FIRST NATIONAL BANK S.A.L.

SERVING FOR A CHANGE

ANNUAL REPORT
2017

FIRST NATIONAL BANK S.A.L.

ANNUAL REPORT 2017

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CHAIRMAN'S LETTER

The repercussions of political and economic instability in Lebanon were fairly managed by the country resulting in slightly improved economic activity in 2017, however indicating another year of slow economic growth under the burden of a sizeable refugee population and socio-political uncertainty. As a result, the real **GDP growth** for the year **2017** was around **2.5%**, that is still way below the requirements of a tangible and significant recovery.

The Lebanese Banking Sector, demonstrating its traditional resilience, reported a general increase in the total assets though at a slower pace. Interest rates and dollarization levels moved upwards following the temporary political unrest in the fourth quarter of the year. The sector's assets grew by **7.6%** in 2017 to reach **US$ 220 billion** representing more than **350%** of the country's GDP. The activity growth variations were to a large extent explained by the major driver, customer deposits, which grew by **US$ 6.2 billion** for the whole year 2017, the equivalent of **3.8%** growth on an annual basis. The Banking Sector deposits grew at a slower pace in 2017 due to the short-lived political crisis in November, resulting in some deposits outflow. The return to stability by the end of the year helped improve operating conditions and witnessed funds inflow back to the country.

FNB concluded the year with relatively good results despite the tremendous challenges of the fiscal and the economic slowdown in Lebanon and the region as well as the recent increase in tax rates. As a result, the Bank's total consolidated assets reached around **USD 4.9** billion at the end of 2017, recording a growth of **8.76%**, while Net Profit amounted to around **USD 30 million**. The Bank's Equity increased to reach around **USD 345 million**, which boosted the solvency ratio to around **14.5%** when taking into consideration the **2017** retained profits. Customers' Deposits grew by **9.6%** to reach **USD 3.94 billion** versus **3.9%** for the domestic banking activity, whereas Loans to Customers increased by **5.4%** to reach **USD 1.1 billion**, maintaining a conservative ratio to deposits of approximately **27%**.

The year 2017 witnessed a good progress of the Bank's long-term strategy, to deliver strong operating performance and to maintain cost efficiencies based on diversified funding opportunities, enhanced technological development and organic expansion.

In June 2017, European Investment Bank (EIB), a shareholder at FNB (holder of Preferred Shares Series A), offered the Bank and three other top tier Lebanese banks a financing facility under the "Lebanon Private Sector Support" program. This program aims to provide credit lines to local financial intermediaries in Lebanon to finance small and medium-sized projects carried out by Small and Medium Enterprises (SMEs). The purpose of the program is to finance SMEs in a wide spectrum of eligible sectors to support the Lebanese economy, including among other factors, enhancing employment opportunities.

During the year, the Bank notably enhanced customer experience and improved products and services by upgrading the existent technological infrastructure and developing new technological delivery channels with an aim to offer our customers state-of-the-art solutions and applications in line with their personal and business needs.

FNB also expanded its presence by inaugurating during 2017 a new branch in Tyre, and another branch in Zahle ready for opening soon. FNB is currently working on additional two new branches in Fanar and Chiyah areas, projected to be opened in 2018, in addition to the rehabilitation of the IT data center in Jdeideh. Moreover, the Bank has initiated the "Smart Zone" project.

Guided by strong commitment to customers, employees, shareholders and the environment, FNB's leadership vision brings together the essential prerequisites for maintaining the long-term health and growth of our Bank. FNB will continue to be inspired by its vision, and driven and motivated by its goals and objectives to serve all its stakeholders.

RAMI EL NIMER

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

STATUTORY BODY
MANAGEMENT

STATUTORY BODY

The corporate governance guidelines, adopted by First National Bank, provide a framework to regulate the relationships between shareholders, supervisors and management.

A clear separation between the oversight, vision setting, supervision and execution is reflected in the corporate governance structure. The Board makes every effort to balance the interest of its shareholders, customers, employees and suppliers.

Furthermore, the Board ensures effective governance, supervises the management of the bank's business and affairs, and exercises reasonable business judgment on behalf of the bank. In all actions taken by the Board, the members act on a fully informed basis, in good faith and with due diligence, keeping in mind the best interests of the bank. In discharging their obligation, Board members rely, among other things, on the honesty and integrity of the bank's senior management and its outside advisors and external auditors.

CHAIRMAN

The Chairman and Vice-Chairman of the Board are appointed by the Board of Directors for a maximum period of three years. The Chairman may delegate some or all of his authority to another person who operates under his supervision, but remains responsible for the acts and performance of his delegates. The General Managers, Deputy General Managers and Assistant General Managers are endorsed by the Board upon the recommendation of the Chairman. They assist the Chairman in the daily operations of the bank. The Chairman has extensive powers to execute resolutions adopted by the shareholders at the Ordinary or Extraordinary General Assembly and to represent the bank in its different activities.

BOARD OF DIRECTORS

The Board of Directors consists of nine elected members and is chaired by Mr. Rami El Nimer. The election of the members takes place at the Annual General Assembly of Shareholders for a maximum period of three years and is renewable. Board members need General Assembly authorization to be elected members in other entities with similar business activities. The renewal of this authorization is mandatory at each Annual General Assembly of Shareholders.

The Board of Directors of First National Bank in 2017 is composed of the following 9 members:

Mr. Rami Refaat El Nimer is an experienced banker who has many notable achievements in the banking industry. He has served as director and Chairman of the bank since March 2001. Additionally, Mr. El Nimer is the Chairman of FNB Finance S.A.L. and holds other corporate responsibilities within the business community.

Mr. Fawzi Elias Farah is the Vice-Chairman of the bank. He has been a director of the bank since May 2014. He has more than 38 years of professional experience in international commercial and investment banking as the Managing Director and Regional Manager for Lehman Brothers Inc. in the Middle East in addition to various banking positions in New York, London, and the Middle East. Mr. Farah is the Chairman-CEO of FNB Holding Limited and a member of the Board of Directors in CSC Bank S.A.L., and on other corporate, academic and charitable entities in Lebanon and the Gulf region.

Mr. Abdallah Saoud Al Humaidhi has been a director of the bank since June 1996. He is also a member of the Board of Directors of the Arab Banking Corporation in Bahrain. Mr. Al Humaidhi is the Chairman and Managing Director of Commercial Facilities Company K.S.C., and a Board member of the Chamber of Commerce and Industry in Kuwait, in addition to other Kuwaiti organizations.

Mr. Roland Elias Haraoui has been an executive member of the Board of Directors since 2001. In addition, Mr. Haraoui is the Chairman and General Manager of FNB Holding S.A.L. and FNB Development S.A.L., Vice Chairman of FNB Holding Limited, as well as a Board member of FNB Finance S.A.L. He is a Lebanese businessman with an exceptional leadership profile.

Mr. Arfan Khalil Ayass has been a director of the bank since August 2009. He is a Board member of FNB Finance S.A.L. since November 2016, a member of the American Institute of Certified Public Accountants and the Lebanese Society of Certified Public Accountants. Mr. Ayass is currently a faculty member of Rafic Hariri University.

Mr. Moustapha Hadi Bey M. Saoud El Assaad has been a director of the bank since September 2014. Between 2004 and 2008, Mr. El Assaad was the General Manager of Qatar National Bank – Paris, and was also associated with other international banks. He is an international expert and a member of the French Institute of Directors in Paris (IFA); he actually participates in advising and developing several banks.

Mr. Georges Nassib Awad has been a director of the bank since May 2017. He is a seasoned banker who has served as an Advisor to the Chairman since 2012. Between 2003 and 2012, Mr. Awad occupied the position of Deputy General Manager of the bank. Throughout his career, he held leadership positions at other banking institutions and currently serves as a member of the Board of Directors of FNB Capital S.A.L. and some other local institutions.

Promotion des Investissements S.A.L. (Holding) has been elected as a Board member since April 2000 and is currently represented by Mr. Omar Lababidi. It is a Lebanese holding company that primarily invests its financial and industrial concerns in Lebanon.

Al Muttahida Lil Istithmar (Lebanon) S.A.L. (Holding) has been elected, through its representative Mr. Romen Mathieu, as a Board member since 2004. It is a Lebanese holding company that invests its financial and industrial concerns in Lebanon.

MANAGEMENT

FNB S.A.L. (FIRST NATIONAL BANK)

GENERAL MANAGEMENT

Mr. Rami R. El Nimer
Chairman - General Manager

Mr. Elias S. Baz
General Manager

Mr. Najib M. Semaan
General Manager

Mr. Ghaithan S. Tayara
Deputy General Manager

Mr. Mahmoud G. Francis
Assistant General Manager

Mr. Tony W. Dabbaghian
Assistant General Manager

Mr. Antoine C. Wakim
Assistant General Manager

Mr. John N. Chalouhi
Assistant General Manager

Mr. Salim L. Karroum
Group Chief Compliance Officer

Mr. Oussama F. Chedid
Group Chief Audit Executive

HEAD OFFICE – MANAGERS

Mr. Assaad K. Saliba
Foreign Exchange Department

Ms. Carine N. Jbeily
Retail Credit Department

Ms. Carole A. Abi Saad
Organization & Methods Department

Ms. Chantal R. Freiji
Financial Institutions & Correspondent Banking Department

Mr. Charles W. Skaff
Administration Department

Ms. Dima H. El Dairy
Marketing & Communication Department

Mr. Elie G. Abou Zeidan
Legal Department

Mr. Elie M. Rahal
Trade Finance Department

Mr. Gaby L. Tchennozian
Private Banking Department

Mr. George K. Boustany
Information Technology Security Department

Mr. Houssam Z. Khaywa
Operations Department

Mr. Joseph E. Estephan
Recovery & Restructuring Department

Mr. Khalil K. Badran
Administrative Services Department

Ms. Liza G. Deryeghiayan
Management Information Systems Department

Ms. Marie-Rose E. Kallas
Corporate Credit Analysis Department

Ms. Marie-Therese E. Obeid
International Corporate Credit Banking Department

Mr. Marwan B. Khawand
Information Technology Department

Mr. Nabil J. Semaan
Human Resources Department

Ms. Nada F. El Zein
Credit Appraisal Department

Ms. Nadia A. Khalifeh
Project Manager

Ms. Nadine R. Abou Zeid
Anti-Money Laundering Unit

Mr. Naji N. Maalouf
Corporate Banking Department

Ms. Nazira G. Khalaf
Corporate Secretary

Mr. Philippe A. Abou Azar
Small & Medium Enterprises Credit Department

Mr. Raymond N. Yazbeck
Credit Administration Department

Ms. Raymonda D. Abboud
Credit Inspection Department

Ms. Soumaya Y. Haris
Head of Group Treasury

Mr. Walid B. Rizk
Electronic Banking Department & Consumer Protection Unit

Mr. Wassim M. Daouk
Chief Risk Officer

ADVISORS

Me. Jean Claude M. Chamoun
(Legal Advisor)

Me. Mansour A. Breidi
(Legal Advisor)

Mr. Nabil M. Soubra
(Consultant to Chairman - Foreign Affairs)

Me. Rawi B. Kanaan
(Legal Advisor)

Me. Sakhr C. El Hachem
(Legal Advisor)

Abou Sleiman & Partners
(Legal Advisor)

AUDITORS

Deloitte & Touche

DFK Fiduciaire Du Moyen-Orient

FNB CAPITAL S.A.L.

GENERAL MANAGEMENT

Mr. Najib M. Semaan
Chairman - General Manager

Mr. Antoine E. Kozma
Chief AML & Compliance Officer

Mr. Ihab W. Tabet
Finance Department

FNB FINANCE S.A.L.

GENERAL MANAGEMENT

Mr. Tarek I. Kombarji
Chief Executive Officer

Mr. Rony M. Khoneisser
Assistant General Manager

CFH GROUP (CORPORATE FINANCE HOUSE GROUP)

GENERAL MANAGEMENT

Mr. Fawzi E. Farah
Chairman - Chief Executive Officer

Mr. Abdul Karim M.B. Chamseddine
Chief Operating Officer - Deputy CEO

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

INTRODUCTION

First National Bank S.A.L. (FNB) is a Lebanese joint-stock company founded in 1994. The bank operates under the supervision and regulation of the Central Bank of Lebanon, and is registered on the list of banks under number 108. FNB has long been recognized as one of the leading banking institutions in Lebanon. The bank undertakes all forms of commercial and investment banking activities, motivated by a profound commitment to a unified entity and customer-driven performance.

FNB is classified among the largest Lebanese banks, offering a full array of financial and banking services covering retail banking, corporate banking, private banking, as well as investment banking and financial advisory services. FNB caters to the diverse needs of its customers with proficiency and due diligence through its 27 branches, 52 ATMs and 658 employees.

Over the years, FNB has managed to widen its network through the acquisition of three financial institutions: FNB Holding Ltd. (formerly Middle East Capital Group Ltd.) in 2008, FNB Finance S.A.L. (formerly Capital Finance Company S.A.L.) in 2010, and Corporate Finance House Group (CFH) in 2014. Each of these institutions served as a key pillar in developing and expanding the sound and proficient body of financial and banking facilities.

The following section underlines the bank's consolidated performance and financial soundness over the course of 2017. The discussion and analysis is based on the audited consolidated financial statements of the bank for the fiscal years ended December 31, 2016 and December 31, 2017. Terms such as "First National Bank", "the bank" or "the Group" refer to First National Bank S.A.L. and its consolidated subsidiaries.

In conformity with regulatory requirements, the bank discloses its accounts in Lebanese Pounds (LBP) and in compliance with the International Financial Reporting Standards (IFRS). The figures presented in the management discussion and analysis are also denominated in LBP, unless otherwise stated. The consolidated financial statements have been jointly audited by Deloitte & Touche and DFK Fiduciaire du Moyen-Orient. It is also worth noting that all references to the Lebanese banking sector denote the 49 Lebanese commercial banks, as designated by the Association of Banks in Lebanon (ABL). Furthermore, all references to peer groups represent the Alpha Group, which is classified by Bankdata Financial Services and composed of 15 banks with customers' deposits of over USD 2 billion.

The discussion and analysis starts with an overview of the strategy, economic environment and banking sector, followed by a timeline illustration of the key financial highlights of FNB. Then comes a comparative analysis of the Group's financial performance, mirroring the results between year-end 2017 and year-end 2016. This part is subsequently followed by the developments and achievements of several departments during 2017.

STRATEGY

Within the context of regional and domestic uncertainties, diverse customer expectations, and tighter regulatory requirements, the bank has formulated its strategy to tackle those changes which are challenging our revenue environment and banking investments. The strategy aims at delivering the best insights to our clients while reaching top-notch performance and resilience. Hence, the goal of FNB is to improve the agility and collaboration across the Group, increase efficiency in operations and quality in assets, and develop internal processes and controls.

Additionally, FNB aspires to position itself as a 'service quality' provider with a drive toward customer-oriented financial operations. Amidst the socioeconomic turmoil, FNB is working on maintaining cost effectiveness and group synergy in optimizing internal processes and capital buffers, within an appropriate risk profile.

The bank's strategy revolves around three main pillars: first, the provision of a better service quality and efficiency through customer centricity and brand integration throughout the Group as a whole; second, the strengthening of product positioning relative to competition and current market conditions; furthermore, and in order to monitor performance and profitability, the third pillar tackles the development of new assessment and monitoring programs, with the aim of enhancing internal monitoring systems and keeping bank risks under close watch and within acceptable limits. Finally, and in line with recent developments and the bank's confidence in Lebanon's resilience, management is preparing to resume their expansion plan as soon as regional and local uncertainties abate.

ECONOMIC ENVIRONMENT

Many challenges are still undermining the economies of the MENA region, namely coping with geopolitical tensions, refugee crises, and escalating unemployment and debt burdens. Nevertheless, the year 2017 still holds a positive outlook for the region, as anticipated by the World Bank. In details, the estimated MENA real economic growth is at 2.0% in 2017, and projected at 3.1% and 3.3% in 2018 and 2019, respectively. This improvement is due to the recovery in oil prices, implementation of fiscal adjustments, and reconstruction initiatives in the war-torn areas, as cited by the World Bank. On a local basis, Lebanon has always been engulfed by the regional spillovers and insecurity, but this will not hinder the country's ability to benefit from some positive prospects in the horizon.

The economic activity recorded a moderate improvement over the previous year, signaling another phase of slow economic growth. On a positive note, the year 2017 could be viewed as a stepping stone into a promising future for Lebanon over the long term, with the prospect of undertaking socioeconomic reforms and investments on relatively stable grounds.

MAJOR DEVELOPMENTS

During 2017, Lebanon was able to successfully weather a political unrest due to the resignation of Prime Minister Saad Hariri in November, which was later withdrawn from his part. Moreover, the Lebanese government approved the adjustment of salaries of public sector employees and pensions of retired civil servants. This was followed by tax amendments which were introduced along with new taxes and duties during the second half of the year as per Law No. 64. Such revenue financing measures affected the profits of the domestic banks, which were mainly concerned with the increase of:

- Corporate income tax from 15% to 17%.
- Capital gain tax on disposal of fixed assets from 10 to 15%.
- Dividend distribution tax on listed entities from 5% to 10%.
- Tax on credit interest from 5% to 7%.

However, it is imperative to implement those taxes in conjunction with specific economic measures aimed at strengthening productive sectors, decreasing the cumulative budget deficit, stabilizing the debt-to-GDP ratio, and allocating capital toward profitable investments in the private sectors through investment financing by banks. In other words, banks will be able to maintain their primary role as drivers of the economy with both its aspects, private and public.

On the other hand, the year 2017 marked a few achievements on the part of the government, namely the ratification of the budget for the first time in twelve years. There is no doubt that this move lays the foundation for the implementation of structural reforms along with fiscal and monetary frameworks that should uphold a sustainable economic growth, as advised by the IMF. This budget comes in line with the capital investment program launched by the Lebanese government aiming to tap into USD 16 billion of finances, in order to alleviate the burden of the refugee crisis on the Lebanese resources and public infrastructure, especially given that Lebanon is still hosting almost two million international migrants, which represent about 31.9% of its population, and have surged by 180% throughout the years 2000 to 2017, as per the United Nations figures. The aid package is expected to launch a major sectorial development plan to complement fiscal adjustments and structural reforms, which in turn should improve the overall economic activity.

THE FUTURE OF GAS IN LEBANON

Another promising milestone is the exploration of gas in Lebanon. This sector, if well developed and managed, will endow Lebanon with rich resources, greater job opportunities, and tremendous revenues. A sound and well framed fiscal policy along with an enhanced institutional framework, as advised by the IMF, need to be in place so as to encourage investors into this new arena, as well as preserve a sustainable source of revenue for future generations. In addition, and according to the IMF, this sector will reap long-term benefits in power exports and production size, which is expected to last 35 years and reach full capacity by 2036. Lebanon's stake will be at least 55% and gas revenues will reach 4% of GDP by the end of next decade as expected by the IMF.

Correspondingly, this new sector paves the way for a better economic future and improved public finance conditions, provided that the government shows commitment toward the effective use of the natural riches and financial resources. This is in no doubt a huge investment and a great potential for wealth and capital generation in conjunction with an anti-corruption framework and structural reforms to be set out by the government in the middle run.

FINANCIAL AND ECONOMIC PERFORMANCE

In terms of overall performance and financial soundness, the BDL coincident indicator for December 2017 reached 318.3, up from 292.2 in December 2016, thus reflecting a positive business climate as a whole. Moreover, the real GDP growth was estimated by the World Bank at 2% in 2017 (same as 2016). Moreover, the World Bank sources stated that private sector consumption contribution to GDP growth rose in 2017, after contracting from 2014 to 2016. According to the same sources, the outlook on real GDP is neutral with an unchanged 2.0% throughout the 2018-2020 period.

As for the balance of payments, a cumulative deficit of

USD 155.7 million has been recorded at the end of 2017, against a cumulative surplus of USD 1,237.5 million in 2016. Such deficit was largely driven by a drop in the net foreign assets of banks and financial institutions followed by an increase in the net foreign assets of the Central Bank. Furthermore, trade deficit reached USD 16,736.6 million at the end of 2017, a 3.7% increase as compared to USD 16,142.4 million at the end of 2016, which was largely due to a surge of imports by almost 2.4%, against a 4.5% decrease of exports on an annual basis.

According to the Ministry of Finance, the net public debt, which excludes public sector deposits at commercial banks and the Central Bank, reached LBP 104,500 billion at year-end 2017, registering an annual increase of 5.9%. In this context, gross debt-to-GDP rose from 148% at year-end 2016 to 151% at year-end 2017, both figures being much higher than previous annual records since 2009. As per the Central Administration of Statistics, the Consumer Price Index for Lebanon increased by 5.0% year-on-year (YOY), reflecting an escalating cost of living.

As for the financial sector, its stability has been strengthened by the unconventional financial engineering operations conducted by the Central Bank. Those measures helped boost gross reserves of BDL and the capital of banks. However, IMF staff deemed those operations as unsustainable funding techniques, despite providing a significant buffer against tough international financial regulations. With respect to the financial markets, the volume of traded shares decreased by 36.8% YOY, and the value of traded shares fell by 10.2% YOY between the end of 2017 and the end of 2016. Also, Lebanon 5-year CDS spreads reached 520 basis points at the end of 2017, up by 42 basis points from 478 basis points at the end of 2016. The spread hit 640 basis points in November 2017, reflecting a worsening of the country's sovereign risk.

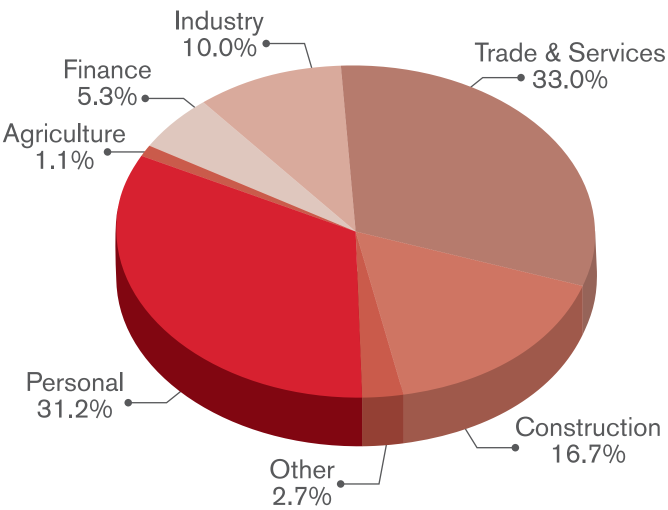
At the real sector level, several indicators witnessed a yearly improvement, of which we mention a 12.7% increase in electricity production and a 0.6% rise in plane traffic paralleled by the 8.2% surge in passenger flow at the Beirut International Airport, in addition to a 14.3% surge in air freight, a 6.4% increase in cleared checks, and a 2.5% rise in new car sales. On the downside, however, some indicators regressed over the year as compared to 2016, with a 4.1% fall in construction permits, a 5.8% drop in the volume of maritime freight at the Port of Beirut and a 2.2% contraction in cement deliveries.

BANKING SECTOR

The performance of the Lebanese banking sector has been challenged by the political unrest that surfaced in November 2017 and brought about some costly consequences, according to the IMF, of which the increase in interest rates by 2 to 3 percentage points on new LBP-denominated deposits and the widening of the spread of the Lebanese Eurobonds between 200 and 300 basis points, only to return to pre-crisis level by January 2018. Such repercussions, albeit circumstantial, beset overall market sentiment and consumer confidence. However, the unconventional policies adopted by the Central Bank of Lebanon since 2013 have been vital in fostering economic growth, preserving monetary and financial stability, and reinforcing the capital base of banks to meet IFRS 9 provisioning requirements at the start of 2018. According to the BDL, the stimulus packages amounted to USD 6 billion and contributed to half of GDP growth in the last four years.

The Lebanese banking sector has shown typical resilience and sound financial stance during the year 2017, with the consolidated assets of commercial banks at LBP 331,433 billion at the end of December 2017, recording a yearly growth of 7.6%. Loans to the private sector recorded a 5.5% yearly growth, mainly focused on individual loans and loans to trade and services, with 31.2% and 33.0%, respectively, while deposits by the private sector recorded a yearly rise of 3.8%.

DISTRIBUTION OF LOANS BY SECTOR IN 2017



Source: BDL Monthly Bulletin, December 2017

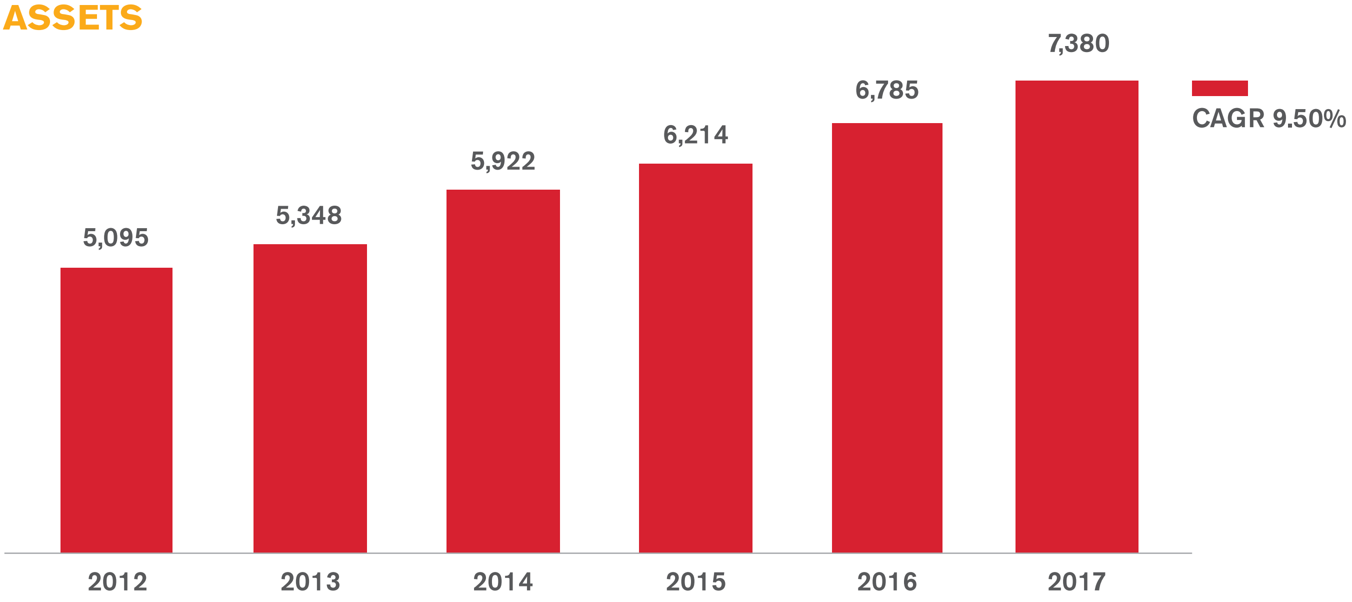
Furthermore, deposits denominated in LBP fell on a yearly basis by 5.01%, while deposits in foreign currency grew by 8.37%, hence causing an unusual spike in dollarization rate to 68.72% as compared to 65.82% at the end of 2016. Remarkably, the month of November was behind this yearly drop in LBP deposits, since the latter slumped by 5.28% due to weakening market confidence and increased conversions into foreign currencies. Moreover, the loans-to-deposits ratio stood at 35.76%, a slight increase from the December 2016 ratio of 35.19%. Shareholders' equity grew by 4.8% on a yearly basis, while the capital-to-asset ratio reached 8.70% at the end of 2017, down from last year's ratio of 8.93%. Regarding bank interest rates, the LBP weighted average lending rates decreased by 14 bps between 2016 and 2017, to reach 8.09%, while the rates of LBP-denominated deposits increased by 85 bps to record an average of 6.41%. Also, the USD weighted average lending and deposit rates increased by 32 bps and 37 bps and stood at 7.67% and 3.89%, respectively, at the end of 2017. These figures reflect the banking sector's ever dependence on depositor confidence. Notably, the Lebanese banking sector is due to benefit from the regional reconstruction efforts after the almost-over war on ISIS. Lastly, the new financing measures set out by the Lebanese government under the capital investment program will provide a key funding platform for investments and a great opportunity to overcome the current economic stalemate.

ECONOMIC AND BANKING ACTIVITY

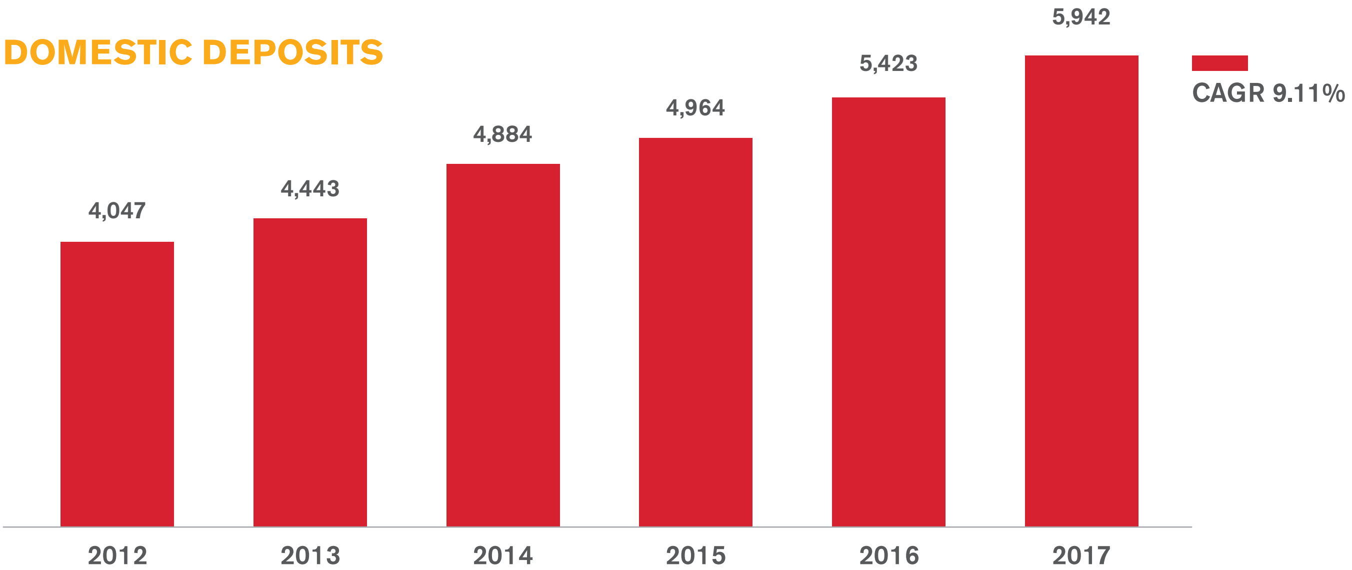
	2017	2016
BDL Coincident Indicator	318.3	292.2
Net Public Debt (Million USD)	104,500	98,642
COMMERCIAL BANKS FIGURES (Billion LBP)		
Total Assets	331,433	307,999
Total Deposits	254,261	244,961
Total Loans	90,931	86,198
Loans-to-Deposits Ratio	35.76%	35.19%
Dollarization in Deposits	68.72%	65.82%

FINANCIAL HIGHLIGHTS (BILLION LBP)

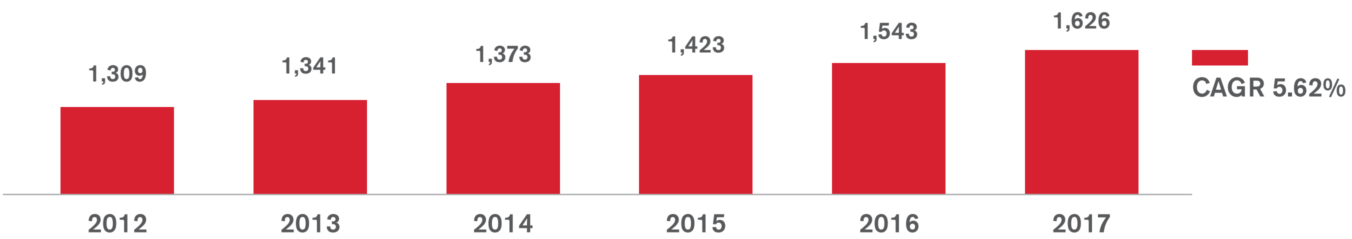
ASSETS



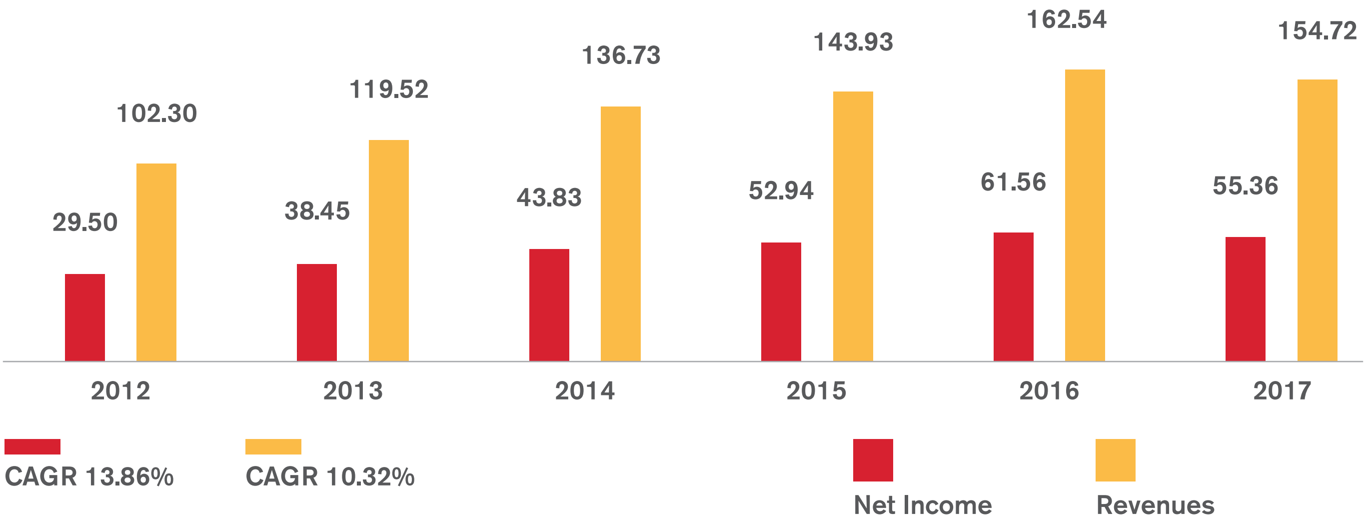
DOMESTIC DEPOSITS



LOANS AND ADVANCES TO CUSTOMERS



NET INCOME AND REVENUES



KEY PERFORMANCE INDICATORS (MILLION LBP)

SELECTED PERFORMANCE INDICATORS

	2017	2016	2015	2014	2013	2012
Assets	7,379,681	6,785,239	6,214,284	5,921,670	5,348,427	5,095,406
Loan and advances to customers	1,625,906	1,543,131	1,423,360	1,372,706	1,341,289	1,309,322
Customer's deposits	5,942,482	5,422,813	4,964,010	4,883,507	4,442,654	4,046,670
Shareholder's equity	674,937	639,436	598,730	438,952	376,498	349,873
Net income	55,360	61,563	52,941	43,832	38,455	29,500

ASSETS QUALITY						
Loans to deposits	27.36%	28.46%	28.67%	28.11%	30.19%	32.36%
Net doubtful loans / Total loans	1.76%	1.14%	0.74%	0.34%	0.94%	1.00%
Loan loss provisions / Gross loans	6.96%	6.83%	8.42%	7.76%	6.94%	7.32%
Net doubtful loans / Equity	4.23%	2.75%	1.76%	1.07%	3.35%	3.74%

CAPITAL ADEQUACY	2017	2016	2015	2014	2013	2012
Shareholders' equity to assets	9.15%	9.42%	9.63%	7.41%	7.04%	6.87%
Capital adequacy ratio	13.56%	13.56%	12.47%	11.72%	11.22%	8.69%

PROFITABILITY						
ROAA	0.78%	0.95%	0.87%	0.78%	0.74%	0.63%
ROACE	8.72%	10.49%	10.90%	12.13%	11.39%	9.44%
Earnings per share (LBP)	2,460	2,848	2,583	2,626	2,198	1,704

SUMMARY OF CONSOLIDATED FINANCIAL POSITION (MILLION LBP)

	2017	2016	Growth (%)
Liquid assets	2,915,643	2,009,358	45.1%
Portfolio securities	2,493,279	2,969,259	-16.0%
Loans to customers	1,625,906	1,543,131	5.4%
Other assets	183,809	146,270	25.7%
Fixed assets	161,044	117,222	37.4%
Total Assets	**7,379,681**	**6,785,239**	**8.8%**
Bank deposits	498,628	469.699	6.2%
Customers' deposits	5,942,482	5,422,813	9.6%
Other liabilities	263,635	253,291	4.1%
Shareholders' equity	674,937	639,436	5.6%
Total Liabilities and Shareholders' Equity	**7,379,681**	**6,785,239**	**8.8%**

Number of branches	27	26
Number of staff	658	662

BREAKDOWN OF ASSETS

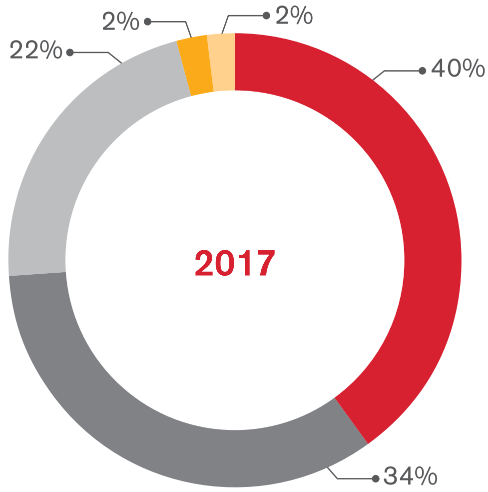
The charts below illustrate the breakdown of assets into four major classes as at the end of December 2017 compared to the end of December 2016.

Consolidated total assets increased significantly by 8.8% to LBP 7,380 billion as at the end of December 2017, from LBP 6,785 billion as at the end of December 2016.

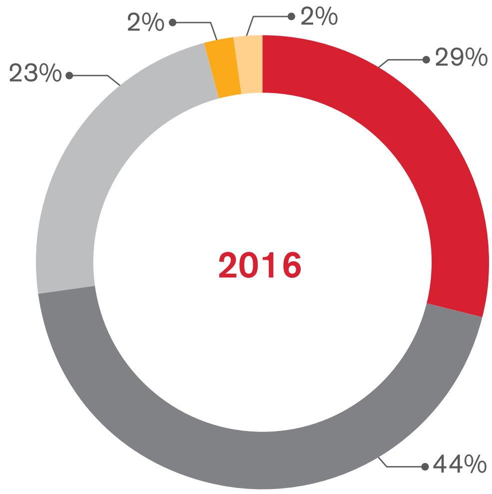
The predominant asset classes are liquid assets, portfolio securities, and loans and advances to customers.

Liquid assets represent the biggest asset category with 40% of the total consolidated assets at the end of 2017. Liquid assets include cash, accounts with the Central Bank of Lebanon, as well as banks and financial institutions. This category surged by 45.1% and reached LBP 2,916 billion at the end of 2017.

Portfolio securities account for 34% of total assets, and encompass Lebanese government bonds, Lebanese Treasury bills, certificates of deposit issued by the Central Bank of Lebanon, government bonds, and equity securities. This category retracted by 16.0% to LBP 2,493 billion at the end of December 2017, as compared to end of December 2016.



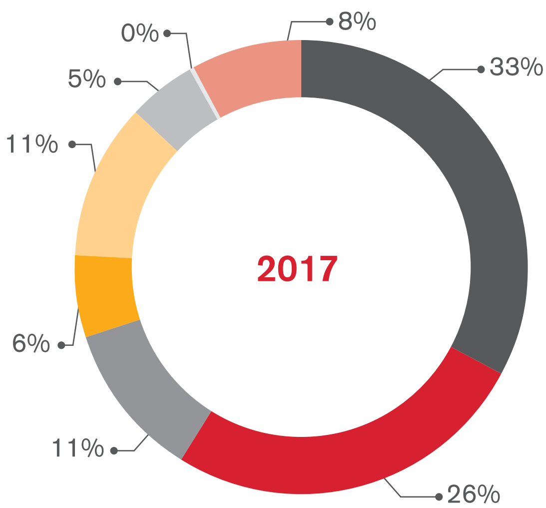
Liquid Assets
Portfolio Securities
Loans to Customers
Fixed Assets
Other Assets



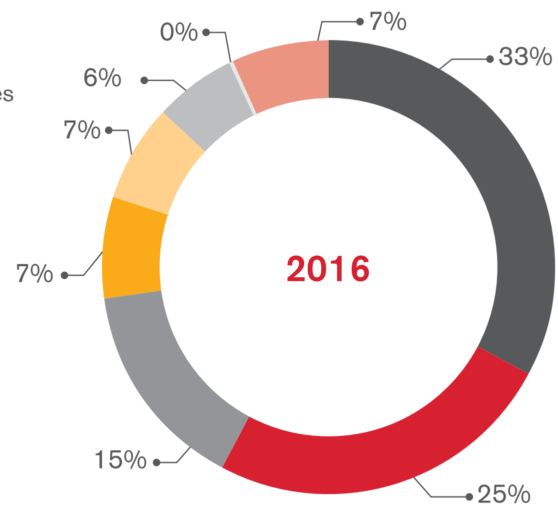
LOANS AND ADVANCES TO CUSTOMERS BY ECONOMIC SECTOR

The bank's loan portfolio caters to a diverse base of customers and addresses their investment potential and various individual needs by offering a wide range of industrial, commercial and individual loans. The charts below divide the loan portfolio according to economic sectors as at the end of December 2017 and the end of December 2016. Consolidated loans and advances to customers reached LBP 1,626 billion at the end of December 2017, an increase of 5.4% from last year's figure of LBP 1,543 billion.

The major concentration of loans at the end of 2017 is in the consumer sector with a share of 33%, followed by trade and services sector with a proportion of 26%. Loan concentration has remained unchanged between the years 2016 and 2017.



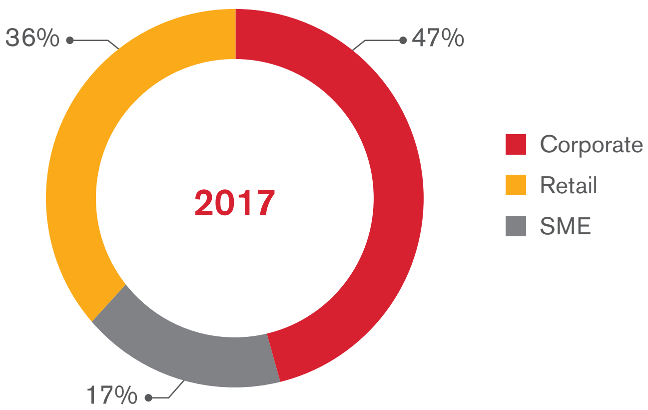
Trade and Services
Consumer Loans
Contracting and Construction
Manufacturing
Overseas
Financial Brokerage
Agriculture
Other

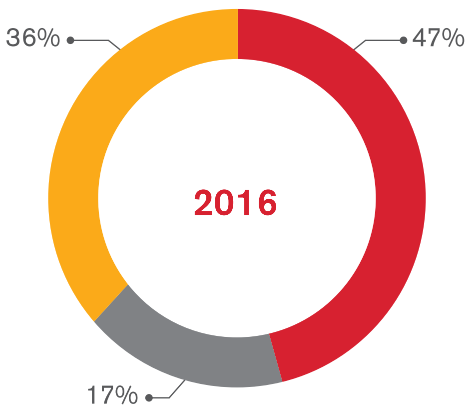


LOANS AND ADVANCES TO CUSTOMERS BY TYPE OF CUSTOMER

The charts that follow depict the distribution of loans and advances to customers by type of borrower as at the end of December 2017 as compared to the end of December 2016.

The distribution shows a major concentration of corporate loans and retail loans, which account for 47% and 36%, respectively, of the consolidated loan portfolio as at the end of December 2017 and 2016.





CUSTOMERS' DEPOSITS BY TYPE

The bank's customers' deposits reached LBP 5,942 billion as at the end of December 2017, representing a 9.6% growth as compared to LBP 5,423 billion at the end of December 2016. The table below classifies customers' deposits by type as at the end of 2017 and the end of 2016.

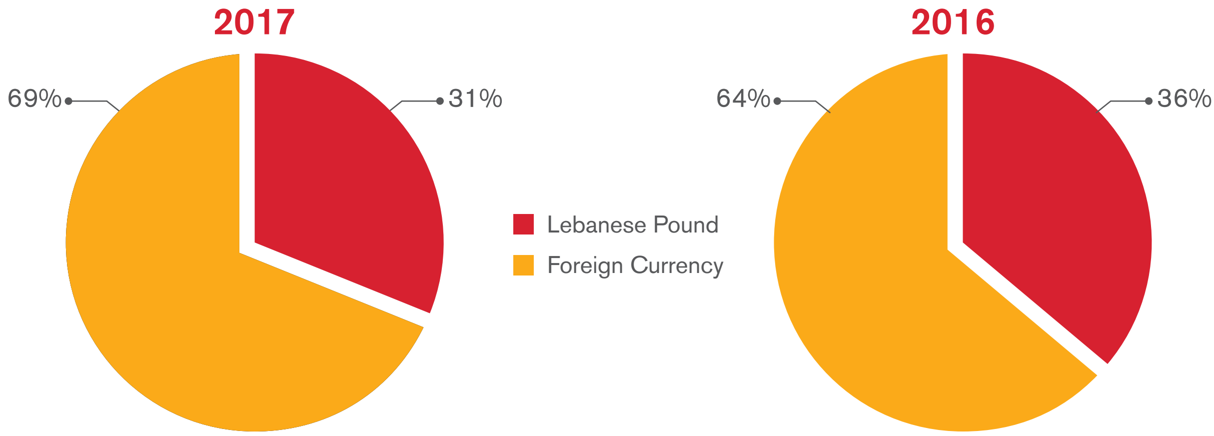
Customers' deposits are composed of savings and term deposits, with both categories totaling LBP 4,928 billion as at the end of December 2017 and accounting for 82.9% of the total deposits. As compared to the end of 2016, savings and term deposits increased considerably by 10.5%.

	2017		2016	
	Volume (Million LBP)	% of Total	Volume (Million LBP)	% of Total
Current deposits	399,895	6.73%	367,704	6.78%
Term deposits	743,558	12.51%	797,796	14.71%
Savings and fiduciary accounts	4,184,193	70.41%	3,661,951	67.53%
Margin deposits	59,203	1.00%	56,876	1.05%
Collateral accounts	343,963	5.79%	349,251	6.44%
Other deposits	211,669	3.56%	189,235	3.49%
	5,942,482	100.00%	5,422,813	100.00%

CUSTOMERS' DEPOSITS BY CURRENCY: DOLLARIZATION

The charts below illustrate the distribution of customers' deposits by currency as at the end of December 2017 and the end of December 2016.

The bank's deposits in foreign currency increased substantially by 18.0%, from LBP 3,464 billion as at the end of December 2016 to LBP 4,087 billion as at the end of December 2017. Hence, this was reflected in a remarkable surge in the dollarization rate from 64% at the end of 2016 to 69% at the end of 2017, mirroring the hesitant market sentiment during the year at the time of political flux.



SHAREHOLDERS' EQUITY

The bank's shareholders' equity increased by 5.6% from LBP 639 billion as at the end of 2016 to LBP 675 billion as at the end of 2017. Furthermore, consolidated shareholders' equity accounted for 9.15% of consolidated total assets as at the end of December 2017 compared to 9.42% as at the end of December 2016.

CAPITAL ADEQUACY

The table below sets out the Group's capital adequacy ratio as at the end of December 2017 and the end of December 2016 as follows:

	2017	2016
Common equity ratio	9.24%	9.07%
Tier I ratio	11.06%	10.83%
Tier I and Tier II capital adequacy radio	13.56%	13.56%

In conformity with the Lebanese Central Bank's regulations and the minimum requirements regarding the capital adequacy ratio, the bank monitors and measures its capital base and risk-weighted assets on a periodic basis, in order to maintain solvency and underpin its business operations against all risks and challenges lying ahead.

SUMMARY OF CONSOLIDATED FINANCIAL RESULTS

Income statement
(Million LBP)

	2017	2016	Growth (%)
Net interest income*	126,385	121,109	4.4%
Non-interest income	28,339	41,431	-31.6%
Total Income	**154,724**	**162,541**	**-4.8%**
Operating expenses	(89,721)	(89,744)	0.0%
Loan loss provisions	(2,098)	(1,720)	22.0%
Tax	(7,544)	(9,514)	-20.7%
Total Expenses	**(99,364)**	**(100,978)**	**-1.6%**
Net Income	**55,360**	**61,563**	**-10.1%**

**Includes interest income on financial assets at fair value through profit or loss*

In reference to the table above, consolidated net income decreased by 10.1%, to LBP 55,360 million for the year ended December 2017 as compared to LBP 61,563 million for the year ended December 2016. The retraction in net income is mainly driven by a 22.0% increase in loan loss provisions in addition to a 31.6% decrease in non-interest income, mainly a drop in the gain on financial assets at FVTPL, between the end of 2017 and the end of 2016. In line with the recent introduction of new tax measurements by the government and in parallel with IFRS 9 provisioning requirements, the bank's profitability suffered in order to accommodate those changes which left their mark on the whole banking sector's profitability.

NET INTEREST INCOME

Consolidated net interest income, including interest income on financial assets at FVTPL, increased by LBP 5,275 million, an upsurge of 4.4%, to reach LBP 126,385 million as at the end of December 2017. This category represents about 82% of the total income for the year ended December 2017.

NON-INTEREST INCOME

The bank's non-interest income dropped from LBP 41,431 million as at the end of December 2016 to LBP 28,339 million as at the end of December 2017, recording an annual decline of 31.6%. This is primarily due to a fall in net gain on financial assets at FVTPL as well as in other income by 82.3% and 11.3%, respectively. Yet net fee and commission income moved up 6.3% between the end of 2017 and the end of 2016.

GENERAL OPERATING EXPENSES

The bank's general operating expenses almost remained unchanged between the end of years 2017 and 2016, and amounted to LBP 89,721 million for the year ended December 2017. Staff expenses accounted for 60.06% of general operating expenses at the end of 2017, up from 59.96% at the end of 2016.

KEY PERFORMANCE METRICS

As shown in the table below, some of the key performance metrics reflect the overall financial soundness of the bank as at the end of December 2017 and the end of December 2016. The bank's return on average assets (ROAA) fell by 0.17 percentage points and stood at 0.78% as at the end of 2017, mirroring the reduced profitability in net income as compared to average assets. Moreover, the spread ratio also suffered a drawback between the years 2017 and 2016 to reach 1.78%, thus reflecting the insufficient increase in net interest income against the growth in average assets over the same period.

The return on average equity (ROAE) and return on average common equity (ROACE) retracted to 8.42% and 8.72%, respectively. However, the share of net fees and commissions of non-interest income improved during the same period, and marked 43.20% as at the end of 2017.

	2017	2016
ROAA	0.78%	0.95%
Spread	1.78%	1.86%
ROAE	8.42%	9.94%
ROACE	8.72%	10.49%
Non-interest income / Total income	18.32%	25.49%
Net fees & commisions / Non-interest icome	43.20%	27.81%

FINANCIAL AND NON-FINANCIAL DEVELOPMENTS

AUDIT

The Internal Audit Department is constantly working on improving the effectiveness of FNB Group's operations, risk management, controls and governance processes by providing assurance and attestation services built on a systematic risk-based approach. While the Internal Audit function is guided by Central Bank regulations, its coverage exceeded these requirements and rigorously complied with international auditing standards and those related to other professional organizations. The charters for the Internal Audit Department and the Internal Audit Committee have been updated, and clearly specify the reporting level, mission and scope of work.

The staff and management of the Internal Audit Department remain well informed of the constant changes in the audit and control fields through internal and external training sessions pertaining to different banking topics, as well as through registration for the Certified Internal Auditor (CIA) certification.

In 2017, all FNB branches were duly audited and risk-rated according to the level of internal control and inherent operational risks, with the aim of enhancing the branches' risk profiles. Furthermore, unplanned audit missions and exceptional audit tasks were performed alongside planned centralized departmental audits, in response to internal requirements and/or the enforcement of new regulations.

The Internal Audit Department has worked on increasing the depth of its audits by updating all its audit programs and manuals to remain in line with new and changed banking regulations. Moreover, the audit software tools previously acquired are in the process of being adopted by the staff to further refine the audit methodology and better manage the activities of the department.

The Internal Audit Department will continue to do the necessary in order to safeguard the bank's assets and improve its operations.

BANCASSURANCE

FNB introduced several products to our corporate and SME customers, such as marine, life, car and workmen insurance. We also broadened our connections with many insurance companies and obtained competitive rates, while improving the issuance and collection procedures of our insurance products.

Within the scope of the campaigns, all of which are promoted on social media, we launched a special campaign where clients were presented the chance to enter a draw and win valuable cash prizes when subscribing to a savings plan, as well as a campaign which offered free Rahati policies to clients who download the bank's mobile application.

In addition to a special incentive scheme to motivate our sales force that was put into effect, regular training sessions were carried out for all employees to increase product knowledge and enhance the sales approach, and on-site branch visits were conducted to provide sales support. As a result, we further expanded our bancassurance portfolio and we maintain good ranking in the sales of savings plans.

COMPLIANCE

The Compliance Department at FNB ensures that the FNB Group is fully compliant with the laws, rules and regulations issued by local authorities and relevant international bodies and organizations. In that sense, the Compliance Department is frequently and regularly updating its compliance program, policies and procedures to strengthen its effectiveness in mitigating the risks and threats imposed by money laundering, terrorism financing, corruption and bribery.

The Compliance Department provides full commitment in detecting all forms of money laundering, terrorism financing and other questionable sources by regularly conducting due diligence on customers, accounts and transactions.

Based on the changing laws and regulations, the Compliance Department is continuously implementing effective measures and ensuring that it has robust systems in place to be able to efficiently monitor customers and transactions. Furthermore, the Compliance Department has appointed senior compliance officers at the branches in accordance with Banque du Liban's (BDL) requirements.

The Compliance Department continuously provides AML/CFT training to its employees in order to enhance their knowledge and to keep them abreast of the latest AML/CFT trends and methods.

FNB is compliant with all the rules and regulations related to the Foreign Account Tax Compliance Act (FATCA) and the Common Reporting Standard (CRS).

CORRESPONDENT BANKING

FNB is dedicated to providing its customers with a wide range of correspondent banking services. The FICB Department maintains active relationships with an extensive global network of banks and financial institutions. FNB applies strict measures of assessment and regulatory filters

especially under the AML/CFT Act, rigorously complying with local and international regulatory authorities.
In our latest milestone, we initiated a new relationship with a prominent international bank in the USA, and we are intensively working to enhance our relationships with existing correspondents, expand our partnership and widen our network.

ELECTRONIC BANKING

In 2017, we implemented the ATM cash deposit service on ten ATMs and deployed the ATM check deposit service. In addition to having expanded our ATM network and upgraded all the ATMs, we implemented the contactless and PIN on chip service on all FNB cards along with the credit card PIN change on ATMs.

While FNB credit and charge cards have shown a substantial increase in usage, FNB introduced two new credit cards: Visa Platinum (USD) and MasterCard Titanium (LBP & USD).

The new mobile banking application was also launched.

Lastly, we finalized the CRM sales recommendations and marketing campaign management and carried through FNB Connect which is an interactive area located in Makdessi Street comprising 2 Smart ATMs, a Video Wall displaying videos related to the bank's marketing campaigns and an Interactive table which provides interactive functionalities between the customer and the Bank i.e. Bank info, list of FNB products with the possibility to apply for them, feedback and surveys, access to FNB and FNB rewards websites among other features.

Part of the future planned developments and projects in the pipeline are the implementation of the ATM check deposit service on 12 ATMs and the deployment of new ATM services, such as utility payment, bill presentment and payment, tuition fee payment, wedding account deposit through the ATMs and ATM cardless transaction.

Moreover, we are introducing a new virtual Internet card which can be issued and managed through the bank's mobile application or Internet banking.

Further services and products, such as the Visa Platinum contactless debit card, a new Internet banking interface, a new business debit card for enterprises (small, medium and corporate), a mobile payment application using the HCE (Host Card Emulation) technology which allows clients to use their smartphones as payment devices in Lebanon or abroad.

Other planned developments and projects include the upgrade of the current mobile banking application to a new version (v3) with more advanced features and benefits, the deployment of a new corporate e-banking solution (Internet and mobile), as well as the implementation of a new instant issuance solution enabling the CSR to instantly issue a debit card for the client and activate it at the branch.

HUMAN RESOURCES

As part of its main achievements in 2017, the HR Department approved a new policy established by the HR Committee of the bank and the Remuneration Committee of the Board of Directors, namely the staff development policy. The department also implemented the new grading system which was approved by the HR Committee of the bank and the Remuneration Committee of the Board of Directors.

Furthermore, BDL 103 certification requirements were enforced for all subject staff, mitigating the risks of non-compliance with this regulatory mandate. The completion rate as of the end of 2017 exceeded 75%. The HR Department worked on the training budget and curriculum by department/branch and by function/job, which should be finalized by the end of 2018. Additionally, the department almost finalized the migration to the new People 365 system.

As for the plans for 2018, the HR Department will pursue the initiatives started in 2017, in addition to finalizing the implementation process of the new People 365 payroll and HR system, training the management team and other critical groups to improve their supervisory and managerial performance and competencies, as well as working closely with the HR Committee and the Remuneration Committee on finalizing the HR plan for 2018.

INFORMATION TECHNOLOGY

With rising urgency for digital transformation, banks must evolve to digitally fit business models and bring together new and existing processes as a means of offering the innovative and customized products and services that are critical to retaining and attracting customers in an increasingly competitive market. Clients are being more trusting of and comfortable with tech-based financial solutions.

In 2017, the Bank upgraded most of its existing ATMs to cater to the customers' demands and needs by providing, in addition to a broad range of other services, the cash deposit function. The cash deposit ATM is a self-service terminal available 24/7 enabling clients to perform seamless cash deposit transactions without any manual intervention of the branch officer. It's worth mentioning that all new ATMs purchased during 2017 and onward are full-function devices (cash and check deposit-enabled) as part of the customers' satisfaction policy.

The ATM check deposit feature will be available early 2018 to facilitate and expedite the procedure of the check deposit function, thus saving our clients' time and carrying out the check deposit transactions at their convenience.

The digital revolution means customers expect to be able to receive products and services when they need them and on any channel. In this regard, we have launched our mobile application as part of FNB's omni-channel solution, which offers a unified experience for online 24/7 services on internet and mobile channels. The mobile application provides fast services to our customers and can be used anytime, anywhere. It vests the clients to check account balances, transfer money from one account to another, access personal and joint accounts in one place, manage personal finance budgets, settle Ministry of Finance taxes, view credit and debit card details, find an ATM, receive alerts, etc.

The year 2017 also witnessed the inauguration of our first Smart Zone in Makdessi as the next-generation self-service solution, in an effort for more interactions with customers who are becoming more engaging and dynamic.

Regulatory requirements continue to increase, and banks need to build or acquire systems enabling them to stay compliant and keep up with the escalating regulations.

During 2017, FNB has acquired the state-of-the-art compliance solution which is planned to be operating in 2018. This proven end-to-end transaction monitoring solution helps AML officers to easily keep up with new threats and comply with ever-growing regulatory requirements in a cost-effective way.

This modular solution consists of the following:

• **Anti-Money Laundering:**
A module that uses a risk-focused approach to the critical task of monitoring for suspicious transactions. The solution applies advanced analytics and scenarios to customer data in order to automatically identify and classify suspicious behaviour. The solution will help FNB build custom AML scenarios and will provide a customer-centric alert management tool in addition to customer profiling based on risk perception.

• **Tax Compliance:**
Provides a maximum automated workflow for CRS/FATCA and a secure support for the management of cases.

• **Embargo:**
Will be used to monitor and match all FNB payments with international sanction lists. Transaction alerts triggered by a match with the sanction lists are "frozen" by the system.

In addition, FNB has invested in a business process management solution (BPM) to cater for the intensified requirement originating from FNB business enablers in terms of automating existing processes, to react rapidly to the business change and to reduce the manual analysis and routing for existing workflows, thus decreasing the total process cycle time.

This BPM solution was complemented with an enterprise service bus (ESB) that offers a fast, simple way for systems and applications to communicate with each other, and encourages loosely coupled architecture, therefore providing a standardized platform for integration into all FNB systems.

The CRM solution was and will be subject to enhancements to comply with the latest regulations and change requirements from business owners.

In regard to infrastructure, new applications and systems were acquired, one of which was the wireless solution coverage. The first part of the wireless solution coverage initiated in 2017 is to provide mobility features for the employees who will be able to access the bank applications securely. The network access control (NAC) was also acquired to provide authentication, authorization and accounting (AAA) based on users' identity, policy compliance and device type. The NAC scope is to cover all users connected endpoints and IP-connected devices such as printers, IP Phones, etc. The NAC must provide a highly powerful and flexible attribute-based access control solution that combines AAA, posture, profiling, and guest management services on a single platform.

Moreover, the second part of the wireless project, which will commence in 2018, is related to granting customers or guests wireless internet access provided by FNB through the branches or head office. This offered service will be considered as a marketing tool and a way to interact with all customers visiting FNB branches.

To enhance the core banking system infrastructure, the bank acquired new power servers and flash storage arrays, in addition to new backup appliances.

MARKETING

Marketing represents a huge business opportunity to capture the attention of customers while building an exceptional brand image.

Through the course of 2017, the impact of social media was growing at an astronomical rate. After the considerable efforts and hard work, FNB reached more than 150k likes on Facebook and ranked in the first place among all bank accounts on Instagram and in the third place on Facebook.

In this same stream, the FNB website registered excellent results. It appears on Google's first page for an extensive range of related and high-volume search keywords, and for some words we rank among the first three banks on the first page. The website is now featured on Google's first page for keywords pertaining to all major sections, namely loans, cards, accounts, services, bancassurance and private banking.

Due to the continuous SEO (Search Engine Optimization) work on the website, the organic traffic has considerable increased over the course of the year; the number of sessions or visits to the site coming from organic traffic only has increased by 47.5%.

SEO has also a big positive impact on the branding and the brand reputation of the website; by being featured on Google 1st page, Google transmits trust to FNB's website which is translated into more credibility and brand equity.

In our continuous effort to pursue the CSR strategy that we started in the past years, we built a partnership and ensured a solid and continuous cooperation with several NGOs, such as Arcanciel, through the sponsorship of “La Brocantes des Artistes” event, ULYP by running for their benefit in the Beirut Marathon 2017 entitled “Run for Love, Peace and ULYP”, Sesobel, Roads for Life, Children Against Cancer, Alisep, through the support of their annual activities and fundraising dinners and Open Minds.

FNB’s belief in today’s youth urges us to participate in major universities job fairs (AUL, USEK, NDU), rally papers (AUB) and other educational activities (USJ Christmas Festivities).

We also reaffirmed our support for culture and art by renewing our sponsorship for Liban Jazz 2017, Beirut Cultural Festivals, Beirut Art Fair 2018 and Aabbey Cultural Heritage Festival.

Our support was also extended to include encouraging and backing up tourism by sponsoring several summer festivals, such as Jounieh International Festival’s fireworks night, Dbayeh International Festival, Tyre International Festival, Ahla Fawda Festival in Aley, Family Fun Festival, Akoura Apple Festival to support apple farmers and Beit Mery Christmas Festival.

Within the same initiative, and in order to show commitment to FNB clients, we repeated our sponsorship for the International Zouk Mikhael Festival and invited the bank’s VIP clients to a sunset cocktail reception followed by a live performance by Guy Manoukian.

Furthermore, this year, we gave a part of our support to sports by sponsoring the Brazil vs. Lebanon football game at the Beirut Municipal Stadium, the Fair Game football match for soldiers against civilians and the Palestinian football team.

In the same direction, we sustained our support to the business and economic sector by sponsoring business-oriented forums and exhibitions such as Lebanese Architect Awards, Al Bank Wal Mustathmer conferences, Arab Economic Forum, Euromoney conferences and Social Economic Award.

The year 2017 was marked by the conclusion of two major cooperation agreements:

• A Protocol agreement with the Beirut Arab University – where FNB held a conference at the Jamal Abdel Nasser Hall of the Beirut campus on the occasion of the inauguration ceremony of “Rifaat el Nimer BAU” dealing room.

• A Protocol agreement between FNB and The Lebanese University for a period of three years – on which occasion FNB held a press conference at the Lebanese University head office in Mathaf. The purpose of this project is to support the Lebanese University, manage their businesses and satisfy the needs of the LU staff, doctors, teachers and students.

The bank established a noticeable and continuous presence in the local media. Magazines and newspapers have been ensuring the coverage of the bank activities and the advertising of the new retail products.

FNB’s image and position in the market being of great importance, a client survey was conducted through our call center internally and a third party externally to measure the brand awareness and the level of satisfaction with all the services provided by the bank. We also ran various outdoor, digital and printed press campaigns in addition to SMS burst to promote the bank’s newly released products and services and support business lines.

As part of its ongoing expansion strategy, FNB opened two new branches in Tyre and Zahle in order to reinforce the bank’s presence and provide a better service and an easier access to clients.

PRIVATE BANKING

FNB’s Private Banking Department caters to high-net-worth individuals through the bank’s network by offering a comprehensive and diversified range of services, with access to major markets worldwide along with global investment products, including investment advisory and trade execution services in all asset classes and structuring.

The main goal of the Private Banking Department is to offer high quality services, enhance relationships and offer a wide variety of products to high-net-worth clients using a 360-degree approach to assess all their banking and wealth management needs. The first step to a successful relationship is to learn more about the customer and understand his investment objectives.

In addition, the Private Banking Department implements and provides appropriate strategies to enhance returns as well as to anticipate and address the client’s needs and to help achieve his immediate and long-term wealth goals.

A wide range of customized products and services are offered and others specifically tailored to suit the client’s needs, including:

- Stocks
- Bonds
- F/X
- Structured Products
- Funds
- Deposits
- Hedging Strategies
- Private Equity

The main private banking customers are high-net-worth individuals in Lebanon, Europe and the Gulf region, along with the Lebanese diaspora in sub-Saharan Africa.

RISK MANAGEMENT

The Risk Management Department at FNB operates independently from the business lines and provides oversight and control on a group level where major duties include monitoring the Group’s risk policies in place, following up and reporting risk concerns across risk types and organizational units. The risk management function is headed by the Chief Risk Officer who reports directly to the Chairman of the Board, with access to the Board of Directors through the Board Risk Committee.

During 2017, FNB made major steps in managing risks in a dynamic manner across the Group, with the main objective of strengthening the risk strategy, focusing on operational risk and governance. The Risk Management Department continued to work in coordination with all units and departments, both on the business line as well as the control and support levels.

We further aimed at enhancing our risk management processes by optimizing capital and resources, improving risk management controls, enhancing enterprise-wide risk reporting for more effective risk oversight, and streamlining risk practices for more effectiveness and consistency across the Group.

In 2017, FNB finalized risk-rating its commercial portfolio capturing the probability of default (PD), loss given default (LGD) and exposure at default (EAD) through specific models and scorecards, in response to new regulatory requirements, most notably the International Financial Reporting Standards 9 (IFRS 9), therefore facilitating the expected credit loss (ECL) framework/policy application, implementation and calculation.

The Risk Management Department applies different stress-testing techniques on different risk factors to properly assess its capital conservation buffer, as suggested by the Basel Committee and local regulators.

On the other hand, the risk and capital strategy is being monitored annually through the Internal Capital Adequacy Assessment Process (ICAAP) to identify and assess risks, maintain sufficient capital to face these risks and apply appropriate risk-management techniques to ensure adequate capitalization on an ongoing basis. As part of the capital budgeting process of the bank, a capital planning exercise was conducted to assess the capital required for the projected 3-year period considering risks under Pillars 1 and 2, further taking into consideration the sufficiency of the capital conservation buffer in light of the different stress tests results.

During 2017, the Operational Risk Management Unit has progressed with the risk and control self-assessment (RCSA) process on the group level, identifying weaknesses and loose controls that required a list of immediate remediation and enhancement of the processes. We aimed at strengthening our operational risk management framework by aggregating all findings collected from the incidents reporting into the RCSA and key risk indicators (KRIs) tools, and ensuring an additional layer of mitigation against the growing trend of cybercrime activities to improve the handling of security incidents.

The Operational Risk Management function was expanded to include control units that oversaw the credit and treasury operational activities and reported findings to concerned parties for remediation.

FNB Management demonstrated an ongoing commitment to the business continuity management by laying down a proper governance structure (committees, task force, teams).

Risk Management continues its coordination with the Organization & Methods Department to evaluate, in a timely manner, an impact analysis to identify the bank's critical processes that support its key products and services in time of disaster, their interdependencies and the resources required to operate the processes at a minimally acceptable level and in compliance with the applicable legal, regulatory and other requirements. FNB Management has relocated the bank disaster recovery site premises to newly acquired premises to be the main contingency site, complying with the following criteria: a location outside the Greater Beirut District, the availability of space, the accessibility to the majority of critical personnel and the availability of proper infrastructure.

TREASURY

First National Bank has developed its Treasury and Capital Markets Division to offer its clients the best service while being competitive on the financial markets.

One of the primary roles of the Treasury Department is to resolve complex financial challenges such as liquidity risk management, interest rates and foreign exchange exposure, thereby safeguarding the bank's commitments.

The mission of the Treasury Department is to provide clients with tailored financial products and risk management solutions, granting access to local and international markets and delivering investment solutions.

We offer trading services to retail, corporate and private clients, providing them with the best services, quotes and tailor-made hedging instruments.
Being a team of highly motivated and self-driven individuals, our traders go above and beyond in making themselves reachable during and after bank hours.

Our dealers are members of ACI Lebanon - The Financial Markets Association (ACI). Their timely market information service guarantees clients the reception of the latest industry news and product updates. In addition, they play a key role in ensuring all new regulations are enforced and new standards are properly implemented.

FNB's Treasury Department uses a conservative investment approach while abiding by the Central Bank's circulars.

Our experienced team of specialists deals with world-class correspondents and is equipped with advanced platforms to assist clients in a safe and timely manner.

CONSOLIDATED
FINANCIAL STATEMENTS AND AUDITORS' REPORT

CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT
CONSOLIDATED FINANCIAL STATEMENTS:
- CONSOLIDATED STATEMENT OF FINANCIAL POSITION
- CONSOLIDATED STATEMENT OF PROFIT OR LOSS
- CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
- CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
- CONSOLIDATED STATEMENT OF CASH FLOWS
- NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

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To the Shareholders
First National Bank S.A.L.
Beirut, Lebanon

OPINION

We have audited the accompanying consolidated financial statements of First National Bank S.A.L. (the "Bank") and its subsidiaries (collectively the "Group"), which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of profit or loss 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 3, 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.

INDEPENDENT AUDITORS' REPORT

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.

<table>
<tr><th>KEY AUDIT MATTERS</th><th>HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTERS</th></tr>
<tr><td>

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.

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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 loans. These included the testing of:

• 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.

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OTHER INFORMATION INCLUDED IN THE GROUP'S 2017 ANNUAL REPORT

Management is responsible for the other information. Other information consists of the information included in the Group's 2017 Annual Report other than the consolidated financial statements and our auditors' report thereon. The Group's 2017 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 will 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 identified above 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.

RESPONSIBLITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

Beirut, Lebanon
May 10, 2018

DFK Fiduciaire du Moyen Orient

Deloitte & Touche

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	NOTES	December 31	
		2017	2016
		LBP'000	
ASSETS			
Cash and deposits with Central Bank of Lebanon	5	2,462,157,712	1,709,306,461
Deposits with banks and financial institutions	6	450,722,018	298,543,500
Financial asset at fair value through profit or loss	7	218,677,037	653,472,128
Loans to banks and financial institutions	8	2,763,075	1,507,869
Loans and advances to customers	9	1,625,906,043	1,543,130,772
Due from related parties	10	11,855,468	25,388,760
Financial asset at fair value through other comprehensive income	11	21,947,204	28,657,066
Financial asset at Amortized cost	12	2,274,601,881	2,315,786,399
Customers' liability under acceptances	13	41,222,024	37,179,377
Other assets	14	35,482,894	21,315,526
Investment in and loan to an associate	15	241,212	241,212
Assets acquired in satisfaction of debts	16	7,631,044	6,801,143
Property and equipment	17	160,721,064	116,902,996
Goodwill	18	27,006,068	27,006,068
Current assets held for sale	3A	38,745,910	-
Total Assets		**7,379,680,654**	**6,785,239,277**
Financial Instruments With Off-Balance Sheet Risk	35		
Guarantees and standby letters of credit		134,433,528	83,534,427
Documentary and commercial letters of credit		33,268,771	40,067,443
Forward Exchange Contracts	35	123,840,577	174,032,676
Fiduciary Deposits and Assets Under Management	36	742,405,901	721,097,948

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

	NOTES	December 31 2017	December 31 2016
		LBP'000	
LIABILITIES			
Deposits and borrowings from banks and financial institutions	19	498,627,833	469,699,155
Customer deposits at amortized cost	20	5,942,481,556	5,422,812,657
Liability under acceptance	13	41,222,024	37,179,377
Other liabilities	21	168,800,111	182,117,252
Provisions	22	11,331,763	10,829,429
Cumulative preferred shares	23	23,419,115	23,165,055
Current liabilities held for sale	3A	18,861,686	-
Total Liabilities		**6,704,744,088**	**6,145,802,925**
EQUITY			
Capital	24	162,300,000	162,300,000
Additional paid in capital	24	39,921,454	39,921,454
Preferred shares	25	75,379,139	75,379,139
Reserves	26	94,435,238	78,027,404
Cumulative Change in fair value of investment securities		2,087,791	-
Retained earnings		100,997,299	89,035,067
Profit for the year		44,981,648	51,274,816
Equity attributable to owners of the Bank		**520,102,569**	**495,937,880**
Non-controlling interest	27	154,833,997	143,498,472
Total Equity		**674,936,566**	**639,436,352**
Total Liabilities and Equity		**7,379,680,654**	**6,785,239,277**

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	NOTES	Year Ended December 31	
		2017	2016
		LBP'000	
Interest income		372,446,478	316,058,553
Less: tax on interest income		(1,168,669)	-
Interest income, net	28	371,277,809	316,058,553
Interest expense	29	(276,639,751)	(245,502,617)
Net interest income		**94,638,058**	**70,555,936**
Fee and commission income	30	18,821,422	17,939,025
Fee and commission expense	31	(6,577,777)	(6,418,093)
Net fee and commission income		**12,243,645**	**11,520,932**
Net interest and gain and loss on financial assets at fair value through profit or loss	32	34,344,034	65,239,257
Other operating income (net)	33	13,497,998	15,224,417
Net financial income		**154,723,735**	**162,540,542**
Allowance for impairment of loans and advances to customers	9	(2,098,377)	(1,719,738)
Net financial revenues after impairment charge and write off		**152,625,358**	**160,820,804**
Staff costs		(53,889,383)	(53,810,697)
Administrative expenses		(30,432,548)	(31,273,735)
Depreciation and amortization	34	(5,398,934)	(4,659,359)
Profit before income tax		**62,904,493**	**71,077,013**
Income tax expense	21	(7,544,383)	(9,514,083)
Profit for the year		**55,360,110**	**61,562,930**
ATTRIBUTABLE TO			
Owners of the Bank		44,981,648	51,274,816
Non-controlling interests		10,378,462	10,288,114
		55,360,110	**61,562,930**

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Year Ended December 31	
	2017	**2016**
	LBP'000	
Profit for the year	**55,360,110**	**61,562,930**
Other comprehensive income:		
Items that will not be reclassified subsequently to profit or loss		
Change in fair value of financial assets at fair value through other comprehensive income (Note 11)	2,110,500	(2,567,218)
Deferred taxes	-	385,083
Other Comprehensive income	**2,110,500**	**(2,182,135)**
Total comprehensive income for the year	**57,470,610**	**59,380,795**
ATTRIBUTABLE TO		
Owners of the bank	47,069,439	49,092,681
Non-controlling interests	10,401,171	10,288,114
	57,470,610	**59,380,795**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Capital	Additional Paid-In-Capital	Prefered Shares	Legal Reserves	Reserves For General Banking Risks
	LBP'000				
Balances at January 1, 2016	**162,300,000**	**39,921,454**	**75,379,139**	**18,846,684**	**45,905,478**
Allocation of 2015 profit	-	-	-	3,602,735	8,355,429
Dividends paid	-	-	-	-	-
Net Additions in funds' subscriptions	-	-	-	-	-
Total comprehensive income for the year 2016	-	-	-	-	-
Amount reclassified to retained earnings (write-off of financial asset)	-	-	-	-	-
Prior year adjustment	-	-	-	-	-
Balances at December 31, 2016	**162,300,000**	**39,921,454**	**75,379,139**	**22,449,419**	**54,260,907**
Allocation of 2016 profit	-	-	-	4,009,774	12,184,261
Dividends paid	-	-	-	-	-
Total comprehensive income for the year 2017	-	-	-	-	-
Effect of newly consolidated subsidiaries	-	-	-	-	-
Unrealized gain on investment securities	-	-	-	-	-
Net Additions in funds' subscriptions	-	-	-	-	-
Other movement	-	-	-	-	-
Balances at December 31, 2017	**162,300,000**	**39,921,454**	**75,379,139**	**26,459,193**	**66,445,168**

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

Reserve for Assets Acquired In Satisfaction Of Loans	Cumulative Change in Fair Value of Equity Securities	Retained Earnings	Profit for the Year	Equity Attributable To Owners of The Bank	Non-Controlling Interests	Total Equity
LBP'000						
1,140,426	**(4,063,916)**	**81,660,649**	**46,875,216**	**467,965,130**	**130,764,564**	**598,729,694**
176,652	-	34,740,400	(46,875,216)	-	-	-
-	-	(21,117,826)	-	(21,117,826)	(10,142,915)	(31,260,741)
-	-	-	-	-	12,588,709	12,588,709
-	(2,182,135)	-	51,274,816	49,092,681	10,288,114	59,380,795
-	6,246,051	(6,246,051)	-	-	-	-
	-	(2,105)	-	(2,105)	-	(2,105)
1,317,078	**-**	**89,035,067**	**51,274,816**	**495,937,880**	**143,498,472**	**639,436,352**
213,799	-	34,866,982	(51,274,816)	-	-	-
-	-	(22,903,126)	-	(22,903,126)	(10,667,198)	(33,570,324)
-	-	-	44,981,648	44,981,648	10,378,462	55,360,110
-	-	-	-	-	7,726,162	7,726,162
-	2,087,791	-	-	2,087,791	22,709	2,110,500
-	-	-	-	-	3,875,390	3,875,390
-	-	(1,624)	-	(1,624)	-	(1,624)
1,530,877	**2,087,791**	**100,997,299**	**44,981,648**	**520,102,569**	**154,833,997**	**674,936,566**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	NOTES	Year Ended December 31	
		2017	2016
		LBP'000	
CASH FLOW FROM OPERATING ACTIVITIES:			
Profit for the year		55,360,110	61,562,930
ADJUSTMENTS FOR:			
Interest income	28,32	(399,928,359)	(364,437,672)
Interest expense	29	276,639,751	245,502,617
Income tax expense	21	7,544,383	9,514,083
Amortization of premiums and discounts	12	3,078,934	5,819,694
Depreciation and amortization	34	5,398,934	4,659,359
Allowance for impairment of loans and advances to customers	9	2,098,377	1,719,738
Loss on disposal of equipment	33	199,868	56,540
Loss on sale of assets acquired in satisfaction of loans	33	220,802	354,278
Net change in fair value of financial asset at fair value through profit or loss	32	(2,162,173)	(10,763,863)
Difference of exchange on investments at amortized cost	12	(4,231,696)	784,320
Prior year adjustments		(1,624)	(2,105)
Provisions set up during the year	22	981,442	977,842
		(54,801,251)	(44,252,239)
Net increase in term placements with banks and compulsory reserve		(877,855,665)	(191,394,416)
Net (increase)/decrease in loans to banks		(1,261,141)	27,957,134
Net increase in loans and advances to customers		(87,358,749)	(125,351,388)
Net decrease/(increase) in due from related parties		14,263,442	(20,643,081)
Net decrease/(increase) in investment securities at amortized cost and at fair value through profit or loss		477,520,110	(70,236,732)
Net decrease/(increase) in financial assets at fair value through other comprehensive income		6,106,862	(19,294,273)
Net (increase)/decrease in other assets		(14,315,420)	9,713,734

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

	NOTES	Year Ended December 31	
		2017	**2016**
		LBP'000	
Net decrease in deposits from banks and financial institutions		(250,450,179)	(67,364,362)
Net increase in customers' deposits and credit accounts		519,013,979	454,580,149
Net increase in other liabilities		4,842,886	127,841,484
Settlement of provisions	22	(479,108)	(409,049)
Net cash (used in)/generated from operations		**(264,774,234)**	**81,146,961**
Proceeds from disposal of assets acquired in satisfaction of loans	16	1,412,816	704,826
Income tax paid		(26,121,269)	(7,800,771)
Interests received		387,697,404	364,560,511
Interests paid		(275,068,978)	(241,412,525)
Net cash (used in)/generated by operating activities		**(176,854,261)**	**197,199,002**
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash outflow from acquisition of a subsidiary	39	(23,612,298)	-
Purchase of property and equipment	17	(33,234,772)	(31,759,149)
Proceeds from disposal of equipment		47,134	338,806
Net cash used in investing activities		**(56,799,936)**	**(31,420,343)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase in borrowings from banks and financial institutions		278,717,064	18,278,495
Dividends paid	38	(33,570,324)	(31,260,741)
Net cash generated by/(used in) financing activities		**245,146,740**	**(12,982,246)**
Net increase in cash and cash equivalents		11,492,543	152,796,413
Effects of exchange rate changes	39	(2,226,735)	-
Cash and cash equivalents - Beginning of year		559,442,547	406,646,134
Cash and cash equivalents - End of year	**39**	**568,708,355**	**559,442,547**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

1. GENERAL INFORMATION

First National Bank S.A.L. (the "Bank") is a Lebanese joint stock company established in 1991 and registered in the Commercial Register under the Number 67480 and in the Central Bank of Lebanon list of banks under number 108. The Bank carries out a full range of banking services through a network of twenty six branches in various Lebanese regions. The consolidated financial statements of the Bank as at December 31, 2017 comprise the Bank and its subsidiaries, FNB Holding Limited and its Subsidiaries (2017 and 2016: 98.92%.), FNB Finance S.A.L. (2017 and 2016: 100%), Corporate Finance House ("CFH") (2017 and 2016: 100% acquired by FNB Holding Limited), Immobilia Hamra S.A.L. (2017: 50% acquired by FNB Holding Limited), and Colmarer Property Investment I Limited (2017: 100% acquired by Corporate Finance House BVI) are hereafter referred to as (the "Group").

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

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

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

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

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

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

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

Amendments to IAS 7 *Disclosure Initiative*

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

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

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

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

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

2.2 New and revised IFRS in issue but not yet effective

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

New and revised IFRSs	Effective for annual periods beginning on or after
Annual Improvements to IFRS Standards 2014 – 2016 Cycle amending IFRS 1 and IAS 28.	January 1, 2018
Annual Improvements to IFRS Standards 2015–2017 Cycle amending IFRS 3, IFRS 11, IAS 12 and IAS 23.	January 1, 2019
IFRIC 22 *Foreign Currency Transactions and Advance Consideration* The interpretation addresses foreign currency transactions or parts of transactions where: • There is consideration that is denominated or priced in a foreign currency; • The entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and • The prepayment asset or deferred income liability is non-monetary.	January 1, 2018
IFRIC 23 *Uncertainty over Income Tax Treatments* The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers: • Whether tax treatments should be considered collectively; • Assumptions for taxation authorities' examinations; • The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and • The effect of changes in facts and circumstances.	January 1, 2019
Amendments to IFRS 2 *Share Based Payment* regarding classification and measurement of share based payment transactions.	January 1, 2018
Amendments to IFRS 4 *Insurance Contracts*: Relating to the different effective dates of IFRS 9 and the forthcoming new insurance contracts standard.	January 1, 2018
Amendments to IAS 40 *Investment Property*: Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The paragraph has been amended to state that the list of examples therein is non-exhaustive.	January 1, 2018
IFRS 9 *Financial Instruments* (revised versions in 2010, 2013 and 2014) IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. The Group early adopted IFRS 9 (version 2009) effective January 1, 2011. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting.	January 1, 2018
Amendments to IFRS 9 *Financial Instruments*: Relating to prepayment features with negative compensation. This amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.	January 1, 2019

IFRS 9 *Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* that replaces IAS 39 *Financial Instruments* and all previous versions of IFRS 9 (2009, 2010 and 2013). The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. The new version, IFRS 9 (2014) is effective for annual periods beginning on or after 1 January 2018. The Group plans to adopt the new standard on the required effective date.

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

During 2017, the Group has performed a detailed impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018 when the Group will adopt IFRS 9. Overall, the Group expects no significant impact on its statement of financial position and equity except for the effect of applying the impairment requirements of IFRS 9. The Group expects an increase in the loss allowance resulting in a negative impact on equity as discussed below:

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

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

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

The Group does not expect a material impact on the classification of the Group's financial assets nor their carrying values.</td></tr>
<tr><td>IMPAIRMENT</td><td>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.</td></tr>
</table>

Stage 3

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

Key Considerations

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

Assessment of Significant Increase in Credit Risk

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

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

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

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

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

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

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

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

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

Definition of default

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

	Expected Life When measuring ECL, the Group must consider the maximum contractual period over which the Group is exposed to credit risk. All contractual terms should be considered when determining the expected life, including prepayment options and extension and rollover options. For certain revolving credit facilities that do not have a fixed maturity, the expected life is estimated based on the period over which the Group is exposed to credit risk and where the credit losses would not be mitigated by management actions. **Governance** In addition to the existing risk management framework, the Group has established an internal Committee to provide oversight to the IFRS 9 implementation. The Committee is comprised of senior representatives from Finance and Risk Management and will be responsible for reviewing and approving staging of financial assets and other key inputs and assumptions used in our expected credit loss estimates. It also assesses the appropriateness of the overall allowance to be provided for Expected Credit Losses. The expected impact on the Group's statement of financial position and equity is discussed below.
HEDGE ACCOUNTING	IFRS 9 also incorporates new hedge accounting rules that intend to align hedge accounting with risk management practices. IFRS 9 does not cover guidance on macro hedge accounting as IASB is working on it as a separate project. IFRS 9 includes an accounting policy choice to defer the adoption of IFRS 9 hedge accounting and to continue with IAS 39 hedge accounting. The Group, however, has elected to adopt the new hedge accounting provisions of IFRS 9. The Group does not have hedging relationships.
FINANCIAL INSTRUMENTS: DISCLOSURES (IFRS 7)	The Group will be amending the disclosures for 2018 to include more extensive qualitative and quantitative disclosure relating to IFRS 9 such as new classification categories, three stage impairment model, new hedge accounting requirements and transition provisions.

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

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

	Estimated impact from recognition of Expected Credit Losses
	LBP Million
ASSETS	
Cash and balances with Central Banks	24,500
Due from banks and financial institutions	1,200
Loans and advances to customers at amortized cost	29,700
Financial assets at amortized cost	22,900
	78,300
LIABILITIES	
Provision for off-balance sheet items and unutilized facilities	3,200
Regulatory deferred liability	(81,200)
	78,000
NET IMPACT ON EQUITY	
Non-distributable reserves	300
	300

The impact of the IFRS 9 transitional adjustments on equity is not considered significant by management.

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

New and revised IFRSs	Effective for annual periods beginning on or after
IFRS 15 *Revenue from Contracts with Customers* In May 2014, IFRS 15 was issued which established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations when it becomes effective. The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition: • **Step 1:** Identify the contract(s) with a customer. • **Step 2:** Identify the performance obligations in the contract. • **Step 3:** Determine the transaction price. • **Step 4:** Allocate the transaction price to the performance obligations in the contract. • **Step 5:** Recognise revenue when (or as) the entity satisfies a performance obligation. Under IFRS 15, an entity recognises when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.	January 1, 2018
Amendments to IFRS 15 *Revenue from Contracts* with Customers to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.	January 1, 2018
IFRS 16 *Leases* IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.	January 1, 2019
Amendments to IAS 28 *Investment in Associates and Joint Ventures:* Relating to long-term interests in associates and joint ventures. These amendments clarify that an entity applies IFRS 9 *Financial Instruments* to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.	January 1, 2019
Amendments to IFRS 7 *Financial Instruments: Disclosures* relating to disclosures about the initial application of IFRS 9.	When IFRS 9 is first applied
IFRS 7 *Financial Instruments: Disclosures* relating to the additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9.	When IFRS 9 is first applied
IFRS 17 *Insurance Contracts* IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 *Insurance Contracts* as of January 1, 2021.	January 1, 2021

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group financial statements as and when they are applicable and adoption of these new standards, interpretations and amendments, except for IFRS 9, as highlighted in previous paragraphs, may have no material impact on the financial statements of the Group in the period of initial application. Management anticipates that IFRS 15 and IFRS 9 will be adopted in the Group's financial statements for the annual period beginning January 1, 2018 and that IFRS 16 will be adopted in the Group's financial statements for the annual period beginning January 1, 2019.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance:

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

Basis of Preparation:

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments measured at fair value as set out in the accounting policies below.

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

The principal accounting policies applied are set out below:

A. Basis of Consolidation:

The consolidated financial statements of First National Bank S.A.L. incorporate the financial statements of the Bank and enterprises controlled by the Bank (Subsidiaries). Control is achieved when the Group:

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

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

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally.

The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

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

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

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

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

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

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

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

The consolidated subsidiaries as at December 31, 2017 comprise:

Company Name	Country of Incorporation	Date of Incorporation/ Acquisition	Percentage of Ownership	Business Activity
FNB Finance S.A.L.	Lebanon	January 8, 2010	100	Retail loans
FNB Holding Limited	Guernsey	December 8, 1995	98.92	Finance
Subsidiaries of FNB Holding Limited				
FNB Holding S.A.L.	Lebanon	December 1, 1995	100	Holding company
FNB Capital S.A.L.	Lebanon	August 3, 1996	100	Finance
FNB Offshore S.A.L.	Lebanon	July 22, 1996	100	Finance
Middle East Capital Asset Management Limited	Guernsey	March 19, 1999	100	Dormant company
FNB Development S.A.L.	Lebanon	July 28, 2005	99	Management company
FNB Real Estate Management Company S.A.R.L.	Lebanon	May 24, 2004	100	Real estate management
Corporate Finance House S.A.L.	Lebanon	January 1, 2014	100	Investment banking
Corporate Finance House BVI	British Virgin Islands	January 1, 2014	100	Investment banking
National Fixed Income Fund SPC	Cayman Island	January 15, 2015	-	Mutual Fund
First National Dollar Fund SPC	Cayman Island	October 1, 2015	-	Mutual Fund
Colmarer Property Investment I Limited	British Virgin Islands	January 4, 2017	100	Real estate management
Immobilia Hamra S.A.L.	Lebanon	October 31, 2017	50	Real Estate

During 2017, Immobilia Hamra S.A.L. was included in the scope of the consolidated financial statements effective October 31, 2017 as a result of the acquisition of 50% of its shares by the Group.

During 2017, Colmarer Property Investment I Limited was included in the scope of the consolidated financial statements effective January 4, 2017 as a result of the acquisition of the totality of its shares by the Group (15% acquisition in 2016). As of December 31, 2017 the group is committed to a sale plan which includes the loss of control of this subsidiary in the subsequent period to the financial statements, accordingly the assets and liabilities of Colmarer Property Investment I Limited are classified as held for sale in the consolidated financial statements of the Group.

B. Business Combinations:

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

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.
Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

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

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

C. Goodwill:

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

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

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

D. Foreign Currencies:

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

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

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

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

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

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

E. Recognition and Derecognition of Financial Assets and Liabilities:

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

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

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

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

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

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

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

F. Classification of Financial Assets:

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

Debt Instruments:

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

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

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

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

Equity Instruments:

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

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

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

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

A financial asset is held for trading if:

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

Reclassification:

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

Reclassification is not allowed where:

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

G. Financial Liabilities and Equity Instruments:

Classification as debt or equity:

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

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

Financial Liabilities at fair value through profit or loss:

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

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

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

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

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

Financial Liabilities Subsequently Measured at Amortized Cost:

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

Financial Guarantee Contract Liabilities:

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

Financial guarantee contract liabilities are measured initially at their fair values and, if not designated at FVTPL, are subsequently measured at the higher of:
- the amount of the obligation under the contract, as determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and
- the amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies set out above.

H. Offsetting:

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

I. Fair Value Measurement of Financial Instruments:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:
- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

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

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

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

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

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

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

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

J. 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 collaterals 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.

K. 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.

L. Loans and Advances:

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

M. Investments in Associates:

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate, the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

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

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

N. Property and Equipment:

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

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

	Rates (%)
Buildings	2
Office improvements and installations	15
Furniture, fixtures and equipment	8-25
Computer equipment	20
Vehicles	10

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

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.

O. Intangible Assets (Other than Goodwill):

Intangible assets are amortized on a straight-line basis over the period of 3 years. Intangible assets are subject to impairment testing.

P. Assets Acquired in Satisfaction of Loans:

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

Upon sale of repossessed assets, any gain or loss realized is recognized in the consolidated statement of profit or loss.

Q. Operating Lease Agreements:

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

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

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

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

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

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

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

T. Provisions:

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

U. 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.

V. Revenue and Expense Recognition:

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

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

Other fee and commission income are recognized as the related services are performed.

Interest income and expense presented in the consolidated 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, dividend income, realized and unrealized fair value changes and foreign exchange differences on financial assets at fair value through profit or loss are presented separately in the consolidated statement of profit or loss.

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

W. Income Tax:

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement 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 Bank is subject to withheld tax by the issuer. This tax is deducted at year-end from the corporate tax liability not eligible for deferred tax benefit, and therefore, accounted for as prepayment on corporate income tax and reflected as a part of income tax provision.

During 2017, Lebanese tax amendments and new taxes and duties were issued as per Law No. 64 dated October 26, 2017. These amendments include, but are not limited to, an increase in the Lebanese corporate income tax from 15% to 17% to be applied effective on October 27, 2017 onwards. In addition, the above mentioned withheld tax by the issuer is not allowed anymore to be deducted from the annual corporate income tax amount and is considered as a deductible expense for the purpose of calculating the corporate taxable income. Withholding tax on interest was increased from 5% to 7%.

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

X. Fiduciary Accounts:

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

Y. Cash and Cash Equivalents:

Cash and cash equivalents comprise balances with maturities of a period of three months including: cash and balances with the Central Bank of Lebanon 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 carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

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

Classification of Financial Assets:

Business Model:

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

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

Characteristics of the Financial Asset:

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

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

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

B. Key Sources of Estimation Uncertainty:

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

Allowances for Credit Losses - Loans and Advances to Customers:

Specific impairment for credit losses is determined by assessing each case individually. This method applies to classified loans and advances and the factors taken into consideration when estimating the allowance for credit losses 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:

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

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

Impairment of Goodwill:

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy under 3C. The recoverable amount is determined based on the fair value of the cash generating unit less cost of disposal, assessed using the market approach (Refer to Note 18 for details).

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 company's ability to continue as going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

5. CASH AND DEPOSITS WITH CENTRAL BANK OF LEBANON

This caption consists of the following:

	December 31	
	2017	2016
	LBP'000	
Cash on hand	35,520,719	34,195,053
Current accounts with Central Bank of Lebanon	201,212,040	151,404,672
Term placements with Central Bank of Lebanon	2,193,035,098	1,508,692,450
Accrued interest receivable	32,389,855	15,014,286
	2,462,157,712	**1,709,306,461**

Current accounts at Central Bank of Lebanon include non-interest earning cash compulsory reserves in Lebanese Pound in the amount of LBP98.8billion (LBP127.1billion as of December 31, 2016) computed on the basis of 25% and 15% of the weekly average of demand deposits and term deposits in Lebanese Pound respectively, in accordance with local banking regulations. This compulsory reserve is not available for use in the daily banking activities.

Term placements with Central Bank of Lebanon include the equivalent in foreign currencies of LBP657billion (LBP562billion in 2016) deposited in accordance with local banking regulations which require banks to maintain interest earning placements in foreign currency to the extent of 15% of customers' deposits in foreign currencies, certificates of deposit and loans acquired from non-resident financial institutions with remaining maturity of less than one year.

As at December 31, 2017, term placements with the Central Bank of Lebanon (BDL) include deposits in USD in the amount of USD105million (C/V LBP158billion) which triggered collateralized investment in Lebanese Treasury bills in LBP in the amount of LBP132billion with maturities ranging from year 2022 till year 2027 (Note 12) originated through soft leverage arrangement in LBP for an amount of LBP197billion (Note 19) thus significantly enhancing the yield on the initial investment in USD over coupon rate.

6. DEPOSITS WITH BANKS AND FINANCIAL INSTITUTIONS

This caption consists of the following:

	December 31	
	2017	2016
	LBP'000	
Checks in course of collection	2,977,292	2,980,570
Current accounts with banks and financial institutions	233,974,043	85,569,915
Term placements with banks and financial institutions	159,729,518	184,432,247
Short term deposits with resident banks	36,420,472	-
Cash margin against facilities	16,345,392	24,818,194
Accrued interest receivable	1,275,301	742,574
	450,722,018	**298,543,500**

Cash margin against facilities represents cash margin against trade finance and foreign exchange transactions with non-resident banks.

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This caption consists of the following:

	December 31	
	2017	**2016**
	LBP'000	
Quoted equity securities	9,227,072	10,526,270
Unquoted equity securities	30,204,476	34,407,278
Lebanese government bonds	18,534,903	69,744,468
Lebanese treasury bills	82,791,048	181,866,862
Certificates of deposit issued by the Central Bank of Lebanon	71,674,793	342,469,286
Corporate bonds	3,015,000	3,015,000
	215,447,292	**642,029,164**
Accrued interest receivable	3,229,745	11,442,964
	218,677,037	**653,472,128**

The change in fair value gain of the financial assets at fair value through profit or loss amounted to LBP2.2billion in 2017 (LBP10.8billion in 2016) and is reflected in the consolidated statement of profit or loss under "Net interest and gain or loss on financial assets at fair value through profit or loss" (Note 32).

During 2017, the Group sold and repurchased Lebanese Government bonds in the amount of LBP8.3billion which resulted in a gain of LBP101million recognized under "net interest and gain or loss on financial assets at fair value through profit or loss" in the statement of profit or loss (Note 32).

During 2016, the Group sold and repurchased certificates of deposit issued by the Central Bank of Lebanon classified at fair value through profit or loss in the amount of LBP20billion which resulted in a gain of LBP287million recognized under "net interest and gain or loss on financial assets at fair value through profit or loss" in the consolidated statement of profit or loss (Note 32).

During 2016, the Group sold and repurchased Lebanese Government bonds classified at fair value through profit or loss in the amount of LBP13billion which resulted in a gain of LBP1.2million recognized under "net interest and gain or loss on financial assets at fair value through profit or loss" in the consolidated statement of profit or loss (Note 32).

8. LOANS TO BANKS AND FINANCIAL INSTITUTIONS

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

	December 31	
	2017	2016
	LBP'000	
Loans to banks	1,050,000	1,450,000
Discounted documentary letters of credit	1,701,219	40,078
Accrued interest receivable	11,856	17,791
	2,763,075	1,507,869

Loans to banks have last maturity dates as follows:

	December 31, 2017	
	LBP Base Accounts	
Maturity	Amount	Average Interest Rate
	LBP'000	%
2019	300,000	4.35
2020	750,000	4.35
	1,050,000	

	December 31, 2016	
	LBP Base Accounts	
Maturity	Amount	Average Interest Rate
	LBP'000	%
2019	450,000	4.35
2020	1,000,000	4.35
	1,450,000	

9. LOANS AND ADVANCES TO CUSTOMERS

This caption consists of the following:

	December 31	
	2017	**2016**
	LBP'000	
Loans and advances to customers	1,462,080,250	1,411,601,520
Loans and advances to related parties	83,827,387	80,672,491
Bills discounted (net)	9,546,304	4,985,458
Creditors accidentally debtors	4,172,086	8,079,459
Substandard loans (net of unearned interest)	49,863,359	31,291,502
Bad and doubtful debts (net of unearned interest)	65,164,630	46,990,865
Less: Allowance for impairment	(26,011,813)	(27,350,614)
Allowance for impairment of individually assessed performing retail loans	(10,570,133)	(2,064,088)
Allowance for impairment of collectively assessed loans	(12,096,630)	(11,006,424)
	1,625,975,440	**1,543,200,169**
Less: Pledged guarantee funds to cover shortage in provision	(69,397)	(69,397)
	1,625,906,043	**1,543,130,772**

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

	December 31, 2017			
	Loan Balance net of Deferred Interest	Unearned Interest	Impairment Allowance	Carrying Value
	LBP'000			
CORPORATE CUSTOMERS:				
Commercial loans	323,527,777	-	-	323,527,777
Overdrafts	498,885,026	-	-	498,885,026
Other corporate loans	171,199,401	-	-	171,199,401
RETAIL CUSTOMERS:				
Car loans	89,213,272	-	-	89,213,272
Credit cards	16,586,487	-	-	16,586,487
Housing loans	251,459,151	-	-	251,459,151
Overdrafts	56,444,215	-	-	56,444,215
Personal loans and other	148,374,991	-	-	148,374,991
Substandard loans	56,861,662	(6,998,303)	-	49,863,359
Doubtful loans	131,133,896	(65,969,266)	(26,011,813)	39,152,817
Less: Allowance for impairment of individually performing retail loans	-	-	(10,570,133)	(10,570,133)
Allowance for collectively assessed loans	-	-	(12,096,630)	(12,096,630)
	1,743,685,878	**(72,967,569)**	**(48,678,576)**	**1,622,039,733**
Accrued interest receivable	3,935,707	-	-	3,935,707
	1,747,621,585	**(72,967,569)**	**(48,678,576)**	**1,625,975,440**

	December 31, 2016			
	Loan Balance net of Deferred Interest	Unearned Interest	Impairment Allowance	Carrying Value
	LBP'000			
CORPORATE CUSTOMERS:				
Commercial loans	383,070,230	-	-	383,070,230
Overdrafts	438,360,882	-	-	438,360,882
Other corporate loans	143,966,723	-	-	143,966,723
RETAIL CUSTOMERS:				
Car loans	103,642,771	-	-	103,642,771
Credit cards	16,114,374	-	-	16,114,374
Housing loans	221,645,740	-	-	221,645,740
Overdrafts	70,003,043	-	-	70,003,043
Personal loans and other	124,577,876	-	-	124,577,876
Substandard loans	34,386,382	(3,094,880)	-	31,291,502
Doubtful loans	116,557,451	(69,566,586)	(27,350,614)	19,640,251
Less: Allowance for impairment of individually performing retail loans	-	-	(2,064,088)	(2,064,088)
Allowance for collectively assessed loans	-	-	(11,006,424)	(11,006,424)
	1,652,325,472	**(72,661,466)**	**(40,421,126)**	**1,539,242,880**
Accrued interest receivable	3,957,289	-	-	3,957,289
	1,656,282,761	**(72,661,466)**	**(40,421,126)**	**1,543,200,169**

The movement of unearned interest during 2017 and 2016 is summarized as follows:

	2017	
	Substandard Loans	Doubtful Loans
	LBP'000	
Balance, January 1	3,094,880	69,566,586
Additions (recoveries)	3,903,423	(3,597,320)
Balance December 31	**6,998,303**	**65,969,266**

	2016	
	Substandard Loans	Doubtful Loans
	LBP'000	
Balance, January 1	3,914,175	82,507,920
Additions (recoveries)	721,886	(9,299,339)
Transfer to off balance sheet	-	(4,385,016)
Transfer to litigious debts	(798,169)	-
Transfer to doubtful debts	(743,012)	743,012
Balance December 31	**3,094,880**	**69,566,586**

The movement of the allowances for impairment of individually assessed performing retail loans and doubtful debts is summarized as follows:

	2017	2016
	LBP'000	
Balance January 1	29,414,702	33,915,296
Additions	4,705,470	2,766,453
Transfer to allowance for impairment of collectively assessed loans	(601,142)	(247,385)
Recoveries	(3,090,114)	(1,666,674)
Transfer from regulatory deferred liability (Note 21)	6,005,043	-
Write offs	-	(555,386)
Transfer to off-balance sheet	(56,948)	(4,788,787)
Other transfers /adjustments	204,935	(8,815)
Balance December 31	**36,581,946**	**29,414,702**

The movement of allowance for impairment of collectively assessed loans is summaries as follows:

	2017	2016
	LBP'000	
Balance January 1	11,006,424	10,139,234
Additions	483,021	619,959
Transfer from allowance of individually assessed loans	601,142	247,386
Transfer to off-balance sheet	-	(155)
Other transfers	6,043	-
Balance December 31	**12,096,630**	**11,006,424**

10. DUE FROM RELATED PARTIES

This caption consists of the following:

	December 31	
	2017	2016
	LBP'000	
Related parties		
Middle East Real Estate Opportunities Fund (MEREO I) LP	221,521	207,821
Middle East Real Estate Opportunities Fund (MEREO II) LP	3,809,118	3,494,418
Philadelphia Investment Group	2,158,921	2,124,609
Gustav Immobilien 1 Limited	-	501,976
Broadwater BVI	150,932	150,932
Trio 1 Limited	1,686,841	619,518
Inkchip Holding SAL	529,562	291,456
Corniche 550 LTD	149,598	118,019
Colmarer Property Investment I Limited	-	22,484
CFH Luxembourg I & II	2,969,428	15,998,277
CFH Prague	40,137	-
Project Treehouse	94,199	1,713,071
Others	45,211	146,179
	11,855,468	**25,388,760**

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Financial assets at fair value through other comprehensive income outstanding at December 31, 2017 and 2016 consist of the following:

	December 31, 2017		
			F/Cy Base Account
	Incorporated in	Ownership	Fair Value
		%	LBP'000
Capital Plaza Holding SAL	Lebanon	5.45	496,363
Middle East Real Estate Opportunities Fund (MEREO I) LP	British Virgin Island	13.98	823,868
Middle East Real Estate Opportunities Fund II (MEREO II) LP	British Virgin Island	7.44	998,410
Philadelphia Investment Group Ltd.	British Virgin Island	5.29	1,813,990
Inkchip Holding SAL	Lebanon	5.00	845,854
Gustav Immobilien I Limited (BVI)	British Virgin Island	8.48	4,185,875
Trio I Limited	British Virgin Island	4.06	1,064,791
Treehouse Project	British Virgin Island	5.78	1,130,625
CFH Luxembourg II	British Virgin Island	0.60	355,469
CFH Luxembourg	British Virgin Island	0.85	337,077
CSC Bank S.A.L.	Lebanon	5.00	9,798,750
Other shares	Lebanon	-	96,132
			21,947,204

	December 31, 2016		
			F/Cy Base Account
	Incorporated in	Ownership	Fair Value
		%	LBP'000
Capital Plaza Holding SAL	Lebanon	5.45	496,363
Middle East Real Estate Opportunities Fund (MEREO I) LP	British Virgin Island	13.98	823,868
Middle East Real Estate Opportunities Fund II (MEREO II) LP	British Virgin Island	7.44	998,410
Philadelphia Investment Group Ltd.	British Virgin Island	5.29	1,813,990
Inkchip Holding SAL	Lebanon	5.00	845,854
Gustav Immobilien I Limited (BVI)	British Virgin Island	8.48	2,075,375
Trio I Limited	British Virgin Island	8.44	2,218,286
Treehouse Project	British Virgin Island	19.40	3,768,750
Colmarer Property Investment I Limited	British Virgin Island	15.00	2,713,500
CFH Luxembourg	British Virgin Island	9.52	3,015,000
CSC Bank S.A.L.	Lebanon	5.00	9,798,750
Other shares	Lebanon	-	88,920
			28,657,066

The change in fair value gain of the financial assets at fair value through other comprehensive income amounted to LBP2.1billion in 2017 and is reflected in the consolidated statement of profit or loss and other comprehensive income.

During the year 2017, the group transferred financial assets at fair value through other comprehensive income in the amount of USD2.9million (C/V LBP4.3billion) to a related party generating a premium of USD169 thousands (C/V LBP255million) recognized under "Other operating income (net)" in the statement of profit or loss (Note 33).

12. FINANCIAL ASSETS AT AMORTIZED COST

Financial assets at amortized cost outstanding at December 31, 2017 and 2016 consist of the following:

	December 31, 2017				
	LBP		F/Cy		Total Amortized Cost
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	
	LBP'000				
Lebanese treasury bills	454,206,720	454,532,777	-	-	454,206,720
Lebanese government bonds	-	-	904,261,324	876,040,105	904,261,324
Certificates of deposit issued by the Central Bank of Lebanon	210,532,224	217,977,527	652,385,498	666,889,554	862,917,722
Corporate bonds	-	-	10,929,375	10,929,375	10,929,375
Mutual Securitization Fund	-	-	6,030,000	-	6,030,000
	664,738,944	**672,510,304**	**1,573,606,197**	**1,553,859,034**	**2,238,345,141**
Accrued interest receivable	12,574,916	12,574,916	23,681,824	23,681,827	36,256,740
	677,313,860	**685,085,220**	**1,597,288,021**	**1,577,540,861**	**2,274,601,881**

	December 31, 2016				
	LBP		F/Cy		Total Amortized Cost
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	
	LBP'000				
Lebanese treasury bills	565,653,492	576,249,538	-	-	565,653,492
Lebanese government bonds	-	-	759,791,651	743,012,226	759,791,651
Certificates of deposit issued by the Central Bank of Lebanon	204,561,830	211,856,782	731,232,582	765,488,376	935,794,412
Corporate bonds	-	-	11,817,807	12,044,925	11,817,807
Certificates of deposit issued by local banks	-	-	9,035,692	8,954,550	9,035,692
	770,215,322	**788,106,320**	**1,511,877,732**	**1,529,500,077**	**2,282,093,054**
Accrued interest receivable	11,901,897	11,901,897	21,791,448	21,791,448	33,693,345
	782,117,219	**800,008,217**	**1,533,669,180**	**1,551,291,525**	**2,315,786,399**

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

	December 31, 2017		
	LBP		
	Nominal Value	Amortized Cost	Fair Value
	LBP '000		
REMAINING PERIOD TO MATURITY			
Lebanese Treasury Bills:			
- Up to 1 year	134,922,290	135,070,127	136,305,518
- 1 year to 3 years	52,510,275	52,577,058	54,369,192
- 3 years to 5 years	113,512,676	113,297,950	110,352,149
- 5 years to 10 years	142,220,790	145,261,585	145,376,198
- More than 10 years	8,000,000	8,000,000	8,129,720
	451,166,031	**454,206,720**	**454,532,777**
Lebanese Government bonds:			
- Up to 1 year	-	-	-
- 1 year to 3 years	-	-	-
- 3 years to 5 years	-	-	-
- 5 years to 10 years	-	-	-
- More than 10 years	-	-	-
	-	**-**	**-**
Certificates of deposit issued by the Central Bank of Lebanon:			
- 3 years to 5 years	-	-	-
- 5 years to 10 years	136,000,000	138,532,224	144,885,107
- More than 10 years	72,000,000	72,000,000	73,092,420
	208,000,000	**210,532,224**	**217,977,527**
Corporate bonds:			
- Up to 1 year	-	-	-
- 1 year to 3 years	-	-	-
- 3 years to 5 years	-	-	-
- 5 years to 10 years	-	-	-
	-	**-**	**-**
Mutual Securitization Fund:			
- 5 years to 10 years	-	-	-
	-	**-**	**-**
	659,166,031	**664,738,944**	**672,510,304**

December 31, 2017			
Foreign Currency (C/V LBP)			Total Amortized Cost
Nominal Value	Amortized Cost	Fair Value	
LBP '000			
-	-	-	135,070,127
-	-	-	52,577,058
-	-	-	113,297,950
-	-	-	145,261,585
-	-	-	8,000,000
-	**-**	**-**	**454,206,720**
85,568,909	85,768,518	86,246,381	85,768,518
136,179,131	136,604,328	136,183,950	136,604,328
199,210,095	206,177,155	204,812,444	206,177,155
101,694,443	101,869,155	97,737,095	101,869,155
374,141,903	373,842,168	351,060,235	373,842,168
896,794,481	**904,261,324**	**876,040,105**	**904,261,324**
50,953,500	50,999,209	52,203,579	50,999,209
382,000,500	383,056,794	395,454,772	521,589,018
217,833,750	218,329,495	219,231,203	290,329,495
650,787,750	**652,385,498**	**666,889,554**	**862,917,722**
1,658,250	1,658,250	1,658,250	1,658,250
226,125	226,125	226,125	226,125
3,015,000	3,015,000	3,015,000	3,015,000
6,030,000	6,030,000	6,030,000	6,030,000
10,929,375	**10,929,375**	**10,929,375**	**10,929,375**
6,030,000	6,030,000	6,030,000	6,030,000
6,030,000	**6,030,000**	**6,030,000**	**6,030,000**
1,564,541,606	**1,573,606,197**	**1,559,889,034**	**2,238,345,141**

	December 31, 2016		
	LBP		
	Nominal Value	Amortized Cost	Fair Value
	LBP '000		
REMAINING PERIOD TO MATURITY			
Lebanese treasury bills			
- Up to 1 year	200,386,458	200,533,507	202,697,346
- 1 year to 3 years	163,797,565	164,326,505	168,303,298
- 3 years to 5 years	60,500,000	60,668,588	61,901,439
- 5 years to 10 years	128,886,790	132,124,892	135,287,783
- More than 10 years	8,000,000	8,000,000	8,059,672
	561,570,813	**565,653,492**	**576,249,538**
Lebanese Government bonds:			
- Up to 1 year	-	-	-
- 1 year to 3 years	-	-	-
- 3 years to 5 years	-	-	-
- 5 years to 10 years	-	-	-
- More than 10 years	-	-	-
	-	**-**	**-**
Certificates of deposit issued by the Central Bank of Lebanon:			
- Up to 1 year	4,000,000	4,009,218	4,030,471
- 3 years to 5 years	-	-	-
- 5 years to 10 years	127,000,000	128,552,612	135,263,184
- More than 10 years	72,000,000	72,000,000	72,563,127
	203,000,000	**204,561,830**	**211,856,782**
Corporate bonds:			
- 1 year to 3 years	-	-	-
- 3 years to 5 years	-	-	-
- 5 years to 10 years	-	-	-
- More than 10 years	-	-	-
	-	**-**	**-**
Certificates of deposit issued by local banks:			
- Up to 1 year	-	-	-
	-	**-**	**-**
	764,570,813	**770,215,322**	**788,106,320**

December 31, 2016			
Foreign Currency (C/V LBP)			Total Amortized Cost
Nominal Value	Amortized Cost	Fair Value	
LBP '000			
-	-	-	200,533,507
-	-	-	164,326,505
-	-	-	60,668,588
-	-	-	132,124,892
-	-	-	8,000,000
-	**-**	**-**	**565,653,492**
101,319,731	101,843,964	101,317,071	101,843,964
158,888,230	157,966,098	154,946,181	157,966,098
168,291,270	174,719,719	174,217,301	174,719,719
130,171,118	130,012,249	125,320,863	130,012,249
195,503,153	195,249,621	187,210,810	195,249,621
754,173,502	**759,791,651**	**743,012,226**	**759,791,651**
-	-	-	4,009,218
22,612,500	22,670,314	23,662,474	22,670,314
503,957,250	504,028,698	531,654,171	632,581,310
204,266,250	204,533,570	210,171,731	276,533,570
730,836,000	**731,232,582**	**765,488,376**	**935,794,412**
4,673,250	4,807,932	5,035,050	4,807,932
226,125	226,125	226,125	226,125
5,276,250	5,276,250	5,276,250	5,276,250
1,507,500	1,507,500	1,507,500	1,507,500
11,683,125	**11,817,807**	**12,044,925**	**11,817,807**
9,045,000	9,035,692	8,954,550	9,035,692
9,045,000	**9,035,692**	**8,954,550**	**9,035,692**
1,505,737,627	**1,511,877,732**	**1,529,500,077**	**2,282,093,054**

The movement of financial assets at amortized cost is as follows:

	2017		
	LBP	F/Cy	Total
	LBP'000		
Balance at January 1, 2017	770,215,322	1,511,877,732	2,282,093,054
Additions	322,876,024	395,780,103	718,656,127
Redemptions	(299,386,458)	(119,673,544)	(419,060,002)
Amortization of premiums and discounts	(1,258,564)	(1,820,370)	(3,078,934)
Exchanges (Net of premiums and discounts)	(127,707,380)	(182,256,750)	(309,964,130)
Sales (Net of premiums and discounts)	-	(34,532,670)	(34,532,670)
Difference in exchange	-	4,231,696	4,231,696
Balance at December 31, 2017	**664,738,944**	**1,573,606,197**	**2,238,345,141**

	2016		
	LBP	F/Cy	Total
	LBP'000		
Balance at January 1, 2016	975,422,747	1,140,129,823	2,115,552,570
Additions	91,914,501	650,997,764	742,912,265
Redemptions	(44,743,900)	(116,354,473)	(161,098,373)
Amortization of premiums and discounts	(2,029,588)	(3,790,106)	(5,819,694)
Exchanges (Net of premiums and discounts)	(250,348,438)	(149,995,741)	(400,344,179)
Sales (Net of premiums and discounts)	-	(8,325,215)	(8,325,215)
Difference in exchange	-	(784,320)	(784,320)
Balance at December 31, 2016	**770,215,322**	**1,511,877,732**	**2,282,093,054**

As of December 31, 2017 and 2016, the Group had Lebanese government bonds in the amount of LBP243billion (USD161.2million) classified as financial assets at amortized cost and pledged against repurchase agreements with a non-resident bank (Note 19).

As of December 31, 2017 and 2016, the Group had Lebanese treasury bills in the amount of LBP2.7billion pledged against a soft loan granted by the Central Bank of Lebanon (Note 19).

During 2017, the Group acquired Lebanese treasury bills in the amount of LBP132billion pledged against borrowings from the Central Bank of Lebanon (Note 19).

During 2017, the Group exchanged Lebanese treasury bills classified at amortized cost near maturity in the amount of LBP10billion against Lebanese government bonds with longer maturities and classified at amortized cost. This operation resulted in a net gain of LBP1.6million recognized under “Other operating income (net)” in the statement of profit or loss (Note 33).

During 2017, the Group exchanged treasury bills with near maturities in the amount of LBP17.9billion against Lebanese Government bonds with longer maturities and classified at amortized cost. This operation resulted in a net gain of LBP20.4million which will be amortized over maturity.

During 2017, the Group exchanged certificate of deposits issued by the Central Bank of Lebanon in the amount of LBP182.3billion against Lebanese Government bonds with longer maturities and classified at amortized cost. This operation did not result in any gain or loss.

During 2017, the Group sold investment securities classified at amortized cost near maturity in the amount of LBP34.5billion which resulted in a gain in the amount of LBP325million (LBP8.3billion sold during 2016 resulting in a gain in the amount of LBP21million) recognized under “Other operating income (net)” in the consolidated statement of profit or loss (Note 33).

During 2017, the Group entered into exchange transactions of Lebanese Treasury Bills in Lebanese Pounds and certificates of deposit placed with the Central Bank of Lebanon in Lebanese Pounds having a nominal value of LBP97.4billion, classified at amortized cost, and a nominal value of LBP242billion classified at fair value through profit or loss. This sale transaction was concluded simultaneously with the acquisition of term deposits placed with Central Bank of Lebanon in Lebanese pounds with a nominal value of LBP370billion and in U.S Dollar with a nominal value of LBP164.3billion.

During 2016, the Group exchanged Lebanese government bonds in the amount of LBP30.2billion maturing in 2016 against Lebanese government bonds with longer maturities and classified at amortized cost. This operation resulted in a net gain of LBP97million recognized under “Other operating income (net)” in the consolidated statement of profit or loss (Note 33).

During 2016, the Group exchanged certificates of deposit issued by the Central Bank of Lebanon with long maturities in the amount of LBP45.3billion against certificates of deposit issued by the Central Bank of Lebanon with longer maturities and classified at amortized cost. This operation resulted in a net loss of LBP75million added to the nominal value of these securities and which will be amortized over maturity.

During 2016, the Group exchanged Lebanese Government bonds with long maturities in the amount of LBP74.5billion against Lebanese Government bonds with longer maturities and classified at amortized cost. This operation resulted in a net loss of LBP311million added to the nominal value of these securities and which will be amortized over maturity. This operation also resulted in a commission income in the amount of LBP2.9billion recognized under “Other operating income (net)” in the consolidated statements of profit or loss (Note 33).

During 2016, the Group entered into other sale transactions of Lebanese Treasury Bills in Lebanese Pounds having a nominal value of LBP38billion and certificates of deposit issued by Central Bank of Lebanon in Lebanese Pounds having a nominal value of LBP210billion, classified at amortized cost, as well as Lebanese Treasury Bills in Lebanese Pounds having a nominal value of LBP45billion and certificates of deposit issued by Central Bank of Lebanon in Lebanese Pounds having a nominal value of LBP23billion and classified at fair value through profit or loss. This sale transaction was concluded simultaneously with the acquisition of certificates of deposit issued by Central Bank of Lebanon and Lebanese Government bonds in U.S. Dollar with a nominal value of USD170million and USD40million respectively, maturing in years ranging from year 2023 to year 2029 that were classified at amortized cost and funded from the Group’s treasury in foreign currencies held with correspondent banks.

The resulting surplus of the inter-related transactions indicated above, derived from the special and non-conventional deals arrangement with the regulator, amounted to LBP106billion, net of tax in the amount of LBP19billion paid during 2017, was credited to “Regulatory deferred liability” under other liabilities in the consolidated statement of financial position (Note 21).

13. CUSTOMERS' LIABILITY UNDER ACCEPTANCES

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

14. OTHER ASSETS

This caption consists of the following:

	December 31	
	2017	2016
	LBP'000	
Prepaid expenses	7,399,441	5,117,586
Deferred charges	796,709	717,560
Refundable guarantee deposits	170,061	170,061
Stamps	101,377	97,536
Intangible assets (a)	322,557	319,321
Receivables from financial services contracts (b)	5,661,790	3,927,410
Due from Social Security Fund	6,216,980	5,167,985
Other debit balances (d)	14,106,693	5,022,943
Regulatory blocked fund (c)	1,500,000	1,500,000
Provision for doubtful receivables	(792,714)	(724,876)
	35,482,894	**21,315,526**

(a) The movement of intangible assets during 2017 and 2016 was as follows:

	LBP'000
COST	
Balance, January 1, 2016	2,453,148
Additions	51,731
Balance, December 31, 2016	**2,504,879**
Additions	151,288
Balance, December 31, 2017	**2,656,167**
ACCUMULATED AMORTIZATION	
Balance, January 1, 2016	(2,041,694)
Additions (Note 34)	(143,864)
Balance, December 31, 2016	**(2,185,558)**
Additions (Note 34)	(148,052)
Balance, December 31, 2017	**(2,333,610)**
NET CARRYING VALUE:	
December 31, 2017	**322,557**
December 31, 2016	**319,321**

(b) Receivables from financial services contracts as at December 31, 2017 and 2016 represent an amount due on services rendered by the subsidiary Corporate Finance House Limited.

(c) Regulatory blocked fund represents a non-interest earning compulsory deposit placed with the Lebanese Treasury upon establishment of "First National Bank S.A.L.". This deposit is refundable in case of cease of operations, according to article 132 of the Money and Credit Law.

(d) Other debit balances include an amount of LBP6.2billion as at December 31, 2017 representing the value of several checks issued in order to participate in auctions on plots which will be acquired in satisfaction of debts.

15. INVESTMENT IN AND LOAN TO AN ASSOCIATE

This caption represents a 12.77% equity stake in Park View Realty Company S.A.L., currently under liquidation, as at December 31, 2017 and 2016:

	December 31	
	2017	**2016**
	LBP'000	
Value of the investment	241,212	228,094
Loan	-	13,118
	241,212	**241,212**

The investment in Park View Realty S.A.L. is classified as an investment in an associate since the Group is represented on the investee's Board of Directors and significant influence is demonstrated in 2017 and 2016.

16. ASSETS ACQUIRED IN SATISFACTION OF LOANS

Assets acquired in satisfaction of loans represent real estate properties and vehicles that have been acquired through enforcement of security over loans and advances to customers.

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

	2017	**2016**
	LBP'000	
Balance, January 1	6,801,143	4,102,405
Additions	2,494,871	3,757,842
Disposals	(1,633,618)	(1,059,104)
Reversals	(31,352)	-
Balance, December 31	**7,631,044**	**6,801,143**

The acquisition of assets in settlement of loans is regulated by the banking regulatory authorities and these should be liquidated within 2 years. In case of default of liquidation, a regulatory reserve should be appropriated from the yearly net profits after deduction of legal reserves and reserves for general banking risk over a period of 5 years and accumulated under equity. This reserve was reduced to 5% when certain conditions linked to the restructuring of non performing loan's portfolio were met as per local banking regulations. During 2017 and 2016, the Group appropriated a reserve of LBP214million and LBP177million respectively from 2017 and 2016 profits.

The fair value of the assets acquired in satisfaction of loans as at December 31, 2017 amounts to LBP8.3billion.

During 2017, the Group sold assets acquired in satisfaction of loans for an aggregate consideration of LBP1.412billion (LBP704million in 2016) resulting in a net loss of LBP221million (loss of LBP354million in 2016) recorded in the consolidated statement of profit or loss under "Other operating income" (Note 33).

17. PROPERTY AND EQUIPMENT

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

	Land	Buildings	Furniture, Office & Computer Equipment
		LBP '000	
COST			
Balance, January 1, 2016	26,337,960	24,169,804	32,409,693
Additions and transfers	-	12,345,491	4,723,259
Disposals	-	-	(988,928)
Balance, December 31, 2016	**26,337,960**	**36,515,295**	**36,144,024**
Additions and transfers	30,091,437	7,247,462	2,718,998
Additions through business combination	-	-	84,389
Disposals	-	-	(1,271,784)
Balance, December 31, 2017	**56,429,397**	**43,762,757**	**37,675,627**
ACCUMULATED DEPRECIATION			
Balance, January 1, 2016	-	(4,554,603)	(20,900,701)
Depreciation expense (Note 34)	-	(541,263)	(2,638,403)
Eliminated on disposals	-	-	593,582
Balance, December 31, 2016	**-**	**(5,095,866)**	**(22,945,522)**
Depreciation expense (Note 34)	-	(1,022,013)	(2,769,123)
Additions through business combination	-	-	(83,258)
Eliminated on disposals	-	-	1,057,341
Balance, December 31, 2017	**-**	**(6,117,879)**	**(24,740,562)**
NET CARRYING VALUE			
December 31, 2017	**56,429,397**	**37,644,878**	**12,935,062**
December 31, 2016	**26,337,960**	**31,419,429**	**13,198,502**

Vehicles	Improvements & Installations	Advance Payment	Total
LBP '000			
827,818	19,515,400	21,183,386	124,444,061
105,148	4,136,538	10,448,713	31,759,149
-	-	-	(988,928)
932,966	**23,651,938**	**31,632,099**	**155,214,282**
40,442	3,933,714	5,283,899	49,315,952
-	-	-	84,389
(71,291)	(31,840)	-	(1,374,915)
902,117	**27,553,812**	**36,915,998**	**203,239,708**
(318,947)	(8,615,122)	-	(34,389,373)
(85,686)	(1,250,143)	-	(4,515,495)
-	-	-	593,582
(404,633)	**(9,865,265)**	**-**	**(38,311,286)**
(84,812)	(1,374,934)	-	(5,250,882)
-	-	-	(83,258)
41,202	28,239	-	1,126,782
(448,243)	**(11,211,960)**	**-**	**(42,518,644)**
453,874	**16,341,855**	**36,915,998**	**160,721,064**
528,333	**13,786,673**	**31,632,099**	**116,902,996**

Additions to buildings in 2017 are transfers from advance payments and represent the value of Plots 61 and 1756 in the amount of LBP3.3billion and LBP3.9billion situated in Jal El Dib and Hazmieh respectively.

Additions to buildings in 2016 represent the value of Plot 5298 in the amount of LBP11.9billion situated in Mazraa – Beirut transferred from "Other assets" (Note 14).

Advance payment represents the cost of the renovation and construction of the Bank branches and new headquarters. The movement of these payments on the account during the years 2017 and 2016 are as follows:

	Hazmieh Branch	Verdun Branch	Jal El Dib Branch	Mathaf New Head Office	Sin-El-Fil Branch	Sour Branch	Other Branches	Total
	LBP'000							
Balance, January 1, 2016	4,543,761	15,473	2,688,254	7,431,619	1,344,802	1,354,399	3,805,078	21,183,386
Additions	950,635	15,473	18,239	10,011,865	963,459	733,205	4,322,253	17,015,129
Transfers	(1,557,590)	(30,946)	(36,478)	-	(2,308,261)	(21)	(2,633,120)	(6,566,416)
Balance, December 31, 2016	**3,936,806**	**-**	**2,670,015**	**17,443,484**	**-**	**2,087,583**	**5,494,211**	**31,632,099**
Additions	2,424	-	642,716	7,243,844	-	1,016,031	9,577,725	18,482,740
Transfers	(3,939,230)	-	(3,312,731)	-	-	(3,064,867)	(2,882,013)	(13,198,841)
Balance, December 31, 2017	**-**	**-**	**-**	**24,687,328**	**-**	**38,747**	**12,189,923**	**36,915,998**

18. GOODWILL

This caption consists of the following:

	December 31	
	2017	2016
	LBP'000	
Goodwill on acquisition of Société Bancaire du Liban ("SBL")	2,400,000	2,400,000
Goodwill on acquisition of Capital Finance Company S.A.L. in 2009	17,979,656	17,979,656
Goodwill on acquisition of Corporate Finance House Limited in 2014	6,626,412	6,626,412
	27,006,068	**27,006,068**

The recoverable amounts of the assets acquired in the business combination described above (Cash-generating units) are determined based on the fair value less cost of disposal, which are higher than the assets carrying value using the market comparability approach.

19. DEPOSITS AND BORROWINGS FROM BANKS AND FINANCIAL INSTITUTIONS

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

	December 31	
	2017	2016
	LBP'000	
Current deposits of banks and financial institutions	40,979,727	41,505,681
Money market deposits (A)	89,615,541	339,539,766
Short term borrowings (B)	7,933,522	20,331,698
Borrowings under sale and repurchase agreements (C)	122,858,292	45,225,000
Borrowings from the Central Bank of Lebanon (Note 5)	197,037,372	-
Other borrowings (D)	38,576,445	22,131,869
Accrued interest payable	1,626,934	965,141
	498,627,833	**469,699,155**

A. The maturities of money market deposits are as follows:

	December 31, 2017			
	LBP Base Accounts		F/Cy Base Accounts	
Maturity	Amount	Average Interest Rate	Amount	Average Interest Rate
	LBP'000	%	LBP'000	%
2018	21,340,271	5.58	68,275,270	1.47
	21,340,271		**68,275,270**	

	December 31, 2016			
	LBP Base Accounts		F/Cy Base Accounts	
Maturity	Amount	Average Interest Rate	Amount	Average Interest Rate
	LBP'000	%	LBP'000	%
2017	21,465,753	5.45	318,074,013	1.47
	21,465,753		**318,074,013**	

B. Short term borrowings are denominated in foreign currencies, carry interest at the rate of 4.25% per annum and mature within one year.

C. The movement of borrowings under sale and repurchase agreements during 2017 and 2016 was as follows:

	December 31	
	2017	2016
	LBP'000	
Balance, January 1	45,225,000	45,225,000
Additions	77,633,292	-
Balance, December 31	**122,858,292**	**45,225,000**

Maturity	December 31, 2017	
	Amount	Average Interest Rate
	LBP'000	%
Renewed and matures in 2020	45,225,000	The lower between Semi-Annual USD LIBOR + 2.50% or 4.75%
2020	77,633,292	4.42%
	122,858,292	

Maturity	December 31, 2016	
	Amount	Average Interest Rate
	LBP'000	%
2017	45,225,000	The lower between Semi-Annual USD LIBOR + 2.50% or 4.75%

Sale and repurchase agreements as of December 31, 2017 and 2016 consist of repurchase agreement contracts with non-resident banks in the amount of USD81.5million (C/V LBP123billion) against pledged Lebanese government bonds with a nominal value of USD161.2million (C/V LBP243billion) as of December 31, 2017 and 2016 classified under "Financial assets at amortized cost" (Note 12).

D. Other borrowings consist of the following:

	December 31	
	2017	2016
	LBP'000	
Loan from the European Investment Bank (i)	319,614	421,268
Soft loan from the Central Bank of Lebanon (ii)	2,745,000	2,745,000
BDL incentive loans (iii)	35,511,831	18,965,601
	38,576,445	**22,131,869**

(i) Borrowings from the European Investment Bank are managed by the Central Bank of Lebanon and financed by the European Investment Bank upon the agreement signed between the Lebanese Republic and the European Investment Bank on December 14, 1999. The purpose of these loans is to finance projects in the industrial sector. These borrowings mature during 2020.

The movement of borrowings from the European Investment Bank during 2017 and 2016 was as follows:

	2017	2016
	LBP'000	
Balance, January 1	421,268	518,153
Settlements	(101,654)	(96,885)
Balance, December 31	**319,614**	**421,268**

(ii) During 2011, the Central Bank of Lebanon ("BDL") granted the Group a soft loan in the amount of LBP2.7billion in accordance with Decision number 6116 dated March 7, 1996 subject to an annual interest rate of 2.2%. The loan proceeds are invested in Lebanese treasury bills for the same amount classified at amortized cost and maturing in January 2017 (Note 12). The treasury bills are pledged in favor of BDL until full repayment of the loan. The present value of the net investment proceeds were used to finance the write-off of a debtor's exposure under credit facilities used to refinance the construction of property and acquisition of equipment damaged during the July 2006 war.

(iii) The Central Bank of Lebanon granted the Group facilities in the amount of LBP35.6billion as at December 31, 2017 (LBP18.9billion as at December 31, 2016) in accordance with Basic Decision No. 6116 of March 7, 1996 and its amendment in basic circular 313. The loan proceeds were lent to the Group's customers, pursuant to certain conditions, rules and mechanism. These facilities are subject to an annual interest rate of 1% paid on a monthly basis. These facilities mature as follows:

	December 31	
Maturity	2017	2016
	LBP'000	
5 to 10 years	10,820,212	4,066,133
10 to 20 years	7,698,431	6,797,002
More than 20 years	16,993,188	8,102,466
	35,511,831	**18,965,601**

The movement of BDL incentive loans during 2017 and 2016 was as follows:

	2017	2016
	LBP'000	
Balance, January 1	18,965,601	15,438,269
Additions	17,279,583	3,527,332
Settlements	(733,353)	-
Balance, December 31	**35,511,831**	**18,965,601**

20. CUSTOMERS' DEPOSITS AND CREDIT ACCOUNTS

Customers' deposits and credit accounts are stated at amortized cost and are detailed as follows:

	December 31	
	2017	2016
	LBP'000	
Current and demand deposits	399,895,073	367,704,262
Term deposits	743,557,704	797,795,576
Saving accounts	3,895,190,845	3,472,331,041
Related party deposits	180,227,445	158,447,851
Collateral against loans and advances - Related parties	72,866,986	71,955,384
Collateral against loans and advances – Customers	271,096,453	277,295,158
Fiduciary accounts	289,002,324	189,620,132
Margins	59,202,694	56,876,141
	5,911,039,524	5,392,025,545
Accrued interest payable	31,442,032	30,787,112
	5,942,481,556	5,422,812,657

Customers' deposits include coded accounts as at December 31, 2017 and 2016 amounting to LBP13.9billion and 24.6billion respectively. These accounts are subject to the provisions of Article 3 of the Banking Secrecy Law dated September 3, 1956. Under the provisions of this article, the Group's management cannot reveal the identities of the depositors to third parties, including its independent auditors.

Deposits are allocated by brackets as follows:

	December 31, 2017			
	Deposits in LBP		Deposits in F/Cy	
	Total Deposits	% to Total Deposits	Total Deposits	% to Total Deposits
	LBP'000	%	LBP'000	%
Related parties	**37,237,674**	**3.31**	**215,856,757**	**5.32**
Customers				
Less than LBP 200million	496,274,199	26.75	538,889,077	13.02
Between LBP 200 million and LBP 1.5billion	656,916,031	35.56	1,160,902,809	28.05
More than LBP 1.5billion	617,963,204	34.38	2,218,441,805	53.61
	1,771,153,434		**3,918,233,691**	
	1,808,391,108	100	4,134,090,448	100

	December 31, 2016			
	Deposits in LBP		Deposits in F/Cy	
	Total Deposits	% to Total Deposits	Total Deposits	% to Total Deposits
	LBP'000	%	LBP'000	%
Related parties	**48,898,780**	**3.33**	**181,504,455**	**5.30**
Customers				
Less than LBP 200million	471,886,495	23.91	494,159,515	14.26
Between LBP 200million and LBP 1.5billion	665,853,779	33.73	977,499,644	28.20
More than LBP 1.5billion	772,523,799	39.14	1,810,486,190	52.24
	1,910,264,073		**3,282,145,349**	
	1,959,162,853	**100**	**3,463,649,804**	**100**

The average balances of deposits and related cost of funds over the last three years were as follows:

Year	Average Balance of Deposits	Allocation of Deposits		Cost of Funds	Average Interest Rate
		LBP	F/Cy		
	LBP'000	%	%	LBP'000	%
2017	5,773,063,173	32	68	264,806,859	4.59
2016	5,224,689,651	37	63	235,138,540	4.50
2015	4,862,048,525	37	63	214,416,340	4.41

21. OTHER LIABILITIES

This caption consists of the following:

	December 31	
	2017	2016
	LBP'000	
Withheld taxes and other taxes payable	5,600,691	5,240,208
Corporate income tax payable (c)	2,520,041	2,393,644
Due to the National Social Security Fund	763,618	766,054
Checks and incoming payment orders in course of settlement	17,651,056	16,141,236
Accrued expenses	12,193,123	8,626,523
Regulatory deferred liability (a)	96,358,568	105,574,674
Withheld taxes on regulatory deferred liability (a)	-	18,630,825
Due to related parties	708,459	-
Deferred income (d)	9,134,084	8,073,598
Due to insurance companies and collectors of bills (b)	5,665,725	6,634,282
Sundry accounts payable (e)	16,980,662	8,913,864
Accrued interest on preferred shares	1,224,084	1,122,344
	168,800,111	182,117,252

(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 term certificates of deposits in foreign currency issued by the Central Bank of Lebanon under deferred liability which is regulated in nature, and shall be appropriated, among other things, after deducting the relevant tax liability, to collective provision for credit risks associated with the loan book at a minimum of 2% of the weighted Credit risks, and that in anticipation of implementation of IFRS 9 for Impairment, as and when quantified effective on January 1, 2018. By virtue of this Circular, 70% of the remaining residual surplus once recognized over time shall be treated as non-distributable income designated and restricted only for appropriation to capital increase.

(b) The maturity of the dues to insurance companies and collectors of bills related to retail loans are allocated based on the maturity of the related outstanding loans.

(c) Income tax expense is reconciled as follows:

	First National Bank S.A.L.		FNB Capital S.A.L.		FNB Finance S.A.L.		Total	
	December 31,							
	2017	2016	2017	2016	2017	2016	2017	2016
	LBP'000							
Profit for the year before income tax for the bank and its subsidiaries subject to income tax	35,883,592	42,275,707	3,973,343	5,597,863	11,027,771	11,092,637	50,884,706	58,966,207
Nontaxable income	(3,990,090)	(3,401,096)	(312,241)	(370,835)	570,575	522,400	(3,731,756)	(3,249,531)
Taxable Income	**31,893,502**	**38,874,611**	**3,661,102**	**5,227,028**	**11,598,346**	**11,615,037**	**47,152,950**	**55,716,676**
Corporate income tax expense	4,899,288	5,831,192	563,810	784,054	1,781,506	1,742,256	7,244,604	8,357,502
Lump sum tax expense and corporate income tax expense related to other subsidiaries	-	-	-	-	-	-	35,943	6,000
Income tax expense (higher of taxable income and tax on interest paid)	**5,163,124**	**6,981,773**	**563,810**	**784,054**	**1,781,506**	**1,742,256**	**7,544,383**	**9,514,083**
Tax on interest paid	(5,163,124)	(6,981,773)	(75,822)	(130,308)	(48,917)	(14,689)	(5,287,863)	(7,126,770)
Tax payable related to other subsidiaries	-	-	-	-	-	-	263,521	6,331
Accrued tax payable	**-**	**-**	**487,988**	**653,746**	**1,732,589**	**1,727,567**	**2,520,041**	**2,393,644**

During the year 2017, 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 corporate income tax from 15% to 17% as well as an increase in the withholding tax on interest earned on bank deposits from 5% to 7% to be applied effective on October 27, 2017 onwards. The average prorated corporate income tax rate during 2017 was computed at 15.36%.

This withholding tax which was considered up to October 26, 2017 as a prepayment deducted from the corporate tax liability is now considered as a deductible expense for the purpose of calculating the corporate taxable income.

Subsequent to the date of the financial statements, the Bank's tax returns for the years 2013 to 2015 are currently being reviewed. No results are issued yet.

The tax returns of the Bank for the years 2016 and 2017 remain subject to examination and final assessment by the tax authorities and any additional tax liability depends on the outcome of such review.

The tax returns for the Bank's subsidiaries are as follows:

- FNB Finance S.A.L.: During 2016, the Company's accounts and tax returns for the years 2011 until 2013 were examined by the tax authorities and resulted in an additional tax liability of approximately LBP50million of which an amount of LBP40million was provided for under the caption "provisions for contingencies" (Note 22). These amounts were settled in 2017.

  The Company's accounts and tax returns since 2014 remain subject to examination and final assessment by the tax authorities and any additional tax liability depends on the outcome of such review.

- FNB Capital S.A.L.: During 2017, the Company's tax returns for the years 2012 to 2014 were reviewed by the tax authorities. This review resulted in a preliminary additional tax liability of LBP232million of which an amount of LBP182million is provided for under "Provision for contingencies" (Note 22).

  The Company's accounts and tax returns since year 2015 remain subject to examination and final assessment by the tax authorities. Any additional tax liability depends on the outcome of such a review.

- Corporate Finance House S.A.L.: the tax returns since year 2013 remain subject to examination and final assessment by the tax authorities and any additional tax liability depends on the outcome of such review.

During 2017, the Bank's social security returns for the years 2013 to 2016 were reviewed by the National Social Security Fund authorities. This review did not result in any additional liability or penalties. The Group's management does not anticipate significant additional tax and social security liabilities with regard to years that are still subject to examination with respect to the Bank and its subsidiaries.

(d) Deferred income includes unearned commission on insurance policies related to outstanding retail loans maturing after year end. These unearned commissions are recognized to income over the term of the related loans. Furthermore, it includes file fees and difference on collection charges that are recognized as yield adjustment over the loan repayment period.

(e) Sundry accounts payable as at December 31, 2017 and 2016 include housing loans granted by the Bank and not yet withdrawn by customers in the amount of LBP11.2billion (LBP3billion in 2016) of which LBP9billion were subsequently withdrawn.

22. PROVISIONS

Provisions consist of the following:

	December 31	
	2017	**2016**
	LBP'000	
Provision for staff end-of-service indemnities	11,083,525	10,492,389
Provision for contingencies	223,012	316,765
Provision for foreign currency fluctuations	25,226	20,275
	11,331,763	**10,829,429**

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

	2017	**2016**
	LBP'000	
Balance, January 1	10,492,389	9,750,049
Additions	1,070,244	1,082,042
Settlements	(479,108)	(339,702)
Balance, December 31	**11,083,525**	**10,492,389**

The movement of the provision for contingencies was as follows:

	2017	**2016**
	LBP'000	
Balance, January 1	316,765	389,421
Write back	(93,753)	(3,309)
Settlements	-	(69,347)
Balance, December 31	**223,012**	**316,765**

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

23. CUMULATIVE PREFERRED SHARES

The Extraordinary General Assembly approved in its meeting held on June 6, 2014 the issuance of 150,000 cumulative series "A" preferred shares with fixed maturity at a nominal value of LBP10,000 per share in the aggregate amount of LBP1.5billion and an aggregate premium of LBP21.1billion on the entire issued shares to the sole subscriber "European Investment Bank". The preferred shares earn dividends on a cumulative basis of USD4.5 per share and mature in seven years.

24. SHARE CAPITAL

The Extraordinary General Assembly approved in its meeting held on March 31, 2015, the substitution of the nominal value of 150,000 preferred shares series 1 (LBP10,000 per share) by the equivalent value in capital transferred from retained earnings. The 150,000 new common shares were issued and distributed to common shareholders on a prorata basis. The share capital of the Bank as at December 31, 2017 and 2016 is constituted of 16,230,000 shares with a nominal value of LBP10,000 per share fully paid with an additional paid-in capital of LBP39.92billion as at December 31, 2017 and 2016.

25. PREFERRED SHARES

This caption consists in 2017 and 2016 of the following:

	December 31, 2017		December 31, 2016	
	Nominal Value	Premium	Nominal Value	Premium
	LBP'000			
Preferred shares series "2"	2,500,000	35,187,500	2,500,000	35,187,500
Preferred shares series "3"	2,500,000	35,191,639	2,500,000	35,191,639
	5,000,000	70,379,139	5,000,000	70,379,139

The Extraordinary General Assembly of the Bank approved in its meeting held on October 28, 2012 the issuance of 250,000 non-cumulative perpetual redeemable series "2" preferred shares with a nominal value of LBP10,000 each, totaling LBP2.5billion and an aggregate premium of LBP35.2billion (C/V USD23.34million) on the entire issued shares paid in cash by the subscribers in accordance with the terms and conditions specified in the Extraordinary General Assembly indicated above.

The Extraordinary General Assembly approved in its meeting held on October 23, 2014 the issuance of 250,000 non-cumulative perpetual redeemable series "3" preferred shares with a nominal value of LBP10,000 each, totaling LBP2.5billion and an aggregate premium of LBP35.2billion (C/V USD23.34million) on the entire issued shares to be paid in cash by the subscribers in accordance with the terms and conditions specified in the Extraordinary General Assembly indicated above.

26. RESERVES

This caption consists of the following:

	December 31	
	2017	2016
	LBP'000	
Legal Reserves (i)	26,459,193	22,449,419
Reserves for general banking risks (ii)	58,396,996	52,291,679
General reserve for performing loans (iii)	8,048,172	1,969,228
Reserves for assets acquired in satisfaction of debts (Note 16)	1,530,877	1,317,078
	94,435,238	78,027,404

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

(ii) The reserves for general banking risks is constituted according to local banking regulations, from net profit, on the basis of a minimum of 2 per mil and a maximum of 3 per mil of the total risk weighted assets, off-balance sheet risk and global exchange position as defined for the computation of the solvency ratio at year-end. This reserve should reach 1.25% of total risk weighted assets, off-balance sheet risk and global exchange position at year 10 and 2% of that amount at year 20. This reserve is constituted in Lebanese Pounds and in foreign currencies in proportion to the composition of the Group's total risk weighted assets and off-balance sheet items. This reserve is not available for distribution.

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

- 2% and 1.5% of retail loans that are less than 30 days past due (subject to deductions of some guarantees received) to general reserve as of end of the year 2017 and 2016 respectively.
- 1% and 0.5% of performing corporate loans to general reserve as of end of 2017 and 2016 respectively. The Bank is exempted from this general reserve if the balance of collective provision exceeds 1.5% as of end of 2017 and 1% as of end of 2016.

In accordance with BDL Circular #143 issued in November 2017, banks are no longer required by the end of 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 IFRS 9 *impairment* on January 1, 2018 to general reserves designated for capital increase.

27. NON-CONTROLLING INTERESTS

This caption consists of the following:

	December 31	
	2017	2016
	LBP'000	
Capital	485,425	436,211
Reserves	272,116	26,134
Accumulated profits	181,531	191,745
Cumulative Change in fair value of investment securities	22,709	-
Revaluation Surplus	7,515,642	-
Funds' Net Asset Value (Note 40)	146,356,574	142,844,382
	154,833,997	143,498,472

28. INTEREST INCOME

This caption consists of the following:

	2017			2016
	Interest Income	Withheld Tax	Net Interest Income	
	LBP'000			
INTEREST INCOME FROM:				
Term deposits with Central Bank	91,029,963	(394,812)	90,635,151	43,339,051
Deposits with banks and financial institutions	8,644,238	(61,249)	8,582,989	6,694,796
Financial assets at amortized cost	154,380,207	(712,608)	153,667,599	157,544,407
Loans to banks	658,999	-	658,999	427,843
Loans and advances to customers	116,766,630	-	116,766,630	107,115,463
Loans and advances to related parties	966,441	-	966,441	936,993
	372,446,478	(1,168,669)	371,277,809	316,058,553

29. INTEREST EXPENSE

This caption consists of the following:

	2017	2016
	LBP'000	
INTEREST EXPENSE ON:		
Deposits and borrowings from banks and financial institutions	10,561,023	9,076,456
Customer's deposits	255,208,300	228,437,697
Related parties' deposits	9,598,559	6,700,843
Interest expense on preferred shares	1,271,869	1,287,621
	276,639,751	245,502,617

30. FEE AND COMMISSION INCOME

This caption consists of the following:

	2017	2016
	LBP'000	
Commission on documentary credits	1,597,228	1,386,227
Commission on letters of guarantee	2,221,395	1,793,133
Commission on certificates of deposit	35,704	130,116
Service fees on customers' transactions	12,706,642	11,712,155
Brokerage fees	2,082,564	2,692,950
Commission on transactions with banks	177,889	224,444
	18,821,422	**17,939,025**

31. FEE AND COMMISSION EXPENSE

This caption consists of the following:

	2017	2016
	LBP'000	
Commission on transactions with banks	2,256,616	2,312,409
Commission on private banking transactions	4,321,161	4,105,684
	6,577,777	**6,418,093**

32. NET INTEREST AND GAIN OR LOSS ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This caption consists of the following:

	2017	2016
	LBP'000	
Interest income	28,729,729	48,379,119
Tax on interest	(79,179)	-
Interest income, net of tax	28,650,550	48,379,119
Unrealized gain (Note 7)	2,162,173	10,763,863
Net realized gain on sold securities	435,172	3,921,986
Dividend income	3,096,139	2,174,289
	34,344,034	**65,239,257**

33. OTHER OPERATING INCOME (NET)

This caption consists of the following:

	2017	2016
	LBP'000	
Revenue from services provided (A)	8,742,139	8,567,545
Gain from disposal of investments at amortized cost (Note 12) (B)	326,745	117,292
Commission income on the exchange of investments at amortized cost (Note 12)	-	2,890,000
Net loss on disposal of assets acquired in satisfaction of loans	(220,802)	(354,278)
Net loss on disposal of equipment	(199,868)	(56,540)
Direct write-off of doubtful other assets	(384,969)	(446,503)
Net foreign exchange gains	3,915,661	4,315,770
Rental income	677,496	-
Other	641,596	191,131
	13,497,998	**15,224,417**

A. Revenues from financial services provided by the subsidiary Corporate Finance House BVI are broken down as follows:

	2017	2016
	LBP'000	
Placement and structuring	3,637,598	7,629,126
Management	742,444	742,444
Advisory	188,437	45,225
Brokerage fees	4,173,660	150,750
	8,742,139	**8,567,545**

B. Gain from sale and swap of investments at amortized cost are broken down as follows:

	Year Ended December 31, 2017			
	Transaction Type	Amortized Cost as of Sale / Swap Date	Maturity	Gains
		LBP'000		LBP'000
Lebanese Treasury Bills	Swap	9,481,319	2017	1,577
Eurobonds	Sale	31,402,137	2017	176,705
Corporate Bonds	Sale	3,130,533	2017	148,463
		44,013,989		**326,745**

	Year Ended December 31, 2016			
	Transaction Type	Amortized Cost as of Sale / Swap Date	Maturity	Gains
		LBP'000		LBP'000
Corporate bonds	Swap	30,206,065	2016	96,611
Lebanese treasury bills	Sale	3,802,448	2016	3,989
Lebanese treasury bills	Sale	4,522,767	2017	16,692
		38,531,280		**117,292**

34. DEPRECIATION AND AMORTIZATION

This caption consists of the following:

	2017	2016
	LBP'000	
Depreciation of property and equipment (Note 17)	5,250,882	4,515,495
Amortization of intangible assets (Note 14)	148,052	143,864
	5,398,934	**4,659,359**

35. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISKS AND FORWARD EXCHANGE CONTRACTS

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

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

36. FIDUCIARY DEPOSITS AND ASSETS UNDER MANAGEMENT

Fiduciary assets are invested as follows:

	December 31, 2017		
	Resident	Non-Resident	Total
	LBP'000		
Debt and equity securities	533,526,047	78,128,850	611,654,897
Deposits with financial institutions	113,223,560	17,527,444	130,751,004
	646,749,607	**95,656,294**	**742,405,901**

	December 31, 2016		
	Resident	Non-Resident	Total
	LBP'000		
Debt and equity securities	473,277,816	74,926,515	548,204,331
Deposits with financial institutions	157,340,022	15,553,595	172,893,617
	630,617,838	**90,480,110**	**721,097,948**

37. BALANCES / TRANSACTIONS WITH RELATED PARTIES

This caption consists of the following:

	December 31	
	2017	2016
	LBP'000	
SHAREHOLDERS, DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL AND CLOSE FAMILY MEMBERS AND RELATED COMPANIES:		
Direct facilities and credit balances:		
Secured loans and advances	76,787,492	76,062,078
Unsecured loans and advances	7,039,895	4,610,413
Deposits	253,094,431	230,403,235
Indirect facilities	2,099,457	1,853,379

Interest rates charged on balances outstanding are the same rates that would be charged in an arm's length transaction. Secured loans and advances are covered by pledged deposits of the respective borrowers to the extent of LBP72.87billion (LBP71.95billion of December 31, 2016). In addition, loans and advances were covered by real mortgages to the extent of LBP4.74billion (LBP4.53billion as of December 31, 2016).

Directors' and senior staff remuneration of the Bank and its subsidiaries amounted to LBP9.3billion during 2017 (LBP7.5billion during 2016).

38. DIVIDENDS PAID

This caption consists of the following:

	December 31	
	2017	2016
	LBP'000	
Preferred shares	5,050,126	5,050,126
Ordinary shares	17,853,000	16,067,700
Dividend distributed to First National Dollar Fund and National fixed income fund subscribers	10,667,198	10,142,915
	33,570,324	**31,260,741**

The general assembly of the Bank held on May 26, 2017 approved the dividend distribution of LBP1,100 for each of the 16,230,000 common shares and USD6.90 (c/v LBP10,400) for each of the 250,000 preferred share - Series 2 and USD6.5 (C/V LBP9,800) for each of the 250,000 preferred share - Series 3.

The general assembly of the Bank held on June 7, 2016 approved the dividend distribution of LBP990 for each of the 16,230,000 common shares and USD6.90 (c/v LBP10,400) for each preferred share - Series 2 and USD6.5 (C/V LBP9,800) for each preferred share - Series 3.

On December 31, 2017 the First National Dollar Fund and the National Fixed Income Fund distributed dividends to its subscribers in the amount of USD28.32 (CV LBP 42,692) and USD26.94 (CV LBP40,610) per share respectively.

On June 30, 2017 the First National Dollar Fund and the National Fixed Income Fund distributed dividends to its subscribers USD28.84 (CV LBP 43,476) and USD25.68 (CV LBP 38,712) per share respectively.

On December 31, 2016 the First National Dollar Fund and the National Fixed Income Fund distributed dividends to its subscribers in the amount of USD28.9 (CV LBP43,567) and USD27.68 (CV LBP41,728) per share respectively.

On June 30, 2016 the First National Dollar Fund and the National Fixed Income Fund distributed dividends to its subscribers USD27.77 (CV LBP41,863) and USD26.32 (CV LBP39,671) per share respectively.

The total amount of dividends distributed by the First National Dollar Fund and the National Fixed Income Fund amounted to LBP10.7billion during 2017.

The total amount of dividends distributed by the First National Dollar Fund and the National Fixed Income Fund amounted to LBP10.1billion during 2016.

39. CASH AND CASH EQUIVALENTS

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

	December 31	
	2017	2016
	LBP'000	
Cash	35,520,719	34,195,053
Current accounts with Central Bank of Lebanon	102,383,817	24,308,338
Time deposits with Central Bank of Lebanon	72,561,250	318,367,800
Current accounts with banks and financial institutions and purchased checks	222,898,422	88,550,485
Time deposits with banks and financial institutions	135,344,147	94,020,871
	568,708,355	559,442,547

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

The following operating, investment and financing activities, which represent non-cash items were excluded from the consolidated statement of cash flows in 2017 as follows:

(a) Transfer of LBP2.5billion from "Loans and advances to customers" to "Assets acquired in satisfaction of debts".

(b) The change in fair value of financial assets at fair value through other comprehensive income in the amount of LBP2.1billion against financial assets at fair value through other comprehensive income.

(c) The net additions in funds' subscriptions in the amount of LBP3.9billion against financial assets at fair value through profit or loss.

(d) The movements acquired through business combination and detailed below:

	LBP'000
ASSETS	
Due from related parties, net	730,150
Property and equipment	16,081,180
Financial assets at fair value through other comprehensive income	(2,713,500)
Current assets held for sale	38,745,910
	52,843,740
LIABILITIES	
Other liabilities	416,859
Current liabilities held for sale	18,861,686
	19,278,545
EQUITY	
Effect of exchange rate changes	2,226,735
Non-controlling interests	7,726,162
	9,952,897
Cash paid through business combinations	**23,612,298**

The following operating, investment and financing activities, which represent non-cash items were excluded from the consolidated statement of cash flows in 2016 as follows:

(a) Transfer of LBP 3.7billion from "Loans and advances to customers" to "Assets acquired in satisfaction of debts".

(b) The net additions in funds' subscriptions in the amount of LBP12.6billion against financial assets at fair value through profit or loss.

(c) The reclassification of the change in fair value of financial assets at fair value through other comprehensive income in the amount of LBP2.1billion for the year ended December 31, 2016 to retained earnings against financial assets at fair value through other comprehensive income in the amount of LBP1.4billion and deferred tax asset in the amount of LBP717million.

40. MATERIAL PARTLY - OWNED SUBSIDIARIES

The table below shows details of partly owned subsidiaries and mutual fund of the Group that have material non-controlling interests:

Name of Subsidiary	Place of Incorporation and Principal Place of Business	% of Ownership	Profit Allocated to Non-Controlling Interests		Accumulated Non-Controlling Interests	
			Year Ended December 31,			
			2017	2016	2017	2016
		%	LBP'000			
First National Dollar Fund SPC and National Fixed Income Fund SPC	Cayman Islands	-	10,303,987	10,215,994	146,356,574	142,844,382

Summarized financial information in respect of the Group's subsidiary that has material non-controlling interests is set out below. The summarized financial information below represent amounts before intragroup eliminations:

Statement of Financial Position:

	FNB Holding Limited		First National Dollar Fund and National Fixed Income Fund	
	December 31			
	2017	2016	2017	2016
	LBP'000			
Assets	403,575,124	350,908,228	156,894,083	152,266,316
Liabilities	(181,505,121)	(147,278,139)	(10,537,509)	(9,421,934)
Equity	222,070,003	203,630,089	146,356,574	142,844,382

Statement of Profit or Loss and Other Comprehensive Income:

	FNB Holding Limited		First National Dollar Fund and National Fixed Income Fund	
	December 31			
	2017	2016	2017	2016
	LBP'000			
Net interest (expense) /income	(685,815)	902,887	105,848	(383,987)
Advisory fees	-	-	(1,578,591)	(1,451,769)
Operating and other income /(expenses), net	3,166,501	1,478,831	(272,045)	(280,615)
Net interest and gain or loss on trading assets at fair value through profit or loss	13,555,233	15,323,644	12,048,775	12,332,365
Income tax expense	(642,543)	(790,054)	-	-
Profit for the period	**15,393,376**	**16,915,308**	**10,303,987**	**10,215,994**

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 Group's main regulator, to safeguard the Group's ability to continue as a going concern and to maintain a strong capital base.

Risk weighted assets and capital are monitored periodically to assess the quantum of capital available to support growth and optimally deploy capital to achieve targeted returns.

The Central Bank of Lebanon requires each bank or banking group to hold a minimum level of regulatory capital of LBP10billion for the head office and LBP500million for each local branch and LBP1.5billion for each branch abroad. In addition, the bank is required to observe the minimum capital adequacy ratio set by the regulator.

The Group monitors the adequacy of its capital using the methodology and ratios established by Central Bank of Lebanon. These ratios measure capital adequacy by comparing the Group's eligible capital with its balance sheet assets, commitments and contingencies, and notional amount of derivatives at a weighted amount to reflect their relative risk.

The Group's capital is split as follows:

Tier I Capital:
Comprises share capital after deduction of treasury shares, shareholders' cash contribution to capital, non-cumulative perpetual preferred shares, share premium, reserves from appropriation of profits and retained earnings. Goodwill and cumulative unfavorable change in fair value of financial assets classified through other comprehensive income.

Tier II Capital:
Comprises qualifying subordinated liabilities, cumulative favorable change in fair value of financial assets classified through other comprehensive income.

Certain investments in financial and non-financial institutions are ineligible and are deducted from Tier I and Tier II.

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

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

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

The Group's capital adequacy ratio was as follows:

	December 31	
	2017	**2016**
	LBP Million	
Common equity Tier I	365,661	336,009
Additional Tier I capital	71,774	65,254
NET TIER I CAPITAL	**437,435**	**401,263**
Tier II capital	98,980	101,158
TOTAL REGULATORY CAPITAL (TIER I + TIER II)	**536,415**	**502,421**
Credit risk	3,577,521	3,114,376
Market risk	180,034	396,328
Operational risk	199,051	194,349
RISK-WEIGHTED ASSETS AND RISK-WEIGHTED OFF-BALANCE SHEET ITEMS	**3,956,606**	**3,705,053**
Common equity ratio	9.24%	9.07%
Tier I ratio	11.06%	10.83%
Risk based capital adequacy ratio - Tier I and Tier II capital	**13.56%**	**13.56%**

42. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

• Credit risk
• Liquidity risk
• Market risk

A. Credit Risk

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

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

1 - Management of credit risk

The Board of Directors has the responsibility to approve the Group's general credit policy as recommended by the Credit Committee. The Credit Committee has the responsibility for the development of the credit function strategy and implementing principles, frameworks, policies and limits.

2 - Measurement of credit risk

Policies and principles that the Group follows on loans and advances are included in "Management of Credit Risk" which stipulates the Group's general credit policy.
In measuring credit risk of loans and advances, the Group considers the following:

A. Managing credit risk based on the risk profile of the borrower, repayment source and the nature of the underlying collateral given current events and conditions.

B. Measuring credit risk through reviewing the following:

- Ability of the counterparty to honor its contractual obligations based on the account's performance, recurring overdues and related reasons, the counterparty's financial position and effect thereto of the economic environment and market conditions;

- Exposure levels of the counterparty and unutilized credit limits granted;

- Exposure levels of the counterparty with other banks;

- Purpose of the credit facilities granted to the counterparty and conformity of utilization by the counterparty.

In accordance with Central Bank of Lebanon circular No.58 the Group’s customers are categorized into six classifications as described below:

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

If the debtor’s default on the loan is temporary, management of the Group identifies and manages to work a plan to reschedule the payments due and/or obtain additional collateral before downgrading the loan to substandard or doubtful.

3- Risk mitigation policies

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
• Business other assets (such as inventories and accounts receivable).

4- Financial assets with credit risk exposure and related concentrations

Concentration of financial assets and liabilities by geographical area:

	December 31, 2017					
	Lebanon	Middle East & Africa	North America	Europe	Other	Total
	LBP'000					
FINANCIAL ASSETS						
Cash and deposits with Central Bank of Lebanon	2,462,157,712	-	-	-	-	2,462,157,712
Deposits with banks and financial institutions	138,483,676	14,674,623	45,862,522	250,104,091	1,597,106	450,722,018
Trading assets at fair value through profit and loss	215,613,839	2,681,500	381,698	-	-	218,677,037
Loans to banks	1,028,352	-	-	1,358,107	376,616	2,763,075
Loans & advances to customers	1,577,286,465	24,856,146	8,638,856	8,728,442	6,396,134	1,625,906,043
Due from related parties	1,174,511	5,638,544	-	4,948,216	94,197	11,855,468
Customers' liability under acceptances	38,415,126	1,353,730	95,060	1,358,108	-	41,222,024
Financial assets at fair value through other comprehensive income	11,237,099	3,636,268	1,130,625	5,943,212	-	21,947,204
Financial assets at amortized cost	2,274,601,881	-	-	-	-	2,274,601,881
Other financial assets	8,762,035	458,562	-	2,658,173	-	11,878,770
Financial Assets Total	**6,728,760,696**	**53,299,373**	**56,108,761**	**275,098,349**	**8,464,053**	**7,121,731,232**
FINANCIAL LIABILITIES						
Deposits from banks and financial institutions	327,700,888	47,667,499	-	123,259,446	-	498,627,833
Customers' deposits at amortized cost	4,653,963,755	879,068,877	99,094,901	232,226,590	78,127,433	5,942,481,556
Customers' liability under acceptances	13,482,512	1,678,487	-	14,612,797	11,448,228	41,222,024
Other financial liabilities	63,307,459	-	-	-	-	63,307,459
Cumulative preferred shares	801,163	-	-	22,617,952	-	23,419,115
Financial Liabilities Total	**5,059,255,777**	**928,414,863**	**99,094,901**	**392,716,785**	**89,575,661**	**6,569,057,987**

	December 31, 2016					
	Lebanon	Middle East & Africa	North America	Europe	Other	Total
	LBP'000					
FINANCIAL ASSETS						
Cash and deposits with Central Bank of Lebanon	1,709,306,461	-	-	-	-	1,709,306,461
Deposits with banks and financial institutions	126,572,309	13,809,055	40,844,294	93,418,777	23,899,065	298,543,500
Trading assets at fair value through profit and loss	649,755,653	3,001,920	714,555	-	-	653,472,128
Loans to banks	1,507,869	-	-	-	-	1,507,869
Loans & advances to customers	1,487,910,240	21,924,542	11,699,105	12,342,541	9,254,344	1,543,130,772
Due from related parties	515,517	5,826,848	1,713,070	17,333,325	-	25,388,760
Financial assets at fair value through other comprehensive income	11,229,886	3,636,268	3,768,750	10,022,162	-	28,657,066
Financial assets at amortized cost	2,312,771,402	3,014,997	-	-	-	2,315,786,399
Customers' liability under acceptances	35,974,316	335,488	-	869,573	-	37,179,377
Other financial assets	7,792,274	665,813	-	637,308	-	9,095,395
	6,343,334,632	**52,214,931**	**58,739,774**	**134,623,686**	**33,153,409**	**6,622,066,432**
FINANCIAL LIABILITIES						
Deposits from banks and financial institutions	163,055,588	163,163,306	-	143,480,261	-	469,699,155
Customers' deposits at amortized cost	4,381,933,612	667,328,081	92,378,479	239,947,149	41,225,336	5,422,812,657
Customers' liability under acceptances	24,934,978	1,816,037	488,498	5,035,413	4,904,451	37,179,377
Other financial liabilities	49,838,157	-	-	-	-	49,838,157
Cumulative preferred shares	547,102	-	-	22,617,953	-	23,165,055
	4,620,309,437	**832,307,424**	**92,866,977**	**411,080,776**	**46,129,787**	**6,002,694,401**

B. Liquidity Risk

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

1- Management of liquidity risk

Liquidity management involves maintaining ample and diverse funding capacity, liquid assets and other sources of cash to accommodate fluctuations in asset and liability levels. Through ALCO, the Board of Directors is responsible for establishing the liquidity policy which includes:

Day-to-day funding managed by monitoring future cash flows to ensure that requirements can be met;

- Maintenance of a portfolio of liquid and marketable assets;
- Diversification of funding; and
- Maintenance of adequate contingency plans.

2- Exposure to liquidity risk

The Group ensures that its local entities are in compliance with the liquidity limits in Lebanese Pound and foreign currencies as established by the Central Bank of Lebanon.

The tables below show the Group's financial liabilities segregated by maturity:

	December 31, 2017						
	Not Subject to Maturity	Up to 3 months	3 to 12 Months	1 to 3 years	3 to 5 years	Over 5 years	Total
	LBP'000						
FINANCIAL LIABILITIES							
Deposits and borrowings from banks and financial institutions	107,508,792	246,953,900	5,486,198	47,901,620	45,229,145	45,548,178	498,627,833
Customers' deposits at amortized cost	1,001,286,723	3,097,143,752	1,430,231,757	386,405,479	27,413,845	-	5,942,481,556
Customers' liability under acceptances	41,222,024	-	-	-	-	-	41,222,024
Other financial liabilities	47,773,289	6,114,116	2,969,149	3,380,534	1,731,824	1,338,547	63,307,459
Cumulative preferred shares	801,163	-	-	22,617,952	-	-	23,419,115
	1,198,591,991	**3,350,211,768**	**1,438,687,104**	**460,305,585**	**74,374,814**	**46,886,725**	**6,569,057,987**

	December 31, 2016						
	Not Subject to Maturity	Up to 3 months	3 to 12 Months	1 to 3 years	3 to 5 years	Over 5 years	Total
	LBP'000						
FINANCIAL LIABILITIES							
Deposits and borrowings from banks and financial institutions	42,504,914	344,809,070	60,314,656	2,745,000	2,274,892	17,050,623	469,699,155
Customers' deposits at amortized cost	970,696,362	3,073,365,889	937,765,089	438,352,948	2,632,369	-	5,422,812,657
Customers' liability under acceptances	37,179,377	-	-	-	-	-	37,179,377
Other financial liabilities	43,203,875	1,683,248	1,957,443	2,534,722	454,386	4,483	49,838,157
Cumulative preferred shares	547,102	-	-	22,617,953	-	-	23,165,055
	1,094,131,630	3,419,858,207	1,000,037,188	466,250,623	5,361,647	17,055,106	6,002,694,401

C. Market Risks

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

1- Currency Risk:

The Group carries on exchange risk associated with the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Bank takes preventive measures against this risk on setting up limits on the level of exposure by currency and in total for both overnight and intra-day positions in line with the limits authorized by the regulatory authorities.

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

	December 31, 2017				
	LBP	USD	EURO	Other	Total
	LBP'000				
ASSETS					
Cash and deposits with Central Bank of Lebanon	1,301,632,159	985,523,454	172,390,734	2,611,365	2,462,157,712
Deposits with banks and financial institutions	69,970,641	152,377,824	146,145,789	82,227,764	450,722,018
Financial asset at fair value through profit or loss	71,264,729	145,178,676	-	2,233,632	218,677,037
Loans to banks and financial institutions	1,061,636	1,701,439	-	-	2,763,075
Loans and advances to customers	418,748,486	1,135,842,585	67,515,647	3,799,325	1,625,906,043
Due from related parties	983,737	4,875,023	3,948,132	2,048,576	11,855,468
Customers' liability under acceptances	-	37,368,051	3,853,973	-	41,222,024
Financial assets at fair value through other comprehensive income	34,168	16,600,404	5,312,632	-	21,947,204
Financial assets at Amortized cost	677,313,860	1,560,855,327	36,432,694	-	2,274,601,881
Other financial assets	6,216,980	3,003,617	2,431,846	226,327	11,878,770
	2,547,226,396	**4,043,326,400**	**438,031,447**	**93,146,989**	**7,121,731,232**
LIABILITIES					
Deposits and borrowings from banks and financial institutions	261,629,509	202,027,266	27,959,135	7,011,923	498,627,833
Customers' deposits and credit balances	1,855,816,349	3,526,933,226	474,961,496	84,770,485	5,942,481,556
Liability under acceptances	-	37,368,051	3,853,973	-	41,222,024
Cumulative preferred shares	1,500,000	21,919,115	-	-	23,419,115
Other financial liabilities	33,452,262	28,914,196	492,101	448,900	63,307,459
	2,152,398,120	**3,817,161,854**	**507,266,705**	**92,231,308**	**6,569,057,987**
Currencies to be delivered	-	(56,462,169)	(2,800,215)	(5,262,305)	(64,524,689)
Currencies to be received	-	8,019,562	54,100,094	3,133,927	65,253,583
	-	**(48,442,607)**	**51,299,880**	**(2,128,378)**	**728,895**
Net Exchange position	**394,828,276**	**177,721,939**	**(17,935,378)**	**(1,212,697)**	**553,402,140**

	December 31, 2016				
	LBP	USD	EURO	Other	Total
	LBP'000				
ASSETS					
Cash and deposits with Central Bank of Lebanon	862,422,422	584,688,035	260,587,403	1,608,601	1,709,306,461
Deposits with banks and financial institutions	8,427,384	200,757,565	56,331,206	33,027,345	298,543,500
Financial asset at fair value through profit or loss	409,076,997	242,091,342	9,935	2,293,854	653,472,128
Loans to banks and financial institutions	1,465,702	42,167	-	-	1,507,869
Loans and advances to customers	388,424,578	1,107,356,606	41,409,260	5,940,328	1,543,130,772
Due from related parties	-	21,991,725	1,121,494	2,275,541	25,388,760
Financial assets at fair value through other comprehensive income	34,168	24,274,487	4,348,411	-	28,657,066
Financial assets at amortized cost	782,117,220	1,501,360,135	32,309,044	-	2,315,786,399
Customers' liability under acceptances	-	32,235,875	4,943,502	-	37,179,377
Other financial assets	5,167,985	3,227,796	602,200	97,414	9,095,395
	2,457,136,456	**3,718,025,733**	**401,662,455**	**45,243,083**	**6,622,067,727**
LIABILITIES					
Deposits from banks and financial institutions	44,650,446	310,745,113	113,636,618	666,978	469,699,155
Customers' deposits and credit balances	1,959,159,066	2,980,202,746	401,320,281	82,130,564	5,422,812,657
Liability under acceptances	-	32,235,875	4,943,502	-	37,179,377
Other financial liabilities	29,490,465	18,348,283	1,288,128	711,281	49,838,157
Cumulative preferred shares	1,500,000	21,665,055	-	-	23,165,055
	2,034,799,977	**3,363,197,072**	**521,188,529**	**83,508,823**	**6,002,694,401**
Currencies to be delivered	(1,983,283)	(163,201,085)	(7,103,490)	(3,728,100)	(176,015,958)
Currencies to be received	-	12,735,461	115,655,258	46,404,672	174,795,391
	(1,983,283)	**(150,465,624)**	**108,551,768**	**42,676,572**	**(1,220,567)**
Net Exchange position	420,353,196	204,363,037	(10,974,306)	4,410,832	618,152,759

2- Exposure to Interest Rate Risk:

The Group is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The Group is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities that mature or re-price in a given period. The Group manages this risk by matching the re-pricing of assets and liabilities through risk management strategies regularly reviewed by the asset and liability committee.

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

	December 31, 2017						
	Not Subject to Interest	Up to 3 months	3 to 12 months	1 to 3 years	3 to 5 years	Over 5 years	Total
	LBP'000						
FINANCIAL ASSETS							
Cash and deposits with Central Bank of Lebanon	176,637,585	1,299,669,605	877,334,622	15,075,000	45,225,000	48,215,900	2,462,157,712
Deposits with banks and financial institutions	121,544,847	246,149,411	60,527,760	-	22,500,000	-	450,722,018
Financial asset at fair value through profit or loss	42,661,293	-	-	33,612,963	8,234,003	134,168,778	218,677,037
Loans to banks & financial institutions	-	1,126,616	1,636,459	-	-	-	2,763,075
Loans and advances to customers	53,105,341	1,016,842,830	300,846,708	128,651,378	49,102,799	77,356,987	1,625,906,043
Due from related parties	9,607,774	2,247,694	-	-	-	-	11,855,468
Financial assets at fair value through other comprehensive income	21,947,204	-	-	-	-	-	21,947,204
Financial assets at Amortized cost	50,894,245	1,018,382,222	1,205,325,414	-	-	-	2,274,601,881
Customers' liability under acceptances	41,222,024	-	-	-	-	-	41,222,024
Other financial assets	11,878,770	-	-	-	-	-	11,878,770
	529,499,083	**3,584,418,378**	**2,445,670,963**	**177,339,341**	**125,061,802**	**259,741,665**	**7,121,731,232**
FINANCIAL LIABILITIES							
Deposits and borrowings from banks and financial institutions	3,496,965	198,819,692	5,486,198	123,997,137	45,206,644	121,621,197	498,627,833
Customers' deposits at amortized cost	98,071,202	3,988,786,252	1,375,934,361	449,867,541	29,822,200	-	5,942,481,556
Customers' liability under acceptances	41,222,024	-	-	-	-	-	41,222,024
Other financial liabilities	63,249,720	57,739	-	-	-	-	63,307,459
Cumulative preferred shares	801,163	-	-	22,617,952	-	-	23,419,115
	206,841,074	**4,187,663,683**	**1,381,420,559**	**596,482,630**	**75,028,844**	**121,621,197**	**6,569,057,987**
Net Gap Position	**322,658,009**	**(603,245,305)**	**1,064,250,404**	**(419,143,289)**	**50,032,958**	**138,120,468**	**552,673,245**

	December 31, 2016						
	Not Subject to Interest	Up to 3 months	3 to 12 months	1 to 3 years	3 to 5 years	Over 5 years	Total
	LBP'000						
FINANCIAL ASSETS							
Cash and deposits with Central Bank of Lebanon	189,339,192	356,777,620	308,159,250	120,600,000	258,630,000	475,800,399	1,709,306,461
Deposits with banks and financial institutions	91,800,516	150,359,537	56,383,447	-	-	-	298,543,500
Financial assets at fair value through profit or loss	81,402,400	-	20,582,501	18,015,000	110,525,300	422,946,927	653,472,128
Loans to banks & financial institutions	17,570	40,299	-	450,000	1,000,000	-	1,507,869
Loans and advances to customers	41,446,350	964,636,804	292,151,921	133,270,408	43,042,095	68,583,194	1,543,130,772
Due from related parties	25,388,760	-	-	-	-	-	25,388,760
Financial assets at fair value through other comprehensive income	28,657,066	-	-	-	-	-	28,657,066
Financial assets at Amortized cost	45,477,963	104,912,412	249,297,589	287,900,230	251,629,895	1,376,568,310	2,315,786,399
Customers' liability under acceptances	37,179,377	-	-	-	-	-	37,179,377
Other financial assets	9,095,395	-	-	-	-	-	9,095,395
	549,804,589	**1,576,726,672**	**926,574,708**	**560,235,638**	**664,827,290**	**2,343,898,830**	**6,622,067,727**
FINANCIAL LIABILITIES							
Deposits and borrowings from banks and financial institutions	9,804,931	377,509,052	60,314,656	2,745,000	2,274,892	17,050,624	469,699,155
Customers' deposits at amortized cost	101,372,868	3,942,689,384	937,765,089	438,352,945	2,632,371	-	5,422,812,657
Customers' liability under acceptances	37,179,377	-	-	-	-	-	37,179,377
Other financial liabilities	49,838,157	-	-	-	-	-	49,838,157
Cumulative preferred shares	547,102	-	-	22,617,953	-	-	23,165,055
	198,742,435	**4,320,198,436**	**998,079,745**	**463,715,898**	**4,907,263**	**17,050,624**	**6,002,694,401**
Net Gap Position	**351,062,154**	**(2,743,471,764)**	**(71,505,037)**	**96,519,740**	**659,920,027**	**2,326,848,206**	**619,373,326**

43. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The following table shows the fair values of financial assets and financial 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 due to the short-term maturities of these instruments:

	NOTES	Carrying Amount	December 31, 2017		
			Fair Value		
			Level 1	Level 2	Total
		LBP'000			
FINANCIAL ASSETS MEASURED AT:					
Fair value through profit or loss					
Quoted equity Securities	7	9,227,072	9,227,072	-	9,227,072
Lebanese treasury bills	7	82,791,048	-	82,791,048	82,791,048
Lebanese government bonds	7	18,534,903	-	18,534,903	18,534,903
Certificates of deposit issued by the Central Bank of Lebanon	7	71,674,793	-	71,674,793	71,674,793
		182,227,816	**9,227,072**	**173,000,744**	**182,227,816**
FINANCIAL ASSETS MEASURED AT:					
Amortized cost					
Cash and deposits with Central Bank	5	2,462,157,712	-	2,688,458,526	2,688,458,526
Loans and advances to customers	9	1,625,906,043	-	1,615,976,601	1,615,976,601
Lebanese treasury bills	12	454,206,720	-	454,532,777	454,532,777
Lebanese government bonds	12	904,261,324	-	876,040,105	876,040,105
Certificates of deposit issued by the Central Bank of Lebanon	12	862,917,722	-	884,867,081	884,867,081
		6,309,449,521	-	**6,519,875,090**	**6,519,875,090**
		6,491,677,337	**9,227,072**	**6,692,875,834**	**6,702,102,906**
FINANCIAL LIABILITIES AT AMORTIZED COST:					
Customers' deposits and credit accounts	20	5,942,481,556	-	5,669,883,685	5,669,883,685
Cumulative preferred shares	23	23,419,115	-	22,517,690	22,517,690
Due to insurance companies and collectors of bills	21	5,665,725	-	5,223,097	5,223,097
		5,971,566,396	-	**5,697,624,472**	**5,697,624,472**

	NOTES	Carrying Amount	December 31, 2016		
			Fair Value		
			Level 1	Level 2	Total
		LBP'000			
FINANCIAL ASSETS MEASURED AT:					
Fair value through profit or loss					
Quoted equity Securities	7	10,526,270	10,526,270	-	10,526,270
Lebanese treasury bills	7	181,866,862	-	181,866,862	181,866,862
Lebanese government bonds	7	69,744,468	-	69,744,468	69,744,468
Certificates of deposit issued by the Central Bank of Lebanon	7	342,469,286	-	342,469,286	342,469,286
		604,606,886	**10,526,270**	**594,080,616**	**604,606,886**
FINANCIAL ASSETS MEASURED AT:					
Amortized cost					
Cash and deposits with Central Bank	5	1,709,306,461	-	1,745,926,446	1,745,926,446
Loans and advances to customers	9	1,543,130,772	-	1,535,327,136	1,535,327,136
Lebanese treasury bills	12	565,653,492	-	576,249,538	576,249,538
Lebanese government bonds	12	759,791,651	-	743,012,226	743,012,226
Certificates of deposit issued by the Central Bank of Lebanon	12	935,794,412	-	977,345,158	977,345,158
Certificates of deposit issued by local banks	12	9,035,692	-	8,954,550	8,954,550
		5,522,712,480	**3,376,800**	**5,586,815,054**	**5,590,191,854**
		6,127,319,366	**13,903,070**	**6,180,895,670**	**6,194,798,740**
FINANCIAL LIABILITIES AT AMORTIZED COST:					
Customers' deposits and credit accounts	20	5,422,812,657	-	5,055,396,283	5,055,396,283
Cumulative preferred shares	23	23,165,055	-	22,521,773	22,521,773
Due to insurance companies and collectors of bills	21	6,634,282	-	6,158,661	6,158,661
		5,452,611,994	**-**	**5,084,076,717**	**5,084,076,717**

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

The following table gives information about how the fair values of financial assets and financial liabilities, are determined and significant unobservable inputs used:

	December 31, 2017 and 2016	
	Date of Valuation	Valuation Technique and key Inputs
FINANCIAL ASSETS		
At fair value through profit or loss:		
Lebanese treasury bills	December 31, 2017 and 2016	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bonds, adjusted for illiquidity
Lebanese Government bonds	December 31, 2017 and 2016	Average market price in inactive market
Certificates of deposit issued by the Central Bank of Lebanon in Lebanese Pounds	December 31, 2017 and 2016	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bonds, adjusted for illiquidity
Quoted equity securities	December 31, 2017 and 2016	Quoted prices in an active market
Certificates of deposit issued by the Central Bank of Lebanon in foreign currency	December 31, 2017 and 2016	Average market price in inactive market
At amortized cost:		
Cash and deposits with the Central Bank of Lebanon	December 31, 2017 and 2016	DCF at a discount rate determined based on the yield curve of Central Bank of Lebanon placements for maturities greater than one year and Libor based interbank rates for maturities less than one year by currency
Loans and advances to customers	December 31, 2017 and 2016	DCF at a discount rate extrapolated across the maturity spectrum and in line with market rates
Lebanese treasury bills	December 31, 2017 and 2016	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bonds, adjusted for illiquidity.
Certificates of deposit issued by the Central Bank of Lebanon in Lebanese Pounds	December 31, 2017 and 2016	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bonds, adjusted for illiquidity.
Certificates of deposit issued by the Central Bank of Lebanon in foreign currency	December 31, 2017 and 2016	Average market price in inactive market
Certificates of deposit issued by local banks	December 31, 2017 and 2016	Management estimate based on observable input in inactive market
Quoted corporate bonds	December 31, 2017 and 2016	Quoted prices in an active market
Lebanese Government bonds	December 31, 2017 and 2016	Average market price in an inactive market
FINANCIAL LIABILITIES		
At amortized cost:		
Customers' deposits and credit accounts	December 31, 2017 and 2016	DCF based on market rates by currency and maturity bands extrapolated across the maturity spectrum and in line with sectorial rates published by Central Bank of Lebanon.
Due to insurance companies and collectors of bills	December 31, 2017 and 2016	DCF at a discount rate determined based on the maturity spectrum and in line with market rates.

There have been no transfers between levels during the years 2017 and 2016.

44. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements for the year ended December 31, 2017 were approved by the Board of Directors in its meeting held on March 6, 2018.

ADDRESSES

ADDRESSES

HEAD OFFICE
BRANCHES
LIST OF CORRESPONDENT BANKS
LIST OF FREE-STANDING ATMS

HEAD OFFICE

FIRST NATIONAL BANK S.A.L.

Beirut Central District, Allenby Street, Bldg. Marfaa 147
Postal Code: 2012 6004
P.O.Box: 11 - 435, Riad El Solh / 113 - 5453 Beirut
P.O.Box: 16 - 5192 Achrafieh, Beirut - Lebanon
Tel: (961-1) 963 000 - 977 040
Call Center: 1244
Fax: (961-1) 973 090
Swift: FINKLBBE
Telex no. 48627 FNBB
Website: fnb.com.lb
E-mail: fnb@fnb.com.lb

BRANCHES

ALLENBY - MAIN BRANCH
Beirut Central District, Allenby Street, Marfaa 147 Bldg.
Tel: (01) 963 000 - (01) 977 040
Fax: (01) 973 036
Branch Manager: Ms. Nadine A. Zaher

ACHRAFIEH
Sassine Square, Michel Sassine Bldg.
Tel: (01) 200 452/3/4
Fax: (01) 200 455
Branch Manager: Mr. Eric P. Vasdekis

ALEY
Bakaa Street, Riyad Fakih Center
Tel: (05) 556 020/1/3
Fax: (05) 556 022
Acting Branch Manager: Mr. Rami K. Abdel Malak

ANTELIAS
Internal Main Road, Hage Center
Tel: (04) 419 323/4/6/8
Fax: (04) 419 327
Branch Manager: Ms. Aline A. Ayoub

BAALBECK
Main Road, Douress Exit, Lakkis Bldg.
Tel: (08) 378 701/2/3/4
Fax: (08) 378 705
Branch Manager: Mr. Mohamad S. Shreif

CHOUEIFAT
Old Saida Road (Deir Koubel Exit), Ismail Haidar Bldg.
Tel: (05) 433 720/1/2
Fax: (05) 433 723
Branch Manager: Mr. Fouad H. Hamadeh

GHAZIR
Main Road, Kfarhabab, Zone Jaune
Tel: (09) 856 271/3/4/5
Fax: (09) 856 279
Branch Manager: Ms. Maya N. Nasr

HALBA
Al Saha, Masoud Center
Tel: (06) 693 661/2/7
Fax: (06) 693 665
Branch Manager: Mr. Abed S. Chami

HAMRA
Hamra Street, Immobilia Bldg.
Tel: (01) 738 502/3 - (01) 738 499 - 01) 340 440 - (01) 354 799
Fax: (01) 749 894
Branch Manager: Ms. Rola S. Zaghloul

HARET HREIK
Hadi Nasrallah Street, Abou Taam Bldg.
Tel: (01) 548 222- (01) 548 333 - (01) 548 444
Fax: (01) 276 516
Acting Branch Manager: Mr. Fadi A. Cheaib

HAZMIEH
Main Road, Antoine Chami Bldg.
Tel: (05) 455 673/4/6/7
Fax: (05) 457 838
Branch Manager: Mr. Jean G. Chehadeh

HORCH TABET
General Chehab Street, ESLA Center
Tel: (01) 495 710/1/2
Fax: (01) 495 713
Branch Manager: Mr. Georges F. Kayouka

JAL EL DIB
Abouna Hanna Street, Mallah-Yammine Center
Tel: (04) 725 882/3/4
Fax: (04) 725 881
Branch Manager: Vacant

JDEIDEH
La Sagesse Street
Tel: (01) 870 151 - (01) 870 164 - (01) 894 007
Fax: (01) 898 007
Branch Manager: Ms. Nathalie V. Saloumi

JDEITA
Main Road, Naim Nassar Bldg.
Tel: (08) 542 200/1/2/3/4
Fax: (08) 542 205
Branch Manager: Mr. Mohamad H. Chokr

JNAH – MARRIOTT
Internal Main Road, Golden Tulip Galleria Hotel
Tel: (01) 858 310/1/3
Fax: (01) 858 312
Branch Manager: Mr. Hussein G. Fakhreddine

JOUNIEH
Fouad Chehab Street (Serail), Al Turk Bldg.
Tel: (09) 645 001/2/5
Fax: (09) 645 003
Branch Manager: Mr. Tanios E. Aoun

MAIS AL JABAL
Blida, Main Road, Hicham Attieh Haydoura Bldg.
Tel: (07) 865 800/1/3 - (03) 399 334
Fax: (07) 865 802

MAZRAA
Main Road, Khaled Al Ashi Bldg.
Tel: (01) 314 339 - (01) 314 340 - (01) 305 219 - (01) 305 220
Fax: (01) 302 527
Branch Manager: Ms. Rania M. Qubaa

MAZRAAT YACHOUH
Elissar, Main Road, Sami Irani Bldg.
Tel: (04) 928 560/1/2/3
Fax: (04) 928 570
Branch Manager: Ms. Nada A. Kanj

NABATIEH
Habboush, Main Road, Haidar Center
Tel: (07) 531 980/1/2
Fax: (07) 531 983
Branch Manager: Mr. Hassan I. Ghosn

SAIDA
Deckerman Area, Jezzine Street, Golden Tower Bldg.
Tel: (07) 727 701/2/3
Fax: (07) 727 704
Branch Manager: Mr. Ghassan R. Abou Zahr

TARIK JDIDEH – SABRA
Main Road, Sabra Street, Ajlan & Zein Bldg.
Tel: (01) 843 801/2/3
Fax: (01) 843 804
Acting Branch Manager: Ms. Loma S. Zarief

TRIPOLI
Jimayzat Street, Sahat El Nour, Moujamaa Tripoli Bldg.
Tel: (06) 432 974 - (06) 434 974 - (06) 447 539
Fax: (06) 431 713
Branch Manager: Mr. Ahmad Saoud A. Hajar

TYRE
Main Road, Al Abbassiah, Jal al Bahr, Commercial Center
Tel: (07) 351 081/2
Fax: (07) 351 086
Branch Manager: Mr. Ali Y. Khochen

VERDUN
Rachid Karami Street, Omar Saab Bldg.
Tel: (01) 355 901/2/3
Fax: (01) 355 904
Branch Manager: Mr. Wajih S. Akkari

ZAHLE
Hoch Al Omara, Al Manara Roundabout, Haraoui 1321 Center
Tel: (08) 829 501/2
Fax: (08) 829 503
Branch Manager: Mr. Charbel A. Skaff

ZOUK MOSBEH
Main Road, Jeita Exit
Tel: (09) 225 534/6/7/8
Fax: (09) 225 539
Branch Manager: Mr. Elie H. Khalil

LIST OF CORRESPONDENT BANKS

COUNTRY	INSTITUTION NAME
Austria - Vienna	UniCredit Bank Austria AG
Bahrain - Manama	Arab Banking Corporation BSC
Belgium- Brussels	ING Belgium SA/NV - KBC Bank NV
Canada - Montreal	Bank of Montreal
China - Beijing	Bank of China Limited - Industrial & Commercial Bank of China Limited
Denmark- Copenhagen	Danske Bank A/S
France	Al Khaliji France SA - Union de Banques Arabes et Françaises - UBAF
Germany	Commerzbank AG - Deutsche Bank AG
Iraq	Trade Bank of Iraq
Italy	Banca UBAE SPA - Intesa Sanpaolo SPA - Unicredit SPA
Jordan	Arab Bank PLC - Cairo Amman Bank - Jordan Kuwait Bank
Kingdom of Saudi Arabia	Alawwal Bank - Riyad Bank
Kuwait	Gulf Bank KSCP - National Bank of Kuwait SAKP
Norway – Oslo	DNB Bank ASA
Qatar – Doha	Qatar National Bank SAQ
Spain	Banco de Sabadell SA - CaixaBank SA
Sri Lanka – Colombo	People's Bank
Sweden	Skandinaviska Enskilda Banken AB
Switzerland	Credit Suisse AG - UBS AG
Turkey	AKbank TAS - Alternatif Bank
UAE	Commercial Bank of Dubai PSC - Emirates NBD Bank PJSC - InvestBank PSC - Mashreqbank PSC
UK	Barclays Bank PLC - Standard Chartered Bank PLC
USA	JPMorgan Chase Bank - The Bank of New York Mellon - Standard Chartered Bank

LIST OF FREE-STANDING ATMS

ATM	ADDRESS
Beirut	Adlieh, Surete Generale premises
Beirut	Gemmayzeh, Electricite du Liban (EDL) premises
Beirut	Hamra, Clemenceau street, Weavers center (CFC)
Beirut	Hamra, Makdessi street
Beirut	Museum, Surete Generale premises
Beirut	Sodeco, Surete Generale premises
Bekaa	Baalbeck, Rayyan Hospital
Bekaa	Rayyak, Rayyak Hospital
Mount Lebanon	Dekwaneh, Nasr Market, Slave Street, Hagop Kichichian Bldg
Mount Lebanon	Ghineh, Municipality premises
Mount Lebanon	Mkalles, OTV premises
Mount Lebanon	Roumieh, Daher El Bachek Hospital
Mount Lebanon	Zouk Mosbeh, Electricite du Liban (EDL) premises
North Lebanon	Kadisha, Electricite du Liban (EDL) premises
South Lebanon	Tyre, Army Coop

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