ANNUAL REPORT 2017

FRANSABANK

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FRANSABANK

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The environmentally friendly paper used in this report is from sustainable sources and adheres to strict international guidelines for the preservation of the world's forests and ecosystems.

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CONSOLIDATED FINANCIAL HIGHLIGHTS

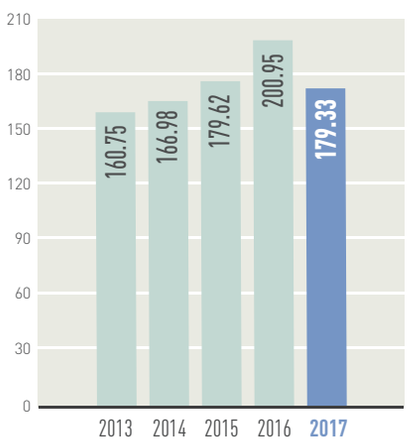
In million of USD	31.12.13	prog. 14/13	31.12.14	prog. 15/14	31.12.15	prog. 16/15	31.12.16	prog. 17/16	31.12.17
Customers' Creditor Accounts	14,121.09	+8.68%	15,346.48	+6.26%	16,306.91	+4.29%	17,007.08	-2.42%	16,595.50 (a)
Loans & Advances to Customers (net)	5,292.86	+9.94%	5,819.06	+8.07%	6,288.59	+3.89%	6,533.39	-0.74%	6,484.92 (a)
Net Profit for the Financial Year	160.75	+3.88%	166.98	+7.57%	179.62	+11.88%	200.95	-10.76%	179.33
Shareholders' Equity	1,654.76	+12.75%	1,865.74	+4.86%	1,956.34	+8.73%	2,127.06	+1.15%	2,151.55
Total Balance Sheet	16,964.39	+11.66%	18,942.47	+5.55%	19,993.66	+4.31%	20,854.61	+5.77%	22,058.07
Capital Adequacy Ratio (as per Basel III)	14.72%		15.07%		14.74%		15.37%		15.40%
Number of Local Branches	116		124		124		125		124
Staff Number	3,265		3,416		3,494		3,563		3,456 (b)
Exchange Rate USD/LBP	1,507.5		1,507.5		1,507.5		1,507.5		1,507.5

(a) The decrease in these figures is due to the deconsolidation at end 2017 of our subsidiairies in Syria and Cyprus.

(b) The decrease in the number of employees is due to the deconsolidation of our subsidiary in Cyprus.

NET PROFIT FOR THE FINANCIAL YEAR

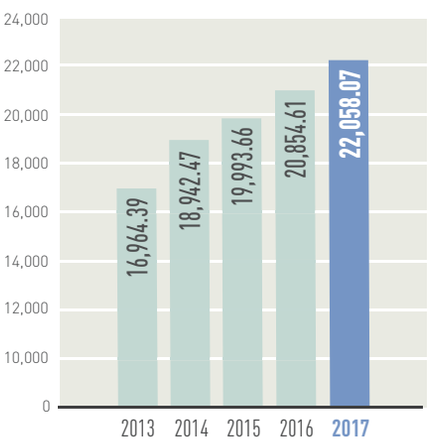
(in million of USD)



+ 2.77% CAGR

TOTAL ASSETS

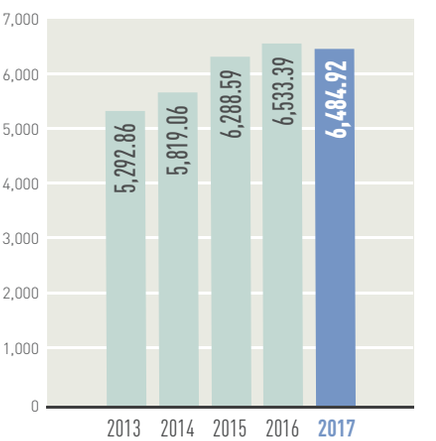
(in million of USD)



+ 6.78% CAGR

LOANS & ADVANCES TO CUSTOMERS (net)

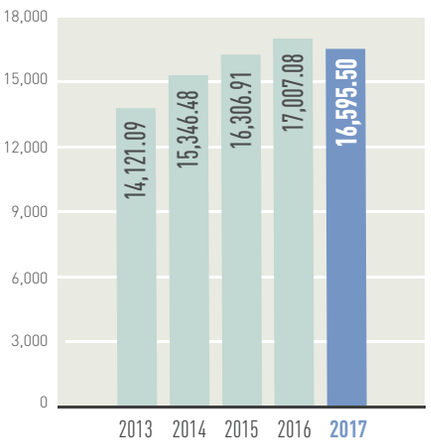
(in million of USD)



+ 5.21% CAGR

CUSTOMERS' CREDITOR ACCOUNTS

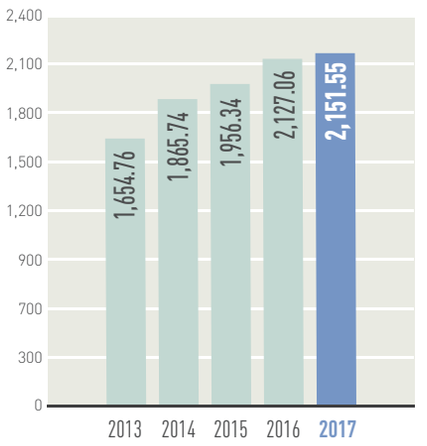
(in million of USD)



+ 4.12% CAGR

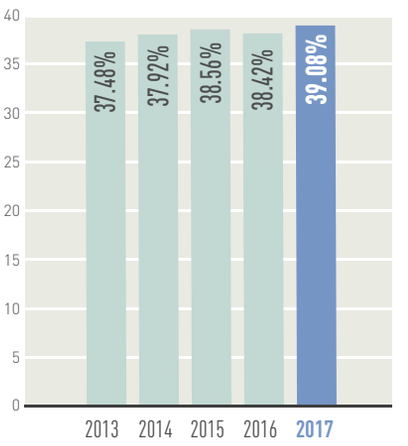
SHAREHOLDERS' EQUITY

(in million of USD)



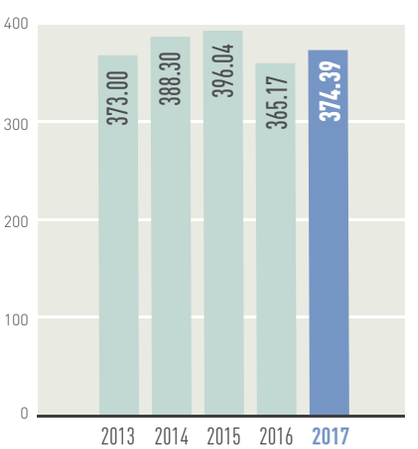
+ 6.78% CAGR

LOANS & ADVANCES TO CUSTOMERS TO CUSTOMERS' CREDITOR ACCOUNTS (%)



NET INTEREST INCOME

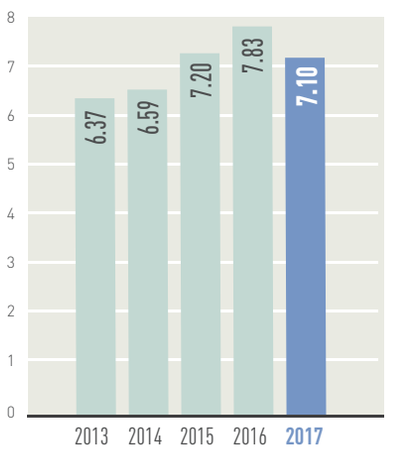
(in million of USD)



+ 0.09% CAGR

EARNINGS PER COMMON SHARE

(in USD)



+ 2.75% CAGR

REFLECT

01 STATEMENT OF THE CHAIRMAN

NOW

STATEMENT OF THE CHAIRMAN

Adnan Kassar - Chairman & **Adel Kassar** - Deputy Chairman

While navigating within a challenging business environment, the Lebanese economy, in 2017, was still active with minor improvements secured by the growth of real sector indicators. The overall pace insinuated no major recovery in economic conditions at large, yet the Lebanese financial sector witnessed a relatively acceptable year despite a short-lived crisis in 2017. The banking sector managed to register a 7.7% increase in activities; with asset growth reaching USD 225 billion at year-end 2017. Likewise, private sector deposits and loans increased by 3.8% and 5.8% respectively.

At Fransabank, we remained focused on performing our core role as a financial services provider, in accordance with clear principles and values – particularly our commitment to operating responsibly and sustainably in the interests of our stakeholders. We have committed to stay true to our mission of responsible growth and our 2017 financial results convey a growing business volume while at the same time preserving a rigorous credit quality.

Accordingly, Fransabank Group's net profit reached USD 179.3 million in 2017. Return on Average Common Equity (ROACE) reached 9.47% and Return on Average Assets (ROAA) reached 0.84%. Total assets increased by 5.77% from USD 20.85 billion at year-end 2016 to reach USD 22.06 billion at year-end 2017. Net loans and advances to customers stood at USD 6.48 billion

and customers' deposits totaled USD 16.59 billion at year-end 2017. The solvency ratio as per Basle III achieved 15.4% by end-December 2017, surpassing the standards set by the Central Bank of Lebanon.

These achievements were attained through investments in new projects and innovative solutions as well as by the strengthening of external partnerships. In this scope, the fruits of our China Desk's efforts to develop the relations between Fransabank markets of operations with the People's Republic of China were among our main achievements in 2017. Fransabank has been working, over the past years, towards the development of business, investment trade and tourism for the benefit of our clientele and the Chinese companies spurring partnerships and joint ventures supported by Fransabank advisory, banking and finance services. In 2017, we successfully unlocked the door to the impressive Chinese market launching the first of many shipments of Lebanese goods to China. We are committed to making Lebanon a key strategic hub for China on the Belt & Road Initiative. Such a hub is expected to see extensive Chinese investments in key infrastructure projects in Lebanon, which is geared to play a predominant regional role, and a stable regional base for Chinese companies.

At Fransabank, we are committed to operating our Bank as a more sustainable business, serving today's customers in a way that safeguards future generations. Consequently, our "Green" strategy was at the center of our core business activities. Committed to support Sustainable Energy Finance (SEF), we strengthened our pioneering market position through additional strategic partnerships, thus increasing environmental awareness and reaching a widespread clientele. In addition, we are in the final stages for launching green bonds, being the first bank in Lebanon and the Levant to do so and together with leading international finance institutions, which will be exclusively dedicated to finance green energy projects.

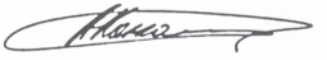
As the operating environment is changing; the financial sector is targeting new technologies, accommodating new regulations and shifting customer expectations, in which we see key drivers of change. So far, these have pushed us to thought-provoking prospects focusing on being a more customer-driven and efficient bank. The recent restructuring mission to adopt a new core system was a great achievement for us, and especially our employees. The shift was very challenging yet we succeeded together in securing a smooth transition with minimum deficiencies.

We have strong foundations in place to reliably and efficiently deliver to our stakeholders and society. Corporate Social Responsibility is cohesive with our core business. We vigorously listen and seriously engage with our stakeholders to achieve a high impact be that on the economic, environmental and on the social aspects. We believe that Fransabank has a major responsibility and role to play in combatting financial crime, preventing money laundering, and always prioritizing a compliance culture. Moreover, we are keen on contributing to the national socio-economic development whether through public-private partnerships or internal lead projects.

We are aware of our responsibility towards the communities we serve and operate in; it is only through their acknowledgement that we will sustain in achieving long-term profitable growth.

The trust of our shareholders, the loyalty of our customers and the professionalism of our employees remain the key assets of our Group enabling us to excel in overcoming all challenges and which gives us great confidence in our future.

Sincerely,



Adnan Kassar

RETHINK

02 CORPORATE GOVERNANCE

NOW

CORPORATE GOVERNANCE FRAMEWORK

Fransabank has made the commitment to maintain the highest standards of corporate governance and ethics across its Group. The main principles of transparency, accountability, integrity and fairness in the treatment of all stakeholders that the Bank promotes are key to ensure the prosperity of its successful business.

Corporate governance provides the structure through which the objectives of the Bank are set, and the means of attaining them and monitoring performance are defined and determined. It defines the rights of shareholders in addition to the rights and responsibilities attributed to the directors and managers and spells out the rules and procedures for making decisions on corporate affairs.

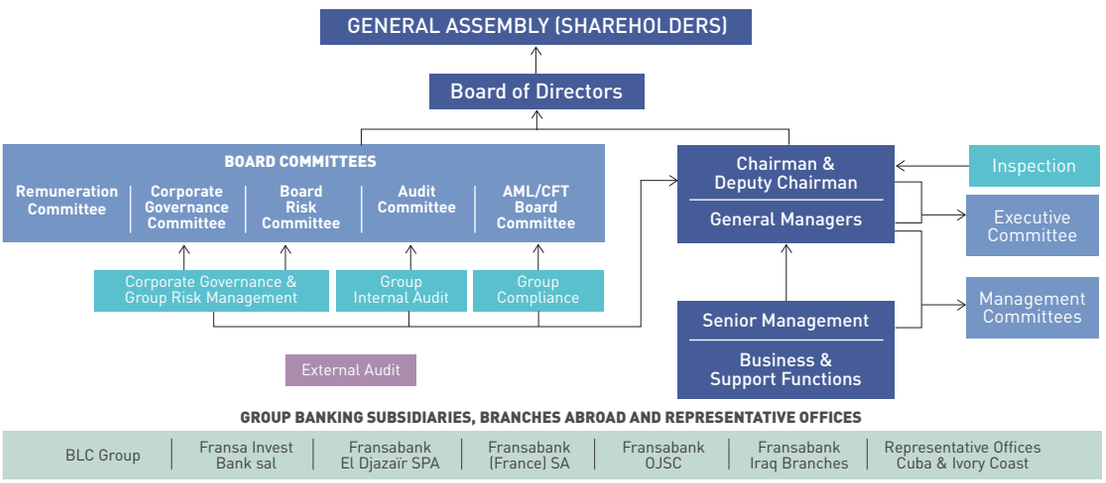
Fransabank corporate governance framework revolves essentially around the corporate governance code. The code delineates a corporate governance framework in line with the regulatory requirements and international best practices and sets the grounds for other governance policies, charters and codes such as the rights of shareholders' policy, policy for managing conflicts of interest, disclosure policy, employees' handbook, etc. All of these are regularly updated to cope with the evolution of the regulatory framework and to best serve the changing needs of stakeholders.

The framework promotes the commitment of the Group to the highest level of transparency, integrity, fairness and accountability and helps in disseminating a strong governance culture within the Bank by setting the 'tone at the top'.

Governance Structure

Fransabank governance structure, which aims to provide an efficient framework for the assignment of responsibility and accountability, is designed in a way that facilitates a clearly defined decision-making process. It includes the General Assembly of Shareholders; the Board of Directors; the Chairman; the Deputy Chairman; the various Committees, control functions; the external auditors; general & senior management and the business and support functions.

FRANSABANK GOVERNANCE STRUCTURE



SHAREHOLDERS' GENERAL ASSEMBLY

Main Holders of Common Shares as at May, 2018	PERCENT [1]
Adnan Kassar	39.81
Adel Kassar	39.81
Deutsche Investitions - und Entwicklungsgesellschaft mbH (DEG) [2]	5.00
Al-Fadl Holdings Limited	2.70
The Public Institution for Social Security – Kuwait	2.00
Others [3]	10.68
TOTAL SHAREHOLDING	**100**

(1) Percent of total share capital consisting of 21,925,000 Common Shares as at 31.05.2018
(2) Deutsche Investitions - und Entwicklungsgesellschaft mbH DEG is one of Germany's top development and investment banks. DEG is owned by Kreditanstalt für Wiederaufbau KfW, which, in turn, is owned by the German Government.
(3) Each with less than 2%.

Rights of Shareholders

Shareholders enjoy all rights conferred upon them by the Lebanese Code of Commerce, including the right to vote at the General Assembly, the right to receive dividends, the right to transfer their shares and the preferential right to subscribe to capital increases. All common shareholders, including minority shareholders, enjoy the same rights and benefits and have one voting right for each common share (the principle of one share, one vote) without limitation. Shareholders who own registered shares for at least two years are entitled to a double voting right according to Article 117 of the Lebanese Code of Commerce.

Board of Directors

The Board of Directors is entrusted with the duty of ensuring the proper management of the Bank in the best interest of its shareholders, depositors, and other stakeholders, in accordance with applicable laws and regulations.

A charter of the Board of Directors, developed in line with the prevailing Lebanese laws & regulations and international good practices, defines the composition, roles and responsibilities and the authority of the Board of Directors.

The Board has overall responsibility of the Bank, including adopting and overseeing the implementation of the Bank's strategic objectives, risk strategy, risk policies, corporate governance and corporate values, as well as ensuring that adequate, effective and independent controls are in place. The Board also exercises adequate oversight over the Group entities and ensures that each entity of the Group adopts corporate governance policies and mechanisms appropriate to its structure, business and risks.

The Board of Directors is composed of twelve members elected by the General Assembly of Shareholders for a mandate of three years.

The Board consists of a mix of executive, non-executive and independent members. The majority of its members qualify as non-executive. This composition aims to safeguard the governance and effectiveness of the Board of Directors and to ensure the objective of adding value to all shareholders, investors, clients and community in the short, medium and long terms.

During 2017, the Board of Directors has met four times.

As of 2017, the Board will annually carry out a collective evaluation of its performance in relation to compliance with the corporate governance principles, to eventually come out with any areas of improvements for Board practices.

Biographies of Board Members

H.E. MR. ADNAN KASSAR
Executive Director | Chairman of the Board of Directors

Born in 1930 - Lebanon

H.E. Mr. Adnan Kassar is the Chairman & CEO of Fransabank Group and member of the Board of Directors of BLC Bank SAL and Fransabank (France) SA. He is also the Chairman of the Supervisory Board of Fransabank OJSC in Belarus. He and his brother Adel acquired Fransabank in 1980. H.E. Mr. Kassar served as Minister of Economy and Trade in Lebanon from 2004 to 2005 and Minister of State in Lebanon from 2009 to 2011. He was the first Arab businessman elected Chairman of the International Chamber of Commerce (ICC) and headed the World Business Organization from 1999 to 2000. He is also former President of the Lebanese Federation of Chambers of Commerce, Industry and Agriculture in Lebanon and headed this Federation for over thirty years (from 1972 to 2002). He is the Honorary President of the Lebanese Economic Organizations and Honorary Chairman of the Arab Union of Chambers which groups millions of companies and associations from the 22 member Arab countries. He is the Honorary Chairman of the Silk Road Chamber of International Commerce (SRCIC) elected in 2016. Mr. Kassar has received global awards and high distinguished decorations from many Heads of States and International Organizations including the Oslo Business for Peace Award in 2014 and the "China Arab Outstanding Contribution" Award from China's President Xi in 2016. He holds a law degree from Saint Joseph University, Beirut and an Honorary Doctorate from the Lebanese American University.
www.adnankassar.com

MR. ADEL KASSAR
Executive Director | Deputy Chairman of the Board of Directors

Born in 1932 - Lebanon

Mr. Adel Kassar is the Deputy Chairman and Chief Executive Officer of Fransabank Group. He is the Chairman of the Board of Directors of Fransabank France SA. He is also the Chairman of the Board of Directors and General Manager of Bancassurance SAL and Lebanese Leasing Company SAL. He is member of the Board of Directors of BLC Bank SAL and member of the Supervisory Board of Fransabank OJSC in Belarus. He and his brother Adnan acquired Fransabank in 1980. He is a former Chairman of the Association of Banks in Lebanon and is the Honorary Consul General of the Republic of Hungary in Lebanon. He holds a degree in Lebanese and French law from Saint Joseph University, Beirut, affiliated to the Faculty of Law of Lyon, France.

MR. ANTOINE JEANCOURT GALIGNANI
Non-Executive Director | Chair of the Audit Committee and the Corporate Governance Committee

Born in 1937 - France

Mr. Antoine Jeancourt Galignani started his career at the French Ministry of Finance and later joined Chase Manhattan Bank in New York and Crédit Agricole. He was appointed as Managing Director, then Chairman of Bank Indosuez. He was also member of the Board of Directors of Banque Saudi Fransi, in Saudi Arabia and the Chairman and CEO of AGF, which was later acquired by Allianz Group and the Chairman of the holding company of SNA. He also served in numerous boards such as TOTAL, Bouygues and Société Générale and he chaired the Board of the Institute of International Finance in Washington from 1991 to 1994. Mr. Galignani was until the 1st of December 2012 the Chairman of the Board of Eurodisney France. He holds a master degree in economics and political sciences from ENA, France.

MR. BERND TÜMMERS

Non-Executive Director | Member of the Board Risk Committee

Born in 1947 - Germany

Mr. Bernd Tümmers began his career as business administration trainee in a German manufacturing company, followed by being the assistant to the CFO of a large engineering and construction company in the USA. In 1979, he was employed at Ford Europe where he prepared investment decisions for the European subsidiaries. He joined Deutsche Investitions- und Entwicklungsgesellschaft mbH (DEG), Cologne - member of the KFW Banking Group, as Investment Manager for South Asia in 1980 and then Head of Department in charge of DEG's activities in South and East Asia. As Senior Vice President, Mr. Tümmers was responsible for DEG`s investments in approximately 500 companies worldwide with an investment volume of approximately USD 6 billion for over a decade. In 2011, he became Senior Vice President for structured finance division in DEG. After his retirement in 2012, he founded his own consulting firm and became a partner of AdminiStraight GmbH, a company advising German companies in different fields. He has extensive experience with regard to board representations on behalf of DEG in Asia, Africa and Eastern Europe. He holds an MBA from University of Cologne, Germany.

THE PUBLIC INSTITUTION FOR SOCIAL SECURITY – KUWAIT

Non-Executive Director

المؤسسة العامة للتأمينات الاجتماعية
The Public Institution For Social Security

The Public Institution for Social Security is a public institution which has an independent budget and is under the supervision of the Minister of Finance. The Institution has a Board of Directors, chaired by the Minister of Finance and a General Manager who is responsible for executing the policy as drawn-up by the Board of Directors. The Public Institution for Social Security is represented by Mr. Mohammad Al-Qassar in the Board of Directors.

MRS. MAGDA RIZK

Non-Executive Director | Chair of the AML/CFT Board Committee Committee

Born in 1957 - Lebanon

Mrs. Magda Rizk is the owner and manager of Rizk Real Estate and Agricultural Properties. She chaired the Remuneration Committee and was member of the Risk Management Committee at Fransabank SAL until December 2016. She was also a member of the Audit Committee at Fransabank SAL from 2008 to 2012. She is a specialized lawyer in property law and a member of the Beirut Bar Association. She holds a degree in Lebanese and French law from Saint Joseph University, Beirut.

H. E. MR. NEHMÉ TOHMÉ

Non-Executive Director

Born in 1939 - Lebanon

Mr. Nehmé Tohmé is a Lebanese businessman, civil engineer by profession and politician who served as Minister in the Lebanese Government from 2005 until 2008 and as a member of parliament from 2000 until present day. Mr. Tohmé is also the Chairman of Almabani General Contractors a Saudi based construction company. Throughout his career, Mr. Tohmé has diversified his investment portfolio into banking, real estate development, hotel resorts and bio agriculture. He sits on a number of boards in which he is an active shareholder. In 2002, Mr. Tohmé founded the "Nehmé & Thérèse Tohmé Foundation", a private foundation dedicated to the family's philanthropic endeavours in tackling extreme poverty, healthcare and education. He holds a BS in civil engineering from the American University of Beirut.

H.E. MR. WALID DAOUK , ESQ.

Non-Executive Director | Member of the Audit Committee, the Corporate Governance Committee, the AML/CFT Board Committee and the Remuneration Committee

Born in 1958 - Lebanon

H.E. Mr. Walid Daouk, Esq is a specialized lawyer in commercial law, civil corporate and property law. He started his career in 1981, as an associate in Takla & Trad law firm becoming thereafter a partner. In 2005, he occupied the position of Vice Chairman at the International Affairs Commission at the Beirut Bar Association, and in 2008, he became a member of the Arbitration Commission. In 2011, he was appointed Minister of Information and Minister of Justice per interim. After the termination of his appointment in 2014, he resumed his practice as lawyer, legal consultant and managing partner in above mentioned firm. He is a lawyer and legal advisor for multinational and Lebanese companies performing business in various fields. Also, he is a board member of many corporations in Lebanon and abroad including Fransabank SAL, Fransabank (France) SA, Fransabank El Djazaïr SPA, BLC Bank SAL, Semiramis SAL, Beirut Waterfront Development SAL, Tourism and Hotel Development Company SAL. He was a member of the Board of Directors of the Council for Development and Reconstruction of Lebanon (CDR) 2001-2004. He is the Commissioner of the Lebanese Government at the Beirut Stock Exchange since 1994. He holds a degree in Lebanese and French law from Saint Joseph University, Beirut and had prepared a degree in Business Management at the Beirut University College.

MR. RAFIC CHARAFEDDINE

Non-Executive Director | Chair of the Remuneration Committee

Born in 1939 - Lebanon

Mr. Rafic Charafeddine is a businessman, and has participations in various companies. He deals in construction projects and real estate investments.

MR. NADIM KASSAR

Executive Director

Born in 1964 - Lebanon

Mr. Nadim Kassar is a General Manager of Fransabank SAL. He is also the Chairman and General Manager of BLC Bank SAL, Founder and Board Member of Fransa Invest Bank SAL (FIB), Founder and Chairman of Fransabank El Djazaïr SPA, Board Member of the Association of Banks in Lebanon since 2001, Vice Chairman and Board Member of USB Bank PLC, Board Member of Lebanese International Finance Executives (LIFE), Co-Manager of A.A. Kassar (France) SARL and General Manager of A.A. Kassar SAL. Mr. Kassar is also a Board Member of the following institutions: MasterCard Incorporated Asia, Pacific, Middle East & Africa, APMEA Regional Board of Directors since 2005, NetCommerce, International Payment Network (IPN) SAL, Credit Card Management, Founder and Board Member of the American Lebanese Chamber of Commerce. He holds as well the position of Deputy Chairman of Société Financière du Liban SAL. He holds a bachelor's degree in Business Administration from the American University of Beirut.

MR. HENRI GUILLEMIN

Non-Executive Director | Chair of the Board Risk Committee

Born in 1947 - France

Mr. Henri Guillemin started his career at Crédit Lyonnais. He then joined Indosuez Bank in 1978 and was appointed at different management positions in Singapore, Saudi Arabia (Jeddah and Riyadh), Bahrain and Paris. He became Managing Director of Banque Saudi Fransi in Riyadh in 1993 for four years and then was promoted Director for the Middle East and Africa region for Crédit Agricole Indosuez, based in Paris. Mr. Guillemin was the Managing Director of Crédit Agricole Egypt SAE, Cairo between 2007 and 2011. He holds a degree in economic sciences from Sorbonne University, Paris, as well as a degree in political studies, and an MBA degree from INSEAD Fontainebleau.

DR. WALID NAJA

Non-Executive Director | Member of the Board Risk Committee, the Audit Committee, the Corporate Governance Committee, the Remuneration Committee and the AML/CFT Board Committee

Born in 1941 - Lebanon

Dr. Walid Naja is former Chairman of the Banking Control Commission - Central Bank of Lebanon. He previously served as Economic Counsellor at the Lebanese Embassy in Washington D.C., and General Manager of the Federation of Chambers of Commerce, Industry and Agriculture in Lebanon. He holds graduate degrees in economics and international relations from the American University of Beirut and Yale University, USA.

Board Committees

In carrying out its oversight responsibilities, the Board is supported by the Corporate Governance Committee, Board Risk Committee, Audit Committee, the Remuneration Committee and Anti-Money Laundering / Combating the Financing of Terrorism (AML / CFT) Board Committee. These committees are chaired by independent non-executive members.

Each of the Board Committees has its own charter describing the committee's scope of work, membership structure and composition, meetings as well as its roles and responsibilities. The charters are regularly updated to ensure compliance with local and international standards.

The Corporate Governance Committee, Risk Committee, Audit Committee and AML / CFT Board Committee meet at least quarterly and when necessary. The Remuneration Committee is set to meet at least semi-annually.

Corporate Governance Committee

The responsibility of the Corporate Governance Committee is to provide oversight of all material corporate governance issues affecting the Bank and its subsidiaries and to ensure that Fransabank Corporate Governance practices are in line with the regulatory requirements and international best practices.

Risk Committee

The Board Risk Committee's responsibilities are to assist the Board of Directors in fulfilling its risk-related duties and to oversee the proper implementation of the risk management principles. In discharging its responsibilities, the Committee monitors the Bank's risk profile vis-à-vis its risk appetite through the reports submitted by the Group Chief Risk Officer to the Board Risk Committee prior to presenting them to the Board of Directors. The Committee is also responsible for recommending to the Board of Directors the Bank's risk policies including the risk appetite and risk tolerance.

Audit Committee

The Audit Committee assits the Board of Directors in its oversight responsibilities regarding the:

- Evaluation of the internal control regulations and procedures
- Assessment of the qualifications and independence of the external auditors
- Supervision of the internal audit's activities
- Integrity of the financial statements
- Review of the Bank's disclosure standards.

Remuneration Committee

The responsibility of the Remuneration Committee is to ensure that the Bank has comprehensive remuneration policies and procedures. The Committee defines the remuneration system and submits it to the Board of Directors for approval. It also controls the proper implementation of the remuneration policy and reviews periodically (at least annually) the basic rules and principles of the Bank's remuneration policy in order to ensure that the set objectives are attained.

AML / CFT Board Committee

The AML/CFT Board Committee supports the Board of Directors in exercising its supervisory mission and role, in the context of fighting money laundering and financing of terrorism, in understanding the relevant risks, and in helping the Board take appropriate decisions in this regard. The Committee reviews and approves the AML/CFT policy & procedures and the proper incentive required for its full implementation. It also examines the suspicious cases and transactions and takes appropriate decisions thereupon.

Management

Senior management undertakes and manages the Bank's activities under the direction and oversight of the Board. Members of senior management are responsible and are held accountable for overseeing the day-to-day management of the Bank.

The Chairman of the Board may suggest to the Board the appointment of one or more General Managers and Deputy General Managers, who shall act for account and under the full responsibility of the Chairman.

Specialized Management Committees are established, whose members include senior staff, having the responsibility to set strategies and take decisions as necessary for the development of the Bank's activities.

Control Functions

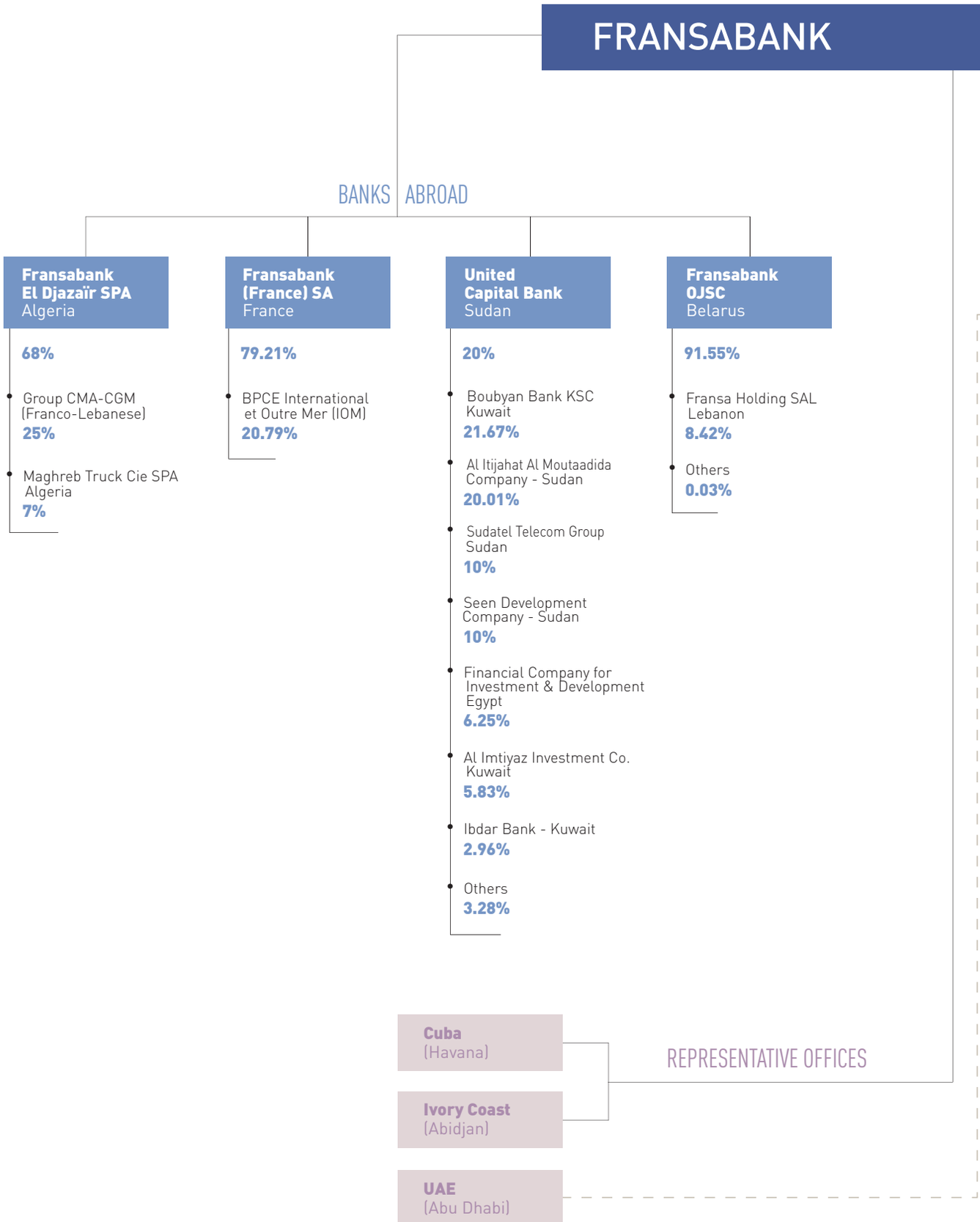
The internal control system is a set of rules and controls governing the Bank's organisational and operational structure.

It is based on interrelated components, among which, the adoption of a clear and documented organizational structure, the assessment of risks, the adoption of systems for risk assessment & monitoring, and a continuous monitoring process through reporting any identified weakness or any violation to the existing policies and procedures.

It is designed to ensure process integrity, compliance and effectiveness as well as provide reasonable assurance that financial and management information is reliable, timely and complete.

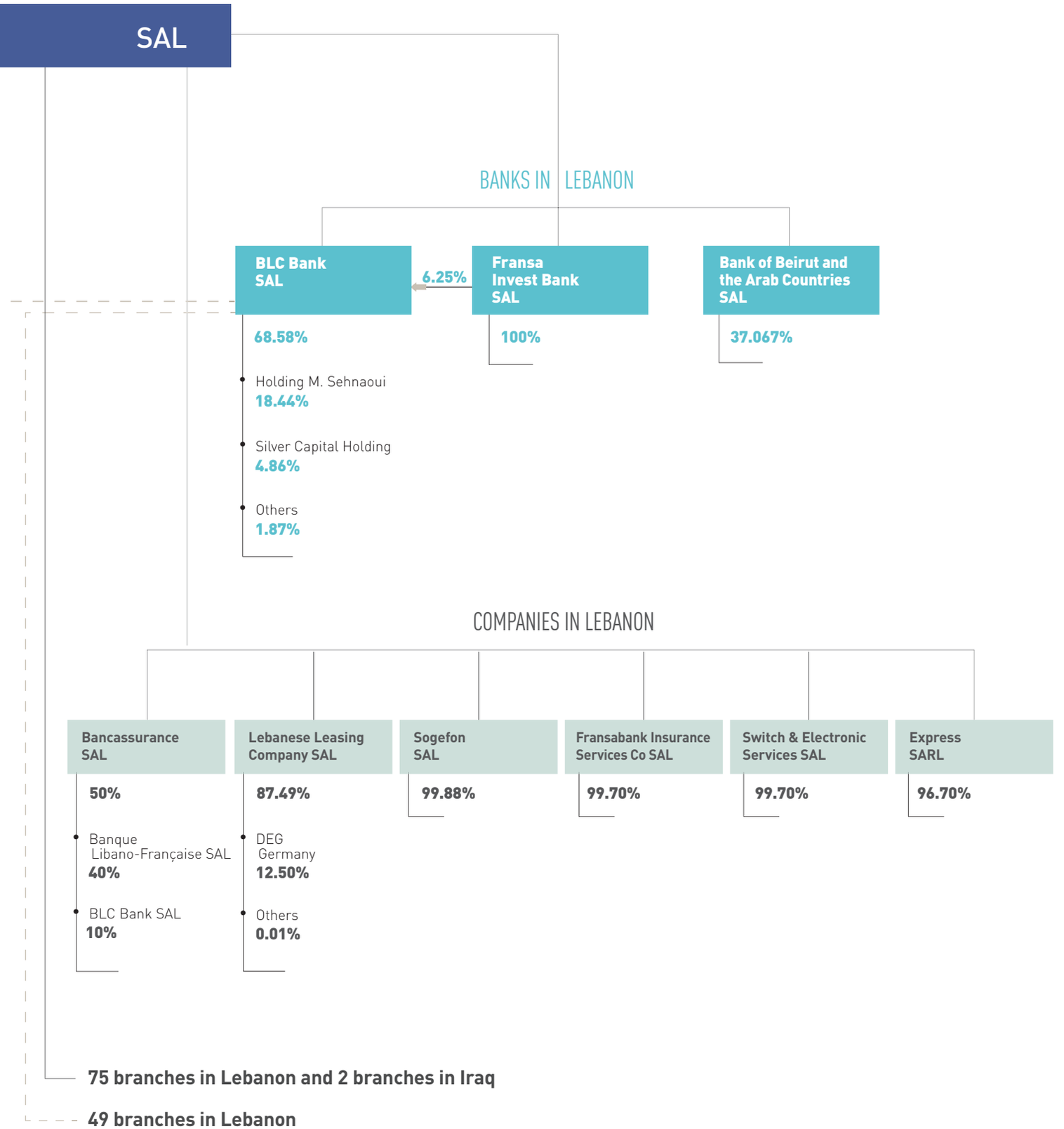
The Bank recognizes the importance of implementing a solid and sound structure for control functions, namely the risk management, compliance, internal audit and inspection functions, which shall ensure that the Bank's activities are performed in accordance with the prevailing laws and regulations as well as with the Bank's policies and procedures.

GROUP CHART

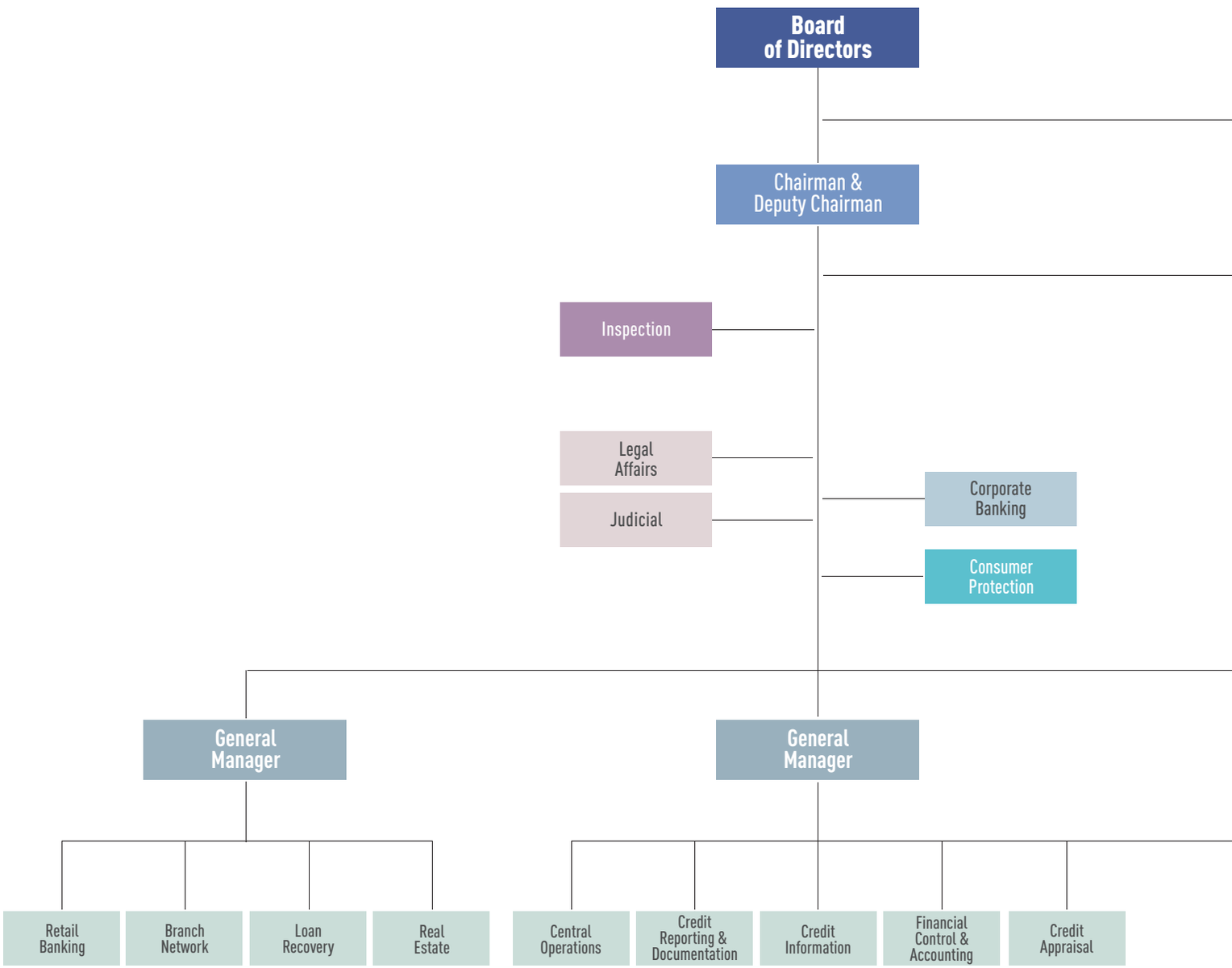


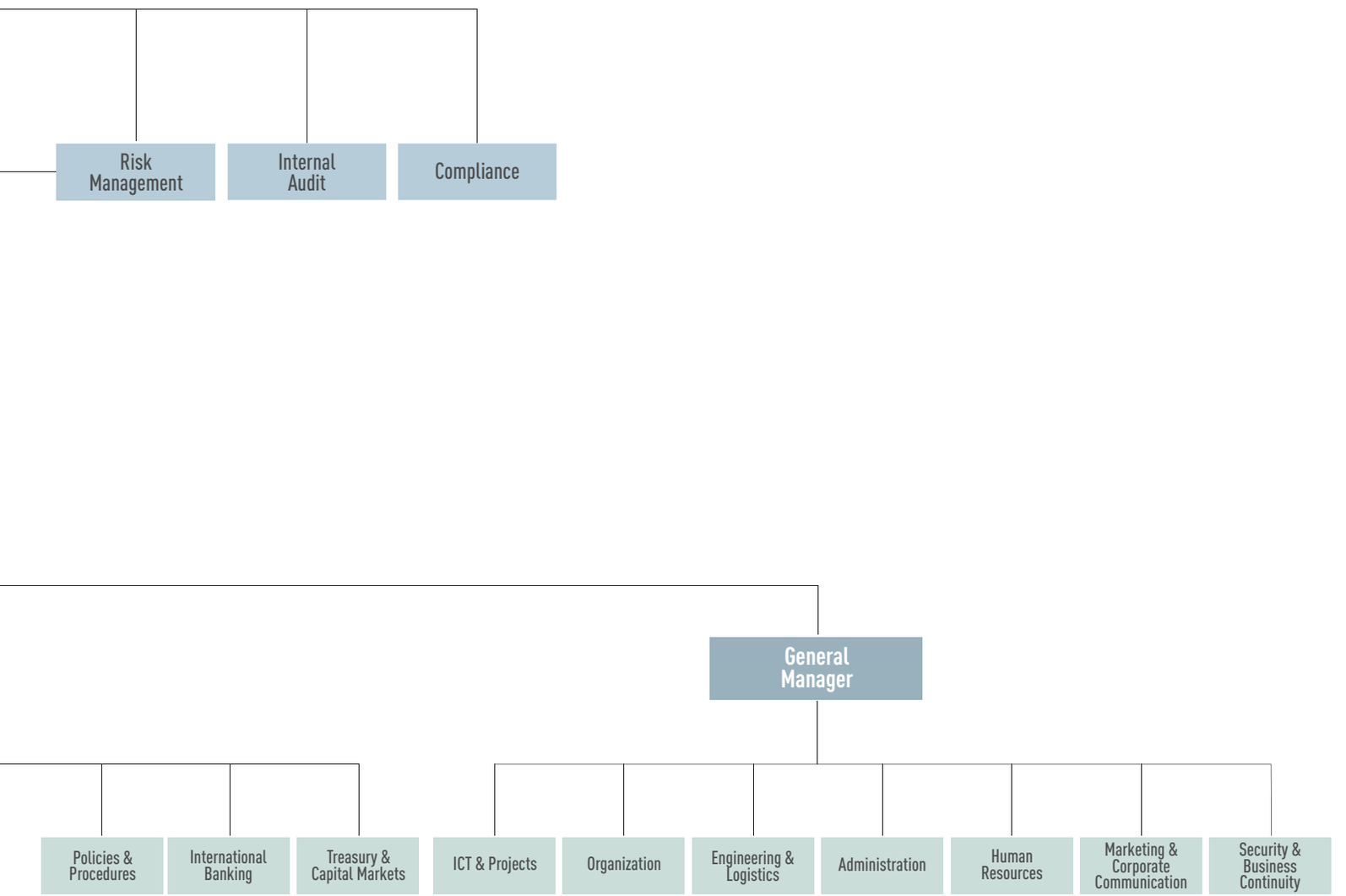
Nota: Fransabank Group Chart updated for events occurring up to May 2018.

BLC Bank has two subsidiaries in Lebanon: BLC Finance & BLC Services.


SAL
BANKS IN LEBANON
BLC Bank SAL
6.25%
Fransa Invest Bank SAL
Bank of Beirut and the Arab Countries SAL
68.58%
100%
37.067%
Holding M. Sehnaoui
18.44%
Silver Capital Holding
4.86%
Others
1.87%
COMPANIES IN LEBANON
Bancassurance SAL
Lebanese Leasing Company SAL
Sogefon SAL
Fransabank Insurance Services Co SAL
Switch & Electronic Services SAL
Express SARL
50%
87.49%
99.88%
99.70%
99.70%
96.70%
Banque Libano-Française SAL
40%
BLC Bank SAL
10%
DEG Germany
12.50%
Others
0.01%
75 branches in Lebanon and 2 branches in Iraq
49 branches in Lebanon

ORGANIZATION CHART - FRANSABANK SAL




Risk Management
Internal Audit
Compliance
General Manager
Policies & Procedures
International Banking
Treasury & Capital Markets
ICT & Projects
Organization
Engineering & Logistics
Administration
Human Resources
Marketing & Corporate Communication
Security & Business Continuity

EXECUTIVE AND MANAGEMENT COMMITTEES – FRANSABANK SAL

EXECUTIVE COMMITTEE

H.E. Mr. Adnan Kassar	Chairman General Manager
& or	
Mr. Adel Kassar	Deputy Chairman General Manager
Mr. Nadim Kassar	General Manager
Mr. Mansour Bteish	General Manager
Mr. Nabil Kassar	General Manager
H.E. Mr. Walid Daouk, Esq.	
Mr. Nabih Saddy	Group Chief Financial Officer
Miss Mona Khoury	Group Chief Risk Officer *(Non-voting Member)*

MANAGEMENT COMMITTEES

- **Clientele Risks Committees**
- **Asset / Liability Committee**
- **Overseas Expansion Committee**
- **ICT Committee**
- **Information Security Committee**
- **Compliance Committee**
- **Human Resources Committee**
- **Marketing & Corporate Communication Committee**
- **Commercial Product Committee**
- **Purchasing Committee**

MANAGEMENT – FRANSABANK SAL

	H.E. Mr. Adnan Kassar	Chairman General Manager
	Mr. Adel Kassar	Deputy Chairman General Manager

GENERAL MANAGEMENT

Mr. Nadim Kassar	General Manager
Mr. Mansour Bteish	General Manager
Mr. Nabil Kassar	General Manager
Dr. Mohamad Daher	Deputy General Manager, Head of Corporate Banking
Mr. Philippe El Hajj	Deputy General Manager, Head of Retail Banking
Miss Mona Khoury	Deputy General Manager, Group Chief Risk Officer
Mr. Nabih Saddy	Deputy General Manager, Group Chief Financial Officer
Mr. Nabil Tannous	Deputy General Manager, Head of Treasury & Capital Markets
Mr. Wajdi Abi Chacra	Secretary General

MANAGEMENT

Mr. Georges Andraos	Head of International Banking
Mr. Zouheir Chouraiki	Group Chief Internal Auditor
Mr. Fouad Khalifeh	Group Chief Compliance Officer
Mr. Pierre Posbic	Head of Organization
Mr. Antoine Asmar	Business Development Consultant, Corporate Banking
Mr. Roland Tabib	Chief Information Officer
Mr. Zakaria El Khatib	Head of Inspection
Mr. Fouad Helou	Head of Central Operations
Mrs. Dania Kassar	Head of Marketing & Corporate Communication
Dr. Walid Yazigi	Head of Human Resources
Mr. Antoine Younes	Head of Credit Appraisal
Mr. Antoine Zarifeh	Head of Branch Network
Mr. Khalil Assaf	Head of Special Credits
Mrs. Gretta Boustany	Head of Trade Finance
Mrs. Lama Dick	Head of Local & Overseas Credit Cards
Mrs. Lama Ghoutaymi	Head of Loan Recovery
Miss Hoda Kadi	Head of Policies & Procedures
Mrs. Magida Kasbani	Head of Administration
Mr. Adel Moubarak	Head of Security & Business Continuity
Mr. Roger Abboud	Head of Credit Information
Mrs. Dalal Halabi	Head of Credit Reporting & Documentation
Mr. Nagi Makhlouf	Head of Engineering & Logistics
Me. Joumana Oueidat	Head of Judicial
Mrs. Sawsan Rawda	Head of Consumer Protection

LOCAL NETWORK MANAGEMENT

Mrs. Najwa Sandid	Regional Manager, Beirut I
Mr. Antoine Nehmeh	Regional Manager, Beirut II
Mr. Francis Abi Nakhoul	Regional Manager, Mount Lebanon, Group A
Mr. Marwan Youssef	Regional Manager, Mount Lebanon, Group B *(Mr. Georges Saliba till end of June 2018)*
Mr. Amine Abou Mhaya	Regional Manager, Bekaa
Mr. Assaad Fadel	Regional Manager, South
Mr. Nazih Chaarani	Regional Manager, North
Mr. Raed Hajj	Area Manager, Beirut I

LOCAL BANKING SUBSIDIARIES
Board of Directors and General Managers

LEBANON

BLC Bank SAL

Board of Directors

Mr. Nadim Kassar	Chairman General Manager
Mr. Nabil Kassar	Deputy Chairman
H.E. Mr. Adnan Kassar	Member
Mr. Adel Kassar	Member
H.E. Mr. Walid Daouk, Esq.	Member
Mr. Mansour Bteish	Member
H.E. Mr. Nazem El Khoury	Member
Mr. Henri De Courtivron	Member

General Manager & CEO	Mr. Bassam Farid Hassan

Fransa Invest Bank SAL

Board of Directors

Mr. Nabil Kassar	Chairman General Manager
Fransabank SAL	Member
Mr. Nadim Kassar	Member
H.E. Mr. Walid Daouk, Esq.	Member
Mr. Mansour Bteish	Member
Mr. Michel Saroufim	Member
Mr. Mohammed Mou'minah	Member
Mr. Henri Guillemin	Member
Mr. Ghantous Gemayel	Member

General Manager	Mr. Michel Saroufim

BLC Services SAL

Board of Directors

H.E. Mr. Nazem El Khoury	Chairman
BLC Bank SAL	Member
Holding M. Sehnaoui SAL	Member
H.E. Mr. Walid Daouk, Esq.	Member
Mr. Walid Ziade, Esq.	Member
Mr. Khaled Salman	Member

General Manager	H.E. Mr. Nazem El Khoury

BLC Finance SAL

Board of Directors

Mr. Mansour Bteish	Chairman
Fransabank SAL	Member
Holding M. Sehnaoui SAL	Member

General Manager	Mr. Mansour Bteish

OVERSEAS BANKING SUBSIDIARIES & ASSOCIATE

Board of Directors and General Managers

FRANCE

Fransabank (France) SA

Board of Directors

Mr. Adel Kassar	Chairman
BPCE IOM, *represented by Mr. Jean-Pierre Levayer*	Vice Chairman
Fransabank SAL, *represented by Mr. Nabil Kassar*	Member
H.E. Mr. Adnan Kassar	Member
Mr. Mansour Bteish	Member
H.E. Mr. Walid Daouk, Esq.	Member
Mr. Yvan de La Porte du Theil	Member
Mrs. Patricia Lantz	Member
Mr. Henri de Courtivron	Member
General Manager	Mr. Andre Tyan

ALGERIA

Fransabank El Djazaïr SPA

Board of Directors

Mr. Nadim Kassar	Chairman
Fransabank SAL, *represented by Mr. Nabil Kassar*	Member
CMA CGM SA, *represented by Mr. Raja Sarkis*	Member
Merit Corporation SAL, *represented by Mr. Raja Sarkis*	Member
H.E. Mr. Walid Daouk, Esq.	Member
Mr. Mansour Bteish	Member
General Manager	Mr. Mohammed Tifour

BELARUS

Fransabank OJSC

Supervisory Board

H.E. Mr. Adnan Kassar	Chairman, *representing Fransabank SAL*
Mr. Adel Kassar	Deputy Chairman, *representing Fransa Holding SAL*
Mr. Ghantous Gemayel	Member, Independent Director
Mr. Franz Josef Flosbach	Member, Independent Director
Mr. Georges Andraos	Member
General Manager	Mr. Alexandr Ignatov

SUDAN

United Capital Bank

Board of Directors

Mr. Tarig Hamza Zain El Abdein	Chairman *representing Sudatel Company, Sudan*
Mr. Mansour Qaiser Bteish	Vice Chairman
Mr. Abdul Salam Alsaleh	Member *representing Boubyan Bank*
Mr. Tarig Sir-Elkhatim Mohamed	Member *representing Seen Development Company, Sudan*
Mr. Mohamed Farah Idris	Member *representing Al Itijahat Al Moutaadida Company, Sudan*
Mrs. Amira Al Alami	Member *representing Financial Company for Investment and Development - Egypt*
Mr. Al Sherif Ahmad Badur	Member *Independent Director*
Prof. Ahmed Majzoub Ahmed	Member *Independent Director*
Mr. Yousif Ahmed El-Tinay	Member & General Manager
Mr. Ahmed Mohamed Khair	Secretary of the Board
General Manager	Mr. Yousif Ahmed El-Tinay

RECREATE

03 HISTORICAL MILESTONES

NOW

HISTORICAL MILESTONES

1921

Fransabank was first established in Beirut as a full branch of one of the major French banks then, Crédit Foncier d'Algérie et de Tunisie (C.F.A.T.).

• • •

Fransabank is registered n° 1 on the list of banks operating in Lebanon indicating that it is the oldest Bank in the country.

1963

C.F.A.T. changed its name to Société Centrale de Banque.

1971

Société Centrale de Banque in Beirut was acquired by Banque Française pour le Moyen-Orient SAL (B.F.M.O.), a Lebanese company whose shares were predominantly owned by Banque Indosuez Group.

1978

Banque Indosuez (now Crédit Agricole Corporate and Investment Bank – CACIB which is the investment arm of Crédit Agricole SA) was also the major shareholder of Banque Sabbag SAL. Banque Indosuez merged these two banks under the name of Banque Sabbag et Française pour le Moyen-Orient SAL.

1980

Banque Indosuez sold its shares in Banque Sabbag et Française pour le Moyen-Orient SAL to a financial group headed by Messrs. Adnan & Adel Kassar.

1984

The Bank's denomination was changed to Fransabank SAL.

• • •

Fransabank concluded a cooperation agreement with Crédit Agricole SA – France. It led at first to the joint creation in Paris of Fransabank (France) SA, and to the participation of Crédit Agricole SA - France in the shareholding of Fransabank SAL. In line with its global strategy, Crédit Agricole SA exited from Fransabank (France) SA in 2007 and from Fransabank SAL shareholding in 2012.

2002

Fransabank acquired United Bank of Saudi & Lebanon SAL.

2003

Fransabank acquired all the shares of Banque de la Békaa SAL. Subsequently, in 2007, the Bank sold Banque de la Békaa as an empty shell.

2005

Fransabank acquired 37.067% in BBAC SAL.

2006

Fransabank was the first Lebanese Bank to enter the Algerian market with the opening of its subsidiary Fransabank El Djazaïr SPA.

• • •

Fransabank launched its operations in Sudan through an associate bank, United Capital Bank.

2007

Fransabank acquired BLC Bank SAL along with its two subsidiaries, BLC Services SAL and BLC Finance SAL.

• • •

Fransabank concurrently purchased 34% of the share capital of Fransabank (France) SA held by Crédit Agricole SA (bringing its participation in the share capital to 100%), and sold 40% of the share capital of Fransabank (France) SA to Financière Océor, a subsidiary of Groupe Caisse d'Epargne (France) - currently BPCE, following which the Bank's participation in the share capital of Fransabank (France) SA became 79.21% as from March 2016.

2008

Fransabank issued its Series "A" preferred shares for USD 100 million as additional Tier 1 capital.

• • •

Fransabank acquired Fransabank OJSC - Belarus, formerly known as Golden Taler Bank.

1985

Fransabank acquired the assets & liabilities of Chase Manhattan Bank's branches in Beirut.

1993

Fransabank acquired Banque Tohmé sal.

1995

Fransabank concluded an agreement with Deutsche Investitions - und Entwicklungs-gesellschaft mbH (DEG), which led to the acquisition by DEG of 5% of the Bank's share capital.

• • •

Fransabank established the Lebanese Leasing Company SAL.

1997

A private placement of shares took place, pursuant to which 5% of the Bank's shares were sold to Lebanese, Arab and foreign investors.

• • •

The Public Institution for Social Security – Kuwait, acquired 2% of the Bank's share capital.

1998

Fransabank acquired Universal Bank sal.

1999

Fransabank and Predica SA – the insurance arm of Crédit Agricole SA – France established Bancassurance SAL.

2001

Fransa Invest Bank (FIB), the investment banking subsidiary of Fransabank started its operations.

2010

Fransabank issued its Series "B" preferred shares for USD 85 million as additional Tier 1 capital.

• • •

BLC Bank SAL acquired 9.9% of USB Bank PLC – Cyprus and increased this share gradually to reach 99.25% in July 2016.
In April 2017, a sale agreement was signed between Fransabank, BLC Bank, Sehnaoui Group and USB Bank, by terms of which BLC Bank will sell its share in USB Bank to Sehnaoui Group, resulting in its exit from the Cypriot market and Fransabank will regain its 98.4% share in BLC Bank.

2011

Fransabank celebrated its 90 years anniversary of legacy and expertise.

2012

Fransabank issued its Series "C" preferred shares for USD 75 million as additional Tier 1 capital.

• • •

BLC Bank opened its representative office in Abu Dhabi.

2013

Fransabank has set up a China Desk with the objective to promote and facilitate exchanges between Lebanon and Chinese businessmen by using Fransabank platform.

2014

Fransabank inaugurated its two branches in Baghdad and in Erbil- Kurdistan, Iraq.

• • •

Fransabank acquired and merged Ahli International Bank SAL.

• • •

Fransabank issued its Series "D" preferred shares for USD 85 million as additional Tier 1 capital.

2015

Fransabank redeemed its Series "A" preferred shares for USD 100 million and issued Series "E" preferred shares for USD 105 million as additional Tier 1 capital.

• • •

Fransabank established a representative office in Abidjan - Ivory Coast.

2017

Fransabank redeemed its Series "B" preferred shares for USD 85 million and issued Series "F" preferred shares for USD 75 million as additional Tier 1 capital.

REDEFINE

04 MANAGEMENT REPORT

NOW

LEBANON'S ECONOMIC PERFORMANCE IN 2017

Lebanon's macro economy recorded a better performance during 2017 relative to 2016 due mainly to a more favorable domestic political environment and a deceleration of regional turmoil. This was accompanied by an improving real-estate sector and monetary as well as financial conditions, and strong capital inflows.

Economic growth is estimated at 1.2% in 2017 according to the estimates of International Monetary Fund (IMF), relative to nearly 1.7% in 2016 and 0.2% in 2015 according to CAS.

In fact, the growth of real sector indicators secured a relative progress in the economic activity during 2017. The number of real-estate transactions increased by 14.5% from 2016 to reach 73,541 transactions in 2017. Likewise, the amount of real-estate transactions grew by 18.5% to reach USD 9.95 billion during the same period. On the other hand, the construction permits, an indicator of future construction activity and future supply in the real-estate sector, regressed by 4.1% from 2016 to reach 11.7 million square meters in 2017. Cement deliveries, an indicator of current construction activity, dropped by 1.9% relative to the corresponding period last year to reach 5.15 million tons in 2017.

The trade and services activities improved during 2017 when considering its leading indicators. Concerning the activity of Beirut – Rafic Hariri International Airport, which is also an indicator of the tourism activity, the total number of passengers increased by 8.3% from 2016 to reach 8.23 million passengers in 2017. The hotel occupancy rate, an indicator of hotel activity and tourism as well, increased from 59.4% in 2016 to 63.7% in 2017. Tourism activity improved in 2017 relative to 2016, with the number of tourists increasing by 10% on an annual basis to reach nearly 1.9 million tourists in 2017. In parallel, tourists spending grew by 5.5% in 2017 compared to a decrease of 9% in 2016.

As regards to the Port of Beirut activity, an indicator of maritime transport and trade, the number of ships dropped by 5.2% from 2016 to reach 1,909 ships in 2017. However, the number of containers was 4.9% higher reaching 897,779 containers; but the quantity of goods decreased by 1.2% to reach 8,629 thousand tons during the same period. The revenues of the Port grew from 2016 by 0.4% to nearly USD 240 million in 2017.

As for the Lebanese banking sector, it is liquid, profitable, and well regulated, but highly exposed to the public sector. Banks are well capitalized and resilient to difficult conditions and crises in the domestic economy and the region, owing to prudent investments and conservative actions by banks, in a highly controlled environment. The liquidity ratio is high well above 70%. The capital adequacy is strong, with capital-to-assets-ratio in excess of 8.6% in 2017.

The banking activity, as proxied by the consolidated balance sheet of commercial banks and medium & long term banks in Lebanon, has improved during 2017, recording USD 225 billion as of end 2017, an increase of 7.7% from the end of 2016. The sector's assets are estimated to represent nearly 421% of GDP in 2017 relative to 406% in 2016, one of the highest ratios worldwide.

The deposits of the private sector grew by 3.8% from end-2016 to reach USD 170.8 billion at the end of 2017. As well, private sector lending increased by 5.8% to reach USD 62 billion during the same period. The aggregate loans-to-deposits ratio reached 36.3% in 2017, relative to 35.6% in 2016. This reflects the relatively slow lending opportunities in the economy under current conditions. The MLT & commercial banks' capital base rose by 5.6% from the end of 2016 to reach USD 20.7 billion at end-2017, reflecting a growing capitalization of the sector. The dollarization rate in private-sector lending registered 70% relative to 73% during the same period. Also the dollarization rate of deposits was 67% relative to 64% during the period under consideration.

BANKING SECTOR INDICATORS (COMMERCIAL AND MLT BANKS)

In billion of USD	2017	2016	Variation
Total assets	225	209	+ 7.7%
Total deposits of private sector	170.8	164.5	+ 3.8%
Total loans to private sector	62	58.6	+ 5.8%
Bank's capital base	20.7	19.6	+ 5.6%

Sources: Central Bank of Lebanon and Association of Banks in Lebanon

Yet, the amount of Kafalat loans, an indicator of the activity of SMEs and start-ups as well as private investment spending, decreased by 28.5% from 2016 to reach USD 66.4 million in 2017.

The activity of the Beirut Stock Exchange (BSE), which mirrors the activity of the capital market, was inferior in 2017 relative to 2016. The total trading volume of BSE regressed by 27.8% on annual basis to reach 87 million shares at end-2017. The aggregate turnover decreased by 21.6% to reach USD 762.1 million.

Market capitalization also dropped by 3.4% on annual basis, from USD 11.9 billion at end of 2016 to USD 11.5 billion at end of 2017. Its ratio to GDP reached 21.5% in 2017, reflecting a narrow capital market in Lebanon. Market capitalization continues to be dominated by banking stocks, followed by real-estate stocks, and industrial stocks.

BEIRUT STOCK EXCHANGE INDICATORS

	2017	2016	Variation
Market Capitalization (USD, billion)	11.5	11.9	- 3.4%
Total trading volume (Shares, million)	87	120.5	- 27.8%
Aggregate turnover (USD, million)	762.1	971.6	- 21.6%

Sources: BSE and Central Bank of Lebanon

The fiscal conditions remain highly unfavorable in light of continued fiscal deficits and growing public indebtedness and the crowding-out effect of private investment initiated and fueled by public borrowing. The fiscal figures for 2017 reveal that the public deficit, which mirrors internal deficit in the economy, declined by 24% from the corresponding period last year to reach USD 3.8 billion.

The observed economic improvement in the domestic economy caused an increase of 17.2% in public revenues, and a lower growth in public spending by 3.4% during the period mentioned above. As a result of these fiscal conditions on the revenues-spending front, the deficit-to-spending ratio reached 24.7% against 33.6% for the same period indicated above. The public indebtedness during 2017, witnessed an increase of 6.1% in gross debt figures over 2016 to reach USD 79.5 billion at the end of 2017.

When deflated by GDP, the public deficit is estimated to reach nearly 7.1% in 2017, relative to nearly 9.7% in 2016.

On the other hand, the gross debt-to-GDP ratio surged upwards over the past three years, from 137.2% in 2014, to 140.9% in 2015, 145.4% in 2016, and is estimated to reach 148.6% in 2017. These ratios are very high by international standards and clearly reflect the deep fiscal imbalances in Lebanon.

PUBLIC FINANCE INDICATORS

In billion of USD	2017	2016	Variation
Public revenues	11.6	9.9	+ 17.2%
Public expenditures	15.4	14.9	+ 3.4%
Fiscal deficit	3.8	5	- 24%
Deficit / Expenditures (%)	24.7	33.6	-
Gross public debt	79.5	74.9	+ 6.1%
Net public debt	69.3	65.4	+ 6%
Gross public debt / Nominal GDP (%)	148.6	145.4	-

Sources: Ministry of Finance and Central Bank of Lebanon

Due to the moderate growth rate recorded, Lebanon has experienced inflation in 2017 relative to deflation in 2016. Inflation was 4.5% in 2017, against a deflation rate of 0.8% in 2016. In this sense, inflation remains moderate in Lebanon, but its rate is higher than the economic growth rate. As for the Beirut Traders Association-Fransabank Retail Index, it stood at 49.64 for the fourth quarter of the year 2017, compared to the level of 49.93 for the third quarter of 2017, and 54.78 for the fourth quarter of the year 2016; dropping again below the 50 mark as was the case during the first two quarters of 2017.

The Central Bank of Lebanon has continued its monetary stabilization policy during 2017, just like in the previous years. The stability in the exchange rate (USD 1 = LBP 1,507.5) persists, thus contributing to overall economic steadiness. The Central Bank's foreign-currency denominated assets enhanced by nearly 6.1% from 2016 to reach USD 42 billion at the end of 2017. Also, the Central Bank's gold reserves remain at a relatively high level, at USD 12 billion at the end of 2017, relative to USD 10.7 billion at the end of 2016, with an annual growth of 12.1%.

MONETARY SITUATION INDICATORS

In billion of USD	2017	2016	Variation
Central Bank of Lebanon's assets in FX	42	39.6	+ 6.1%
Central Bank of Lebanon's gold reserves	12	10.7	+ 12.1%
Financial sector deposits	97	83.4	+ 16.3%
Inflation rate - CPI (%)	4.5	- 0.8	-

Sources: Central Bank of Lebanon, Association of Banks in Lebanon, and Central Administration of Statistics

The trade deficit widened by 4.3% on annual basis to reach USD 16.8 billion in 2017, thus reflecting a radical and continued foreign deficit which represents nearly 31.4% of GDP in 2017, relative to 31.3% in 2016.

This surge in the trade deficit was the result of a decrease in exports of 6.7% on annual basis to reach USD 2.8 billion in 2017, and an increase in imports of 2.6% to reach USD 19.6 billion during the same period.

The year 2017 experienced a lower level of capital inflows reaching nearly USD 16.6 billion relative to a level of USD 17.3 billion in 2016, a decrease of 4% on annual basis. These capital inflows were induced by a lowering regional turmoil and political tension in Lebanon.

The balance of payments realized a deficit in 2017, recording a level of USD 0.2 billion relative to a surplus of USD 1.2 billion in 2016. The surplus of the balance of payments recorded in 2016 was the first annual surplus since 2010, where the period 2011-2015 experienced deficits.

FOREIGN TRADE SECTOR INDICATORS

In billion of USD	2017	2016	Variation
Exports	2.8	3	- 6.7%
Imports	19.6	19.1	+ 2.6%
Trade deficit	16.8	16.1	+ 4.3%
Capital, Financial & Services inflows	16.6	17.3	- 4%
Balance of payments	- 0.2	+ 1.2	-

Sources: Higher Customs Council and Central Bank of Lebanon

CONSOLIDATED RESULTS OF OPERATIONS

OVERVIEW

In 2017, Lebanon sustained a shy improvement in its macro-economic activity. The Lebanese banking sector achieved a relatively satisfactory financial performance and Fransabank's results of operations were aligned with its business strategy reflecting a sustainable growth and responsible performance.

As at 31.12.2017, Fransabank deconsolidated the financial statements of Fransabank Syria after the loss of control over this subsidiary, also USB Bank Cyprus figures were deconsolidated and accounted for as per IFRS 5 "Non-current assets held for sale and discontinued operations" after signing a term sheet to sell this subsidiary.

1. NET INCOME

In 2017, Fransabank SAL net income, amounted to LBP 177.80 billion (USD 117.94 million) compared to LBP 189.40 billion (USD 125.64 million) in 2016, a decrease of 6.13%. This has translated into a Return on Average Assets of 0.79% and a Return on Average Common Equity of 8.75%.

In 2017, the Group's net income amounted to LBP 270.34 billion (USD 179.33 million) compared to LBP 302.94 billion (USD 200.95 million) in 2016, a decrease of 10.76%. This has translated into a Return on Average Assets of 0.84% and a Return on Average Common Equity of 9.47%.

1.1 Net Interest Income

In 2017, the Group's net interest income amounted to LBP 564.39 billion (USD 374.39 million) compared to LBP 550.49 billion (USD 365.17 million) in 2016, an increase of 2.52%.

In 2017, the Group's interest received amounted to LBP 1,716.62 billion (USD 1,138.72 million) compared to LBP 1,620.02 billion (USD 1,074.64 million) in 2016, an increase of 5.96%. Interest received from loans and advances to customers, investment securities, loans to banks & placements with banks and investments at Fair Value Through Profit or Loss (FVTPL), represents 37.55%, 39.71%, 21.37% and 1.37% respectively of total 2017 interest income, compared to 38.04%, 44.38%, 15.03% and 2.55% respectively in 2016.

BREAKDOWN OF INTEREST RECEIVED

In thousands of LBP	2017	2016
From loans and advances to customers	644,588,257	616,271,349
From investment securities	681,566,178	718,997,268
From loans to banks and placements with banks	366,903,444	243,400,894
From investments at FVTPL	23,559,344	41,351,223
TOTAL	**1,716,617,223**	**1,620,020,734**

In 2017, the Group's monthly average interest-earning assets reached LBP 28,731.49 billion (USD 19,059.03 million) compared to LBP 26,860.97 billion (USD 17,818.22 million) in 2016 (+ 6.96%). This growth is due to the following:

- increase in loans to banks and financial institutions plus placements with banks and financial institutions (+ LBP 1,934.54 billion or c/v USD 1,283.28 million),
- increase in loans and advances to customers (+ LBP 360.73 billion or c/v USD 239.29 million),
- decrease in investment securities (- LBP 424.75 billion or c/v USD 281.76 million).

AVERAGE VOLUME OF INTEREST-EARNING ASSETS

In thousands of LBP	2017	2016
Investment securities	10,507,121,508	10,931,874,622
Banks and financial institutions	9,087,012,742	7,152,472,663
Loans and advances to customers	9,137,355,897	8,776,625,982
TOTAL	**28,731,490,147**	**26,860,973,267**

In 2017, the Group's interest paid amounted to LBP 1,152.23 billion (USD 764.33 million) compared to LBP 1,069.53 billion (USD 709.47 million) in 2016 (+ 7.73%). In 2017, the largest single component of interest paid belongs to customers' deposits, which represents 96.69% of the total compared to 97.02% in 2016.

BREAKDOWN OF INTEREST PAID

In thousands of LBP	2017	2016
On deposits and borrowings from banks	(35,430,406)	(28,651,366)
On deposits from customers and related parties at amortized cost	(1,106,570,288)	(1,034,083,600)
On deposits from customers designated at FVTPL	(7,470,421)	(3,525,103)
On subordinated loans	(1,734,338)	(2,236,993)
On bonds issued and Certificates of deposits	(239)	(7,535)
On cash contribution to Share Capital	(1,026,823)	(1,026,833)
TOTAL	**(1,152,232,515)**	**(1,069,531,430)**

In 2017, the Group's monthly average interest-bearing liabilities reached LBP 26,611.77 billion (USD 17,652.91 million) compared to LBP 25,559.25 billion (USD 16,954.73 million) in 2016 (+ 4.12%). This growth is largely attributed to an increase in the customers' creditor accounts at amortized cost of 3.17%, i.e. LBP 755.76 billion (USD 501.33 million).

AVERAGE VOLUME OF INTEREST-BEARING LIABILITIES

In thousands of LBP	2017	2016
BDL, Banks and financial institutions	1,803,392,427	1,563,872,255
Liabilities designated at FVTPL	134,353,140	69,938,336
Customers' creditor accounts at amortized cost	24,633,832,508	23,878,072,404
Subordinated loans	23,073,935	30,256,574
Cash contribution to Share Capital	17,113,885	17,113,885
TOTAL	**26,611,765,895**	**25,559,253,454**

1.2 Net Fee and Commission Income

In 2017, the Group's net fee and commission income reached LBP 106.73 billion (USD 70.80 million) compared to LBP 93.72 billion (USD 62.17 million) in 2016, an increase of 13.88%.

Fees and commissions received in 2017 reached LBP 126.68 billion (USD 84.03 million) compared to LBP 115.43 billion (USD 76.57 million) in 2016, an increase of 9.74%.

Fees and commissions received in 2017 comprise mainly fees on customers' transactions and commissions on documentary LCs and on LGs, which represented 70.07% and 29.05% respectively compared to 70.66% and 28.59% in 2016.

Fees and commissions paid in 2017 reached LBP 19.95 billion (USD 13.23 million) compared to LBP 21.71 billion (USD 14.40 million) in 2016, a decrease of 8.11%.

Fees and commissions paid comprise fees on customers' transactions and commissions on transactions with banks and financial institutions, which represent 79.94% and 20.06% respectively compared to 78.87% and 21.13% in 2016.

BREAKDOWN OF NET FEE AND COMMISSION INCOME

In thousands of LBP	2017	2016
Fee and commission received	**126,676,330**	**115,430,941**
Commissions on documentary LCs and on LGs	36,797,005	33,004,437
Service fees on customers' transactions	88,764,559	81,565,139
Commissions on transactions with banks and financial institutions	770,918	596,554
Asset management fees	343,848	264,811
Fee and commission paid	**(19,947,117)**	**(21,707,584)**
Commissions on transactions with banks	(4,001,532)	(4,587,643)
Other commissions paid (including those on customers' transactions)	(15,945,585)	(17,119,941)
NET FEE AND COMMISSION INCOME	**106,729,213**	**93,723,357**

1.3 Other Net Gain/(Loss) on Investments at FVTPL

In 2017, the Group's other net gain on investments at FVTPL reached LBP 7.59 billion (USD 5.03 million) compared to LBP 22.05 billion (USD 14.63 million) in 2016, a decrease of 65.59%. This decrease results mainly from the 80.31% decrease of the gain on sale of investments at FVTPL.

The net gain on Investments at FVTPL in 2017 includes, dividends received on investments at FVTPL, change in fair value and gain on sale of investments at FVTPL, which represented 35.00%, 22.13% and 42.87% compared to 12.27%, 12.82% and 74.91%, in 2016 respectively.

BREAKDOWN OF OTHER NET GAIN / (LOSS) ON INVESTMENTS AT FVTPL

In thousands of LBP	2017	2016
Dividends received on investments at FVTPL	2,656,101	2,705,091
Change in fair value of investments at FVTPL (net)	1,679,352	2,826,472
Gain on sale of investments at FVTPL (net)	3,253,137	16,520,329
OTHER NET GAIN / (LOSS) ON INVESTMENTS AT FVTPL	**7,588,590**	**22,051,892**

1.4 Foreign Exchange Gain

In 2017, foreign exchange gain amounted to LBP 16.47 billion (USD 10.93 million) compared to LBP 13.97 billion (USD 9.27 million) in 2016, an increase of 17.91%.

1.5 Other Operating Income

In 2017, other operating income amounted to LBP 37.99 billion (USD 25.20 million) compared to LBP 50.08 billion (USD 33.22 million) in 2016, a decrease of 24.15%. This decrease is mainly due the deconsolidation of Fransabank Syria which resulted in a loss of LBP 15.94 billion (USD 10.57 million).

Other operating income comprises dividends received on investment securities, share in profit of associates, gain on sale of assets acquired in settlement of loans, on sale of properties & equipment and intangible assets, transfer from regulatory deferred liabilities, losses from deconsolidation of a subsidiary and other income, which represented 12.23%, 49.06%, 23.98%, 46.99%,-41.96% and 9.70% in 2017 compared to 8.65%, 30.61%, 3.63%, 44.24%, nil and 12.87% in 2016 respectively.

BREAKDOWN OF OTHER OPERATING INCOME

In thousands of LBP	2017	2016
Dividends income on investment securities	4,643,918	4,333,689
Share in profit of associates	18,637,661	15,330,578
Gain resulting from the sale of assets acquired in settlement of loans, properties & equipment and intangible assets	9,109,959	1,818,344
Transfer from regulatory deferred liabilities	17,851,479	22,154,654
Losses from deconsolidation of Fransabank Syria	(15,940,262)	-
Other	3,685,563	6,445,007
OTHER OPERATING INCOME	**37,988,318**	**50,082,272**

1.6 Net Allocation to Provisions for Loans & Advances to Customers

In 2017, the Group's net allocation to provisions for loans and advances to customers amounted to LBP 7.34 billion (USD 4.86 million) compared to a write-back of LBP 12.65 billion (USD 8.39 million) in 2016, which may be described as follows:

- allowance for impairment of customers' loans and advances and off Balance Sheet Items for LBP 35.64 billion (USD 23.64 million), compared to LBP 70.27 billion (USD 46.62 million) in 2016, a decrease of 49.29%,
- bad debts expense for LBP 113.94 million (USD 75.58 thousand), compared to a write-back of LBP 2.16 million (USD 1.44 thousand),
- write-back of impairment loss on loans and advances and off Balance Sheet Items for LBP 28.32 billion (USD 18.79 million), against LBP 82.31 billion (USD 54.60 million) in 2016, a decrease of 65.59%,
- write-back of discount on purchased loan portfolio for LBP 92.20 million (USD 61.16 thousand), against LBP 610.50 million (USD 404.98 thousand) in 2016, a decrease of 84.90%.

NET ALLOCATION TO PROVISIONS FOR LOANS & ADVANCES TO CUSTOMERS

In thousands of LBP	2017	2016
Allowance for impairment of loans and advances and off Balance Sheet Items	(35,636,854)	(70,275,527)
Write-back of impairment loss on loans and advances and off Balance Sheet Items	28,321,666	82,313,088
Bad debts expense / Write-back	(113,937)	2,164
Write-back of discount on purchased loan portfolio	92,197	610,503
TOTAL	**(7,336,928)**	**12,650,228**

1.7 General Expenses

In 2017, the Group's general expenses comprising staff costs, administrative expenses, depreciation and amortization of assets, reached LBP 385.56 billion (USD 255.76 million) compared to LBP 376.61 billion (USD 249.83 million) in 2016, an increase of 2.38%. This increase is due to the following :

- salaries and related charges amounted to LBP 243.39 billion (USD 161.45 million) in 2017, compared to LBP 238.78 billion (USD 158.40 million) in 2016, an increase of 1.93%,
- administrative expenses amounted to LBP 112.46 billion (USD 74.60 million) in 2017, compared to LBP 108.60 billion (USD 72.04 million) in 2016, an increase of 3.55%,
- depreciation and amortization of assets amounted to LBP 29.71 billion (USD 19.71 million) in 2017, compared to LBP 29.23 billion (USD 19.39 million) in 2016, an increase of 1.66%.

BREAKDOWN OF GENERAL EXPENSES

In thousands of LBP	2017	2016
Staff costs	(243,390,203)	(238,780,975)
Administrative expenses	(112,456,892)	(108,601,697)
Depreciation and amortization of assets	(29,713,496)	(29,229,152)
TOTAL	**(385,560,591)**	**(376,611,824)**

1.8 Income Tax and Deferred Tax

The Group's income tax for the financial year 2017 amounted to LBP 55.83 billion (USD 37.04 million), compared to LBP 53.98 billion (USD 35.81 million) for the financial year 2016, an increase of 3.44%. Deferred tax on associates and subsidiaries' profits for the financial year 2017 amounted to LBP 13.12 billion (USD 8.70 million), compared to LBP 9.15 billion (USD 6.07 million) for the financial year 2016, an increase of 43.48%.

2. TOTAL BALANCE SHEET

As at 31 December 2017, the Group's Total Balance Sheet amounted to LBP 33,252.54 billion (USD 22,058.07 million) compared to LBP 31,438.32 billion (USD 20,854.61 million) as at year-end 2016, an increase of 5.77%. As at 31 December 2017, the Group ranked 4th within the Lebanese banking sector in terms of Total Balance Sheet compared to 3rd rank as at 31 December 2016. Market share reached 9.12% as at 31 December 2017 compared to 9.36% as at 31 December 2016.

2.1 Funding Sources

As at 31 December 2017, the Group's funding sources amounted to LBP 30,906.01 billion (USD 20,501.50 million) compared to LBP 30,427.26 billion (USD 20,183.92 million) as at 31 December 2016, an increase of 1.57%. If we exclude the figures of Fransabank Syria and USB Bank Cyprus from the 2016 figures, this increase would become 5.40%.

Similar to all other banks in Lebanon, the principal source of funding is customers' creditor accounts which represented as at 31 December 2017, 80.95% of total funding sources as compared to 84.26% as at 31 December 2016. Other funding sources include in addition to the shareholders' equity which includes preference shares, long-term credit lines provided by international banks and financial Institutions, deposits of banks and financial institutions, subordinated loans and soft loans granted by *Banque du Liban* for the Bank mergers and acquisitions according to the pertinent Lebanese Law of mergers and acquisitions.

BREAKDOWN OF FUNDING SOURCES AS AT 31 DECEMBER

In thousands of LBP	2017		2016	
	Amount	%	Amount	%
Soft loans from *Banque du Liban*	261,776,891	0.85%	273,537,647	0.90%
Long-term borrowings	2,099,789,304	6.79%	997,881,769	3.28%
Banks and financial institutions	264,140,929	0.86%	285,611,112	0.94%
Customers' creditor accounts at FVTPL	135,500,053	0.44%	136,487,357	0.45%
Customers' creditor accounts at amortized cost	24,882,215,698	80.51%	25,501,689,772	83.81%
Subordinated loan	19,124,748	0.06%	25,499,664	0.08%
Shareholders' equity	3,243,464,308	10.49%	3,206,549,007	10.54%
TOTAL	**30,906,011,931**	**100%**	**30,427,256,328**	**100%**

FUNDING SOURCES BY CURRENCY AS AT 31 DECEMBER

In thousands of LBP	2017		2016	
	Amount	%	Amount	%
Lebanese Pounds	14,155,550,216	45.80%	13,480,881,267	44.31%
U.S. Dollars	14,589,379,041	47.20%	14,119,528,806	46.40%
Euros	1,513,196,341	4.90%	2,197,014,257	7.22%
Other foreign currencies	647,886,333	2.10%	629,831,998	2.07%
TOTAL	**30,906,011,931**	**100%**	**30,427,256,328**	**100%**

As at 31 December 2017, 54.20% of the Bank's major funding sources were denominated in foreign currencies, as compared to 55.69% as at 31 December 2016.

FUNDING SOURCES BY MATURITY AS AT 31 DECEMBER

In thousands of LBP	2017		2016	
	Amount	%	Amount	%
Short-term funding (less than 1 year)	25,399,975,802	82.18%	26,056,548,233	85.64%
Medium-term funding (between 1 & 5 years)	1,135,920,787	3.68%	1,083,613,534	3.56%
Long-term funding (more than 5 years)	4,370,115,342	14.14%	3,287,094,561	10.80%
TOTAL	**30,906,011,931**	**100%**	**30,427,256,328**	**100%**

Customers' Creditor Accounts

As at 31 December 2017, the Group's customers' creditor accounts at FVTPL and at amortized cost amounted to LBP 25,017.72 billion (USD 16,595.50 million) compared to LBP 25,638.18 billion (USD 17,007.08 million) as at 31 December 2016, a decrease of 2.42%. This decrease was due to the deconsolidation of Fransabank Syria and USB Bank Cyprus at end 2017. If we exclude the figures of these entities from the 2016 figures, this decrease would become an increase of 1.96%.

The decrease of LBP 620.46 billion (USD 411.58 million) in deposits was mainly due to the decrease in (i) Demand and sight saving accounts of LBP 244 billion (USD 161.86 million), in (ii) Term deposits accounts of LBP 211.16 billion (USD 140.07 million), in (iii) Related parties accounts at Amortized Cost and at FVTPL of LBP 126.69 billion (USD 84.04 million), in (iv) Margins and collateral accounts of LBP 49.72 billion (USD 32.98 million) and in (v) Time saving accounts of LBP 20.94 billion (USD 13.89 million). As at 31 December 2017, customers' creditor accounts represent 75.24% of the Group's Total Balance Sheet as compared to 81.55% as at 31 December 2016.

As at 31 December 2017, the Group maintained its 4th rank within the Lebanese banking sector in terms of customers' creditor accounts, with a market share of 9.20% compared to 9.41% as at 31 December 2016.

BREAKDOWN OF CUSTOMERS' CREDITOR ACCOUNTS BY TYPE AS AT 31 DECEMBER

In thousands of LBP	2017	2016
Customers' Liabilities at Fair Value Through Profit or Loss (FVTPL)	**135,500,053**	**136,487,357**
Customers' liabilities at Fair Value Through Profit or Loss	131,856,007	132,613,147
Related parties' liabilities at Fair Value Through Profit or Loss	2,735,789	2,944,192
Accrued interest	908,257	930,018
Customers' Creditor Accounts at Amortized Cost	**24,882,215,698**	**25,501,689,772**
Demand and sight saving accounts	2,318,829,429	2,562,832,319
Time saving accounts	13,812,203,883	13,833,140,958
Term deposits	5,126,364,918	5,337,525,209
Blocked accounts	75,197,751	59,069,439
Margins and collateral accounts	1,652,586,808	1,702,308,641
Escrow accounts	14,944,039	-
Related Parties accounts	1,731,144,305	1,857,623,063
Accrued interest	150,944,565	149,190,143
TOTAL CUSTOMERS' CREDITOR ACCOUNTS AT FVTPL & AT AMORTIZED COST	**25,017,715,751**	**25,638,177,129**
Lebanese Pounds	39.21%	39.96%
Foreign currencies	60.79%	60.04%

BREAKDOWN OF CUSTOMERS' CREDITOR ACCOUNTS BY AMOUNT AS AT 31 DECEMBER 2017

In thousands of LBP	LBP			FCs			TOTAL		
	Amount	%	% Cum.	Amount	%	% Cum.	Amount	%	% Cum.
A < 50 million	1,543,756,963	15.74%	15.74%	1,115,288,183	7.33%	7.33%	2,659,045,146	10.63%	10.63%
50 million ≤ A < 100 million	1,063,827,694	10.85%	26.59%	833,583,486	5.48%	12.81%	1,897,411,180	7.58%	18.21%
100 million ≤ A < 200 million	1,437,495,499	14.65%	41.24%	1,165,613,409	7.66%	20.47%	2,603,108,908	10.40%	28.61%
200 million ≤ A < 500 million	1,947,893,156	19.86%	61.10%	1,938,810,930	12.75%	33.22%	3,886,704,086	15.54%	44.15%
500 million ≤ A < 1.5 billion	1,743,894,165	17.78%	78.88%	2,498,205,771	16.43%	49.65%	4,242,099,936	16.96%	61.11%
1.5 billion ≤ A < 5 billion	1,123,694,248	11.45%	90.33%	2,482,241,872	16.32%	65.97%	3,605,936,120	14.41%	75.52%
A ≥ 5 billion	948,162,656	9.67%	100%	5,175,247,719	34.03%	100%	6,123,410,375	24.48%	100%
TOTAL	**9,808,724,381**	**100%**		**15,208,991,370**	**100%**		**25,017,715,751**	**100%**	
Number of accounts	309,334			281,229			590,563		
Average per account	31,709			54,080			42,362		

Shareholders' Equity

Shareholders' equity as at 31 December 2017 amounted to LBP 3,243.46 billion (USD 2,151.55 million), compared to LBP 3,206.55 billion (USD 2,127.06 million) as at 31 December 2016, an increase of 1.15%. This increase is mainly due to the incorporation of 2017 net profits and to the redemption of Series B of preference shares for USD 55 million by one of the Bank's subsidiaries.

2.2 Uses of Funds

The Bank uses its funds to comply with Central Banks regulatory reserve requirements, cash, short term placements and liquid financial instruments with international banks and financial institutions, loans and advances to customers and investment securities.

BREAKDOWN OF USES OF FUNDS AS AT 31 DECEMBER

In thousands of LBP	2017		2016	
	Amount	%	Amount	%
Cash on hand	214,929,568	0.70%	222,382,941	0.74%
Central Banks including compulsory / regulatory deposits	8,791,008,463	28.77%	7,428,205,770	24.67%
Banks and financial institutions	1,264,074,651	4.14%	1,407,146,445	4.67%
Investment securities	10,505,820,412	34.39%	11,197,730,794	37.20%
Loans and advances to customers	9,776,012,029	32.00%	9,849,089,736	32.72%
TOTAL	**30,551,845,123**	**100%**	**30,104,555,686**	**100%**

USES OF FUNDS BY CURRENCY AS AT 31 DECEMBER

In thousands of LBP	2017		2016	
	Amount	%	Amount	%
Lebanese Pounds	14,119,120,110	46.21%	13,693,983,565	45.49%
U.S. Dollars	14,227,128,232	46.57%	13,444,842,272	44.66%
Euros	1,339,950,116	4.39%	2,201,949,041	7.31%
Other foreign currencies	865,646,665	2.83%	763,780,808	2.54%
TOTAL	**30,551,845,123**	**100%**	**30,104,555,686**	**100%**

As at 31 December 2017, the Group's uses of funds amounted to LBP 30,551.85 billion (USD 20,266.56 million) compared to LBP 30,104.56 billion (USD 19,969.85 million) as at 31 December 2016, an increase of 1.49%. If we exclude the figures of Fransabank Syria and USB Bank Cyprus from the 2016 figures, this increase would become 5.54%.

Cash, Central Banks, Banks and Financial Institutions

As at 31 December 2017, Cash, Central Banks and banks & financial institutions portfolio amounted to LBP 10,270.01 billion (USD 6,812.61 million) and constituted 30.88% of total assets compared to LBP 9,057.74 billion (USD 6,008.45 million) and 28.81% of total assets as at 31 December 2016. This represents a year-on-year increase of 13.38%. If we exclude the figures of Fransabank Syria and USB Bank Cyprus from the 2016 figures, this increase would become 16.40%.

BREAKDOWN OF CASH, CENTRAL BANKS, BANKS AND FINANCIAL INSTITUTIONS AS AT 31 DECEMBER

In thousands of LBP	2017		2016	
	Amount	%	Amount	%
Cash on hand	**214,929,568**	**2.09%**	**222,382,941**	**2.45%**
Central Banks including compulsory / regulatory deposits	**8,791,008,463**	**85.60%**	**7,428,205,770**	**82.01%**
Compulsory deposits with Central Banks	647,034,226	6.30%	738,133,644	8.15%
Regulatory placements with Central Banks	1,706,141,266	16.61%	1,583,627,589	17.48%
Current accounts with Central Banks	449,315,628	4.38%	266,033,104	2.94%
Free placements with Central Banks	5,865,159,798	57.11%	4,686,724,169	51.74%
Blocked deposits with Central Banks	44,520,984	0.43%	81,585,869	0.90%
Regulatory allowance for country risk	(6,685,842)	-0.06%	(9,045,000)	-0.10%
Accrued interest	85,522,403	0.83%	81,146,395	0.90%
Banks and financial institutions	**1,264,074,651**	**12.31%**	**1,407,146,445**	**15.54%**
Current accounts with banks & FIs	333,399,666	3.25%	476,502,331	5.26%
Term placements with banks & FIs	778,666,854	7.58%	851,232,219	9.40%
Blocked margins with banks & FIs	3,292,003	0.03%	3,292,003	0.04%
Purchased checks for collection	7,711,179	0.08%	18,841,036	0.21%
Loans to banks & FIs	139,381,702	1.36%	56,702,157	0.62%
Accrued interest	1,623,247	0.01%	576,699	0.01%
TOTAL	**10,270,012,682**	**100%**	**9,057,735,156**	**100%**

Investment Securities

As at 31 December 2017, the Group's investment securities portfolio, which consists of both fixed and variable rates income securities, amounted to LBP 10,505.82 billion (USD 6,969.04 million), compared to LBP 11,197.73 billion (USD 7,428.01 million) as at 31 December 2016, a decrease of 6.18%. Investment securities constituted 31.59% of Total Assets as at 31 December 2017 compared to 35.62% as at 31 December 2016.

BREAKDOWN OF INVESTMENT SECURITIES PORTFOLIO BY CLASSIFICATION AS AT 31 DECEMBER

In thousands of LBP	2017		2016	
	Amount	%	Amount	%
Securities measured at FVTPL	323,599,788	3.08%	815,485,996	7.28%
Amortized cost securities	9,804,756,419	93.33%	10,085,227,970	90.07%
Securities measured at fair value through other comprehensive income	377,464,205	3.59%	297,016,828	2.65%
TOTAL	**10,505,820,412**	**100%**	**11,197,730,794**	**100%**

BREAKDOWN OF INVESTMENT SECURITIES PORTFOLIO BY TYPE AS AT 31 DECEMBER

In thousands of LBP	2017		2016	
	Amount	%	Amount	%
Equities and preference shares	438,096,526	4.17%	359,393,366	3.21%
Lebanese Treasury bills	2,944,105,228	28.02%	2,760,588,876	24.65%
Lebanese Government bonds	3,044,911,375	28.98%	3,049,815,729	27.24%
Foreign Government bonds	14,875,333	0.14%	330,118,338	2.95%
Foreign bonds issued by banks	174,847,139	1.67%	152,537,849	1.36%
Subordinated bonds	1,507,500	0.01%	1,507,500	0.01%
Certificates of deposit issued by Central Bank of Lebanon	3,644,402,953	34.69%	4,291,945,300	38.33%
Certificates of deposit issued by banks	-	-	40,366,976	0.36%
Corporate bonds	52,762,500	0.50%	16,808,762	0.15%
Asset-backed securities	22,877,250	0.22%	14,117,711	0.13%
Mutual fund	10,123,796	0.10%	9,327,904	0.08%
Accrued interest	157,310,812	1.50%	171,202,483	1.53%
TOTAL	**10,505,820,412**	**100%**	**11,197,730,794**	**100%**
Lebanese Pounds	58.08%		56.91%	
Foreign currencies	41.92%		43.09%	

Loans and Advances to Customers

As at 31 December 2017, the Group's loans and advances to customers, net of provisions and unrealized interest for non-performing loans and discount on loan book, amounted to LBP 9,776.01 billion (USD 6,484.92 million) compared to LBP 9,849.09 billion (USD 6,533.39 million) as at 31 December 2016, a decrease of 0.74%. This decrease was due to the deconsolidation of Fransabank Syria and USB Bank Cyprus at end 2017. If we exclude the figures of these entities from the 2016 figures, this decrease would become an increase of 5.47%.

As at 31 December 2017, the Group maintained its 3rd ranking within the Lebanese banking sector in terms of net loans and advances to customers, with a market share of 9.45%, same as at 31 December 2016.

BREAKDOWN OF LOANS AND ADVANCES TO CUSTOMERS BY TYPE AS AT 31 DECEMBER

In thousands of LBP	2017	2016
Short-term (Commercial loans & other current debtor accounts)	3,190,418,785	3,284,240,389
Medium & long-term	6,050,939,096	5,954,534,643
Consumer loans	856,183,258	801,945,303
Housing loans	1,011,802,678	951,758,545
EPH housing loans	693,020,485	647,455,569
Housing loans to army personnel	266,330,159	197,086,769
Educational loans	45,433,558	41,949,726
Loans subsidized by the Government	403,121,977	381,921,148
Kafalat guaranteed loans	116,108,023	133,992,419
Car loans	223,508,280	244,767,540
Loans to enterprises	2,379,508,695	2,513,769,370
Other loans	55,921,983	39,888,254
Loans and advances to related parties	32,326,128	46,029,582
Substandard debts	275,707,001	169,459,258
Doubtful, bad debts and purchased loan book	1,355,223,358	1,654,915,034
Accrued interest	32,356,265	29,658,045
TOTAL	**10,936,970,633**	**11,138,836,951**
Less:		
Provisions and unrealized interest for substandard debts	(61,896,461)	(47,852,383)
Provisions and unrealized interest for doubtful and bad debts	(1,089,474,999)	(1,216,306,931)
Discount on loan book	(5,031,233)	(5,714,039)
Collective provisions for un-classified debts	(4,555,911)	(19,873,862)
NET LOANS AND ADVANCES TO CUSTOMERS	**9,776,012,029**	**9,849,089,736**
Lebanese Pounds	30.64%	26.16%
Foreign currencies	69.36%	73.84%

ASSET QUALITY AS AT 31 DECEMBER

In thousands of LBP	2017	2016
Regular, watch and unclassified accounts	9,273,684,009	9,284,804,614
Doubtful & bad debts	1,353,070,206	1,652,766,635
Substandard debts	275,707,001	169,459,258
Purchased loan book	2,153,152	2,148,399
Accrued interest	32,356,265	29,658,045
TOTAL LOANS AND ADVANCES TO CUSTOMERS	**10,936,970,633**	**11,138,836,951**
Less provisions, discount and unrealized interest for non-performing debts	**(1,160,958,604)**	**(1,289,747,215)**
Provisions for doubtful and bad debts	(233,629,828)	(347,487,659)
Discount on loan book	(5,031,233)	(5,714,039)
Collective provisions for un-classified debts	(4,555,911)	(19,873,862)
Collective provisions for doubtful and bad debts	(186,630)	(39,894,881)
Unrealized interest for doubtful and bad debts	(855,658,541)	(828,924,391)
Provisions for substandard debts	(3,049,670)	(1,442,698)
Unrealized interest for substandard debts	(58,846,791)	(46,409,685)
NET LOANS AND ADVANCES TO CUSTOMERS	**9,776,012,029**	**9,849,089,736**

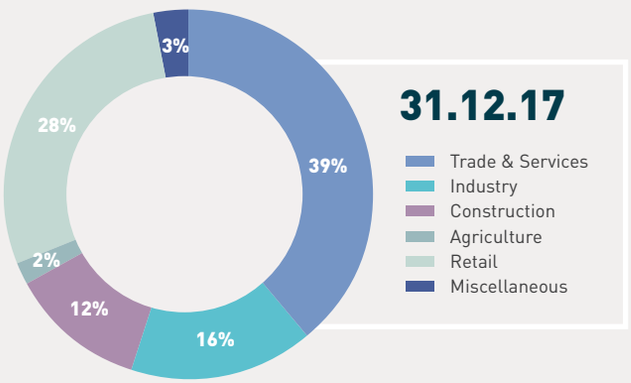
As at 31 December 2017:

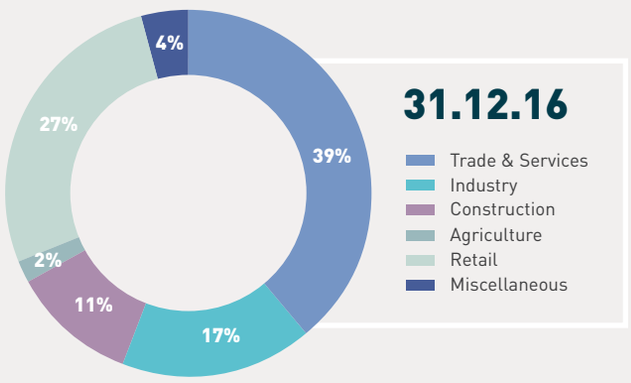
- The Group's doubtful and bad debts, net of provisions, discount and unrealized interest, amounted to LBP 260.72 billion (USD 172.95 million) compared to LBP 432.89 billion (USD 287.16 million) as at 31 December 2016. The decrease in the doubtful and bad debts in 2017 is due to the deconsolidation as at 31 December 2017 of USB Bank Cyprus.
- The Group's provisions, discount and unrealized interest for doubtful and bad debts amounted to LBP 1,094.51 billion (USD 726.04 million) against LBP 1,222.02 billion (USD 810.63 million) as at 31 December 2016. This places the coverage ratio in 2017 at 80.76% compared to 73.84% in 2016.
- The Group's substandard debts, net of provisions and unrealized interest, amounted to LBP 213.81 billion (USD 141.83 million) compared to LBP 121.61 billion (USD 80.67 million) as at 31 December 2016.

ASSET QUALITY RATIOS AS AT 31 DECEMBER

	2017	2016
Doubtful and bad debts and purchased loans (net) to Total loans and advances to customers (net)	2.67%	4.40%
Doubtful and bad debts and purchased loans (net) to Shareholders' equity	8.04%	13.50%
Substandard debts (net) to Total loans and advances to customers (net)	2.19%	1.23%
Provisions, discount and unrealized interest to Doubtful and bad debts and purchased loans	80.76%	73.84%
Provisions and unrealized interest for substandard debts to Substandard debts	22.45%	28.24%

BREAKDOWN OF LOANS AND ADVANCES TO CUSTOMERS BY ECONOMIC SECTOR





BREAKDOWN OF GROSS LOANS AND ADVANCES TO CUSTOMERS BY AMOUNT AS AT 31 DECEMBER 2017

In thousands of LBP	LBP			FCs			TOTAL		
	Amount	%	% Cum.	Amount	%	% Cum.	Amount	%	% Cum.
A < 50 million	751,130,267	20.78%	20.78%	535,840,640	7.32%	7.32%	1,286,970,907	11.77%	11.77%
50 million ≤ A < 100 million	290,393,302	8.03%	28.81%	196,402,835	2.68%	10.00%	486,796,137	4.45%	16.22%
100 million ≤ A < 200 million	823,440,288	22.77%	51.58%	302,622,991	4.13%	14.13%	1,126,063,279	10.29%	26.51%
200 million ≤ A < 500 million	650,022,202	17.98%	69.56%	615,222,421	8.40%	22.53%	1,265,244,623	11.57%	38.08%
500 million ≤ A < 1.5 billion	232,081,399	6.42%	75.98%	1,020,178,890	13.94%	36.47%	1,252,260,289	11.45%	49.53%
1.5 billion ≤ A < 5 billion	180,522,367	4.99%	80.97%	1,597,920,127	21.83%	58.30%	1,778,442,494	16.26%	65.79%
A ≥ 5 billion	687,955,673	19.03%	100%	3,053,237,231	41.70%	100%	3,741,192,904	34.21%	100%
TOTAL	**3,615,545,498**	100%		**7,321,425,135**	100%		**10,936,970,633**	100%	

3. CAPITAL ADEQUACY RATIO

The Board of Directors has decided to include 2017 and 2016 net profits in the calculation of the respective Equity Ratios. This decision has been taken in anticipation of the 2016 and 2017 General Assembly meetings ratification and subject to the deduction of the related estimated dividends distribution. To note that the 2017 and 2016 Ordinary General Assemblies which were held respectively on 30.05.2018 and 05.06.2017 approved the Board a/m decisions. Accordingly, the Group's total capital adequacy ratio as at 31 December 2017 is 15.40% (2017 profit included), as compared to 15.37% (2016 profit included) as at 31 December 2016.

The capital adequacy ratio is calculated according to Central Bank of Lebanon guidelines, which are in line with the recommendations of the Committee on Banking Regulations and Supervisory Practices of the Bank for International Settlements (the Basel III Accord).

On a stand-alone basis, Fransabank's capital adequacy ratio as at 31 December 2017, stood at 16.58% (2017 profit included), as compared to 17.37% (2016 profit included) as at 31 December 2016.

The statutory minimum total capital adequacy ratio requested by Central Bank of Lebanon is 14.5% as at end December 2017 which was raised from 14.0% as at end December 2016.

MAIN RATIOS

	2017	2016
A. PROFITABILITY		
ROAA (Return on Average Assets)	**0.84%**	0.98%
ROACE (Return on Average Common Equity)	**9.47%**	11.11%
Total interest paid to Total interest received	**67.12%**	66.02%
Net interest income to Average assets	**1.74%**	1.79%
Net commissions to Net financial revenues (before allocation to provisions)	**14.56%**	12.83%
Operating expenses to Net financial revenues (before allocation to provisions) (Cost-to-income ratio)	**52.59%**	51.57%
Non-interest income to Net financial revenues (before allocation to provisions)	**23.02%**	24.62%
Operating expenses to Average customers' creditor accounts	**1.52%**	1.50%
EPS in USD (Earnings per common share in US Dollar)	**7.10**	7.83
DPS in USD (Dividend per common share in US Dollar)*	**2.19**	2.12
Dividend payout ratio (Dividends on common and preferred shares / Net profits)*	**55.78%**	54.96%
B. LIQUIDITY		
Average net customers' loans to Average customers' creditor accounts	**38.74%**	38.49%
Average customers' creditor accounts to Average total deposits	**98.93%**	98.86%
Foreign currency customers' loans to Foreign currency customers' creditor accounts	**44.59%**	47.25%
C. CAPITAL ADEQUACY		
Shareholders' equity to Total assets	**9.75%**	10.20%
Shareholders' equity to Loans and acceptances	**31.77%**	31.64%
Capital Adequacy Ratio (as per Basel III)		
Common Tier I Ratio	**10.42%**	9.90%
Tier I Ratio	**14.11%**	13.93%
Total Capital Ratio	**15.40%**	15.37%
D. ASSET QUALITY RATIOS		
Doubtful debts (net) to Total customers' loans (net)	**2.67%**	4.40%
Doubtful debts (net) to Shareholders' equity	**8.04%**	13.50%
Provisions for doubtful debts to Doubtful debts	**80.76%**	73.84%
Substandard accounts (net) to Total customers' loans (net)	**2.19%**	1.23%
Unrealized interest & provisions for Substandard accounts to Substandard accounts	**22.45%**	28.24%
Total provisions and unrealized interest to Total gross customers' loans	**10.61%**	11.58%

(*) On an unconsolidated basis.

RESOLUTIONS OF FRANSABANK SAL ORDINARY GENERAL ASSEMBLY

The Ordinary General Assembly of Fransabank SAL held on 30 May 2018:

- Approved the accounts and the Balance Sheet of Fransabank SAL as at end December 2017
- Acquitted Fransabank SAL Board of Directors for their management of the business activities of the fiscal year 2017
- Decided to allocate out of Fransabank SAL net profit (LBP 177,798,614 thousand) as follows:
  - 10% to legal reserve (LBP 17,779,861 thousand),
  - LBP 699,654 thousand to reserve for general banking risks,
  - LBP 8,456,341 thousand to reserve for assets acquired in settlement of bad loans,
  - LBP 72,352,500 thousand (LBP 3,300/share) as dividend distribution on common shares, LBP 7,631,719 thousand on preferred shares - Series C, LBP 8,328,938 thousand on preferred shares - Series D, LBP 10,684,406 thousand on preferred shares - Series E, and LBP 173,466 thousand on preferred shares - Series F representing 40.69%, 4.29%, 4.69%, 6.01% and 0.10% respectively of the Bank's 2017 net profits,
  - LBP 51,691,729 thousand, i.e. the remaining balance, to free reserves.

CORE BANKING ACTIVITIES

INVESTMENT AND PRIVATE BANKING

In 2017, Fransa Invest Bank SAL (FIB) embarked on several projects and initiatives, delivering another successful year.

The private banking and asset management services was involved in several important achievements:

- Designated as placement agent and book runner for Fransabank's Series F preferred shares issue, which closed in November 2017, raising USD 75 million. The transaction was oversubscribed and set at a very favorable dividend rate of 7% p.a. FIB's role was instrumental to the success of the issue, which was beyond expectations, considering the adverse political and economic conditions during the selling period.
- Selected as project manager and placement agent for a Fransabank USD 150 million Green Bond Programme, the first tranche of which is expected to be issued in the first quarter of 2018. This is a landmark transaction, being the first ever green bond issue in Lebanon. The team worked diligently on the structure, timing and logistics of the issuance, as well as negotiating with potential investors and cooperating with regulators.
- Structured a new five-year capital guaranteed retail product for Fransabank SAL. The selling period is expected to begin in the first quarter of 2018. In addition to paying a competitive annual interest rate, the product is linked to a basket of international and diversified stocks.
- Successfully increased its brokerage client base in the year. The Bank provides clients with access to global capital markets. Investments available include shares, commodities, bonds, futures, options, structured products and funds.

FIB's research team, in collaboration with Fransabank SAL and CMS law firm, issued "PPP – Safeguarding Lebanon's Interests at Fast Forward Development", a publication related to the passing of the long-awaited Public Private Partnership law in Lebanon. The document delivers an analysis and commentary of the PPP law passed, outlines the various types of PPP in use worldwide, the different PPP laws in the MENA region and the challenges related to PPPs. Moreover, the advisory note details Lebanon's previous experience with PPPs and identifies potential projects in the country.

FIB's research team also contributed in the publishing of Fransabank "Lebanon Investment Guide" that provides key information to foreign potential investors. The guide includes Key Lebanon facts/figures, incentives and conditions for FDI in Lebanon (free trade zones, exemptions), existing and potential investment projects in various sectors of the economy, information on investing in North Lebanon, procedures for establishing various types of companies in Lebanon, as well as legal and other considerations.

At the investment banking services and corporate finance levels, FIB has been growing and diversifying its own and the Group's financial products and advisory services. This was possible due to its continuous origination efforts on mid-sized firms seeking capital for transformational actions (regional expansion, scale-up, acquisitions, asset purchase, restructuring, deleveraging, green field projects, etc.), in different sectors such as healthcare, digitization, food and beverage, alternative energy, and manufacturing.

During 2017, FIB has successfully closed several transactions:

- Issuing a USD 35 million corporate bond.
- Placing and participating in an international food and beverage direct equity fund. FIB advisory services covered advising on the terms of the placement, obtaining CMA approval and placing the Fund in Lebanon.
- Advising the parent Bank on the valuation of a Fintech company and the terms of the shareholder agreement that has concluded with a 25% equity participation.
- Participating in two new securitization transactions in the healthcare industry for a total amount of USD 4 million.

In addition, FIB has successfully secured a financial advisory mandate for the arrangement of equity and debt for a USD 55 million industrial project. Tasks already executed are securing a commercial due diligence from an independent third party, developing the financial model, and preparing the terms to seek CMA approval.

FIB has also continued to advise its clients in the renewable energy projects (wind and solar) for the purpose of securing bankable power purchase agreements and ultimately arranging equity and debt financing.

Under Circular 331 activities, the team continued to advise and assist several entrepreneurs to articulate their investment proposals and supported them in pitching to local VC Funds (Venture Capital Funds). FIB's role extended occasionally from advisory and placement role to direct investment and board representation.

Finally, FIB continued the follow-up and management of the USD 22.8 million current total exposure of Fransabank Group and FIB investment portfolios in Venture Capital Funds under Central Bank of Lebanon Circular 331: draw downs and disbursements, general assemblies, reporting and board meetings, placements and due diligence in launching stages and presentations to the relevant committees within the Group.

CORPORATE BANKING

Fransabank Corporate Banking solutions are targeted for supporting the Lebanese economy and promoting infrastructure projects. In 2017, the Bank focused on major projects, mainly in the fields of Sustainable Energy Financing (SEF), natural resources projects, electricity/ wind farm projects, construction of factories, infrastructural projects and other various entrepreneurial corporate projects.

Fransabank's 2017 key corporate banking achievements are the following:

- Signing with the European Bank for Reconstruction and Development (EBRD) two trade finance agreements (an issuing bank agreement and a revolving credit agreement), by virtue of which the said institution will be granting Fransabank a USD 50 million trade finance facility.

- Signing with the European International Bank (EIB) a new line of USD 75 million for further on-lending for clients operating in the productive sectors of the economy and financing their working capital.

- Providing total support to wind farm and solar energy projects, by signing a PPA (Power Purchase Agreement) with international banks.

- Supporting Lebanon's Oil & Gas potential exploitation by cooperating with existing and potential businesses and clients.

- Financing various contracting and infrastructural projects especially in electricity and power energy for the Lebanese Government, alternative energy and resources projects, solid waste and waste to energy.

- Financing the construction and expansion of some factories.

Furthermore, Fransabank was awarded the 2017 Best Issuing Bank Partner in the MENA Region from the International Finance Corporation (IFC). The award was received in recognition of Fransabank's leadership in providing trade finance in emerging markets. It is worth-mentioning that Fransabank is issuing the highest volume of trade related transactions under the Global Trade Finance Program by the International Finance Corporation within the Middle East and North Africa Region.

RETAIL BANKING

Fransabank considers a sound customer-oriented approach as a preeminent competitive advantage it can offer while providing innovative and secure products and services that are designed to fulfill today's society requirements. These products and services cover conventional banking and custom-made experiences.

Throughout the year 2017, Fransabank main business portfolio was on an upward trend despite the economic challenges of the country. Thus, a 12.10% growth was recorded in total retail portfolio, while maintaining a mixed portfolio, distributed as follows: housing loans (62%), consumer loans (30%), car loans (5%) and other loans (3%). The compounded annual growth rate reached 19.36% between 2012 and 2017. In parallel, total SME portfolio managed to achieve a good growth of 6.55%, hence a compounded annual growth rate of 11.89% over the past five years. As for total clients' deposits portfolio, it expanded by 3.2%, reflecting a continuous increase in deposits, with a compounded annual growth rate of 9.77% over the past five years. Moreover, total Bancassurance portfolio progressed by 1.1%, registering a compounded annual growth rate of 8.35% over the past five years.

As much as customer-focused retail activities are strengthening loyalty, Fransabank trusts well that customer relation and satisfaction remain the key components for a long-term fidelity. Accordingly, the Bank is constantly monitoring and re-evaluating its customers' experience, ensuring that the provided products and services are up to their expectations.

In view of that and through a dedicated consumer protection unit, Fransabank gives careful consideration to any confusion that might affect its clientele trust allegiance. Therefore, in line with the Central Bank of Lebanon Circular No. 134, related to the "Know Your Rights & Duties" initiative, and in order to be approachable to the clients wishing to contact the Bank or file a complaint, several means are made accessible, such as emails, call center or complaint boxes placed in all our branches. Thus, customers have the possibility to raise their concerns and to inquire about any product or service.

As for the retail banking achievements in 2017, the Bank established new partnerships with the educational sector by signing two Memorandums of Understanding (MoU); one with MUBS for an educational loan with customized conditions and a renewal agreement with the General Secretary of Catholic Schools for another three years. Similarly, a cooperation agreement was signed with the Lebanese Order of Physicians in Tripoli, north Lebanon.

Supporting small businesses, Fransabank and Michel Issa Foundation, in coordination with the Mayor Assembly of Byblos and Vitas, rewarded the beneficiaries of the Micro-Credit Program launched in 2016. More than 50 small businesses in Jbeil district were funded through this program with micro credits, such as donations and loans with no interest. It is noteworthy that Fransabank contributed to the expansion and development of local businesses in the fields of industry, agriculture, commerce, services, and handcrafts. Regarding small and medium-sized enterprises (SMEs), Fransabank's team continued to organize workshops and seminars throughout Lebanon, thus providing consultancy services to the Bank's existing and potential customers. These workshops discussed energy efficiency financing and aimed at strengthening the bond with the Bank's customers.

Individual retail customers had a considerable share as well, with the launching of new payment cards along with various customer-oriented campaigns and promotions. For its exclusive customers, the Bank introduced the World Elite credit card offering a selection of distinctive services. On the other hand, the Euro Internet card was introduced with a worldwide use acceptance.

As for promotions, they targeted both the public and private sectors. Customers were rewarded with valuable gifts, increased cashback offers all year thru, and discounts at selected merchants. Furthermore, Fransabank took part in the 2018 FIFA World Cup Visa campaign, offering 7 cardholder spenders the chance to attend the World Cup in Russia.

Regarding the Bank's touch points, Fransabank is in the final stages of revamping its mobile application with a more convenient, safe and modernized digital banking experience. New upgrades will include features such as push notifications, direct access to quick balance, face ID and fingerprint login, and self-service password reset. In parallel, Fransabank has introduced smart ATMs at selected branches, offering its clients the cash deposit service via ATMs.

With its significant geographic expansion of local branches, Fransabank has one of the largest branch network in Lebanon, counting 75 branches spread across the country. This

strategic spread creates an active intermediation among branches and departments, aiming at increasing efficiency, profitability and productivity. Fransabank local branch network was distributed as follows: 35% of its branches within Beirut, 25% in Mount Lebanon, 15% in Northern Lebanon, 16% in Southern Lebanon, and 9% in the Bekaa region. In line with the aforesaid expansion purposes, two branches were inaugurated: Adlieh - Beirut and Rahbe - Akkar. Similarly, new off-premises ATMs were installed at strategic locations, providing the clientele base with a wider access.

On the other hand, the refurbishment of old branches remains in progress. In addition, several branches will be relocated to new premises, echoing the Bank's progressive image.

CHINA DESK

China Desk aims to make Fransabank Group the preferred partner to Chinese banks, companies and entities in its markets, as well as local and foreign companies dealing with China. In 2017, China Desk team further developed its activities from banking cooperation to promoting Lebanon with the goal of reclaiming its key role in the revived Silk Road initiative.

In this respect, Fransabank, building on its strong ties to China, called for Lebanon to be a strategic hub on the Belt & Road Initiative, envisioning for Lebanon to be a key logistics, commercial and business hub for China in this part of the world and a key base in Tripoli given its strategic location for Chinese companies active in the region. The efforts were launched during the visit of H.E. Mr. ZHANG Ming, Vice Foreign Minister of China to Lebanon, who conveyed to the Lebanese officials, and to Fransabank, the interest of China in strengthening its economic and business ties with Lebanon.

In April 2017, several high level, official and important delegations from China were invited by Fransabank to visit Lebanon and to explore the business and investment opportunities. The Silk Road Chamber of International Commerce, which groups Chambers of Commerce and Business Associations from the countries on the Silk Road were invited by Fransabank to host the first Conference in the Arab world, held under the patronage and in the presence of H.E. Lebanese Prime Minister Saad Hariri and widely attended, discussing cooperation in all productive sectors including education and tourism, business and investment, banking and finance, amongst others.

Then, Fransabank invited and hosted the Chairman of the China Council for the Promotion of International Trade (CCPIT) and a large business leaders' delegation marking an important chapter in Lebanon's ties with China to spur the interest of Chinese groups and entities in the country, confirmed through a Memorandum of Understanding signed between CCPIT's subsidiary China Chamber of International Commerce with Fransabank to promote China Lebanon business and investment exchanges. This was followed by a high-level visit by a Jiangxi province delegation with prominent companies who confirmed their interest in Lebanon as a strategic market for their overseas investments. In November 2017, actively promoted by Chairman Kassar, Al Fayhaa Union of Municipalities (Tripoli, Mina, Baddawi and Kalamoun municipalities) joined the United Nations Maritime-Continental Silk Road Cities Alliance (UNMCSRC), which followed Beirut Municipality having joined in April 2017, also spurred by Fransabank. On 25 November 2017, Al Fayhaa Union of Municipalities and Tripoli Special Economic Zone both signed an MOU with Silk Road Chamber of International Commerce (SRCIC), the first chamber of commerce named after the Silk Road initiative.

Fransabank Group Chairman Adnan Kassar was named Honorary Chairman of the Silk Road Chamber of International Commerce in April 2017 and Honorary Chairman of the United Nations Maritime-Continental Silk Road Cities Alliance in October 2017. To strategically develop and strengthen Lebanon's ties to China, Adnan and Adel Kassar made their first joint trip to China in September 2017, with a Fransabank delegation to various Chinese provinces. In Nanchang, they met with high level officials to sign a MOU of cooperation prompting Jiangxi entities investments in Lebanon and to promote Lebanese exports to China including wine, nuts, soap and olive oil, and of course Lebanon's tourism sector. In Xi'An, the ancient Chinese capital city and starting point of Silk Road, a landmark building was named "Adnan and Adel Kassar Silk Road Cultural Center" to commemorate Fransabank Group Chairman and Vice Chairman's outstanding contribution to the relations between China and the Arab countries as the first Arab businessmen dealing with China in the early 1950s.

Spurred by Fransabank to enable exchange of knowledge and regulatory cooperation over the China and Lebanese banking sectors, a MOU between the two Lebanese and Chinese banking regulators was signed in September 2017 in Beijing, which represents a critical milestone to enable the development of the relationship between the banking sector of both countries. Much effort has been exerted through various channels to improve the correspondent banking relations with Chinese banks. Fransabank has actively developed its relationships with governmental financial institutions such as China Development Bank, China Eximbank and Sinosure, in addition to already well established banking relationships with the major Chinese banks.

The Bank's efforts have been recognized by Chinese entities and institutions and have contributed to Fransabank being invited in 2017, as the only Lebanese bank, to join four other Arab leading banks to be founding members of the China Arab InterBank Association being initiated by China Development Bank, the world's largest development bank by assets, to be launched in July 2018. Fransabank continued to organize and moderate the China-Arab Banking Dialogue on the occasion of Union of Arab Bank's Annual Conference in Beirut, positioning itself towards the Chinese and Arab banks as a leading reference and key Bank in the China Arab banking and finance world.

Based on the relations built with the Chinese companies during the past years in the various markets where Fransabank operates, and further to the organization of China Desk missions to the Bank's overseas subsidiaries, business influx from several important Chinese banks and companies with the Bank's entities abroad is also growing.

Fransabank has proven its unrivaled ability to offer attractive, efficient and catered services and products to the Chinese entities and companies in the development of their overseas activities, in line with the Belt & Road Initiative.

LOCAL SUBSIDIARIES AND ASSOCIATE

BLC BANK SAL

Despite the political turmoil and the weakening macroeconomic conditions, BLC Bank was able to achieve significant results at the level of profitability while minimizing its concentration risk and deposit's volatility in its balance sheet.

As far as profits are concerned, net income from continuing operations reached USD 46.2 million till end of December 2017 up by 3% compared to end December 2016, despite the application of the new tax law in the fourth quarter of 2017.

Recurrent income, which is constituted mainly of net interest and net commissions, reached USD 53 million at end of December 2017, up by 8% from the USD 49.3 million registered at end of December 2016, where net commissions increased by 4% compared to the end of December 2016.

On the balance sheet side, BLC Bank total deposits stood at USD 3.92 billion, a decrease of 3% compared to 2016. This was mainly due to a substantial decrease in fiduciary deposits, while the stable and sustainable deposit base, which is mainly composed of deposits below USD 1 million, increased by 4%.

Total assets increased by 2%, to reach USD 5.87 billion as at end-December 2017. On the other hand, total loans stood at USD 1.6 billion in 2017 with an increase of 6% compared to 2016. Furthermore, BLC Bank's net spread reached 2.05% as at end-December 2017, standing among the best in the sector.

As far as liquidity is concerned and same as other Lebanese banks, liquidity was affected following the political crisis of November, still, BLC Bank recovered back in general and its liquidity ratio reached 17% as at 31 December 2017, which is above the 10% required by the regulator.

BLC Bank's Capital Adequacy Ratio reached 18.9% compared to a regulatory requirement of 14.5% as at 31 December 2017 reflecting the solidity of its capital structure and a clear growth potential.

In a changing financial landscape, with consumer behaviors and expectations shifting in ways challenging the banking sector, BLC Bank retained its customer-centric strategy with its broad range of financial and non-financial services.

Throughout 2017, BLC Bank re-confirmed its commitment to the economic empowerment of small and medium size enterprises and women, maintaining stable activities on both the retail and the corporate levels with its personal loans, car loans and business loans.

With non-financial services still playing an important role in the Bank's overall strategy, road shows were conducted across Lebanese regions and conferences were organized in addition to monthly Business Power Sessions covering a wide range of topics.

This remarkable performance lead the Bank – represented by its Chairman and General Manager- Mr. Nadim Kassar to receive in 2017, the GBA for Women Lifetime Achievement Award for being a women's market champion and empowering the female economy at the 2017 Global Banking Alliance Summit held in London. Nonetheless, BLC Bank pursued its volunteer mentorship programs for other GBA member banks, proving once again its role as an international reference for best practice and an advocate for the economic empowerment of women.

This international recognition as the first financial institution in the MENA to advocate for gender equality was also marked by Mr. Nadim Kassar, being nominated among the 10 worldwide disruptive leaders in the 2017 United Nations Global Compact Progress Report.

In line with the Bank's belief in the vital role of Lebanese entrepreneurs to the Lebanese economy, BLC Bank shed the light on the accomplishments of entrepreneurs for another year through the Brilliant Lebanese Awards. In this regard, BLC Bank successfully conducted the sixth edition of the Brilliant Lebanese Awards. The Business of the Year, Women Entrepreneur of the Year and People Choice Award were announced in a TV event broadcasted live delivering on its promise to honor and promote successful Lebanese entrepreneurs.

FRANSA INVEST BANK SAL (FIB)

Fransa Invest Bank, the Bank's wholly owned investment and private banking subsidiary, is one of the leading investment and private banking institutions in Lebanon. It aims to provide value-added investment banking services meeting the needs a diversified client base including high-net-worth individuals, financial institutions, corporations, and governments, through a full range of dedicated professional financial services.

FIB stays abreast of all events in the banking and financial markets and their potential impact on the development of national, regional and international economies. The Bank draws on this know-how to provide clients with strategic advice and to develop solutions to meet their investment and financial objectives.

The Bank's long-term success is based on core principles of superior client service, teamwork, excellence, and accountability.

FIB's activities include:

- **Financial Advisory** – mergers and acquisitions, equity capital markets, private investments, corporate equity/debt advisory, re-organization and balance sheet re-structuring.
- **Equity and Debt Financing** – feasibility studies, legal and financial due diligence, corporate and project financing, syndicated financing, debt/equity structuring, equity placements, and debt settlement arrangement.
- **Private Banking and Asset Management** – offers clients a complete range of tailor made advice, investment products and services.

- **Capital Markets Services** - available through a very well equipped and staffed trading room, which provides full brokerage services to carry out transactions in equities, fixed income, currencies, commodities, futures and options, with access to local, regional and international markets.

- **Research** - FIB provides in-house research and analysis on financial markets, as well as economic and country analysis, supported by international banks and asset managers upon the request of clients.

LEBANESE LEASING COMPANY SAL (LLC)

The year 2017 was once again a profitable year for the Lebanese Leasing Company, the leasing arm of Fransabank, where it sustained its growth in terms of energy efficiency leasing business in Lebanon. In December 2017, the LLC signed with the Green for Growth Fund a new Sustainable Energy Finance loan agreement with the value of USD 5 million, aiming at boosting small and medium businesses and mid-sized corporates investments in clean energy.

Net profits in 2017 totaled around USD 1.2 million, an increase of 13% compared with the previous year.

Thus, the LLC will keep on expanding its energy efficiency leasing business in Lebanon, by raising awareness on the benefits of energy savings among small and medium-sized businesses. Moreover, it will ensure a constantly diversified clients' portfolio, by targeting different niches, and securing alternative means to provide customers with innovative products and services.

BANCASSURANCE SAL

Being fully integrated within the Lebanese market for the past two decades, Bancassurance has firmly consolidated its rank as first bank insurer and second life insurer among 34 life insurance companies in Lebanon.

In fact, the Company seeks to ensure and improve the quality of life of its clients through financial security, by offering well studied products, along with innovative solutions that cater to their daily needs and long-term goals. The Company's objective is to provide the best services through a customer-oriented approach.

Bancassurance sustained its growth performance in 2017, whereby its turnover reached USD 78.61 million and its net profit stood at USD 19.53 million, an increase of 18.3% compared with the year 2016.

The global spectrum consists of pure life insurance products, financial saving products, and investment products. It includes:

- Term and accidental life insurance products

- Savings and life insurance plans for retirement, education, and housing

- Investment and life insurance plans with access to the international financial markets

- Compulsory life insurance products for all types of loans.

SOCIÉTÉ GÉNÉRALE FONCIÈRE SAL (SOGEFON)

The year 2017 witnessed the most recorded slowdown in the real estate sector for the last 10 years due to the economic stagnation and lower investments in the sector from Lebanese and foreign investors.

However, Sogefon was able to defy all circumstances registering 40% profit margin with 11 units sold in the range of the market value.

Sogefon proved, once again, a total dedication to ensure the best interest of its parent company, Fransabank.

OVERSEAS SUBSIDIARIES, BRANCHES ABROAD AND ASSOCIATE

In 2017, Fransabank's international network has further consolidated its position in its markets of presence under the guidance and close monitoring of the parent company.

Overseas subsidiaries have performed well in 2017, despite the challenging business climate in the countries of operation, through strengthening the synergies between the Group units, concentrating on core businesses, tailoring new products to meet customers' needs and expanding branch networks. As such, the representative office in Abidjan, focusing on the potential of the Lebanese diaspora, has facilitated the link between the Group's affiliates and customers in various African countries, resulting in a wider customer base and a better response to customers' needs and interests.

However, during 2017, and in order to maintain an efficient overseas network, Fransabank Group decided to deconsolidate Fransabank Syria. In fact, due to the deterioration of the situation in Syria, the sanctions and restrictions imposed by several international bodies and the weakening of the Syrian pound, Fransabank Group deconsolidates this entity in 2018 but is reflected in the financials starting end December 2017, by deliberately abandoning the effective control over Fransabank Syria, through the resignation of the Board of Directors members who represent Fransabank SAL directly or indirectly. Consequently, the investment in Fransabank Syria will be classified as an investment at fair value through other comprehensive income starting end December 2017.

In the course of 2018, team work, efficient synergies and effective business processes will most certainly be the drive to sustain the Group's growth and further strengthen its status as a leader in the banking sector.

FRANSABANK (FRANCE) SA

In 2017, Fransabank (France) pursued the consolidation of its position in France and more broadly in Europe in addition to other primary markets in the Middle East and Africa, with the rapid expansion of its corporate and private customer base.

Fransabank (France) is the only subsidiary of a Lebanese bank in France backed by a French shareholder, BPCE Group, the second largest banking group in France. The Bank strengthened its synergies with the overseas affiliates of Fransabank and BPCE, thus enriching its trade finance and other business financing activities. It also pursued the financing of real estate acquisitions in France for the account of Fransabank Group customers and the collection of term deposits in Euro and US Dollars allowing them to secure and diversify a portion of their savings in France at competitive rates.

Fransabank (France) maintained its conservative policy and sustained a healthy coverage ratio. Net profit after provisions and taxes amounted to Euro 2.9 million in 2017. The Bank total assets stood at Euro 393 million, up 15% compared to year-end 2016.

Furthermore, Fransabank (France) has initiated a comprehensive improvement in its processes and IT systems with the aim to support the Bank's modernization, expansion and enhancement of its clients' service.

FRANSABANK EL DJAZAÏR SPA

The Algerian government carried out since 2016 several economic reforms to mitigate the impact of lower oil revenues with the view of shifting the Algerian economy towards enhancing domestic production of non-oil and gas industries. The new economic growth model adopted by the Government has already shown promising growth rates in various productive sectors. However, Algeria continues to face important challenges posed by the drop in oil prices four years ago.

Fransabank El Djazaïr has adopted a two-fold strategy for the upcoming three years with the aim of becoming a universal bank and consolidating its position as a major player in the Algerian banking sector by:

- Expanding the local branch network in Algiers and other *wilayas* to reach a broader customer base and to grow the Bank's market share. By end of 2020, the branch network is expected to reach 30 branches.

- Developing new products customized to better cater for the needs of the clients, thus offering a complete range of products and services.

Fransabank El Djazaïr registered a net profit of c/v USD 8.11 million in 2017, increasing by more than 18% compared to the previous year. The Bank grew by 26% with total assets amounting to c/v USD 417 million at year-end 2017. Customers' deposits increased by 43% to reach c/v USD 278 million and customer's loans by 10% to reach c/v USD 226 million.

FRANSABANK OJSC (BELARUS)

Following the economic downturn in 2015 and 2016, the Belarusian economy started to recover during 2017. In fact, a cyclical recovery is currently underway, supported by high growth rates in the agricultural and industrial sectors, due to improving external demand, and driven by better fiscal and monetary policies. Over the medium term, growth is expected to increase to around 2% from 0.7% currently, as per the IMF.

Monetary policies adopted by the National Bank of the Republic of Belarus were crucial to support this recovery and increase confidence, leading to the stability of the FX rate at USD/BYN 1.97, a containment of inflation at 4.6% and a decrease in the refinancing rate from 17% p.a. at the beginning of 2017 to 11% p.a., and a consequent decrease in credit interest rates. The refinancing is expected to further decrease to 9.5% p.a. during 2018.

During these past years, Fransabank OJSC had adopted a very conservative growth and lending strategy and has managed to maintain its profitability.

With the expected recovery of the economy in 2018 and the amelioration of the business environment, Fransabank OJSC will gradually adopt a more active approach consistent with the ongoing improvement in the Belarusian economy.

FRANSABANK SAL IRAQ BRANCHES

Operating in Iraq since 2014, Fransabank has successfully positioned itself as a reference bank on the Iraqi market and an active player in the Iraqi economy. Despite the recent political developments and the impeding impact on the economy, Iraq remains a high potential market supported by international economic programs aiming at stabilizing the Iraqi economy, strengthening public financial management and curbing corruption.

Fransabank Iraq continued to concentrate on trade related business and corporate lending solutions, offering a large range of products and services for Iraqi and international corporates and is constantly developing its array of products and services to include in the near future retail banking solutions.

Backed by the support of its parent company in Lebanon, synergies with its affiliated entities abroad and a large network of international correspondent banks and financial institutions, Fransabank Iraq has put in place a development strategy to consolidate its market position and is considering to expand its branch network to gain more local market share and further develop its customer base.

Furthermore, Fransabank constantly monitors and ensures compliance with Central Bank of Iraq capital requirements and regulatory ratios in addition to the application of International Financial Reporting Standards. Accordingly, it has increased its capital to reach USD 50 million at the beginning of 2018. Fransabank Iraq registered a net profit of c/v USD 2.88 million in 2017 and total assets of c/v USD 115.48 million at year-end 2017.

UNITED CAPITAL BANK (SUDAN)

Sudan is expected to witness a number of positive developments with the lifting of the 20-year-old economic sanctions, a positive move that would drive the Sudanese economy towards recovery and its comeback to the international financial scene. Economic conditions remain however challenging and inflationary pressures high, especially with the implementation of the economic reforms urged by the IMF to sustain macroeconomic stability; of which the devaluation of the Sudanese pound to close the gap between the official indicative rate and the parallel market rate.

Fransabank's associate bank in Sudan, United Capital Bank, continued to adapt its strategy to a changing economic environment, pursued its conservative approach and thus succeeded in making higher levels of returns in 2017 with net profit amounting to c/v USD 2.96 million.

RISK MANAGEMENT

RISK MANAGEMENT FRAMEWORK

Risk Governance

Fransabank values highly its reputation as a responsible and ethical operator in the financial industry. Against this backcloth, the Board of Directors acknowledges that one of its primary objectives is to explicitly enforce the collective oversight and risk governance responsibilities. Thus, the Bank has set risk management as a strategic priority, pursuing a continued improvement of its risk organisation and risk governance practices, based on a three lines of defense model to identify, assess and mitigate risks.

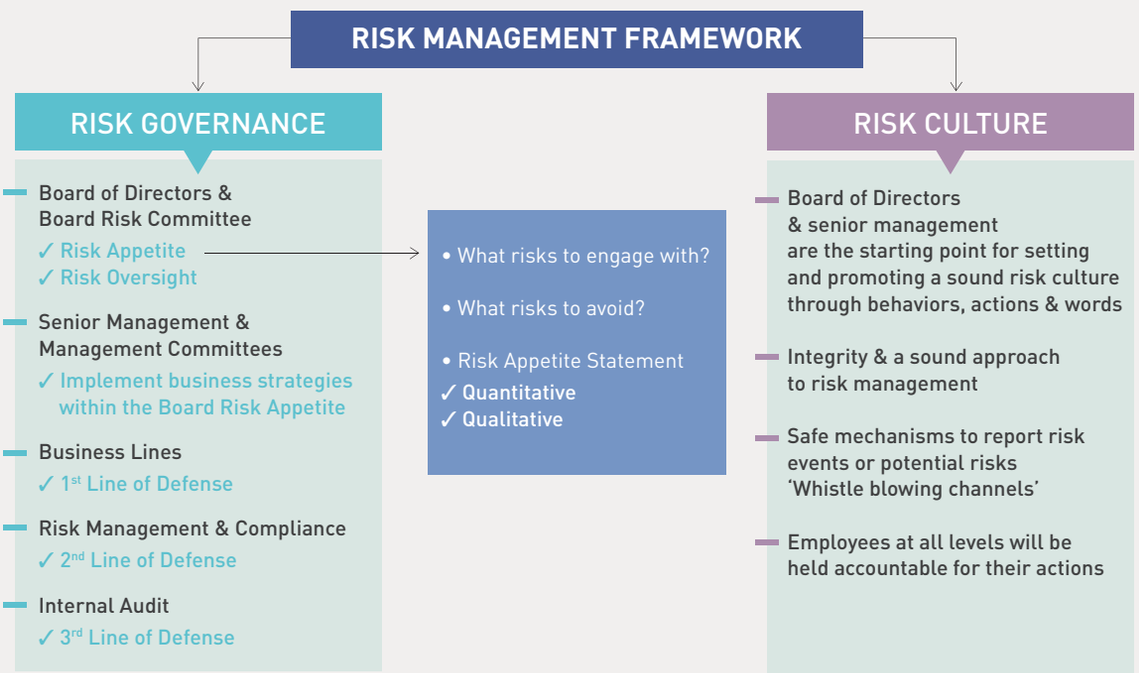
The Bank targets to build effective and intelligent risk management processes, infusing at all hierarchical levels a risk management philosophy that seeks calculated risk-taking as a means for value creation. This will enable sound strategy decisions and conducting business activities on a risk-informed basis.

The Board of Directors and the general management have also committed to invest in human resources and information technology systems to upgrade the Bank's risk information capabilities, providing the platform for data collection, aggregation, analysis and communication.

Risk Culture

Fransabank recognizes that the Board of Directors and senior management are the starting point for setting the Bank's core values and expectations for promoting a sound risk culture. The Board of Directors and senior management promote through behaviors, actions and words, a risk culture that expects integrity and a sound approach to risk management and that they will proactively address any identified areas of weakness and concern.

A critical point in implementing a sound risk culture at Fransabank is for all employees to act with integrity and report any observed non-compliance. Reporting of risk events or potential risks should be a valued characteristic and be done in an environment where there is no fear of reprisal or prejudicial judgment. The Bank should ensure that there are appropriate, 'safe' mechanisms to promote this principle. Employees at all levels will have to understand the core values of the Bank and that they will be held accountable for their actions.



Risk Management Focus

Over the past few years, efforts have been exerted to achieve a more advanced risk management model. In that context, focus was also directed on rolling out the risk management processes at all Group entities in order to ensure proactive risk governance and management both at the individual and Group levels.

With a strong involvement of senior management, the risk management function at the parent bank, supervised by the Board Risk Committee, continued in 2017 to upscale its efforts towards achieving a more advanced risk management model. Among other things, it worked on:

- Cultivating a bank-wide awareness of risks, promoting interactions between the different hierarchical levels at the Bank for an integrated risk management approach
- Linking the risk appetite to the decision-making process, endeavoring to incorporate therein sufficiently severe macro-economic factors in the stress test criteria
- Ensuring that policies and procedures are updated and implemented consistently across all risk categories, business lines and legal entities. The policies & procedures would emphasize the qualitative as well as the quantitative factors with a focus on standardizing the risk management framework across the Group

- Improving the quality of risk data and risk reporting to provide for more in-depth and dynamic discussions and hence a sound basis for management decisions.

As part of the continuous effort to strengthen risk management across the Group, a workshop dedicated to risk management matters was organized in the course of 2017, to which the risk managers and risk officers at the Group entities were invited. The workshop aimed to promote the Group's risk culture and to reinforce the works towards the implementation of standardized risk management framework and practices. Such workshops are therefrom contemplated to be held on a yearly basis.

2017 IN A NUTSHELL

Fransabank Group figures as at 31.12.2017 reflect the deconsolidation of the accounts of Fransabank Syria - the Group's subsidiary in Syria, but more substantially that related to USB Bank Plc. - Cyprus, which now appears in the Balance Sheet as "Assets / Liabilities held for sale". The exit from the Cypriot market brought in improved asset quality ratios, with a further positive impact on the credit risk weighted assets.

In what concerns the Lebanon entities that account for more than 90% of the Group's business, the challenging politico-economic environment prevailing in Lebanon in 2017 continued to somewhat weigh on the customers lending activity, in terms of assets growth and quality, in the same way for the local banking sector. Asset quality ratios remained however within the projected levels, being mitigated to a large extent by comfortable tangible securities, reflecting the Bank's traditionally prudent and conservative approach.

Also, the Bank has proved to maintain a solid liquidity cushion that allowed it to comfortably face the liquidity squeeze that emerged as a result of the November 2017 political turmoil ensuing from the resignation then of Lebanon's Prime Minister.

CAPITAL MANAGEMENT

In September 2016, *Banque du Liban* set new minimum Capital requirements phased in from 2016 to 2018. Total Capital Ratio should stand at 15% minimum by end 2018, up from 14.5% required at end 2017, 14% at end 2016 and 12% at end 2015.

The minimum requirement as of 2018 for Common Equity Tier 1 (CET 1) set at 10% of Risk Weighted Assets, includes a capital conservation buffer of 4.5% and a systemic risk buffer of 1%.

The Group manages its capital structure to continuously remain at adequate levels vis-à-vis the regulatory minima under normal and stressed situations and to comfortably cater, as well, for its risk profile, growth plans and expansion strategy.

As at 31.12.2017, 68% of Fransabank Group Regulatory Capital is formed of Common Equity Tier 1. The CET 1 Capital Ratio stood at 10.42% versus 9% minimum regulatory and up from 9.90% at end 2016. Total Capital Ratio stood at 15.40% as compared to the regulatory minimum of 14.5%.

In 2017, the Group's Risk Weighted Assets (RWA) decreased by 2.9% mainly resulting from the deconsolidation of USB Bank Plc. – Cyprus. RWA is in its large part composed of Credit Risk, with Market Risk accounting for a minimal portion.

Internal Capital Adequacy Assessment Process

Fransabank carries out its annual Internal Capital Adequacy Assessment Process (ICAAP) exercise on a consolidated and on a standalone basis.

The ICAAP exercise takes into account concentration risk per borrower and per sector, as well as the impact of interest rates increases in our banking book. Also, a capital charge is set based on the assessment of the quality of risk governance and processes.

The ICAAP incorporates the 3 year budget for the assessment of future needs and further assesses the impact of multiple extreme but plausible stress test scenarios on the Bank's financial position.

The results of the 2017 ICAAP exercise revealed an adequate level for the Group's available CET 1 Capital, Tier 1 Capital and Total Capital.

The ICAAP is discussed with Executive Management and submitted to the Board Risk Committee and to the Board of Directors and has become an integral part in the capital planning and budgeting.

Leverage Ratio

Fransabank monitors the Leverage Ratio, which is another supplementary non-risk based measurement, introduced by Basel III framework, calculated as Capital to Total On and Off Balance Sheet Exposure.

Banque du Liban has not yet set a minimum requirement for the Leverage Ratio.

RISK PROFILE KEY ELEMENTS

The Group's risk profile reflects a conservative approach, translating the Bank's strategic objectives, business plan and risk appetite. Fransabank manages the risks arising from its activity through detailed processes that emphasize the importance of integrity, maintaining high quality staff and public accountability.

Credit Risk

Fransabank adopts prudent credit standards in designing its credit policies and procedures.

The Bank customers' credit risk revolves around traditional lending activities to the different market segments namely corporate, SME and retail. These would include loans and contingent liabilities, where losses might occur due to the failure of borrowers or counterparties to meet their contractual obligations.

The Bank manages the levels of credit risk undertaken by placing limits on the amount of risk accepted in relation to one borrower or group of related borrowers. Country limits are also established and reviewed on regular basis.

Credit requests are processed through a uniform credit proposal that assesses the client's quantitative and qualitative

information using the internal risk rating system, where applicable. These are therefrom subject to an independent credit risk assessment. Credit files are submitted for approval to ad hoc committees and eventually to the Board of Directors.

The Bank's credit processes are supplemented by regular portfolio reviews focused on countries, regions or specific industries to ensure portfolio diversification.

The credit risk exposure on banks contracted by Fransabank consists mainly of short term money market deposits placed with prime international banks and only in investment grade rated countries. These placements are considered as highly liquid assets and are thus aimed to form part of the Bank's liquidity cushion.

Fransabank and similar to its peer banks, tolerates a substantial exposure on the Lebanese Sovereign as part of its investment of surplus funds and given the comparative return potential. The level of exposure is contained within pre-approved limits set in the Asset Liability Risk Management policy.

Fransabank has fine-tuned in 2017 all the preparatory works related to the implementation of IFRS9 as of 2018, both at the level of the parent bank and the individual entities. Parallel-run exercises for the calculation of the IFRS9 expected credit losses were undertaken during the year on the different credit risk portfolios, to assess the inherent impact.

Liquidity Risk

Liquidity risk is defined as the inability of a bank i) to meet its obligations in due time and ii) to fund increases in assets without incurring unacceptable losses. The fundamental role of banks in the maturity transformation of short-term deposits into long-term loans makes banks vulnerable to liquidity risk on an institution-specific and market-wide level will negatively impact the bank's profitability in case the bank is obliged to resort to capital markets for funding under unfavorable circumstances.

The bank's funding strategy is to ensure a solid funding base mainly relying on customers' deposits. At Fransabank, these constitute more than 83% of the Bank's total liabilities. Also, 80% of customers' deposits categorize as retail, being the most stable funding source.

Fransabank liquidity risk management policy sets several methods and measures to manage liquidity risk over the short, medium and long term. The Bank recognizes that a critical element to resilience to liquidity risk is the availability of an adequate cushion of unencumbered and highly liquid assets. Thus and among other things, the Bank has set a floor to the level of money market deposits denominated in foreign currencies it places for less than 30 days with prime international banks measured to its customers' deposits denominated in foreign currencies. These money market deposits are also dispersed on a number of banks to further ensure the needed diversification.

Fransabank follows and tracks the evolution of financial markets and assesses their inherent volatility so to detect Early Warning Indicators that serve as warning signals for probable liquidity shortages of both specific and systematic nature. In case of any warning signals, the Bank will decide on the appropriate corrective measures or eventually trigger the contingency funding plan in order to facilitate and coordinate the decision making process during a liquidity crisis.

Market Risk

Market risk is defined as the risk of losses arising from adverse movements in market prices in on and off-balance-sheet positions, encompassing interest rate sensitive instruments and equities in the trading book, as well as foreign exchange (FX) positions and commodity positions in the banking book.

Fransabank has a low appetite to market risk and limits are set accordingly in the Bank's market risk management policy.

In what concerns securities trading, the Bank holds a small portfolio consisting mainly of Lebanese Sovereign securities; the Bank also carries FX risk that essentially arises from the translation effect of the positions the Bank holds as equity investments in some of its banking subsidiaries and that cannot be hedged against.

Interest Rate Risk in the Banking Book (IRRBB)

IRRBB emerges from the negative re-pricing gap between rate sensitive assets and rate sensitive liabilities. The resulting mismatch between long-term assets and short-term liabilities is inherent in banking activities. Excessive IRRBB can pose significant threat to a bank's current capital base and/or future earnings if not managed appropriately.

At Fransabank, the IRRBB is monitored through two measurement approaches in order to control the impact of interest rates changes on the Bank's balance sheet over both the short-term as well as the long-term and to confine them within the preset limits.

The earnings at risk methodology is adopted for a short-term horizon of 1 year and calculates the potential decrease in the said year projected net interest income, resulting from hypothetical increases in interest rates. The economic value of equity approach calculates the impact of a hypothetical interest rate change on a bank's "Net Worth" as it considers the potential longer-term impact of interest rates by measuring the change in the present value in all of the re-pricing buckets.

Operational Risk

Operational risk is the risk of losses from internal failures relating to processing, systems and people as well as losses relating to external factors such as disasters or changes in laws and regulations.

The ultimate responsibility of risk oversight lies with the Board of Directors. The Board of Directors delegates specific oversight of risk management activities in the Bank to the Board Risk Committee, which oversees operational risk arising from business and support functions through regular reporting on the operational risk profile. Senior management ensures a proper segregation of duties and separation of functions through an effective internal control framework referring to the three lines of defense approach.

The business lines own the risk and act as a first control level. Risk management designs, implements and maintains the

operational risk management framework and, together with the compliance function, act as the second line of defense and internal audit as the third.

Fransabank implements sound and reliable set of management processes to identify, assess, control, and monitor operational risks, as part of the overall strengthening and continuous improvement of the controls within the Bank.

The Bank has developed an operational loss incident reporting tool and expanded the collection of operational loss incidents. In addition, risk and control self-assessments are periodically conducted by the business and support units in order to evaluate the effectiveness of the internal control system and to eventually recommend corrective actions.

By its nature, operational risk is difficult to eliminate entirely. Fransabank aims to keep it at a minimum by ensuring that business units and staff identify and manage the risks inherent in the products, activities, processes and systems for which they are accountable.

To support this, Fransabank believes that a strong risk culture is essential; hence, investing in ongoing training and development at all staff levels to increase knowledge and promote risk management practices.

INFORMATION SECURITY AND BUSINESS CONTINUITY

In its pursuit to achieve one of its strategic objectives, namely securing customer information and ensuring availability of its rendered services, Fransabank initiated the implementation of a Security Operation Center (SOC). As a matter of fact, the acquisition in 2017 of a Security Information and Event Management (SIEM) solution, being the cornerstone in the SOC, is the first step toward building a SOC.

This will enable Fransabank to be proactive in combating cybercrime by providing round the clock monitoring of its technological platform end-to-end, and to react swiftly to any malicious activity depicted on the platform, be it caused by an external or an internal hacker. On the other hand, and in order to complete the puzzle and to be able to contain any incurring incident and reduce its impact on the services, a Business Continuity Management (BCM) system is in the course of acquisition. The said system instantly provides information on the affected services following a failure, as well as guidance on the contingency actions to be taken in such case; in a word, acquiring maximum protection with quick reactivity to incidents.

Moreover, additional tools are in the pipeline for acquisition, e.g. the vulnerability management tool, the auditing tool and the sandboxing solution.

As far as the current business continuity site is concerned, it can support the totality of Fransabank services even those not classified as critical. The objective is to better serve customers and to ensure seamless shifting of the services from the headquarters to the disaster recovery site.

On the other hand, providing training to security staff members is a clear priority for the top management in order to stay updated regarding new challenges and available remediation.

COMPLIANCE

Compliance risk management is the main pillar of Fransabank's activities. It focuses on identifying and managing all possible non-compliance risks, and aims at encouraging, monitoring and controlling the observation of laws, regulations, internal rules - including the compliance principles outlined in Fransabank's Code of Conduct - and established good business standards that are relevant to the integrity and, hence, to the reputation of Fransabank. Integrity and ethics are the cornerstone in managing compliance risks and therefore the driving force behind everything Fransabank enterprises. Managing integrity risk is accordingly placed within the scope of the compliance function, and is the basis for a sound compliance environment.

The compliance function of Fransabank SAL supports the entity in embedding and improving the compliance arrangements in all levels and structures of the entity. The compliance function therefore has the following objectives:

- To identify, assess, control, monitor, test and report on the compliance risks faced by Fransabank SAL.
- To assist, support and advise the Board of Directors, top and senior management of Fransabank SAL, in fulfilling their responsibilities to manage compliance risks.
- Foster a compliance culture among staff and enhancing compliance awareness throughout the organization.
- Implement the compliance program in a fashion that is in line with regulatory environment and expectations.
- Enforce compliance policies and procedures which implement applicable laws and regulations and adopt industry standards and best practices.
- Implement a Group-wide risk assessment review.
- Advise any staff member of Fransabank SAL with respect to their personal responsibility to manage compliance risks.

The scope of compliance depends on the nature, the size and the location of business activities. It generally includes:

- Legal/Regulatory Compliance including: Compliance with Rules & Regulations, Global Reporting (FATCA Act and Common Reporting Standard), and local and international sanctions and restrictive measures (UN, US, EU and other sanctions requirements).

- Anti-Money Laundering and Combating the Financing of Terrorism including: customer acceptance – Know Your Customer/Customer Due Diligence, transaction monitoring, risk-based classification and monitoring of customers, and investigation and reporting.

- Capital Markets Compliance including treatment of confidential information, management of conflicts of interest, prevention of insider trading and market manipulation, new product approval, and fair treatment of customers.

Governing Principles

AML/CFT

Fransabank Group's AML/CFT (Anti-Money Laundering/ Combatting the Financing of Terrorism) Policy primarily aims at setting, within the Group, the essential standards for fighting money laundering operations and terrorism financing. Should the applicable AML/CFT laws and regulations of any country or jurisdiction require higher standards, Fransabank Group's overseas subsidiaries and associate banks must conform to those standards. However, in case the relevant subsidiary or associate bank comes across any applicable law that is inconsistent with the Group's policy, it must first refer to the Group's compliance department to resolve the conflict.

The AML/CFT Policy also encompasses the following objectives:

- Promoting a Know Your Customer (KYC) standard as a cornerstone principle for Fransabank Group business ethics and practices:
  - Prior to any transaction of any type, Fransabank Group's entities gather and document the relevant customer identification data, along with the background information, the purpose and the intended nature of the business.
  - Fransabank Group's entities retain and document any additional customer information relevant to the assessment of the money laundering risk, by adopting a risk-based approach which triggers the proper enhanced due diligence for the relevant customers.
- Enforcing the following additional due diligence measures while establishing and maintaining correspondent relations:
  - Gathering sufficient documentary evidence on a respondent institution, to avoid any relationships with "shell banks";
  - Enquiring about the good reputation of a respondent institution from public sources of information, including whether it has been subject to a money laundering or terrorist financing investigation or other regulatory action;
  - Verifying, on a periodic basis, that the respondent institution is implementing sufficient and effective procedures to fight money laundering and terrorist financing.
- Monitoring and reporting suspicious transactions/activity:
  - Fransabank Group's entities apply due diligence measures whenever they detect any unusual or suspicious transaction or activity, taking into account the legal framework of the concerned institution.
  - All suspicious transactions or activities complying with the laws and regulations of the corresponding jurisdiction are reported.
  - The Group's compliance department is notified of all suspicious transactions or activities when doubts arise.
- Developing an effective internal control structure where no activity with a customer is carried out without obtaining in advance all the required information relating to the customer.
- Consolidating, within the Group, the AML/CFT efforts deployed by Fransabank entities.
- Conducting self-evaluation processes on the compliance with the AML/CFT policy and measures.

Consequently, the adoption of the AML/CFT Policy is crucial to ascertain that all Fransabank Group's entities, whatever their geographic location, fully comply with the enacted AML legislation. Thus, the Group is committed to overseeing its AML/CFT strategies, objectives and guidelines on an ongoing basis, and supporting an effective AML/CFT Policy within the Group's business.

Compliance

Fransabank Group's compliance governing principles are as follows:

- Integrity, ethics and reputation, are vital assets to maintain the healthy growth of business.
- Management is the owner of compliance to foster the adequate enterprise-wide culture.
- The compliance function is independent from business lines, yet is a shared responsibility of all employees.
- A transparent and constructive relationship between the Fransabank's Group and its' regulators, partners and other stakeholders is maintained.
- Effective monitoring of compliance risks is implemented.
- Timely, accurate and systematic compliance reporting is provided.
- An anti-bribery and corruption policy is enforced, in line with International requirements and best practices.
- The compliance function will continue to improve itself by improving its governance, its measurement methods, its policies and procedures, and adopting the industry's best practice in line with local and global developments.

The Group compliance team is headed by the Group Chief Compliance Officer who coordinates "overall compliance" within Fransabank Group. He is the internal supervisor and responsible for ensuring that Fransabank Group operates within the defined compliance framework. The Group Chief Compliance Officer is supported by a number of designated officers and controlling bodies within Fransabank's Group organization structures.

HUMAN RESOURCES

Human capital is a core element for the sustainable growth of any business. Therefore, Fransabank Human Resources Division is responsible for the implementation of a fair employment process based on merit, the setting up of appropriate career development programs, and certainly the employees' well-being in general.

Thus, the Bank witnessed a steady growth in its population, with a 1.4% increase in 2017, reaching 1,735 employees working at Fransabank SAL; and an annual turnover rate of 3.69% - a satisfactory percentage as compared to the overall sector. While making sure to hire the right person for the needed position, the Bank always endorses diversity among its workforce; as it trusts that diverse backgrounds, skills, and experiences are necessary for a wide and inclusive customer workforce.

Furthermore, gender equality and inclusion represents an essential criterion. Over the past four years, Fransabank gender segmentation of the total workforce has been allocated to 46% of females and 54% of males. Similarly, the Bank's management encourages women with the required expertise to advance and hold managerial positions, whether at Fransabank headquarters or branches. As a result, females were assigned to 45% of Fransabank's senior management positions and 47% of middle management positions in 2017. As for the educational level of employees, university degree holders totaled 78.5% of Fransabank population, an annual increase of 9.2%. This rise brings about the Bank's continuous education policy.

On the other hand, training and development programs are designed to help all employees cope with the ever changing environment of the banking industry and build the necessary skills that would advantage the Bank for future opportunities by offering an efficient quality of services. Accordingly, the Training and Development team (T&D) conducted 67,911 training hours in 2017, an equivalent of 39.1 training hours per employee. Sessions covered a wide range of disciplines from banking and financial techniques, management and behavioral skills, to marketing and selling skills and information technology, as well as comprehensive programs on the Bank's regulatory control, risk management and compliance functions.

Moreover, T&D focuses on significantly improving the success ratio related to the Lebanese financial regulation exam mentioned in the Central Bank of Lebanon Circular No 103. In 2017, 98 Fransabank employees were certified. The Bank's coverage ratio reached 60.9% at the end of 2017; compared to a market average ratio of 53%.

In addition to that, Fransabank development programs focus on improving the employees' ability to handle multiple functions through the Polyvalence Enhancement program, preparing potential employees to occupy higher positions through the Potentials Development program, selecting employees based on personal attributes, educational background, banking skills and knowledge, to be enrolled in a Fast Track program through the Talent Management program, as well as initiating them into future organizational requirements, or key positions through the Succession Planning.

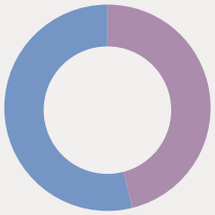
Since continuous education develops the skills and generates diverse thinking and understanding, Fransabank offers professional development opportunities for its people to better employ their capabilities and intellectual resources, be more efficient in meeting their personal and Fransabank's short and long-term goals and objectives. Moreover, Fransabank extends a financial support with a zero intrest rate to employees wishing to pursue their professional certification or graduate studies in any field related to banking, and linked to the job currently held by the staff member, or related to his/her career path.

Regarding the recruitment at entry level, Fransabank takes part in major university job fairs across Lebanon on an annual basis. HR representatives are present on the ground in order to actively and personally interact with the graduating youth and attract high profile graduates.

Finally and in line with the Bank's corporate social responsibility and youth financial education and inclusion initiatives, 220 students were received during the 2017 Internship Summer Program. By providing such prospects to college students, Fransabank further enlightens the youth as to their career path, offering them the chance to have a preview of the banking and financial field. The program provides students with 240 hours of practical experience at Fransabank branches and/or departments.

Employees Facts and Figures as of December 31, 2017

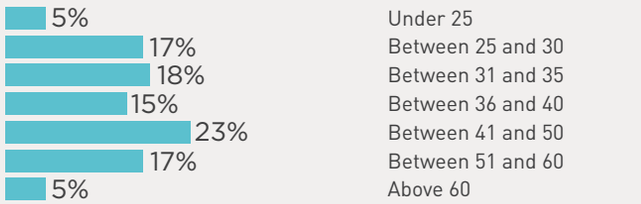
1,735 **FRANSABANK SAL**
TOTAL NUMBER OF EMPLOYEES



54%
PROPORTION OF MALE EMPLOYEES

46%
PROPORTION OF FEMALE EMPLOYEES

EMPLOYEE SPLIT BY AGE



DEVELOPING PROGRAMS

POTENTIALS DEVELOPMENT
Selecting competent employees with a proven record and preparing them to hold higher positions

TALENT MANAGEMENT
Selecting employees based on a combination of personal skills, educational background, and banking knowledge, to be enrolled in a Fast Track program to determine whether they can undergo vertical or horizontal development

POLYVALENCE ENHANCEMENT
Improving employees' ability to handle multiple functions

SUCCESSION PLANNING
Initiating employees into future organizational requirements, or key positions at the Bank

INFORMATION AND COMMUNICATION TECHNOLOGY

The Division of Information and Communication Technology and Projects is committed to providing Fransabank with a strategic advantage through a secure, highly reliable and scalable technology infrastructure, along with high quality customer-oriented banking services that meet the ever-changing needs. The Bank's strategy is to invest in the right technologies, platforms and resources, in order to align with its strategic goals and be able to drive business growth and development.

Accordingly, the Division is always on the hunt for emerging cutting-edge technologies in all fields. Such technologies will affect the customers directly and create a source of digital difference that matters to value.

Improving Delivery Channels

As part of the digital transformation strategy, Fransabank always looks for ways to improve and unify the experience across delivery channels. In order to improve customer reach and meet customers' expectations, new and enhanced delivery channels are presented to provide customers with true mobile banking operations around the clock.

Additionally, real-time online cash and check deposit capability is being rolled out to the ATM network, which gives customers 24/7 access to secure banking. Fransabank is also looking into new initiatives like cardless ATMs and cardless cash capabilities so phones would eventually replace wallets at the ATM too and allow others to collect cash.

Moreover, the Bank is in the process of undergoing a major update on its mobile application by adding loads of functionality and security features like push notifications, self-service password reset, and biometric authentication, to improve usage and simplicity, and will give customers a broader access to the information they need at a glance, therefore, in a fast, secure, and productive manner.

The Bank is also in the process of upgrading its Customer Relationship Management technology to enable a wider 360-degree view of the customers and improve information organization. This will lead to significant customer service improvements, automation of daily tasks, and better analytical data and reporting.

New Generation Advanced Core Banking System

In 2017, the new core banking system was successfully launched, based on the market leading technologies (integrated workflow, multi-tier). This process required a rigorous program implementation to achieve a successful and transparent launch that will guarantee sustainable business growth and technology transformation in the foreseeable future.

Substantial benefits were registered such as the ability to meet the dynamically changing market and customer needs, and the ability to improve and simplify banking processes that are convenient for both the customer and the Bank in terms of speed and capabilities.

Enriched Collaboration and Productivity

As part of ICT initiatives of developing and deploying collaboration tools and platforms to gradually reach an efficient and secured paperless environment, Fransabank has launched an Intranet Portal platform that empowers individuals and teams to discover, share, and collaborate on content intelligently from anywhere and through any device. The Division strongly believes that this integrated platform will effectively manage and repurpose content from a centralized location and connect employees with information and expertise. Furthermore, the Bank is working on adding another couple of collaborative features such as IP telephony for better mobility and connectivity.

Higher Infrastructure Agility

The Division is currently investing in software-defined infrastructure technologies that help scale, automate, and deliver IT services at a much faster rate and lower cost. Equipped with powerful capabilities like compute, storage, and network virtualization along with powerful automation and orchestration tools; Fransabank is looking at major operating expense reductions while still able to meet the ever-changing business requirements and challenges. The software defined infrastructure project as well as the cutting-edge Tier 3 data center would place Fransabank on the right path towards a true Information Technology as a service.

Fransabank has recently adopted a centralized printing solution across the organization that controls the misuse of paper prints. This encourages employees to adopt double-sided prints and motivates them to minimize the usage of paper and ultimately save trees. Not only has this technology greatly reduced unnecessary prints but it has also provided insights on the major processes requiring transformation into paperless, and has accelerated the Bank's adoption of the paperless environment strategy.

CORPORATE SOCIAL RESPONSIBILITY

The effective implementation of Fransabank Corporate Social Responsibility strategic themes was sustained in 2017, through a vigilant follow-up process ensuring that stakeholders are thoroughly engaged.

The strategic themes cover the following:

- Sustainable energy financing - showcasing positive environmental impact through loans,
- Economic development - promoting positive contribution to the economy through corporate, SME, consumer and microcredit loans,
- Youth financial education and inclusion - educating and integrating the youth in the financial stream,
- Community support - measuring value-added contribution to the community,
- Responsible employment - empowering employees and fostering an inclusive and engaged work environment,
- Sound corporate governance - implementing a comprehensive governance structure, organizational and risks frameworks, while ensuring a culture of integrity and ethical conduct.

Conducting open dialogues with internal and external stakeholders during 2017, as in the previous years, helped us make better-informed decisions and ensure that our future strategy addresses emerging sustainability risks and opportunities. This continuous consultancy practice with various stakeholder groups helps identify environmental, economic and governance trends, understand societal expectations, and gain essential feedback on the Bank's strategy and priorities. Therefore, a materiality assessment exercise defining the economic, humanitarian, environmental, and social topics that matter most to the business and to stakeholders is carried out. Having conducted previous materiality assessments with stakeholders, the material topics have been reviewed by identifying, prioritizing and reviewing the previously identified issues. Based on the outcome, the exercise was attuned with few changes in the importance assigned to some of the previously identified issues. Changes mostly occurred for the issues with a medium level of materiality, while top priorities remained unchanged.

Being influenced by the United Nations Global Compact 10 principles and the 17 Sustainable Development Goals (SDGs) on the fight against poverty, inequality, climate change and other societal issues that affect the planet, Fransabank has chosen to steer towards the following SDGs: Goal 4 – Quality Education, Goal 5 – Gender Equality, Goal 8 – Decent Work and Economic Growth, Goal 9 – Industry, Innovation and Infrastructure, Goal 11 – Sustainable Cities and Communities, and Goal 13 – Climate Action. The achievements related to the chosen SDGs are reported in the comprehensive CSR report.

These international guidelines provided a base for the selection of Fransabank's material issues that are covered in the report, for an accountable communication with all stakeholders. Accordingly, the 2017 CSR report covers:

1. Responsibility in Banking

Fransabank is committed to implementing sound corporate governance practices by maintaining governance structures, policies and processes that best serve the changing needs of its employees, clients and the community at large. In view of that, the Bank promotes a culture of integrity, diversity and ethical conduct across its functions.

The Group Anti-Money Laundering Policy commits Fransabank to fulfilling regulations governing identification, recording and archiving, detecting suspicious transactions and processing internal suspicious-activity alerts, developing and implementing internal policies' and setting a staff reliability process through continuous trainings.

Employees at all levels are held accountable for achieving the highest standards of business conduct reflecting Fransabank values of integrity. In view of that, a well-developed Code of Business Conduct and Ethics guide reflecting ethical business best practices was made accessible to all the staff. By helping employees better understand their responsibilities, they would be more apt to make the right ethical choices, deal with inside information or conflicts of interest, and effectively report actual or suspected misconduct.

Most importantly, Fransabank is keen on preserving its clients' information and providing a secure business environment. Acknowledging that trust is key to the business success, Fransabank regularly performs safety tests and upgrades for its data and information security system.

2. Responsibility for the Economy

Fransabank makes every effort to play a constructive role in society through its contribution to national economic development that fuels growth, generates jobs, bolsters prospects and supports public services. Therefore, understanding clients' needs and expectations is crucial to improve financial services, while expanding further microfinance opportunities, creating job opportunities for small and medium-sized businesses, supporting the responsible use of credits and promoting the prudent use of financial tools is vital to improve households' finances. Certainly, services are conducted in a responsible manner that takes into consideration the environmental, social and governance aspects of extending credits.

Accessibility is the key to reach and serve the financially excluded. In fact, Fransabank's partnership with Vitas – one of the largest microfinance institutions in Lebanon, in addition to its wide presence across Lebanon, and its on-the-move team, clearly give the Bank a competitive advantage. The Bank's accomplishments in this field benefited over 20,747 micro entrepreneurs at the end of 2017, with more than USD 41.1 million assets used for the financing of microcredits. Naturally, employees' expertise is always offered to support the commitment to delivering social and economic values to the beneficiaries.

In 2017 by itself, the total number of microcredit beneficiaries reached 3,716 clients. In chorus, the outstanding value of microcredits registered USD 5.86 million in 2017, compared with USD 5.97 million in 2016, a year-on-year decrease of 1.8%. Through this financial support and partnership, Fransabank could reach marginalized areas and minority-owned businesses. Among the Bank's clients are restaurants, bakeries, barbershops, tailors, and farmers.

It is noteworthy that a great portion of microcredits clients includes females and young entrepreneurs. Defining young entrepreneurs as clients whose age is between 18 and 30 years, Fransabank portfolio served 1,111 young clients with a total portfolio value of USD 1.73 million in 2017. As for the microcredits beneficiaries, with 41% of clients being women, the year 2017 recorded 1,520 women entrepreneurs with a total portfolio value of USD 2.23 million.

Knowing that a whole heap of Fransabank's clients are Small and Medium-sized Enterprises (SMEs) that rely on loans to develop, grow and boost their performance, one of the Bank's objectives is to assist these companies through a fair, competitive and risk-adjusted lending policy. In view of that, Fransabank's financing products target all sectors such as industry, commerce, tourism and agriculture. Our facilities in terms of SME loans are numerous, including but not limited to: Kafalat, subsidized loans, incentive loans, energy loans, green loans, agriculture loans, commercial property loans, overdrafts, Letter of Credits (LCs), Letter of Guarantees (LGs), discounted bills and others.

Moreover, several low-cost credit lines are made available through partnerships with renowned international institutions, such as the International Finance Corporation (IFC), the European Investment Bank (EIB), and major development agencies and regional and international funds. In 2017, the EIB granted Fransabank a EUR 75 million credit line to finance the investment projects of SMEs (firms with up to 250 employees) and MidCaps (firms employing between 250 and 3,000 employees). Furthermore, SANAD Fund chose to strengthen its position in the market through a senior loan of USD 20 million to Fransabank. This investment will assist the Bank in diversifying its fund base and providing long-term financing to SMEs and to low-income households for home improvement and purchase. Thus, the total outstanding value of SME loans reached more than USD 671 million at the end of 2017.

Be that as it may, Fransabank's responsibility goes beyond securing loans and funds. It also actively provides strategic insights and guidance to customers. Fransabank actually organizes seminars and sector- based information meetings in order to raise its customers' awareness, know-how and strengthen their loyalty to the Bank.

Educating customers is essential to ensure consumer protection and avoid future complaints. Thus, Fransabank is responsible for spreading awareness among its customers and, consequently be worthy of the trust it is given. While customers have full access to the terms, conditions and details of the product or service sold, they also have the right to request further clarifications to ensure a full compliance to the set provisions. In parallel, Fransabank personnel are required to assist their clients in making the right decisions, when acquiring one of the products, by assessing the risk associated to it. On the other side, clients have the choice to report any concern or complaint through several means, whether by email, website, call center, or applications available at all branches.

3. Responsibility for the Environment

Since the impact of business in general on the planet has become decisive when developing banking products and services, Fransabank has placed environmental and climate protection at the center of its corporate responsibilities; while environmental sustainability takes an important dimension as well when assessing investments and credits.

Thus, Fransabank creates sound partnerships with local and international partners, providing its customers with the most complete and inclusive offers. From the year 2014 until the end of 2017, Fransabank has financed, through the Sustainable Energy Finance (SEF), more than USD 110 million in more than 175 projects.

In view of that, Fransabank Environmental and Social Management System (ESMS) – the review of clients and projects we financed for environmental and social risks – is central to its due diligence and a key pillar of its Sustainable Energy Finance projects. In addition to that, the Bank strives to apply the same conscientiousness over its operations and supply chain, to reduce its direct environmental impact and show best practices.

In order to further spread the culture of sustainable financing, Fransabank fostered new partnerships and Memorandums of Understanding (MoU) with carefully selected sectors in the markets. The latest partnerships sealed in 2017 targeted the industrial sector:

- A MoU was signed with the Association of Lebanese Industrialists. Being aware of the economic sectors energy crisis, the promotion of alternative and sustainable energy solutions would inevitable help reduce greenhouse gas emissions and combat climate change, which would improve the Lebanese industry regional competitiveness.
- A loan agreement of USD 5 million to finance energy efficiency leases to small and medium businesses and mid-sized corporates in Lebanon was signed with the Green for Growth Fund (GGF). This investment should further expand energy efficiency, enabling the market to grow and create awareness, among corporate clients, on the benefits of energy savings, while mitigating climate change and supporting clean energy technologies.

These cooperation agreements follow ongoing MoUs signed in the previous year with:

- IPT petrol stations and Phoenix Energy to transform IPT Gas Stations into green and sustainable ones.
- The Lebanese American University (LAU) launching a cooperation between both parties to fight climate change, create public environmental awareness, as well as, for Fransabank's funding of LAU's sustainable energy projects.

- The Chamber of Commerce, Industry, Agriculture of Tripoli and North Lebanon and Phoenix Energy to support the creation of a solar farm destined to generate 5MW electricity to fulfill the needs of four areas in Tripoli.
- The e-EcoSolutions for their Green School Certification Program to support schools in their greening process.

Fransabank attended, for the third year in a row, the annual Conference of Parties (COP23) which was held in Bonn, Germany. Accordingly, Fransabank was invited to participate as a key speaker in the COP23; where it shared experiences and exchanged best practices within main players in Sustainable Energy Finance. Likewise, Fransabank was invited to give a speech during the 20th Euro Finance Week / 3rd Green Finance Forum in Frankfurt at the panel Greening the Financial Sector – Global Focus. During the latter, Fransabank's SEF Initiative was seen as a best practice especially with regards to the targeted sectors (industries, education, and municipalities). Moreover, the Bank attended the "Conference on Water Governance in MENA and wider Mediterranean region", held in Barcelona.

In parallel, targeting retail customers, a special green loan for customizable and ecological wooden frame houses was launched in 2017.

A distinctive internal ecological project was achieved in 2017 as well. Fransabank Laboue branch, in the Bekaa region, was completely refurbished in line with energy efficiency guidelines. The branch is strategically sited with reference to its solar power gains and the availability of environmental and climate conditions required to adopt energy efficient measures. The installation of the solar power solution for the branch was completed and the branch became completely functional and exceeded 15 hours of energy autonomy. Ensuing from the project's success, studies are on the course of reproducing it at other branches, which are naturally subject to the disposal of the requisite conditions.

Being a signatory to Lebanon Climate Act (LCA) initiative, Fransabank attended the LCA's Business Knowledge Platform marking the first year of the initiative. During the event, which was organized in collaboration with the UNDP, Fransabank was rewarded with a token of appreciation for its active engagement in supporting Lebanon's overall reduction of carbon emissions and pollution. In view of that, Fransabank, was recognized for its actions that fall under SDG 13 – Climate Action.

Internally, Fransabank has been working on minimizing its environmental impact by adopting efficient solutions, educating employees and providing high-performing workspaces.

Following the comprehensive green audit on Fransabank Headquarters, which was previously conducted by the IFC to evaluate the building energy efficiency, the Bank could achieve most of the recommendations. Per se, conventional lighting has been replaced with LED lighting, the old air conditioning chiller system has been substituted with the VRV air conditioning system, a monitoring and targeting program has been completed for the VRV system and the infrastructure of the Headquarters, and motion sensors were installed to turn off the escalators when not in use.

As for the carbon footprint of the Headquarters, the yearly average of CO_2 emissions following the implementation of the recommendations (based on the years 2016-2017) totaled 3,677 tons of CO_2 per year, amounting to an average total annual CO_2 reduction of 579 tons per year. As a result, the current Headquarters footprint per employee (including all IT services) is around 5.2 tons of CO_2 emission.

Certainly, waste management was fortified in 2017 via:

- Digital banking, 57,455 registered users to Fransabank e-banking services, compared with 51,068 at the end of 2016.
- Intranet portal platform use. The advanced intranet portal implementation provides, in addition to a more paperless environment, various benefits such as improved collaboration and communication, and better consolidation of information.
- Shared printers and double-sided printing across the Bank's departments / divisions and branches as well as the local entities, with a more widespread use of certified paper for the Bank's publications.
- Paper recycling within the Bank's Headquarters and branches. We have made considerable progress in reducing paper waste, reaching 209 tons of recycled papers in 2017 by itself, and attaining more than 588 tons at the end of 2017. As for plastic waste, Fransabank employees have contributed to the recycling of more than 1.6 tons of recyclable plastic in 2017. Recyclable plastic was collected and sent for recycling, reaching over 7.5 tons at the end of 2017.
- Implementing a re-use and recycling of waste strategy where and when possible.

4. Responsibility as an Employer

Through the implementation of the Human Resources strategy, which covers aspects from managerial principles, diversity and inclusion, talent development, to compensations and benefits, Fransabank strives to treat all employees equally and with respect, and give them the opportunity to lead a successful career.

For unlocking a wider range of business opportunities, a diverse and inclusive workforce is a prerequisite. Gender segmentation has been sustained, with an almost equal employment share among men and women, with 54% being males and 46% females. As for new recruits, 45% of them were women out of a total of 114. The percentage of university degree holders rose by 9.2% to reach 78.5%. This increase is due to the ongoing education policy implemented by the Bank, and certainly to the continuous recruitment efforts.

Women employment, in the banking sector, is not just an issue of diversity but rather one of inclusion. Therefore, women occupy diverse managerial and senior positions within Fransabank. 106 women employed at Fransabank are holding senior positions (representing 45% of senior management positions) - being head/deputy of division, head of department, regional manager or branch/deputy branch manager. As for middle management positions, 140 women are employed

(representing 47% of middle management positions) – being operational controllers, commercial controllers, deputy head of department, head/deputy head of unit.

Fransabank employees training and development programs are conditioned to enhance the quality of service and advisory offering to better adapt the business to the changing market needs. In fact, extensive training programs were provided in 2017, with a total of 1,294 employees completing 67,911 hours of training programs and an average of 39.1 hours of training per employee.

For the past 12 years, we have encouraged colleagues to support local community projects through fundraising and civic engagement. In this scope, Fransabank employees have been contributing to the treatment of children struggling with cancer. They chose to voluntarily donate a monthly amount out of their salary to the Children Cancer Center of Lebanon (CCCL) "Partner in Life Employee Giving Program". With 59 new adherents, the CCCL received the c/v of USD 44,464 in 2017, hence the collection of USD 350,778 from 537 Fransabank's employees at the end of 2017. Internally, Fransabank employees celebrated the International Women's Day 2017 which was held this year under the slogan: Challenge and Fight for a Gender Inclusive World. Believing in women empowerment and the vital roles they play in fostering a healthy society, employees decided to #BeBoldForChange and support different causes that will truly drive a well-deserved change for women.

5. Responsibility Towards the Community

Fransabank's ambitions through its communal support are to create shared values that serve individuals and generate inclusive communities; whether by supporting basic human rights, spreading knowledge, building broad awareness, or empowering people to make better choices. Accordingly, in 2017, almost 100 partner organizations from the educational, cultural, and social spectrums benefited from an investment of USD 1.1 million.

Since education and well-mastered financial skills drive economic empowerment and social mobility, Fransabank youth education initiatives aim at improving access to quality education in general, and financial education in particular. In 2017, Fransabank helped educate Lebanese youth to ultimately include the young generation in the banking system and activities. Accordingly, Fransabank educational loans reached an outstanding value of c/v USD 18.41 million at the end of December 2017.

Meanwhile, Fransabank encourages children and young people to learn about personal finance at an early age in order to build their financial confidence. The Bank participated for the second year, in the Global Money Week (GMW), an initiative raising the financial literacy among the youth, and stimulating their learning process in terms of money saving, generating livelihoods, employment, entrepreneurship and corporate social responsibility. Stepping forward in this edition, the Bank hosted an exceptional day for students with special needs.

Moreover, the year 2017 witnessed a key initiative entailing a financial literacy cards game the "Big Bank Challenge"; this game was developed in collaboration with the Institut des Finances Basil Fuleihan, and presented, to test concepts learned during the GMW 2017. Thus, Fransabank made use of the game to spread out financial education at several educational events throughout the year, such as:

- The Journées Bancaires organized by the Université Saint Joseph (USJ).
- Le Salon du Livre Francophone de Beyrouth, an annual book and educational exhibition.
- Beirut International Arab Book Fair – an annual gathering of Lebanese and Arab publishing houses and libraries.

Employees had volunteered to act as mentors to young students and played the game together. The Big Bank Challenge was also distributed to clients holding educational savings and insurance plans product where the beneficiaries' ages varied between 15 and 16 years. The game had positive feedback from the students, their instructors and parents.

Other youth financial education initiatives, such as school and college competitions, were wrapped up with the Lebanese American University (LAU), the Université Saint-Joseph (USJ), the General Secretariat of Catholic Schools, and other public and private schools across Lebanon.

On the other hand, Fransabank has always been an art advocate, believing that everyone should have access to art and music. Through its partnerships with cultural institutions, the Bank aims to bring together people from all backgrounds, opening doors and minds for social change.

Fransabank is also committed to building stronger and more inclusive communities, through investments, donations, and corporate volunteerism, helping people with difficulties see life from a different perspective. The Bank's strategic community partnerships are selected based on scalable and measurable impacts considering that the utmost goal is to support an inclusive society, with the potential of generating sustainable development for all society's segments from children, youth, women, seniors, disabled people, and families living in distress.

CORPORATE SOCIAL RESPONSIBILITY REPORTING

This is a summary of the Bank's Corporate Social Responsibility (CSR) progress in 2017.

A comprehensive report is published separately. It covers a wider range of topics with an all-embracing content about Fransabank CSR strategy, initiatives, facts, figures and case studies. The CSR report 2017 has been prepared in accordance with the GRI Standards: Core option.

For additional information, please be sure to visit Fransabank webpage on the following address:

https://goo.gl/oPVhnp

ENVIRONMENTAL AND SOCIAL MANAGEMENT SYSTEM (ESMS)

Being at the heart of the sustainability challenge, Fransabank has adopted an Environmental and Social Management System (ESMS) within its core lending process; a framework that integrates the management of environmental and social risks into the credit process, allowing the Bank to control and reduce the environmental impact of the businesses it finances.

The compliance of a project with the International environmental best practices and applicable national laws is assessed based on regular site visits and specialized due diligence conducted, to evaluate the environmental and social practices in place (waste management, efficiency of resources, labor and working conditions, pollution prevention, community health safety, conservation of biodiversity in proximity of the project premises, etc.). Thus, the Bank assigns a risk category to each project at hand. For clients categorized with a high environmental and social risk, corrective action plans will be agreed upon and followed up closely.

Through this system, Fransabank is leading for change towards better environmental and social performance, making sure that access to financial resources promotes environmental protection, social justice and economic prosperity.

During the year 2017, in line with the ongoing promotion of sustainable energy and green products, environmental and social due diligences were performed for clients under this asset category and action plans to enhance environmental performance were elaborated.

REGAIN

05 CONSOLIDATED FINANCIAL STATEMENTS

NOW

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS
FRANSABANK SAL
BEIRUT, LEBANON

OPINION

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

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

Key audit matters

Impairment of loans and advances

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, as disclosed in Note 9 to the consolidated financial statements, 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. This includes the analysis of the financial performance of the borrower, historic experience when assessing the likelihood of incurred losses in the portfolios and the adequacy of collateral for secure lending. However, the retail loan portfolio generally comprises much smaller value loans to a much greater number of customers. Therefore, provisions for 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.

IFRS 5 'Non-current assets held for sale and discontinued operations' application

We focused on this area following the signed sale term sheet of the Cypriot entity during 2017 and which is expected to be completed upon securing the regulators' approval in Cyprus and Lebanon. As a result, IFRS 5 'Non-current assets held for sale and discontinued operations' required to treat this transaction as a discontinued operation in the financial statements. This resulted in a number of presentational changes and disclosures in the financial statements. This could have resulted in the requirements of IFRS 5 not being fully met. In addition, being treated as a discontinued operation, the comparative statement of profit or loss, cash flows statement and associated disclosures for the year ended December 31, 2016 were required to be restated.

How our audit addressed the key audit matters?

The risks outlined were addressed by us as follows:

We tested the key controls over the valuation of loans and advances and related provisions. These included testing:

- System-based and manual controls over the timely recognition of impaired loans and advances.
- Controls over the impairment calculation models including data inputs.
- Controls over collateral valuation estimates.

- For performing customers, we performed detailed testing on 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. We challenged the completeness of loans and advances considered to be non-performing and we increased the focus on loans that were not reported as being impaired in sectors that are currently experiencing difficult economic and market conditions.
- For collective impairment allowances, substantially covered by the regulatory designated deferred liability set up in anticipation of IFRS 9 as referred to under emphasis of a matter section of our report we critically assessed the Management 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.

Our work to audit the presentation and disclosure of the disposal of the Cypriot entity included:

- Reading the sale term sheet to assess whether the classification as 'Held for Sale' was appropriate.
- Assessing the valuation of assets and liabilities in the Cypriot entity to consider whether any revaluation or impairment was required by considering the fair value less costs to sell and the carrying value of assets and liabilities in the Group.
- Assessing the completeness and accuracy of the disclosure of discontinued operation against the disclosure requirements of IFRS 5.
- Testing the Group's restatement of the comparative numbers and associated disclosures to assess whether business associated with the sale had been appropriately recognized as discontinued.

INDEPENDENT AUDITORS' REPORT

Key audit matters	How our audit addressed the key audit matters?
Goodwill impairment The Group annually carries out an impairment assessment of goodwill using the market transaction approach. The risk is that the book value of the goodwill exceeds its recoverable amount, and therefore the goodwill is impaired and should be written down in value. This is due to the limited and/or relevance of data that may be available.	We assessed the reasonableness of the impairment testing carried out by management especially in determining the fair value of each separate cash generating unit defined and compared key input such as the multiplier used in recent acquisition transactions.

OTHER INFORMATION

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

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

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

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

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

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

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

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

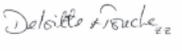
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Beirut, Lebanon
May 14, 2018

DFK Fiduciaire du Moyen-Orient

Deloitte & Touche



CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at December 31,

ASSETS

LBP'000	Notes	2017	2016
Cash and Central Banks	5	9,005,938,031	7,650,588,711
Deposits with banks and financial institutions	6	1,123,611,712	1,350,126,934
Loans to banks	7	140,462,939	57,019,511
Assets classified as held for sale	8	1,380,267,902	-
Loans and advances to customers	9	9,776,012,029	9,849,089,736
Investment securities	10	10,505,820,412	11,197,730,794
Customers' liability under acceptances	11	434,478,352	285,272,135
Investments in associates	12	79,301,461	72,161,135
Assets acquired in satisfaction of loans	13	211,571,360	310,720,568
Investment properties	13	-	19,077,305
Property and equipment	14	404,279,660	412,670,344
Intangible assets	15	12,161,157	13,326,869
Goodwill	16	48,903,653	54,779,898
Other assets	17	129,729,037	165,757,535
TOTAL ASSETS		**33,252,537,705**	**31,438,321,475**

FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISKS			
Documentary and commercial letters of credit	40	306,952,246	472,534,919
Guarantees and standby letters of credit	40	943,342,301	936,246,378
Forward contracts		843,756,842	821,417,592

LIABILITIES

LBP'000	Notes	2017	2016
Deposits and borrowings from banks	18	264,140,929	285,611,112
Liabilities directly associated with assets classified as held for sale	8	1,249,041,760	-
Liabilities designated at fair value through profit or loss	19	135,500,053	136,487,357
Customers' accounts at amortized cost	20	24,882,215,698	25,501,689,772
Customers' acceptance liability	11	434,478,352	285,272,135
Other borrowings	21	2,361,566,195	1,271,419,416
Subordinated loan	22	19,124,748	25,499,664
Other liabilities	23	615,961,401	677,812,042
Provisions	24	47,044,261	47,980,970
TOTAL LIABILITIES		**30,009,073,397**	**28,231,772,468**

EQUITY

Issued capital - Ordinary shares	25	438,500,000	430,000,000
Issued capital - Preference shares	27	34,000,000	35,000,000
Share premium - Preference shares	27	478,550,000	492,625,000
Shareholders' cash contribution to capital	26	17,113,885	17,113,885
Reserves	28	564,191,745	468,751,514
Cumulative change in fair value of financial assets	29	175,962,132	162,436,153
Brought forward retained earnings		864,944,123	811,566,473
Net profit for the year	31	251,191,771	280,074,244
Equity attributable to the owners of the Bank		2,824,453,656	2,697,567,269
Non-controlling interests	30	419,010,652	508,981,738
TOTAL EQUITY		**3,243,464,308**	**3,206,549,007**
TOTAL LIABILITIES AND EQUITY		**33,252,537,705**	**31,438,321,475**

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended December 31,

LBP'000	Notes	2017	(Re-presented) 2016
Continuing operations:			
Interest income	33	1,695,601,515	1,578,669,511
Less: tax on interest	33	(2,543,636)	-
Interest income, net of tax		1,693,057,879	1,578,669,511
Interest expense	34	(1,144,762,094)	(1,066,006,327)
Net interest income		548,295,785	512,663,184
Fee and commission income	35	126,676,330	115,430,941
Fee and commission expense	36	(19,947,117)	(21,707,584)
Net fee and commission income		106,729,213	93,723,357
Net interest and other gain / (loss) on financial assets at fair value through profit or loss	37	31,147,934	63,403,115
Interest expense on financial liabilities designated at fair value through profit or loss		(7,470,421)	(3,525,103)
Loss on derecognition of financial assets at amortized cost	10	(25,453)	(55,382)
Other operating income (net)	38	54,459,569	64,051,509
Net financial revenues		733,136,627	730,260,680
(Allowance) / write-back for impairment of loans and advances (net)	9	(8,295,681)	13,217,851
Bad debts expense		(113,937)	2,164
Write-back of discount on purchased loan portfolio	9	92,197	610,503
Write-back / (allowance) for off-balance sheet risks		995,698	(885,152)
Loans written-off		(15,205)	(295,138)
Write-back of allowance for deposits with a foreign central bank	5	2,359,158	-
Net financial revenues after impairment losses		728,158,857	742,910,908
Staff costs		(243,390,203)	(238,780,975)
Administrative expenses		(112,456,892)	(108,601,697)
Depreciation and amortization	14, 15	(29,713,496)	(29,229,152)
Provisions for charges (net)	39	(3,698,100)	(3,783,196)
Profit from continuing operations before income tax		338,900,166	362,515,888
Income tax expense	23	(55,832,959)	(53,978,044)
Deferred tax on investees undistributed profits	31	(13,122,644)	(9,146,073)
Net profit for the year from continuing operations		269,944,563	299,391,771
Discontinued operations:			
(Loss) / profit from discontinued operations	8	(18,604,979)	3,545,401
Adjustments on disposal group carrying amount	8	19,001,229	-
Net profit for the year from discontinued operations		396,250	3,545,401
NET PROFIT FOR THE YEAR		**270,340,813**	**302,937,172**
Attributable to:			
Owners of the Bank	31	251,191,771	280,074,244
Non-controlling interests	31	19,149,042	22,862,928
		270,340,813	302,937,172

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended December 31,

LBP'000	Notes	2017	(Re-presented) 2016
Net profit for the year		270,340,813	302,937,172
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss			
Unrealized gain on financial assets designated at fair value through other comprehensive income	10	30,882,423	826,191
Property revaluation surplus	14	38,589	618,147
Share in other comprehensive income of associates	12	4,433	40,944
Deferred tax		(17,732,741)	(39,175)
		13,192,704	1,446,107
Items that may be reclassified subsequently to profit or loss			
Currency translation adjustment		(8,485,992)	(5,305,553)
Effect of a deconsolidation of a subsidiary	43	15,940,262	-
		7,454,270	(5,305,553)
Total other comprehensive income		20,646,974	(3,859,446)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**290,987,787**	**299,077,726**
Attributable to:			
Owners of the Bank		272,494,333	285,852,598
Non-controlling interests		18,493,454	13,225,128
		290,987,787	299,077,726

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31,

	Equity Attributable to				
LBP'000	Capital Ordinary Shares	Preference Shares	Share Premium on Preference Shares	Shareholders' Cash Contribution to Capital	Reserves
BALANCE AS AT JANUARY 1, 2016	**430,000,000**	**35,000,000**	**492,625,000**	**17,113,885**	**360,532,546**
Dividends paid (Note 32)	-	-	-	-	-
Effect of acquisition of additional equity interest	-	-	-	-	(1,310,859)
Effect of increase of capital in subsidiary	-	-	-	-	(10,912,619)
Deferred liabilities	-	-	-	-	-
Other movement	-	-	-	-	949,623
Allocation of 2015 profit	-	-	-	-	84,043,150
Issuance of preference shares by a subsidiary	-	-	-	-	-
Redemption of preference shares by a subsidiary	-	-	-	-	-
Reallocation between reserves and retained earnings	-	-	-	-	(2,000,010)
Board of Directors' remuneration in subsidiaries	-	-	-	-	-
Derecognition of securities at FVTOCI (Note 10)	-	-	-	-	-
Total comprehensive income for the year 2016	-	-	-	-	5,214,714
BALANCE AS AT DECEMBER 31, 2016	**430,000,000**	**35,000,000**	**492,625,000**	**17,113,885**	**436,516,545**
Dividends paid (Note 32)	-	-	-	-	-
Issuance of preference shares	-	7,500,000	105,562,500	-	-
Redemption of preference shares	-	(8,500,000)	(119,637,500)	-	-
Capital increase and reconstruction	8,500,000	-	-	-	-
Transfer to retained earnings upon liquidation of of a subsidiary	-	-	-	-	(395,092)
Effect of increase of capital in subsidiary	-	-	-	-	(398,830)
Deferred liabilities	-	-	-	-	-
Other movement	-	-	-	-	44,954
Allocation of 2016 profit	-	-	-	-	79,850,355
Redemption of preference shares by a subsidiary	-	-	-	-	-
Reallocation between reserves and retained earnings	-	-	-	-	(5,974,485)
Board of Directors' remuneration in subsidiaries	-	-	-	-	-
Transfer to other liabilities	-	-	-	-	-
Effect of deconsolidation of Fransabank Syria	-	-	-	-	(17,176,506)
Total comprehensive income for the year 2017	-	-	-	-	7,671,438
BALANCE AS AT DECEMBER 31, 2017	**438,500,000**	**34,000,000**	**478,550,000**	**17,113,885**	**500,138,379**

the Owners of the Bank						
Special Reserve and General Reserve on Performing Loans	Retained Earnings	Profit for the Year	Cumulative Change in Fair Value of Financial Assets	Total	Non-Controlling Interests	Total Equity
11,319,883	**746,945,526**	**254,304,555**	**163,798,343**	**2,511,639,738**	**437,538,209**	**2,949,177,947**
-	-	(94,297,362)	-	(94,297,362)	(5,128,398)	(99,425,760)
-	1,250,183	-	30,857	(29,819)	29,819	-
-	4,699,329	-	-	(6,213,290)	7,942,124	1,728,834
-	1,803,800	-	-	1,803,800	1,440,497	3,244,297
-	(2,404,476)	-	375,000	(1,079,853)	1,171,859	92,006
20,915,086	55,048,957	(160,007,193)	-	-	-	-
-	-	-	-	-	113,062,500	113,062,500
-	-	-	-	-	(60,300,000)	(60,300,000)
-	2,000,010	-	-	-	-	-
-	(108,543)	-	-	(108,543)	-	(108,543)
-	2,290,743	-	(2,290,743)	-	-	-
-	40,944	280,074,244	522,696	285,852,598	13,225,128	299,077,726
32,234,969	**811,566,473**	**280,074,244**	**162,436,153**	**2,697,567,269**	**508,981,738**	**3,206,549,007**
-	-	(114,524,064)	-	(114,524,064)	(5,886,516)	(120,410,580)
-	-	-	-	113,062,500	-	113,062,500
-	(4,484,801)	-	-	(132,622,301)	-	(132,622,301)
-	(8,500,000)	-	-	-	-	-
-	495,804	-	(100,712)	-	-	-
-	1,592,856	-	-	1,194,026	10,421	1,204,447
-	(4,023,576)	-	-	(4,023,576)	(2,845,112)	(6,868,688)
-	600,754	-	-	645,708	974,004	1,619,712
31,818,397	53,881,428	(165,550,180)	-	-	-	-
-	-	-	-	-	(82,912,500)	(82,912,500)
-	5,974,485	-	-	-	-	-
-	(67,233)	-	-	(67,233)	-	(67,233)
-	-	-	-	-	(11,346)	(11,346)
-	7,903,500	-	-	(9,273,006)	(17,793,491)	(27,066,497)
-	4,433	251,191,771	13,626,691	272,494,333	18,493,454	290,987,787
64,053,366	**864,944,123**	**251,191,771**	**175,962,132**	**2,824,453,656**	**419,010,652**	**3,243,464,308**

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended December 31,

LBP'000	Notes	2017	2016
Cash flows from operating activities			
Profit for the year before tax		339,296,417	366,061,289
Adjustments for:			
Unrealized gain on financial assets at fair value through profit or loss	37	(1,679,352)	(13,265,717)
Change in fair value of investment properties	15	-	950,806
Share in profits of associates	38	(18,637,661)	(15,330,578)
Depreciation and amortization	14,15	29,713,496	30,760,107
Net impairment allowance of loans and advances to customers and write-back of discount on purchased loans	9	8,203,484	5,626,052
Write-back of allowance for term deposits with a foreign central bank	5	(2,359,158)	-
Regulatory allowance for country risk – Deposits with banks	6	4,035	70
Regulatory allowance for country risk – Loans with banks	7	1,025	(19,506)
(Write-back) / impairment allowance of investment in securities	10	(1,044)	7,030
Transfer from other liabilities	23	(17,851,479)	(22,154,654)
Net effect of assets held-for sale	8	(131,226,142)	-
(Gain) / loss disposal of property and equipment	38	(832,350)	79,791
Loss on disposal of intangible assets	38	54,377	4,165
Gain on disposal of assets acquired in satisfaction of loans	38	(8,331,986)	(1,902,300)
Provisions	24	5,950,494	9,204,739
Interest expense		1,152,232,515	1,082,803,664
Interest income		(1,716,617,223)	(1,674,043,559)
Dividend income	37,38	(7,300,019)	(7,038,780)
		(369,380,571)	**(238,257,381)**
Net (increase) / decrease in loans to banks	7	(82,681,048)	13,910,376
Net decrease / (increase) in loans and advances to customers	9	96,335,928	(434,877,437)
Net decrease in investment securities	10	735,459,275	693,999,008
Net decrease in other assets	17	10,312,435	39,886,726
Net decrease / (increase) in compulsory deposits with Central Banks	5	99,255,885	(59,915,853)
Net increase / (decrease) in deposits and borrowings from banks	18	82,249,103	(9,784,569)
Net (decrease) / increase in customers' deposits at FVTPL		(2,363,995)	83,576,062
Net (decrease) / increase in customers' deposits at amortized cost	20	(440,642,635)	965,551,174
Net decrease in other liabilities	23	(65,747,538)	(32,902,766)
Proceeds from disposal of foreclosed assets		17,169,895	3,618,979
Settlement of provisions	24	(6,684,339)	(4,151,519)
		73,282,395	**1,020,652,800**
Interest paid		(1,149,286,735)	(1,083,829,345)
Interest received		1,729,058,723	1,683,749,438
Dividends received		14,889,680	15,392,731
Income tax paid		(54,897,624)	(53,447,510)
Net Cash Provided from Operating Activities		**613,046,439**	**1,582,518,114**

LBP'000	Notes	2017	2016
Cash flows from investing activities			
Proceeds from disposal of property and equipment		5,397,368	183,262
Proceeds from disposal of intangible assets		9,079	-
Net increase in placements with banks		(1,762,431,933)	(609,743,734)
Acquisition of property, plant and equipment	14	(31,381,113)	(45,608,515)
Acquisition of intangible assets	15	(2,796,526)	(4,249,469)
Net Cash Used in Investing Activities		**(1,791,203,125)**	**(659,418,456)**
Cash flows from financing activities			
Issuance of preference shares	27	113,062,500	-
Redemption of preference shares		(132,622,301)	-
Issuance of preference shares by a subsidiary		-	113,062,500
Redemption of preference shares by a subsidiary		(82,912,500)	(60,300,000)
Decrease in subordinated loan		(6,374,916)	(6,374,916)
Net increase / (decrease) in other borrowings	21	1,087,944,048	(363,116,863)
Subscription of capital by non-controlling interests		1,204,447	1,728,834
Dividends paid	32	(120,410,580)	(99,425,760)
Net Cash Provided from / (Used in) Financing Activities		**859,890,698**	**(414,426,205)**
Net (decrease) / increase in cash and cash equivalents		(318,265,988)	508,673,453
Unrealized currency translation adjustment and other		12,505,163	4,575,970
Cash and cash equivalents beginning of year		3,447,712,150	2,934,462,727
CASH AND CASH EQUIVALENTS END OF YEAR	**41**	**3,141,951,325**	**3,447,712,150**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2017

1. GENERAL INFORMATION

Fransabank SAL (the "Bank") is a Lebanese joint-stock company registered in the Trade Register under Number 25699 and in the Central Bank of Lebanon list of banks under number 1. The consolidated financial statements of the Bank comprise the financial statements of the Bank and those of its subsidiaries collectively (the "Group"). The Group is primarily involved in investment, corporate and retail banking.

The Bank's registered address is Fransabank Center, Hamra, P.O. Box 11-0393 Beirut, Lebanon.

No ultimate direct or indirect Company controls the Group. The Group is controlled by individual shareholders of the Kassar family members.

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

Investee	Country of Incorporation	Ownership Interest 2017 %	Ownership Interest 2016 %	Business Activity
Fransa Invest Bank SAL	Lebanon	99.99	99.99	Specialized Bank
Fransabank (France) SA	France	79.98	79.98	Banking
Lebanese Leasing Company SAL	Lebanon	87.49	87.49	Financial Institution
Switch and Electronics Services SAL	Lebanon	99.70	99.70	Financial Services
Sogefon SAL	Lebanon	99.88	99.88	Real Estate Company
Fransabank Insurance Services Co. SAL	Lebanon	99.70	99.70	Insurance
Fransabank El Djazaïr SPA	Algeria	67.99	67.99	Banking
BLC Bank SAL & its Subsidiaries (BLC Services SAL & BLC Finance SAL)	Lebanon	74.83	74.83	Banking
Express SARL	Lebanon	98.35	98.35	Restaurant
Fransabank Syria	Syria	-	58.18	Banking
Fransabank OJSC	Belarus	91.55	91.55	Banking
The Kuwaiti Lebanese Company for Real Estate Services SAL	Lebanon	100	100	Real Estate Company

Effective December 31, 2017, the financial statements of Fransabank Syria were deconsolidated from the consolidated financial statements of the Group due to the exit of the Bank's management from the Board of Directors of Fransabank Syria and the loss of control over this subsidiary. Accordingly, the investment in Fransabank Syria was classified as "Investment securities at fair value through other comprehensive income". (Refer to Note 43 for more details).

During 2017, BLC Bank SAL merged the financials of its subsidiary BLC Invest SAL within its own financials by virtue of acquisition of assets, liabilities and activities. The merger agreement between BLC Bank SAL and its subsidiary was approved by the regulator on April 12, 2017.

During 2017, a term sheet was signed between the BLC Bank SAL major shareholders, namely Fransabank SAL and Sehnaoui Group, whereby the subsidiary's investment in USB Bank PLC will be sold to Sehnaoui Group who in turn will exit their investment at BLC Bank SAL subject to certain terms and conditions including securing the regulators' approval in Cyprus and Lebanon which is still in progress. Based on the above, IFRS 5 "Non-current assets held for sale and discontinued operations" has been applied for the Cypriot entity in the preparation of the 2017 year-end consolidated financial statements (Note 8).

Financial information of subsidiaries that have material non-controlling interests is provided under Note 30.

The Group has interest in the following associates:

Investee	Country of Incorporation	Interests Held 2017 %	Interests Held 2016 %	Business Activity
Bancassurance SAL	Lebanon	60	60	Life Insurance
United Capital Bank PLC	Republic of Sudan	20	20	Islamic Banking
International Payment Network SAL	Lebanon	20.30	20.30	Payment Network

Information on the Group's associates is provided under Note 12.

Information on other related party relationships is provided under Note 41.

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

2.1 New and Revised IFRSs Applied With No Material Effect on the Consolidated Financial Statements

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

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

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

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

Amendments to IAS 7 *Disclosure Initiative*

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

The Group's liabilities arising from financing activities consist of other borrowings and subordinated loans. A reconciliation between the opening and closing balances of these items is provided in Notes 21 and 22. Consistent with the transition

provisions of the amendments, the Group has not disclosed comparative information for the prior period. Apart from the additional disclosure in Notes 21 and 22, the application of these amendments has had no impact on the Group's financial statements.

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

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

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

The application of these amendments has had no effect on the Group's consolidated financial statements except for the classification of the Cypriot entity which was classified as a disposal group held for sale (Note 8).

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

- Annual Improvements to IFRS Standards 2014-2016 Cycle amending IFRS 1 and IAS 28. Effective for annual periods beginning on or after January 1, 2018.
- Annual Improvements to IFRS Standards 2015-2017 Cycle amending IFRS 3, IFRS 11, IAS 12 and IAS 23. Effective for annual periods beginning on or after January 1, 2019.
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*. Effective for annual periods beginning on or after January 1, 2018.
  The interpretation addresses foreign currency transactions or parts of transactions where:
  - there is consideration that is denominated or priced in a foreign currency;
  - the entity recognizes 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.
- IFRIC 23 *Uncertainty over Income Tax Treatments*. Effective for annual periods beginning on or after January 1, 2019.
  The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:
  - Whether tax treatments should be considered collectively;
  - Assumptions for taxation authorities' examinations;
  - The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
  - The effect of changes in facts and circumstances.
- Amendments to IFRS 2 *Share Based Payment* regarding classification and measurement of share based payment transactions. Effective for annual periods beginning on or after January 1, 2018.
- Amendments to IFRS 4 *Insurance Contracts*: Relating to the different effective dates of IFRS 9 and the forthcoming new insurance contracts standard. Effective for annual periods beginning on or after January 1, 2018.
- Amendments to IAS 40 *Investment Property*: Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The paragraph has been amended to state that the list of examples therein is non-exhaustive. Effective for annual periods beginning on or after January 1, 2018.
- IFRS 9 *Financial Instruments* (revised versions in 2010, 2013 and 2014). Effective for annual periods beginning on or after January 1, 2018.

  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. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

  A finalised version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 *Financial Instruments: Recognition and Measurement* was issued in July 2014. The standard contains requirements in the following areas:

  - Classification and measurement: Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.

  - Impairment: The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised.

  - Hedge accounting: Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.

  - Derecognition: The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

Impact Assessment of IFRS 9 Financial Instruments

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 January 1, 2018. Although IFRS 9 will be retrospectively applied, the Group is only permitted to restate comparatives if, an only if, it is possible without the use of hindsight. The Group will not restate comparatives as it does not consider it possible to do so without the use of hindsight.

During 2017, the Group has performed a detailed impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018 when the Group will adopt IFRS 9. Overall, the Group expects no significant impact on its statement of financial position and equity except for the effect of the change in fair value resulting from the classification of a portfolio of debt securities to fair value through other comprehensive income and the effect of applying the impairment requirements of IFRS 9. The Group expects an increase in equity as a result of implementing changes in classification of certain financial instruments and an increase in the loss allowance as reflected below.

Classification and measurement

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

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

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

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

Impairment

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

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

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

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

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

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

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

Our assessment of significant increases in credit risk will be performed at least semi-annually for each individual exposure based on qualitative and quantitative factors summarized below. If any of the following factors indicates that a significant increase in credit risk has occurred, the instrument will be moved from Stage 1 to Stage 2:

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

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

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

Macroeconomic Factors, Forward Looking Information (FLI) and Multiple Scenarios
The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk must consider information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information will require significant judgment.

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

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

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

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

Governance
In addition to the existing risk management framework, we have established an internal Committee to provide oversight to the IFRS 9 implementation. An internal specialized committee comprised of senior representatives from Finance and Risk Management will also be established and will be responsible for reviewing and approving staging of financial assets and other key inputs and assumptions used in our expected credit loss estimates. It also assesses the appropriateness of the overall allowance to be provided for Expected Credit Losses.

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

Hedge accounting

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

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

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.

In addition to the adjustments described above, on adoption of IFRS 9, other items of the primary financial statements such as deferred taxes, exchange differences on translation of foreign operations and non-controlling interests will be adjusted. Furthermore, in accordance with Central Bank of Lebanon's basic circular 143 dated 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:

LBP'000 000	Estimated Impact from Classification and Measurement	Change in Fair Value	Estimated Impact from Recognition or Expected Credit Losses	Estimated Total Impact
ASSETS				
Cash and balances with Central Bank	-	-	(36,891)	(36,891)
Deposits with banks and financial institutions	-	-	(16,265)	(16,265)
Financial assets at fair value through profit or loss	(63,969)	1,147	-	(62,822)
Loans and advances to customers at amortized cost	-	-	(173,803)	(173,803)
Financial assets at amortized cost	(454,534)	-	(72,163)	(526,697)
Financial assets at fair value through other comprehensive income	518,503	5,921	-	524,424
	-	**7,068**	**(299,122)**	**(292,054)**
LIABILITIES				
Loans and advances - unutilized limits	-	-	9,872	9,872
Regulatory deferred liability	-	-	(307,532)	(307,532)
	-	**-**	**(297,660)**	**(297,660)**
Net Impact on Equity	**-**	**7,068**	**(1,462)**	**5,606**

The combined impact of the IFRS 9 transitional adjustments on equity is expected to be less than that generated by the quarterly profit and is not considered significant by the management.

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

- Amendments to IFRS 9 *Financial Instruments*: Relating to prepayment features with negative compensation. This amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortized cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments. Effective for annual periods beginning on or after January 1, 2019.

- IFRS 15 *Revenue from Contracts with Customers*. Effective for annual periods beginning on or after January 1, 2018.

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

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

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

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

- Amendments to IFRS 15 *Revenue from Contracts* with Customers to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts. Effective for annual periods beginning on or after January 1, 2018.

- IFRS 16 *Leases*. Effective for annual periods beginning on or after January 1, 2019.

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

- Amendments to IAS 28 *Investment in Associates and Joint Ventures*: Relating to long-term interests in associates and joint ventures. These amendments clarify that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. Effective for annual periods beginning on or after January 1, 2019.

- Amendments to IFRS 7 *Financial Instruments: Disclosures* relating to disclosures about the initial application of IFRS 9. Effective when IFRS 9 is first applied.

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

- IFRS 17 *Insurance Contracts*. Effective for annual periods beginning on or after January 1, 2021.

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

- Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture. Effective date deferred indefinitely. Adoption is still permitted.

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

3. BASIS OF PREPARATION

Statement of Compliance

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

Basis of Measurement

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

- Financial instruments at fair value through profit or loss.
- Investments in equities.
- Other financial assets not held in a business model whose objective is to hold assets to collect contractual cash flows or whose contractual terms do not give rise solely to payments of principal and interest.
- Derivative financial instruments.

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

Summary of Significant Accounting Policies

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

A. Basis of Consolidation:

The consolidated financial statements of Fransabank SAL incorporate the financial statements of the Bank and enterprises controlled by the Bank (its subsidiaries) as at the reporting date. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.
Specifically, the Group controls an investee if and only if the Group has:

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

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

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

Consolidation of a subsidiary begins when the 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 consolidated statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

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

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

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

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

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

B. Business Combinations:

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

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

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss. Where applicable, adjustments are made to provisional values of recognized assets and liabilities related to facts and circumstances that existed at the acquisition date. These are adjusted to the provisional goodwill amount. All other adjustments including above adjustments made after one year are recognized in profit and loss except to correct an error in accordance with IAS 8.

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

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

C. Foreign Currencies:

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

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

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

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

D. Recognition and Derecognition of Financial Assets and Liabilities:

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

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

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

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

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

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

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

E. Classification of Financial Assets:

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

Debt Instruments

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

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

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

Even if a debt instrument meets the two amortized cost criteria above, it may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a

measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.

Equity Instruments

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

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

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

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

Reclassification

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

F. Financial Liabilities and Equity Instruments:

Classification as Debt or Equity

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

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

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

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

Financial Liabilities

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

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

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

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

G. Offsetting:

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

H. Fair Value Measurement of Financial Instruments:

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

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

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

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

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

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 - Inputs, other than quoted prices included within Level 1, that are observable for the asset and liability either directly or indirectly; and
- Level 3 - Inputs are unobservable inputs for the asset or liability.

I. Impairment of Financial Assets:

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

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

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

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

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

J. Derivative Financial Instruments:

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

Embedded Derivatives

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

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

Hedge Accounting

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

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in off-setting changes in fair values or cash flows of the hedged item.

Fair Value Hedge

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

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

Cash Flow Hedge

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

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

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

K. Non-Current Assets Held for Sale:

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or

disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

L. Loans and Advances:

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

M. Financial Guarantees:

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

Financial guarantee liabilities are initially measured at their fair value, and subsequently carried at the higher of this amortized amount and the present value of any expected payment (when a payment under the guarantee has become probable). Financial guarantees are included within other liabilities.

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

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

O. Property and Equipment:

Property and equipment except for buildings acquired prior to 1993 are stated at historical cost, less accumulated depreciation and impairment loss, if any.

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

	USEFUL LIFE YEARS
Buildings	50
Office improvements and installations	5 - 17
Furniture, equipment and machines	5 - 12
Computer equipment	3 - 5
Vehicles	5 - 10

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.

P. Intangible Assets and Goodwill:

Goodwill

Refer to Note 3B for the measurement of goodwill at initial recognition arising on the acquisition of subsidiaries. Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses.

Other Intangible Assets

Other intangible assets consisting of computer software and key money are amortized over a period of 3 to 5 years and 6.66 years respectively and are subject to impairment testing. Subsequent expenditure on software assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Q. Leasing:

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

Assets held under finance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

R. Foreclosed Assets:

Policy Applicable to the Group's Lebanese Entities

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

Policy Applicable to the Group's Cypriot Entity

The Group in its normal course of business acquires properties in debt satisfaction, which are held either directly or by special purpose entities set up for the sole purpose of managing these properties with an intention to be disposed of. These properties are recognized in the Bank's consolidated financial statements as stock of property, reflecting the substance of these transactions. The stock of property is measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price, less the estimated costs necessary to make the sale. If net realizable value is below the cost of the stock of property, impairment is recognized in the consolidated statement of profit or loss.

S. Investment Properties:

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value, as at the balance sheet date. Gain or losses arising from changes in the fair values of investment properties are included in the statement of profit or loss. Valuations are carried out by independent qualified valuers on the basis of current market values.

The Group's Cypriot entity acquires in its normal course of business properties in satisfaction of debts. These properties are directly held by the Group or by special purpose entities for the sole purpose of managing these properties. To reflect the substance of transactions, these are classified as investment properties and are consolidated without the entities being explicitly disclosed as subsidiaries.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to stock of property, the property's deemed cost for subsequent accounting is its fair value at the date of change in use.

T. Impairment of Non-Financial Assets:

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

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.

An impairment loss in respect of goodwill is not reversed.

U. Deferred Assets:

Deferred assets on business acquisition and against contractual projected cash flows are stated at amortized cost. Such deferred charges are amortized over the period of related benefits deriving from the net return of the invested funds funded through committed structured medium term debt and major part in fiscal 2016 and 2017 from the yield earned on investments funded from the release of compulsory reserve, the purpose of which is to offset exceptional impairment losses. Amortization charge is treated as a yield adjustment to the interest income of the invested funds.

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

Policy Applicable to the Group's Lebanese Entities

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

Policy Applicable to other Jurisdictions

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

W. Provisions:

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

X. Deferred Restricted Contributions:

Restricted contributions derived from special and non-conventional deals arrangement 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.

Y. Revenue and Expense Recognition:

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

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

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

Interest income and expense presented in the statement of profit or loss include:
- Interest on financial assets and liabilities at amortized cost.
- Changes in fair value of qualifying derivatives, including hedge ineffectiveness, and related hedged items when interest rate risk is the hedged risk.

Interest income on financial assets measured at fair value through profit or loss are presented separately in the statement of profit or loss under "Net Interest and Other Gain / (Loss) on financial assets at fair value through profit or loss" (See below).

Net Interest and Other Gain / (Loss) on financial assets measured at fair value through profit or loss includes:
- Interest income.
- Dividend income.
- Realized and unrealized fair value changes.
- Foreign exchange differences.

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

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

Z. Income Tax:

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

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

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

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

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

AA. Fiduciary Accounts:

Fiduciary assets are held or invested on behalf of the Group's customers on a discretionary basis, non-discretionary basis, or both. The related risks and rewards belong to the account holders and accordingly, these accounts are reflected as off-balance sheet accounts.

AB. 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 banks 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.

4-A. Critical Accounting Judgments in Applying the Group's Accounting Policies:

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

Going Concern

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

Classification of Financial Assets

Business Model

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

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

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

Characteristics of the Financial Asset

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

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

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

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

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

4-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.

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

Allowances for Credit Losses

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

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

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

Determining Fair Values

When the fair values of financial instruments recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the Discounted Cash Flow (DCF) model, as described in Note 47.

The inputs in these models are taken from observable markets where possible. Where practical, the discount rate used in the mark-to-model approach included observable data collected from market participants, including risk free interest rates and credit default swap rates for pricing of credit risk (both own

and counter party), and a liquidity risk factor which is added to the applied discount rate. Changes in assumptions about any of these factors could affect the reported fair value of the sovereign bonds including Central Bank certificates of deposit.

Unobservable inputs are used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. 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 Note 3T. The recoverable amount is deemed to be the value in use using a discounted cash flow model. This requires the directors to estimate the future cash flows and a suitable discount rate.

5. CASH AND CENTRAL BANKS

LBP'000	December 31, 2017		December 31, 2016	
	Balance	**of which Compulsory/ Regulatory Deposits**	**Balance**	**of which Compulsory/ Regulatory Deposits**
Cash on hand	214,929,568	-	222,382,941	-
Current accounts with Central Bank of Lebanon	739,351,376	601,019,182	864,674,974	694,940,913
Current accounts with other Central Banks	356,998,478	46,015,044	139,491,774	43,192,731
Term placements with Central Bank of Lebanon	7,571,301,064	1,706,141,266	6,177,769,617	1,583,627,589
Term placements with other Central Banks	-	-	92,582,141	-
Blocked accounts with Central Bank of Lebanon under Intermediate Circular 313	44,520,984	-	81,585,869	-
Accrued interest receivable	85,522,403	-	81,146,395	-
Regulatory allowance for country risk	(6,685,842)	-	(9,045,000)	-
TOTAL	**9,005,938,031**	**2,353,175,492**	**7,650,588,711**	**2,321,761,233**

Compulsory deposits under current accounts with Central Bank of Lebanon are in Lebanese Pounds and non-interest earning. These deposits are computed on the basis of 25% and 15% of the average weekly sight and term customers' deposits in Lebanese Pounds subject to certain exemptions, in accordance with the local banking regulations. These deposits are not available for use in the Group's day to day operations.

Regulatory deposits under term placements with Central Bank of Lebanon are in foreign currencies and made 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 borrowings acquired from non-resident financial institutions.

Blocked accounts with the Central Bank of Lebanon under Intermediary Circular No. 313 represent transitory deposits to be granted to the Bank's customers, pursuant to certain conditions, rules and mechanism following Central Bank of Lebanon Basic Decision No. 6116 of March 7, 1996 and its amendments against facilities granted from the Central Bank of Lebanon (Note 21).

During 2016, the Group was exempted from compulsory reserves in foreign currency, for one year, up to USD 200 million. During 2017, the exemption was renewed for an additional one and a half year to offset the remaining outstanding deferred assets (Refer to Notes 10 and 17).

During 2017, the Group recovered part of the provision for deposits held with the Central Bank of Iraq-Kurdistan in the aggregate amount of LBP 2.36 billion (USD 1.6 million).

As at December 31, 2017, term placements with the Central Bank of Lebanon include deposits in U.S. Dollar with amount of USD 454 million (C/V LBP 684 billion) which triggered investment in blocked deposits with the Central Bank in Lebanese Pound for LBP 697 billion and collateralized investment in Lebanese Treasury bills in Lebanese Pound for LBP 158 billion originated through soft leverage arrangement in Lebanese Pound for an amount of LBP 855 billion (Note 21), thus significantly enhancing the yield on the initial investment in U.S. Dollar (refer to Notes 10 and 45).

6. DEPOSITS WITH BANKS AND FINANCIAL INSTITUTIONS

LBP'000	2017	2016
Checks in course of collection	7,711,179	18,841,036
Current accounts with banks and financial institutions	333,391,301	467,364,139
Current margin accounts with banks and financial institutions	15,678	9,139,566
Term placements with banks and financial institutions	773,189,216	846,392,217
Term placements with related banks and financial institutions	5,477,638	4,840,002
Blocked margins with banks and financial institutions	3,292,003	3,292,003
Accrued interest receivable	542,010	259,345
Regulatory allowance for country risk	(7,313)	(1,374)
TOTAL	**1,123,611,712**	**1,350,126,934**

The movement of the regulatory allowance for country risk was as follows:

LBP'000	2017	2016
Balance January 1	1,374	1,375
Additions (Note 39)	42,841	70
Write-back (Note 39)	(38,806)	-
Effect of exchange rates changes	1,904	(71)
BALANCE DECEMBER 31	**7,313**	**1,374**

7. LOANS TO BANKS

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

LBP'000	2017	2016
Regular performing accounts	89,794,850	56,703,443
Discounted acceptances	49,589,641	-
Accrued interest receivable	1,081,237	317,354
Regulatory allowance for country risk	(2,789)	(1,286)
TOTAL	**140,462,939**	**57,019,511**

The movement of the regulatory allowance for country risk during 2017 and 2016 was as follows:

LBP'000	2017	2016
Balance January 1	1,286	20,923
Additions (Note 39)	10,885	12,602
Write-back (Note 39)	(9,860)	(32,108)
Effect of exchange rates changes	478	(131)
BALANCE DECEMBER 31	**2,789**	**1,286**

As a guarantee of performing loans in the amount of LBP 44.87 billion (LBP 55.49 billion in 2016), the borrower has pledged in favor of the Group regular and performing notes receivable against housing loans granted to its customers.

8. DISCONTINUED OPERATIONS

After signing a term sheet during 2017, as disclosed in Note 1, the associated assets and liabilities of USB Bank PLC were consequently classified as held for sale as follows:

LBP'000	2017
Assets classified as held for sale	1,380,267,902
Liabilities directly associated with assets classified as held for sale	1,249,041,760

The major classes of assets and liabilities comprising the discontinued operations after the allocation of adjustments at the financial position date are as follows:

LBP'000

	Carrying Amount	Adjustments	Carrying Amount After Adjustments
Cash and Central Bank	315,760,459	-	315,760,459
Compulsory reserve with Central Bank	3,303,608	-	3,303,608
Deposits with banks and financial institutions	55,396,674	-	55,396,674
Investment securities at fair value through profit or loss	256,595,744	-	256,595,744
Loans and advances to customers	572,545,744	-	572,545,744
Stock of property	107,290,829	-	107,290,829
Investment properties	21,663,240	-	21,663,240
Property and equipment	21,733,444	-	21,733,444
Intangible assets	1,541,742	-	1,541,742
Other assets	5,435,189	-	5,435,189
Deferred assets adjustments to reach fair value less cost to sell	-	19,001,229	19,001,229
TOTAL ASSETS	**1,361,266,673**	**19,001,229**	**1,380,267,902**
Deposits from banks	2,492,959	-	2,492,959
Customers' accounts	1,226,523,935	-	1,226,523,935
Other liabilities	19,976,063	-	19,976,063
Provisions	48,803	-	48,803
TOTAL LIABILITIES	**1,249,041,760**	**-**	**1,249,041,760**

The result of the discontinued operations of USB Bank PLC included in the statement of profit or loss is set out below. The comparative profit and cash flows from discontinued operations has been re-presented in conformity with IFRS 5.

LBP'000	2017	2016
(Loss) / profit for the year from discontinued operations		
Net interest income	35,302,624	40,750,591
Net fee and commission income	3,171,433	2,642,323
Income from securities at fair value through profit or loss	12,534,476	10,439,245
Allowance for impairment for loans and advances (net)	(33,898,883)	(20,172,888)
Other income / expense (net)	(35,714,629)	(30,113,870)
(Loss) / profit for the year from discontinued operations	(18,604,979)	3,545,401
Adjustments on disposal group carrying amount	19,001,229	-
TOTAL	**396,250**	**3,545,401**

LBP'000	2017	2016
Cash flows from discontinued operations		
Net cash inflows from operating activities	223,797,291	68,434,540
Net cash outflows from investing activities	(8,287,547)	(1,374,385)
Net cash inflows from financing activities	-	33,452,302
Net cash inflows	**215,509,744**	**100,512,457**

9. LOANS AND ADVANCES TO CUSTOMERS

LBP'000	December 31, 2017					December 31, 2016				
	Gross Amount	Unrealized Interest	Discount on Loan Book	Impairment Allowance	Carrying Amount	Gross Amount	Unrealized Interest	Discount on Loan Book	Impairment Allowance	Carrying Amount
Regular and Watch List Retail Customers:										
Mortgage loans	1,971,153,322	-	-	-	1,971,153,322	1,796,300,883	-	-	-	1,796,300,883
Personal loans	856,183,258	-	-	-	856,183,258	801,945,303	-	-	-	801,945,303
Car loans	223,508,280	-	-	-	223,508,280	244,767,540	-	-	-	244,767,540
Credit cards	46,082,580	-	-	-	46,082,580	52,059,248	-	-	-	52,059,248
Educational loans	45,433,558	-	-	-	45,433,558	41,949,726	-	-	-	41,949,726
Other	22,099,838	-	-	-	22,099,838	42,415,010	-	-	-	42,415,010
Loans to staff	9,839,403	-	-	-	9,839,403	8,627,911	-	-	-	8,627,911
	3,174,300,239	**-**	**-**	**-**	**3,174,300,239**	**2,988,065,621**	**-**	**-**	**-**	**2,988,065,621**
Regular and Watch List Corporate Customers:										
Corporates	4,262,047,810	-	-	-	4,262,047,810	4,440,148,704	-	-	-	4,440,148,704
Small and medium enterprises	1,837,335,960	-	-	-	1,837,335,960	1,856,590,289	-	-	-	1,856,590,289
	6,099,383,770	**-**	**-**	**-**	**6,099,383,770**	**6,296,738,993**	**-**	**-**	**-**	**6,296,738,993**
Accrued interest receivable	32,356,265	-	-	-	32,356,265	29,658,045	-	-	-	29,658,045
Allowance for Collectively Assessed Loans:										
Regular and watch list loans (including allowance for country risk)	-	-	-	(4,555,911)	(4,555,911)	-	-	-	(19,873,862)	(19,873,862)
Total regular and watch list	**9,306,040,274**	**-**	**-**	**(4,555,911)**	**9,301,484,363**	**9,314,462,659**	**-**	**-**	**(19,873,862)**	**9,294,588,797**
Non-Performing Accounts:										
Purchased loan book	2,153,152	-	-	-	2,153,152	2,148,399	-	-	-	2,148,399
Substandard	275,707,001	(58,846,791)	-	(3,049,670)	213,810,540	169,459,258	(46,409,685)	-	(1,442,698)	121,606,875
Doubtful	1,160,448,975	(743,235,308)	(3,468,731)	(155,070,696)	258,674,240	1,428,983,470	(705,792,109)	(3,488,513)	(249,062,302)	470,640,546
Bad	192,621,231	(112,423,233)	(1,562,502)	(78,559,132)	76,364	223,783,165	(123,132,282)	(2,225,526)	(98,425,357)	-
Collectively Allowance:										
Doubtful and bad	-	-	-	(186,630)	(186,630)	-	-	-	(39,894,881)	(39,894,881)
Total non-performing	**1,630,930,359**	**(914,505,332)**	**(5,031,233)**	**(236,866,128)**	**474,527,666**	**1,824,374,292**	**(875,334,076)**	**(5,714,039)**	**(388,825,238)**	**554,500,939**
TOTAL	**10,936,970,633**	**(914,505,332)**	**(5,031,233)**	**(241,422,039)**	**9,776,012,029**	**11,138,836,951**	**(875,334,076)**	**(5,714,039)**	**(408,699,100)**	**9,849,089,736**

The carrying value of loans and advances to customers include accidentally temporary debtors with carrying value amounting to LBP 85.6 billion as of December 31, 2017 (LBP 60.5 billion in 2016).

The carrying value of loans and advances to customers include loans to related parties in the aggregate of LBP 32 billion as of December 31, 2017 (LBP 46 billion in 2016) (See Note 41).

The movement of unrealized interest was as follows:

LBP'000	2017	(Re-presented) 2016
Balance January 1	875,334,076	791,513,627
Additions	127,673,303	139,633,833
Recoveries (Note 33)	(11,471,187)	(10,581,870)
Write-off	(30,457,263)	(41,061,065)
Effect of assets held for sale adjustments	(39,419,290)	(193,911)
Effect of deconsolidation of Fransabank Syria	(7,754,254)	-
Transfer to off-balance sheet	-	(990,779)
Reclassification to allowance account	-	(15,075)
Effect of exchange rates changes	599,947	(2,970,684)
BALANCE DECEMBER 31	**914,505,332**	**875,334,076**

The movement of allowance for impairment of loans and advances was as follows:

LBP'000	2017	(Re-presented) 2016
Balance January 1	408,699,100	439,454,045
Additions	35,601,810	69,090,632
Recoveries	(27,306,128)	(82,308,483)
Net allowance charge	8,295,682	(13,217,851)
Effect of assets held for sale adjustments	(138,598,943)	19,454,406
Effect of deconsolidation of Fransabank Syria	(18,152,837)	-
Write-off	(22,349,502)	(21,993,919)
Transfer to off-balance sheet	(1,925)	(765,140)
Reclassification from unrealized interest	-	15,075
Transfer from regulatory deferred liability	1,239,192	-
Effect of exchange rates changes	2,291,272	(14,247,516)
BALANCE DECEMBER 31	**241,422,039**	**408,699,100**

The allowance of impairment of loans and advances includes a general allowance for credit risk linked to country risk in the amount of LBP 2 billion (LBP 6.8 billion during 2016). This allowance is calculated on the basis of a stress test scenario performed on Syrian credit risk exposure.

The movement of the discount on purchased loan book was as follows:

LBP'000	2017	2016
Balance January 1	5,714,039	6,746,122
Additions	15,515	38,227
Recoveries	(92,197)	(610,503)
Write-off	(606,124)	(459,807)
BALANCE DECEMBER 31	**5,031,233**	**5,714,039**

10. INVESTMENT SECURITIES

Investment securities are allocated as follows:

LBP'000	December 31, 2017			
	Fair Value Through Profit or Loss	Amortized Cost (Net of Impairment Allowance)	Fair Value Through Other Comprehensive Income	Total
Equities and preference shares	38,779,601	21,852,720	377,464,205	438,096,526
Lebanese Treasury bills	46,423,467	2,897,681,761	-	2,944,105,228
Lebanese Government bonds	63,927,266	2,980,984,109	-	3,044,911,375
Foreign Government bonds	-	14,875,333	-	14,875,333
Foreign bonds issued by banks	39,924,436	134,922,703	-	174,847,139
Subordinated bonds	-	1,507,500	-	1,507,500
Certificates of deposit issued by Central Bank of Lebanon	120,249,766	3,524,153,187	-	3,644,402,953
Corporate bonds	-	52,762,500	-	52,762,500
Asset-backed securities	-	22,877,250	-	22,877,250
Mutual fund	10,123,796	-	-	10,123,796
	319,428,332	9,651,617,063	377,464,205	10,348,509,600
Accrued interest receivable	4,171,456	153,139,356	-	157,310,812
TOTAL	**323,599,788**	**9,804,756,419**	**377,464,205**	**10,505,820,412**

LBP'000

	December 31, 2016			
	Fair Value Through Profit or Loss	Amortized Cost (Net of Impairment Allowance)	Fair Value Through Other Comprehensive Income	Total
Equities and preference shares	39,963,028	22,413,510	297,016,828	359,393,366
Lebanese Treasury bills	106,605,386	2,653,983,490	-	2,760,588,876
Lebanese Government bonds	79,849,482	2,969,966,247	-	3,049,815,729
Foreign Government bonds	282,922,775	47,195,563	-	330,118,338
Foreign bonds issued by banks	136,435,848	16,102,001	-	152,537,849
Subordinated bonds	-	1,507,500	-	1,507,500
Certificates of deposit issued by Central Bank of Lebanon	140,489,175	4,151,456,125	-	4,291,945,300
Certificates of deposit issued by banks	-	40,366,976	-	40,366,976
Corporate bonds	9,515,804	7,292,958	-	16,808,762
Asset-backed securities	-	14,117,711	-	14,117,711
Mutual fund	9,327,904	-	-	9,327,904
	805,109,402	9,924,402,081	297,016,828	11,026,528,311
Accrued interest receivable	10,376,594	160,825,889	-	171,202,483
TOTAL	**815,485,996**	**10,085,227,970**	**297,016,828**	**11,197,730,794**

Investments at fair value through profit or loss include an amount of LBP 72 billion (LBP 1.9 million during 2016) representing the Group's share in start ups established based on a co-sharing agreement with the regulator providing the funding.

Investments at Amortized Cost

Below are the details of investments classified at amortized cost with related fair value at December 31:

LBP'000

	December 31, 2017				
	Amortized Cost	Allowance for Impairment	Accrued Interest Receivable	Carrying Value	Fair Value
Preference shares	21,852,720	-	-	21,852,720	21,852,720
Lebanese Treasury bills	2,897,681,761	-	47,382,517	2,945,064,278	2,887,254,983
Lebanese Government bonds	2,980,984,109	-	35,745,656	3,016,729,765	2,871,828,408
Foreign Government bonds	14,875,333	-	213,227	15,088,560	15,088,560
Foreign bonds issued by banks	134,949,257	(26,554)	169,250	135,091,953	135,237,842
Subordinated bonds	1,507,500	-	97,234	1,604,734	1,604,734
Certificates of deposit issued by Central Bank of Lebanon	3,524,153,187	-	68,715,497	3,592,868,684	3,510,898,840
Corporate bonds	52,762,500	-	493,915	53,256,415	53,225,067
Asset-backed securities	22,877,250	-	322,060	23,199,310	22,552,127
TOTAL	**9,651,643,617**	**(26,554)**	**153,139,356**	**9,804,756,419**	**9,519,543,281**

LBP'000

	December 31, 2016				
	Amortized Cost	Allowance for Impairment	Accrued Interest Receivable	Carrying Value	Fair Value
Preference shares	22,413,510	-	-	22,413,510	22,413,510
Lebanese Treasury bills	2,653,983,490	-	38,705,536	2,692,689,026	2,696,647,078
Lebanese Government bonds	2,969,966,247	-	37,273,513	3,007,239,760	2,798,279,450
Foreign Government bonds	47,195,563	-	415,928	47,611,491	47,611,491
Foreign bonds issued by banks	16,129,779	(27,778)	97,244	16,199,245	16,632,434
Subordinated bonds	1,507,500	-	97,516	1,605,016	1,605,016
Certificates of deposit issued by Central Bank of Lebanon	4,151,456,125	-	83,908,505	4,235,364,630	4,216,761,540
Certificates of deposit issued by banks	40,366,976	-	106,973	40,473,949	40,402,687
Corporate bonds	7,292,958	-	96,738	7,389,696	7,846,203
Asset-backed securities	14,117,711	-	123,936	14,241,647	13,546,860
TOTAL	**9,924,429,859**	**(27,778)**	**160,825,889**	**10,085,227,970**	**9,861,746,269**

The Group has Treasury bills classified at amortized cost with carrying value of LBP 783 billion as of December 31, 2017 that are pledged against soft loans and credit facility granted by Central Bank of Lebanon – (Notes 21(e), 21(f) and 45) (LBP 627 billion in 2016).

The Group has Lebanese Government bonds classified at amortized cost with carrying value of LBP 302 billion that are pledged against the release of the compulsory reserve (Note 5).

During 2017, the Group exchanged certificates of deposit in Lebanese Pound with the Central Bank of Lebanon having a nominal value of LBP 95 billion classified as amortized cost against a time deposit with the Central Bank of Lebanon in U.S. Dollar amounting to USD 63 million maturing in years 2027, 2032 and 2037.

Also, during 2017, the Group entered into swap transactions of certificates of deposit issued by Central Bank of Lebanon in U.S. Dollar with a nominal value of USD 80.9 million (c/v LBP 121.9 billion) concluded simultaneously with the acquisition of Lebanese Government bonds in U.S. Dollar with a nominal value of USD 80.9 million maturing in years between 2027 and 2037. The Group classified USD 80.7 million at amortized cost and USD 0.2 million at fair value through profit or loss.

During 2016, the Group entered into several sale transactions of Lebanese Treasury bills and certificates of deposit issued by Central Bank of Lebanon in Lebanese Pound having a nominal value of LBP 1,003 billion concluded simultaneously with the acquisition of medium and long term Lebanese Government bonds and certificates of deposit issued by Central Bank of Lebanon in U.S. Dollar with a nominal value of USD 669 million 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, amounting to LBP 356 billion, net of tax in the amount of LBP 63 billion, was credited to "Regulatory deferred liability" under other liabilities in the consolidated statement of financial position. (Refer to Note 23).

During 2016, the Group sold the pledged Lebanese Treasury bills in Lebanese Pounds, having a nominal value of LBP 297 billion, to settle the revolving loan in the amount of LBP 300 billion which matured on January 10, 2016 (Refer to Note 17). This transaction resulted in a gain on sale (net of tax) of LBP 20 billion. In line with the above and following Central Council decision dated January 26, 2016, the Group was exempted from compulsory reserves in foreign currency up to USD 200 million. This reserve was invested in Lebanese Government bonds which were pledged against the reserve. Interest income on these bonds during 2016 amounted to LBP 14 billion (net of tax) which was offset, together with the above gain on sale, against the deferred assets account (Note 17).

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

LBP'000	December 31, 2017				December 31, 2016			
Remaining Period to Maturity	**Redemption Value**	**Amortized Cost (Net of Impairment)**	**Fair Value**	**Average Interest Rate %**	**Redemption Value**	**Amortized Cost (Net of Impairment)**	**Fair Value**	**Average Interest Rate %**
Lebanese Treasury bills:								
Up to one year	528,573,800	529,230,571	531,570,810	7.72	449,030,665	448,505,434	455,958,631	6.71
1 year to 3 years	732,041,068	732,821,989	731,388,711	7.12	869,924,364	873,117,367	881,488,158	7.52
3 years to 5 years	517,589,951	519,237,924	495,315,596	6.46	432,457,000	433,843,662	431,352,658	7.12
5 years to 10 years	1,097,516,380	1,116,391,277	1,081,597,349	7.92	878,252,010	898,517,027	889,142,095	8.08
	2,875,721,199	**2,897,681,761**	**2,839,872,466**		**2,629,664,039**	**2,653,983,490**	**2,657,941,542**	
Lebanese Government bonds:								
Up to one year	390,653,338	389,974,544	386,485,990	5.36	266,405,487	266,422,813	265,997,183	8.44
1 year to 3 years	543,252,892	543,149,022	533,423,825	6.03	621,336,065	618,341,367	592,126,698	5.46
3 years to 5 years	367,588,801	370,586,338	374,665,505	7.97	592,687,942	597,732,641	582,131,682	7.36
5 years to 10 years	664,558,762	666,697,867	612,095,180	6.44	572,932,913	574,058,038	507,800,564	6.33
Beyond 10 years	1,010,724,480	1,010,576,338	929,412,252	6.96	912,782,205	913,411,388	812,949,810	6.91
	2,976,778,273	**2,980,984,109**	**2,836,082,752**		**2,966,144,612**	**2,969,966,247**	**2,761,005,937**	
Foreign Government bonds:								
Up to one year	3,486,333	3,486,333	3,486,333	3.77	35,551,563	35,551,563	35,551,563	7.80
1 year to 3 years	6,565,000	6,565,000	6,565,000	5.00	6,820,000	6,820,000	6,820,000	5.00
3 years to 5 years	4,824,000	4,824,000	4,824,000	6.20	4,824,000	4,824,000	4,824,000	6.20
	14,875,333	**14,875,333**	**14,875,333**		**47,195,563**	**47,195,563**	**47,195,563**	
Foreign bonds issued by banks:								
Up to one year	30,651,379	30,624,825	30,651,379	2.00	-	-	-	-
1 year to 3 years	96,479,058	96,469,818	96,544,676	2.25	7,540,722	7,527,084	8,106,035	9.53
3 years to 5 years	4,522,500	4,525,247	4,569,724	7.00	4,522,500	4,525,921	4,380,159	7.00
5 years to 10 years	3,302,813	3,302,813	3,302,813	5.55	4,048,996	4,048,996	4,048,996	5.54
	134,955,750	**134,922,703**	**135,068,592**		**16,112,218**	**16,102,001**	**16,535,190**	
Subordinated bonds:								
Up to one year	1,507,500	1,507,500	1,507,500	6.75	-	-	-	-
1 year to 3 years	-	-	-	-	1,507,500	1,507,500	1,507,500	6.75
	1,507,500	**1,507,500**	**1,507,500**		**1,507,500**	**1,507,500**	**1,507,500**	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2017

LBP'000	December 31, 2017				December 31, 2016			
Remaining Period to Maturity	**Redemption Value**	**Amortized Cost (Net of Impairment)**	**Fair Value**	**Average Interest Rate %**	**Redemption Value**	**Amortized Cost (Net of Impairment)**	**Fair Value**	**Average Interest Rate %**
Certificates of deposit issued by Central Bank of Lebanon:								
Up to one year	-	-	-	-	469,612,500	469,743,306	472,394,761	7.97
1 year to 3 years	333,038,000	335,306,185	331,808,224	6.99	88,038,000	87,148,338	82,904,292	5.30
3 years to 5 years	323,073,750	321,852,969	314,567,166	6.28	302,000,000	305,285,641	304,833,103	7.64
5 years to 10 years	1,642,190,000	1,655,939,439	1,631,595,191	8.01	1,841,128,750	1,850,643,460	1,872,841,125	7.72
Beyond 10 years	1,205,660,750	1,211,054,594	1,164,212,762	8.46	1,437,691,750	1,438,635,380	1,399,879,754	8.28
	3,503,962,500	**3,524,153,187**	**3,442,183,343**		**4,138,471,000**	**4,151,456,125**	**4,132,853,035**	
Certificates of deposit issued by banks:								
Up to one year	-	-	-	-	40,356,533	40,366,976	40,295,714	5.38
	-	**-**	**-**		**40,356,533**	**40,366,976**	**40,295,714**	
Corporate bonds:								
1 year to 3 years	-	-	-	-	376,430	375,617	412,532	6.25
3 years to 5 years	7,537,500	7,537,500	7,537,500	6.75	2,379,040	2,393,290	2,532,032	4.75
5 years to 10 years	45,225,000	45,225,000	45,193,652	7.00	4,517,164	4,524,051	4,804,901	5.00
	52,762,500	**52,762,500**	**52,731,152**		**7,272,634**	**7,292,958**	**7,749,465**	
Assets-backed securities:								
1 year to 3 years	-	-	-	-	105,461	105,461	101,406	7.00
5 years to 10 years	22,877,250	22,877,250	22,230,067	6.81	14,012,250	14,012,250	13,321,518	6.33
	22,877,250	**22,877,250**	**22,230,067**		**14,117,711**	**14,117,711**	**13,422,924**	
Preference shares redeemable starting:								
From 1 year	12,810,735	12,810,735	12,810,735	-	11,303,235	11,303,235	11,303,235	-
From 2 years	3,015,000	3,015,000	3,015,000	-	5,080,275	5,080,275	5,080,275	-
From 3 years	2,065,275	2,065,275	2,065,275	-	-	-	-	-
From 4 years	946,710	946,710	946,710	-	3,015,000	3,015,000	3,015,000	-
From 5 years	3,015,000	3,015,000	3,015,000	-	3,015,000	3,015,000	3,015,000	-
	21,852,720	**21,852,720**	**21,852,720**		**22,413,510**	**22,413,510**	**22,413,510**	

Investments at Fair Value Through Other Comprehensive Income

LBP'000	December 31, 2017		
	Cost	**Carrying Value**	**Cumulative Change in Fair Value**
Quoted equities	1,307,019	18,685,323	17,378,304
Unquoted equities	162,413,956	358,778,882	196,364,926
TOTAL	**163,720,975**	**377,464,205**	**213,743,230**

LBP'000	December 31, 2016		
	Cost	**Carrying Value**	**Cumulative Change in Fair Value**
Quoted equities	1,307,019	13,056,775	11,749,756
Unquoted equities	112,849,002	283,960,053	171,111,051
TOTAL	**114,156,021**	**297,016,828**	**182,860,807**

On December 31, 2017, the Bank deconsolidated the accounts of Fransabank Syria as a result from the loss of control over the said subsidiary and the investment was classified as investment at fair value through other comprehensive income at the carrying value of LBP 51.9 billion.

11. CUSTOMERS' LIABILITY UNDER ACCEPTANCES

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

12. INVESTMENTS IN ASSOCIATES

Investments in associates, which are not listed, are as follows:

LBP'000	Country of Incorporation	Interest Held % 2017	Interest Held % 2016	2017	2016
Bancassurance SAL	Lebanon	59.99	59.99	61,995,311	51,889,303
United Capital Bank	Republic of Sudan	20.00	20.00	15,782,254	18,730,441
International Payment Network SAL	Lebanon	20.30	20.30	1,523,896	1,541,391
TOTAL				**79,301,461**	**72,161,135**

Even though, the Group's interest in Bancassurance SAL is 60%, the Group determined that it does not control this entity on the basis that according to the shareholders' agreement, the relevant activities of Bancassurance are directed on the basis of 75% votes of the Board of Directors which does not give the Group power over the investee.

The following table summarizes the financial information of Bancassurance and United Capital Bank before intercompany eliminations:

LBP'000	BANCASSURANCE 2017	BANCASSURANCE 2016	UNITED CAPITAL BANK 2017	UNITED CAPITAL BANK 2016
Cash and banks	132,264,410	113,103,774	132,354,323	169,646,558
Loans and advances	-	-	201,915,898	241,391,778
Investment securities	462,403,787	437,469,433	8,134,762	20,498,736
Other investments	-	-	-	-
Other assets	22,508,023	32,120,374	15,574,410	26,898,461
Deposits from banks	-	-	(13,820,427)	(35,005,622)
Deposits from customers	-	-	(131,065,151)	(140,462,842)
Equity of unrestricted investment account holders	-	-	(97,176,674)	(81,729,152)
Bank borrowings	-	(29,278,182)	-	-
Insurance contracts liabilities	(516,757,196)	(471,591,748)	-	-
Other liabilities and provisions	(13,811,197)	(12,059,818)	(37,001,422)	(107,580,847)
Net assets	**86,607,827**	**69,763,833**	**78,915,719**	**93,657,070**
GROUP'S SHARE IN NET ASSETS (EXCLUDING GOODWILL)	**51,964,696**	**41,858,300**	**15,783,144**	**18,731,414**
Net revenues	58,031,392	53,220,780	19,915,582	16,678,006
Net income from financial assets at FVTPL	1,425,194	736,353	-	-
Claims paid and change in insurance liabilities	(20,387,666)	(19,586,672)	-	-
Other income (net)	(5,616)	6,145	16,078,956	10,690,637
Operating expenses	(8,513,269)	(8,428,174)	(27,073,167)	(22,280,795)
Income tax expense	(1,148,032)	(1,055,560)	(4,460,016)	(3,464,257)
Net profit for the year	**29,402,003**	**24,892,872**	**4,461,355**	**1,623,591**
GROUP'S SHARE IN NET PROFIT	**17,641,202**	**14,935,723**	**892,154**	**324,570**

Below is the reconciliation of the carrying amount of investments in associates:

LBP'000	2017	2016
Balance January 1	72,161,135	67,170,770
Unrealized gain through other comprehensive income	4,433	40,944
Dividends received	(7,589,661)	(8,353,951)
Share in net profit (Note 38)	18,637,661	15,330,578
Board of Directors' remuneration	(67,233)	(108,543)
Currency translation adjustment	(3,844,874)	(1,918,663)
BALANCE DECEMBER 31	**79,301,461**	**72,161,135**

13. ASSETS ACQUIRED IN SATISFACTION OF LOANS / INVESTMENTS PROPERTIES

This section represents foreclosed real estate properties acquired through enforcement of security over loans and advances to customers.

LBP'000	2017	2016
Assets acquired in satisfaction of loans - Lebanon	211,571,360	216,157,240
Assets acquired in satisfaction of loans - Syria	-	168,342
Stock of property - Foreign operations	-	94,394,986
	211,571,360	310,720,568
Investment properties - Foreign operations	-	19,077,305
TOTAL	**211,571,360**	**329,797,873**

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

13.1 Assets Acquired in Satisfaction of Loans - Lebanon

According to the Lebanese banking regulations, the acquisition of assets in settlement of loans requires the approval of the banking regulatory authorities and these are classified as "Assets acquired in satisfaction of loans" and should be liquidated within 2 years. In case of default of liquidation, a regulatory reserve should be appropriated from the yearly net profits over a period of 5 or 20 years as applicable. These assets are carried at cost less impairment allowance.

Movement of the account of assets acquired in satisfaction of loans and related impairment allowance is summarized as follows:

LBP'000	Cost	Impairment Allowance	Carrying Value
Balance January 1, 2016	214,397,216	(13,796,196)	200,601,020
Foreclosures	20,403,244	-	20,403,244
Disposals	(1,755,671)	38,992	(1,716,679)
Transfer to property and equipment	(3,130,345)	-	(3,130,345)
Balance December 31, 2016	229,914,444	(13,757,204)	216,157,240
Foreclosures	4,252,029	-	4,252,029
Disposals	(9,238,046)	400,137	(8,837,909)
BALANCE DECEMBER 31, 2017	**224,928,427**	**(13,357,067)**	**211,571,360**

Gain on disposals amounted to LBP 8.3 billion (LBP 1.9 billion in 2016) recorded under other income in the statement of profit or loss (Note 38).

13.2 Assets Acquired in Satisfaction of Loans - Syria

During 2016, the Syrian subsidiary acquired real estates in satisfaction of loans. According to the Article 100/2/B of Law 23 of year 2002, these assets should be liquidated within 2 years. These assets are carried at cost.

The movement was as follows:

LBP'000	
Balance January 1, 2016	-
Foreclosures	168,342
Balance December 31, 2016	168,342
Effect of exchange rates changes	31,817
Effect of deconsolidation of Fransabank Syria	(200,159)
BALANCE DECEMBER 31, 2017	**-**

13.3 Stock of Property – Foreign Operations

During 2016, the Group amended its business model with respect to real estate assets acquired from customers in the Cypriot entity. Assessment for the majority of properties previously classified as investment properties, were transferred to stock of property. This has led to a change in the measurement basis of these properties from fair value to the lower of cost and net realizable value.

The movement of stock of property was as follows:

LBP'000	
Balance January 1, 2016	-
Transfers from investment properties	59,077,406
Foreclosures	36,805,914
Effect of exchange rates changes	(1,488,334)
Balance December 31, 2016	94,394,986
Effect of classifying the Cypriot entity as held for sale	(94,394,986)
BALANCE DECEMBER 31, 2017	**-**

13.4 Investment Properties

Foreclosed assets acquired by the Group's foreign entities are presented separately under investment properties and are measured at fair value. The table below shows the reconciliation of the carrying amounts:

LBP'000	
Balance January 1, 2016	77,443,175
Foreclosures	4,160,131
Transfer to stock of property	(59,077,406)
Revaluation loss	(950,806)
Effect of exchange rates changes	(2,497,789)
Balance December 31, 2016	19,077,305
Effect of classifying the Cypriot entity as held for sale	(19,077,305)
BALANCE DECEMBER 31, 2017	**-**

Investment properties are categorized as Level 2 fair values since they are based on real estate market values made by independent real estate experts.

14. PROPERTY AND EQUIPMENT

LBP'000	Balance at January 1, 2017	Additions and Transfers from Advance Payments	Retirements	Transfer to Intengible Assets	Effect of Deconsolidation of Fransabank Syria	Effect of Assets Held-for Sale Adjustments	Currency Translation Adjustment	Balance as at December 31, 2017
Cost/Revaluation:								
Owned properties	346,720,483	9,264,783	(3,297,011)	-	(6,917,334)	(5,901,484)	(1,390,181)	338,479,256
Furniture, equipment and computer	121,071,606	6,713,286	(4,562,047)	-	(1,043,432)	(7,679,339)	55,748	114,555,822
Vehicles	6,119,175	964,875	(702,062)	-	(9,175)	(260,515)	(10,273)	6,102,025
Office improvements and installations	118,449,316	10,956,188	(1,986,243)	-	(718,774)	(6,280,679)	(100,654)	120,319,154
Building under finance lease	6,807,776	-	-	-	-	(6,807,776)	-	-
	599,168,356	**27,899,132**	**(10,547,363)**	**-**	**(8,688,715)**	**(26,929,793)**	**(1,445,360)**	**579,456,257**
Accumulated Depreciation	(227,167,402)	(26,201,613)	6,612,310	-	1,262,096	11,369,974	63,226	(234,061,409)
Provision for Impairment	(2,808,460)	-	(629,965)	-	-	-	-	(3,438,425)
Advance payments	43,477,850	19,738,238	-	(323,929)	(1,092,612)	-	523,690	62,323,237
Carrying Value	**412,670,344**							**404,279,660**

LBP'000	Balance at January 1, 2016	Additions and Transfers from Advance Payments	Retirements	Revaluation Adjustment	Transfer from Assets Acquired in Satisfaction of Loans	Effect of Assets Held-for Sale Adjustments	Currency Translation Adjustment	Balance as at December 31, 2016
Cost/Revaluation:								
Owned properties	330,821,969	15,658,833	-	628,680	3,130,345	-	(3,519,344)	346,720,483
Furniture, equipment and computer	115,348,177	9,613,338	(3,164,154)	15,295	-	-	(741,050)	121,071,606
Vehicles	5,960,437	675,016	(473,562)	-	-	-	(42,716)	6,119,175
Office improvements and installations	109,053,922	10,614,949	(577,835)	-	-	-	(641,720)	118,449,316
Building under finance lease	6,995,480	168,758	-	-	-	-	(356,462)	6,807,776
	568,179,985	**36,730,894**	**(4,215,551)**	**643,975**	**3,130,345**	**-**	**(5,301,292)**	**599,168,356**
Accumulated Depreciation (Re-presented)	(205,622,641)	(25,980,504)	3,952,498	(25,828)	-	(1,075,628)	1,584,701	(227,167,402)
Provision for Impairment	(2,808,460)	-	-	-	-	-	-	(2,808,460)
Advance payments	35,071,358	8,877,621	-	-	-	-	(471,129)	43,477,850
Carrying Value	**394,820,242**							**412,670,344**

Advance payments as at December 31, 2017 include an amount of LBP 13 billion paid on account for the acquisition of 2 plots in Achrafieh to be used for the purpose of expanding the head office of a subsidiary bank.

15. INTANGIBLE ASSETS

LBP'000	Balance at January 1, 2017	Additions and Transfers from Advance Payments	Retirements	Transfer from Property and Equipment	Effect of Deconsolidation of Fransabank Syria	Effect of Assets Held-for Sale Adjustments	Currency Translation Adjustment	Balance as at December 31, 2017
Cost:								
Purchase software	47,152,103	4,567,893	(4,535,484)	323,929	(863,706)	(16,277,558)	448,179	30,815,356
Licenses	938,199	343,960	(79,012)	-	-	-	(5,140)	1,198,007
Key money	196,017	-	-	-	-	-	-	196,017
	48,286,319	**4,911,853**	**(4,614,496)**	**323,929**	**(863,706)**	**(16,277,558)**	**443,039**	**32,209,380**
Accumulated Depreciation:								
Purchase software	(38,934,529)	(3,288,394)	4,472,568	-	120,295	15,287,474	(74,498)	(22,417,084)
Licenses	(286,418)	(188,314)	78,472	-	-	-	4,305	(391,955)
Key money	(160,842)	(35,175)	-	-	-	-	-	(196,017)
	(39,381,789)	**(3,511,883)**	**4,551,040**	**-**	**120,295**	**15,287,474**	**(70,193)**	**(23,005,056)**
Advance payments	4,422,339	(1,449,172)	-	-	(17,862)	-	1,528	2,956,833
CARRYING VALUE	**13,326,869**							**12,161,157**

LBP'000	Balance at January 1, 2016	Additions and Transfers from Advance Payments	Retirements	Effect of Assets Held-for Sale Adjustments	Currency Translation Adjustment	Balance as at December 31, 2016
Cost:						
Purchase software	44,485,676	2,909,104	-	-	(242,677)	47,152,103
Licenses	449,064	520,862	(8,308)	-	(23,419)	938,199
Key money	196,017	-	-	-	-	196,017
	45,130,757	**3,429,966**	**(8,308)**	**-**	**(266,096)**	**48,286,319**
Accumulated Depreciation (Re-presented):						
Purchase software	(35,504,594)	(3,105,197)	-	(455,326)	130,588	(38,934,529)
Licenses	(157,277)	(139,432)	4,143	-	6,148	(286,418)
Key money	(156,822)	(4,020)	-	-	-	(160,842)
	(35,818,693)	**(3,248,649)**	**4,143**	**(455,326)**	**136,736**	**(39,381,789)**
Advance payments	3,602,836	819,503	-	-	-	4,422,339
CARRYING VALUE	**12,914,900**					**13,326,869**

16. GOODWILL

Goodwill is derived from acquisition of control of subsidiaries as follows:

LBP'000	2017	2016
Fransabank OJSC - Belarus	720,704	720,704
BLC Bank SAL	44,095,440	44,095,440
USB Bank PLC (Cyprus)	-	5,876,245
Ahli International Bank SAL (merger)	4,087,509	4,087,509
TOTAL	**48,903,653**	**54,779,898**

Goodwill Allocated to BLC Bank

The recoverable amount is determined based on fair value less cost of disposal which is determined to be higher than the asset's carrying value using the market comparability approach of similar transaction.

Goodwill Allocated to USB Bank

Goodwill resulted from acquiring control of USB Bank PLC (Cyprus) on January 31, 2011.

During 2017, the goodwill was fully impaired against the regulatory deferred liability (Note 23) after classifying the Cypriot entity as held for sale (refer to Note 1).

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

	Euro	Counter Value in LBP'000
Balance as at January 1, 2016	3,681,188	6,061,591
Effect of exchange rates changes	-	(185,347)
Balance as at December 31, 2016	3,681,188	5,876,244
Write-off against regulatory deferred liability (Note 23)	(3,681,188)	(6,580,859)
Effect of exchange rates changes	-	704,615
BALANCE AS AT DECEMBER 31, 2017	**-**	**-**

Goodwill from Merger of Ahli International Bank SAL

On July 31, 2014, the Group acquired "Ahli International Bank SAL" for a consideration of USD 103 million and then it was fully merged within the Group's accounts. This transaction resulted in a goodwill for the amount of LBP 4.09 billion representing the excess of the consideration paid over the fair value of the net assets of "Ahli International Bank SAL" and the deferred assets (Note 17).

17. OTHER ASSETS

LBP'000	2017	2016
Deferred assets on business acquisitions (a)	21,481,875	28,642,500
Deferred assets against future cash flows (b)	7,821,948	26,935,864
Derivative assets held for risk management (c)	4,893,995	3,495,543
Deferred tax asset (d)	185,645	1,304,905
Regulatory blocked deposit (e)	6,758,423	17,301,910
Assets in process of acquisition in settlement of loans (f)	1,011,272	1,011,272
Advance on investment in subsidiary (g)	1,356,750	-
Deferred charges	907,240	1,029,198
Collateral on dealings with "Visa International"	-	1,828,414
Prepayments	21,127,524	27,363,456
Foreign exchange operations	385,035	863,425
Accrued income	1,434,937	1,154,121
Doubtful claims by banks	1,323,120	1,222,206
Provision on doubtful claims by banks	(1,323,120)	(1,222,206)
Sundry accounts receivable	66,095,519	58,588,203
Allowance for doubtful accounts receivable (h)	(3,731,126)	(3,761,276)
TOTAL	**129,729,037**	**165,757,535**

(a) Deferred assets on business acquisition represent what was compensated by the Central Bank of Lebanon in the form of future cash flows and benefits originated from the soft loans granted to the Group (refer to Note 21 f).

The Group is amortizing these deferred assets against the reduction of future economic benefits derived from the soft loans and thus the carrying value of these deferred assets corresponds to the present value of future cash flows expected to be derived from the soft loans.

The unamortized balance of deferred assets on business acquisitions is allocated as follows at December 31:

LBP'000	2017	2016
Deferred assets on acquisition of Ahli International Bank SAL	21,481,875	28,642,500
Amortization charge for the year	(7,160,625)	(8,188,444)

Amortization charge is treated as a yield adjustment to the interest income on the pledged Lebanese Treasury bills acquired from the soft loan proceeds.

(b) Net outstanding deferred assets against future cash flows amounting to LBP 8 billion correspond to the Bank's Cypriot subsidiary carried over losses incurred since the crisis in Cyprus occurred up to December 31, 2015. These deferred assets are offset against future economic benefits derived from the low yield funding amounting to LBP 300 million provided by the Central Bank of Lebanon which was redeemed and replaced by exemption from compulsory reserves up to USD 200 million during 2016. Proceeds of the loan and the compulsory reserves are invested in fixed income securities. The return on these debt securities is appropriated to deferred assets.

The movement of deferred assets against future cash flows during the years 2017 and 2016 was as follows:

LBP'000	2017	2016
Net carrying value as at January 1,	26,935,864	61,944,371
Write down during the year	(15,773,541)	(35,051,351)
Write-off against regulatory deferred liability (Note 23)	(3,340,375)	-
Effect of foreign currency exchange differences	-	42,844
NET CARRYING VALUE AS AT DECEMBER 31,	**7,821,948**	**26,935,864**

(c) The derivative assets held for risk management consist of the following:

LBP'000	Fair Value as at December 31, 2017	Fair Value as at December 31, 2016
Over-The-Counter (OTC) structured derivative	**4,893,995**	**3,495,543**

The OTC structured derivative is designated as a fair value hedge. The OTC structured derivative represents an embedded derivative in 2 structured deposit product which guarantee a minimum redemption value of 100% (Note 19).

(d) Deferred tax asset represents deferred tax on losses incurred by a Group entity, which can be brought forward against future profits.

(e) The regulatory blocked deposits represent non-interest earning compulsory deposits placed with the Lebanese Treasury during 2017 and 2016 and Central Bank of Syria during 2016 upon the inception of banks according to Article 132 of the Lebanese Code of Money and Credit and Article 19 of the Syrian Law No.28 respectively and are refundable in case of cease of operations.

(f) Foreclosed assets not yet registered represent the value of loans written-off against enforcement of real estate security held and will be reallocated to "Assets Acquired in Settlement of Loans" when the registration in the name of the Group is finalized.

(g) The Board of Directors of one of the Bank's subsidiaries approved the establishment of a new subsidiary. Accordingly advance on the participation for the amount of LBP 1.4 billion was paid pending certain legal formalities.

(h) The majority of the allowance for doubtful accounts receivable relate to old advances made in previous years against purchases of property and equipment.

18. DEPOSITS AND BORROWINGS FROM BANKS

LBP'000	2017	2016
Current deposits of banks and financial institutions	78,633,908	72,696,377
Current deposits - Central Bank of Lebanon	18,529	33,922
Current deposits - Central Bank of Syria	-	7,859,200
Current deposits - Related parties	2,014,996	68,603
Money market deposits - Central Bank of Belarus	-	-
Money market deposits - Central Bank of Syria	-	46,683,598
Money market deposits - Banks and financial institutions	104,554,449	92,955,463
Money market deposits - Related parties	65,037,240	31,925,800
Other short term borrowings	13,593,071	32,738,103
Accrued interest payable	266,094	635,930
Accrued interest payable - Related parties	22,642	14,116
TOTAL	**264,140,929**	**285,611,112**

19. LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

LBP'000	2017	2016
Customers' deposits with guaranteed capital at fair value through profit or loss	134,591,796	135,557,339
Accrued interest payable	908,257	930,018
TOTAL	**135,500,053**	**136,487,357**

Certain deposits from customers have been designated at fair value through profit or loss as they are matched with an embedded derivative. An accounting mismatch would arise if customers' deposits were accounted for at amortized cost, because the related derivative is measured at fair value with movements in the fair value taken through the statement of profit or loss.

By designating those deposits from customers at fair value, the movements in the fair value of these deposits are recorded in the statement of profit or loss. These instruments provide notional amounts protection for customers of LBP 135 billion equivalent to 100% of the initially invested amount (LBP 36 billion in 2016).

Liabilities designated at fair value through profit or loss include related parties deposits as follows:

LBP'000	2017	2016
Customers' deposits with guaranteed capital at fair value through profit or loss	2,735,789	2,944,192
Accrued interest payable	16,355	17,085
TOTAL	**2,752,144**	**2,961,277**

The fair value recognized on these deposits and the related derivatives is as follows:

LBP'000	2017	2016
Customers' deposits at fair value through profit or loss	134,591,796	135,557,339
Related derivative contracts - Note 17	4,893,995	3,495,543

20. CUSTOMERS' ACCOUNTS AT AMORTIZED COST

LBP'000	2017	2016
Deposits from customers:		
- Current / demand deposits	2,328,551,553	2,572,710,258
- Term deposits	20,625,854,923	20,994,565,046
- Collateral against loans and advances	1,405,775,912	1,407,246,780
Margins and other collateral:		
- Margins for irrevocable import letters of credit	150,635,643	114,290,043
- Margins on letters of guarantee	74,495,369	130,013,643
- Other margins	53,370,678	71,721,228
- Blocked accounts	77,643,016	61,952,631
- Escrow accounts (a)	14,944,039	-
Accrued interest payable	150,944,565	149,190,143
TOTAL	**24,882,215,698**	**25,501,689,772**

(a) During 2017, a subsidiary bank offered 400,000 preferred shares, at an issue price of USD 100 per share with a nominal value of LBP 1,000 each expected to be issued during 2018. As at December 31, 2017, LBP 15 billion were subscribed by customers and booked under escrow account.

Customers' deposits include related parties deposits detailed as follows:

LBP'000	2017	2016
Deposits from customers:		
- Current / demand deposits	9,722,124	9,877,939
- Term deposits	1,687,286,122	1,823,898,879
- Collateral against loans and advances	31,594,194	20,942,913
Margins and other collateral		
- Margins for irrevocable import letters of credit	79,738	-
- Margins on letters of guarantee	16,862	20,140
- Other margins	-	-
- Blocked accounts	2,445,265	2,883,192
Accrued interest payable	28,761,331	21,864,980
TOTAL	**1,759,905,636**	**1,879,488,043**

Deposits at amortized cost are allocated by brackets of deposits as follows:

LBP'000	December 31, 2017				
	LBP Base Accounts		F/Cy Base Accounts		
	Total Deposits	% to Total Deposits	Total Deposits	% to Total Deposits	Total
Less than LBP 200 million	3,536,567,915	36	3,704,541,556	25	7,241,109,471
From LBP 200 million to LBP 1.5 billion	1,975,235,462	20	6,468,076,594	43	8,443,312,056
Above LBP 1.5 billion	4,296,921,004	44	4,900,873,167	32	9,197,794,171
TOTAL	**9,808,724,381**	**100**	**15,073,491,317**	**100**	**24,882,215,698**

LBP'000	December 31, 2016				
	LBP Base Accounts		F/Cy Base Accounts		
	Total Deposits	% to Total Deposits	Total Deposits	% to Total Deposits	Total
Less than LBP 200 million	3,911,806,487	38	3,226,870,526	21	7,138,677,013
From LBP 200 million to LBP 1.5 billion	3,682,459,163	36	3,921,027,503	26	7,603,486,666
Above LBP 1.5 billion	2,651,718,428	26	8,107,807,665	53	10,759,526,093
TOTAL	**10,245,984,078**	**100**	**15,255,705,694**	**100**	**25,501,689,772**

Deposits from customers at amortized cost include coded deposit accounts totaling LBP 401 billion (LBP 358.1 billion in 2016). These accounts are subject to the provisions of Article 3 of the Lebanese Banking Secrecy Law dated September 3, 1956 which provides that the Bank's management, in the normal course of business, cannot reveal the identities of these depositors to third parties, including its independent public accountants.

Deposits from customers include fiduciary deposits received from resident and non-resident banks for a total amount of LBP 15 billion and LBP 370 billion respectively (LBP 41 billion and LBP 627 billion respectively in 2016).

21. OTHER BORROWINGS

LBP'000	2017	2016
Borrowings from European Investment Bank (a)	84,445,919	97,049,184
Borrowings from Agence Française de Développement (b)	-	1,665,397
Borrowings from International Finance Corporation (c)	55,108,387	57,736,747
Borrowings from Arab Trade Financing Program (d)	29,389,049	25,926,207
Borrowings from Central Bank of Lebanon (e)	989,220,886	810,793,308
Soft loans from Central Bank of Lebanon (f)	261,413,868	273,068,463
Soft leverage arrangement from Central Bank of Lebanon (g)	855,418,125	-
Borrowings from the German Investment and Development Company - DEG (related party) (h)	1,507,500	3,015,000
Borrowings from Green for Growth Fund - GGF (i)	1,507,500	-
Borrowings from SANAD	22,612,500	753,750
Borrowings from Citibank - Ireland	8,868,268	-
Borrowings from Standard Chartered - UAE	48,460,102	-
	2,357,952,104	1,270,008,056
Accrued interest payable	3,614,091	1,411,360
TOTAL	**2,361,566,195**	**1,271,419,416**

(a) Borrowings from European Investment Bank:

Borrowings from European Investment Bank represent term borrowings to finance loans extended to customers. These borrowings are divided into 2 types, a 12 years line of credit for touristic loans and a 10 years line of credit for industrial loans. These borrowings mature in 2019, 2020, 2022, 2024, 2025 and 2026.

(b) Borrowing from Agence Française de Développement:

The borrowing from Agence Française de Développement represents a 10 years line of credit for a limit of Euro 15 million (LBP 25 billion) and is granted to help the small and medium enterprises that were affected by the July and August 2006 Lebanon war. This borrowing matures in 2017.

(c) Borrowings from International Finance Corporation:

During 2014, the Group obtained a borrowing from International Finance Corporation representing a 7 years line of credit for a limit of USD 3 million (LBP 5 billion). This borrowing is payable through fixed semi-annual installments starting June 2016.

During 2015, another borrowing in the amount of USD 10 million was granted to the Group to be used to finance eligible sustainable energy finance projects. This borrowing is to be settled semi-annually starting June 2016. This borrowing matures in 2024.

During 2016, 2 new borrowings in the amount of USD 20 million and USD 7 million were granted to the Group. These borrowings are to be settled semiannually starting June 2018 and January 2018 respectively. These borrowing mature in 2026 and 2023 respectively.

(d) Borrowings from Arab Trade Financing Program:

The borrowing from Arab Trade Financing Program represents 2 revolving lines of credit for USD 15 million (LBP 23 billion) and USD 4 million (LBP 6 billion) granted in years 2000 and 2011 to support inter-Arab Trade exchanges. These borrowings mature in 2018.

(e) Borrowings from Central Bank of Lebanon:

Borrowings from Central Bank of Lebanon represent facilities following Central Bank of Lebanon Basic Decision No. 6116 of March 7, 1996 and its amendments by which the Bank benefited from credit facilities granted against loans that the Bank has granted, on its own responsibility, to its customers, pursuant to certain conditions, rules and mechanism. Part of these facilities is collateralized by Lebanese Treasury bills (Notes 10 and 45).

(f) Soft Loans from Central Bank of Lebanon:

This caption represents soft loans granted by the Central Bank of Lebanon as detailed below:

LBP'000	Date Granted	Maturity Date	2017	2016
Soft loan against merger with Ahli International Bank SAL	December 26, 2014	December 21, 2020	243,589,400	243,589,400
3 Soft loans against providing liquidity to cover 60% of the replacement value of buildings and equipment pertaining to four of the Bank's clients who were directly damaged from the July 2006 Lebanon war:				
- Loan 1	February 18, 2010	September 2, 2017	-	10,858,000
- Loan 2	July 8, 2010	June 29, 2017	-	774,000
- Loan 3	March 29, 2012	March 21, 2019	17,734,000	17,734,000
Soft loan against subsidized loan granted by the Group	December 30, 2015	December 30, 2021	90,468	113,063
CARRYING VALUE			**261,413,868**	**273,068,463**

Soft loans are secured by pledged Lebanese Treasury bills (Notes 10 and 45).

(g) Soft Leverage Arrangement from Central Bank of Lebanon:

Soft leverage arrangement from Central Bank of Lebanon represents facilities in Lebanese Pounds subject to fixed interest rate of 2% per annum granted against investment in Lebanese Treasury bills and term placement with Central Bank of Lebanon (Notes 5 and 45).

(h) Borrowing from The German Investment and Development Company – DEG (related party):

The borrowing from The German Investment and Development Company – DEG represents a loan for a limit of USD 6 million (LBP 9 billion), payable through 12 semi-annual payments of USD 500,000 each starting June 2013.

(i) Borrowing from Green for Growth Fund - GGF:

The borrowing from Green for Growth Fund – GGF represents a 7 years line of credit for a limit of USD 5 million (LBP 7.54 billion) obtained on December 15, 2017. This borrowing is payable through 11 semi-annual payments of USD 454,545 each starting December 2019. Up till December 31, 2017, only USD 1 million was utilized.

The remaining contractual maturities of borrowings are as follows:

LBP'000	2017	2016
Less than one year	181,916,916	58,127,834
From 1 to 3 years	307,083,699	67,676,205
From 3 to 5 years	47,505,557	281,173,341
Over 5 years	1,825,060,023	864,442,036
TOTAL	**2,361,566,195**	**1,271,419,416**

The movement of other borrowings is detailed as follows:

LBP'000	2017
Balance, beginning of year	1,270,008,056
Additions	1,163,672,038
Settlements	(75,727,990)
BALANCE, DECEMBER 31	**2,357,952,104**

The Group has not had any defaults of principal, interest or other breaches with respect to these borrowings.

22. SUBORDINATED LOAN

LBP'000	2017	2016
Loan from Proparco (7.61%)	**19,124,748**	**25,499,664**

This caption represents a loan according to a contract signed between the Bank and "Proparco" on January 19, 2010 for an amount of USD 21,144,000 and is to be settled over a period of 10 years including a 6-year grace period. The Group started to accrue interest effective June 30, 2010 and this interest is payable on July 15 of each year starting year 2011. Repayment of principal starts on July 15, 2016. USD 12,686,400 was outstanding as at December 31, 2017 (USD 16,915,200 as at December 31, 2016).

23. OTHER LIABILITIES

LBP'000	2017	2016
Current tax liability (a)	32,390,216	32,225,436
Deferred tax liability on items recognized in other comprehensive income (Note 29)	36,214,407	18,481,666
Deferred tax liability on undistributed profits of subsidiaries and associates of the Bank	59,095,812	42,633,669
Other deferred income tax liability	3,351,098	2,206,900
Withholding and other taxes payable	13,515,357	13,379,470
Due to the Social Security National Fund	2,617,143	2,400,917
Checks and incoming payment orders in course of settlement	26,244,902	25,187,457
Accrued expenses	51,243,105	59,795,279
Accrued interest payable - Cash contribution to capital	-	2,806
Accrued interest payable - Subordinated loan	1,618,235	2,243,731
Financial guarantee contracts issued	1,946,331	2,194,456
Finance lease obligation	-	6,506,123
Payable to non-controlling interests of a subsidiary under liquidation	11,349	-
Regulatory deferred liability (b)	326,510,510	355,522,415
Tax on regulatory deferred liability (b)	-	62,739,249
Sundry accounts payable	61,202,936	52,292,468
TOTAL	**615,961,401**	**677,812,042**

(a) Below is the reconciliation of income tax expense:

LBP'000	2017	2016
Profit before tax from continuing operations	338,957,222	362,515,880
Income tax on enacted applicable rates	59,473,099	61,963,878
Effect of non-deductible expense and non-taxable income	(3,640,140)	(7,985,834)
Income tax expense	55,832,959	53,978,044
Less: Tax paid in advance	(22,672,188)	(20,719,134)
Net effect of deferred tax assets (Note 17 (d))	1,119,260	1,787,846
Deferred tax on temporary differences	22,305	26,492
Effect of exchange rates changes	(1,912,120)	(2,847,812)
CURRENT TAX PAYABLE	**32,390,216**	**32,225,436**

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

During the year 2016, as a result of several transactions derived from the special and non-conventional deals arrangement with the Central Bank of Lebanon, the Group received a surplus of LBP 440 billion of which an amount of LBP 22 billion was recognized in the statement of profit or loss. The remaining surplus of LBP 356 billion, net of tax in the amount of LBP 62.7 billion, was credited to "Regulatory deferred liability" under other liabilities and deferred as restricted contribution in anticipation of expected loss provisions that will be deemed to be necessary along with the application of IFRS 9 in accordance with the Central Bank of Lebanon requirements as indicated above (Refer to Note 10). During 2017, tax payable on regulatory deferred liability was settled.

This account was constitued as follows:

LBP'000	2016
Total surplus (Note 10)	440,416,318
Recognized contribution	(22,154,654)
Deferred regulatory liability	418,261,664
Tax on deferred regulatory liability	(62,739,249)
Deferred regulatory liability – net of tax	**355,522,415**

The movement of this account during 2017 was as follows:

LBP'000	2017
Balance, January 1	355,522,415
Write-off against deferred assets (Note 17)	(3,340,375)
Write-off against goodwill (Note 16)	(6,580,859)
Transfer to collective provision (Note 9)	(1,239,192)
Transfer to other income (Note 35)	(17,851,479)
BALANCE, DECEMBER 31	**326,510,510**

During 2017, the Bank transferred an amount of LBP 17 billion to other income to cover the impairment derived from the investment in Fransabank Syria up till December 31, 2017.

24. PROVISIONS

Provisions consist of the following:

LBP'000	2017	2016
Provision for staff termination indemnities	35,011,326	33,660,174
Provision for contingencies	11,249,790	12,747,041
Provision for loss on foreign currency position	475,549	260,450
Provision for off-balance sheet risk	307,596	1,313,305
TOTAL	**47,044,261**	**47,980,970**

The movement of provision for staff termination indemnities is as follows:

LBP'000	2017	2016
Balance January 1	33,660,174	31,794,313
Additions - Employees	3,037,009	4,543,740
Write-back	-	(21,470)
Settlements	(1,685,857)	(2,656,409)
BALANCE, DECEMBER 31	**35,011,326**	**33,660,174**

The movement of the provision for contingencies was as follows:

LBP'000	2017	2016
Balance January 1	12,747,041	9,573,170
Net additions (Note 39)	3,694,084	3,795,602
Settlements	(5,004,028)	(1,329,293)
Reallocation from other liabilities	-	897,872
Effect of exchange rates changes	(187,307)	(190,310)
BALANCE, DECEMBER 31	**11,249,790**	**12,747,041**

25. SHARE CAPITAL

At December 31, 2017, the authorized ordinary share capital of the Bank was LBP 438.5 billion consisting of 21,925,000 fully paid shares of LBP 20,000 each (LBP 430 billion consisting of 21,500,000 shares in 2016). The increase in the nominal value of these shares resulted from transfer from reserves restricted following a decision by the general assembly to reconstitute the capital which decreased by an amount of LBP 8.5 billion as a result of the redemption of all Series "B" preference shares (Note 27).

Up to 2017 year-end, the Bank has established a fixed exchange position in the amount of USD 224,179,889 (USD 118,179,889 up to 2016) authorized by Central Bank of Lebanon to hedge its equity against exchange fluctuations within the limit of 60% of equity denominated in Lebanese Pounds.

26. SHAREHOLDERS' CASH CONTRIBUTION TO CAPITAL

The shareholders' cash contribution to capital is for a total amount of LBP 17.1 billion (USD 11,352,494) as at December 31, 2017 and 2016 and it is subject to a yearly interest of 6% payable from unrestricted profits after securing the approval of Central Bank of Lebanon.

This sort of financial instrument is accounted for in foreign currency and therefore allows hedging against national currency exchange fluctuation.

27. PREFERENCE SHARES

On September 30, 2010, the Bank issued 425,000 non-cumulative convertible redeemable Series "B" preference shares with nominal value of LBP 20,000 each at an issue price of USD 200 per share. During 2017, the Bank redeemed the preference shares at a price equal to 103% of the issue price (USD 207 per share) as per the offering circular for a total additional amount of LBP 4.48 billion from the original price. The difference was recorded against retained earnings (Note 25). The Bank distributed USD 13.5 per preference share Series "B" during 2017 and 2016.

On December 21, 2012, the Bank issued 375,000 non-cumulative redeemable Series "C" preference shares with nominal value of LBP 20,000 each at an issue price of USD 200 per share. These shares may be redeemed within 60 days of the ordinary general assembly of shareholders held to approve the accounts of the Bank for the year 2017 and within 60 days following the date of each subsequent ordinary general assembly of shareholders held to approve the annual accounts of the Bank for the immediate preceding fiscal year. The Bank distributed USD 13.5 per preference share Series "C" during 2017 and 2016.

On December 15, 2014, the Bank issued 425,000 non-cumulative redeemable Series "D" preference shares with nominal value of LBP 20,000 each at an issue price of USD 200 per share. These shares may be redeemed within 90 days of the ordinary general assembly of shareholders held to approve the accounts of the Bank for the year 2019 and within 90 days following the date of each subsequent ordinary general assembly of shareholders held to approve the annual accounts of the Bank for the immediate preceding fiscal year. The Bank distributed USD 13 per preference share Series "D" during 2017 and USD 13 during 2016.

On December 2015, the Bank issued 525,000 non-cumulative redeemable Series "E" preference shares with nominal value of LBP 20,000 each at an issue price of USD 200 per share. These shares may be redeemed within 90 days of the ordinary general assembly of shareholders held to approve the accounts of the Bank for the year 2020 and within 90 days following the date of each subsequent ordinary general assembly of shareholders held to approve the annual accounts of the Bank for the immediate preceding fiscal year. The Bank distributed USD 13.5 per preference share Series "E" during 2017 and 2016 computed from the date of issuance till end of year 2015.

On December 2017, the Bank issued 375,000 non-cumulative redeemable Series "F" preference shares with nominal value of LBP 20,000 each at an issue price of USD 200 per share. These shares may be redeemed within 90 days of the ordinary general assembly of shareholders held to approve the accounts of the Bank for the year 2022 and within 90 days following the date of each subsequent ordinary general assembly of shareholders held to approve the annual accounts of the Bank for the immediate preceding fiscal year.

28. RESERVES

Reserves consist of the following:

LBP'000	2017	2016
Legal reserve (a)	210,421,489	184,877,183
Reserve for general banking risks (b)	308,883,675	276,132,516
Reserve for assets acquired in satisfaction of loans - Note 13	96,758,660	81,557,477
Owned buildings revaluation reserve	45,448,453	45,430,877
Foreign currency translation reserve	(161,373,898)	(151,481,508)
Special reserve (c)	10,216,872	9,693,062
General reserve for performing loans (d)	53,836,494	22,541,907
TOTAL	**564,191,745**	**468,751,514**

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

(b) The reserve for general banking risks is constituted according to local banking regulations, from net profit, on the basis of a minimum of 2 per mil and a maximum of 3 per mil of the total risk weighted assets, off-financial position risk and global exchange position as defined for the computation of the solvency ratio at year-end. The cumulative reserve should not be less than 1.25% at the end of the 10th year (2007) and 2% at the end of the 20th year (2017). This reserve is constituted in Lebanese Pound and in foreign currencies in proportion to the composition of the Group's total risk weighted assets and off-financial position items. This reserve is not available for distribution.

(c) The special reserve is made based on regulatory requirements, in connection with the uncovered portion of the doubtful debts outstanding as at June 30, 2003.

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

- 0.5% of retail loans that are less than 30 days past due (subject to deductions of some guarantees received) to general reserve for the year 2014 in addition to a percentage of 0.5% yearly over a six year period starting 2015.
- 0.25% of performing corporate loans to general reserve as of end of 2014. This reserve should increase to 0.5% as of end of 2015, 1% as of end of 2016 and 1.5% as of end of 2017. The Bank is exempted from this general reserve if the balance of collective provision is not less than 0.25% of the performing corporate loans portfolio as of end of 2014, 0.5% as of end of 2015, 1% as of end of 2016 and 1.5% as of end of 2017.

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

29. CUMULATIVE CHANGE IN FAIR VALUE OF FINANCIAL ASSETS

This caption represents the cumulative change in fair value of investment securities at fair value through other comprehensive income. It consists of the following:

LBP'000	2017	2016
Cumulative unrealized gain on investments at fair value through other comprehensive income (Note 10)	213,743,230	182,860,807
Less: Deferred tax liability (Note 23)	(36,214,407)	(18,481,666)
Net	177,528,823	164,379,141
Adjustment to retained earnings	(134,588)	-
Share of non-controlling interests (Note 29)	(1,432,103)	(1,942,988)
SHARE OF OWNERS OF THE BANK	**175,962,132**	**162,436,153**

30. NON – CONTROLLING INTERESTS

Non-controlling interests represent the minority share in the subsidiaries' equities as follows:

LBP'000	2017	2016
Capital	149,399,584	190,763,898
Change in fair value of investment securities through other comprehensive income (Note 29)	1,432,103	1,942,988
Preference shares	165,825,001	248,737,501
Reserves and retained earnings	83,204,922	44,674,423
Profit for the year	19,149,042	22,862,928
TOTAL	**419,010,652**	**508,981,738**

The following table summarizes financial information of subsidiaries that have material Non-Controlling Interests (NCI) before intra-group eliminations:

LBP'000	December 31, 2017	
	BLC Bank and its Direct Subsidiaries	**Fransabank El Djazaïr SPA**
NCI percentage	25.17%	32.00%
Cash and banks	1,530,376,396	216,000,341
Loans and advances	2,416,372,032	340,966,532
Assets classified as held for sale	1,380,267,902	-
Investment securities	3,263,319,053	6,932,690
Foreclosed assets and investment properties	82,496,874	-
Other assets	113,270,663	65,524,694
Deposits from banks	(67,494,144)	(191,384)
Liabilities directly associated with assets classified as held for sale	(1,249,041,760)	-
Deposits from customers	(5,908,204,095)	(419,768,237)
Borrowings and subordinated bonds	(511,348,740)	-
Other liabilities and provisions	(206,104,122)	(31,405,904)
NET ASSETS	**843,910,059**	**178,058,732**
Carrying amount of NCI	212,412,162	56,978,794
Net financial revenues	187,568,882	35,980,072
Net allowance for impairment of loans	(3,015,745)	(622,041)
Other income (net)	6,076,850	-
Operating expenses	(106,340,780)	(17,801,534)
Income tax expense	(14,601,275)	(4,902,799)
Discontinued operations	396,250	-
Other Comprehensive Income (OCI)	(1,941,135)	(6,757,347)
TOTAL COMPREHENSIVE INCOME	**68,143,047**	**5,896,351**
Profit allocated to NCI	17,697,258	4,049,182
OCI allocated to NCI	(438,419)	(2,183,225)

LBP'000	December 31, 2016	
	BLC Bank and its Direct Subsidiaries	**Fransabank El Djazaïr SPA**
NCI percentage	25.17%	32.00%
Cash and banks	1,752,457,466	105,132,852
Loans and advances	2,793,969,001	310,937,636
Investment securities	3,736,173,120	7,290,713
Foreclosed assets and investment properties	199,438,474	-
Other assets	151,435,961	66,787,416
Deposits from banks	(41,905,644)	(104,496)
Deposits from customers	(7,070,929,041)	(292,857,693)
Borrowings and subordinated bonds	(411,374,820)	-
Other liabilities and provisions	(238,065,403)	(19,971,493)
NET ASSETS	**871,199,114**	**177,214,935**
Carrying amount of NCI	219,280,817	56,708,779
Net financial revenues	235,388,966	26,143,912
Net allowance for impairment of loans	(21,558,198)	2,220,443
Other income (net)	1,734,696	-
Operating expenses	(131,789,334)	(13,785,606)
Income tax expense	(12,403,283)	(4,079,138)
Other Comprehensive Income (OCI)	1,157,840	(5,364,068)
TOTAL COMPREHENSIVE INCOME	**72,530,687**	**5,135,543**
Profit allocated to NCI	18,076,263	3,359,873
OCI allocated to NCI	322,831	(1,777,984)

31. PROFIT FOR THE YEAR

The consolidated profit is allocated as follows between the Bank and its subsidiaries (after intra-group eliminations):

LBP'000	Year Ended December 31, 2017		
	Owners of the Bank	Non-Controlling Interests	Total
Income of the Bank	180,281,054	-	180,281,054
Income of subsidiaries:			
- Fransa Invest Bank SAL	11,719,609	-	11,719,609
- Fransabank France SA	3,879,440	1,018,224	4,897,664
- Lebanese Leasing Company SAL	1,542,330	220,333	1,762,663
- Switch and Electronics Services SAL	310,011	-	310,011
- Sogefon SAL	(142,174)	-	(142,174)
- Fransabank El Djazaïr SPA	8,604,512	4,049,182	12,653,694
- Fransabank Insurance Services SAL	3,110,760	-	3,110,760
- BLC Bank SAL and Subsidiaries	52,386,924	17,697,258	70,084,182
- Express SARL	19,050	-	19,050
- Fransabank Syria	(1,911,218)	(1,521,902)	(3,433,120)
- Fransabank OJSC	2,158,182	199,199	2,357,381
- Kuwaiti Lebanese Company for Real Estate Services SAL	(157,317)	-	(157,317)
Deferred tax on profit from associates and subsidiaries	(10,609,392)	(2,513,252)	(13,122,644)
TOTAL	**251,191,771**	**19,149,042**	**270,340,813**

LBP'000	Year Ended December 31, 2016		
	Owners of the Bank	Non-Controlling Interests	Total
Income of the Bank	201,407,106	-	201,407,106
Income of subsidiaries:			
- Fransa Invest Bank SAL	11,828,806	-	11,828,806
- Fransabank (France) SA	3,925,957	1,030,434	4,956,391
- Lebanese Leasing Company SAL	1,366,175	195,168	1,561,343
- Switch and Electronics Services SAL	379,305	-	379,305
- Sogefon SAL	(63,937)	-	(63,937)
- Fransabank El Djazaïr SPA	7,139,730	3,359,873	10,499,603
- Fransabank Insurance Services SAL	3,369,083	-	3,369,083
- BLC Bank SAL and Subsidiaries	53,296,584	18,076,263	71,372,847
- Express SARL	(23,857)	-	(23,857)
- Fransabank Syria	2,086,447	1,478,300	3,564,747
- Fransabank OJSC	2,958,719	273,088	3,231,807
- Kuwaiti Lebanese Company for Real Estate Services SAL	-	-	-
Deferred tax on profit from associates and subsidiaries	(7,595,874)	(1,550,198)	(9,146,072)
TOTAL	**280,074,244**	**22,862,928**	**302,937,172**

32. DIVIDENDS PAID

The following dividends were declared and paid by the Group:

LBP'000	2017	2016
LBP 3,200 per ordinary share paid by the Bank from 2016 net income (LBP 2,700 during 2016 paid from 2015 net income)	68,800,000	58,050,000
Dividends paid to preference shares	35,294,343	29,727,027
Dividends paid by subsidiaries to non-controlling interests	16,316,237	16,648,733

33. INTEREST INCOME

LBP'000	December 31, 2017 Interest Income	Tax on Interest	Net Interest Income	(Re-presented) 2016 Net Interest Income
Interest income from:				
Deposits with Central Banks	347,740,699	(1,070,203)	346,670,496	232,272,567
Deposits with banks and financial institutions	18,080,489	-	18,080,489	9,108,481
Deposits with related party banks and financial institutions	-	-	-	355,306
Investment securities	683,039,102	(1,472,924)	681,566,178	718,997,268
Loans to banks	2,152,968	(509)	2,152,459	1,664,540
Loans and advances to customers	631,032,335	-	631,032,335	602,747,054
Loans and advances to related parties	2,053,276	-	2,053,276	2,858,486
Interest recognized on impaired loans and advances to customers (Note 9)	11,471,187	-	11,471,187	10,581,871
Interest recognized on impaired loans transferred to off-balance sheet	5,451	-	5,451	75,076
Other	26,008	-	26,008	8,862
TOTAL	**1,695,601,515**	**(2,543,636)**	**1,693,057,879**	**1,578,669,511**

Interest income realized on impaired loans and advances to customers represent recoveries of interest. Accrued interest on impaired loans and advances is not recognized until recovery / rescheduling agreements are signed with customers.

Interest income on investments at fair value through profit or loss is reflected separately under "net interest and other gain / (loss) on investments securities at fair value through profit or loss" (Note 37).

34. INTEREST EXPENSE

LBP'000	2017	(Re-presented) 2016
Interest expense on:		
Deposits and borrowings from Central Banks	118,234	23,311
Deposits and borrowings from banks and financial institutions	9,243,935	4,510,555
Customers' deposits at amortized cost	1,047,212,641	982,814,582
Related parties' deposits at amortized cost	59,357,647	51,269,018
Other borrowings (Note 21)	25,941,599	23,937,121
Borrowings from related party (Note 21)	126,638	180,379
Subordinated loans	1,734,338	2,236,993
Bonds issued by bank	239	7,535
Shareholders' cash contribution to capital (Note 26)	1,026,823	1,026,833
TOTAL	**1,144,762,094**	**1,066,006,327**

Interest expense on customers' accounts designated at fair value through profit or loss is reflected separately on the face of the consolidated statement of profit or loss.

35. FEE AND COMMISSION INCOME

LBP'000	2017	(Re-presented) 2016
Commission on documentary credits	17,009,174	18,027,029
Commission on letters of guarantee	19,787,831	14,977,408
Service fees on customers' transactions	88,764,559	81,565,139
Commission on transactions with banks	770,918	596,554
Asset management fees	343,848	264,811
TOTAL	**126,676,330**	**115,430,941**

Fee and commission income include fee and commission from related parties with immaterial amounts.

36. FEE AND COMMISSION EXPENSE

LBP'000	2017	(Re-presented) 2016
Commission on transactions with banks and financial institutions	4,001,532	4,587,643
Sundry	15,945,585	17,119,941
TOTAL	**19,947,117**	**21,707,584**

Fee and commission expenses include fee and commission to related parties with immaterial amounts.

37. NET INTEREST AND OTHER NET GAIN / (LOSS) ON INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

LBP'000	2017	(Re-presented) 2016
Interest income (net of tax LBP 40 million during 2017)	23,559,344	41,351,223
Dividends income	2,656,101	2,705,091
Net unrealized gain / (loss)	1,679,352	2,826,472
Net realized gain	3,253,137	16,520,329
TOTAL	**31,147,934**	**63,403,115**

38. OTHER OPERATING INCOME (NET)

LBP'000	2017	(Re-presented) 2016
Dividends income on investment securities	4,643,918	4,333,689
Share in profits of associates (Note 12)	18,637,661	15,330,578
Foreign exchange gain	16,471,251	13,969,237
Transfer from regulatory deferred liabilities (Note 22)	17,851,479	22,154,654
Losses resulting from deconsolidation of Fransabank Syria (Note 43)	(15,940,262)	-
Gain on disposal of assets acquired in satisfaction of loans (Note 13.1)	8,331,986	1,902,300
(Loss) / gain on disposal of property and equipment and intangible assets	777,973	(83,956)
Other operating income – Net	3,685,563	6,445,007
TOTAL	**54,459,569**	**64,051,509**

39. PROVISIONS FOR CHARGES (NET)

LBP'000	2017	(Re-presented) 2016
Regulatory allowance for country risk - Deposit with banks (Note 6)	4,035	70
Regulatory allowance for country risk - Loans to banks (Note 7)	1,025	(19,506)
Write-back of impairment allowance of investment in securities (Note 10)	(1,044)	7,030
Provision for contingencies (Note 24)	3,694,084	3,795,602
TOTAL	**3,698,100**	**3,783,196**

40. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISKS

The guarantees and standby letters of credit and the documentary and commercial letters of credit represent financial instruments with contractual amounts representing credit risk. The guarantees and standby letters of credit represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties and are not different from loans and advances on the statement of financial position.

However, documentary and commercial letters of credit, which represent written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments documents of goods to which they relate and, therefore, have significantly less risks.

41. BALANCES / TRANSACTIONS WITH RELATED PARTIES

In the ordinary course of its activities, the Group conducts transactions with related parties including shareholders, directors, subsidiaries and associates. Also, the Group conducts sale and purchase transactions of investment securities with subsidiary banks and these transactions are made at net book value of the financial instruments.

Balances and transactions with related parties are as follows:

LBP'000	Notes	2017	2016
Term placements with banks	6	5,477,638	4,840,002
Deposits from banks	18	2,014,996	68,603
Money market deposits from banks	18	65,037,240	31,925,800
Borrowings	21	1,507,500	3,015,000
Direct facilities & credit balances			
- Loans and advances	9	32,326,128	46,029,582
- Deposits at fair value through profit or loss	19	2,735,789	2,944,192
- Deposits at amortized cost	20	1,731,144,305	1,857,623,063
Indirect facilities			
- Letters of guarantees		6,357,459	105,121
Accrued interest receivable:			
- Loans and advances	9	15,518	17,599
Accrued interest payable:			
- Money market deposits from banks	18	22,642	14,116
- Deposits at fair value through profit or loss	19	16,355	17,085
- Deposits at amortized cost	20	28,761,331	21,864,980
- Borrowings	21	3,741	6,831
- Cash contribution to capital	26	-	2,806
Statement of profit or loss accounts:			
- Interest income from deposits with banks	33	-	355,306
- Interest income from loans and advances	33	2,053,276	2,858,486
- Interest expense on deposits at fair value through profit or loss		1,363	26,501
- Interest expense on deposits at amortized cost	34	59,357,647	51,269,018
- Interest expense on borrowings from related parties	34	126,638	180,379
- Interest expense on cash contribution to capital	34	1,026,823	1,026,833

Some loans and advances are covered by real estate mortgage and by pledged deposits of the respective borrowers.

The remunerations to executive management amounted to LBP 40.1 billion during 2017 (LBP 39.5 billion during 2016). This includes accrued remuneration payable to the Bank's chairman and vice chairman calculated on the basis of 8% of profit before tax.

42. CASH AND CASH EQUIVALENTS

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

LBP'000	2017	2016
Cash	214,929,568	222,382,941
Current accounts with Central Banks	492,900,411	301,461,420
Time deposits with Central Banks (maturities of 3 months or less)	1,314,336,334	1,589,932,623
Checks in course of collection	7,711,179	18,841,036
Current accounts with banks and financial institutions	333,399,666	476,502,331
Time deposits with banks and financial institutions (maturities of 3 months or less)	778,666,854	838,591,799
TOTAL	**3,141,944,012**	**3,447,712,150**

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

(a) Positive change in fair value of investment securities at fair value through other comprehensive income of LBP 31 billion and related deferred tax liability of LBP 17 billion during 2017 (LBP 826 million and related deferred tax liability of LBP 39 million during 2016).
(b) Foreclosed assets in settlement of loans in the amount of LBP 109 billion during 2017 (LBP 61.5 billion during 2016).
(c) Change in derivative assets held to risk management in the amount of LBP 1.4 billion during 2017 (LBP 3.5 billion during 2016).
(d) Assets and liabilities removed due to deconsolidation of a subsidiary.
(e) Transfer from property and equipment to intangible assets in the amount of LBP 324 million.
(f) Transfer of LBP 11.1 billion from other liabilities to collective provisions in the amount of LBP 1.2 billion and to write-off deferred assets and goodwill in the amount of LBP 9.9 billion during 2017.
(g) Transfer of LBP 3 billion from assets acquired in satisfaction of loans to property and equipment during 2016.
(h) Transfer of LBP 59 billion from Investment property to assets acquired in satisfaction of loans during 2016.
(i) Transfer of LBP 898 million from other liabilities to provisions during 2016.
(j) Surplus of LBP 440 billion recorded under other liabilities resulting from sale of investment securities during 2016.

43. DECONSOLIDATION OF A SUBSIDIARY

Since the outbreak of the civil war in Syria in March 2011, persisting negative macroeconomic conditions and strict limitations on banking activities were preventing the Group from managing Syrian operations and implementing decisions at operational and financial levels.

Consequently, Fransabank Board of Directors took the decision to completely review the relationship with Fransabank Syria, which is 55.67% owned by the Group. Members of the Board, who represented the Group, have submitted their resignation from the Board of Directors of Fransabank Syria, hence, conditions for exercising control as set in IFRS 10 are no longer met, and accordingly the Group has deconsolidated the subsidiary's account effective December 31, 2017.

The deconsolidation of Fransabank Syria, resulted in the recognition of losses of LBP 15.94 billion deriving mainly from the currency translation into Lebanese Pounds of the financial statements of Fransabank Syria, previously recognized under foreign currency translation reserve in equity and recycled to the statement of Profit or Loss upon deconsolidation.

The Group has determined the fair value of its investment retained in the former subsidiary at LBP 51.9 billion that was classified as an investment at fair value through other comprehensive income as of December 31, 2017.

The Group will reassess its position in case there are significant future changes in the circumstances calling for deconsolidation.

Below is an analysis of the assets and liabilities over which control was lost:

LBP'000	2017
ASSETS:	
Cash and deposits at Central Bank	71,250,700
Deposits with banks and financial institutions	164,832,337
Investment securities	26,984,975
Loans and advances to customers	79,185,768
Property and equipment and intangible assets	23,107,068
Assets acquired in satisfaction of loans	200,159
Other assets	16,613,515
	382,174,522
LIABILITIES:	
Deposits from banks and financial institutions	103,357,976
Customers' deposits at amortized cost	180,585,861
Other liabilities	5,133,660
Provisions	14,349
	289,091,846
NET ASSETS DECONSOLIDATED	**93,082,676**

The results of Fransabank Syria for the year 2017 (deconsolidation date) are as follows:

LBP'000	2017
Net interest income	6,165,136
Net fee and commission income	1,491,541
Other operating income	464,918
Net allowance for the impairment of loans and advances to customers	(442,933)
Staff costs	(4,908,353)
General and administrative expenses	(1,822,340)
Depreciation and amortization	(167,494)
Other expenses (net)	(3,459,716)
Income tax expense	(753,877)
Loss for the period	(3,433,118)

44. DISTRIBUTION BY GEOGRAPHICAL LOCATION

Below is the distribution of assets and liabilities and statement of profit or loss by geographical location of various Group entities:

44.1 Distribution of Assets and Liabilities by Geographical Location

LBP'000	December 31, 2017					
	Lebanon	France	Algeria	Belarus	Cyprus	Total
ASSETS:						
Cash and banks	9,788,529,756	104,298,746	215,000,341	21,720,900	-	10,129,549,743
Loans to banks	140,103,727	-	-	359,212	-	140,462,939
Assets classified as held for sale	-	-	-	-	1,380,267,902	1,380,267,902
Loans and advances to customers	8,802,735,455	596,266,801	340,966,532	36,043,241	-	9,776,012,029
Investments securities	10,485,193,707	40,674	6,932,690	13,653,341	-	10,505,820,412
Customers' liability under acceptances	403,606,590	1,523,197	29,348,565	-	-	434,478,352
Investments in associates	79,301,461	-	-	-	-	79,301,461
Goodwill	48,903,653	-	-	-	-	48,903,653
Other assets	670,973,387	5,905,631	65,524,694	15,337,502	-	757,741,214
TOTAL ASSETS	**30,419,347,736**	**708,035,049**	**657,772,822**	**87,114,196**	**1,380,267,902**	**33,252,537,705**
LIABILITIES:						
Deposits and borrowings from banks	170,674,770	92,086,415	110,982	1,268,762	-	264,140,929
Liabilities directly associated with assets classified as held for sale	-	-	-	-	1,249,041,760	1,249,041,760
Customers' accounts at FVTPL	135,500,053	-	-	-	-	135,500,053
Customers' accounts at amortized cost	24,138,687,007	285,560,348	419,768,237	38,200,106	-	24,882,215,698
Customers' acceptance liability	403,606,590	1,523,197	29,348,565	-	-	434,478,352
Other borrowings	2,361,566,195	-	-	-	-	2,361,566,195
Subordinated loan	19,124,748	-	-	-	-	19,124,748
Other liabilities and provisions	626,537,605	4,546,258	31,405,904	515,895	-	663,005,662
TOTAL LIABILITIES	**27,855,696,968**	**383,716,218**	**480,633,688**	**39,984,763**	**1,249,041,760**	**30,009,073,397**

LBP'000	December 31, 2016						
	Lebanon	Syria	France	Algeria	Belarus	Cyprus	Total
ASSETS:							
Cash and banks	8,593,333,253	96,290,088	51,223,020	105,132,852	9,387,840	145,348,592	9,000,715,645
Loans to banks	56,759,583	-	-	-	259,928	-	57,019,511
Loans and advances to customers	8,447,422,658	60,355,920	471,796,805	310,937,636	39,002,723	519,573,994	9,849,089,736
Investments securities	10,800,974,995	45,146,067	15,202,588	7,290,713	32,477,660	296,638,771	11,197,730,794
Customers' liability under acceptances	235,751,263	-	24,639,239	24,881,633	-	-	285,272,135
Investments in associates	72,161,135	-	-	-	-	-	72,161,135
Goodwill	54,779,898	-	-	-	-	-	54,779,898
Other assets	677,887,728	23,540,769	3,290,753	66,787,416	15,508,696	134,537,259	921,552,621
TOTAL ASSETS	**28,939,070,513**	**225,332,844**	**566,152,405**	**515,030,250**	**96,636,847**	**1,096,098,616**	**31,438,321,475**
LIABILITIES:							
Deposits and borrowings from banks	125,550,080	113,518,000	41,174,150	20,971	3,104,507	2,243,404	285,611,112
Customers' accounts at FVTPL	136,487,357	-	-	-	-	-	136,487,357
Customers' accounts at amortized cost	23,857,926,500	137,366,713	217,236,523	292,857,693	32,870,713	963,431,630	25,501,689,772
Customers' acceptance liability	235,751,263	-	24,639,239	24,881,633	-	-	285,272,135
Other borrowings	1,271,419,416	-	-	-	-	-	1,271,419,416
Subordinated loan	25,499,664	-	-	-	-	-	25,499,664
Other liabilities and provisions	683,147,932	3,481,484	4,161,502	19,971,493	321,554	14,709,047	725,793,012
TOTAL LIABILITIES	**26,335,782,212**	**254,366,197**	**287,211,414**	**337,731,790**	**36,296,774**	**980,384,081**	**28,231,772,468**

44.2 Distribution of Statement of Profit or Loss by Geographical Location

LBP'000	Year Ended December 31, 2017						
	Lebanon	Syria	France	Algeria	Belarus	Cyprus	Total
Net interest income	496,025,574	5,589,822	15,796,134	24,399,556	6,484,699	-	548,295,785
Net fee and commission income	89,528,090	1,491,541	2,935,512	11,221,161	1,552,909	-	106,729,213
Investments at fair value through profit or loss	31,147,934	-	-	-	-	-	31,147,934
Liabilities designated at fair value through profit or loss	(7,470,421)	-	-	-	-	-	(7,470,421)
Other operating income	32,088,366	464,918	809,920	359,354	2,860,079	-	36,582,637
Impairment of loans and advances	(5,607,406)	(442,933)	(1,178,897)	(622,041)	514,349	-	(7,336,928)
Regulatory allowance for country risk - Deposits with Central Banks	2,359,158	-	-	-	-	-	2,359,158
Recognized contribution	17,851,479	-	-	-	-	-	17,851,479
Other expense	(346,263,656)	(10,357,903)	(7,331,561)	(17,801,534)	(7,504,037)	-	(389,258,691)
Income tax expense	(47,211,823)	(753,877)	(2,513,901)	(4,902,799)	(450,559)	-	(55,832,959)
Net income from discontinued operations	-	-	-	-	-	396,250	396,250
Deferred tax on investees undistributed profits	(13,122,644)	-	-	-	-	-	(13,122,644)
TOTAL	**249,324,651**	**(4,008,432)**	**8,517,207**	**12,653,697**	**3,457,440**	**396,250**	**270,340,813**

LBP'000	(Re-Presented) - Year Ended December 31, 2016						
	Lebanon	Syria	France	Algeria	Belarus	Cyprus	Total
Net interest income	466,352,909	5,500,812	14,173,255	17,904,132	8,732,076	-	512,663,184
Net fee and commission income	80,007,429	1,774,881	2,644,355	7,903,642	1,393,050	-	93,723,357
Investments at fair value through profit or loss	63,403,115	-	-	-	-	-	63,403,115
Liabilities designated at fair value through profit or loss	(3,525,103)	-	-	-	-	-	(3,525,103)
Other operating income	37,157,001	755,162	630,370	336,138	2,962,802	-	41,841,473
Impairment of loans and advances	9,963,607	2,344,678	(861,432)	2,220,443	(1,017,068)	-	12,650,228
Recognized contribution	22,154,654	-	-	-	-	-	22,154,654
Other expense	(346,143,756)	(6,828,142)	(6,887,033)	(13,785,606)	(6,750,483)	-	(380,395,020)
Income tax expense	(46,281,752)	(821,297)	(2,490,083)	(4,079,138)	(305,774)	-	(53,978,044)
Net income from discontinued operations	-	-	-	-	-	3,545,401	3,545,401
Deferred tax on investees undistributed profits	(9,146,073)	-	-	-	-	-	(9,146,073)
TOTAL	**273,942,031**	**2,726,094**	**7,209,432**	**10,499,611**	**5,014,603**	**3,545,401**	**302,937,172**

45. COLLATERAL GIVEN

Financial assets given as collateral are as follows at December 31:

LBP'000	December 31, 2017			
	Redemption Value of Pledged Assets	Corresponding Facilities		
		Nature of Facility	Amount of Facility	Maturity Date
Treasury bills at amortized cost	17,734,000	Soft Loan	17,734,000	March 2019
Treasury bills at amortized cost	243,589,400	Soft Loan	243,589,400	December 2020
Lebanese Government bonds at amortized cost	301,500,000	Exemption of regulatory reserve	301,500,000	July 2018
Treasury bills at amortized cost	338,512,320	Facilities	396,163,236	Over 5 years
Treasury bills at amortized cost	25,768,020	Facilities	593,057,650	Over 5 years
Treasury bills at amortized cost	110,154,480	Soft Leverage arrangement BDL	110,154,480	Over 5 years
Treasury bills at amortized cost	47,838,390	Soft Leverage arrangement BDL	47,838,390	Over 5 years
Term placement with Central Bank of Lebanon	565,314,000	Soft Leverage arrangement BDL	565,312,625	Over 5 years
Term placement with Central Bank of Lebanon	77,665,270	Soft Leverage arrangement BDL	77,665,270	Over 5 years
Term placement with Central Bank of Lebanon	43,141,110	Soft Leverage arrangement BDL	43,141,110	Over 5 years
Term placement with Central Bank of Lebanon	11,307,000	Soft Leverage arrangement BDL	11,306,250	Over 5 years
TOTAL	**1,782,523,990**		**2,407,462,411**	

LBP'000	December 31, 2016			
	Redemption Value of Pledged Assets	Corresponding Facilities		
		Nature of Facility	Amount of Facility	Maturity Date
Treasury bills at amortized cost	10,858,000	Soft Loan	10,858,000	September 2017
Treasury bills at amortized cost	774,000	Soft Loan	774,000	June 2017
Treasury bills at amortized cost	17,734,000	Soft Loan	17,734,000	March 2019
Treasury bills at amortized cost	243,589,400	Soft Loan	243,589,400	December 2020
Lebanese Government bonds at amortized cost	301,500,000	Exemption of regulatory reserve	301,500,000	July 2018
Treasury bills at amortized cost	338,437,440	Facilities	387,050,712	Over 5 years
Treasury bills at amortized cost	16,198,370	Facilities	423,742,597	Over 5 years
TOTAL	**929,091,210**		**1,385,248,709**	

46. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS

Risk Management Framework

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

The Board of Directors, the Risk Management Committee and the Risk Management Division are responsible for overseeing the Group's risks, while the Internal Audit Department has the responsibility independently to review the implemented risk management process to ensure adequacy and effectiveness of the risk control procedures. The Risk Management Division ensures that the capital is adequate to cover all types of risks that the Group is exposed to and monitors compliance with risk management policies, procedures and risk limits. The Group assesses its risk profile to ensure that it is in line with the Bank's risk strategy and objectives. The Board of Directors receives quarterly risk reports on the Bank's risk profile and capital management process.

Credit Risk

Credit risk is defined as the potential that a bank's borrower or counterparty fails to meet its obligations in accordance with agreed terms. The goal of Fransabank credit risk management is to maximize Bank's risk-adjusted rate of return by maintaining credit risk exposure within the acceptable limits consistent with prudential thresholds stipulated by the Central Bank of Lebanon and the Banking Control Commission. Fransabank SAL manages the credit risk inherent in the entire credit portfolio as well as the risk in individual credits. The role of credit risk management is to continuously identify, measure, control, monitor, and report on credit risk to the Board.

Management of credit risk mainly includes:

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

b) Measuring credit risk by ensuring that the Bank has enough capital to cover unexpected losses from its credit portfolio.

c) Mitigating credit risk by ensuring the implementation of a sound internal control system and that credits are adequately collateralized.

d) Monitoring credit risk by ensuring that credit exposures are within internal and regulatory set limits.

e) Reporting on credit risk is realized through regular and timely escalation of credit risk reports based on the reporting lines which are evidenced by the Bank's organizational chart's hierarchal levels.

Measurement of Credit Risk

Loans and Advances to Customers

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

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

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

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

Loans' classifications are assessed and updated regularly.

Note 8 discloses the distribution of loans and advances to customers by classification.

Most of customers' exposures represent credit facilities granted to corporations which do not have external credit rating.

Loans classified in categories 1, 2 and 3 include the following past due but not impaired exposures:

LBP'000	**2017**	2016
Less than 30 days	61,393,254	59,850,165
Between 30-60 days	33,944,655	32,969,211
Between 60-90 days	46,240,334	36,120,564
Between 90-180 days	93,130,430	74,966,642
Beyond 180 days	126,893,852	156,008,965
TOTAL	**361,602,525**	**359,915,547**

Above past due accounts relate to Group entities operating in the following geographies:

LBP'000	**2017**	2016
Lebanon	361,602,525	354,424,447
Cyprus	-	3,256,600
Syria	-	2,234,500
TOTAL	**361,602,525**	**359,915,547**

Debt Investment Securities and Other Bills

The risk of the debt instruments included in the investment portfolio relates mainly to sovereign risk (including Central Bank of Lebanon) to the extent of 93% in 2017 (95% in 2016).

Limiting of Credit Risk

The Bank manages the levels of credit risk undertaken by placing limits on the amount of risk accepted in relation to one borrower, and/or groups of related borrowers. Such risk is monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary.

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

Concentration of Credit Risk by Geographical Location (Major Financial Assets)

LBP'000	2017						
	Lebanon	Middle East & Africa	North America	Europe	Gulf	Other	Total
Financial Assets:							
Cash and Central Banks	8,619,052,110	342,215,043	-	44,670,878	-	-	9,005,938,031
Deposits with banks and financial institutions	15,807,314	16,830,673	224,066,850	668,538,419	138,463,201	59,905,255	1,123,611,712
Loans to banks	101,375,473	-	-	-	35,222,230	3,865,236	140,462,939
Loans and advances to customers	8,746,560,408	472,277,077	9,201,352	215,309,933	133,473,975	199,189,284	9,776,012,029
Investments securities	10,253,416,590	58,788,385	18,252,807	169,426,887	5,935,743	-	10,505,820,412
TOTAL	**27,736,211,895**	**890,111,178**	**251,521,009**	**1,097,946,117**	**313,095,149**	**262,959,775**	**30,551,845,123**

LBP'000	2016						
	Lebanon	Middle East & Africa	North America	Europe	Gulf	Other	Total
Financial Assets:							
Cash and Central Banks	7,373,613,317	152,892,698	-	124,082,696	-	-	7,650,588,711
Deposits with banks and financial institutions	44,895,294	157,845,587	160,537,887	822,980,401	122,087,326	41,780,439	1,350,126,934
Loans to banks	56,759,583	-	-	259,928	-	-	57,019,511
Loans and advances to customers	8,178,333,523	553,016,013	6,825,018	813,562,326	133,178,412	164,174,444	9,849,089,736
Investments securities	10,688,832,550	7,290,713	36,336,752	459,213,475	6,057,304	-	11,197,730,794
TOTAL	**26,342,434,267**	**871,045,011**	**203,699,657**	**2,220,098,826**	**261,323,042**	**205,954,883**	**30,104,555,686**

Other specific control and mitigation measures are outlined below:

a) Collateral:

The principal collateral types for loans and advances consist of mortgages over real estate properties and bank guarantees.

The Group will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

b) Netting Arrangements:

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

Market Risks

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

The overall authority for market risk is vested in ALCO.

Foreign Exchange Risk

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

Assets and liabilities are segregated as follows by major currencies:

LBP'000	December 31, 2017				
	LBP	USD	Euro	Other	Total
ASSETS					
Cash and Central Banks	4,970,689,025	3,342,614,924	401,488,439	291,145,643	9,005,938,031
Deposits with banks and financial institutions	6,137,396	837,789,598	135,227,221	144,457,497	1,123,611,712
Loans to banks	45,125,685	46,584,658	4,077,446	44,675,150	140,462,939
Assets classified as held for sale	-	-	1,380,267,902	-	1,380,267,902
Loans and advances to customers	2,994,965,834	5,807,508,224	595,578,424	377,959,547	9,776,012,029
Investment securities	6,102,202,170	4,192,630,828	203,578,586	7,408,828	10,505,820,412
Customers' liability under acceptances	170,213	372,012,677	58,090,366	4,205,096	434,478,352
Investments in associates	62,392,799	16,908,662	-	-	79,301,461
Assets acquired in satisfaction of loans	57,182,624	154,388,736	-	-	211,571,360
Property and equipment	332,498,835	(1,049,974)	76,286	72,754,513	404,279,660
Intangible assets	9,411,279	-	941,400	1,808,478	12,161,157
Goodwill	48,903,653	-	-	-	48,903,653
Other assets	72,828,832	43,881,429	4,235,490	8,783,286	129,729,037
TOTAL ASSETS	**14,702,508,345**	**14,813,269,762**	**2,783,561,560**	**953,198,038**	**33,252,537,705**
LIABILITIES					
Deposits and borrowings from banks	13,366,239	116,947,092	126,268,994	7,558,604	264,140,929
Liabilities directly associated with assets classified as held for sale	-	-	1,249,041,760	-	1,249,041,760
Liabilities designated at fair value through profit or loss	-	135,500,053	-	-	135,500,053
Customers' accounts at amortized cost	9,808,724,381	13,131,031,540	1,336,483,182	605,976,595	24,882,215,698
Customers' acceptance liability	170,213	372,012,677	58,090,366	4,205,096	434,478,352
Other borrowings	2,108,372,293	253,193,902	-	-	2,361,566,195
Subordinated loan	-	19,124,748	-	-	19,124,748
Other liabilities	528,712,762	57,536,438	5,880,456	23,831,745	615,961,401
Provisions	39,449,524	1,031,113	-	6,563,624	47,044,261
TOTAL LIABILITIES	**12,498,795,412**	**14,086,377,563**	**2,775,764,758**	**648,135,664**	**30,009,073,397**
NET ASSETS	**2,203,712,933**	**726,892,199**	**7,796,802**	**305,062,374**	**3,243,464,308**

LBP'000	December 31, 2016				
	LBP	**USD**	**Euro**	**Other**	**Total**
ASSETS					
Cash and Central Banks	4,661,366,148	2,454,977,134	442,409,696	91,835,733	7,650,588,711
Deposits with banks and financial institutions	28,016,043	924,073,024	178,455,838	219,582,029	1,350,126,934
Loans to banks	55,805,299	954,284	105,619	154,309	57,019,511
Loans and advances to customers	2,576,269,250	5,725,945,280	1,108,103,871	438,771,335	9,849,089,736
Investment securities	6,372,526,825	4,338,892,550	472,874,017	13,437,402	11,197,730,794
Customers' liability under acceptances	453,229	228,002,689	50,892,000	5,924,217	285,272,135
Investments in associates	53,430,694	18,730,441	-	-	72,161,135
Assets acquired in satisfaction of loans	48,730,931	167,426,309	94,394,986	168,342	310,720,568
Investment properties	-	-	19,077,305	-	19,077,305
Property and equipment	324,815,231	(1,049,974)	15,644,686	73,260,401	412,670,344
Intangible assets	9,990,699	-	1,251,551	2,084,619	13,326,869
Goodwill	48,903,653	-	5,876,245	-	54,779,898
Other assets	70,297,086	62,276,913	7,075,024	26,108,512	165,757,535
TOTAL ASSETS	**14,250,605,088**	**13,920,228,650**	**2,396,160,838**	**871,326,899**	**31,438,321,475**
LIABILITIES					
Deposits and borrowings from banks	15,806,089	156,302,306	66,186,884	47,315,833	285,611,112
Liabilities designated at fair value through profit or loss	-	136,487,357	-	-	136,487,357
Customers' accounts at amortized cost	10,245,984,078	12,623,285,572	2,093,749,270	538,670,852	25,501,689,772
Customers' acceptance liability	453,229	228,002,689	50,892,000	5,924,217	285,272,135
Other borrowings	1,084,342,680	185,400,347	1,676,389	-	1,271,419,416
Subordinated loan	-	25,499,664	-	-	25,499,664
Other liabilities	589,237,636	51,920,973	20,891,763	15,761,670	677,812,042
Provisions	38,369,852	2,843,393	416,165	6,351,560	47,980,970
TOTAL LIABILITIES	**11,974,193,564**	**13,409,742,301**	**2,233,812,471**	**614,024,132**	**28,231,772,468**
NET ASSETS	**2,276,411,524**	**510,486,349**	**162,348,367**	**257,302,767**	**3,206,549,007**

Interest Rate Risk

Financial assets and financial liabilities are allocated by maturity bands as follows:

LBP'000	December 31, 2017				
	Not Subject to Interest	**Less than 1 Year**	**1 to 5 Years**	**Over 5 Years**	**Total**
FINANCIAL ASSETS:					
Cash and Central Banks	1,334,655,512	2,921,107,592	1,664,861,580	3,085,313,347	9,005,938,031
Deposits with banks and financial institutions	344,944,858	778,666,854	-	-	1,123,611,712
Loans to banks	50,670,878	56,946,061	31,246,000	1,600,000	140,462,939
Loans and advances to customers	438,886,755	6,007,834,407	1,677,449,483	1,651,841,384	9,776,012,029
Investment securities	616,591,285	1,021,531,908	3,025,277,329	5,842,419,890	10,505,820,412
TOTAL	**2,785,749,288**	**10,786,086,822**	**6,398,834,392**	**10,581,174,621**	**30,551,845,123**
FINANCIAL LIABILITIES:					
Deposits and borrowings from banks	20,318,686	243,822,243	-	-	264,140,929
Liabilities designated at fair value through profit or loss	908,257	-	134,591,796	-	135,500,053
Customers' accounts at amortized cost	2,099,159,812	22,617,267,893	165,787,993	-	24,882,215,698
Other borrowings	3,614,091	178,280,208	354,611,873	1,825,060,023	2,361,566,195
Subordinated loan	-	6,374,916	12,749,832	-	19,124,748
TOTAL	**2,124,000,846**	**23,045,745,260**	**667,741,494**	**1,825,060,023**	**27,662,547,623**

LBP'000	December 31, 2016				
	Not Subject to Interest	Less than 1 Year	1 to 5 Years	Over 5 Years	Total
FINANCIAL ASSETS:					
Cash and Central Banks	1,269,500,152	2,832,799,277	1,450,936,830	2,097,352,452	7,650,588,711
Deposits with banks and financial institutions	438,156,086	911,970,848	-	-	1,350,126,934
Loans to banks	317,354	15,333,157	32,669,000	8,700,000	57,019,511
Loans and advances to customers	891,706,817	7,096,003,532	998,452,203	862,927,184	9,849,089,736
Investment securities	543,788,703	1,544,013,514	3,110,755,690	5,999,172,887	11,197,730,794
TOTAL	**3,143,469,112**	**12,400,120,328**	**5,592,813,723**	**8,968,152,523**	**30,104,555,686**
FINANCIAL LIABILITIES:					
Deposits and borrowings from banks	40,734,023	242,480,729	-	2,396,360	285,611,112
Liabilities designated at fair value through profit or loss	930,018	-	135,557,339	-	136,487,357
Customers' accounts at amortized cost	2,175,141,031	23,196,340,996	120,949,283	9,258,462	25,501,689,772
Other borrowings	1,411,360	459,171,396	322,070,558	488,766,102	1,271,419,416
Subordinated loan	-	6,374,916	19,124,748	-	25,499,664
TOTAL	**2,218,216,432**	**23,904,368,037**	**597,701,928**	**500,420,924**	**27,220,707,321**

Liquidity Risk

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

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

LBP'000	December 31, 2017				
	Up to 3 Months	3 Months to 1 Year	1 to 5 Years	Over 5 Years	Total
FINANCIAL LIABILITIES:					
Deposits and borrowings from banks	131,371,760	132,769,169	-	-	264,140,929
Liabilities designated at fair value through profit or loss	-	908,257	134,591,796	-	135,500,053
Customers' accounts at amortized cost	21,180,900,761	3,535,426,401	165,888,536	-	24,882,215,698
Other borrowings	62,991,194	118,903,105	354,611,873	1,825,060,023	2,361,566,195
Subordinated loan	-	6,374,916	12,749,832	-	19,124,748
TOTAL FINANCIAL LIABILITIES	**21,375,263,715**	**3,794,381,848**	**667,842,037**	**1,825,060,023**	**27,662,547,623**

LBP'000	December 31, 2016				
	Up to 3 Months	3 months to 1 Year	1 to 5 Years	Over 5 Years	Total
FINANCIAL LIABILITIES:					
Deposits and borrowings from banks	179,991,028	103,223,724	-	2,396,360	285,611,112
Liabilities designated at fair value through profit or loss	-	930,018	135,557,339	-	136,487,357
Customers' accounts at amortized cost	21,647,998,814	3,723,384,359	121,048,139	9,258,460	25,501,689,772
Other borrowings	19,238,367	36,559,677	339,804,558	875,816,814	1,271,419,416
Subordinated loan	-	6,374,916	19,124,748	-	25,499,664
TOTAL FINANCIAL LIABILITIES	**21,847,228,209**	**3,870,472,694**	**615,534,784**	**887,471,634**	**27,220,707,321**

47. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

LBP'000	December 31, 2017					
	Note	Carrying Amount	FAIR VALUE			
			Level 1	Level 2	Level 3	TOTAL
Financial Assets Measured at Fair Value:						
Investments at fair value through profit or loss:						
Equities and preference shares	10	38,779,601	27,647,548	-	11,132,053	38,779,601
Lebanese Treasury bills	10	47,294,897	-	47,294,897	-	47,294,897
Lebanese Government bonds	10	64,869,092	-	64,869,092	-	64,869,092
Foreign Eurobonds issued by banks	10	40,125,926	-	40,125,926	-	40,125,926
Certificates of deposit issued by Central Bank of Lebanon	10	122,406,476	-	122,406,476	-	122,406,476
Mutual fund	10	10,123,796	-	10,123,796	-	10,123,796
Investments at fair value through other comprehensive income:						
Quoted equities	10	18,685,323	18,685,323	-	-	18,685,323
Unquoted equity	10	269,264,087	-	-	269,264,087	269,264,087
Other unquoted equities	10	89,514,795	-	-	89,514,795	89,514,795
TOTAL		**701,063,993**	**46,332,871**	**284,820,187**	**369,910,935**	**701,063,993**
Financial Assets Not Measured at Fair Value:						
Term placement with Central Bank of Lebanon	5	7,250,270,833	-	7,401,900,223	-	7,401,900,223
Loans and advances to banks	7	140,462,939	-	131,688,593	-	131,688,593
Loans and advances to customers	9	9,775,912,029	-	9,660,600,986	-	9,660,600,986
Investments at amortized cost:						
Preference shares	10	21,852,720	2,065,275	19,787,445	-	21,852,720
Lebanese Treasury bills	10	2,945,064,278	-	2,887,254,983	-	2,887,254,983
Lebanese Government bonds	10	3,016,729,765	-	2,871,828,408	-	2,871,828,408
Foreign Government bonds	10	15,088,560	-	15,088,560	-	15,088,560
Foreign Eurobonds issued by banks	10	135,091,953	-	135,237,842	-	135,237,842
Subordinated Eurobonds	10	1,604,734	-	1,604,734	-	1,604,734
Certificates of deposit issued by Central Bank of Lebanon	10	3,592,868,684	-	3,510,898,840	-	3,510,898,840
Corporate bonds	10	53,256,415	-	53,225,067	-	53,225,067
Asset-backed securities	10	23,199,310	-	22,552,127	-	22,552,127
TOTAL		**26,971,402,220**	**2,065,275**	**26,711,667,808**	**-**	**26,713,733,083**
Financial Liabilities Measured at Fair Value:						
Liabilities designated at fair value through profit or loss	19	135,500,053	135,500,053	-	-	135,500,053
TOTAL		**135,500,053**	**135,500,053**	**-**	**-**	**135,500,053**
Financial Liabilities Not Measured at Fair Value:						
Other borrowings	20	2,361,566,195	-	2,364,705,455	-	2,364,705,455
Subordinated loan	21	19,124,748	-	20,803,692	-	20,803,692
TOTAL		**2,380,690,943**	**-**	**2,385,509,147**	**-**	**2,385,509,147**

LBP'000

December 31, 2016

	Note	Carrying Amount	FAIR VALUE			
			Level 1	Level 2	Level 3	TOTAL
Financial Assets Measured at Fair Value:						
Investments at fair value through profit or loss:						
Equities and preference shares	10	39,963,028	35,667,506	-	4,295,522	39,963,028
Lebanese Treasury bills	10	108,942,160	-	108,942,160	-	108,942,160
Lebanese Government bonds	10	80,962,632	-	80,962,632	-	80,962,632
Foreign Government bonds	10	287,121,146	-	287,121,146	-	287,121,146
Foreign bonds issued by banks	10	136,733,181	-	136,733,181	-	136,733,181
Certificates of deposit issued by Central Bank of Lebanon	10	142,928,321	-	142,928,321	-	142,928,321
Corporate bonds	10	9,517,624	-	9,517,624	-	9,517,624
Mutual fund	10	9,327,904	-	9,327,904	-	9,327,904
Investments at fair value through other comprehensive income:						
Quoted equities	10	13,056,775	13,056,775	-	-	13,056,775
Unquoted equity	10	239,467,645	-	-	239,467,645	239,467,645
Other unquoted equities	10	44,492,408	-	-	44,492,408	44,492,408
TOTAL		**1,112,512,824**	**48,724,281**	**775,532,968**	**288,255,575**	**1,112,512,824**
Financial Assets Measured at Amortized Cost:						
Term placement with Central Bank of Lebanon	5	5,774,658,786	-	5,936,535,424	-	5,936,535,424
Loans and advances to banks	7	57,019,511	-	47,976,703	-	47,976,703
Loans and advances to customers	9	9,849,089,736	-	9,741,398,035	-	9,741,398,035
Preference shares	10	22,413,510	-	22,413,510	-	22,413,510
Lebanese Treasury bills	10	2,692,689,026	-	2,692,689,026	-	2,692,689,026
Lebanese Government bonds	10	3,007,239,760	-	3,007,239,760	-	3,007,239,760
Foreign Government bonds	10	47,611,491	-	47,611,491	-	47,611,491
Foreign bonds issued by banks	10	16,199,245	5,128,814	11,070,431	-	16,199,245
Subordinated bonds	10	1,605,016	-	1,605,016	-	1,605,016
Certificates of deposit issued by Central Bank of Lebanon	10	4,235,364,630	-	4,235,364,630	-	4,235,364,630
Certificates of deposit issued by banks	10	40,473,949	-	40,473,949	-	40,473,949
Corporate bonds	10	7,389,696	-	7,389,696	-	7,389,696
Asset- backed securities	10	14,241,647	-	14,241,647	-	14,241,647
TOTAL		**25,765,996,003**	**5,128,814**	**25,806,009,318**	**-**	**25,811,138,132**
Financial Liabilities Measured at Fair Value:						
Liabilities designated at fair value through profit or loss	19	136,487,357	136,487,357	-	-	136,487,357
TOTAL		**136,487,357**	**136,487,357**	**-**	**-**	**136,487,357**
Financial Liabilities Measured at Amortized Cost:						
Other borrowings	20	1,271,419,416	-	1,277,991,653	-	1,277,991,653
Subordinated loan	21	25,499,664	-	28,271,002	-	28,271,002
TOTAL		**1,296,919,080**	**-**	**1,306,262,655**	**-**	**1,306,262,655**

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

The directors consider that the carrying amounts of cash, compulsory and other short term deposits with Central Bank, deposits from banks and accounts payable approximate their fair values due to the short-term maturities of these instruments. For customers' accounts, this is largely due to their short term contractual maturities.

Valuation Techniques, Significant Unobservable Inputs, and Sensitivity of the Input to the Fair Value

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

Financial Instruments	Date of Valuation	Valuation Technique and Key Inputs	Significant Unobservable Inputs
Lebanese Treasury bills	31-Dec-17/16	DCF at a discount rate determined based on the yield curve applicable to Lebanese Treasury bills, adjusted for illiquidity	N/A
Certificates of deposits in LBP issued by Central Bank	31-Dec-17/16	DCF at a discount rate determined based on the yield curve applicable to Lebanese Treasury bills, adjusted for illiquidity	N/A
Certificates of deposits in foreign currencies issued by Central Bank	31-Dec-17/16	DCF at discount rates based on observable yield curves at the measurement date	N/A
Lebanese Government bonds	31-Dec-17/16	DCF at discount rates determined based on the yield on USA Treasury bills and the Credit Default Swap applicable to Lebanon subject to illiquidity factor	N/A
Term deposits with Central Bank of Lebanon	31-Dec-17/16	DCF at discount rates based on observable yield curves at the measurement date	N/A
Loans and advances to customers	31-Dec-17/16	DCF at discount rates based on average rate of return of the receivables bearing fixed interest rate for more than one year	N/A
Foreign Government bonds	31-Dec-17/16	Quoted prices for similar assets in active markets	N/A
Unquoted equity at FVTOCI	31-Dec-17/16	Income approach (DCF)	Yearly growth rate 1%; discount rate 12%; growth rate at perpetuity 2%
Other unquoted equities at FVTOCI	31-Dec-17/16	N/A	N/A
Other borrowings	31-Dec-17/16	DCF at discount rates based on average rate of return of the payables bearing fixed interest rate for more than one year	N/A
Subordinated loan	31-Dec-17/16	DCF at discount rates based on average rate of return of the payables bearing fixed interest rate for more than one year	N/A

48. CAPITAL MANAGEMENT

The Group manages its capital to comply with the capital adequacy requirements set by the Central Bank of Lebanon, the Group's lead regulator. The Group's foreign entities are also required to respect particular ratios according to the competent authorities of supervisions.

The Group's capital is split as follows:

Common Tier I Capital: Comprises share capital after deduction of Treasury shares, certain reserves from appropriation of profits, retained earnings. Goodwill is deducted from Tier I Capital.

Tier I Capital: Comprises Common Tier I capital, shareholders' cash contribution to capital and preference shares.

Tier II Capital: Comprises qualifying subordinated liabilities, collective impairment allowance and cumulative change in fair value for investment at fair value through other comprehensive income.

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

LBP'000	2017	2016
Tier I capital	2,509,969,000	2,550,213,000
Of which: Common Tier I	*1,853,791,000*	*1,812,198,000*
Tier II capital	228,808,000	263,224,000
Total regulatory capital	2,738,777,000	2,813,437,000
Credit risk	16,091,297,000	16,179,280,000
Market risk	307,990,000	704,664,000
Operational risk	1,383,852,000	1,424,620,000
RISK-WEIGHTED ASSETS OF CREDIT, MARKET AND OPERATIONAL RISKS	**17,783,139,000**	**18,308,564,000**
Capital adequacy ratio:		
COMMON TIER I	**10.42%**	**9.90%**
TIER I	**14.11%**	**13.93%**
TOTAL CAPITAL (TIER I AND II)	**15.40%**	**15.37%**

49. APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Bank's Board of Directors in its meeting held on April 26, 2018.

REINFORCE

06 GROUP NETWORK

NOW

LEBANON
PARENT COMPANY, SUBSIDIARIES AND ASSOCIATES

125
BRANCHES

Subdivided as follows:

- **75 Fransabank branches**
- **49 BLC Bank branches**
- **1 branch for Fransa Invest Bank**

PARENT COMPANY

Fransabank SAL
75 branches

- 21 branches in Beirut
- 26 branches in Mount Lebanon
- 11 branches in Northern Lebanon
- 7 branches in Bekaa Region
- 10 branches in Southern Lebanon

SUBSIDIARIES

BLC Bank SAL (with BLC Services & BLC Finance)
49 branches

- 8 branches in Beirut
- 20 branches in Mount Lebanon
- 6 branches in Northern Lebanon
- 3 branches in Bekaa Region
- 4 branches in Southern Lebanon
- 8 branches non-operational

Fransa Invest Bank SAL (FIB)

Société Générale Foncière SAL (Sogefon)

Lebanese Leasing Company SAL (LLC)

Fransabank Insurance Services Company SAL

Switch & Electronic Services SAL

Société Express SARL

ASSOCIATED COMPANIES

Bancassurance SAL

International Payment Network SAL

Fransabank SAL

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Antelias
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Baakline
Hafez Bou Ajram, Al Marj, Main Road
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Bauchrieh
Bakhos & Aoun Bldg., Square One Center
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Bikfaya
Adel Dagher Bldg., Bikfaya Square
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Bourj El Brajneh
Ahmad Nabbouh Bldg., Ain El Sekkeh, Dr. Hosni Jalloul Str.
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Bourj Hammoud
Harboyan Center, Near St. Vartan Church,
Bourj Hammoud entrance, 2nd Floor
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Chehim
Wehbe Center, Main Road
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Chiyah
Tayyar Bldg., facing Moawad junctions, Ghobeiri Blvd., Chiyah
Next to the Ministry of Labor
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Choueifat
Mahmoud El Kheshen Bldg., Haret Al Oumara, Saida Main Road
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Dora
Kassardjian Bldg., Dora Highway, 1st Floor
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Fransabank Bldg., Mazraat Yachouh, Bikfaya Main Road
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Furn El Chebbak
Saadeh Center, Facing Planete Abraj, Beirut/Damascus Str.
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Hadath, Galerie Semaan Bldg. & Str.
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Hadath
Bechara Beik Karam Str., Al Saha, Near Al Saydeh Church, Main Road
Tel (961) 5 463975/7 | Fax (961) 5 463980

Hazmieh
Unigroup Bldg., Sayyad Square
Tel (961) 5 459602 - (961) 5 450350 | Fax (961) 5 457312

Jal El Dib
Le Baron Center, Jal El Dib Highway, 1st Floor
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Jbeil
Byblos Sun Bldg., Jbeil Roundabout
Tel (961) 9 945108 - (961) 3 650719 | Fax (961) 9 540968

Jdeideh
Barbar Bou-Jawdeh Bldg. & Str., 1st Floor
Tel (961) 1 881680 | Fax (961) 1 883891

Jounieh
Saint Paul Center, P.T.T. Str.
Tel (961) 9 830190/1 | Fax (961) 9 830192

Kaslik
Damaa Center, Zouk Highway
Tel (961) 9 210769 | Fax (961) 9 210773

Mansourieh
Maalouf Center, Opposite P.T.T., Main Road
Tel (961) 4 409840/1 | Fax (961) 4 409840

Mreijeh
Chahine Bldg., Hadi Nasrallah Blv.
Tel (961) 1 469014/5/6 | Fax (961) 1 469006

Sarba
Antoine & Youssef Kallas Bldg., Sarba Highway
Tel (961) 9 640293 - (961) 9 640060 | Fax (961) 9 640543

Sin El Fil
Kibinian & Kazangian Bldg., Delta Center, Horch Tabet
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Zouk
Zouk Mosbeh, Jeita Main Road
Tel (961) 9 217271/2/3 | Fax (961) 9 219696

NORTH

Chekka
Ragheb Center, Main Road
Tel (961) 6 540642/3 | Fax (961) 6 545035

Dahr El Ain
Michel Frangieh Bldg., Main Road Dahr El Ain, Koura
Tel (961) 78 809580/680 | Fax (961) 6 418860/1

Halba
Marwan Ibrahim Bldg., Main Road
Tel (961) 6 693330/1/2 | Fax (961) 6 692001

Meryata
Ayoush Bldg., Ardeh Str.
Tel (961) 6 255560/1/2 | Fax (961) 6 255564

Rahbe
Rahbe Main Road, Facing Harb Station, Akkar
Tel: (961) 6 840207/8 | Fax: (961) 6 840204

Tripoli (Abou Samra)
Sayadi Bldg., Saadoun Square
Tel (961) 6 424617/9 | Fax (961) 6 424611

Tripoli (Al Mina)
Hassan & Hassane Abbas Bldg., Bawabet Al Mina Str.
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Tripoli (Gemmayzat)
Fattal Bldg., Gemmayzat Str.
Tel (961) 6 430012/3 | Fax (961) 6 625735

Tripoli (Maarad)
Ordre des Ingénieurs Bldg. , « Damm et Farez » District
Tel (961) 78 809780 | Fax (961) 6 411514

Tripoli (Tell)
Gaston Habib Bldg., Kayal Square
Tel (961) 6 442815 - (961) 6 441881/2 | Fax (961) 6 441881/2

Zgharta
El-Kareh & Zakhia Center, Road 1, Zgharta El-Abbeh
Tel (961) 6 667951/2/3 - (961) 70 676255 | Fax (961) 6 667956

BEKAA

Baalbeck
Mohammad Said El Lakiss Bldg., Ras Al-Ayn, Main Road
Tel (961) 8 378800/1/2 - (961) 8 371800/1 | Fax (961) 8 370379

Bednayel
Ali Fouad Sleiman Bldg., Main Road
Tel (961) 8 911124/5 | Fax (961) 8 911124

Chtaura
Haddad Bldg., Main Road
Tel (961) 8 541988 - (961) 8 542498 | Fax (961) 8 543843

Laboue
Near Laboue Square, Main Road
Tel (961) 8 230801/2/3 | Fax (961) 8 230805

Riyak
Hosch Hala, Main Road
Tel (961) 8 900333/444/555 | Fax (961) 8 900107

Zahle (Barbara)
Ghossain Bldg., St. Barbe Str.
Tel (961) 8 811060 - (961) 8 803715 | Fax (961) 8 822335

Zahle (Warde)
Warde Center, Main Road
Tel (961) 8 803566 - (961) 8 821411 | Fax (961) 8 810187

SOUTH

Bint Jbeil
Fransabank Bldg., Saf El-Hawa, Main Road
Tel (961) 7 450701/2/3 - (961) 3 239092 | Fax (961) 7 450701

Ghazieh
Khalifeh Center, Ghazieh, Main Road
Tel (961) 7 224430/60 | Fax (961) 7 224480

Hlalyeh
Bdeir Bldg., Chammah Str., New Majdelyoun Highway
Tel (961) 71 255585 - 71 255570 | Fax (961) 71 255585

Jezzine
St. Therese Center, Jezzine Highway
Tel (961) 7 780941 - (961) 7 780052 | Fax (961) 7 780941

Marjeyoun
Farid Hamra Bldg., Main Road
Tel (961) 7 830139/140 - (961) 3 334923 | Fax (961) 7 830139

Nabatieh
Kodeih Center, Sabbah Str.
Tel (961) 7 760258 - (961) 7 764264 | Fax (961) 7 761750

Nakoura
Hamzeh Bldg., Near UNIFIL, Main Road, 1st Floor
Tel (961) 7 460235/6/7 - (961) 3 067702 | Fax (961) 7 460236

Saida
Fransabank Bldg., Riad El Solh Str.
Tel (961) 7 722180/1 - (961) 3 650701 | Fax (961) 7 721194

Tyr
Abou Saleh Bldg., Senegal Str., Tyr Main Entrance, 1st Floor
Tel (961) 7 345253 - (961) 7 345315 | Fax (961) 7 345308

Tyr (Abbassieh)
Mix Center, Jal El Bahr El Bass, Main Road
Tel (961) 7 740388 - (961) 7 740486 | Fax (961) 7 740084

OFF-PREMISES ATM'S

BEIRUT

- Adlieh, General Security
- American University of Beirut
- Basta, Main cross road of Saleh Bin Yehya
- Beirut Central District, UFA Insurance
- Verdun, ABC Mall

MOUNT LEBANON

- Aley, Obeid Supermarket Kabrechmoun
- Aoukar, US Embassy
- Bauchrieh, Chaer Center
- Bourj Hammoud, Total Medawar
- Dbayeh, Club La Marina
- Faraya, Total Gas Station
- Hazmieh, City Center Beirut
- Hazmieh, The Backyard
- Jbeil, Cordahi Center
- Jounieh, Caliprix Supermarket
- Yarzeh, Ministry of Defense

NORTH

- Ehden, Sérail Hotel
- Kalamoun, Miramar Hotel
- Ordre des Avocats de Tripoli et du Liban Nord
- Ras Maska, Hoz Mall

BEKAA

- Zahle, Tell Chiha Hospital

SOUTH

- Nabatieh, Toul
- Nakoura, United Nations Center
- Rmeich, Choufani Center
- Tyr, Electricité du Liban

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