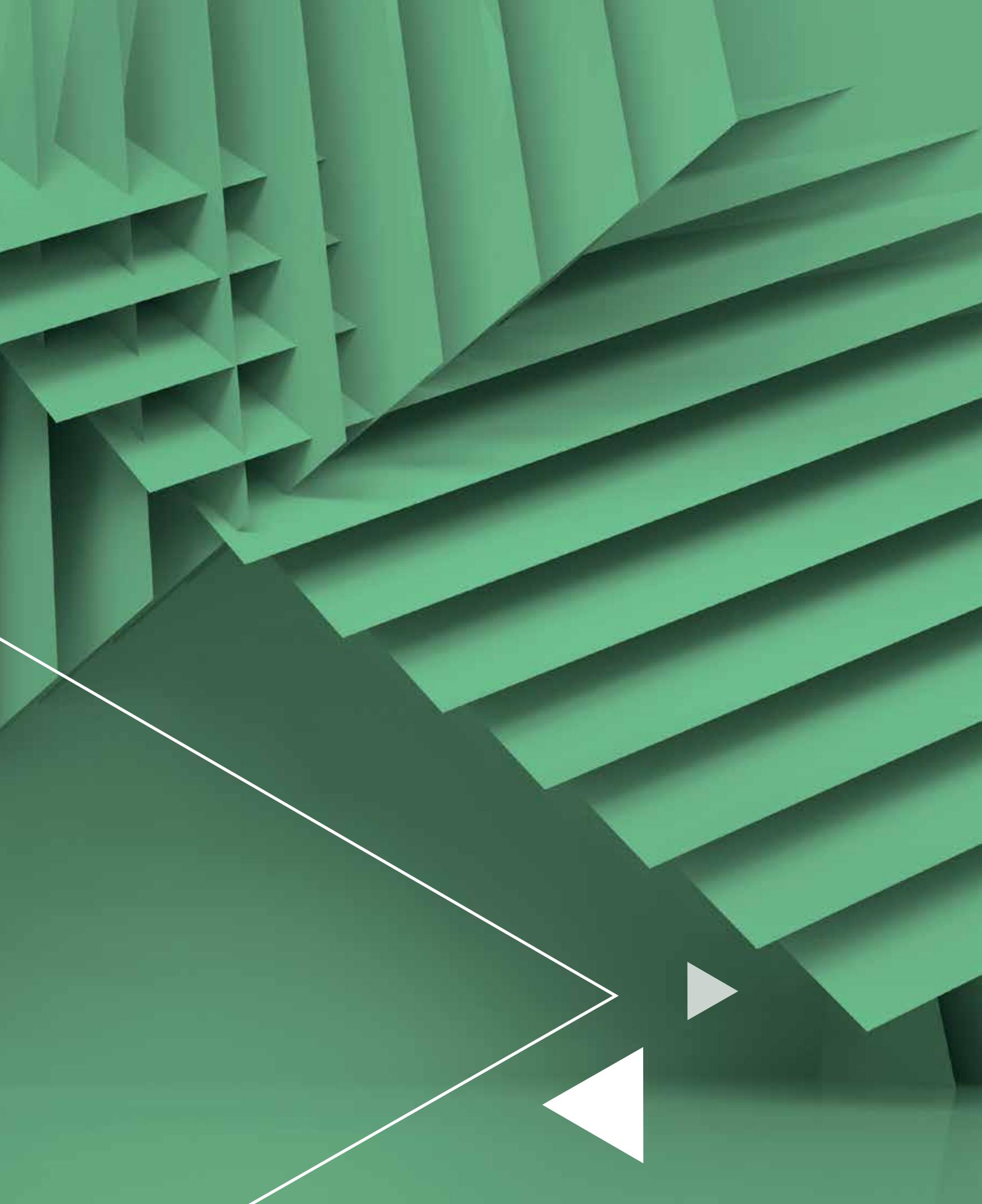
Term expires at the 2020 Annual General Assembly of Shareholders

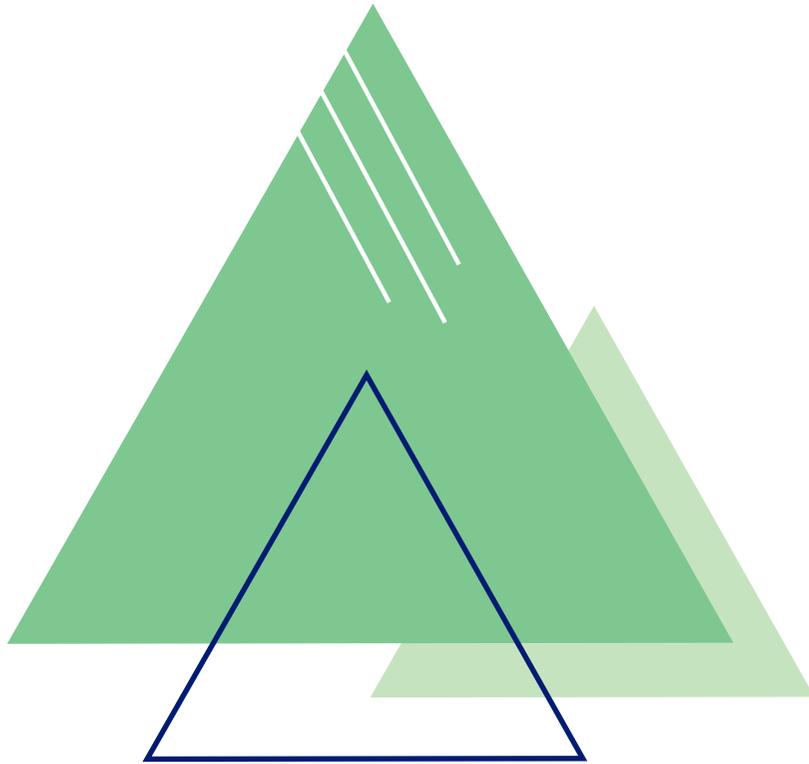
Pierre A. Gaspard joined the Bank's Board of Directors as an Independent Director in 2017. He also chairs Bank of Beirut's Board Risk Management Committee and is a member of the Board Compliance Committee. Mr. Gaspard was formerly Advisor to the Chairman and Board Member of Saradar Bank. Throughout his 35-year career in the finance industry, Mr. Gaspard held senior executive positions in several local and international banks namely in the fields of Treasury and Capital Markets. Pierre A. Gaspard holds a Bachelor of Business Administration from the American University of Beirut and a Master of Business Administration from California State University.

REMUNERATION POLICY AND PRACTICES

Bank of Beirut strives to compensate its employees using a balanced mix of salaries, bonuses/incentives, and benefits (e.g. education allowances). In this respect, and based on the recommendation of its Remuneration Committee, the Board of Directors has approved a 'Compensation & Benefits Policy' and a 'Bonus & Incentive Policy' founded on the following principles:

- Remuneration practices are consistent with Bank of Beirut's strategy, culture, risk tolerance, corporate performance, as well as legal and regulatory requirements.
- Remuneration packages are equitable and provide all employees with a comprehensive and competitive package that is commensurate with each employee's position, grade, and performance. Business Lines employees are assessed based on the achievement of financial targets set at the beginning of the performance cycle. Support Lines employees and Senior Managers are assessed based on the achievement of set objectives and key-job responsibilities, in addition to behavioral competencies.
- The remuneration of Control Functions is determined in a manner which preserves their objectivity and independence, and thus, is not linked to the performance of the business areas they oversee.
- An aggregate amount of salaries, bonuses, and benefits is included in the annual approved budget by the Board of Directors. It is set in a fashion that does not affect the Bank's financial position.
- The total amount of salaries, bonuses, and benefits paid annually are disclosed in accordance with the International Financial Reporting Standards and with the provisions of Article 158 of the Lebanese Code of Commerce. As reported in the Bank's consolidated financial statements for year 2017, the total staff costs, including salaries, bonuses, Executive Board remunerations, and other benefits amounted to an approximate total of 174.6 Billion LBP





MANAGEMENT
DISCUSSION AND
ANALYSIS

INTRODUCTION

Bank of Beirut s.a.l. (“BOB”) is a full-fledged Bank which offers universal banking products and services covering Corporate, Commercial, Individual and Private Banking services to a diversified client base. The Bank operates in Lebanon, Europe, Australia, Middle East and Africa region. It was incorporated as a commercial Bank on August 19, 1963, under the name of “Realty Business Bank s.a.l.”. The Bank is registered in the Beirut Commercial Register under No. 13187 and on the Banks’ List at the Central Bank of Lebanon, under No. 75. Its Head Office is located in Foch Street, Bank of Beirut Building, Beirut Central District, Lebanon.

The Bank is one of the leading banks in Lebanon. At the end of 2017, it was ranked sixth among Lebanese banks as per major banking aggregates, namely in Assets, Deposits, fourth in profits and Loans to customers, and third in Equity.

The Central Bank of Lebanon is the lead supervisor of Bank of Beirut s.a.l. and its subsidiaries.

The Bank, together with its banking and other subsidiaries, is engaged in a wide range of banking and financial activities in Lebanon and a number of countries: the United Kingdom, Germany, Cyprus, the United Arab Emirates, Sultanate of Oman, Australia, Nigeria, and Ghana. Through its presence in these countries, the Bank has been able to expand and diversify its income, assets and loan portfolio outside Lebanon while broadening the sources of its deposit base.

The Bank maintains one of the largest branch networks in Lebanon, with currently 72 branches, as well as one branch in Cyprus and five branches in Sultanate of Oman (“Oman”). Bank of Beirut (U.K.) Ltd. the Bank’s wholly owned subsidiary based in the United Kingdom has one branch in London and another branch in Frankfurt. Bank of Sydney, in Australia, a fully owned subsidiary, was acquired in early 2011 and currently operates 16 branches. The Bank also operates a representative office located in Dubai, United Arab Emirates, to service the Gulf region; two representative offices located in Lagos, Nigeria, and Accra, Ghana, to cater for West Africa. The Bank has currently four wholly owned subsidiaries in Lebanon, BOB Finance SAL, Bank of Beirut Invest SAL, Beirut Broker Company SARL, Cofida Holding SAL. The latter owns 90% of Beirut Life SAL.

The Bank has authorized and fully issued a total of 57,946,900 shares of Common Stock, out of which 53,184,900 are ordinary Shares, and 4,762,000 are Priority Shares Of Common Stock that benefit, for a limited period of time, from certain financial advantages. As at 31 December 2017, the number of the Bank’s common stock (including the Priority Shares) listed and traded on the Beirut Stock Exchange amounted to 22,508,417 Shares (or 38.84% of the outstanding Shares).

BASIS OF PRESENTATION

The analysis that follows highlights the Bank of Beirut consolidated performance for the year ended 31 December 2017, compared to year 2016.

Financial information included in this report has, unless otherwise indicated, been derived from the Bank’s audited consolidated financial statements as at and for the year ended December 31 2017.

The Bank’s consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (“IFRS”) and interpretations issued by the International Financial Reporting Interpretations Committee, the regulations of the Central Bank of Lebanon (“CBL”) and the Banking Control Commission (“BCC”), and include the results of the Bank and its consolidated subsidiaries. Deloitte & Touche and DFK Fiduciaire du Moyen-Orient have audited the Bank’s consolidated financial statements for the year ended December 31, 2017.

The consolidated financial statements of Bank of Beirut s.a.l. incorporate the financial statements of the Bank and entities controlled by the Bank and its subsidiaries. Control is achieved when the Bank:

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

The consolidated subsidiaries consist of the following:

Subsidiary	Country of incorporation	Year of acquisition or incorporation	Percentage of Ownership	Business Activity
Bank of Beirut (UK) Ltd	United Kingdom	2002	100%	Banking
Bank of Beirut Invest s.a.l.	Lebanon	2007	100%	Investment Banking
Beirut Broker company s.a.r.l.	Lebanon	1999	100%	Insurance Brokerage
BOB Finance s.a.l.	Lebanon	2006	100%	Money Transfer
Cofida Holding s.a.l.	Lebanon	2008	100%	Holding
Beirut Life s.a.l.	Lebanon	2010	90%	Insurance (Life)
Bank of Sydney Ltd	Australia	2011	100%	Banking
Medawar 247	Lebanon	2015	100%	Real Estate
Medawar 1216	Lebanon	2015	100%	Real Estate
Optimal Investment Fund	Lebanon	2010	-	Mutual Fund
Beirut Preferred Fund II	Cayman Island	2013	1.17%	Mutual Fund
BOB LBP Growth Fund	Lebanon	2015	-	Mutual Fund

YEAR 2017 GROUP PERFORMANCE OVERVIEW

Despite the economic slowdown in Lebanon, Bank of Beirut strengthened its franchise through above average growth in total assets and deposits underpinned by good performance of its international business and sustained growth within the Lebanese market. Over the years, the Bank has created an international presence which boosted its ability to become the leading trade finance Bank in the country and to cater to Lebanese expatriate communities.

The achieved growth has been in line with the long-term strategy adopted by the Bank aiming at diversifying its business activities towards a universal banking model through expanding regionally and internationally in profitable and relatively low-risk countries. It is worth mentioning that the Bank's long-term strategy is to

attain a balanced breakdown of profits through activities in Lebanon and abroad.

The performance was characterized by remarkable growth in all main financial indicators. Capitalizing on the large branch network and the diversified product range, the Bank achieved gains in market shares in both commercial and retail businesses while maintaining its position as a leader in the Trade Finance.

On consolidated basis, the Bank's total assets reached as at 31 December 2017 LBP 27.687 billion (USD 18.4 billion), growing by 6.73% year-on-year. The growth in size was mainly funded by the growth in deposits and equity.

Description (LBP billion)	Balances		Growth	
	31-Dec-16	31-Dec-17	Amount	%
Total Assets	25,941	27,687	1,746	6.73%
Customers' Deposits	18,923	20,108	1,185	6.26%
Loans to Customers and to related parties	7,192	8,573	1,381	19.20%
Total Equity	3,483	3,547	63	1.82%
Net Profit	304	308	5	1.51%

SUSTAINED GROWTH

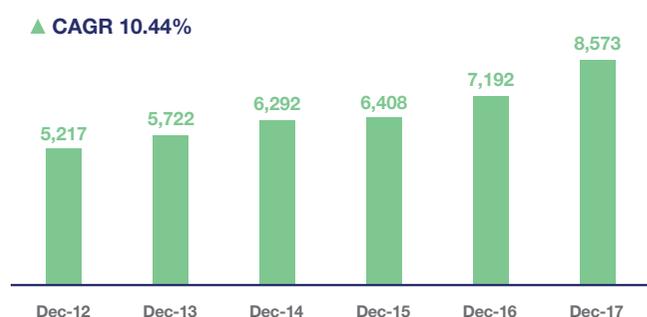
ASSETS



DEPOSITS



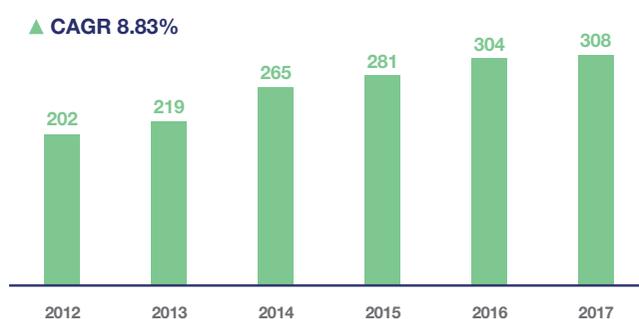
LOANS



EQUITY



PROFITS



The year 2017 Growth in main financial indicators was achieved in almost all the Bank of Beirut Group as shown here below:

Balances - 31 Dec. 2016

Entity (LBP billion)	Assets	Deposits	Loans	Equity	Profits
Bank of Beirut	21,097	15,936	5,000	2,041	171
Local Subsidiaries	268	16	6	212	34
Foreign Affiliates	4,633	3,068	2,378	678	42
Mutual Funds	1,438	-	-	1,185	76
Total	27,436	19,019	7,385	4,115	323
Eliminations	(1,495)	(96)	(192)	(632)	(19)
Consolidated	25,941	18,923	7,192	3,483	304

Entity (LBP billion)	Balances - 31 Dec. 2017				
	Assets	Deposits	Loans	Equity	Profits
Bank of Beirut	22,478	16,943	6,136	2,095	192
Local Subsidiaries	310	15	6	247	36
Foreign Affiliates	4,972	3,252	2,685	750	35
Mutual Funds	1,465	-	-	1,156	72
Total	29,225	20,211	8,828	4,248	336
Eliminations	(1,538)	(103)	(254)	(702)	(27)
Consolidated	27,687	20,108	8,573	3,547	308

PEER GROUP ANALYSIS

During the last 5 years, Bank of Beirut was able to increase its peer group shares in most important indicators through consistent above average growth rates:

Indicator	Peer Group Share			CAGR 2012-2017		
	2012	2017	Growth	BOB	Peer	Difference
Assets	7.22%	7.88%	0.67%	9.71%	7.79%	1.92%
Deposits	6.68%	7.31%	0.63%	8.34%	6.40%	1.94%
Loans	7.40%	8.55%	1.15%	10.44%	7.31%	3.14%
Equity	10.07%	10.80%	0.73%	10.70%	9.16%	1.53%
Profits	7.80%	8.51%	0.71%	8.83%	6.94%	1.89%

In 2017, Bank of Beirut was able to sustain its peer group shares in most indicators and maintained its ranking in Total Assets, Deposits and Equity, while improving its ranking in Loans to customers:

Description %	Year 2017 Growth		Group Share		BOB Ranking	
	BOB	Peer	31-Dec-16	31-Dec-17	31-Dec-16	31-Dec-17
Total Assets	6.73%	6.63%	7.88%	7.88%	6	6
Customers' Deposits	6.26%	3.45%	7.11%	7.31%	6	6
Loans to Customers	19.20%	1.66%	7.29%	8.55%	6	4
Total Equity	1.82%	6.38%	11.28%	10.80%	3	3
Net Profit	1.51%	6.04%	8.89%	8.51%	3	4

On the other hand, Bank of Beirut was able to achieve the following outstanding rankings as at 31 December 2016 within the peer group:

- Ranking 1st in "Equity to Asset ratio", indicating the high level of capitalization.
- Ranking 1st in "Leverage of Total Capital"
- Ranking 4th in "Net Operating Margin"
- Ranking 3rd in "Loan to Deposits Ratio"
- Ranking 3rd in Loan Portfolio quality ratios, namely "NPLs to gross loans", denoting the conservative management of the credit risk.
- Ranking 4th in Return on Average Assets (ROAA)

A- CONSOLIDATED BALANCE SHEET MANAGEMENT

The composition and size of the balance-sheet and contingent liabilities reflect the Board of Directors' overall growth objectives and the risk appetite/tolerance for the Group. The latter's strategy targets

a sustainable growth and a good financial standing while adopting a conservative risk management framework and adequate corporate governance guidelines.

a- Sources and Uses of Funds

Funding Sources

Description (LBP Billion)	Balances		Growth		Breakdown	
	31-Dec-16	31-Dec-17	Amount	%	31-Dec-16	31-Dec-17
Customers' deposits	18,923	20,108	1,185	6.26%	72.95%	72.62%
Total Equity	3,483	3,547	63	1.82%	13.43%	12.81%
Deposits from banks and Fis	2,004	2,095	91	4.53%	7.73%	7.57%
Other liabilities & provisions	675	586	(89)	-13.18%	2.60%	2.12%
Other borrowings	588	994	406	69.02%	2.27%	3.59%
Liabilities under acceptance	267	357	90	33.70%	1.03%	1.29%
Total	25,941	27,687	1,746	6.73%	100.00%	100.00%

The main source of funds was generated from the customers' deposits which represented at the end of year 2017 around 72.62% of the funding sources, as compared to 72.95% at year-end 2016.

The customers' deposit base grew by LBP 1,185 billion in 2017 (+6.26%) while the Equity caption increased by LBP 63 billion (+1.82%).

The increase in "Other borrowings" caption was mainly related to borrowings from the Central Bank of Lebanon and other Central Banks.

The funding from banks and financial institutions increased during the year by LBP 91 billion, a 4.53% year-on-year growth. The decrease by LBP 89 billion of "Other Liabilities & Provisions" was mainly due to the decline of Letters of Guarantee margins from banks by LBP 74 billion and LBP 42 billion due to the settlement of the "Tax payable on regulatory deferred liability".

Peer Group Comparison in terms of year 2017 growth and breakdown:

Description (%)	Growth Rate		Breakdown			
	Year 2017		31-Dec-16		31-Dec-17	
	BOB	Peer	BOB	Peer	BOB	Peer
Customers' Deposits	6.26%	3.45%	72.95%	80.78%	72.62%	78.37%
Total Equity	1.82%	6.38%	13.43%	9.37%	12.81%	9.35%
Deposits from Banks and Fis	4.53%	4.35%	7.73%	3.78%	7.57%	3.69%
Other Liabilities & Provisions	-13.18%	4.65%	2.60%	2.55%	2.12%	2.51%
Other borrowings	69.02%	91.41%	2.27%	2.90%	3.59%	5.20%
Liabilities under Acceptance	33.70%	50.53%	1.03%	0.62%	1.29%	0.88%
Total	6.73%	6.63%	100.00%	100.00%	100.00%	100.00%

Uses of Funds

The Bank's strategy places emphasis on maintaining high asset quality and a strong Investment Securities' portfolio. While each entity of the Group is abiding by the local regulations, and as part of the Group Risk Management framework, 'the Assets' structure

is subject to internal limits in terms of business lines, financial instruments, counter-party concentration and geographical distribution.

Description (LBP Billion)	Balances		Growth		Breakdown	
	31-Dec-16	31-Dec-17	Amount	%	31-Dec-16	31-Dec-17
Investment Securities	10,603	9,828	(775)	-7.30%	40.87%	35.50%
Loans and Advances to Customers and RP	7,192	8,573	1,381	19.20%	27.73%	30.96%
Cash & Deposits at Central Banks	5,671	6,582	911	16.06%	21.86%	23.77%
Deposits with Banks & Fls*	1,771	1,840	69	3.89%	6.83%	6.64%
Customers under Acceptance Liability	267	357	90	33.70%	1.03%	1.29%
Property and Equipment	220	281	61	27.83%	0.85%	1.01%
Other Assets	129	137	8	6.49%	0.50%	0.50%
Goodwill	88	89	1	0.15%	0.34%	0.32%
Total	25,941	27,687	1,746	6.73%	100.00%	100.00%

* including Loans to Banks

Loans to customers and RP

Growing by LBP 1,381 billion, a growth of 19.20%, the share of the Loan Portfolio represented 30.96% of Total Assets as at 31 December 2017, compared to 27.73% at the end of 2016. The achieved growth was much higher than the Peer Group (i.e. 1.66%).

Cash & Central Banks

Increasing during the year by LBP 911 billion (+16.06%) and representing 23.77% of Total Assets as at 31 December 2017, compared to 21.86% at year-end 2016. The increase was less than the Peer Group growth in 2017 (i.e. 28.18%).

Investment Securities

Decreasing by LBP 775 billion (-7.30%) and representing 35.50% of Total Assets as at 31 December 2017, compared to 40.87% at year-end 2016.

Due to Banks and Financial Institutions, including Loans to Banks

Increasing during the year by LBP 69 billion (+3.89%) and representing 6.64% of Total Assets as at 31 December 2017, compared to 6.83% at year-end 2016.

Properties and Equipment

Increasing during the year by LBP 61 billion (+27.83%), due mainly to the purchase of a new head office building in London and a land in Lebanon as part of the new head office project.

Peer Group Comparison in terms of year 2017 Growth and Breakdown:

Description (%)	Growth Rate		Breakdown			
	Year 2017		31-Dec-16		31-Dec-17	
	BOB	Peer	BOB	Peer	BOB	Peer
Investment Securities	-7.30%	-9.41%	40.87%	31.68%	35.50%	26.91%
Loans and Advances to customers and RP	19.20%	1.66%	27.73%	29.94%	30.96%	28.55%
Cash & Deposits at Central Banks	16.06%	28.18%	21.86%	27.31%	23.77%	32.83%
Deposits with Banks & Fls*	3.89%	5.81%	6.83%	7.81%	6.64%	7.75%
Customers under Acceptance Liability	33.70%	50.53%	1.03%	0.62%	1.29%	0.88%
Property and Equipment	27.83%	5.98%	0.85%	1.24%	1.01%	1.23%
Other Assets	6.49%	46.16%	0.50%	1.27%	0.50%	1.74%
Goodwill	0.15%	-9.96%	0.34%	0.12%	0.32%	0.10%
Total	6.73%	6.63%	100.00%	100.00%	100.00%	100.00%

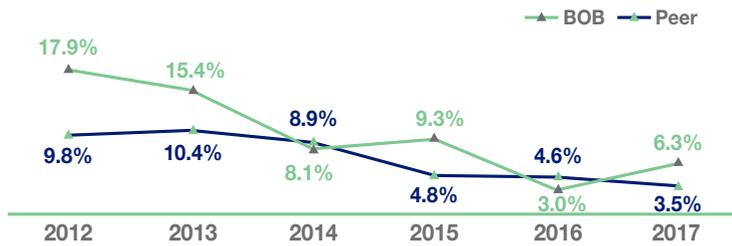
* including Loans to Banks

b- Customers' Deposits

Constituting the main funding source, the consolidated deposits base increased during year 2017 by LBP 1,185 billion to reach LBP 20,108 billion (USD 13.3 billion), a year-on-year growth of 6.26%.

On consolidated basis, Bank of Beirut Group over performed the peer Group growth rate of 3.45%, consequently, the peer group share increased from 7.11% as at 31 December 2016 to 7.31% as at 31 December 2017.

Annual Growth Rates



Source: Bankdata publications

Peer Group and Market Shares



Domestically, Bank of Beirut was also able to increase its peer group share from 7.03% at year-end 2016 to 7.13% as at 31 December 2017:

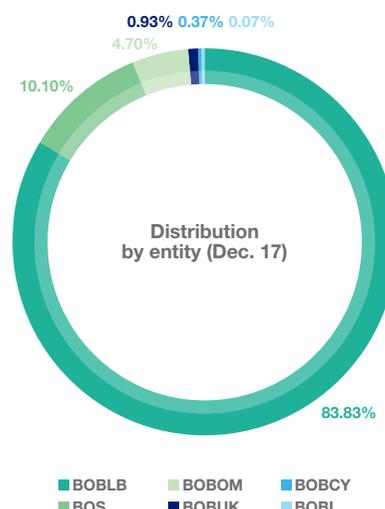
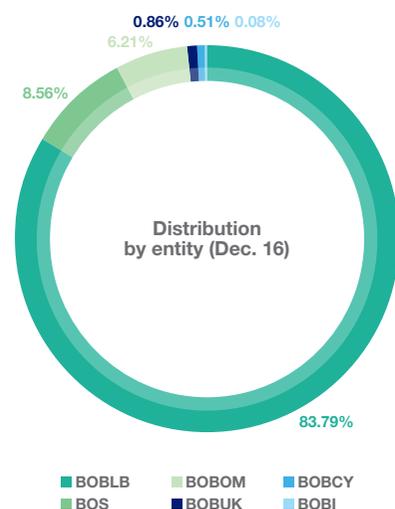
Distribution of customers and RP deposits by entity of the Group

Bank of Beirut Lebanon’s branches registered a very healthy 6.32% growth in 2017, as compared to 3.92% growth rate for customers’ deposits of all “Commercial Banks” operating in Lebanon. It is worth highlighting the outstanding growth achieved by the Australian

subsidiary (+25.43%). On the other hand, the decrease in deposit portfolio at Bank of Beirut Oman branches was aligned with the management decision to match it with the decrease in loan portfolio.

Entity (LBP billion)	Functional Currency	Balance (C/V LBP)		Growth (C/V LBP)	
		31-Dec-16	31-Dec-17	Amount	%
BOB Lebanon	USD	15,936	16,943	1,007	6.32%
Bank of Sydney	AUD	1,627	2,041	414	25.43%
BOB Sultanate of Oman	OMR	1,181	949	(232)	-19.61%
BOB UK	GBP	163	187	24	14.80%
BOB Cyprus	USD	97	75	(22)	-22.56%
BOB Invest	USD	16	15	(1)	-3.94%
(Less) Eliminations *	USD	(96)	(103)	(7)	6.94%
Total		18,923	20,108	1,185	6.26%

* Related to non-bank Subsidiaries & Funds Deposits at BOB

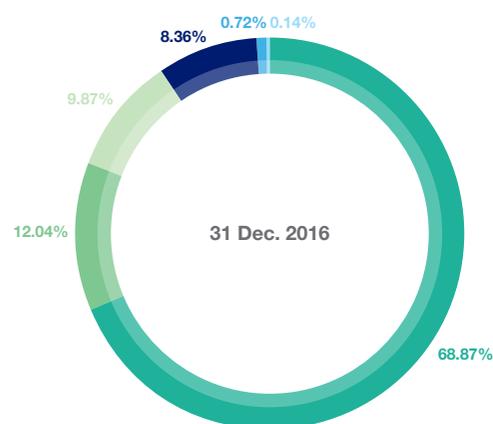


Geographical distribution of Deposits

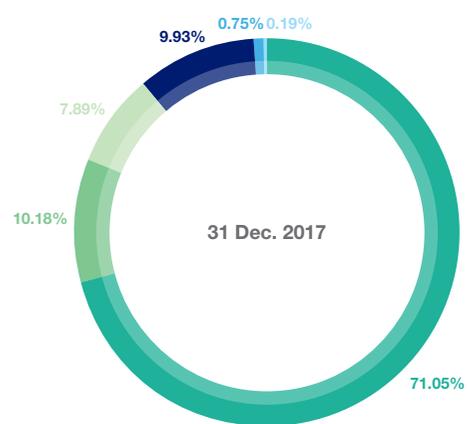
An analysis of customers and RP deposits by geographical area distribution reveals that the growth was largely contributed to Lebanon with a LBP 1,255 billion (+9.63%) with a remarkable growth

in Australia by 26.15%. Lebanon is still representing the lion’s share with 71.05% of total customers’ deposits as at year-end 2017.

Description (LBP Billion)	Balances		Growth	
	31-Dec-16	31-Dec-17	Amount	%
Lebanon	13,033	14,287	1,255	9.63%
Middle East & Africa	2,279	2,048	(231)	-10.15%
Europe	1,867	1,587	(280)	-14.98%
Australia	1,583	1,997	414	26.15%
North America	135	151	16	11.52%
Others	26	38	11	43.68%
Total	18,923	20,108	1,185	6.26%



■ Lebanon ■ Europe ■ North America
■ MEA ■ Australia ■ Others



■ Lebanon ■ Europe ■ North America
■ MEA ■ Australia ■ Others

Distribution by type of deposits

The breakdown of deposits by type has been relatively stable in 2017, with term deposits continuing to reflect the lion's share of

80.2% of total deposits as at 31 December 2017 and the healthy level of demand deposits reflecting 11.36% of total deposits:

Description (LBP Billion)	Balances		Growth		Breakdown	
	31-Dec-16	31-Dec-17	Amount	%	31-Dec-16	31-Dec-17
Term Deposits	15,406	16,124	718	4.66%	81.41%	80.19%
Demand Deposits	2,011	2,284	273	13.57%	10.63%	11.36%
Collateral against Loans	1,121	1,406	285	25.38%	5.93%	6.99%
Margins on LGs	177	128	(48)	-27.43%	0.93%	0.64%
Margins on LCs	52	28	(24)	-45.90%	0.28%	0.14%
Other Margins	53	28	(26)	-47.83%	0.28%	0.14%
Accrued Interest	102	109	7	7.07%	0.54%	0.54%
Total	18,923	20,108	1,185	6.26%	100.00%	100.00%

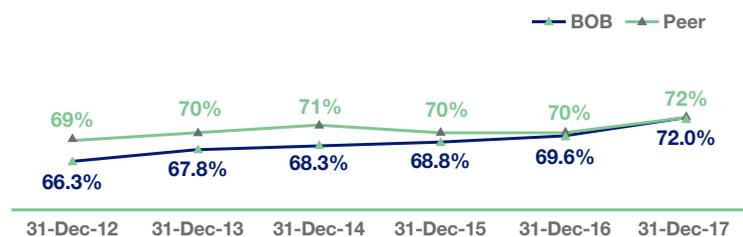
Deposits' distribution by currency

The USD denominated deposits augmented by LBP 962 billion in 2017, recording an annual growth rate of 10.20% and continuing to hold the largest share of 51.69%. The dollarization rate of customers' deposits increased in 2017 to reach 72.00%, as compared to 69.63% at year-end 2016.

The deposits dollarization rate is in line with both Peer Group and sector rates.

Currency (LBP Billion)	Balances		Growth		Breakdown	
	31-Dec-16	31-Dec-17	Amount	%	31-Dec-16	31-Dec-17
LBP	5,747	5,629	(118)	-2.05%	30.37%	28.00%
USD	9,432	10,394	962	10.20%	49.85%	51.69%
Euro	792	740	(52)	-6.59%	4.19%	3.68%
GBP	241	253	11	4.64%	1.28%	1.26%
AUD	1,643	2,060	417	25.38%	8.68%	10.25%
Other	1,066	1,031	(36)	-3.35%	5.64%	5.13%
Total	18,923	20,108	1,185	6.26%	100.00%	100.00%

Deposits' Dollarization Rates



c- Loans to Customers and RP

The loan to Customers' Portfolio increased by LBP 1,381 billion in 2017 reaching LBP 8,573 billion, compared to LBP 7,192 billion at the end of year 2016.

Description (LBP Billion)	Balances		Growth		Breakdown	
	31-Dec-16	31-Dec-17	Amount	%	31-Dec-16	31-Dec-17
Regular Loans to Customers	6,921	8,233	1,311	18.95%	96.23%	96.03%
Regular Loans to related parties	106	128	22	20.96%	1.47%	1.49%
Substandard Loans (net)	166	108	(58)	-34.89%	2.31%	1.26%
Doubtful Loans (net)	48	130	82	170.85%	0.67%	1.52%
Collective Provisions	(49)	(26)	23	-47.31%	-0.69%	-0.30%
Total	7,192	8,573	1,381	19.20%	100.00%	100.00%

The Bank’s year-on-year growth of 19.20% clearly outperformed the 1.66% Peer Group growth rate achieved in 2017. Consequently, the Peer Group share has significantly improved as follows:

Annual Growth Rates



Peer Group Share



Distribution of Loans to customers by entity of the Group

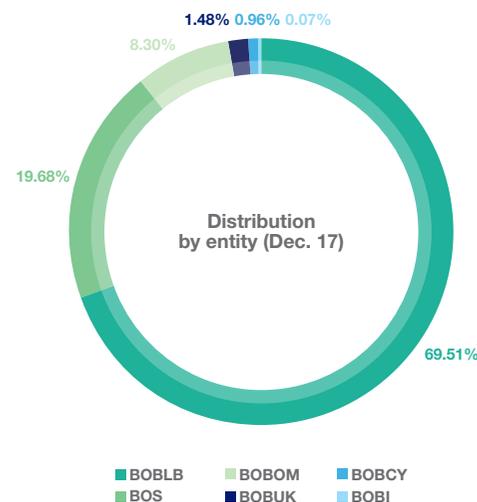
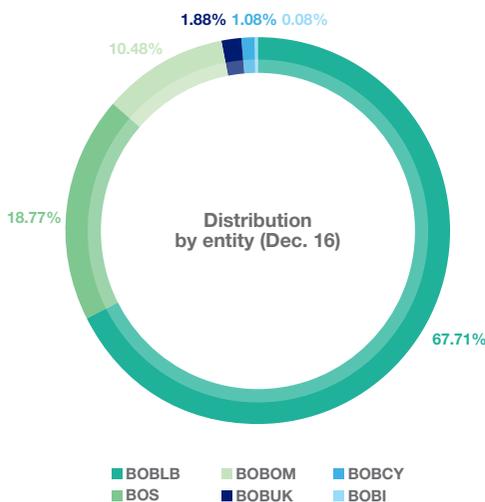
Bank of Beirut Lebanon’s branches registered a significant 22.71% growth in 2017, as compared to 5.49% growth rate for loans to customers of all “Commercial Banks” operating in Lebanon. It is worth emphasizing the exceptional growth achieved

by the Australian subsidiary (+25.30%). The decrease in Oman branches loan portfolio can be contributed to the slowdown of the Omani economy following the decline in oil prices.

Entity (LBP billion)	Functional Currency	Balance (C/V LBP)		Growth (C/V LBP)	
		31-Dec-16	31-Dec-17	Amount	%
BOB Lebanon	USD	5,000	6,136	1,136	22.71%
Bank of Sydney	AUD	1,386	1,737	351	25.30%
BOB Sultanate of Oman	OMR	774	733	(41)	-5.30%
BOB UK	GBP	139	131	(8)	-5.83%
BOB Cyprus	USD	79	85	5	6.58%
BOB Invest	USD	6	6	0	8.29%
(Less) Eliminations *	USD	(192)	(254)	(62)	32.21%
Total		7,192	8,573	1,381	19.20%

Consequently, the share of Lebanon’s branches from total loans to customers increased to reach 69.51% and Bank of Sydney share

also increased to 19.68% at year-end 2017, as compared to 18.77% the previous year.



■ BOBLB ■ BOBOM ■ BOBCY
■ BOS ■ BOBUK ■ BOBI

■ BOBLB ■ BOBOM ■ BOBCY
■ BOS ■ BOBUK ■ BOBI

Distribution by geographical area

An analysis of Loans to customers by geographical area distribution reveals that the growth was largely contributed to Lebanon with a LBP 1,072 billion (+22.86%) and a notable increase in Australia by LBP 346 billion (+24.96%).

The share of Loans outside Lebanon reached 32.83% as year-end 2017, compared to 34.83% as at 31 December 2016.

Description (LBP Billion)	Balances		Growth		Breakdown	
	31-Dec-16	31-Dec-17	Amount	%	31-Dec-16	31-Dec-17
Lebanon	4,687	5,759	1,072	22.86%	65.17%	67.17%
Australia	1,386	1,732	346	24.96%	19.28%	20.21%
Middle East & Africa	994	930	(63)	-6.38%	13.82%	10.85%
Europe	122	115	(7)	-5.43%	1.69%	1.34%
North America	4	37	33	938.56%	0.05%	0.43%
Others	0	0	0	564.95%	0.00%	0.00%
Total	7,192	8,573	1,381	19.20%	100.00%	100.00%

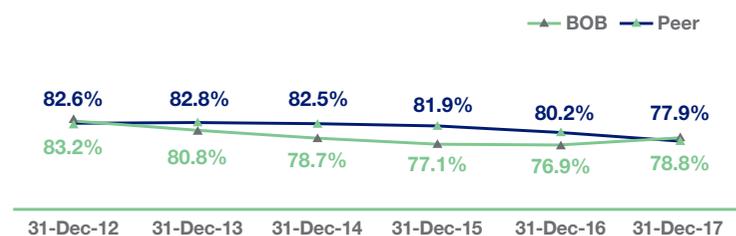
Loans distribution by currency

The LBP denominated Loans augmented by LBP 153 billion in 2017, recording an annual growth rate of 9.22%, mainly derived from the increase in housing loans. On the foreign currency side, the USD continued to hold the largest share and registered a significant increase during 2017 by LBP 841 billion (+26.09%).

The foreign currency denominated loans stood at 76.86% at the end of year 2016, compared to 80.16% for the Peer Group and 78.38% for the sector.

Currency (LBP Billion)	Balances		Growth		Breakdown	
	31-Dec-16	31-Dec-17	Amount	%	31-Dec-16	31-Dec-17
LBP	1,664	1,817	153	9.22%	23.14%	21.20%
USD	3,222	4,063	841	26.09%	44.80%	47.39%
Euro	228	284	56	24.72%	3.17%	3.32%
GBP	38	42	4	11.24%	0.53%	0.49%
AUD	1,246	1,575	329	26.39%	17.32%	18.37%
Other	794	791	(3)	-0.33%	11.04%	9.23%
Total	7,192	8,573	1,381	19.20%	100.00%	100.00%

Loans' dollarization Rates



Distribution of Loans by type of Customer

Description (LBP Billion)	Balances		Growth		Breakdown	
	31-Dec-16	31-Dec-17	Amount	%	31-Dec-16	31-Dec-17
Corporate	3,517	4,343	826	23.48%	48.90%	50.65%
Housing	2,291	2,752	461	20.12%	31.9%	32.1%
SME	971	1,100	129	13.27%	13.5%	12.8%
Retail	410	372	(38)	-9.22%	5.7%	4.3%
Public Institutions	3	7	3	90.68%	0.0%	0.1%
Total	7,192	8,573	1,381	19.20%	100.0%	100.0%

As clearly shown in the table above, the main driver behind the increase in loans was the “Corporate” caption by LBP 826 billion

(+23.48%) and the “Housing” by LBP 461 billion (+20.12%), and the “SME” by LBP 129 billion (+13.27%).

Distribution of Loans by Economic Sector

Sector/Industry (LBP Billion)	Balances		Growth		Breakdown	
	31-Dec-16	31-Dec-17	Amount	%	31-Dec-16	31-Dec-17
Real Estate & Construction	1,968	2,719	751	38.16%	27.36%	31.71%
Trade and Services	2,001	2,017	17	0.83%	27.82%	23.53%
Manufacturing & Industry	705	695	(10)	-1.45%	9.80%	8.10%
Financial Services	266	417	151	56.57%	3.70%	4.86%
Agriculture	186	36	(150)	-80.87%	2.59%	0.42%
Others	2,067	2,690	624	30.17%	28.73%	31.38%
Total	7,192	8,573	1,381	19.20%	100.00%	100.00%

As shown in the table above, the “Real Estate & Construction” sector became the largest exposure at year-end 2017 with a 31.71% share, followed by 23.53% for “Trade and Services” sector.

Fair Value of Guarantees against Loan Portfolio

The Bank employs collateral to mitigate credit risk, primarily over the Loans and Advances to customers. In addition, the Bank restricts its

exposure to credit losses by entering into netting arrangements with counterparties.

Description (LBP Billion)	31-Dec-16			31-Dec-17		
	Regular	NPLs	Total	Regular	NPLs	Total
Gross Balances	7,027	373	7,400	8,361	465	8,826
Unrealized Interest	-	(76)	(76)	-	(97)	(97)
Allowance for Impairment	-	(83)	(83)	-	(130)	(130)
Collective Provisions	(49)	-	(49)	(26)	-	(26)
Net Loans Balances	6,978	214	7,192	8,335	238	8,573
Pledged Funds	1,259	2	1,260	1,549	2	1,551
1st Degree Mortgage	5,743	203	5,946	4,275	3,374	7,649
Debt Securities	13	-	13	22	-	22
Bank Guarantees	272	-	272	103	-	103
Vehicles	308	13	321	270	8	278
Fair Value of real Guarantees received	7,594	218	7,812	6,218	3,384	9,603
Fair Value of other Guarantees received	3,392	8	3,400	2,641	7	2,648
Real Guarantee Coverage Ratio	108.83%	101.59%	108.62%	74.60%	1419.68%	112.01%

Classification of loans

As specified in the table below, the net non-performing loans (“NPL’s”), after deduction of specific loan loss reserves, increased by LBP 24 billion (+11.18%), due mainly to the increase in gross NPL’s

by LBP 92 billion (+24.79%) coupled with the increase in Loan Loss Reserves (“LLRs”) by LBP 68 billion.

Description (LBP Billion)	Balances		Growth	
	31-Dec-16	31-Dec-17	Amount	%
Regular loans	7,027	8,361	1,334	18.98%
Substandard Loans	166	108	(58)	-34.89%
Gross balances	183	125	(58)	-31.70%
Unrealized Interest	(16)	(16)	0	-2.99%
Impairment Allowances	(1)	(1)	(0)	60.32%
Doubtful Loans	48	130	82	170.85%
Gross Balances	190	340	151	79.38%
Unrealized Interest	(59)	(81)	(22)	36.03%
Impairment Allowances	(82)	(129)	(47)	57.31%
Collective Provisions	(49)	(26)	23	-47.31%
Total Net Loans	7,192	8,573	1,381	19.20%

Loan Portfolio Quality Ratios

The KPI's Loan ratios indicate a sustained high quality as compared to Peer Group:

Ratio	Bank of Beirut			Peer Group	
	31-Dec-16	31-Dec-17	Variance	31-Dec-16	31-Dec-17
Regular Loans / Gross Loans	94.96%	94.73%	-0.23%	93.14%	92.54%
Gross SL's / Gross Loans	2.48%	1.42%	-1.06%	1.21%	1.83%
Gross DL's / Gross Loans	2.56%	3.85%	1.29%	5.65%	5.63%
Gross NPL's / Gross Loans	5.04%	5.27%	0.23%	6.86%	7.46%
Net SL's / Net Loans	2.31%	1.26%	-1.05%	1.07%	1.65%
Net DL's / Net Loans	0.67%	1.52%	0.85%	1.53%	1.61%
Net NPL's / Net Loans	2.98%	2.78%	-0.20%	2.60%	3.26%
Unrealized Interest on SL's / Gross SL's	-8.74%	-12.49%	-3.75%	16.69%	15.28%
Specific LLR's on DL's / Gross DL's	-74.69%	-61.78%	12.91%	74.60%	73.13%
Specific LLR's on NPL's / Gross NPL's	-42.51%	-48.78%	-6.27%	64.40%	58.96%
Total LLR's / Gross NPL's	-55.76%	-54.37%	1.38%	85.94%	80.71%
Net NPL's / Total Assets	0.83%	0.86%	0.03%	0.78%	0.93%
Net NPL's / Total Shareholders' Equity	6.16%	6.72%	0.57%	8.29%	9.94%
Collective Provisions / Net Loans	0.69%	0.30%	-0.38%	1.57%	1.73%

SL's: Substandard Loans, DL's: Doubtful Loans, LLR's: Loan Loss Reserves

d- Investment Securities Portfolio

The Bank's securities portfolio, which consists of both Fixed and variable Income Securities, decreased by LBP 775 billion during 2017, an annual negative growth rate of 7.30%, to reach LBP 9,828

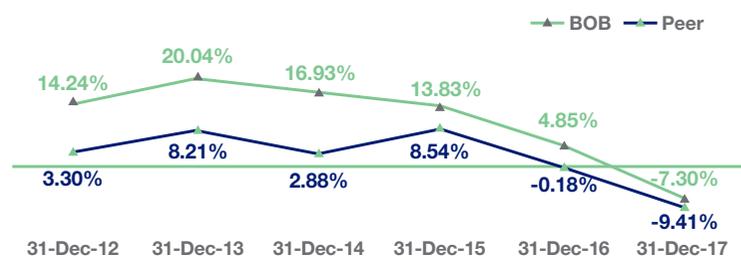
billion while representing 35.50% of Total Assets as at 31 December 2017 (compared to 40.87% in 2016).

Description (LBP Billion)	Balances		Growth		Breakdown	
	31-Dec-16	31-Dec-17	Amount	%	31-Dec-16	31-Dec-17
Debt Instruments at Amortized Cost	9,113	8,310	(802)	-8.81%	85.95%	84.55%
Debt Instruments at Fair Value through P&L	1,415	1,444	29	2.08%	13.34%	14.69%
Shares and Participations at FVTPL	67	63	(3)	-4.91%	0.63%	0.64%
Shares and Participations at FVTOCI	9	11	2	20.00%	0.08%	0.11%
Total	10,603	9,828	(775)	-7.30%	100.00%	100.00%

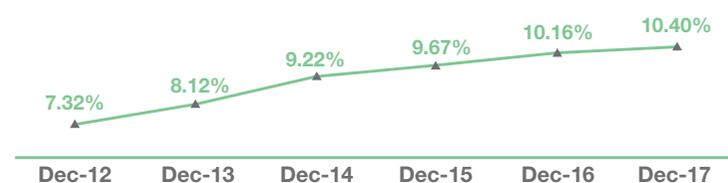
The Bank's investment securities portfolio growth has continuously outpaced the Peer Group and sector. Consequently, the market

share increased significantly during the past 5 years reaching 10.40% at year-end 2017.

Annual Growth Rates



Peer Group Share



Growth by type of Instruments

Description (LBP Billion)	Balances		Growth	
	31-Dec-16	31-Dec-17	Amount	%
Lebanese Government Eurobonds (FCY)	3,893	3,833	(60)	-1.54%
Lebanese Treasury Bills (LBP)	2,688	2,258	(430)	-16.00%
CD's issued by CBL (LBP)	1,915	1,771	(144)	-7.51%
CD's issued by CBL (FCY)	1,101	1,020	(81)	-7.39%
Financial Private Sector Debt Securities	632	593	(39)	-6.10%
Foreign Government Treasury Bonds	136	142	6	4.30%
Certificates of Deposit by Financial Sector	16	1	(15)	-94.34%
Accrued Interest Fixed Income Securities	146	136	(10)	-6.69%
Unquoted Equity Securities	62	59	(3)	-4.30%
Quoted Equity Securities and Funds	14	15	1	8.63%
Total	10,603	9,828	(775)	-7.30%

Peer Group Share evolution by Instrument

Description (LBP Billion)	Peer Group Share	
	31-Dec-16	31-Dec-17
Lebanese Treasury Bills (LBP)	10.34%	9.75%
Lebanese Sovereign Eurobonds (FCY)	17.77%	19.32%
BDL Certificates of Deposits (LBP)	9.73%	11.18%
BDL Certificates of Deposits (FCY)	4.32%	4.11%
Other Debt Instruments	10.00%	9.98%
Equity Instruments	3.88%	3.46%
Total	10.16%	10.40%

Fair Value of Debt Instruments classified at Amortized Cost

Description (LBP Billion)	31-Dec-16			31-Dec-17		
	Cost *	Fair Value	Unrealized	Cost *	Fair Value	Unrealized
Lebanese Treasury Bills (LBP)	2,061	2,083	22	1,600	1,617	17
Lebanese Sovereign Eurobonds (FCY)	3,611	3,477	(134)	3,535	3,373	(162)
BDL Certificates of Deposits (LBP)	1,656	1,673	17	1,532	1,560	28
BDL Certificates of Deposits (FCY)	925	933	8	843	845	1
Financial Sector Bonds (FCY)	632	632	0	593	591	(2)
Foreign Government Bonds (FCY)	90	90	-	90	90	0
Financial Sector CD's (FCY)	16	16	0	1	1	-
Total	8,991	8,904	(87)	8,193	8,077	(117)

* Excluding Accrued Interest

The valuation of the amortized cost Debt Securities at year-end 2017 revealed a negative variation of LBP 117 billion, compared to a negative valuation of LBP 87 billion as at 31 December 2016, due

to the decline in the Lebanese Sovereign Eurobonds prices during the year 2017.

e- Property & Equipment

Description (LBP Billion)	Net Balance		Growth	
	31-Dec-16	31-Dec-17	Amount	%
Land & Buildings	155	221	66	42.33%
Furniture	19	17	(1)	-7.20%
Equipment	12	15	3	21.26%
Vehicles	0	0	0	39.09%
Installations and improvements	17	17	(1)	-4.24%
Advance on Capital expenditures	16	11	(5)	-31.61%
Total	220	281	61	27.83%
BOB - % of Total Assets	0.85%	1.01%		
Peer Group - % of Total Assets	1.24%	1.23%		

The “Property & Equipment” caption witnessed a significant increase during 2017 to reach LBP 281 billion, compared to LBP 220 billion as at 31 December 2016. This was mainly due to the acquisition of the new property building in London city to serve as Head Office of

Bank of Beirut Ltd (UK) for the counter-value of LBP 38 billion, and to the acquisition of a complementary piece of land for the upcoming new Head Office building, in Beirut, for the counter-value of LBP 25 billion.

B- PROFITABILITY

Overview

The consolidated total net profit after tax increased in 2017 by 1.51% to LBP 308.2 billion, compared to LBP 303.6 billion for the year 2016.

This growth in profitability was driven by growth in business activities, coupled with efficient management of interest rate margins, high commission base and effective cost containment policy, with a focus on consistently increasing the operating non-interest base revenues.

The positive growth in the net earnings was due to:

- Increase in “Net Interest Income” by LBP 54.4 billion (+14.23%)
- Increase in “Interest Income from Financial Assets at FVTPL” by LBP 3.9 billion (+4.17%)
- Increase in “Net fee and commission income” by LBP 14.8 billion (+12.12%)

- Decrease in “Other gain/loss from FVTPL instruments” by LBP 7.7 billion (-68.3%), due mainly from the decrease in profit from sale of FVTPL securities by LBP 6.5 billion, the negative valuation of FVTPL Investment Securities booked in the consolidated Investment Funds and the decrease in profit from sale (LBP 1.8 billion).
- Decrease in “Other non-interest income” by LBP 9.9 billion (-33.99%) which resulted largely from the income decrease from sale of amortized cost Investment Securities.
- Increase in “Impairment losses” by LBP 28.1 billion, due to the increase provisioning against non-performing loans.
- Increase in “Operating Expenses” by LBP 16.1 billion (+5.55%)

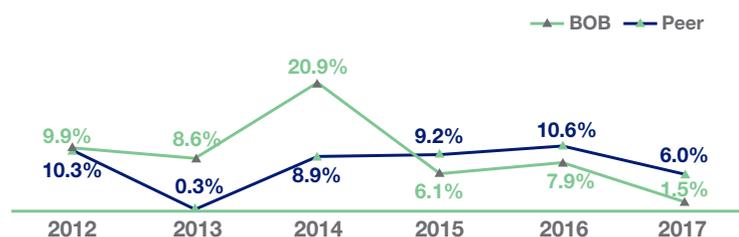
After accounting for the non-controlling interest (mainly the net profit from controlled Mutual Funds), the Net Profit for the equity holders registered an increase by LBP 8.228 billion (+3.62%).

Recap comparative Consolidated Income Statements:

Description (LBP Billion)	Period ended...		Growth	
	31-Dec-16	31-Dec-17	Amount	%
Interest income (net of tax)	1,136,261	1,245,325	109,064	9.60%
Interest Expense	-754,103	-808,804	-54,701	7.25%
Net interest income	382,159	436,522	54,363	14.23%
Net fee & Commission Income	122,475	137,322	14,847	12.12%
Interest Income on FVTPL Assets	92,588	96,450	3,862	4.17%
Other gains on FVTPL Assets	11,310	3,584	-7,726	-68.31%
Other non-Interest Income	28,993	19,137	-9,856	-33.99%
Operating income	637,524	693,014	55,490	8.70%
Impairment losses (net)	-2,987	-31,562	-28,575	-956.67%
Net Operating Income	634,537	661,452	26,915	4.24%
Staff Costs	-166,968	-174,580	-7,613	-4.56%
General and administrative expenses	-100,427	-108,331	-7,904	-7.87%
Depreciation and Amortization	-22,332	-22,902	-570	-2.55%
Operating Expenses	-289,727	-305,813	-16,087	-5.55%
Operating Profit	344,811	355,639	10,828	3.14%
Income taxes	-41,243	-47,483	-6,240	-15.13%
Net Profit after Income Tax from Operations	303,567	308,156	4,588	1.51%
Profit after Tax from discontinued activities	-	-	-	
Net profit after tax	303,567	308,156	4,588	1.51%
Non-controlling Interest	76,271	72,631	3,640	-4.77%
Net profit (Equity Holders)	227,297	235,525	8,228	3.62%

Peer Group Analysis

Annual Growth Rates



Peer Group Share

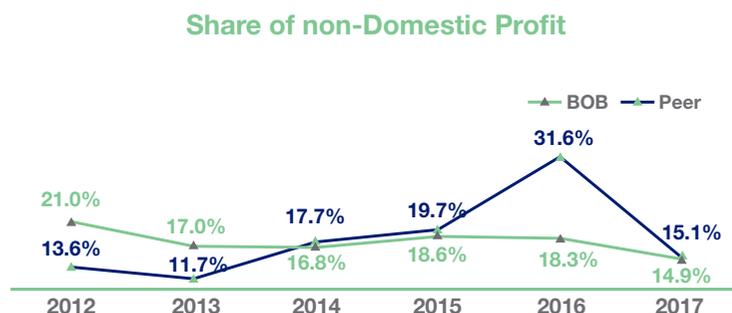
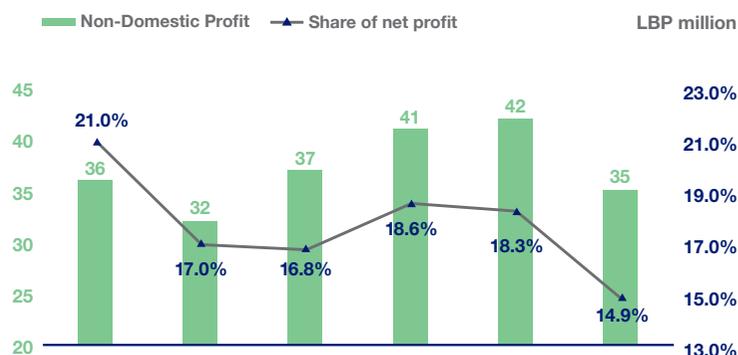


Net profit by entity type

In 2017, the Bank has registered a positive growth in Bank of Beirut Lebanon's branches and local subsidiaries, however, the foreign affiliates profit declined by 15.78%, in addition to a decline in the "Investment Funds" by around 5%.

In line with the Peer Group, the share of net profit from foreign affiliates from total net profit (equity holders) reached 14.90% in 2017, down from 18.33% in 2016.

Entity (LBP million)	Year		Growth	
	2016	2017	Amount	%
Bank of Beirut - Lebanon	171,023	192,410	21,387	12.51%
Local Subsidiaries	34,046	35,991	1,945	5.71%
Foreign Branches & Subsidiaries	41,664	35,089	(6,576)	-15.78%
Investment Funds	75,921	72,157	(3,764)	-4.96%
Eliminations & Adjustments	(19,087)	(27,491)	(8,403)	44.03%
Net Profit after Tax	303,567	308,156	4,588	1.51%
<i>o.w. non-controlling interests</i>	76,271	72,631	(3,640)	-4.77%
<i>o.w. Equity Holders of the Bank</i>	227,297	235,525	8,228	3.62%



Profitability KPIs

Ratio	BOB		Peer Group	
	2016	2017	2016	2017
+ Yield on Earning Assets	5.21%	5.36%	5.85%	6.10%
- Cost of Earning Assets	-3.20%	-3.23%	-3.84%	-4.11%
= Interest Margin	2.01%	2.13%	2.01%	1.99%
X Average Interest Earning Assets / Average Assets	93.76%	93.43%	96.10%	95.78%
= Interest Spread	1.89%	1.99%	1.93%	1.91%
+ Net non Interest Income / Average Assets	0.65%	0.60%	1.67%	1.00%
= Asset Utilization Ratio	2.54%	2.58%	3.60%	2.91%
x Net Operating Margin	47.62%	44.47%	29.71%	36.55%
o.w. Cost to income	45.45%	44.13%	43.19%	47.65%
o.w. Credit Cost	0.09%	3.18%	15.23%	6.21%
o.w. Other provisions	0.38%	1.38%	1.98%	1.68%
o.w. Tax Cost	6.47%	6.85%	9.89%	7.92%
= Return on Average Assets (ROAA)	1.21%	1.15%	1.07%	1.06%
x Leverage (Average Assets /Average Equity)	7.76	7.63	10.87	10.68
= Return on Average Equity (ROAE)	9.36%	8.77%	11.63%	11.35%

Peer Group ranking evolution:

Ratio	Peer Group Ranking	
	2016	2017
Return on Average Assets	3	4
Net Operating Margin	2	4
Cost to Income	7	6
Interest Spread	6	4
Cost to Average Assets	4	6

Net Interest Income

Description (LBP Billion)	Year		Growth		Breakdown	
	2016	2017	Amount	%	2016	2017
Placements with Central Banks	177,755	260,192	82,437	46.38%	15.64%	20.89%
Placements with banks and FIs *	14,271	21,284	7,013	49.14%	1.26%	1.71%
Loans to Banks	11,230	8,930	(2,300)	-20.48%	0.99%	0.72%
Financial Assets at Amortized Cost	547,756	530,794	(16,962)	-3.10%	48.21%	42.62%
Loans to customers and RP	385,250	430,679	45,429	11.79%	33.90%	34.58%
(Less) Tax on Interest	-	(6,553)	(6,553)		0.00%	-0.52%
Interest income	1,136,261	1,245,325	109,064	9.60%	100.00%	100.00%
Deposits from Banks and financial Institutions	22,466	34,864	12,398	35.19%	2.98%	4.31%
Customers' deposits and RP	725,780	765,118	39,338	5.42%	96.24%	94.60%
Certificates of Deposit	14	13	(0)	-1.69%	0.00%	0.00%
Other Borrowings	5,842	8,808	2,966	50.77%	0.78%	1.09%
Interest expense	754,103	808,804	54,701	7.25%	100.00%	100.00%
Net Interest Income	382,159	436,522	54,363	14.23%		
Interest Income Financial Assets at FVTPL	92,588	96,450	3,862	4.17%	8.15%	7.74%
Net Interest Income including FVTPL	474,747	532,972	58,225	12.26%		

As reflected in the table above, the net interest income increased by 12.26% in 2017, mainly due to the increase in interest earned on Central Banks (+46.38%), on Loans to customers and to RP (+11.79%) and on placements with banks and financial loans to banks (+49.14%), offset partially by the increase in Interest expense on customers' deposits and borrowings from financial sector.

As a result, the main spread indicators have witnessed a notable improvement in spite of the continuous pressure on interest margins over last year indicators and over peer group averages:

Ratio	Bank of Beirut			Peer Group		
	2016	2017	Variance	2016	2017	Variance
Interest Income / Average Assets	4.52%	4.64%	0.12%	5.64%	5.84%	0.20%
Interest Expense / Average Assets	-3.00%	-3.02%	-0.02%	-3.71%	-3.93%	-0.22%
Interest spread (net Interest Income / average assets)	1.52%	1.63%	0.11%	1.93%	1.91%	-0.02%
Interest Income / Average Interest Earning Assets	5.21%	5.36%	0.14%	5.85%	6.10%	0.25%
Interest Expense / average Interest Bearing Liabilities	-3.59%	-3.64%	-0.05%	-4.19%	-4.50%	-0.31%
Interest Differential	1.62%	1.72%	0.10%	1.66%	1.60%	-0.06%
Yield on Earning Assets	5.21%	5.36%	0.14%	5.85%	6.10%	0.25%
Cost of Earning Assets	-3.20%	-3.23%	-0.03%	-3.84%	-4.11%	-0.27%
Interest Margin	2.01%	2.13%	0.11%	2.01%	1.99%	-0.02%
Average Interest Earning Assets / Average Assets	93.76%	93.43%	-0.33%	96.10%	95.78%	-0.32%
Interest Expense / Interest Income	66.37%	64.95%	1.42%	65.72%	67.26%	1.54%
Net Interest Income / Operating Income	74.47%	76.91%	2.44%	52.39%	66.66%	14.27%

Non-interest Income

Description (LBP Billion)	Years		Growth	
	2016	2017	Amount	%
Net Fee and Commission Income	122,475	137,322	14,847	12.12%
Gains booked on Financial Assets at Amortized Cost	4,283	4,796	512	11.96%
Realized Gain from Sale of AC investment Securities	11,615	428	(11,188)	-96.32%
Realized Gain from sale of FVTPL investment Securities	9,821	3,365	(6,455)	-65.73%
Change in fair value of Trading Portfolio	(2,467)	(4,261)	(1,794)	-72.72%
Net Gain on sale of Foreclosed Assets	2,734	370	(2,364)	-86.48%
Net Gain on sale of Property and Equipment	306	(54)	(360)	-117.66%
Share in Profit of an Associate	1,727	901	(826)	-47.83%
Foreign Exchange Gain	14,819	20,644	5,825	39.31%
Charge on Forward Contract	(3,152)	(4,239)	(1,088)	-34.52%
Other non-Interest Income	616	772	156	25.29%
Total	162,778	160,043	(2,735)	-1.68%

The non-interest income registered in 2017 a slight decrease by LBP 2.7 billion (-1.68%) which was mainly derived from the decrease in "Realized gain from sale of Amortized Cost Investment securities" by LBP 11.2 billion and from the sale of FVTPL Securities by LBP 6.5 billion. The shortage was partially offset by the increase in the more considered "operating profit", namely the "Net Fee and Commission Income" by LBP 14.8 billion (+12.12%) and the Foreign Exchange gain by LBP 5.8 billion (+39.31%).

By comparing Bank of Beirut non-Interest Income ratios with Peer Group averages, it is worth noting that in 2016 major banks have booked the net results from CBL swaps either as commission income or as other non-Interest Operating Income, which resulted in an obvious distortion of ratios.

Ratio	Bank of Beirut			Peer Group		
	2016	2017	Variance	2016	2017	Variance
Net non interest Income/Average Assets	0.65%	0.60%	-0.05%	1.67%	1.00%	-0.67%
Non-Interest income/Operating income	25.53%	23.09%	-2.44%	40.26%	29.80%	-10.46%
Non-Interest Income/Average Deposits	0.87%	0.82%	-0.05%	3.65%	2.13%	-1.52%
Net-Commissions received/Average Deposits	0.66%	0.70%	0.05%	1.80%	1.00%	-0.81%

Provisions for credit losses

Description (LBP Billion)	Years		Growth	
	2016	2017	Amount	%
Provisions against Credit Risk charged during the year	9,439	26,795	17,356	183.88%
Provisions for Loans to Banks	772	(1,002)	(1,774)	-229.81%
Write-back of provision during the year	(9,810)	(3,795)	6,015	-61.32%
Collections on Loans transferred to off-balance-sheet	-	(23)	(23)	
Loss from write-off of Loans	153	34	(119)	-77.76%
Net provisions against Credit losses	554	22,009	21,455	3,874.68%
Provision for insurance Liabilities	2,433	6,059	3,626	149.03%
Provision for Risks and Charges	-	3,000	3,000	
Other (net)	-	494	494	
Other Provisions (net)	2,433	9,553	7,120	292.62%
Total	2,987	31,562	28,575	956.67%

Other operating expenses

Description (LBP Billion)	Years		Growth	
	2016	2017	Amount	%
Staff Expenses	166,968	174,580	7,613	4.56%
General Operating Expenses	100,427	108,331	7,904	7.87%
Depreciation and Amortization	22,332	22,902	570	2.55%
Total	289,727	305,813	16,087	5.55%

The main drivers behind the 5.55% year-on-year increase in the operating expenses could be summarized by the following:

- Staff count growth by 146 Full-Time Employees during 2017
- Opening of 4 new branches in Lebanon
- Increased IT investment (strategic new applications e.g. Lending Solution, CRM, Online Banking, Mobile Banking, etc.)

Operating Efficiency

On the operating efficiency level, cost to income ratio decreased slightly to reach 44.13% due to moderate increase in Operating

Expenses (+5.55%) as compared to much higher increase in Operating (+8.70%).

Ratio	Unit	Bank of Beirut			Peer Group		
		2016	2017	Variance	2016	2017	Variance
Cost ratios							
Staff Expenses / Operating Income	%	26.19%	25.19%	-1.00%	21.87%	25.99%	4.12%
General Expenses / Operating Income	%	15.75%	15.63%	-0.12%	14.17%	17.80%	3.63%
Depreciation / Operating Income	%	3.50%	3.30%	-0.20%	2.72%	3.12%	0.41%
Impairment of Goodwill / Operating Income	%	0.00%	0.00%	0.00%	3.30%	1.92%	-1.37%
Cost to Income Ratio	%	45.45%	44.13%	-1.32%	42.05%	48.84%	6.79%
Cost to Average Assets	%	1.15%	1.14%	-0.01%	1.56%	1.39%	-0.17%
Effective Tax Rate	%	11.96%	13.35%	1.39%	23.60%	18.43%	-5.18%
Operating efficiency							
Number of Staff	Count	1,851	1,996	146	30,865	30,854	(11)
Number of Branches and Banking Units	Count	87	91	4	1,211	1,197	(14)
Staff per Branch	Count	21.3	21.9	0.7	25.5	25.8	0.3
Average Assets per average Staff	LBP million	13,644	13,937	293	10,323	11,027	704
Average Deposits per average Staff	LBP million	10,116	10,143	27	8,428	8,766	338
Staff Expenses per average Staff	LBP million	91	91	0	84	81	(2)
Operating Income per average Staff	LBP million	346	360	14	382	313	(69)
Net Profit per average Staff	LBP million	165	160	(5)	111	117	7
Assets per Branch	LBP million	298,174	304,254	6,080	254,092	275,173	21,081
Total Deposits per Branch	LBP million	217,503	220,962	3,459	219,581	229,835	10,254
Operating Income per Branch	LBP million	7,328	7,616	288	9,744	8,073	(1,671)
Net profit per branch	LBP million	3,489	3,386	(103)	2,819	3,024	205

As indicated in the table above, the Bank has been able to preserve and enhance most of the operating efficiency indicators within good ranges as compared to year 2016 and to the Peer Group:

Evolution of number of Full-Time Employees:

Bank of Beirut group (count)	Count			Breakdown		Variance - Peer Group Share	
	31-Dec-16	31-Dec-17	Variance	31-Dec-16	31-Dec-17	31-Dec-16	31-Dec-17
Banking Entities	1,776	1,916	140	95.95%	95.94%	6.13%	6.64%
Non-Banking Entities	75	81	6	4.05%	4.06%	3.97%	4.06%
Total	1,851	1,997	146	100.00%	100.00%	6.00%	6.47%
Staff in Lebanon	1,512	1,615	104	81.69%	80.92%	6.90%	7.09%
Staff Abroad	339	381	42	18.31%	19.08%	3.78%	4.72%
Total	1,851	1,996	146	100.00%	100.00%	6.00%	6.47%

Calculation of Earnings per Common Share (EPS)

Description (LBP Billion)	Years		Growth	
	2016	2017	Amount	%
Consolidated Net Profit	303,567	308,156	4,588	1.51%
(Less) Non-Controlling Interests	(76,271)	(72,631)	3,640	-4.77%
Consolidated Net Profit - Equity Holders of the Group	227,297	235,525	8,228	3.62%
(Less) Priority Dividends on Priority Common Shares	(6,030)	(6,030)	-	0.00%
Dividends on non-Cumulative Preferred Shares	(50,465)	(56,828)	(6,363)	12.61%
Common Earnings	170,801	172,667	1,866	1.09%
Weighted Average number of Common Shares	51,924,203	52,986,943	1,062,740	2.05%
Weighted Average number of Priority Common Shares	4,627,377	4,677,788	50,411	1.09%
Total Weighted Average number of Common Shares	56,551,580	57,664,731	1,113,151	1.97%
Basic Earnings per Common Share	LBP 3,020	2,994	(26)	-0.86%
Basic Earnings per Priority Common Share	LBP 4,324	4,283	(40)	-0.93%
Diluted Earnings per share	LBP 3,020	2,994	(26)	-0.86%

The common earnings (net profit attributable to Common Shareholders) recorded a slight growth of 1.09% in 2017 after accounting for the Preferred Shares Dividends and the Priority Dividends for Priority Common Shares (i.e. 4% of issue price per

Share – USD 21). The additional growth in the weighted average number of Common Shares of 1.97% pushed the Basic Earnings per Common Share (EPS) to LBP 2,994 in 2017 from LBP 3,020 for the year 2016, a slight decline by 0.86%.

Calculation of Preferred Shares Dividends

Issue	Issue Value	Dividend	Dividends (USD)	
	USD	Rate	2016	2017
Preferred Shares Series "G"	124,950,000	6.75%	8,434,125	8,434,125
Preferred Shares Series "H"	135,000,000	7.00%	9,450,000	9,450,000
Preferred Shares Series "I"	125,000,000	6.75%	8,437,500	8,437,500
Preferred Shares Series "J"	75,000,000	6.50%	4,875,000	4,875,000
Preferred Shares Series "K" *	100,000,000	6.50%	2,273,224	6,500,000
			33,469,849	37,696,625

* PS series K closing date 25 August 2016

C- CAPITALIZATION

The Bank's consolidated equity grew by LBP 63.3 billion, reaching LBP 3,547 billion as at 31 December 2017, an increase of 1.82% compared to 2016 year-end.

Description (LBP Billion)	Balances		Growth	
	31-Dec-16	31-Dec-17	Amount	%
Ordinary Share Capital	77,650	77,650	-	0.00%
Shareholders' Cash Contribution to Capital	20,978	20,978	-	0.00%
Priority Common Shares	150,753	150,753	-	0.00%
Non-Cumulative Preferred Shares	844,125	844,125	-	0.00%
Issue Premium on Common Shares	303,519	303,519	-	0.00%
Reserves and Retained Earnings	761,696	885,846	124,150	16.30%
Treasury Shares	(56,879)	(105,831)	(48,952)	86.06%
Hedge Accounting & Translation Adjustments	(26,274)	(18,132)	8,142	-30.99%
Net profit after Tax - Group Share	227,297	235,525	8,228	3.62%
Equity attributable to the Equity Holders	2,302,865	2,394,433	91,568	3.98%
Non-Controlling interests	1,180,355	1,152,108	(28,246)	-2.39%
Total Equity	3,483,220	3,546,541	63,322	1.82%

The growth in Equity was mainly derived from the following:

- Increase in reserves and retained earnings by LBP 135 billion
- Decrease in non-controlling interests by LBP 28.2 billion due to the decline of the Net Asset Value of Consolidated Mutual Funds
- The increase in Net Profit – Equity Holders by LBP 8.2 billion.
- The decrease of the hedge accounting & translation adjustment due to the better valuation of the AUD hedge position.

With the achieved level of Equity, Bank of Beirut reflected the highest Capitalization Levels among its Peer Group, achieving the 1st rank, among the Alpha Group Banks, with "Equity to Asset Ratio" of 12.81% as at 31 December 2017 compared to 9.35% for the Peer Group.

Distribution of Equity by type:

Description (LBP Billion)	Balances		Growth	
	31-Dec-16	31-Dec-17	Amount	%
Common Equity	1,458,740	1,550,309	91,568	6.28%
Preferred Equity	844,125	844,125	-	0.00%
Equity attributable to the Equity Holders	2,302,865	2,394,433	91,568	3.98%
Non-controlling Interests	1,180,355	1,152,108	(28,246)	-2.39%
Total Equity	3,483,220	3,546,541	63,322	1.82%

As shown in the table above, the Preferred Equity Share of total Shareholders' Equity (controlling interests) decreased from 36.66% as at 31 December 2016 to 35.25% as at year-end 2017.

Capital Structure

The Bank's capital constitutes Common, Priority and Preferred Shares as follows:

Description (LBP Billion)	Number of Shares	
	31-Dec-16	31-Dec-17
Common shares	53,184,900	53,184,900
Priority Common Shares	4,762,000	4,762,000
Preferred Shares Series "G"	3,570,000	3,570,000
Preferred Shares Series "H"	5,400,000	5,400,000
Preferred Shares Series "I"	5,000,000	5,000,000
Preferred Shares Series "J"	3,000,000	3,000,000
Preferred Shares Series "K"	4,000,000	4,000,000
Total	78,916,900	78,916,900

As shown in the table above, there has been no change in the capital structure during 2017.

Preferred Shares overview

Currently, the total issue value of the outstanding Preferred Shares stands at around USD 559.95 million, representing 35.25% of total

Shareholders' Equity – Equity Holders of the Bank. The main features of the outstanding Preferred Shares are as follows:

Description	Series "G"	Series "H"	Series "I"	Series "J"	Series "K"
Number of Shares	3,570,000	5,400,000	5,000,000	3,000,000	4,000,000
Issue price per Share	\$35.00	\$25.00	\$25.00	\$25.00	\$25.00
Issue Size (USD 000's)	\$124,950	\$135,000	\$125,000	\$75,000	\$100,000
Dividend rate p.a.	6.75%	7.00%	6.75%	6.50%	6.50%
Non-Cumulative, Perpetual, Redeemable	Yes	Yes	Yes	Yes	Yes
Convertible to Common Shares	Yes	No	No	No	No
Redemption price per Share	\$35.00	\$25.00	\$25.00	\$25.00	\$25.00
Conversion exercise price	\$35.00	-	-	-	-
Redemption right holder	BOB	BOB	BOB	BOB	BOB
Conversion right holder	Holder	-	-	-	-
Conversion date	30-Dec-15	-	-	-	-
Listing on Beirut Stock Exchange	No	Yes	Yes	Yes	Yes
Issue date	29-Sep-10	30-Jun-11	19-Nov-12	17-Nov-14	26-May-16
Closing date *	29-Dec-10	28-Sep-11	28-Dec-12	26-Dec-14	25-Aug-16
First redemption exercise date	30-Dec-16	30-Dec-16	30-Dec-17	30-Dec-19	30-Dec-21
Second redemption exercise date	30-Dec-17	30-Dec-18	30-Dec-19	30-Dec-21	30-Dec-23
Next redemption exercise date	30-Dec-18	30-Dec-18	30-Dec-19	30-Dec-21	30-Dec-23

* Closing date: the date of the Bank's Extraordinary General Meeting of Shareholders that verifies the validity and ascertains the payment of capital increase related to the issuance

Capital Adequacy

Maintaining its position as the Bank with highest capitalization level among the Peer Group Banks, Bank of Beirut reflected a very healthy set of Capital ratios.

The high level of Capital Adequacy confirmed the Bank's strategy in strengthening its Capital base in order to fund its expansion strategy, in addition to complying comfortably with the Basel III requirements; taking into consideration the increasing risk weights applied on the exposure to Lebanese Sovereign Risk.

Capital Adequacy Ratio under Basel III

Description (LBP Billion)	Balances/Ratio		Variation	
	31-Dec-16	31-Dec-17	Amount	%
Common Equity (Net)	1,299,446	1,380,366	80,920	6.23%
Additional Tier 1 Capital (Net)	844,125	844,125	-	0.00%
Net Tier 2 Capital	14,449	13,157	(1,293)	-8.95%
Total Regulatory Capital	2,158,020	2,237,647	79,627	3.69%
RWA - Credit Risk	13,383,464	13,548,257	164,794	1.23%
RWA - Market Risk	85,010	105,952	20,941	24.63%
RWA - Operational Risk	973,383	1,056,679	83,296	8.56%
Total RWA	14,441,857	14,710,887	269,031	1.86%
Common Equity Ratio Tier 1 Ratio	9.00%	9.38%	0.39%	
Tier 1 Capital Ratio	14.84%	15.12%	0.28%	
Total Capital Ratio	14.94%	15.21%	0.27%	

NB: Calculation of Capital ratios is based on Consolidated Financial Statements after de-consolidation of the controlled Investment Funds.

Under Basel III, the Capital Adequacy ratio stood at year-end 2017 at 15.21%, up from 14.94% as at 31 December 2016, compared to the minimum required ratio by the Central Bank of Lebanon of 14.50%. The calculation of year-end 2017 ratios took into consideration the retained earnings from year 2017 consolidated net profit after accounting for the Preferred Shares Dividends, Priority Dividends for

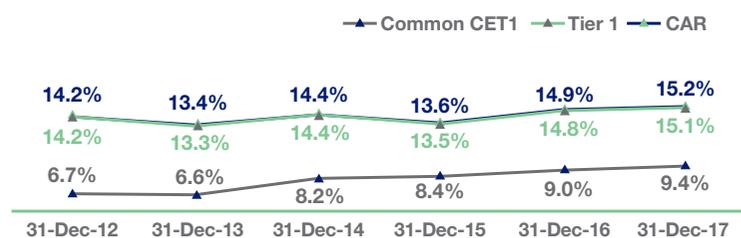
Priority Shares and the suggested Common Shares Dividends (i.e. LBP 1,150 per share – subject to BOD and OGM approval).

Pursuant to the Central Bank's Decision, with respect to the application of the Basel III regulation, all banks operating in Lebanon must gradually reach the following capital ratios:

Minimum Regulatory Ratios	Minimum Ratios			
	31-Dec-15	31-Dec-16	31-Dec-17	31-Dec-18
Common Equity Tier 1 Ratio	8.00%	8.50%	9.00%	10.00%
Tier 1 Capital Ratio	10.00%	11.00%	12.00%	13.00%
Capital Ratio	12.00%	14.00%	14.50%	15.00%

As shown in the tables below, Bank of Beirut is already compliant with Basel III capital requirements, more specifically, with a Common Equity Ratio of 9.42% (as compared to 9.00% minimum required):

Evolution of Capital Adequacy Ratios



Leverage Ratios

Description (LBP million)	Balances/Ratio		Variation	
	31-Dec-16	31-Dec-17	Amount	%
Common Equity (Net)	1,299,446	1,380,366	80,920	6.23%
Additional Tier 1 Capital (Net)	844,125	844,125	-	0.00%
Net Tier 2 Capital	14,449	13,157	(1,293)	-8.95%
Total Regulatory Capital	2,158,020	2,237,647	79,627	3.69%
On-Balance Sheet Exposure	24,747,869	26,526,054	1,778,186	7.19%
Off-Balance Sheet Exposure	2,427,440	2,053,548	(373,892)	-15.40%
Total Credit Exposure	27,175,308	28,579,602	1,404,294	5.17%
Common Tier 1 Leverage Ratio	4.78%	4.83%	0.05%	
Tier 1 Leverage Ratio	7.89%	7.78%	-0.10%	
Total Leverage Ratio	7.94%	7.83%	-0.11%	

D- SHARE INFORMATION

Common Shares performance

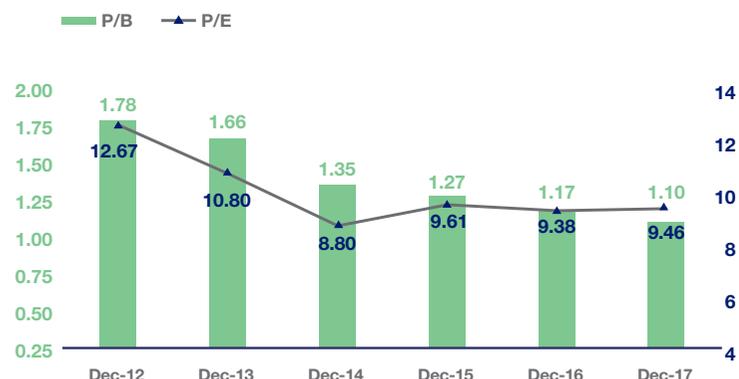
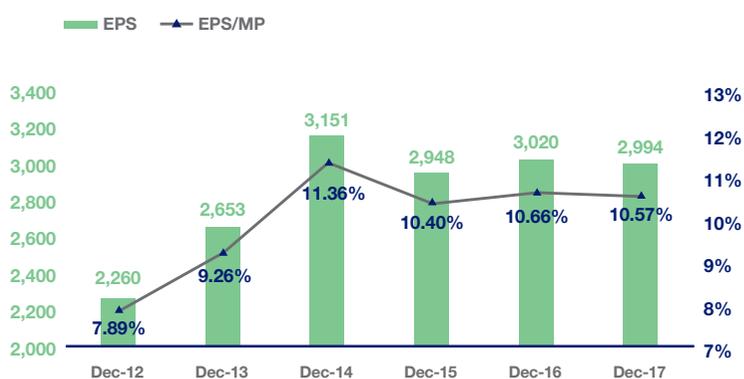
Indicator	Unit	31-Dec-16	31-Dec-17	Variance
Common Share market price	LBP	28,341	28,341	-
Priority Share Market Price	LBP	31,658	31,658	-
Total Number of Ordinary Common Shares	Count	53,184,900	53,184,900	-
Total Number of Priority Common Shares	Count	4,762,000	4,762,000	-
Common Equity Book Value (1)	LBP million	1,402,254	1,487,451	85,196
Common Share Book Value	LBP	24,199	25,669	1,470
Market Capitalization (end of period)	LBP million	1,658,066	1,658,066	-
Market Value added	LBP million	255,812	170,616	(85,196)
Market Value added/Market Capitalization	%	15.43%	10.29%	-5.14%
Basic Earnings per Share (EPS)	LBP	3,020	2,994	(26)
Basic EPS / Common Share Market Price	%	10.66%	10.57%	-0.09%
Price to Common Earnings - P/E Ratio (2)	Times	9.38	9.46	0.08
Price to Common Book Value - M/B Ratio	Times	1.17	1.10	(0.07)
Price to Assets	%	6.39%	5.99%	-0.40%

(1) Including the common earnings of the year & Excluding non-controlling interest

(2) Calculated as basic earnings per share / common share market price

The Common Share market price was stable during 2017 at USD 18.80. Since there has been no issuance of new Common Shares, the market capitalization stabilized at LBP 1,658 billion (USD 1,100 million). However, the book value per Common Share increased by 6.08% due to the increase of Common Equity Book Value.

Consequently, the “price to Book Value” decreased to 1.10 times, compared to 1.17 times at the end of year 2016. The “price to Assets” ratio stood at a very healthy level of 5.99%, one of the lowest in the market.





Listing of outstanding Shares at Beirut Stock Exchange

Number of Shares (Count)	Status		
	Listed	Non-Listed	Total
Ordinary Common Shares	17,746,417	35,438,483	53,184,900
Priority Common Shares	4,762,000		4,762,000
Total Common Shares	22,508,417	35,438,483	57,946,900
Preferred Shares Series "G"		3,570,000	3,570,000
Preferred Shares Series "H"	5,400,000		5,400,000
Preferred Shares Series "I"	5,000,000		5,000,000
Preferred Shares Series "J"	3,000,000		3,000,000
Preferred Shares Series "K"	4,000,000		4,000,000
Total Preferred Shares	17,400,000	3,570,000	20,970,000
Total Shares	39,908,417	39,008,483	78,916,900
Listed Common / Total Common	38.84%		
Total Listed / Total Shares	50.57%		

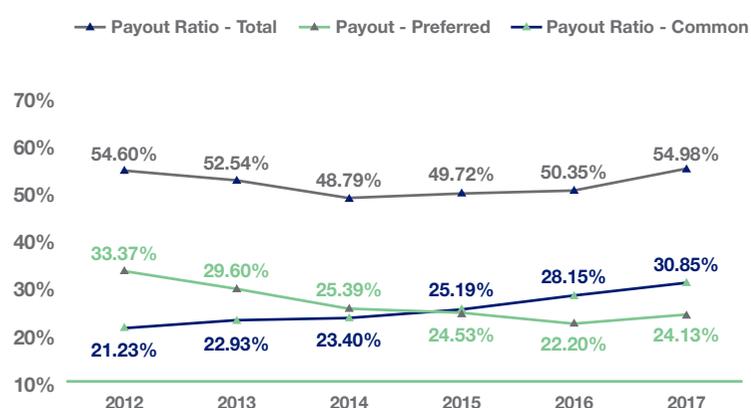
E- DIVIDENDS

The General Assembly has decided during its meeting held on 04/05/2018, the appropriation of Bank of Beirut year 2017 Net Profit as follows:

Description (LBP million)	Fiscal Year		Growth	
	2016	2017	Amount	%
Net Profit after Tax	303,567	308,156	4,588	1.5%
(Less) Non-controlling Interests	(76,271)	(72,631)	3,640	-4.8%
Net Profit after Tax - Equity Holders	227,297	235,525	8,228	3.6%
Deductions				
Dividends on Preferred Shares	50,456	56,828	6,372	12.6%
Priority Dividends on Priority Shares	6,030	6,030	-	0.0%
Legal Reserve	18,988	19,945	957	5.0%
Regulatory Reserve for General Banking Risk	27,000	-	(27,000)	-100.0%
Regulator Reserves on Foreclosed Assets	1,368	2,295	927	67.8%
Regulatory Reserves from Net Gain on sale foreclosed Properties	2,734	370	(2,364)	-86.5%
Regulatory Reserves from Realized Profit on Treasury Shares	63	372	308	488.4%
Regulatory Reserves against performing Retail Loan Portfolio	2,200	-	(2,200)	-100.0%
Total deductions	108,838	85,839	(22,999)	-21.1%
Net profit eligible for distribution	194,729	222,317	27,588	14.2%
Number of outstanding Common Shares	57,946,900	57,946,900	-	0.0%
Declared Dividend per Common Shares (LBP)	1,000	1,150	150	15.0%
Total suggested dividends to common shareholders	57,947	66,639	8,692	15.0%
Retained Earnings & other reserves	136,782	155,678	18,896	13.8%

The suggested increase in Dividend per Share (DPS) from LBP 1,000 to LBP 1,150 (+15.00%) shall boost the Dividend Yield (DPS/Market price of the Share) from 3.53% to 4.06% while maintaining the

Dividend payout ratio of Common Shares for year 2017 at a close range of year 2016 (i.e. 30.85% in 2017 as compared to 28.15% in 2016)



F- LIQUIDITY

The conservation of adequate liquidity has invariably been the Bank's policy to retain a high level of liquid assets and a diversified and stable funding base.

Monitored and controlled by the Asset Liability Committee (ALCO), the liquidity position of the Bank is managed on daily basis by the Treasury Department with liquidity risks being consistently measured, monitored, and scrutinized by the Risk Management Department. Ensuring low liquidity risk is evidenced by the following factors:

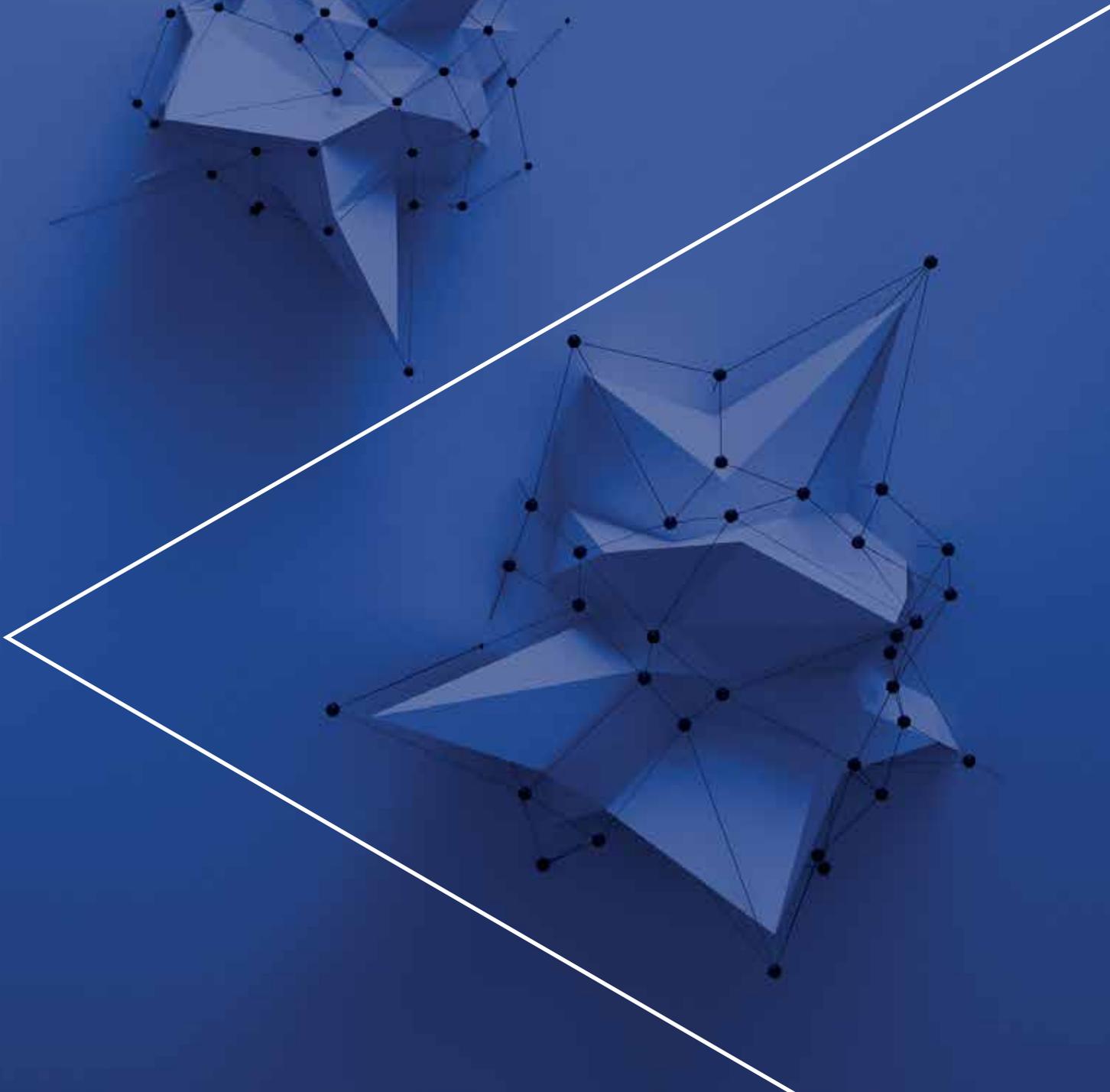
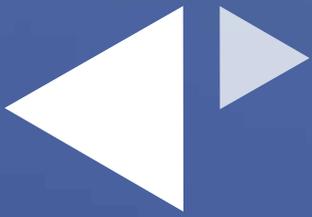
- Sufficient high-quality liquid assets, including high level placements with well reputed and highly rated global banks
- Diversification in the Securities Portfolio
- Stability in customers' deposits
- Manageable cash-flow mismatching gaps
- Non-reliance on whole-sale funding

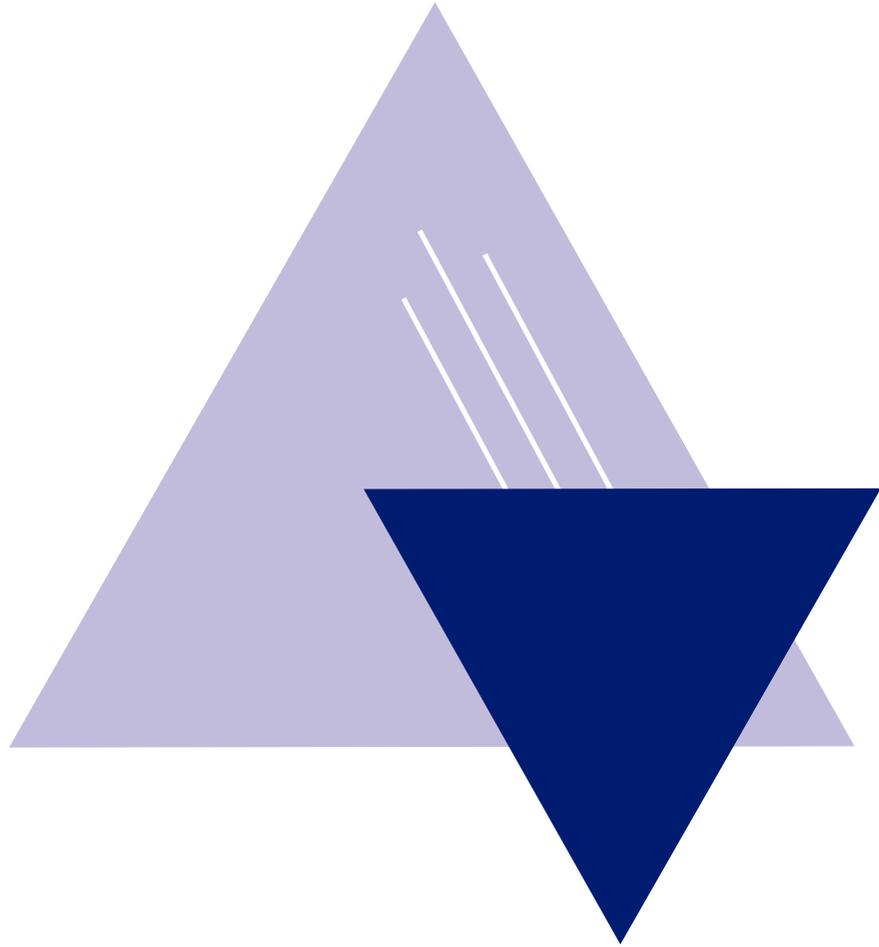
The liquidity ratios, in both local and foreign currencies, maintained the healthy levels of 2016, while the loan to deposit ratio increasing to the level of 42.64%.

Description (LBP million)	LBP		FCY	
	31-Dec-16	31-Dec-17	31-Dec-16	31-Dec-17
Cash on hand	18	24	30	33
Due from Central Bank(s)	1,758	2,157	3,864	4,367
Due from Banks & Financial Institutions	36	21	1,471	1,527
(Less): Due to banks & Financial Institutions	(279)	(114)	(1,725)	(1,981)
(Less): Pledged Deposits with Banks	-	-	(68)	(73)
Equity Instruments at FVTPL	-	-	67	63
Debt Instruments at FVTPL	903	910	511	534
Core Liquid Assets	2,436	2,998	4,152	4,470
Debt Instruments at Amortized Cost	3,782	3,191	5,331	5,119
Equity Instruments at FVOCI	5	5	4	5
Loans to Banks	22	18	246	279
Other Liquid Assets	3,809	3,214	5,580	5,403
Total Net Liquid Assets	6,245	6,212	9,732	9,873
Customers' Deposits	5,747	5,626	13,176	14,482
(Less): Cash Collateral & Margins	(409)	(400)	(995)	(1,162)
Certificates of Deposits	-	-	1	1
Other Borrowings	492	690	96	303
Liabilities Under Acceptance	-	-	267	357
Other Liabilities	109	90	283	200
Total Financial Liabilities	5,939	6,006	12,827	14,181
Core liquidity Ratio	41.02%	49.92%	32.37%	31.52%
Total Net Liquidity Ratio	105.16%	103.44%	75.87%	69.63%

Other Liquidity KPIs as compared with Peer Group:

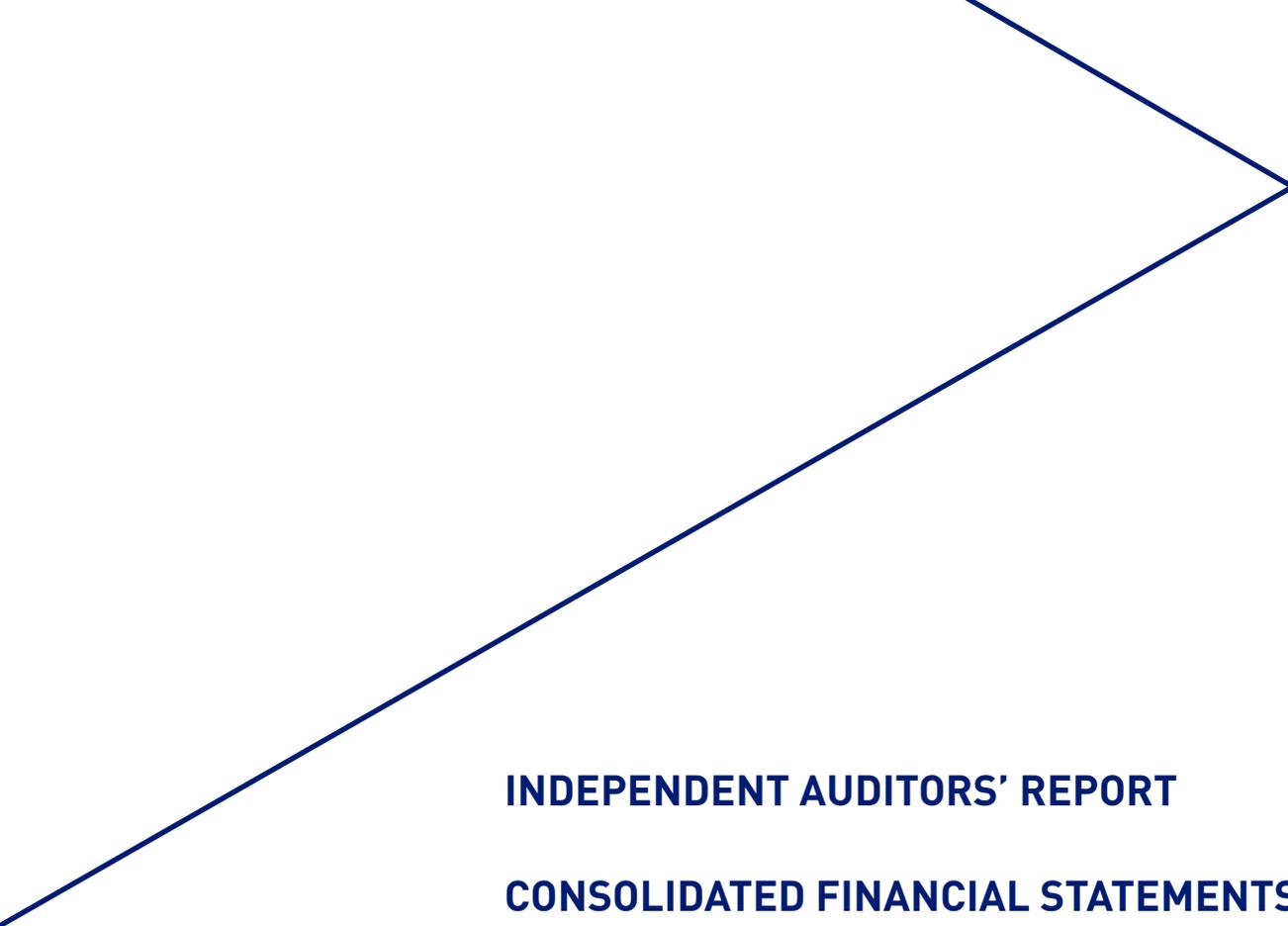
Ratio	Bank of Beirut			Peer Group		
	31-Dec-16	31-Dec-17	Variance	31-Dec-16	31-Dec-17	Variance
Loans in LBP to Deposits in LBP Ratio	28.95%	32.30%	3.35%	24.44%	28.87%	4.44%
Loans in FCY to Deposits in FCY Ratio	41.96%	46.65%	4.69%	42.49%	39.35%	-3.14%
Loans to Deposits Ratio	38.01%	42.64%	4.63%	37.07%	36.42%	-0.64%
Deposits (LBP) / Assets (LBP)	68.64%	67.31%	-1.33%	74.26%	67.15%	-7.11%
Deposits (FCY) / Assets (FCY)	75.00%	74.92%	-0.08%	83.95%	83.80%	-0.14%
Deposits / Assets	72.95%	72.62%	-0.32%	80.78%	78.37%	-2.41%
Investment Securities Portfolio in LBP / Total Assets in LBP	56.02%	49.14%	-6.88%	42.43%	34.05%	-8.38%
Investment Securities Portfolio in FCY / Total Assets in FCY	33.65%	29.60%	-4.05%	26.46%	23.46%	-3.00%
Investment Securities Portfolio / Total Assets	40.87%	35.50%	-5.38%	31.68%	26.91%	-4.76%





CONSOLIDATED
FINANCIAL STATEMENTS



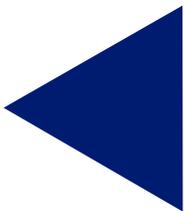


INDEPENDENT AUDITORS' REPORT

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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying consolidated financial statements of Bank of Beirut S.A.L. (the "Bank") and its subsidiaries (collectively the "Group"), which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of profit or loss, 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, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Key Audit Matters

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

Key audit matters

Impairment of loans and advances

The calculation of the impairment of the loans and advances portfolio is inherently judgmental as it involves significant subjective assumptions made by the management of the Group. Due to the significance of the loans and advances portfolio and the related uncertainty estimation associated to the impairment determination, this is considered a key audit matter.

For corporate loans portfolio which generally comprises larger loans, Management monitors and performs an impairment assessment of the loans and advances portfolio on an individual basis by relying on its knowledge of each debtor and provides for impaired loans. For those loans that are considered to be unimpaired, Management performs an assessment of impairment on a collective basis after segregating the loans portfolio by brackets split between loans in LBP and loans in foreign currencies.

The retail loan portfolio generally comprises much greater number of customers. Therefore, provisions for other than those that are calculated on an individual basis are determined by grouping into homogenous portfolios by product. The loan portfolios that give rise to the greatest uncertainty are typically those where impairment is derived from models for collective assessment which are subject to Management's assumptions.

How our audit addressed the key audit matters

The risks outlined were addressed as follows:

We tested the design and operating effectiveness of the relevant controls that Management has put in place to identify which loans and advances are potentially impaired on an individual basis and the impairment loss setup against these loans. These tests included testing of:

- Controls over the timely recognition of impaired loans and advances;
- Controls over the impairment calculation models, including data inputs; and
- Controls over collateral valuation estimates.

For impairment allowances against collectively assessed loans and advances, substantially covered by the regulatory designated deferred liability set up in anticipation of IFRS 9, we critically assessed Management's assumptions, and estimations, in particular with respect to the inputs into the impairment model in particular historical default rates.

For non-performing loans, we tested the valuation model used by Management to determine the expected recoverable amount, including testing the expected future cash flows, the collateral value and the rate used to discount these to the present.

We examined a sample of loans and advances, which had not been identified by management as potentially impaired and formed our own judgement as to whether that was appropriate.

For retail loans, specific and collective impairment allowances are calculated using a simple model, which is based on a percentage of overdue but not impaired balances. 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 allowances.

Key audit matters

How our audit addressed the key audit matters

Impairment of Goodwill

As at December 31, 2017, the Group has goodwill of LBP88.6billion of which LBP86.6billion related the Group's acquisition of Bank of Sydney Ltd in prior years. Management performs an annual impairment test on the recoverability of the goodwill as required by International Financial Reporting Standards which is subjective in nature due to judgements made related to assumptions made by management. Due to the level of judgement and the significance to the Group's financial position, this is considered to be a key audit matter. Management performs the calculation of the impairment of goodwill using the average price-to-book ratio applicable to banks in Australia after applying a haircut to adjust for the size of the Australian subsidiary in addition to a premium of control.

The risk of inadequate determination of the impairment of goodwill was addressed in our audit by obtaining the impairment calculation used by Management and verifying the inputs related to price to book of top banks in Australia as at December 31, 2017 by comparing these inputs with externally derived data as well as our own assessments based on our knowledge of the Group and the industry. We also assessed the reasonableness of the haircut and premium control applied by management.

Impairment of Investment in an Associate

The Group's investment in an associate in the amount of LBP41.5billion as at December 31, 2017 is considered material to the consolidated financial statements and related impairment involves considerable estimation uncertainty. The Group uses the equity method of accounting to account for the investment in the Group's consolidated financial statements. The determination of recoverable amount of the Group's investment in an associate relies on management's estimates of future cash flows and judgement with respect to the associate's performance. Due to the uncertainty of forecasting future cash flows, the level of management's judgement involved and the significance of the Group's investment in an associate this is considered to a key audit matter.

Our audit procedures included the review of model used by management and assessment of the assumptions made by management with respect to historical and projected earnings derived from the associate. Furthermore, we assessed the reasonableness of the multiple applied to the average earnings taking into consideration market conditions in the country of incorporation of the associate.

Other Information

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

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

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

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

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

Beirut, Lebanon
April 20, 2018


DFK Fiduciaire du Moyen Orient


Deloitte & Touche

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

ASSETS

As at December 31 st - LBP'000	Notes	2017	2016
Cash and deposits at central banks	5	6,581,635,483	5,670,659,645
Deposits with banks and financial institutions	6	1,547,299,126	1,507,514,206
Financial assets at fair value through profit or loss	7	1,507,433,409	1,481,295,880
Loans to banks	8	292,410,807	263,273,658
Loans and advances to customers	9	8,445,100,947	7,086,389,206
Loans and advances to related parties	10	128,160,657	105,951,510
Investment securities	11	8,321,007,613	9,121,676,399
Customers' liability under acceptances	12	357,494,071	267,377,142
Investment in an associate	13	41,535,338	40,876,914
Assets acquired in satisfaction of loans	14	22,742,704	24,767,329
Property and equipment	15	280,703,585	219,599,671
Goodwill	16	88,564,254	88,429,315
Other assets	17	73,049,675	63,311,867
Total Assets		27,687,137,669	25,941,122,742

FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISKS

As at December 31 st - LBP'000	Notes	2017	2016
Letters of guarantee and standby letter of credit	44	681,307,067	780,140,390
Documentary and commercial letters of credit	44	448,119,144	554,346,573
Notional amount of interest rate swap	44	10,837,232	5,513,049
Forward exchange contracts	44	1,394,131,152	1,149,550,135
Fiduciary accounts	45	169,787,000	191,978,467

LIABILITIES

As at December 31 st - LBP'000	Notes	2017	2016
Deposits from banks and financial institutions	18	2,095,011,208	2,004,164,512
Customers' and related parties' deposits at amortized cost	19	20,107,581,304	18,922,782,997
Liabilities under acceptance	12	357,494,071	267,377,142
Other borrowings	20	993,565,272	587,663,688
Certificates of deposit	21	634,044	565,326
Other liabilities	22	528,083,050	630,326,673
Provisions	23	58,227,365	45,022,811
Total liabilities		24,140,596,314	22,457,903,149

EQUITY

As at December 31 st - LBP'000	Notes	2017	2016
Common share capital	24	77,649,954	77,649,954
Common priority shares	24	150,753,015	150,753,015
Preferred shares	25	844,124,625	844,124,625
Shareholders' cash contribution to capital	26	20,978,370	20,978,370
Reserves	27	819,813,487	766,037,222
Retained earnings		367,273,650	296,905,489
Cumulative change in fair value of fixed currency positions designated as hedging instruments	24	(39,267,559)	(50,000,712)
Cumulative change in fair value of investment securities at fair value through other comprehensive income		2,278,016	2,272,038
Treasury shares	28	(105,831,043)	(56,878,575)
Currency translation adjustment		21,135,608	23,726,824
Profit for the year	42	235,525,041	227,296,686
Equity attributable to the equity holders of the Bank		2,394,433,164	2,302,864,936
Non-controlling interests	29	1,152,108,191	1,180,354,657
Total equity		3,546,541,355	3,483,219,593
Total Liabilities and Equity		27,687,137,669	25,941,122,742

The accompanying notes 1 to 54 form an integral part of the consolidated financial statements

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

As at December 31 st - LBP'000	Notes	2017	2016
Interest income	31	1,251,878,868	1,136,261,446
Less: tax on interest	31	(6,553,371)	-
Interest income, net of tax		1,245,325,497	1,136,261,446
Interest expense	32	(808,803,778)	(754,102,838)
Net interest income		436,521,719	382,158,608
Fee and commission income	33	163,431,229	146,757,141
Fee and commission expense	34	(26,108,780)	(24,282,115)
Net fee and commission income		137,322,449	122,475,026
Net interest and other gains on financial assets at fair value through profit or loss	35	100,033,473	103,897,939
Gains recognized on financial assets measured at amortized cost (net)	11	427,788	11,615,492
Other operating income (net)	36	18,708,986	17,377,265
Net financial revenues		693,014,415	637,524,330
(Provision)/write-back of provision for credit losses (net)	37	(23,011,034)	218,200
Write-back of provision/(provision) for loans to banks (net)	8	1,002,038	(771,930)
Other provisions (net)	38	(9,553,264)	(2,433,215)
Net financial revenues after impairment charge for credit losses		661,452,155	634,537,385
Staff costs	39	(174,580,298)	(166,967,673)
General and administrative expenses	40	(108,330,535)	(100,426,910)
Depreciation and amortization	41	(22,902,361)	(22,332,023)
Profit before income tax		355,638,961	344,810,779
Income tax expense	22	(44,105,339)	(38,145,434)
Profit for the year		311,533,622	306,665,345
Deferred tax on undistributed profit	22	(3,377,969)	(3,098,004)
		308,155,653	303,567,341
Attributable to:			
Non-controlling interests	29	72,630,612	76,270,655
Equity holders of the Bank	42	235,525,041	227,296,686
Basic earnings per share in LBP	43	LBP2,994	LBP3,020
Basic earnings per priority share in LBP	43	LBP4,283	LBP4,323
Diluted earnings per share in LBP	43	LBP2,994	LBP3,020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

As at December 31 st - LBP'000	2017	2016
Profit for the year	308,155,653	303,567,341
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Foreign currency translation adjustment related to foreign operations	(2,591,216)	(125,835)
Change in fair value of cash flow hedge	248,646	294,441
Revaluation of fixed and special currency positions to hedge investments in foreign entities – Note 24	10,733,153	(5,229,807)
Net other comprehensive income/(loss) for the year	8,390,583	(5,061,201)
Total comprehensive income for the year	316,546,236	298,506,140
Attributable to:		
Equity holders of the Bank	243,915,624	222,235,485
Non-controlling interests	72,630,612	76,270,655
	316,546,236	298,506,140

LBP'000	Common Share Capital	Common Priority Shares	Non- Cumulative Preferred Shares	Shareholders' Cash Contribution to Capital	Owned Building Revaluation Surplus	Cumulative Change in Fair value of Fixed Positions Designated as Hedging Instruments
Balance January 1, 2016	71,159,034	150,753,015	693,374,625	20,978,370	1,668,934	(44,770,905)
Allocation of 2015 profit	-	-	-	-	-	-
Dividends paid on preferred shares (Note 30)	-	-	-	-	-	-
Dividends paid on common shares (Note 30)	-	-	-	-	-	-
Dividends paid on priority shares (Note 30)	-	-	-	-	-	-
Dividends paid to non-controlling interests	-	-	-	-	-	-
Dividends on treasury shares	-	-	-	-	-	-
Increase and reconstitution of capital (Note 24)	2,523,370	-	-	-	-	-
Issuance of common shares (Note 24)	3,967,550	-	-	-	-	-
Issuance of series "K" preferred shares (Note 25)	-	-	150,750,000	-	-	-
Redemption of series "E" preferred shares (Note 25)	-	-	-	-	-	-
Write off loans special reserves	-	-	-	-	-	-
Reclassification from free reserves (Note 14)	-	-	-	-	-	-
Change in treasury shares	-	-	-	-	-	-
Change in net asset value of funds	-	-	-	-	-	-
Effect of transactions with funds	-	-	-	-	-	-
Effect of exchange difference	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total comprehensive income for 2016	-	-	-	-	-	(5,229,807)
Balance December 31, 2016	77,649,954	150,753,015	844,124,625	20,978,370	1,668,934	(50,000,712)
Allocation of 2016 profit	-	-	-	-	-	-
Dividends paid on preferred shares (Note 30)	-	-	-	-	-	-
Dividends paid on common shares (Note 30)	-	-	-	-	-	-
Dividends paid on priority shares (Note 30)	-	-	-	-	-	-
Dividends paid to non-controlling interests	-	-	-	-	-	-
Dividends on treasury shares	-	-	-	-	-	-
Reclassification from free reserves (Note 14)	-	-	-	-	-	-
Change in treasury shares	-	-	-	-	-	-
Change in net asset value of funds	-	-	-	-	-	-
Effect of transactions with funds	-	-	-	-	-	-
Effect of exchange difference	-	-	-	-	-	-
Total comprehensive income for 2017	-	-	-	-	-	10,733,153
Balance December 31, 2017	77,649,954	150,753,015	844,124,625	20,978,370	1,668,934	(39,267,559)

Cumulative Change in Fair value of Investment Securities	Currency at Fair Value through Other Comprehensive Income	Reserve for Assets Acquired in Satisfaction of Loans	Reserves and Retained Earnings	Treasury Shares	Currency Translation Adjustment	Profit for the year	Equity Attributable to the Equity Holders of the Group	Non-Controlling Interest	Total
	2,273,469	8,507,799	885,434,444	(49,015,034)	23,852,659	221,221,886	1,985,438,296	1,015,412,566	3,000,850,862
-		1,823,676	219,398,210	-	-	(221,221,886)	-	-	-
-		-	(54,264,914)	-	-	-	(54,264,914)	-	(54,264,914)
-		-	(49,706,460)	-	-	-	(49,706,460)	-	(49,706,460)
-		-	(6,030,121)	-	-	-	(6,030,121)	-	(6,030,121)
-		-	-	-	-	-	-	(71,020,322)	(71,020,322)
-		-	506,010	-	-	-	506,010	-	506,010
-		-	(2,523,370)	-	-	-	-	-	-
-		-	71,410,465	-	-	-	75,378,015	-	75,378,015
-		-	-	-	-	-	150,750,000	-	150,750,000
-		-	-	-	-	-	-	-	-
-		-	(35,715)	-	-	-	(35,715)	-	(35,715)
-		(1,964,121)	1,964,121	-	-	-	-	-	-
-		-	-	(7,863,541)	-	-	(7,863,541)	-	(7,863,541)
-		-	-	-	-	-	-	155,835,812	155,835,812
-		8,507,799	11,101	-	-	-	11,101	3,855,946	3,867,047
(1,431)		1,823,676	(18,765,769)	-	-	-	(18,767,200)	-	(18,767,200)
-		-	5,213,980	-	-	-	5,213,980	-	5,213,980
-		-	294,441	-	(125,835)	227,296,686	222,235,485	76,270,655	298,506,140
2,272,038	8,367,354	1,052,906,423	(56,878,575)	23,726,824	227,296,686	2,302,864,936	1,180,354,657	3,483,219,593	
-		1,367,761	225,928,925	-	-	(227,296,686)	-	-	-
-		-	(50,455,797)	-	-	-	(50,455,797)	-	(50,455,797)
-		-	(57,946,900)	-	-	-	(57,946,900)	-	(57,946,900)
-		-	(6,030,121)	-	-	-	(6,030,121)	-	(6,030,121)
-		-	-	-	-	-	-	(72,055,871)	(72,055,871)
-		-	474,191	-	-	-	474,191	-	474,191
-		(105,589)	105,589	-	-	-	-	-	-
-		-	-	(48,952,468)	-	-	(48,952,468)	-	(48,952,468)
-		-	-	-	-	-	-	(32,111,280)	(32,111,280)
-		-	(34,998)	-	-	-	(34,998)	3,290,073	3,255,075
5,978		-	10,592,719	-	-	-	10,598,697	-	10,598,697
-		-	248,646	-	(2,591,216)	235,525,041	243,915,624	72,630,612	316,546,236
2,278,016	9,629,52	1,175,788,677	(105,831,043)	21,135,608	235,525,041	2,394,433,164	1,152,108,191	3,546,541,355	

CONSOLIDATED STATEMENT OF CASH FLOWS

As at December 31 st - LBP'000	Notes	2017	2016
Cash flows from operating activities:			
Profit for the year		308,155,653	303,567,341
Adjustments for:			
Income tax expense	22	44,105,339	38,145,434
Depreciation and amortization	41	22,902,361	22,332,023
Provision/(write-back of provision) for credit losses (net)	37	23,011,034	(218,200)
(Write-back of provision)/provision for loans to banks	8	(1,002,038)	771,930
Deferred tax on profits for distribution	22	3,377,969	3,098,004
Unrealized loss on assets at fair value through profit or loss	35	4,261,166	2,467,090
Gain on sale of assets acquired in satisfaction of loans	36	(369,532)	(2,733,594)
Loss/(gain) on sale on property and equipment	36	54,052	(306,049)
Share in profits of an associate	36	(900,983)	(1,727,069)
Provision for end of service indemnity for employees	23	4,376,454	6,439,370
Other adjustments and effect of difference on exchange		6,195,087	(18,512,802)
		414,166,562	353,323,478
Net increase in financial assets at fair value through profit or loss		(30,398,695)	(139,091,308)
Net (increase)/decrease in loans to banks		(28,104,967)	41,843,441
Net increase in loans and advances to customers	47	(1,381,891,368)	(774,776,028)
Net increase in loans and advances to related parties		(22,209,147)	(11,852,397)
Net increase in cash and deposits at central banks		(1,191,075,948)	(806,875,035)
Net increase in deposits with banks and financial institutions		(35,729,991)	(19,871,548)
Decrease/(increase) in investment securities		800,674,764	(353,540,005)
Net (increase)/decrease in other assets	47	(13,840,520)	4,575,712
Net increase/(decrease) in deposits from banks and financial institutions		355,070,302	(85,098,470)
Net (decrease)/increase in other liabilities	47	(149,726,929)	278,120,569
Net increase in provision for contingencies		9,005,487	2,445,867
Net increase in customers' and related parties' accounts at amortized cost		1,184,798,307	557,385,388
Change in fair value of cash flow hedge		248,646	294,441
Change in fair value of fixed currency positions designated as hedging instruments	24	10,733,153	(5,229,807)
Settlement of end-of-service indemnity	23	(177,387)	(4,460,685)
Other		-	5,213,980
Net cash (used in)/provided by operating activities		(78,457,731)	(957,592,407)
Cash flows from investing activities:			
Property and equipment		(78,463,523)	(27,175,834)
Proceeds from sale of assets acquired in satisfaction of loans		2,562,750	6,933,747
Proceeds from sale of property and equipment		147,239	1,058,868
Dividends from investment in an associate	13	242,559	1,139,451
Net cash used in investing activities		(75,510,975)	(18,043,768)
Cash flows from financing activities:			
Dividends paid		(186,014,498)	(180,515,318)
Issuance of common shares		-	75,378,015
Issuance of Series "K" preferred shares		-	150,750,000
Increase/(decrease) in other borrowings		405,901,584	(20,480,242)
Increase/(decrease) in certificates of deposit		68,718	(99,571)
Non-controlling interest		(28,856,205)	159,702,370
Change in treasury shares		(48,952,468)	(7,863,541)
Net cash provided by financing activities		142,147,131	176,871,713
Net decrease in cash and cash equivalents		(11,821,575)	(798,764,462)
Cash and cash equivalents - Beginning of year	47	1,960,601,684	2,759,366,146
Cash and cash equivalents - End of year	47	1,948,780,109	1,960,601,684

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Bank of Beirut S.A.L. (the “Bank”) is a Lebanese joint stock company listed on the Beirut stock exchange, registered under number 13187 in the Lebanese commercial register and under number 75 in the list of banks published by the Central Bank of Lebanon. The Bank was established in Lebanon in 1963 and provides a full range of banking services and operates through a network of 72 branches throughout Lebanon with a focus in the city of Beirut and its suburbs. The Bank has a branch in Cyprus and 5 branches in the Sultanate of Oman and representative offices in Dubai in the United Arab Emirates, Nigeria and Ghana. The Bank has a subsidiary bank in the UK acquired in 2002 and this subsidiary opened a

branch in Frankfurt during 2010. The Bank established during 2007 a new investment subsidiary bank under the name of Bank of Beirut Invest S.A.L. The Bank acquired a subsidiary bank in Sydney – Australia named “Laiki Bank” and changed its name to Beirut Hellenic Bank and in 2013 changed the name to Bank of Sydney Ltd. Further information on the Group’s structure is provided in Note 3(A). Information on other related party transactions of the Group is provided in Note 46.

The headquarters of Bank of Beirut S.A.L. are located in Fosh Street, Down Town 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 applied these amendments for the first time in the current year. The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilize a deductible temporary difference.
- The application of these amendments has had no impact on the Group’s financial statements.
- Amendments to IAS 7 Disclosure Initiative

- The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.
- Annual Improvements to IFRS Standards 2014–2016 Cycle – Amendments to IFRS 12
- The Group has applied the amendments to IFRS 12 included in the Annual Improvements to IFRSs 2014-2016 Cycle for the first time in the current year. The other amendments included in this package are not yet mandatorily effective and they have not been early adopted by the Group (see note 2.2).
- IFRS 12 states that an entity need not provide summarised financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests.
- The application of these amendments has had no effect on the Group’s consolidated financial statements as none of the Group’s interests in these entities are classified, or included in a disposal group that is classified as held for sale.

2.2 New and revised IFRS in issue but not yet effective

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

New and revised IFRS

- Annual Improvements to IFRS Standards 2014 – 2016 Cycle amending IFRS 1 and IAS 28 / *Effective for annual periods beginning on or after January 1, 2018*
- Annual Improvements to IFRS Standards 2015–2017 Cycle amending IFRS 3, IFRS 11, IAS 12 and IAS 23 / *Effective for annual periods beginning on or after January 1, 2019*
- IFRIC 22 Foreign Currency Transactions and Advance Consideration / *Effective for annual periods beginning on or after January 1, 2018*. The interpretation addresses foreign currency transactions or parts of transactions where:
 - there is consideration that is denominated or priced in a foreign currency;
 - the entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and
 - the prepayment asset or deferred income liability is non-monetary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- IFRIC 23 Uncertainty over Income Tax Treatments / *Effective for annual periods beginning on or after January 1, 2019*. The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:
 - Whether tax treatments should be considered collectively;
 - Assumptions for taxation authorities' examinations;
 - The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
 - The effect of changes in facts and circumstances.
- Amendments to IFRS 2 Share Based Payment regarding classification and measurement of share based payment transactions / *Effective for annual periods beginning on or after 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 / *Effective for annual periods beginning on or after January 1, 2018*
- Amendments to IAS 40 Investment Property: Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The paragraph has been amended to state that the list of examples therein is non-exhaustive / *Effective for annual periods beginning on or after January 1, 2018*
- IFRS 9 Financial Instruments (revised versions in 2010, 2013 and 2014) IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. The Group early adopted IFRS 9 (version 2009) effective January 1, 2011. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. 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 Group plans to adopt the new standard on the required effective date / *Effective for annual periods beginning on or after January 1, 2018*

In accordance with the transition provisions of IFRS 9 (2014), the Group will apply this standard retrospectively. The changes in measures arising on initial application will be incorporated through an adjustment to opening retained earnings or reserves (as applicable) as at 1 January 2018. Although IFRS 9 will be retrospectively applied, the Group is only permitted to restate comparatives if, 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. During 2017, the Group has performed a detailed impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018 when the Group will adopt IFRS 9. Overall, the Group expects no significant impact on its statement of financial position and equity except for the effect of applying the impairment requirements of IFRS 9. The Group expects an increase in the loss allowance resulting in a negative impact on equity as discussed below:

Classification and measurement

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

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

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

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

Impairment

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Stage 1

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

Stage 2

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

Stage 3

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

Key Considerations

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

Assessment of Significant Increase in Credit Risk

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

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

- The Group has established thresholds for significant increases in credit risk based on movement in PDs relative to initial recognition.
- Additional qualitative reviews will be performed to assess the staging results and make adjustments, as necessary, to better reflect the positions which have significantly increased in risk.
- IFRS 9 contains a rebuttable presumption that instruments which are 30 days past due have experienced a significant increase in credit risk. Movements between Stage 2 and Stage 3 are based on whether financial assets are credit-impaired as at the reporting date. The determination of credit-impairment under IFRS 9 will be similar to the individual assessment of financial assets for objective evidence of impairment under IAS 39.

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

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

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

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

Definition of default

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

Expected Life

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Hedge accounting

IFRS 9 also incorporates new hedge accounting rules that intend to align hedge accounting with risk management practices. IFRS 9 does not cover guidance on macro hedge accounting as IASB is working on it as a separate project. IFRS 9 includes an accounting policy choice to defer the adoption of IFRS 9 hedge accounting and to continue with IAS 39 hedge accounting. The Group, however, has elected to adopt the new hedge accounting provisions of IFRS 9. The existing hedging relationships will continue to qualify and be effective under the IFRS 9 hedge accounting provisions and will not have any transition impact on the Group financial statements.

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

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

	Estimated impact from classification and measurement	Estimated impact from recognition of Expected Credit Losses	Estimated Total Impact
ASSETS (LL Million)			
Cash and deposits with central banks	-	29,632	29,632
Deposits with banks and financial institutions	-	767	767
Loans to banks	-	1,604	1,604
Financial assets at fair value through profit or loss	-	-	-
Loans and advances to customers at amortized cost	-	105,516	105,516
Loans and advances to related parties at amortized cost	-	1,417	1,417
Financial assets at amortized cost	-	61,924	61,924
Financial assets at fair value through other comprehensive income	-	-	-
	-	200,860	200,860
LIABILITIES			
Other liabilities	-	200,860	200,860
	-	200,860	200,860
NET IMPACT ON EQUITY, INCLUDING			
Retained earnings	-	-	-
Reserves	-	-	-
Other components of equity	-	-	-
Non-controlling interests	-	-	-
	-	-	-

There will be no impact of the IFRS 9 transitional adjustments on equity as the balance of the regulatory deferred liability designated for IFRS 9 ECL as at December 31, 2017 is sufficient. The Bank

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

New and revised IFRSs

- IFRS 15 Revenue from Contracts with Customers / *Effective for annual periods beginning on or after January 1, 2018. In May 2014, IFRS 15 was issued which established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective.*

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

- *Step 1: Identify the contract(s) with a customer.*
- *Step 2: Identify the performance obligations in the contract.*
- *Step 3: Determine the transaction price.*
- *Step 4: Allocate the transaction price to the performance obligations in the contract.*
- *Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.*
- Under IFRS 15, an entity recognises when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

Management does not anticipate that the application of IFRS 15 will have a significant impact on the consolidated financial statements of the Group.

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

Management does not anticipate that the application of IFRS 16 will have a significant impact on the consolidated financial statements of the Group / *Effective for annual periods beginning on or after January 1, 2018*

- 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 / *Effective for annual periods beginning on or after January 1, 2019*
- Amendments to IFRS 7 Financial Instruments: Disclosures relating to disclosures about the initial application of IFRS 9 / *Effective 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 / *Effective 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 / *Effective for annual periods beginning on or after January 1, 2021*
- Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture / *Effective date deferred indefinitely. Adoption is still permitted.*
- Amendments to IFRS 9 Financial Instruments: Relating to prepayment features with negative compensation. This amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments / *Effective for annual periods beginning on or after January 1, 2019*

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

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

Basis of Preparation and Measurement:

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

- Land and building acquired prior to 1993 are measured at their revalued amounts based on market prices prevailing in 1996, to compensate for the effect of the Upper – inflationary economy prevailing in the earlier years.
- Financial assets and liabilities at fair value through profit or loss are measured at fair value.
- Equity securities at fair value through other comprehensive income are measured at fair value.
- Derivative financial instruments measured at fair value.

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

The principal accounting policies adopted are set out below:

A. Basis of Consolidation:

The consolidated financial statements of Bank of Beirut S.A.L. incorporate the financial statements of the Bank and entities controlled by the Bank and its subsidiaries. Control is achieved when the Bank:

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

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

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated subsidiaries consist of the following:

	Country of Incorporation	Year of Acquisition or Incorporation	Date of Liquidation	Percentage of Ownership		Business Activity
				2017	2016	
Bank of Beirut UK LTD	United Kingdom	2002	-	100	100	Banking
Bank of Beirut Invest S.A.L.	Lebanon	2007	-	100	100	Investment Banking
Beirut Broker Company S.A.R.L.	Lebanon	1999	-	100	100	Insurance brokerage
BOB Finance S.A.L.	Lebanon	2006	-	100	100	Money Transfer
Cofida Holding S.A.L.	Lebanon	2008	-	100	100	Holding
Beirut Life S.A.L.	Lebanon	2010	-	90	90	Insurance (Life)
Bank of Sydney Ltd	Australia	2011	-	100	100	Banking
Optimal Investment Fund	Lebanon	2010	-	-	-	Mutual Fund
Beirut Preferred Fund II	Cayman Island	2013	-	1.17	1.23	Mutual Fund
BOB LBP Growth Fund	Lebanon	2015	-	-	-	Mutual Fund
Medawar 247 S.A.L.	Lebanon	2015	-	100	100	Real Estate
Medawar 1216 S.A.L.	Lebanon	2015	-	100	100	Real Estate

B. Business Combinations:

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

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

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

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

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

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

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

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

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets

The accompanying notes 1 to 54 form an integral part of the consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

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

C. 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.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described under "Investments in associates and other instruments".

D. Foreign Currencies:

The consolidated financial statements are presented in Lebanese Pounds ("LBP"), which is the Group's reporting currency. However, 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 for several years.

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

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for exchange differences on transactions entered into in order to hedge certain foreign currency risks, and except for exchange differences on monetary items receivable from or payable to a foreign operation for which

settlement is neither planned nor likely to occur in the foreseeable future, which are recognized in other comprehensive income, and presented in the translation reserve in equity. These are recognized in profit or loss on disposal of the net investment.

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

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

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

E. Financial Assets and Liabilities:

Recognition and Derecognition:

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.

A financial asset (or a part of a financial asset, or a part of a group of similar financial assets) is derecognized when the contractual rights to the cash flows from the financial asset expire.

In instances where the Group is assessed to have transferred a financial asset, the asset is derecognized if the Group has transferred substantially all the risks and rewards of ownership. Where the Group has neither transferred nor retained substantially all the risks and rewards of ownership, the financial asset is derecognized only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

if the Group has not retained control of the financial asset. The Group recognizes separately as assets or liabilities any rights and obligations created or retained in the process.

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.

A financial liability (or part of a financial liability) can only be derecognized when it is extinguished that is when the obligation specified in the contract is either discharged, cancelled, or expires.

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.

Offsetting:

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

Fair Value Measurement:

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

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

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

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

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

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

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

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

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

Impairment of Financial Assets:

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

Objective evidence of impairment could include:

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

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

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously

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recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Collateral Valuation:

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

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

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.

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

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

Equity Instruments:

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

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

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

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

A financial asset is held for trading if:

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

Reclassification:

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

Reclassification is not allowed where:

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

Designation at Fair Value through Profit and Loss:

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

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

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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.

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

Financial Liabilities at fair value through profit or loss:

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

A financial liability is classified as held for trading if:

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

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

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

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

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

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

H. Derivative Financial Instruments:

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Embedded Derivatives

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

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

Hedge Accounting

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

At the inception of the hedge relationship, the Group formally documents the relationship between the hedged item and hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

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

Fair Value Hedge

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

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

Cash Flow Hedge

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

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

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

Hedges of net investments in foreign operations:

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

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

I. Loans and Advances

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

J. Investments in Associates

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

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

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

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

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

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or when the investment is classified as held for sale. When the Group retains

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

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

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

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

K. Property and Equipment:

Property and equipment except for buildings acquired prior to 1993 are stated at historical cost, less accumulated depreciation and any impairment loss. Buildings acquired prior to 1993 are stated at their revalued amounts based on market prices prevailing during 1996 less accumulated depreciation and impairment loss, if any. Resulting revaluation surplus is reflected under "Equity".

Depreciation of property and equipment, other than land and advance payments on capital expenditures, is calculated systematically using the straight line method over the estimated useful lives of the related assets using the following annual rates:

	Rate	Years
Buildings	2%	50
Furniture and equipment	8%	12.5
Computer equipment	20%	5
Vehicles	10%	10
Installation and improvement	25%	4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized under "Other operating income" in the consolidated statement of profit or loss in the year the asset is derecognized.

L. Intangible Assets Other than Goodwill:

Intangible assets other than goodwill, are amortized on a straight-line basis at the rate of 20%. Intangible assets are subject to impairment testing. Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates all other expenditure is expressed when incurred.

M. Assets acquired in satisfaction of loans:

The Lebanese banking entities of the Group account for collateral repossessed in accordance with the Central Bank of Lebanon main circular 78 and the Banking Control Commission circulars 173 and 267. Repossessed assets should be sold within two years from the date of approval of repossession by the Banking Control Commission. These are immediately transferred to "Assets acquired in satisfaction of loans" at their fair value at the repossession date, as approved by the Banking Control Commission.

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

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

N. 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 defined as the higher of:

- Fair value that reflects market conditions at the statement of financial position date, less cost to sell, if any. To determine fair value the Group adopts the market comparability approach using as indicators the current prices for similar assets in the same location and condition.

- Value in use: the present value of estimated future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life, only applicable to assets with cash generation units.

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

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

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

The impairment loss is charged to the consolidated statement of profit or loss.

O. Provision for Employees' End-of-Service Indemnity / Staff Retirement Benefits:

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

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

Defined Benefit Plans: (Under other jurisdictions)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

P. Provisions:

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

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

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

Q. 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.

Interest income and expense presented in the income statement include:

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

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

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

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

Other net income from financial assets measured at fair value through profit or loss, other than those held for trading, includes:

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

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

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.

R. 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 in other comprehensive income (OCI), in which case it is recognized in OCI.

Current tax is the expected tax payable on the taxable income for the year, using rates enacted at the statement of financial position date. Income tax payable is reflected in the consolidated statement of financial position net of taxes previously settled in the form of withholding tax up to October 26, 2017.

Effective October 27, 2017 and as a result of the introduction of new and/or amendments to tax laws by virtue of Law # 64 dated October 26, 2017, withheld tax on interest is treated as a tax deductible charge and is presented as a deduction from related interest income in the consolidated statement of profit or loss and from related accrued interest receivable in the consolidated statement of financial position.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

S. Fiduciary Accounts:

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

T. Operating lease agreements:

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

U. Cash and Cash Equivalents:

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

V. Earnings per Share:

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

W. Dividends:

Dividends paid on common, priority and preferred shares are recognized as a liability and deducted from equity when they are approved by the General Assembly of the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank.

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

X. Insurance Contracts:

The Group issues contracts that transfer insurance risk.

Recognition and measurement:

Life insurance contracts protect the Group's customers from the consequences of events (such as death or disability) that would affect the ability of their dependents to maintain their current level of income. Long-term life insurance contracts issued by the Group insure human life events (for example death or survival). Premiums are shown before deduction of commission and are recognized as revenue when they become payable by the contract holder. Benefits are recorded as an expense when they are incurred. A liability for contractual benefits that are expected to be incurred in the future is recorded when the premiums are recognized. The liability is based on assumptions as to mortality, persistency and maintenance expenses that are established at the time the contract is issued.

Mathematical reserves for life insurance contracts:

Provisions for term life products are calculated as the difference between the actuarial present value of the Group's future liabilities and the actuarial present value of the policyholders' future premiums based on the tables of mortality and the actuarial interest rates as per the original tariffs. In case losses arise from liability adequacy tests, an additional provision is raised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At each reporting date, an actuarial valuation of the life portfolio is carried out by a professional independent actuary and a technical assessment is performed in respect of mathematical reserves. Prevailing laws require that such actuarial valuation be carried out annually.

Outstanding claims reserves:

The outstanding claims reserves are made for all claims reported to the Group and still unpaid at the reporting date including an estimate for the cost of claims incurred but not reported (IBNR). Claims are recognized in the income statement when incurred based on estimated benefits.

Liability Adequacy Test:

Liability adequacy tests are performed to ensure the adequacy of the contract liabilities. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to profit or loss by establishing a provision for losses arising from liability adequacy tests.

Deferred Acquisition Cost:

Commissions that are related to securing new contracts and renewing existing contracts are capitalized as Deferred Acquisition Cost ("DAC"). All other costs are recognized as expenses when incurred. Deferred acquisition costs are subsequently amortized over the life of the contracts. The resulting change to the carrying value of the DAC is charged to the income statement.

Y. Insurance Receivables and Payables:

Reinsurance contracts held

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group are classified as reinsurance contracts held. Insurance contracts entered into by the Group under which the contract holder is another insurer (inward reinsurance) are included with insurance contracts.

The benefits to which the Group is entitled under its reinsurance contracts held are recognized as reinsurance assets. These assets consist of short-term balances due from reinsurers (classified within reinsurance receivables), as well as longer-term receivables (classified as reinsurance assets) that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts.

Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognized as an expense when due.

Reinsurers' share of premiums and claims is computed on the basis of effective outwards. The reinsurers' portion towards the above outstanding claims reserves, claims incurred but not reported reserves and mathematical reserves are classified as reinsurance assets in the statement of financial position.

The Group assesses its reinsurance assets for impairment on a yearly basis. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognizes that impairment loss in the income statement.

The Group gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortized cost. The impairment loss is also calculated following the same method used for these financial assets.

Receivables and payables related to insurance contracts

Receivables and payables are recognized when due. These receivables are measured at amortized cost subsequent to initial recognition, less impairment. These include amounts due to and from agents and insurance contract holders. If there is objective evidence that the insurance receivable is impaired, the Group reduces the carrying amount of the insurance receivable accordingly and recognizes that impairment loss in the income statement.

The Group gathers the objective evidence that an insurance receivable is impaired using the same process adopted for loans and receivables.

Z. Deferred Restricted Contributions:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

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

GOING CONCERN:

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

Classification of Financial Assets:

Business Model:

The business model test requires the Group to assess whether its business objective for financial assets is to collect the contractual cash flows of the assets rather than realize their fair value change from sale before their contractual maturity. The Group considers at which level of its business activities such assessment should be made. Generally, a business model can be evidenced by the way business is managed and the information provided to management. However the Group's business model can be to hold financial assets to collect contractual cash flows even when there are some sales of financial assets. While IFRS 9 provides some situations where such

sales may or may not be consistent with the objective of holding assets to collect contractual cash flows, the assessment requires the use of judgment based on facts and circumstances.

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

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

Characteristics of the Financial Asset:

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

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

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

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

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

Qualifying Hedge Relationships:

In designating financial instruments as qualifying hedge relationships, the Group has determined that it expects the hedge to be highly effective over the life of the hedging instrument.

In accounting for derivatives as cash flow hedges, the Group has determined that the hedged cash flow exposure relates to highly probable future cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

B. Key Sources of Estimation Uncertainty:

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

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

Allowances for Credit Losses:

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

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

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

Impairment of Goodwill:

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

Impairment of investment in an associate:

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

Determining Fair Values:

The determination of fair value for financial assets for which there is no observable market price requires the use of valuation techniques as described in Note 3E. For financial instruments that are 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. CASH AND DEPOSITS AT CENTRAL BANKS

As at December 31 st - LBP'000	2017	2016
Cash on hand	57,354,047	47,969,789
Non-interest earning accounts:		
- Compulsory reserves with the Central Bank of Lebanon	378,769,847	423,318,769
Interest earning accounts:		
- Current accounts with the Central Bank of Lebanon	74,510,133	198,572,296
- Current accounts with other central banks	1,252,928,345	903,778,730
- Term placements with the Central Bank of Lebanon	4,765,779,122	4,066,459,004
- Term placements with other central banks	97,890	2,055,680
Short term placements with the Central Bank of Lebanon	6,027,050	-
Accrued interest receivable, net of tax	46,169,049	28,505,377
	6,581,635,483	5,670,659,645

The non-interest earning compulsory reserves with the Central Bank of Lebanon ("BDL") represent deposits in Lebanese Pounds computed on the basis of 25% and 15% of the average weekly sight and term customers' deposits in Lebanese Pounds in accordance with local banking regulations.

Current accounts with other central banks also include the equivalent in Euro of LBP802million as at December 31, 2017 (LBP1.47billion as at December 31, 2016) deposited in accordance with banking laws and regulations in Cyprus which require banks to maintain at the Central Bank of Cyprus mandatory interest earning deposits in Euro to the extent of 1% (1% as at December 31, 2016) of banks' and customers' deposits maturing in less than two years, after deducting a fixed amount of Euro100,000.

At December 31, 2017, current accounts with other central banks also include the equivalent in Omani Riyal (OMR) of LBP1.96billion (LBP1.96billion as at December 31, 2016) as minimum reserve requirements at Central Bank of Oman.

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

Term placements with the Central Bank of Lebanon include as of December 31, 2017 and 2016, the equivalent in foreign currencies of LBP1,717billion and LBP1,631billion, respectively deposited in accordance with local banking regulations which require banks to maintain interest earning placements in foreign currency to the extent of 15% of customers' deposits in foreign currencies, certificates of deposit and loans acquired from non-resident financial institutions.

As at December 31, 2017, term placements with the Central Bank of Lebanon include deposits in USD amounting to the equivalent of LBP122billion (USD80million), which triggered an investment in collateralized deposits with BDL in LBP in the amount of LBP6billion included under term placements and collateralized investment in Lebanese Treasury bills in LBP in the amount of LBP146billion (Note 11), originated through soft leverage arrangement in LBP for an amount of LBP152billion (Note 20), thus significantly enhancing the yield on the initial investment in USD over coupon rate.

Accrued interest receivable as at December 31, 2017, is stated net of tax in the amount of LBP1.9billion on accrued interest on deposits with BDL effective October 27, 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. DEPOSITS WITH BANKS AND FINANCIAL INSTITUTIONS

As at December 31 st - LBP'000	2017	2016
Checks in course of collection	77,256,891	72,450,965
Current accounts	371,585,916	506,960,727
Current accounts - associate bank (Note 46)	14,081,443	15,390,832
Overnight placements	282,916,303	211,612,500
Term placements	726,925,177	633,428,789
Pledged deposits	72,854,829	66,873,947
Accrued interest receivable	1,678,567	796,446
	1,547,299,126	1,507,514,206

The Group has deposits pledged against facilities obtained (Refer to Note 49).

The Group has as of December 31, 2017 and 2016, current accounts and term placements with banks amounting to LBP41.2billion and LBP21.3billion, respectively, subject to right of set-off against trade finance exposures related to financial institutions in the form of

letters of credit, acceptances and letter of guarantee in the amount of LBP16.7billion, LBP18.1billion and LBP7.7billion, respectively, as at December 31, 2017 (LBP226million, LBP17.5billion and LBP6.9billion, respectively, as at December 31, 2016).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

As at December 31 st , 2017 - LBP'000	LBP	C/V of F/Cy	Total
Quoted equity securities	-	14,799,007	14,799,007
Unquoted equity securities	-	48,521,521	48,521,521
Lebanese treasury bills	658,381,693	-	658,381,693
Lebanese Government bonds	-	298,462,316	298,462,316
Certificates of deposit issued by the Central Bank of Lebanon	238,927,931	176,186,541	415,114,472
Foreign Government treasury bills	-	52,742,949	52,742,949
Accrued interest receivable, net of tax	13,080,965	6,330,486	19,411,451
	910,390,589	597,042,820	1,507,433,409

As at December 31 st , 2016 - LBP'000	LBP	C/V of F/Cy	Total
Quoted equity securities	-	13,623,037	13,623,037
Unquoted equity securities	-	52,966,427	52,966,427
Lebanese treasury bills	620,110,912	-	620,110,912
Lebanese Government bonds	7,000,000	282,383,914	289,383,914
Certificates of deposit issued by the Central Bank of Lebanon	258,740,729	175,492,641	434,233,370
Foreign Government treasury bills	-	46,913,165	46,913,165
Accrued interest receivable	17,554,234	6,510,821	24,065,055
	903,405,875	577,890,005	1,481,295,880

Net interest income, gains and losses on financial assets' portfolio at fair value through profit or loss are detailed under Note 35.

Accrued interest receivable as at December 31, 2017, is stated net of tax in the amount of LBP42million on interest from Lebanese

Treasury bills in LBP and certificates of deposits issued by the Central Bank of Lebanon effective October 27, 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. LOANS TO BANKS

As at December 31 st - LBP'000	2017	2016
Loans to a resident housing bank (a)	13,303,200	17,327,600
Discounted acceptances (b)	137,216,049	163,962,202
Short term loans (c)	133,126,450	76,851,834
Short term loans – associate bank (c) (Note 46)	9,179,430	7,654,508
Accrued interest receivable	847,574	574,385
Less: Unearned interest	(1,261,896)	(2,064,689)
Less: Allowance for impairment (d)	-	(1,032,182)
	292,410,807	263,273,658

(a) Loans to a resident housing bank represent 12 year LBP loans granted to this bank. Interest is collected semi-annually and reset every 3 years. The loans are payable after a grace period of 2 years from the withdrawal date in 10 annual equal installments. As a guarantee for these loans, the borrower has pledged in favour of the Group bills related to the housing loans granted to its customers.

(b) Discounted acceptances represent facilities derived from trade finance activity (discounted letters of credit) mainly granted to Middle Eastern and African banks. These balances are denominated in foreign currencies.

(c) Short term loans represent as of December 31, 2017 and 2016 short term financing provided by the Group to an associate and other banks mainly against trade finance operations.

(d) The movement of allowance for impairment during 2017 and 2016 is summarized as follows:

As at December 31 st - LBP'000	2017	2016
Balance, January 1	1,032,182	325,943
Additions	-	771,930
Write-back of provision	(1,002,038)	-
Effect of exchange rate charges	(30,144)	(65,691)
Balance, December 31	-	1,032,182

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. LOANS AND ADVANCES TO CUSTOMERS

As at December 31st - LBP'000	2017				2016			
	Balance net of unearned interest	Unrealized Interest	Impairment Allowance	Carrying Amount	Balance net of unearned interest	Unrealized Interest	Impairment Allowance	Carrying Amount
Performing Retail Loans:								
Rescheduled loans	-	-	-	-	1,171,388	-	-	1,171,388
Retail loans	3,363,193,743	-	-	3,363,193,743	2,907,976,177	-	-	2,907,976,177
Unearned interest	(63,274,277)	-	-	(63,274,277)	(58,209,114)	-	-	(58,209,114)
Performing Corporate Loans:								
Rescheduled loans	973,165	-	-	973,165	437,175	-	-	437,175
Corporate loans	4,926,368,288	-	-	4,926,368,288	4,063,816,828	-	-	4,063,816,828
Unearned interest	(1,982,037)	-	-	(1,982,037)	(1,446,503)	-	-	(1,446,503)
Non-Performing Retail Loans:								
Rescheduled substandard loans	4,321,029	(518,086)	-	3,802,943	2,586,629	(434,861)	-	2,151,768
Substandard loans	33,419,607	(2,514,784)	(434,629)	30,470,194	12,378,247	(1,027,642)	(246,682)	11,103,923
Rescheduled doubtful and bad loans	880,811	(276,949)	(269,393)	334,469	853,627	(213,363)	(180,669)	459,595
Doubtful and bad loans	44,473,242	(6,080,714)	(24,018,028)	14,374,500	20,395,085	(3,200,532)	(9,331,220)	7,863,333
Non-Performing Corporate Loans:								
Rescheduled substandard loans	716,070	(205,862)	-	510,208	442,785	(81,155)	-	361,630
Substandard loans	86,719,902	(12,400,097)	(751,791)	73,568,014	167,862,566	(14,577,208)	(493,363)	152,791,995
Rescheduled doubtful and bad loans	1,531,075	(367,787)	(38,617)	1,124,671	940,590	(827)	(12,445)	927,318
Doubtful and bad loans	293,337,198	(74,209,383)	(104,922,404)	114,205,411	167,480,820	(56,081,277)	(72,637,742)	38,761,801
Allowance for impairment of collectively assessed loans								
Corporate loans	-	-	(24,432,154)	(24,432,154)	-	-	(37,342,700)	(37,342,700)
Retail loans	-	-	(1,603,497)	(1,603,497)	-	-	(12,074,302)	(12,074,302)
Accrued interest receivable	7,467,306	-	-	7,467,306	7,638,894	-	-	7,638,894
	8,698,145,122	(96,573,662)	(156,470,513)	8,445,100,947	7,294,325,194	(75,616,865)	(132,319,123)	7,086,389,206

Loans and advances to customers as at December 31, 2017, include advances denominated in USD and Arab Emirates Dirham (AED) in the equivalent amount of LBP724billion and LBP35billion, respectively, granted to certain customers against credit balances in the same currencies under "Customers' and related parties' deposits at amortized cost" (Note 19). Subsequent to the date of the statement of the financial position, the customers settled the advances against the credit balances.

Performing loans and advances to customers as at December 31, 2017, include loan balances in U.S. Dollar aggregating to LBP12billion (LBP18billion as at December 31, 2016) granted to customers against credit balances in Lebanese Pounds aggregating LBP14billion (LBP20billion as at December 31, 2016) and margins in U.S. Dollar aggregating LBP4billion (LBP5billion as at December 31, 2016) reflected under "Customers' and related parties' deposits" in the statement of financial position (Note 19).

Loans and advances to customers include creditors accidentally debtors balances aggregating to LBP13.6billion as at December 31, 2017 (LBP8.2billion in 2016).

Loans and advances to customers also include as at December 31, 2017 and 2016 multicurrency trading exposures amounting to LBP Nil and LBP42million respectively, net of corresponding credit balances in the amount of LBP6.8billion and LBP10.7billion respectively.

Rescheduled loans represent loans with renegotiated terms.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at December 31 st - LBP'000	2017	2016
Balance, January 1	(16,120,866)	(3,236,753)
Settlements	261,193	46,123
Additions	(13,080,631)	(13,857,297)
Write-back to profit or loss	9,299,270	570,962
Write-off	109,006	25,955
Transfer to doubtful loans	3,906,900	327,934
Effect of exchange rate changes	(13,701)	2,210
Balance, December 31	(15,638,829)	(16,120,866)

The movement of allowance for impairment on substandard loans during 2017 and 2016 is summarized as follows:

As at December 31 st - LBP'000	2017	2016
Balance, January 1	(740,045)	(387,642)
Additions to allowance for impairment (Note 37)	(445,467)	(700,889)
Write-back of provisions (Note 37)	-	346,173
Effect of exchange rate changes	(908)	2,313
Balance, December 31	(1,186,420)	(740,045)

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

LBP'000	2017	2016
Balance, January 1	(59,495,999)	(50,640,570)
Settlements	203,277	272,396
Additions	(23,960,267)	(12,456,200)
Write-back to profit or loss	1,591,305	678,248
Write-off	5,513,006	3,429,639
Transfer from substandard loans	(3,906,900)	(327,934)
Transfer from unclassified loans	-	(450,292)
Transfer from collective provisions	(765,919)	-
Effect of exchange rate changes	(113,336)	(1,286)
Balance, December 31	(80,934,833)	(59,495,999)

The movement of allowance for impairment on doubtful loans during 2017 and 2016 is summarized as follows:

LBP'000	2017	2016
Balance, January 1	(82,162,076)	(56,763,006)
Additions to provision (Note 37)	(23,476,722)	(4,747,944)
Transfer (from) collective provisions (Net)	(24,745,551)	(28,920,264)
Write-back of provision (Note 37)	3,029,803	4,830,526
Write-off	154,634	2,974,857
Effect of exchange rate changes	(2,048,530)	463,755
Balance, December 31	(129,248,442)	(82,162,076)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The movement of the allowance for impairment of collectively assessed loans during 2017 and 2016 is as follows:

LBP'000	2017	2016
Balance, January 1	(49,417,002)	(78,942,034)
Additions (Note 37)	(2,872,310)	(3,989,945)
Write-back (Note 37)	765,163	4,633,495
Transfer to specific provision (Net)	24,745,551	28,920,264
Transfer to unrealized interest on doubtful loans	765,919	-
Difference on exchange	(22,972)	(38,782)
Balance, December 31	(26,035,651)	(49,417,002)

10. LOANS AND ADVANCES TO RELATED PARTIES

As at December 31 st - LBP'000	2017	2016
Performing Retail Accounts:		
Mortgage loans	13,267,220	7,251,956
Personal loans	3,154,468	8,636,669
Car loans	495,889	420,784
Credit cards	682,091	564,660
Other	594	16,934
Performing Corporate Accounts:		
Small and medium enterprises	110,435,339	88,993,519
Accrued interest receivable	125,056	66,988
	128,160,657	105,951,510

Loans and advances to related parties are partially covered by collaterals (Refer to Note 46).

Performing corporate accounts as at December 31, 2017 and 2016 include multicurrency trading exposures amounting to LBP17.1million and LBP16.8million respectively, net of

corresponding credit balances in the amount of LBP2billion and LBP1.9billion, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. INVESTMENT SECURITIES

As at December 31 st , 2017 - LBP'000	Fair Value through Other Comprehensive Income			Amortized Cost			Grand Total
	LBP	C/V of F/Cy	Total	LBP	C/V of F/Cy	Total	
Unquoted equity securities	5,319,359	5,391,723	10,711,082	-	-	-	10,711,082
Lebanese treasury bills	-	-	-	1,599,506,898	-	1,599,506,898	1,599,506,898
Lebanese government bonds	-	-	-	-	3,534,612,705	3,534,612,705	3,534,612,705
Foreign government bonds	-	-	-	-	89,622,830	89,622,830	89,622,830
Certificates of deposit issued by Central Bank of Lebanon	-	-	-	1,531,817,844	843,384,233	2,375,202,077	2,375,202,077
Certificates of deposit issued by financial private sector	-	-	-	-	904,500	904,500	904,500
Bonds issued by financial private sector	-	-	-	-	593,376,444	593,376,444	593,376,444
	5,319,359	5,391,723	10,711,082	3,131,324,742	5,061,900,712	8,193,225,454	8,203,936,536
Accrued interest receivable, net of tax	-	-	-	59,956,974	57,114,103	117,071,077	117,071,077
	5,319,359	5,391,723	10,711,082	3,191,281,716	5,119,014,815	8,310,296,531	8,321,007,613

As at December 31 st , 2016 - LBP'000	Fair Value through Other Comprehensive Income			Amortized Cost			Grand Total
	LBP	C/V of F/Cy	Total	LBP	C/V of F/Cy	Total	
Unquoted equity securities	5,319,359	3,606,239	8,925,598	-	-	-	8,925,598
Lebanese treasury bills	-	-	-	2,060,994,454	-	2,060,994,454	2,060,994,454
Lebanese government bonds	-	-	-	-	3,610,776,206	3,610,776,206	3,610,776,206
Foreign government bonds	-	-	-	-	89,582,004	89,582,004	89,582,004
Certificates of deposit issued by Central Bank of Lebanon	-	-	-	1,655,824,923	925,486,382	2,581,311,305	2,581,311,305
Certificates of deposit issued by financial private sector	-	-	-	-	15,974,449	15,974,449	15,974,449
Bonds issued by financial private sector	-	-	-	-	631,905,259	631,905,259	631,905,259
	5,319,359	3,606,239	8,925,598	3,716,819,377	5,273,724,300	8,990,543,677	8,999,469,275
Accrued interest receivable, net of tax	-	-	-	65,053,893	57,153,231	122,207,124	122,207,124
	5,319,359	3,606,239	8,925,598	3,781,873,270	5,330,877,531	9,112,750,801	9,121,676,399

Financial assets at fair value through other comprehensive income:

Investments at fair value through other comprehensive income include an amount of LBP5.1billion as at December 31, 2017 representing the Group's share in startups/incubators established

based on co-sharing agreements with the regulator providing the funding (LBP3.4billion as at December 31, 2016).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Financial assets at amortized cost:

As at December 31 st , 2017 - LBP'000	LBP			F/Cy		
	Amortized Cost	Accrued Interest Receivable	Fair Value	Amortized Cost	Accrued Interest Receivable	Fair Value
Lebanese treasury bills	1,599,506,898	25,063,180	1,616,791,273	-	-	-
Lebanese government bonds	-	-	-	3,534,612,705	39,003,696	3,372,905,813
Foreign government bonds	-	-	-	89,622,830	935,642	89,811,267
Certificates of deposit issued by the Central Bank of Lebanon	1,531,817,844	34,893,794	1,559,969,599	843,384,233	13,323,675	844,737,273
Certificates of deposit issued by financial private sector	-	-	-	904,500	58,510	904,500
Bonds issued by financial private sector	-	-	-	593,376,444	3,792,580	591,495,225
	3,131,324,742	59,956,974	3,176,760,872	5,061,900,712	57,114,103	4,899,854,078

As at December 31 st , 2016 - LBP'000	LBP			F/Cy		
	Amortized Cost	Accrued Interest Receivable	Fair Value	Amortized Cost	Accrued Interest Receivable	Fair Value
Lebanese treasury bills	2,060,994,454	28,209,102	2,082,926,032	-	-	-
Lebanese Government bonds	-	-	-	3,610,776,206	39,334,272	3,476,783,021
Foreign government bonds	-	-	-	89,582,004	993,461	89,582,004
Certificates of deposit issued by the Central Bank of Lebanon	1,655,824,923	36,844,791	1,673,215,768	925,486,382	13,559,130	933,334,224
Certificates of deposit issued by financial private sector	-	-	-	15,974,449	94,362	15,979,500
Bonds issued by financial private sector	-	-	-	631,905,259	3,172,006	631,928,977
	3,716,819,377	65,053,893	3,756,141,800	5,273,724,300	57,153,231	5,147,607,726

During 2017, the Group entered into several exchange transactions of Lebanese Government bonds in U.S. Dollars classified at amortized cost with a nominal value of LBP227.6billion against Lebanese Government bonds in U.S. Dollars with a nominal value of LBP227.6billion.

The above transactions resulted in aggregate capital gains in the amount of LBP6.14billion which are deferred as a yield enhancement to be amortized to profit or loss over the period remaining to

maturity of the acquired securities. An amount of LBP414million was amortized and recorded under "Interest income" in the consolidated statement of profit or loss for the year ended December 31, 2017.

During 2017 and 2016, the Group entered into several exchange and sales transactions of investment securities that resulted in net gains of LBP428million in 2017 (LBP11.6billion in 2016) recorded under the consolidated statement of profit or loss as shown below:

Gains recognized on financial assets at amortized cost resulted from the following:

As at December 31 st - LBP'000	2017	2016
Lebanese Government bonds	(142,264)	-
Lebanese treasury bills	6,223	-
Certificates of deposit issued by the Central Bank of Lebanon	-	11,447,130
Bonds issued by financial private sector	563,829	168,362
	427,788	11,615,492

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The sales transactions were entered into for the purpose of liquidity management upon withdrawal of earmarked deposits.

During 2016, the Group entered into several sales transactions with the Central Bank of Lebanon, of Lebanese treasury bills and certificates of deposit issued by the Central Bank of Lebanon in Lebanese Pounds with a carrying value of LBP224billion and LBP398billion, respectively and classified at amortized cost, concluded simultaneously with the acquisition of certificates of deposit issued by the Central Bank of Lebanon in U.S. Dollars with a carrying value of LBP477billion and Lebanese Government bonds in U.S. Dollars with a carrying value of LBP151billion of which LBP3billion are designated at fair value through profit or loss.

The resulting surplus of the inter-related transactions indicated above, derived from the special and non-conventional deals arrangement with the regulator, amounting to LBP239billion, net of tax in the amount of LBP42billion, was credited to "Regulatory deferred liability" under other liabilities in the consolidated statement of financial position (Note 22).

Furthermore, during 2016, the Group entered into several exchange transactions of debt securities at amortized cost issued by the Central bank of Lebanon and the Lebanese Government with an

aggregate carrying value of LBP364billion and LBP316billion, respectively, against debt securities issued by the Central Bank of Lebanon and the Lebanese Government of aggregate carrying value of LBP282billion and LBP386billion, respectively.

The above transactions resulted in aggregate capital gains in the amount of LBP12.3billion which are deferred as a yield enhancement to be amortized to profit or loss over the period remaining to maturity of the acquired securities. An amount of LBP2.33billion was amortized and recorded under "Interest income" in the consolidated statement of profit or loss for the year ended December 31, 2017 (LBP3.7billion for the year ended December 31, 2016).

During 2016, the Group entered into several sales transactions of Lebanese Government bonds in U.S. Dollars with an aggregate carrying value of LBP130billion. These transactions resulted in a loss of LBP2billion recorded as net from the regulatory deferred liability under "Other liabilities" in the consolidated statement of financial position (Note 22).

Certain investment securities at amortized cost are pledged against facilities (refer to Notes 5 and 49).

12. CUSTOMERS' LIABILITY UNDER ACCEPTANCES

Acceptances represent documentary credits which the Group has committed to settle on behalf of its customers against commitments by those customers (acceptances). The commitments resulting

from these acceptances are stated as a liability in the statement of financial position for the same amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13. INVESTMENT IN AN ASSOCIATE

The movement of the investment balance during 2017 and 2016 is as follows:

	2017		2016	
	USD	C/V in LBP'000	USD	C/V in LBP'000
Balance January 1,	30,574,390	46,090,894	30,184,594	45,503,276
Share in net profit (Note 36)	597,667	900,983	1,145,651	1,727,069
Distribution of dividends	(160,901)	(242,559)	(755,855)	(1,139,451)
Balance December 31,	31,011,156	46,749,318	30,574,390	46,090,894
Less: Allowance for impairment	(3,458,693)	(5,213,980)	(3,458,693)	(5,213,980)
Balance December 31,	27,552,463	41,535,338	27,115,697	40,876,914

The following tables illustrate summarized financial information of the Group's investment in an African bank:

	Total Assets LBP'000	Total Liabilities LBP'000	Net Assets LBP'000	Net Profit LBP'000	Share in Ownership %	Group's share of net Assets LBP'000	Group's share in Profit LBP'000
As at December 31 st , 2017	405,915,896	267,049,018	138,866,878	4,504,913	20	27,773,376	900,983

	Total Assets LBP'000	Total Liabilities LBP'000	Net Assets LBP'000	Net Profit LBP'000	Share in Ownership %	Group's share of net Assets LBP'000	Group's share in Profit LBP'000
As at December 31 st , 2016	715,552,968	428,224,277	287,328,691	8,635,347	20	57,465,738	1,727,069

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14. ASSETS ACQUIRED IN SATISFACTION OF LOANS

Assets acquired in satisfaction of loans have been acquired through extinguishment and/or restructuring of debt.

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

	Real Estate LBP'000
GROSS AMOUNT:	
Balance January 1, 2016	27,900,303
Additions	2,093,445
Disposals	(4,200,153)
Balance December 31, 2016	25,793,595
Additions	168,593
Disposals	(2,193,218)
Balance December 31, 2017	23,768,970
ALLOWANCE FOR IMPAIRMENT:	
Balance December 31, 2016	(1,026,266)
Balance December 31, 2017	(1,026,266)
CARRYING AMOUNT:	
Balance December 31, 2017	22,742,704
Balance December 31, 2016	24,767,329

During 2017, the Group sold assets acquired in satisfaction of loans with an aggregate cost of LBP2.2billion (LBP4.2billion during 2016). The sales resulted in a gain in the amount of LBP370million during 2017 (LBP2.73billion during 2016) recorded in the consolidated statement of profit or loss under "Other operating income (net)" (Note 36).

The fair value of assets acquired in satisfaction of loans amounted to LBP35.8billion as at December 31, 2017 (LBP33billion as at December 31 2016). The valuation is made by Bank's internal experts and/or external experts.

The acquisition of assets in settlement of loans in Lebanon is regulated by the banking regulatory authorities and should be liquidated within 2 years. In case of default of liquidation, a regulatory reserve should be appropriated from the yearly net profits over a period of 5 years. This reserve is reduced to 5% annually when certain conditions linked to the restructuring of non-performing loans are met. In this connection, an amount of LBP1.37billion was appropriated in 2017 (LBP1.82billion in 2016). An amount of LBP106million was transferred during 2017 to retained earnings upon the sale of the related foreclosed assets (LBP1.96billion in 2016) (Note 27).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. PROPERTY AND EQUIPMENT

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

2017 - LBP'000	Buildings and Real Estate	Furniture
GROSS AMOUNT:		
Balance January 1, 2017	182,235,080	40,839,053
Additions	55,736,067	1,723,073
Disposals	-	(269,793)
Transfers between categories	11,434,492	183,807
Transfers to intangible assets	-	-
Write-off to general and administrative	-	-
Effect of exchange rate changes	1,229,906	63,301
Balance, December 31, 2017	250,635,545	42,539,441
ACCUMULATED DEPRECIATION:		
Balance January 1, 2017	(26,919,656)	(22,158,956)
Additions (Note 41)	(2,774,193)	(3,180,214)
Disposals	-	190,443
Effect of exchange rate changes	(2,410)	(55,677)
Balance, December 31, 2017	(29,696,259)	(25,204,404)
IMPAIRMENT ALLOWANCE		
Balance, December 31, 2017	(300,000)	-
CARRYING AMOUNT:		
Balance, December 31, 2017	220,639,286	17,335,037

Equipment	Vehicles	Installations and Improvement	Advance Payments on Capital Expenditure	Total
52,034,601	734,401	71,341,848	16,207,927	363,392,910
3,092,283	239,750	646,829	17,813,830	79,251,832
(380,865)	(148,802)	(153,046)	-	(952,506)
4,011,606	-	6,358,199	(21,988,104)	-
-	-	-	(180,900)	(180,900)
-	-	-	(788,311)	(788,311)
470,693	5,271	715,119	19,387	2,503,677
59,228,318	830,620	78,908,949	11,083,829	443,226,702
(39,872,440)	(486,774)	(54,055,413)	-	(143,493,239)
(4,619,922)	(84,869)	(7,959,551)	-	(18,618,749)
352,278	86,148	122,346	-	751,215
(340,032)	(697)	(463,528)	-	(862,344)
(44,480,116)	(486,192)	(62,356,146)	-	(162,223,117)
-	-	-	-	(300,000)
14,748,202	344,428	16,552,803	11,083,829	280,703,585

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2016 - LBP'000	Buildings and Real Estate	Furniture
GROSS AMOUNT:		
Balance January 1, 2016	177,445,898	34,317,138
Additions	21,720	5,548,741
Disposals	(728,535)	(51,131)
Transfers between categories	5,495,997	1,119,973
Transfers to intangible assets	-	-
Transfers to prepayments	-	-
Write-off to general and administrative	-	-
Effect of exchange rate changes	-	(95,668)
Balance, December 31, 2016	182,235,080	40,839,053
ACCUMULATED DEPRECIATION:		
Balance January 1, 2016	(24,395,436)	(19,295,459)
Additions (Note 41)	(2,524,220)	(2,936,078)
Disposals	-	25,607
Effect of exchange rate changes	-	46,974
Balance, December 31, 2016	(26,919,656)	(22,158,956)
IMPAIRMENT ALLOWANCE		
Balance, December 31, 2016	(300,000)	-
CARRYING AMOUNT:		
Balance, December 31, 2016	155,015,424	18,680,097

During 2017, the Group acquired a plot of land adjacent to previously acquired plots in Medawar area for a consideration of LBP25.8billion fully settled in 2017. These plots were acquired for the purpose of building a new head office.

Furthermore, during 2017 the Group transferred from advance payments on capital expenditures to Buildings and real estate an amount of LBP11.43billion (LBP5.59billion in 2016) representing the acquisition cost of premises to be used by the Group as branches in several areas in the Greater Beirut area.

In addition, during 2017, the Group acquired a building in the city of London for a consideration of GBP15million (LBP29.85billion) fully settled in 2017. The purpose of this building is to relocate the offices of the Group's subsidiary in London.

Additions during 2016 to "furniture", "equipment" and "advance payments on capital expenditures" represent mainly costs incurred in connection with the opening and refurbishment of branches in Lebanon.

Equipment	Vehicles	Installations and Improvement	Advance Payments on Capital Expenditure	Total
49,168,339	669,597	64,524,191	15,433,063	341,558,226
2,155,019	66,637	721,091	21,174,152	29,687,360
(193,196)	-	(2,515,779)	-	(3,488,641)
1,147,075	-	8,855,528	(16,618,573)	-
-	-	-	(1,297,083)	(1,297,083)
-	-	-	(9,000)	(9,000)
-	-	-	(2,481,715)	(2,481,715)
(242,636)	(1,833)	(243,183)	7,083	(576,237)
52,034,601	734,401	71,341,848	16,207,927	363,392,910
(35,560,989)	(406,909)	(48,909,599)	-	(128,568,392)
(4,683,541)	(80,057)	(7,830,608)	-	(18,054,504)
187,249	-	2,502,155	-	2,715,011
184,841	192	182,639	-	414,646
(39,872,440)	(486,774)	(54,055,413)	-	(143,493,239)
-	-	-	-	(300,000)
12,162,161	247,627	17,286,435	16,207,927	219,599,671

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. GOODWILL

LBP'000	December 31, 2017			December 31, 2016		
	LBP	C/V of F/Cy	Total	LBP	C/V of F/Cy	Total
Beirut Life S.A.L.	452,265	-	452,265	452,265	-	452,265
Bank of Sydney Ltd	-	86,582,170	86,582,170	-	86,582,170	86,582,170
Bank of Beirut (UK) Ltd	-	1,529,819	1,529,819	-	1,394,880	1,394,880
	452,265	88,111,989	88,564,254	452,265	87,977,050	88,429,315

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units that are expected to benefit from that business combination. The Group has determined that each subsidiary constitutes a single cash generating unit and tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired.

The recoverable amount of the cash generating unit is determined from value in use calculations or market comparability approach, as applicable. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to net interest margin during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks

specific to the Business. The growth rates are based on industry growth forecasts. Changes in net interest margin are based on expectations of future changes in the market.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the subsidiary and extrapolates cash flows for the review period based on the assumption that the cash flows will remain relatively stable throughout the period under review.

The market average multiple of equity for acquisitions of similar sized cash generating units is used to determine the recoverable amount of the cash generating unit when using the market comparability approach.

17. OTHER ASSETS

As at December 31 st - LBP'000	2017	2016
Medical costs receivable from National Social Security Fund (a)	7,162,860	6,355,592
Intangible assets (b)	14,600,240	14,775,552
Fair value of derivatives assets (c)	8,764,514	8,714,118
Premium on forward deals (net)	305,826	396,000
Deferred tax asset (d)	2,088,806	1,675,650
Prepayments	13,424,644	11,178,372
Regulatory blocked deposit (e)	4,500,000	4,500,000
Sundry accounts receivable	20,395,290	14,227,294
Other	1,807,495	1,489,289
	73,049,675	63,311,867

(a) Medical costs receivable from the National Social Security Fund represent medical expenses settled by the Group to employees and expected to be recovered within three years from the date

they were incurred because of substantial settlement delays by the National Social Security Fund.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(b) The movement of intangible assets is disclosed as follows:

LBP'000	Software	Key Money	Payments on Purchase of Intangible Assets	Total
COST:				
Balance, January 1, 2016	20,648,025	1,658,250	2,138,824	24,445,099
Additions	3,757,846	-	-	3,757,846
Transfers from property and equipment	1,297,083	-	-	1,297,083
Effect of exchange rate changes	(55,074)	-	-	(55,074)
Balance, December 31, 2016	25,647,880	1,658,250	2,138,824	29,444,954
Transfers from property and equipment	180,900	-	-	180,900
Additions	5,405,601	-	-	5,405,601
Transfer to prepayments	-	-	(2,072,812)	(2,072,812)
Write-off to profit or loss	-	-	(66,012)	(66,012)
Effect of exchange rate changes	832,051	-	-	832,051
Balance, December 31, 2017	32,066,432	1,658,250	-	33,724,682
AMORTIZATION:				
Balance, January 1, 2016	(10,697,186)	-	-	(10,697,186)
Amortization for the year (Note 41)	(3,889,985)	-	-	(3,889,985)
Effect of exchange rate changes	(82,231)	-	-	(82,231)
Balance, December 31, 2016	(14,669,402)	-	-	(14,669,402)
Amortization for the year (Note 41)	(3,955,949)	-	-	(3,955,949)
Effect of exchange rate changes	(499,091)	-	-	(499,091)
Balance, December 31, 2017	(19,124,442)	-	-	(19,124,442)
NET BOOK VALUE:				
Balance, December 31, 2017	12,941,990	1,658,250	-	14,600,240
Balance, December 31, 2016	10,978,478	1,658,250	2,138,824	14,775,552

(c) The fair value of derivative assets consists of the following:

As at December 31 st - LBP'000	2017	2016
Interest rate swap	723,947	171,849
Forward contracts	8,040,567	8,542,269
	8,764,514	8,714,118

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(d) Deferred tax asset consists of deferred tax on the following:

As at December 31 st - LBP'000	2017	2016
Depreciation of property and equipment	739,759	520,695
Provisions	1,306,357	1,111,106
Other	42,690	43,849
	2,088,806	1,675,650

(e) The regulatory blocked deposit represents a non-interest earning compulsory deposit placed with the Lebanese Treasury upon the inception of investment banks in accordance with Article 132 of

the Lebanese Code of Money and Credit, and is refundable in case of cease of operations.

18. DEPOSITS FROM BANKS AND FINANCIAL INSTITUTIONS

As at December 31 st - LBP'000	2017	2016
Current accounts from banks and financial institutions	571,645,700	350,603,151
Current accounts - associate bank (Note 46)	2,773,895	65,418
Short term deposits (a)	1,193,081,844	1,311,363,066
Pledged deposits (b)	314,544,237	332,889,423
Pledged deposits - associate bank (c) (Note 46)	6,411,052	5,440,593
Accrued interest payable	6,554,480	3,802,861
	2,095,011,208	2,004,164,512

(a) Short-term deposits include withdrawals from the Arab Trade Finance Program facility. The balance amounted to LBP7.6billion (USD5,046,948) as of December 31, 2017 (LBP10.4billion (USD6,897,501) in 2016). This facility was granted to the Group to finance imports and exports among Arab countries.

Short-term deposits also include deposits in the amount of LBP53billion (LBP75billion in 2016) secured by pledged securities at amortized cost amounting to LBP135billion as at December 31, 2017 (LBP162billion in 2016) (Note 49).

(b) Pledged deposits represent deposits pledged by non-resident banks to the favor of the Group against trade finance activities.

(c) Pledged deposits from an associate bank represent collateral received by the Group against short term loans granted (Note 8).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. CUSTOMERS' AND RELATED PARTIES' DEPOSITS DESIGNATED AT AMORTIZED COST

As at December 31 st , 2017 - LBP'000	LBP	F/Cy	Total
Deposits from customers:			
Current and demand deposits	349,310,617	1,897,332,338	2,246,642,955
Term deposits – Note 9	4,793,211,089	10,916,116,276	15,709,327,365
Credit accounts against loans and advances - Note 9	381,392,848	953,189,444	1,334,582,292
Margins for irrevocable import letters of credit	-	28,382,941	28,382,941
Margins on letters of guarantee	11,940,108	116,191,990	128,132,098
Other margins - Note 9	6,044,340	21,828,543	27,872,883
	5,541,899,002	13,933,041,532	19,474,940,534
Accrued interest payable	46,731,617	61,331,710	108,063,327
Total third party customers' deposits	5,588,630,619	13,994,373,242	19,583,003,861
Deposits from related parties:			
Current and demand deposits	1,493,642	35,737,248	37,230,890
Term deposits	35,082,301	379,664,355	414,746,656
Credit accounts against loans and advances	359,479	71,162,746	71,522,225
Margins on letters of guarantee	46,067	9,887	55,954
Other margins	171	1,847	2,018
	36,981,660	486,576,083	523,557,743
Accrued interest payable	158,474	861,226	1,019,700
Total related parties' deposits	37,140,134	487,437,309	524,577,443
Total deposits	5,625,770,753	14,481,810,551	20,107,581,304
As at December 31st, 2016 - LBP'000	LBP	F/Cy	Total
Deposits from customers:			
Current and demand deposits	291,347,792	1,696,037,633	1,987,385,425
Term deposits	4,964,373,015	10,119,406,995	15,083,780,010
Credit accounts against loans and advances - Note 9	386,272,772	664,022,018	1,050,294,790
Margins for irrevocable import letters of credit	1,652,273	28,200,285	29,852,558
Margins on letters of guarantee	9,697,939	166,907,873	176,605,812
Other margins - Note 9	10,504,526	41,479,190	51,983,716
	5,663,848,317	12,716,053,994	18,379,902,311
Accrued interest payable	44,235,029	56,104,507	100,339,536
Total third party customers' deposits	5,708,083,346	12,772,158,501	18,480,241,847
Deposits from related parties:			
Current and demand deposits	1,388,245	22,180,784	23,569,029
Term deposits	37,086,609	285,100,089	322,186,698
Credit accounts against loans and advances	371,910	70,770,490	71,142,400
Margins for irrevocable import letters of credit	-	22,612,500	22,612,500
Margins on letters of guarantee	4,399	29,986	34,385
Other margins	-	1,451,030	1,451,030
	38,851,163	402,144,879	440,996,042
Accrued interest payable	103,545	1,441,563	1,545,108
Total related parties' deposits	38,954,708	403,586,442	442,541,150
Total deposits	5,747,038,054	13,175,744,943	18,922,782,997

The accompanying notes 1 to 54 form an integral part of the consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Customers' and related parties' deposits at amortized cost are allocated by brackets of deposits as follows (excluding accrued interest payable):

	LBP	F/Cy	% of Customers	% of Deposits
	Total Deposits	Total Deposits		
As at December 31st, 2017 - LBP'000				
Deposits from customers:				
Less than LBP 500 million	2,702,663,422	3,301,097,444	96.27	30.83
From LBP 500 million to LBP 1.5 billion	1,008,212,148	2,311,156,793	2.61	17.04
From LBP 1.5 billion to LBP 5 billion	622,199,141	2,439,502,272	0.85	15.72
Over LBP 5 billion	1,208,824,291	5,881,285,023	0.27	36.41
	5,541,899,002	13,933,041,532	100.00	100.00
Deposits from related parties:				
Less than LBP 500 million	3,977,540	7,939,654	80.56	2.28
From LBP 500 million to LBP 1.5 billion	1,180,174	19,596,522	9.43	3.97
From LBP 1.5 billion to LBP 5 billion	3,780,965	31,851,381	6.08	6.81
Over LBP 5 billion	28,042,981	427,188,526	3.93	86.94
	36,981,660	486,576,083	100.00	100.00
	5,578,880,662	14,419,617,615		
As at December 31st, 2016 - LBP'000				
Deposits from customers:				
Less than LBP 500 million	2,647,747,927	2,936,864,916	96.98	30.38
From LBP 500 million to LBP 1.5 billion	1,018,377,544	1,939,028,556	2.05	16.09
From LBP 1.5 billion to LBP 5 billion	710,181,284	2,048,546,501	0.69	15.01
Over LBP 5 billion	1,287,541,562	5,791,614,021	0.28	38.52
	5,663,848,317	12,716,053,994	100.00	100.00
Deposits from related parties:				
Less than LBP 500 million	3,457,827	7,305,859	82.17	2.44
From LBP 500 million to LBP 1.5 billion	2,851,281	6,124,264	6.79	2.04
From LBP 1.5 billion to LBP 5 billion	6,125,781	17,867,425	8.18	5.44
Over LBP 5 billion	26,416,274	370,847,331	2.86	90.08
	38,851,163	402,144,879	100.00	100.00
	5,702,699,480	13,118,198,873		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Deposits from customers include as at December 31, 2017 coded deposit accounts in the aggregate of LBP31.3billion (LBP23.1billion as at December 31, 2016). These accounts are subject to the provisions of Article 3 of the Banking Secrecy Law dated September 3, 1956 which provides that the Bank's management, in the normal course of business, cannot reveal the identities of these depositors to third parties, including its independent public accountants.

Deposits from customers include as at December 31, 2017 deposits of fiduciary nature received from resident and non-resident banks for a total amount of LBP159billion and LBP704billion respectively (LBP237billion and LBP786billion in 2016).

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

Year	Average Balance of Deposits	Allocation of Deposits		Cost of Funds	Average Cost of Funds
	LBP'000	LBP %	F/Cy %	LBP'000	%
Year 2017	17,384,842,902	32	68	748,608,580	4.31
Year 2016	16,665,078,049	34	66	711,280,296	4.27
Year 2015	15,922,246,128	34	66	664,127,226	4.17

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

Year	Average Balance of Deposits	Allocation of Deposits		Cost of Funds	Average Cost of Funds
	LBP'000	LBP %	F/Cy %	LBP'000	%
Year 2017	452,767,828	8	92	16,509,477	3.65
Year 2016	371,664,306	10	90	14,500,037	3.90
Year 2015	294,441,742	13	87	10,892,805	3.70

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. OTHER BORROWINGS

As at December 31 st - LBP'000	2017	2016
Borrowings from Central Bank of Lebanon (a)	532,162,953	487,309,156
Short term borrowing from Central Bank of Lebanon (b)	188,437,500	-
Long term loans from Central Bank of Lebanon (Note 5)	152,048,750	-
Borrowings from other central banks (Note 49)	100,330,387	76,025,884
Borrowings from the European Investment Bank (c)	12,469,372	20,060,347
	985,448,962	583,395,387
Accrued interest payable	8,116,310	4,268,301
	993,565,272	587,663,688

(a) Borrowings from Central Bank of Lebanon as of December 31, 2017 and 2016 represent facilities in accordance with Central Bank of Lebanon Basic Decision No.6116 of March 7, 1996 and its amendments by which the Group benefited from credit facilities granted against loans that the Group granted at its own risk to customers pursuant to certain conditions, rules and mechanism.

(b) During November 2017, the Group was granted a short term loan in the amount of USD125million (LBP188.4billion) by the Central Bank of Lebanon for a period of 3 months. The loan was fully settled upon maturity.

(c) Borrowings from European Investment Bank are summarized as follows:

December 31, 2017	December 31, 2016	Final Maturity Year	Average interest Rate
C/V LBP'000	C/V LBP'000		%
-	16,476,182	2017	-
2,232,098	1,102,862	2018	3.87
4,949,590	816,919	2019	4.03
1,217,434	1,664,384	2020	4.93
4,070,250	-	2022	4.84
12,469,372	20,060,347		

Borrowings from the European Investment Bank were obtained to finance loans granted to customers in the manufacturing sector.

The movement of borrowings is detailed as follows:

LBP'000	2017	2016
Balance, January 1	583,395,387	604,939,998
Financing cash flows	452,626,325	154,844,350
Settlements	(50,572,750)	(176,388,961)
Balance, December 31	985,448,962	583,395,387

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21. CERTIFICATES OF DEPOSIT

As at December 31 st - LBP'000	2017		2016	
	C/V of F/Cy	Average Interest Rate %	C/V of F/Cy	Average Interest Rate %
Certificates of deposit	630,933	2.25	562,552	2.25
Accrued interest payable	3,111		2,774	
	634,044		565,326	

22. OTHER LIABILITIES

As at December 31 st - LBP'000	2017	2016
Checks and incoming payment orders in course of settlement	49,004,410	36,826,763
Fair value of derivative financial liabilities (a)	10,399,431	7,606,747
Dividends payable	6,603,457	5,970,401
Deferred tax liability (b)	7,827,907	6,741,833
Accrued expenses	35,781,862	32,154,522
Deferred income	6,486,973	9,723,607
Income tax payable (c)	24,018,425	15,605,157
Withheld taxes	11,791,259	11,085,209
Fair value of financial guarantees	2,491,182	2,295,240
Margins on letters of credit - banks	94,279,503	109,287,242
Margins on letters of credit - associate bank (Note 46)	1,016,559	4,688,838
Margins on letters of guarantee - banks	6,289,592	80,207,970
Sundry accounts payable	33,139,256	27,042,722
Unfavorable exchange difference on fixed currency position (Note 24)	175,833	175,833
Regulatory deferred liability (d)	238,777,401	238,777,401
Tax payable on regulatory deferred liability (d)	-	42,137,188
	528,083,050	630,326,673

(a) Fair value of derivative financial liabilities consists of the following:

As at December 31 st - LBP'000	2017	2016
Interest rate swap (Note 44)	44,169	151,046
Forward contracts	10,355,262	7,455,701
	10,399,431	7,606,747

The Group uses interest rate swaps, and forward contracts for hedging purposes only. These represent commitments to

exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(b) The deferred tax liability consists of the following:

As at December 31 st - LBP'000	2017	2016
Deferred tax liability on undistributed profits from subsidiaries	7,749,040	6,571,071
Other	78,867	170,762
	7,827,907	6,741,833

The movement of deferred tax liability which relates to undistributed profits from subsidiaries during 2017 and 2016 was as follows:

As at December 31 st - LBP'000	2017	2016
Opening balance	6,571,071	5,123,067
Additions	3,377,969	3,098,004
Settlements	(2,200,000)	(1,650,000)
Ending balance	7,749,040	6,571,071

During 2017, four of the Group's subsidiaries paid cash dividends in the amount of LBP26.5billion (two of the Group's subsidiaries paid cash dividends in the amount of LBP16.5billion during 2016). The related distribution tax amount of LBP2.2billion (LBP1.65billion during 2016) was settled from the deferred tax liability in 2017.

At December 31, 2017, a deferred tax liability for temporary differences related to the undistributed profits of foreign subsidiaries was not recognized on the grounds that management has committed to retain the profits in two of its foreign subsidiaries for purpose of permanent capitalization of profits.

(c) The following table explains the relationship between taxable income and accounting income:

As at December 31 st - LBP'000	2017	2016
Income before income tax	355,638,961	344,810,779
Income from subsidiaries, managed funds and foreign branches	(117,217,192)	(133,780,418)
	238,421,769	211,030,361
Add: Non-deductible expenses	26,327,906	11,454,353
Less: Non-taxable revenues or revenues subject to tax in previous periods	(63,635,833)	(50,737,501)
Taxable income	201,113,842	171,747,213
Income tax (15.36% for 2017; 15% for 2016)	30,891,086	25,762,082
Add: Income tax expense on subsidiaries and foreign branches	13,214,253	12,383,352
Tax expense for the years	44,105,339	38,145,434
Less: Tax paid during the year in the form of withholding tax	(13,316,663)	(16,164,753)
Less: Subsidiaries and foreign branches income tax paid	(6,770,251)	(6,375,524)
Income tax payable as at December 31,	24,018,425	15,605,157

The tax returns of the Bank and most of its Lebanese subsidiaries for the years 2015 to 2017 remain subject to examination and final tax assessment by the tax authorities. Any additional liability depends on the result of these reviews.

Oman branch's tax assessments have been finalized up to the year 2010. Tax assessments for the years 2012 to 2017 have yet to be finalized by the Secretariat General for Taxation. The management believes that additional taxes, if any, in respect of open tax assessments would not be material to the Group's results and financial position as of the reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

During the year 2016, as a result of several transactions derived from the special and non-conventional deals arrangement with the Central Bank of Lebanon, the Group received a surplus of LBP239billion, net of tax in the amount of LBP42billion, which was credited to "Regulatory deferred liability" under other liabilities and deferred as restricted contribution in anticipation of expected loss provisions that will be deemed to be necessary along with the application of IFRS 9 in accordance with the Central Bank of Lebanon requirements as indicated above (Note 11).

During 2017, the tax payable on regulatory deferred liability amounting to LBP42billion was settled in full.

23. PROVISIONS

As at December 31 st - LBP'000	2017	2016
Provision for staff and executive management termination indemnity (a)	33,824,892	29,625,825
Provision for loss on foreign currency position	194,000	194,000
Provision for risks and charges (b)	9,495,355	6,556,059
Provision for insurance contracts liabilities (Note 38)	14,587,290	8,527,875
Other	125,828	119,052
	58,227,365	45,022,811

(a) The movement of provision for staff termination indemnity is as follows:

As at December 31 st - LBP'000	2017	2016
Balance January 1	29,625,825	27,647,140
Additions (Note 39)	4,376,454	6,439,372
Settlements	(177,387)	(4,460,687)
Balance December 31	33,824,892	29,625,825

(b) The movement of provision for risks and charges is as follows:

As at December 31 st - LBP'000	2017	2016
Balance January 1	6,556,059	6,541,784
Additions (Note 38)	3,000,000	-
Prior year adjustments	(60,704)	-
Difference in exchange	-	14,275
Balance December 31	9,495,355	6,556,059

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. SHARE CAPITAL

At December 31, 2017 and 2016, the authorized ordinary share capital of Bank of Beirut S.A.L. was LBP77.65billion consisting of 53,184,900 fully paid shares of LBP1,460 par value each.

During 2016, the Group issued 2,717,500 common shares of which 34% were listed on the Beirut Stock Exchange at an issue price of USD18.40 per share aggregating to USD50,002,000. The par value of each share is LBP1,460. The approval of the Capital Markets Authority was obtained on February 29, 2016. The approval of the Central Bank of Lebanon was obtained on May 24, 2016.

As of December 31, 2017 and 2016, the Group had 4,762,000 Series 2014 priority shares (common shares) in the amount of USD100,002,000 with an issue price of USD21 and a par value of LBP1,460. These priority shares earn non-cumulative annual dividends of 4% of the issue price. Any dividends remaining after the payment of priority dividends following the payment of preferred shares dividends, shall be shared on a prorata basis exclusively among the holders of the priority and common shares of the Bank.

Subject to the absence of the Extension Period set below, the earning by the Series 2014 Priority Shares of the Priority Dividend will, automatically and without the need for the approval of, or consultation with, the holders of the Priority Shares, finally cease immediately following the Ordinary General Meeting of the Bank's shareholders that will examine the Bank's audited financial statements for the financial year 2019; without prejudice, however, to the right of the holders of such Priority Shares to receive the distribution of the Priority Dividend, if any, resolved by the Bank's Ordinary General Meeting of shareholders for the financial year 2019. As a result, the Series 2014 Priority Shares will cease to be identified as a special class within the Common Shares of the Bank and become mere Common Shares subject to the rights and obligations devolving on all the Bank's Common Shares.

The Bank shall have the right, but not the obligation, to resolve, prior to the holding of the above mentioned General Meeting, the extension of the Priority Period for two consecutive years (the "Extension Period").

As of December 31, 2017 and 2016, the Bank's capital was partly hedged by maintaining a fixed foreign currency position to the extent of USD47.17million. The revaluation of this position resulted in unfavorable exchange difference in the amount of LBP176million recorded under "Other liabilities" (Note 22).

As of December 31, 2017 and 2016, the Group had a fixed foreign currency position for an amount of GBP13.6million to partially hedge its investment in a foreign subsidiary in the United Kingdom. The revaluation of this position as of December 31, 2017 resulted in unfavorable variance of LBP3.96billion (unfavorable variance of LBP6.01million in 2016) recorded in "cumulative change in fair value of fixed currency position designated as hedging instruments" under equity.

Moreover, as of December 31, 2017 and 2016, the Group had a fixed spot position for an amount of AUD98million to partially hedge its investment in a foreign Australian subsidiary bank. The revaluation of this position as of December 31, 2017 resulted in an unfavorable variance of LBP35.30billion (unfavorable variance of LBP43.99billion in 2016) recorded in "cumulative change in fair value of fixed currency position designated as hedging instruments" under equity.

Subsequent to the date of the consolidated statement of financial position, the Extraordinary General Assembly of shareholders of the Bank resolved to increase the Bank's capital by issuing 3,050,000 common shares at an issue price of USD18.80 per share aggregating to USD57,340,000. The par value of each share is LBP1,460. The shares will be listed on the Beirut Stock Market. The approval of the Capital Markets Authority was obtained on April 18, 2018. Up to the date of issuance of these financial statements, the approval of the Central Bank of Lebanon was not obtained yet.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25. PREFERRED SHARES

As at December 31 st - LBP'000	2017	2016
Non-cumulative perpetual redeemable Series "G" preferred shares	188,362,125	188,362,125
Non-cumulative perpetual redeemable Series "H" preferred shares	203,512,500	203,512,500
Non-cumulative perpetual redeemable Series "I" preferred shares	188,437,500	188,437,500
Non-cumulative perpetual redeemable Series "J" preferred shares	113,062,500	113,062,500
Non-cumulative perpetual redeemable Series "K" preferred shares	150,750,000	150,750,000
	844,124,625	844,124,625

During 2016 the Group issued 4,000,000 non-cumulative perpetual redeemable Series "K" preferred shares with an aggregate amount of USD100,000,000 at an issue price of USD25 per share. The par value of each share is LBP1,460. These preferred shares earn an annual dividend of 7% of the issue price

and are listed on the Beirut Stock Exchange. The approval of the Capital Markets Authority was obtained on February 29, 2016. The approval of the Central Bank of Lebanon on the issuance of the preferred shares was obtained on July 27, 2016.

The Group's issued preferred shares carry the following terms:

Non-cumulative Perpetual Redeemable Preferred Shares	Number of Shares	Share's Issue Price	Benefits	Listed on Beirut Stock Exchange
Series "G"	3,570,000	USD 35	6.75% per year	No
Series "H"	5,400,000	USD 25	7% per year	Yes
Series "I"	5,000,000	USD 25	6.75% per year	Yes
Series "J"	3,000,000	USD 25	6.5% per year	Yes
Series "K"	4,000,000	USD 25	6.5% per year	Yes

The Group has the right, at its sole discretion, to redeem on each redemption date all or part of the Series "G", "H", "I", "J" and "K" preferred shares (but not less than 25%). Redemption date means for the first time the financial year during which falls the 5th anniversary of the Extraordinary General Meeting of the Group's shareholders which ascertains the validity and payment

of the capital increase by virtue of which the Preferred Shares are issued; and every consecutive 2 years thereafter.

In the event of liquidation of the Bank, holders of preferred shares Series "G", "H", "I", "J" and "K" rank senior to the holders of common and priority shares.

26. SHAREHOLDERS' CASH CONTRIBUTION TO CAPITAL

The shareholders' cash contribution to capital is for a total amount of LBP20.98billion (USD13,916,000) as at December 31, 2017 and 2016 and it is non-interest bearing.

This sort of instrument is accounted for in foreign currency and therefore allows hedging against national currency exchange fluctuation. According to local banking regulations, cash contribution to capital is considered as Tier I capital.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27. RESERVES

As at December 31 st - LBP'000	2017	2016
Legal reserves (a)	174,851,872	152,656,350
Reserve for general banking risks (b)	289,296,012	262,124,212
Special reserves setup from net release of provision for credit losses	2,134,330	2,489,991
Reserves restricted for capital increase (c)	31,427,755	30,211,523
General reserve for performing loans (d)	7,286,200	5,000,000
Issue premiums on common shares	303,518,858	303,518,858
Owned buildings' revaluation surplus	1,668,934	1,668,934
Regulatory reserve for assets acquired in satisfaction of loans (Note 14)	9,629,526	8,367,354
	819,813,487	766,037,222

(a) 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 for Lebanese entities. This reserve is not available for distribution.

(b) The reserve for general banking risks is constituted according to local banking regulations, from net profit, on the basis of a minimum of 2 per mil and a maximum of 3 per mil of the total risk weighted assets, off-balance sheet risk and

global exchange position as defined for the computation of the solvency ratio at year-end. This reserve is constituted in Lebanese Pounds and in foreign currencies in proportion to the composition of the Lebanese bank's total risk weighted assets and off-balance sheet items. This reserve is not available for distribution.

(c) The movement of reserves restricted for capital increase during 2017 and 2016 was as follows :

As at December 31 st - LBP'000	2017	2016
Opening balance	30,211,523	32,237,185
Additions	1,216,232	497,708
Transfer to share capital for increase and reconstitution of capital (Note 24)	-	(2,523,370)
Ending balance	31,427,755	30,211,523

During 2017, in compliance with BCC circular no. 173, the Group appropriated an amount of LBP1.2billion (LBP498million in 2016) representing gains from disposals of assets acquired in satisfaction of debts from net income of the previous year to reserves restricted for capital increase (Note 14).

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

- 0.5% of retail loans that are less than 30 days past due (subject to deductions of some guarantees received) to general reserve for the year 2014 in addition to a percentage of 0.5% yearly over a six year period starting 2015.

- 0.25% of performing corporate loans to general reserve as of end of 2014. This reserve should increase to 0.5% as of end of 2015, 1% as of end of 2016 and 1.5% as of end of 2017. The Bank is exempted from this general reserve if the balance of collective provision is not less than 0.25% of the performing corporate loans portfolio as of end of 2014, 0.5% as of end of 2015, 1% as of end of 2016 and 1.5% as of end of 2017.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28. TREASURY SHARES

The Group is authorized to buy back up to one third of its listed shares on the Beirut Stock Exchange from its free reserves.

As at December 31 st - USD	2017	2016
Common Shares	29,963,283	2,287,614
Priority Shares	241,521	3,468,949
	30,204,804	5,756,563
Preferred Shares		
Series "G"	20,041,372	17,323,119
Series "H"	6,287,963	6,074,467
Series "I"	10,304,725	7,199,500
Series "J"	1,845,340	692,475
Series "K"	1,518,809	684,275
	39,998,209	31,973,836
Total	70,203,013	37,730,399
C/V LBP'000	105,831,043	56,878,575

The preferred shares classified as treasury shares are held by the non-controlling interests related to the consolidated funds.

Subsequent to the date of the statement of the financial position, 2,131,788 common shares with an aggregate carrying value of USD30million were sold.

29. NON-CONTROLLING INTERESTS

As at December 31 st , 2017 - LBP'000	Beirut Life SAL	Managed Funds	Total
Share in:			
- Capital	225,000	1,137,183,116	1,137,408,116
- Retained earnings	2,438,492	(60,369,029)	(57,930,537)
- Profit for the year	647,619	71,982,993	72,630,612
	3,311,111	1,148,797,080	1,152,108,191
As at December 31st, 2016 - LBP'000	Beirut Life SAL	Managed Funds	Total
Share in:			
- Capital	225,000	1,169,054,444	1,169,279,444
- Retained earnings	1,875,232	(67,070,674)	(65,195,442)
- Profit for the year	563,260	75,707,395	76,270,655
	2,663,492	1,177,691,165	1,180,354,657

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30. DIVIDENDS PAID

The following dividends were declared and paid in 2017 and 2016 by the Group in respect to 2017 and 2016 respectively:

As at December 31 st - LBP'000	2017	2016
LBP1,000 (LBP900 for 2016) per ordinary share (common and priority)	57,946,900	49,706,460
LBP1,266.3 priority shares Series 2014	6,030,121	6,030,121
LBPNil (LBP3,015 for 2016) per preferred share Series "E"	-	7,236,000
LBP3,561.47 (LBP3,561.47 for 2016) per preferred share Series "G"	12,714,443	12,714,443
LBP2,638.13 (LBP2,638.13 for 2016) per preferred share Series "H"	14,245,875	14,245,875
LBP2,543.91 (LBP2,543.91 for 2016) per preferred share Series "I"	12,719,531	12,719,531
LBP2,449.69 (LBP2,449.69 for 2016) per preferred share Series "J"	7,349,063	7,349,063
LBP856.72 (LBPNil for 2016) per preferred share Series "K"	3,426,885	-
	114,432,818	110,001,493

Subsequent to the date of the consolidated statement of financial position, the following dividends were proposed by the board of directors in respect of 2017. These dividends have not been

provided for in the consolidated financial statements for the year ended December 31, 2017.

LBP'000	2017	2016
LBP1,150 per ordinary share (common and priority)		66,638,935
LBP1,266.3 priority shares Series 2014		6,030,121
LBP3,561.47 per preferred share Series "G"		12,714,443
LBP2,638.13 per preferred share Series "H"		14,245,875
LBP2,543.91 per preferred share Series "I"		12,719,531
LBP2,449.69 per preferred share Series "J"		7,349,063
LBP2,449.69 per preferred share Series "K"		9,798,750
		129,496,718

31. INTEREST INCOME

LBP'000	2017			2016
	Interest Income	Withheld Tax	Net Interest Income	Interest Income
Interest income from:				
Deposits with central banks	260,192,139	(3,129,301)	257,062,838	177,754,538
Deposits with banks and financial institutions	21,284,101	-	21,284,101	14,270,968
Loans to banks	8,929,797	-	8,929,797	11,229,636
Financial assets at amortized cost	530,793,948	(3,424,070)	527,369,878	547,756,124
Loans and advances to customers	409,851,400	-	409,851,400	378,482,677
Loans and advances to related parties	5,153,485	-	5,153,485	4,697,773
Interest recognized on non-performing				
loans and advances to customers	15,673,998	-	15,673,998	2,069,730
	1,251,878,868	(6,553,371)	1,245,325,497	1,136,261,446

The accompanying notes 1 to 54 form an integral part of the consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Interest income realized on non-performing loans and advances to customers represent recoveries of interest.

Interest income on financial assets at fair value through profit or loss is included under "Net interest and other gains on financial assets at fair value through profit or loss" (Note 35).

Effective October 27, 2017, tax on interest at the new rate of 7% is treated as a tax deductible charge in accordance with Law #64 dated October 26, 2017. Prior to October 27, 2017, tax on interest at the rate of 5% was treated as a prepayment on corporate income tax.

32. INTEREST EXPENSE

LBP'000	2017	2016
Interest expense on:		
Other borrowings	8,808,349	5,842,396
Deposits from banks and financial institutions	34,863,897	22,466,402
Customers' accounts at amortized cost	748,608,580	711,280,296
Related parties' accounts at amortized cost	16,509,477	14,500,037
Certificates of deposit issued by the Group	13,476	13,707
	808,803,778	754,102,838

33. FEE AND COMMISSION INCOME

LBP'000	2017	2016
Commissions on documentary credits	44,923,517	39,970,538
Commissions on letters of guarantee	13,272,118	12,376,933
Commissions on money transfers' transactions	8,779,869	7,674,757
Insurance brokerage and service fees	38,707,089	31,434,900
Commissions on fiduciary accounts	1,316,289	1,756,941
Commissions on banking services	26,851,212	26,738,535
Commissions on credit cards	13,752,476	12,907,331
Commissions on capital market transactions	12,577,233	10,815,927
Other	3,251,426	3,081,279
	163,431,229	146,757,141

34. FEE AND COMMISSION EXPENSE

LBP'000	2017	2016
Commissions on transactions with banks and financial institutions	1,237,248	1,436,546
Commissions on credit cards	4,758,793	5,588,050
Commissions on fiduciary deposits	1,263,600	1,719,250
Commissions on loans	2,577,566	2,133,481
Commissions on money transfers transactions	2,228,169	2,126,752
Commissions on insurance transactions	9,752,501	7,943,509
Other	4,290,903	3,334,527
	26,108,780	24,282,115

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35. NET INTEREST AND OTHER GAINS ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

LBP'000	2017	2016
Interest income, net of tax	6,449,822	92,588,156
Change in fair value (net)	(4,261,166)	(2,467,090)
Gain on sale	3,365,376	9,820,700
Dividends received	4,479,441	3,956,173
	100,033,473	103,897,939

36. OTHER OPERATING INCOME (NET)

LBP'000	2017	2016
Share in profits of an associate (Note 13)	900,983	1,727,069
Foreign exchange gain	20,643,885	14,818,708
Loss on forward contracts	(4,239,384)	(3,151,506)
Gain on sale of assets acquired in satisfaction of loans (Note 14)	369,532	2,733,594
(Loss)/gain on sale of property and equipment	(54,052)	306,049
Dividends on other investments	316,145	327,284
Other (net)	771,877	616,067
	18,708,986	17,377,265

37. PROVISION /(WRITE-BACK OF PROVISION) FOR CREDIT LOSSES (NET)

LBP'000	2017	2016
Provision charged during the year (Note 9)	26,794,499	9,438,778
Write-back of provision during the year (Note 9)	(3,794,966)	(9,810,194)
Loss from write-off of loans	34,078	153,216
Collections on loans transferred to the off-balance sheet	(22,577)	-
	23,011,034	(218,200)

38. OTHER PROVISION (NET)

LBP'000	2017	2016
Provision for insurance liabilities (Note 23)	6,059,415	2,433,215
Provision for risks and charges (Note 23)	3,000,000	-
Other (net)	493,849	-
	9,553,264	2,433,215

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

39. STAFF COSTS

LBP'000	2017	2016
Salaries	111,299,007	102,744,186
Social Security contributions	14,844,184	12,926,621
Executive board members remunerations	16,832,334	16,612,302
Catch up provision for end of service indemnities staff (Lebanese jurisdiction))Note 23(3,265,831	4,350,322
Catch up provision for end of service indemnities lawyers and executive management (Lebanese jurisdiction))Note 23(97,635	92,014
Pension cost (Note 23)	1,012,988	1,997,036
Other staff benefits	27,228,319	28,245,192
	174,580,298	166,967,673

40. GENERAL AND ADMINISTRATIVE EXPENSES

LBP'000	2017	2016
Management fees	8,409,374	7,945,854
Cleaning	2,433,747	1,428,673
Telephone, mail and other communication expenses	6,089,253	5,797,056
Office supplies	4,076,327	3,909,061
Advertising and marketing expenses	10,836,341	11,629,305
Electricity and fuel	3,510,494	2,870,961
Maintenance and repair fees	14,362,414	14,374,236
Subscription fees	2,406,052	3,413,823
Donation and gifts	1,659,040	1,654,910
Reception and entertainment	2,085,024	1,587,520
Professional and regulatory fees	9,923,802	9,547,178
Research and development expenses	1,330,705	1,187,514
Rent expense under operating leases	11,571,920	10,710,579
Insurance expenses	2,085,298	2,665,253
Travel and related expenses	3,668,893	3,086,343
Centrale des risques	673,193	709,441
Taxes and fiscal charges	6,700,870	5,044,412
Miscellaneous expenses	16,507,788	12,864,791
	108,330,535	100,426,910

41. DEPRECIATION AND AMORTIZATION

LBP'000	2017	2016
Depreciation of property and equipment (Note 15)	18,618,749	18,054,504
Amortization of deferred software charges (Note 17)	3,955,949	3,889,985
Amortization of deferred advertising charges	327,663	387,534
	22,902,361	22,332,023

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

42. PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK

The consolidated profit for the year attributable to the equity holders of the Bank is allocated as follows:

Year-Ended December 31 st - LBP'000	2017		
	Profit before Tax	Current and Deferred Tax	Net Profit
Bank of Beirut S.A.L	229,314,227	(29,865,193)	199,449,034
Profit/(loss) of subsidiaries:			
Bank of Beirut UK LTD	18,606,646	(3,804,745)	14,801,901
Bank of Sydney Ltd	17,879,017	(5,532,741)	12,346,276
Bank of Beirut Invest S.A.L	17,611,034	(2,493,048)	15,117,986
BOB Finance S.A.L	3,763,391	(581,360)	3,182,031
Cofida Holding S.A.L	2,248,644	(4,965)	2,243,679
Beirut Broker Company S.A.L	10,643,334	(1,639,854)	9,003,480
Beirut Life S.A.L	6,659,624	(183,433)	6,476,191
Medawar 247 S.A.L	(16,632)	-	(16,632)
Medawar 1216 S.A.L	(15,500)	-	(15,500)
	306,693,785	(44,105,339)	262,588,446
Consolidation eliminations and adjustments	(23,685,436)	(3,377,969)	(27,063,405)
	283,008,349	(47,483,308)	235,525,041

Year-Ended December 31 st - LBP'000	2016		
	Profit before Tax	Current and Deferred Tax	Net Profit
Bank of Beirut S.A.L	216,081,040	(26,205,327)	189,875,713
Profit/(loss) of subsidiaries:			
Bank of Beirut UK LTD	13,764,467	(3,019,974)	10,744,493
Bank of Sydney Ltd	14,845,011	(4,505,026)	10,339,985
Bank of Beirut Invest S.A.L	16,563,586	(2,318,337)	14,245,249
BOB Finance S.A.L	3,658,256	(551,739)	3,106,517
Cofida Holding S.A.L	3,089,413	(5,000)	3,084,413
Beirut Broker Company S.A.L	9,406,648	(1,410,997)	7,995,651
Beirut Life S.A.L	5,761,657	(129,034)	5,632,623
Medawar 247 S.A.L	(9,204)	-	(9,204)
Medawar 1216 S.A.L	(9,205)	-	(9,205)
	283,151,669	(38,145,434)	245,006,235
Consolidation eliminations and adjustments	(14,611,545)	(3,098,004)	(17,709,549)
	268,540,124	(41,243,438)	227,296,686

The accompanying notes 1 to 54 form an integral part of the consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

43. EARNINGS PER SHARE

The computation of the basic earnings per share is based on the Group's net income before non-recurring income and the

weighted average number of outstanding shares during each year, net of treasury shares held by the Group.

As at December 31 st - LBP'000	2017	2016
EARNINGS:		
Earnings for the purpose of basic earnings per share (net income for the year attributable to equity holders of the Bank)	235,525,041	227,296,686
Less: Dividends proposed to non-cumulative preferred shares	(56,827,662)	(50,465,186)
Net income after distribution to non-cumulative preferred shares	178,697,379	176,831,500
Less: Dividends proposed to non-cumulative priority shares	(6,030,121)	(6,030,121)
Net earnings for the purpose of basic earnings per shares	172,667,258	170,801,379
NUMBER OF SHARES:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	52,986,943	51,924,203
Weighted average number of priority shares for the purpose of basic earnings per share	4,677,788	4,627,377
Weighted average number of shares for priority and ordinary shares	57,664,731	56,551,580
Effect of dilutive potential ordinary shares, preferred shares	-	-
Weighted average number of ordinary shares for the purpose of diluted earnings per share	57,664,731	56,551,580
Basic earnings per common share	LBP 2,994	LBP 3,020
Basic earnings per priority common share	LBP 4,283	LBP 4,323
Diluted earnings per share	LBP 2,994	LBP 3,020

The conversion effect of Series "G" preferred shares and Series 2014 priority shares was excluded from the calculation

of diluted earnings per share for 2017 and 2016 since they have anti-dilutive effect.

44. 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 balance sheet. However, documentary and commercial letters of credit, which represent written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are

collateralized by the underlying shipments documents of goods to which they relate and, therefore, have significantly less risks.

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

As of December 31, 2017 and 2016, the Group had an interest rate swap outstanding to hedge cash flows detailed as follows:

	2017		2016	
	Original Currency AUD	C/V LBP'000	Original Currency AUD	C/V LBP'000
Principal amount	9,200,000	10,837,232	5,061,000	5,513,049
Fair value (Note 22)	37,496	44,169	138,661	151,046

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

45. FIDUCIARY ACCOUNTS

Fiduciary accounts are invested as follows:

As at December 31 st - LBP'000	2017	2016
Back-to-back lending	55,245,892	44,383,274
Equity securities (long position)	84,392,331	90,685,059
Derivatives	(3,279,190)	(3,082,630)
Debt leverage	33,427,967	59,992,764
	169,787,000	191,978,467

46. BALANCES / TRANSACTIONS WITH RELATED PARTIES

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

As at December 31 st - LBP'000	2017	2016
Shareholders, directors and other key management personnel and close family members and their related companies:		
Direct facilities and credit balances:		
Secured loans and advances	89,609,711	60,774,826
Unsecured loans and advances	38,425,890	45,109,696
Deposits	(523,557,743)	(440,996,042)
Accrued interest receivable	125,056	66,988
Accrued interest payable	(1,019,700)	(1,545,108)
Indirect facilities:		
Letters of guarantee	4,499,136	26,417,148
Associates		
Direct facilities and credit balances:		
Current accounts – associate bank (Note 6)	14,081,443	15,390,832
Short term loans – associate bank (Note 8)	9,179,430	7,654,508
Deposits from associate (Note 18)	(9,184,947)	(5,506,011)
Acceptances	1,309,845	606,231
Margins on letters of credit (Note 22)	(1,016,559)	(4,688,838)
Indirect facilities:		
Letters of credit	130,985	8,131,059

Interest rates applied on related parties' balances outstanding are the same rates that would be charged in an arm's length transaction.

Secured loans and advances are covered as of December 31, 2017 by real estate mortgages to the extent of LBP6.3billion (LBP15.7billion as of December 31, 2016), pledged deposits of the respective borrowers to the extent of LBP78.6billion (LBP77.3billion as of December 31, 2016) and pledged securities to the extent of LBP9billion (LBP1.2billion as of December 31, 2016).

The remuneration of executive management amounted to LBP1.39billion during 2017 (LBP1.39billion during 2016) in addition to incentives linked to performance representing 6% of profit before tax.

General and administrative expenses for the year ended December 31, 2017 include rent expenses to related parties for USD165,750 and AED102,240 (USD165,750 and AED102,240 for the year ended December 31, 2016) and management expenses to related parties for USD900,000 (USD900,000 for the year ended December 31, 2016).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

47. NOTE TO THE CASH FLOW STATEMENT

A. Cash and cash equivalents

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

As at December 31 st - LBP'000	2017	2016
Cash (Note 5)	57,354,047	47,969,789
Current accounts with central banks	1,327,438,478	1,102,351,026
Time deposits with central banks	408,985,390	923,557,210
Checks for collection	77,256,891	72,450,965
Current accounts with banks and financial institutions	385,667,359	522,351,559
Overnight placements	282,916,303	211,612,500
Term placements with banks and financial institutions	559,779,242	495,149,842
Current accounts from banks and financial institutions	(574,419,595)	(350,668,569)
Short term deposits from banks and financial institutions	(576,198,006)	(1,041,211,920)
Pledge deposits	-	(22,960,718)
	1,948,780,109	1,960,601,684

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

B. Non-cash transactions

The statement of cash flow is prepared after excluding the effect of the following non-cash transactions:

As at December 31 st - LBP'000	2017	2016
Operating Activities:		
Loans and advances for the effect of assets acquired in satisfaction of loans	(168,593)	(2,093,445)
Other assets	180,900	1,297,083
Investing Activities:		
Effect of assets acquired in satisfaction of loans	168,593	2,093,445
Property and equipment	(180,900)	(1,297,083)

48. CONTINGENCIES

As of the date of the consolidated statement of financial position, there are lawsuits and litigations, whereby the Group is either plaintiff or defendant, pending before the competent courts and

the outcome of which cannot be determined at present. One of these litigations might be sensitive with risk relatively low and not based on valid grounds according to the Group's legal advisor.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

49. COLLATERAL GIVEN

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

As at December 31 st , 2017 - LBP'000	Pledged Amount	Nature of Facility	Corresponding Facilities		
			Amount of Facility	Nature of Facility	Amount of Facility
Pledged deposits with banks	386,417	Performance bonds	4,335,525	-	-
Pledged deposits with banks	71,747,266	Foreign currency (Bought)	517,476,768	Foreign currency (sold)	521,420,063
Pledged deposits with banks	722,031	-	-	-	-
Lebanese government bonds and bonds issued by financial private sector	134,742,762	Short term deposits	52,762,500	-	-
Securities sold under repurchase agreement	124,520,636	Borrowings from other central banks	100,330,387	-	-
Lebanese treasury bills	146,021,700				
Short term placements with the Central Bank of Lebanon	6,027,050	Borrowings from the Central Bank of Lebanon	-	-	-
	152,048,750		152,048,750	-	-

As at December 31 st , 2016 - LBP'000	Pledged Amount	Nature of Facility	Corresponding Facilities		
			Amount of Facility	Nature of Facility	Amount of Facility
Pledged deposits with banks	386,417	Performance bonds	4,288,784	-	-
Pledged deposits with banks	66,487,530	Foreign currency (Bought)	453,616,203	Foreign currency (sold)	448,006,934
Pledged deposits with banks	667,702	-	-	-	-
Lebanese government bonds and bonds issued by financial private sector	161,888,164	Short term deposits	75,375,000	-	-
Securities sold under repurchase agreement	108,616,097	Borrowings from other central banks	76,025,884	-	-

As at December 31, 2017, the Group had deposits in guarantee in the amount of LBP1.53billion (LBP1.45billion as at December 31, 2016) blocked in favor of the Ministry of Economy and Trade in guarantee of the Group's insurance activities in Lebanon.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

50. CAPITAL MANAGEMENT

The Group manages its capital to comply with the capital adequacy requirements set by the Central Bank of Lebanon, the Group's lead regulator, and retain an economic capital enough to meet the Group's medium term expansion plan.

Furthermore, 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 branch abroad in addition to the minimum regulatory capital required by the host country.

Pursuant to Central Bank of Lebanon decisions adopted with respect to the application of the Basel III regulation, all banks operating in Lebanon must gradually reach the following capital ratios:

Ratio	December 31,	December 31,	December 31,	December 31,
	2015	2016	2017	2018
	%	%	%	%
Common Equity Tier 1 ratio	8.00	8.50	9.00	10.00
Tier 1 ratio	10.00	11.00	12.00	13.00
Total Capital ratio	12.00	14.00	14.50	15.00

The Group's capital is split as follows:

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

Tier II capital: Comprises qualifying subordinated liabilities, 50% of cumulative favorable change in fair value of securities at fair value through other comprehensive income and revaluation surplus of owned properties.

The Group has complied with the regulatory capital requirement throughout the period.

The Group's capital adequacy ratio according to Basel III as of December 31, 2017 and 2016, is as follows:

As at December 31 st - LBP'000	2017	2016
Common equity (net)	1,380,365,773	1,299,445,706
Additional Tier I capital (net)	844,124,625	844,124,625
Net Tier II capital	2,224,490,398	2,143,570,331
	13,156,812	14,449,431
Total regulatory capital (including remaining net profit after distribution of dividends)	2,237,647,210	2,158,019,762
Credit risk	13,548,257,197	13,383,463,507
Market risk	105,951,546	85,010,194
Operational risk	1,056,678,737	973,382,998
Risk weighted assets and risk weighted off-balance sheet items	14,710,887,480	14,441,856,699
Common equity Tier I ratio	9.38%	9.00%
Tier I ratio	15.12%	14.84%
Risk based capital ratio – Tier I and Tier II capital	15.21%	14.94%

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

- Comply with regulatory ratios, on individual and consolidated basis, primarily in respect of the Capital Adequacy Ratio under Basel III.
- Ensure a high return on equity for the common shareholders.

- Dividends payout policy is consistent to provide shareholders with acceptable dividend yield.

The Group's strategy is to maintain a satisfactory economic capital beyond the regulatory threshold.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

51. SEGMENT INFORMATION

The Group classifies its operating segments by geographical location and by activity.

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

Segment income and expenses include transfers between segments and these transfers are conducted on arm's length terms and

conditions. Shared costs are included in segments on the basis of the actual recharges made, if any.

The Group has three reportable business segments which reflect the basis on which senior management reviews operating activities, allocates capital and assesses performance.

The Group's operating segment information by geographical location is as follows:

As at December 31 st - LBP'000	2017				
	Lebanon & Middle East	Europe	Australia	Inter-segment	Total
Total Assets	25,542,271,816	1,214,608,553	2,479,506,723	(1,549,249,423)	27,687,137,669
Total Liabilities	21,795,273,093	1,015,968,224	2,163,486,278	(834,131,281)	24,140,596,314
Total Equity	3,746,998,723	198,640,329	316,020,445	(715,118,142)	3,546,541,355
Profit for the year	306,913,925	16,997,031	12,346,276	(100,732,191)	235,525,041
ASSETS					
Financial assets at fair value through profit or loss	1,521,607,448	52,742,949	-	(66,916,988)	1,507,433,409
Loans and advances to customers	6,525,184,198	207,392,611	1,712,524,138	-	8,445,100,947
Loans and advances to related parties	349,868,841	40,548	24,311,916	(246,060,648)	128,160,657
Investment securities	7,769,788,045	6,136,247	545,083,321	-	8,321,007,613
LIABILITIES					
Customers' deposits at amortized cost	17,339,964,102	241,231,853	2,001,807,906	-	19,583,003,861
Related parties' deposits at amortized cost	567,539,237	20,951,605	39,213,938	(103,127,337)	524,577,443
2016					
As at December 31 st - LBP'000	Lebanon & Middle East	Europe	Australia	Inter-segment	Total
Total Assets	24,283,546,629	1,121,132,779	2,038,056,049	(1,501,612,715)	25,941,122,742
Total Liabilities	20,588,142,511	967,734,264	1,757,954,347	(855,927,973)	22,457,903,149
Total Equity	3,695,404,118	153,398,515	280,101,702	(645,684,742)	3,483,219,593
Profit for the year	300,081,718	11,943,647	10,339,985	(95,068,664)	227,296,686
ASSETS					
Financial assets at fair value through profit or loss	1,489,776,671	46,913,165	-	(55,393,956)	1,481,295,880
Loans and advances to customers	5,498,568,758	210,803,569	1,377,016,879	-	7,086,389,206
Loans and advances to related parties	281,428,186	30,720	9,112,560	(184,619,956)	105,951,510
Investment securities	8,559,925,959	6,127,311	555,623,129	-	9,121,676,399
LIABILITIES					
Customers' deposits at amortized cost	16,627,154,835	253,552,826	1,599,534,186	-	18,480,241,847
Related parties' deposits at amortized cost	505,072,721	6,235,663	27,663,271	(96,430,505)	442,541,150

The accompanying notes 1 to 54 form an integral part of the consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at December 31 st - LBP'000	2017				
	Lebanon & Middle East	Europe	Australia	Inter-segment	Total
Interest income	1,159,948,963	28,623,791	87,257,905	(23,951,791)	1,251,878,868
Less: tax on interest	(6,553,371)	-	-	-	(6,553,371)
Interest income, net of tax	1,153,395,592	28,623,791	87,257,905	(23,951,791)	1,245,325,497
Interest expense	(778,385,753)	(11,534,593)	(42,835,223)	23,951,791	(808,803,778)
Net interest income	375,009,839	17,089,198	44,422,682	-	436,521,719
Fee and commission income	151,554,348	21,274,371	8,253,863	(17,651,353)	163,431,229
Fee and commission expense	(27,356,407)	(616,859)	(222,391)	2,086,877	(26,108,780)
Net fee and commission income	124,197,941	20,657,512	8,031,472	(15,564,476)	137,322,449
Net interest and other gains on financial assets at fair value through profit or loss	102,501,407	211,017	-	(2,678,951)	100,033,473
Gain from derecognition of financial assets measured at amortized cost	(136,041)	-	563,829	-	427,788
Other operating income (net)	41,980,614	1,065,415	1,733,207	(26,070,250)	18,708,986
Net financial revenues	643,553,760	39,023,142	54,751,190	(44,313,677)	693,014,415
Provision for credit losses (net)	(27,401,072)	4,426,238	(36,200)	-	(23,011,034)
Write-back/(provision) for loans to banks	-	1,002,038	-	-	1,002,038
Other provisions (net)	(9,553,264)	-	-	-	(9,553,264)
Net financial revenues after impairment	606,599,424	44,451,418	54,714,990	(44,313,677)	661,452,155
Staff costs	(142,706,035)	(10,460,178)	(21,414,085)	-	(174,580,298)
General and administrative expenses	(104,785,532)	(5,603,577)	(13,505,902)	15,564,476	(108,330,535)
Depreciation and amortization	(20,292,100)	(694,275)	(1,915,986)	-	(22,902,361)
Profit before income tax	338,815,757	27,693,388	17,879,017	(28,749,201)	355,638,961
Income tax expense	(34,282,633)	(4,289,965)	(5,532,741)	-	(44,105,339)
Profit for the year before withholding tax on profits from subsidiaries	304,533,124	23,403,423	12,346,276	(28,749,201)	311,533,622
Deferred tax on undistributed profit	(3,377,969)	-	-	-	(3,377,969)
Profit for the year	301,155,155	23,403,423	12,346,276	(28,749,201)	308,155,653

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at December 31 st - LBP'000	2016				
	Lebanon & Middle East	Europe	Australia	Inter-segment	Total
Interest income	1,056,395,305	24,751,710	78,027,307	(22,912,876)	1,136,261,446
Less: tax on interest	-	-	-	-	-
Interest income, net of tax	1,056,395,305	24,751,710	78,027,307	(22,912,876)	1,136,261,446
Interest expense	(727,009,983)	(11,171,361)	(38,834,370)	22,912,876	(754,102,838)
Net interest income	329,385,322	13,580,349	39,192,937	-	382,158,608
Fee and commission income	135,616,492	17,497,652	8,302,653	(14,659,656)	146,757,141
Fee and commission expense	(23,543,787)	(569,326)	(169,002)	-	(24,282,115)
Net fee and commission income	112,072,705	16,928,326	8,133,651	(14,659,656)	122,475,026
Net interest and other gains on financial assets at fair value through profit or loss	106,551,954	207,257	-	(2,861,272)	103,897,939
Gain from derecognition of financial assets measured at amortized cost	11,447,130	-	168,362	-	11,615,492
Other operating income (net)	30,973,788	1,250,116	1,653,361	(16,500,000)	17,377,265
Net financial revenues	590,430,899	31,966,048	49,148,311	(34,020,928)	637,524,330
Provision for credit losses (net)	7,566,171	(7,867,282)	519,311	-	218,200
Write-back/(provision) for loans to banks	-	(771,930)	-	-	(771,930)
Other provisions (net)	(2,433,215)	-	-	-	(2,433,215)
Net financial revenues after impairment	595,563,855	23,326,836	49,667,622	(34,020,928)	634,537,385
Staff costs	(137,066,094)	(9,299,518)	(20,602,061)	-	(166,967,673)
General and administrative Expenses	(97,920,884)	(5,104,787)	(12,060,895)	14,659,656	(100,426,910)
Depreciation and amortization	(19,743,969)	(428,399)	(2,159,655)	-	(22,332,023)
Profit before income tax	340,832,908	8,494,132	14,845,011	(19,361,272)	344,810,779
Income tax expense	(30,184,707)	(3,455,701)	(4,505,026)	-	(38,145,434)
Profit for the year before withholding tax on profits from subsidiaries	310,648,201	5,038,431	10,339,985	(19,361,272)	306,665,345
Deferred tax on undistributed profit	(3,098,004)	-	-	-	(3,098,004)
Profit for the year	307,550,197	5,038,431	10,339,985	(19,361,272)	303,567,341

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The Group's operating segment information by activity during 2017 and 2016 was as follows:

2017

As at December 31 st - LBP'000	Banking & Financial Institutions	Insurance & Brokerage	Managed Funds	Inter-segment	Total
Total Assets	27,696,815,091	74,394,912	1,465,177,089	(1,549,249,423)	27,687,137,669
Total Liabilities	24,636,617,229	28,521,124	309,589,242	(834,131,281)	24,140,596,314
Total Equity	3,060,197,862	45,873,788	1,155,587,847	(715,118,142)	3,546,541,355
Profit for the year	246,589,234	14,832,052	74,835,946	(100,732,191)	235,525,041
Non - controlling interests	-	647,619	71,982,993	-	72,630,612

2016

As at December 31 st - LBP'000	Banking & Financial Institutions	Insurance & Brokerage	Managed Funds	Inter-segment	Total
Total Assets	25,946,493,451	58,722,696	1,437,519,310	(1,501,612,715)	25,941,122,742
Total Liabilities	23,040,400,518	20,827,935	252,602,668	(855,927,972)	22,457,903,149
Total Equity	2,906,092,933	37,894,761	1,184,916,642	(645,684,743)	3,483,219,593
Profit for the year	229,954,314	13,628,274	78,782,762	(95,068,664)	227,296,686
Non - controlling interests	-	563,260	75,707,395	-	76,270,655

52. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Group holds and issues financial instruments for three main purposes:

- to earn an interest margin or a fee;
- to finance its operations; and
- to manage the interest rate and currency risks arising from its operations and from its sources of finance.

The main risks arising from the Group's financial instruments are:

- Credit risk
- Liquidity risk
- Interest rate risk; and
- Foreign currency risk

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established various Committees at Group and each entity's level to develop and monitor the Group's risk management policies in their specified areas.

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

A- Credit Risk

Credit risk is the risk of financial loss to the Group if a counterparty to a financial instrument fails to discharge an obligation. Financial assets that are mainly exposed to credit risk are deposits with banks, loans and advances 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 geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Group's performance affecting a particular industry or geographical location.

1- Management of credit risk

Credit risk is the risk of loss resulting from the failure of an obligor or counterparty to meet its contractual obligations. It is a part of many of the Group's business activities and exists in the different banking products (for example loans, letters of credit, derivative contracts....) provided to customers of all sizes, from large corporate clients to individual consumers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The risk is controlled through monitoring and enforcing compliance with the risk principles and with policies, limits and regulatory requirements, whereby the Group has developed policies and practices to preserve the independence and integrity of decision-making and ensure credit exposure beyond normal risk are identified promptly, assessed accurately, approved properly, reviewed in light of market and external developments, monitored regularly and managed actively.

The Group assesses the creditworthiness of new contracting parties before entering into any transaction giving rise to credit exposure and continuously monitors creditworthiness and exposures thereafter. It applies a well-defined system for assessing the creditworthiness of its clients on the basis of many criteria related to the borrower mainly the nature of activity, financial performance and structure, credit history, cash flows, projected financials and management quality (e.g. purpose, amount, tenor, collateral presented as a second way out).

The Group sets limits on the credit exposure to both individual and groups and applies limits in a variety of forms to portfolios or sectors where it considers appropriate to restrict credit concentrations or areas of high risk. In addition credit concentration is subject to regulatory authority constraints whereby the credit concentration to one individual or Group (a Group is defined as a group of clients that are linked to one another by any of a number of criteria established, including capital ownership, voting rights, effective control and other indications) does not exceed a maximum of 20% of regulatory equity.

In order to meet credit risk management objectives, the Group seeks to maintain a risk profile that is diverse in terms of borrower, product type, industry and geographic concentration.

Through the risk reporting, credit risk trends and limit exceptions are provided regularly and discussed with concerned committees. In this connection, the Group works continuously towards enhancing its credit risk management tools and adopting more advanced approaches.

2- Measurement of credit risk

a) Loans and advances

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

- **Watch List:** Loans and advances rated Watch List are loans that are not impaired but for which the Group determines that they require special monitoring.
- **Past due but not impaired:** Loans past due but not impaired are loans where contractual interest or principal are past due but management believes that impairment is not appropriate on the basis of the level of collateral available and the stage of collection of amounts owed to the Group.

- **Rescheduled loans:** Rescheduled loans are loans that have been restructured after they have been rated as substandard or doubtful and where the Group has made concessions that it would not otherwise consider. Once the loan is restructured it remains in its original category.
- **Substandard loans:** Substandard loans are inadequately protected by current sound worth and paying capacity of the obligor or by any collateral pledged. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Group will sustain some loss if the deficiencies are not corrected.
- **Doubtful loans:** Doubtful loans have all the weaknesses inherent in those classified as substandard, with the added characteristic that existing facts, conditions, and values make collection or liquidation in full highly improbable. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors that may work to the advantage and strengthening of the asset, its classification as an estimated loss is deferred until a more exact status may be determined. Pending factors include merger, acquisition, liquidation procedures, capital injection, additional collateral, new financing sources, or additional guarantors.
- **Loss:** Loans classified as a loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value. Rather, the amount of loss is difficult to measure and it is not practical or desirable to defer writing off this basically worthless asset even if partial recovery may be obtained in the future. Loans are charged off in the period in which they are deemed uncollectible.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3- Risk mitigation policies

Collateral:

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

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

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

Other specific risk mitigation policies include:

Netting arrangements:

The Group further restricts its exposure to credit losses by entering into netting arrangements with counterparties. Netting arrangements reduce credit risk associated with favorable contracts to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis.

a) Exposure to credit risk and concentration by counterparty:

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

As at December 31 st - LBP'000		2017	2016
		Gross Maximum Exposure	Gross Maximum Exposure
Deposits at central banks (excluding cash on hand)		6,524,281,437	5,622,689,856
Deposits with banks and financial institutions	6	1,547,299,126	1,507,514,206
Financial assets at fair value through profit or loss	7	1,507,433,409	1,481,295,880
Loans to Banks	8	292,410,807	263,273,658
Loans and advances to customers	9	8,445,100,947	7,086,389,206
Loans and advances to related parties	10	128,160,657	105,951,510
Financial assets measured at Amortized cost	11	8,310,296,531	9,112,750,801
Financial assets measured at fair value through other comprehensive income	11	10,711,082	8,925,598
Customers' liability under acceptances	12	357,494,071	267,377,142
Other financial assets		42,630,156	35,286,292
Total		27,165,818,223	25,491,454,149
Financial instruments with off-balance sheet risk		2,387,218,033	2,489,550,147
Fiduciary accounts	45	169,787,000	191,978,467
Total		2,557,005,033	2,681,528,614
Total credit risk exposure		29,722,823,256	28,172,982,763

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

b) Concentration of loans by industry or sector:

As at December 31 st , 2017 - LBP'000	Agriculture	Manufacturing & Industry
BALANCE SHEET EXPOSURE		
Loans to banks	-	-
Loans and advances to customers	35,583,203	693,070,981
Loans and advances to related parties	-	1,697,380
	35,583,203	694,768,361

As at December 31 st , 2016 - LBP'000	Agriculture	Manufacturing & Industry
BALANCE SHEET EXPOSURE		
Loans to banks	-	-
Loans and advances to customers	186,035,391	704,359,695
Loans and advances to related parties	-	636,986
	186,035,391	704,996,681

Financial Services	Real Estate & Construction	Trade & Services	Others	Total
292,410,807	-	-	-	292,410,807
411,478,759	2,712,596,913	1,933,802,112	2,658,568,979	8,445,100,947
5,194,024	6,376,770	83,347,301	31,545,182	128,160,657
709,083,590	2,718,973,683	2,017,149,413	2,690,114,161	8,865,672,411

Financial Services	Real Estate & Construction	Trade & Services	Others	Total
263,273,658	-	-	-	263,273,658
260,417,573	1,960,871,442	1,923,918,757	2,050,786,348	7,086,389,206
5,708,047	7,165,323	76,637,547	15,803,607	105,951,510
529,399,278	1,968,036,765	2,000,556,304	2,066,589,955	7,455,614,374

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

As at December 31st, 2017 - LBP'000	Gross Exposure Net of Unrealized Interest	Allowance for Impairment
Performing loans	8,232,746,188	-
Substandard loans	109,537,779	(1,186,420)
Doubtful and Bad loans	259,287,493	(129,248,442)
Collective provisions	-	(26,035,651)
	8,601,571,460	(156,470,514)

As at December 31st, 2016 - LBP'000	Gross Exposure Net of Unrealized Interest	Allowance for Impairment
Performing loans	6,921,384,845	-
Substandard loans	167,149,361	(740,045)
Doubtful and Bad loans	130,174,123	(82,162,076)
Collective provisions	-	(49,417,002)
	7,218,708,329	(132,319,123)

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

Fair Value of Collateral Received

Net Exposure	Pledged Funds	First Degree Mortgage on Property	Dept Securities	Bank Guarantees	Vehicles	Other	Total
8,232,746,188	1,548,909,537	4,274,513,173	21,587,999	103,165,405	269,947,635	2,641,348,190	8,859,471,939
108,351,359	1,026,791	77,971,393	-	-	4,011,919	-	83,010,103
130,039,051	578,785	3,296,477,825	-	-	4,312,473	6,931,077	3,308,300,160
(26,035,651)	-	-	-	-	-	-	-
8,445,100,947	1,550,515,113	7,648,962,391	21,587,999	103,165,405	278,272,027	2,648,279,267	12,250,782,202

Fair Value of Collateral Received

Net Exposure	Pledged Funds	First Degree Mortgage on Property	Dept Securities	Bank Guarantees	Vehicles	Other	Total
6,921,384,845	1,258,539,928	5,742,661,609	13,014,665	272,114,228	307,991,818	3,391,897,472	10,986,219,720
166,409,316	941,077	128,233,190	-	-	6,004,464	-	135,178,731
48,012,047	813,969	75,145,101	-	-	6,688,734	8,073,685	90,721,489
(49,417,002)	-	-	-	-	-	-	-
7,086,389,206	1,260,294,974	5,946,039,900	13,014,665	272,114,228	320,685,016	3,399,971,157	11,212,119,940

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

c) Concentration of financial assets and liabilities by geographical location:

As at December 31 st , 2017 - LBP'000	Lebanon	Middle East & Africa	Europe	North America	Australia	Others	Total
FINANCIAL ASSETS							
Cash and deposits at central banks	5,318,300,049	958,900,381	160,668,569	-	143,766,484	-	6,581,635,483
Deposits with banks and financial institutions	265,627,906	87,586,729	621,075,096	562,513,441	7,074,347	3,421,607	1,547,299,126
Financial assets at fair value through profit or loss	1,449,632,797	535,163	16,629,101	40,636,348	-	-	1,507,433,409
Loans to banks	40,728,142	245,995,963	3,996,151	-	-	1,690,551	292,410,807
Loans and advances to customers	5,656,560,899	928,545,743	114,973,296	36,785,859	1,708,165,902	69,248	8,445,100,947
Loans and advances to related parties	102,106,996	1,741,745	-	-	24,311,916	-	128,160,657
Investment securities	7,630,436,546	93,657,506	-	-	596,913,561	-	8,321,007,613
Customers' liability under acceptances	234,943,481	105,048,154	15,720,525	1,648,633	-	133,278	357,494,071
Other financial assets	33,219,800	458,399	21,368	-	8,930,589	-	42,630,156
	20,731,556,616	2,422,469,783	933,084,106	641,584,281	2,489,162,799	5,314,684	27,223,172,269
FINANCIAL LIABILITIES							
Deposits from banks and financial institutions	744,878,548	1,114,225,364	222,124,053	9,689	13,759,079	14,475	2,095,011,208
Customers' and related parties' deposits at amortized cost	14,287,425,060	2,047,549,545	1,587,349,203	150,990,619	1,996,725,446	37,541,431	20,107,581,304
Liabilities under acceptance	20,695,857	121,128,921	204,941,409	232,862	-	10,495,022	357,494,071
Other borrowings	923,798,137	-	(30,563,252)	-	100,330,387	-	993,565,272
Certificates of deposit	-	-	634,044	-	-	-	634,044
Other financial liabilities	130,910,686	2,057,379	59,903,616	-	7,860,527	-	200,732,208
	16,107,708,288	3,284,961,209	2,044,389,073	151,233,170	2,118,675,439	48,050,928	23,755,018,107
Net	4,623,848,328	(862,491,426)	(1,111,304,967)	490,351,111	370,487,360	(42,736,244)	3,468,154,162

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at December 31 st , 2016 - LBP'000	Lebanon	Middle East & Africa	Europe	North America	Australia	Others	Total
FINANCIAL ASSETS							
Cash and deposits at central banks	4,755,591,401	789,855,987	86,425,163	-	38,787,094	-	5,670,659,645
Deposits with banks and financial institutions	374,748,309	241,849,039	400,634,751	466,753,124	14,933,510	8,595,473	1,507,514,206
Financial assets at fair value through profit or loss	1,429,325,052	535,163	37,910,182	13,525,483	-	-	1,481,295,880
Loans to banks	37,850,824	219,963,980	230,893	-	-	5,227,961	263,273,658
Loans and advances to customers	4,593,097,070	990,807,059	121,575,696	3,541,996	1,377,356,971	10,414	7,086,389,206
Loans and advances to related parties	93,913,823	2,925,127	-	-	9,112,560	-	105,951,510
Investment securities	8,396,519,190	90,517,645	40,735	-	634,598,829	-	9,121,676,399
Customers' liability under acceptances	152,830,885	73,430,347	41,115,910	-	-	-	267,377,142
Other financial assets	30,805,164	597,021	39,125	1,966,370	1,878,612	-	35,286,292
	19,864,681,718	2,410,481,368	687,972,455	485,786,973	2,076,667,576	13,833,848	25,539,423,938
FINANCIAL LIABILITIES							
Deposits from banks and financial institutions	1,088,273,361	834,615,486	54,465,678	-	26,808,382	1,605	2,004,164,512
Customers' and related parties' deposits at amortized cost	13,032,512,292	2,278,949,590	1,867,017,130	135,396,469	1,582,779,147	26,128,369	18,922,782,997
Liabilities under acceptance	29,123,392	64,202,113	158,524,754	1,180,329	-	14,346,554	267,377,142
Other borrowings	495,210,579	-	16,427,225	-	76,025,884	-	587,663,688
Certificates of deposit	-	-	565,326	-	-	-	565,326
Other financial liabilities	71,855,599	190,602,483	523,085	279,632	8,233,060	-	271,493,859
	14,716,975,223	3,368,369,672	2,097,523,198	136,856,430	1,693,846,473	40,476,528	22,054,047,524
Net	5,147,706,495	(957,888,304)	(1,409,550,743)	348,930,543	382,821,103	(26,642,680)	3,485,376,414

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

B – Liquidity Risk

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

1- Management of liquidity risk

Liquidity is the “Group’s ability to ensure the availability of funds to meet commitments (including off-balance sheet commitments) at a reasonable price at all times.” In ‘business as usual’ circumstances the day-to-day cash management of a bank should not lead to any threats to its solvency.

Liquidity risk is defined as the risk of the Group’s ability to meet its current and future payment obligations in full or on time.

Liquidity risk arises when, in the case of a liquidity crisis, refinancing may only be raised at higher market rates (funding risk) or assets may only be liquidated at a discount to the market rates (market liquidity risk). It also results from the mismatches in the maturity pattern of assets and liabilities.

a) Liquidity Measurement

Liquidity is measured on a “business as usual basis” using:

- Balance Sheet Liquidity Ratios (purchased and stored liquidity ratios): such as immediate liquidity, loans / deposits, liquid assets ratio, interbank ratio, medium-term funding ratio, wholesale borrowing capacity, etc
- The liquidity relationship between the sub-components of the balance sheet at a particular point in time: Cash Flow Gap Scheduling which is the Gap between cash inflows and outflows determined within a series of time buckets.
- Stress testing: by stress testing “the business as usual” assumptions via standardized scenarios, the potential shortage of liquidity can be measured. This shortage needs to be covered by the Liquidity Buffer, which consists of unencumbered assets that can be reported or used as collateral at a Central Bank to generate cash.

The Bank’s objectives are to comply with the Central Bank instructions for liquidity risk monitoring and set other internal prudential limits as described hereafter. Some of the internal limits are:

- Liquidity gap ratios for Lebanese Pounds and foreign currencies (special focus on the foreign currencies): One month GAP/Tier One Capital
- Liquid assets in foreign currencies (including Placement with the Central Bank) / Total Deposits in foreign currencies.
- Placements with Non Resident Banks in foreign currencies/Total Deposits in foreign currencies
- Long-term foreign currency Funds (including equity)/Long-term Loans (above one year)

b) The Contingency Funding Plan

Liquidity problems will usually arise only when the Group encounters a crisis. In this case, there is a need to put in place a Contingency Funding Plan that both quantifies the adequacy of the Bank’s resources (Liquidity Buffer) to withstand a set of potential liquidity crises and sets out an Action Plan to be activated in the event of a liquidity crisis.

A mechanism to identify stress situations ahead of time, and to plan dealing with such unusual situations in a timely and effective manner should be in existence. The Contingency Plan is reviewed regularly and tested.

The responsibilities and authorities of overseeing efficient implementation of liquidity risk mitigation is distributed in the best way to achieve proficient handling of the problems facing the Group and thus ensuring a smooth continuation of the activity without jeopardizing the business. Accordingly, officials and committees of the Group (namely ALCO, Treasury Department, Finance Department) assess the situation, decide on the activation of the contingency plan and act as follows:

- ALCO Committee is informed immediately, and quickly makes its assessment as to whether the plan should be activated.
- ALCO Committee takes all major decisions on loans or deposits, investment purchases, borrowing, whether to stop making additional loans, etc.
- ALCO Committee provides general, ongoing guidance on communicating with major depositors and other sources of funding, internal staff, and the press.
- The Treasury Department is responsible for maintaining sufficient liquidity to meet the Bank’s obligations and to meet the specific liquidity requirements of the supervisory authorities. The key measure used by the Bank for managing liquidity risk is the ratio of behaviorally adjusted net liquid assets (maturing in less than one month) to total deposits.
- In the unlikely event of a liquidity crisis, the Treasury Department would immediately endeavour to sell the Group’s liquid assets, or if more expedient, seek additional funds from the shareholders or borrow in the market to alleviate the shortfall.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Residual contractual maturities of financial assets and liabilities:

The tables below show the Group's financial assets and liabilities in Lebanese Pounds and foreign currencies base accounts segregated by maturity:

Year-Ended December 31 st 2017 - LBP'000	LBP Base Accounts		
	With No Maturity	Up to 3 Months	3 Months to 1 Year
FINANCIAL ASSETS			
Cash and deposits at central banks	605,836,412	1,710,161,271	-
Deposits with banks and financial institutions	-	1,509,865,192	37,433,934
Financial assets at fair value through profit or loss	32,298,178	68,709,547	101,726,223
Loans to banks	9,069,473	252,189,452	17,848,682
Loans and advances to customers	142,491,186	1,573,704,170	3,457,798,981
Loans and advances to related parties	40,548	75,114,885	19,560,521
Investment securities	10,711,083	207,105,932	491,595,941
Customers' liability under acceptances	-	353,604,597	3,889,474
Other financial assets	33,687,649	11,919	963,727
FINANCIAL LIABILITIES	834,134,529	5,750,466,965	4,130,817,483
Deposits from banks and financial institutions	-	1,879,152,425	115,759,339
Customers' and related parties' deposits at amortized cost	-	15,350,291,402	3,470,727,936
Liabilities under acceptance	-	353,604,597	3,889,474
Other borrowings	-	829,249,355	8,484,525
Certificates of deposit	-	-	634,044
Other financial liabilities	91,681,839	99,337,591	7,681,582
	91,681,839	18,511,635,370	3,607,176,900
Net Maturity Gap	742,452,690	(12,761,168,405)	523,640,583

LBP Base Accounts

1 to 3 Years	3 to 5 Years	5 to 10 Years	Over 10 Years	Total
939,136,350	1,333,814,100	1,174,310,350	818,377,000	6,581,635,483
-	-	-	-	1,547,299,126
143,876,385	191,501,299	743,970,009	225,351,768	1,507,433,409
4,794,400	8,508,800	-	-	292,410,807
1,145,761,134	421,062,233	431,861,341	1,272,421,902	8,445,100,947
11,228,230	3,409,334	4,029,150	14,777,989	128,160,657
1,828,909,856	1,495,207,493	3,287,798,789	999,678,519	8,321,007,613
-	-	-	-	357,494,071
7,966,861	-	-	-	42,630,156
4,081,673,216	3,453,503,259	5,641,969,639	3,330,607,178	27,223,172,269
100,099,444	-	-	-	2,095,011,208
900,148,793	181,286,700	36,728,397	168,398,076	20,107,581,304
-	-	-	-	357,494,071
6,201,694	63,673,250	86,418,700	(462,252)	993,565,272
-	-	-	-	634,044
2,031,196	-	-	-	200,732,208
1,008,481,127	244,959,950	123,147,097	167,935,824	23,755,018,107
3,073,192,089	3,208,543,309	5,518,822,542	3,162,671,354	3,468,154,162

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year-Ended December 31 st 2016 - LBP'000	LBP Base Accounts		
	With No Maturity	Up to 3 Months	3 Months to 1 Year
FINANCIAL ASSETS			
Cash and deposits at central banks	682,837,056	1,847,558,539	90,450,000
Deposits with banks and financial institutions	-	1,472,217,959	35,296,247
Financial assets at fair value through profit or loss	15,937,590	81,320,000	28,196,927
Loans to banks	574,387	185,262,641	59,437,372
Loans and advances to customers	93,522,579	1,698,496,113	2,476,102,814
Loans and advances to related parties	30,721	65,282,693	13,404,735
Investment securities	8,925,598	383,420,358	641,564,820
Customers' liability under acceptances	-	254,458,807	12,497,868
Other financial assets	34,504,496	169,831	791
	836,332,427	5,988,186,941	3,356,951,574
FINANCIAL LIABILITIES			
Deposits from banks and financial institutions	-	1,926,385,194	5,811,931
Customers' and related parties' deposits at amortized cost	1,294,481	15,020,631,297	3,000,529,239
Liabilities under acceptance	-	254,458,807	12,497,868
Other borrowings	496,122	579,653,158	3,930,244
Certificates of deposit	-	-	565,326
Other financial liabilities	160,825,495	93,925,847	15,196,325
	162,616,098	17,875,054,303	3,038,530,933
Net Maturity Gap	673,716,329	(11,886,867,362)	318,420,641

LBP Base Accounts

1 to 3 Years	3 to 5 Years	5 to 10 Years	Over 10 Years	Total
877,013,700	765,348,750	1,307,451,600	100,000,000	5,670,659,645
-	-	-	-	1,507,514,206
129,022,843	190,602,347	924,383,740	111,832,433	1,481,295,880
3,363,258	14,636,000	-	-	263,273,658
1,018,157,637	455,122,378	414,124,714	930,862,971	7,086,389,206
14,113,375	4,734,290	66,194	8,319,502	105,951,510
1,500,263,566	2,120,212,827	3,462,983,499	1,004,305,731	9,121,676,399
420,467	-	-	-	267,377,142
311,023	300,151	-	-	35,286,292
3,542,665,869	3,550,956,743	6,109,009,747	2,155,320,637	25,539,423,938
71,967,387	-	-	-	2,004,164,512
655,488,233	52,463,076	41,688,316	150,688,355	18,922,782,997
420,467	-	-	-	267,377,142
1,919,780	1,664,384	-	-	587,663,688
-	-	-	-	565,326
1,546,192	-	-	-	271,493,859
731,342,059	54,127,460	41,688,316	150,688,355	22,054,047,524
2,811,323,810	3,496,829,283	6,067,321,431	2,004,632,282	3,485,376,414

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

C – Market Risks

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

1- Management of market risks

a) Interest Rate Risk

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

b) Interest Rate Risk Measurement

Major concern is to be given to interest rates movements both in the local and international markets whenever hedging against rates rise should be undertaken as part of the Group's strategy.

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

Interest rate risk originating from banking activities arises partly from the employment of non-interest bearing liabilities such as shareholders' funds and customer current accounts, but also from the gaps that arise from the normal course of business.

The policy of the Group is to price all placements / exposures at floating rates or at fixed rates for fixed periods on appropriate rollover dates that allow for matching in the market.

INTEREST GAP ANALYSIS FOR ACCOUNTS AS AT DECEMBER 31, 2017:

LBP'000	Interest Rate Sensitivity						Total
	Non-Interest Generating	Floating					
		Up to 3 Months	3 Months to 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Year	
FINANCIAL ASSETS							
Cash and deposits at central banks	767,233,232	-	-	-	-	-	-
Deposits with banks and financial institutions	81,642,045	18,395,444	-	-	-	-	18,395,444
Financial assets at fair value through profit or loss	171,896,378	-	-	-	-	-	-
Loans to banks	(48,040)	1,928,448	11,508,800	-	-	-	13,437,248
Loans and advances to customers	145,706,805	2,142,745,914	227,029,528	73,237,323	3,821,649	1,138,555,972	3,585,390,386
Loans and advances to related parties	277,214	20,116,687	-	296,015	-	18,807,139	39,219,841
Investment securities	254,600,041	63,119,182	104,933,727	125,387,534	175,050,399	-	468,490,842
Customers' liability under acceptance	357,494,071	-	-	-	-	-	-
Other financial assets	38,591,774	3,376,657	46,425	71,001	544,299	-	4,038,382
	1,817,393,520	2,249,682,332	343,518,480	198,991,873	179,416,347	1,157,363,111	4,128,972,143
FINANCIAL LIABILITIES							
Deposits from banks and financial institutions	203,523,249	9,096,912	2,908,546	-	-	-	12,005,458
Customers' and related parties' deposits at amortized cost	139,017,721	1,141,203,789	-	-	-	-	1,141,203,789
Liabilities under acceptance	357,494,071	-	-	-	-	-	-
Other borrowings	8,578,565	100,330,387	-	-	-	-	100,330,387
Certificates of deposit	-	-	-	-	-	-	-
Other financial liabilities	99,177,360	-	-	-	-	-	-
	807,790,966	1,250,631,088	2,908,546	-	-	-	1,253,539,634
Interest rate swap	-	10,837,232	-	-	-	-	10,837,232
Interest rate gap	1,009,602,554	1,009,888,476	340,609,934	198,991,873	179,416,347	1,157,363,111	2,886,269,741

The accompanying notes 1 to 54 form an integral part of the consolidated financial statements

Fixed						
Up to 3 Months	3 Months to 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total	Grand Total
1,934,551,901	-	723,600,000	1,163,563,000	1,992,687,350	5,814,402,251	6,581,635,483
1,419,518,425	27,743,181	31	-	-	1,447,261,637	1,547,299,126
2,137,845	85,555,062	118,362,690	176,988,993	952,492,441	1,335,537,031	1,507,433,409
261,172,917	17,848,682	-	-	-	279,021,599	292,410,807
2,180,705,215	1,274,606,521	503,875,140	303,280,123	451,536,757	4,714,003,756	8,445,100,947
71,427,499	4,902,825	8,923,946	3,409,332	-	88,663,602	128,160,657
81,458,678	363,739,504	1,636,901,183	1,305,659,306	4,210,158,059	7,597,916,730	8,321,007,613
-	-	-	-	-	-	357,494,071
-	-	-	-	-	-	42,630,156
5,950,972,480	1,774,395,775	2,991,662,990	2,952,900,754	7,606,874,607	21,276,806,606	27,223,172,269
1,478,879,668	275,880,008	124,722,825	-	-	1,879,482,501	2,095,011,208
14,236,309,992	3,459,645,264	756,074,038	170,204,027	205,126,473	18,827,359,794	20,107,581,304
-	-	-	-	-	-	357,494,071
720,501,659	7,895,687	6,167,024	63,673,250	86,418,700	884,656,320	993,565,272
-	634,044	-	-	-	634,044	634,044
96,960,789	4,594,059	-	-	-	101,554,848	200,732,208
16,532,652,108	3,748,649,062	886,963,887	233,877,277	291,545,173	21,693,687,507	23,755,018,107
(1,413,552)	(3,533,880)	(5,889,800)	-	-	(10,837,232)	-
(10,583,093,180)	(1,977,787,167)	2,098,809,303	2,719,023,477	7,315,329,434	(427,718,133)	3,468,154,162

The accompanying notes 1 to 54 form an integral part of the consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

INTEREST GAP ANALYSIS FOR ACCOUNTS AS AT DECEMBER 31, 2016:

LBP'000	Interest Rate Sensitivity Balance Sheet						Total
	Non-Interest Generating	Up to 3 Months	3 Months to 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Year	
				Floating			
FINANCIAL ASSETS							
Cash and deposits at central banks	960,499,469	1,227	-	-	-	-	1,227
Deposits with banks and financial institutions	119,698,940	29,519,965	-	-	-	-	29,519,965
Financial assets at fair value through profit or loss	146,732,358	-	-	-	-	-	-
Loans to banks	(113,699)	234,338	-	-	-	-	234,338
Loans and advances to customers	89,236,587	2,006,669,364	213,438,360	124,889,048	12,304,225	774,745,171	3,132,046,168
Loans and advances to related parties	217,859	12,166,668	-	-	-	7,088,443	19,255,111
Investment in securities	287,957,619	94,239,919	43,570,013	259,284,760	191,825,586	-	588,920,278
Customers' liability under acceptance	267,377,142	-	-	-	-	-	-
Other financial assets	34,483,074	191,252	790	311,026	300,150	-	803,218
	1,906,089,349	2,143,022,733	257,009,163	384,484,834	204,429,961	781,833,614	3,770,780,305
FINANCIAL LIABILITIES							
Deposits from banks and financial institutions	130,873,294	125,225,886	3,614,552	-	-	-	128,840,438
Customers' and related parties deposits at amortized cost	731,967,290	1,416,237,358	-	-	-	-	1,416,237,358
Liabilities under acceptance	267,377,142	-	-	-	-	-	-
Other borrowings	10,712,287	-	-	-	-	-	-
Certificates of deposit	-	-	-	-	-	-	-
Other financial liabilities	118,094,306	1,810,062	20,624	130,323	-	-	1,961,009
	1,259,024,319	1,543,273,306	3,635,176	130,323	-	-	1,547,038,805
Interest rate swap	-	5,513,049	-	-	-	-	5,513,049
Interest rate gap	647,065,030	605,262,476	253,373,987	384,354,511	204,429,961	781,833,614	2,229,254,549

Fixed						
Up to 3 Months	3 Months to 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total	Grand Total
1,569,894,899	90,450,000	877,013,700	765,348,750	1,407,451,600	4,710,158,949	5,670,659,645
1,347,034,752	11,260,549	-	-	-	1,358,295,301	1,507,514,206
44,669,562	28,182,948	128,937,788	96,544,466	1,036,228,758	1,334,563,522	1,481,295,880
185,715,695	59,437,372	3,363,258	14,636,000	694	263,153,019	263,273,658
1,289,077,094	1,301,630,166	494,102,126	344,341,947	435,955,118	3,865,106,451	7,086,389,206
61,476,113	6,972,620	11,998,265	4,734,289	1,297,253	86,478,540	105,951,510
232,187,168	586,146,730	1,204,892,901	1,842,961,384	4,378,610,319	8,244,798,502	9,121,676,399
-	-	-	-	-	-	267,377,142
-	-	-	-	-	-	35,286,292
4,730,055,283	2,084,080,385	2,720,308,038	3,068,566,836	7,259,543,742	19,862,554,284	25,539,423,938
1,595,355,208	58,870,509	90,225,063	-	-	1,744,450,780	2,004,164,512
12,854,432,697	3,019,817,672	655,488,233	52,463,076	192,376,671	16,774,578,349	18,922,782,997
-	-	-	-	-	-	267,377,142
493,907,230	79,460,007	1,919,780	1,664,384	-	576,951,401	587,663,688
-	565,326	-	-	-	565,326	565,326
136,262,842	15,175,702	-	-	-	151,438,544	271,493,859
15,079,957,977	3,173,889,216	747,633,076	54,127,460	192,376,671	19,247,984,400	22,054,047,524
-	-	(5,513,049)	-	-	(5,513,049)	-
(10,349,902,694)	(1,089,808,831)	1,967,161,913	3,014,439,376	7,067,167,071	609,056,835	3,485,376,414

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Foreign Exchange Risk

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

Foreign exchange exposure arises from normal banking activities, primarily from the receipt of deposits and the placement of funds. Future open positions in any currency are managed by means of forward foreign exchange contracts. It is the policy of the Group that it will, at all times, adhere to the limits laid down by the Central

Bank as referred to below. It is not the Group's intention to take open positions on its own account (proprietary trading) but rather to maintain square or near square positions in all currencies.

The Group does not currently deal, and has no plans to deal, in Foreign Exchange Futures, Foreign Exchange Options or Options on Foreign Exchange Futures.

Any foreign exchange forward swap transaction is either immediately covered or incorporated into the respective loan and deposit book (the banking book).

THE TABLE SHOWN BELOW GIVES DETAILS OF THE GROUP'S EXPOSURE TO CURRENCY RISK:

As at December 31 st , 2017 - LBP'000	LBP	USD	Euro
ASSETS			
Cash and deposits at central bank	2,181,141,401	2,563,398,087	841,458,476
Deposits with banks and financial institutions	20,528,493	1,087,139,105	129,298,430
Financial assets at fair value through profit or loss	910,893,459	584,341,453	-
Loans to banks	13,476,516	180,408,806	35,054,714
Loans and advances to customers	1,811,814,328	3,980,706,438	283,872,002
Loans and advances to related parties	5,563,063	82,174,873	513,244
Investment securities	3,196,754,175	4,436,277,864	265,766
Customers' liability under acceptances	-	258,315,700	35,407,336
Investments in an associate	-	41,535,338	-
Assets acquired in satisfaction of loans	901,247	21,841,457	-
Property and equipment	191,053,871	34,126,674	58,128
Goodwill	452,265	-	-
Other Assets	26,146,160	20,102,085	344,199
	8,358,724,978	13,290,367,880	1,326,272,295
LIABILITIES			
Deposits from banks and financial institutions	113,753,048	1,243,642,703	355,847,731
Customers' and related parties' deposits at amortized cost	5,629,477,093	10,394,433,902	740,258,764
Liabilities under acceptance	-	258,315,700	35,407,336
Other borrowings	690,082,692	203,152,193	-
Certificates of deposit	-	-	-
Other liabilities	331,823,505	122,036,664	20,064,998
Provisions	42,398,641	12,362,536	616,067
	6,807,534,979	12,233,943,698	1,152,194,896
Currencies to be delivered	-	(196,110,747)	(484,684,731)
Currencies to be received	-	742,113,234	306,851,340
Premium (net)	-	(284,831)	205,395
	-	545,717,656	(177,627,996)
Net Exchange position	1,551,189,999	1,602,141,838	(3,550,597)

The accompanying notes 1 to 54 form an integral part of the consolidated financial statements

At the outset the Group's overall currency risk exposures is split into:

- Operational FX positions: The management of these risks is done via Trading books under the responsibility of the Global Markets Division.
- Structural FX positions: ALCO Committee decides on the level of the Structural FX positions to be held against the LBP denominated equity and foreign investment, to ensure proper hedging.

Treasury Department is responsible to monitor the compliance to the regulatory ratios set by the regulatory authorities. ALCO Committee is notified by the Finance department of any breach.

GBP	AUD	Other	Total
2,831,883	142,604,353	850,201,283	6,581,635,483
195,687,240	17,271,182	97,374,676	1,547,299,126
12,198,497	-	-	1,507,433,409
18,267,919	-	45,202,852	292,410,807
41,936,648	1,550,565,320	776,206,211	8,445,100,947
307,555	24,312,441	15,289,481	128,160,657
-	597,169,025	90,540,783	8,321,007,613
1,294,377	-	62,476,658	357,494,071
-	-	-	41,535,338
-	-	-	22,742,704
31,763,177	4,192,360	19,509,375	280,703,585
1,529,820	86,582,169	-	88,564,254
1,892,012	15,014,623	1,204,203	64,703,282
307,709,128	2,437,711,473	1,958,005,522	27,678,791,276
37,300,631	6,796,564	337,670,531	2,095,011,208
252,506,964	2,060,322,469	1,030,582,112	20,107,581,304
1,294,377	-	62,476,658	357,494,071
-	100,330,387	-	993,565,272
634,044	-	-	634,044
2,934,271	12,215,291	28,653,059	517,727,788
-	2,603,471	246,650	58,227,365
294,670,287	2,182,268,182	1,459,629,010	24,130,241,052
(12,413,585)	(231,349,170)	(471,887,614)	(1,396,445,847)
150,164,302	146,064,008	48,938,268	1,394,131,152
(61,576)	-	446,838	305,826
137,689,141	(85,285,162)	(422,502,508)	(2,008,869)
150,727,982	170,158,129	75,874,004	3,546,541,355

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at December 31 st , 2016 - LBP'000	LBP	USD	Euro
ASSETS			
Cash and deposits at central banks	1,776,139,995	2,646,458,610	503,762,457
Deposits with banks and financial institutions	36,133,108	906,233,180	146,386,151
Financial assets at fair value through profit or loss	903,405,875	544,494,013	-
Loans to banks	17,505,733	151,895,917	57,222,013
Loans and advances to customers	1,660,636,509	3,144,796,675	227,647,586
Loans and advances to related parties	3,387,629	77,410,076	370,422
Investment securities	3,787,192,629	4,608,697,977	208,060
Customers' liability under acceptances	-	182,089,252	45,616,134
Investments in an associate	-	40,876,914	-
Assets acquired in satisfaction of loans	963,591	23,803,738	-
Property and equipment	159,451,811	34,569,666	80,475
Goodwill	452,265	-	-
Other Assets	27,650,789	17,730,629	248,908
	8,372,919,934	12,379,056,647	981,542,206
LIABILITIES			
Deposits from banks and financial institutions	279,493,514	1,023,099,191	263,377,038
Customers' and related parties' deposits at amortized cost	5,747,038,054	9,432,364,059	792,496,125
Liabilities under acceptance	-	182,089,252	45,616,134
Other borrowings	491,532,520	20,105,284	-
Certificates of deposit	-	-	-
Other liabilities	347,395,701	218,595,363	25,263,491
Provisions	35,070,733	9,271,276	512,886
	6,900,530,522	10,885,524,425	1,127,265,674
Currencies to be delivered	-	(387,164,594)	(115,601,478)
Currencies to be received	-	542,638,564	253,685,996
Premium (net)	-	153,119	(118)
	-	155,627,089	138,084,400
Net exchange position	1,472,389,412	1,649,159,311	(7,639,068)

GBP	AUD	Other	Total
3,815,674	37,641,609	702,841,300	5,670,659,645
242,849,077	15,369,991	160,542,699	1,507,514,206
33,395,992	-	-	1,481,295,880
8,235,951	-	28,414,044	263,273,658
37,636,159	1,236,893,121	778,779,156	7,086,389,206
340,696	9,112,560	15,330,127	105,951,510
-	635,077,265	90,500,468	9,121,676,399
2,362,978	-	37,308,778	267,377,142
-	-	-	40,876,914
-	-	-	24,767,329
452,543	4,142,272	20,902,904	219,599,671
1,394,881	86,582,169	-	88,429,315
946,705	6,912,765	883,802	54,373,598
331,430,656	2,031,731,752	1,835,503,278	25,932,184,473
57,233,975	41,724,924	339,235,870	2,004,164,512
241,311,597	1,643,233,560	1,066,339,602	18,922,782,997
2,362,978	-	37,308,778	267,377,142
-	76,025,884	-	587,663,688
565,326	-	-	565,326
2,447,384	11,318,258	17,850,775	622,870,972
-	-	167,916	45,022,811
303,921,260	1,772,302,626	1,460,902,941	22,450,447,448
(19,055,641)	(245,611,613)	(381,030,241)	(1,148,463,567)
115,890,022	136,056,172	101,279,381	1,149,550,135
-	-	242,999	396,000
96,834,381	(109,555,441)	(279,507,861)	1,482,568
124,343,777	149,873,685	95,092,476	3,483,219,593

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

53. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The summary of the Group's classification of each class of assets and liabilities and their fair values are as follows:

As at December 31 st , 2017 - LBP'000	Note	Fair Value				Total
		Carrying Amount	Level 1	Level 2	Level 3	
Financial assets measured at:						
Fair value through profit or loss:						
Lebanese treasury bills	7	658,381,693	-	658,381,693	-	658,381,693
Lebanese Government bonds	7	298,462,316	-	298,462,316	-	298,462,316
Foreign government treasury bills	7	52,742,949	-	52,742,949	-	52,742,949
Certificates of deposit issued by the Central Bank of Lebanon	7	415,114,472	-	415,114,472	-	415,114,472
Quoted equity securities	7	14,799,007	14,799,007	-	-	14,799,007
Unquoted equity securities	7	48,521,521	-	-	48,521,521	48,521,521
		1,488,021,958	14,799,007	1,424,701,430	48,521,521	1,488,021,958
Financial assets through other comprehensive income						
Unquoted equity securities	11	10,711,082	-	-	10,711,082	10,711,082
		10,711,082	-	-	10,711,082	10,711,082
Amortized cost:						
Cash and deposits at central banks	5	6,581,635,483	-	6,717,854,590	-	6,717,854,590
Deposits with banks and financial institutions	6	1,547,299,126	-	1,547,579,550	-	1,547,579,550
Loans to banks	8	292,410,807	-	292,625,185	-	292,625,185
Loans and advances to customers	9	8,445,100,947	-	8,482,494,275	-	8,482,494,275
Loans and advances to related parties	10	128,160,657	-	103,150,606	-	103,150,606
Lebanese treasury bills	11	1,599,506,898	-	1,616,791,273	-	1,616,791,273
Lebanese Government bonds	11	3,534,612,705	-	3,367,180,428	-	3,367,180,428
Foreign Government bonds	11	89,622,830	-	89,622,830	-	89,622,830
Certificates of deposit issued by the Central Bank of Lebanon	11	2,375,202,077	-	2,404,706,872	-	2,404,706,872
Certificates of deposit issued by private sector	11	904,500	-	904,500	-	904,500
Bonds issued by financial private sector	11	593,376,444	-	597,986,515	-	597,986,515
Customers' liabilities under acceptances		357,494,071	-	357,494,071	-	357,494,071
Other financial assets		42,660,452	-	42,660,452	-	42,660,452
		25,587,986,997	-	25,621,051,147	-	25,621,051,147
Financial liabilities measured at:						
Amortized cost:						
Deposits from banks and financial institutions	18	2,095,011,208	-	2,042,558,925	-	2,042,558,925
Customers' and related parties' deposits at amortized cost	19	20,107,581,304	-	20,133,549,500	-	20,133,549,500
Liabilities under acceptance		357,494,071	-	357,494,071	-	357,494,071
Other borrowings	20	993,565,272	-	993,565,272	-	993,565,272
Certificates of deposit	21	634,044	-	634,044	-	634,044
Other financial liabilities		200,732,210	-	200,732,210	-	200,732,210
		23,755,018,109	-	23,728,534,022	-	23,728,534,022

The accompanying notes 1 to 54 form an integral part of the consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at December 31 st , 2016 - LBP'000	Note	Fair Value				Total
		Carrying Amount	Level 1	Level 2	Level 3	
Financial assets measured at:						
Fair value through profit or loss:						
Lebanese treasury bills	7	620,110,912	-	620,110,912	-	620,110,912
Lebanese Government bonds	7	289,383,914	-	289,383,914	-	289,383,914
Foreign government treasury bills	7	46,913,165	-	46,913,165	-	46,913,165
Certificates of deposit issued by the Central Bank of Lebanon	7	434,233,370	-	434,233,370	-	434,233,370
Quoted equity securities	7	13,623,037	13,623,037	-	-	13,623,037
Unquoted equity securities	7	52,966,427	-	-	52,966,427	52,966,427
		1,457,230,825	13,623,037	1,390,641,361	52,966,427	1,457,230,825
Financial assets through other comprehensive income						
Unquoted equity securities	11	8,925,598	-	-	8,925,598	8,925,598
		8,925,598	-	-	8,925,598	8,925,598
Amortized cost:						
Cash and deposits at central banks	5	5,670,659,645	-	5,751,468,639	-	5,751,468,639
Deposits with banks and financial institutions	6	1,507,514,206	-	1,493,802,965	-	1,493,802,965
Loans to banks	8	263,273,658	-	261,305,288	-	261,305,288
Loans and advances to customers	9	7,086,389,206	-	7,102,974,560	-	7,102,974,560
Loans and advances to related parties	10	105,951,510	-	105,404,457	-	105,404,457
Lebanese treasury bills	11	2,060,994,454	-	2,082,926,032	-	2,082,926,032
Lebanese Government bonds	11	3,610,776,206	-	3,476,783,021	-	3,476,783,021
Foreign Government bonds	11	89,582,004	-	89,582,004	-	89,582,004
Certificates of deposit issued by the Central Bank of Lebanon	11	2,581,311,305	-	2,606,549,992	-	2,606,549,992
Certificates of deposit issued by private sector	11	15,974,449	-	15,979,500	-	15,979,500
Bonds issued by financial private sector	11	631,905,259	-	631,928,977	-	631,928,977
Customers' liabilities under acceptances		267,377,142	-	267,377,142	-	267,377,142
Other financial assets		35,286,292	-	35,286,292	-	35,286,292
		23,926,995,336	-	23,921,368,869	-	23,921,368,869
Financial liabilities measured at:						
Amortized cost:						
Deposits from banks and financial institutions	18	2,004,164,512	-	1,975,792,479	-	1,975,792,479
Customers' and related parties' deposits at amortized cost	19	18,922,782,997	-	18,940,634,391	-	18,940,634,391
Liabilities under acceptance		267,377,142	-	267,377,142	-	267,377,142
Other borrowings	20	587,663,688	-	587,663,688	-	587,663,688
Certificates of deposit	21	565,326	-	565,326	-	565,326
Other financial liabilities		271,493,859	-	271,493,859	-	271,493,859
		22,054,047,524	-	22,043,526,885	-	22,043,526,885

The accompanying notes 1 to 54 form an integral part of the consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Valuation Techniques, Significant Unobservable Inputs, and Sensitivity of the Input to the Fair Value

The following table gives information about how the fair values of financial assets and financial liabilities, are determined (Level 2 and Level 3 fair values) and significant unobservable inputs used:

As at December 31 st , 2017	Date of Valuation	Valuation Technique and key Inputs
FINANCIAL ASSETS		
At fair value through profit or loss:		
Lebanese treasury bills	December 31, 2017 and 2016	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bonds, adjusted for illiquidity
Lebanese Government bonds	December 31, 2017 and 2016	Average market price in inactive market
Foreign government treasury bills	December 31, 2017 and 2016	Average market price in inactive market
Certificates of deposit issued by the Central Bank of Lebanon in Lebanese Pounds	December 31, 2017 and 2016	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bonds, adjusted for illiquidity
Certificates of deposit issued by the Central Bank of Lebanon in foreign currency	December 31, 2017 and 2016	Average market price in inactive market
Unquoted equity securities	December 31, 2017 and 2016	Management estimate based on unobservable input related to market volatility and liquidity treasury bonds, adjusted for illiquidity.
At fair value through other comprehensive income:		
Unquoted equity securities	December 31, 2017 and 2016	Not valued
At amortized cost:		
Deposits at central banks	December 31, 2017 and 2016	DCF at a discount rate determined based on the yield curve of Central Bank of Lebanon placements for maturities greater than one year and Libor based interbank rates for maturities less than one year by currency
Deposits with banks and financial institutions	December 31, 2017 and 2016	DCF at a discount rate determined based on the yield curve of Central Bank of Lebanon placements for maturities greater than one year and Libor based interbank rates for maturities less than one year by currency
Loans to banks	December 31, 2017 and 2016	DCF at a discount rate determined based on banks yield curve by currency
Loans and advances to customers	December 31, 2017 and 2016	DCF at a discount rate extrapolated across the maturity spectrum and in line with Beirut reference rates
Loans and advances to related parties	December 31, 2017 and 2016	DCF at a discount rate extrapolated across the maturity spectrum and in line with Beirut reference rates
Lebanese treasury bills	December 31, 2017 and 2016	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bonds, adjusted for illiquidity
Certificates of deposit issued by the Central Bank of Lebanon in Lebanese Pounds	December 31, 2017 and 2016	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bonds, adjusted for illiquidity
Certificates of deposit issued by the Central Bank of Lebanon in foreign currency	December 31, 2017 and 2016	Average market price in inactive market
Certificates of deposit issued by the private sector	December 31, 2017 and 2016	Management estimate based on observable input in inactive market
Bonds issued by financial private sector	December 31, 2017 and 2016	Management estimate based on observable input in inactive market
Lebanese government bonds	December 31, 2017 and 2016	Average market price in inactive market
Foreign government treasury bonds	December 31, 2017 and 2016	Average market price in inactive market

The accompanying notes 1 to 54 form an integral part of the consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At amortized cost:

Deposits from banks and financial institutions	December 31, 2017 and 2016	DCF at a discount rate determined based on the yield curve of Central Bank of Lebanon placements for maturities greater than one year and Libor based interbank rates for maturities less than one year by currency
Customers' and related parties' deposits	December 31, 2017 and 2016	DCF based on market rates by currency and maturity bands at amortized extrapolated across the maturity spectrum and in line with sectorial rates published by Central Bank of Lebanon
Other borrowings	December 31, 2017 and 2016	DCF at a discount rate determined based on the yield curve of Central Bank of Lebanon placements for maturities greater than one year and Libor based interbank rates for maturities less than one year by currency
Certificates of deposit	December 31, 2017 and 2016	DCF based on market rates by currency and maturity bands extrapolated across the maturity spectrum and in line with sectorial rates published by Central Bank of Lebanon

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

The Directors consider that the carrying amounts of customers' acceptance liability, other assets, acceptances payable, certificates of deposit issued, and other liabilities approximate their fair values due to the short-term maturities of these instruments.

54. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements for the year ended December 31, 2017 were approved by the Board of Directors in its meeting held on April 17, 2018.

