IBL BANK S.A.L

Where your dreams count

ANNUAL REPORT 2017

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"As we are pursuing economic growth and economic development, we have to make sure it happens with and by and for everyone. That everyone gets opportunity."

Betsy Hodges

CHAIRMAN'S LETTER

"I WOULD LIKE TO GRAB THIS OPPORTUNITY **TO THANK OUR CUSTOMERS** FOR THEIR **CONTINUOUS TRUST."**

The Lebanese Economy witnessed in 2017 an improvement, as suggested by the estimated 2.5% GDP growth, which is better than most years in the Cycle that started 6 years ago and was characterized by slow economic growth. As such, we can only be confident about the future with the boost in Confidence that started in the last quarter of 2016 thanks to the successful Presidential Elections, the formation of a new Government, the new Electoral Law, and the new Term of Governor Riad Salameh at the Head of the Central Bank.

During 2017, monetary conditions remained favorable and continued to prove their resilience, with BDL foreign currency reserves (excluding gold) reaching a new historic level of USD 42 billion in December 2017, with the Foreign Exchange market seeing stability on the Lebanese pound over the year. Hence, the ratio of foreign currency reserves to local currency money supply reached 80% in December 2017 (and 103% when accounting Gold reserves) showing the Central Bank's ability to defend the local currency.

In these challenging economic conditions, the Banking Sector realized a satisfactory performance in 2017, as evidenced by the commercial Banks' Balance-Sheet increasing by 7.6% to reach USD 220 billion in December 2017 and total deposits of the sector increasing by USD 6.2 billion in 2017 to reach USD 168 billion.

In parallel, the Banks' lending activity to the private sector continued in its growth momentum recording a USD 3 billion increase during the year to reach USD 60 billion in December 2017. This growth was driven by the stimulus extended by BDL, which consisted of incentives to commercial banks to support several productive economic sectors.

In this context, IBL Bank, that is ranked amongst the top 10 Banks in Lebanon in terms of total assets according to Bankdata, registered a strong year 2017 over-performing the sector in most Key Performance Indicators, while continuing in its conservative strategy and strong risk management practices, as evidenced by IBL Bank's total assets growing by 7% in 2017, fueled by the increase in the Bank's total deposits while the Bank's shareholders' Equity increased also by 14% during the year.

The strong growth in Shareholders' Equity is imputed to the solid and sustainable capacity of IBL Bank in internal capital growth thanks to healthy and steady increase of net profits over the years.

In addition, it is important to note that thanks to its conservative approach, the Bank enjoys a strong liquidity as evidenced by IBL Bank registering the second highest net primary liquidity to deposits ratio in the alpha group according to Bankdata.

As a consequence of the Bank's strategic directions, IBL Bank realized a 27% growth in Net Income during 2017, leading to the Bank enjoying the highest Return on Average Equity (ROAE) and the second highest Return on Average Assets (ROAA) in the Lebanese Banking sector according to Bankdata.

Finally, following to the Bank's healthy risk management framework, and the strong capitalization mainly constituted of core Tier 1 capital, IBL Bank is as at December 2017 fully compliant with the Basel 3 accord and more so with the ratios required in 2018 by the local regulators. In fact, as at December 2017, the Bank's Common Equity Tier I Capital Ratio was 15.9%, the Tier I Capital Ratio was 18.5%, and the Total Capital Ratio was 30%.

I would like to close by grabbing this opportunity to thank our customers and correspondent banks for their continuous trust and support as well as the Board of Directors and the entire Group's staff for their precious insights and efforts to push the Bank towards higher summits

Salim Habib
Chairman General Manager

HISTORY OF THE BANK

1961
The Bank was incorporated as a Société Anonyme Libanaise (joint stock Company) under the name of "Development Bank SAL" with a capital of LBP 8 million for a period of 99 years.

1998
The majority of the Bank's shares were purchased by a group of Lebanese and foreign investors. And until now, this same group of shareholders is still pursuing its policy towards raising the Bank into one of the top national banks. Since then, the Bank has achieved significant growth in total assets as well as in the main components of its balance sheet.

1999
The Bank acquired the total share capital of BCP Oriel Bank, and consequently all branches of the acquired Bank are to this date operating under Intercontinental Bank of Lebanon (IBL Bank).

2003
IBL Bank was the first to introduce the Smart ATM in the Lebanese Market.

2005
IBL Bank was one of the first Lebanese Banks to enter the Iraqi market by opening a representative Office in Erbil.

2006
4 new branches were added in Lebanon to cover the whole country.

2007
The Bank obtained a license from the Central Bank of Cyprus to operate in Limassol. A branch was subsequently instigated on Makarios III Avenue and became operational in 2008.

2008
Following the satisfactory results that ensued from the opening of a representative office in Erbil, Iraq, the Board of Directors leveraged the Bank's first mover advantage in Iraq by upgrading the representative office to a full branch. During 2008, the Board of Directors decided to change the Bank's name and logo from Intercontinental Bank of Lebanon to IBL Bank, in order to boost the Bank's positioning and Brand awareness.

2010
The Bank further developed its presence in Iraq by building an additional branch in Baghdad.

2011
In 2011, the Bank established a sister investment bank: IBL Investment Bank S.A.L

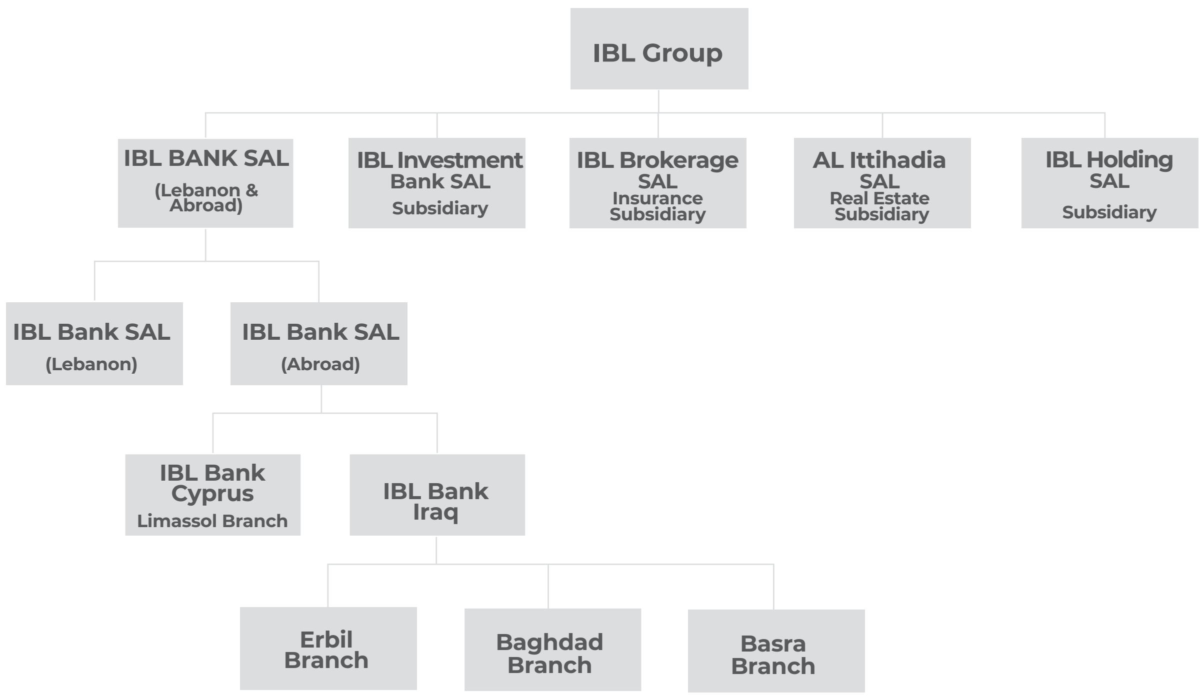
2011
6 new branches were added to the Bank's Lebanese Network strengthening its position between the top national Banks.

2014
Basra followed, being the 3rd branch covering another potential region in Iraq.

The strong growth that the Bank had achieved since 1998 was coupled with and fostered by continuous investments in human capital, either organically through seminars, training sessions and effective Human Resources management or externally by recruiting skilled managers and dynamic young staff. Amid its track record of solid growth, rigorous risk management and adequate Capital levels, the Bank is in the process of developing its local and regional network.

Currently, the Bank has 20 active branches spread all over Lebanon, and 4 Branches abroad: the first in Europe (Cyprus - Limassol), and 3 Branches in Iraq (Erbil, Basra and Baghdad). The Bank's Head-Office and main branch are located in Achrafieh, Beirut.

Group Structure



Knowing that the consolidated subsidiaries consist of the following:

Name of Subsidiary	Inception Date	IBL BANK Ownership %	Incorporation	Type of Business
Al-Ittihadia Real Estate S.A.L.	31-May-79	99,97	Lebanon	Real Estate Properties
IBL Holding S.A.L.	11-Nov-08	99,70	Lebanon	Holding
IBL Brokerage S.A.L.	14-Mar-06	99,80	Lebanon	Insurance Brokerage
IBL Investment Bank S.A.L.	8-Jan-11	98,00	Lebanon	Investment Bank

IBL Bank is part of the Alpha Group of Banks and is ranked 10th in terms of total assets as at December 2017.

IBL Bank main activities are focused on classical Banking services such as deposits, loans, trade finance, cash management as well as treasury via 20 Branches covering the Lebanese territory, in addition to a European Branch in Limassol/Cyprus and three Branches in Iraq located in Baghdad, Basra and Erbil.

Being concerned by offering universal Banking services, the IBL group launched in 2011 the IBL Investment Bank, having as main activities Private Banking, Investment Banking, and Asset Management.

IBL group Strategy is to extend a wide and diversified range of services to its customers through specialized and independent entities such as IBL Brokerage, insurance consultancy and Al Ittihadia real estate consultancy and management.

Principles of Corporate Governance

Corporate governance is defined as the process and structure used to direct and manage the business and affairs of the institution towards enhancing business prosperity and corporate accountability with the ultimate objective of realizing long-term shareholder value, taking into account the interests of other stakeholders.

The OECD principles define corporate governance as involving "a set of relationships between a company's management, its board, its shareholders, and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined".

As per the BIS Guidelines on "Principles for Enhancing Corporate Governance", corporate governance involves the allocation of authority and responsibilities, i.e. the manner in which the business and affairs of a Bank are governed by its Board of Directors and senior management, including how they:

- set corporate objectives and strategy
- determine the Bank's risk tolerance/appetite
- run the day-to-day operations;
- align corporate activities and behaviors with the expectation that the Bank will operate in a safe and sound manner, with integrity and in compliance with applicable laws and regulations; and
- Protect the interests of depositors and other stakeholders.

IBL Board of Directors has formulated its corporate governance policy, which includes guidelines covering governance structure, the role and duties of the Board of Directors, Senior Management and Board committees, code of business conduct, conflict-of-interest management, internal controls, and disclosure policy. These Guidelines set out broad principles and minimum standards as well as specific requirements for sound corporate governance, which are expected of IBL Bank SAL and its Group of companies.

The principles of corporate governance are well established in the Bank through the adoption of the Group's Corporate Governance Guidelines that were reviewed and approved by the Board of Directors in May 2016, in compliance with Regulatory Requirements. In addition, there is proper delegation of responsibilities to key managers and to executive committees with clear cut segmentation of duties between Front and Back Office departments thus enhancing accountability. Finally executive board members are present in most of the Bank's Committees.

In addition, in the Bank's structure, the Internal Audit and the Audit Committee are directly attached to the Board while the Risk Management Division is attached to the Chairman and is supervised by the Board Risk Committee. This structure allows proper independence to these two bodies in line with Corporate Governance principles.

Furthermore, the Bank's Head of Risk Management and/or risk officers are members in all the Bank's committees, thus enhancing risk awareness and compliance with the risk appetite of the Bank

Finally, specialized Committees are in place with regards to risk management, internal control, and internal audit:

· **Board** Audit Committee
· **Board** Risk Committee
· **Board** Remuneration Committee
· AML/CFT **Board** Committee
· ALCO Committee
· Management Committee
· Senior Credit Committee
· Follow-up Committee for Subsidiaries Abroad
· Junior Credit Committee
· IT Security Committee
· Business Continuity Management Committee
· Change Management Committee
· Organization and Method Committee
· IT Committee
· Procurement Committee

Remuneration Policy

Being a commercial bank, IBL Bank Group ("the Group") philosophy is to build a larger, more loyal customer base. As such our revenues are derived mainly from transactions with customers, with a strong focus on service activities attracting interest margin and/or fees. Risk tolerance is minimal and strictly monitored by control functions. The Remuneration policy, being an integral part of the HR policies, is therefore based on the preservation of the bank's long-term interests, with a balanced variable compensation or "Bonus" while seeking to attract, motivate and retain outstanding individuals as Group employees.

The remuneration policy of the Group applies to all Group employees. The Board of Directors has adopted the remuneration policy at the recommendation of the Remuneration Committee.

It is important to note that, in compliance with BDL Circular 133, the Bank has put in place a Remuneration Committee in October 2015 attached directly to the Board. In addition to its main responsibilities of preparing, supervising and reviewing, at least annually, the Remuneration Policy and Remuneration System, the Remuneration Committee shall coordinate closely with the Risk Management Committee, upon assessing the remunerations and their related risks, and upon reviewing the Remuneration Policy, in order to ensure its efficiency and adequacy to "effective performance".

The policy reflects the Group's objectives towards good corporate governance for a sustainable operations, as well as sustained and long-term value creation for shareholders. In addition, to focusing on ensuring sound and effective risk management by the implementation of a fair pay scheme to gain staff loyalty and talent retention.

In managing the human capital of the Group, Management should ensure sound and effective risk management through:

· A stringent governance structure for setting goals and communicating these goals to employees

· Alignment with the Group´s business strategy, values, key priorities and long-term goals

· Alignment with the principle of consumer protection, and investors within the Group ensuring prevention of conflict of interests

· Ensuring that the total remuneration pool does not undermine the Group´s capital base

· Evaluating the total remuneration pool by the Board Remuneration Committee to ensure that the implementation of the policy is commensurate with the Group´s risks, capital and liquidity

· Measuring the performance of Senior Executive Management on the basis of the bank's long-term performance, not on the sole basis of previous year performance

· Concerning all employees, disbursed as well as non-disbursed components are subject to claw back provisions if granted on the basis of data which has subsequently proven to be manifestly misstated or inaccurate

· The compensation policy is implemented through delegation (renewed annually) given to the Management by the General Assembly based on the recommendation of the Board of Directors and the Board's remuneration Committee. It strictly follows the objectives which are pursued throughout IBL Bank Group.

· The Board's Audit Committee is regularly kept aware about annual general increase of the salaries and about the Staff cost evolution.

· The Bank's Board is periodically informed about annual general increase of the salaries and staff cost evolution.

BOARD OF DIRECTORS

The current members of the Board of Directors of IBL Bank sal were elected at the meeting of the Ordinary General Assembly held on August 3, 2017 and serve for a term expiring on the date of the Ordinary General Assembly that will examine the accounts and activity of the financial year 2019. The Board of Directors of IBL Bank sal comprises the following Directors:

Mr. Salim Y. Habib	Chairman, General Manager
His Excellency **Mr. Elie N. Ferzli**	Independent Member of the Board Chair of the Remuneration Committee Member of the Audit Committee *(He resigned during the OGA held on 25/6/2018)*
His Excellency **Dr. Mohammad Abdel Hamid Baydoun**	Independent Member of the Board Member of the Audit Committee Member of the Remuneration Committee Member of the AML/CFT Board Committee
Mr. Kamal A. Abi Ghosn	Executive Member of the Board Deputy General Manager Member of the Risk Committee Member of the AML/CFT Board Committee
Prince Sager Sultan Al Sudairy	Independent Member of the Board
MM. Bicom SAL. Holding (Represented by **Mr. Mazen El Bizri**)	Non Executive Member of the Board Member of the Risk Committee
Me. Mounir Kh. Fathallah	Independent Member of the Board Chair of the Audit Committee
Mr. Tony N. El Choueiri	Independent Member of the Board Chair of the Risk Committee Member of the Audit Committee
His Excellency **Me Abdel Latif Y. El Zein**	Independent Member of the Board Member of the Remuneration Committee
Me Rizkallah J. Makhlouf	Executive Member of the Board
Dr. Elie A. Assaf	Independent Member of the Board Chair of the AML/CFT Board Committee
Me. Michel J. Tueni	Independent Member of the Board *(Elected during the OGA held on 25/6/2018)*
Me. Ziad Ch. Fakhoury	Secretary of the Board

LEGAL ADVISORS AND AUDITORS

Cabinet Me. Rizkallah Makhlouf **Me. Rizkallah Makhlouf**	Legal Advisor - Lebanon
Fakhoury & Fakhoury Law Firm *(Chawki Fakhoury & Associates)* **Me. Ziad Fakhoury**	Legal Advisor - Lebanon
Etude Michel Tueni **Me Michel Tueni**	Legal Advisor - Lebanon
Cabinet Me Mamoun Mahmoud Al Khadi **Me Mamoun Al Khadi**	Legal Advisor - Iraq
Airut Law Offices **Me Charles Airut**	Legal Advisor - Iraq
Chrysses Demetriades & Co LLC *Advocates Legal consultants*	Legal Advisor - Cyprus

MM. Deloitte & Touche.	External Auditors - Lebanon
MM. DFK Fiduciaire du Moyen-Orient	External Auditors - Lebanon
Mr. Fayeq Al Obaidi *Management and Banking Consulting*	External Auditors - Iraq
MM. Deloitte Limited	External Auditors - Cyprus

GENERAL MANAGEMENT

Mr. Salim Habib	Chairman, General Manager
Mr. Kamal Abi Ghosn	Director - Deputy General Manager
Mr. Nakhlé Khoneisser	Assistant General Manager Head of Treasury and Capital Markets
Mr. Rodolphe Atallah	Assistant General Manager Head of Operations development
Mr. Samir Tawilé	Senior Manager Head of International Banking Division
Mrs. Dolly Merhy	Senior Manager Head of Accounting & Finance Bank' Secretariat
Mrs. Tania Tayah	Senior Manager Head of Risk Management
Mr. Gaby Mezher	Senior Manager Head of Internal Audit
Mr. Habib Lahoud	Senior Manager Head of Retail Banking Division
Mr. Karim Habib	Senior Manager Head of Strategy, Finance & Network
Mr. Ghassan El Rayess	Senior Manager Head of Corporate and commercial Banking
Mr. Imad Tannoury	Manager Deputy Head of Corporate and Commercial Banking
Mr. Khalil Salameh	Manager Head of Human Resources
Mr. Antoine Achkar	Manager Head of Recovery Department
Me. Joe Boustany	Manager Head of Compliance Department
Mr. Walid El Helou	Manager Operational Development
Mr. Naim Bassil	Alternate Manager
Mr. Abdel Kader Tawil	Alternate Manager
Mr. Ramzi Dib	Manager Arab Business Development Division
Mr. Elie Hlayel	Head of Information Technology
Mr. Esber Wehbé	Head of IT Audit
Mrs Lina Abou Jaoudé	Head of IT Security
Mr. Habib Bou Merhi	Head of Operations - Trade Finance
Mr. Charbel Eid	Senior Operations manager - Iraqi branches Head of Organization and methods - HO
Mrs. Ishtar Zulfa	Manager Head of Erbil branch Iraq
Mr. Michel Assaf	Manager Head of Baghdad branch Iraq
Mr. Ramzi Chehwan	Manager Head of Basra branch Iraq
Mrs Ghada Christofides	Manager Head of Limassol branch Cyprus

The current members of the Board of Directors of IBL Investment Bank sal were elected at the meeting of the Ordinary General Assembly held on July 4, 2017 and serve for a term expiring on the date of the Ordinary General Assembly that will examine the accounts and activity of the financial year 2019. The Board of Directors of IBL Investment Bank sal comprises the following Directors:

Board of Directors

Mr. Salim Y. Habib	Chairman, General Manager
Mr. Kamal A. Abi Ghosn	Member of the Board Member of the Risk Committee
IBL Bank sal Represented by Mr. Karim S. Habib	Member of the Board Member of the Audit Committee
Mr. Tony N. El Choueiri	Independent Member of the Board Chair of the Risk Committee Chair of the Remuneration Committee Member of the Audit Committee
Dr. Habib B. Abou Sakr	Independent Member of the Board Chair of the Audit Committee Member of the Remuneration Committee
Mr. Karim B. El Bacha	Independent Member of the Board Member of the Risk Committee Member of the Remuneration Committee
Dr. Elie A. Assaf	Independent Member of the Board *(Elected during the OGA held on 29/5/2018)*
Me. Ziad Ch. Fakhoury	Secretary of the Board

IBL Investment Bank

Legal Advisors And Auditors

Cabinet Me. Rizkallah Makhlouf **Me. Rizkallah Makhlouf**	Legal Advisor - Lebanon
Cabinet Abou Sleiman & Partners **Me Randa Abou Sleiman**	Legal Advisor - Lebanon
MM. Deloitte & Touche	External Auditors
MM. DFK Fiduciaire du Moyen-Orient	External Auditors

General Management

Mr. Salim Habib	Chairman General Manager
Mr. Rodolphe Atallah	Assistant General Manager
Mr. Nakhlé Khoneisser	Assistant General Manager
Mr. Moussa El Kari	Manager Head of Private Banking

The Bank operates through a number of committees, set up with clear missions, authorities and responsibilities, as follows:

1- Board of Directors Committees

Audit Committee

The Audit Committee is a Board Committee composed of four members of the Board of Directors. It ensures the existence and the regular enhancement of an adequate system of internal controls. It reinforces the internal and the external audit and ensures the compliance with International Auditing Standards. It reviews all the audit activity reports and discusses the significant recommendations and management plans for their implementation. It revaluates and recommends improvements on the measurement system for assessing the various risks of the Bank. The Audit Committee reviews also the Bank's contingency plan and ensures the implementation of the operational risk management framework.

Risk Committee

The Risk Committee's objective is to assist IBL Board of Directors in implementing the BOD mission such as planning the risk profile, setting the risk appetite and tolerance, approving and reviewing the risk framework and policies, reviewing the risk reports and overseeing the development of the risk function within the Group. The Committee is composed of one executive member of the Board of Directors and two non-executive members. The Head of Risk Management will act as coordinator and assist the Committee in planning and organizing its work. The Committee recommends to the Board the parameters of the Bank's risk management framework in line with the Committee's objective set above.

Remuneration Committee

The main role and function of the Remuneration Committee is to assist the Board of Directors in developing a fair and transparent procedure for setting policy on the overall human resources strategy of the Bank and the remuneration of Directors and senior management, and for determining their remuneration packages on the basis of their merit, qualifications and competence. The Committee includes three independent non-executive directors and will meet at the demand of its Chairman. It will be considered validly convened if attended by the three members.

AML/CFT Board Committee

In line with BDL Basic Decision No 7818 of May 18, 2001 amended by the Intermediate Decision No 12255 of May 4, 2016, the Board of Directors, in its meeting of June 7, 2017, has established an AML/CFT Board Committee composed of three of its members. The role of the AML/CFT Board Committee is to support the Board of Directors in its functions and supervisory role with respect to fighting money laundering and terrorist financing and to assist it with making the appropriate decisions in this regard, also to review the reports submitted by the Compliance Unit and the Internal Audit on adopted procedures, unusual operations and high-risk accounts, and to take the relevant decisions.

2- Management Committees

Management Committee

The Management Committee acts as an advisory body to the Chairman General Manager on all issues relating to the Bank's general policies. The Management Committee meets a least once a month. It ensures the day-to-day management of the Bank according to prevailing laws, rules, regulations, best practices as well as the effective management of operational risks arising from inadequate or failed internal processes, people and systems or from external events. It proposes to the Board of Directors the Bank's medium and long-term goals and strategies, and the business plan for achieving these goals, and recommends the improvement of the Bank's organization structure in case of need.

Asset-Liability Committee (ALCO)

The ALCO is responsible for setting up and supervising the implementation of an asset-liability management policy, which the Treasury is responsible for executing. ALCO's primary objective is to oversee the management of the balance sheet structure and liquidity, monitor the market risk levels, analyze the Bank's financial ratios and the reports on the sources and utilizations of funds, and maximize income from interest spread and trading activity within the approved risk and gap parameters. The ALCO is also responsible for assessing market conditions according to economic and political developments.

Senior Credit Committee

The Senior Credit Committee sets up the framework for credit risks, economic sectors distributions, classification and provisioning policies, subject to the Board of Directors approval. It is in charge of studying credit applications that exceed the limits of the Junior Credit Committee, loans to financial institutions, recovery processes and credit products proposals. In addition, this committee has for responsibilities to review and take decisions on cases handed over by the commercial banking department (SME, Corporate, Retail) or the recovery department, and follow up on cases handed over to the Legal Department, recommend actions on cases, approve settlements, and propose adequate provisions.

Junior Credit Committee

The Junior Credit Committee evaluates and approves all corporate and commercial loans and facilities with a tenor not exceeding one year provided that they comply with the credit strategy approved by the Board of Directors and provided that the aggregate total cumulative secured and clean facilities granted to one client or group of interrelated names through commercial association and/or through common ownership/management control do not exceed USD 400,000.

IT Security Committee

The IT Security Committee is responsible for the human security within the Bank's premises. It works together with the Internal Audit department to make sure all IT security rules are well applied. It implements and monitors security plans and applies the used norms to ensure the correct distribution of tasks among employees. It monitors also the IT security systems and rules as well as the emergency plans. It deals with any security breach and takes appropriate measures to avoid facing it another time.

IT Committee

The mission of the IT Committee is to set the IT strategy. It should establish and apply a structured approach regarding the long-range planning process, which should take into account risk assessment results, including business, environmental technology and human resources risks.

Procurement Committee

The role of the Procurement Committee is to validate purchasing procedures; Tenders, rules and conditions of settlement, study annual budgets of material resources as fixed assets and general expenses and make recommendations to the Management Committee.

Follow-up Committee for Subsidiaries Abroad

The Follow-up Committee for Subsidiaries Abroad undertakes all tasks mentioned in Central Bank basic circular No. 110 dated August 16, 2007 in order to examine closely the abroad activities of the group, including but not limited to management, strategy, performance, results and risks levels.

Organization and Methods Committee

The role of the Organization and Methods Committee is to review the process modeling and to settle on the right solutions. It suggests the policies and procedures to be applied, optimizes the organization of the Bank, and simplifies the procedures with respect to delegations and formal controls, and reviews the structures with the new technologies and products introduced by the Bank.

Change Management Committee

The Change Management Committee has been formed to review, advice and document the proposed changes required by the IT Security Committee on IBL IT infrastructure including hardware, software and banking applications, and to report its decisions and activities to the General Management.

Business Continuity Committee

The mission of the Business Continuity Committee is to determine the Business Continuity strategy, to maintain the ongoing support and viability for the Business Continuity Plan (BCP) program, to support the change management occurring as a result of the BCP implementation and to make global decisions that affect BCP at the Bank's level. The Committee is chaired by the Deputy General Manager.

Executive Committee for Iraq Activities

The mission of the Executive Committee is to ensure the management of the activity in Iraq according to prevailing laws, rules, regulations and best practices, as well as the management of operational risks arising from inadequate or failed internal processes, people and system or from external events. The Committee is responsible for assessing market conditions according to economic and political developments. Members of the Executive Committee are entrusted by the Chairman and report directly to Him with the duty of conducting the business in general.

Follow-Up Unit on Principles of Banking Operations

The Unit is linked directly to the Chairman, General Manager and is independent from any executive responsibility. Its mission is to contribute in developing the policy and procedures to be applied in the Group, to follow-up the application of the policy and procedures by the different entities at the Bank, to contribute in elaborating a Product Key Facts statement in order to be provided to clients, to receive and study the returns from customers in order to satisfy their needs, propose training programs to the staff.

The Bank has been actively building up its domestic franchise in the last few years, as reflected by the significant rise in total assets and deposits.

The Bank's principal activities are divided into three major areas: Retail Banking, Commercial Banking and Trade finance, Treasury and Capital Market Operations.

Retail Banking

The Bank's management believes that retail banking is an efficient way to diversify earnings and risk, as well as a mean to consolidate its relationship with all its customers, and consequently emphasizes and focuses on this business line. The retail department has been consistently empowered with Human Capital and has been introducing new products ranging from bancassurance to retail loans to deposits programs, which are regarded as less risky and high yielding.

In keeping with this strategy, our number of ATMs across the country has reached 40 and 6 abroad. Our branch network is composed of 20 local branches, a branch in Limassol, Cyprus, 3 branches in Iraq: one in Erbil, one in Baghdad and one in Basra.

Commercial Banking and Trade Finance

The Bank provides its clients with a full range of commercial banking services and products, in addition to trade finance services through its network of international correspondent banks. The Bank's loans are mainly granted in Foreign Currency, and are denominated predominantly in US Dollars, having either a maturity of up to one year with the possibility of renewal, or term loans with generally an interest re-pricing period of 1 year.

Treasury and Capital Markets Operations

The Bank's Treasury operations consist of managing and placing the Bank's liquidity. The Treasury department invests those funds with prime international banks as well as with the Central Bank of Lebanon and other Lebanese banks. The Bank, in the course of its activity on the interbank market, defines individual limits per bank, and deals only with prime banks. The Bank provides its customers with securities brokerage and trading activities.

Management of risk is fundamental to the financial soundness and integrity of the Bank. All risks taken must be identified, measured, monitored and managed within a comprehensive risk management framework.

The following key principles support our approach to risk and capital management:

- The Board of Directors has the overall responsibility of determining the type of business and the level of risk appetite that the Bank is willing to undertake in achieving its objectives.

- Up-to-date policies, procedures, processes and systems to allow the execution of effective risk management.

- The relevant committees' structure enhances the approval and review of actions taken to manage risk.

The Risk Management Division proposes and reviews the overall risk policy of the Bank in anticipation of, and in compliance with, regulatory and international standards. It is responsible of monitoring and controlling all types of risk on a regular basis while the business units are responsible for the continuous management of their risk exposures in order to ensure that the risks are within the specified and acceptable limits.

The Risk Management Division is independent of other business units in the Bank which are involved in risk taking activities. It reports directly to the Chairman General Manager and the Board Risk Committee. As such, it contributes to the growth and profitability of the Bank by ensuring that the risk management framework in place is both sound and effective and complies with the Board's directives.

Acting within an authority delegated by the Board, the Board Risk Committee oversees the risk management framework and assesses its effectiveness. The Board Risk Committee reviews stress testing scenarios and results, liquidity and capital adequacy. It also approves the annual ICAAP report as well as all significant changes to Risk Management policies and Framework.

The Bank's risk management processes distinguish among four kinds of specific risks: credit risk, market risk, liquidity risk and operational risk.

A. Credit Risk Management

Credit Risk is the risk that arises from the inability of the borrowers or counterparties to meet their contractual commitments. We note three kinds of credit risk: Default Risk, Country Risk and Settlement Risk.

Various factors may affect the ability of borrowers to repay loans in full and many circumstances may have an impact on the Bank's ability to resolve non-performing loans. As a result, actual losses incurred in a problem loan recovery process may also affect the Bank's capital adequacy.

The Board of Directors, the Board Risk Committee and the Senior Credit Committee define the credit risk strategy of the Bank and approve both policy changes as well as other enhancements to the credit risk management framework.

The objective of the Bank's credit risk strategy is to quantify and manage credit risk on an aggregate portfolio basis, as well as to limit the risk of loss resulting from an individual customer default. This strategy is based on three core principles: conservatism, diversification and monitoring.

The Bank has set up clear processes for credit approval that include credit policies and procedures with clear credit concentration limits, approval limits depending on the size of business and/or the size of the credit line as well as credit risk mitigation techniques. Commercial and Corporate lending are largely centralized at Head Office and sanctioned by a Senior and a Junior credit committee depending on the exposure.

The Bank exercises, through the Credit Administration Department, an ongoing review and control of extended credit facilities and their respective guarantees. Regular monitoring and surveillance of the accounts are performed by the account officers.

IBL acquired a new application to automate all credit and lending processes in the bank. It also covers the entire cycle of credit analysis for corporate clients or individuals to simplify the analysis process of lending and mitigate/reduce pre-lending risks.

The system covers all documents needed for credit approval such as facilities requests, securities, credit documents, credit packages, financials, account statements, schedules of payments, and many more. It is designed for ease of use and flexibility to give bank employees and management easy access to all current as well as historical customer information used during the decision making process.

It also has a module for internal rating which generates an internal rating per obligor (ORR), calculates PD & LGD.

To sum up the system allows us to determine at any time the commercial facilities given by the bank, their linked securities and the schedules of payment per facility as well the internal rating per obligor which are the major parts to meet IFRS 9 requirements.

B. Market Risk Management

Market Risk is the risk of loss resulting from changes in market prices and interest rates, from the correlations between these elements and from their volatility.

The Bank manages market risk through its Market Risk Management framework that specifies the global activity and individual limits, together with, but not limited to, stress testing and scenario analysis.

The Asset/Liability Committee (ALCO) manages interest rate risk, which results from mismatches or gaps in the amounts of its assets and liabilities that mature or re-price within a given period, by matching the re-pricing of assets and liabilities.

C. Liquidity Risk Management

Liquidity Risk is the risk to the Bank's earnings or capital arising from its inability to meet its financial obligations as they fall due, without incurring significant costs or losses. Liquidity is managed to address known as well as unanticipated cash funding needs.

The Bank maintains sufficient liquidity to fund its day-to-day operations, meet deposits withdrawals and loan disbursement, participations in new investments and repayment of borrowings.

Liquidity Management within the Bank focuses on both overall balance sheet structure and the control within prudent limits of risk arising from the mismatch of maturities across the balance sheet and from contingent obligations.

D. Operational Risk Management

Operational risk exists in the natural course of business activities and represents things that go wrong and which have, ultimately, a financial cost or a negative impact on the Bank's reputation and its ability to continue its operations.

IBL Bank has adopted Basel definition of operational risk which is also stipulated in BCC and BDL regulations. This definition is articulated in the below statement:

"Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events." This definition includes legal risk but excludes strategic and reputational risk.

The Bank addresses operational risk by implementing a comprehensive framework that includes different tools and methodologies used to assist in implementing the operational risk management cycle throughout IBL Bank. These tools are employed in close collaboration with all business units in the Bank and are covered by stand-alone procedures and user guides to facilitate their usage.

The below includes an overview of the major methodologies applied.

1- Loss Data Collection: The collection of loss data provides Management with a clear view on the operational risk exposure at all business lines within the Bank. Furthermore, by collecting loss data and analyzing the root causes of events, the Operational Risk Management, in collaboration with business owners and other control functions, will be able to propose and implement remedial measure to minimize the probability of events re-occurrence.

2- Risk and Control Self-Assessment (RCSA) is a methodology used to: i) Review key business objectives; ii) Identify risks involved in achieving objectives; and iii) Assess internal controls designed to manage those risks.

3 - Key Risk Indicators (KRIs) are metrics used to monitor risk exposures at a particular instance or over a period, assisting in the monitoring and mitigation of operational risk and serving as early warning indicators for potential risk exposures.

4- Scenario Analysis (SA) is the process of developing hypothetical loss scenarios considered to be "Low-Frequency" and "High-Severity" risks. These scenarios are set by the Operational Risk Management in collaboration with business owners. Once the scenarios for each function are agreed, they are assessed and rated according to their probability of occurrence and severity to calculate the required amount of Economic Capital needed for each scenario.

5- New Products, Systems & Processes: Identification and assessment of risks inherent to new products, systems and processes as well as to projects that have a material impact on the Bank's operational risk profile.

6- Operational Risk Awareness Program: The development of trainings, workshops and information sessions to build up an operational risk culture within the Bank and to inform Staff about specific operational risk management tools and processes.

During the past year, the Bank has focused on rolling out the operational risk methodologies within its abroad branches in Iraq and Cyprus by appointing dedicated risk coordinators to enhance risk reporting and communication.

Looking forward, our aim is to consolidate the reporting and collection of all IT and non IT related incidents through a dedicated software as well as integrating the booking of all operational losses in a predefined accounting module.

E. Stress Testing and ICAAP

The main drivers behind monitoring and controlling risks are the Risk Appetite and the Limits that are part of the ICAAP and are reviewed by the BRC and approved by the Board. They comprise limits to various types of risks to which the Bank is exposed.

The risk appetite indicates the maximum risk that the Bank considers acceptable to implement its business strategy in order to protect itself against events that could have an adverse effect on profitability and capital.

Stress tests are also part of the capital planning process. They contribute to the setting and monitoring of "risk appetite" and ensure adherence to regulatory requirements.

Stress tests are used to check whether the Bank can withstand specific negative events or economic changes. They examine the effect of possible unfavourable events on the capital and liquidity position of the Bank and provide insight on the vulnerability of the business lines and the portfolios.

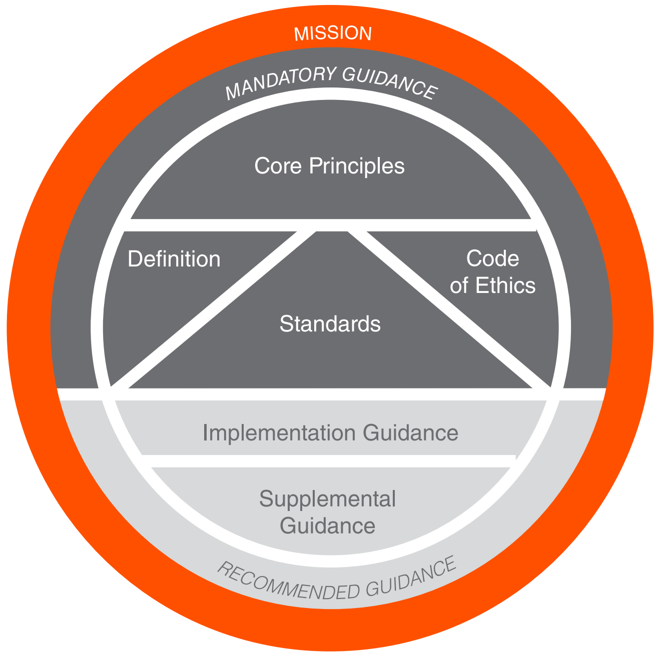
Stress testing may reveal a reduction in surplus capital or a shortfall in capital under specific scenarios. This may then serve as a leading indicator to the Bank's Board to raise additional capital, reduce capital outflows, adjust the capital structure and/or reduce its risk appetite.

CAPITAL ADEQUACY RISK MANAGEMENT

Capital Adequacy Risk is the risk that the Bank may not have enough capital and reserves to conduct normal business or to absorb unexpected losses arising from market, credit and operational risk factors.

The Bank's policy aims to ensure that it maintains an adequate level of capital to support growth strategies and to meet market expectations and regulatory requirements. As at December 31, 2017 IBL maintains a total capital ratio of 30.15% measured according to Basel III and Central Bank requirements.

THE NEW INTERNATIONAL PROFESSIONAL PRACTICE FRAMEWORK



INTERNAL AUDIT FUNCTION

Internal Auditing is an independent objective assurance and consulting activity designed to add value and improve IBL's operations.

It helps IBL accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance process.

INTERNAL AUDIT CHARACTERISTICS

- Confidential and enterprise-wide authority for its activities, aligned with the strategies, objectives, and risks of the bank.

- Demonstrating integrity, competence, and professional care.

- Objective & independent performance of its responsibilities.

- Competent, insightful, proactive, and future-focused.

ROLE OF INTERNAL AUDIT

The role of the internal audit is to provide independent assurance that IBL's risk management, governance and internal control processes are operating effectively.

It includes the review of the internal controls and the accounting system, monitoring operations, checking compliance with the entity's policies and procedures, and recommending improvements.

The Internal Audit role has extended beyond financial controls, playing a more prominent and proactive role in non-financial reporting, risk management, & corporate governance.

INTERNAL AUDIT RESPONSIBILITIES

· Evaluates and provides reasonable assurance that risk management, control, and governance systems are functioning as intended and will enable the Bank's objectives and goals to be met.

· Reports risk management issues and internal controls deficiencies identified directly to the audit committee and provides recommendations for improving the Bank's operations, in terms of both efficient and effective performance

· Evaluates information security and associated risk exposures

·Promotes improvement, and maintains open communication with the management and the audit committee

· Follows up with management on actions taken in response to audit findings and recommendations.

INTERNAL AUDIT AND AUDIT COMMITTEE

The audit committee of the Board of Directors and the internal audit are interdependent and mutually accessible, with the internal auditors providing objective opinions, information, and support to the audit committee; and the audit committee providing validation and oversight to the internal auditors.

The internal audits provide to the audit committee objective assessment on the state of IBL's risk, control, governance, and monitoring activities.

RISK BASED INTERNAL AUDITING

It is a methodology that links internal auditing to the bank's overall risk management framework. This allows the internal audit activity to provide assurance to the board that risk management processes are managing risks effectively, in relation to the risk appetite.

Compliance And AML Report

The Compliance Department's ultimate goal is to ensure the application of the regulations drawn by the legislators, regulators and its board of directors; it plays an essential role in helping to preserve the integrity and reputation of the Bank.

• AML & CFT have always been a key consideration to IBL Bank. Within the Compliance Department, the AML unit bears the responsibility for ensuring that the bank's clients act within the law and don't use the bank for illegal activities, such as money laundering or funding terrorism.
AML Unit team ensures this commitment by using international automated systems regarding all types of banking transactions, filtering and screening tools.

• Since Legal/Regulatory compliance is of the utmost importance in maintaining the bank's integrity and reputation, and thus, sustain the healthy growth of business, the Legal/Regulatory Compliance Unit was established in order to ensure that IBL's activity adhere, strictly, with local and international laws and regulations.

Accordingly, the Legal/Regulatory Unit aims to monitor, control the application of laws and regulations and hence, to implement good business legal standards relevant to IBL's business and prevent legal and reputational risks that could arise as a result of failing to comply with the provisions of laws and regulations.

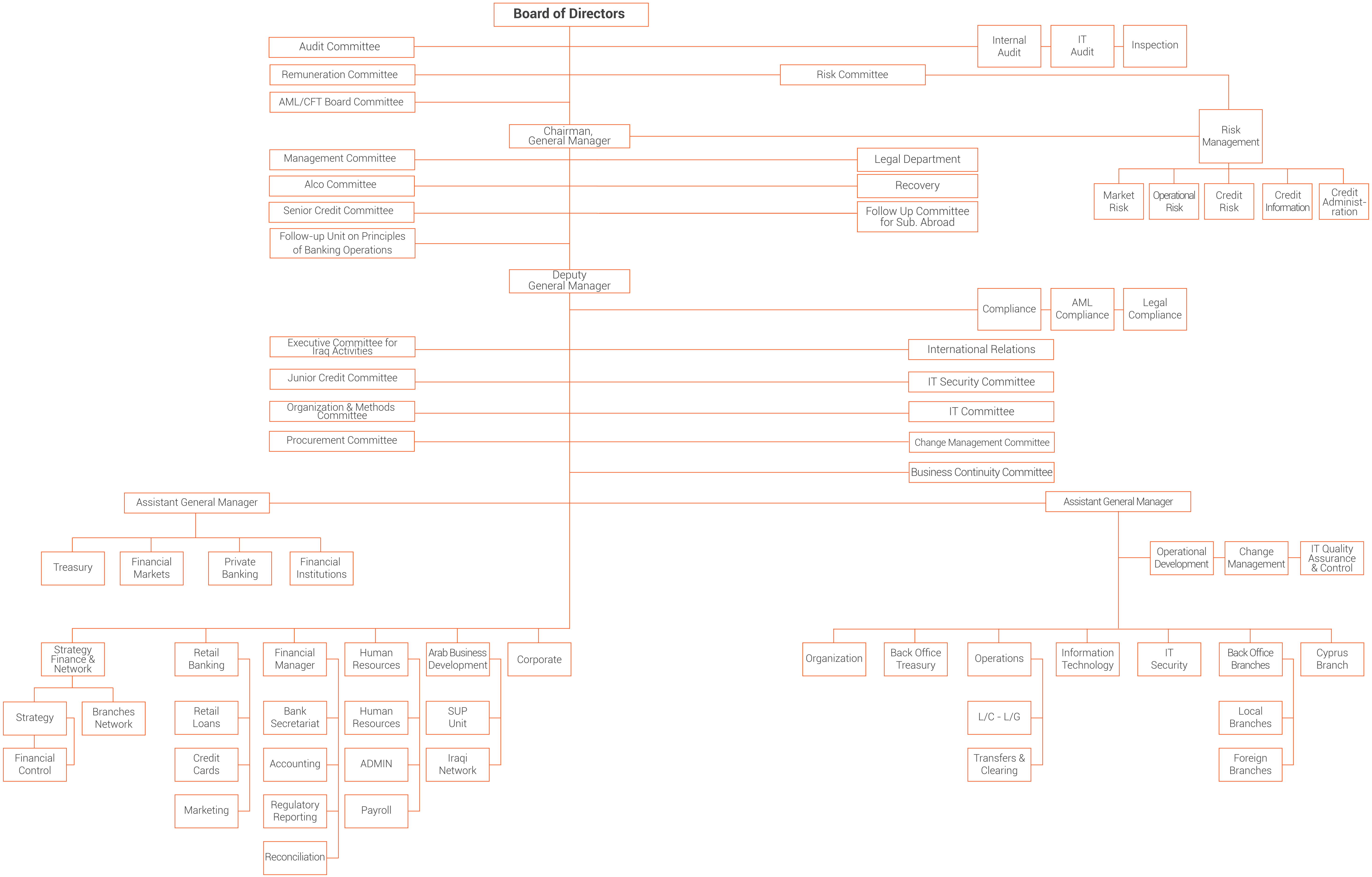
Since, the world became increasingly globalised and cross-border activities became the norm, number of substantial changes has been made by financial regulators, international bodies, governments and banks to ensure the protection and long-term safety of both the financial system and our customers' interests:

- IBL Bank is proud of its commitment to being fully FATCA-compliant in all countries where we operate.

- IBL Bank is fully CRS compliant: The Bank has implemented the Common Reporting Standard rules in its own system and started the application of its regulations by July 1, 2017.

"A Compliance department can be an expensive unit to operate, but non-compliance can be more costly."

Organizational Chart



BOD Report

The Bank's strategy of continuous growth not only quantitatively but also qualitatively is reflected in the following milestones:

Corporate Social Responsibility: At IBL Bank, we are driven by the belief that as being a Leading Bank we have to be a responsible citizen. As such, the Bank has launched many CSR initiatives during the year:

Environment: IBL Bank's commitment to sustainable growth and the protection of the environment is highlighted by the Bank being the leader in financing Energy efficient projects and in the Bank's continuous support and actions to help energy efficient programs and actions such as Bike for All Initiative in Byblos

Supporting Sports Events: Our belief that sports circulates important values in our community and strengthen its links while personalizing our motto, IBL Bank supported many events, mainly: the Champville Basket-Ball team and Tripoli Marathon

Supporting Education: Our belief that Education is the base of healthy society, IBL Bank supported many events, mainly: ALBA open door, Saints Coeurs Sioufi Mother's Day annual brunch, College Notre Dame de Jamhour annual dinner, and Balamand annual dinner.

Supporting NGOs: As an active member of our society, IBL Bank supported many Non-Governmental Organizations, mainly: Heartbeat, Dar el Aytam el Islamiya, and Neonate fund.

Supporting Culture: Our commitment in favor of cultural, artistic and touristic events is a continuing tradition which stems from our aspiration to offer our support to affirm the cultural vocation of Lebanon. IBL Bank continued to be the main sponsor of Byblos International Festival, who is seen as the most renowned and respected Cultural Festival not only in Lebanon but also in the Middle-East. In addition, during 2017, we supported many cultural events as Batroun Festival, Ehmej Festival, Night of the Adeaters to name a few.

Brand Awareness: We continued during 2017 our strategy of boosting the Bank's positioning and brand awareness with a comprehensive campaign airing on all main Lebanese medias. In addition, 2017 marked the relooking of IBL Bank's image and positioning in the digital scene: as such we have undertaken a major relooking of our website and social media presence, in addition to introducing the Bank's new mobile application and electronic banking platform.

Finally, during this year, we have continued to invest in Human Capital, as we are convinced that it is the most important form of Capital. Indeed, 2017 was rich in investments in training and the recruitment of new talents as we make sure to manage our Human Resources in the most effective and efficient manner. Consequently, given our emphasis on staff professional development, over 95 managers and staff assisted to 186 different external seminars throughout the year in Lebanon and abroad, not counting the continuous internal effort of training and skills enhancement of our staff as specialized trainings on sales techniques, CRS and IFRS9 to name a few.

Honors & Awards

September 2018

Mr. Walid El Helou, IBL Bank Operational Development manager, received a Golden Jubilee Medal as a token of appreciation from the ABL (Association of Banks in Lebanon) after his amazing efforts and cooperation in the successful GDPR GroupThink held in Beirut on August 8, 2018.

"It was a great pleasure to participate and intervene as a speaker in this amazing meeting" shared Mr. Helou, adding "I loved to share my experience in the field with the audience. It's always very fruitful to communicate and share with our peers in the domain, we feel like a big productive family, and the moments are memorable and golden."

The Association of Banks in Lebanon, represented by its General Secretary, Mr. Makram Sader, presented the token of appreciation to Mr. Helou explaining that they "really appreciate his kind cooperation in this GroupThink that has found a great deal of success."

The Association of Banks in Lebanon was founded in 1959, with, among others, the objective of Strengthening cooperation among the member banks through setting up a common picture for the higher interest of the sector, as well as enhancing the banking performance level through improving the competences of the human resources working in this sector, continuously increasing their capacities and creating an ongoing atmosphere of understanding with the users of the sector, in order to guarantee the stability of the labor force in it and ensure the joint interests for all partners.

IBL Bank congratulates Mr. Helou and wishes him many more successful achievements in the future.

BYBLOS INTERNATIONAL FESTIVAL

For the 9th year in a row, IBL Bank is proud to be the official sponsor of the Byblos International Festival 2018. This partnership comes in a natural strive to support art, talents, and the Lebanese cultural heritage along with its rich nightlife that we, Lebanese people, strive to maintain despite all challenges.

Every evening of the festival, IBL Bank welcomed its guests in its classy lounge overlooking the magnificent bay of Jbeil, with drinks and bites offered in the most delectable ambience, as well as a picture taken by the "SharingBox" machine distributed as a souvenir of the evening.

Tripoli Marathon 2018

Within our CSR activities, Tripoli Half Marathon was held on April 22, 2018 in collaboration with IBL Bank whose colorful stand welcomed runners with refreshments and delicious bites on the house! The participants ran this year under the theme of "Maan Loubnan" in support of the Lebanese army and security forces.

The USJ Job Fair

On April 16 and 17, USJ students had the opportunity to meet us and enquire about job opportunities at our well-designed modern stand greeting young talents and inviting them to join IBL Bank's family.

Mother's Day celebration

This year, IBL Bank reiterates its support to the Saints Coeur Sioufi School with a special stand welcoming every mom attending the Mother's Day Brunch held at Habtoor on the 21st of March 2018. IBL Bank's huge pink heart mascot was the star of the event, offering a rose to every mother, with the opportunity to get a special photo showcasing all our love. The Queens of our heart took home a printed picture in souvenir of the memorable day.

Night of the Adeaters

On December 2 and 3, 2017, and for the 9th consecutive year as the official sponsor of this special Night, IBL Bank set up a booth at the entrance of the NDU theater offering all Adeaters the opportunity to take a photo through its high-tech "Sharing Box". Within good, creative atmosphere, each Adeater posed for a fun, humorous photo!

The picture was printed right on the spot and in just a minute, offered away as a fridge magnet to hang and keep as a souvenir of the evening.

Let the good times roll and see you next year!

Making of 3 TVCs

2017 witnessed the production of 3 TVCs for 3 different IBL products: the Personal loan, the Home loan and the Mobile Application. The main creative challenge was to relate all 3 together by a link in the story, using the same cast of actors, in the style of episodes from the same "Series", while being in line with the Farah Account couple launched earlier.

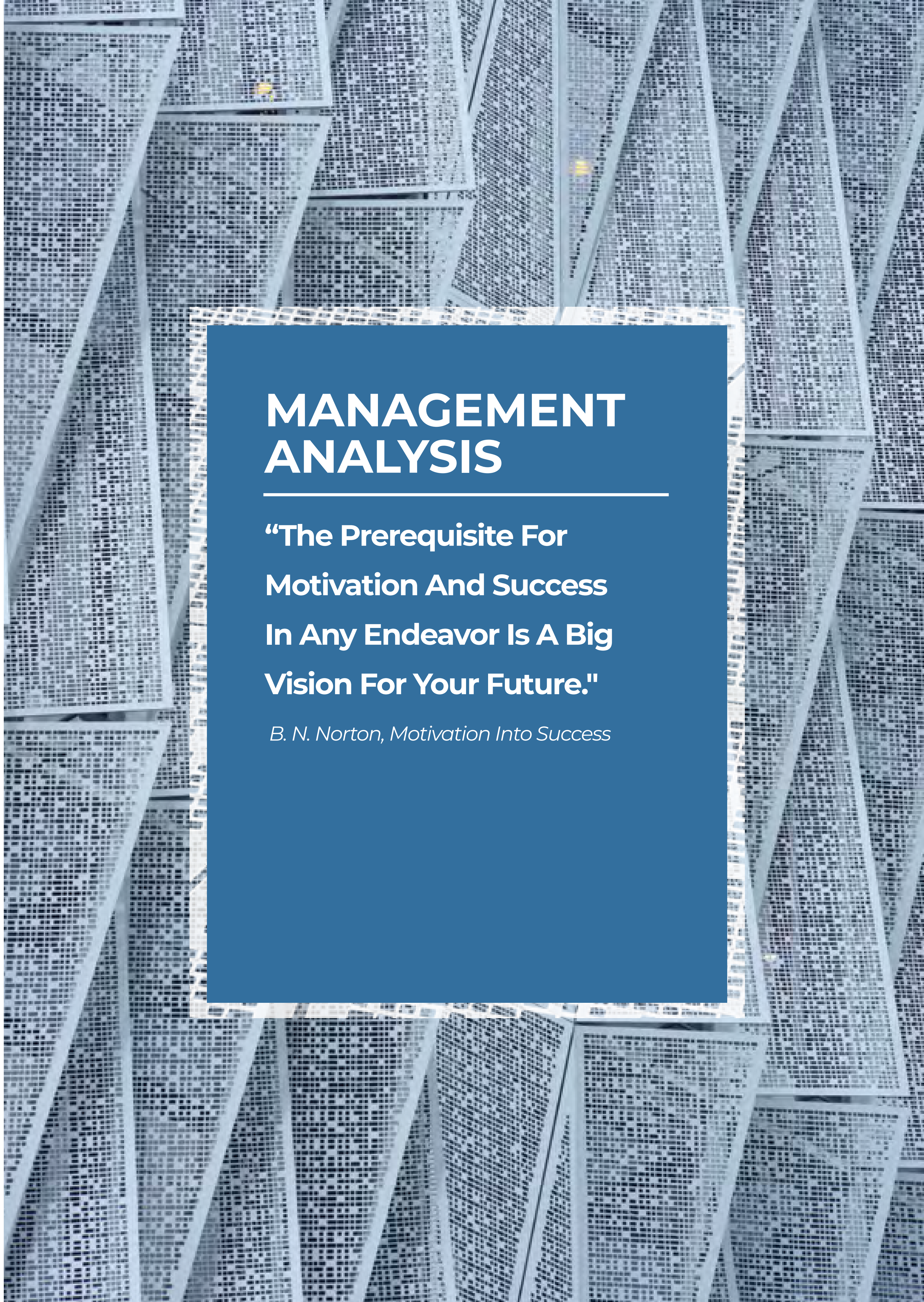
LACPA congress

IBL Bank proudly supported the 21st International Congress organized by The Lebanese Association of Certified Public Accountants under the theme of Sustainability through Governance. The congress was held on Monday 4 and Tuesday 5 December 2017 at the Phoenicia Hotel – Beirut.

Elton John

IBL Bank welcomed its guests with an outstanding stand at the entrance of what was the biggest music event of 2017!

With over 250 million albums sold and 5 Grammy Awards, Sir Elton John is one of the most popular, acclaimed and prolific artists of all time. As part of his Wonderful Crazy Night tour, this living legend and his band performed live at the Forum de Beyrouth within the Byblos International Festival on Sunday December 10, 2017.



MANAGEMENT ANALYSIS

“The Prerequisite For Motivation And Success In Any Endeavor Is A Big Vision For Your Future."

B. N. Norton, Motivation Into Success

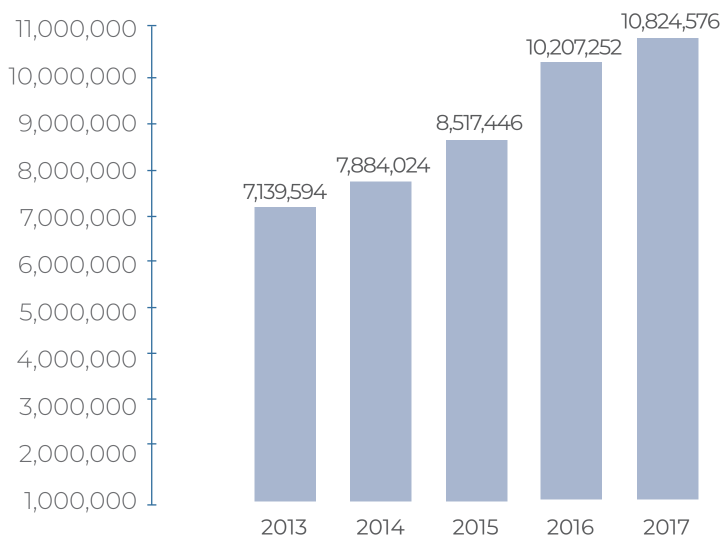
Key Figures

As at 31 December (In Millions of LBP)	2017	% GROWTH 2016/2017	2016	% GROWTH 2015/2016	2015	% GROWTH 2014/2015	2014	% GROWTH 2013/2014	2013
Total Assets	10,824,576	6.05	10,207,252	19.84	8,517,446	8.03	7,884,024	10.43	7,139,594
Customers' and Related Parties accounts	8,653,221	2.97	8,403,987	10.53	7,603,097	6.35	7,149,142	10.28	6,482,583
Shareholders' Equity	870,592	13.84	764,719	19.73	638,680	12.77	566,368	12.19	504,848
Loans & Advances to Customers & Related Parties	1,424,141	-7.48	1,539,298	-6.28	1,642,402	5.31	1,559,565	15.06	1,355,488
Income for the Year	153,383	26.62	121,136	18.08	102,586	14.50	89,593	10.72	80,917
Liquidity Ratio in LBP	122.30%		121.83%		103.31%		102.36%		101.69%
Liquidity Ratio in FCY	84.40%		79.76%		73.24%		72.53%		73.57%
Liquidity Ratio in LL & FCY	100.49%		99.37%		87.14%		85.43%		85.63%
Return on Average Assets	1.45%		1.29%		1.25%		1.19%		1.18%
Return on Average Equity	19.00%		17.50%		17.00%		16.70%		16.94%

NB: Comparative figures have been reclassified to comply with the presentation in the current financial statements

Total Assets

Total Assets (In millions of LBP)				
2013	2014	2015	2016	2017
7,139,594	7,884,024	8,517,446	10,207,252	10,824,576



NB: Comparative figures have been reclassified to comply with the presentation in the current financial statements

Total assets of the Bank recorded an increase of 6.05% during the year 2017 to reach LBP 10,824,576 million at the end of December 2017, This increase in total assets, particularly in liquid assets, was substantially matched by increases in funding which consisted primarily of customer deposits.

At the end of 2017, IBL Bank's presence abroad consisted of one branch in Cyprus (Limassol) and three branches in Iraq (Erbil, Baghdad and Basra).

The contribution of entities abroad to the Bank's consolidated total assets slightly increased during the year 2017. It constituted 1.49% as at 31 December 2017 compared to 1.46% as at 31 December 2016.

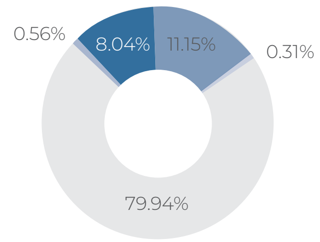
The participation of IBL Investment Bank in total consolidated assets stood at 5.85% as at 31 December 2017.

Assets denominated in foreign currencies increased during the year 2017. They constituted 50.01% of total assets as at 31 December 2017 compared to 47.79% as at 31 December 2016.

Sources Of Funds

Sources of Funds (Amounts in Millions of LBP)	End of year 2017		End of year 2016	
	Amount	%	Amount	%
Deposits from banks and financial institutions	33,822	0.31%	61,214	0.60%
Customers and related parties' accounts	8,653,221	79.94%	8,403,987	82.33%
Shareholders' equity	870,592	8.04%	764,719	7.49%
Other liabilities	1,206,381	11.15%	916,778	8.98%
Subordinated Bonds	60,560	0.56%	60,554	0.60%
	10,824,576	**100.00%**	**10,207,252**	**100.00%**

END 2017



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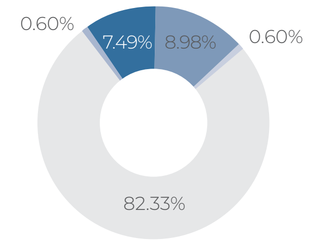


NB: Comparative figures have been reclassified to comply with the presentation in the current financial statements

Similar to all other banks in Lebanon, IBL Bank's main source of funding is customers and related parties' accounts which represented 79.94% of total sources of funds as at 31 December 2017 as compared to 82.33% as at 31 December 2016.

Other funding sources include also shareholders' equity which constituted 8.04% of total sources of funds as at 31 December 2017 and 7.49% as at 31 December 2016.

The share of banks and financial institutions accounted for 0.31% of total sources of funds as at 31 December 2017 and other liabilities comprised 11.15%. Other liabilities include loans from the Banque du Liban amounting to LBP 406 billion that are made pursuant to different Circulars and Arrangements as BDL intermediary Circular 313 and its amendments by which the Bank benefited from soft credit facilities against loans it has granted to its customers according to certain rules, conditions and mechanism.

The subordinated bonds that IBL Bank has issued during 2015 constituted 0.56% of total sources of funds as at 31 December 2017.

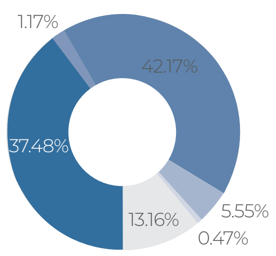
Interest-bearing liabilities as a share of total liabilities represented 80.81% as at 31 December 2017 as compared to 83.53% as at 31 December 2016.

In absolute terms, interest bearing liabilities stood at LBP 8,747,603 million as at 31 December 2017 as compared to LBP 8,525,755 million as at December 2016.

Uses Of Funds

Uses of Funds (Amounts in Millions of LBP)	End of year 2017 Amount	%	End of year 2016 Amount	%
Cash and Deposits with Central Banks	4,565,011	42.17%	4,120,320	40.37%
Deposits with Banks and Financial Institutions	600,784	5.55%	371,833	3.64%
Loans to Banks and Financial Institutions	50,485	0.47%	61,153	0.60%
Loans & Advances to customers & related parties	1,424,141	13.16%	1,539,298	15.08%
Investment Securities	4,057,028	37.48%	3,981,038	39.00%
Other Assets	127,127	1.17%	133,610	1.31%
	10,824,576	**100.00%**	**10,207,252**	**100.00**

END 2017



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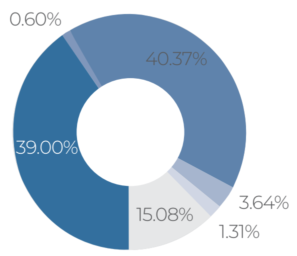


NB: Comparative figures have been reclassified to comply with the presentation in the current financial statements

Maintaining a high asset quality and a strong portfolio of investments is pivotal to IBL Bank's strategy. This is reflected in the return on average assets ratio which stood at 1.45% as at 31 December 2017 as compared to 1.29% as at 31 December 2016.

IBL Bank is ranking Second between the Alpha Group of Banks in terms of Return On Average Assets ratio according to Bank Data.

"Cash and Deposits with Central Banks" constituted 42.17% of total assets as at 31 December 2017 compared to 40.37% as at 31 December 2016.

The share of "Deposits with Banks and Financial Institutions" to total assets increased from 3.64% as at 31 December 2016 to 5.55 % as at 31 December 2017.

"Loans to banks and Financial Institutions" as at 31 December 2017 constituted 0.47% of total assets, down from 0.60% as at 31 December 2016.

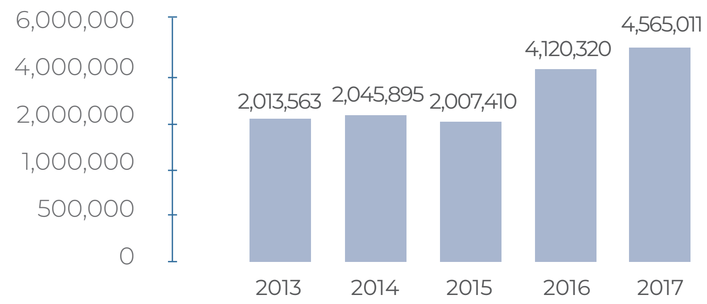
On the other hand, the share of "loans and advances to customers and related parties" to total assets decreased from 15.08 % as at 31 December 2016 to 13.16% as at 31 December 2017.

Within the overall uses of funds, the share of "Investment Securities" to total assets also slightly decreased to 37.48% in 2017 down from 39.00% in 2016.

"Other assets" share of total assets remained almost stable .They accounted for 1.17% as at 31 December 2017 as compared to 1.31% as at 31 December 2016. They are mainly constituted of "property and equipment" in a percentage of 42.38% of total "other assets" and "assets acquired in satisfaction of debts" in a percentage of 19.36% at the year ended December 2017 as compared to 40.18% and 18.42% respectively at the year ended December 2016.

Cash and Deposits with Central Banks

Cash and Deposits with Central Banks (In millions of LBP)				
2013	2014	2015	2016	2017
2,013,563	2,045,895	2,007,410	4,120,320	4,565,011



NB: Comparative figures have been reclassified to comply with the presentation in the current financial statements

"Cash and deposits with Central Banks" are distributed as follows:

(Amounts in Millions of LBP)	End of year 2017 Amount	%	End of year 2016 Amount	%
Cash on hand	40,183	0.88%	44,183	1.07%
Current accounts with Central Banks	503,327	11.03%	338,185	8.21%
Interest earning accounts	4,021,501	88.09%	3,737,952	90.72%
	4,565,011	**100.00%**	**4,120,320**	**100.00%**

As at 31 December 2017 "Cash and Deposits with Central Banks" amounted to LBP 4,565,011 million and constituted 42.17% of total assets as compared to LBP 4,120,320 million and 40.37% of total assets as at 31 December 2016, reflecting an increase of 10.79%.

Current accounts with Central banks include compulsory deposits in Lebanese Pounds with the Central Bank of Lebanon not available for use in the Bank's day-to-day operations in the amount of LBP 247.7 billion as at 31 December 2017 as compared to LBP 275.6 billion as at 31 December 2016.

These compulsory reserves are computed on the basis of 25% and 15% of the average weekly sight and term customers' deposits in Lebanese Pounds in accordance with prevailing banking regulations.

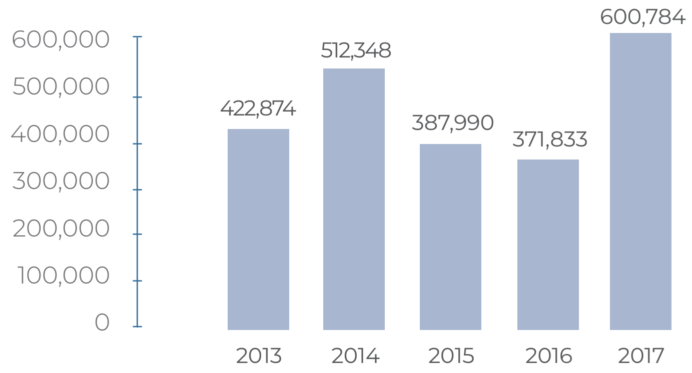
Interest earning accounts which represented 88.09% of total "Cash and Deposits with Central Banks" at the year end December 2017, are constituted of term placements with Central Banks that amounted to LBP 4,041,563 million and they include provisions for term placements held with Central Bank of Kurdistan in the aggregate amount of LBP 20,062 million.

Term placements with Central Banks also include the equivalent in foreign currencies of LBP 742 billion as at 31 December 2017 deposited with the Central Bank of Lebanon in accordance with local banking regulations which require banks to maintain interest bearing reserves in foreign currency to the extent of 15% of customers' deposits, bonds, certificates of deposits and loans acquired from Non Resident financial institutions in foreign currency.

Deposits with Banks and Financial Institutions

Deposits with Banks and Financial Institutions (In millions of LBP)

2013	2014	2015	2016	2017
422,874	512,348	387,990	371,833	600,784



NB: Comparative figures have been reclassified to comply with the presentation in the current financial statements

"Deposits with Banks and Financial Institutions " are distributed as follows:

(Amounts in Millions of LBP)	End of year 2017 Amount	%	End of year 2016 Amount	%
Current accounts with Banks	299,138	49.79%	255,700	68.77%
Term placements with Banks	286,425	47.68%	97,837	26.31%
Checks for collection	15,140	2.52%	18,212	4.90%
Accrued Interest	81	0.01%	84	0.02%
	600,784	**100.00%**	**371,833**	**100.00%**

As at 31 December 2017, "Deposits with banks and financial institutions" amounted to LBP 600,784 million and constituted 5.55% of total assets as compared to LBP 371,833 million and 3.64% as at 31 December 2016, reflecting a year-on-year increase of 61.57%.

As shown on the breakdown above, term placements constituted 47.68% of total "deposits with banks and financial institutions" as at 31 December 2017 up from 26.31% as at 31 December 2016.

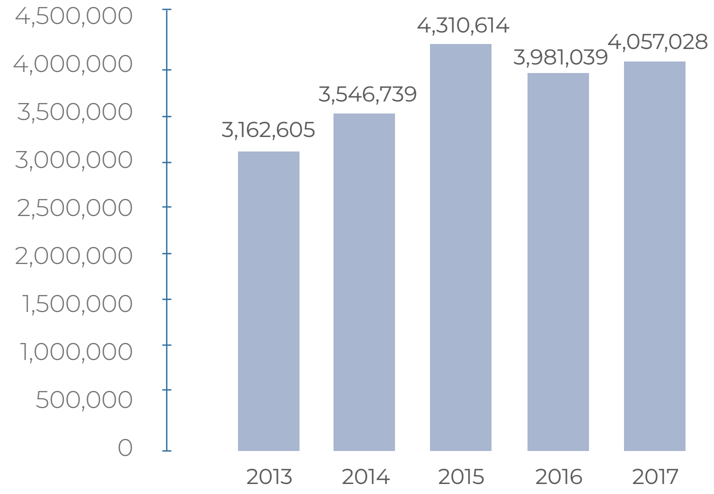
99.56% of the current and term deposits are denominated in foreign currencies, and all the term deposits as at 31 December 2017 have contractual maturities of less than three months.

"Deposits with banks and financial institutions" are geographically distributed as follows: 2.69% in Lebanon and 97.31% in low risk countries mainly in Europe and the USA.

Investment Securities Portfolio

Investment Securities Portfolio (In millions of LBP)

2013	2014	2015	2016	2017
3,162,605	3,546,739	4,310,614	3,981,039	4,057,028



NB: Comparative figures have been reclassified to comply with the presentation in the current financial statements

IBL Bank's investment securities portfolio increased by LBP 75,990 million during 2017 to reach LBP 4,057,028 million as at 31 December 2017. They represented 37.48% of total uses of funds as compared to 39.00% as at 31 December 2016.

IBL Bank's investment securities portfolio is predominantly made of securities classified at Amortized Cost in the percentage of 80.37% of total portfolio as at 31 December 2017 as compared to 83.78% as at 31 December 2016. Investment securities classified at fair Value Through Profit And Loss constituted 19.63% of the total portfolio as at 31 December 2017 compared to 16.18% as at 31 December 2016.

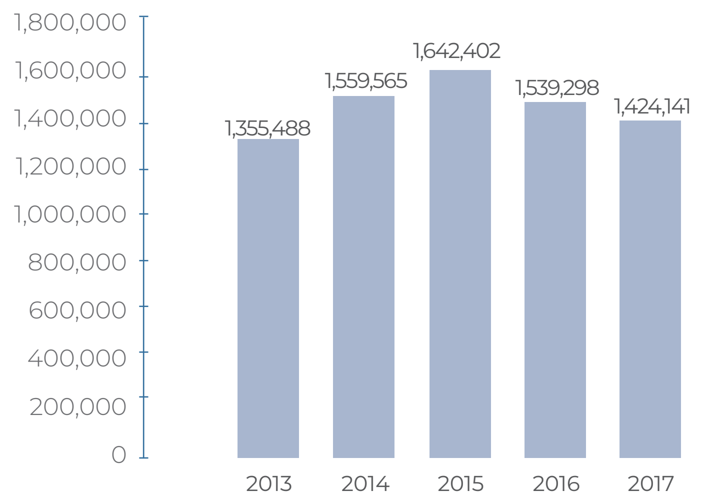
Lebanese treasury bills (in both LBP and foreign currencies) increased as a percentage of the Bank's total securities portfolio to 17.47% as at 31 December 2017 as compared to 12.83% as at 31 December 2016. Investments in Central Bank certificates of deposits (in both LBP and foreign currencies) represented 1.57% of the Bank's portfolio as at 31 December 2017 as compared to 2.93% as at 31 December 2016 and they constituted 8.01% of total securities portfolio classified at Fair Value Through Profit and Loss as compared to 18.09% as at 31 December 2016.

A currency analysis of the investment securities portfolio reveals that the portfolio is almost evenly distibuted between Foreign and local currency. The US Dollar portfolio, constituted 49.31% of the total as at 31 December 2017, while 47.95% of the securities portfolio is denominated in Lebanese currency.

Loans and Advances to Customers and Related Parties

Loans And Advances To Customers And Related Parties (in millions of LBP)

2013	2014	2015	2016	2017
1,355,488	1,559,565	1,642,402	1,539,298	1,424,141



NB: Comparative figures have been reclassified to comply with the presentation in the current financial statements

As at 31 December 2017, the Bank's "Loans and advances to customers and related parties" net of provisions and unrealized interests for Non Performing Loans amounted to LBP 1,424,141 million compared to LBP 1,539,298 million as at 31 December 2016, meaning a decrease of 7.48%.

"Loans and advances to customers and related parties" constituted 13.16% of total assets as at 31 December 2017 as compared to 15.08% as at 31 December 2016.

72.54% of total loans are denominated in foreign currencies and mostly in US dollars. The high dollarization of the Bank's loan portfolio is in line with the loan portfolios of the Bank's peers, and reflects the state of the Lebanese economy for the past decades.

In order to maintain a high asset quality, IBL Bank continued to adopt a conservative loan strategy. The ratio of net loans and advances to total deposits has been maintained at relatively low levels reaching 16.45% as at 31 December 2017 as compared to 18.32% as at 31 December 2016.

A significant proportion of the bank's loans and advances are secured by prime and enforceable guarantees which include cash collateral, prime real estate mortgages, pledge of securities and bank and personal guarantees.

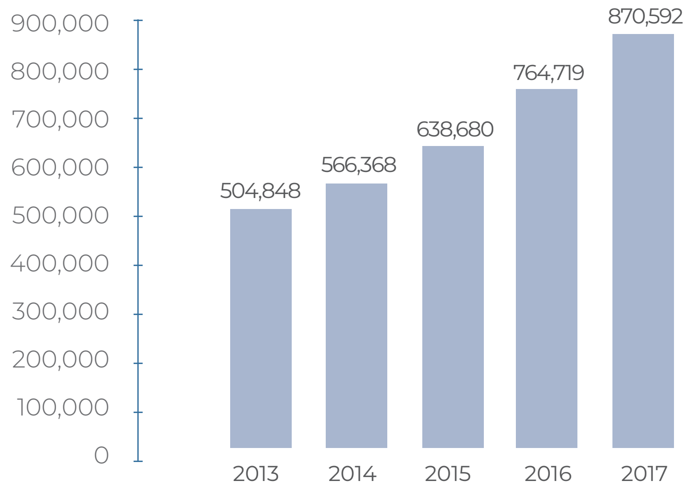
Provisions and unrealized interests for impaired loans, including collective provisions amounted to LBP 86,355 million as at 31 December 2017.

To support and reinforce the loans portfolio during the difficult economic conditions prevailing in the country, IBL Bank improved the level of provisions set against NPLs, increasing those by the amount of LBP 25,691 million as allowance for risk and charges before deduction of the write-back provisions.

Shareholders' Equity

Shareholders' Equity (In millions of LBP)

2013	2014	2015	2016	2017
504,848	566,368	638,680	764,719	870,592



NB: Comparative figures have been reclassified to comply with the presentation in the current financial statements

IBL Bank's Shareholders' Equity, as at 31 December 2017, stood at LBP 870,592 million compared to LBP 764,719 million as at 31 December 2016, reflecting an increase of 13.84%. Its contribution to total sources of funds increased to 8.04% as at 31 December 2017 compared to 7.49% as at 31 December 2016.

The increase in Shareholders' Equity was mainly attributed to retained earnings of the year 2016 after dividend distribution, as well as the increase in the profits of the financial year 2017.

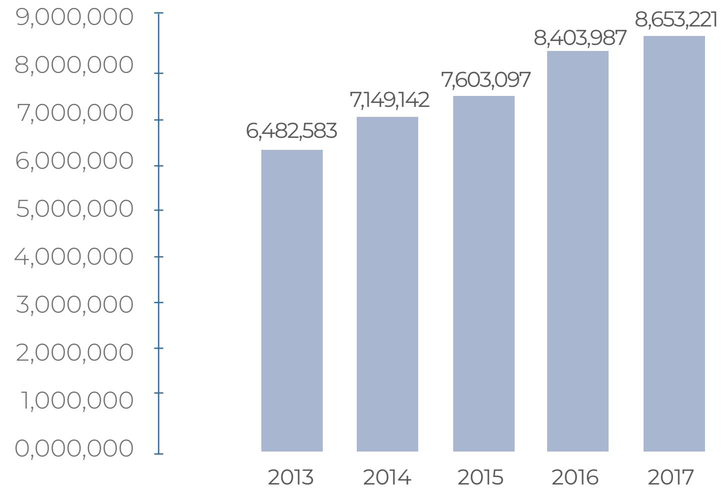
Tier I capital which is the main source of equity comprises common shares capital, non-cumulative perpetual preferred shares, share premium, reserves from appropriation of profits, retained earnings (exclusive of expected dividends distribution) and non-controlling interests after deductions for intangible assets.

Tier II Capital is composed of asset revaluation surplus and reserves for assets acquired in satisfaction of debts .They increased from LBP 13,470 million as at 31 December 2016 to LBP 14,670 million as at 31 December 2017.

To the above Tier II capital, US$ 40 million is added after the issuance, during 2015, of IBL Bank's 10 years subordinated bonds that are classified under long term liabilities.

Customers' And Related Parties' Accounts

Customer's and Related Parties' Accounts (In millions of LBP)				
2013	2014	2015	2016	2017
6,482,583	7,149,142	7,603,097	8,403,987	8,653,221



NB: Comparative figures have been reclassified to comply with the presentation in the current financial statements

Total Customers' and Related Parties accounts of IBL Bank increased by 2.97% to LBP 8,653,221 million as at 31 December 2017 from LBP 8,403,987 million as at 31 December 2016.

Customers' and Related Parties' accounts represent the major source of funds with a share of 79.94% as at 31 December 2017 compared to a share of 82.33% as at 31 December 2016.

Total Customers' and Related Parties' accounts went up by LBP 249,234 million given the expansion of deposits denominated in foreign currencies by LBP 553,692 million and the narrowing in domestic currency by LBP 304,458 million.

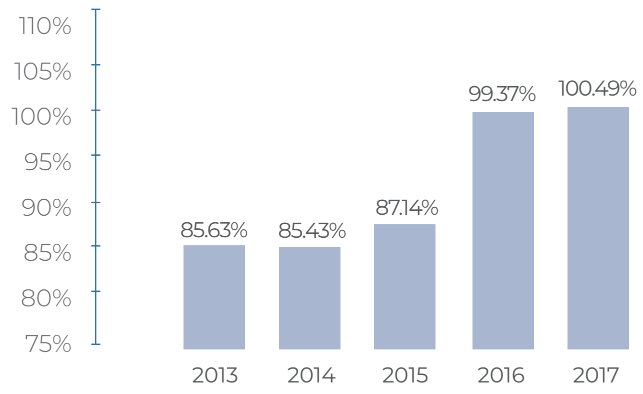
As at 31 December 2017, Customers' and Related Parties' accounts held in Foreign Currencies, principally in US Dollars, represented 58.08% of total Customers' and Related Parties accounts, compared to 53.21% as at 31 December 2016, still below the sector where the deposits dollarization increased to 67.01% as at 31 December 2017 from 64.26% as at 31 December 2016.

The composition of Customers' and Related Parties' accounts remained also unchanged. They were comprised mainly of term deposits which consisted of 83.43% of total Customers and Related Parties accounts as at 31 December 2017 compared to 83.63% as at 31 December 2016.

As at 31 December 2017, the major part of the consolidated Customers and Related Parties' accounts were sourced by Lebanese entities.

Liquidity Ratio

Liquidity Ratio				
2013	2014	2015	2016	2017
85.63%	85.43%	87.14%	99.37%	100.49%



NB: Comparative figures have been reclassified to comply with the presentation in the current financial statements

IBL Bank has successfully maintainted ample liquidity in 2017 where overall liquidity stood at 100.49%. As such, the Lebanese Pound Liquidity Ratio (including Lebanese governmental Treasury bills) was 122.30% as at 31 December 2017 reflecting an avaibable liquidity covering Lebanese Pounds deposits in total.

Moreover, the liquidity ratio in foreign currencies accounted to 84.40% as at 31 December 2017 as compared to 79.76% as at 31 December 2016.

Management considers the bank's liquidity position to be strong based on its liquidity ratios as at 31 December 2017 and believes that the Bank's funding capacity is sufficient to meet its On and Off-balance sheet obligations. IBL Bank's financial position structure is run in a way to maintain high diversification and a low concentration among different sources of funds.

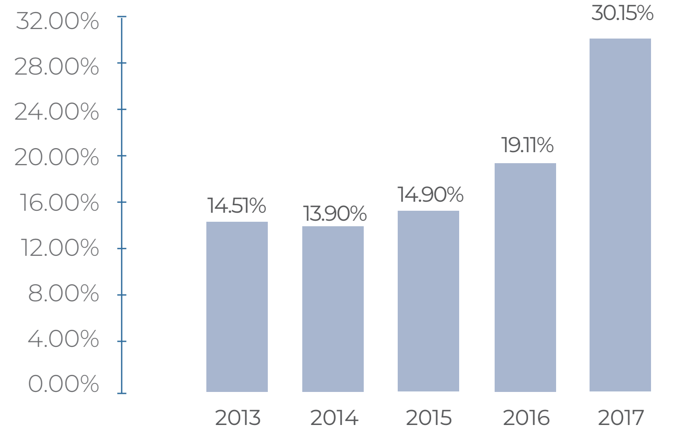
The Bank performs liquidity stress tests as part of its liquidity management. The purpose is to always ensure sufficient liquidity for the Bank under different stress conditions. The Bank has a variety of liquidity measures that are regularly monitored and include limits on maturity gaps and ratios covering the concentration of deposits base, the availability and concentration of liquid assets.

Maturity mismatch between assets and liabilities which characterises the Lebanese Banking sector was also present at IBL Bank. This mismatch is considered as low risk, especially that maturing deposits do not actually materialize in cash outflows and are generally automatically renewed.

The Alco (Assets and Liabilities Committee) manages the mismatches by maintaining strict liquidity criterias on investments and by following the behavior of deposits which have a proved track record of being recurring and core. All liquidity policies and procedures are subject to review and approval by Alco, the Board Risk Committee and ultimately the Board of Directors.

Capital Adequacy Ratio

Capital Adequacy Ratio				
2013	2014	2015	2016	2017
14.51%	13.90%	14.90%	19.11%	30.15%



NB: Comparative figures have been reclassified to comply with the presentation in the current financial statements

The consolidated Basel III Capital Adequacy Ratio of IBL Group reached 30.15% by the end of 2017 compared to 19.11% by the end of 2016.

Tier I capital and Capital Equity Tier I (CET1) ratios amounted to 18.53% and 15.93% respectively.These ratios are measured according to Basel III and Central Bank requirements.

The statutory minimum total capital Adequacy Ratio requested by Central Bank of Lebanon is 14.50% as at end of December 2017 which was raised from 14% as at end of December 2016.

Lebanese banks are required to abide by the miminum set limits for the following three capital adequacy ratios:

Ratio	"IBL Bank as at 31 Dec. 2017"	"BDL requirements as at 31 Dec. 2017"	"BDL requirements as at 31 Dec. 2018"
NCE Tier 1	15.93%	9.00%	10.00%
Tier 1 Capital	18.53%	12.00%	13.00%
Total Capital	30.15%	14.50%	15.00%

IBL Bank consolidated CAR ratios are clearly above the regulatory requirements in December 2018.

BDL required ratios are based on Intermediate circular No 436 dated 30 September 2016 (Basic circular No 44) which sets new floors for capital ratios of 10%, 13% and 15% respectively to be reached by 31 December 2018. The target ratios include a capital conservation buffer of 4.50% of the total risk weighted assets, while the Basel Committee of Banking Supervision target ratios at 1 January 2019 include a Capital conservation buffer of 2.50%.

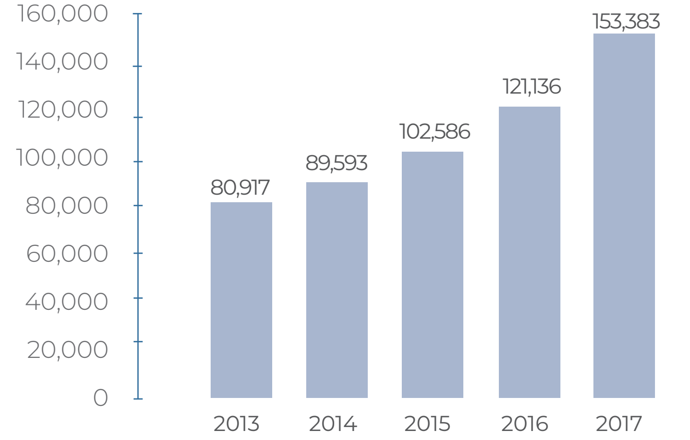
As for the leverage ratio, it reached 7.22% as at 31 December 2017 based on BDL's definition. It is calculated by dividing the Tier I over the total assets plus the off-balance sheet items. The Basel Committee on Banking Supervision (BCBS) has set the minimum leverage ratio at 3%.

Moreover, the Bank has conducted stress tests scenarios to assess the impact on capital and liquidity of higher sovereign risks, increased credit portfolio defaults, and funding outflows, and has found both the Capital buffer and the liquidity buffer to be at satisfactory levels.

The Bank performs the stress-test scenarios at least annually upon the preparation of the ICAAP document.

Profitability

Profitability (In millions of LBP)				
2013	2014	2015	2016	2017
80,917	89,593	102,586	121,136	153,383



NB: Comparative figures have been reclassified to comply with the presentation in the current financial statements

In 2017, IBL Bank net income amounted to LBP 153,383 million compared to LBP 121,136 million in 2016, increasing by 26.62%.

This growth is mainly due to the increase in net financial revenues, after impairment charge for credit losses, from LBP 235,507 million as at 31 December 2016 to LBP 254,829 million as at 31 December 2017, meaning a rise of 8.21%.

IBL Bank's growth in Net Profits was achieved despite the bank's conservative strategy showed by the net allowance for risk and charges and collective impairement amounting to LBP 11,803 million that was provided for during 2017 as compared to LBP 15,046 million for the year 2016.

IBL's performance is also reflected in the Bank's high profitability ratios that are among the highest in the Lebanese banking sector.

In fact, IBL Bank's Return on Average Assets (ROAA) stood at 1.45% at the end of 2017 while the Bank's Return on Average Equity (ROAE) reached 19.00%, ranking first in ROAE ratio and second in ROAA ratio between the Lebanese Group Alpha according to Bankdata.

Staff and Administrative expenses reached LBP 67,389 million as at 31 December 2017 as compared to LBP 68,358 million as at 31 December 2016.

Staff expenses increased by 2.45% in 2017 to reach LBP 43,333 million. That said, IBL is still maintaining a low cost to income ratio of 27.70% as at 31 December 2017 ranking first in the Alpha Group whose average was 47.7% as at 31 December 2017.

On the other hand, earnings per share increased to LBP 7,670 (US$ 5.09) in 2017 from LBP 6,057 (US$ 4.02) in 2016.

List of Main Correspondents

Correspondent	Currency	City	SWIFT Code
Al khaliji France SA	AED	Dubai	LICO AE AD
Bank of Sydney Ltd	AUD	Sydney	LIKI AU 2S
Citibank NA	AUD	London	CITI GB 2L
The Bank of New York Mellon	CAD	New York	IRVT US 3N
Banque Cantonale de Genève	CHF	Geneva	BCGE CH GG
Danske Bank A/S	DKK	Copenhagen	DABA DK KK
Sociéte Générale	EUR	Paris	SOGE FR PP
Commerzbank AG	EUR	Frankfurt	COBA DE FF
Intesa Sanpaolo SpA	EUR	Milano	BCIT IT MM
Citibank NA	GBP	London	CITI GB 2L
Sumitomo Mitsui Banking Corporation	JPY	Tokyo	SMBC JP JT
The Bank of New York Mellon	JPY	Tokyo	IRVT JP JX
Commercial Bank of Kuwait KPSC	KWD	Kuwait	COMB KW KW
DNB Bank ASA	NOK	Oslo	DNBA NO KK
The National Commercial Bank	SAR	Jeddah	NCBK SA JE
Skandinaviska Enskilda Banken AB	SEK	Stockholm	ESSE SE SS
Citibank NA	USD	New York	CITI US 33
The Bank of New York Mellon	USD	New York	IRVT US 3N

Main Resolutions of the Ordinary General Assembly Held on June 25, 2018

Resolution 1:

The Ordinary General Assembly, after listening to the reports of the Board of Directors and the external Auditors regarding the accounts of the year 2017, and after reviewing the balance sheet and the profit and loss accounts for the same year, decided:

The ratification of the reports, the balance sheets and all other accounts of the Bank relating to the fiscal year ending on 31/12/2017.

Decision taken unanimously.

Resolution 2:

The Ordinary General Assembly, after taking note of the net profits realized during 2017, which amounted to LBP 103,813 million decided:

1) The Distribution of US$ 5,625 Thousand of these profits, to the holders of series 3 preferred shares, amount which represents 7.50% of the issue price amounted to US$ 100 for each share, pursuant to the third decision (Item 4, par A) of the Extraordinary General Assembly held on September 15, 2016.

2) The distribution of LBP 58,693,000 Thousand (approximately US$ 39,000 Thousand) of these profits to the Common Shareholders in proportion of their participation in the Bank's Capital.

3) The deduction of LBP 16,707,000 Thousand, equivalent to approximately US$11 million, from the retained earnings accounts, amount which will be also distributed to the Common Shareholders in proportion of their participation in the Bank's Capital.

4) It was also decided to transfer the remaining balance of the net profits of the year 2017 amounting to LBP 36,640,000 Thousand to retained earnings (previous results).

Decision taken unanimously.

Resolution 8:

The Ordinary General Assembly, after going through the reports of the Board of Directors and the external Auditors in compliance with article 158 of the Code of Commerce And article 152 paragraph.4 of the Code of Money and Credit, decided:

The ratification of the activities carried out in accordance to the above-mentioned laws, and renewal of the prior authorization given to the Directors to act according to those articles, in addition to the prior authorization of article 159 of the Code of Commerce.

Decision taken unanimously.

IBL BANK S.A.L. & SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT YEAR ENDED DECEMBER 31, 2017

TO THE SHAREHOLDERS
IBL BANK
BEIRUT, LEBANON

Opinion

We have audited the accompanying consolidated financial statements of IBL Bank SAL (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 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 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 statement of cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the 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 consolidated 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 to customers

Due to the inherently judgmental nature of the computation of impairment provisions for loans and advances, there is a risk that the amount of impairment may be misstated. The impairment of loans and advances is estimated by management through the application of judgment and the use of subjective assumptions. Due to the significance of loans and advances and related estimation uncertainty, this is considered a key audit risk. The corporate loan portfolio generally comprises larger loans that are monitored individually by management. The assessment of loan loss impairment is therefore based on management's knowledge of each individual

borrower. However, consumer loans generally comprises much smaller value loans to a much greater number of customers. Provisions, other than those that are calculated on an individual basis, are determined by grouping by product into homogeneous portfolios.
The portfolios which give rise to the greatest uncertainty are typically those where impairments are derived from collective models, are unsecured or are subject to potential collateral shortfalls.

How our audit addressed the key audit matters

The risks outlined were addressed by us as follows:

We tested the design and operating effectiveness of the key controls to determine which loans and advances are impaired and provisions against those assets. These included testing:

· System-based and manual controls over the timely recognition of impaired loans and advances.

· Controls over the impairment calculation models including data inputs.

· Controls over collateral valuation estimates.

We tested a sample of loans and advances to form our own assessment as to whether impairment events had occurred and to assess whether impairments had been identified in a timely manner.

· For collective impairment allowances, we critically assessed the Group's estimates and assumptions, specifically in respect to the inputs to the impairment models and the consistency of judgement applied in the use of economic factors, loss emergence periods and the observation period for historical default rates.

· For non performing customers, we tested and challenged the valuation model used by management where the expected recoverable amount from the liquidation of collateral discounted is compared to the net carrying value of the customer net exposure.

Other Information

Management is responsible for the other information included in the Annual Report. The other information does not include the consolidated 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 consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated 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 consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs 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 auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

• Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the 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 auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Beirut, Lebanon
May 31, 2018

Deloitte & Touche **DFK Fiduciaire du Moyen Orient**

Deloitte & Touche

IBL BANK S.A.L. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS	Notes	December 31, 2017 LBP'000	December 31, 2016 LBP'000
Cash and deposits with central banks	5	4,565,010,884	4,120,319,545
Deposits with banks and financial institutions	6	600,784,341	371,832,675
Loans to banks and financial institutions	7	50,484,852	61,153,584
Loans and advances to customers	8	1,355,656,247	1,440,131,983
Loans and advances to related parties	9	68,484,403	99,166,198
Investment securities at fair value through profit or loss	10	796,322,194	643,865,655
Investment securities at fair value through other comprehensive income	11	-	1,967,790
Investment securities at amortized cost	12	3,260,705,650	3,335,205,209
Customers' liability under acceptances	13	38,665,861	45,018,919
Assets acquired in satisfaction of loans	14	24,612,014	24,612,014
Property and equipment	15	53,878,332	53,678,967
Intangible assets	16	816,049	733,709
Other assets	17	9,155,035	9,565,952
Total Assets		**10,824,575,862**	**10,207,252,200**
FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK:	**38**		
Documentary and commercial letters of credit		39,071,825	30,051,450
Guarantees and standby letters of credit		118,793,032	126,673,817
Forward exchange contracts		88,543,899	78,487,707

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

IBL BANK S.A.L. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

LIABILITIES	Notes	December 31, 2017 LBP'000	December 31, 2016 LBP'000
Deposits from banks and financial institutions	18	33,821,817	61,214,031
Customers' accounts	19	8,366,922,651	8,138,180,999
Related parties' accounts	19	286,298,035	265,805,684
Liability under acceptance	13	38,665,861	45,018,919
Other borrowings	20	405,749,149	97,778,129
Other liabilities	21	699,911,151	738,317,111
Provisions	22	62,055,192	35,663,850
		9,893,423,856	**9,381,978,723**
Subordinated bonds	23	60,560,199	60,554,020
Total liabilities		**9,953,984,055**	**9,442,532,743**
EQUITY			
Capital	24	150,000,000	150,000,000
Non-cumulative convertible preferred shares	25	113,034,375	113,034,375
Common shares premium		6,514,784	6,514,784
Reserves	26	142,649,602	119,879,706
Asset revaluation surplus		2,752,680	2,752,680
Regulatory reserve for assets acquired in satisfaction of loans	14	11,917,515	10,717,070
Retained earnings		288,752,947	239,345,824
Profit for the year		152,765,520	120,887,958
Equity attributable to equity holders of the Bank		**868,387,423**	**763,132,397**
Non-controlling interests	28	2,204,384	1,587,060
Total equity		**870,591,807**	**764,719,457**
Total Liabilities and Equity		**10,824,575,862**	**10,207,252,200**

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

IBL BANK S.A.L. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	December 31, 2017 LBP'000	December 31, 2016 LBP'000
Interest income	29	648,564,580	582,035,645
Withholding tax		(3,790,171)	-
Interest income, net of tax		644,774,409	582,035,645
Interest expense	30	(494,885,555)	(444,713,446)
Net interest income		**149,888,854**	**137,322,199**
Fee and commission income	31	9,945,683	9,839,320
Fee and commission expense	32	(1,211,464)	(1,109,402)
Net fee and commission income		**8,734,219**	**8,729,918**
Other operating income	33	7,984,099	6,168,449
Net interest and other gain on investment securities at fair value through profit or loss	34	100,394,190	100,149,863
Net financial revenues		**267,001,362**	**252,370,429**
Allowance for impairment of loans and advances (net)	35	(12,172,809)	(16,863,379)
Net financial revenues after impairment charge for credit losses		**254,828,553**	**235,507,050**
Allowance for risk and charges (net)	22	(11,802,713)	(15,046,234)
Staff costs	36	(43,333,039)	(42,297,187)
General and administrative expenses	37	(24,055,832)	(26,060,639)
Depreciation and amortization	15,16	(4,257,156)	(4,488,748)
Other expenses	15,21	(580,669)	(1,222,092)
Profit before income tax		170,799,144	146,392,150
Income tax expense	21	(17,416,300)	(25,255,672)
Profit for the year		153,382,844	121,136,478
Other comprehensive income		-	-
Total comprehensive income for the year		**153,382,844**	**121,136,478**
Attributable to:			
Equity holders of the Bank		152,765,520	120,887,958
Non-controlling interests	28	617,324	248,520
		153,382,844	**121,136,478**

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

ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK	Capital	Non-Comulative Convertible Preferred Shares	Common Shares Premium	Reserves	Asset Revaluation Surplus	Regulatory Reserve For Assets Aquired Satis-faction of Loans	Retained Earnings	Profit for The Year	Total Attributable to the Equity Holders of the Bank	Non-Controlling Interests	Total
	LPB'000	LPB'000	LPB'000	LPB'000	LPB'000	LPB'000	LPB'000	LPB'000	LPB'000	LPB'000	LPB'000
Balance as at January 1, 2016	**146,250,000**	**75,356,250**	**6,514,784**	**98,910,498**	**2,752,680**	**9,137,597**	**196,088,110**	**102,331,634**	**637,341,553**	**1,338,540**	**638,680,093**
Allocation of 2015 profit	-	-	-	24,237,220	-	-	78,094,414	(102,331,634)	-	-	-
Regulatory reserve for assets acquired in satisfaction of loans	-	-	-	-	-	1,579,473	(1,579,473)	-	-	-	-
Unspecified banking risk reserve	-	-	-	573,000	-	-	(573,000)	-	-	-	-
Other movement	-	-	-	32,488	-	-	9,850	-	42,338	-	42,338
Dividends paid (Note 27)	-	-	-	-	-	-	(32,660,625)	-	(32,660,625)	-	(32,660,625)
Difference in exchange	-	18,750	-	(123,500)	-	-	(33,452)	-	(138,202)	-	(138,202)
Redemption of preferred shares (Note 25)	3,750,000	(75,375,000)	-	(3,750,000)	-	-	-	-	(75,375,000)	-	(75,375,000)
Issuance of preferred shares (Note 25)	-	113,034,375	-	-	-	-	-	-	113,034,375	-	113,034,375
Total comprehensive income for the year 2016	-	-	-	-	-	-	-	120,887,958	120,887,958	248,520	121,136,478
Balance as at December 31, 2016	**150,000,000**	**113,034,375**	**6,514,784**	**119,879,706**	**2,752,680**	**10,717,070**	**239,345,824**	**120,887,958**	**763,132,397**	**1,587,060**	**764,719,457**
Allocation of 2016 profit	-	-	-	22,088,099	-	-	98,799,859	(120,887,958)	-	-	-
Regulatory reserve for assets acquired in satisfaction of loans	-	-	-	-	-	1,200,445	(1,200,445)	-	-	-	-
Unspecified banking risk reserve	-	-	-	711,000	-	-	(711,000)	-	-	-	-
Other movement	-	-	-	35,797	-	-	(35,797)	-	-	-	-
Dividends paid (Note 27)	-	-	-	-	-	-	(47,539,688)	-	(47,539,688)	-	(47,539,688)
Difference in exchange	-	-	-	(65,000)	-	-	94,194	-	29,194	-	29,194
Total comprehensive income for the year 2017	-	-	-	-	-	-	-	152,765,520	152,765,520	617,324	153,382,844
Balance as at December 31, 2017	**150,000,000**	**113,034,375**	**6,514,784**	**142,649,602**	**2,752,680**	**11,917,515**	**288,752,947**	**152,765,520**	**868,387,423**	**2,204,384**	**870,591,807**

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

	Notes	Dec. 31, 2017 LBP'000	Dec. 31, 2016 LBP'000
Cash flows from operating activities:			
Net profit for the year		**153,382,844**	**121,136,478**
Adjustments for:			
Depreciation and amortization	15, 16	4,257,156	4,488,748
Unrealized loss on investment securities at fair value through profit or loss	34	66,466,386	58,291,667
Allowance for impairment/(write-back) of loans and advances (net)	35	12,172,809	3,295,879
Allowance for risk and charges	22	11,802,713	15,046,234
Provision for loss in foreign currency		-	42,000
Other adjustments and effect of exchange difference		40,900	(122,623)
Provision for employees' end-of-service indemnities	22	1,025,227	2,202,463
Gain on disposal of property and equipment		-	(86,951)
Advances transferred to expense	15	-	141,223
Write-off of property and equipment	15	4,874	2,367
Interest expense	30	494,885,555	444,713,446
Interest income	29, 34	(759,358,754)	(651,655,224)
Income tax expense	21	17,416,300	25,255,672
		2,096,010	**22,751,379**
Net decrease in loans and advances to customers		77,594,347	92,798,881
Net decrease in loans and advances to related parties		30,681,795	2,478,233
Net (increase)/decrease in investment securities		(144,801,125)	252,441,537
Net decrease/(increase) in compulsory reserves and deposits with central banks		51,210,122	(2,141,554,932)
Net decrease in loans to banks and financial institutions		10,600,000	10,600,000
Net decrease in borrowings from banks and financial institutions		(27,274,197)	(5,930,731)
Net increase in customers' deposits		228,538,162	773,704,587
Net increase in related parties' deposits		20,310,634	12,116,333
Net decrease/(increase) in other assets		410,917	(1,944,392)
Net increase in other liabilities		68,450,953	679,919,537
Settlements made from provisions (net)	22	(324,624)	(184,557)
		317,492,994	**(302,804,125)**
Interest paid		(493,631,508)	(429,370,078)
Interest received		754,116,628	665,067,413
Income tax paid		(124,338,213)	(20,756,252)
Net cash provided by/(used in) operating activities		**453,639,901**	**(87,863,042)**
Cash flows from investing activities:			
Acquisition of property and equipment	15	(4,403,109)	(2,346,870)
Proceeds from disposal of property and equipment		-	95,631
Acquisition of intangible assets	16	(169,758)	(177,660)
Net cash used in investing activities		(4,572,867)	(2,428,899)
Cash flows from financing activities:			
Dividends paid	27	(47,539,688)	(32,660,625)
Increase in other borrowings		306,990,342	36,120,558
Redemption of preferred shares		-	(75,375,000)
Issuance of preferred shares		-	113,034,375
Net cash provided by financing activities		**259,450,654**	**41,119,308**
Net increase/(decrease) in cash and cash equivalents		**708,517,688**	**(49,172,633)**
Cash and cash equivalents - Beginning of year		**478,514,397**	**527,687,030**
Cash and cash equivalents - End of year		**1,187,032,085**	**478,514,397**

1. GENERAL INFORMATION

IBL Bank S.A.L. (the "Bank") is a Lebanese joint-stock company registered in the Lebanese commercial register under No. 10472 and in the Central Bank of Lebanon under No. 52. The consolidated financial statements of the Bank comprise the financial statements of the Bank and those of its subsidiaries (the "Group"). The Group is primarily involved in investment, corporate and retail banking.

The Group operates through a network consisting of 20 branches in Lebanon, 3 branches in Iraq and one branch in Limassol, Cyprus.

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

The consolidated subsidiaries consist of the following as at December 31:

Name of Subsidiary	Inception Date	Ownership 2017%	Ownership 2016%	Country of Inception	Business Activity
Al-Itihadiah Real Estate S.A.L.	May 31, 1979	99.97	99.97	Lebanon	Real Estate Properties
IBL Holding S.A.L.	November 11, 2008	99.70	99.70	Lebanon	Holding
IBL Brokerage S.A.L.	March 14, 2006	99.80	99.80	Lebanon	Insurance Brokerage
IBL Investment Bank S.A.L.	January 8, 2011	97.99	97.99	Lebanon	Investment Bank

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

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

The Group's liabilities arising from financing activities consist of other borrowings and subordinated bonds. A reconciliation between the opening and closing balances of other borrowings is provided in Note 20 as for the subordinated bonds, no change in outstanding balance was noted in 2017. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior period. Apart from the additional disclosure in Note 20, the application of these amendments has had no impact on the Group's financial statements.

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 summarized 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.

2.2 New and revised IFRS in issue but not yet effective

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

New and revised IFRSs	Effective for Annual Periods Beginning on or After
Annual Improvements to IFRS Standards 2014-2016 Cycle amending IFRS 1 and IAS 28.	January 1, 2018
Annual Improvements to IFRS Standards 2015-2017 Cycle amending IFRS 3, IFRS 11, IAS 12 and IAS 23.	January 1, 2019
IFRIC 22 Foreign Currency Transactions and Advance Consideration 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 inrespect of that consideration, in advance of the recognition of the related asset, expense or income; and • the prepayment asset or deferred income liability is non-monetary.	January 1, 2018

New and revised IFRSs	Effective for Annual Periods Beginning on or After
IFRIC 23 Uncertainty over Income Tax Treatments The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers: • Whether tax treatments should be considered collectively; • Assumptions for taxation authorities' examinations; • The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and • The effect of changes in facts and circumstances.	January 1, 2019
Amendments to IFRS 2 Share Based Payment regarding classification and measurement of share based payment transactions.	January 1, 2018
Amendments to IFRS 4 Insurance Contracts: Relating to the different effective dates of IFRS 9 and the forthcoming new insurance contracts standard.	January 1, 2018
Amendments to IAS 40 Investment Property: Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The paragraph has been amended to state that the list of examples therein is non-exhaustive.	January 1, 2018
IFRS 9 Financial Instruments (revised versions in 2010, 2013 and 2014) IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. The Group early adopted IFRS 9 (version 2009) effective January 1, 2011. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments and all previous versions of IFRS 9 (2009, 2010 and 2013). The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. The new version, IFRS 9 (2014) is effective for annual periods beginning on or after 1 January 2018. The Group plans to adopt the new standard on the required effective date.	January 1, 2018

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

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

During 2017, the Group has performed a detailed impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018 when the Group will adopt IFRS 9. Overall, the Group expects no significant impact on its statement of financial position and equity. The Group expects an increase in the loss allowance which will be covered as discussed below. In addition, and as per management decision not to classify any debt securities from amortized cost category to fair value through profit or loss or fair value though other comprehensive income, the Group does not expect an increase/decrease in equity as a result of implementing changes in classification of certain financial instruments.

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.

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

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

Impairment

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

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

Stage 1
12-month ECL applies to all financial assets that have not experienced a significant increase in credit risk (SICR) since origination and are not credit impaired. The ECL will be computed using a factor that represents the Probability of Default (PD) occurring over the next 12 months.

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

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

Key Considerations

Some of the key concepts in IFRS 9 that have the most significant impact and require a high level of judgment, as considered by the 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

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

the risk of default occurring over the expected life of the financial asset at the reporting date to the corresponding risk of default at origination, using key risk indicators that are used in the Group existing risk management processes.

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

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

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

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

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

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

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

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

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

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 Bank is exposed to credit risk. All contractual terms should be considered when determining the expected life, including prepayment options and extension and rollover options. For certain revolving credit facilities that do not have a fixed maturity, the expected life is estimated based on the period over which the 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.

Hedge accounting

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

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

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

	Estimated Impact from Classification & Measurement LBP'Million	Change in Fair Value LBP'Million	Estimated Impact from Recognition of Expected Credit Losses LBP'Million	Estimated Total Impact LBP'Million
Cash and balances with central bank	-	-	(27,357)	(27,357)
Deposits with banks and financial institutions	-	-	(995)	(995)
Financial assets at fair value through profit or loss	(305,312)	-	-	(305,312)
Loans and advances to customers at amortized cost	-	-	(21,943)	(21,943)
Financial assets at amortized cost	305,312	-	(17,131)	288,181
Loans and advances- unutilized limits and commitments	-	-	(1,700)	(1,700)
	-	**-**	**(69,126)**	**(69,126)**
ECL impact will be covered as follows:				
Allocation from				
Allowance for collective impairment	-	-	(12,312)	(12,312)
Provision for risk and charges	-	-	(23,000)	(23,000)
Regulatory deferred liability under "Other Liabilities"	-	-	(32,032)	(32,032)
	-	**-**	**(67,344)**	**(67,344)**
Net Impact on Equity	**-**	**-**	**(1,782)**	**(1,782)**

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

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

New and revised IFRSs	Effective for Annual Periods Beginning on or After
Amendments to IFRS 9 Financial Instruments: Relating to prepayment features with negative compensation. This amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortized cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.	January 1, 2018
Financial instruments: disclosures (IFRS 7) The Group will be amending the disclosures for 2018 to include more extensive qualitative and quantitative disclosure relating to IFRS 9 such as new classification categories, three stage impairment model, new hedge accounting requirements and transition provisions.	January 1, 2018
IFRS 15 Revenue from Contracts with Customers In May 2014, IFRS 15 was issued which established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective. The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition: • Step 1: Identify the contract(s) with a customer. • Step 2: Identify the performance obligations in the contract. • Step 3: Determine the transaction price. • Step 4: Allocate the transaction price to the performance obligations in the contract. • Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.	January 1, 2018

New and revised IFRSs	Effective for Annual Periods Beginning on or After
Under IFRS 15, an entity recognises when (or as) a performance obligation is satisfied, i.e. when control of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.	
Amendments to IFRS 15 Revenue from Contracts with Customers to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.	January 1, 2018
IFRS 16 Leases	January 1, 2019
IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.	
Amendments to IAS 28 Investment in Associates and Joint Ventures: Relating to long-term interests in associates and joint ventures. These amendments clarify that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.	January 1, 2019
Amendments to IFRS 7 Financial Instruments: Disclosures relating to disclosures about the initial application of IFRS 9.	When IFRS 9 is first applied
IFRS 7 Financial Instruments: Disclosures relating to the additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9.	When IFRS 9 is first applied

New and revised IFRSs	Effective for Annual Periods Beginning on or After
IFRS 17 Insurance Contracts	January 1, 2021
IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of January 1, 2021.	
Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Effective date deferred indefinitely. Adoption is still permitted.

Management anticipates that these new standards, interpretations and amendments will be adopted in the 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 consolidated financial statements for the annual period beginning January 1, 2018 and that IFRS 16 will be adopted in the Group's consolidated financial statements for the annual period beginning January 1, 2019.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

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

Basis of Measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following measured at fair value:
- Financial instruments designated at fair value through profit or loss.
- Financial instruments designated at fair value through other comprehensive income.
- Investments in equities.
- Other financial assets not held in a business model whose objective is to hold assets to collect contractual cash flows or whose contractual terms do not give rise solely to payments of principal and interest.
- Derivative financial instruments.

Assets and liabilities are grouped according to their nature and presented in the consolidated statement of financial position in an approximate order that reflects their relative liquidity.

Summary of significant accounting policies

Following is a summary of the most significant accounting policies applied in the preparation of these consolidated financial statements:

A. Basis of Consolidation:

The consolidated financial statements of IBL Bank S.A.L. incorporate the financial statements of the Bank and enterprises controlled by the Bank (its subsidiaries) as at the reporting date. Control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Bank controls an investee if and only if the Bank has:
- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns.

When the Bank has less than a majority of the voting or similar rights of an investee, the Bank considers all relevant facts and circumstances in assessing whether it has power over an investee, including:
- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Bank's voting rights and potential voting rights.

The Bank re-assesses 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.

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 consolidated statement of comprehensive income from the date the Bank gains control until the date the Bank ceases to control the subsidiary.

Total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where applicable, adjustments are made to the financial statements of the subsidiaries to bring their accounting policies into line with those used by the Bank.

All intra-group transactions, balances, income and expenses (except for foreign currency transaction gains or loss) are eliminated on consolidation. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

Changes in the Bank's ownership interests in subsidiaries that do not result in the Bank losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Bank's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Bank.

Upon the loss of control, the Bank derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognized in profit or loss. If the Bank retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost.

B. Foreign Currencies:

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

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

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

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into 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 when this is a reasonable approximation. Exchange differences arising 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.

C. Recognition and Derecognition of Financial Assets and Liabilities:

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

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

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

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

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

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

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

D. Classification of Financial Assets:

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

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

• They are held within a business model whose objective is to hold the financial assets in order to collect the contractual cash flows, rather than to sell the instrument prior to its contractual maturity to realize its fair value changes, and

• The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

Equity Instruments:
Investments in equity instruments are classified as at FVTPL, unless the 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.

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.

E. 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.

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

Financial Liabilities:
Financial Liabilities that are not held-for-trading and are not designated as at FVTPL are subsequently measured at amortized cost using the effective interest method.
Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:
• such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
• the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the 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.

F. Repurchase and Reverse Repurchase Agreements:

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

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

G. Offsetting:

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

H. Fair Value Measurement of Financial Instruments:

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

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

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

The 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.

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

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

I. Impairment of Financial Assets:

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

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

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

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

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

J. Derivative Financial Instruments:

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

K. Loans and Advances:

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

L. Financial Guarantees:

Financial guarantees contracts are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. These contracts can have various judicial forms (guarantees, letters of credit, and credit-insurance contracts).
Financial guarantee liabilities are initially measured at their fair value, and subsequently carried at the higher of this amortized amount and the present value of any expected payment (when a payment under the guarantee has become probable). Financial guarantees are included within other liabilities.

M. Property and Equipment:

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

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

	Rates %
Buildings	2
Freehold improvements	20
Furniture and equipment	8
Computer equipment	20
Vehicles	20

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

N. Intangible Assets:

Intangible assets consisting of computer software are amortized on a straight-line basis over 5 years. Intangible assets are subject to impairment testing.

O. Assets Acquired in Satisfaction of Loans:

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

P. Impairment of Non-Financial Assets:

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

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

Where an impairment loss subsequently reverses, the carrying amount of the asset (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.

Q. Provision for Employees’ End-of-Service Indemnity:

The provision for employees' termination indemnities is based on the liability that would arise if the employment of all the employees were 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.

R. Provisions:

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

S. 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.

T. Revenue and Expense Recognition:

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

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

Other fees and commission income are recognized as the related services are performed.
Interest income and expense presented in the statement of profit or loss 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 FVTPL are presented in the statement of profit or loss under “Net Interest and Other Gain / (Loss) on financial assets at FVTPL” (See below).

Net Interest and other net gain/loss on financial assets measured at FVTPL includes:
• Interest income.
• Dividend income.
• Realized and unrealized fair value changes.
• Foreign exchange differences.

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

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

U. Income Tax:

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

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

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

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

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

V. Cash and Cash Equivalents:

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

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

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

Classification of Financial Assets:

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

In determining whether its business model for managing financial assets is to hold assets in order to collect contractual cash flows the Group considers:
- The frequency and volume of sales;
- The reasons for any sales;
- How management evaluates the performance of the portfolio;
- The objectives for the portfolio.

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

Features considered by the Group that would be consistent with amortized cost measurement include:
- Fixed and / or floating interest rate;
- Caps, floors, collars;
- Prepayment options.

Features considered by the Group that would be inconsistent with amortized cost measurement include:
- Leverage (i.e. Options, forwards and swaps);
- Conversion options;
- Inverse floaters;
- Variable rate coupons that reset periodically;
- Triggers that result in a significant reduction of principal, interest or both.

B. Key Sources of Estimation Uncertainty:

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

Allowances for Credit Losses - Loans and Advances to Customers:
Specific impairment for credit losses is determined by assessing each case individually. This method applies to classified loans and advances and the factors taken into consideration when estimating the allowance for credit losses include the counterparty's credit limit, the counterparty's ability to generate cash flows sufficient to settle his advances and the value of collateral and potential repossession. Loans collectively assessed for impairment are determined based on losses incurred by loans portfolios with similar characteristics.

Determining Fair Values:
When the fair values of financial instruments recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the Discounted Cash Flow (DCF) model, as described in Note 44.

The inputs in these models are taken from observable markets where possible. Where practical, the discount rate used in the mark-to-model approach included observable data collected from market participants, including risk free interest rates and credit default swap rates for pricing of credit risk (both own and counter party), and a liquidity risk factor which is added to the applied discount rate. Changes in assumptions about any of these factors could affect the reported fair value of the sovereign bonds including Central Bank of Lebanon certificates of deposit.

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. Significant unobservable inputs consist of discount factor for illiquidity applied for the investment securities portfolio classified at fair value through profit or loss and amortized cost in accordance with the Group's internal policy.

5. CASH AND DEPOSITS WITH CENTRAL BANKS

	December 31, 2017 LBP'000	December 31, 2016 LBP'000
Cash on hand	40,182,667	44,183,418
Current accounts with central banks	503,327,550	338,184,526
Term placements with central banks	4,015,910,703	3,769,242,748
Allowance for impairment	(20,062,238)	(24,166,015)
Discounts	(19,153,298)	(36,112,289)
Accrued interest receivable	44,805,500	28,987,157
	4,565,010,884	**4,120,319,545**

Current accounts with central banks include compulsory deposits in Lebanese Pounds with Central Bank of Lebanon not available for use in the Group's day-to-day operations in the amount of LBP247.7billion (LBP275.6billion in 2016). These compulsory reserves are computed on the basis of 25% and 15% of the average weekly sight and term customers' deposits in Lebanese Pounds in accordance with prevailing banking regulations.

Term placements with central banks include the equivalent in foreign currencies of LBP742billion (LBP661billion in 2016) deposited with Central Bank of Lebanon in accordance with the prevailing banking regulations which require banks to maintain interest earning placements in foreign currency to the extent of 15% of customers' deposits in foreign currencies, bonds, certificates of deposit and loans acquired from non-resident financial institutions.

The movement of allowance for impairment on term placements with the Central Bank of Iraq – Kurdistan is summarized as follows:

	December 31, 2017 LBP'000	December 31, 2016 LBP'000
Balance, January 1	24,166,015	23,540,725
Write-back (Note 33)	(3,583,777)	-
Transfer (to)/from provision of risk and charges	(520,000)	658,000
Effect of exchange rates changes	-	(32,710)
	20,062,238	**24,166,015**

Discounts amounting to LBP19billion (LBP36billion as at December 31, 2016) represents the surplus of specific swap deals on debt securities, whereby, the proceeds were invested in term placements, with the Central Bank of Lebanon and deferred as yield enhancement on the new security portfolio until the final maturity of these placements.

As at December 31, 2017, placements with the Central Bank of Lebanon includes deposits amounting to USD103million which triggered equivalent investment in collaterized deposits with the Central Bank in Lebanese Pounds originated through soft leverage arrangements in LBP for an equivalent amount of LBP195billion (Note 20), thus significantly enhancing the yield on the interest investment in USD over coupon rate (Refer to Notes 12 and 20).

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

	December 31, 2017			
	LBP Base Accounts		F/Cy Base Accounts	
Maturity (Year)	Amount LBP'000	Average Interest Rate %	Counter Value of Amount in LBP LBP'000	Average Interest Rate %
2018	630,800,000	7.70	112,308,750	1.38
2019	-	-	148,475,620	0.76
2020	-	-	442,414,020	5.69
2021	455,000,000	8.60	210,869,250	6.25
2022	-	-	45,225,000	2.25
2024	-	-	241,079,500	7.25
2027	248,000,000	10.50	186,138,563	6.90
2028	-	-	120,600,000	6.60
2032	80,000,000	10.92	-	-
2037	108,000,000	11.36	-	-
2047	987,000,000	11.92	-	-
	2,508,800,000		**1,507,110,703**	

Maturity (Year)	December 31, 2016 LBP Base Accounts Amount LBP'000	Average Interest Rate %	F/Cy Base Accounts Counter Value of Amount in LBP LBP'000	Average Interest Rate %
2017	1,484,000,000	2.86	113,395,658	0.53
2019	-	-	134,175,220	0.74
2020	-	-	426,010,620	5.76
2021	796,000,000	7.71	195,096,750	6.25
2022	15,000,000	8.60	-	-
2024	-	-	230,564,500	7.25
2027	25,000,000	8.72	-	-
2046	350,000,000	8.40	-	
	2,670,000,000		1,099,242,748	

6. DEPOSITS WITH BANKS AND FINANCIAL INSTITUTIONS

	December 31, 2017 LBP'000	December 31, 2016 LBP'000
Checks for collection	15,140,417	18,211,508
Current accounts with banks and financial institutions	299,137,878	255,699,717
Term placements with banks and financial institutions	286,425,000	97,837,500
Accrued interest receivable	81,046	83,950
	600,784,341	**371,832,675**

Term placements with banks and financial institutions have contractual maturities less than one year.

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

	December 31, 2017 LBP'000	December 31, 2016 LBP'000
Resident	16,159,839	49,008,777
Non-resident	584,624,502	322,823,898
	600,784,341	**371,832,675**

7. LOANS TO BANKS AND FINANCIAL INSTITUTIONS

Loans to banks and financial institutions are reflected at amortized cost and consist of the following:

	December 31, 2017 LBP'000	December 31, 2016 LBP'000
Regular performing loans	50,100,000	60,700,000
Accrued interest receivable	384,852	453,584
Doubtful bank accounts	75,857	74,252
Less: Allowance for impairment	(75,857)	(74,252)
	50,484,852	**61,153,584**

Loans to banks have the following contractual maturities:

	December 31, 2017 LBP'000	Interest Rate %	December 31, 2016 LBP'000	Interest Rate %
Up to 3 months	400,000	4.35	400,000	4.35
3 months to 1 year	10,200,000	4.35	10,200,000	3.26
1 to 3 years	21,000,000	4.35	21,200,000	3.30
3 to 5 years	13,000,000	3.04	19,400,000	3.20
Above 5 years	5,500,000	3.27	9,500,000	3.38
	50,100,000		**60,700,000**	

8. LOANS AND ADVANCES TO CUSTOMERS

This caption consists of the following:

	December 31, 2017 LBP'000	December 31, 2016 LBP'000
Loans and advances to customers	482,667,328	555,877,204
Discounted bills	5,535,533	6,512,097
Long and medium term loans	828,640,833	854,109,939
Net multi-currency trading	-	568,133
Creditors accidentally debtors	2,566,747	6,207,228
Substandard loans (net of unearned interest)	15,413,775	27,955,622
Doubtful loans (net of unearned interest)	55,556,297	16,425,597
Less: Provision for doubtful loans	(23,160,396)	(10,668,547)
Allowance for collective impairment	(12,311,921)	(25,762,373)
	1,354,908,196	**1,431,224,900**
Accrued interest receivable	748,051	8,907,083
	1,355,656,247	**1,440,131,983**

The movement of substandard loans with related unrealized interest is summarized as follows:

	2017 Substandard Loans LBP'000	Unrealized Interest LBP'000	Net LBP'000
Balance January 1	32,755,300	(4,799,678)	27,955,622
Transfer from performing loans	11,772,457	-	11,772,457
Additional unrealized interest	2,301,100	(2,301,100)	-
Settlements	(1,697,371)	-	(1,697,371)
Other movement	154,299	81,077	235,376
Transfer to doubtful and bad loans	(26,537,742)	3,685,433	(22,852,309)
Balance December 31	**18,748,043**	**(3,334,268)**	**15,413,775**

	2016 Substandard Loans LBP'000	Unrealized Interest LBP'000	Net LBP'000
Balance January 1	4,915,168	(1,213,872)	3,701,296
Transfer from performing loans	26,615,034	-	26,615,034
Additional unrealized interest	1,322,814	(1,322,814)	-
Settlements	(297,110)	-	(297,110)
Other movement	199,394	(21,162)	178,232
Transfer from provision of doubtful and bad loans	-	(2,241,830)	(2,241,830)
Balance December 31	**32,755,300**	**(4,799,678)**	**27,955,622**

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

	2017 Doubtful & Bad Loans LBP'000	Unrealized Interest LBP'000	Allowance for Impairment LBP'000	Net LBP'000
Balance January 1	48,876,941	(32,451,344)	(10,668,547)	5,757,050
Additional unrealized interest	11,385,668	(11,385,668)	-	-
Additional allowance for impairment (Note 35)	-	-	(12,552,347)	(12,552,347)
Settlements/(write-back) (Note 35)	(9,445)	919	(10,492)	(19,018)
Write-off and other movement	68,743	(5,617)	25,853	88,979
Transfer from substandard loans	26,537,742	(3,685,433)	-	22,852,309
Transfer from performing loans	16,268,928	-	-	16,268,928
Effect of exchange rates changes	(24,259)	(20,878)	45,137	-
Balance December 31	**103,104,318**	**(47,548,021)**	**(23,160,396)**	**32,395,901**

	2016 Doubtful & Bad Loans LBP'000	Unrealized Interest LBP'000	Allowance for Impairment LBP'000	Net LBP'000
Balance January 1	40,917,414	(26,510,478)	(10,272,677)	4,134,259
Additional unrealized interest	5,985,553	(5,985,553)	-	-
Additional allowance for impairment (Note 35)	-	-	(3,437,103)	(3,437,103)
Settlements/write-back (Note 35)	(611,315)	139	287,671	(323,505)
Write-off and other movement	(452,545)	51,451	497,985	96,891
Transfer to unrealized interest of substandard loans	-	-	2,241,830	2,241,830
Transfer from performing loans	3,044,678	-	-	3,044,678
Transfer to off-balance sheet	-	-	-	-
Effect of exchange rates changes	(6,844)	(6,903)	13,747	-
Balance December 31	**48,876,941**	**(32,451,344)**	**(10,668,547)**	**5,757,050**

The movement of the allowance for collective impairment during 2017 and 2016 is as follows:

	December 31, 2017 LBP'000	December 31, 2016 LBP'000
Balance January 1	25,762,373	11,992,096
Additions (Note 35)	-	13,567,500
Transfer from provision for risk and charges (Note 22)	117,574	202,601
Transfer to provision for risk and charges (Note 22)	(13,567,500)	-
Effect of exchange rates changes	(526)	176
Balance December 31	**12,311,921**	**25,762,373**

9. LOANS AND ADVANCES TO RELATED PARTIES

This caption includes loans and advances granted by the Bank to its shareholders and its related companies in the amount of LBP68billion (LBP99billion in 2016) covered to the extent of LBP3.6billion by real estate guarantees and LBP64.32billion by cash collateral (LBP3.9billion by real estate guarantees and LBP72.78billion by cash collateral as of December 31, 2016).

10. INVESTMENT SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31, 2017 LBP'000	December 31, 2016 LBP'000
Quoted equity securities	5,026,271	4,827,011
Unquoted equity securities (Note 11)	3,008,151	179,222
Lebanese treasury bills	708,856,163	510,868,292
Lebanese Government bonds	376,930	-
Certificates of deposit issued by Central Bank of Lebanon	63,797,216	116,473,484
Accrued interest receivable	15,257,463	11,517,646
	796,322,194	**643,865,655**

During December 2017, the Group entered into swap deals with the Central Bank of Lebanon to enhance the yield on its investments and term placements with Central Bank as follows:

	Classification	Nominal Value LBP'000
Lebanese treasury bills	FVTPL	69,817,400
Certificate of deposits issued by Central Bank of Lebanon	FVTPL	1,096,000,000
Term placement with Central Bank	Amortized cost	65,000,000
Certificate of deposits issued by Central Bank of Lebanon	Amortized cost	150,000,000
		1,380,817,400
Term placements with Central Bank of Lebanon	Amortized cost	1,423,000,000

The Group's business model for debt securities was amended during 2016. As a result, the Group transferred Government bonds with carrying value in the equivalent of LBP801billion from FVTPL to amortized cost portfolio based on the fact that this portfolio was held without any material trading activity and transferred from trading book to banking book to be consistent with management intent to hold to maturity.

11. INVESTMENT SECURITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Investment at fair value through other comprehensive income in the amount of LBP Nil as at December 31, 2017 (LBP2billion as at December 31, 2016) represents the Group's share in startup/incubators established based on co-sharing agreements with the regulator providing the funding. During 2017, the Group reclassified these investments to fair value through profit or loss caption.

12. INVESTMENT SECURITIES AT AMORTIZED COST

	December 31, 2017 LBP'000	December 31, 2016 LBP'000
Debt securities classified at amortized cost	3,195,557,678	3,263,971,871
Accrued interest receivable	65,147,972	71,233,338
	3,260,705,650	**3,335,205,209**

The movement of investment securities, exclusive of the related accrued interest, for the years 2017 and 2016 are summarized as follows:

	December 31, 2017 LBP'000	December 31, 2016 LBP'000
Balance January 1	3,263,971,871	2,877,344,601
Additions	115,848,530	598,075,204
Transfer from investment securities at fair value through profit or loss (Note 10)	-	800,859,219
Swaps , net (Note 10)	(150,209,400)	(840,995,418)
Matured	(81,611,223)	(26,305,875)
Effect of unamortized/amortized premium and discount	34,772,034	(141,960,594)
Effect of exchange rates changes	12,785,866	(3,045,266)
Balance December 31	**3,195,557,678**	**3,263,971,871**

Investment securities at amortized cost includes Lebanese treasury bills amounting to LBP97.6billion pledged against soft leverage arrangements from Central Bank of Lebanon (Refer to Notes 5 and 20).

During 2017, the Group entered into swap transaction of Lebanese treasury bills and certificates of deposit in Lebanese pounds of aggregate nominal value of LBP18,85billion and LBP180billion respectively, in addition to certificates of deposit in USD of aggregate nominal value of USD100million, concluded in conjunction with the acquisition of government bonds in USD, Lebanese treasury bills and certificates of deposit in Lebanese pound in an aggregate nominal value of USD100million, LBP18,64billion and LBP180billion respectively, the premium resulting from the above transaction was deferred as yield enhancement on the new portfolio with longer maturity falling due between 2023 and 2037 and yielding 10,86% on average per annum.

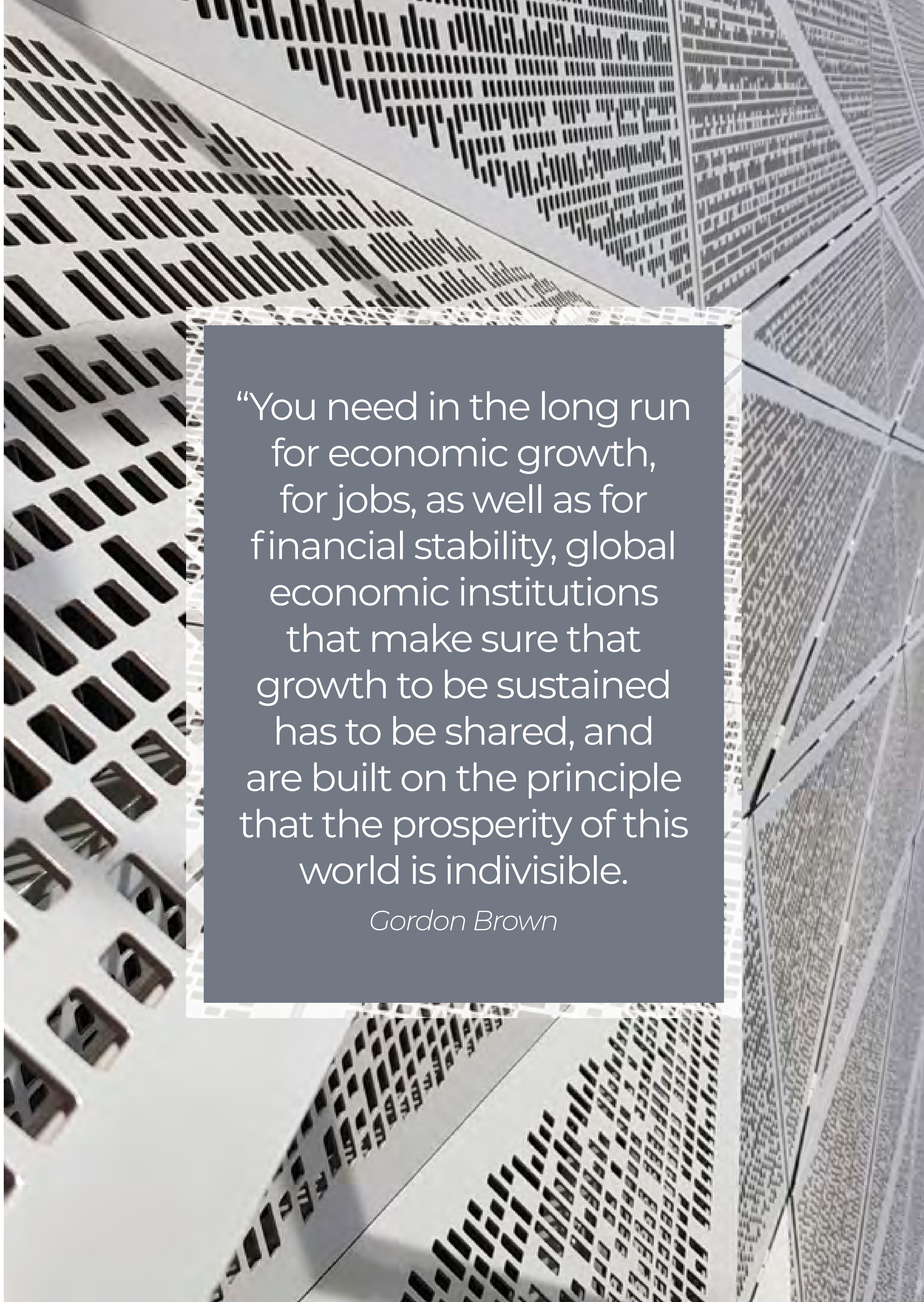
At the beginning of year 2016, the Group entered into several swap transactions of Lebanese treasury bills in Lebanese Pound of aggregate nominal value of LBP442.9billion, concluded in conjunction with the acquisition of Government bonds in USD for an aggregate value of LBP603billion (USD400million) and therefore the premium resulting from the above inter-related transactions was deferred as yield enhancement on the new portfolio until maturity falling due between 2024 and 2028 and yielding 10.68% on average per annum. Furthermore, a surplus income amounting to LBP24.6billion was recognized and recorded under "Net interest and other gain/(loss) on investment securities at fair value through profit or loss” in the statement of the profit or loss for the period ended December 31, 2016. Moreover, and in order to facilitate the execution of the above transactions, the Group entered into several sales transactions of Lebanese Government bonds of aggregate carrying value of USD299million.

In addition to the above and after the issuance of Central Bank of Lebanon Intermediary Circular 428, the Bank entered into sales transactions of Lebanese Treasury bills and Government bonds in Lebanese Pounds designated at fair value through profit or loss having a nominal value of LBP457.5billion and LBP945 billion respectively concluded in conjunction with the acquisition of Lebanese Government bonds and certificates of deposit issued by the Central Bank of Lebanon in U.S. Dollars with longer maturity designated at amortized cost with a nominal value of USD400million and USD735million respectively. The resulting surplus of the inter-related transaction amounted to LBP671billion was deferred under “Other liabilities” (Note 21) in anticipation of expected loss provisions that will be deemed to be necessary along with the application of IFRS 9 and other regulatory requirements.

Debt securities consist of the following:

	December 31, 2017					
	LBP Base Accounts			F/Cy Base Accounts		
	Amortized Cost LBP'000	Interest Receivable LBP'000	Fair Value LBP'000	Amortized Cost LBP'000	Interest Receivable LBP'000	Fair Value LBP'000
Lebanese treasury bills	419,816,701	6,383,312	429,496,776	-	-	-
Lebanese Government bonds	4,385	113	7,401	1,099,323,867	12,766,225	1,114,955,310
Certificates of deposit issued by Central Bank of Lebanon	702,994,681	28,199,614	716,460,555	972,664,294	17,743,795	946,025,213
Certificates of deposit issued by banks	-	-	-	753,750	54,913	752,950
	1,122,815,767	**34,583,039**	**1,145,964,732**	**2,072,741,911**	**30,564,933**	**2,061,733,473**

	December 31, 2016					
	LBP Base Accounts			F/Cy Base Accounts		
	Amortized Cost LBP'000	Interest Receivable LBP'000	Fair Value LBP'000	Amortized Cost LBP'000	Interest Receivable LBP'000	Fair Value LBP'000
Lebanese treasury bills	317,495,963	4,830,241	317,311,464	-	-	-
Lebanese Government bonds	-	-	-	1,036,948,319	10,888,906	1,019,139,534
Certificates of deposit issued by Central Bank of Lebanon	836,529,925	33,871,416	840,612,198	1,072,243,914	21,587,861	1,038,320,940
Certificates of deposit issued by banks	-	-	-	753,750	54,914	733,810
	1,154,025,888	**38,701,657**	**1,157,923,662**	**2,109,945,983**	**32,531,681**	**2,058,194,284**



“You need in the long run for economic growth, for jobs, as well as for financial stability, global economic institutions that make sure that growth to be sustained has to be shared, and are built on the principle that the prosperity of this world is indivisible.

Gordon Brown

Amortized cost investments are segregated over remaining periods to maturity as follows:

Contractual Maturity	December 31, 2017 - LBP Base Accounts Nominal Value LPB'000	Amortized Cost LPB'000	Fair Value LPB'000	Average yield to maturity %	December 31, 2017 - F/Cy Base Accounts Nominal Value LPB'000	Amortized Cost LPB'000	Fair Value LPB'000	Average yield to maturity %
Lebanese treasury bills:								
3 years to 5 years	74,276,250	68,226,882	70,623,360	9.42	-	-	-	-
5 years to 10 years	388,809,820	351,589,819	358,873,416	9.36	-	-	-	-
Above 10 years	-	-	-	-	-	-	-	-
	463,086,070	**419,816,701**	**429,496,776**		**-**	**-**	**-**	
Lebanese Government bonds:								
Up to one year	-	-	-	-	123,464,728	122,837,369	119,557,270	5.92
1 year to 3 years	4,782	4,385	7,401	14.24	227,636,239	206,573,674	212,630,014	10.50
3 years to 5 years	-	-	-	-	153,011,250	149,294,585	136,983,235	6.91
5 years to 10 years	-	-	-	-	287,533,013	221,080,309	244,229,103	10.91
Above 10 years	-	-	-	-	484,043,175	399,537,930	401,555,688	9.20
	4,782	**4,385**	**7,401**		**1,275,688,405**	**1,099,323,867**	**1,114,955,310**	
Certificates of deposit issued by Central Bank of Lebanon:								
3 years to 5 years	-	-	-	-	226,125,000	202,069,919	200,557,468	9.02
5 years to 10 years	719,000,000	702,994,681	716,460,555	9.34	671,591,250	618,080,299	588,249,058	8.05
Above 10 years	-	-	-		188,437,500	152,514,076	157,218,687	9.56
	719,000,000	**702,994,681**	**716,460,555**		**1,086,153,750**	**972,664,294**	**946,025,213**	
Certificates of deposit issued by banks:								
Up to one year	-	-	-	-	753,750	753,750	752,950	6.75
	-	-	-	-	**753,750**	**753,750**	**752,950**	
	1,182,090,852	**1,122,815,767**	**1,145,964,732**		**2,362,595,905**	**2,072,741,911**	**2,061,733,473**	

Contractual Maturity	December 31, 2016 - LBP Base Accounts Nominal Value LPB'000	Amortized Cost LPB'000	Fair Value LPB'000	Average yield to maturity %	December 31, 2016 - F/Cy Base Accounts Nominal Value LPB'000	Amortized Cost LPB'000	Fair Value LPB'000	Average yield to maturity %
Lebanese treasury bills:								
Up to one year	2,684,544	2,655,505	4,475,132	7.96	-	-	-	-
1 year to 3 years	4,781	4,048	6,827	14.24	-	-	-	-
3 years to 5 years	59,000,000	52,389,794	50,209,288	9.75	-	-	-	-
5 years to 10 years	301,446,940	262,446,616	262,620,217	9.97	-	-	-	-
	363,136,265	**317,495,963**	**317,311,464**		-	-	-	
Lebanese Government bonds:				-				
Up to one year	-	-	-	-	91,325,867	90,638,837	89,337,867	7.32
1 year to 3 years	-	-	-	-	99,647,955	98,397,024	92,446,914	6.02
3 years to 5 years	-	-	-	-	226,878,750	198,802,431	204,995,073	10.50
5 years to 10 years	-	-	-	-	341,803,013	290,444,324	286,849,059	8.84
Beyond 10 years	-	-	-		431,280,675	358,665,703	345,510,621	9.00
	-	-	-		**1,190,936,260**	**1,036,948,319**	**1,019,139,534**	
Certificates of deposit issued by Central Bank of Lebanon:								
5 years to 10 years	856,000,000	836,529,925	840,612,198	9.34	897,716,250	810,725,982	763,966,950	8,28
Above 10 years	-	-	-		339,187,500	261,517,932	274,353,990	10,06
	856,000,000	**836,529,925**	**840,612,198**		**1,236,903,750**	**1,072,243,914**	**1,038,320,940**	
Certificates of deposit issued by banks:								
1 years to 3 years	-	-	-		753,750	753,750	733,810	6.75
	-	-	-		**753,750**	**753,750**	**733,810**	
	1,219,136,265	**1,154,025,888**	**1,157,923,662**		**2,428,593,760**	**2,109,945,983**	**2,058,194,284**	

13. CUSTOMERS' LIABILITY UNDER ACCEPTANCES

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

14. ASSETS ACQUIRED IN SATISFACTION OF LOANS

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

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

	Real Estate LBP'000
Cost:	
Balance, January 1, 2016	20,013,934
Additions	4,829,245
Balance, December 31, 2016	24,843,179
Additions	-
Balance, December 31, 2017	**24,843,179**
Allowance for Impairment:	
Balance, December 31, 2017 and 2016	**(231,165)**
Carrying Amount:	
December 31, 2017	**24,612,014**
December 31, 2016	**24,612,014**

The acquisition of assets in settlement of loans requires the approval of the banking regulatory authorities and these should be liquidated within 2 years. In case of default of liquidation within 2 years from the date of approval, the Group allocates a regulatory reserve for assets acquired in satisfaction of loans from retained earnings. During 2017, the Group allocated LBP1.20billion from retained earnings (LBP1.58billion during 2016).

The fair values of the assets acquired in satisfaction of loans exceed their carrying values as at December 31, 2017 and 2016.

15. PROPERTY AND EQUIPMENT

	Buildings LPB'000	Freehold Improvements LPB'000	Furniture & Equipment LPB'000	Computer Equipment LPB'000	Vehicles LPB'000	Advances on Capital Expenditure LPB'000	Total LPB'000
Cost / Revaluation:							
Balance, January 1, 2016	**42,459,097**	**24,660,714**	**6,263,894**	**5,451,019**	**764,626**	**1,581,633**	**81,180,983**
Additions	-	330,151	219,234	1,015,021	11,752	770,712	2,346,870
Disposals	-	-	(29,178)	(219,474)	(4,766)	-	(253,418)
Transfers between categories	-	138,466	116,785	-	-	(255,251)	-
Transfers to expenses	-	-	-	-	-	(141,223)	(141,223)
Write off	-	(1,894)	(11,504)	(27,532)	-	-	(40,930)
Effect of exchange rate changes	-	23,786	(531)	2,472	(2,189)	-	23,538
Balance, December 31, 2016	**42,459,097**	**25,151,223**	**6,558,700**	**6,221,506**	**769,423**	**1,955,871**	**83,115,820**
Additions	-	136,714	161,386	215,265	-	3,889,744	4,403,109
Disposals	-	-	(27,200)	(24,466)	-	-	(51,666)
Transfers between categories	-	29,716	-	-	-	(29,716)	-
Transfer to intangible assets (Note 16)	-	-	-	-	-	(210,943)	(210,943)
Write off	-	(2,954)	(12,058)	(1,177)	-	-	(16,189)
Effect of exchange rate changes	-	(64,980)	5,774	(2,667)	9,146	508	(52,219)
Balance, December 31, 2017	**42,459,097**	**25,249,719**	**6,686,602**	**6,408,461**	**778,569**	**5,605,464**	**87,187,912**
Accumulated Depreciation:							
Balance, January 1, 2016	**1,600,497**	**15,648,736**	**3,509,821**	**4,339,189**	**456,512**	**-**	**25,554,755**
Additions	296,198	2,790,759	509,411	477,198	84,347	-	4,157,913
Disposals	-	-	(29,178)	(210,794)	(4,766)	-	(244,738)
Write off	-	(1,894)	(8,736)	(27,532)	-	-	(38,162)
Adjustments	-	-	(401)	-	-	-	(401)
Effect of exchange rate changes	-	10,027	(997)	646	(2,190)	-	7,486
Balance, December 31, 2016	**1,896,695**	**18,447,628**	**3,979,920**	**4,578,707**	**533,903**	**-**	**29,436,853**
Additions	296,199	2,527,286	510,788	543,563	81,131	-	3,958,967
Disposals	-	-	(27,200)	(24,466)	-	-	(51,666)
Write off	-	(640)	(9,498)	(1,177)	-	-	(11,315)
Effect of exchange rate changes	-	(37,156)	6,091	(1,342)	9,148	-	(23,259)
Balance, December 31, 2017	**2,192,894**	**20,937,118**	**4,460,101**	**5,095,285**	**624,182**	**-**	**33,309,580**
Carrying Amount:							
Balance, December 31, 2017	**40,266,203**	**4,312,601**	**2,226,501**	**1,313,176**	**154,387**	**5,605,464**	**53,878,332**
Balance, December 31, 2016	**40,562,402**	**6,703,595**	**2,578,780**	**1,642,799**	**235,520**	**1,955,871**	**53,678,967**

Advances on capital expenditure represent mainly the renovation for several branches namely Jbeil, Jnah, Achrafieh and Basra in Iraq which was mainly allocated in years 2016 and 2017 to freehold improvements. In addition to the advance payment on the purchase of a plot for the new branches in Hamra and Mar Mikhael.

16. INTANGIBLE ASSETS

	Purchased Software LBP'000
Cost:	
Balance, January 1, 2016	**4,322,347**
Acquisitions	177,660
Translation adjustment	(5,580)
Balance, December 31, 2016	4,494,427
Acquisitions	169,758
Transfer from property and equipment	210,943
Translation adjustment	25,961
Balance, December 31, 2017	**4,901,089**
Amortization:	
Balance, January 1, 2016	**3,434,972**
Amortization for the year	330,835
Translation adjustment	(5,089)
Balance, December 31, 2016	3,760,718
Amortization for the year	298,189
Translation adjustment	26,133
Balance, December 31, 2017	**4,085,040**
Carrying Amounts:	
December 31, 2017	**816,049**
December 31, 2016	**733,709**

17. OTHER ASSETS

	December 31, 2017 LBP'000	December 31, 2016 LBP'000
Accounts receivable - credit cards	1,457,874	1,547,003
Prepaid expenses	1,999,535	2,118,938
Regulatory blocked fund	4,500,000	4,500,000
Sundry accounts receivable	1,197,626	1,400,011
	9,155,035	**9,565,952**

Regulatory blocked fund represents a non-interest earning compulsory deposit placed with the Lebanese treasury upon establishment of "IBL Investment Bank S.A.L.". This deposit is refundable in case of cease of operations according to Article 132 of the Code of Money and Credit.

18. DEPOSITS FROM BANKS AND FINANCIAL INSTITUTIONS

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

	December 31, 2017 LBP'000	December 31, 2016 LBP'000
Current deposits of banks and financial institutions	11,042,586	32,944,053
Short term borrowings	22,410,891	27,783,621
Accrued interest payable	368,340	486,357
	33,821,817	**61,214,031**

Short term borrowings mature within one year.

19. CUSTOMERS' ACCOUNTS

	December 31, 2017 LBP'000	December 31, 2016 LBP'000
Deposits:		
Current/demand deposits	527,328,752	459,351,606
Term deposits	7,060,219,483	6,891,494,161
Fiduciary deposits	87,019,719	77,988,750
Collateral against speculation accounts	11,664,100	12,517,462
Cash collateral	616,098,182	626,997,754
Margins and other accounts:		
Margins for irrevocable import letters of credit	3,019,653	4,424,426
Margins on letters of guarantee	8,025,620	12,063,188
Accrued interest payable	53,547,142	53,343,652
	8,366,922,651	**8,138,180,999**

Related parties accounts at amortized cost are detailed as follows:

	December 31, 2017 LBP'000	December 31, 2016 LBP'000
Deposit:		
Demand deposits	3,193,628	4,306,967
Term deposits	158,636,681	136,509,524
Collateral against speculation account	27,169,994	25,503,862
Cash collateral	96,099,789	98,469,105
Accrued interest payable	1,197,943	1,016,226
	286,298,035	**265,805,684**

Deposits from customers are allocated by brackets of deposits excluding accrued interest payable as follows:

	December 31, 2017 - LBP			December 31, 2017 - Counter Value of F/Cy		
Bracket	Total Deposits LBP'000	Percentage to Total Deposits %	Percentage to Total No of Accounts %	Total Deposits LBP'000	Percentage to Total Deposits %	Percentage to Total No of Accounts %
Less than LBP50million	176,543,500	5	80	137,011,657	3	83
From LBP50million to LBP250million	487,680,057	14	13	352,905,099	7	9
From LBP250million to LBP750million	616,635,174	18	5	554,532,660	11	4
From LBP750million to LBP1.5billion	440,026,965	13	1	499,769,072	10	2
More than LBP1.5billion	1,683,298,547	49	1	3,364,972,778	69	2
	3,404,184,243	**100**	**100**	**4,909,191,266**	**100**	**100**

	December 31, 2016 - LBP			December 31, 2016 - Counter Value of F/Cy		
Bracket	Total Deposits LBP'000	Percentage to Total Deposits %	Percentage to Total No of Accounts %	Total Deposits LBP'000	Percentage to Total Deposits %	Percentage to Total No of Accounts %
Less than LBP 50 million	146,520,220	4	79	103,906,096	2	85
From LBP 50 million to LBP 250 million	467,656,228	13	13	272,624,080	6	9
From LBP 250 million to LBP 750 million	601,195,880	16	5	383,182,344	9	3
From LBP 750 million to LBP 1.5 billion	483,455,407	13	2	364,057,976	8	1
More than LBP1.5billion	2,004,956,160	54	1	3,257,282,956	75	2
	3,703,783,895	**100**	**100**	**4,381,053,452**	**100**	**100**

Deposits from customers at amortized cost include coded deposit accounts in the aggregate amount of LBP83billion (LBP163billion in 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.

Fiduciary deposits were received from resident and non-resident banks for a total amount of LBP32billion and LBP55billion (LBP33billion and LBP45billion respectively in 2016).

The average balance of customers' deposits (including related party deposits) and related cost of funds over the last three years were as follows:

	Average Balance of Deposits			
Year	LBP Base Accounts LBP'000	F/Cy Base Accounts LBP'000	Cost of Funds LBP'000	Average Interest Rate %
2017	**3,818,608,816**	**4,671,171,223**	**485,498,517**	**5.72**
2016	3,692,738,444	4,036,526,873	437,159,853	5.66
2015	3,321,173,962	3,690,107,037	396,022,066	5.64

20. OTHER BORROWINGS

This caption consists of the following:

	December 31, 2017 LBP'000	December 31, 2016 LBP'000
Other borrowings (a)	209,861,921	97,778,129
Soft leverage arrangement from Central Bank of Lebanon (b)	194,906,550	-
Accrued interest payable	980,678	-
	405,749,149	**97,778,129**

The movement of other borrowings is as follows:

	2017 LBP'000
Balance, January 1	**97,778,129**
Interest expense (Note 30)	2,903,620
Additions	305,067,400
Balance, December 31	**405,749,149**

(a) Other borrowings represent facilities granted by Central Bank of Lebanon which are made in connection with Central Bank of Lebanon intermediate Circular 313 relating to basic Decision No. 6116 of March 7, 1996 and its amendments by which the Bank benefited from credit facilities granted against loans the Bank has granted responsibility, to its customers, pursuant to certain conditions, rules and mechanism.

(b) Soft leverage arrangement from Central Bank of Lebanon represents facilities granted against the purchase of Lebanese treasury bills subject to a 2% interest per annum. These facilities are collateralized by Lebanese treasury bills of LBP97.6billion as at December 31, 2017 (Note 12) and by term placements with Central Bank of Lebanon in the amount of USD103million (Note 5).

21. OTHER LIABILITIES

This caption consists of the following:

	December 31, 2017 LBP'000	December 31, 2016 LBP'000
Withheld taxes and property taxes	5,483,549	4,331,031
Income tax payable	5,930,116	12,191,705
Due to the National Social Security Fund	282,172	380,212
Checks and incoming payment orders in course of settlement	20,970,675	38,226,476
Blocked capital subscriptions for companies under incorporation	906,692	845,406
Accrued expenses	2,746,721	2,521,267
Dividends payable	837,098	171,451
Payable to personnel and directors	895,612	862,375
Unearned revenues	1,358,143	1,255,124
Regulatory deferred liability (a)	534,052,937	570,408,501
Tax payable on regulatory deferred liability (a)	-	100,660,324
Reconciling account with Central Bank of Lebanon (b)	118,870,345	-
Fair value of forward exchange contracts	325,047	2,730,213
Sundry accounts payable	7,252,044	3,733,026
	699,911,151	**738,317,111**

(a) In accordance with the Central Bank of Lebanon Intermediary Circular number 446 dated December 30, 2016, banks should record the surplus derived from sale of treasury bills in Lebanese pounds against investment in medium to long term certificates of deposit in foreign currency issued by the Central Bank of Lebanon under deferred liability which is regulated in nature, and shall be appropriated, among other things, after deducting the relevant tax liability, to collective provision for credit risks associated with the loan book at a minimum of 2% of the weighted credit risks, and that in anticipation of 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 LBP570billion, net of tax in the amount of LBP101billion, which was credited to "Regulatory deferred liability" under other liabilities and deferred as restricted contribution in anticipation of expected loss provisions that will be deemed to be necessary along with the application of IFRS 9 in accordance with the Central Bank of Lebanon requirements as indicated above (Refer to Note 12). During 2017, the Bank settled tax payable on regulatory deferred liability in the amount of LBP101billion and amortized LBP36,35billion from the regulatory deferred liability account against interest income.

(b) As a result of swap deals executed during the forth quarter of year 2017 with the Central Bank of Lebanon a reconciling account in the aggregate amount of LBP119billion was outstanding at year end and fully settled subsequent to the financial position date.

Income tax payable is computed as follows:

	December 31, 2017 LBP'000	December 31, 2016 LBP'000
Profit before income tax	170,799,144	146,392,150
Non-deductible expense	42,345,546	33,103,189
Non-taxable income	(83,932,933)	(16,956,175)
Taxable income	129,211,757	162,539,164
Income tax expense	17,416,300	25,247,065
Tax on capital gain	-	8,607
Total income tax expense	17,416,300	25,255,672
Less: Tax paid in advance (5%)	(11,296,382)	(12,845,269)
Tax paid on resident subsidiaries	(150,437)	(218,698)
Taxes related to non-resident branch paid subsequently	(39,365)	-
Income tax payable	**5,930,116**	**12,191,705**

Other expenses for the year 2016 includes an amount of LBP878million related to taxes and penalties paid on the Bank branch in Iraq.

The Bank's tax returns for the years 2013 to 2017 inclusive are still subject to review by the tax authorities and any additional tax liability depends on the outcome of such reviews.

22. PROVISIONS

Provisions consist of the following:

	December 31, 2017 LBP'000	December 31, 2016 LBP'000
Provision for staff end-of-service indemnity	12,978,237	12,277,634
Provision for risk and charges	48,931,955	23,241,216
Provision for loss in foreign currency	145,000	145,000
	62,055,192	**35,663,850**

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

	December 31, 2017 LBP'000	December 31, 2016 LBP'000
Balance, January 1	**12,277,634**	**10,259,728**
Additions (Note 36)	1,025,227	2,202,463
Settlements	(324,624)	(184,557)
Balance, December 31	**12,978,237**	**12,277,634**

The movement of provision for risk and charges is as follows:

	December 31, 2017 LBP'000	December 31, 2016 LBP'000
Balance, January 1	**23,241,216**	**9,115,233**
Additions	11,802,713	15,046,234
Transfer from/(to) allowance for impairment on term placements (Note 5)	520,000	(658,000)
Transfer to allowance for collective impairment On loans and advances (Note 8)	(117,574)	(202,601)
Transfer from allowance for collective impairment (Note 8)	13,567,500	-
Effect of exchange rates changes	(81,900)	(59,650)
Balance, December 31	**48,931,955**	**23,241,216**

23. SUBORDINATED BONDS

	December 31, 2017 LBP'000	December 31, 2016 LBP'000
Subordinated bonds	60,300,000	60,300,000
Accrued interest payable	260,199	254,020
	60,560,199	**60,554,020**

The Extraordinary General Assembly of shareholders held on August 24, 2015, authorize the issuance of non-convertible, non-callable, cumulative subordinated bonds in the amount of USD40million comprising 400,000 bonds issued in denominations of USD100 each. These bonds were issued on December 10, 2015 and mature on December 10, 2025 and are subject to an annual interest rate of 7.5% per annum.

In accordance with banking laws and regulations, subordinated bonds are considered as Tier II capital for the purpose of computation of Risk Based Capital Ratio to be decreased by 20% in a yearly basis.

In this connection, interest expense on subordinated bonds for the year ended December 31, 2017 amounted to LBP4.5billion recorded under "Interest expense" in the consolidated statement of profit or loss (LBP4.5million in 2016) (Note 30).

24. CAPITAL

In its meeting held on October 31, 2016, the Extraordinary General Assembly of Shareholders resolved to redeem and cancel preferred shares series 2 consisting of 500,000 shares at an issue price of USD100 per share in conjunction with the transfer from general reserves account to capital the preferred shares par value of LBP3.8billion. These shares will be distributed proportionally to all ordinary shareholders.

The Extraordinary General Assembly of Shareholders held on September 15, 2016, approved the increase of capital from LBP150billion to LBP155,625billion through the issuance of 750,000 new series 3 preferred shares at an issue price of USD100 and a par value of LBP7,500.

Accordingly as at December 31, 2017 and 2016, Group's share capital consisted of 20,000,000 ordinary shares and 750,000 preferred shares for a par value of LBP7,500 each and fully paid.

The Bank hedged part of its capital against fluctuations in the Lebanese currency through a fixed currency position of USD6,300,000.

25. NON-CUMULATIVE CONVERTIBLE PREFERRED SHARES

As mentioned under note 24, the Extraordinary General Assembly of Shareholders held on October 31, 2016 approved the redemption and cancelation of the 500,000 series 2 preferred shares having par value of LBP7,500 per share, in addition to a share premium in U.S. Dollar equivalent to the difference between the issue price of USD100 and the counter value of the par value mentioned above, amounting to USD50million.

In addition and as mentioned in note 24, the Extraordinary General Assembly of Shareholders held on September 15, 2016, resolved to issue 750,000 share series 3 preferred shares at an issue price of USD100 having a par value of LBP7,500 per share, in addition to a share premium amounting to USD75million equivalent to LBP113billion.

Subject to certain terms and conditions, distribution to holders of series 3 preferred shares shall be paid annually a fixed amount of USD7.5 representing a dividend yield of 7.5 percent per series 3 preferred share.

26. RESERVES

Reserves consist of the following:

	December 31, 2017 LBP'000	December 31, 2016 LBP'000
Legal reserves (a)	62,128,605	50,083,256
Reserve for general banking risks (b)	79,516,997	68,885,225
General reserve for performing loans (c)	866,000	692,000
General reserves (d)	138,000	219,225
	142,649,602	**119,879,706**

(a) The legal reserve is constituted in conformity with the requirements of the Lebanese Code of Money and Credit on the basis of 10% of net profit. 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, on condition that the aggregate rate does not fall bellow 1.25% at the end of the tenth year, starting 1998, which is 2007 and 2% at the end of the twentieth year. This reserve is constituted in Lebanese Pounds and in foreign currencies in proportion to the composition of the Bank's total risk weighted assets and off-balance sheet items. This reserve is not available for distribution and to be used to cover any annual losses or unexpected losses agreed upon with the banking control commission.

In accordance with BDL basic circular 143 issued in November 7, 2017, banks are no longer required by the end of the year 2017 to set up reserves for general banking risks and other reserves for credit risks. Banks are required to appropriate the excess after implementation of IFRS9 impairment on January 1, 2018, to general reserves designated for capital increase.

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

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

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

(d) In accordance with the Extraordinary General Assembly of Shareholders decision dated October 31, 2016 an amount of LBP3,75billion was transferred from general reserve to capital account in line with the redemption of series 2 preferred shares (Notes 24 & 25).

27. DIVIDENDS PAID

The following dividends were declared and paid by the Bank:

	December 31, 2017 LBP'000	December 31, 2016 LBP'000
Ordinary shares	39,060,000	27,007,500
Preferred shares	8,479,688	5,653,125
	47,539,688	**32,660,625**

28. NON-CONTROLLING INTERESTS

	December 31, 2017 LBP'000	December 31, 2016 LBP'000
Capital	600,300	600,300
Retained earnings	847,244	637,803
Reserves	139,516	100,437
Profit for the year	617,324	248,520
	2,204,384	**1,587,060**

29. INTEREST INCOME

	December 31, 2017 LBP'000	December 31, 2016 LBP'000
Interest income on:		
Deposits with the Central Bank of Lebanon	188,307,779	138,430,245
Deposits with banks and financial institutions	16,837,159	1,620,212
Investment securities at amortized cost	328,096,039	319,485,561
Loans to banks and financial institutions	7,607,209	3,152,884
Loans and advances to customers	104,036,962	114,769,743
Loans and advances to related parties	3,635,081	4,576,818
Interest realized on non-performing loans	44,351	182
	648,564,580	**582,035,645**
Withheld tax on interest	(3,790,171)	-
	644,774,409	**582,035,645**

Accrued interest on impaired loans and advances is not recognized until recovery/rescheduling agreements are signed with customers.

30. INTEREST EXPENSE

	December 31, 2017 LBP'000	December 31, 2016 LBP'000
Interest expense on:		
Deposits and borrowings from banks and financial institutions	1,954,940	2,331,039
Customers' accounts at amortized cost	466,807,983	420,479,306
Related parties' accounts at amortized cost	18,690,534	16,680,547
Subordinated bonds (Note 23)	4,528,678	4,516,322
Other borrowings	2,903,420	706,232
	494,885,555	**444,713,446**

31. FEE AND COMMISSION INCOME

	December 31, 2017 LBP'000	December 31, 2016 LBP'000
Commission on documentary credits	816,843	1,009,740
Commission on letters of guarantee	1,708,495	1,373,064
Service fees on customers' transactions	6,461,415	6,350,926
Asset management fees	115,961	73,604
Commission earned on insurance policies	249,814	313,568
Other	593,155	718,418
	9,945,683	**9,839,320**

32. FEE AND COMMISSION EXPENSE

	December 31, 2017 LBP'000	December 31, 2016 LBP'000
Commission on transactions with banks	747,477	654,218
Other	463,987	455,184
	1,211,464	**1,109,402**

33. OTHER OPERATING INCOME

	December 31, 2017 LBP'000	December 31, 2016 LBP'000
Net foreign exchange gain	3,682,814	4,225,655
Write-back of allowance on term placements (Note 5)	3,583,777	-
Other	717,508	1,942,794
	7,984,099	**6,168,449**

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

	December 31, 2017 LBP'000	December 31, 2016 LBP'000
Interest income	117,246,002	69,619,579
Net unrealized loss	(66,466,386)	(58,291,667)
Net realized gain	51,996,804	88,579,007
Dividend income	279,427	242,944
Withheld tax on interest	(2,661,657)	-
	100,394,190	**100,149,863**

35. ALLOWANCE FOR IMPAIRMENT / (WRITE-BACK) OF LOANS AND ADVANCES (NET)

	December 31, 2017 LBP'000	December 31, 2016 LBP'000
Allowance for impairment loans and advances (Note 8)	12,552,347	3,437,103
Write back (Note 8)	10,492	(287,671)
Allowance for collective impairment/(write-back) (Note 8)	-	13,567,500
Write-back from off-balance sheet accounts	(396,861)	-
Write-off bad debt	3,306	141,702
Allowance for loans booked in the off-balance sheet accounts	3,525	4,745
	12,172,809	**16,863,379**

36. STAFF COSTS

	December 31, 2017 LBP'000	December 31, 2016 LBP'000
Salaries and related charges	26,471,598	25,365,966
Executive management remunerations	12,804,360	11,832,922
Social security contributions	3,031,854	2,895,836
Provision for end-of-service indemnities (Note 22)	1,025,227	2,202,463
	43,333,039	**42,297,187**

37. GENERAL AND ADMINISTRATIVE EXPENSES

	December 31, 2017 LBP'000	December 31, 2016 LBP'000
Professional fees	2,620,181	2,760,366
Rent	1,548,200	1,561,128
Advertising	9,013,045	10,664,185
Post and telephone	1,261,025	1,295,315
Repairs and maintenance	1,562,084	1,547,356
Travel	580,795	626,537
Printing and stationery	823,514	512,706
Water and electricity	593,567	814,926
Insurance	385,018	451,200
Gifts and donations	551,942	33,991
Subscription fees	692,487	1,190,148
Municipality and other accrued taxes and penalties	1,258,422	964,139
Training and seminars	269,594	286,439
Cleaning	392,807	375,382
Licenses	104,893	112,653
Credit card expenses	632,030	582,808
Transportation	427,229	404,742
Miscellaneous expenses	1,338,999	1,876,618
	24,055,832	**26,060,639**

38. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

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

39. RELATED PARTIES

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

	December 31, 2017 LBP'000	December 31, 2016 LBP'000
Direct facilities and credit balances:		
Loans and advances	68,484,403	99,166,198
Deposits (Note 19)	286,298,035	265,805,684
Indirect facilities:		
Letters of guarantee	91,525	73,002

Loans and advances to related parties covered by real estate mortgage and cash collateral to the extent of LBP3.6billion and LBP64.32billion respectively for 2017 (Real estate mortgage of LBP3.9billion and cash collateral of LBP72.78billion for 2016).

The executive management remunerations amounted to LBP8.43billion during 2017 (LBP7.91billion in 2016).

40. CASH AND CASH EQUIVALENTS

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

	December 31, 2017 LBP'000	December 31, 2016 LBP'000
Cash on hand	40,182,667	44,183,418
Current accounts with central banks (excluding compulsory reserves)	255,621,123	62,582,254
Term placements with Central Bank of Lebanon	290,525,000	-
Checks for collection	15,140,417	18,211,508
Current accounts with banks and financial institutions	299,137,878	255,699,717
Term placements with banks and financial institutions	286,425,000	97,837,500
	1,187,032,085	**478,514,397**

Term deposits with the Central Bank of Lebanon and banks and financial institutions represent inter-bank placements and borrowings with an original term of 90 days or less.

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

• LBP1.97billion representing the increase in investment securities at fair value through profit or loss for the year ended December 31, 2017 against decrease in investments securities at fair value through other comprehensive income for the same amount.

• LBP13.57billion representing the increase in provision for risk and charges for the year ended December 31, 2017 against decrease in loans and advances to customers for the same amount.

• LBP211million representing the increase in intangible assets for the year ended December 31. 2017 against decrease in property and equipment for the same amount.

• LBP4.8billion representing the increase in assets acquired in satisfaction of loans for the year ended December 31, 2016 against decrease in loans and advances to customers for the same amount.

• LBP801billion representing the increase in investment securities at amortized cost for the year ended December 31, 2016 against decrease in investment securities at fair value through profit or loss for the same amount.

41. CAPITAL MANAGEMENT

The Group's objectives when managing capital are to comply with the capital requirements set by the Central Bank of Lebanon.

The Central Bank of Lebanon requires each bank or banking group to hold a minimum level of regularly capital of LBP10billion for the head office and LBP500million for each local branch and LBP1.5billion for each branch abroad (in addition to the amount imposed by the relevant authorities abroad).

The Group's capital is split as follows:
Tier I capital: Comprises share capital, non-cumulative perpetual preferred shares, share premium, reserves from appropriation of profits, retained earnings (exclusive of expected dividends distribution) and non-controlling interests after deductions for intangible assets.
Tier II capital: Comprises qualifying subordinated bonds, revaluation surplus of owned properties and other regulatory reserves.

The Group's consolidated capital adequacy ratio according to Central Bank of Lebanon directions and Based III as of December 31, 2017 and 2016 was as follows:

	December 31, 2017 LBP'Million	December 31, 2016 LBP'Million
Common equity Tier 1	693,637	600,667
Additional Tier I capital	113,057	113,076
	806,694	**713,743**
Tier II capital	506,342	631,860
Total regulatory capital	1,313,036	1,345,603
Credit risk	3,575,287	3,368,354
Market risk	311,730	292,729
Operational risk	467,560	395,279
Risk-weighted assets and risk-weighted off-balance sheet items	4,354,577	4,056,362
Equity Tier I ratio	15.93%	14.81%
Tier I capital ratio	18.53%	17.60%
Risk based capital ratio-Tier I and Tier II capital	30.15%	33.17%

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

42. SEGMENT INFORMATION

The following is the financial position and the financial performance by Group entity allocated by geographical location:

Financial Position

	December 31, 2017			
	Lebanon Operations LBP'000	Cyprus Operations LBP'000	Iraq Operations LBP'000	Total LBP'000
ASSETS				
Cash and deposits with central banks	4,494,421,364	417,394	70,172,126	4,565,010,884
Deposits with banks and financial institutions	600,653,827	12,908	117,606	600,784,341
Loans to banks and financial institutions	50,484,852	-	-	50,484,852
Loans and advances to customers	1,339,155,461	656	16,500,130	1,355,656,247
Loans and advances to related parties	68,484,403	-	-	68,484,403
Investment securities at fair value through profit or loss	796,322,194	-	-	796,322,194
Investment securities at amortized cost	3,260,705,650	-	-	3,260,705,650
Customers' liability under acceptances	38,665,861	-	-	38,665,861
Assets acquired in satisfaction of loans	24,612,014	-	-	24,612,014
Property and equipment	52,811,718	60,172	1,006,442	53,878,332
Intangible assets	810,955	2,754	2,340	816,049
Other assets	8,756,193	61,438	337,404	9,155,035
Total Assets	**10,735,884,492**	**555,322**	**88,136,048**	**10,824,575,862**
LIABILITIES				
Deposits from banks and financial institutions	33,725,532	-	96,285	33,821,817
Customers' accounts	8,253,640,257	59,956,549	53,325,845	8,366,922,651
Related parties' accounts	286,296,090	-	1,945	286,298,035
Liability under acceptance	38,665,861	-	-	38,665,861
Other borrowings	405,749,149	-	-	405,749,149
Other liabilities	697,565,194	304,567	2,041,390	699,911,151
Provisions	62,055,192	-	-	62,055,192
Subordinated bonds	60,560,199	-	-	60,560,199
Total liabilities	**9,838,257,474**	**60,261,116**	**55,465,465**	**9,953,984,055**

	December 31, 2016			
	Lebanon Operations LBP'000	Cyprus Operations LBP'000	Iraq Operations LBP'000	Total LBP'000
ASSETS				
Cash and deposits with central banks	4,076,972,558	370,350	42,976,637	4,120,319,545
Deposits with banks and financial institutions	371,721,105	29,275	82,295	371,832,675
Loans to banks and financial institutions	61,153,584	-	-	61,153,584
Loans and advances to customers	1,419,298,393	1,741	20,831,849	1,440,131,983
Loans and advances to related parties	99,166,198	-	-	99,166,198
Investment securities at fair value through profit or loss	643,865,655	-	-	643,865,655
Investment securities at fair value through other comprehensive income	1,967,790	-	-	1,967,790
Investment securities at amortized cost	3,335,205,209	-	-	3,335,205,209
Customers' liability under acceptances	45,018,919	-	-	45,018,919
Assets acquired in satisfaction of loans	24,612,014	-	-	24,612,014
Property and equipment	52,049,057	57,067	1,572,843	53,678,967
Intangible assets	727,433	26	6,250	733,709
Other assets	9,184,634	18,669	362,649	9,565,952
Total Assets	**10,140,942,549**	**477,128**	**65,832,523**	**10,207,252,200**
LIABILITIES				
Deposits from banks and financial institutions	61,117,746	-	96,285	61,214,031
Customers' accounts	8,034,590,929	37,409,188	66,180,882	8,138,180,999
Related parties' accounts	265,803,687	-	1,997	265,805,684
Liability under acceptances	45,018,919	-	-	45,018,919
Other borrowings	97,778,129	-	-	97,778,129
Other liabilities	783,100,400	(38,650,876)	(6,132,413)	738,317,111
Provisions	35,663,850	-	-	35,663,850
Subordinated bonds	60,554,020	-	-	60,554,020
Total Liabilities	**9,383,627,680**	**(1,241,688)**	**60,146,751**	**9,442,532,743**

Statement of Profit or Loss and Other Comprehensive Income

	Year Ended December 31, 2017			
	Lebanon Operations LBP'000	Cyprus Operations LBP'000	Iraq Operations LBP'000	Total LBP'000
Interest income	646,753,326	127,433	1,683,821	648,564,580
Withholding tax on interest	(3,790,171)	-	-	(3,790,171)
	642,963,155	**127,433**	**1,683,821**	**644,774,409**
Interest expense	(494,419,643)	(79,721)	(386,191)	(494,885,555)
Net interest income	**148,543,512**	**47,712**	**1,297,630**	**149,888,854**
Fee and commission income	7,790,452	11,387	2,143,844	9,945,683
Fee and commission expense	(1,044,306)	(107,222)	(59,936)	(1,211,464)
Net fee and commission income	**6,746,146**	**(95,835)**	**2,083,908**	**8,734,219**
Other operating income	7,955,162	13,782	15,155	7,984,099
Net interest and other gain/(loss) on investment securities at fair value through profit or loss	99,300,062	1,094,128	-	100,394,190
Net financial revenues	**262,544,882**	**1,059,787**	**3,396,693**	**267,001,362**
Allowance for impairment and write-off of loans and advances (net)	(12,172,809)	-	-	(12,172,809)
Net financial revenues after impairment charge for credit losses	**250,372,073**	**1,059,787**	**3,396,693**	**254,828,553**
Allowance for risk and charges (net)	(11,802,713)	-	-	(11,802,713)
Staff costs	(42,114,011)	(444,852)	(774,176)	(43,333,039)
Administrative expenses	(22,401,272)	(346,118)	(1,308,442)	(24,055,832)
Depreciation and amortization	(3,700,979)	(15,505)	(540,672)	(4,257,156)
Other expenses	(72,661)	-	(508,008)	(580,669)
Profit before income tax	**170,280,437**	**253,312**	**265,395**	**170,799,144**
Income tax expense	(17,214,656)	(49,184)	(152,460)	(17,416,300)
Profit for the year	**153,065,781**	**204,128**	**112,935**	**153,382,844**
Other comprehensive income	-	-	-	-
Total Comprehensive income for the year	**153,065,781**	**204,128**	**112,935**	**153,382,844**

	Year Ended December 31, 2016			
	Lebanon Operations LBP'000	Cyprus Operations LBP'000	Iraq Operations LBP'000	Total LBP'000
Interest income	577,236,216	2,552,209	2,247,220	582,035,645
Interest expense	(443,174,312)	(1,131,150)	(407,984)	(444,713,446)
Net interest income	**134,061,904**	**1,421,059**	**1,839,236**	**137,322,199**
Fee and commission income	7,699,263	20,102	2,119,955	9,839,320
Fee and commission expense	(1,014,009)	(63,469)	(31,924)	(1,109,402)
Net fee and commission income	**6,685,254**	**(43,367)**	**2,088,031**	**8,729,918**
Other operating income	5,885,317	5,118	278,014	6,168,449
Net interest and other gain/(loss) on investment securities at fair value through profit or loss	100,149,863	-	-	100,149,863
Net financial revenues	**246,782,338**	**1,382,810**	**4,205,281**	**252,370,429**
Allowance for impairment of loans and advances (net)	(16,863,379)	-	-	(16,863,379)
Net financial revenues after impairment charge for credit losses	**229,918,959**	**1,382,810**	**4,205,281**	**235,507,050**
Allowance for risk and charges (net)	(15,046,234)	-	-	(15,046,234)
Staff costs	(41,165,027)	(382,782)	(749,378)	(42,297,187)
General and administrative expenses	(24,375,245)	(260,068)	(1,425,326)	(26,060,639)
Depreciation and amortization	(3,770,232)	(8,467)	(710,049)	(4,488,748)
Other expenses	(335,411)	-	(886,681)	(1,222,092)
Profit before income tax	**145,226,810**	**731,493**	**433,847**	**146,392,150**
Income tax expense	(24,971,973)	(73,429)	(210,270)	(25,255,672)
Profit for the year	**120,254,837**	**658,064**	**223,577**	**121,136,478**
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	**120,254,837**	**658,064**	**223,577**	**121,136,478**

43. FINANCIAL RISK MANAGEMENT

The Group has exposure to the following risks from its use of financial instruments:
- Credit risk
- Liquidity risk
- Market risk
  - Interest rate risk
  - Foreign exchange risk

The Credit Committee, Assets and Liabilities Committee work under the mandate of the board to set up risk limits and manage the overall risk in the Group. Risk committee was established whose role is to supervise the proper implementation of risk management procedures at the Bank and all its branches abroad and subsidiaries, in compliance with the regulations issued or will be issued by the Central Bank of Lebanon and Banking Control Commission.

A. Credit Risk

1. Credit risk management

Credit risk represents the risk of loss due to failure of a customer or counterparty to meet its financial obligations in accordance with contractual terms. The objective of the Group credit risk strategy is to quantify and manage credit risk on an aggregate portfolio basis, as well as to limit the risk of loss resulting from an individual customer default. This strategy is based on three core principles: Conservatism, diversification and monitoring. The Group manages credit risk through underwriting, periodically reviewing and approving credit exposures based on prevailing credit policies and guidelines. Additionally the Group manages credit risk through loan portfolio diversification, limiting exposure to any single industry, risk mitigation, customer and guarantor within various geographical areas.

Corporate and Commercial Lending are largely centralized at head office and are sanctioned by relating credit committees.

2. Loan classification and monitoring

The Group loan classification and internal rating system is derived from the framework of the regulatory classification requirement, and which is consistent with best practices. The loans' classification methodology is as follows:

A. Ordinary accounts:
  - Regular
  - Watch, for incomplete documentation

B. Special mention accounts.
C. Substandard accounts.
D. Doubtful accounts.
E. Bad or failing accounts.

• Ordinary Accounts: All payments are current and full repayment of interest and principal from normal sources is not in doubt.

• Watch List: Loans and advances rated Watch List are loans that are not impaired nor they show any creditworthiness weakness but for which the Bank determines that they require special monitoring due to certain deficiencies in the credit file with respect to the financial statements, collaterals, profitability, or others.

• Special Mention Accounts: Loans past due but not impaired are loans where contractual interest or principal are past due but 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 Bank.

• Substandard loans: There is weakness in the borrower' s creditworthiness, profitability, cash flows for a long period and collaterals or uses of the facilities for other purposes. Default has occurred or is likely to occur or the repayment schedule has been restructured. Past due for more than 90 but less than 270 days.

• Doubtful loans: More adverse conditions than those related to the above mentioned classification, with a greater degree of risk associated with the on going deterioration in the client position and sufficiency of collateral and the cease of deposits for greater than 270 days and less than 365 days or the cease of settlements or rescheduled payments for more than 90 days.

• Bad or failing accounts: It covers credits that are regarded as uncollectible, when the delay in payments exceeds 365 days.

Loan account classifications are reviewed periodically by the Credit department. Accounts' classification is monitored based on relevant facts related to the accounts' performance and are up and/or down-graded depending on the credit worthiness of the borrowers and their ability to pay back, taking into consideration the quality of the guarantees. Once Accounts are classified as less then regular, they become closely monitored for debtor's behavior, accounts performance, deterioration in the borrower's solvency, cash generation and overall financial condition.

If, however, the borrower's difficulties appear to be more fundamental and/or the collateral no longer adequately covers the facility, whether due to excessive exposure or diminution in the value of the collateral then the account is classified as Class C and interest is discontinued to be recognized in the income statement.

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)

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and generally updated every 2 years and when a loan is individually assessed as impaired.

Generally, Collateral 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.

A plan of action is determined in relation to each Class C account. If there is no improvement, a provision is taken in respect of the principal based on the expected debt recovery, and the account is then classified as Class D. Once recovery becomes very remote, the full outstanding balance is provided for; the account is down graded to Class E.

Impaired loans
Impaired loans are loans for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan. These loans are classified C, D and E in the Group›s internal credit risk classification.

Past due but not impaired loans
Loans and securities where contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Group.

Allowances for impairment
The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Write-off policy
The Group writes-off a loan or security (and any related allowances for impairment losses) when the Group›s management and credit business unit determine that the loans/securities are uncollectible in whole or in part. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay its obligation in full, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardized loans, charge off decisions generally are based on a product specific past due status.

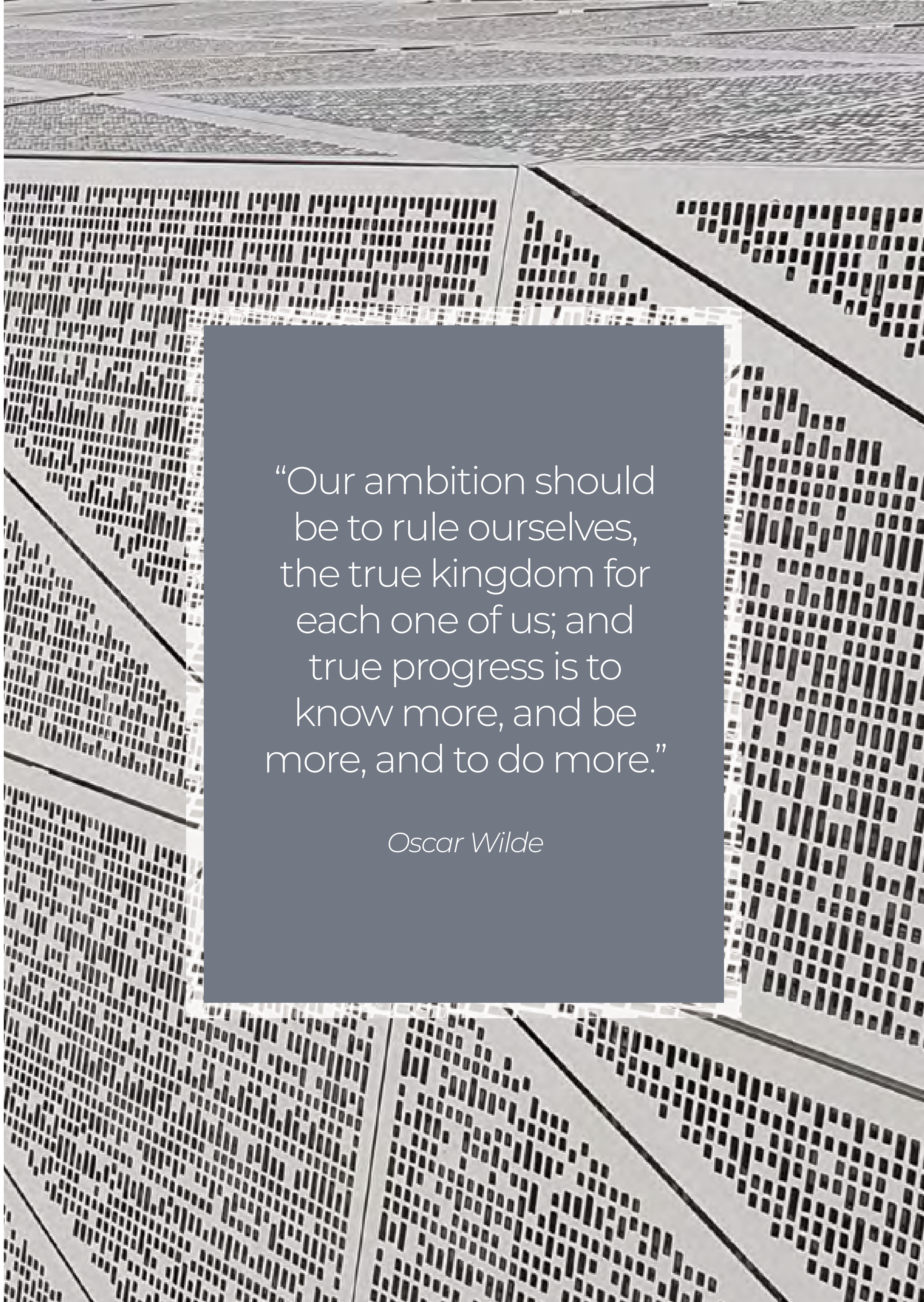
Loans and advances to customers consist of the following as at December 31:

	2017			2016		
	Gross Amount Net of Unrealized Interest LBP'000	Impairment Allowance LBP'000	Carrying Amount LBP'000	Gross Amount Net of Unrealized Interest LBP'000	Impairment Allowance LBP'000	Carrying Amount LBP'000
Performing retail loans						
Mortgage loans	205,759,510	-	205,759,510	217,899,036	-	217,899,036
Personal loans	45,086,382	-	45,086,382	42,062,729	-	42,062,729
Credit card	7,771,788	-	7,771,788	7,253,193	-	7,253,193
Overdrafts	5,769,163	-	5,769,163	6,351,296	-	6,351,296
Allowance for collective provision - performing retail	-	(1,200,921)	(1,200,921)	-	(1,083,873)	(1,083,873)
	264,386,843	**(1,200,921)**	**263,185,922**	**273,566,254**	**(1,083,873)**	**272,482,381**
Non-performing retail loans						
Substandard loans	587,238	-	587,238	35,228	-	35,228
Doubtful loans	2,534,674	(1,488,060)	1,046,614	2,511,430	(1,437,247)	1,074,183
	3,121,912	**(1,488,060)**	**1,633,852**	**2,546,658**	**(1,437,247)**	**1,109,411**
Performing corporate loans						
Large enterprises	680,071,377	-	680,071,377	717,620,260	-	717,620,260
Small and medium enterprises	374,952,222	-	374,952,222	432,088,087	-	432,088,087
	1,055,023,599	-	**1,055,023,599**	**1,149,708,347**	-	**1,149,708,347**
Non-performing corporate loans						
Substandard loans	14,826,537	-	14,826,537	27,920,394	-	27,920,394
Doubtful loans	53,021,623	(21,672,336)	31,349,287	13,914,167	(9,231,300)	4,682,867
	67,848,160	**(21,672,336)**	**46,175,824**	**41,834,561**	**(9,231,300)**	**32,603,261**
Allowance for collective impairment	-	(11,111,000)	(11,111,000)	-	(24,678,500)	(24,678,500)
Accrued interest receivable	748,050	-	748,050	8,907,083	-	8,907,083
	1,391,128,564	**(35,472,317)**	**1,355,656,247**	**1,476,562,903**	**(36,430,920)**	**1,440,131,983**

Performing corporate loans to large enterprises, outstanding at year end 2017 and 2016, include an amount of LBP226billion related to a non-resident customer which is covered by LBP234billion cash collateral. Related interest income and expense amounted to LBP30.7billion during 2017 and 2016.

Loans classified performing include overdue amounts as at December 31 as follows:

	2017 LBP'000	2016 LBP'000
Between 30-60 days	530,601	59,775
Between 60-90 days	39,025	41,467
Between 90-180 days	112,955	837
Beyond 180 days	956,492	2,110,381
	1,639,073	2,212,460



Concentration of major financial assets by industry or sector:

	December 31, 2017						December 31, 2017			
	Sovereign LPB'000	Financial Services LPB'000	Real Estate Development LPB'000	Manufacturing LPB'000	Trading LPB'000	Services LPB'000	Individuals LPB'000	Others LPB'000	Allowance For Collective Im-pairment LPB'000	Total LPB'000
Cash & deposits with Central Banks	4,565,010,884	-	-	-	-	-	-	-	-	4,565,010,884
Deposits with banks and financial institutions	-	600,784,341	-	-	-	-	-	-	-	600,784,341
Loans to banks and financial institutions	-	50,484,852	-	-	-	-	-	-	-	50,484,852
Loans and advances to customers	-	22,999,365	312,099,610	67,330,721	112,984,713	495,462,372	346,217,155	10,874,233	(12,311,922)	1,355,656,247
Loans and advances to related parties	-	60,880,425	2,466,790	-	225,695	-	4,902,639	8,854	-	68,484,403
Investment securities at fair value through profit or loss	788,287,772	8,034,422	-	-	-	-	-	-	-	796,322,194
Investment securities at amortized cost	3,260,705,650	-	-	-	-	-	-	-	-	3,260,705,650
	8,614,004,306	**743,183,405**	**314,566,400**	**67,330,721**	**113,210,408**	**495,462,372**	**351,119,794**	**10,883,087**	**(12,311,922)**	**10,697,448,571**

	December 31, 2016						December 31, 2016			
	Sovereign LPB'000	Financial Services LPB'000	Real Estate Development LPB'000	Manufacturing LPB'000	Trading LPB'000	Services LPB'000	Individuals LPB'000	Others LPB'000	Allowance For Collective Im-pairment LPB'000	Total LPB'000
Cash & deposits with Central Banks	4,120,319,545	-	-	-	-	-	-	-	-	4,120,319,545
Deposits with banks and financial institutions	-	371,832,675	-	-	-	-	-	-	-	371,832,675
Loans to banks and financial institutions	-	61,153,584	-	-	-	-	-	-	-	61,153,584
Loans and advances to customers	-	23,336,845	329,746,631	72,554,953	137,664,942	501,267,951	375,543,047	25,779,987	(25,762,373)	1,440,131,983
Loans and advances to related parties	-	86,689,472	3,062,529	-	914,831	-	8,474,088	25,278	-	99,166,198
Investment securities at fair value through profit or loss	638,859,422	5,006,233	-	-	-	-	-	-	-	643,865,655
Investment securities at fair value through other comprehensive income	-	1,967,790	-	-	-	-	-	-	-	1,967,790
Investment securities at amortized cost	3,335,205,209	-	-	-	-	-	-	-	-	3,335,205,209
	8,094,384,176	**549,986,599**	**332,809,160**	**72,554,953**	**138,579,773**	**501,267,951**	**384,017,135**	**25,805,265**	**(25,762,373)**	**10,073,642,639**

Concentration of major financial assets and liabilities by geographical area:

	December 31, 2017					
	Lebanon LBP'000	Middle East & Africa LBP'000	North America LBP'000	Europe LBP'000	Other LBP'000	Total LBP'000
ASSETS						
Cash and Deposits with Central Banks	4,502,778,121	61,947,519	-	285,244	-	4,565,010,884
Deposits with banks and financial institutions	16,159,839	39,405,847	181,614,207	355,689,404	7,915,044	600,784,341
Loans to banks & financial Institutions	50,484,852	-	-	-	-	50,484,852
Loans and advances to customers	1,016,328,115	321,969,741	310,553	2,696,923	14,350,915	1,355,656,247
Loans and advances to related parties	68,484,403	-	-	-	-	68,484,403
Investment securities at fair value through profit or loss	796,322,194	-	-	-	-	796,322,194
Investment securities at amortized cost	3,260,705,650	-	-	-	-	3,260,705,650
	9,711,263,174	**423,323,107**	**181,924,760**	**358,671,571**	**22,265,959**	**10,697,448,571**
LIABILITIES						
Deposits from banks & financial Institutions	22,586,498	9,078,965	-	2,156,354	-	33,821,817
Customers' accounts	6,313,607,871	1,146,460,042	361,654,660	524,931,319	20,268,759	8,366,922,651
Related parties accounts	286,298,035	-	-	-	-	286,298,035
Other borrowings	405,749,149	-	-	-	-	405,749,149
Subordinated bonds	60,560,199	-	-	-	-	60,560,199
	7,088,801,752	**1,155,539,007**	**361,654,660**	**527,087,673**	**20,268,759**	**9,153,351,851**

	December 31, 2016					
	Lebanon LBP'000	Middle East & Africa LBP'000	North America LBP'000	Europe LBP'000	Other LBP'000	Total LBP'000
ASSETS						
Cash and Deposits with Central Banks	4,101,138,572	18,810,623	-	370,350	-	4,120,319,545
Deposits with banks and financial institutions	49,008,777	10,476,815	142,661,980	168,614,812	1,070,291	371,832,675
Loans to banks & financial Institutions	61,153,584	-	-	-	-	61,153,584
Loans and advances to customers	1,143,419,390	267,559,903	1,975,832	23,594,076	3,582,782	1,440,131,983
Loans and advances to related parties	99,166,198	-	-	-	-	99,166,198
Investment securities at fair value through profit or loss	643,865,655	-	-	-	-	643,865,655
Investment securities at fair value through other comprehensive income	1,967,790	-	-	-	-	1,967,790
Investment securities at amortized cost	3,335,205,209	-	-	-	-	3,335,205,209
	9,434,925,175	**296,847,341**	**144,637,812**	**192,579,238**	**4,653,073**	**10,073,642,639**
LIABILITIES						
Deposits from banks & financial Institutions	27,110,546	29,995,966	-	4,107,519	-	61,214,031
Customers' accounts	6,412,413,326	1,092,313,453	86,002,773	525,937,902	21,513,545	8,138,180,999
Related parties accounts	265,803,688	1,996	-	-	-	265,805,684
Other borrowings	97,778,129	-	-	-	-	97,778,129
Subordinated bonds	60,554,020	-	-	-	-	60,554,020
	6,863,659,709	**1,122,311,415**	**86,002,773**	**530,045,421**	**21,513,545**	**8,623,532,863**

B. Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations from its financial liabilities at a point of time.

1. Liquidity risk management

The Group risk management and monitoring is based on the aggregate structure of the balance sheet through mitigating risks that are directly associated to the mismatch between maturities in the balance sheet and contingent liabilities. The Group's financial position structure is run in a way aimed at maintaining diversification and lowering concentration among different sources of funds. All liquidity policies and procedures are subject to review and approval by ALCO.

The table below shows the allocation of major monetary liabilities based on the earliest possible contractual maturity (undiscounted values).

Liabilities	December 31, 2017			December 31, 2017			
	Account with no Maturity LPB'Million	Up to 3 Months LPB'Million	3 Months to 1 Year LPB'Million	1 to 3 Years LPB'Million	3 to 5 Years LPB'Million	Over 5 Years LPB'Million	Total LPB'Million
Deposits from banks & financial Institutions	25,606	8,216	-	-	-	-	33,822
Customers' accounts	756,891	6,271,281	1,067,903	269,022	1,826	-	8,366,923
Related parties accounts	201	254,325	31,772	-	-	-	286,298
Other borrowings	-	2,055	104,715	27,742	35,372	235,865	405,749
Subordinated bonds	-	260	-	-	-	60,300	60,560
	782,698	**6,536,137**	**1,204,390**	**296,764**	**37,198**	**296,165**	**9,153,352**

Liabilities	December 31, 2016			December 31, 2016			
	Account with no Maturity LPB'Million	Up to 3 Months LPB'Million	3 Months to 1 Year LPB'Million	1 to 3 Years LPB'Million	3 to 5 Years LPB'Million	Over 5 Years LPB'Million	Total LPB'Million
Deposits from banks & financial Institutions	54,702	6,512	-	-	-	-	61,214
Customers' accounts	665,446	6,260,029	1,113,970	98,511	225	-	8,138,181
Related parties accounts	-	235,944	29,862	-	-	-	265,806
Other borrowings	-	2,173	3,921	17,426	17,970	56,288	97,778
Subordinated bonds	-	254	-	-	-	60,300	60,554
	720,148	**6,504,912**	**1,147,753**	**115,937**	**18,195**	**116,588**	**8,623,533**

Concentration of Financial Liabilities by counterparty:

Information regarding the concentration of customers' accounts is disclosed under the respective notes.

C. Market Risks

Market Risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and loan diversification.

The Group manages market risks through a framework that defines the global activity and individual limits and sensitivity analysis.

1. Interest rate risk

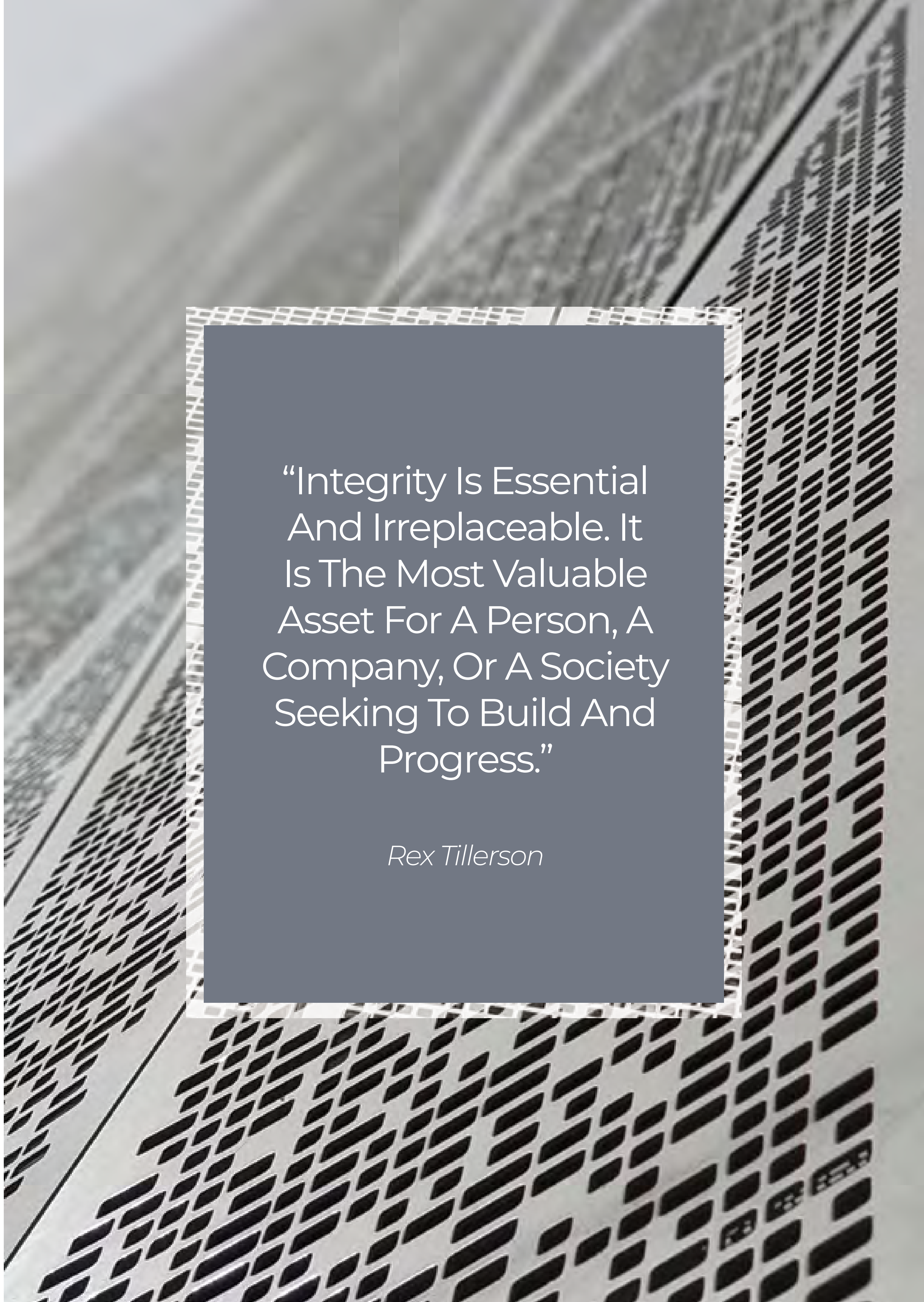
Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments or expected cash flows from income generating financial assets and liabilities. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of financial assets and liabilities.

Large amounts of the Group’s financial assets, primarily investments in certificates of deposit and Lebanese government bonds in Lebanese pounds and foreign currencies, carry fixed interest rates, whereas customers’ accounts and loans and advances to customers are re-priced on a regular basis which, consequently, leads to major risks from the mismatch between the sources and uses of funds, and in its turn increases interest rate risk.

Income sensitivity is the effect of the assumed changes in the interest rate on the net interest revenues for a specific year on the non-trading assets and liabilities. Analysis of various banking currency positions is made through concentrations by currencies and, resulting sensitivity is disclosed in thousands of Lebanese pounds and segregated between financial assets and liabilities subject to variable and fixed interest rates.

Exposure to interest rate risk

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



	December 31, 2017		December 31, 2017				
	Account with no Maturity	Up to 3 Months	3 Months to 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total
	LPB'Million	LPB'Million	LPB'Million	LPB'Million	LPB'Million	LPB'Million	LPB'Million
FINANCIAL ASSETS							
Cash and deposits with central banks	24,343	708,133	113,932	590,890	871,094	2,256,619	4,565,011
Deposits with banks and financial institutions	-	600,784	-	-	-	-	600,784
Loans to banks & financial Institutions	-	785	10,200	21,000	13,000	5,500	50,485
Loans and advances to customers	37,779	627,691	647,176	10,480	32,485	45	1,355,656
Loans and advances to related parties	-	68,484	-	-	-	-	68,484
Investment securities at fair value through profit or loss	15,258	693	2,628	754	397,889	379,100	796,322
Investment securities at amortized cost	64,495	13,153	110,438	206,578	419,603	2,446,439	3,260,706
	141,875	**2,019,723**	**884,374**	**829,702**	**1,734,071**	**5,087,703**	**10,697,448**
FINANCIAL LIABILITIES							
Deposits from banks and financial Institutions	25,606	8,216	-	-	-	-	33,822
Customers' accounts	756,891	6,271,281	1,067,903	269,022	1,826	-	8,366,923
Related parties accounts	201	254,325	31,772	-	-	-	286,298
Other borrowings	-	2,508	105,861	29,301	37,764	230,315	405,749
Subordinated bonds	-	260	-	-	-	60,300	60,560
	782,698	**6,536,590**	**1,205,536**	**298,323**	**39,590**	**290,615**	**9,153,352**

	December 31, 2016		December 31, 2016				
	Account with no Maturity	Up to 3 Months	3 Months to 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total
	LPB'Million	LPB'Million	LPB'Million	LPB'Million	LPB'Million	LPB'Million	LPB'Million
FINANCIAL ASSETS							
Cash and deposits with central banks	22,355	1,917,702	8,415	134,175	1,417,108	620,565	4,120,320
Deposits with banks and financial institutions	-	371,833	-	-	-	-	371,833
Loans to banks & financial Institutions	-	854	10,200	21,200	19,400	9,500	61,154
Loans and advances to customers	29,176	574,143	803,506	6,809	3,397	23,101	1,440,132
Loans and advances to related parties	288	78,278	20,600	-	-	-	99,166
Investment securities at fair value through profit or loss	6,457	2,744	582	754	180,489	452,840	643,866
Investment securities at fair value through other comprehensive income	-	-	-	-	-	1,968	1,968
Investment securities at amortized cost	71,075	37,099	56,195	99,161	251,205	2,820,470	3,335,205
	129,351	**2,982,653**	**899,498**	**262,099**	**1,871,599**	**3,928,444**	**10,073,644**
FINANCIAL LIABILITIES							
Deposits from banks and financial Institutions	54,702	6,512	-	-	-	-	61,214
Customers' accounts	665,446	6,260,029	1,113,970	98,511	225	-	8,138,181
Related parties accounts	-	235,944	29,862	-	-	-	265,806
Other borrowings	-	2,173	3,921	17,426	17,970	56,288	97,778
Subordinated bonds	-	254	-	-	-	60,300	60,554
	720,148	**6,504,912**	**1,147,753**	**115,937**	**18,195**	**116,588**	**8,623,533**

2. Foreign Exchange risk

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates.

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

	December 31, 2017		December 31, 2017			
	LBP LPB'000	USD C/V in LBP LPB'000	EURO C/V in LBP LPB'000	GBP C/V in LBP LPB'000	Other Currencies C/V in LBP LPB'000	Total LPB'000
ASSETS						
Cash and deposits with central banks	2,966,652,805	1,090,788,832	499,609,844	126,155	7,833,248	4,565,010,884
Deposits with banks and financial institutions	2,633,465	507,015,543	9,299,038	43,335,109	38,501,186	600,784,341
Loans to banks and financial institutions	50,484,852	-	-	-	-	50,484,852
Loans and advances to customers	384,783,383	938,246,056	32,246,507	371,312	8,989	1,355,656,247
Loans and advances to related parties	6,243,114	62,239,578	1,711	-	-	68,484,403
Investment securities at fair value through profit or loss	788,088,249	8,233,945	-	-	-	796,322,194
Investment securities at amortized cost	1,157,398,624	1,992,331,738	110,975,288	-	-	3,260,705,650
Customers' liability under acceptances	-	24,127,152	13,363,101	-	1,175,608	38,665,861
Assets acquired in satisfaction of loans	5,586,299	19,025,715	-	-	-	24,612,014
Property and equipment	40,965,383	11,862,615	56,102	-	994,232	53,878,332
Intangible assets	810,954	-	2,754	-	2,341	816,049
Other assets	7,506,016	1,242,236	139,339	-	267,444	9,155,035
Total Assets	**5,411,153,144**	**4,655,113,410**	**665,693,684**	**43,832,576**	**48,783,048**	**10,824,575,862**
LIABILITIES						
Deposits from banks and financial institutions	686,789	31,873,093	1,011,700	248,946	1,289	33,821,817
Customers' accounts	3,438,216,904	4,271,880,224	565,769,654	41,409,644	49,646,225	8,366,922,651
Related parties accounts	189,260,050	63,832,551	33,048,192	157,243	(1)	286,298,035
Liability under acceptance	-	24,127,152	13,363,101	-	1,175,608	38,665,861
Other borrowings	405,749,149	-	-	-	-	405,749,149
Other liabilities	672,281,341	76,239,391	(46,008,248)	(2,005,050)	(921,330)	699,586,104
Provisions	27,083,650	34,971,542	-	-	-	62,055,192
Subordinated bonds	-	60,560,199	-	-	-	60,560,199
Total Liabilities	**4,733,277,883**	**4,563,484,152**	**567,184,399**	**39,810,783**	**49,901,791**	**9,953,659,008**
Currencies to be delivered	-	69,720,357	8,490,973	-	10,332,569	88,543,899
Currencies to be received	-	(18,851,630)	(56,159,657)	(2,039,931)	(11,817,728)	(88,868,946)
Net on-balance sheet financial position	-	50,868,727	(47,668,684)	(2,039,931)	(1,485,159)	(325,047)
	677,875,261	**142,497,985**	**50,840,601**	**1,981,862**	**(2,603,902)**	**870,591,807**

	December 31, 2016		December 31, 2016			
	LBP LPB'000	USD C/V in LBP LPB'000	EURO C/V in LBP LPB'000	GBP C/V in LBP LPB'000	Other Currencies C/V in LBP LPB'000	Total LPB'000
ASSETS						
Cash and deposits with central banks	2,962,355,450	703,684,959	443,931,608	248,920	10,098,608	4,120,319,545
Deposits with banks and financial institutions	36,173,479	228,204,699	17,904,923	47,686,526	41,863,048	371,832,675
Loans to banks and financial institutions	61,153,584	-	-	-	-	61,153,584
Loans and advances to customers	352,044,529	1,047,626,106	39,392,922	499,646	568,780	1,440,131,983
Loans and advances to related parties	28,003,534	71,121,571	41,093	-	-	99,166,198
Investment securities at fair value through profit or loss	639,038,645	4,827,010	-	-	-	643,865,655
Investment securities at fair value through other comprehensive income	-	1,967,790	-	-	-	1,967,790
Investment securities at amortized cost	1,192,727,545	2,044,951,405	97,526,259	-	-	3,335,205,209
Customers' liability under acceptances	-	31,057,514	13,961,405	-	-	45,018,919
Assets acquired in satisfaction of loans	5,586,299	19,025,715	-	-	-	24,612,014
Property and equipment	43,882,194	8,183,144	52,997	-	1,560,632	53,678,967
Intangible assets	727,432	-	27	-	6,250	733,709
Other assets	7,324,007	1,880,266	93,586	-	268,093	9,565,952
Total Assets	**5,329,016,698**	**4,162,530,179**	**612,904,820**	**48,435,092**	**54,365,411**	**10,207,252,200**
LIABILITIES						
Deposits from banks and financial institutions	187,620	58,536,141	1,451,257	554,069	484,944	61,214,031
Customers' accounts	3,734,721,311	3,721,813,138	590,353,862	44,418,767	46,873,921	8,138,180,999
Related parties accounts	197,213,482	39,710,029	26,658,809	2,223,364	-	265,805,684
Liability under acceptance	-	31,057,514	13,961,405	-	-	45,018,919
Other borrowings	97,778,129	-	-	-	-	97,778,129
Other liabilities	697,287,900	13,621,381	24,743,434	1,435,236	(1,501,053)	735,586,898
Provisions	19,903,142	15,760,708	-	-	-	35,663,850
Subordinated bonds	-	60,554,020	-	-	-	60,554,020
Total Liabilities	**4,747,091,584**	**3,941,052,931**	**657,168,767**	**48,631,436**	**45,857,812**	**9,439,802,530**
Currencies to be delivered	-	28,315,216	49,724,434	-	448,058	78,487,708
Currencies to be received	-	(52,890,199)	(25,843,935)	-	(2,483,787)	(81,217,921)
Net on-balance sheet financial position	-	(24,574,983)	23,880,499	-	(2,035,729)	(2,730,213)
	581,925,114	**196,902,265**	**(20,383,448)**	**(196,344)**	**6,471,870**	**764,719,457**

44. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

	December 31, 2017		December 31, 2017			
	Notes	Carrying Amount LPB'000	Level 1 LPB'000	Level 2 LPB'000	Level 3 LPB'000	Total LPB'000
Financial assets measured at fair value						
Investment securities held at fair value through profit or loss						
Quoted equity securities	10	5,026,271	5,026,271	-	-	5,026,271
Unquoted equity securities	10	3,008,151	-	-	3,008,151	3,008,151
Lebanese treasury bills	10	708,856,163	-	-	708,856,163	708,856,163
Lebanese Government bonds	10	376,930	-	-	376,930	376,930
Certificates of deposit issued by the Central Bank of Lebanon	10	63,797,216	-	-	63,797,216	63,797,216
		781,064,731	**5,026,271**	-	**776,038,460**	**781,064,731**
Financial assets not measured at fair value						
Term placements with Central Bank of Lebanon in Lebanese Pound	5	2,508,800,000	-	2,985,271,424	-	2,985,271,424
Term placements with Central Bank of Lebanon in Foreign currencies	5	1,507,110,703	-	1,400,093,245	-	1,400,093,245
Customers' loans and advances	8	1,354,908,196	-	1,399,427,816	-	1,399,427,816
Investment securities at amortized costs						
Lebanese treasury bills	12	419,816,701	-	-	429,496,776	429,496,776
Lebanese Government bonds	12	1,099,328,252	-	-	1,114,962,711	1,114,962,711
Certificates of deposit issued by Central Bank of Lebanon (in LBP)	12	702,994,681	-	-	716,460,555	716,460,555
Certificates of deposit issued by Central Bank of Lebanon (in Foreign Currencies)	12	972,664,294	-	-	946,025,213	946,025,213
Certificates of deposit issued by other banks	12	753,750	-	-	752,950	752,950
		8,566,376,577	-	**5,784,792,485**	**3,207,698,205**	**8,992,490,690**

		December 31, 2016	December 31, 2016			
	Notes	Carrying Amount LPB'000	Level 1 LPB'000	Level 2 LPB'000	Level 3 LPB'000	Total LPB'000
Financial assets measured at fair value						
Investment securities held at fair value through profit or loss						
Quoted equity securities	10	4,827,011	4,827,011	-	-	4,827,011
Unquoted equity securities	10	179,222	-	-	179,222	179,222
Lebanese treasury bills	10	510,868,294	-	-	510,868,294	510,868,294
Certificates of deposit issued by the Central Bank of Lebanon	10	116,473,484	-	-	116,473,484	116,473,484
		632,348,011	**4,827,011**	-	**627,521,000**	**632,348,011**
Investment securities at fair value through other comprehensive income						
Unquoted equity securities	11	**1,967,790**	-	-	**1,967,790**	**1,967,990**
Financial assets not measured at fair value						
Term placements with Central Bank of Lebanon in Lebanese Pound	5	2,670,000,000	-	2,709,018,796	-	2,709,018,796
Term placements with Central Bank of Lebanon in Foreign currencies	5	1,099,242,748	-	1,016,193,309	-	1,016,193,309
Customers' loans and advances	8	1,431,224,900	-	1,487,735,175	-	1,487,735,175
Investment securities at amortized costs						
Lebanese treasury bills	12	317,495,963	-	-	317,311,464	317,311,464
Lebanese Government bonds	12	1,036,948,319	-	-	1,019,139,534	1,019,139,534
Certificates of deposit issued by Central Bank of Lebanon (in LBP)	12	836,529,925	-	-	840,612,198	840,612,198
Certificates of deposit issued by Central Bank of Lebanon (in Foreign Currencies)	12	1,072,243,914	-	-	1,038,320,940	1,038,320,940
Certificates of deposit issued by other banks	12	753,750	-	-	733,810	733,810
		8,464,439,519	-	**5,212,947,280**	**3,216,117,946**	**8,429,065,226**

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

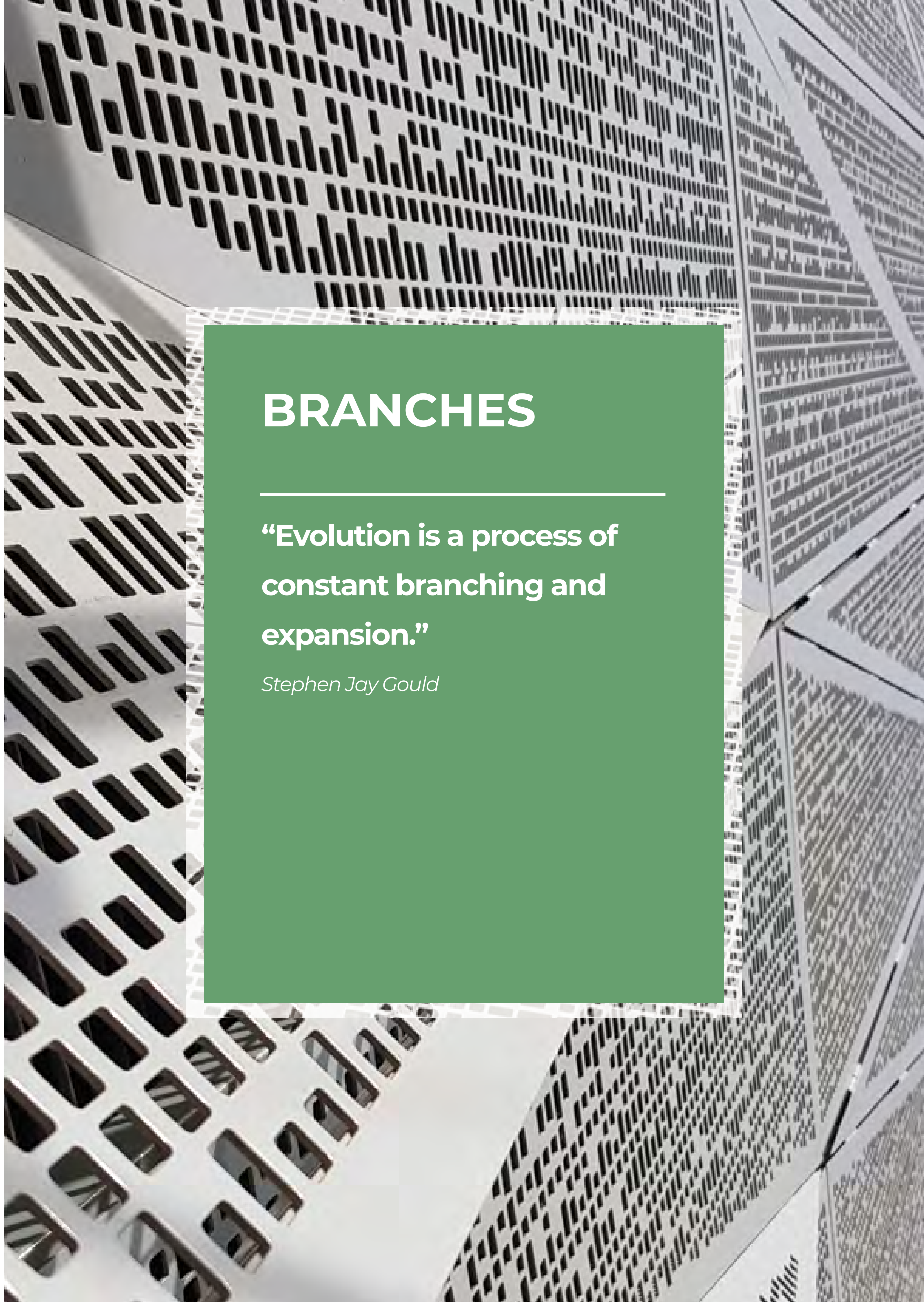
Valuation techniques, significant unobservable inputs, and sensitivity of the input to the fair value

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

Financial Instruments	Date of Valuation	Valuation Technique and Key Input	Significant Unobservable Inputs
Lebanese treasury bills	December 31, 2017 and 2016	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bills, adjusted for illiquidity using Bank's internal policy.	Illiquidity factor for instruments of long term maturities
Certificates of deposit in LBP issued by Central Bank	December 31, 2017 and 2016	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bills, adjusted for illiquidity using Bank's internal policy	Illiquidity factor for instruments of long term maturities
Certificates of deposit in foreign currencies issued by Central Bank	December 31, 2017 and 2016	DCF at discount rates based on observable yield curves at the measurement date.	N/A
Lebanese Government bonds	December 31, 2017 and 2016	DCF at discount rates determined based on the yield on USA treasury bills and the Credit Default Swap applicable to Lebanon subject to illiquidity.	Illiquidity factor ranges between 1.5% and 3%
Term deposit with 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 bills, adjusted for illiquidity.	N/A
Term deposits with Central Bank of Lebanon in foreign currency	December 31, 2017 and 2016	DCF at a discount rate determined based on the yield on USA treasury bills and the Credit Default Swap applicable to Lebanon subject to illiquidity factor.	N/A
Loans and advances to customers	December 31, 2017 and 2016	DCF at discount rates based on average rate of return of the receivables bearing fixed interest rate for more than one year.	N/A

45. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements for the year ended December 31, 2017 were approved for issuance by the Board of Directors in its meeting held on May 16, 2018.



BRANCHES

"Evolution is a process of constant branching and expansion."

Stephen Jay Gould

Lebanon

IBL Bank has developed twenty local operational branches since the opening of its Head Office in Achrafieh. Eight of those branches are located in the Greater Beirut area. The remaining branches are distributed as follows: Four in the North of Lebanon, two in the South of Lebanon, Five in the Mount Lebanon area, and one in the Bekaa region.

In its early years, the Bank greatly expanded its network by launching nine new branches, seven of which were a result of the acquisition of BCP Oriel Bank in 1999. Further developments occurred in later years. In 2002, a branch was opened in Kobayat (North Lebanon). Additionally, in 2004, a branch was opened in Tyr (South Lebanon) and another in Chtaura (Bekaa region). In 2005, a branch was initiated in Hazmieh (Baabda region).

To ensure a stronger presence on Lebanese territory, the Bank further expanded in 2008 by instigating the Verdun (Beirut) and Antelias (Mount Lebanon) branches. Moreover, in 2009, a new branch was inaugurated in Elissar (Mount Lebanon). In 2011, two branches were instated – one in each of Balamand (North Lebanon) and Byblos (Mount Lebanon). Finally, two additional branches were established in the Greater Beirut area: one in Jnah, opened in 2012, and the other in Sioufi, which became operational in the final quarter of 2014.

In addition to its vast network of branches, a sister bank, IBL Invest, was initiated in Verdun, Beirut, in 2011.

Moreover, new premises for branches are scheduled to be inaugurated throughout the outcoming year.

Abroad – Iraq and Cyprus

Following the satisfactory results that ensued from the opening of a representative office in Erbil, a city in the Kurdistan region of northern Iraq in 2006, the Board of Directors came to a decision to leverage the Bank's first mover advantage in Iraq. The representative office was promoted to a fully functioning branch that began operating in 2008. In 2010 and 2014, the Bank further developed its presence in Iraq by building an additional branch in each of Baghdad and Basra, respectively.

The success resulting from its ventures abroad led the Bank to move towards expanding in a new area: Europe. In 2007, the Bank obtained a license from the Central Bank of Cyprus to operate in Limassol, Cyprus. A branch was subsequently instigated on Makarios III Avenue, Limassol, and became operational in 2008.

To conclude, the Bank primarily sees its branches abroad as a means to diversify its stream of deposits, investments, and revenues. As part of its future expansion goals, the Bank aims to attract deposits and new business through the large and wealthy Lebanese and Arab communities in the Latin American, European, and Arab regions.

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Manager: Mr. Omar Hammoud

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Manager: Mr. Rabih Abi Ghosn

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